

SB

8

HOUSE COMMITTEE REPORT

(11)

Date Referred: April 1, 1992

FURTHER REFERRALS:

Date of Committee Action: 5/10/92

The FINANCE Committee considered:

CSSB 8(STA) am

CS FOR SENATE BILL NO. 8 (STA) am

ANNUITY PROGRAM AMENDMENTS

"An Act amending and 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."

RECOMMENDATIONS:

be replaced with HCSSSB 8 Fin the same title a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: Admin. 2/21/92 (76.0)
Senate Admin 2/21/92 (182.2)

fiscal impact ⁽³⁾ Revenue; DHSS; DOA

fiscal note(s)

zero fiscal note

zero fiscal note(s)

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Mike Stavare</i> NAVARRE	<input checked="" type="checkbox"/>	<i>E P Mehean</i> Maclean		<input checked="" type="checkbox"/>	
<i>Tony Brown</i> BROWN	<input checked="" type="checkbox"/>	<i>CEC Phillips</i> Phillips		<input checked="" type="checkbox"/>	
<i>Ronald J. Zanson</i> ZANSON	<input checked="" type="checkbox"/>				
<i>Jim Ullman</i> ULLMAN	<input checked="" type="checkbox"/>				
<i>Greg Koppen</i> KOPPEN	<input checked="" type="checkbox"/>				
<i>Mark Boyer</i> BOYER	<input checked="" type="checkbox"/>				

Mike Stavare E P Mehean
CHAIRMAN'S SIGNATURE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

FILE NO. CS-568 (STA) am

Revision Date: March 2, 1992 Department Affected: Revenue
 Title: Annuity Program Amendments BRU: Administration and Support
 Component: Administrative Services
 Sponsor: Kerttula, Halford
 Requestor: House State Affairs COMPONENT SERIAL NO.

0	1	2	5
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	-0-	8.0	8.0	8.0	8.0	8.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	8.0	8.0	8.0	8.0	8.0
CAPITAL						
REVENUE						
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	-0-	8.0	8.0	8.0	8.0	8.0
FUND SOURCE:						
TOTAL	-0-	8.0	8.0	8.0	8.0	8.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

This fiscal note reflects the basic costs of monitoring and balancing the accounting functions as required. It also includes interface with the longevity bonus program to coordinate accounting transactions.

Prepared By: Tracy L. McGill *Tracy L. McGill* Phone: 465-2313
 Division: Administrative Services Date: March 24, 1992
 Approved by Commissioner: Darrel J. Rexwinkel
 Agency: Department of Revenue Date: _____

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc. & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CS for SB 8 (STA) am

Revision Date: March 2, 1992

Department Affected: Revenue

Title: An Act amending and making effective an annuity

BRU: Operations

Program and amendments to the longevity bonus and P.F.D..

Component: Treasury Management

Sponsor: Kerttula, Halford

Requestor: House State Affairs

Component Serial No.

0	1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	5.0	5.0	5.0	5.0	5.0
TRAVEL						
CONTRACTUAL	0	20.0	20.0	20.0	20.0	20.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	25.0	25.0	25.0	25.0	25.0

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND/Unrestricted						
FEDERAL FUNDS						
OTHER	0	25.0	25.0	25.0	25.0	25.0
TOTAL	0	25.0	25.0	25.0	25.0	25.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: The 25.0 expenditure in total operating costs is the basic personal services and contractual costs for a trust managed by the Treasury Division. Contractual costs would consist of external investment management, accounting, auditing, and custodial services. Future cost increases are dependent on the asset growth of the trust fund from contributions and market gains.

Prepared by: Brian C. Andrews

Phone: 465-2300

Division: Treasury

Date: March 2, 1992

Approved by Commissioner: [Signature]

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (STA) am

Revision Date: March 2, 1992
Title: Annuity Program Amendments
Sponsor: Kerttula, Halford
Requestor: House State Affairs

Agency Affected: Revenue
BRU: Permanent Fund Dividend Division
Components: Permanent Fund Dividend
Division
COMPONENT SERIAL NO. 9 8 1

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
OPERATING						
PERSONAL SERVICES		26.7	13.1	13.1	13.1	13.1
TRAVEL						
CONTRACTUAL		15.0	15.0	15.0	15.0	15.0
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	41.7	28.1	28.1	28.1	28.1
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (RSA)		41.7	28.1	28.1	28.1	28.1
TOTAL	-0-	41.7	28.1	28.1	28.1	28.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None.

ANALYSIS: See attached.
Thomas C. Williams

Prepared By: Thomas C. Williams Phone: 465-2323
Division: Permanent Fund Dividend Division Date: March 2, 1992

Approved by Commissioner: _____ Date: _____
Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

ALASKA DEPARTMENT OF REVENUE
PERMANENT FUND DIVIDEND DIVISION
CSSB 8 (STA) am ANALYSIS
As of March 2, 1992

Assumptions:

1. This bill is the only Permanent Fund Dividend checkoff bill that will become law. This fiscal note could change if other PFD checkoff bills are introduced and become law.
2. The Department of Administration will charge the Department of Revenue for the required additional computer time.
3. The cost of programming changes will be a one-time cost. Ongoing maintenance of new programs would be accomplished by existing staff. The computer system will need to be changed to account for the change in the program, to establish new accounting controls and to provide for the transfer of funds to the trust account. The following tasks will require the following programming hours.

	<u>Hours</u>
a. <u>Wang Data Entry Processing Updates</u>	75.0
(1) Data entry	
(2) Batch lists	
(3) Corrections	
(4) Wang to IBM transfer	
b. <u>IBM File Processing Updates</u>	30.0
(1) Edits	
(2) Batch listings	
(3) Worksheets	
c. <u>CICS Online Programs for Lookup and Changes</u>	37.5
d. <u>Nightly Update of Changes</u>	22.5
e. <u>Warrant Jobs</u>	90.0
(1) Printing warrants with different amounts. Include check stub messages.	
(2) Modify warrant registers as needed for balancing.	
(3) Create new program for transferring accumulated decisions to trust account and to account for the reserve necessary due to returned and cancelled PFD warrants.	
f. <u>Miscellaneous</u>	45.0
(1) Setting up test files on IBM	
(2) Systems testing	
 <u>Total Hours</u>	 <u>300.0</u>

ALASKA DEPARTMENT OF REVENUE
 PERMANENT FUND DIVIDEND DIVISION
CSSB 8 (STA) am ANALYSIS
 As of March 2, 1992

4. The cost of document review, data capture and the data processing chargeback will be continuing. One Document Processor I position would be required for three months to assist in the manual review and coding of 535,000 applications. One Data Processing Clerk I position would be required for two months to assist in data capture.
5. There will be an additional cost associated with an extra page in the PFD booklet necessary to describe the annuity options.
6. Garnishments and assignments will take precedence over contributions to the annuities in the order established by statute. The PFD Division will only honor contributions to the extent that an individual's permanent fund dividend has not otherwise been assigned or garnished.
7. The PFD Division will be responsible for electronically transferring contributions to the annuity account.
8. The Treasury Division will be responsible for the accounting and management of the annuity account.

