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Alaska State Legislature

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Legislative Research Agency



February 27, 1992

MEMORANDUM

TO: Representative Gene Kubina

FROM: Paula d. Scavera *PdS*
Legislative Analyst

RE: Comparison Between Senate Bill 8 and Senate Bill 56 as Vetoed by Governor Cowper in 1988
Research Request 92.183

You requested a comparison between Senate Bill 8 passed by the Senate earlier this week and Senate Bill 56 which was vetoed by Governor Cowper in 1988.

Both bills enact an annuity plan which allows people to defer their permanent fund dividends or equivalent cash amounts into a state annuity account. Once a person reaches 65 years of age, he or she would be able to receive a monthly annuity based upon the amount contained within the person's annuity account. Both bills also allow for a one-time emergency withdrawal from their annuity account with payback provisions. Also, SB 8 and SB 56 designate a beneficiary succession for death benefits.

The one major difference between SB 8 and SB 56 is the language for the decreased longevity bonus. Senate Bill 8 in section 9 states "...the monthly longevity bonus is \$250 minus the maximum possible straight life annuity under the annuity program."

Senate Bill 56 in section 9 set in statute exactly what the decreased longevity bonus dollar amount is for fiscal years after 1990, rather than using the formula in SB 8. Attached is a copy of SB 56 as vetoed by Governor Cowper which shows the decreased bonus amounts.

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

Attachment

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (STA) am

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

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EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL						
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REVENUE						
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

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

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



benefit concepts

INFORMATION ABOUT BENEFIT CONCEPTS, INC.

Benefit Concepts, Inc. is a nationally based firm that specializes in the design, installation, and administration of all types of Benefit Plans for large companies throughout America.

Benefit Concepts has 26 offices across the country and was founded over 20 years ago. In 1983, the New York office merged with the firm of Lambert M. Huppeler and Company, a large and well known actuarial firm, which enhanced the firm's ability to service any type of benefit plan large or small. Benefit Concepts, Inc. of New York numbers 137 in staff and has substantial in-house computer resources.

BCI is now in its second year working on a joint venture with Kidder, Peabody & Company, Inc. to provide high quality services to their clients.

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LONGEVITY BONUS PROGRAM
Proposed Emergency Regulation Change

PURPOSE

Resolve the confusion surrounding the transition from prospective payment and retrospective payment systems by eliminating the erroneous assumption of "duplicate payments."

DISCUSSION

When the program changed from paying prospectively to paying retrospectively a transition was necessary to ensure that payments to current recipients would not be interrupted. This should have been handled as a transition issue for the program, not as a debt to recipients.

The current regulation, 2 AAC 40.175 (f), establishes a debt for "duplicate payments" under the Longevity Bonus. Duplicate payments, however, were not made to any recipient. The program dated two checks for January 1991 and February 1991. The checks were delivered to recipients during a four month period from January through April of 1991. This was done for accounting and payment processing purposes and in an attempt to make program administration changes transparent to current recipients.

The result has been confusion on the part of most recipients and the creation and posting of a debt due from recipients for "duplicate payments" pursuant to 2 AAC 40.175 (f). The fact is that no recipient received more than one payment in any one month. Thus there is no reality to a notion of duplicate payment nor should there be a debt.

The solution to the problem is to terminate payments to those eligible before December 1, 1990 (old recipients) at the time of disqualification. Those who became eligible on or after December 1, 1990 (new recipients) would continue to be eligible through the last full month of eligibility as provided in the current

regulations. The practical effect of this approach is that old recipients will not be eligible to keep any bonus payments issued after they lose eligibility.

Examples for recipients eligible before December 1 , 1990

1. A person dies on January 10. The person would keep the payment received in January. We would turn off the payment scheduled for February. No collection efforts would be required.
2. A person dies on January 29. A payment is issued in the month of February. We will ask that the payment be returned. We would not attempt to collect the January payment.

The proposed emergency regulations will not affect recipients who became eligible for the Longevity Bonus Program on or after December 1, 1992.

The attached proposed emergency regulations accomplish this objective.

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NOTICE OF ADOPTION OF EMERGENCY REGULATIONS

Notice is given that, under the authority of AS 47.45.100(1) the Department of Administration adopted, amended and repealed, as emergency regulations, provisions in 2 AAC 40.075 and 2 AAC 40.175 relating to Longevity Bonus payments.

The amendments change the regulations by:

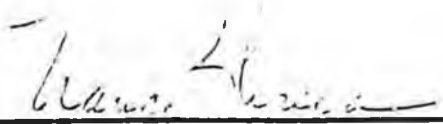
Eliminating transition language which require the administrator to recover certain payments and clarifying eligibility to receive bonus payments at the time of disqualification.

The emergency regulations took effect March 6, 1992.

Copies of the regulations may be obtained by writing to the Division of Pioneers' Benefits, P.O. Box 110211, Juneau, Alaska 99811.

Notice is also given that the Department of Administration intends to make the regulations permanent, and any person interested may send written statements relevant to the action proposed to Division of Pioneers' Benefits, P.O. Box 110211, Juneau, Alaska 99811, to be received no later than April 15, 1992.

Date: 3-9-92



Nancy Bear Usera
Commissioner of Administration

FINDING OF EMERGENCY

The Department of Administration finds that an emergency exists and that the attached regulations adopting, amending and repealing provisions in 2 AAC 40.075 and 2 AAC 40.175 are necessary for the immediate preservation of the public peace, health, safety, or general welfare. The facts constituting the emergency are as follows:

1. The current regulations are confusing to Longevity Bonus program recipients.
2. The current regulations were promulgated with an erroneous interpretation of accounting principles.
3. The regulations have created a current debt against approximately 20,000 Alaskans who have not received any overpayment from the State of Alaska.
4. The inappropriate debt recorded against Longevity Bonus recipients can adversely affect their credit rating.
5. Adoption of these regulations will allow the Longevity Bonus Program to remove the debt that has been posted against Longevity bonus recipients and clear any concern with credit ratings.
6. Delay in adoption will cause initiation of collection procedures for a debt which should not exist.

ADOPTION ORDER

Under authority of AS 47.45.100(1), the amendments to the regulations are therefore adopted as emergency regulations and are effective March 6, 1992.

This action is not expected to require an increased appropriation.

Date: 3/1/92
Juneau, Alaska



Nancy Bear Usera, Commissioner

FILING CERTIFICATION

I _____, Lieutenant Governor for the State of Alaska, certify that on _____, 1992, at _____ .m., I filed the attached regulations, which were voluntarily submitted to me for publication.

Lieutenant Governor

Effective _____.
Register _____.

2 AAC 40.075 (b)(2) and (c) are amended to read:

(2) the recipient has notified the administrator that he or she has discontinued residency in Alaska and the payment is for a month for which a [THE] recipient is qualified to receive [FOR] a bonus payment.

(c) Unless other reimbursement is received by the administrator, bonus payments will be withheld as repayment for bonuses that were issued to a recipient for a period in which the recipient was not entitled to receive a bonus payment. (Eff. 12/1/90, Register 117; am / / , Register).

Authority: AS 47.45.100(1)

2 AAC 40.175(f) is repealed and reenacted to read:

(f) A recipient who was eligible for and received a bonus before December 1, 1990 is not eligible to receive bonus payments after the month of disqualification under 2 AAC 40.110 or termination under 2 AAC 40.140 (a), (b), (c)(2), and (c)(3), regardless of the month for which the payment is being made.

2 AAC 40.175 is amended by adding new subsections (g) and (h) to read:

(g) A recipient who was eligible under 2 AAC 40.010(b) before December 1, 1990 who terminates eligibility under 2 AAC 40.140(c)(1) will continue to receive payments without interruption.

(h) A recipient who was eligible for the program before December 1, 1990 whose eligibility for bonus payments is discontinued under 2 AAC 40.110(b) or (c), or who is terminated under 2 AAC 40.140 may be reinstated under 2 AAC 40.130 but will be treated as a new recipient who was not eligible for the program before December 1, 1990. Bonus payments will commence pursuant to 2 AAC 40.065. (Eff. 12/1/90, Register 117; am / / , Register).

Authority: AS 47.45.020(1)

No. 8

Bill Version: CSSA 8 (STA)

(S) Publish Date: 2-21-92

1992 LEGISLATIVE SESSION

Revision Date: January 24, 1992

Department Affected: Revenue

Title: Annuity Program Amendments

BRU: Operations/Permanent Fund Dividend

Sponsor: Kerttula, Halford

Component: Treasury Management/ Permanent Fund Dividend

Requestor: Zharoff

COMPONENT SERIAL NO.

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 and

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	31.7	18.1	18.1	18.1	18.1	18.1
TRAVEL						
CONTRACTUAL	35.0	35.0	35.0	35.0	35.0	35.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	66.7	53.1	53.1	53.1	53.1	53.1

CAPITAL						
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REVENUE						
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	66.7	53.1	53.1	53.1	53.1	53.1
FUND SOURCE:						
TOTAL	66.7	53.1	53.1	53.1	53.1	53.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

This is a consolidation of fiscal notes for the Treasury and Permanent Fund Dividend Divisions. Detailed fiscal notes with substantiating documentation are attached for each division.

Prepared By: Tracy McGill, Director

Phone: 465-2313

Division: Administrative Services Division

Date: January 24, 1992

Approved by Commissioner: David Kerttula

Agency: Department of Revenue

Date: 1/25/92

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: 1/24/92

Title: An act amendine and making effective an annuity program and amendments to the longevity bonus and P.F.D...

Department Affected: Revenue

BRU: Operations

Component: Treasury Management

Revenue

Sponsor: Senators Kertula, Halford

Requestor: Zharoff

Component Serial No.

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Expenditures/Revenues: (Thousands of Dollars)

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

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: 465-2350

Division: Treasury

Date: January 24, 1992

Approved by Commissioner: [Signature]

Agency: Revenue

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

Rev 12/91

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FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: January 23, 1992
Title: Annuity Program Amendments
Sponsor: Kerttula
Requestor: Zharoff

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	13.1
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	15.0	15.0	15.0	15.0	15.0	15.0
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	41.7	28.1	28.1	28.1	28.1	28.1
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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 (RSA)	41.7	28.1	28.1	28.1	28.1	28.1
TOTAL	41.7	28.1	28.1	28.1	28.1	28.1

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: None.

ANALYSIS: See attached.

Prepared By: Thomas C. Williams
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: January 23, 1992

Approved by Commissioner: David Verhall
Agency: Revenue

Date: 1/24/92

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

ALASKA DEPARTMENT OF REVENUE
PERMANENT FUND DIVIDEND DIVISION
SB 8 ANALYSIS

As of January 23, 1992

Assumptions:

1. This bill is the only Permanent Fund Dividend checkoff bill that will become law. This fiscal note would 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>

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ALASKA DEPARTMENT OF REVENUE
PERMANENT FUND DIVIDEND DIVISION

CB 8 ANALYSIS

As of January 23, 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 525,000 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 93</u>	<u>FY 94</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>

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FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. No. 9
Version: CSSBR(STA)
(S) Publish Date: 2-21-92

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

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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 Usher *Nancy Bear Usher*
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	543,000
93	897	
94	947	
95	1002	576,000
96	1050	
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							(00 omitted)	(00 omitted)	(00 omitted)	(00 omitted)	(00 omitted)
State Fiscal Year	Qualified Recipients	Cost	Grand-Fathered Recipients	SB8 Recipients	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			22,385	\$910.47								
1993	22,385	67,155.0	22,385		22,385									
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	2,100.1	
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	

5 of 5

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 SB 8 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.

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 *111*

Phone: 465-4400
 Date: January 21, 1992

Approved by Commissioner: Nancy Bear Usera *N. Bear Usera*
 Agency: Administration

Date: 1/21/92

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

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FISCAL NOTE

No. 11

STATE OF ALASKA
1992 LEGISLATIVE SESSION

B... Version: CSSAR (STA)

(S) Publish Date: 2-21-92

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

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

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

POSITIONS

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

Estimate of current year impact: zero

ANALYSIS: (attach a separate page if necessary.)

See attached for a detailed analysis

Prepared By: Garv Bader *Garv Bader*
Division: Retirement and Benefits

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

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

Date: 1/21/92

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

Committee Substitute for Senate Bill 8 (SA)
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:

PERSONAL SERVICES

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

TRAVEL

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

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

Total Travel cost.....	50.0	25.0
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CONTRACTUAL

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

Total Contractual cost.....	1,201.3	1,132.7
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FY 93

FY 94

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

Bill Version: CSSB 8 (STA)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

(S) Publish Date: 2-21-92

Revision Date: FEBRUARY 3, 1992 Department Affected: HEALTH & SOCIAL SERVICES

Title: AN ACT RELATING TO THE ALASKA BRU: ASSISTANCE PAYMENT BRU

LONGEVITY BONUS PROGRAM Component: ADULT PUBLIC ASSISTANCE - OAA &

Sponsor: Kerttula OAA ALB HOLD HARMLESS

Requestor: _____ COMPONENT SERIAL NO.

0	2	2	2
0	2	2	3

 APA

ALB HH

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
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REVENUE	0	0	0	0	0	0
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	0	0	0	0	0	0
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)	(803.9)
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)

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Bill Version: CS SB 8 (STA)

(S) Publish Date: 2-21-92

Revision Date: 2/3/92 Department Affected: Health & Social Services
 Title: An Act amending and making effective an annuity program..... BRU: 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
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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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 Johnson 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

BILL NO. CSSB 8 (SA) am

STATE OF ALASKA
1992 LEGISLATIVE SESSION

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

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

Expenditures/Revenues: (Thousands of Dollars)

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

FUNDING: (Thousands of dollars)

GENERAL FUND	1862.2	1644.9	1,667.7	1,690.9	1,714.5	1,738.5
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	1862.2	1644.9	1,667.7	1,690.9	1,714.5	1,738.5

POSITIONS

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

Estimate of current year impact: zero

ANALYSIS: (attach a separate page if necessary.)

See attached for a detailed analysis

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

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

Approved by Commissioner: Nancy Bear Usher *NBU*
Agency: Department of Administration

Date: 2/28/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
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		<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><u>\$1862.2</u></u>	 <u><u>\$1,644.9</u></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) am

Revision Date: February 28, 1992
Title: An Act amending and making effective an annuity program and amendments to the Longevity Bonus Program
Sponsor: Senator Kerttula
Requestor: (H) State Affairs

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

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: None

ANALYSIS: (Attach a separate page if necessary.)

See attached.

Prepared by: Dennis L. DeWitt, Director

Phone: 465-4400

Division: Pioneers' Benefits

Date: February 28, 1992

Approved by Commissioner: Nancy Bear Usura

Agency: Administration

Date: 2/28/92

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

FISCAL NOTE
CSSB 8 (SA) am
FEBRUARY 28, 1992
Page 2 of 2

This fiscal note assumes we would amend our current computer contract (to modify the longevity bonus system to print and account for checks in various amounts) and computer support services. We expect that we will need to do 2 mailings to the 23,500 bonus recipients to explain the new program.

Contractual Costs

Printing	\$ 5.0
Mailings (2)	12.0
Program software revision	<u>89.0</u>
Total	106.0

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FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 8 (SA) am

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

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

COMPONENT

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

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	(0)	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	(76.0)	(753.6)	(2,124.4)	(4,033.1)	(5,340.5)

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

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

POSITIONS:

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

Estimate of current year impact: 0

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

Prepared by: Dennis L. DeWitt, Director Phone: 465-4400

Division: Pioneers' Benefits Date: February 28, 1992

Approved by Commissioner: Nancy Bear Usery

Agency: Administration

Date: 2/28/92

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

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

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

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

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

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

Caveats

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

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

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

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

Revised 12/10/91

Current Program			Grand-Fathered		Total SB8 Plus Grandfathered	PFID Dividend Received	Annual Payments Annuity	Monthly Payments Annuity	(000 million) GF Cost Of Grand- Fathered Recipients	(000 million) Non-GF Cost of Post 93 Recipients	(000 million) GF Cost Cost of Post 93 Recipients	(000 million) Total GF Cost	(000 million) Total GF Savings
Fiscal Year	Qualified Recipients	(000 million) Cost	Recipients	Recipients	Recipients				Recipients	Recipients	Recipients	Cost	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 into I 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 (STA) am

Revision Date: March 2, 1992

Title: Annuity Program Amendments

Sponsor: Kerttula, Halford

Requestor: House State Affairs

Agency Affected: Revenue

BRU: Permanent Fund Dividend Division

Components: Permanent Fund Dividend
Division

COMPONENT SERIAL NO. 9 8 1

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None.

ANALYSIS: See attached. *Thomas Williams*

Prepared By: Thomas 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 than 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

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CS for SB 8 (STA) am

Revision Date: March 2, 1992
Title: An Act amending and making effective an annuity program and amendments to the longevity bonus and P.F.D..

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
Division: Treasury
Approved by Commissioner: David H. ...
Agency: Revenue

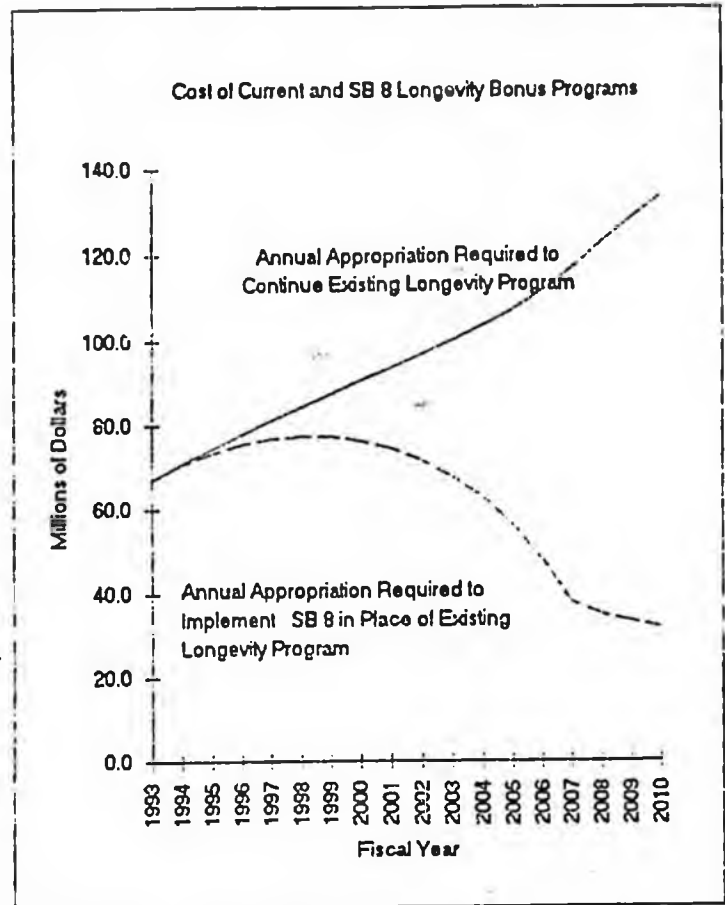
Phone: 465-2300
Date: March 2, 1992

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

Alaska Longevity Bonus Program and Senate Bill 8

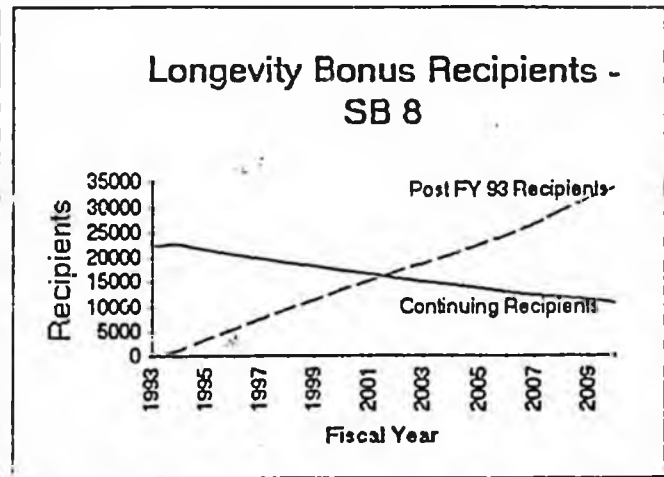
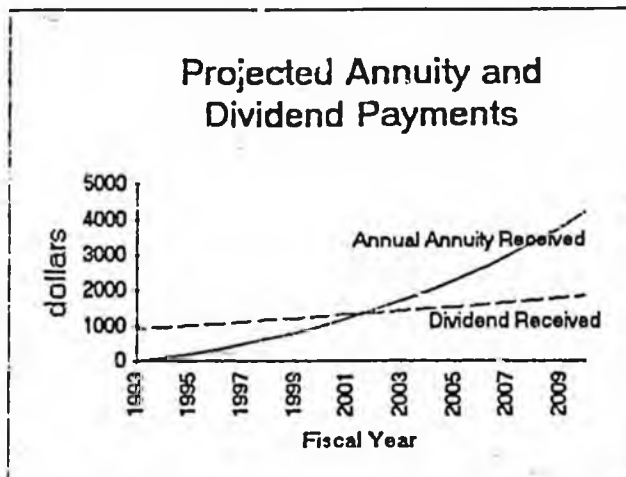
Fiscal Year	General Fund Costs/Savings			
	Cost of Current Program	Cost of SB 8 Program	Annual Savings SB 8	Cumulative Savings SB 8
1993	67.2	67.2	0.0	0.0
1994	70.9	70.8	0.1	0.1
1995	74.5	73.5	1.1	1.2
1996	77.9	75.5	2.4	3.6
1997	80.9	76.7	4.2	7.8
1998	84.1	77.3	6.8	14.6
1999	87.2	77.2	10.0	24.6
2000	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	18387	9345	28032	1171.00	639.76	53.31	196.69	250.00
1999	17843	11224	29067	1221.00	813.24	67.77	182.23	250.00
2000	17018	13144	30162	1271.00	1004.36	83.70	166.30	250.00
2001	16237	14932	31169	1321.00	1214.36	101.20	146.80	250.00
2002	15484	16743	32227	1374.00	1444.54	120.38	129.62	250.00
2003	14773	18555	33328	1426.00	1696.67	141.39	108.61	250.00
2004	14086	20372	34458	1479.00	1972.15	164.35	85.65	250.00
2005	13431	22250	35681	1533.00	2272.75	189.40	60.60	250.00
2006	12807	24338	37145	1589.00	2600.33	216.69	33.31	250.00
2007	12220	26607	38827	1647.00	2956.98	246.42	3.58	250.00
2008	11657	29228	40885	1706.00	3344.98	278.75	0.00	278.75
2009	11136	31659	42795	1766.00	3766.63	313.89	0.00	313.89
2010	10641	33899	44540	1830.00	4224.38	352.03	0.00	352.03

Alaska Longevity Bonus Program, SB 8, Options A & B

Yearly Cost of Longevity Bonus (Millions of Dollars)

<u>Fiscal</u> <u>Year</u>	<u>Current</u>	<u>SB 8</u>	<u>Option A</u>	<u>Option B</u>
1993	67.2	67.2	67.2	67.2
1994	70.9	70.8	70.8	70.8
1995	74.5	73.5	73.6	73.5
1996	77.9	75.5	75.7	75.6
1997	80.9	76.7	77.1	77.0
1998	84.1	77.3	78.0	77.8
1999	87.2	77.2	78.2	77.9
2000	90.5	76.3	77.8	77.4
2001	93.5	74.4	76.4	75.9
2002	96.7	71.6	74.1	73.4
2003	100.0	67.6	70.9	70.0
2004	103.4	62.4	66.5	65.4
2005	107.0	55.9	60.8	59.5
2006	111.4	47.8	53.7	52.1
2007	116.5	37.8	44.9	42.9
2008	122.7	35.0	35.0	35.0
2009	128.4	33.4	33.4	33.4
2010	133.6	31.9	31.9	31.9

Prepared by Legislative Research Agency- 03/18/92 (92.200)

**Permanent Fund Dividends
(Dollars)**

<u>Fiscal Year</u>	<u>SB8</u>	<u>Option A</u>	<u>Option B</u>
1993	924	806	839
1994	970	849	883
1995	1022	899	933
1996	1066	942	975
1997	1111	988	1020
1998	1171	1049	1081
1999	1221	1102	1133
2000	1271	1155	1186
2001	1321	1210	1240
2002	1374	1268	1298
2003	1426	1327	1356
2004	1479	1388	1417
2005	1533	1452	1480
2006	1589	1519	1547
2007	1647	1589	1617
2008	1706	1662	1687
2009	1766	1724	1749
2010	1830	1791	1815

**Monthly Annuities and Longevity Bonuses
(Dollars)**

<u>Fiscal Year</u>	<u>SB 8</u>		<u>Option A</u>		<u>Option B</u>	
	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>
1993	0.00	250.00	0.00	250.00	0.00	250.00
1994	8.46	241.54	7.38	242.62	7.68	242.32
1995	17.94	232.06	15.67	234.33	16.31	233.69
1996	23.55	221.45	25.00	225.00	26.00	224.00
1997	40.32	209.68	35.38	214.62	36.74	213.26
1998	53.31	196.69	46.91	203.09	48.66	201.34
1999	67.77	182.23	59.80	190.20	61.97	188.03
2000	83.70	166.30	74.08	175.92	76.68	173.32
2001	101.20	148.80	89.84	160.16	92.91	157.09
2002	120.38	129.62	107.21	142.79	110.77	139.23
2003	141.39	108.61	126.33	123.67	130.41	119.59
2004	164.35	85.65	147.33	102.67	151.96	98.04
2005	189.40	60.60	170.35	79.65	175.57	74.43
2006	216.69	33.31	195.57	54.43	201.42	48.58
2007	246.42	3.58	223.18	26.82	229.69	20.31
2008	278.75	0.00	253.35	0.00	260.57	0.00
2009	313.89	0.00	286.31	0.00	294.26	0.00
2010	352.03	0.00	322.14	0.00	330.88	0.00

Prepared by Legislative Research Agency- 03/18/92 (92.200)

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 <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eugene G. Kubisa</i>		<i>David [unclear]</i>		<input checked="" type="checkbox"/>	
<i>Tom [unclear]</i>	<input checked="" type="checkbox"/>	<i>Jan [unclear]</i>		<input checked="" type="checkbox"/>	
<i>[unclear]</i>		<i>Mike Miller</i>		<input checked="" type="checkbox"/>	
<i>[unclear]</i>		<i>[unclear]</i>		<input checked="" type="checkbox"/>	

Eugene G. Kubisa
CHAIRMAN'S SIGNATURE

Alaska State Legislature

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

Legislative Research Agency



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

March 16, 1992

MEMORANDUM

TO: Representative Gene Kubina

FROM: Paul Engelman and Paula d. Scavera
Legislative Analysts

RE: Variations of Senate Bill 8 (Longevity Bonus and Annuity Payments)
Research Request 92.200

You asked how two variations of Senate Bill 8 would affect projected annuity payments and expenditures. The two variations, called SB 8 Option A and Option B in this memorandum, eliminate general fund expenditures of the Alaska Longevity Bonus Program.

