

HB

81

(7)

Date Referred: March 12, 1993

FURTHER REFERRALS:

Finance

Date of Committee Action: 3-31-93

The JUDICIARY Committee considered:

HB 81

HOUSE BILL NO. 81

PHASE OUT LONGEVITY BONUS

"An Act relating to the longevity bonus program."

RECOMMENDATIONS:

be replaced with _____

CS HB 81 (STA)

the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) ADMIN

zero fiscal note _____

zero fiscal note(s) ADMIN

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Brian Porter</i>	<input checked="" type="checkbox"/>	<i>Bill Davidson</i>	<input checked="" type="checkbox"/>		
		<i>Judi D'Amico</i>		<input checked="" type="checkbox"/>	
		<i>Paul Phillips</i>		<input checked="" type="checkbox"/>	
		<i>James H. [unclear]</i>		<input checked="" type="checkbox"/>	
		<i>Pete [unclear]</i>		<input checked="" type="checkbox"/>	
		<i>Jeannette James</i>		<input checked="" type="checkbox"/>	

Brian Porter
CHAIRMAN'S SIGNATURE

Rep. Brian Porter, Chairman

House Judiciary Committee

Date: March 31, 1993

Place: Capitol Room 120

HB 92 Regulation of Notaries Public

Subject of Meeting: HB 81 Longevity Bonus
HB 89 Borough Assembly Apportionment

Please Print Name	Representing	Business/Personal Mailing Address	Zip	(H) Phone	(W) Phone	Do you Want to Testify?	Which Subject/ Which Bill?
✓ Dave Dierdorff	LAA-LEGAL				2150	(Y) N	TO ANSWER QUESTIONS ON HB 89
✓ Rupe Andrews	AARP	Jenkens	99801	789-7422		(Y) N	HB 81
✓ Gene HERRIOTT	Self	CAPITOL BLDG.			465-4797	(Y) N	HB 92
✓ Patty Thratt	H. Gov. Office	Capitol Bldg.	511		465-3509	(Y) N	ANSWER questions/testify HB 92
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	

**GOVERNOR'S PROPOSAL
LONGEVITY BONUS PHASE OUT
TALKING POINTS**

Phase out program

- ~ Grandfathering all current recipients
- ~ End new enrollment with those who turn 65 before January 1, 1997
- ~ Reduce payment for new eligibles over next three years (94 -- \$200; 95 -- \$150; 96 -- \$100)

Origin of program

- ~ Established in 1972 to pay \$100/month to those over age 65 who lived in Alaska prior to statehood (January 3, 1959)
- ~ Intended to provide for Alaskans who helped build our state but didn't have retirement income to stay in Alaska

Program changes

- ~ Vest case (1984) eliminated original residency requirements
- ~ Changes focus of program and made it open ended
- ~ Monthly bonus increased from \$100 to \$250

Program growth and costs

- | | | |
|--------|-------------------|----------------------------|
| ~ 1973 | 4,753 recipients | \$346,100 annual cost |
| ~ 1983 | 9,731 recipients | \$27.5 million annual cost |
| ~ 1986 | 15,763 recipients | \$44 million annual cost |
| ~ 1993 | 23,000 recipients | \$66 million annual cost |
| ~ 2000 | 31,000 recipients | \$93 million annual cost |
- ~ We've spent \$88 million more than we would if the program had been phased out in 1986.
 - ~ Each year phase out is delayed, the total (aggregate through end) cost of the program increases over \$100 million.

Changes for today's seniors

- ~ Alaska's life style and cost of living are now comparable to other states
- ~ More traditional employment opportunities have employer-based pensions
- ~ Social Security benefits have increased
- ~ Medical assistance programs are now available
- ~ ERISA protection for pensions is now provided

- ~ The Permanent Fund Dividend program was initiated
- ~ Senior citizen tax relief is available
- ~ Free and/or subsidized private and governmental services are available for all senior citizens
- ~ OAC grant programs which fund a variety of community based senior services have been initiated

Annuity programs

- ~ After six years of trying, the issue has still not been resolved.
- ~ Government-operated annuity program will require new expenditures and new administrative programs
- ~ The new direct deposit feature for the PFD allows recipients to self-direct dividends to an account of their choice
- ~ Annuity concept requires large pool of participants to ensure financial viability
- ~ The less affluent will be able to invest little or none of their PFD

Time to act

- ~ Current year is a window of opportunity to assure grandfathering of existing recipients
- ~ Ability to provide any transition time is becoming more difficult
- ~ Pressure to terminate all non-needs based benefits is growing

**ALASKA LONGEVITY BONUS
-PHASE OUT
Questions and Answers**

1. *Whom was the Longevity Bonus intended to serve?*

In 1972 the Legislature established the Longevity Bonus Program to serve seniors who were 25 year residents and lived in Alaska prior to statehood.