Cost Summary:

1. Personal Services

	<u>FY 94</u>	<u>FY 95</u>
1 PPT Analyst/Programmer V, R21 @ \$6,770.74/Mo including salary and benefits for 2 months. PCN 04-6011 would be funded for an additional 2 months.	\$ 13.6	\$ -0-
1 PPT Document Processor I, R7 @ \$2,573.60/Mo including salary and benefits for 3 months. This position represents the equivalent of the additional time and effort.	7.7	7.7
1 PPT Data Processing Clerk I, R8 @ \$2,699.03/Mo including salary and benefits for 2 months. This position represents the equivalent of the additional time and effort.	<u>5.4</u>	<u>5.4</u>
Total Personal Services	<u>26.7</u>	<u>13.1</u>

2. Contractual Services

a. Data Processing Chargeback	5.0	5.0
b. Printing charge for extra page	<u>10.0</u>	<u>10.0</u>
Total Contractual Services	<u>15.0</u>	<u>15.0</u>
TOTAL COST	<u>\$ 41.7</u>	<u>\$ 28.1</u>

FISCAL NOTE

BILL NO. HCSCSSB 8 (FIN)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: May 11, 1992 Department Affected: Administration
 Title: "An annuity program and amendments to the Longevity Bonus Program..." BRU: Pioneers' Benefits
 Sponsor: Senator Kerttula Component: Longevity Bonus
 Requestor: _____ COMPONENT

0	0	2	7
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	70.3	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	810.0	1,940.0	1,060.0	(1,400.0)	(3,180.0)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	70.3	810.0	1,940.0	1,060.0	(1,400.0)	(3,180.0)

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	70.3	810.0	1,940.0	1,060.0	(1,400.0)	(3,180.0)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	70.3	810.0	1,940.0	1,060.0	(1,400.0)	(3,180.0)

POSITIONS:

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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)
See attached.

Prepared by: Dennis L. DeWitt, Director *Dennis DeWitt* Phone: 465-4400
 Division: Pioneers' Benefits Date: May 11, 1992
 Approved by Commissioner: Nancy Bear Usura *Nancy Bear Usura*
 Agency: Administration Date: 5/11/92

Distribution (by preparer): Legislative Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

FISCAL NOTE
HCSCSSB 8 (FIN)
MAY 11, 1992
PAGE 2 OF 2

Administration

The division would prepare a comprehensive booklet for all applicants and recipients explaining the bill and the Longevity Bonus program generally. Also, the computer software would be modified by a private contractor to provide the correct payment amounts to the recipients.

Contractual Expenses (in \$1,000s)

Postage	\$35.3
Printing	30.0
Software	5.0
Total	\$70.3

GRANTS

The savings in the grant line are based on the May 10, 1992 estimate by the Legislative Research Agency and House Finance Committee, entitled "Ulmer Option".

Note

The costs for Sections 8 and 9 are unknown at this time. No information exists that describes the number of residents who travel for extended periods of time.

Division of Public Assistance
Assistance Payments BRU

Alaska Longevity Bonus Hold Harmless (OAA-ALB HH)

1. CSSB No. 8 (STATE AFFAIRS)am continues the Hold Harmless program, but includes no Hold Harmless provision for annuity payments.
2. We assume the first annuity payments will be made in fiscal year 1994, and that no Old Age Assistance applicants or recipients will elect to participate.
3. We assume that the bonus payments will decrease for new OAA recipients who become eligible for the bonus on January 1, 1994, and that OAA clients whose bonus payments will be impacted will be as follows:

	<u>Bonus</u>	<u>Annuity</u>	<u>OAA Clients Impacted</u>
FY93	\$250	0	0
FY94	\$242	\$ 8	155
FY95	\$232	\$18	458
FY96	\$221	\$29	789
FY97	\$210	\$40	1153
FY98	\$197	\$53	1165

4. Only those who become 65 after January 1, 1994 will receive a declining ALB.
5. Longevity bonus and annuity amounts are based on Legislative Research Report 92.124.
6. Approximately 35 percent of all OAA recipients receive SSI. The change in the bonus amount affects the Hold Harmless benefits paid to replace SSI benefits.
7. There is no effect in FY 93 on Old Age Assistance clients.
8. We assume that the bonus decrease will only affect 2 months in FY 94, since the bonus decrease will not occur for the impacted OAA recipients until March 1, 1994 because of ALB retrospective payment methodology. SSI benefits will be affected beginning May 1, 1994.
9. Costs assume average age of new applicants for Old Age Assistance will be 65.

CSSB No. 8 (STATE AFFAIRS)am provides for a redesign of the Longevity Bonus program to include an annuity and assumes continuation of a Hold Harmless for the bonus.

The impact of this proposed change is two-fold:

- (1) As the ALB payments decrease then the amount of ALB Hold harmless for federal Supplemental Security Income (SSI) replacements also decreases. The drop in ALBHH for SSI replacement is a net savings to the State.
- (2) As the bonus payment decreases, the amount of ALB Hold Harmless for OAA replacement decreases and shifts back to Old Age Assistance. The amount of this decrease is a dollar-for-dollar shift back to Old Age Assistance in the Adult Public Assistance (APA) component.

	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>
Total number of new OAA recipients receiving the decreased bonus	0	155	458	789	1153	1565
Estimated number of impacted aged recipients receiving ALB Hold Harmless that replaces SSI income (35% of OAA clients impacted)	0	54	160	276	404	548
Reduction in monthly bonus \$	0	(8)	(18)	(29)	(40)	(53)
Fiscal year State Savings for ALB Hold Harmless Program benefits to replace SSI payments (35% of OAA clients impacted x bonus reduction x 12 months)	0	(.9)	(34.6)	(96.0)	(193.9)	(348.5)
=====						
Net Savings to State resulting from the CSSB 8 (STATE AFFAIRS) am	0	(.9)	(34.6)	(96.0)	(193.9)	(348.5)

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (SA) am

Revision Date: February 28, 1992
Title: An Act amending and making effective an annuity program and amendments to the longevity bonus program
Sponsor: Senator Kerttula
Requestor: (H) STA

Department Affected: Administration
BRU: Division of Pioneers' Benefits
Component: Longevity Bonus Program
Grants and Administration

COMPONENT

0	0	2	6
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
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)	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

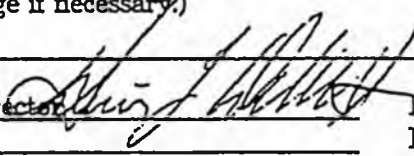
GENERAL FUND	0	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	0	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)

POSITIONS:

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

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)
Impact for FY 93 is zero.

Prepared by: Dennis L. DeWitt, Director  Phone: 465-4400
Division: Pioneers' Benefits Date: February 28, 1992

Approved by Commissioner: Nancy Bear Usura  Date: 2/28/92
Agency: Administration

FISCAL NOTE
CSSB 8 (SA) am
February 28, 1992

Projected annual savings under this proposal are tenuous because they depend upon a number of variables that cannot be predicted accurately. These projections were prepared as a joint project of the Legislative Research Agency and the Alaska Longevity Bonus program in April 1991 and updated by the Longevity Bonus program in December 1991. A brief discussion of some of the more important assumptions and variables follows.

The Bonus amount for those turning 65 after January 1, 1994, is \$250 less than the annuity payment for those who turn 65 in the current year. The annuity payment depends upon:

- . Permanent Fund Dividends-we use projections provided by the Permanent Fund Corporation;
- . the interest rate at which earnings accrue and the interest rate used to determine an annuity-we used 8.5 percent as a reasonable estimate in both cases provided by Legislative Research;
- . the life expectancy of a 65 year-old we used figures provided by the Alaska Department of Labor; and
- . the frequency of bonus adjustments-we assumed that bonuses would be adjusted at the beginning of each fiscal year and remain fixed throughout the year.

The number of recipients who receive \$250 per month was determined by applying mortality and migration figures-supplied by the Alaska Department of Labor-to the projected number of recipients who will be on the program prior to 1992.