Senate Bill 8 Option A shifts general fund costs for the Longevity Bonus payments to the Permanent Fund Dividend Distribution Account. This results in smaller permanent fund dividends which result in smaller annuity payments and larger longevity bonus payments than the original SB 8.

Under SB 8 Option A and the original SB 8, fiscal year 2008 remains the year in which the monthly annuity exceeds \$250 per month. However, the yearly cost of SB 8 Option A is greater than the original SB 8 for fiscal years 1995 through 2007, for the reasons stated above.

Senate Bill 8 Option B is the same as Option A except individuals age 65 prior to January 1, 1994 are ineligible to receive a permanent fund dividend, but are still eligible for longevity bonus payments. This results in larger permanent fund dividends, larger annuity payments and smaller longevity bonus payments than Option A. Yearly cost savings over Option A occur in the fiscal years 1995 through 2007.

These affects of Options A and B are shown in detail in the attached tables.

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

Attachments

Option A

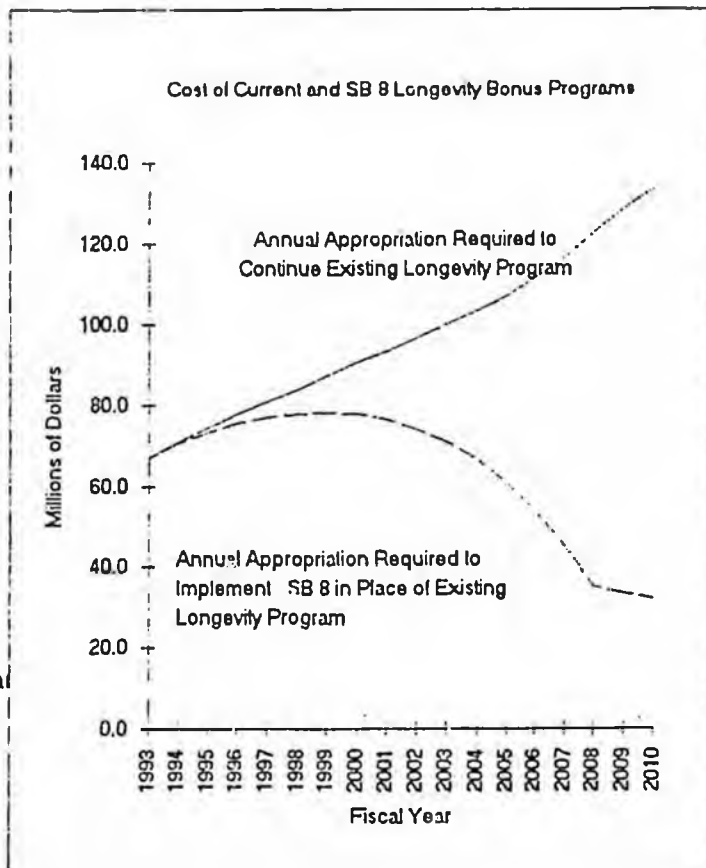
Alaska Longevity Bonus Program and Senate Bill 8

With Longevity Bonus Payments Paid From The Permanent Fund Dividend Distribution Account

Fiscal Year	General Fund Cost of Current Program	Cost of Proposed SB 8 Program	Cost of SB 8 using General Funds
1993	67.2	67.2	67.2
1994	70.9	70.8	70.8
1995	74.5	73.6	73.5
1996	77.9	75.7	75.5
1997	80.9	77.1	76.7
1998	84.1	78.0	77.3
1999	87.2	78.2	77.2
2000	90.5	77.8	76.3
2001	93.5	76.4	74.4
2002	96.7	74.1	71.6
2003	100.0	70.9	67.6
2004	103.4	66.5	62.4
2005	107.0	60.8	55.9
2006	111.4	53.7	47.8
2007	116.5	44.9	37.8
2008	122.7	35.0	35.0
2009	128.4	33.4	33.4
2010	133.6	31.9	31.9

Note:

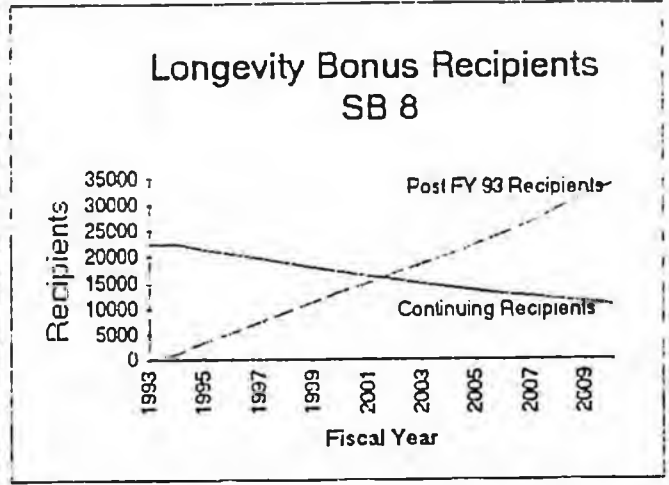
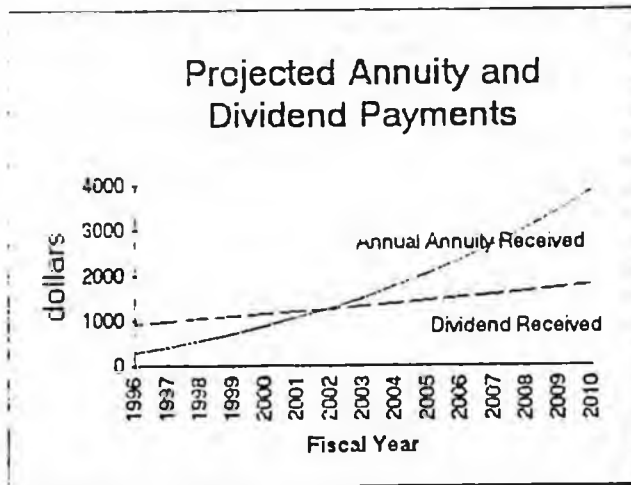
- *All Dollar Amounts are in Millions of Nominal Dollars
- *Implied migration and mortality rates are from Alaska Department of Labor.
- *Annuity Interest Rate 7%
- *No Annual Annuity Service Charge
- *All funds from the permanent fund distribution account resulting in lower permanent fund dividends to individuals



Option A

Alaska Longevity Bonus Program and Senate Bill 8

With Longevity Bonus Payments Paid From The Permanent Fund Dividend Distribution Account



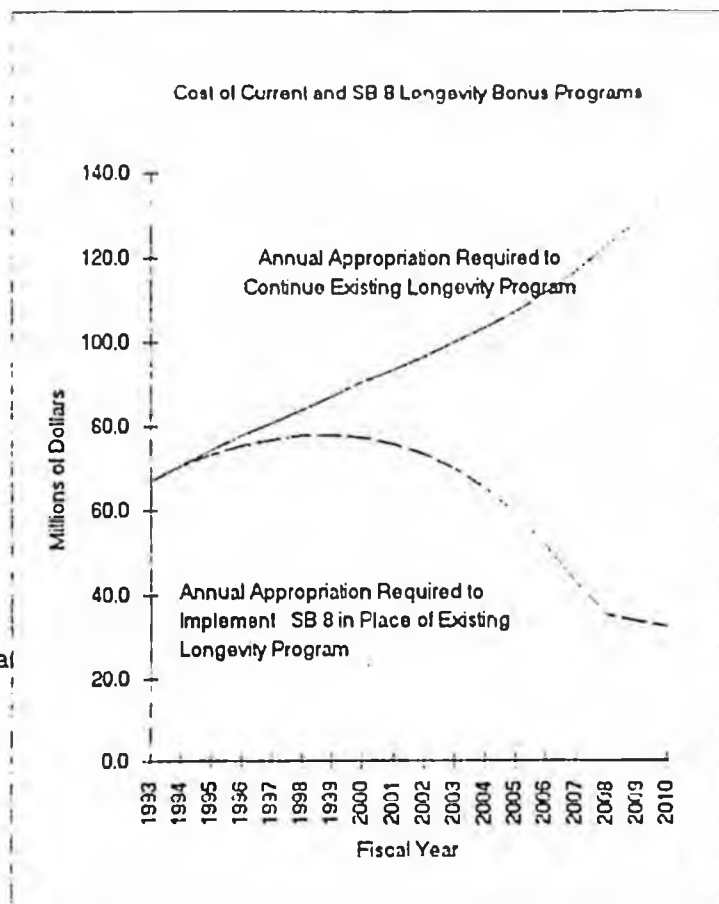
Fiscal Year	Qualified Recipients	Post FY 93 Recipients	Total Recipients	Dividend Received	Annual Annuity	Monthly Annuity	Post FY 93 Bonus	Total Monthly Annuity+Dividend
1993	22385	0	22385	806.00	0.00	0.00	250.00	250.00
1994	22488	1137	23625	849.00	88.58	7.38	242.62	250.00
1995	21469	3373	24842	899.00	188.09	15.67	234.33	250.00
1996	20512	5441	25953	942.00	300.06	25.00	225.00	250.00
1997	19587	7383	26970	988.00	424.59	35.38	214.62	250.00
1998	18687	9345	28032	1049.00	562.90	46.91	203.09	250.00
1999	17843	11224	29067	1102.00	717.59	59.80	190.20	250.00
2000	17018	13144	30162	1155.00	888.93	74.08	175.92	250.00
2001	16237	14932	31169	1210.00	1078.10	89.84	160.16	250.00
2002	15484	16743	32227	1268.00	1286.55	107.21	142.79	250.00
2003	14773	18555	33328	1327.00	1515.96	126.33	123.67	250.00
2004	14086	20372	34458	1388.00	1767.92	147.33	102.67	250.00
2005	13431	22250	35681	1452.00	2044.22	170.35	79.65	250.00
2006	12807	24338	37145	1519.00	2346.89	195.57	54.43	250.00
2007	12220	26607	38827	1589.00	2678.12	223.18	26.82	250.00
2008	11657	29228	40885	1662.00	3040.22	253.35	0.00	253.35
2009	11136	31659	42795	1724.00	3435.70	286.31	0.00	286.31
2010	10641	33899	44540	1791.00	3865.67	322.14	0.00	322.14

Option B

Alaska Longevity Bonus Program and Senate Bill 8

Longevity Bonus Payments Paid From The Permanent Fund Dividend Distribution Account
Individuals Age 65 Prior To 1/94 Do Not Receive PFD

Fiscal Year	General Fund Cost of Current Program	Cost of Proposed SB 8 Program	Cost of SB 8 using General Funds
1993	67.2	67.2	67.2
1994	70.9	70.8	70.8
1995	74.5	73.5	73.5
1996	77.9	75.6	75.5
1997	80.9	77.0	76.7
1998	84.1	77.8	77.3
1999	87.2	77.9	77.2
2000	90.5	77.4	76.3
2001	93.5	75.9	74.4
2002	96.7	73.4	71.6
2003	100.0	70.0	67.6
2004	103.4	65.4	62.4
2005	107.0	59.5	55.9
2006	111.4	52.1	47.8
2007	116.5	42.9	37.8
2008	122.7	35.0	35.0
2009	128.4	33.4	33.4
2010	133.6	31.9	31.9

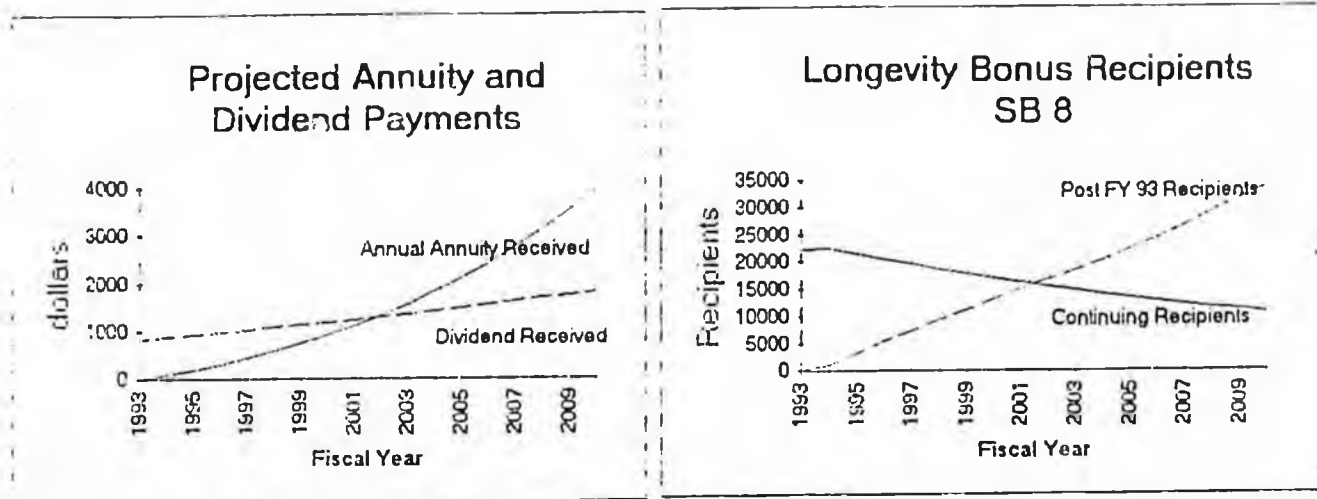


- *All Dollar Amounts are in Millions of Nominal Dollars
- *Implied migration and mortality rates are from Alaska Department of Labor
- *Annuity interest rate at 7%
- *No annual annuity service charge
- * All funds from the permanent fund distribution account

Option B

Alaska Longevity Bonus Program and Senate Bill 8

Longevity Bonus Payments Paid From The Permanent Fund Dividend Distribution Account
 Individuals Age 65 Prior To 1/94 Do Not Receive PFD



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	839.00	0.00	0.00	250.00	250.00
1994	22488	1137	23625	883.00	92.21	7.68	242.32	250.00
1995	21469	3373	24842	933.00	195.71	16.31	233.69	250.00
1996	20512	5441	25953	975.00	311.95	26.00	224.00	250.00
1997	19587	7383	26970	1020.00	440.94	36.74	213.26	250.00
1998	18687	9345	28032	1081.00	583.90	48.66	201.34	250.00
1999	17843	11224	29067	1133.00	743.58	61.97	188.03	250.00
2000	17018	13144	30162	1186.00	920.15	76.68	173.32	250.00
2001	16237	14932	31169	1240.00	1114.91	92.91	157.09	250.00
2002	15484	16743	32227	1298.00	1329.23	110.77	139.23	250.00
2003	14773	18555	33328	1356.00	1564.93	130.41	119.59	250.00
2004	14086	20372	34458	1417.00	1823.51	151.96	98.04	250.00
2005	13431	22250	35681	1480.00	2106.89	175.57	74.43	250.00
2006	12807	24338	37145	1547.00	2417.02	201.42	48.58	250.00
2007	12220	26607	38827	1617.00	2756.24	229.69	20.31	250.00
2008	11657	29228	40885	1687.00	3126.89	260.57	0.00	260.57
2009	11136	31659	42795	1749.00	3531.17	294.26	0.00	294.26
2010	10641	33899	44540	1815.00	3970.58	330.88	0.00	330.88

Alaska Longevity Bonus Program, SB 8, Options A & B

Yearly Cost of Longevity Bonus (Millions of Dollars)

<u>Fiscal</u> <u>Year</u>	<u>Current</u>	<u>SB 8</u>	<u>Option A</u>	<u>Option B</u>
1993	67.2	67.2	67.2	67.2
1994	70.9	70.8	70.8	70.8
1995	74.5	73.5	73.6	73.5
1996	77.9	75.5	75.7	75.6
1997	80.9	76.7	77.1	77.0
1998	84.1	77.3	78.0	77.8
1999	87.2	77.2	78.2	77.9
2000	90.5	76.3	77.8	77.4
2001	93.5	74.4	76.4	75.9
2002	96.7	71.6	74.1	73.4
2003	100.0	67.6	70.9	70.0
2004	103.4	62.4	66.5	65.4
2005	107.0	55.9	60.8	59.5
2006	111.4	47.8	53.7	52.1
2007	116.5	37.8	44.9	42.9
2008	122.7	35.0	35.0	35.0
2009	128.4	33.4	33.4	33.4
2010	133.6	31.9	31.9	31.9

Prepared by Legislative Research Agency- 03/18/92 (92.200)

Permanent Fund Dividends
(Dollars)

<u>Fiscal Year</u>	<u>SB8</u>	<u>Option A</u>	<u>Option B</u>
1993	924	806	839
1994	970	849	883
1995	1022	899	933
1996	1066	942	975
1997	1111	988	1020
1998	1171	1049	1081
1999	1221	1102	1133
2000	1271	1155	1186
2001	1321	1210	1240
2002	1374	1268	1298
2003	1426	1327	1356
2004	1479	1388	1417
2005	1533	1452	1480
2006	1589	1519	1547
2007	1647	1589	1617
2008	1706	1662	1687
2009	1766	1724	1749
2010	1830	1791	1815

Monthly Annuities and Longevity Bonuses
(Dollars)

<u>Fiscal Year</u>	<u>SB 8</u>		<u>Option A</u>		<u>Option B</u>	
	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>
1993	0.00	250.00	0.00	250.00	0.00	250.00
1994	8.46	241.54	7.38	242.62	7.68	242.32
1995	17.94	232.06	15.67	234.33	16.31	233.69
1996	28.55	221.45	25.00	225.00	26.00	224.00
1997	40.32	209.68	35.38	214.62	36.74	213.26
1998	53.31	196.69	46.91	203.09	48.66	201.34
1999	67.77	182.23	59.80	190.20	61.97	188.03
2000	83.70	166.30	74.08	175.92	76.68	173.32
2001	101.20	148.80	89.84	160.16	92.91	157.09
2002	120.38	129.62	107.21	142.79	110.77	139.23
2003	141.39	108.61	126.33	123.67	130.41	119.59
2004	164.35	85.65	147.33	102.67	151.96	98.04
2005	189.40	60.60	170.35	79.65	175.57	74.43
2006	216.69	33.31	195.57	54.43	201.42	48.58
2007	246.42	3.58	223.18	26.82	229.69	20.31
2008	278.75	0.00	253.35	0.00	260.57	0.00
2009	313.89	0.00	286.31	0.00	294.26	0.00
2010	352.03	0.00	322.14	0.00	330.88	0.00

Prepared by Legislative Research Agency- 03/18/92 (92.200)

Alaska Longevity Bonus Program, SB 8, Options A & B

Yearly Cost of Longevity Bonus (Millions of Dollars)

<u>Fiscal</u> <u>Year</u>	<u>Current</u>	<u>SB 8</u>	<u>Option A</u>	<u>Option B</u>
1993	67.2	67.2	67.2	67.2
1994	70.9	70.8	70.8	70.8
1995	74.5	73.5	73.6	73.5
1996	77.9	75.5	75.7	75.6
1997	80.9	76.7	77.1	77.0
1998	84.1	77.3	78.0	77.8
1999	87.2	77.2	78.2	77.9
2000	90.5	76.3	77.8	77.4
2001	93.5	74.4	76.4	75.9
2002	96.7	71.6	74.1	73.4
2003	100.0	67.6	70.9	70.0
2004	103.4	62.4	66.5	65.4
2005	107.0	55.9	60.8	59.5
2006	111.4	47.8	53.7	52.1
2007	116.5	37.8	44.9	42.9
2008	122.7	35.0	35.0	35.0
2009	128.4	33.4	33.4	33.4
2010	133.6	31.9	31.9	31.9

Prepared by Legislative Research Agency- 03/18/92 (92.200)

**Permanent Fund Dividends
(Dollars)**

<u>Fiscal Year</u>	<u>SB8</u>	<u>Option A</u>	<u>Option B</u>
1993	924	806	839
1994	970	849	883
1995	1022	899	933
1996	1066	942	975
1997	1111	988	1020
1998	1171	1049	1081
1999	1221	1102	1133
2000	1271	1155	1186
2001	1321	1210	1240
2002	1374	1268	1298
2003	1426	1327	1356
2004	1479	1388	1417
2005	1533	1452	1480
2006	1589	1519	1547
2007	1647	1589	1617
2008	1706	1662	1687
2009	1766	1724	1749
2010	1830	1791	1815

**Monthly Annuities and Longevity Bonuses
(Dollars)**

<u>Fiscal Year</u>	<u>SB 8</u>		<u>Option A</u>		<u>Option B</u>	
	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>	<u>Monthly Annuity</u>	<u>Post FY 93 Bonus</u>
1993	0.00	250.00	0.00	250.00	0.00	250.00
1994	8.46	241.54	7.38	242.62	7.68	242.32
1995	17.94	232.06	15.67	234.33	16.31	233.69
1996	28.55	221.45	25.00	225.00	26.00	224.00
1997	40.32	209.68	35.38	214.62	36.74	213.26
1998	53.31	196.69	46.91	203.09	48.66	201.34
1999	67.77	182.23	59.80	190.20	61.97	188.03
2000	83.70	166.30	74.08	175.92	76.68	173.32
2001	101.20	148.80	89.84	160.16	92.91	157.09
2002	120.38	129.62	107.21	142.79	110.77	139.23
2003	141.39	108.61	126.33	123.67	130.41	119.59
2004	164.35	85.65	147.33	102.67	151.96	98.04
2005	189.40	60.60	170.35	79.65	175.57	74.43
2006	216.69	33.31	195.57	54.43	201.42	48.58
2007	246.42	3.58	223.18	26.82	229.69	20.31
2008	278.75	0.00	253.35	0.00	260.57	0.00
2009	313.89	0.00	286.31	0.00	294.26	0.00
2010	352.03	0.00	322.14	0.00	330.88	0.00

Prepared by Legislative Research Agency- 03/18/92 (92.200)

Alaska State Legislature

Legislative Research Agency



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

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

April 10, 1992

A

MEMORANDUM

TO: Representative Gene Kubina

FROM: Paula d. Scavera and Paul Engelman
Legislative Analysts

RE: Alaska Longevity Bonus-Fifty Dollar Phase-Out
Research Request 92.231

You requested information concerning a \$50 annual reduction in order to phase out the Alaska Longevity Bonus Program. You specifically requested that the longevity bonus program phase-out be evaluated using two alternative funding sources, the general fund and the permanent fund dividend distribution account. The attached tables show the effects of each alternative.

Table 1 shows the impact of the \$50 phase-out proposal using general funds and compares it to the estimates of the current program costs.

Table 2 shows the impact of the phase-out proposal using the permanent fund dividend distribution account to fund longevity bonus program. Reduced estimated permanent fund dividends are compared to the current estimated permanent fund dividends.

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

Attachment

TABLE 1
ALB -\$50 Phase-Out General Fund

<u>Fiscal Year</u>	<u>Qualified Participants</u>	<u>Monthly Bonus Amount</u>	<u>Annual Cost (millions)</u>	<u>Current Program (millions)</u>
1992	21190	\$250	\$63.6	\$63.6
1993	22385	\$200	\$53.7	\$67.2
1994	23625	\$150	\$42.5	\$70.9
1995	24842	\$100	\$29.8	\$74.5
1996	25952	\$50	\$15.6	\$77.9
1997	26970	\$0	\$0.0	\$80.9

TABLE 2
ALB -\$50 Phase-Out PFD Distribution Account

<u>Fiscal Year</u>	<u>Qualified Participants</u>	<u>Monthly Bonus Amount</u>	<u>Annual Cost (millions)</u>	<u>Projected PFD</u>	<u>Reduced Projected PFD</u>
1993	22385	\$200	\$53.7	\$924	\$830
1994	23625	\$150	\$42.5	\$970	\$897
1995	24842	\$100	\$29.8	\$1,022	\$972
1996	25952	\$50	\$15.6	\$1,066	\$1,041
1997	26970	\$0	\$0.0	\$1,111	\$1,111

Sources: Alaska Department of Administration and
Alaska Permanent Fund Corporation

Prepared by Legislative Research Agency April 9, 1992 (92.231)

①

March 1, 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. Disc., 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 Bucroich 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 24, 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 ALS 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

B. 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 13-15.

444 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 1982, following the U.S. Supreme Court's decision in Zobel v. Williams (hereafter "Zobel III").¹⁸

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, 3-1, 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 foreboding 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 statehood 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.2d at 634; O'Connor conc., 72 L. Ed. 2d at 635.

²¹Brennan conc., 72 L. Ed. 2d at 681, 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, Dec. 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. West 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.

B. 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 15% 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. 2d 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. Blumschein, 405 U.S. 330 (1972).

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

²⁸Shapiro v. Thompson, 394 U.S. 613 (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. 2d 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:

³⁰Sae 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, 72 L.Ed. 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, 1952 settlement in the West 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. Varving 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 Fast 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 3 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

³⁴AS 43.23.075.

³⁵See 42 U.S.C. §1332(a)(b)(5).

³⁶See IRS Revenue Rulings, 63-136, 1963-2 C.B. 19; 68-13, 1968-1 C.B. 425; 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 3,303 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 1985.³⁸

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 ALE 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 \$50.00 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 1.

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

FY 1984	2.1
FY 1985	(3.7)
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 13,223 elderly in Alaska, 5% will become eligible and apply for public assistance as the income level is increased to \$796 in FY 1983; 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 -- 5295 in FY 1984.

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

(1) Of the 3,963 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	2.3	(3.7)	(1.76)
FY 1986	1500	395.02	4.2	(19.2)	(5.90)
FY 1987	2000	445.02	5.5	(30.9)	(14.50)
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 \$234.30/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 payments 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 55 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	358%
35	151%
40	100%
45	66
55	21

Obviously, some transition measure is necessary for those who are simply incapable of accruing a sufficient corpus by the age of 55 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 55 to continue to receive their permanent fund dividends in cash, with the PFD being subtracted from the longevity bonus amount. For those in

the 40-50 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 55. 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 1209-01.

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 1996 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, 519 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 created 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. 2nd 244, (1980); see also White v. Massachusetts Council of Construction Employees, U.S. No. 31-1003 (U.S.S.Ct., Feb. 28, 1933) (distinguishing Hicklin v. Orbeck, 437 U.S. 513 (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 as an exempt plan under the Internal Revenue Code.⁴⁵ Not was 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

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

⁴⁵26 U.S.C. §401-404

⁴⁶See 26 U.S.C. §403.

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.⁴⁷ 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

⁴⁷Id.

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)(a)(2)(3).

⁵¹See 42 U.S.C. §1382(a)(b)(2)(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	19.3
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 1933, 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 1933 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 32 U.S.C. §414(a)(1)

Moreover, we believe there is a substantial likelihood that the existing ALB exemption in federal law could be retained. Indeed, stripped to its essence this option does little more than alter the funding source of the ALB 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 security⁶⁰ 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

⁶⁰42 U.S.C. §§ 426, 1395(c). A person ineligible for Social Security may obtain Medicare hospitalization insurance for \$12 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 day⁵³. 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 \$50-\$60 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

⁵³Alaska 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(a)(1)(B)

⁶⁵*Florida 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 Alaska⁶⁶ 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

⁶⁶It 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. Maricopa 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.

