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(7)

JUDICIARY COMMITTEE REPORT

Date Referred: March 9, 1992

FURTHER REFERRALS:

Finance

Date of Committee Action: 3/30/92

The JUDICIARY 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 HCS CSSB 8 (JUDICIARY) 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: (Dept/Date) _____

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
		Dave Donley (support ST. AFF CS)			X
		W. G. ... (support state affairs CS)			-
		Mark ...		X	
		J. Ellis			X
		Wendell ...			✓

Dave Donley
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: March 2, 1992

Title: An Act amending and making effective an annuity
and amendments to the longevity bonus and P.F.D..

BILL NO. CS for SB 8 (STA) am

MAR 03 1992

Department Affected: Revenue

BRU: Operations

Component: Treasury Management

Sponsor: Kertula, 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

Reviewed by Commissioner: Daniel

Agency: Revenue

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

MAR 03 1992

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: Norre

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. CSSB 8 (SA)

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: Gary Bader *Gary M. Bader*
 Division: Retirement and Benefits

Phone: 465-4470
 Date: 1/16/92

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

Date: 1/21/92

Committee Substitute for Senate Bill 8 (SA)
Fiscal note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
January 16, 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

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.

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (SA)

Revision Date: January 21, 1992
Title: An Act amending and making effective an annuity program and amendments to the longevity bonus program
Sponsor: Senator Kerttula
Requestor: Senate Rules Committee

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: Barbara Bathony *Barbara Bathony*
Division: Pioneers' Benefits

Phone: 465-4400
Date: January 21, 1992

Approved by Commissioner: Nancy Bear Usura *Nancy Bear Usura*
Agency: Administration

Date: 1/21/92

Fiscal Note
CSSB 8 (SA)
January 21, 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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PFD info from Jim Kelly, 12/13/91

Year	Expected Dividend	Population
92	862	
93	897	543,000
94	947	
95	1002	
96	1050	576,000
97	1119	
98	1186	
99	1245	
2000	1301	633,000
01	1361	
02	1420	
03	1480	
04	1539	
05	1600	695,000
06	1659	
07	1719	
08	1780	
09	1842	
10	1904	763,000

**Longevity Bonus Program
as Redefined by SB 8**

Revised 12/10/91

Current Program			Total							(000 omitted)	(000 omitted)	(000 omitted)	(000 omitted)	(000 omitted)
State Fiscal Year	Qualified Recipients	(000 omitted) Cost	Grand-Fathered Recipients	SB8 Recipients	SB8 Plus GrandFathered Qualified Recipients	PFD Dividend Received	Annual Payments Annuity	Monthly Payments Annuity	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		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 Jan 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 SB8 becomes law.

SB8 Recipients = All persons entering the program after SB8 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.
 Annuity - 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

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (SA)

Revision Date: January 21, 1992
Title: An Act amending and making effective an annuity program and amendments to the longevity bonus program
Sponsor: Senator Kerttula
Requestor: Senate Rules Committee

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

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	106.0	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)	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	106.0	0	0	0	0	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	106.0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	106.0	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

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)

Impact for FY 92 is zero. This fiscal note assumes there would be an amendment to the computer program contract (to modify the longevity bonus system to print and account for multiple checks) and computer services support. Estimated cost is \$89.0. Estimated cost for mailing and printing is \$17.0.

Prepared by: Barbara Bathony *B. Bathony*
Division: Pioneers' Benefits

Phone: 465-4400
Date: January 21, 1992

Approved by Commissioner: Nancy Bear Usery *Nancy Bear Usery*
Agency: Administration

Date: 1/21/92

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

Fiscal Note
CSSB 8 (SA)
January 21, 1992

Contractual costs are: Explaining program to 22,000 recipients, 2 mailings plus printing of information.

2 mailings	\$ 12,000	(assume cost of mailing to be same
printing	5,000	as FY 92)
software program revision	<u>89,000</u>	(FY 91 estimate)
	\$106,000	

leg\cssb8fn.27

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CS SB 8

Revision Date: 2/3/92

Department Affected: Health & Social Services

Title: An Act amending and making effective an annuity program.....

GRU: Medicaid

Component: ALB Hold Harmless and Medicaid

Sponsor: Kertulla

Non-facility

Requestor: _____

COMPONENT SERIAL NO.	0	2	3	0
	0	2	3	1

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	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	0.0	0.0	0.0	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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

CS SB 8 would result in net savings to the state. See attached analysis

Prepared By: Chris Schubert Phone: 465-3355

Division: Division of Medical Assistance Date: _____

Approved by Commissioner: [Signature]

Agency: Department of Health & Social Services Date: _____

FISCAL NOTE ANALYSIS
CS SB 8

FY93

There is no fiscal effect on Medicaid (0230) or the Alaska Longevity Bonus Hold Harmless ("ALB HH") medical component (0231) for FY93 as the ALB reduction would not begin until FY94.

FY94 and following

A change made to the ALB HH medical assistance program in FY 92 significantly reduced the number of ALB HH recipients by allowing nearly all Medicaid recipients receiving ALB payments to retain their Medicaid eligibility. (Anticipated FY93 expenditures were reduced from \$1,800,000 to \$44,000.)

CS SB 8 would decrease the ALB payment by \$8 in FY94; the decreased amount would grow each year FY98, when the bonus will be decreased by a total of \$53. Even by FY98, when the \$53 decrease is reached, the number of recipients affected will be minuscule and total funding effect negligible, even if all the recipients remaining the ALB HH program were to elect the annuity option, which is unlikely.

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8

Revision Date: FEBRUARY 3, 1992 Department Affected: HEALTH & SOCIAL SERVICES
 Title: AN ACT RELATING TO THE ALASKA LONGEVITY BONUS PROGRAM BRU: ASSISTANCE PAYMENT BRU
 Sponsor: Kerttula Component: ADULT PUBLIC ASSISTANCE - OAA & OAA ALB HOLD HARMLESS
 Requestor: _____ COMPONENT SERIAL NO.

0	2	2	2	APA
0	2	2	3	ALB HF

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	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:	0	0	0	0	0	0
-------------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	0	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)

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: NO FISCAL IMPACT FY92

ANALYSIS: (Attach a separate page if necessary.) CSSB 8 continues the ALB Hold Harmless program, but includes no hold harmless provision for annuity payments. See the attached addendum for an analysis of the impact of this proposed change.

Prepared By: Jan L. Hansen, Director Phone: 465-3347
 Division: DIVISION OF PUBLIC ASSISTANCE Date: February 3, 1992
 Approved by Commissioner: Theodore A. Mala, MD, MPH
 Agency: DEPARTMENT OF HEALTH & SOCIAL SERVICES Date: _____

Division of Public Assistance
 Assistance Payments BRU

Old Age Assistance (OAA) & Alaska Longevity Bonus Hold Harmless (OAA-ALB HH)

1. CSSB No. 8 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 March 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	155
FY94	\$242	\$ 8	458
FY95	\$232	\$18	789
FY96	\$221	\$29	1153
FY97	\$210	\$40	1565
FY98	\$197	\$53	1945

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. There is no effect in FY 93 on Old Age Assistance clients impacted by this bill because annuity payments will not begin until FY 94.
7. Costs assume average age of new applicants for Old Age Assistance will be 65.
8. Approximately 35 percent of all OAA recipients also receive SSI.

CSSB No. 8 provides for a redesign of the Longevity Bonus program to include an annuity and assumes continuation of a full 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>
Estimated number of impacted aged recipients receiving ALB Hold Harmless that replaces SSI income (35% of OAA clients impacted)	54	160	276	404	548	681
Estimated number of impacted aged recipients receiving ALB Hold Harmless that does not replace SSI income (65% of OAA clients impacted)	101	298	513	749	1017	1264
Total number of new OAA recipients receiving ALB Hold Harmless (100% of OAA clients impacted)	155	458	789	1153	1565	1945
Reduction in monthly bonus \$	0	(8)	(18)	(29)	(40)	(53)
Fiscal year State Savings for ALB Hold Harmless Program benefits to replace OAA payments (65% of OAA clients impacted x bonus reduction x 12 months)	0	(9.5)	(110.8)	(260.7)	(488.2)	(903.9)
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	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)
Fiscal year State Cost for non-SSI OAA recipients (non-SSI clients x bonus reduction x 12 months)	0	9.5	110.8	260.7	488.2	803.9
=====						
Net Savings to State resulting from CSSB 8	0	(5.1)	(59.6)	(140.6)	(263.0)	(433.1)

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

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Palmer, AK 99645
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Senate Finance Committee

SPONSOR STATEMENT

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

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.

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; the state's deferred compensation program earned 9.25% interest in the last quarter.

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.

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)

There are three provisions of Senate Bill 8 which are worth noting and which contribute to the flexibility of the annuity program:

1) 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;

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

3) 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.

Alaska's seniors have accepted the need for a change to the present longevity bonus program; however, they have spoken overwhelmingly in opposition to any needs-based proposal.

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 Senate Bill 8 passes.

Alaska State Legislature

Sen. Jny 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

SECTIONAL ANALYSIS

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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.

Date of Committee Action: 3/9/92

The STATE AFFAIRS Committee considered:

CSSB 8(STA) am

CS FOR SENATE BILL NO. 8 (STATE AFFAIRS) 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: the same title
be replaced with _____ 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: (Dept/Date) _____

fiscal impact ADMIN

fiscal note(s) Revenue

zero fiscal note _____

zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eugene G. Kubisa</i>	-	<i>Donna Beach</i>		<input checked="" type="checkbox"/>	
<i>Tom Moore</i>	X	<i>James ...</i>		<input checked="" type="checkbox"/>	
<i>[Signature]</i>		<i>Mike Miller</i>		<input checked="" type="checkbox"/>	
<i>[Signature]</i>		<i>Mc Shunberg</i>		<input checked="" type="checkbox"/>	

Eugene G. Kubisa
CHAIRMAN'S SIGNATURE

Alaska State Legislature

Legislative Research Agency



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

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

March 30, 1992

MEMORANDUM

TO: Senator Jalmar Kerttula *PKS*

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

Legislative Research Agency



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

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.

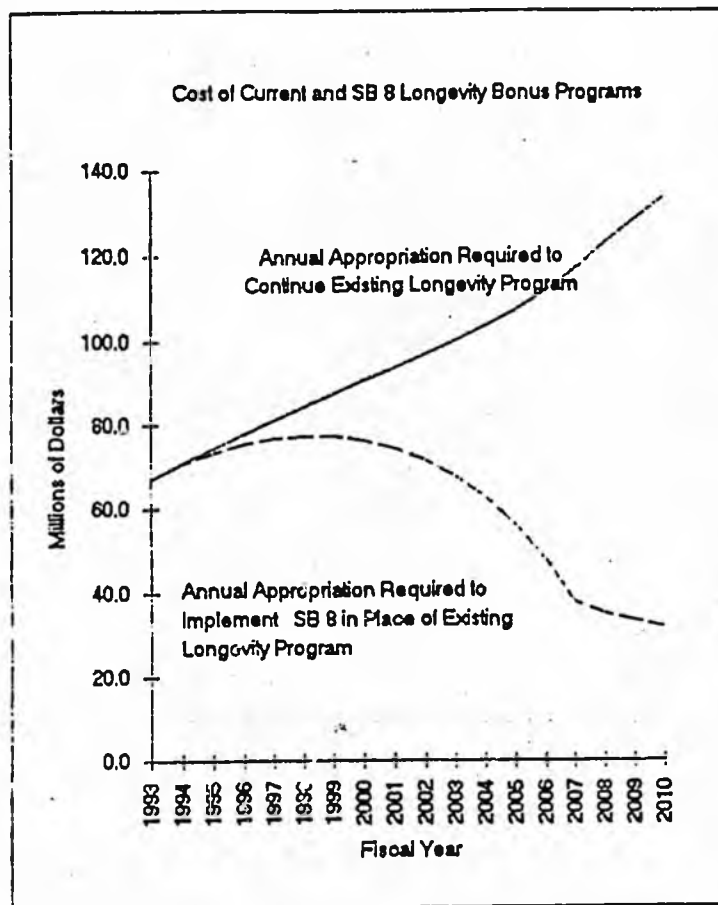
We hope this information is helpful to you. If you need further assistance please do not hesitate to contact this office.

Attachments

Alaska Longevity Bonus Program and Senate Bill 8

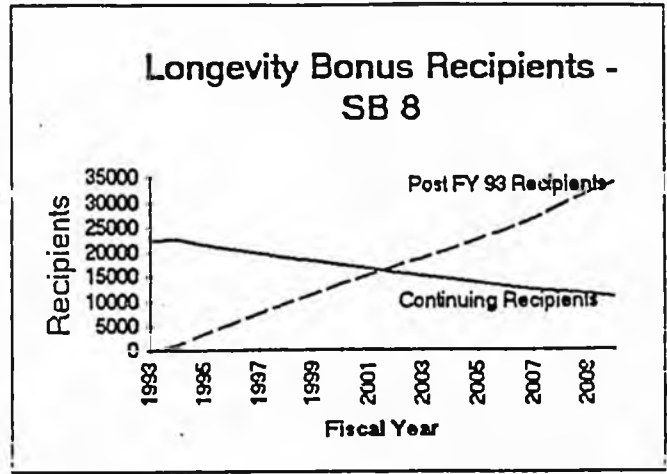
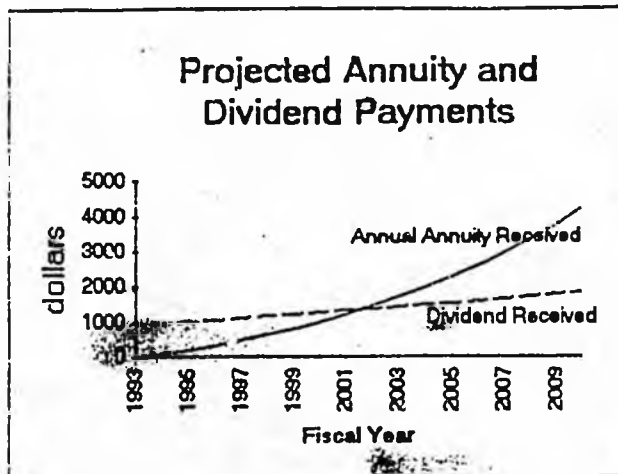
Fiscal Year	General Fund Costs/Savings			
	Cost of Current Program	Cost of SB 8 Program	Annual Savings SB 8	Cumulative Savings SB 8
1993	67.2	67.2	0.0	0.0
1994	70.9	70.8	0.1	0.1
1995	74.5	73.5	1.1	1.2
1996	77.9	75.5	2.4	3.6
1997	80.9	76.7	4.2	7.8
1998	84.1	77.3	6.8	14.6
1999	87.2	77.2	10.0	24.6
2000	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	148.80	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

MIKE MILLER
Box 21494, Juneau AK 99802
(907) 586-3067

February 26, 1992

Honorable Ben Grussendorf, Speaker
Alaska House of Representatives
Capitol Building
Juneau, AK 99811

Dear Mr. Speaker:

This is in regard to SB 8 (State Affairs) am amending the Alaska Permanent Fund and Longevity Bonus acts. It passed the Senate, as you know, yesterday. I believe the bill, unquestionably written and passed with only the best of intentions, would nonetheless cause grave harm to many thousands of Alaska residents.