2. *What was the purpose of the Longevity Bonus Program?*

"The sole purpose of this chapter is to offer..... an incentive to continue uninterrupted residency in the state." Chapter 205 SLA 1972

3. *What changes have occurred since the creation of the Longevity Bonus Program in 1972 that reduce the need for the program?*

The need for future seniors to rely on the Longevity Bonus has been mitigated by a number of programs/protections that were not available when the Longevity Bonus was created.

- ~ Alaska's life style and cost of living are now comparable to other states
- ~ More traditional employment opportunities have employer-based pensions
- ~ Social Security benefits have increased
- ~ Medical assistance programs are now available
- ~ ERISA protection for pensions is now provided
- ~ The Permanent Fund Dividend program was initiated
- ~ Senior citizen tax relief is available
- ~ Free and/or subsidized private and governmental services are available for all senior citizens
- ~ OAC grant programs which fund a variety of community-based senior services have been initiated

In addition, elimination of the 25 year residency and requirement to be in Alaska before January 3, 1959, (Statehood) has drastically enlarged the group the program was designed to served.

4. *Why phase out the Longevity Bonus program?*

The state budget cannot sustain the projected growth of this program. Current recipients who are dependent on the Longevity Bonus are in jeopardy of eventually losing the benefit if growth is not curtailed. Projections indicate the program will exceed \$100,000,000 in the year 2002.

5. *Why end eligibility with those who are now age 62?*

This provides those with reasonable expectations of receiving the bonus some financial support from the Longevity Bonus. It provides adequate notice to others who have time for planning that the Longevity Bonus will no longer be available.

6. *Isn't a three year phase out short notice?*

Alaskans have been on notice that the Longevity Bonus was not likely to continue since 1986 when the legislature began considering proposals to phase out the program. Therefore, with the proposed three-year phase out, Alaskans will have known for over ten years that it was not likely that the program could be sustained indefinitely.

7. *Will phase out of the Longevity Bonus adversely affect the Alaska economy?*

No. The phase out will be gradual over 41 years so the effect will not be significant. With necessary budget reductions, the funds otherwise spent on the Longevity Bonus will be shifted to other priorities.

8. *In 1986 there was an advisory vote to end the Longevity Bonus and create an annuity program. Why doesn't this proposal contain an annuity plan?*

Economic conditions, investment options, and available technology have changed during the ensuing 7 years. The annuity plan calls for creation of a new government program at a time when it is necessary to downsize government operations. Additionally, Alaskans can now self-direct investment of their PFD to any number of options through direct deposit.

9. *Under other proposals that include an annuity plan, will seniors be guaranteed payment of \$250 per month when they reach age 65?*

Absolutely not. They will receive payments based only upon how much money they actually deposited in the program. The size of monthly payments will depend on the amount of annual investment; number of years in the program; and rate of interest earned. Those who did not invest any portion of their PFD will receive nothing.

10. *What costs has the state incurred by not ending the Longevity Bonus in 1986?*

The state has spent over \$88 million more than it would have if the growth had been held to the \$44 million budget of 1986. Today, the program serves 23,000 recipients and adds an additional \$5 million to the budget annually.

11. *Why will this approach to phasing out the Longevity Bonus program work when others have failed?*

This plan is simple. It is a single issue, not tied to development of new and financially complex programs. It is not dependent on uncertainties of the financial markets. It is sensitive to people's needs. It recognizes the special role of Senior Alaskans. It simply makes sense.