1. 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, 326 F.Supp. 234 (D. Minn. 1970), aff'd rem. 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 retire 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; and⁶⁸

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;

⁶⁸See AS 15.43

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. Apokadak, 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.

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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

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

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

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Maximum Possible Annuity 5/

ALB (for all new recipients)

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

Other Options Considered

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

599 P.2d at 879. Emphasis added.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Major Features.

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

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

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

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

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

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

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

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 obligat would not end until the year 2029. Moreover, extending the bill's protection to 60-year-olds would cost an additional \$33 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 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 eldes would be required to forego their permanent fund dividends.

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

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

Chart 1

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

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

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

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

Chart 2

ALB COSTS THROUGH FY 2034
WITHOUT ESCALATION (in millions)

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

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

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

the grandfathering of existing recipients are reflected in Chart 3.

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

Chart 3

EFFECT OF 3-YEAR FRONT LOADING
(in millions)

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

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

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

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

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

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

Chart 4

INCREASED OAA/MEDICAID COSTS THROUGH 2010
(in millions)

Moderate Low

81.3

Moderate High

150.2

It is possible that increased OAA costs would also result from the committee bill. Although, under the bill, the ALB is gradually phased out, rather than abruptly terminated, those new elderly who have not participated in the annuity program may eventually find themselves in need of welfare assistance. The degree of that problem, of course, is a function of participation rates -- which are difficult to determine. However, because -- under the committee bill -- the ALB is phased out, rather than abruptly terminated, 16/ and because a portion of Alaska's population will participate in the annuity program, the committee believes that -- even with low participation rates -- the impact of the bill 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 20 total years, in

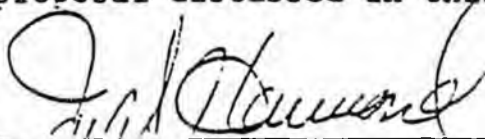
order to be eligible for admission to the homes. Plainly, that requirement raises substantial constitutional questions.

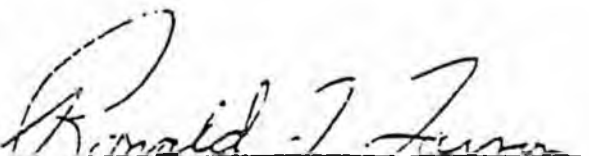
To date, no one has filed suit over the Pioneers' Home eligibility requirements. It is this committee's recommendation that the legislature develop and consider alternatives to the existing residency requirements during this session. The pressure and tension created by the Vest litigation has made it 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

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.

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.

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.

'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! NO!" One individual wrote: "I know several older people who are eligible for food

IGNORE YOUR BACKACHE & SUFFER THE CONSEQUENCES

Back pain, however insignificant it seems, is frequently the beginning of serious, painful problems. Problems such as pinched nerves, slipped disc, neuralgia, neuritis, (and sometimes arthritic type pains), tuberculosis and even paralysis.

The spine is a complex system of nerves, muscles, bones, ligaments & cartilage which are interconnected to control specific areas of the body. When the bones, or VERTEBRAE are misaligned, they pinch the surrounding nerves, obstructing the flow of energy to other parts of the body. This often results in complications which can be severe & permanent.

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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

COMMENTS

based on voluntary Permanent Fund check contributions, we thought this session might be the one to solve it.

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 '87 budget Department of Administration groups the Alaska Longevity Bonus, Pic Home and Older A. Commission together the heading "social se

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

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

I refer you to page 1 Governor's Operating

'Caught

I seem to be caught the middle because of My sister and I came t in 1956 with her to boys. We worked a homesteaded by our 1960 and bought a an in Anchorage so w have a place for us t age (ha!) because t Alaska so much.

But my sister began in 1978, has been in home five times sin then I became disabl and couldn't work =

In search

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

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Medicare pro

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Medicare says i c oxygen and have Abbey Medical si ome. The bill is no am 31 and a 43-ye resident. How abou that in the Sen Nothing else has ne

Ru:

Long-running bonus debate heats up

By Hebeben Gowman

The long and arduous 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 114.

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 -- 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 \$61 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 cut in their monthly state retirement pay, I'd be hung in effigy," said Rep. Red Hucher (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



Bonus debate heated, long-running

statewide teleconferences on Sen. Jay Kerttula's (D-Palmer) Longevity Bonus/annuity bill, CSSJ 66.

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 SJ 66 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 1984 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 newly 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 SJ 66 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."

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.

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 ()

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

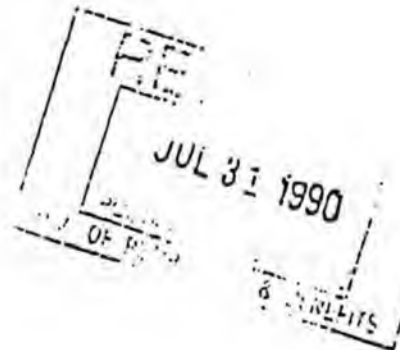


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July 26 1990

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.

(i) *Unforeseeable emergency.* For purposes of this paragraph (ii), 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(e)) 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 180 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 (c) 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

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

SL10014K (91)

ALASKA

State Legislative Committee

Sb. 8 -

1992 FACTS & LEGISLATIVE PRIORITIES



American Association
of Retired Persons

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 Lehling

Senate Finance Committee

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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. Jay Kerttula, Co-Chairman

Sen. Pat Pourchot, Co-Chairman

Sen. Al Adams

Sen. Jim Duncan

Sen. Lyman F. Hoffman

Sen. Dick Shultz

Sen. Rick Uehling

Senate Finance Committee

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.

Alaska State Legislature

Legislative Research Agency



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

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

March 6, 1992

MEMORANDUM

TO: House State Affairs Committee Members

FROM: Paula d. Scavera *PAS*
Legislative Analyst

RE: Alternatives for Funding the Longevity Bonus by Daniel Carpenter

Attached are materials which Daniel Carpenter did for the State Special Committee on Alaska Longevity Bonus in 1984 and 1985. Some materials are dated due to changes in the tax laws.

I hope this material is useful.

Attachments



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101 Park Avenue
28th Floor
New York, N.Y. 10178

(212) 557-6500

M E M O R A N D U M

TO: ALASKAN LONGEVITY BONUS PROGRAM COMMITTEE

FROM: DANIEL E. CARPENTER, J.D., BENEFIT CONCEPTS, INC.
OTTO LOWE, LLB, KIDDER, PEABODY & COMPANY, INC.

IN RE: ALTERNATIVES FOR THE FUNDING OF THE LONGEVITY BONUS

DATE: SEPTEMBER, 1984

The purpose of this memorandum is to outline a proposed course of investigation for the Committee in regard to the Longevity Bonus Program and to suggest that Benefit Concepts, Inc. be retained to conduct the study.

Now that the Supreme Court has ruled that the Longevity Bonus will be available to all Alaskans who apply, who are over age 65, with one year's residence, and assuming that the State wishes to continue the program to aid its elderly, we have formed a 3 point program that will help to fund the Longevity Bonus and permit its funding long into the future, even after the oil revenues decline substantially.

PART I of the program involves putting together a consortium of insurance companies that will allow funds invested by the State to fund the Longevity Bonus to earn high interest rates for a long period of time. The interest rate earned will be higher than Bank CDs (Certificates of Deposit) or government securities, and will be guaranteed for a longer period of time. The principal will be just as secure as a Bank CD or government backed securities as we will institute rigid financial standards that will allow only the most financially sound companies to become part of this group. Such criteria would include: being over seven billion dollars in assets, policyholder surpluses of over one hundred million dollars, unassigned surplus of over one hundred million dollars, New York licensed (due to strict financial reporting and guaranteed reserve requirements) Class XV and A+ rating in BEST'S REVIEW, and a company diverse in its assets and earning enough on its investments so as to guarantee its promised rate of return.



PART II of our program will allow Alaskan residents to voluntarily defer their Permanent Fund dividend check to retirement to allow them to receive substantial income then, rather than giving up 20-30% of the dividend and future interest to Federal Taxation. This is an excellent deal for the Alaskan citizen, but the State of Alaska will also benefit from keeping 2-3% on the rate of return that it receives versus what it credits to the individual. This will help the State to defray any expenses that it might have in managing the program. For instance, if Alaska could earn 13% on its money and credited only 11% to the individual deferring, there would certainly be no complaints since few, if any investors, could earn 11% on their money after tax - especially on a small amount of money that was deferred from taxes. Though this is a small difference for the individual, this 2-3% difference will amount to a tremendous reserve for the State which can help in funding this program as well as others.

PART III of this program is perhaps the most visionary, but is certainly the most complex of the three parts. This part calls for funding a specially designed life insurance product that will act as a cost recovery vehicle allowing for the total recovery of funds paid out to participants under the Longevity Bonus Program as well as for the costs of funding.

Put as simply as possible, Alaskans applying for the Longevity Bonus will apply simultaneously for a unique type of investment policy that will have the State of Alaska be the owner and beneficiary. There will be no medicals or questionnaires required. It will be the same process used now for applying for the Bonus. However, now when people die, not only will payment of the Bonus cease but the State will receive an amount of money actuarially calculated to equal the sum of the LONGEVITY BONUS paid plus all premiums paid for the cost recovery vehicle and a small amount of interest for the cost of money. The State will not be making a "profit" here, but it will be replenishing funds far into the future on an ongoing basis, without having to rely on the General Fund, the Permanent Fund, or oil revenues. Even with an escalating retired population, the fund should be able to replenish itself after the first generation (10-12 years based on mortality).



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Of course, there are many technical problems to be worked out such as what to do with people who leave Alaska for Florida when they are 68 or locating people who are in nursing homes, etc. These problems and others will all be accounted for in the actuarial design of the product which will have little or no commission or expense loading, and will be geared to produce a high rate of return on death no matter when the individual dies (obviously an earlier death will create a greater return). Also, we envision that this product will be placed with many companies, and it will be necessary that we have full control in the design of the product and its application as it is sure to entail a lot of actuarial work and commitments on the part of the insurance company; work and commitments that they will not provide unless they know that they are speaking with the "decision maker". Obviously, an insurance product on people Age 65 and older will mean that the insurance company will surely pay the claim. This program can only be made to work with careful actuarial, legal, and investment planning.

The inevitable gain and cost recovery of this program is assured in the fact that legally Alaska, as an entity, is "eternal" whereas all people are mortal - so eventually there will be a gain and return of capital. It is this gain that will provide the funds for the future and continue the cycle.



COMMENTS ON PARTS I, II, & III

If funding of the LONGEVITY BONUS continues as is done presently from the General Fund and there is no concern given for replacing these funds, then it is easy to see that eventually the funds will expire or the benefit will cease.

Our proposal's PARTS I, II, & III, contemplate avoiding that result with loans to be made from the PERMANENT FUND which will be paid back at specific times in the future with little or no interest but with full principal. It is this initial loan which allows the Longevity Bonus Program to become self sufficient, but the entire loan amount will be paid back. For example, of the \$300,000,000 that is currently due to the PERMANENT FUND from the GENERAL FUND, a small portion of this account, just the interest on the money, could make the LONGEVITY BONUS self-perpetuating.

Assuming 16,000 participants with no growth receiving \$3,000 with no additional amounts and assuming a cost recovery program of \$2,000 a year and assuming death in 10 years for all participants (mortality Age 75-76) the program would have the following results:

LONGEVITY BONUS PAID	\$480,000,000
FUNDING COST RECOVERY	<u>\$320,000,000</u>
TOTAL EXPENDITURE	\$800,000,000
TOTAL RECOVERY UPON DEATH	\$1,366,048,000
OUTSTANDING LOAN FROM PERMANENT FUND	\$300,000,000



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ALLOCATION OF RECOVERED FUNDS

NEW BENEFITS TO BE PAID	\$480,000,000
NEW COST RECOVERY PLAN	\$320,000,000
PAID BACK TO PERMANENT FUND	\$300,000,000
 NEW FUNDS AVAILABLE (CAPITAL CREATED) TO PROVIDE HIGHER BENEFITS TO MORE PEOPLE AS WELL AS COST RECOVERY	 \$566,000,000

Obviously, we can assume higher numbers as the amount of people covered and the amount paid out increases, but the general principal remains unchanged. Due to the fact that we all must die some day, Alaska can creatively arrange its oil bounty in such a way that all Alaskans will help in a small and painless way to help insure this endowment into the future so that Alaska's wealth can be shared for many generations and not just a few. All that is required is a complex arrangement of interest rates and actuarial guarantees that our firm can help the State of Alaska negotiate.



OUR REQUIREMENTS

In order to properly conduct the studies and to make the arrangements necessary for the creation of this program, we will need the following:

1. A retainer fee of \$15,000 to offset our charges for time and expenses. We bill on a time and charges basis of \$150 per hour for principal consultants' time and \$50 per hour for staff time, plus all necessary charges such as travel, etc.

As an estimate, though not binding, we would foresee the following expenses:

Actuarial Studies	\$15,000
Legal	5,000
Accounting	1,500
Insurance Company Studies	5,000
Insurance Company Contact and Negotiation	7,500
General Consulting Work	10,000
Travel and Miscellaneous Expenses	<u>5,000</u>

Estimated Total \$49,000

2. In addition to the above for the arrangements under PARTS I and II, for keeping the consortium of insurance carriers together and updating their information and performance, securing their guarantees, and general administrative and managerial services, we will charge a fee of 30 basis points annually that will be paid by the insurance carriers selected to belong. The State of Alaska will not need to pay this fee.
3. Under PART III, and in addition to the amounts above, we will negotiate with the carriers selected for the new cost recovery product a service fee of 5% of premium paid the first year and 2% of premiums paid for the design work done initially and the service work that will be done in the future, as well as giving us a royalty on the use of this product by other individuals, firms, or insurance companies.



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4. Due to the speculative nature of this product and its complexity, we would need to have the State of Alaska's full blessing to negotiate this program on its behalf with the various insurance carriers. This is necessary because no major insurance company is going to commit the time, personnel, money, and effort that is necessary to develop this product without some guarantees that their services will not be plagiarized or stolen and that they will receive at least a portion of the business to be placed. If we are to design the product, design the specifications, and the work, then we must handle the negotiations with the carriers as well. In this regard we are similar to the architects on a building project. Once we are selected as the ones to do the project, we should also handle and supervise the negotiations with the subcontractors such as plumbers or electricians. The consultant has the same responsibilities and obligations to the client as the architect and needs to have the same control and flexibility. Of course, the State has the final say, but we should handle all negotiations, company contact, and bidding.



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INFORMATION ABOUT BENEFIT CONCEPTS, INC.

Benefit Concepts, Inc. is a nationally based firm that specializes in the design, installation, and administration of all types of Benefit Plans for large companies throughout America.

Benefit Concepts has 26 offices across the country and was founded over 20 years ago. In 1983, the New York office merged with the firm of Lambert M. Huppeler and Company, a large and well known actuarial firm, which enhanced the firm's ability to service any type of benefit plan large or small. Benefit Concepts, Inc. of New York numbers 137 in staff and has substantial in-house computer resources.

BCI is now in its second year working on a joint venture with Kidder, Peabody & Company, Inc. to provide high quality services to their clients.



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Daniel E. Carpenter, J.D., is a principal of Benefit Concepts, Inc. in New York City, a nationally based consulting firm specializing in the design, installation, and administration of all types of benefit plans. As a tax attorney, Dan is a member of the New York, Connecticut, and American Bar Association's Section on Taxation and a charter member of the ESOP Association of America. As a consultant, he has worked with numerous closely-held and public companies in designing innovative benefit plans to reduce a company's benefit costs and corporate taxes while increasing the overall benefits for employees. He has also worked with several insurance companies and financial institutions as a consultant in the development of new products that are designed to be responsive to the current investment and tax climate as they relate to benefit plans. He has also worked extensively with Oberholtzer Computer Engineering, a California based firm, which creates specially designed computer programs for executive benefit programs. He is currently licensed with many different insurance companies and has won several industry awards. He is currently licensed with the NASD/SEC Equities Licensing. Dan is an author and frequent lecturer at various seminars across the country.



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STUDY OF FUNDING ALTERNATIVES
FOR THE
ALASKA LONGEVITY BONUS

Nov 9, 1984

Presented By:

Otto Lowe
Kidder, Peabody & Co.

Daniel E. Carpenter, J.D.
Benefit Concepts, Inc.



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INTRODUCTION

This study is being undertaken with the knowledge that the Federal Government is benefiting more from Alaska's Longevity Bonus (ALB) and Permanent Fund Dividend (PFD) Programs than any Alaskan or the State as a whole. In distributing \$48,000,000 through the ALB and another \$200,000,000 through the PFD, the State of Alaska has transferred over \$50,000,000 from its coffers to the United States Treasury in an attempt to benefit the residents of the State of Alaska (assuming a 20% marginal tax bracket). This tremendous drain of Alaskan wealth comes in the wake of declining oil revenues and the prospect that some day the oil reserves will be fully depleted.

Had this same \$250,000,000 been spent on building projects or not spent at all, but saved, the people as represented by the State of Alaska would have been able to increase their consolidated wealth by the \$50,000,000 that has been sent to Washington in the form of individual tax payments.



The second part of the program entails a deferral of the Permanent Fund dividend check on an annual voluntary basis to provide for an increased Longevity Bonus at retirement.

The third part of the program is to provide the State with a method of cost recovery that will allow the Longevity Bonus to be paid to Alaskans for generations into the future even in the event of a decline in oil revenues. This cost recovery program utilizes a specially designed insurance policy that will allow that State of Alaska to recover upon the death of each Longevity Bonus recipient an amount of money equal to the premiums paid, as well as the total amount of Longevity Bonus paid to the recipient.



THE REASONS FOR UTILIZING
AN INSURANCE CONSORTIUM

In our attempt to find a higher rate of return without compromising investment security, we recommend utilizing a consortium of insurance companies which will be able to provide a higher rate of return than money market funds and government securities without jeopardizing the funds.

Normally, insurance companies will be able to credit up to 200 basis points more than short term government securities. In order to protect the State of Alaska's investment, we recommend that the state only invest funds within the guidelines that we have structured:

1. The company must be an admitted carrier (licensed to do business in New York). In the absence of Federal Insurance Regulations, it is important to realize that New York has the strictest financial reporting and compliance procedures. It also has a guarantee on New York



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licensed companies, that if one company has a problem meeting its requirements, all of the New York Licensed companies will come in to subsidize those requirements.

2. The company must have an A+ rating (not just A) and be in Financial Category XV in Best's Review (Standard and Poor's of the Insurance Industry).

3. The company must have \$1,000,000,000 (One Billion Dollars) in admitted assets.

4. The companies will be reviewed frequently to monitor any changes in financial strength or investment policies.

We have compiled a list of the companies that meet our criteria, and we have contacted most of these companies to see what interest rates and what amounts of money the insurance companies would be willing to accept from the State of Alaska. This list is found on the following page.



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LIFE INSURANCE COMPANIES
LICENSED IN NEW YORK STATE*

Rank	Company	Assets in 1983	Rating**
1	Prudential	72,248,810,458	A+
2	Metropolitan Life	60,598,562,458	A+
3	Equitable Life, NY	43,305,559,346	A+
4	Aetna Life	31,414,087,598	A+
5	New York Life	24,228,095,122	A+
6	John Hancock	23,458,537,093	A+
7	Travelers Ins.	20,741,506,782	A+
8	Connecticut General	17,425,832,921	A+
9	Teachers Ins & Ann.	16,143,856,345	A+
10	Northwestern Mutual	14,480,689,175	A+
11	Mass. Mutual Life	12,172,745,351	A+
12	Bankers Life Co.	11,358,455,911	A+
13	Mutual of New York	9,284,181,519	A+
14	New England Life	8,487,637,844	A+
15	Mutual Benefit	7,898,157,388	A+
16	Connecticut Mutual	6,753,954,380	A+
17	Continental Assurance	4,077,317,201	A+
18	Penn Mutual Life	3,960,275,302	A+
19	Nationwide Life	3,938,288,809	A+
20	Phoenix Mutual	3,808,291,405	A+
21	State Mutual Life	2,921,537,485	A+
22	National Life, VT	2,792,598,575	A+
23	Union Mutual Life	2,737,203,070	A+
24	Guardian Life	2,524,209,228	A+
25	Home Life, NY	2,228,200,247	A+
26	Provident Mutual	2,204,791,729	A+
27	Allstate Life	1,761,633,904	A+
28	Union Central	1,605,785,732	A+
29	Hartford Life	1,293,868,550	A+
30	Equitable Life, Iowa	1,288,472,882	A+
31	Executive Life, NY	1,187,273,871	A+

*Directory of Insurance Companies Licensed in New York State,
January 1, 1983

**Best's Insurance Reports Life-Heath, 1984



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Many companies would not be willing to take more than several million dollars from a single source. Many of the companies have set limits of 5 million dollars. Only the largest companies such as Metropolitan and Prudential feel comfortable taking in 30-40 million for a GIC (Guaranteed Investment Contract). One company, New York Life, will probably go up to 100 million dollars. But there are two factors that affect an insurance company's willingness to take large sums of money. One is the timing of the transaction, since the company might have already received large sums of money for investment and is no longer hungry for funds. The other factor is the investment earnings of the company and its ability or willingness to give a certain guaranteed interest rate. For both of these reasons, it is crucial to have an independent firm monitor these insurance companies and to continually negotiate better investment deals for the State of Alaska based on the change of interest rates and the company's mood.



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THE NEUTRALIZATION OF MARKET DEVALUATION
CAUSED BY SHORT TERM MARKET SWINGS

There are only two types of products that can neutralize market risk or sharp swings in interest rates. One is a short term money market fund comprised of government securities or short term commercial instruments. The other is the type of insurance products that we have developed where the principal and interest are guaranteed. Market value risk is caused by investing in long term fixed income instruments at a certain rate and then having the value of principal decline as interest rates increase. The classic example of this is a bond where the principal value or the market value of the bond is directly affected by swings in interest rates. Stocks and other equity investments are also greatly dependent on market conditions. Commodities such as gold, for example, are probably the riskiest in terms of market swing. To prevent this reduction in principal, investors often choose to insulate themselves by investing only in short term commitments such as money market



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instruments. The cost of this decision is as much as 200 basis points. For instance, during this past week, October 29 - November 2, 1984, money market funds were at 10.6% and Prudential's Guaranteed Investment Contract (GIC) rate was 12.8%. The only exception to this historical relationship between money market and longer term investments such as GIC's was during the Carter Administration when short term rates exceeded long term rates.

Thus, if the State of Alaska continues a policy of short term investment, it will forsake the higher rates of return that can be derived from long term instruments. Yet, the nature of most long term investments is such that an expected swing in interest rates can cause a severe reduction in principal.

It is for these reasons that a specially designed insurance product can act as a perfect vehicle to allow the State of Alaska to enjoy a higher rate of return while not compromising market value security. The insurance company can credit to the



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policy the rate of interest that it is earning based on its long term investments (mortgages, bond, etc.). Due to its financial strength and diversity of investments, the insurance company can insulate its policy holders from market value adjustments that occur on most equity and bond instruments. The insurance company can guarantee principal and interest at rates higher than money market funds.

The advantage of the product that we have designed over traditional insurance company instruments is that the product will be able to follow an upswing in interest rates as a variable interest rate policy, but it will have as a base guarantee the portfolio rate of the company (normally 12%) which is based on the company's overall investment experience.

Also, the advantage of a life insurance policy over a GIC account is that the mortality factor of the policy, which has an initial cost, will eventually create a profit in excess of the GIC rate. Thus,



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when mortality returns are taken into account, it is probable that our insurance policy will have a higher rate of return than an annuity with the same company, all other factors being equal.



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WAYS OF UTILIZING
THE PERMANENT FUND
DIVIDEND TO HELP
FUND THE LONGEVITY BONUS



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HOW A VOLUNTARY DEFERRAL OF THE
PERMANENT FUND DIVIDEND (PFD)
CAN HELP TO FUND THE
ALASKAN LONGEVITY BONUS (ALB)

In the past there has been considerable resistance to having the PFD used to subsidize the ALB in any way, whether it be on a mandatory or voluntary basis. The reasons for this being politically unfeasible or unpopular is clear:

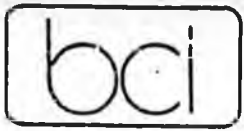
1. The people who really need the PFD and the ALB are the poor and less well-to-do people. They, of course, would not opt for any type of deferral program.

2. Those who are in a higher tax bracket but younger, will not opt to defer if they feel that they might lose their money by leaving Alaska or dying before Age 65. They will choose to take the money now and wait to see about receiving the ALB in the future, if the program is still viable.



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However, an exciting alternative can be developed that will achieve several goals. Our plan would allow everyone to voluntarily defer and to have their money accumulate at 7% tax free and to be paid out in the form of an additional annuity at Age 65 if they remain in Alaska. If they should decide to leave they can apply for their money in a lump sum, but this amount will be the amount of money deferred plus 5% compound interest. The money that they deferred, of course, would be earning a much higher rate of interest under our program, e.g. 12-13%. This excess investment amount would be enough in many cases to help fund the Longevity Bonus for someone who was not as well off and could not afford to defer. Yet, the ability to defer money and earn a substantial rate of return offers an exciting rate of return opportunity for someone even in a low tax bracket. As long as the individual makes his decision prior to receipt of the money and remains an unsecured creditor of the State of Alaska, he should not be taxed on his deferral. The ability to defer money and earn even a 5% tax free rate of return will be



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an inducement to the high bracket tax payer. More importantly, however, the difference in the interest spread will help substantially to defray the costs of the ALB for those who cannot afford to defer. Under this program, no one will be deprived of their PFD deferrals, but the interest-spread on the deferrals will help the State to fund the Longevity Bonus into the future.



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PERMANENT FUND DIVIDEND OPTIONAL
DEFERRAL (BASED ON 12% RATE OF RETURN)

INDIVIDUAL AGE 40
25 YEAR DEFERRAL
\$400 PFD

<u>Deferror</u>		<u>Subsidizes Non Deferror</u>
\$400 at 7% 25 years	Deferred Amount	\$400 at 5% 25 years
\$27,000	Lump Sum	\$20,000
Produces Annuity \$3780 + \$3000 (ALB)	Annuity	Produces Annuity of \$2800 a year for life Almost equal to ALB of \$3,000
<hr/>		<hr/>
\$6,780	Total ALB	\$3000

This illustration does not take into account early deaths.



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ELIMINATING THE PERMANENT FUND
DIVIDEND FOR THOSE RECEIVING THE
LONGEVITY BONUS

The major problems with a PFD deferral annuity supplementing or replacing the Longevity Bonus program are:

1. The poor and needy cannot be expected to defer.
2. Those uncertain that they will stay in the State will take the money and chance losing the ALB.