Please bear with me as I outline some of the many objections I have to the legislation.

(1) The bill links the Alaska Permanent Fund Dividend act and the Longevity Bonus law as if there were some connection between them. There is absolutely none. The two laws were passed at different times for entirely different reasons. I know because as a state legislator I voted proudly for both bills and still consider those votes among the best I cast during 16 years in the House of Representatives.

The Alaska Permanent Fund Dividend act recognizes the fact that every single Alaska resident is a "shareholder" in Alaska's petroleum wealth. It is not welfare, not a gift; it is in a very real sense the same as a corporate dividend, based on the earnings of "the company" and it serves not only to tremendously benefit Alaska's economy at the family level and the local business level, it also gives each Alaskan a vital personal interest in the workings of the Permanent Fund.

The Longevity Bonus law on the other hand provided -- and still provides, its critics contention to the contrary -- a recognition of the contribution of Alaskan "oldtimers" who pioneered this land and established the Alaska we know and love today. Originally the law was written to reward specifically those who arrived on the scene before Statehood. Because of constitutional challenge, that element has been changed and the benefits have been enlarged to include senior citizens who came here after Statehood.

But it is important to realize that in spite of the lawsuit and the law's broadening, it continues (at least until now!) to serve its original purpose. And although I regretted and opposed the lawsuit at the time it was filed I have to admit that

I can no longer find fault in the current arrangement under which previously ineligible mothers, fathers, grandmothers and grandfathers find they can now afford to live in Alaska and provide love, assistance, and guidance to the younger members of their families. I find high public purpose in an expenditure that promotes this.

(2) SB 8 takes two of Alaska's finest laws, the Longevity and PFD acts, and forces each Alaskan to make a wrenching choice. He or she can opt for a dividend each year or an annuity in lieu of the current Longevity Bonus. But not both.

For some seniors with retirement plans in force, small investment portfolios, and perhaps even continued employment, making such a choice will be distasteful but not catastrophic.

For many thousands of Alaskans living on lower incomes, however, the choice will be heart-breaking. For people in the bush (particularly Native citizens living a subsistence lifestyle) and for many single parents and other urban Alaskans of limited means, the annual Permanent Fund Dividend is literally a godsend. Repairs can be made to homes, medical needs can be attended to, new school clothes can be bought and even otherwise unattainable bicycles can be purchased.

But now, the PFD will have to be sacrificed if these Alaskans hope to have the \$250 a month that all senior Alaskans 65 or older are now entitled to.

My guess is that few young and middle-aged Alaskans of limited means will opt for the annuity. They won't be able to. The pressing needs of the moment will dictate that they take the PFD -- and when these folks reach their older years the state will still, in many cases, have to take care of them, but this time in the form of welfare relief. Far, far better if these Alaskans could have the dignity of the Longevity Bonus.

(3) The bill will create, in the near future, two classes of senior citizens in Alaska -- seniors who are "grandfathered" into having both a PFD each year and a Longevity Bonus payment each month (and I am most thankful that the legislation at least makes this provision) and seniors who will be denied one of the two.

The "two classes of seniors" provision is all the more unfair because within the "haves" class will be individuals with only a year or two of residence in Alaska while within the "have not" class will be Alaskans who have spent decades or their whole lives here.

Although, as I mentioned earlier, I am now persuaded of the very desirable public purpose achieved in assisting later-arriving older Alaskans to live here with their children and grandchildren, I think it is unfortunate in the extreme that Alaskans with decades more tenure will be shut out of one of the two programs, either the PFD or the Longevity Bonus.

(4) This "two class" condition is just the sort of provision on which the original Longevity Bonus legislation fell when challenged constitutionally. I predict it will fall again for the very same reason.

(5) Another problem is both legal and moral -- and it stems from linking the PFD to the Longevity Bonus: What happens in the future if the last drop of oil is drained from Alaska lands and it becomes necessary to reduce PFD payments? As it stands now such action would be deplorable but possible if an economic emergency is great enough. Once this legislation passes, though, the state is committed morally and it seems to me legally, to keeping the PFDs high enough to fund \$250-a-month annuities for those who opted for them. Surely it would be inconceivable for the legislature to establish two levels of PFD payments, lower PFDs for cash receivers and higher PFDs for those who opted for annuities.

(6) I don't believe the net "savings" from the bill will be as great as its proponents imagine. First of all, as I indicated earlier, the legislation may simply transfer a large number of individuals from becoming Longevity Bonus receivers in their golden years to becoming welfare receivers. And while some seniors will no longer be receiving \$250 a month from the state, the lack of this income may well force many of them reluctantly to leave -- taking with them their social security and other financial resources to another state. These people probably spend as high (or higher) a percentage of their total income in Alaska as any other group in the state, and all of this income will be lost when they have to go.

(6) The bill itself, I believe, is flawed in that persons who opt for an annuity can only get their money out of the fund if they die before age 65 and the money, of course, then goes to their beneficiaries. There is, to be sure, a provision for cashing out an account because of an "unforeseeable emergency" (yet to be defined by the Commissioner of Administration) but why should it have to be an emergency for an Alaskan to get at his or her own money? Why can't the person simply change his or her mind and get their money, plus interest, out of the fund? It is, in every sense, the individual's funds that are involved; this is no "gift" from the state. And what happens if an Alaskan puts years and decades of money in lieu of PFDs into the fund then dies at age 65 and a half? Apparently the fund pays nothing to beneficiaries. The money goes down the drain as far as the Alaskan or the Alaskan's estate is concerned.

February 26, 1992

Mr Speaker, I'd like to say again that I consider SB8 well intentioned. It is an attempt to meet what the Senate considers a vexing problem. I hold the sponsors of the bill in the highest esteem and I consider the bill's prime sponsor to be the Legislature's most dedicated and effective lawmaker in the area of senior citizen rights and protection.

Nonetheless, I don't believe SB8 is the answer to the problem, if there is one. My own view is that it is not a "problem" to encourage seniors to stay in Alaska; it is an opportunity. My suggestion is that, for the time being, no action be taken. There is no emergency. We can certainly continue the present course for several more years. If, later, the economic horizons become truly bleak and barren, then will be the time to tighten all of our collective belts, not just the belts of senior citizens.

Thanks for your patience in wading through all this.

Best Personal Regards,

A handwritten signature in black ink, appearing to read "Mike Miller", written over a horizontal line.

Mike Miller

1992 ALASKA LEGISLATIVE PROGRAM

PRIORITIES

- Increase access to appropriate and affordable health care for all Alaskans by:
 - advocating formulations of a health policy for Alaska
 - supporting concept of state-mandated insurance for the uninsured
 - seeking legislation and appropriations for a comprehensive and coordinated program of home-, community-, and institutionally-based services through the state
 - supporting availability of adequate health insurance for all, including those uninsured
 - supporting replacement of health facilities
- Strengthen programs which will provide economic security for all Alaskans by:
 - supporting legislation to stabilize the Longevity Bonus Program
 - advocating recognition of the economic and social value of the retirement community by supporting programs to encourage retirees to remain in Alaska
 - supporting legislation to protect pension benefits by establishing an independent corporation for the management of pension funds

SUPPORT ITEMS

- Support full funding of the present Property Tax Exemption Program for senior citizens, homeowners, and renters
- Support legislation for reimbursement of Medicare Part B premiums for state pension beneficiaries age 65 and older, correcting inequities for older Alaskans and complying with the Older Workers Protection Act
- Support senior housing with continuum care components

SL1001AK (91)

ALASKA

State Legislative Committee

Sb. 8 -

1992 FACTS & LEGISLATIVE PRIORITIES



American Association
of Retired Persons

General Information on Hardship Withdrawals
from The Deferred Compensation Plan (DCP)
State of Alaska

Before completing the enclosed forms, please read Section C.2. of Article V., page 13 of the State of Alaska DCP Information Booklet (copy enclosed). It defines what an unforeseeable emergency is in general terms. It also specifies that payment may NOT be made to the extent that such hardship is or may be relieved by:

1. Reimbursement or compensation by insurance or otherwise; or,
2. Liquidation of the participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or,
3. Cessation of deferrals under the Plan.

If you feel you qualify for a withdrawal under the above conditions, please complete the enclosed Hardship Withdrawal Application and the Financial Data Report. You should describe your hardship in detail on the application form including any effort you have already made to solve the problem. Any pertinent documentation (invoices, billings, statements, etc.) should accompany your completed application and financial report.

Revised 4/89

Deloitte & Touche

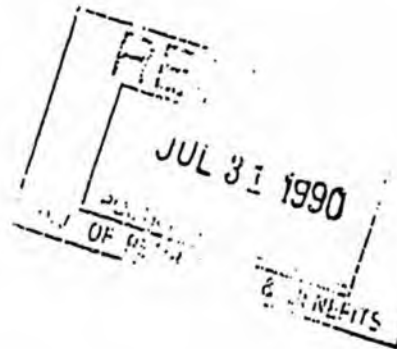


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July 26 1990

Mr. Michael B. Coughlin
Deputy Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
6th Floor, State Office Building
P.O. Box CR
Juneau, Alaska 99811



Subject: Hardship Withdrawals, Deferred Compensation Plan

Dear Mike:

We were finally able to follow-up with the IRS regarding the treatment of divorce related hardship withdrawal requests. Tom Veal of our Washington Service Center was talked with Tom Brisendene of the IRS who oversees the area that regulates the enforcement of Section 457 Deferred Compensation Plans. Mr. Brisendene confirmed what we learned and reported to you earlier that the expenses related to divorce do not qualify as a hardship (unforeseen emergency). He indicated that only under the most extraordinary of conditions could such expenses be treated as an unforeseen emergency (e.g. Divorce expenses arising at the same time their home was struck by lightning).

If you need any further information, please let me know.

Sincerely,

Patrick L. Pechacek

PLP/rcj

ARTICLE V. PAYMENT OF BENEFITS

C. Hardship Withdrawals for an Unforeseeable Emergency

1. General

In the event of an unforeseeable emergency which is beyond the control of the Participant and which causes extreme financial hardship, a participant may request the Administrator to distribute all or a portion of the Participant's Deferred Compensation. Such request shall be made by completing and submitting all required forms for this purpose. The Participant must, prior to his application, cease deferring Compensation in accordance with Paragraph F of Article III. If the application for the payment is approved by the Administrator, payments shall be effected as soon as possible after the date specified in the Participant's application or the date of approval by the Administrator, if later.

2. Unforeseeable Emergency Defined

The term "unforeseeable emergency" is defined to be severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to a casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved

- (a) through reimbursement or compensation by insurance or otherwise,
- (b) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or
- (c) by cessation of deferrals under the Plan

Examples not considered to be unforeseeable emergencies include the need to send a Participant's child to college or the desire to purchase a home.

3. Demonstration of Need

A Participant requesting a hardship withdrawal by reason of an unforeseeable emergency must clearly demonstrate that the circumstances being experienced were not under the Participant's control and constitute a real emergency which is likely to cause the Participant great financial hardship. The Administrator may require such medical, financial or other evidence deemed appropriate to make a determination concerning the Participant's withdrawal request.

4. Limit

The withdrawal shall be limited to an amount sufficient only to meet the emergency and shall in no event exceed the value of the Participant's Deferred Compensation account. Any money remaining in the account shall be distributed in accordance with the provisions of this Plan

5. Method of Distribution

The method of distribution of any allowed withdrawal shall be determined by the Administrator.

the State's doing so is conditioned only upon the State's incurring a need for the services, or the availability of funds or both.

(ii) *Special rule.* Notwithstanding subdivision (i), if, with respect to amounts payable to a participant who is an independent contractor, a plan provides that—

(A) No amount shall be paid to the participant before a date at least 12 months after the day on which the contract expires under which services are performed for the State (or, in the case of more than one contract, all such contracts expire), and

(B) No amount payable to the participant on that date shall be paid to the participant if, after the expiration of the contract (or contracts) and before that date, the participant performs services for the State as an independent contractor or an employee.

The plan is considered to satisfy the requirement described in subparagraph (1) that no amounts payable under the plan will be paid or made available to the participant before the participant separates from service with the State.

(4) *Unforeseeable emergency.* For purposes of this paragraph (h), an unforeseeable emergency is, and if the plan provides for payment in the case of an unforeseeable emergency must be defined in the plan as, severe financial hardship to the participant resulting from a sudden and unexpected illness or accident of the participant or of a dependent (as defined in section 152(a)) of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved—

(i) Through reimbursement or compensation by insurance or otherwise.

(ii) By liquidation of the participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or

(iii) By cessation of deferrals under the plan.

Examples of what are not considered to be unforeseeable emergencies include the need to send a participant's child to college or the desire to purchase a home.

(5) *Emergency withdrawals.*

Withdrawals of amounts because of an unforeseeable emergency must only be permitted to the extent reasonably needed to satisfy the emergency need.

(i) *Distributions of deferrals—(1) Commencement of distributions.* A plan is not an eligible plan unless under the plan the payment of amounts deferred will commence not later than the later of—

(i) 60 days after the close of the plan year in which the participant or former participant attains (or would have attained) normal retirement age (within the meaning of § 1.457-2(f)(4)), or

(ii) 60 days after the close of the plan year in which the participant separates from service (within the meaning of §§ 1.457-2(h) (2) and (3)) with the State. A plan is not other than an eligible plan merely because, prior to October 27, 1982, the distribution of amounts deferred under the plan may commence no later than the close of the participant's taxable year in which the participant attains age 70½.

(2) *Limitations on distributions.* Distributions must be made primarily for the benefit of participants (or former participants). Thus, the schedule selected by the participant for payments of benefits under the plan must be such that benefits payable to a beneficiary are not more than incidental. For example, if provision is made for payment of a portion of the amounts deferred to a beneficiary, the amounts payable to the participant or former participant (as determined by use of the expected return multiples in § 1.72-9, or, in the case of payments under a contract issued by an insurance company, by use of the mortality tables of such company), must exceed one-half of the maximum that could have been payable to the participant if no provision were made for payment to a beneficiary.