GOVERNOR'S PROPOSAL LONGEVITY BONUS PHASE OUT

The original Longevity Bonus legislation stated, "The sole purpose of this chapter is to offer and provide ... an incentive to continue uninterrupted residency in the state." (Ch. 205, SLA 1972) We propose to phase out the Longevity Bonus Program because:

- ~ Other incentives are now offered that enhance the living conditions of seniors
 - Alaska's life style and cost of living are now comparable to other states
 - More traditional employment opportunities have employer based pensions
 - Social Security benefits have increased
 - Medical assistance programs are now available
 - ERISA protection for pensions is now available
 - The Permanent Fund Dividend program was initiated
 - Senior citizen tax relief is available
 - Free and/or subsidized private and governmental services are available for all senior citizens
 - OAC grant programs which fund a variety of community based services have been initiated
- ~ 25 year residency requirement was struck down, negating the original intent of the program
- ~ It is serving all those who were at least 45 years old when it was passed
- ~ Bonus amount has increased from \$100 to \$250 and will need further adjustment to keep pace with inflation
- ~ Combination of the increased Bonus and more recipients due to shorter residency has made the program too costly
- ~ Limited state resources should be focused on those less able to help themselves
- ~ Alaskans generally agree it's time to phase out the current program

Key Provisions of Proposal

Terms	3-year phase out \$200, \$150, \$100 Grandfather all current recipients
Cost	Declines rapidly after 1996 Set formula allows for accurate budgeting
Administration	No new administrative cost Program ends by 2040
Investment Options for Permanent Fund Dividend (PFD)	Self-directed through direct deposit instructions on PFD application
Effect on Alaska's Seniors	Proposal easily understood Current recipients continue bonus at \$250 Provides for a reasonable transition

LONGEVITY BONUS PHASE OUT PROPOSALS COMPARISON CHART

	GOVERNOR'S PROPOSAL	SENATE BILL 6
TERMS	<ul style="list-style-type: none"> - 3 year phase out - \$200, \$150, \$100 - Grandfather all current recipients 	<ul style="list-style-type: none"> - Estimated 15 year phase out - Bonus declines based on variable factors - Grandfather all current recipients
COST	<ul style="list-style-type: none"> - Declines rapidly after 1996 - Set formula allows for accurate budgeting 	<ul style="list-style-type: none"> - Declines gradually - Declines dependent on PFD and investment income - Additional administrative costs - Variable nature makes budgeting difficult
ADMINISTRATION	<ul style="list-style-type: none"> - No new administrative costs - Program ends by 2040 	<ul style="list-style-type: none"> - New administrative system to determine annual payments within the longevity bonus program - create new government managed and administered annuity investment program - Longevity Bonus administration ends 2040 - New annuity administration open ended
INVESTMENT OPTIONS FOR PERMANENT FUND DIVIDENDS (PFD)	<ul style="list-style-type: none"> - Self-directed through direct deposit instructions on PFD application 	<ul style="list-style-type: none"> - Creates complex state operated annuity program as option for investing PFD - May not have sufficient participation to sustain financial viability
EFFECT ON ALASKA'S SENIORS	<ul style="list-style-type: none"> - Proposal easily understood - Current recipients continue at level they started - Provides for a reasonable transition - Frees resources for other senior needs 	<ul style="list-style-type: none"> - Complex to understand - Annual bonus dependent on PFD and investment income - Dedicates more general funds to non-needs based senior program

**GOVERNOR'S PROPOSAL
LONGEVITY BONUS PROGRAM
PHASE OUT
SUMMARY OF INTENT**

The Alaska Longevity Bonus Program was established in 1972 to pay \$100 per month as a "bonus" to those over age 65 who had lived in Alaska for 25 years and were here at the time of statehood. This was a finite, self liquidating group. The purpose of the program was to "offer and provide.... an incentive to continue interrupted residency in the state." (Ch. 205, SLA 1972) Were the original criteria still in place, those eligible to enroll in the program in 1996 would have been 28 years old at the time of statehood.

At the end of 1973 the program had 4,753 recipients and an annual cost of \$346,100. The program grew at a steady rate up through 1983 when there were 9,731 recipients and an annual budget of \$27,586,750. The \$100 monthly bonus was increased in 1976, 1978, 1981, and 1982 to its current level of \$250 per month. Current projections suggest the annual cost of the ALB will exceed \$90 million in the year 2000 and will pass the \$100 million mark in 2002.