However, in order to save money, the State can begin by not paying the PFD to those who receive the Longevity Bonus. This is not as great a hardship as it might seem however since the program can be changed from a taxable entitlement to a loan program. This will save everyone substantial dollars. Even a low bracket tax payer will end up in as good or better a position.

Expected: $(400 + 3000) \times .80 = \2720 After Tax*

Proposed: $3000 \times 1.00 = \$3000$ After Tax**

* Assume 20% tax bracket

** No tax due to loan



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Thus, with the introduction of the Longevity Bonus Loan Program, the average Alaskan taxpayer is almost \$300 better off even without receiving the Permanent Fund Dividend check.



CHANGING THE LONGEVITY BONUS TO A LOAN

The current Longevity Bonus is taxable as income when received. There are a number of advantages to redefining the Longevity Bonus from a taxable entitlement payment to a tax free loan. If \$3,000 is paid to 16,000 Alaskan residents and one assumes an average 20% tax bracket, then it is clear that the U.S. Government will receive directly \$9,600,000 of the \$48,000,000 paid out by the State of Alaska. This does not include the money that will reach Washington indirectly when the monies are spent on consumer goods and services.

Some of the benefits of changing the ALB to a Loan Program are the following:

1. A loan is not taxable presently and should not be taxable in the future under the Internal Revenue Code. Even with the new rules on interest free loans, there should not be taxation. Loans offered as assistance to the elderly by a State were not contemplated or included in the interest free loan



legislation. Should they be included at a later date, the loans plus deferred interest can be payable at death.

2. A loan should not be included as a resource for Federal Health Program assistance. If it is, for some strange reason, the person just declines the loan assistance.

3. The loan plus interest is paid back at death so the program is renewable. The payback comes from the tax free insurance proceeds of the specially designed policy that will be insuring each Longevity Bonus recipient.

The proposed Longevity Bonus loan program would not be taxable for the following reasons:

1. The loan interest is deferred, so it is not interest free, but will have the same effect to the participant.

2. Even under the new tax laws for interest free loans, it is the lender in most cases, not the lender who is taxed.

3. It is a fundamental premise of Constitutional Law that the States cannot tax the Federal



Government and that the Federal Government cannot tax the States.

4. The loan debt is not being "forgiven".

Forgiving debt has sometimes been a trigger to income tax liability.

5. The loan is made conditionally on the life insurance coverage which secures the loan as collateral; the loan then becomes payable with interest upon death. The insurance proceeds secure the payment of the debt.

6. The State of Alaska is the owner and beneficiary of the policy so there will be no imputed income tax (P.S. 58 Cost Rev. Rul. 55-747) as occurs with Corporate life insurance programs such as "Split Dollar". (Rev. Rul. 64-328).

We have no doubt that this program is a viable one, but it may behoove the state to have the Longevity Bonus Committee's legal counsel review the idea due to the magnitude of tax savings involved. It would most probably be unwise to get an IRS ruling on this matter as this might prompt Congress to issue new legislation that would in effect thwart this program.



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A SPECIAL COST
RECOVERY PROGRAM
FOR FUNDING THE LONGEVITY BONUS

LONG TERM SOLUTIONS FOR FUNDING
THE ALASKAN LONGEVITY BONUS

The use of a specially designed single premium life policy will allow the State of Alaska to recover all of the benefits and premiums paid under the program as well as help to fund benefits into the future.

The cost of this program on a one time premium basis would be \$233,711,000. The State would continue paying the bonuses from the General Fund for probably 8-9 years. The payback of this program would probably be within 15 but not later than 20 years based on mortality. This would mean that all benefits and the original premium would have been recovered by the State in addition to the cost of money for the program. As an alternative to paying the \$233,711,000 in advance, the State could pay \$55,867,00 a year for 15 years, with similar results. The premium payments can be increased or reduced by the number of people entering or leaving the plan each year.

The funding for these amounts can come from several possible sources:

- A. An appropriation from the General Fund;
- B. A fixed rate loan from the Permanent Fund at 10% interest for example;
- C. An annual addition to the States' General Obligation municipal bond offering at rates of 8-10%.

These proposed alternatives would entail research and investigation by counsel and financial advisors to determine their feasibility.

To the extent that the State of Alaska can arrange for lower interest rates through tax advantageous financing, the numbers and this concept of funding the ALB look that much better. Furthermore, we have only illustrated the cash values here. With 2-3% of the group receiving the ALB dying each year, there will be a higher rate of return to the State of Alaska. For this reason, the State can reasonably expect that their cost of funding the ALB will be less and their gains from this program more.

Also, the reasons for keeping the amount paid on the Longevity Bonus constant rather than factoring in a 3% inflation factor or a factor for an increasing population are the following:

1. If the numbers work for 16,000 people at \$3,000 per person, they will work for 16,500 or 17,000 people and at \$3,100 or \$3,200 per year. All of the numbers and amounts can be handled proportionately. Our firm can monitor the number of people entering and leaving the program and adjust the premium payments accordingly.

2. Offsetting the increase in the number of people entering the plan and the 3% inflation factor is the fact that people will die in

the plan at the rate of 2-3% each year. A death means that money will come into the plan and that money will not be going out to that person. Thus, the expected rate of death should more than compensate for any reasonable population or payment increase.

3. Although there are 16,500 people in the plan, we can assume that 3% or about 500 people will die in the first year of the plan. Rather than inflate the figures by factoring in those 500 early deaths, it is more conservative to just use the 16,000 figure throughout the illustration.

4. In any event, the 3% inflation factor is not a fixed figure and the population increase cannot be precisely known. For that reason, they shall be monitored each year; but they are not significant in understanding the concept that we have developed for funding the Alaskan Longevity Bonus.



benefit concepts

THE PRODUCT

The insurance coverage for the Cost Recovery Program will be provided by a product specially designed for the State of Alaska and this program.

It will be a guaranteed issue product with a fixed amount of coverage and premium for every age. It will have unisex rates, so there will be no discrimination issues or difference between male and female coverage.

The coverage will be provided through a Multiple Employer Trust which will allow for experience ratings (based on unfavorable mortality) and for dividends (good claim experience and better than average investment performance). Like a group program the Multiple Employer Trust will allow coverage to be provided on a group basis without application, without signature, and without medical exam.

The Multiple Employer Trust arrangement is also very easy to file and gain acceptance under state



benefit concepts

insurance regulations. The coverage need not have anything to do with an employer - employee relationships.

The product will be a variation of a Single Premium Whole Life product where one premium payment buys a paid up policy that will have cash value and death benefit increase each year based on a 12% rate of return. The rate of return on death to the State of Alaska will be 12.8%. As funds are reinvested within the plan (that is as death benefits are received, they are reinvested), the rate of return based on early deaths will be in excess of 13%.

The entire program can be funded at once or piecemeal over time; for example over a 10 year period. We recommend that the program be financed up front by borrowing money where the state pays a lower interest rate than is being credited to the State's insurance policy. Alaska can probably "borrow" money at 10% by issuing commercial paper.



benefit concepts

The death benefit is level for the first 5 years to qualify the product as an insurance product under the new regulations which define the "corridors" that must be maintained between cash value amounts and death benefit.



benefit concepts

THE APPLICATION PROCESS

AND

UNDERWRITING

There will be no formal application for insurance and coverage will be offered on a guaranteed issue basis. By applying for the Longevity Bonus a person will become registered automatically for this insurance coverage. This process does not violate any of the insurable interest provisions found in most state's insurance statutes.

Once an individual begins receiving the bonus, he or she will be covered automatically. The insurance company will charge a premium and offer coverage based on that person's age and a pre-arranged optimum amount of insurance based on interest assumptions and actuarial factors such as life expectancy.

Deaths will be recorded each month by having each town forward a list of deaths to the State Department of Vital Statistics or similar



benefit concepts

agency. Based on that record, the Insurance companies will pay the death claim immediately. Since there will be a set premium and claim amount for each age, the record keeping would resemble the following:

<u>Age</u>	<u>Insured</u>	<u>Premium Due</u>	<u>Deaths</u>	<u>Insurance Proceeds Received</u>
65	2,000	\$4,000,000	150	\$4,500,000
66	1,500	\$3,000,000	200	\$6,000,000
67	1,700	\$3,400,000	250	\$7,500,000

In other words, the numbers of those covered and dying are of greater importance than keeping records on individual people as would be necessary with individual policies.

Also, some people can be expected to leave Alaska after receiving the bonus, the coverage on these people can be shifted to other lives with no administrative problems at all. There would be no loss of premium, and the bonus paid out on the individual who left can be recovered.



IF SOMEONE LEAVES THE STATE

There is no penalty in this program to the State if someone leaves since the coverage on their life can be shifted to the other individuals in that age group without any administrative problems. The amount of coverage in force on that person who leaves is allocated equally as a percentage amongst the members of his age bracket that are remaining. It is, in practice, a "tontine effect" whereby if everyone left the program, all of the insurance would come down to one person. If that person left, the State of Alaska could transfer the coverage to individuals in other age brackets or it could surrender the policy for its cash value.

Example:

Age 65; 10 people in program @ \$30,000 = \$300,000

Age 70; 5 people remain @ \$60,000 = \$300,000

Age 75; 1 person remains @ \$300,000 = \$300,000

Not factored in the above is that the death benefit on the group as a whole will always be increasing and, of course, there will be deaths occurring.



benefit concepts

FUNDING THE ALASKAN LONGEVITY BONUS

10% COST OF MONEY

	<u>20 Year Program</u>
Initial Premium	233,711
Longevity Bonuses Paid Out	960,000
Bond Interest At 10%	467,422
Bond Principal	233,711
Cash Value Amount At Maturity	2,254,445
Total Costs to State of Alaska	1,661,133
Net Gain to State	593,312
Annual Income From Gain	71,197

(All figures in thousands--000 eliminated)

SINGLE PREMIUM MODIFIED WHOLE LIFE
 PREPARED FOR ALASKAN LONGEVITY BONUS PROGRAM
 16,500 INDIVIDUALS
 \$233,711 SINGLE PREMIUM
 000'S OMITTED

ISSUE AGE 65
 DECLARED INTEREST RATE ON UNBORROWED MONEY 12.00%

POLICY YEAR	ATT AGE	BEFORE LOAN				AFTER LOAN			RATE OF RETURN	
		CASH ACCUMULATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT	LOAN BALANCE	CASH ACCUMULATION VALUE	CASH SURRENDER VALUE	DEATH BENEFIT	e DEATH	e SURRENDER
1	65	261,756	261,756	495,000	0	261,756	261,756	495,000	111.80%	12.00%
2	66	293,167	293,167	495,000	0	293,167	293,167	495,000	45.54%	12.01%
3	67	328,347	328,347	495,000	0	328,347	328,347	495,000	28.43%	12.00%
4	68	367,748	367,749	495,000	0	367,748	367,749	495,000	20.64%	12.00%
5	69	411,878	411,879	495,000	0	411,878	411,879	495,000	16.19%	12.00%
6	70	461,304	461,304	530,500	0	461,304	461,304	530,500	14.64%	12.00%
7	71	516,660	516,661	583,827	0	516,660	516,661	583,827	13.97%	12.00%
8	72	578,659	578,660	642,313	0	578,659	578,660	642,313	13.47%	12.00%
9	73	648,099	648,099	706,428	0	648,099	648,099	706,428	13.08%	12.01%
10	74	725,871	725,871	776,682	0	725,871	725,871	776,682	12.77%	12.01%
11	75	812,975	812,976	853,625	0	812,975	812,976	853,625	12.50%	12.00%
12	76	910,532	910,533	956,060	0	910,532	910,533	956,060	12.46%	12.00%
13	77	1,019,796	1,019,797	1,070,787	0	1,019,796	1,019,797	1,070,787	12.42%	12.00%
14	78	1,142,172	1,142,172	1,199,281	0	1,142,172	1,142,172	1,199,281	12.39%	12.00%
15	79	1,279,232	1,279,233	1,343,195	0	1,279,232	1,279,233	1,343,195	12.37%	12.00%
16	80	1,432,740	1,432,741	1,504,378	0	1,432,740	1,432,741	1,504,378	12.34%	12.00%
17	81	1,604,669	1,604,670	1,684,904	0	1,604,669	1,604,670	1,684,904	12.32%	12.00%
18	82	1,797,229	1,797,230	1,887,092	0	1,797,229	1,797,230	1,887,092	12.30%	12.00%
19	83	2,012,897	2,012,898	2,113,543	0	2,012,897	2,012,898	2,113,543	12.29%	12.00%
20	84	2,254,445	2,254,445	2,367,167	0	2,254,445	2,254,445	2,367,167	12.27%	12.00%
21	85	2,524,978	2,524,979	2,651,228	0	2,524,978	2,524,979	2,651,228	12.26%	12.00%
22	86	2,827,976	2,827,976	2,969,375	0	2,827,976	2,827,976	2,969,375	12.25%	12.00%
23	87	3,167,333	3,167,333	3,325,700	0	3,167,333	3,167,333	3,325,700	12.24%	12.00%
24	88	3,547,413	3,547,413	3,724,784	0	3,547,413	3,547,413	3,724,784	12.23%	12.00%
25	89	3,973,102	3,973,103	4,171,758	0	3,973,102	3,973,103	4,171,758	12.22%	12.00%
26	90	4,449,875	4,449,875	4,672,369	0	4,449,875	4,449,875	4,672,369	12.21%	12.00%
27	91	4,983,860	4,983,860	5,183,214	0	4,983,860	4,983,860	5,183,214	12.16%	12.00%
28	92	5,581,923	5,581,923	5,749,381	0	5,581,923	5,581,923	5,749,381	12.12%	12.00%
29	93	6,251,754	6,251,754	6,376,789	0	6,251,754	6,251,754	6,376,789	12.08%	12.00%
30	94	7,001,964	7,001,965	7,071,985	0	7,001,964	7,001,965	7,071,985	12.04%	12.00%
31	95	7,842,200	7,842,201	7,842,201	0	7,842,200	7,842,201	7,842,201	12.00%	12.00%
32	96	8,783,264	8,783,265	8,783,265	0	8,783,264	8,783,265	8,783,265	12.00%	12.00%
33	97	9,837,256	9,837,256	9,837,256	0	9,837,256	9,837,256	9,837,256	12.00%	12.00%
34	98	11,017,727	11,017,727	11,017,727	0	11,017,727	11,017,727	11,017,727	12.00%	12.00%
35	99	12,339,854	12,339,854	12,339,854	0	12,339,854	12,339,854	12,339,854	12.00%	12.00%

WEIGHTED AVERAGE RATE OF RETURN AT DEATH 12.60%

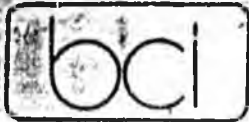


benefit concepts

SAMPLE MORTALITY STUDY*

<u>AGE</u>	<u>DEAD</u>	<u>ALIVE</u>
65	511	15,989
66	543	15,446
67	586	14,860
68	609	14,251
69	641	13,610
70	666	12,944
71	698	12,246
72	710	11,536
73	726	10,810
74	735	10,075
75	735	9,340
76	737	8,603
77	731	7,872
78	732	7,140
79	721	6,419
80	699	5,720
81	680	5,040
82	650	4,390
83	610	3,780
84	567	3,213
85	517	2,696
86	463	2,233
87	413	1,820
88	360	1,460
89	309	1,151
90	262	889
91	217	672
92	178	494
93	142	352
94	111	241
95	84	157
96	62	95
97	46	49
98	33	16
99	16	0

*BASED ON ESTIMATES FROM COMMISSIONER'S 1958 STANDARD ORDINARY (CSO) MORTALITY TABLE



benefit concepts

PREPARED FOR:

THE ALASKAN LONGEVITY BONUS COMMITTEE

Prepared by:

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Benefit Concepts, Inc.

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Kidder, Peabody & Co.

December 3, 1984



Use of the Permanent Fund Dividend Annuity to Fund the Cost Recovery Plan of the Longevity Bonus Program.

In reviewing most of the suggestions and proposals that have already been made to the Longevity Bonus Committee, it has become clear to us that some form of annuity program will probably be adopted. Also clear are the problems caused by the deferral element of the proposed annuity programs:

1. The tax problem of constructive receipt.
2. The inability of poorer Alaskan residents to defer their Permanent Fund Dividend.

Our program, as outlined by our previous study, allowed for both programs, the ALB and the PFD, to continue in their present form, but only if we could fund the Cost Recovery Insurance Program. To be able to fund both programs in the face of declining oil revenues would certainly be attractive, but is it possible? And if it is possible, what effect will it have on the poor and on the future budget of the State of Alaska?

We have tailored the Cost Recovery Program so that it will now be based on a small outlay every year for several years rather than one up front outlay. Instead of \$233,000,000 in one lump sum, we could have the State of Alaska pay \$44,000,000 for 30 years. This amount would also include the expected increase in the future Alaskan population.

Although this may seem to be a substantial expenditure, it is not if one considers that it will allow the State to recover all payments plus make a profit. The funding of the program can now come from the voluntary, not mandatory, deferral of the Permanent Fund Dividend, so that it will not encumber the Permanent Fund itself or burden the legislature's budget. More importantly, however, it will not handicap the poor by forcing them to defer money that they cannot spare, nor force them to lose either their PFD or ALB, because the State runs out of oil revenues in the future.

It has also been proposed that to deal with the constructive receipt issue under the tax law that the PFD be recharacterized as an annuity credit and that some amount of "seed money" be added in the form of an annuity fund.



benefit concepts

By doing this, in the opinion of counsel, the State will be able to allow its residents to defer receipt of the money without taxation even though they had the opportunity to receive it (constructive receipt). The recommended amount of pre-funding for the annuity program was approximately \$50,000,000. Thus, the State would ante up \$50,000,000 in addition to whatever was to be distributed as a Permanent Fund Dividend. However, those people asking for their PFD in cash would lose the benefit of the annuity program and the additional "seed money". The annuity program would be an amount in excess of the Alaskan Longevity Bonus. Those who did not defer their PFD would receive their dividend in cash as well as their ALB at age 65. Those who deferred their PFD now would receive a much greater ALB at retirement.

Since the State is already adding funds to the Annuity Deferral program and since the ability to defer and have one's deferrals accumulate tax free is a tremendous benefit, there is no need to promise more than a 7-8% rate of return on the deferred amounts to have a significant number of people deferring. The savings option for most people would be a 5½% bank account or 9% money market fund, both of which are taxable and would net a rate of return of less than 7%. Under our proposed program they would preserve the full amount of their PFD and have it accumulate at 7% tax free. This would be a better option for everyone that could afford to defer. Those who could not afford to defer would not be deprived of their PFD or ALB at any time, even if the oil revenues began to decline. This is due to the Cost Recovery Plan's ability to fund the ALB, the premiums for the Cost Recovery Plan, and the payment of interest on the source of funds--which in this case could be the PFD deferrals.

The PFD deferrals could amount to over \$50,000,000 a year used on 20% of the population deferring their portion of the \$250,000,000 that is to be paid out in Permanent Fund Dividends. This \$50,000,000 in deferrals every year could be the perfect funding source for the Cost Recovery Plan. And since the Cost Recovery Plan will be a safe investment with a high rate of return, and the PFD deferrals will be paid as increased ALBs (Longevity Bonuses), the Cost Recovery Plan is a good place to invest the deferrals until they are paid out in the future. Most important, however, is that by utilizing this approach both the PFD and the ALB can be maintained for years to come in their present format.

Benefits Concepts

Kearse 1/10/91

12-3184

ALASKAN LONGEVITY BONUS PROGRAM

(CUMULATIVE)
PRESENT VALUE @ 0.002

	PRES VAL OF OUTLAY	CASH VALUE	NET DEATH BENEFIT	EXPECTED NET DEATH BENEFIT	BENEFIT COSTS	GAIN	BAL. SHEET AFTER BENEFIT
1983	177,655	188,466	13,188	13,187	0	23,997	23,996
1986	184,511	206,862	27,623	27,623	2	49,754	69,752
1987	188,167	222,397	43,255	43,252	0	77,463	77,463
1988	195,743	242,303	60,277	60,275	0	105,842	136,842
1989	196,203	258,057	79,127	79,125	0	138,981	136,930
1990	205,149	281,416	100,644	100,645	0	174,113	174,112
1991	203,340	296,127	125,394	125,392	1	213,161	213,130
1992	213,010	320,097	153,451	153,453	0	255,538	255,538
1993	216,491	334,345	184,930	184,930	-0	302,755	302,755
1994	227,955	361,112	220,652	220,455	94,196	353,809	259,612
1995	227,145	378,237	260,737	65,835	194,918	411,949	217,030
1996	250,646	419,407	307,351	5,401	301,959	476,162	174,233
1997	254,202	443,066	359,855	-35,134	414,989	548,719	153,729
1998	280,941	489,240	420,916	-113,921	534,837	629,215	94,377
1999	285,913	516,371	489,972	-171,550	651,546	720,854	59,308
2000	315,569	568,156	570,463	-225,167	795,652	823,030	27,377
2001	319,193	597,473	601,470	-276,057	937,463	939,584	2,220
2002	352,819	655,422	767,112	-320,435	1,057,530	1,069,713	-17,835
2003	357,330	688,927	856,076	-360,372	1,246,448	1,217,673	-28,774
2004	394,944	753,542	1,023,671	-391,073	1,414,744	1,362,269	-52,474
2005	435,947	822,911	1,182,769	-411,225	1,594,015	1,569,753	-24,262
2006	479,962	895,590	1,366,564	-419,201	1,755,735	1,783,192	-2,573
2007	524,145	971,350	1,577,562	-412,846	1,970,436	2,024,767	34,331
2008	575,224	1,054,163	1,820,977	-380,277	2,211,254	2,299,941	66,687
2009	628,100	1,140,130	2,100,639	-346,716	2,445,353	2,612,869	163,315
2010	681,037	1,226,548	2,420,929	-284,815	2,705,747	2,969,440	260,693
2011	733,697	1,313,277	2,766,052	-194,020	2,930,052	3,365,642	335,369
2012	800,509	1,415,499	3,209,243	-70,604	3,230,047	3,824,233	564,185
2013	801,133	1,447,653	3,664,353	92,432	3,571,950	4,310,898	738,948
2014	801,631	1,475,217	4,157,092	301,974	3,855,117	4,830,680	975,562
2015	802,002	1,497,506	4,694,355	565,454	4,128,930	5,389,859	1,289,939
2016	802,266	1,514,272	5,286,707	896,032	4,392,674	5,000,713	1,608,039
2017	802,441	1,525,711	5,935,775	1,319,916	4,645,858	6,689,045	2,043,287
2018	802,539	1,532,754	6,790,354	1,902,451	4,887,902	7,520,567	2,632,665
2019	802,579	1,597,883	7,869,716	2,751,393	5,112,322	8,665,020	3,550,697

ALASKAN LONGEVITY BONDS PROGRAM

(DOLLARS OMITTED)

YEAR	AFTER CASH VALUE	LOAN FACE AMT	EXPECTED ACCUM. GAIN	ALASKAN BENEFIT PAYABLE	EXPECTED NET DEATH BENEFIT TO STATE	GAIN/LOSS B DEATH	EXPECTED GAIN/LOSS & DEATH	TOTAL PAYOUT	401: OF REV. JRM. & DEATH
1985	155,464	338,532	13,187	0	13,167	351,723	12,167	177,655	-92.6%
1986	206,642	357,724	27,620	0	27,623	372,043	16,435	184,511	-59.7%
1987	222,397	371,715	43,252	0	43,252	385,972	15,631	185,167	-49.7%
1988	242,332	347,371	60,276	0	60,275	403,589	17,024	195,743	-37.0%
1989	258,057	404,225	79,126	0	79,125	421,605	18,649	193,203	-25.6%
1990	281,416	438,122	100,645	0	100,645	457,645	21,716	205,149	-19.2%
1991	296,127	453,225	125,392	0	125,392	466,216	24,547	203,343	-11.7%
1992	320,097	496,625	153,450	0	153,452	517,703	26,056	215,313	-7.7%
1993	334,346	521,218	164,930	0	186,903	543,902	31,649	215,461	-3.1%
1994	361,112	556,975	220,652	94,197	125,455	489,715	29,103	227,755	-6.6%
1995	378,337	585,817	260,756	196,826	65,835	513,713	32,713	227,143	2.3%
1996	419,447	636,638	307,359	301,637	5,401	561,613	36,394	250,645	3.5%
1997	443,066	657,777	359,832	414,325	-55,134	583,993	43,397	256,262	5.5%
1998	459,240	723,574	420,917	533,565	-113,921	641,761	50,932	283,741	6.5%
1999	516,371	759,156	439,997	659,543	-171,553	672,677	57,651	265,595	6.0%
2000	568,156	820,267	570,485	792,392	-225,169	733,534	67,651	315,587	8.9%
2001	597,473	856,758	651,439	932,319	-275,057	763,173	76,453	319,195	10.0%
2002	655,422	926,075	767,114	1,038,395	-323,439	825,933	89,350	352,577	10.7%
2003	668,927	958,831	866,677	1,236,498	-363,372	862,633	100,430	357,333	11.6%
2004	753,542	1,042,967	1,023,672	1,431,442	-393,073	932,317	116,614	390,746	12.2%
2005	822,911	1,124,451	1,152,789	1,576,643	-411,225	1,004,517	135,241	435,947	12.7%
2006	896,590	1,212,355	1,366,584	1,763,753	-419,231	1,091,713	156,510	479,982	13.2%
2007	971,350	1,299,656	1,577,554	1,943,339	-412,344	1,173,663	179,876	524,143	13.7%
2008	1,054,158	1,421,739	1,820,975	2,175,244	-393,277	1,267,536	207,553	575,226	14.1%
2009	1,140,136	1,506,421	2,100,842	2,457,967	-345,716	1,363,207	236,504	623,103	14.5%
2010	1,226,546	1,609,271	2,420,932	2,652,521	-284,913	1,457,085	272,493	661,037	14.8%
2011	1,313,277	1,710,135	2,786,066	2,922,898	-194,023	1,549,239	310,447	733,697	15.1%
2012	1,415,499	1,840,925	3,209,250	3,210,508	-73,804	1,663,313	358,802	803,507	15.4%
2013	1,447,653	1,823,412	3,604,390	3,428,037	92,432	1,662,913	387,361	801,133	15.8%
2014	1,475,219	1,837,763	4,157,079	3,753,259	301,974	1,663,533	421,190	801,531	16.0%
2015	1,497,536	1,793,639	4,694,360	4,053,235	565,454	1,663,741	461,575	802,002	16.2%
2016	1,514,272	1,751,416	5,268,713	4,235,406	693,032	1,672,458	513,666	802,265	16.4%
2017	1,525,711	1,772,277	5,965,730	4,462,265	1,319,916	1,681,424	588,513	802,441	16.6%
2018	1,532,754	1,754,312	6,790,360	4,664,973	1,902,451	1,693,583	721,330	802,537	16.8%
2019	1,597,833	1,853,811	7,859,721	4,851,485	2,751,393	1,693,156	850,231	802,577	17.0%