(3) *Distributions to beneficiaries.* A plan is not an eligible plan unless the plan provides that, if the participant dies before the entire amount deferred is paid to the participant, the entire amount deferred (or the remaining part of such deferrals if payment thereof has commenced) must be paid to a beneficiary over—

(i) The life of the beneficiary (or any shorter period), if the beneficiary is the participant's surviving spouse, or

(ii) A period not in excess of 15 years, if the beneficiary is not the participant's surviving spouse.

(j) *Administration of plan.* A plan is not an eligible plan unless all amounts deferred under the plan, all property and rights to property (including rights as a beneficiary of a contract providing life insurance protection) purchased with the amounts, and all income attributable to the amounts, property, or rights to property, remain (until paid or made available to the participant or

beneficiary under the plan) solely the property and rights of the State (without being restricted to the benefits under the plan) subject to the claims of the general creditors of the State only. However, nothing in this paragraph (j) prohibits a plan's permitting participants to direct, from among different modes under the plan, the investment of the above amounts (see § 1.457-1(b)).

(k) *Plan-to-plan transfers.* The plan may provide for the transfer of amounts deferred by a former participant to another eligible plan of which the former participant has become a participant if the following conditions are met—

(1) The entities sponsoring the plans are located within the same State (as that term is used in § 1.457-2(c)(1)).

(2) The plan receiving such amounts provides for the acceptance of the amounts, and

(3) The plan provides that if the participant separates from service in order to accept employment with another such entity, payout will not commence upon separation from service, regardless of any other provision of the plan, and amounts previously deferred will automatically be transferred.

(l) *Effect on plan when not administered in accordance with paragraphs (c) through (k).* A plan that is administered in a manner which is inconsistent with one or more of the requirements of paragraphs (c) through (k) of this section ceases to be an eligible plan on the first day of the first plan year beginning more than 100 days after the date of written notification by the Internal Revenue Service that the requirements are not satisfied, unless the inconsistency is corrected before the first day of that plan year.

(m) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. A, born on June 1, 1917, is a participant in an eligible State deferred compensation plan providing a normal retirement age of 65. The plan provides limitations on deferrals up to the maximum permitted under § 1.457-2 (e) and (f).

For 1979, A, who will be 62, is scheduled to receive a salary of \$20,000 from the State. A desires to defer the maximum amount possible in 1979. The maximum amount that A may defer under the plan is the lesser of \$7,500, or 33½% of A's includible compensation (generally the equivalent of 25 percent of gross compensation). Accordingly, the maximum that A may defer for 1979 is \$5,000 (\$5,000 = \$20,000 × .25). Although A's taxable year 1979 is one of A's last 3 taxable years before the year in which A attains normal retirement age under the plan, A is not able to utilize the catch-up provisions of § 1.457-2(f) in 1979 because only taxable

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 ()

②

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



February 1, 1985

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

together with

DISSENTING VIEWS AND ADDITIONAL COMMENTS

February 1, 1985

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Introduction.

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

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

Recommendation: Annuity Approach.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Options Considered

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

599 P.2d at 879. Emphasis added.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On the other hand, the principal advantage of "stair-stepping" is the protection which it affords those who are currently on the ALB program, and who have come to rely on both the Longevity Bonus and the permanent fund dividend to sustain themselves. The committee concluded that forcing Alaska's existing elderly to forego their Permanent Fund Dividend in order to assure continued receipt of the "target" Longevity Bonus might work a hardship on these older Alaskans. As a result, the committee decided to include in the bill a so-called "grandfathering" provision which allows those reaching age 6'

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

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

Major Features.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. The 3% Escalator.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

\$74.9 million in the year 2000, and general fund obligations would not end until the year 2029. Moreover, extending the bill's protection to 60-year-olds would cost an additional \$31 million over the life of the program. In drawing the necessary dividing line between those who can continue to receive the full benefits of existing law, and those who cannot, economic feasibility plays an appropriate role. For the reasons above-stated, the committee believes that the line is best drawn at age 65.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. The most substantial impact of the recent federal 1 change is upon nursing home patients. 36 elderly Alaskans who are currently in nursing homes may lose their Medicaid nursing home coverage as a result of this change. To pay these individuals' nursing home costs entirely through state funds would require a \$720,000 additional appropriation in FY 1986.

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

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

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

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

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

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

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

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

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

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

Chart 1

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

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

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

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

Chart 2

ALB COSTS THROUGH FY 2034
WITHOUT ESCALATION (in millions)

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

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

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

the grandfathering of existing recipients are reflected in Chart 3.

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

Chart 3

EFFECT OF 3-YEAR FRONT LOADING
(in millions)

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

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

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

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

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

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

Chart 4

INCREASED CAA/MEDICAID COSTS THROUGH 2010
(in millions)

Moderate Low

81.3

Moderate High

150.2

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

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

dollar costs.

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

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

Chart 5

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

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

The Benefit Concept's Proposal

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

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

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

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

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

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

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

The Alaska Pioneers' Home

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

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

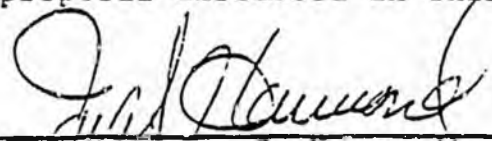
order to be eligible for admission to the homes. Plainly, that requirement raises substantial constitutional questions.

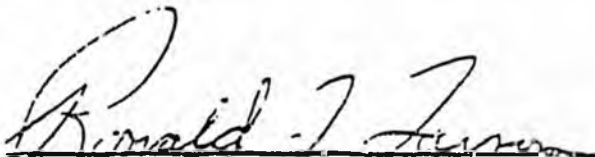
To date, no one has filed suit over the Pioneers' Home eligibility requirements. It is this committee's recommendation that the legislature develop and consider alternatives to the existing residency requirements during this session. The pressure and tension created by the Vest litigation has made it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

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

Conclusion

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


Governor Jay S. Hammond


Representative Ronald Larson

Bill Ray
Senator Bill Ray

Olga T. Steger
Olga T. Steger

Valmar M. Kerttula
Senator Valmar M. Kerttula

Robert C. Kallenberg
Robert C. Kallenberg

JAN 12 1985

IN THE _____

BY _____

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I certify that

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAPTER 16: ANNUITY PROGRAM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

①

MAR 17 1983

THE LONGEVITY BONUS PROGRAM:
OPTIONS UNDER THE VEST SETTLEMENT

JON K. TILLINGHAST
Birch, Horton, Bittner, Pescinger & Anderson

March 8, 1983

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I. INTRODUCTION

On June 14, 1982, the United States Supreme Court ruled that the cumulative residency requirements of Alaska's permanent fund dividend distribution program violated the Equal Protection Clause of the United States Constitution.¹ Shortly thereafter, Alaska's Longevity Bonus ("ALB") Program was challenged on equal protection grounds.² On August 9, 1982, the Department of Law, with the approval of the Alaska Legislative Council, entered into a stipulation in the Vest case which stayed all proceedings pending adjournment of this legislative session, in order to afford the legislature an opportunity to address the constitutional problems with the existing program.

The purpose of this report is to analyze some 10 options available to the legislature in amending the Alaska Longevity Bonus Program. This report is a first step in a process which must be completed by the end of this session. As subparts (C) and (D) of this section discuss, the likely consequence of failing to enact remedial legislation this session is that the ALB program will be judicially terminated.

A. Description Of The Longevity Bonus Program

Predecessors of the existing ALB program can be traced to 1915. In that year, the Territorial Legislature authorized a monthly allowance of \$12.50 for needy elderly Alaskans of 10 years

¹Zobel v. Williams, 72 L. Ed. 2nd 672 (1982)

²Vest v. Shafer, 1 JU-82-1103 Civ. (1st Jud. Dist., 1982)

residency who chose not to enter the newly-created Pioneers' Homes.³ The current program was enacted in 1972⁴ as a result of legislation introduced by Senators Butrovich and Ray.⁵ Quite unlike the "need-based" focus of its predecessors, the 1972 legislation was to:

"... provide all law-abiding Alaskans capable of managing their own affairs who have maintained a domicile in the state for at least 25 years and have reached a retirement age of 65, an incentive to continue uninterrupted residency in the state. Under no circumstances shall this chapter be considered a form, type, or manner, of public relief. The bonuses made under this chapter are not predicated on need even though they may appear to provide supplemental income to some qualified persons who would otherwise be forced to become responsibilities of the state. The Legislature further finds and states that this legislation recognizes the economic hardships suffered by many elderly Alaskans, Alaskans who through their tenacity and perseverance molded Alaska as we know it through skillful application of their talents. These pioneers are the same Alaskans who, in the prime of their life, were in effect treated as second class citizens by the federal government and who paid much of their hard earned income to a government in which they did not have the right to participate through the power of the ballot. The legislature also is aware of the fact that many of these pioneers have been forced to live out their retirement years in areas far away from the land they loved and nurtured and thereby also suffering, in many cases, the loss of familial relationship with their own kin, an experience that is sad and frustrating to them as well as depriving new generations of Alaskans the benefit of their wisdom and experience. This legislation hopefully will provide our pioneers with the economic means to remain in and continue to serve their state and to enjoy the opportunity of aiding

³Chapter 64, SLA 1915.

⁴Chapter 205, SLA 1972; AS 47.45.010 et. seq.

⁵SB 211, 7th Leg., 2nd Sess.

the new Alaskan in making the state truly "The Great Land." §1, Ch. 205, SLA 1972.

The ALB program, then, has several purposes:

1. providing an incentive for a particular class of senior citizens to remain in the state;
2. compensating for the hardships faced by retirement in Alaska;
3. rewarding the past contributions of Alaska's elderly;
4. compensating for past hardships suffered by Alaska's pioneers; and
5. retaining the wisdom and experience of Alaska's pioneers.

Originally, the bonus was \$100 per month. Over the years, the amount has gradually increased to its current \$250 per month.⁶ A person is eligible for a bonus if he or she:

1. is 65 years of age or older;
2. was "domiciled in the territory" on or before January 3, 1959; and
3. has been continuously domiciled in the state for 25 years.⁷

Additionally, if a person is absent from the state for more than 30 days, he will not receive another bonus until he returns. AS 47.45.030. If the person is absent for a continuous period in excess of 180 days, he is ineligible for a bonus for the next 12 calendar months following his return. Id.

⁶Chapter 13, SLA 1981

⁷AS 47.45.010

Exceptions are made if the absence "is beyond the control of the recipient." id.

The Longevity bonus is taxable under the Internal Revenue Code. However, it is almost universally excluded in calculating income eligibility for state and federal assistance programs.⁸

8. The Individuals Covered By The Alaska Longevity Bonus Program.

There are currently some 9,425 Alaskans receiving some \$23.4 million in longevity bonus payments. Sketching an accurate portrait of the state's ALB recipients is difficult, because the ALB application form requires little personal information. In 1976, the Alaska Department of Health and Social Services conducted a random survey of ALB recipients,⁹ and, in conjunction with the Vest

⁸Under 42 U.S.C. §1382(a)(b)(2)(3), which governs eligibility for federal Supplemental Security Income, and by reference also controls other federal programs such as Medicaid and energy assistance, the following is excluded from the definition of income:

"monthly (or other periodic) payments received by any individual under a program established prior to July 1, 1973, if such payments are made by the State of which the individual receiving such payments is a resident, and if eligibility of any individual for such payments is not based on need and is based solely on attainment of age 65 and duration of residence in such state by such individual."

⁹"Alaska Longevity Bonus Impact Survey," Alaska Department of Health and Social Services (1976) (hereinafter "ALB Survey")

settlement, the Department of Law conducted a non-random survey of some 1,396 participants.

From those surveys, it is apparent that a large percentage of ALB recipients are Alaska Natives living in rural areas of the state.¹⁰ Moreover, and in large part because of the ineligibility of many rural residents for social security, the longevity bonus is often the primary source of income for rural residents. For example, 41% of the elderly in Southwest Alaska, and 66% in Northwest Alaska, rely on the longevity bonus as their primary source of income.¹¹

Available evidence suggests that a large percentage of ALB recipients have incomes only marginally above the current state welfare assistance level of \$546 per month. The Department of Law's 1982 survey -- which was skewed toward the more needy recipients of the ALB -- found that 81.4% of the 1,396 recipients sampled had monthly incomes of \$750 or less. The 1976 ALB survey found that half of the ALB recipients had a monthly income, "including that of their spouse," of under \$500 per month.¹² Another

¹⁰In 1976, 41% of the ALB recipients lived in rural areas of the state and 24.1% were Alaska Natives. ALB Survey at 14-15.

¹¹"An Assessment of the Status and Needs of Alaska's Elderly," Department of Sociology, College of Arts & Sciences, University of Alaska (1981) (hereinafter "Assessment.")

¹²ALB Survey, op. cit. n. 9 at 18-19.

44% had incomes of less than \$1,000 per month. A 1981 University of Alaska survey indicated that roughly half of Alaska's elderly had monthly incomes of less than \$300.00.¹³

The 1976 ALB survey suggests that, in light of the high percentage of bonus recipients in the 65-70 age group, the bonus has had a material effect in allowing older citizens to remain in the state after retirement.¹⁴ The report also indicates that the ALB program has allowed a significant percentage of the elderly to remain off various public assistance programs -- including food stamps and state Old Age Assistance.¹⁵

One significant characteristic of Alaska's elderly in general warrants note -- one that will become quite significant in our analysis of alternatives. Only 10% of Alaska's elderly have resided in the state for 10 years or less.¹⁶

C. The Effects of Zobel And Vest On The ALB Program.

In reviewing the 1972 legislation creating the Longevity Bonus Program, the Department of Law concluded that "... the classification predicated upon being domiciled in the territory on or before January 3, 1959, bears little, if any, rational relationship to any legitimate legislative purpose which this bill is conceivably designed to serve and thus is in

¹³Assessment, op. cit. n. 11 at 31.

¹⁴ALB Survey, op. cit. n. 9 at 12.

¹⁵Id. at 10, 13.

¹⁶Assessment, op. cit. n. 11 at 12.

all probability unconstitutional."¹⁷

Nonetheless, the ALB program remained unchallenged until 1932, following the U.S. Supreme Court's decision in Zobel v. Williams (hereafter "Zobel III").¹³

The law in issue in Zobel III (AS 43.23.010 et. seq.) provided for the distribution of a permanent fund dividend of \$50.00 for each year of accumulated Alaska residency. The Court ruled, 8-1, that the cumulative residency requirement of the program was not rationally related to the goals of the statute -- a ruling which is discussed in more detail in section II(A), post.

The permanent dividend fund distribution program, in part, was intended to reward Alaskans for prior contributions to the state, a goal which: (1) three justices believed was constitutionally impermissible;¹⁹ and (2) five justices believed was a permissible goal, but was not rationally furthered by a scheme

¹⁷Memorandum, Havelock to Egan, Re: FCCS HCS CSSB 211 at 17 (June 29, 1972).