The number of recipients who receive reduced bonuses was determined by applying population, mortality and migration figures to the current number of recipients in order to determine the number of new applicants in each year. Migration and mortality figures were then applied to new applicants in order to determine the number of recipients who will receive reduced bonuses in each year. See additional assumptions on the spreadsheet.

Caveats

Projections exclude the cost of administering an annuity program. The assumption is that this agency's involvement with the annuity portion of the program would be limited to being informed of the amount by which bonus warrants should be reduced. Expected costs of modifying the program in order to pay amounts other than a fixed \$250 are included in the FY 93 contractual line.

Projections exclude the savings that would occur under the "hold harmless" provisions of AS 47.45.122. Those costs would be reflected in this fiscal note only if the legislature appropriates hold harmless funds to this agency for subsequent transfer to the Department of Health and Social Services.

Projections exclude savings that might occur if the number of recipients declines as the program becomes less financially attractive to participants and potential participants.

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**Longevity Bonus Program
as Redefined by S18**

Revised 12/10/91

Current Program			Total S18 Plus		PFD Dividend Received	Annual Payments Annully	Monthly Payments Annully	(000 million)	(000 million)	(000 million)	(000 million)	(000 million)	
State Fiscal Year	Qualified Recipients	Cost	Grand- Fathered Recipients	S18 Recipients				GF Cost Of Grand- Fathered Recipients	Non-GF Cost of Post 93 Recipients	GF Cost Cost of Post 93 Recipients	Total GF Cost	Total GF Savings	
1992	21,190	63,570.0											
1993	22,385	67,155.0	22,385		\$910.47								
1994	23,624	70,872.0	22,798	832	23,630	959.13	\$111.26	\$9.27	68,392.6	92.6	2,403.4	70,796.0	76.0
1995	24,841	74,523.0	21,527	3,327	24,854	1,012.63	237.93	19.83	64,580.0	791.6	9,189.4	73,769.4	753.6
1996	25,952	77,856.0	20,179	5,804	25,983	1,059.15	381.89	31.82	60,536.1	2,216.5	15,195.5	75,731.6	2,124.4
1997	26,805	80,415.0	18,911	8,000	26,911	1,120.64	543.79	45.32	56,732.2	4,350.3	19,649.7	76,381.9	4,033.1
1998	28,034	84,102.0	18,532	10,192	28,724	1,176.43	726.95	60.58	55,594.5	7,409.1	23,166.9	78,761.5	5,340.5
1999	29,070	87,210.0	16,753	12,332	29,085	1,231.81	932.51	77.71	50,258.5	11,499.7	25,496.3	75,754.8	11,455.2
2000	30,166	90,498.0	15,804	14,322	30,126	1,284.27	1,162.30	96.86	47,410.6	16,646.5	26,319.5	73,730.1	16,767.9
2001	31,173	93,519.0	14,890	16,175	31,065	1,341.82	1,418.03	118.17	44,671.2	22,936.6	25,588.4	70,259.6	23,259.4
2002	32,231	96,693.0	14,051	17,992	32,043	1,398.32	1,702.54	141.88	42,151.8	30,632.1	23,343.9	65,495.7	31,197.3
2003	33,332	99,996.0	13,261	17,983	31,244	1,458.23	2,018.13	168.18	39,781.7	36,292.0	17,657.0	57,438.7	42,557.3
2004	34,461	103,383.0	12,512	21,553	34,065	1,516.90	2,367.87	197.32	37,537.4	51,034.7	13,624.3	51,161.7	52,221.3
2005	35,684	107,052.0	11,827	23,303	35,130	1,578.62	2,754.51	229.54	35,480.3	64,188.3	5,720.7	41,200.9	65,851.1
2006	37,146	111,438.0	11,239	0	11,239	1,578.00	3,181.55	265.13	33,717.0	0.0	0.0	33,717.0	77,721.0
2007	38,830	116,490.0	10,724	0	10,724	1,578.00	3,644.82	303.74	32,172.0	0.0	0.0	32,172.0	84,318.0
2008	40,888	122,664.0	10,315	0	10,315	1,578.00	4,147.47	345.62	30,943.8	0.0	0.0	30,943.8	91,720.2
2009	42,797	128,391.0	9,860	0	9,860	1,578.00	4,692.84	391.07	29,580.1	0.0	0.0	29,580.1	98,810.9
2010	44,542	133,626.0	9,374	0	9,374	1,578.00	5,284.56	440.38	28,120.8	0.0	0.0	28,120.8	105,505.2

Notes: Grandfathered Recipients = All persons paid via current program, declines in accordance with mortality tables maintained by AK Dept of Labor using 1990 census results.
 Assume each recipient deposits PFD \$1 of each year.
 8.50% Annual Interest Rate earned on Investment
 Current Program - assumes no changes to the law.
 Total GF Cost = GF cost of grandfathered recipients plus GF cost of post 93 recipients.
 Total GF Savings = Difference between total GF cost of current program if not modified and the cost of the program if S18 becomes law.

S18 Recipients = All persons entering the program after S18 becomes law, and assumes the normal proportion of eligible people do actually apply for the smaller bonus.
 PFD Dividend Received = based on Dept. of Revenue projections.
 Annully - based on model previously developed and maintained by Legislative Research.
 GF cost of Grandfathered Recipients = Number of Grandfathered recipients times \$3,000.
 Non-GF Cost of Post 93 Recipients = Portion of \$3,000 paid by annuities.
 GF Cost of Post 93 Recipients = Balance needed in GF as long as annuities are less than \$3,000

Definition: "Recipients" are defined as the Average Number of Warrants Issued in a month. This means one "recipient" would receive \$3,000 per year. It does not equate exactly to the number of people.

FISCAL NOTE

BILL NO. CSSB 8 (SA) am

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act amending and making effective an Annuity Program
Sponsor: Kertulla
Requestor: Senate Rules Committee

Department Affected: Administration
BRU: Retirement and Benefits
Component: Retirement and Benefits
COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	414.3	426.7	439.5	452.7	466.3	480.3
TRAVEL	50.0	25.0	25.0	25.0	25.0	25.0
CONTRACTUAL	1,201.3	1,132.7	1,132.7	1,132.7	1,132.7	1,132.7
SUPPLIES	52.5	60.5	70.5	80.5	90.5	100.5
EQUIPMENT	144.1	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	1,862.2	1,644.9	1,667.7	1,690.9	1,714.5	1,738.5

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	1862.2	1644.9	1667.7	1690.9	1714.5	1738.5
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	1862.2	1644.9	1667.7	1690.9	1714.5	1738.5

POSITIONS

FULL-TIME:	8	8	8	8	8	8
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	0	0	0	0	0	0

Estimate of current year impact: zero

ANALYSIS: (attach a separate page if necessary.)

See attached for a detailed analysis

Prepared By: Garv Bader *Nancy M. Bader*
Division: Retirement and Benefits

Phone: 465-4470
Date: 2/26/92

Approved by Commissioner: Nancy Bear Usera *Nancy Bear Usera*
Agency: Department of Administration

Date: 2/28/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
Rev 11/91 Page 1 of 4

Committee Substitute for Senate Bill 8 (SA) am
Fiscal note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
February 26, 1992

Analysis: The cost of the annuity program is anticipated to be borne entirely by general fund (GF) appropriations. This fiscal note assumes that approximately 5% of the permanent fund dividend recipients (25,000) will participate in the annuity program.

Eight full-time positions will be needed to administer this program on a continuing basis. Even though we are proposing to contract with a private record keeper, eliminating the need for a large staff, this bill requires extensive manual effort to interface with the contractor. Personnel will handle counseling, address and beneficiary changes, account maintenance, and cash contributions.