ALABAMA LONGEVITY BONUS PROGRAM

AL43-1001

PROGRAM SUMMARY
(33)

1960 & 1965 BASIC GROUP TABLE

YEAR	CASH VALUE	BEFORE LOAN ANNUAL PREMIUM	FACE AMT	POLICY LOAN	POLICY LOAN INTEREST	LOAN REPAYMENT DUE TO DEATH	END OF FP LOAN BALANCE	NET DEATH BEN TO STATE
1985	188,465	177,653	338,532	0	0	0	0	13,188
1986	223,545	22,533	376,830	17,838	1,986	737	16,906	14,635
1987	260,986	23,256	410,324	23,432	4,015	1,747	32,567	15,533
1988	300,376	23,509	443,437	22,237	6,573	2,355	50,369	17,324
1989	342,775	24,993	458,941	31,056	8,945	4,627	86,718	18,353
TOTALS		273,375		90,463	21,539	9,747		
1990	367,719	26,013	544,429	27,534	12,113	5,793	105,306	21,719
1991	433,485	25,523	630,535	39,290	14,743	8,240	137,358	24,548
1992	490,350	25,463	656,828	33,244	18,451	10,403	160,206	25,357
1993	529,702	27,113	716,574	48,644	21,290	13,493	193,353	31,449
1994	579,510	26,848	775,390	37,327	23,546	16,281	218,400	33,752
TOTALS		403,056		282,552	113,592	64,162		
1995	634,884	24,576	847,350	52,425	30,142	20,329	256,546	43,105
1996	690,059	28,761	937,259	37,151	34,263	23,273	270,524	46,554
1997	746,345	27,682	969,056	57,933	38,595	27,328	301,279	52,494
1998	801,121	30,172	1,035,456	41,137	40,871	30,536	311,362	61,361
1999	857,434	30,006	1,100,246	64,939	42,948	33,730	341,362	69,080
TOTALS		547,335		542,217	295,531	201,165		
2000	914,602	31,536	1,166,713	44,710	47,278	39,323	346,446	80,487
2001	971,496	32,212	1,232,762	73,140	48,957	45,565	374,022	90,223
2002	1,028,364	33,417	1,299,016	69,166	53,346	49,245	372,940	103,706
2003	1,054,906	34,555	1,364,855	79,170	54,529	56,155	395,972	116,764
2004	1,140,885	35,739	1,430,259	50,816	56,632	59,436	387,344	137,593
TOTALS		716,765		833,235	561,323	450,291		
2005	1,198,090	39,205	1,500,239	50,751	56,905	62,314	375,779	159,115
2006	1,257,962	42,356	1,573,726	50,227	56,722	64,733	361,372	183,755
2007	1,315,633	42,622	1,644,134	49,526	58,115	66,517	344,261	210,978
2008	1,378,872	49,662	1,726,423	48,330	57,065	67,235	324,664	243,415
2009	1,443,446	51,629	1,809,740	46,796	55,580	68,150	302,522	279,662
TOTALS		942,261		1,083,942	849,710	781,120		
2010	1,506,049	51,854	1,886,773	44,750	53,534	62,302	278,913	320,090
2011	1,567,519	51,735	1,964,426	42,479	51,116	67,359	253,575	365,133
2012	1,643,338	66,040	2,068,765	39,904	46,349	65,835	227,122	423,181
2013	1,646,350	0	2,024,140	37,071	45,286	63,754	199,897	453,140
2014	1,646,536	0	1,991,050	34,056	41,956	61,243	172,281	492,709
TOTALS		1,111,890		1,282,282	1,089,951	1,107,615		
2015	1,643,412	0	1,939,596	30,927	36,396	57,623	144,772	537,263
2016	1,633,161	0	1,900,305	27,698	34,711	53,372	117,709	594,352
2017	1,618,136	0	1,864,723	24,447	30,967	50,269	60,961	577,068
2018	1,597,618	0	1,829,174	21,212	27,172	47,730	63,294	324,579
2019	1,769,786	0	2,005,712	18,076	23,449	44,922	35,219	1,379,362
TOTALS		1,111,990		1,404,662	1,244,543	1,361,534		

JAN 1 1 1985

THE USE OF A SINGLE PREMIUM WHOLE LIFE
CONTRACT FOR FUNDING THE STATE OF ALASKA
LONGEVITY BONUS PROGRAM

PURPOSE OF THE REPORT

The purpose of this report is to present the benefits of using a specially designed single premium whole life product to fund the State of Alaska's obligations under the Longevity Bonus Program. This report will discuss the probable policy provisions and investment rates of return that can be guaranteed as well as show the types of products that currently exist. In addition, this report will discuss the significant changes in the statutory, regulatory and investment climates that will impact this product and how these changes will affect the product's viability in funding the Longevity Bonus Program.

Our goal has been to create a product that will provide the State with a secure high rate of return investment that will allow the Longevity Bonus to continue without a severe drain on economic resources in the face of declining oil revenues. Our conclusions are that the funding of the program with a Single Premium Whole Life program will save the State millions of dollars over such funding alternatives as Guaranteed Investment contracts, Government Securities, or Corporate Investments. The Single Premium Life Plan (SPL) will provide the highest rate of return, with a high degree of security, and the most flexibility and liquidity.

There is no doubt that the long term commitment to the Longevity Bonus Program is an expensive one, but whatever the ultimate cost is, the best means for funding that cost will be a Single Premium Whole Life Policy issued on a group basis.

STATUS OF THE PROJECT

Since our last presentation in December there have been three significant events that have impacted greatly on the original product design that we contemplated in the late summer and fall:

- (1) The precipitous decline of interest rates to the surprise of the nation's leading economists.
- (2) The Washington meeting of the National Association of Insurance Commissioners to discuss the Sarnoff proposals.
- (3) The earthshattering Treasury Proposals for changing the tax code, which will affect virtually every industry, including the insurance industry.

When we first began our original design of the program, the financial advisors and economists felt very confident in promising a long term guarantee of 12 - 13% while accruing a profit of 50 - 100 basis points for the insurance company.

This would certainly be attractive for the State on a long term basis as well as the insurance companies involved. However, as can be seen from the enclosed Wall Street Journal article, the nation's leading economists and financial forecasters are singing a different tune. Indeed, it now appears very unlikely that any major institution will commit itself to a long term interest rate guarantee when all of the nation's leading economists were so far off the mark. This article and others like it has had an incredible chilling effect on what major financial institutions and especially insurance companies are willing to commit to on a long term basis. This was definitely not the case even several months ago.

To compensate for this, we are now being overly conservative in our projection of guarantees; though we believe that, ultimately, the product will perform at a higher rate of return due to excess interest credits and/or mortality experience credits. Also, as will be discussed

Outlook for the Year

Interest Rates to Rise in '85 as Economy Emerges From Doldrums, According to Poll of Economists

By TOM HERMAN
And EDWARD P. FULDESKY

Staff Reporters of THE WALL STREET JOURNAL

NEW YORK—After a sharp drop in the past seven months, interest rates will rise in 1985 as the economy snaps out of the doldrums.

That, at least, is the outlook that emerges from a survey of 24 economists by The Wall Street Journal. Some expect further small declines in the next few weeks, but most expect rates to be higher at year-end than at midyear.

Only a few analysts foresee big changes, either up or down. Most predict that short-term rates will rise more than long-term rates, and that the yield on 30-year Treasury bonds will wind up the year within a percentage point of Monday's close of 11.53%.

Many forecasters say they are approaching 1985 with much less confidence than before. That's certainly understandable in view of their 1984 records. One year ago, most experts were predicting that rates would drop in the first half of 1984 and then bounce back later in the year. Rates promptly soared. By midyear, the conventional wisdom had changed. In a survey in late June, most of the 24 economists predicted that rates would increase because of the economy's torrid growth. Rates quickly tumbled.

"Of all the biblical teachings, the one that remains the most appropriate for interest-rate forecasters is humility," says Francis Schott, senior vice president of Equitable Life Assurance Society of the U.S.

White House's Record

Few of the experts came close to the forecasting record rung up over the past six months by two figures better known for their political expertise: President Reagan and Treasury Secretary Donald Regan.

In June, despite widespread gloom on Wall Street, the White House said Mr. Reagan was sticking with his forecast of lower rates for 1984's second half. The president didn't say how much lower. Mr. Regan, whose disdain for Wall Street forecasts dates back to his days as head of Merrill Lynch & Co., predicted in June that rates would "shade down" over the coming months as economic growth slowed—which it did.

White House officials naturally are pleased. "In many ways, they (Messrs. Reagan and Regan) are more realistic" than Wall Streeters, said Marlin Fitzwater, White House deputy press secretary. "Wall Street people take such a short-term view of everything."

Recession Seen by Some

Right or wrong, Wall Streeters last year spent a lot of time worrying. In the first half, many experts warned that the economy was growing too rapidly, that it was in danger of "overheating," and that inflation would surge. Lately, some experts worry that the economy has slowed too much, that

A Sampling of Interest-Rate Forecasts

(In percent)

	JUNE SURVEY		NEW FORECASTS			
	3-MONTH TREASURY BILLS 12/31/84	30-YEAR TREASURY BONDS 12/31/84	BILLS		BONDS	
			6/30 - 12/31/85	6/30	12/31/85	
Paul Boltz, T. Rowe Price	11.50	14.13	9.00	11.50	11.75	13.50
Philip Braverman, Briggs Schaedle	12.00	14.75	8.00	9.25	11.00	12.00
Kathleen Cooper, Security Pacific	10.75	14.25	8.00	9.25	11.25	12.00
William Gibson, RepublicBank	10.50	14.00	8.80	9.80	11.50	11.60
Robert Giordano, Goldman Sachs	10.50	13.50	8.50	10.00	11.50	12.50
Alan Greenspan	10.75	14.05	8.00	9.00	11.00	11.60
Richard Hoey, Drexel Burnham	10.00	12.75	9.25	10.00	12.25	12.75
Timothy Howard, FNMA	10.50	13.75	8.00	9.25	11.00	12.00
Lacy Hunt, Carroll McEntee	11.10	14.60	9.65	10.80	13.10	14.00
Edward Hyman, C.J. Lawrence	8.50	11.00	7.50	7.50	10.50	10.50
David Jones, A.G. Janston	11.50	14.50	9.00	8.00	11.50	10.50
Alan Lerner, Bankers Trust Co.	11.38	14.50	8.25	9.00	11.65	12.00
Irwin Kellner, Manufacturers Hanover	N.A.	N.A.	8.15	8.85	11.00	11.30
Bernard Markstein III, Chase Econometrics	N.A.	N.A.	8.80	9.90	11.50	12.00
William Melton, IDS	9.60	12.90	10.60	8.60	12.60	10.70
A.X. Moskowitz, Dean Witter	9.50	12.50	10.20	9.60	13.25	12.50
Lelf Olsen, Citibank	10.65	14.35	10.25	10.50	12.50	13.50
David Resler, First Chicago	10.50	14.10	8.50	8.75	11.75	11.75
Norman Robertson, Mellon Bank	11.00	14.10	8.40	9.80	11.90	12.40
Francis Schott, Equitable Life	10.50	14.00	8.00	8.75	12.00	12.50
A. Gary Shilling	10.00	13.00	6.50	5.50	10.00	8.00
Allen Sinai, Shearson Lehman	11.20	14.00	9.25	9.25	12.25	12.00
John Wilson, Bank of America	11.25	14.40	7.50	9.00	11.00	11.50
David Wynn, Data Resources	10.90	14.00	7.30	8.50	10.60	10.70
Average	10.64	13.78	8.56	9.18	11.60	11.83
Closing rates, Dec. 31, 1984	7.84	11.53				

N.A. = Not available because these economists weren't polled in last June's survey

of the economic recovery. Still, Mr. Hyman adds: "If you took my advice and bought bonds at the beginning of 1984, you would have done very well this year."

Short-Term Rates

The two economists who came up with the most accurate predictions for the first half were less fortunate in the second half. Lacy Hunt of Carroll McEntee & McGinney Inc. and Robert Giordano of Goldman, Sachs & Co. came remarkably close with their forecasts of short-term rates in the first half. But both, especially Mr. Hunt, were too pessimistic about the second half.

The most pessimistic forecast last June came from Philip Braverman, chief economist of Briggs Schaedle & Co. He predicted that 30-year Treasury bonds by year-end would yield 14.75%, which is about 3.25 percentage points off the mark.

Mr. Braverman said his interest-rate forecast went astray when business activity suddenly turned soft last summer. "The

down from 102 1/8 last Friday. That boosted the yield to 11.53% from 11.49%. The government's 11 3/4% notes due 1994 closed at 100 19/32, down from 100 29/32, raising the yield to 11.52% from 11.47%.

Today, the Treasury is planning to sell about \$5.75 billion of new seven-year notes. It plans tomorrow to sell \$4.25 billion of new 19-year, 10-month bonds.

Interest rates on short-term Treasury bills were little changed. The latest 13-week bill closed at 7.84% bid, down slightly from an average of 7.86% set at an auction last Friday. The latest 26-week bill closed at 8.19% bid, the same as the auction average.

Credit markets were closed yesterday for the New Year's Day holiday.

If so many experts were so badly fooled by interest rates last year, why bother forecasting at all? "The answer is that virtually every decision that a businessman makes presupposes a forecast," replies Alan Greenspan, a frequent adviser to the Reagan administration. "There is no way to

later, whatever the long term interest rate performance happens to be, it is the intention of the design of this product to produce the highest rate of return.

While interest rates were declining, another problem arose in December for the insurance industry, and that was the new surplus and reserve requirements proposed by Paul Sarnoff, an actuary at Prudential Life and John Montgomery, the Insurance Commissioner of the State of California. These proposals, which are designed to make the promise of high rates of return by under-capitalized insurance companies impossible (this is a fear in California after the Baldwin-United collapse, since California has a preponderance of young, undercapitalized, and aggressive companies), will, unfortunately, also effect the reserves and surplus accounting of the major insurance carriers, which would be the candidates for writing the Alaskan Longevity Bonus Program. Insurance carriers are petrified of surplus drain and the Sarnoff proposals would cause carriers to set aside substantial sums in reserve for any guaranteed products such as GIC's (Guaranteed Issue Contracts) or annuities. Depending on the outcome of the Sarnoff proposals at the next meeting of the NAIC (National Association of Insurance Commissioners), it may cause many carriers to shy away from handling the large GIC type case

(\$5,000,000 plus in premium) because of the surplus drain, which would leave only a handful of carriers like Prudential, Metropolitan, Equitable, and New York Life that could handle the Alaskan program.

And as if that was not bad enough, Secretary of the Treasury Donald Regan left his farewell gift to the business community in the form of the most comprehensive recommendations for change ever written by the Treasury Department. The three volume work has recommendations for tax changes that affect every aspect of the current taxation of insurance companies. Though most of these recommended changes will not go through, and those that are passed will probably not affect the State of Alaska, these Treasury recommendations are just one more factor that will tend to keep the insurance industry from making any long term, high interest rate guarantees.

Despite this general predicament we still have a few substantial companies that are willing to give high guarantees that will allow the State of Alaska to fund the Longevity Bonus Program with substantial savings due to a higher rate of return, and we should still be able to achieve a 12% rate of return for the entire program.

Even more important is the fact that whatever the interest rate guarantees, the SPL policy will out perform GIC's, Government Securities, and Corporate investments of the same duration, while providing the State with investment security from market value adjustments.

WHY USE SINGLE PREMIUM LIFE

The Insurance Industry as a whole has the unique ability to structure its investment performance in the form of guarantees. Insurance companies can utilize mortgages and private placements as investments that Wall Street investment firms do not have access to or would not work with because the companies and deals are too small. In this way, the Insurance Industry can provide a higher rate of return than corporate bonds or government securities.

Normally, an Insurance Company would write an investment contract as a GIC (Guaranteed Investment Contract), but GIC's are used exclusively for qualified plans (e.g. Pension Plans). To use a GIC for non-qualified plans, such

as the State of Alaska Longevity Bonus Program, would cause severe IRS, SEC, and State Insurance Department regulatory problems for the insurance companies.

In order to allow the State of Alaska to enjoy the benefits of the high rate of return promised by the Insurance Industry without the disadvantages normally associated with GIC's and Government Bonds, we have developed a special type of group single premium Whole Life policy that will allow the State of Alaska full flexibility and liquidity with no market value adjustment risks (as with bonds). In addition because of the tax breaks given to insurance companies on insurance policies (but not GIC's) the rate of return enjoyed by the State will be higher than corresponding durations of bonds, Government Securities, or GIC's.

However, should there be a period of economic uncertainty and high interest rates, the principal value of the Single Premium Life plan will not decrease as will the value of bonds, Government Securities, or a GIC because of market value adjustments.

ANALYSIS OF RATES OF RETURN

	<u>GIC</u>	<u>Change</u>	<u>SPL</u>	<u>Change</u>
Underlying Investment Rate	12.50%		12.50%	
Premium Tax	12.50	0	12.25	- .25
10 Year Guarantee	12.00	- .50	12.25	0
Tax Write-Off	12.25	+ .25	14.25	+2.00
Cost of Insurance Corridor	12.25	0	13.50	- .75
Insurance Supplement To Yield	12.25	0	14.25	+ .75
Total Effective Yield	12.25		14.25	

SPL PRODUCTS AVAILABLE

Currently, some 15-20 insurance companies have started to offer single premium whole life products. The only company in our original consortium of the largest New York licensed companies that currently offers a SPL product is Executive Life. We do have a commitment from the major companies, however, that they will offer this product through a Multiemployer Trust (MET) if the State of Alaska decides to go with this type of program. The reasons why we need the major companies behind this program are threefold:

- (1) Security of Investment;
- (2) Taxable Income (many small companies have no taxable income so tax subsidies of the SPL are meaningless);
- (3) Surplus and Reserve Strength (in the event that the Sarnoff Proposals or new tax regulations are passed).

FUNDING THE SPL POLICY FOR
THE LONGEVITY BONUS PROGRAM (ALB)

We have illustrated both a GIC and SPL policy to fund the ALB. The SPL has a higher rate of return and more investment flexibility than the GIC, but there is still a substantial funding shortfall.

In order to fund the benefits to be paid out as Longevity Bonuses, we have used funding of \$120,000,000 for 3 years of \$360,000,000. When all of the bonuses complete with the 3% escalator were paid out, there was over \$2 billion paid to Alaskan residents. There was, however, a short fall of about \$300,000,000.

If we assume that some of the monies to fund this program came from the earnings on the undistributed income of the Permanent Fund and from the loans outstanding that are owed the State but would not have a major impact on the State's balance sheet, as pointed out by Dave Rose's report (see Appendix), then we can probably fund \$200,000,000 a year from these loans and \$50,000,000 a year for 4 years from the earnings of the undistributed income.

A more important step and one that would have tremendous savings would be to use the insurance consortium to guarantee a higher rate on the Target Annuity. Since the Target Annuity is used as an offset to the Longevity Bonus paid out to recipients, the higher the guaranteed interest, the higher the annuity; and the higher the Target Annuity, the lower the ALB that needs to be paid and the lower the funding that needs to be done. The current annuity purchase rate appears to be \$10 for every \$1 of annuity purchased. This assumes only a 6% interest rate. By using the insurance consortium we can guarantee a much higher interest rate which means an annuity purchase rate of \$7 rather than \$10 - or in other words a 30% cost savings to the State of Alaska on its ALB funding program.

This combination of approaches should achieve a funding of the ALB without any funds coming from the legislature or general fund revenues.

APPENDICES

APPENDIX A

COMPUTER RUNS WITH PRESENT VALUE

Included in these runs are the following:

- 1.(a) Funding the ALB Bonus after 10 years with GIC funding.
- (b) Present Value.

- 2.(a) Funding the ALB Bonus after 10 years with the Single Premium Whole Life.
- (b) Present Value.

- 3.(a) Funding the entire bonus plan with the Single Premium Whole Life.
- (b) Present Value

The runs assume a net product rate of 11% made up of mortality at 1.25% and a declared interest rate of 9.75% on cash values. The declared net rate on the GIC is 9.00%. The difference in the two rates is due to the tax savings enjoyed by the Single Premium Whole Life.

GIC FUNDING
BONUS AFTER 10 YEARS
WITH PRESENT VALUE

ALASKAN LONGEVITY BONUS PROGRAM

(000'S OMITTED)

YEAR	AFTER LOAN CASH VALUE	FACE AMT	EXPECTED ACCU. GAIN	ALASKAN BENEFIT PAYABLE	NET GAIN TO STATE
1985	125,895	125,895	4,904	0	4,904
1986	259,144	259,144	13,786	0	13,786
1987	399,921	399,821	27,231	0	27,231
1988	426,435	426,435	42,601	0	42,601
1989	440,745	440,745	60,130	0	60,130
1990	460,476	460,476	80,066	0	80,066
1991	479,325	479,325	102,661	0	102,661
1992	496,975	496,975	128,150	0	128,150
1993	513,110	513,110	156,742	0	156,742
1994	527,424	527,424	188,608	0	188,608
1995	539,623	539,623	223,877	83,077	140,800
1996	549,410	549,410	262,656	166,959	95,697
1997	556,461	556,461	305,052	250,794	54,258
1998	560,426	560,426	351,168	334,242	16,926
1999	560,930	560,930	401,103	416,544	-15,440
2000	557,599	557,599	454,717	521,139	-66,222
2001	550,123	550,123	512,576	624,572	-111,996
2002	538,320	538,320	573,891	726,052	-152,160
2003	522,156	522,156	638,504	824,692	-186,187
2004	501,760	501,760	705,874	919,527	-213,632
2005	477,420	477,420	775,373	1,009,604	-234,210
2006	449,546	449,548	846,234	1,093,716	-247,482
2007	418,645	418,645	917,556	1,204,682	-287,092
2008	385,280	385,280	988,637	1,308,438	-319,799
2009	350,400	350,400	1,058,503	1,404,346	-345,842
2010	314,095	314,095	1,126,109	1,492,598	-366,489
2011	277,480	277,480	1,190,498	1,573,420	-382,721
2012	241,179	241,179	1,251,611	1,647,074	-395,462
2013	205,847	205,847	1,308,360	1,743,201	-434,901
2014	172,045	172,045	1,360,265	1,830,775	-470,510
2015	140,187	140,187	1,407,051	1,910,158	-503,107
2016	110,853	110,853	1,448,358	1,981,747	-533,389
2017	84,588	84,588	1,484,072	2,072,842	-588,769
2018	61,227	61,227	1,514,729	2,154,898	-640,668
2019	40,878	40,878	1,539,326	2,228,416	-689,090
2020	31,114	31,114	1,559,494	2,228,416	-668,921
2021	16,227	16,227	1,568,590	2,228,416	-659,826
2022	0	0	1,568,590	2,228,416	-659,826
2023	0	0	1,568,590	2,228,416	-659,826
2024	0	0	1,568,590	2,228,416	-659,826

ALASKAN LONGEVITY BONUS PROGRAM

TOTAL COSTS
(000'S OMITTED)
PRESENT VALUE @ 10.00%

	PRES VAL OF OUTLAY	CASH VALUE	NET DEATH BENEFIT	EXPECTED NET DEATH BENEFIT	BENEFIT COSTS	GAIN	BAL. SHEET AFTER BENEFIT
1985	120,002	114,450	4,459	4,458	0	-1,092	-1,092
1986	229,092	214,168	11,800	11,799	1	-3,123	-3,125
1987	328,266	300,392	21,901	21,900	0	-5,972	-5,973
1988	328,266	287,163	32,400	32,398	1	-8,702	-8,704
1989	328,266	273,668	43,285	43,282	2	-11,312	-11,315
1990	328,266	259,927	54,536	54,536	0	-13,802	-13,803
1991	328,266	245,969	66,130	66,130	-0	-16,266	-16,166
1992	328,266	231,842	78,921	78,921	0	-18,402	-18,402
1993	328,266	217,609	90,147	90,147	-0	-20,510	-20,509
1994	328,266	203,345	102,433	102,432	0	-22,488	-22,488
1995	328,266	189,134	114,794	85,678	29,117	-24,337	-53,455
1996	328,266	175,059	127,151	71,305	55,845	-26,056	-81,991
1997	328,266	161,187	139,431	59,301	80,129	-27,647	-107,777
1998	328,266	147,577	151,575	49,471	102,104	-29,112	-131,217
1999	328,266	134,282	163,530	41,722	121,807	-30,453	-152,261
2000	328,266	121,350	175,241	30,671	144,570	-31,674	-176,245
2001	328,266	108,839	186,649	21,615	165,033	-32,778	-197,812
2002	328,266	96,821	197,677	14,391	183,285	-33,767	-217,053
2003	328,266	85,376	208,241	8,827	199,414	-34,647	-234,061
2004	328,266	74,583	218,258	4,748	213,510	-35,424	-248,934
2005	328,266	64,514	227,650	1,967	225,682	-36,102	-261,784
2006	328,266	55,225	236,352	337	236,015	-36,688	-272,704
2007	328,266	46,753	244,322	-4,086	248,408	-37,190	-285,599
2008	328,266	39,115	251,534	-7,407	258,941	-37,615	-296,557
2009	328,266	32,210	257,582	-9,810	267,793	-37,942	-305,736
2010	328,266	26,354	263,655	-11,543	275,198	-38,256	-313,455
2011	328,266	21,165	268,582	-12,781	281,363	-38,518	-319,882
2012	328,266	16,724	272,805	-13,664	286,470	-38,736	-325,207
2013	328,266	12,976	276,379	-16,151	292,530	-38,910	-331,440
2014	328,266	9,859	279,357	-18,191	297,549	-39,049	-336,598
2015	328,266	7,303	281,795	-19,889	301,685	-39,167	-340,852
2016	328,266	5,250	283,751	-21,324	305,075	-39,264	-344,340
2017	328,266	3,642	285,289	-23,708	308,997	-39,335	-348,333
2018	328,266	2,396	286,469	-25,740	312,209	-39,400	-351,610
2019	328,266	1,454	287,362	-27,463	314,825	-39,449	-354,275
2020	328,266	1,006	288,015	-26,810	314,825	-39,244	-354,070
2021	328,266	477	288,282	-26,543	314,825	-39,506	-354,332
2022	328,266	0	288,282	-26,543	314,825	-39,983	-354,809
2023	328,266	0	288,282	-26,543	314,825	-39,983	-354,809
2024	328,266	0	288,282	-26,543	314,825	-39,983	-354,809

SPL FUNDING
BONUS AFTER 10 YEARS
WITH PRESENT VALUE

ALASKAN LONGEVITY BONDS PROGRAM

(000'S OMITTED)