¹⁸In Williams v. Zobel, 619 P.2d 422 (Alaska 1980) ("Zobel I"), the Alaska Supreme Court invalidated the state's graduated personal income tax repeal. In Williams v. Zobel, 619 P.2d 448 (Alaska 1980) ("Zobel II"), the court upheld the cumulative residency requirement of Alaska's permanent fund dividend distribution plan -- a ruling reversed by the U.S. Supreme Court in Zobel III.

¹⁹Opinion of the Court, 72 L. Ed. 2nd at 679.

which awarded dividends solely on the basis of residency.²⁰

Beyond the ruling of the case, the various opinions -- particularly those of the concurring justices -- are rich in forboding language suggesting that any durational residency requirement may receive "intensified scrutiny" by the Court, and will be justified only in "rare" circumstances.²¹

As is more fully discussed in Part II(A), post, the impact of the Zobel decision upon the ALB program was apparent. Two major goals of the existing ALB program are to reward elderly Alaskans for their prior contributions, and to compensate for past hardships and suffering -- ends which are implemented by a durational residency requirement more severe than that at issue in Zobel. A challenge to the ALB program was not long in coming. On July 6, 1982, one Rodney G. Vest challenged the ALB program in Superior Court in Juneau.²² Mr. Vest is an elderly Alaskan whose residency in the state commenced three months after statehood. His complaint sought declaratory and injunctive relief striking the durational and statenood residency requirements of the act.

The State's response was colored by §2 of the legislation, which provided, inter alia, that:

²⁰See Brennan conc., 72 L. Ed.2nd at 634; O'Connor conc., 72 L. Ed. 2nd at 635.

²¹Brennan conc., 72 L. Ed. 2nd at 631, 684.

²²See n. 2, ante.

"if any provision of this act, or the application of a provision of this act to any person or circumstance is held invalid, this entire act shall be considered invalid."

As the Department of Law explained in reviewing the 1972 law:

"It is clear that the intent of the Legislature expressed in Section 2 of the bill is to forestall the possibility that a partial declaration of unconstitutionality would result in broadening the coverage of the bill to include additional clauses. This would be the case, for example, if either the 25 year waiting period requirement or the January 3, 1959 cutoff date were declared invalid, and the bill was expressly or impliedly severable."²³

Thus, invalidation of the Longevity Bonus Program would result not in expanding the number of ALB recipients, but rather in the abrupt termination of the entire program.

Facing that grim probability, the State, with the approval of the Alaska Legislative Council, entered into an agreement with Vest, a copy of which is attached as Appendix A. The essence of the agreement is as follows:

1. Proceedings in the Vest case are stayed through the conclusion of this legislative session. Because that case has been subsequently certified as a class action,²⁴ existing ALB recipients are not in jeopardy at least through adjournment of this session;
2. The Alaska Legislative Council promised to use its "best efforts" to secure the enactment of legislation which treated equally "all persons 65 years or older as of July 1, 1982, who have been bona fide Alaska residents for at least one year prior to that date";

²³Op. cit. n. 17 at 5.

²⁴Order Certifying Class and Directing Notice to Class Members, Oct. 1, 1982.

3. If legislation of this sort were enacted this session, the suit would be dismissed; and

4. Recognizing that the Council could not bind the legislature, if legislation is not enacted, Mr. Vast may pursue his case, with the probable result that the program will be terminated.

There are three aspects of the settlement which warrant note. First, obviously, are the severe time constraints under which the legislature is operating. Second, there is the settlement's intentionally broad litmus test of acceptable legislation. All the legislature need do is treat all elderly, one-year Alaskan residents "equally." The standard could be met by any number of options, including repeal of the program. Third, there is the inescapable financial impact of the settlement itself. In order to treat all elderly Alaskans who were one-year residents as of July 1, 1982 equally, it will be necessary to fund retroactive longevity bonus payments under the existing program to the some 3,300 elderly Alaskans who would have qualified. The necessary retroactive appropriation is approximately \$11.4 million.

Of course, the legislature itself is not "bound" to pass any particular kind of legislation, or any legislation or appropriation at all. While a "best efforts" clause is enforceable, that obligation runs only to the Alaska Legislative Council, which has already demonstrated both good faith and diligence in attempting to meet the obligations of the order and settlement.

D. Scope And Intent Of This Report.

The purpose of this report is not to recommend particular amendments to the Alaska Longevity Bonus Program. As Section II, post makes plain, any "recommendation" is a function of the goals which the legislature seeks to achieve through this exercise.

Rather, the goal of this report is to assemble a comprehensive list of alternatives proposed by various interested parties, and to analyze the alternatives in light of:

1. constitutional constraints;
2. fiscal impacts;
3. practicability; and
4. the effect of any changes on the elderly's eligibility for other programs.²⁵

In developing a list of alternatives, this report has included five options examined by the Sheffield Administration, and five alternatives developed by the authors of this report. The information presented with respect to each option is intended to be sufficient for a threshold determination of feasibility. The report attempts to anticipate the major problems and issues surrounding each option; however, it is not intended to exhaust the details of every proposal.

Rather, the report should be used as a basis for the Senate Judiciary Committee's preliminary indication of

²⁵See Section II.(C) post.

preference. We are recommending that the committee choose two or three primary options. We will then prepare implementing legislation and a detailed analysis of the primary options. Under this approach, the committee will not be required, at this early point, to make an "all or nothing" choice. It will also afford the committee flexibility in the event that, for some presently unforeseeable reason, one option becomes impracticable.

Draft implementing legislation and a detailed analysis of the committee's choices can be transmitted within two to three weeks, depending on the options chosen.

E. Alternatives Included In This Report.

The options included in this report, which are analyzed in turn in Section III, are:

1. expand the Alaska Longevity Bonus Program to include all elderly Alaskans with one-year's residency;
2. phase out the Alaska Longevity Bonus Program by gradually reducing benefits;
3. phase out the Alaska Longevity Bonus Program by gradually reducing benefits, while contemporaneously raising the eligibility limits for general state assistance;
4. providing a minimal base payment under the Alaska Longevity Bonus Program based solely on one-year's residency, with supplemental payments made on the basis of need;
5. phase out the Alaska Longevity Bonus Program by increasing the age eligibility each year;
6. create an annuity plan, with the annuity corpus consisting of permanent fund distributions. This option would necessitate a transition program for those persons 40 years and older;

7. fund the Alaska Longevity Bonus Program through a "pay as you go" social security system, funded by approximately 25% of the existing permanent fund dividend distributions;

8. replacing the Alaska Longevity Bonus Program with a comprehensive health insurance program for elderly Alaskans;

9. condition eligibility for a longevity bonus upon a demonstration of hardship which would be suffered by being unable to continue Alaska residency; and

10. open the Alaska Longevity Bonus Program to all one-year residents, and terminate the program -- giving FY 1984 recipients a grandfather right to continued bonuses.

II. CONSTRAINTS ON THE CHOICE OF OPTIONS

There are four basic considerations in choosing a package of amendments to the Alaska Longevity Bonus Program. The purpose of this section is to provide an overview of the constraints and policy choices which should play a role in this committee's decision.

A. Constitutional Constraints.

The obvious and primary constraint on any set of amendments to the Alaska Longevity Bonus Program lies in the equal protection clauses of the United States (Amendment 14) and Alaska (Art. 1, §1) constitutions. The existing Alaska Longevity Bonus Program discriminates between Alaska residents based on their duration of residency; moreover, all of the alternatives considered by this report involve some durational residency requirement.

Under both the federal and Alaska constitutions, a durational residency requirement which conditions or denies either a "fundamental right" or a "basic necessity of life" is valid only if the discrimination is necessary to further a compelling state interest: Zobel II, 619 P.2d at 448; Memorial Hospital v. Maricopa County, 415 U.S. 250, 259 (1974). "Fundamental rights" involve such things as voting,²⁶ while "basic necessities of life" include basic medical care²⁷ and welfare.²⁸

The so called "right to travel" -- which any durational residency requirement arguable affects -- is not a fundamental right automatically triggering the compelling state interest test. Zobel II, 619 P.2d at 425-426, Zobel III, 72 L.Ed. 2nd at 677-678.²⁹

We are confident in concluding that longevity bonus is not a "basic necessity of life." The program is not welfare -- it is not based on need. Basic indigent assistance -- including both income supplements and Medicaid -- are available to the

²⁶Dunn v. Blumstein, 405 U.S. 330 (1972).

²⁷Memorial Hospital v. Maricopa County, 415 U.S. 450 (1974).

²⁸Shapiro v. Thompson, 394 U.S. 618 (1969).

²⁹One of the oddities of Justice Brennan's concurrence in Zobel III was his view that the "right to travel" is a "fundamental" right (id. at 682) -- although impairment of that right by a durational residency requirement should be tested under the deferential "rationally related" standard (see text, post) or at worst "intensified ... scrutiny." Id. at 681.

needy in this state.³⁰ The longevity bonus program seems more akin to the permanent fund dividend, which the Alaska Supreme Court held in Zobel II was not a "basic necessity of life." 619 P.2d at 445. As the Court of Appeals for the Ninth Circuit has observed:

"Deprivations which are only uncomfortable are not enough, such as conditioning lower tuition at state institutions of higher education upon a one-year residency requirement." Fisher v. Reiser, 610 F.2d 629, 639 n. 5 (1979), cert. denied 447 US 930.

Under the federal constitution, then, any durational residency requirement imposed by amendments to the ALB program need only be "rationally related" to a legitimate governmental purpose. Zobel III, 72 L.Ed. 2nd at 678. As this section will discuss, however, that standard is occasionally more deferential in its terms than in its application.

Conversely, under the Alaska Constitution, a durational residency requirement will withstand scrutiny only if it is "fairly and substantially related" to a legitimate governmental purpose. Zobel I, 619 P.2d at 427. The more the balance tips in favor of the individual, the more necessary the discrimination must be in order to further the law's purpose. Id.

From these standards, the following ground rules can be extracted from applicable case law:

³⁰See Memorial Hospital v. Maricopa County, 415 U.S. at 261

1. Unquestionably, the "length of residence may be used to test the bona fides of citizenship." Zobel III, 70 U.Sd. 2d at 634 (Brennan conc.). In other words, the state may, by a durational residency requirement, "make virtually certain (that the recipients of the program are) bona fide residents of the state ..." Vlandis v. Kline, 412 U.S. 441, 453-454 (1973).

As a general rule, attorneys have assumed that in cases not involving the "compelling state interest" standard, a one-year durational residency requirement is permissible as a presumption of domiciliary. See, Starns v. Malkerson, F. Supp. 326, 234 (Minn. 1970), affd. mem. 401 U.S. 985 (1971). Moreover, the State of Alaska has taken the position that in cases involving either particularly attractive benefits, or particularly transient populations, a durational residency requirement in excess of one year is constitutionally permissible. See Motion For Summary Judgment, September 8, 1982, Andress v. Baxter, et al., No. A82-307 Civil, U.S. District Court, (D. Alaska 1982).

For the purposes of the Longevity Bonus Program, there are three reasons why it makes little sense to attempt a multi-year durational residency requirement as a presumption of domiciliary. First, the attempt would lack substantial

precedential support. Second, it would be contrary to the August 9, 1982 settlement in the Vast case. Finally, and as noted previously, a durational residency requirement would not begin to exclude significant numbers of elderly Alaskans unless it was in excess of 10 years.

2. . Durational residency requirements may be permissible for reasons other than presuming domiciliary, although at least four justices of the United States Supreme Court believe that those situations are "rare." Zobel III, 72 L.Ed. 2d at 684.³¹

At the outset, a state cannot use a lengthly durational residency requirement to reward long time residents for their prior contributions to the state. To a majority of the court, while the purpose itself is permissible, a durational residency requirement is irrationally tailored to that goal -- a point bluntly made by Justice O'Connor in her concurrence:

"A multitude of native Alaskans -- including children and paupers -- may have failed to contribute to the state in the past. Yet the state does not dock paupers for their prior failures to contribute, and it awards every person over the age of 18 dividends equal to the number of years that person has lived in the state." 72 L.Ed.2d at 689.

The flip side of rewarding a person for prior contributions is compensating a person for prior hardships. That, as noted previously, is a second major goal of the

³¹One "rare" example cited by the four concurring justices was qualification of public office. Id.

existing ALB program. If it is irrational to assume that all long time residents "contributed" to the state, it may be equally irrational to assume that all long time residents suffered substantial past hardship.

There is one universal hardship which equates with territorial residency -- the lack of franchise. It is conceivable that a Longevity Bonus Program intended to compensate for that lack of representation would be constitutionally permissible. However, that rationale would only justify the January 3, 1959 residency requirement -- not the 25-year continuous residency provision of the act.

A much closer question is posed by the program's goal of allowing elderly Alaskans to remain in the state who would suffer particularly severe hardship if they were financially required to relocate. Justices Dimond and Matthews of the Alaska Supreme Court believe this may be a constitutionally permissible goal substantially furthered by a durational residency requirement:

"... a state Longevity Bonus ... require(s) lengthy residency. Both those programs, however, are apparently designed to help those individuals who would like to retire in the state but cannot afford to do so because of the high cost of living. The state might well want to limit the benefits to those that would suffer the most hardship by being forced to leave, and it seems reasonable to suppose that a long period of residency would be some indicia of close ties to Alaska and the disruption that leaving might cause." Zobel II, 619 P.2d at 469 n. 13 (Dimond dissenting).

The Department of Law, in fact, has concluded that the Pioneers' Home may be constitutionally defensible as a reasonable means of accomplishing precisely this goal.³² Indeed, one option considered in this report would award longevity bonuses on the basis of hardship caused by relocation -- which in turn would be measured in part by length of residence. By making length of residency "some indicia" (619 P.2d at 469) of the hardship of relocation, the option would avoid the indictment of overbreadth which was fatal to the permanent dividend fund distribution program in Zobel III.

Finally, as to the ALB program's goal of providing an incentive for a specific subclass of Alaska's elderly to remain in the state, the courts in all likelihood would view that purpose as merely discrimination for its own sake. See Zobel III, 72 L.Ed. 2d at 673-679. Presuming that only long-time residents have the requisite "wisdom and experience" to warrant subsidization is hardly likely to impress the U.S. Supreme Court.

B. Varying Goals of Several Longevity Bonus Options.

There is a substantial difference of opinion as to what an amended ALB program should accomplish. As noted previously, the legislature may wish to retain one of the major goals of the existing program -- allowing those elderly with the closest ties to Alaska to continue to live here.

³²1932 Op. Atty. Gen. _____ (November 26, 1932) at 25.