Travel in FY 93 is needed to explain the program and answer questions at several locations throughout the state. In subsequent years, there will continue to be the need for rural education and counseling.

There are annual contractual needs for the operation of the annuity program as well as contract with the annuity record keeper. These ongoing contractual needs are explained below. The system will be highly automated to reduce the need for a larger staff. An analyst/programmer V will coordinate D.P. activities.

On-going office supply needs will include microfilming supplies, computer paper stock, annual statements of account and 1099's. In FY 93, there will also be a one time need for office equipment and the purchase of a microfilmer and reader for file maintenance.

The total estimated administrative cost to the division by fiscal year is as follows:

FY 93

FY 94

PERSONAL SERVICES

1 Retirement System Manager	\$ 81.1	
1 Retirement Specialist I/II	52.0	
1 Retirement Technician I/II	42.1	
1 Accountant II	52.0	
1 Accounting Technician I	42.1	
1 Clerk-Typist III	35.0	
1 Accounting Clerk III	37.9	
1 Analyst/Programmer V	<u>72.1</u>	
Total Personal Services Cost		\$414.3
FY 93 Personal Services w/3% increase		\$426.7

TRAVEL

FY 93 - 35 trips to various locations throughout the state for public meetings to explain the program.

FY 94 and after - trips to various locations throughout the state for annual enrollment counselling.

Total Travel cost	50.0	25.0
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CONTRACTUAL

	<u>FY 93</u>	<u>FY 94</u>
CPU costs	20.0	
Computer tapes	10.0	
Disk space costs	<u>20.0</u>	
Total DP resource	\$50.0	\$50.0
Record Keeping Contractor		
25,000 accts. @ \$35.00	875.0	875.0
Information Blitz,		
TV, and Radio	85.0	35.0
RSA to PFD division	41.7	28.1
Postage: Information and		
warrants	50.0	50.0
Audits	15.0	15.0
Actuarial Consulting	15.0	10.0
Centrex charges (8 lines), long		
distance WATS line	30.8	30.8
Floor space (1,000 square feet at		
2.25/mo)	<u>38.8</u>	<u>38.8</u>
Total Contractual cost	1,201.3	1,132.7

		<u>FY 93</u>	<u>FY 94</u>
SUPPLIES			
		<u>FY 93</u>	<u>FY 94</u>
	Office supplies, calculators	\$ 4.0	\$ 2.0
	Microfilming supplies	3.5	3.5
	Paper stock	40.0	50.0
	Statement of Account	<u>5.0</u>	<u>5.0</u>
	Total Supplies cost	52.5	60.5
 EQUIPMENT			
	8 Work stations	36.8	
	8 Chairs	2.4	
	8 PCs and other office equipment	40.0	
	Other office equipment (Dictaphone, calculators, etc.)	10.0	
	1 Printer	4.5	
	1 Microfilmer and reader	45.0	
	2 File cabinets	.6	
	8 Phones (600/instrument)	4.8	
	Total Equipment cost	<u>144.1</u>	<u>-0-</u>
	 TOTAL Operations Cost	 <u>\$1862.2</u>	 <u>\$1,644.9</u>

The continuing personal services costs is estimated to increase at 3% per year. The costs of administration of this system is anticipated as general funds realized from the offsetting savings realized from declining Longevity Bonus payments. Funding is anticipated from general fund appropriations.

HOUSE CS FOR CS FOR SENATE BILL NO. 8 (FINANCE)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATORS KERTTULA, Halford, Jones, Sturgulewski, Collins, Rodey, Menard, Uehling, Pearce, Frank, Craft, Eliason

REPRESENTATIVES ZAWACKI, Sharp, M.A. Miller

A BILL

FOR AN ACT ENTITLED

1 "An Act amending and making effective an annuity program and amendments to the
2 longevity bonus program and the permanent fund dividend program provided for in
3 secs. 2 - 18, ch. 99, SLA 1985; relating to the longevity bonus program; and providing
4 for an effective date."

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

6 * Section 1. AS 43.23.005(d), as enacted by sec. 3, ch. 99, SLA 1985, is amended to read:

7 (d) A person who is eligible to receive a permanent fund dividend under this section, or
8 who is authorized to claim a dividend on behalf of another under (c) of this section, may elect
9 to receive the dividend either in cash or as an annuity credit. Notwithstanding (a) of this
10 section [ALTERNATIVELY], a person who receives a longevity bonus payment under
11 AS 47.45.015(a) during the previous year is not eligible to receive a permanent fund
12 dividend for the current year. For the purpose of calculating the amount of a dividend
13 under AS 43.23.025, an individual who is ineligible to receive a dividend under this
14 subsection is counted as an eligible individual whether or not the individual has applied for

1 the dividend. Each year the legislature may appropriate from the dividend fund to the
2 annuity investment fund under AS 43.23.110(a) an amount equal to the money that would
3 otherwise be paid as dividends to individuals determined to be ineligible under this
4 subsection [MAY ELECT TO RECEIVE 25 PERCENT, 50 PERCENT, OR 75 PERCENT OF
5 THE DIVIDEND IN CASH AND THE REMAINDER AS AN ANNUITY CREDIT. A
6 PERSON WHO IS 65 YEARS OF AGE ON OR BEFORE JANUARY 1, 1988 MAY ONLY
7 RECEIVE THE PERMANENT FUND DIVIDEND IN CASH AND MAY NOT ELECT TO
8 RECEIVE AN ANNUITY CREDIT].

9 * Sec. 2. AS 43.23.110(a), as enacted by sec. 16, ch. 99, SLA 1985, is amended to read:

10 (a) The annuity investment fund is established as a separate fund in the state treasury.
11 The annuity investment fund consists of money transferred from the dividend fund, cash
12 contributions under AS 43.23.125, appropriations to the fund under AS 43.23.005(d) and
13 income earned by the annuity investment fund. Notwithstanding AS 37.13.145, an amount equal
14 to the permanent fund dividends taken as annuity credits under this chapter shall be annually
15 transferred from the dividend fund to the annuity investment fund. Amounts appropriated to
16 the annuity investment fund during a year shall be credited on a per capita basis to the
17 annuity accounts of individuals that have elected an annuity credit under AS 43.23.005(d)
18 for that year.

19 * Sec. 3. AS 43.23.110(b), as enacted by sec. 16, ch. 99, SLA 1985, is amended to read:

20 (b) Money in the annuity investment fund shall be invested under AS 37.10.071 by the
21 commissioner of revenue [IN INVESTMENTS AUTHORIZED UNDER AS 39.35.110]. The
22 commissioner of administration shall credit the net income of the annuity investment fund to the
23 individual annuity accounts and the annuity reserve account.

24 * Sec. 4. AS 43.23 is amended by adding a new section to read:

25 Sec. 43.23.125. CASH CONTRIBUTIONS. An individual who is eligible to receive the
26 permanent fund dividend as an annuity credit under AS 43.23.005(d) but does not elect to do so
27 or who elects to receive only a portion of the permanent fund dividend as an annuity credit may
28 make a cash contribution to that individual's annuity account. The cash contribution for a
29 dividend year must be received by the Department of Administration before September 30 of the
30 year following that dividend year. The total amount of the annuity credit and the cash
31 contributions to an annuity account for a year may not exceed the amount of the permanent fund

1 dividend for that year.