YEAR	----- AFTER LOAN CASH VALUE	----- LOAN FACE AMT	----- EXPECTED ACCU. GAIN	----- ALASKAN BENEFIT PAYABLE	----- NET GAIN TO STATE
1985	126,762	223,705	0,496	0	0,496
1986	261,839	470,870	24,011	0	24,011
1987	405,417	710,631	46,930	0	46,930
1988	429,233	686,539	71,021	0	71,021
1989	453,041	662,488	96,386	0	96,386
1990	476,554	642,445	123,379	0	123,379
1991	499,446	627,276	152,349	0	152,349
1992	521,368	620,814	183,786	0	183,786
1993	541,966	630,362	218,569	0	218,569
1994	560,880	646,674	257,269	0	257,269
1995	577,759	660,242	300,031	83,077	216,954
1996	592,239	670,797	346,978	166,959	180,018
1997	603,918	676,038	398,103	250,794	147,309
1998	612,353	675,494	453,376	334,242	119,133
1999	617,065	670,980	512,882	416,544	96,338
2000	617,563	662,112	576,660	521,139	55,521
2001	613,414	648,664	644,641	624,572	29,068
2002	604,321	634,538	716,989	726,052	-9,063
2003	590,147	619,672	793,741	824,692	-30,950
2004	570,935	599,499	874,332	919,527	-45,194
2005	546,917	574,275	958,003	1,009,604	-51,600
2006	518,472	544,412	1,043,863	1,093,716	-49,853
2007	486,097	510,411	1,130,937	1,204,688	-73,750
2008	450,380	472,907	1,213,206	1,308,438	-90,231
2009	412,375	433,002	1,304,605	1,404,346	-99,740
2010	372,142	390,746	1,388,771	1,492,598	-103,827
2011	330,976	347,512	1,469,718	1,573,420	-103,701
2012	289,612	304,087	1,546,573	1,647,074	-100,500
2013	248,848	261,290	1,618,577	1,743,201	-124,623
2014	209,381	219,854	1,685,025	1,830,775	-145,749
2015	171,752	180,341	1,745,250	1,910,158	-164,908
2016	136,720	143,557	1,798,774	1,981,747	-182,972
2017	105,022	110,275	1,845,360	2,072,842	-227,481
2018	76,521	80,348	1,884,956	2,154,898	-269,941
2019	51,425	53,996	1,918,122	2,228,416	-310,294
2020	39,425	41,396	1,944,942	2,228,416	-283,474
2021	20,628	21,660	1,957,084	2,228,416	-271,332
2022	0	0	1,957,084	2,228,416	-271,332
2023	0	0	1,957,084	2,228,416	-271,332
2024	0	0	1,957,084	2,228,416	-271,332

ALASKAN LONGEVITY BONUS PROGRAM

TOTAL COSTS
(000'S OMITTED)
PRESENT VALUE @ 10.00%

	PRES VAL OF OUTLAY	CASH VALUE	NET DEATH BENEFIT	EXPECTED NET DEATH BENEFIT	BENEFIT COSTS	GAIN	BAL. SHEET AFTER BENEFIT
1985	120,002	115,238	7,723	7,724	-0	2,959	2,960
1986	229,992	216,396	20,545	20,546	-1	7,848	7,849
1987	328,266	304,595	37,764	37,765	-1	14,094	14,095
1988	328,266	273,171	54,220	54,220	-0	19,125	19,125
1989	328,266	281,303	69,970	69,970	-0	23,006	23,006
1990	328,266	269,002	85,204	85,204	0	25,942	25,942
1991	328,266	256,294	100,072	100,072	-0	28,100	28,101
1992	328,266	243,222	114,737	114,738	-1	29,693	29,694
1993	328,266	229,846	129,489	129,490	-0	31,069	31,070
1994	328,266	216,243	144,410	144,410	-0	32,387	32,387
1995	328,266	202,501	159,398	130,280	29,118	33,633	4,515
1996	328,266	188,705	174,357	118,511	55,845	34,796	-21,049
1997	328,266	174,933	189,166	109,036	80,129	35,833	-44,295
1998	328,266	161,251	203,721	101,617	102,104	36,706	-65,397
1999	328,266	147,720	217,966	96,160	121,806	37,420	-84,385
2000	328,266	134,399	231,847	87,277	144,569	37,980	-106,589
2001	328,266	121,360	245,296	80,263	165,033	38,391	-126,642
2002	328,266	109,692	259,309	75,023	183,285	38,735	-144,556
2003	328,266	96,493	270,858	71,444	199,414	39,086	-160,327
2004	328,266	84,865	282,838	69,327	213,510	39,437	-174,073
2005	328,266	73,905	294,144	68,461	225,682	39,783	-185,899
2006	328,266	63,692	304,692	68,676	236,015	40,118	-195,897
2007	328,266	54,286	314,416	66,007	248,408	40,436	-207,972
2008	328,266	45,725	323,276	64,334	258,941	40,734	-218,206
2009	328,266	38,066	331,250	63,456	267,793	41,044	-226,749
2010	328,266	31,224	338,312	63,113	275,198	41,270	-233,927
2011	328,266	25,246	344,486	63,123	281,363	41,466	-239,896
2012	328,266	20,082	349,816	63,345	286,470	41,632	-244,838
2013	328,266	15,687	354,355	61,824	292,530	41,776	-250,754
2014	328,266	11,999	350,163	60,613	297,549	41,896	-255,653
2015	328,266	8,948	361,300	59,615	301,685	41,982	-259,702
2016	328,266	6,475	363,835	58,760	305,075	42,044	-263,030
2017	328,266	4,521	365,841	56,843	308,998	42,097	-266,900
2018	328,266	2,995	367,391	55,181	312,209	42,120	-270,089
2019	328,266	1,829	368,571	53,745	314,825	42,135	-272,650
2020	328,266	1,275	369,439	54,613	314,825	42,448	-272,377
2021	328,266	606	369,796	54,970	314,825	42,136	-272,689
2022	328,266	0	369,796	54,970	314,825	41,530	-273,295
2023	328,266	0	369,796	54,970	314,825	41,530	-273,295
2024	328,266	0	369,796	54,970	314,825	41,530	-273,295

SPL FUNDING OF ENTIRE BONUS PLAN

STARTING 1985

WITH PRESENT VALUE

ALASKAN LONGEVITY BONUS PROGRAM

(00)'S OMITTED)

YEAR	AFTER CASH VALUE	LOAN FACE AMT	EXPECTED ACCUM. GAIN	ALASKAN BENEFIT PAYABLE	NET GAIN TO STATE
1985	126,762	223,705	8,496	47,124	-38,627
1986	261,839	470,870	24,011	96,820	-72,809
1987	405,417	710,631	46,930	150,386	-103,455
1988	429,233	686,539	71,021	207,654	-136,632
1989	453,041	662,488	96,386	268,687	-172,300
1990	476,554	642,445	123,379	331,709	-208,330
1991	499,446	627,276	152,349	396,188	-243,839
1992	521,368	620,814	183,786	473,548	-289,762
1993	541,966	630,362	218,569	553,283	-334,713
1994	560,860	646,674	257,269	634,745	-377,476
1995	577,759	660,242	300,031	717,822	-417,791
1996	592,239	670,777	346,978	801,705	-454,726
1997	603,918	676,038	398,103	885,539	-487,436
1998	612,353	675,494	453,376	968,987	-515,611
1999	617,065	670,980	512,882	1,051,289	-538,407
2000	617,563	662,112	576,660	1,135,885	-579,224
2001	613,414	648,664	644,641	1,229,318	-614,676
2002	604,321	634,538	716,989	1,330,797	-643,808
2003	590,147	619,672	793,741	1,439,437	-665,695
2004	570,935	599,499	874,332	1,554,273	-679,940
2005	546,917	574,275	958,003	1,674,350	-686,346
2006	518,472	544,412	1,043,863	1,798,432	-684,598
2007	486,097	510,411	1,135,937	1,939,433	-708,496
2008	450,380	472,907	1,219,206	2,093,184	-724,977
2009	412,375	433,002	1,304,605	2,239,092	-734,486
2010	372,142	390,746	1,389,771	2,377,344	-738,572
2011	330,976	347,512	1,469,718	2,508,166	-738,447
2012	289,612	304,087	1,546,573	2,631,819	-735,246
2013	248,848	261,290	1,619,577	2,747,947	-759,369
2014	209,381	219,854	1,689,025	2,855,521	-780,495
2015	171,752	180,341	1,745,250	2,944,904	-799,653
2016	136,720	143,557	1,798,774	3,016,493	-817,718
2017	105,022	110,275	1,845,360	3,077,587	-862,227
2018	76,521	80,348	1,884,956	3,129,643	-904,687
2019	51,425	53,996	1,918,122	3,173,162	-945,040
2020	39,425	41,396	1,944,942	3,208,162	-918,219
2021	20,628	21,660	1,957,084	3,233,162	-906,078
2022	0	0	1,957,084	3,253,162	-906,078
2023	0	0	1,957,084	3,273,162	-906,078
2024	0	0	1,957,084	3,293,162	-906,078

ALASKAN LONGEVITY BONUS PROGRAM

TOTAL COSTS
(000'S OMITTED)
PRESENT VALUE @ 10.00%

	PRES VAL OF OUTLAY	CASH VALUE	NET DEATH BENEFIT	EXPECTED NET DEATH BENEFIT	BENEFIT COSTS	GAIN	BAL. SHEET AFTER BENEFIT
1985	120,002	115,238	7,723	-35,115	42,839	2,959	-39,879
1986	229,092	216,396	20,345	-63,365	83,910	7,848	-76,062
1987	328,266	304,595	37,764	-86,390	124,155	14,094	-110,061
1988	328,266	293,171	54,220	-109,050	163,270	19,125	-144,145
1989	328,266	281,303	69,970	-131,197	201,167	23,006	-178,161
1990	328,266	269,002	85,206	-151,535	236,742	25,942	-210,799
1991	328,266	256,294	100,072	-169,757	269,827	28,100	-241,728
1992	328,266	243,222	114,737	-191,189	305,918	29,693	-276,225
1993	328,266	229,846	129,489	-210,244	339,733	31,069	-308,664
1994	328,266	216,243	144,610	-226,731	371,141	32,387	-338,754
1995	328,266	202,501	159,398	-243,861	400,260	33,633	-366,626
1996	328,266	189,705	174,357	-252,630	426,987	34,796	-392,190
1997	328,266	174,933	189,166	-262,105	451,271	35,833	-415,437
1998	328,266	161,251	203,721	-269,524	473,246	36,706	-436,539
1999	328,266	147,720	217,966	-274,981	492,948	37,420	-455,527
2000	328,266	134,399	231,847	-283,864	515,711	37,980	-477,731
2001	328,266	121,360	245,296	-290,878	536,175	38,391	-497,784
2002	328,266	108,692	253,309	-296,118	554,427	38,735	-515,692
2003	328,266	96,493	270,858	-299,697	570,555	39,088	-531,469
2004	328,266	84,865	287,838	-301,814	584,652	39,437	-545,214
2005	328,266	73,905	294,144	-302,680	596,824	39,783	-557,041
2006	328,266	63,692	304,692	-302,465	607,157	40,118	-567,039
2007	328,266	54,286	314,416	-305,134	619,550	40,436	-579,114
2008	328,266	45,725	323,276	-306,807	630,083	40,734	-589,348
2009	328,266	38,040	331,250	-307,685	638,935	41,044	-597,890
2010	328,266	31,224	338,312	-308,027	646,340	41,270	-605,069
2011	328,266	25,246	344,486	-308,018	652,505	41,466	-611,038
2012	328,266	20,082	349,816	-307,796	657,612	41,632	-615,989
2013	328,266	15,667	354,355	-309,317	663,672	41,776	-621,894
2014	328,266	11,999	358,163	-310,527	668,691	41,896	-626,794
2015	328,266	8,948	361,300	-311,525	672,826	41,982	-630,844
2016	328,266	6,475	363,835	-312,381	676,217	42,044	-634,172
2017	328,266	4,521	365,841	-314,297	680,139	42,097	-638,042
2018	328,266	2,995	367,391	-315,959	683,351	42,120	-641,231
2019	328,266	1,829	368,571	-317,395	685,967	42,135	-643,832
2020	328,266	1,275	369,439	-316,528	685,967	42,448	-643,519
2021	328,266	606	369,796	-316,171	685,967	42,136	-643,831
2022	328,266	0	369,796	-316,171	685,967	41,530	-644,437
2023	328,266	0	369,796	-316,171	685,967	41,530	-644,437
2024	328,266	0	369,796	-316,171	685,967	41,530	-644,437

APPENDIX B

NEW ENGLAND LIFE LETTER

HAROLD INGRAHAM



New England Mutual Life Insurance Company
501 Boylston Street, Boston, Massachusetts 02117
617-578-2931

HAROLD G. INGRAHAM, JR., F.S.A., CLU
Senior Vice President and Chief Actuary

January 8, 1985

Mr. Daniel E. Carpenter
Benefit Concepts, Inc.
101 Park Avenue, 26th Floor
New York, New York 10178

Re: Use of Life Insurance in the Alaska Longevity Bonus (ALB) Program

Dear Dan:

You have proposed to the State of Alaska a method of cost recovery that would allow the Longevity Bonus to continue to be paid to Alaskans for many years even if oil revenues decline. This cost recovery program would use a specially designed group single premium whole life insurance policy that would allow the state to fully recover upon the death of each Longevity Bonus recipient an amount of money equal to the premiums paid, as well as the total amount of Longevity Bonus paid to the recipient.

In this regard, the use of life insurance as a funding vehicle for the ALB program is eminently sound, for the following reasons:

- (1) A specially designed insurance product will allow the state to enjoy a higher rate of return without compromising market value security. The insurance company will credit to the policy the rates of interest that it is currently earning on its longer term investments - in particular private placements and mortgages. Moreover, because of its financial strength and diversity of portfolio investments, a large well-established insurance company can insulate its policyholders from the kind of market value adjustments that occur on most equity and bond instruments. And the insurance company, in a normal yield curve environment, can guarantee principal and interest at rates substantially higher than those applicable to money market funds.

-Continued on Page Two-

Mr. Daniel E. Carpenter
Benefit Concepts, Inc.

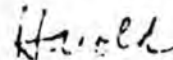
-Page Two-

January 8, 1985

- (2) An insurance company can package its investment objectives in the form of contractual guarantees. For example, the contract would incorporate interest guarantees for a period of 10 years. Also, liquidity may be made available on a scheduled basis - with loans or surrenders from the contract scheduled to parallel the expected cash proceeds from the investment program.
- (3) The risk of market value fluctuations to the state of Alaska can be modified or eliminated through the surrender provision.
- (4) The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

I hope that the foregoing information will be helpful to you.

Sincerely,



Harold G. Ingraham, Jr.

HGI/mjf

APPENDIX C

TILLINGHAST REPORT

THOMAS SORENSON

December 26, 1984

Mr. Harold G. Ingraham, Jr., FSA
Senior Vice President and Chief Actuary
New England Mutual Life Insurance Company
501 Boylston Street
Boston, Massachusetts 02117

Dear Harold:

The purpose of this letter is:

1. To explain the status of the Alaska Longevity Bonus (ALB) program as I know it,
2. To outline the reasons which might support the use of an insurance carrier,
3. To state the product parameters used in our testing, and
4. To develop a recommendation for criteria which New England Mutual can use for the approval of a product.

STATUS OF THE PROJECT

Our purpose has been to determine if there is a reasonable possibility of using an insurance product as a funding vehicle for the ALB program.

The situation, as I understand it, is as follows:

The ALB program involves a payment of \$3,000 per year (increasing by 3% per year) to all Alaskan residents age 65 or older. It is accepted that existing sources of income cannot be expected to support the program beyond ten years. The following remedies have been proposed or discussed by Benefit Concepts, Inc.

1. It is proposed that the ALB program be changed to a loan program in order to eliminate federal income taxes to residents.
2. Termination of the Permanent Fund Dividend (PFD) program for those receiving the ALB is suggested in conjunction with a longevity loan program. It is anticipated that the loan would be repaid by the insurance proceeds from the proposed funding program. The argument

is that taxes saved by the resident (through loans) would more than offset the loss of the PFD.

3. It is proposed that the State of Alaska purchase single premium life insurance policies insuring the lives of Alaska residents who are recipients (or who are expected to be recipients) of the ALB. The purchase has two objectives:
 - a. To provide a strong investment vehicle which will fund the benefits more effectively than either short-term investments or government bonds with equal safety, and
 - b. To implement the "tax savings" to Alaska residents. The insurance benefits are designed to recover the loan balance at the death of the recipient of the ALB.

At the present time, the utilization of an insurance carrier is a serious issue. Alaska has retained Peter Hutzel of Johnson & Higgins to review and evaluate the proposal.

UTILIZATION OF AN INSURANCE COMPANY

The following are the advantages of the use of an insurance contract:

1. One advantage relates to investment performance. An insurance company has the ability to package its investment objectives in the form of a contractual guarantee. In this instance, the following promises are important:
 - a. Interest guarantees over a period of 7 to 10 years. This would be implemented using targeted cash values in order to avoid surplus drain.
 - b. Liquidity may be made available on a scheduled basis. We intended to use a group insurance contract. Loans or surrenders may be designed to parallel the expected cash proceeds from the investment program.
 - c. Proper use of the life insurance contract can create tax write-offs for the insurer.
 - d. The risk of market value fluctuations to Alaska can be modified or eliminated through the surrender provision.
2. The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

PRODUCT ASSUMPTIONS USED FOR TESTING

The product used a 10-year guarantee of 10.33% and used the guaranteed interest or 6%, if higher, and population mortality as the basis for determining the required amount of insurance under Section 7702. The commission assumed is .4% of assets. This is subject to modification, if required. The population projections used 1960 Basic Group Mortality. The cost to borrow income on principal, used in some of the illustrations, was .5%.

PROPOSED PRODUCT CRITERIA

The investment elements of the program could be implemented using the same contract used for single premium pension close-out situations. The disadvantages of that approach in this situation are:

1. Large surplus drain would occur.
2. The cost recovery elements of the program would not be met.

We have favored the use of a group single premium life insurance product for the following reasons:

1. Intermediate guarantees can be made without large surplus drain. This is the situation under the present NAIC model law. We respect the fact that the Sarnoff proposal would require a reserve for targeted cash values.
2. It is possible to induce a tax write-off through surplus drain caused by the use of a nonforfeiture interest rate greater than 6%. This tax write-off can be used to subsidize the interest rate credited.

The product would be a variation of the single premium life product presently being offered by Covenant Life (Connecticut National as of January 1, 1985). The product should have the following characteristics:

1. It should qualify as life insurance under Section 7702. Life insurance reserve treatment is desirable if surplus drain is to be avoided. Also, a full deduction for interest credits is mandatory and life insurance tax treatment is one way to accomplish this result.
2. The product should use target cash values in order to produce the desired interest guarantees referenced by Benefit Concepts.
3. The contract form should be a group insurance contract, not an individual contract. It is intended that only limited borrowing be allowed and that the availability of cash surrender values be scheduled in order to support the cash flow characteristics of the investment approach.

4. The possible methods for handling surrender by the state are:
 - a. Pay-out of cash surrender values over a number of years.
 - b. Specific schedules for notice of surrender in advance of distribution date could be used.
 - c. It is also possible to use two declared interest rates: one for the current value used to determine insurance face amounts and one to determine cash surrender values.
5. Aggressive guaranteed interest rates would be for limited periods of time (5 to 10 years). Lower long-term guarantees are necessary to avoid surplus drain.
6. It is my opinion that aggressive near-term interest guarantees combined with conservative mortality guarantees are appropriate.
7. Mortality can be fully experience rated subject to a conservative maximum. Studies are not yet complete concerning Alaska residents' mortality.
8. It is advisable to disclose the formulas for declared interest rates, as long as protection against changes in life insurance company taxation are included. It should be noted that I favor an advantageous surrender provision in the event of adverse tax law changes.
9. Policy loans may be limited to 10% of the cash value in any one policy year. The "cost of the loan" should be contractually stated and should be set by the company in a manner which is consistent with the investment strategy to be used.
10. No promise should be made as to future contract provisions to be offered. I suggest that this situation be treated like a GIC. Certain conditions such as guarantee, etc. should be stated based upon delivery of premium within a carefully structured time-frame.

SUMMARY

This represents our view of the project as it has developed to date. There is clear interest on the part of Alaska in pursuing the subject, but there are a number of questions, such as final contract provisions, population projections and sources of funds, to be answered. It is appropriate for New England Mutual to offer a set of contract provisions at this time.

Sincerely,



Thomas B. Sorensen, FSA, MAAA

/lg

cc: Daniel E. Carpenter - Benefit Concepts

Tillinghast

1985	3,000
1986	3,390
1987	3,182
1988	3,278
1989	3,376
1990	3,477
1991	3,582
1992	3,689
1993	3,800
1994	3,914
1995	4,031
1996	4,152
1997	4,277
1998	4,405
1999	4,537
2000	4,673
2001	4,814
2002	4,953
2003	5,107
2004	5,260
2005	5,413
2006	5,580
2007	5,743
2008	5,920
2009	6,093
2010	6,281
2011	6,469
2012	6,663
2013	6,863
2014	7,069
2015	7,281
2016	7,500
2017	7,725
2018	7,957
2019	8,195
2020	8,441
2021	8,694
2022	8,955
2023	9,224
2024	9,501
2025	9,786
2026	10,079
2027	10,382
2028	10,693
2029	11,014
2030	11,344
2031	11,685
2032	12,035
2033	12,396
2034	12,763
2035	13,151
2036	13,546
2037	13,952
2038	14,371
2039	14,802
2040	15,245

Exhibit I and includes the use of the proposed life insurance policies to be issued by New England Mutual as a potential funding vehicle. We have illustrated the assumption of liability by the product taking place as of 1995. In other words, the Alaskan Benefit payable is zero for the first ten years. The assumption is that we are funding the longevity that benefit from other sources for a ten year transitional period. We have purchased the life product in the amount of \$120,000,000 of premium for each of the first three years. The attached summary (the third section of Exhibit I) demonstrates that the transitional benefit can be adequately funded in this manner. It should be noted that in the development of this data we have assumed that mortality followed the 1960 table. That table is contained in Exhibit III and is a slightly more conservative mortality table than that contained in the special reports (Exhibit IV).

Exhibit II summarizes the population data. The projections contained herein assume a 10% current investment environment in evaluating the cost recovery program. The product declared rate was 9.75%. It was assumed that the investment earnings rate would be 11.5%.

UTILIZATION OF AN INSURANCE COMPANY

The following are the advantages of the use of an insurance contract:

1. One advantage relates to investment performance. An insurance company has the ability to package its investment objectives in the form of a contractual guarantee. In this instance, the following promises are important:
 - a. Interest guarantees over a period of 7 to 10 years. This would be implemented using targeted cash values in order to avoid surplus drain.
 - b. Liquidity may be made available on a scheduled basis. We intended to use a group insurance contract. Loans or surrenders may be designed to parallel the expected cash proceeds from the investment program.
2. Proper use of the life insurance contract can create tax write-offs for the insurer.
3. The risk of market value fluctuations to Alaska can be modified or eliminated through the surrender provision.
4. The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

The product would be a variation of the single premium life product presently being offered by Connecticut National (as of January 1, 1985). The product should have the following characteristics:

1. It should qualify as life insurance under Section 7702. Life insurance reserve treatment is desirable if surplus drain is to be avoided. Also, a full deduction for interest credits is mandatory and life insurance tax treatment is one way to accomplish this result.
2. The product should use target cash values in order to produce the desired interest guarantees referenced by Benefit Concepts.
3. The contract form should be a group insurance contract, not an individual contract. It is intended that only limited borrowing be allowed and that the availability of cash surrender values be scheduled in order to support the cash flow characteristics of the investment approach.
4. The possible methods for handling a request for surrender of the policy by the state are:
 - a. Pay-out of cash surrender values over a number of years.
 - b. Specific schedules for notice of surrender in advance of distribution date could be used.
 - c. It is also possible to use two declared interest rates: one for the current value used to determine insurance face amounts and one to determine cash surrender values.
5. Aggressive guaranteed interest rates would be for limited periods of time (5 to 10 years). Lower long-term guarantees are necessary to avoid surplus drain.
6. It is my opinion that aggressive near-term interest guarantees combined with conservative mortality guarantees are appropriate.
7. Mortality can be fully experience rated subject to a conservative maximum. Studies are not yet complete concerning Alaska residents' mortality.
8. It is advisable to disclose the formulas for declared interest rates, as long as protection against changes in life insurance company taxation are included.
9. Policy loans may be limited to 10% of the cash value in any one policy year. The "cost of the loan" should be contractually stated and should be set by the company in a manner which is consistent with the investment strategy to be used.
10. No promise should be made as to future contract provisions to be offered. I suggest that this situation be treated like a GIC.

Tillinghast

Mr. Dan Carpenter
January 7, 1985
Page 4

Certain conditions such as guarantee, etc. should be stated based upon delivery of premium within a carefully structured time-frame.

CONCLUSIONS

This study indicates that it is feasible to fund the program using the life insurance products described in the attached Exhibit V. The annual cost to fund this is \$120,000,000. Please note that in this illustration it was not necessary to utilize any borrowing. As a consequence, the interest differential on borrowing did not apply.

I look forward to our next discussion.