Alternatively, the fiscal consequences of the various alternatives may be the primary consideration. As previously discussed, if legislation in conformity with the West settlement is enacted, an additional \$11 million must be appropriated as retroactive bonus payments to July 1, 1982. Several of the options which propose to phase out the program, or which propose a conversion to permanent fund earnings, are partially or primarily directed at this end.

The primary goal of the legislation may also be to protect those currently most dependent upon the bonus. The current Old Age Assistance income level is \$546.00 per month and there are approximately 2,300 elderly Alaskans receiving state assistance. Since the longevity bonus is not included in the calculation of income for state assistance, the practical consequence of a phase out or termination of the program would be to materially reduce the available income of the poorest elderly Alaskans. Moreover, as noted in Section I(3), ante, there are a large number of elderly Alaskans who are currently only marginally above the existing state poverty level.

There are two options particularly sensitive to this goal -- the phase out of the ALB program in conjunction with a correlative rise in state assistance levels, and the option of compensating those who would suffer the most hardship by relocation.

With respect to this goal, however, it should be stressed that the existing ALB program has been purposefully structured so as to not be a "welfare program." Precisely for that reason, the program is administered by the Department of Administration, rather than the Department of Health and Social Services, and any conversion to a "need-based" program will undoubtedly offend the dignity of many elderly Alaskans.

Finally, there is the possible goal of providing a long term, stable bonus program which frees the general fund from increasing commitments. The annuity and state social security options are primarily directed at this goal.

C. Consequential Effects of Any Amendment To The Longevity Bonus Program.

Any change to the Longevity Bonus Program may have two consequences which must be considered: (1) the continued eligibility of ALB recipients for other state or federal assistance programs; and (2) tax consequences on participants.

As noted in Section I(A), ante, under federal law the ALB is excluded from the definition of "income" for many federal assistance purposes.³³ As long as any amendments to the ALB program continue to base eligibility "solely on attainment of age 65 and duration of residency," and remain sufficiently similar to the existing program so as to be fairly called "a program established prior to July 1, 1973," the exemption would be retained.

³³See n. 3, ante.

Obviously, any material changes in eligibility requirements or structure of the program raise the risk that the new benefit will be included as "income," and many elderly Alaskans will be terminated from the applicable federal program. The Department of Health and Social Services has estimated the impacts from a loss of the longevity bonus exclusion. Those estimates appear at Appendix B of this report.

Anticipating the same problem with permanent fund dividends, the legislature, in the 1982 Special Session, provided that the state would substitute lost benefits for a period of four months.³⁴ Obviously, and to the extent possible, any amendments to the ALB program should either be tailored to the existing exception, or fall within another separate statutory income exclusion such as a "need based" payment.³⁵

The tax consequences of amendments to the existing ALB program become particularly important with respect to this report's annuity option -- which is treated in detail in Section III (F), post. At the outset, it is sufficient to note that:

1. The existing longevity bonus program is taxed under the Internal Revenue Code;
2. Any ALB program which is based on need, or could be characterized as a "social benefit program for the promotion of the general welfare," would in all likelihood not be taxed by the IRS; and³⁶

9-AS 43.23.375.

³⁵See 42 U.S.C. §1362(a)(5)(6).

³⁶See IRS Revenue Rulings, 63-136, 1963-2 C.B. 19; 68-33, 1968-1 C.B. 446; 72-340, 1972-2 C.B. 31; 73-170, 1973-1 C.B. 24.

3. On February 27, 1981, the Internal Revenue Service ruled that dividends distributed under the state's prior permanent dividend fund legislation -- the statute invalidated in Zobel III -- were taxable under the Internal Revenue Code.³⁷ While the IRS has yet to rule on the existing dividend program, it is likely that taxation of the permanent fund dividend could be deferred if it is used to fund the annuity or social security options discussed in this report.

III. DISCUSSION OF ALTERNATIVES

A. Expanding The Class Of Alaska Longevity Bonus Recipients To Include All Elderly With One-year's Residency.

There are currently some 9,425 Alaskans who receive bonuses totaling \$23.23 million. This proposal would require additional appropriations for (1) bonuses for an additional 3,803 people; and (2) additional clerical support in the Department of Administration. The additional costs would total \$12 million in FY 1984, increasing to \$13.7 million in FY 1988.³⁸

These appropriations are in addition to the \$11.4 million retroactive award required under the Vest settlement.

The advantages of this option are two-fold. First, it is one of the constitutionally "safest" options. Second, since eligibility would remain dependent on "duration of residence" -- albeit only one-year -- in all likelihood it would fall within the existing ALB exclusion to federal assistance programs.

³⁷IRS Index Nos. 0061.40-00; 0451.20.00; 0102.00-00.

³⁸Department of Administration draft fiscal note, January 11, 1983.

Additionally, while theoretically any "one-year" elderly Alaskan could take advantage of this program, the demographics of Alaska's elderly (see Section 1(3), ante) are such that the primary beneficiaries of this option would be those who have lived in the state from 10 to 25 years. Whether such a program would encourage in-migration is problematical.

In addition to obvious fiscal disadvantages, this alternative would dilute the dignity and recognition attendant the current bonus to the point of non-recognition.

3. Phase Out The Existing Longevity Bonus Program.

One of the options analyzed by the Sheffield administration would phase out the ALB Program by reducing benefits by \$30.00 each year beginning with FY 1984. By paying \$200.00 a month to 13,228 recipients rather than \$250.00 to 9,425, the net increase to the program in FY 1984 would be \$2.1 million. In fiscal year 1985, however, when the bonus is reduced to \$150.00, there will be a net decrease of \$8.7 million in program costs.

This option has been unfavorably viewed by the administration, and apparently was prepared only as a point of comparison. Despite its fiscal benefits, the proposal protects no one. The poorest of Alaska's elderly would suffer the most. Since, as discussed previously, Alaska longevity bonuses are not counted in existing state and federal assistance income limits, the needy elderly person in Alaska receives, currently, a

subsidized monthly income of \$546 for Old Age Assistance, plus \$250 from the ALB program. This option would thus materially reduce state assistance levels.

C. Phase Out The Existing Longevity Bonus Program With A Contemporaneous Increase In State Assistance Levels.

The apparent "preferred" option of many with the Sheffield administration is to gradually increase state Old Age Assistance levels while at the same time gradually decreasing the amount of the longevity bonus. The program would function in the following manner:

CHART 1.

YEAR	OLD AGE ASSISTANCE LEVEL	ALASKA LONGEVITY BONUS
FY 1983	\$546	\$250
FY 1984	\$596	\$200
FY 1985	\$646	\$150
FY 1986	\$696	\$100
FY 1987	\$746	\$ 50
FY 1988	\$796	\$ 0

In analyzing the fiscal impacts of this alternative, assumptions must be made about how many elderly Alaskans will become eligible for Old Age Assistance as the OAA income level increases, and how many of the newly eligible will be inclined to seek assistance as their longevity bonus gradually diminishes.

Regardless of which assumptions are used; the impacts upon the longevity bonus program, are, of course, identical to the "phase out" option. Those impacts would be as follows:

CHART 2.

ADDITIONAL COST (SAVINGS) TO THE ALB PROGRAM (in millions)

FY 1984	2.1
FY 1985	(8.7)
FY 1986	(19.2)
FY 1987	(30.9)
FY 1988	(44.1)

The fiscal impact upon the Department of Health and Social Services' OAA program is far more difficult to determine. The Department of Administration has used two alternative assumptions -- (1) that of the 13,228 elderly in Alaska, 5% will become eligible and apply for public assistance as the income level is increased to \$796 in FY 1988; or (2) that 25% of the elderly will become eligible and apply for assistance during that period.

We believe that the 25% possibility may be closer to the truth. Approximately 30% of Alaska's elderly have monthly incomes marginally above existing assistance levels -- from \$500-\$800 per month.³⁹ If those figures are accurate, as many as 3,968 will become eligible for public assistance -- in addition to the 2,300 currently on the OAA program.

The second variable involves the size of the benefits which the new clientele will receive. The Department of Health and Social Services has assumed that each new recipient will receive the mean benefit currently given or projected for

³⁹Assessment, op. cit. n. 11 at 31.

existing recipients -- \$295 in FY 1984.

In computing the fiscal impacts of this option, we have used the following three assumptions:

(1) Of the 3,968 elderly whom current data suggest could be eligible for the increased OAA program, 2500 will in fact apply. This figure arbitrarily discounts both those who will decline to apply for psychological reasons, and those who will not apply because the minimal benefits to them are simply not worth the bother;

(2) Because we have discounted those who will receive minimal benefits, we have retained the "mean benefit" assumption employed by the Department of Health and Social Services; and

(3) The new recipients will be evenly distributed over each of the five years -- so that in each year an additional 500 recipients will be added to the OAA program.

Additionally, persons who become eligible for Old Age Assistance will also become eligible for Medicaid. The State's Medicaid budget for FY 1983 is \$65 million dollars. 48% of that figure -- or \$31.2 million -- is paid by the State. Some 23% of that budget -- or \$7.17 million dollars -- is attributable to those currently on Old Age Assistance. If the OAA population doubles over the next five years -- as our assumptions presume that it will -- there will be an additional cost of \$7.17 million (not adjusted for inflation) to this option, chargeable in equal portions to each of the next five fiscal years.

With these assumptions, the following chart illustrates the possible net fiscal impact of this option:

CHART 3

<u>Year</u>	<u># Add. on OAA</u>	<u>Mean Benefit</u>	<u>-----IN MILLIONS-----</u>		
			<u>Added Medicaid Costs</u>	<u>Added ALB Costs (Savings)</u>	<u>Net</u>
FY 1984	500	\$295.02	1.4	2.1	5.27
FY 1985	1000	345.02	2.8	(8.7)	(1.76)
FY 1986	1500	395.02	4.2	(19.2)	(5.90)
FY 1987	2000	445.02	5.6	(30.9)	(14.60)
FY 1988	2500	495.02	7.0	(44.1)	(29.30)

Thus, even with fairly liberal assumptions regarding the number of additional OAA clients and Medicaid costs, this option will begin saving money in FY 1985.

Moreover, for those elderly in the \$500 - 800 per month income range who pay some federal taxes, the option would have advantages, since increased need based assistance, unlike the longevity bonus, should not be taxed under the Internal Revenue Code.

One obvious disadvantage of this option is that it transforms the longevity bonus program into a welfare scheme. Persons who currently receive \$796 or less per month -- including the bonus -- will indeed be "held harmless" under the option, but only at the expense of applying for assistance to the Department of Health and Social Services.

Moreover, those current elderly bonus recipients whose monthly incomes (excluding the bonus) exceed \$796 per month will receive no protection under this option.

Finally, because welfare payments are generally viewed by the courts as involving "basic necessities of life" (see §II(A), ante), the durational residency requirement for increased old age assistance must be dropped from one year to 30 days.⁴⁰ The minimum national old age assistance level under the federal Supplemental Security Income system -- which OAA supplements -- is \$284.30/mo.. A person with \$600 a month income in a "minimum benefit" state is presumably ineligible for old age assistance (including Medicaid) in that state, but could become eligible under the Alaska system upon 30 days residency. While the mere prospect of an additional \$196 per month (in FY 1988) is unlikely to induce people to retire in Alaska, the concomitant provision of Medicaid services -- including full nursing home coverage -- may have that effect. If a person can obtain free nursing home coverage -- valued at between \$40 - \$60,000 per year -- simply by spending the month of August in Anchorage, the State may face a rather remarkable in-migration problem indeed.

D. Retaining A Modest Longevity Bonus, While Providing A "Need Based" Supplement.

This option is largely a variant of option C, and has been discussed by the Sheffield Administration as a means of

⁴⁰Shapiro v. Thompson, 394 U.S. 613 (1969).

retaining some longevity bonus payment which could not be considered "welfare."

Under this option, the longevity bonus, as with Option C, would be gradually reduced to, say, \$100.00 per month. As the fiscal information for alternatives B and C suggest, this alternative would result in a savings to the longevity bonus program of \$19.2 million by FY 1986.

To compensate for the loss of \$150.00/mo. to the needy, either State OAA limits could be increased by \$150, or a separate "need based bonus supplement" could be established by the Department of Administration.

The advantage of the latter option is that although based on "need," applicants will not be dealing with the Department of Health and Social Services, and may view the supplement less as a form of welfare. Additionally, since the supplement will be provided under a program other than State OAA, its recipients would not be entitled to Medicaid (including nursing home coverage) unless they are otherwise eligible for OAA under existing limits.

Additionally, the "need" is not necessarily limited to financial need. As this report's discussion of Option I indicates, longevity bonuses may be apportioned according to the hardship which the elderly would face by being forced to retire outside Alaska.

The disadvantage of a separate "need based" program in the Department of Administration is, of course, the necessary creation of a parallel bureaucracy in state government.

The fiscal costs of this option have not been developed by the administration or this report because of the variables involved -- the size of the remaining "basic" longevity bonus, and the question of administration. Costs of administration aside, the net savings to the State should be substantially similar to the FY 1986 figures for Option C -- in which the declining longevity bonus payment would be \$100.00 per month. The projected net savings of \$5.9 million would certainly exceed the costs of even a parallel bureaucracy within the Department of Administration.

E. Gradual Increase In The Age Of Eligibility.

Another option explored by the Administration would reduce the durational residency requirement for a bonus to one year, but raise the eligibility age each fiscal year. For FY 1984, the age would be raised to 66; to 67 in FY 1985; and so on.

This option would have a substantial fiscal impact until fiscal year 1988, at which time mortality would have reduced the class of beneficiaries below existing levels. For FY 1984, the option would cost an additional \$9.5 million dollars beyond existing funding levels, according to the Department of Administration.

This option has been quite unfavorably received. It has been facetiously but not unfairly referred to as the "newcomer's bonus program." A recent migrant born prior to June 30, 1913 would receive a longevity bonus for life, while a long-time Alaskan born subsequent to that date would receive nothing.

F. Self-Sustaining Annuities.

The prior five options were developed by members of the administration, although the administration has not formally "sponsored" any particular approach. Moreover, several of the options -- particularly the "graduated age" and "phase out" options -- were developed more as comparative conversation pieces than as actual proposals.

The following five options -- commencing with the self-sustaining annuity -- were prepared by the authors of this report.

Under the self-sustaining annuity option, individuals would no longer receive a permanent fund dividend under AS 43.23. Rather, those dividends would form the corpus of a self-sustaining annuity account from which the individual would receive an annuity commencing at the age of 65.

According to Department of Revenue projections, the permanent fund dividend payment for FY 1984 will be \$365.00, rising gradually throughout the remainder of this century to \$952 in the year 2000.