2 * Sec. 5. AS 43.23.130(a), as enacted by sec. 16, ch. 99, SLA 1985, is amended to read:

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

5 * Sec. 6. AS 43.23.130(b), as enacted by sec. 16, ch. 99, SLA 1985, is amended to read:

6 (b) An annuity under this section is a monthly payment based upon the principal and
7 accrued interest in the person's annuity account. Upon appointment to receive an annuity, the
8 account balance shall be transferred to the annuity reserve account. The [AN] annuity shall
9 be paid from the annuity reserve account as a straight life annuity or other payment plan
10 authorized by the commissioner of administration [THE DEPARTMENT OF
11 ADMINISTRATION]. The size of the annuity may not vary on account of the individual's sex.

12 * Sec. 7. AS 43.23.130(e), as enacted by sec. 16, ch. 99, SLA 1985, is repealed and reenacted to
13 read:

14 (e) If a person elects to credit a permanent fund dividend or make a cash contribution
15 to an annuity account and dies before age 65, a lump sum payment shall be made to that person's
16 designated beneficiary or beneficiaries. The lump sum payment includes all dividends or cash
17 contributions credited to the person's annuity account and interest earned on the account. A
18 person may change or revoke a designation without notice to the beneficiary or beneficiaries at
19 any time. If a person designates more than one beneficiary, each shares equally unless the person
20 specifies a different allocation or preference. The designation, change, or revocation of
21 beneficiary shall be made on a form provided by the commissioner of administration and is not
22 effective until it is filed with the commissioner. If there is no beneficiary designated or
23 surviving, the lump sum payment shall be paid to the

24 (1) surviving spouse;

25 (2) if there is no surviving spouse, in equal parts to the surviving children
26 including adopted children;

27 (3) if there is no surviving spouse or child, in equal parts to the surviving parents;

28 or

29 (4) if there is no surviving spouse, child, or parent, to the estate of the deceased.

30 * Sec. 8. AS 43.23 is amended by adding a new section to read:

31 Sec. 43.23.135. EMERGENCY WITHDRAWALS. An individual may make a

1 withdraw from that individual's annuity account before reaching the age of 65 if the individual
2 establishes to the satisfaction of the commissioner of administration that the withdrawal is
3 necessary to meet an unforeseeable emergency. The amount withdrawn may not exceed the total
4 amount in the individual's annuity account or the amount actually necessary to meet the
5 emergency, whichever is less. The commissioner shall define the term "unforeseeable
6 emergency" by regulation. An individual may only make one withdrawal under this section and
7 may pay it back with interest under terms established by the commissioner. An individual who
8 has made a withdrawal under this section may not elect to credit a dividend or make a cash
9 contribution to an annuity account for two years after the withdrawal.

10 * Sec. 9. AS 47.45.015, as enacted by sec. 18, ch. 99, SLA 1985, is repealed and reenacted to read:

11 Sec. 47.45.015. AMOUNT OF BONUS. (a) The amount of the monthly longevity bonus
12 for a person who reaches 65 years of age on or before December 31, 1992, is \$250.

13 (b) The amount of the monthly longevity bonus for a person who reaches 65 years of age
14 on or after January 1, 1993, is

- 15 (1) \$250 during fiscal year 1993;
- 16 (2) \$225 during fiscal year 1994;
- 17 (3) \$200 during fiscal year 1995;
- 18 (4) \$175 during fiscal year 1996;
- 19 (5) \$150 during fiscal year 1997;
- 20 (6) \$125 during fiscal year 1998;
- 21 (7) \$100 during fiscal year 1999;
- 22 (8) \$75 during fiscal year 2000;
- 23 (9) \$50 during fiscal year 2001;
- 24 (10) \$25 during fiscal year 2002; and
- 25 (11) \$0 after fiscal year 2002.

26 * Sec. 10. AS 47.45.030 is amended to read:

27 Sec. 47.45.030. ABSENCE FROM THE STATE. After qualification, a recipient shall
28 notify the commissioner of administration when the recipient expects to be absent from the state
29 if the absence is for a continuous period that exceeds 30 days. After that notification, the
30 recipient may no longer receive bonuses from the Department of Administration after the last
31 regularly approved monthly application. Upon returning to the state, the recipient may again

1 make application for a bonus. Whenever the absence is for a continuous period that exceeds 180
2 [90] days the recipient shall be disqualified from receiving bonuses for the next 12 calendar
3 months after returning to the state. However, when the commissioner determines a period of
4 absence is beyond the control of the recipient, the recipient may not be disqualified if the
5 recipient still otherwise qualifies upon returning to the state. Continual absences from the state,
6 even though reported, and failure to notify the commissioner of an expected absence may be
7 grounds for disqualification.

8 * Sec. 11. AS 47.45.070(a) is amended to read

9 (a) An unqualified person is one who

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

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

18 (3) is otherwise qualified but confined in a penal or correctional institution or
19 facility; upon completion of sentence or upon the conferral of a pardon, parole or probation, the
20 person may make application; confinement outside the state shall be considered as residence in
21 the state if a person was convicted and sentenced from a court in Alaska; revocation of parole
22 or probation shall be cause for immediate disqualification until release from confinement is again
23 effected;

24 (4) voluntarily leaves the state and remains absent from the state for a continuous
25 period of more than 180 [90] days.

26 * Sec. 12. AS 43.23.110(c) and sec. 1, ch. 99, SLA 1985, are repealed.

27 * Sec. 13. Chapter 99, SLA 1985, and secs. 1 - 11 of this Act apply only to permanent fund divi-
28 dends for years beginning after December 31, 1993. Notwithstanding the amendments to AS 43.23 made
29 by ch. 99, SLA 1985, and this Act, permanent fund dividends for 1993 and prior years shall be made
30 under the law as it existed before the effective date of this Act.

31 * Sec. 14. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature



Sen. Jay Kerttula, Co-Chairman
Sen. Pat Pourchot, Co-Chairman

Sen. Al Adams
Sen. Jim Duncan
Sen. Lyman F. Hoffmann
Sen. Dick Shultz
Sen. Rick Uehling

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Senate Finance Committee

SPONSOR STATEMENT CS SENATE BILL 8 (STATE AFFAIRS) am Relating to an ANNUITY PROGRAM

The House Finance Committee has before it the House Judiciary version of Senate Bill 8. The Judiciary version differs radically from the version which the Senate passed this year and which passed the House State Affairs committee.

The House Judiciary version of Senate Bill 8 eliminates the annuity program from Senate Bill 8 and phases out the longevity bonus over a 15 year period for those persons who turn 65 after January 1, 1994. By 2008, the amount of the bonus would be 0 for these persons; for those who are 65 on or before January 1, 1994, the longevity bonus amount would be \$250 per month.

When the House Judiciary Committee considered Senate Bill 8, they indicated that it was their intent that both the Judiciary version and the Senate version of Senate Bill 8 be considered by the House Finance Committee.

CS SENATE BILL 8 (STATE AFFAIRS) am

Senate Bill 8 is an updated version of the legislation which the Senate passed in 1988. This legislation represents years of work by many Alaskans. Its enactment will reduce call on the state treasury and is necessary to save the program. However, more critical than even the economics of the proposal is the fact that the annuity proposal ensures that the state will continue to provide a program for pioneer Alaskans.

Since 1984, there have been several actuaries who have worked on the annuity proposal to ensure the actuarial soundness of the legislation and its tax status: Aetna Life, Kidder Peabody Corporation, Benefits Concepts, Morrison and Forrester (Tax attorneys), New York Life Insurance Company, Metropolitan Life Insurance Company, to name a few.

The projections for Senate Bill 8 are based on information from the Department of Labor, the Department of Administration, and the Permanent Fund Corporation. On the advice of the Department of Administration, we have assumed an interest rate of 7% for the annuity program which is conservative.