Regards,



Thomas B. Sorensen

/jc

Enclosure

cc: Harold Ingraham

Tillinghast

EXHIBIT I

SUMMARY OF
ALASKAN LONGEVITY BONUS PROGRAM
FUNDED WITH LIFE INSURANCE

Tillinghast

EXHIBIT II
POPULATION DATA

SURVIVING ALASKAN POPULATION

AGE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
65	1705	1756	1781	1807	1844	1927	1924	2047	2027	2233	2173	2090	2278	2270	2381	2432	2523	2609	2696	2960	3198	3218	3751	3898	3915	3906
66	1491	1658	1708	1732	1835	1910	1874	1871	1991	1971	2172	2113	2033	2215	2208	2316	2365	2454	2537	2622	2879	3110	3130	3648	3791	3807
67	1280	1446	1608	1656	1680	1780	1853	1818	1815	1931	1912	2106	2050	1972	2149	2141	2246	2294	2380	2461	2543	2792	3017	3036	3538	3677
68	1212	1238	1399	1556	1602	1625	1722	1792	1758	1755	1868	1849	2037	1983	1907	2078	2071	2172	2219	2302	2380	2460	2701	2918	2936	3422
69	990	1168	1194	1349	1500	1545	1567	1660	1728	1695	1693	1801	1783	1964	1912	1839	2004	1997	2095	2139	2220	2295	2372	2604	2813	2831
70	953	951	1122	1147	1296	1441	1484	1505	1595	1660	1629	1626	1730	1713	1887	1837	1767	1925	1919	2013	2056	2133	2205	2279	2502	2703
71	873	912	910	1074	1098	1240	1379	1421	1441	1527	1589	1559	1557	1656	1640	1807	1758	1691	1843	1837	1926	1968	2041	2111	2181	2395
72	696	832	849	868	1024	1047	1183	1315	1355	1374	1456	1515	1487	1484	1579	1564	1723	1676	1612	1757	1751	1837	1876	1946	2013	2080
73	590	661	790	825	824	973	994	1123	1249	1286	1305	1382	1439	1411	1409	1499	1485	1636	1592	1531	1669	1663	1744	1781	1848	1911
74	537	558	625	747	780	779	920	940	1062	1181	1216	1233	1307	1360	1335	1332	1418	1404	1546	1505	1447	1578	1572	1649	1684	1747
75	457	505	525	588	703	735	733	866	885	999	1111	1145	1161	1230	1280	1256	1254	1334	1321	1456	1416	1362	1485	1480	1552	1585
76	372	428	473	492	551	659	688	687	811	828	936	1041	1072	1087	1152	1199	1176	1175	1250	1238	1363	1327	1276	1391	1386	1454
77	297	346	399	441	458	513	614	641	640	755	772	872	970	999	1013	1073	1117	1096	1094	1164	1153	1270	1236	1189	1296	1291
78	250	275	321	369	408	424	475	568	593	592	699	715	807	898	925	938	994	1034	1015	1013	1078	1067	1176	1144	1101	1200
79	197	230	253	295	339	375	390	437	522	546	545	643	657	742	825	850	862	914	951	933	931	991	981	1081	1052	1012
80	168	179	210	231	269	310	342	356	398	477	498	497	587	599	677	753	776	787	833	867	851	850	904	895	986	960
81	136	152	162	190	209	243	280	310	322	360	431	450	449	531	542	612	681	702	712	754	785	770	769	818	810	892
82	102	122	136	145	170	187	218	251	278	289	323	386	404	403	476	486	549	611	629	638	676	703	690	689	733	726
83	79	91	108	121	129	151	166	194	223	246	256	287	343	358	358	422	431	487	542	558	566	600	624	613	612	651
84	52	69	80	95	106	113	133	146	170	196	217	225	252	302	315	314	371	379	428	476	491	498	527	549	538	538
85	46	45	60	69	83	93	99	115	127	148	170	188	196	219	267	274	273	323	330	373	414	427	433	459	477	468
86	29	39	39	52	60	71	80	85	99	109	127	146	162	168	188	225	235	235	277	284	320	356	367	372	394	410
87	16	24	33	33	44	51	60	68	72	84	93	108	124	138	143	150	192	200	200	236	241	272	303	312	316	335
88	13	13	20	28	28	37	43	51	57	60	71	78	91	104	115	120	134	161	168	168	198	202	228	254	261	265
89	8	10	11	17	23	23	30	35	42	47	50	54	64	75	86	95	99	111	133	139	139	164	167	189	210	216
90	5	7	9	9	14	19	19	25	29	34	38	41	48	52	61	70	78	81	91	108	113	113	133	136	154	171
91	4	4	5	7	7	11	15	15	20	23	27	31	33	38	42	49	56	62	65	73	87	91	90	107	109	123
92	3	3	3	4	5	6	9	12	12	16	18	21	24	26	30	33	38	44	49	51	57	68	71	71	84	86
93	1	2	3	3	3	4	4	7	9	9	12	14	17	18	20	23	25	30	34	38	39	44	52	55	55	64
94	1	1	2	2	2	2	3	3	5	7	7	9	10	12	14	15	17	19	22	25	28	29	33	39	41	41
95	1	1	1	1	1	1	2	2	2	4	5	5	6	8	9	10	11	12	14	16	18	20	21	24	28	30
96	0	0	0	0	1	1	1	1	2	2	2	3	3	5	5	6	7	7	9	10	11	13	14	15	16	20
97	0	0	0	0	0	1	1	1	1	1	1	2	2	2	3	3	4	5	5	6	6	7	8	9	10	11
98	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	2	2	2	3	3	3	4	4	5	5	5
99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	1	1	1	2	2	2	2

EXHIBIT III
1960 BSG MORTALITY TABLE

Tillinghast

TABLE 3

1960 BASIC GROUP MORTALITY TABLE

Age	q_x	l_x	d_x	e_x
0	.00613	10,000,000	63,300	71.30
1	.00196	9,936,700	19,476	70.75
2	.00118	9,917,221	11,702	69.89
3	.00059	9,905,522	8,816	68.97
4	.00073	9,896,706	7,225	68.03
5	.00065	9,859,481	6,428	67.08
6	.00058	9,833,053	5,732	66.13
7	.00052	9,877,321	5,136	65.17
8	.00018	9,872,185	4,739	64.20
9	.00016	9,867,416	4,539	63.23
10	.00015	9,862,507	4,438	62.26
11	.00016	9,858,469	4,535	61.29
12	.00019	9,853,931	4,828	60.31
13	.00055	9,849,106	5,417	59.34
14	.00064	9,843,659	6,300	58.38
15	.00074	9,837,359	7,280	57.41
16	.00085	9,830,109	8,356	56.46
17	.00091	9,821,753	9,232	55.50
18	.00098	9,812,521	9,616	54.55
19	.00099	9,802,905	9,705	53.61
20	.00100	9,793,200	9,793	52.66
21	.00101	9,783,407	9,881	51.71
22	.00102	9,773,526	9,969	50.76
23	.00103	9,763,557	10,056	49.82
24	.00104	9,753,501	10,144	48.87
25	.00105	9,743,357	10,231	47.92
26	.00107	9,733,126	10,414	46.97
27	.00108	9,722,712	10,501	46.02
28	.00111	9,712,211	10,781	45.07
29	.00113	9,701,430	10,963	44.12
30	.00117	9,690,467	11,338	43.16
31	.00121	9,679,129	11,712	42.21
32	.00126	9,667,417	12,181	41.27
33	.00133	9,655,236	12,811	40.32
34	.00143	9,642,395	13,789	39.37
35	.00154	9,628,606	14,828	38.43
36	.00168	9,613,778	16,151	37.48
37	.00184	9,597,627	17,660	36.55
38	.00201	9,579,967	19,543	35.61
39	.00227	9,560,424	21,702	34.68
40	.00252	9,538,722	24,038	33.76
41	.00281	9,514,684	26,736	32.85
42	.00313	9,487,918	29,697	31.94
43	.00348	9,458,251	32,915	31.04
44	.00387	9,425,336	36,476	30.14
45	.00429	9,388,860	40,278	29.26
46	.00475	9,348,582	44,406	28.38
47	.00526	9,304,176	48,910	27.51
48	.00582	9,255,236	53,865	26.66
49	.00643	9,201,371	59,165	25.81

TABLE 3--Continued

1960 BASIC GROUP MORTALITY TABLE

Age	q_x	l_x	d_x	e_x
50	.00710	9,142,206	61,910	24.97
51	.00783	9,077,296	71,075	24.15
52	.00861	9,006,221	77,814	23.34
53	.00953	8,928,407	85,088	22.54
54	.01051	8,843,319	92,913	21.75
55	.01157	8,750,376	101,242	20.97
56	.01270	8,649,134	109,844	20.21
57	.01392	8,539,290	118,867	19.47
58	.01520	8,420,423	127,990	18.73
59	.01656	8,292,433	137,323	18.02
60	.01802	8,155,110	146,955	17.31
61	.01959	8,008,155	156,880	16.62
62	.02133	7,851,275	167,468	15.94
63	.02322	7,683,807	178,418	15.28
64	.02526	7,505,389	189,586	14.63
65	.02750	7,315,803	201,185	13.99
66	.03000	7,114,618	213,439	13.38
67	.03277	6,901,179	226,452	12.77
68	.03581	6,675,027	239,233	12.19
69	.03919	6,435,794	252,219	11.62
70	.04278	6,183,575	264,533	11.08
71	.04655	5,919,042	275,531	10.55
72	.05018	5,643,511	284,884	10.04
73	.05452	5,358,627	292,152	9.55
74	.05878	5,066,475	297,807	9.07
75	.06337	4,768,668	302,190	8.61
76	.06845	4,466,478	305,730	8.15
77	.07413	4,160,748	308,519	7.72
78	.08059	3,852,229	310,451	7.30
79	.08771	3,541,778	310,649	6.89
80	.09540	3,231,129	308,250	6.51
81	.10360	2,922,879	302,810	6.14
82	.11219	2,620,069	293,946	5.79
83	.12113	2,326,123	281,763	5.46
84	.13013	2,044,360	266,616	5.14
85	.14017	1,777,714	249,182	4.84
86	.15038	1,523,532	229,861	4.55
87	.16116	1,298,671	209,294	4.26
88	.17263	1,089,377	188,059	3.99
89	.18507	901,318	166,807	3.71
90	.19879	734,511	146,013	3.44
91	.21422	588,498	126,068	3.17
92	.23186	462,430	107,219	2.90
93	.25230	355,211	89,620	2.62
94	.27624	265,591	73,367	2.34
95	.30650	192,224	58,917	2.05
96	.34966	133,307	46,612	1.73
97	.42653	86,695	36,978	1.39
98	.56054	49,717	27,863	1.05
99	.75169	21,819	16,424	.75
100	1.00000	5,425	5,425	.50

EXHIBIT IV
MORTALITY FROM SPECIAL REPORTS

Tillinghast

TABLE 1
Revised Life Table - Total Population 1980

Age	Population	Deaths	q_x	Q_x	l_x	d_x	L_x	T_x	e^o
Under 1 year	8753	141	.016109	.015169	100000	1617	98938	7269445	72.70
1-4 years	20196	29	.000940	.002833	98483	377	392780	7170707	72.81
5-9 years	35043	13	.000371	.001853	98106	182	690544	6777999	69.09
10-14 years	34282	11	.000321	.001604	97924	187	689097	6287433	64.21
15-19 years	37154	68	.001830	.009108	97767	890	684339	5798336	59.31
20-24 years	45090	160	.002218	.011829	96877	1068	681515	5111997	54.83
25-29 years	48445	98	.002015	.010024	96009	960	476427	4039482	50.42
30-34 years	42163	87	.002063	.010262	94849	973	471643	354055	46.91
35-39 years	31316	73	.002331	.011567	93876	1088	466752	2882412	41.36
40-44 years	22706	83	.003655	.010109	92788	1480	459644	2419460	26.81
45-49 years	18104	73	.003967	.019640	91108	1789	450971	2256016	22.45
50-54 years	15839	113	.007134	.035045	89319	3130	438744	2105041	28.05
55-59 years	12817	133	.010541	.051352	85189	4426	419884	2046301	23.97
60-64 years	8096	138	.017045	.081742	81763	6483	392080	1846417	20.14
65-69 years	5206	184	.035502	.146011	75000	10963	348010	1254337	16.71
70-74 years	3106	108	.034771	.159951	64117	10256	294256	906327	14.14
75 years and over	3235	285	.088099	1.000000	53861	53861	611369	611369	11.35

TABLE 2
Revised Life Table - Males 1980

Age	Population	Deaths	q_x	Q_x	l_x	d_x	L_x	T_x	e^o
Under 1 year	4452	82	.018419	.017329	100000	1733	98787	6819205	68.19
1-4 years	15588	16	.001026	.004096	98267	402	391813	6720418	68.39
5-9 years	17943	8	.000446	.002228	97865	218	688789	6320605	64.67
10-14 years	17720	9	.000508	.002537	97647	248	688189	5839816	59.81
15-19 years	19819	50	.002523	.012536	97399	1221	483948	5351627	54.95
20-24 years	24186	83	.003432	.017014	96178	1636	476690	4847679	50.61
25-29 years	25564	73	.002856	.014179	94542	1341	469538	4390989	46.44
30-34 years	22676	67	.002955	.014667	93201	1367	462606	3921451	42.08
35-39 years	17077	52	.003045	.015110	91834	1368	455829	3458845	37.66
40-44 years	12484	58	.004646	.022963	90446	2077	447051	3003016	23.20
45-49 years	9982	52	.005209	.025710	88369	2272	436168	2555965	28.92
50-54 years	8711	74	.008495	.041592	86097	3581	421542	2119797	24.62
55-59 years	6777	90	.013280	.064266	82516	5303	399322	1698255	20.58
60-64 years	4203	104	.024169	.113959	77213	8799	364061	1298933	16.82
65-69 years	2740	110	.040146	.182421	68414	12480	310865	934872	13.66
70-74 years	1538	71	.046164	.206937	55934	31575	250737	624007	11.16
75 years and over	1481	176	.118839	1.000000	44359	44359	373270	373270	8.41

TABLE 3
Revised Life Table - Females 1980

Age	Population	Deaths	q_x	Q_x	l_x	d_x	L_x	T_x	e^o
Under 1 year	4301	59	.013718	.012944	100000	1294	99094	7985670	79.86
1-4 years	14608	13	.000890	.003554	98706	351	394382	7886576	79.90
5-9 years	17100	5	.000292	.001459	98355	143	493151	7492194	76.18
10-14 years	16562	8	.000543	.002711	98211	266	492593	6999043	71.27
15-19 years	17335	18	.001038	.005177	98945	507	488439	6506450	66.43
20-24 years	20904	17	.000813	.004057	97438	395	485855	6018011	61.78
25-29 years	23081	25	.001083	.005400	97043	524	483341	5532156	57.01
30-34 years	19487	20	.001026	.005117	96519	494	481482	5048315	52.30
35-39 years	14239	21	.001475	.007348	96025	706	478644	4566833	47.56
40-44 years	10222	25	.002446	.012156	95319	1159	473835	4088189	42.89
45-49 years	8422	21	.002493	.012388	94160	1167	468111	3614354	38.39
50-54 years	7128	39	.005471	.026986	92993	2518	458783	3146243	33.83
55-59 years	5840	43	.007363	.036149	90483	3271	444248	2687460	29.70
60-64 years	3793	34	.008964	.043838	87212	3823	426484	2243212	25.72
65-69 years	2466	54	.021898	.103807	83389	8656	395287	1816728	21.79
70-74 years	1568	37	.023597	.112412	74733	8326	302842	1421441	19.82
75 years and over	1784	109	.062164	1.000000	66407	66407	1068599	1068599	16.02

GIC (GUARANTEED INVESTMENT CONTRACT)

SINGLE PREMIUM LIFE INSURANCE

INTEREST GUARANTEES

a. Subject to reserve interest rates on a preferred basis if no liquidity although very high interest rates would incur surplus drain.

b. The reserve interest rate is presently 11.25% for a 5-year guarantee and 10.75% for a 10 year guarantee (Moody Index of 13.4%).

Guarantees can be made with no surplus drain through manipulation of mortality tables.

CONTRACT DURATION

Products normally are not renewable contracts, but renegotiated at maturity.

Renewal is automatic since this is a permanent insurance policy.

INTERMEDIATE TERM SURRENDER VALUES

Cash value at surrender must be available only at the maturity date if surplus drain is to be avoided. There is no special tax write-off.

The equity terms can be structured in the policy at the option of the insurer or negotiated between the insurer and the purchasing company.

RESERVE CATEGORY

This is not a life insurance reserve item, therefore, creates a limitation on the amount of business that an insurer can issue using this type of product. Result is that, under large bid circumstances, only very large companies can quote.

This product qualifies as a life insurance policy so it receives life insurance reserve treatment and avoids the dilution problem inherent with GIC's.

TAX SITUATION

Interest credited to the cash value is deductible. Only a limited excess write-off can be developed.

A tax write-off in excess of interest credited can be generated with this product. Note that tax write-offs use real surplus but not real dollars.

MARKET AVAILABILITY

Qualified plan market only.

This product can also be written outside of the pension plan area. Some companies marketing GIC's believe they are prevented by insurance statutes from issuing GIC's outside of qualified plans.

ANALYSIS OF RATES OF RETURN

	<u>GIC</u>	<u>Change</u>	<u>SPL</u>	<u>Change</u>
Underlying Investment Rate	12.50%		12.50%	
Premium Tax	12.50	0	12.25	- .25
10 Year Guarantee	12.00	- .50	12.25	0
Tax Write-Off	12.25	+ .25	14.25	+2.00
Cost of Insurance Corridor	12.25	0	13.50	- .75
Insurance Supplement To Yield	12.25	0	14.25	+ .75

1985	3,000
1986	3,090
1987	3,182
1988	3,273
1989	3,376
1990	3,477
1991	3,582
1992	3,689
1993	3,800
1994	3,914
1995	4,031
1996	4,152
1997	4,277
1998	4,405
1999	4,537
2000	4,673
2001	4,814
2002	4,953
2003	5,107
2004	5,260
2005	5,418
2006	5,580
2007	5,743
2008	5,920
2009	6,093
2010	6,251
2011	6,469
2012	6,663
2013	6,863
2014	7,069
2015	7,281
2016	7,500
2017	7,725
2018	7,957
2019	8,195
2020	8,441
2021	8,694
2022	8,955
2023	9,224
2024	9,501
2025	9,786
2026	10,079
2027	10,382
2028	10,693
2029	11,014
2030	11,344
2031	11,685
2032	12,035
2033	12,396
2034	12,763
2035	13,151
2036	13,545
2037	13,952
2038	14,371
2039	14,802
2040	15,245

APPENDIX D

COVENANT LIFE
SINGLE PREMIUM WHOLE LIFE POLICY

CERTIFICATE OF INSURANCE

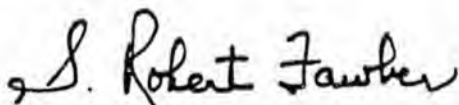
We, the Covenant Life Insurance Company certify that we have issued and delivered to the Policyholder, who is named in the Schedule, a Policy of Group Insurance shown in the Schedule.

This Certificate will take effect when the Schedule Pages are attached. The main provisions of the Group Policy which apply to you are shown on the following pages of this group certificate.

The Group Policy is non-participating. It will not pay dividends.

All coverage under the Policy will be governed by the laws of the State of Rhode Island which is the state of delivery of the Group Policy.

Signed at our Administrative Office,


SECRETARY


PRESIDENT

SPECIMEN

ONE YEAR RIGHT TO EXAMINE CERTIFICATE

If you are not satisfied with your insurance for any reason, we will cancel it and refund all of your premium if you return the Certificate to us within one year of the date you received it. You can return the Certificate either to our Agent or directly to us.

COVENANT LIFE INSURANCE COMPANY

A Stock Company

Home Office: Somerville, New Jersey 08876 • Administrative Office: Hartford, Connecticut 06101

12790-0

9-84

PAGE 3

09146-0

SCHEDULE OF BENEFITS AND PREMIUM

PLAN OF INSURANCE

PREMIUM

GROUP SINGLE PREMIUM WHOLE LIFE

\$13,949

THE PREMIUM FOR THIS COVERAGE IS DUE ON OR BEFORE THE CERTIFICATE DATE

CERTIFICATE SPECIFICATIONS

INSURED HAROLD WISLOD
PARTICIPATING GROUP FINANCIAL SERVICES CO.
POLICYHOLDER ABC TRUSTEES

AMOUNT OF INSURANCE	\$100,000	AGE AT ISSUE	35
CERTIFICATE DATE	MAY 19, 1983	CERTIFICATE NUMBER	XXXXX
GROUP NUMBER	XXXXX	POLICY NUMBER	XXXXX

OWNER- THE OWNER IS THE PERSON NAMED AS OWNER IN THE APPLICATION, UNTIL A NEW OWNER IS NAMED.

BENEFICIARY- THE BENEFICIARY IS THE PERSON NAMED AS BENEFICIARY IN THE APPLICATION, UNTIL A NEW BENEFICIARY IS NAMED.

PAGE 3

09146-0

GROUP SINGLE PREMIUM WHOLE LIFE
TABLE OF GUARANTEED VALUES

INSURED HAROLD WISLOD AGE 35 CERTIFICATE NO. SPECIMEN

<u>ACCOUNT YEAR</u>	<u>GUARANTEED CASH VALUE</u>	<u>ACCOUNT YEAR</u>	<u>GUARANTEED CASH VALUE</u>
1	14,212	34	52,903
2	14,877	35	54,489
3	15,584	36	56,083
4	16,320	37	57,677
5	17,086	38	59,260
6	17,882	39	60,819
7	18,707	40	62,343
8	19,563	41	63,831
9	20,451	42	65,283
10	21,371	43	66,704
11	22,324	44	68,103
12	23,310	45	69,486
13	24,332	46	70,851
14	25,390	47	72,191
15	26,485	48	73,494
16	27,618	49	74,745
17	28,786	50	75,938
18	29,987	51	77,070
19	31,220	52	78,151
20	32,482	53	79,189
21	33,774	54	80,201
22	35,093	55	81,206
23	36,444	56	82,225
24	37,826	57	83,290
25	39,239	58	84,433
26	40,683	59	85,702
27	42,154	60	87,130
28	43,649	61	88,738
29	45,161	62	90,511
30	46,686	63	92,385
31	48,223	64	94,241
32	49,770	65	100,000
33	51,330		

DECLARED INTEREST AT ISSUE 9.83%

EFFECTIVE DATE OF COVERAGE

Conditions of Insurability and Effective Date

Before his or her coverage under the Group Policy can take effect, the Insured named in the schedule of this Certificate must:

- be an eligible member of a Participating Group; and
- complete an Application for Insurance which is acceptable to us; and
- submit evidence of his or her insurability which is acceptable to us.

The Insured's coverage will take effect on the Certificate Date, as long as the premium is paid while the Insured is alive.

GENERAL PROVISIONS

Ownership Provisions

The Owner(s) of the Account is(are) the person(s) named as Owner in the Insured's Application, until a new Owner is named.

It is the Owner who is addressed as "you" in this Certificate. While the Insured is alive, only you may exercise the rights that the Group Policy provides with respect to your Account. You do not need the permission of the Insured to exercise these rights, nor do you need the permission of the Beneficiary, unless you have given him or her rights in your Account that limit your rights in the Account. Your rights include:

- The right to borrow on the Account.
- The right to surrender the Account.
- The right to name someone else as Owner or Beneficiary.
- The right to assign any interest in the Account.

You can name someone else as Owner at any time as long as the Insured is still alive. You must write to us and ask us to make the change. After we have approved the change, it will be effective as of the date that you signed your request, even if the Insured died in the meantime. However, we will not be liable for any payments we make, or actions we take before we receive and approve your request.

You can assign your interest in your account, but we will not be bound by the assignment until we have received a copy of it. We are not responsible for the validity of any assignment. Your rights and the Beneficiary's rights will be restricted or ended if your rights are assigned.

Death Benefit

We will pay you the death benefit after we have

received proof of the Insured's death if the Insured dies while his or her coverage is in force. "In force" means while the premium for your Account has been paid and the Account has not been lapsed or surrendered for cash. Proof of death must be sent to our Administrative Office.

The death benefit will be: the greater of the Amount of Insurance shown on Page 3 or the cash value of the Account at the time of the Insured's death times the attained age factor shown on the table of factors attached to the Certificate; less any indebtedness. ("Indebtedness" is defined in the Loan Provisions.)

If the Insured commits suicide within two years of the Certificate Date, we will pay you an amount equal to: the greater of the premium paid or the guaranteed cash value of the Account; less any indebtedness. This restriction will apply whether the Insured was sane or insane when he or she took their own life.

Age

When we refer to the age of the Insured in this Certificate, we mean his or her age on their nearest birthday. If the Insured's age is incorrectly stated, we will adjust all benefits under your Account to what the premium paid would have bought at his or her correct age. The adjustment will be based on the rates we were using when the Certificate was issued.

Contract Provisions

The entire contract consists of: the Policy; the application of the Policyholder; the Adoption and Participation Agreement of the Participating Groups under the Policy (copies of which will be attached to the Policy); and the individual applications of the insured members. All statements made by the Policyholder, each Participating Group and the insureds are considered representations and not warranties.

We will not contest the validity of the insurance of the Insured on the basis of any statement that he or she made with regard to his or her insurability:

- after his or her insurance has been in force during his or her lifetime for more than two years; and
- unless he or she made the statement in writing and signed it and a copy of the statement has been given to you or to the Insured.

We may change the Policy at any time with the written consent of the Policyholder. Any such

change must be signed by one of the following officers:

- Our President;
- One of our Vice Presidents;
- Our Secretary;
- One of our Assistant Secretaries.

No other person, whether or not he or she is one of our agents, may change or waive any of the Policy provisions; nor can they make any agreement which will be binding on us.

The Certificate Date shown on page 3 will be used to determine Account Anniversaries, Account Months and Account Years. Each Account Year will begin on the same date in the same Calendar Month as the Certificate Date. If there is no same date, the Account Year will begin on the last day of the calendar month.

The Policyholder and the Participating Group must furnish us (on our forms) with:

- the name of the Owner of the Account;
- the name of the beneficiary;
- the information we will need to determine the age of the Insured, and the amount and effective date of his or her coverage;
- reports of all changes in the status of the Insured which affect his or her eligibility for coverage under the policy or the Amount of Insurance for which he or she is eligible.

PREMIUM PROVISIONS

The premium must be paid on or before the Certificate Date. If it is not, the Insured's coverage will not go into force. Payment may be made either to our Agent or directly to us. You will be given a receipt if you ask for one. Your premium is shown on Page 3.

BENEFICIARY PROVISIONS

The Beneficiary is the person named as Beneficiary in the application, until a new Beneficiary is named.

We will pay the death benefit to the Beneficiary. If no named Beneficiary survives the Insured, we will consider you to be the Beneficiary, and will pay the death benefit to you.

You can change the Beneficiary at any time as long as you have not assigned your Account, and the Insured is still alive. You must write to us and ask us to make the change. After we have approved the change, it will be effective as of the date you signed your request, even if the Insured died in the meantime. However, we will not be

liable for any payments we make, or actions we take before we receive and approve your request.

CONTINUATION PROVISION

If the Group Policy is terminated as to the Participating Group, we will allow you to continue your Account in force under the Policy.

While your Account is being continued under this provision, it will still be subject to all of the terms of the Policy and of the Trust. We will still send all communications with regard to the Account to you, or, if you have assigned your interest in the Account, to the person that you assigned it to.

LOAN PROVISIONS

You can borrow money from us any time after the first Account Year, if your Account has a loan value. To do so, you must assign your interest in the Account to us at our Administrative Office. Assignment of the Certificate to us will be the only security needed for such a loan. You may not borrow more than the loan value of your Account. We also have the right to delay making a loan for six months after we receive a request for one.

The loan value of your Account is: the cash value less any indebtedness.

When we use the word "indebtedness" in this Certificate, we mean not only all of the loans outstanding on your Account, but all interest that is due or accrued on them as well.

Your indebtedness must not exceed the cash value of your Account. If it ever does, the Account will lapse and have no further value. We will give you thirty one days notice that your Account is about to lapse, which we will mail to your latest address shown in our records. If our records show that you assigned your interest in the Account, we will also send a copy of the notice to the person you assigned it to, mailed to his or her latest address shown in our records.