In 1984, the Supreme Court found the residency rules unconstitutional in the Vest case. By the end of 1986 the Longevity Bonus Program had 15,763 recipients with an annual budget of \$44,105,500. Compared to 1983, that represented a 62% increase in recipients and a 60% increase in budget. More important, the Vest case changed the group being served from a finite, self liquidating group (65 years old, 25 years in state, here at time of statehood) to a continually growing group (anyone age 65 with one year residency). Beyond the change in the size of the group, the basic purpose of the Longevity Bonus Program changed. It was no longer a program to provide an incentive to long term Alaskans who helped build our state prior to statehood.

During the years since the creation of the Longevity Bonus, there have been several changes that have improved the economic condition of Alaskan seniors. The federal government passed the Employee Retirement Income Security Act (ERISA) in 1976, Individual Retirement Accounts (IRAs) became widely available, Senior Citizen Property Tax Relief was enacted, property values increased, The Permanent Fund Dividend was established, State income taxes were repealed, and Social Security incomes steadily increased. As a group, those reaching age 65 today, have had the advantage of the economic growth of the past 20 years and are more economically stable than any previous group of seniors.

This proposal protects those who planned their retirement around the Longevity Bonus Program. They will be able to depend on it for the rest of the time they remain in Alaska. The three year transition period before new enrollment is ended allows those close to retirement to receive the Longevity Bonus. It gives future retirees time to make other plans for retirement income. This proposal does not provide for creating a government operated annuity plan. For those who wish to invest their Permanent Fund Dividend to provide for future retirement income, today they can do so by directing the Permanent Fund Dividend Division to send the PFD to a private annuity plan or other investment of their choice. This can be accomplished through direct deposit instructions on the PFD application. This preserves the investment concept without creating a new bureaucracy to implement an insurance type program.

This proposal returns the Longevity Bonus Program to its original goal -- assisting a finite group who may not have remained in Alaska in retirement without this assistance.

Funds Spent on Senior Programs

FY '93 unless otherwise noted

Program	State	Federal	Total
Dept. of Administration			
Longevity Bonus	64,811,700		64,811,700
Pioneer Homes	30,432,500		30,432,500
Older Alaskans Commission	6,053,500	6,486,900	12,523,400
TOTAL DEPT.	101,297,700	6,486,900	107,767,600
Dept. of Health & Social Services			
Supplemental Security Income		3,580,580	3,580,580
Longevity Bonus Hold Harmless	2,194,500		2,194,500
Adult Public Assistance (for aged)	14,600,000		14,600,000
Food Stamps for elderly		165,600*	165,600*
Medicaid home health care	227,800	227,000	455,600
Medicaid nursing homes			
Skilled nursing	2,677,100	2,677,100	5,354,200
Intermediate nursing	16,385,400	16,385,400	32,770,800
General Relief Medical (Nursing Homes)	253,900		253,900
Medicaid Permanent Fund (Hold Harmless)	2,621,200		2,621,200
TOTAL DEPT.	38,959,900	23,035,680	61,996,380
Dept. of Community & Regional Affairs			
Homeowners Property Tax Exemption	2,838,800		2,838,800
Renters Equivalency Rebate	820,000		820,000
Job Training Partnership Act		185,125	185,125
TOTAL DEPT.	3,658,800	185,125	3,843,925
Dept. of Commerce and Economic Development			
Alaska Housing Finance Corporation			
Senior Housing Development	141,100		141,100
Senior Housing Revolving Loan Program	Up to \$30 million in bonds available from AHFC		
TOTAL DEPT.	141,100		141,100
TOTAL ALL DEPARTMENTS	144,057,500	29,707,625	173,765,125

Total number of seniors age 60+ = 35,266. Average benefit per senior = \$4,927.00.

* Estimated figure based on percentage of seniors served

Note: All funding levels are for FY 93 authorized, except for Medicaid and Job Training Partnership Act, which are FY 92 actual.

Additional State Benefits--Revenues Lost	Additional Municipal Benefits--Revenues Lost
Dept. of Transportation, ferry fares: \$540,800	Municipal Tax Exemptions \$8,454,353*
Dept. of Public Safety, vehicle registration: Estimated \$300,000.	*The above information does not include municipal services or discounts for seniors. Municipalities also often offer sales tax exemptions, discounted bus fares and similar programs.
University of Alaska, tuition waiver: \$230,267 estimated	
Dept. of Fish and Game: waivers of hunting, trapping, and fishing licenses (average cost: \$10.60): \$27,560.	Total number of seniors age 60+ = 35,266. Total revenues lost = \$8,454,353.
Total additional State benefits = \$1,098,627. Average senior benefit = \$31.15.	Total average benefit = \$240.