Under the provisions of Senate Bill 8, Alaska's seniors who are currently receiving the longevity bonus and those who turn 65 between now and January 1, 1994 will qualify for the current longevity bonus program and they will also receive the full permanent fund dividend. These individuals would not participate in the annuity program.

Individuals who turn 65 after January 1, 1994 would participate in a program consisting of a declining longevity bonus payment, and an option to participate in the annuity program; the combination would equal \$250 per month.

The Senate version of Senate Bill 8 has been designed to provide maximum flexibility for Alaska's seniors. For example:

1) To participate in the annuity program, an individual must contribute all or a portion of their permanent fund dividend into an annuity account. Those who choose to contribute 100 percent of their permanent fund dividends (or the cash equivalent) into the annuity program, will receive a combined longevity bonus payment and annuity payment totalling at least \$250 per month;

Individuals who are 50 or younger at the time of the legislation's effective date may receive over \$250 per month.

However, if an individual never contributes his permanent fund dividend into the annuity program, the amount of his bonus will keep decreasing until he will receive a \$3 bonus in 2007 plus his permanent fund dividend; In 2008, his longevity bonus would be zero (based on certain assumptions)

2) Section 4 provides for an eligible individual to make cash contributions to his annuity account but the total amount of any annuity credit plus a cash contribution may not exceed the permanent fund dividend for that year. The individual must also make the contribution within a certain time frame;

3) Section 7 provides for the designation of beneficiaries to an annuity account should an individual die before reaching age 65.

4) Section 8 provides for a one-time only emergency withdrawal from an individual's annuity account to meet an "unforeseeable emergency." The Commissioner of Administration will define this term in regulation. The language in this section of the bill is similar to the state's deferred compensation statutes. For the deferred compensation program, the IRS has provided a skeletal statement as to what is allowable as an unforeseen catastrophic emergency.

An individual may pay back the money into the annuity with interest.

HOUSE CS FOR CS FOR SENATE BILL 8 (JUDICIARY)

The House Judiciary version of Senate Bill 8 completely eliminates the annuity program. It creates several major problems for the senior population:

- 1) The House Judiciary version ignores what the seniors have consistently said that they want as a solution to the longevity bonus program;
- 2) Seniors no longer have options and choices as they would in the Senate version;
- 3) The rationale that a private annuity would be a better investment is erroneous; the yield is likely to be less for a privately-run annuity due to the administrative costs;
- 4) The general fund cost to the state of the House Judiciary version is greater than the cost of the Senate version;
- 5) Potential tax benefits under the Senate version of SB 8 would be lost under the House Judiciary version. The accumulated funds within a state-run annuity would almost certainly be tax deferred; whereas they most probably would not be deferred in most privately run annuities.

Finally, if the intent is to use the permanent fund earnings reserve as the funding source for the longevity bonus program, the legislature will be creating an untenable situation. Utilizing the permanent fund earnings reserve will ultimately result in a decrease in the amount of the permanent fund dividend; this would "pit" the seniors against the rest of Alaska's citizens.

I believe that the version of Senate Bill 8 which passed the Senate is in the best interests of Alaska's seniors, reflects the will of Alaska's citizens and is good public policy. In order to understand the provisions of the annuity program which is created in Senate Bill 8, as passed by the Senaté, some historical background is necessary.

BACKGROUND AND CHRONOLOGY

In 1972, the Alaska Legislature instituted the Alaska Longevity Bonus Program. The primary purpose of the program was to provide for residents who helped build Alaska, and to enable them to remain in Alaska when they retire. All Alaskans who were age 65 or older and had been a resident of the state prior to January 1, 1959, and had 25 years of continuous residency were eligible to receive the bonus.

This program was initiated before the pipeline construction. The availability of large amounts of money was not the motivating factor in initiating the Longevity

Bonus; rather, it was based on an enlightened approach toward our elders and the realization that our future and our children's future remains more secure with the support our elders give by remaining in Alaska where basic necessities are available to them.

In 1982, Rodney Vest filed suit against the state on the issue of the Longevity Bonus program, challenging the state's residency requirement. The case went before the Alaska Supreme Court.

In 1984, the Supreme Court issued the decision which changed the eligibility requirements for the longevity bonus program.

The Legislature subsequently amended the longevity bonus statutes so that individuals who have resided in the state for one year would be eligible for the \$250 bonus. It was apparent to everyone that this decision would lead to an increase in the number of eligible Alaskans 65 and older with a resulting increase in costs to the state.

The statistics since 1984 clearly show the increase in participants and cost. In 1973, there were 3,641 participants in the longevity bonus program, at a cost of \$4 million. In 1989, there were 18,000 seniors participating in the program at a cost of \$54 million. To fully fund the longevity bonus program in FY 93 would require \$67 million with an estimated participation of 22,865 individuals. At this rate, the longevity bonus program will cost the state \$100 million by the year 2006.

Because of these increased costs, the Administration and the legislature felt the need to examine options which would protect the longevity bonus and which would enable seniors to continue to receive the bonus while simultaneously phasing out the amount of general fund dollars which would be required for the program.

As early as 1983, the Legislature began to look at alternatives to the Longevity Bonus program. The Hammond Commission was formed in 1984 and I was a member of this Commission.

In 1985, the legislature passed Conference Committee Substitute for SB 56 which authorized an annuity program and placed a ballot proposition before the voters asking them whether or not the legislature should adopt an annuity program; on November 4, 1986, this ballot proposition passed by a vote of 99,222 to 65,789 (garnering more votes than any candidate has received in the last two gubernatorial elections).

In 1986, Senate Bill 5, which I sponsored, was introduced. This legislation would put an annuity program in place. Although SB 5 passed the legislature, it was vetoed by the Governor who failed to understand the issues.

Once again, the pioneers are supporting the enactment of the annuity program which the voters overwhelmingly approved in 1986.

SUMMARY

While I would prefer to continue the present longevity bonus program, it is unrealistic to assume that we can do so, given the escalating program costs.

Alaska's seniors have been waiting since 1982 for a resolution to the dilemma created by the Supreme Court decision. The seniors want the stability of a definitive decision. Continuing the present program simply adds to their feelings of uncertainty and apprehension; it is not fair that they should have to wonder every year what the legislature will do to the longevity bonus program.

Alaska's seniors have accepted the need for a change to the present longevity bonus program; they support the enactment of the annuity program which the voters overwhelmingly approved in 1986.

However, they have spoken overwhelmingly in opposition to any needs-based prop. It is unacceptable to force our senior citizens to live in poverty after they have given their energy, their youth, and their good will to build our state; their efforts have made our own lives better. The Alaskan senior is justifiably a proud individual and should not be put through the degradation of a welfare program in their later years when their presence is so necessary to the well-being of future generations.

I believe that enacting the annuity program is the best way to ensure that Alaska seniors can continue to rely on a monthly check of at least \$250. The annuity will enable us to legally secure the Alaska longevity bonus program at a relatively low cost to the state. By the year 2010, it is estimated that the State will save \$533.7 million if CS Senate Bill 8 (State Affairs) am passes.

In conclusion, I urge the House Finance Committee to adopt CS Senate Bill 8 (State Affairs) am.

Alaska State Legislature

Sen. Jay Kerttula, Co-Chairman
Sen. Pat Pourchot, Co-Chairman

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Senate Finance Committee

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SECTIONAL ANALYSIS

CS SENATE BILL 8 (State Affairs) am

Sec. 1 Amends Ch. 99 SLA 85 which has never taken effect to provide that a person 65 years of age on or before January 1, 1994 will receive a longevity bonus of \$250 per month. Ch. 99 SLA 85 set this date at January 1, 1988.