If your Account lapses because your indebtedness exceeded the cash value of the Account, you may apply to us in writing to have it reinstated. We will reinstate your Account on four conditions:

- You must not have surrendered the Account.
- You must ask for the reinstatement no more than five years after your Account lapses.
- You must repay or reinstate any indebtedness, with interest at the current applicable loan

- rate up to the date we reinstate your Account.
- You must supply evidence of insurability that is satisfactory to us.

You may repay any or all of your indebtedness at any time before the Insured dies. However, if your Account has lapsed, you will not reinstate it just by repaying the indebtedness. You must meet all of the conditions for reinstatement.

Loan Interest

Each year, our Board of Directors will declare an interest rate for the next Account Year. This rate will be applied to your Account and will be used to accumulate the gross single premium you paid. We will send you a notice showing the new Declared Interest Rate.

The Declared Interest Rate will also be used to determine the interest rates we will charge on your loans. These loan interest rates may vary from year to year but we will never charge you more than the Maximum Loan Rate.

The loan interest rates we will charge are as follows:

- For that portion of a loan based on the accumulated gross single premium less the premium you paid, we will charge you the Declared Interest Rate plus up to 1/2 of one percent per year.
- For that portion of a loan in excess of the above amount, we will charge you the Declared Interest Rate plus 2.25 percent per year.

These rates are simple interest in arrears.

The Maximum Loan Rate will be the higher of:

- The Published Monthly Average of the Composite Yield on Seasoned Corporate Bonds, as published by Moody's Investors Service, Inc. (or any successor to that service) for the calendar month ending two months before the calendar month in which the Maximum Loan Rate is determined; or
- The nonforfeiture rate plus one percent per annum.

If that monthly average is no longer published, we will use a substantially similar average established by regulation issued by the insurance department of the state in which the group policy was delivered.

If you are being charged the Maximum Loan Rate and the Maximum Loan Rate computed for the next Account Year is less than 1/2% higher than

the rate for the previous Account Year, we will not increase the rate to the new rate. If the Maximum Loan Rate for the next Account Year is computed to be 1/2% or more below the rate for the previous year, we will decrease the rate to the new rate.

The nonforfeiture rate is the rate credited to your Account so as to provide you with the minimum values.

NONFORFEITURE PROVISIONS

Cash Value and Surrender:

The cash value of your Account is equal to the guaranteed cash value. The table on Page 3A shows the guaranteed cash values for your Account. The surrender value of your Account is equal to the guaranteed cash value of the Account, less any indebtedness.

Upon written request you may surrender your Account for cash. We will pay you the surrender value of your Account. Payment will end all of our obligations for your Account as of the end of the month in which we receive your request. We have the right to delay payment for six months after we receive your request.

If you surrender your Account within 30 days after the end of an Account Month, the amount payable will be at least equal to the surrender value as of the end of that prior Account Month.

Minimum Values & Reserves

The reserves and the values for your Account are at least equal to the minimum values required by law in the state where the Policy is delivered. These minimum values are based on: the 1980 Commissioner's Standard Ordinary Mortality Table; the maximum interest rate allowed by law for reserves on the Certificate Date, compounded yearly; and the Insured's age on his or her nearest birthday. We assumed all deaths in an Account Year occur at the end of the year.

A statement of the method of computing the cash values has been filed with the insurance department of the state in which the Policy was delivered.

Table of Values

The values in the table on Page 3A apply at the end of the Account Year shown. These values are calculated in accordance with the Minimum Values and Reserve Provision, assuming that there is no outstanding indebtedness. These values will be adjusted if your Account is sur-

rendered at any time other than at the end of an Account Year. Such interim values will take into account the lapse of time beyond the end of last Account Year. We will supply you with values not shown in the table if you ask us to.

If the Policy is amended in any way that would affect your cash values, we will furnish you with a new schedule of values. We guarantee that any change in the schedule of cash values will not reduce your values below those shown on your current schedule of guaranteed cash values.

SETTLEMENT OPTIONS

You can choose to have the death benefit, or or the surrender value if your Account is surrendered, paid in monthly installments instead of as a lump sum. Your request must be made in writing and is subject to our consent. You may make such a request at any time during the Insured's lifetime. A request to pay the surrender value in installments, however, must be made no

more than a month after the surrender value becomes payable.

If you do not ask us to pay the death benefit in installments, the Beneficiary may make such a request after the Insured has died. He or she must do so, however, no more than one month after we received the proof of death.

We will pay the installments in the amount chosen, until the death benefit is exhausted. The amount chosen must be at least \$20.00 a month. We will credit interest on the unpaid balance of the fund at such a rate as we may declare for that year. If the Beneficiary died while the Death Benefit is being paid under this method, we will pay the balance of the fund to the estate of the Beneficiary.

We will pay the death benefit in accordance with any other method of settlement that you may request, as long as it is agreed to by both us and the Policyholder in writing.

DEATH BENEFIT ATTAINED AGE FACTOR TABLE

ATTAINED AGE	FACTOR	ATTAINED AGE	FACTOR	ATTAINED AGE	FACTOR
		35	2.50	70	1.15
1	2.50	36	2.50	71	1.13
2	2.50	37	2.50	72	1.11
3	2.50	38	2.50	73	1.09
4	2.50	39	2.50	74	1.07
5	2.50	40	2.50	75	1.05
6	2.50	41	2.43	76	1.05
7	2.50	42	2.36	77	1.05
8	2.50	43	2.29	78	1.05
9	2.50	44	2.22	79	1.05
10	2.50	45	2.15	80	1.05
11	2.50	46	2.09	81	1.05
12	2.50	47	2.03	82	1.05
13	2.50	48	1.97	83	1.05
14	2.50	49	1.91	84	1.05
15	2.50	50	1.85	85	1.05
16	2.50	51	1.78	86	1.05
17	2.50	52	1.71	87	1.05
18	2.50	53	1.64	88	1.05
19	2.50	54	1.57	89	1.05
20	2.50	55	1.50	90	1.05
21	2.50	56	1.46	91	1.04
22	2.50	57	1.42	92	1.03
23	2.50	58	1.38	93	1.02
24	2.50	59	1.34	94	1.01
25	2.50	60	1.30	95	1.00
26	2.50	61	1.28	96	1.00
27	2.50	62	1.26	97	1.00
28	2.50	63	1.24	98	1.00
29	2.50	64	1.22	99	1.00
30	2.50	65	1.20		
31	2.50	66	1.19		
32	2.50	67	1.18		
33	2.50	68	1.17		
34	2.50	69	1.16		

COVENANT LIFE INSURANCE COMPANY

Home Office: Somerville, New Jersey 08876
Administrative Office: Hartford, Connecticut 06101

PARTIAL SURRENDER RIDER

This Rider forms a part of the Certificate to which it is attached.

It is effective on the effective date of the Certificate and terminates automatically on December 31, 1984. During this period, and upon written request, you may make a partial surrender for cash. A partial surrender will reduce the guaranteed cash value by the amount of the partial surrender. It will also reduce the death benefit value of the Account at the time of the partial surrender. We will provide you with a new Table of Benefits and values reflecting the reductions.

The amount of any partial surrender must be at least \$1000.00. A partial surrender may not cause the cash value after the partial surrender to be less than \$5000.00.

Signed at our Administrative Office,

SPECIMEN
[Signature]
PRESIDENT

APPENDIX E

REPORT OF DAVID ROSE
OF
THE PERMANENT FUND

PLAN I - APPROPRIATION PROCESS

DOES NOT REQUIRE APPROPRIATION OF CASH

REQUIRES APPROPRIATION OF ASSETS (LOAN PAPER)

CLEAN OUT THE FILE DRAWERS

CLEAN UP THE STATE BALANCE SHEET

NO GENERAL FUND EXPENDITURE IMPACT

IMPACT IS REVENUE SHORTFALL TO GENERAL FUND - NOT MONEY "ON THE TABLE"

VEST FUND WITH FOLLOWING LOANS:

	<u>AMOUNT</u>	<u>RATE</u>
COMMERCIAL FISHING	\$35,310,442	7.78%
FISHERIES ENHANCEMENT	6,881,187	7.96
SMALL BUSINESS	21,400,000	8.33
TOURISM	2,861,329	8.03
VETERANS	88,424,926	6.99
CHILDCARE FACILITIES	22,845	5.98
HISTORICAL DISTRICT	134,480	6.55
BANK LOAN INCENTIVE PROGRAM	3,193,003	8.38
MORTGAGE OPTION-RESIDENTIAL	2,130,845	9.95
MORTGAGE OPTION-BUSINESS	3,194,888	9.57
MOBILE HOME LOANS	3,679,978	8.75
ASHA MORTGAGES	1,208,695	7.50
AHFC NOTES	25,514,567	7.16
ASHA NOTES	15,282,505	8.56
MICA NOTES	3,000,000	7.00
U OF A NOTES	2,357,000	5.00

OBLIGATIONS PLEDGED TO AHFC	16,851,000	9.83
LOANS TO MUNICIPALITIES	245,000	6.06
ARRC MORTGAGES	<u>2,097,520</u>	<u>11.33</u>
TOTAL LOAN & MORTGAGE INVESTMENTS	\$233,790,210	7.73%

CFAB	31,000,000	n/a
DEBT CERTIFICATES	<u>44,304,000</u>	<u>8.79</u>

PROJECTED

LOAN/MORTGAGE ANNUAL YIELD:	\$21,967,851	(7.73)
LOAN/MORTGAGE ANNUAL REPAYMENTS:	23,381,022	(10.00)
LOAN REPAYMENTS:	28,320,507	

HISTORICAL

LAST YEAR YIELD AND REPAYMENTS	\$46,937,940	
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benefit concepts

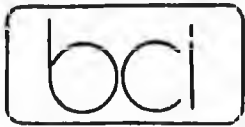
101 Park Avenue
26th Floor
New York, N.Y. 10178

(212) 682-9480

THE BENEFIT CONCEPTS, INC. - KIDDER PEABODY & CO. STUDY

One of the approaches examined by the committee was developed by Daniel Carpenter of Benefit Concepts, Inc. and Otto Lowe of Kidder Peabody & Co., Inc. The Benefit Concepts' program for funding the Longevity Bonus utilizes a specially designed Single Premium Whole Life contract that would be issued on a group basis with guaranteed issue underwriting without signatures, medical information, or any other requirements. The State of Alaska would be the owner and beneficiary of these policies.

The program is designed in such a way that the State would recover the funds expended for both the Longevity Bonus as well as the premiums paid. The carriers would be selected from an insurance consortium of New York licensed companies with an A+ rating in Best's Review and more than one billion dollars in assets. This would in effect guarantee the security of the program due to New York's Reserve Fund Program and its strict financial regulatory requirements for insurance carriers.



benefit concepts

The Single Premium Whole Life (SPL) product would act as a substitute for other insurance company investments such as GIC's or annuities, since GIC's (Guaranteed Investment Contracts) can only be used for pension plans, and annuities will not give as high a rate of return to the State. Insurance companies receive certain tax subsidies for life insurance contracts that can be passed on to the State of Alaska, which will provide the State with a higher rate of return on a guaranteed basis than can be earned with annuities, GIC's, corporate bonds, or government securities. The other advantage of this product is that unlike bonds or long term securities, if the State cashes in the policies, it will not suffer the market value adjustment that normally occurs from selling investments as interest rates are going higher.

Thus, this product was designed to give the State the maximum security and flexibility with a rate of return higher than other investments suitable for the funding of the Longevity Bonus Program.

This SPL product can be used by the State for the funding of the Longevity Bonus regardless of the final structure of the program. It was suggested by some of the committee members that the Department of Administration continue to investigate this program as a possible funding source for the Longevity Bonus once the legislature has made its decision as to the future of the Longevity Bonus Program.



benefit concepts

101 Park Avenue
26th Floor
New York, N.Y. 10178

(212) 682-9480

January 15, 1985

Ms. Deborah Vogt
Assistant Attorney General
State of Alaska
Department of Law and
Civil Division
Pouch K, State Capitol
Juneau, AK 99811

Dear Deborah:

Please find enclosed the two page synopsis of our program for the report. Please call me when you receive it. Also, when the report is complete could we get 6 - 12 copies of the report? We would appreciate it. We will also try to get the material Peter Hutzal asked for before the 24th.

With best regards,

A handwritten signature in cursive script, appearing to read 'Dan'.

Daniel E. Carpenter

DEC/dld

Encl.

cc: Peter Hutzal
John Tillinghast ✓

PLAN II - KIDDER STUDY

BORROW FROM PERMANENT FUND AT 10%

REINVEST AT 13%

- ° 10% IS NOT "MARKET" LOAN
- ° FUND WOULD SEEK 100 BASIS POINTS OVER US TREASURY RATE (12.52)
- ° ISSUER OF DEBT MUST BE AA RATED - INSURANCE COMPANIES WOULD NEED SOME CREDIT FACILITY

PLAN III - USE A PORTION OF DIVIDEND FUNDSPROJECTED DIVIDEND PAYMENTS
TO STATE FROM APFC

1984	\$175,000,000
1985	213,000,000
1986	256,000,000
1987	285,000,000
1988	308,000,000
1989	334,000,000
1990	362,000,000
1991	403,000,000
1992	448,000,000

- ° TIE TO DIVIDEND MAY FORECLOSE ABILITY TO USE DIVIDENDS IN THE FUTURE TO
FILL REVENUE SHORTFALL
- ° USE OF FUNDS IN 1985 MAY LOWER DIVIDEND CHECKS
- ° PHASE IN (JOINT DIVIDEND AND GENERAL FUND FUNDING) COULD BE CONSIDERED

PLAN IV -- APPROPRIATION OF RESERVES

STATUTE CONFLICTS:

50% - DIVIDENDS

66 2/3% - INFLATION PROOFING

RESERVES BUILD IN GOOD YEARS

RESERVES FALL IN BAD YEARS

AMOUNT OF RESERVES - SEE SCHEDULE

TRUSTEES AS FIDUCIARIES PROTECT INFLATION PROOFING

STATUTE CHANGE:

FIRST - INFLATION PROOFING

SECOND - OTHER APPROPRIATIONS

5% RESERVES

RESIDUAL FOR APPROPRIATION - ONTIME BASIS

- PORTION BACK TO FUND

- PORTION FOR OTHER USE

ADMINISTRATION

DEPARTMENT OF REVENUE WITH PERS AND TRS

DEPARTMENT OF ADMINISTRATION EMPLOYEE BENEFITS

PERMANENT FUND CORPORATION

- GOALS NOT SAME
- DIVERSION FROM MAIN MISSION

ALASKA PERMANENT FUND CORPORATION

FINANCIAL PROJECTIONS AS OF 11/30/84

PRINCIPAL: ACTUAL & PROJECTED
(in millions)

INCOME: ACTUAL & PROJECTED
(in millions)

Beginning FY Balance	Dedicated Appro- priations	State Revenues*	Inflation Proofing	Ending Balance	Inflation Adjusted Proofing Shortfall	Ending Balance	Net Income	Distributions			Reserves		Total Assets	FY	
								Inflation Dividends	State General Fund	Trans. Adj.**	Add (Delete)	Balance			
78		54.4		54.4		54.4	1.8		1.3	.5			55.0	78	
79	54.4	84.1		138.5		138.5	8.0		6.6	1.4			140.5	79	
80	138.5	344.4	.3	483.2		483.2	32.4	11.8	11.8	8.5			502.9	80	
81	483.2	900.0	.2	1,768.5		1,768.5	149.9	27.5	27.5	36.0	58.7	58.7	1,874.6	81	
82	1,768.5	800.0		2,969.0		2,969.0	368.4	71.1	71.1	41.1	185.1	243.8	3,301.7	82	
83	2,969.0	400.0	231.2	4,021.2		4,021.2	471.1	107.9	231.2	109.5	(87.5)	110.0	353.8	4,593.0	83
84	4,021.2	300.0	366.2	4,838.3		4,838.3	529.5	175.0	150.9			203.6	557.4	5,530.8	84
85	4,838.3	100.0	361.3	5,522.2		5,522.2	612.1	213.1	222.6			176.4	733.8	6,469.1	85
86	5,522.2	367.0	353.4	6,242.6		6,242.6	579.6	256.1	353.4			(29.9)	703.9	7,202.6	86
87	6,242.6	413.0	399.3	7,054.9		7,054.9	643.8	283.6	399.3			(39.1)	664.8	8,003.3	87
88	7,054.9	460.0	450.9	7,965.8		7,965.8	715.5	308.0	450.9			(43.4)	621.4	8,895.2	88
89	7,965.8	539.8	510.3	9,015.9		9,015.9	797.1	334.8	510.3			(48.0)	573.4	9,924.1	89
90	9,015.9	551.9	574.1	10,141.9		10,141.9	887.9	362.4	574.1			(48.6)	524.8	11,029.1	90
91	10,141.9	592.0	644.0	11,377.9		11,377.9	986.6	403.1	644.0			(60.5)	464.3	12,245.3	91
92	11,377.9	611.9	719.4	12,709.2		12,709.2	1,093.3	448.0	719.4			(74.1)	390.2	13,547.7	92
93	12,709.2	601.9	798.7	14,109.8		14,109.8	1,206.0	497.1	798.7			(89.8)	300.4	14,900.0	93
94	14,109.8	590.6	882.0	15,582.4		15,582.4	1,323.5	549.7	882.0			(108.2)	192.2	16,324.3	94
95	15,582.4	591.2	970.4	17,144.0		17,144.0	1,446.3	605.6	970.4			(129.7)	62.5	17,812.1	95
96	17,144.0	583.5	972.9	18,700.4	90.8	18,791.2	1,574.8	664.4	972.9			(62.5)		19,364.8	96
97	18,700.4	565.1	982.6	20,248.1	173.3	20,421.4	1,708.5	725.9	982.6					20,974.0	97
98	20,248.1	558.8	1,057.4	21,864.3	191.0	22,055.3	1,847.5	790.1	1,057.4					22,654.4	98
99	21,864.3	536.3	1,135.0	23,535.6	209.0	23,744.6	1,991.9	856.9	1,135.0					24,392.5	99
0	23,535.6	526.2	1,215.4	25,277.2	228.3	25,505.5	2,141.9	926.5	1,215.4					26,203.7	0

* Source: Alaska Department of Revenue

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

ASSUMPTIONS: 30% CASE - 1st Qtr FY85

- 25% Pre-1980 Contribution Rate
- 50% Post-1979 Contribution Rate
- 4.20% Inflation FY85
- 10.88% Return FY85
- 6% Average Inflation FY86-FY00
- 9% Average Return FY86-FY00

Alaska State Legislature

Legislative Research Agency



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

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

February 27, 1992

MEMORANDUM

TO: Representative Gene Kubina

FROM: Paula d. Scavera *PKS*
Legislative Analyst

RE: Comparison Between Senate Bill 8 and Senate Bill 56 as Vetoed by Governor Cowper in 1988
Research Request 92.183

You requested a comparison between Senate Bill 8 passed by the Senate earlier this week and Senate Bill 56 which was vetoed by Governor Cowper in 1988.

Both bills enact an annuity plan which allows people to defer their permanent fund dividends or equivalent cash amounts into a state annuity account. Once a person reaches 65 years of age, he or she would be able to receive a monthly annuity based upon the amount contained within the person's annuity account. Both bills also allow for a one-time emergency withdrawal from their annuity account with payback provisions. Also, SB 8 and SB 56 designate a beneficiary succession for death benefits.

The one major difference between SB 8 and SB 56 is the language for the decreased longevity bonus. Senate Bill 8 in section 9 states "...the monthly longevity bonus is \$250 minus the maximum possible straight life annuity under the annuity program."

Senate Bill 56 in section 9 set in statute exactly what the decreased longevity bonus dollar amount is for fiscal years after 1990, rather than using the formula in SB 8. Attached is a copy of SB 56 as vetoed by Governor Cowper which shows the decreased bonus amounts.

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

Attachment

Original sponsors: Kerttula, Halford,
Fischer and Uehling

1 IN THE SENATE

BY THE CONFERENCE COMMITTEE

2

CONFERENCE CS FOR SENATE BILL NO. 56

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "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."

7

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

12

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

13

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

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* Sec. 2. AS 43.23.110(b) is amended to read:

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(b) 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 the net income of the annuity investment fund to the individual annuity accounts and the annuity reserve account.

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* Sec. 3. AS 43.23 is amended by adding a new section to read:

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Sec. 43.23.125. CASH CONTRIBUTIONS. An individual who is eligible to receive the permanent fund dividend as an annuity credit under AS 43.23.005(d) but does not elect to do so or who elects to receive

28

29

1 only a portion of the permanent fund dividend as an annuity credit may
2 make a cash contribution to that individual's annuity account. The
3 cash contribution for a dividend year must be received by the Depart-
4 ment of Administration before September 30 of the year following that
5 dividend year. The total amount of the annuity credit and the cash
6 contributions to an annuity account for a year may not exceed the
7 amount of the permanent fund dividend for that year.

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

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

12 * Sec. 5. AS 43.23.130(b) is amended to read:

13 (b) An annuity under this section is a monthly payment based
14 upon the principal and accrued interest in the person's annuity ac-
15 count. Upon appointment to receive an annuity, the account balance
16 shall be transferred to the annuity reserve account. The [AN] annuity
17 shall be paid from the annuity reserve account as a straight life
18 annuity or other payment plan authorized by the commissioner of admin-
19 istration [THE DEPARTMENT OF ADMINISTRATION]. The size of the annuity
20 may not vary on account of the individual's sex.

21 * Sec. 6. AS 43.23.130(e) is repealed and reenacted to read:

22 (e) If a person elects to credit a permanent fund dividend or
23 make a cash contribution to an annuity account and dies before age 65,
24 a lump sum payment shall be made to that person's designated benefi-
25 ciary or beneficiaries. The lump sum payment includes all dividends
26 or cash contributions credited to the person's annuity account and
27 interest earned on the account. A person may change or revoke a
28 designation without notice to the beneficiary or beneficiaries at any
29 time. If a person designates more than one beneficiary, each shares

1 equally unless the person specifies a different allocation or prefer-
2 ence. The designation, change, or revocation of beneficiary shall be
3 made on a form provided by the commissioner of administration and is
4 not effective until it is filed with the commissioner. If there is no
5 beneficiary designated or surviving, the lump sum payment shall be
6 paid to the

7 (1) surviving spouse;

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

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

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

14 * Sec. 7. AS 43.23 is amended by adding a new section to read:

15 Sec. 43.23.135. EMERGENCY WITHDRAWALS. An individual may make a
16 withdrawal from that individual's annuity account before reaching the
17 age of 65 if the individual establishes to the satisfaction of the
18 commissioner of administration that the withdrawal is necessary to
19 meet an unforeseeable emergency. The amount withdrawn may not exceed
20 the total amount in the individual's annuity account or the amount
21 actually necessary to meet the emergency, whichever is less. The
22 commissioner shall define the term "unforeseeable emergency" by regu-
23 lation. An individual may only make one withdrawal under this section
24 and may pay it back with interest under terms established by the
25 commissioner. An individual who has made a withdrawal under this
26 section may not elect to credit a dividend or make a cash contribution
27 to an annuity account for two years after the withdrawal.

28 * Sec. 8. AS 47.45.015 is amended to read:

29 Sec. 47.45.015. AMOUNT OF BONUS. (a) Except as provided in (b)

1 and (c) of this section, the monthly longevity bonus is equal to \$250,
2 minus the maximum possible straight life annuity [FOR A PERSON 65
3 YEARS OF AGE] under the annuity program (AS 43.23.110 - 43.23.130), as
4 determined by the commissioner of administration. The maximum possi-
5 ble straight life annuity equals the amount a person would receive if
6 that person became 65 on January 2, 1989, and contributed 100 percent
7 of all permanent fund dividends or the cash equivalency to the annuity
8 program for every year after December 31, 1988. However, for purposes
9 of this section the maximum possible straight life annuity may not
10 exceed the amount that a person turning 65 in the current year would
11 receive if that person had contributed 100 percent of all permanent
12 fund dividends or the cash equivalency to the annuity program for
13 every year after December 31, 1988.

14 (b) A person who is 65 years of age on or before January 1, 1989
15 [1988], is entitled to the full longevity bonus payment without re-
16 duction for the annuity program.

17 * Sec. 9. AS 47.45.015 is amended by adding a new subsection to read:

18 (c) Notwithstanding (a) of this section, the monthly longevity
19 bonus in a fiscal year for a person who is 65 years of age after
20 January 1, 1989, may not exceed

- 21 (1) \$240.95 in fiscal year 1991;
- 22 (2) \$231.85 in fiscal year 1992;
- 23 (3) \$222.67 in fiscal year 1993;
- 24 (4) \$212.71 in fiscal year 1994;
- 25 (5) \$201.95 in fiscal year 1995;
- 26 (6) \$190.32 in fiscal year 1996;
- 27 (7) \$177.74 in fiscal year 1997;
- 28 (8) \$164.12 in fiscal year 1998;
- 29 (9) \$149.37 in fiscal year 1999;

- 1 (10) \$133.40 in fiscal year 2000;
- 2 (11) \$116.10 in fiscal year 2001;
- 3 (12) \$97.34 in fiscal year 2002;
- 4 (13) \$77.00 in fiscal year 2003;
- 5 (14) \$54.93 in fiscal year 2004;
- 6 (15) \$30.95 in fiscal year 2005;
- 7 (16) \$4.85 in fiscal year 2006; and
- 8 (17) \$00.00 after fiscal year 2006.

9 * Sec. 10. AS 43.23.110(c) and sec. 1, ch. 99, SLA 1985, are repealed.

10 * Sec. 11. Chapter 99, SLA 1985, and secs. 1 - 9 of this Act apply only
11 to permanent fund dividends for years beginning after December 31, 1988.
12 Notwithstanding the amendments to AS 43.23 made by ch. 99, SLA 1985, and
13 this Act, permanent fund dividends for 1988 and prior years shall be made
14 under the law as it existed before the effective date of this Act.

15 * Sec. 12. This Act takes effect immediately under AS 01.10.070(c).



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: March 2, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:
 HB 22 - Relating to Certain Legislative Info Confidential
 HB 327 - Relating to Primary Elections
 HB 404 - Relating to Filing Deadline for Certain Candidates

SB 8 / SB 381

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
BOB STANAKIER		RETIREMENT & BENEFIT			4470	(Y) N	SB 8 SB 381
Tom Williams	PFD Division	Revenue			2323	(Y) N	SB 8
Paula Terrel	Sen Hartala	Cap. Bldg.			1200	(Y) N	SB 8 + SB 381
Paula Scavone	Rep Roward				3991	Y N	SB 8
Paul Engelman	Rep Roward				3991	Y N	SB 8
Michael Casey	Rep Roward					Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	