Given this level of contribution to the corpus, a self-sustaining annuity account will produce an annuity roughly equivalent to the existing longevity bonus (with a 3 percent annual cost of living adjustment) for those who are currently 40 years or younger, and who will be residents of Alaska each of the next 20 years. For various age groups, the annuity entitlements at age 65 as a percentage of the "target" annuity (\$3000/yr. plus 3% per annum) would be roughly as follows:

Current age	Annuity as a % of target annuity
25	353%
35	151%
40	100%
45	56
55	21

Obviously, some transition measure is necessary for those who are simply incapable of accruing a sufficient corpus by the age of 65 to be entitled to the "target annuity". The general fund, simply put, will be required to make up the difference, although, over time, that "differential" will decrease as annuity accounts assume some significance.

Many of the options explored in this report could suffice as a 20-25 year shrinking general fund obligation. One option particularly tailored to the annuity approach would be to allow those who are at or near the age of 65 to continue to receive their permanent fund dividends in cash, with the PFD being subtracted from the longevity bonus amount. For those in

the 40-60 year age group, the general fund would simply fund the difference between their annuity and the "target" figure.

Under this "transitional measure", the general fund "residual" payment would be based on the amount necessary to supplement the annuity corpus assuming that an individual received a permanent fund dividend every year. There would seem, in this regard, no obligation on the part of the state to give a larger general fund supplement to someone with two PFD credits than to someone with 15.

Thus, in fiscal year 1994, when current 55-year olds first receive their annuity, they would receive a state supplemental of 79 percent of the target annuity -- regardless of the actual PFD credit any individual has accrued.

The remaining question, obviously, is what to do about the person who is currently 65. If that individual's supplement is the same in 1994 as a new annuitant -- 79% -- he will in fact receive less than the new annuitant since he will have only his permanent dividend, rather than a 21% annuity, to make up the difference. Conversely, if the grandfathered PFD recipient received a full target annuity in 1994, he would be at a substantial advantage over the new annuitant. The reason is this: while the new annuitant has earned a substantial portion of his target annuity by foregoing his cash dividend each year, the "grandfathered" recipient has both enjoyed the dividend, and its earning power, over that same period of time.

The question is largely one of equity for the legislature. Either approach is defensible. While the latter scenario would seem to discriminate in favor of the existing elderly, the Alaska Supreme Court has recognized the legitimacy of creating preferential grandfather rights for those who have come to depend upon an existing state program.⁴¹

In either case, the difficulty with this "transition" option is that the longevity bonus program continues to be a substantial drain on the general fund for 20-25 years to come. Under the transition option described above, the FY 1984 budget for the ALB program would be increased by \$6 million dollars over existing funding levels.⁴²

Through Aetna Insurance Co., we investigated the alternative of simply purchasing a lifetime annuity for all those currently 65 or older. Unfortunately, the cost of a lifetime annuity for all Alaskans 65 or older would be prohibitive -- in the neighborhood of \$300 to \$400 million.

Finally, the Legislature should consider using the administration's options C and/or D as a transition measure. The short term fiscal impacts of those options are superior to those of a simple general fund supplement.

⁴¹Commercial Fisheries Entry Commission v. Apokedak, 606 P.2d at 1239-91.

⁴²Assuming that the ALB of the "grandfathered class" is reduced by the \$365 permanent fund dividend, each of 13,223 persons will receive a payment of \$2,635 this year -- totaling \$34 million dollars.

For all of the short term problems of an annuity program, the long term advantages should receive equal time. First, in a period of 20-25 years, the general fund will no longer be encumbered with the longevity bonus program. Second, the eventual size of one's annuity payments would be a function of the number of permanent fund dividend contributions that have been credited to the annuitant's account. We seriously doubt that a successful durational residency claim could be made to this aspect of the program. An annuitant with three years contributions could no more claim that he is due an annuity based on 20 years contribution than could a 1995 resident claim not merely the \$737 cash dividend available that year, but rather some \$6,000 which his predecessors had amassed by being residents of Alaska since 1984.⁴³

We believe that there is a strong case for distributing annuities only to persons who are residents of Alaska at the

⁴³Because future annuities are a direct function of actual past payments to the program, the program does not "reward" presumed contributions but simply returns actual investments. cf. Zobel I, 619 P.2d at 435 (Rabinowitz conc.) Nor is the option akin to a situation where prior tax contributors are excused from funding the present needs of government, as with the tax repeal scheme at issue in Zobel I. At any point in time, each Alaskan is treated quite equally -- being entitled to an annuity credit if he or she resided in the state for six months during the pertinent year.

time. Partially for reasons discussed below, no individual will have a "vested right" to an annuity in the future. A purpose of the annuity program will be to alleviate the particular financial hardships caused by retirement in Alaska -- a purpose which we believe is constitutional. This goal would be served only by confining actual annuity payments to Alaska residents. Second, and particularly if the program is properly viewed as conferring an economic benefit not upon the crediting of an annuity account, but rather upon annuity distribution, the state certainly possesses the right to prefer its own residents in the disposition of its resources.⁴⁴

There are, of course, other issues surrounding the annuity option. Many Alaskans will undoubtedly wish to retain the existing cash benefits of the permanent fund distribution. Alaskans will not be, however, totally without recompense. An annuity account for younger Alaskans in particular -- at least for those planning to stay in the state -- will one day lead to substantial benefits.

Of course, the prospect of a lucrative retirement account is a product of the legislature's continued willingness and ability to devote 25% of permanent fund earnings to the

⁴⁴Reeves, Inc. v. State, 55 L.Ed. 2d 244, (1980); see also White v. Massachusetts Council of Construction Employees, U.S. No. 31-1003 (U.S.S.Ct., Feb. 28, 1983)(distinguishing Hicklin v. Orbeck, 437 U.S. 518 (1978)).

annuity program. Unquestionably, at some point in time, a material percentage of the permanent fund's earnings will be necessary for general government expenses. The point at which that will require access to more than 75% of the fund's earnings is problematical.

The tax consequences of an annuity program warrant detailed discussion. As noted previously, the Internal Revenue Service may well rule that permanent fund cash distributions are taxable. Conversely, if credits to an annuity account equal to the permanent fund dividend are not tax exempt, the real economic value and perceived political worth of an annuity option is substantially lessened.

The annuity program envisioned by this report is not employer/employee related, and therefore would not qualify for an exempt plan under the Internal Revenue Code.⁴⁵ As serious consideration given to qualifying this annuity option as an Individual Retirement Account -- because (1) the state is not a qualified financial institution to administer such an account; (2) the required terms of an IRA were not compatible with the option considered; and (3) any "state required" IRA -- even if possible -- would severely impinge on the tax planning flexibility of individual Alaskans.⁴⁶

Noneetheless, it is our opinion that the annuity option should result in the deferral of both the permanent fund

⁴⁵See 26 U.S.C. §401-404

⁴⁶See 26 U.S.C. §408.

dividend contributions and accrued interest under the Internal Revenue Code. The courts and the IRS have generally ruled that contributions to an unqualified "annuity," "retirement" or "deferred compensation" plan are nonetheless tax deferred if the individual is not in "constructive receipt" of the annuity contributions, and the contributions do not represent a present "economic benefit."⁴⁷

Combining the standards of that doctrine with the attributes of the proposed annuity program, the program should be taxed deferred for the following reasons:

1. If the State were to purchase individual annuities with each permanent fund dividend, with each resident being the beneficiary, the resident would have a vested and secured interest in the contribution, and would thus have received a current "economic benefit." If, however, the State were to merely give the annuitant an unsecured promise of payment, purchasing an annuity account with itself as the beneficiary in order to provide a funding source for that promise, there would be no "current economic benefit" and taxation would be deferred.⁴⁸ This is one customary means by which employers obtain tax deferral of an unqualified plan;

2. A person is in "constructive receipt" of an annuity contribution if he has current access to the

⁴⁷U.S. v. Goldsmith, 536 F.2d 810 (Ct.Cl. 1973).

⁴⁸Id.

contributions without substantial terms and limitations.⁴⁹ Under this report's option, under no circumstances would an annuitant be entitled to withdraw anything until annuities are actually distributed;

3. To underscore the contingent nature of the annuity -- such that the IRS could not reasonably conclude that it represents a "current economic benefit" -- the annuity will only be received if the person is an Alaska resident at the time of the pertinent distribution.

Our only hesitancy in this regard is the February 27, 1981 ruling of the IRS that even if an individual chooses to defer receipt of his permanent fund dividend, it is taxable in the year that it could have been received. The ruling, however, "may not be used or cited as precedent," and, even if of precedential value, is distinguishable from this situation. The ruling is consistent with the proposition that the individual cannot have unfettered discretion in choosing the year in which income will be taxed. While an individual does have unbridled choice in determining when to take a permanent fund dividend, he will have no choice as to the time of receipt of his annuities. Moreover, where a person would have an absolute right to a deferred dividend, he will have no right to annuity distribution unless he is an Alaska resident at the time.

For tax reasons, then, the annuity option must be carefully structured. The former permanent fund dividend must

⁴⁹Id.

be used by the State to purchase an annuity for its own account, with itself as the beneficiary. The annuity income received by the State will then be used as the funding source for the annuity payments -- although technically and necessarily the annuity income could be used for any fiscal purpose.

A far closer question arises with respect to the effect of this option on other public assistance programs. Generally, annuity income is included in the calculation of income for various assistance programs.⁵⁰ If, however, this option can be characterized as a continuation of the longevity bonus program, then the existing longevity bonus income exclusion⁵¹ may persist. If -- consistent with tax considerations -- the only "annuity" is the one purchased by the State as a funding source, then the existing longevity bonus program can be retained in both name and substance, with the amount of the bonus still dependent upon residency history. After all, under the option, (1) a person must be a six month resident in order to obtain a single PFD, and must be eligible for the annuity at the time of distribution;⁵² (2) the amount of annuity is dependent upon the number of PFD's credited to the individual's account; and (3) the "grandfathered" class of existing elderly would presumably be required to meet a one-year durational residency requirement.

⁵⁰See. 42 U.S.C. §1382(a)(1)(2)(3).

⁵¹See 42 U.S.C. §1382(a)(b)(1)(3).

⁵²See n. 3, ante.

The above, of course, is an argument -- it is not necessarily the law, which in final measure will be largely determined by the federal officials involved. The exposure to existing assistance programs -- at least for those not within the grandfathered transition class -- must be considered a risk of this option.

Even if, however, annuity distributions are considered "income" to various assistance programs, the corpus of the annuity account will not be. A person may be disqualified from a federal assistance program not only if his income exceeds a certain level, but as well if he has alternative available resources which he can upon from at any time. However, in this instance, a true "annuity corpus" does not exist -- since the only annuity runs for the benefit of the State. Moreover, even if federal officials were to view the "corpus" as belonging to the individual, it cannot be withdrawn prior to actual distribution.

G. State Social Security System.

In large part because of the need for a lengthy transition period with a self-sustaining annuity plan, this report also considered the possibility of a state social security system funded by a portion of the permanent fund dividends distributed under AS 43.23.

Under this system, a sufficient portion of each resident's permanent fund dividend would be withheld each year

to fund a retirement program designed to pay each Alaska resident of 65 years or older with one-year's residency \$250 per month, with a moderate cost of living adjustment each year.

In assessing the feasibility of this option, the most important variable was the projected growth in Alaska's elderly population. The difficulties facing the federal social security system are due in part to an increasingly large percentage of elderly in the population.

For fiscal year 1983, the Alaska Department of Labor projects that there will be some 13,672 elderly in Alaska -- approximately 3% of Alaska's population.⁵³ The Department has projected that that population, as a percentage of all Alaskans, will remain relatively static through the year 2000, when, out of a population of 831,000 people, there will be 25,158 elderly.⁵⁴

We believe that those projections are overly conservative, and do not take into account the significant nationwide trend of increased elderly population. Nor do those projections include the retirement years of the post World War II "baby boom" generation -- which will begin about the year 2010.

Accordingly, in projecting the long term impact of this option on permanent dividend distribution, we have used the

⁵³Alaska Population Overview, Alaska Department of Labor, 1981

⁵⁴Id.

national growth patterns projected by the Federal Social Security Administration, which are as follows:

<u>YEAR</u>	<u>% OF ELDERLY POPULATION</u>
1950	3.1
2000	13.1
2025	19.5
2050	21.3

Using those assumptions, Travelers' Insurance Co., on our behalf, calculated the percentage of permanent fund dividends which would be required to fund a "pay as you go" system.

For fiscal year 1983, the calculations are relatively straight-forward. Given an aggregate distribution of some \$169 million in permanent fund dividends this year, approximately 25% would be needed to fund a "pay as you go system."

However, even assuming a 3% cost of living adjustment in the payment each year, the percentage needed to fund the program decreases. This is because permanent fund earnings will increase at a rate substantially higher than inflation. From the year 1983 to 2000, the average funding required would be 15 to 19 percent of the distributions, while, in the years 2000 to 2025 (and assuming continued growth in permanent fund earnings) the funding amount would be 10-12 percent.

Thus, if the withholding remains static at 25% over the course of several years, the resultant excess would begin to build a savings account of substantial magnitude, which at some

point in the future would make the program partially, or perhaps totally self-sustaining.

One obvious advantage of this option is that it frees the general fund from ALB obligations immediately. Conversely, by materially reducing the annual permanent fund dividend, it obviously raises some political difficulties.

Additionally, the social security option could likewise be tied to contribution history -- although not in the precise manner of the annuity option. The federal social security system currently fully covers any individual who had "not less than one quarter of coverage ... for each calendar elapsing after 1950 ... except that in no case shall an individual be a fully insured individual unless he has at least 6 quarters of coverage."⁵⁵ Because, in the future, some portion of the benefits will be paid by the "savings account" resulting from the static 25% contribution, we believe that a similar contribution history requirement could be established in the legislation.

Even more so than the annuity option, there would be no "current economic benefit" from the program. By reducing the permanent fund distribution by 25%, and funding a retirement program from which the individual may or may not ultimately benefit, we believe it extremely unlikely that the IRS would conclude that the reduced sum is in some manner taxable.

⁵⁵ 42 U.S.C. §414(a)(1)

Moreover, we believe there is a substantial likelihood that the existing AL3 exemption in federal law could be retained. Indeed, stripped to its essence this option does little more than alter the funding source of the AL3 program.

The primary risk of the program is all the more apparent in light of the current difficulties with the federal social security system. While option F would be funded by a currently purchased annuity, younger Alaskans would be contributing to this option on the mere hope that the requisite amount of permanent fund earnings would remain available for the program well into the 21st century. The "savings account" created by the static 25% withholding is intended to alleviate that problem; however, regardless of the rate of growth of that account, there is plainly some risk in this option.⁵⁶

⁵⁶For example, under our population projections, there will be 30,747 elderly in Alaska in the year 2000. The permanent fund distributions for that year under AS 43.23 are estimated by the Department of Revenue to be \$792 million, of which, under our static 25% withholding, \$198 million would be placed in the social security fund. In that year, with a 3% COLA, the maximum monthly bonus will be approximately \$390. Even if every elderly Alaskan is eligible for full benefits under the law's contribution requirements, the maximum payments would be \$120 million -- with a savings account deposit being made in that year alone of \$70 million. Of course, many of these elderly may not be fully eligible, and some who are eligible may not be residing in Alaska during that year.