House Bill 81
Sectional Analysis

Sec. 1: Provides for phase out of the Longevity Bonus Program.
Specifically:

- a. All current Longevity Bonus recipients and persons reaching age 65 before January 1, 1994, would receive the current \$250 per month bonus payment.
- b. Persons reaching age 65 during calendar year 1994 would receive \$200 per month.
- c. Persons reaching age 65 during calendar year 1995 would receive \$150 per month.
- d. Persons reaching age 65 during calendar year 1996 would receive \$100 per month.

Under current law, all persons 65 or older are eligible to receive a \$250 per month bonus payment.

Sec. 2: Provides that persons must be 65 before January 1, 1997, to receive a bonus payment. Persons turning 65 after that time would not be eligible.

MEMORANDUM

State of Alaska
Department of Law

TO Nancy Bear Usera
Commissioner
Department of Administration

DATE March 10, 1993

FILE NO 223-93-0335

TEL NO 465-3600

SUBJECT Constitutionality of
phase-out provisions of
HB 81 and SB 58

FROM John B. Gaguine ^{BS}
Assistant Attorney General
Governmental Affairs - Juneau

We sent you a memorandum recently expressing our opinion that the provisions of HB 81 and SB 58 abolishing the longevity bonus but "grandfathering" in those who would turn 65 before January 1, 1997 would not violate the equal protection clauses of the state or federal constitutions. You have now asked whether there are constitutional problems with the differing amounts given to the "grandfathered" persons.¹

We believe that these provisions would be constitutional for the same reason as the whole "grandfathering" scheme would be. The farther a person is from age 65 - retirement age for many people, and the age at which social security benefits begin - the longer the person has to adjust his or her retirement plans. Thus in our opinion a court would find that the legislature could permissibly conclude that a person turning 65 in 1996 would suffer less hardship from a reduced longevity bonus than would a person turning 65 in 1994, and accordingly the court would uphold the legislative decision to reduce the bonus to a greater degree for the former senior than for the latter.

If we can be of further assistance, please let us know.

cc: Roberley Waldron
Eileen Plate

¹ As we noted in our initial memorandum, those turning 65 before the start of 1994 would receive \$250 a month for life; those turning 65 in 1994, \$200; those turning 65 in 1995, \$150; and those turning 65 in 1996, \$100.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. CSHB81 (STA)

Revision Date: _____ Dept. Affected: Health and Social Services
 Title: An Act relating to the longevity BRU: Assistance Payments
bonus program Component: OAA-ALB Hold Harmless
 Sponsor: House Rules Committee
 Requestor: Governor COMPONENT SERIAL NO. 223

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	(163.0)	(482.0)	(729.6)	(987.8)	(1,255.1)	(1,534.1)
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	(163.0)	(482.0)	(729.6)	(987.8)	(1,255.1)	(1,534.1)

CAPITAL	0.0	0.0	0.0	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)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	(163.0)	(482.0)	(729.6)	(987.8)	(1,255.1)	(1,534.1)
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	(163.0)	(482.0)	(729.6)	(987.8)	(1,255.1)	(1,534.1)

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 (F'93) impact: NONE

ANALYSIS: (Attach a separate page if necessary)

CSHB 81(STA) continues the Longevity Bonus program indefinitely, but decreases the Longevity Bonus payment from \$250 to \$225 beginning July 1, 1993. CSHB 81(STA) also eliminates Longevity Bonus payments for individuals who reach the age of 65 after December 31, 1993.

The decrease in the Longevity Bonus payment combined with decrease in OAA-ALB Hold Harmless caseloads after FY 94 as "grandfathered" ALB recipients are replaced in the Adult Public Assistance caseload by aged individuals who do not qualify for the Longevity Bonus program will cause the amount of OAA-ALB Hold Harmless funds necessary for federal Supplemental Security Income (SSI) replacement to decrease. CSHB 81(STA) does not affect the Adult Public Assistance program because Longevity Bonus payments are not treated as countable income by that program.