Sec. 2 Amends Ch. 99 SLA 85 to include cash contributions permitted under section 4 of this bill.

Sec. 3. Provides for the investment of funds in the annuity investment fund and adds a reference to the annuity reserve account established in section 6 of this bill.

Sec. 4. Adds a new provision allowing certain individuals to make cash contributions to annuity accounts if they do not elect to receive permanent fund dividends as annuity credits. Sets up the annual window of time during which such a cash contribution may be made.

Sec. 5 Amends Ch. 99 SLA 85. Conforming language to allow for cash contributions.

Sec.6. Amends Ch. 99 SLA 85 to require that annuities be paid from the annuity reserve account.

Sec. 7 Amends Ch. 99 SLA 85 65. Sets up beneficiary succession for death benefits.

Sec. 8. Permits a one-time emergency withdrawal to meet an unforeseeable emergency, as defined in regulation.

Sec. 9. Amends Ch. 99 SLA 85 by adding a description of "maximum possible straight life annuity" to to be used for determining the amount of the monthly longevity bonus. A person who is 65 on or before January 1, 1994 is entitled to the full longevity bonus payment without reduction.

Sec. 10. Repeals the stairstepping provision in Ch. 99 SLA 85.

Sec. 11. The annuity credit selection applies only to permanent fund dividends beginning after December 31, 1992

Sec. 12. The bill has an immediate effective date.

Alaska State Legislature

Legislative Research Agency



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Phone: (907) 465-3991
Fax: (907) 463-3351

JAN 30 1992

January 30, 1992

MEMORANDUM

TO: Senator Jay Kerttula

FROM: Paul Engelman and Paula d. Scavera *PE PS*
Legislative Analysts

RE: Cost Comparison of Existing Longevity Bonus Program and Senate Bill 8
Research Request 92.124

You requested an update of previous Legislative Research Agency memorandums which compared the general fund cost of the current longevity bonus program with the cost of the program as modified by the proposed Senate Bill 8.

The attached table and graphs incorporate some changes in assumptions from previous memorandums. The annual annuity interest rate has been lowered to 7 percent, on the advice of the director of Retirement and Benefits, Alaska Department of Administration, to reflect current interest rate expectations. The starting date for the annuity program has also been moved forward one year, as Senate Bill 8 was not enacted last year. These changes reveal a decrease in cumulative savings compared to earlier analyses.

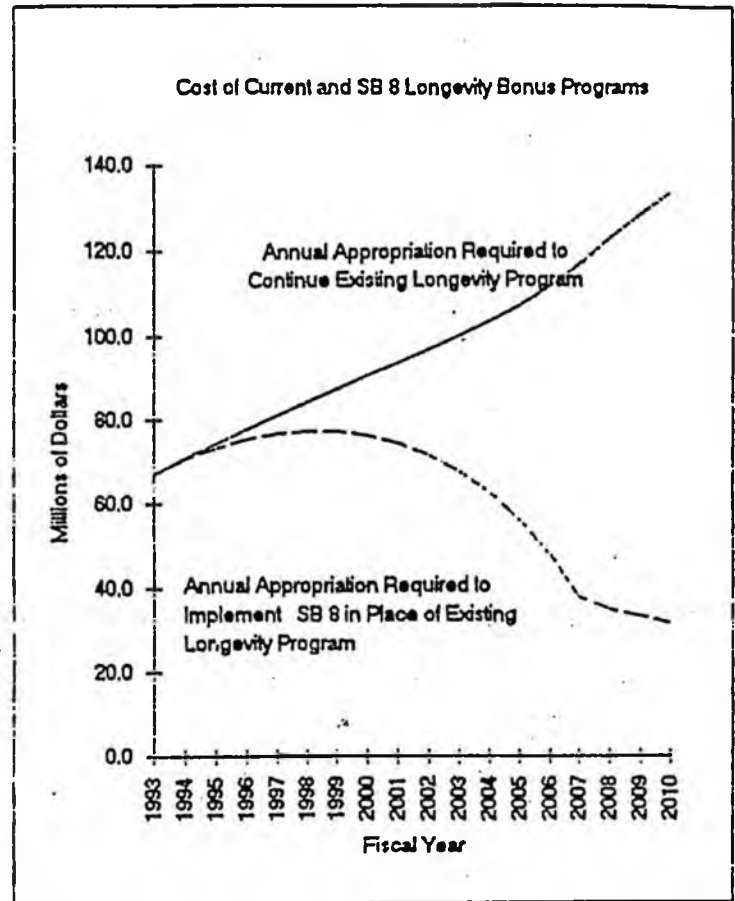
We hope this information is helpful to you. If you need further assistance please do not hesitate to contact this office.

Attachments

Alaska Longevity Bonus Program and Senate Bill 8

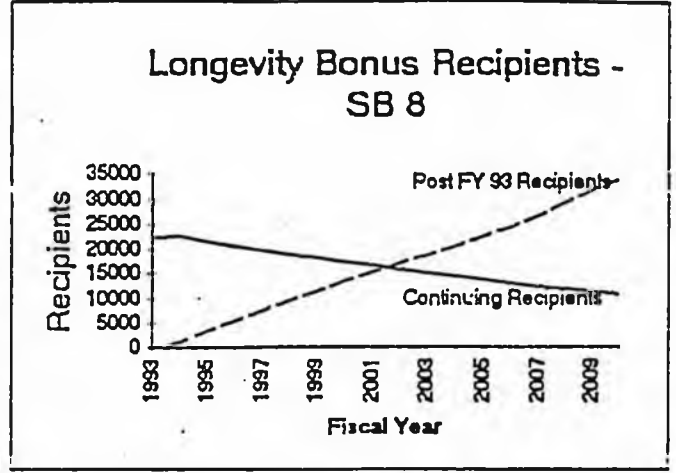
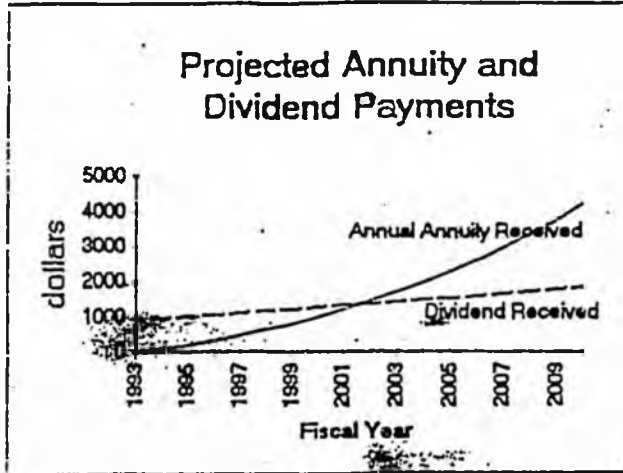
Fiscal Year	General Fund Costs/Savings			
	Cost of Current Program	Cost of SB 8 Program	Annual Savings SB 8	Cumulative Savings SB 8
1993	67.2	67.2	0.0	0.0
1994	70.9	70.8	0.1	0.1
1995	74.5	73.5	1.1	1.2
1996	77.9	75.5	2.4	3.6
1997	80.9	76.7	4.2	7.8
1998	84.1	77.3	6.8	14.6
1999	87.2	77.2	10.0	24.6
2000	90.5	76.3	14.1	38.7
2001	93.5	74.4	19.1	57.8
2002	96.7	71.6	25.1	82.9
2003	100.0	67.6	32.4	115.3
2004	103.4	62.4	40.9	156.2
2005	107.0	55.9	51.2	207.4
2006	111.4	47.8	63.6	271.0
2007	116.5	37.8	78.7	349.7
2008	122.7	35.0	87.7	437.4
2009	128.4	33.4	95.0	532.4
2010	133.6	31.9	101.7	634.1