Finally, there is some advantage to the existing elderly in this system over the annuity option. The existing elderly would have a net loss of only 25% of their permanent fund dividend, rather than the entirety of the benefit under the annuity approach.

H. Health Insurance For The Elderly.

The state of health insurance for the elderly, and indeed for all Alaskans, has already been the subject of considerable study,⁵⁷ and legislative activity.⁵⁸ Because of the obvious critical importance of adequate health care coverage for Alaska's elderly, the option of providing comprehensive health insurance for Alaska's older citizens in lieu of the longevity bonus was included in this report as an option.

While the Department of Law report found that health expenses were a major use of the longevity bonus for only 5.5% of its sample, the 1976 longevity bonus study found that 29% of the bonus recipients used at least a portion of the ALB for medical care, while 11% used a portion of the bonus for "insurance of all kinds."⁵⁹

⁵⁷Alaska Comprehensive Health Care Financing Study, Batelle Human Affair Research Center (1981)

⁵⁸HB 641, 12th Leg. 1st Sess. (1981)

⁵⁹ALB Survey, op. cit. n. 9 at 22

In fact, almost all of Alaska's elderly receive some kind of public or private health coverage assistance -- either through Medicare, Medicaid, public and private retirement programs, Veteran's benefits or the Indian Health Service/Public Health Service.

When assessing the health insurance option, the two obvious questions are: (1) how severe are the gaps in existing coverage; and (2) how much would it cost to fill those gaps?

The major source of health insurance coverage for the elderly in Alaska is obviously Medicare -- a federal insurance plan which provides hospitalization for those eligible for social security⁵⁰ and medical insurance for an additional fee of \$12.20 per month.

Both the hospital and medical insurance contain substantial deductibles, i.e. the first \$304 of the hospital bill -- and co-payment requirements (20% in the case of medical insurance.)

Nursing home coverage under Medicare is severely limited -- confined to post-hospital care in a "skilled nursing facility" for short periods of time.

It is difficult to determine how many resident Alaskan elderly are on Medicare -- available statistics are bloated by Medicare claims submitted by tourists. There are some 9,323

⁵⁰42 U.S.C. §§ 426, 1395(c). A person ineligible for Social Security may obtain Medicare hospitalization insurance for \$113 per month

retired persons in Alaska receiving social security -- and hence eligible for Medicare.⁶¹

The largest group of elderly Alaskans ineligible for Medicare are rural residents, primarily Natives, who do not have a sufficient wage earning history to qualify for social security. All Alaska Indians, Aleuts and Eskimos are eligible for IHS -- which provides a broad range of services depending upon available facilities. IHS is, however, primarily a direct provider of facilities -- it does not make cash payments for services such as custodial care in a nursing home. Moreover, it is currently facing severe cutbacks in areas such as reimbursement for health-related travel expenses⁶².

The most comprehensive health coverage in Alaska is, of course, Medicaid. To be eligible for Medicaid, one must meet the State public assistance income limitations. As noted previously, there are currently some 2300 elderly Alaska citizens on Medicaid. Medicaid does cover virtually unlimited nursing home residency.

The most glaring deficiency in Alaska health care for the elderly is the lack of coverage for institutionalization in custodial environments such as nursing homes. Nursing home

⁶¹Interview, Ms. P. Eubanks, Field Rep. Social Security Admin. (Feb. 24, 1983)

⁶²Interview, Ms. P. Roberts IHS, (Feb. 23, 1983)

rates in Alaska run from \$90 to \$172 per day⁶³. The costs are simply prohibitive for anyone not on Medicaid -- indeed, of the 467 elderly Alaskans currently residing in State nursing homes (other than the Pioneers Homes), all but 31 are there under Medicaid, or Alaska's General Relief Medical Assistance.

Conversely, nursing home rates in Washington, for example, have been estimated by the Department of Health & Social Services to vary from \$30-360 per day. It is not known how many elderly Alaskans are institutionalized in lower forty-eight custodial care facilities; however, it is apparent that unless one is eligible for Pioneer Home placement, a nursing home can be afforded if, at all, only by relocating to the lower forty-eight.

Three private organizations were asked to estimate the premium amount required to supplement Medicare and other coverage for Alaska's elderly to provide health insurance equivalent to the existing Public Employees' Retirement System's retiree coverage, and to include comprehensive nursing home coverage. Neither Travelers Insurance, nor Aetna Insurance felt capable of providing an estimate.

However, insurance consultants frequently used by the state for matters such as the public employees Supplemental Benefits System estimated that to provide supplemental coverage

⁶³Alaska Nursing Home Census, Alaska Department of Health & Social Service, 12/31/32

for Medicare, insurance could be provided at a premium of approximately \$70 per individual per month. This would include comprehensive nursing home coverage.

Medicare is currently a primary insurer -- that is, the State could provide for Supplemental coverage without endangering basic Medicare eligibility. Moreover, and in all likelihood, supplemental State coverage could properly provide otherwise uninsured Alaska Natives with those costs not covered by the Indian Health Service.

The major difficulty is Medicaid. Medicaid eligibility is very much contingent upon the unavailability of "resources".⁶⁴ Currently, the State only pays 48% of a Medicaid's patient bills. If a State health insurance policy was considered a "resource" the State could find itself footing the entirety of a Medicaid patient's bill.

Of course, the State would hardly need to "supplement" any Medicaid coverage -- Medicaid coverage itself being essentially inclusive. The statute, could simply exempt Medicaid recipients from the coverage of the policy. The issue posed by such an enactment is whether the State would be frustrating the Congressional goals behind Medicaid -- which is to provide a health coverage means of last resort -- thereby running afoul of the Supremacy Clause.⁶⁵

⁶⁴42 U.S.C. §1132(1)(1)(3)

⁶⁵Florida Lime & Avocado Growers v. Paul, 373 U.S. 132 (1963)

Assuming that the State could continue to merely supplement Medicare, IHS facilities and existing private and retiree coverages, and that the consultants' figures are accurate, there remain two difficulties with the health insurance option. First, it is of no benefit to Alaska's needy elderly -- who will merely continue with Medicaid coverage at the price of their longevity bonus.

Secondly, there is the potentially severe problem of in-migration. If a year's residency in Alaska⁵⁵ were all that were required for free and unlimited nursing home coverage, the potential of in-migration may be severe. There are two potentially justifiable components of the program which could mitigate this potential:

1. If a purpose of the health insurance option is to allow Alaska residents to continue to reside in the state even if nursing home coverage is required, nursing home coverage could be limited to Alaska institutions, just as many states

⁵⁵It is possible, although we believe unlikely, that a court would rule that supplemental health insurance coverage would constitute a "basis necessity of life" -- dropping the maximum possible durational residency requirement to 30 days. The program would be supplemental to a host of existing assistance insurance programs, and would not be based on need. See Memorial Hospital v. Matigosa County, 415 U.S. at 261.

limit resident tuition discounts to in-state universities.⁶⁷ The difficulty, obviously, is that existing Alaskan nursing home capacity is limited. Whether unlimited nursing home coverage for all Alaskans would result in the expansion of existing facilities is debatable;

2. For the reasons cited with respect to the annuity and social security options, eligibility for health insurance coverage might properly be based upon contribution history if (a) a portion of the individual's permanent fund dividend is used to help fund the insurance program; and (b) the funding is in excess of current needs, in order to amass the same type of "savings account" envisioned with respect to the social security option.

I. LONGEVITY BONUS PREMISED ON INDIVIDUALIZED
RELOCATION HARDSHIP.

As noted in Section II(A), ante, there is some judicial support for the view that it is permissible for Alaska to establish a program intended to benefit those who would suffer the most hardship by financially-coerced relocation from the state, and to measure that hardship in part by duration of residence.

This option relies upon that support, and involves three steps:

⁶⁷Scarns v. Malkerson, 325 F.Supp. 234 (D. Minn. 1970), aff'd mem. 401 U.S. 985 (1971)

1. cataloging those criteria which would differentiate those Alaska elderly who would suffer relatively more hardship by being forced to reside outside the state, and who need financial assistance in order to remain in-state;

2. translation of those subjective criteria to a point system similar to that used by the Alaska Commercial Fisheries Entry Commission; and⁵⁸

3. structuring of that point system such that (a) administrative costs are minimized; and (b) successful applicants are confined to a pool roughly equivalent in number to existing bonus recipients.

Indeed, the structure of this option is similar to the Alaska Limited Entry Act -- which translates certain very subjective criteria -- such as "economic dependence on the fishery" -- into an objective point system. It does so, of course, at a bureaucratic price -- approximately \$2.5 million a year for a pool of applicants originally roughly equivalent to those which this option would affect. It also does so at other costs, which will be discussed below.

It is not difficult to catalog the criteria which would set our "relocation hardship" pool aside. Duration and continuity of residence would be one criteria, as would, perhaps:

1. income;
2. location of family;

⁵⁸See AS 16.43

3. location of property; and
4. ethnic, religious, and cultural ties.

Although income and duration of residency would play a role in determining eligibility, no one factor alone would be dispositive.

It would not be difficult to translate these factors into a point system; nor would it be particularly difficult to structure that point system to limit the class of successful applicants. The proposal, however, does suffer from the following disadvantages:

1. Since most Alaskan elderly have lived here more than 10 years most Alaska elderly will suffer some demonstrable hardship from relocating elsewhere -- although a certain percentage obviously do not require a longevity bonus to remain;

2. The alternative also involves the establishment and funding of a new bureaucracy -- an intrinsically unworthwhile undertaking, but one which nonetheless would cost far less than simply opening the class to all elderly Alaskans;

3. Perhaps the most obvious disadvantage is the burden that it would place upon elderly Alaskans themselves. There would presumably be a lengthy application form, together with evidentiary requirements, and in some cases, adjudicatory hearings. The Limited Entry Commission is currently involved in some 120 judicial appeals -- a number which is either at or below historic levels. According to the Commission's FY1984

budget presentation, there is a current backlog of some 325 administrative adjudications.

Attorneys will be required -- regardless of what efforts are undertaken to make the process simple and informal. The difficulties facing the elderly applicant are thus rather apparent.

J. GRANDFATHERING

This report closes with one of the simpler alternatives -- opening the class of longevity bonus recipients to all elderly Alaskans with one year's residency, and terminating the program for the future. Persons eligible, or becoming eligible this year will be "grandfathered" and will receive a longevity bonus for life. The fiscal impacts of this alternative are, for FY1984, identical to option A, and will obviously decline in the future due to mortality and relocation.

The obvious advantage of this program is that it protects those currently on the longevity bonus program. Equally, it deprives those approaching the age of 65 with any expectation of receiving a bonus.

We believe that this option is constitutionally permissible. The Alaska Supreme Court shares the general view of the constitutionality of grandfathering laws -- as long as the grandfathered class itself is constitutionally defined.⁶⁹ Plainly, the state legislatures

⁶⁹Commercial Fisheries Entry Commission v. Apokedak, 606 P.2d at 1259-61.

have the right to terminate social programs while protecting those who have come to rely on their benefits.

4. CONCLUSION

As noted at the outset, the purpose of this report is merely to provide a threshold feasibility review of various options for amending the longevity bonus program. Through discussions with administration officials, legislative staff members, consultants and private industry, we have attempted to highlight the major issues surrounding each alternative, and provide at least rough information on each question raised. If, after the Judiciary Committee has identified two or three relatively attractive options, the effort expended over the past three weeks on 10 proposals can be condensed into the pursuit of three, proposed legislation and a more intricate analysis of the preferred options can be promptly transmitted.

Arch. Times
3/9/92

NEW APPROACH NEEDED

Annuity makes sense

THE IDEA of changing the venerable Longevity Bonus Program into an annuity program is a good one. And an old one. And a necessary one.

Ever since the state Supreme Court changed eligibility requirements in 1984, those who can correctly add two plus two have known that, with increased population, the Longevity Bonus would eventually break the bank.

For those who need a refresher, the Longevity Bonus Program — \$250 a month to Alaskans over age 65 — was first conceived in 1972 as a reward for pioneer residents. All Alaskans were eligible who were 65 or older; had been a resident of the state prior to Jan. 1, 1959 (the date statehood was achieved), or had 25 years continuous residency.

The residency requirements were challenged in court. The result: Everyone who qualifies as a state resident gets \$250 a month after age 65 — until they die, or move from the state.

HERE'S WHY the program has to change. Back in 1973, there were 3,641 participants at a cost of \$4 million a year. In 1989, there were 18,000 seniors at a cost of \$54 million. In Fiscal '93, it will cost about \$65 million for an estimated population of 22,866. And, projecting to the year 2006, it could cost the state \$100 million a year.

Clearly, something has to be done — short of abolishing the program altogether.

An annuity program has been discussed by the Legislature since 1983, but the details were never worked out to everyone's satisfaction. In 1986, voters were asked whether or not the Legislature should adopt an annuity program. It passed 99,222 to 65,789 — more votes than any candidate has received in the last two gubernatorial elections. The Legislature passed an annuity plan in 1988, but then Gov. Steve Cowper vetoed it in June of that year.

SEN. JAY KERTTULA, D-Palmer, is sponsoring Senate Bill 8, an updated version of the 1988 legislation. It would phase out direct state funding for the Longevity Bonus and replace it with annuities funded by the Permanent Fund dividend.

Direct state support would be reduced starting in 1995, and would be eliminated by around 2008. Sen. Kerttula estimates by the year 2010, the state will save \$533.7 million.

It's based on three tiers of participation so those close to 65 who have been planning on the \$250 a month and their dividend wouldn't be left with big holes in their budget.

Eventually, those who want to get a Longevity Bonus will have to contribute all or a portion of their Permanent Fund dividend into an annuity account — in order to receive at least \$250 a month after they're over 65.

Although Sen. Kerttula's plan contains some contentious details that remain to be worked out, overall the bill makes sense. It allows people choice, and puts the onus on the individual to save for the future.

It also accomplishes what the original Longevity Bonus Program sought to do: encourage senior citizens — with their wisdom and sense of history — to remain in Alaska instead of heading for Arizona for retirement.

We don't want to lose that balance.

Don't turn Longevity Bonus into welfare

by Clem Tillion

I see that one of the governor's task forces has recommended that the old timers' bonus, the \$250 a month for those over 65, be converted to a welfare system.