Prepared by: Jan L. Hansen, Director
 Division: Division of Public Assistance

Phone: 465-2680
 Date: 3/19/93

Approved by Commissioner: Theodore A. Mala, MD, MPH
 Agency: Department of Health & Social Services

Date: 3/22/93

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ANALYSIS (cont.):

1. CSHB 81(STA) continues the OAA-ALB Hold Harmless program.
2. Only those who reach age 65 before January 1, 1994 will continue to be eligible for Longevity Bonus payments.
3. The Longevity Bonus payment will decrease from \$250 to \$225 effective July 1, 1993.
4. OAA-ALB Hold Harmless funds replace federal Supplemental Security Income (SSI) benefits lost by APA recipients because of the receipt of Longevity Bonus payments. Under current law, OAA-ALB Hold Harmless payments range from \$0 to \$250; the average payment is \$125. Under CSHB 81(STA), the average payment will decrease by \$12.50 to \$112.50 ($\$225 \times 1/2 = \112.50).
5. The effect of the bonus payment decrease on OAA-ALB Hold Harmless is delayed by 4 months because of the 2-month retrospective payment methodologies used by both the ALB program and the SSI program. For example, the bonus payment decrease will affect only 8 months in FY 94 because the payment decrease will not occur for impacted OAA clients until September 1, 1993, and SSI benefits will not be affected until November 1, 1993. Therefore, changes in the amount of hold harmless benefits to replace lost SSI benefits also begin November 1, 1993.
6. Without the effects of CSHB 81(STA), the OAA-ALB Hold Harmless caseload would normally increase each year by about 6 percent. However, under CSHB 81(STA), caseload growth will stop in FY 94, and then because of outmigration, death, and other reasons, will slowly decrease as follows:

	OAA-ALB HH Caseload without CSHB 81(STA)	OAA-ALB HH Caseload Under CSHB 81(STA)	Amount of Caseload Decrease
FY 94	1630	1630	---
FY 95	1728	1563	165
FY 96	1831	1494	337
FY 97	1941	1425	516
FY 98	2058	1357	701
FY 99	2181	1287	894

7. The average \$12.50 decrease in OAA-ALB Hold Harmless payments (caused by the \$25 decrease in Longevity Bonus payments) combined with the expected decrease in the OAA-ALB Hold Harmless caseload will cause OAA-ALB Hold Harmless expenditures to decrease as follows:

FY 94	$1630 \times 8 \text{ months} \times \$12.50 =$	\$ 163.0
FY 95	$1563 \times 12 \text{ months} \times \$12.50 =$	\$ 234.5
	$165 \times 12 \text{ months} \times \$125.00 =$	\$ 247.5
	Total	\$ 482.0
FY 96	$1494 \times 12 \text{ months} \times \$12.50 =$	\$ 224.1
	$337 \times 12 \text{ months} \times \$125.00 =$	\$ 505.5
	Total	\$ 729.6
FY 97	$1425 \times 12 \text{ months} \times \$12.50 =$	\$ 213.8
	$516 \times 12 \text{ months} \times \$125.00 =$	\$ 774.0
	Total	\$ 987.8

Revision Date: _____

BILL NO. CSHB81 (STA)

ANALYSIS (cont.):

FY 98	1357 x 12 months x \$12.50 =	\$ 203.6
	701 x 12 months x \$125.00 =	<u>\$1,051.5</u>
	Total	\$1,255.1
FY 99	1287 x 12 months x \$12.50 =	\$ 193.1
	894 x 12 months x \$125.00 =	<u>\$1,341.0</u>
	Total	\$1,534.1

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. CSHB 81 (STA)

Revision Date: _____

Title: An act relating to the Longevity Bonus

Sponsor: House Rules Committee

Requestor: State Affairs

Department Affected: Administration

BRU: Pioneers' Benefits

Component: Longevity Bonus

Administration

COMPONENT SERIAL NO. 27

Expenditures/Revenues:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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

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:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

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

Estimate of current year (FY93) impact: 0

ANALYSIS:

Prepared by: Dennis L. DeWitt
Division: Director

Phone: 465-4400
Date: _____

Approved by Commissioner: Nancy Bear Usura
Agency: Administration

Date: 3/11/93

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FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. CSHB 81 (STA)