Note:
 *All Dollar Amounts are in Millions of Nominal Dollars.
 *Implied migration and mortality rates are from Alaska Department of Labor.
 *Annuity Interest Rate 7%
 *No Annual Annuity Service Charge



Revised 3/5/92

Alaska Longevity Bonus Program and Senate Bill 8



Fiscal Year	Qualified Recipients	Post FY 93 Recipients	Total Recipients	Dividend Received	Annual Annuity	Monthly Annuity	Post FY 93 Bonus	Total Monthly Annuity+Dividend
1993	22385	0	22385	924.00	0.00	0.00	250.00	250.00
1994	22488	1137	23625	970.00	101.55	8.46	241.54	250.00
1995	21469	3373	24842	1022.00	215.26	17.94	232.06	250.00
1996	20512	5441	25953	1066.00	342.65	28.55	221.45	250.00
1997	19587	7383	26970	1111.00	483.80	40.32	209.68	250.00
1998	18687	9345	28032	1171.00	639.76	53.31	196.69	250.00
1999	17843	11224	29067	1221.00	813.24	67.77	182.23	250.00
2000	17018	13144	30162	1271.00	1004.36	83.70	166.30	250.00
2001	16237	14932	31169	1321.00	1214.36	101.20	146.80	250.00
2002	15484	16743	32227	1374.00	1444.54	120.38	129.62	250.00
2003	14773	18555	33328	1426.00	1696.67	141.39	108.61	250.00
2004	14086	20372	34458	1479.00	1972.15	164.35	85.65	250.00
2005	13431	22250	35681	1533.00	2272.75	189.40	60.60	250.00
2006	12807	24338	37145	1589.00	2600.33	216.69	33.31	250.00
2007	12220	26607	38827	1647.00	2956.98	246.42	3.58	250.00
2008	11657	29228	40885	1706.00	3344.98	278.75	0.00	278.75
2009	11136	31659	42795	1766.00	3766.63	313.89	0.00	313.89
2010	10641	33899	44540	1830.00	4224.38	352.03	0.00	352.03

Alaska State Legislature

130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Legislative Research Agency



Phone: (907) 465-3991
Fax: (907) 463-3351

March 30, 1992

MEMORANDUM

TO: Senator Jalmar Keritula *JK*

FROM: Paula d. Scavera and Paul Engelman *PE*
Legislative Analysts

RE: Interest Rates and Private Annuities

As you requested, we contacted private insurance companies for current interest rates on annuities. The current rate is 6.0 percent to 6.5 percent depending on the amount of money initially placed in the account and the company providing the annuity. All of the companies contacted required an initial minimum amount to establish an annuity. Minimums range from \$1,000 to \$10,000.

Daniel Carpenter of Benefits Concepts, Inc., indicated that the current amount charged by insurance companies to administer annuities is approximately 2.25 percent. This includes both operating expenses and a profit margin. Some companies also charge an additional annual annuity fee.

If we can be of any additional assistance, please contact us.

Alaska State Legislature

PT
4/3

Legislative Research Agency



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Phone: (907) 465-3991
Fax: (907) 463-3351

April 1, 1992

APR 03 1992

MEMORANDUM

TO:

PS *PE*

FROM: Paula d. Scavera and Paul Engelman
Legislative Analysts

RE: Costs of Alaska Longevity Bonus Programs
Research Request 92.217 (Supplemental Information)

You requested information concerning the total costs of the existing Alaska Longevity Bonus Program and three alternatives. Those alternatives are Senate Bill 8, House Judiciary Committee Substitute for Senate Bill 8 and a program that would pay only those persons who are aged 65 prior to January 1, 1994.

We have assumed that the maximum age for a recipient is 98. This means that the program costs for both versions of SB 8 and the other alternative would end in 2026. Costs for the current program go beyond this date, and continue to grow.

If you have questions or need further assistance, please contact this office.

Attachment

Alaska State Legislature

Sen. Jay Kerttula, Co-Chairman
Sen. Pat Pourchot, Co-Chairman

Sen. Al Adams
Sen. Jim Duncan
Sen. Lyman F. Hoffman
Sen. Dick Shultz
Sen. Rick Uehling

Senate Finance Committee

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Box 1009
Palmer, AK 99645
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(907) 376-0315 Fax

MEMORANDUM

TO: Representative Mike Navarre
Co-Chair, House Finance Committee

FROM: Senator Jay Kerttula *Jay*

SUBJECT: Senate Bill 8 - Annuity Legislation

DATE: April 1, 1992

I would appreciate it if you would schedule Senate Bill 8, relating to the annuity/longevity bonus program.

Under CS Senate Bill 8 (State Affairs)am, Alaska seniors who are currently receiving the longevity bonus and those who turn 65 prior to January 1, 1994, will receive the \$250 longevity bonus and will continue to receive the permanent fund dividend.

Those individuals who turn 65 after January 1, 1994 would participate in a program consisting of a declining longevity bonus payment and an option to participate in the annuity program.

I believe that the annuity is the best way to ensure that Alaska seniors can continue to rely on a monthly check of at least \$250. The annuity will enable us to legally secure the Alaska longevity bonus program at a relatively low cost to the state. By the year 2010, Senate Bill 8 will have cost the state \$577.3 million less than the longevity bonus program in its current form. The annuity approach was overwhelmingly approved by Alaskan voters in 1986.

I urge favorable consideration of this request. The longevity bonus program was started in 1972, before the big oil years. In an era of declining oil revenues, it is appropriate to put the program into a form that provides stability and reassurance to Alaskans.

JK:pt

Longevity Bonus Costs
(Millions)

Fiscal Year	Cost of Current Program	Cost of Recipients Age 65 Prior to 1/1/1994	Cost of SB 8	Cost of H. JUD. Substitute for SB 8
1993	67.2	67.2	67.2	67.2
1994	70.9	67.5	70.8	70.8
1995	74.5	64.4	73.5	73.5
1996	77.9	61.5	75.5	75.5
1997	80.9	58.8	76.7	76.8
1998	84.1	56.1	77.3	77.6
1999	87.2	53.5	77.2	77.6
2000	90.5	51.1	76.3	77.0
2001	93.5	48.7	74.4	75.3
2002	96.7	46.5	71.6	72.8
2003	100.0	44.3	67.6	69.4
2004	103.4	42.3	62.4	64.7
2005	107.0	40.3	55.9	58.9
2006	111.4	38.4	47.8	51.7
2007	116.5	36.7	37.8	42.8
2008	122.7	35.0	35.0	35.0
2009	128.4	33.4	33.4	33.4
2010	133.6	31.9	31.9	31.9
2011-2026	3032.9	152.0	152.0	152.0
Total*	4779.3	1029.6	1264.3	1283.9

*Total for current program is just through 2026.
The program continues.
Other program costs terminate in 2026.

Implied age distribution and mortality rates from the Alaska Department of Labor and the Alaska Department of Administration.

Maximum age for recipients is 98

THIS WAS THE BALLOT QUESTION NOVEMBER, 1986.

THE VOTE WAS: 99,222 FOR; 65,789 AGAINST.

**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 ()

DOCUMENTS WHICH HAVE NOT BEEN
FILMED BUT ARE AVAILABLE IN THE
ORIGINAL FILE INCLUDE:

Letters in Opposition

Mike Miller, Juneau

*AARP, 4/2/92, Alter
4/9/92 Campbell*