For the most part, I have liked the course set by our new man in Juneau. But making charity cases out of our old Alaskans under the guise of saving money is a joke!

Number one, it will not save money. It will make liars out of a lot of good people and make jobs for a lot of "do gooders" in the welfare department.

The percentage of those over 65 here in Alaska who couldn't figure a way to stay on the program under a welfare (needs) system is so small that the cost of screening them out would exceed the savings.

If the cost of the program is too great for the state to bear, then shorten the months that an Alaskan can be gone from the state each year and prune a few more "snow birds" off the list.

When the Longevity Bonus Program was first envisioned, one of the basic purposes was to keep winners as well as losers here in Alaska.

As the population of our state had such a

low percentage of those over 65, there were many who thought that keeping grandmother and grandfather near the rest of the family had a great many beneficial side effects. The reason the cost of living bonus was paid without regard to people's income was twofold. One, with less than 10 percent of our 65-year-olds in the non-needy category, it was far cheaper to pay all than set up a bureaucracy to screen all the old folks.

Now, I'm sure you will hear some welfare types say, "We could screen for less than 10 percent of the program." All I can ask is, "Then why didn't they?"

At the time the first Longevity Bonus was passed, 49 percent of the money appropriated for Old Age Assistance here in Alaska was used by the bureaucracy to administer the program or an amount that just about equalled the Federal Matching Funds then received by the state for the program.

I'm sure that to get their hands on that amount of money, welfare would promise anything. But it's a rare program indeed that they administer for less than 20 percent of the appropriation. It's why the legislature put the program under the Department of

Administration instead of letting the bleeding hearts get it to "do good" with. When I say this, I'm thinking of the old families of Hawaii. The saying goes: "Their ancestors came to 'do good' and they did very well indeed."

The second reason that need was not a requisite part of the first legislation was simple. We wanted to keep as many of life's winners as possible here in Alaska. Fishing is an on and off thing, oil and timber depends on the fluctuations of international politics and world price. Of all incomes, retirement income tends to be more stable than most.

With exceptions, of course, most people over 65 are not into making great fortunes. They spend their money either on their own comfort or on those around them. They don't cause problems with the police or their neighbors and they often have income retirement from a number of sources, be it teachers' retirement or railroad retirement as well as property amassed long years ago.

Be they rich or poor, they are well worth keeping in Alaska.

Clem Tillion, Halibut Cove, is former president of the Alaska Senate. His column originally appeared in the Anchorage Times.

The Senior Voice

Survey shows how seniors use bonus money

by Rebecca Goodman

Within days after Sen. Jay Kerttula (D-Palmer) and his staff aides sent out more than 1,450 surveys to Longevity Bonus recipients in Southcentral Alaska, piles of responses were returned in the mail.

By mid-April more than 750 people had taken time to fill out the seven-question survey, affix a 22-cent postage stamp and return the blue form to Juneau.

Joyce Kerttula, sponsor of the Longevity Bonus annuity bill CSSB 56, said his aim in distributing the survey was to collect information about seniors' needs and their use of the bonus payments.

"No statistics have been collected or made public concerning seniors in Alaska for several years," he said. "Some people feel seniors are already comfortably well off and are saving their bonus money or

spending it on vacations or frivolous things. This is one of the hurdles we've had to get around in justifying the Longevity Bonus."

So how do seniors use their bonus payments?

"The message is pretty clear: They need those bonus checks for the basic necessities of life," said Joyce Kerttula, who serves as her husband's legislative aide and has spent hours poring over the responses.

Survey questions and responses included:

•How many years have you lived in Alaska? Length of residency answers ranged from 1.5 to 89 years. The average length for respondents was 37 years.

•For which of the following do you use your Longevity Bonus? Food purchases, 611; utilities, 523; medications, 399; doctors' expenses, 333; housing, 320; auto expenses, 257; taxes, 192; child/grandchild assistance, 75; travel, 53.

•Are there other things for which you use your Longevity Bonus? Most common response: "No money left over." Some said the bonus helped pay for warm clothes. One individual wrote, "Yes, with money left over I have a beer now and then." Another wrote that the bonus money was "saved up to buy two hearing aids and eyeglasses."

•The governor is proposing to reduce Longevity Bonus payments from \$250 down to \$200. will be

eligible for \$200 if your taxable income is less than \$20,000 annually. Opposed to the reduction were 656; in agreement were 34.

'They need those bonus checks for the basic necessities of life.'

—Joyce Kerttula
Legislative aide

•Is your taxable income more or less than \$25,000? Over \$25,000 were 107; under \$25,000 were 590. Many respondents added comments indicating their combined Social Security and Longevity Bonus payments, together amounting to \$7,000 or less per year, comprised their total yearly income. More than 50 respondents refused to answer the income question.

•The governor is proposing to base Longevity Bonus on need. Those individuals who have a taxable income over a certain amount would no longer receive the bonus. In agreement with the needs-based program were 18; disagreeing were 679. Several respondents wrote, "Needs based? NO! NO! NO! NO! NO!" One individual wrote: "I know several older people who are eligible for food

stamps and welfare but won't apply. Basing the bonus on need would have the same results."

•Another proposal would reduce bonus payments \$25 each year until it would be eliminated. (Since the survey was mailed, this plan has been shelved.) Opposed to the \$25 reductions were 667; in agreement were 38.

Many respondents went beyond answering the survey questions and attached emotional letters filled with concerns over illnesses and high health care costs, fears of losing the bonus payments and fears of losing homes and being forced into poverty.

One respondent wrote: "The governor has no feelings for the aged. He cannot comprehend what it is like to grow old. Older people were in the workforce when wages were low..."

Another said: "Please, please let us low-income seniors on fixed incomes live above poverty level..."

A 52-year resident of Alaska wrote: "I have only a small Social Security and the Longevity Bonus as my income. The Longevity is my lifeline..."

And one worried: "I really don't think I could meet my obligations and would have to consider leaving. That would hurt as my granddaughter lives with me and goes to school here."

Kerttula plans to share results of the survey with her lawmakers.

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Senior Voice
May 1987

Longevity Bonus: Can it be solved?

It's been four long years and five legislative sessions since the courts struck down the Alaska Longevity Bonus 25-year residency requirement and lawmakers first began grappling with how to cut — or pay for — the resulting expanded program.

And now we're hearing end-of-session rumors, once again, that a Longevity Bonus replacement solution will be put off for another year.

That's a shame. After voters gave approval on the advisory vote last fall to an annuity program based on voluntary Permanent Fund check contributions, we thought this session might be the one to solve it.

COMMENTS

But now we wonder, can it be solved?

We ran the question by a white-haired friend (her own description) the other day, and her answer was interesting.

"I happen to think it can be solved," she told us. "And the annuity plan proposed in the Senate is the way to do it."

What about all the objections to the plan that have been raised by Gov. Steve Cowper and members of the House?

Let's take them one at a time, she proposed.

First, they object to it because the state's up-front costs are too high. Solution? Make current recipients of the Longevity Bonus ante up, just as those who go on the program in later years will have to do, she suggested. Perhaps these folks could give up their Permanent Fund Dividend check the first year of the program. Perhaps they'd have to give it up every year, just like later annuity participants will have to do.

Second, some House members and Gov. Cowper claim basing the annuity on individuals contributing their Permanent Fund Dividend each year is risky, because there might not be Permanent Fund Dividend checks in the future.

But the current bill has taken care of that, she said, since it allows people to place an equivalent amount — if not the check itself — into the annuity program each year.

Third, she said, the argument that the annuity would run a poor second to IRAs as an investment choice for many may disappear with the new tax laws in which IRAs lose most of their tax advantages.

And finally, she said, is the argument that young people won't buy in to the annuity.

"So then we educate them, she explained. "We go out and talk to them. We volunteer to speak wherever we can to "young" gatherings." And what do we tell them, we asked?

We teach them, and we remind ourselves, she said, that seniors are important to the state of Alaska.

"We need to quit thinking of the Longevity Bonus as a handout and start thinking of it as an investment," she said.

"The state is putting out \$50 million a year to retain a \$500 million investment — the worth of Alaska's seniors in terms of the cash they put into the economy each year."

Perhaps it's time for all of us to carry our debate beyond the senior centers, beyond the legislative halls, beyond the governor's office. Perhaps we'll then raise enough ruckus to get the issue off dead center and decided once and for all.

Senior

I noted with interest proposed by '87 budget Department of Adm tion groups the Alas: gevity Bonus, Pic Homes and Older A. Commission together the heading "social s

This reorganizat sneaky, unnecessary, handed and without hearings, due process releases.

It reflects an acute unawareness, a disregr respect for the pu well as the elderly of

I refer you to page 1 Governor's Operating

'Caught

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In search

Alaska Public Tel Anchorage (KA researching the life of Sidney Laurent documentary.

We have been information for quit and are beginning together parts of Sy rance's fascinating have found many stories in My Life w Laurence by Jeanne The Man and the Mc

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Medicare says I c oxygen and have Abbey Medical st time. The bill is nov am 31 and a 43-ye resident. How abou that in the Sen Nothing else has he Rut

Many seniors can't live on Cowper budget cuts

Action: Gov. Steve Cowper submits his budget proposal to the legislature. It calls for slicing Longevity Bonus payments by \$50 per month for all, axing bonus payments completely for those with incomes over \$20,000 and eliminating property tax exemptions and renter's rebates.

Reaction: Seniors are scared. Fearful. What next? they ask. Will they be able to keep their homes? Will they have to move outside where the cost of living is cheaper? How will they pay medical bills? And what happened to the promises of the past that said current bonus recipients would keep their \$250 per month payments no matter what was decided for future seniors?

State-gathered statistics show the median income for older Alaskans is \$10,000. That's \$833 per month. If you figure rent at \$400 or more per month, you have \$433 or less to pay for such trifles as food, doctor's bills, heat, lights and transportation. A challenge to make ends meet each month? You bet. Try getting along, now, on \$50 less per month. No wonder there's fear out there.

And then add the \$700 you'll have to pay under Cowper's budget plan for property taxes — or subtract the \$400 in income you won't get from the renter's rebate this year.

It all adds up to too little money.

We've said it before: These programs were put in place before the oil boom by a thoughtful populace which wanted to do right by its senior citizen population, which wanted to keep its retirees — and their retirement pensions and assets (big and small) — in Alaska.

Despite the need to cut the state budget, seniors should not be made to bear such a large share of the burden.

Long-running bonus debate heats up

by Rebecca Gue

The long and running debate over the Longevity Bonus program grew even louder in March with the first legislative hearing on Gov. Steve Cowper's "needs-based" bonus plan, HB 111.

Cowper's legislation -- both the House bill and an identical Senate companion, SB 145 -- have three key parts which would dramatically change the current bonus program:

- a cut off of eligibility for the bonus to those who reach age 65 on or after January 1, 1988;
- a reduction of the maximum amount of the bonus to \$200 per month; and
- an income cap on eligibility for the bonus so that the

full bonus amount of \$200 would be available only to those whose annual income (excluding the bonus and Permanent Fund Dividend income) is less than \$20,000 (or whose joint income, for a married couple, is less than \$40,000). As an individual's income goes up, the amount of the bonus paid out would go down, until, at the income level of \$25,500 (or \$51,000 of joint income) an individual would not receive a bonus payment.

Under the current bonus program, any Alaskan who is 65 or older and has lived in the state at least one year receives \$250 per month. More than 15,500 persons participate in the \$50 million program.

"We can no longer afford to provide this substantial benefit to an ever-increasing population of senior citizens," Cowper told lawmakers.

Cowper's plan is expected to cost \$13.1 million for fiscal year 1988.

Senior advocates have called Cowper's plan unfair. They have argued the current bonus program is affordable and the \$3,000 per-person annual payments help older Alaskans stay in Alaska and in their own homes, out of costly institutions.

"The question isn't whether or not I need the \$250. It's the philosophical point: If I were to approach state employees and ask them to take a \$250 out in their monthly state retirement pay, I'd be hung in effigy," said Rep. Red Houcher (D-Anchorage) during a House committee meeting in early March.

Rep. Fran Ulmer (D-Juneau) argued: "There's no question this is a good program. The question is how much of this good program can we actually afford now?"

In the Senate, the bonus debate is proceeding more rapidly following a series of

statewide teleconferences on Sen. Jay Kerttula's (D-Palmer) Longevity Bonus/annuity bill, CSSB 56.

Kerttula's bill would put in place an annuity retirement account plan approved by voters last November in an advisory vote. That plan would establish a tandem program which includes a gradually phased-out bonus program and an optional annuity program allowing Alaskan residents to deposit their annual Permanent Fund Dividend checks into a retirement account available to them at age 65. Those already 65 would continue to receive \$250 bonus checks and Permanent Fund Dividend checks.

Now in its third Senate committee, Kerttula's bill has gar-

nered support from many senior advocates. But Cowper administration officials see big flaws in the annuity plan.

"One problem with SB 56 is that it assumes Permanent Fund Dividend checks continue forever," Division of Policy Director Mary Halloran told senators during a recent committee hearing.

"We really shouldn't go to the bank on this. It's dangerous to build a long-term retirement program on the Permanent Fund."

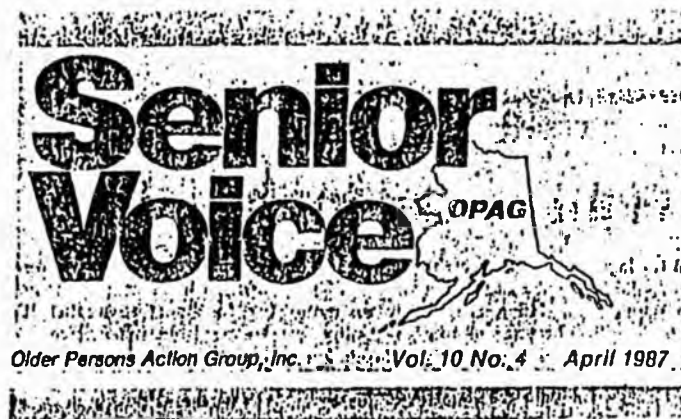
Another problem Cowper officials point to is the plan's lack of "hold-harmless" protection. Following federal rulings in 1981 that the bonus would be counted as income for any "new" bonus recipients who received federal public assistance payments, the

legislature enacted a clause that assures needy elderly who receive a bonus payment do not lose either the bonus or federal assistance payments such as Medicaid.

But Kerttula argued the "hold harmless" problem in SB 56 could be adjusted with a minor amendment.

Cowper's bonus plan, however, would require more state administrators to oversee the income eligibility requirements of the plan, Kerttula said.

"Governor Cowper's needs-based program would require 16 administrators, or one administrator to every 200 recipients," Kerttula said. "The annuity program would require only one administrator to every 1,000 recipients."



Bonus debate heated, long-running