Revision Date: _____
Title: An act relating to the Longevity Bonus
Sponsor: House Rule Committee
Requestor: State Affairs

Department Affected: Administration
BRU: Pioneers' Benefits
Component: Longevity Bonus
Grants _____
COMPONENT SERIAL NO. 26

Expenditures/Revenues:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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	(8,500.0)*	(16,200.0)*	(22,200.0)*	(27,800.0)*	(33,500.0)*	(39,200.0)*
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(8,500.0)	(16,200.0)	(22,200.0)	(27,800.0)	(33,500.0)	(39,200.0)

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:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	(8,500.0)	(16,200.0)	(22,200.0)	(27,800.0)	(33,500.0)	(39,200.0)
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	(8,500.0)	(16,200.0)	(22,200.0)	(27,800.0)	(33,500.0)	(39,200.0)

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 (FY93) impact: 0

ANALYSIS: * Cost savings reflect the difference between current program costs and new program cost. See attached table for details of the calculations.

Prepared by: Dennis L. DeWitt
Division: Director

Phone: 465-4400
Date: _____

Approved by Commissioner: Nancy Bear Usura
Agency: Administration

Date: 3/11/93

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Longevity Bonus Fiscal Note

CSHB 81 (STA)

FY	Current Program		Proposed Phase-Out		Difference	
	Number of Participants	Annual Cost	Number of Participants	Annual Cost	Number of Participants	Annual Savings to the State
1994	24,059	69.6	23,482	61.1	(577)	(8.5)
1995	25,864	74.8	22,512	58.6	(3,352)	(16.2)
1996	27,021	78.2	21,521	56.0	(5,500)	(22.2)
1997	28,081	81.2	20,527	53.4	(7,554)	(27.8)
1998	29,188	84.4	19,551	50.9	(9,637)	(33.5)
1999	30,266	87.5	18,544	48.3	(11,722)	(39.2)

Cost in Millions of Dollars

Explanation: 1. For purposes of consistency, we have used Legislative Research figures for the 'Number of Participants' and 'Annual Cost' for the Current Program and the Proposed Phase-Out.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. HB 81

Revision Date: 2/8/93

Title: An act relating to the Longevity bonus

Sponsor: House Rules Committee

Requestor: State Affairs

Department Affected: Administration

BRU: Pioneers' Benefits

Component: Longevity Bonus

Grants

COMPONENT SERIAL NO. 26

Expenditures/Revenues:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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	(500.0)*	(4,000.0)*	(7,100.0)*	(11,300.0)*	(17,500.0)*	(23,600.0)*
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(500.0)	(4,000.0)	(7,100.0)	(11,300.0)	(17,500.0)	(23,600.0)

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

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

FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	(500.0)	(4,000.0)	(7,100.0)	(11,300.0)	(17,500.0)	(23,600.0)
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	(500.0)	(4,000.0)	(7,100.0)	(11,300.0)	(17,500.0)	(23,600.0)

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 (FY93) impact: 0

ANALYSIS: * Cost savings reflect the difference between current program costs and new program cost. Budget requests will continue to go up through FY96 due to growth in numbers of participants. By FY97 budget requests begin to go down. See attached table for details of the calculations.

Prepared by: Dennis L. DeWitt, Director
Division: Pioneers' Benefits

Phone: 465-4400
Date: 2/5/93

Approved by Commissioner: Nancy Bear Usara
Agency: Administration

Date: 2/8/93

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Longevity Bonus Fiscal Note

FY	Current Program		Proposed Phase-Out		Difference	
	Number of Participants	Annual Cost	Number of Participants	Annual Cost	Number of Participants	Annual Savings to the State
1994	24,059	69.6	24,059	69.1	0	(0.5)
1995	25,864	74.8	25,864	70.8	0	(4.0)
1996	27,021	78.2	27,021	71.1	0	(7.1)
1997	28,081	81.2	26,581	69.9	(1,500)	(11.3)
1998	29,188	84.4	25,525	66.9	(3,663)	(17.5)
1999	30,266	87.5	24,444	63.9	(5,822)	(23.6)

Cost in Millions of Dollars

Explanation: 1. For purposes of consistency, we have used Legislative Research figures for the 'Number of Participants' and 'Annual Cost' for the Current Program and the Proposed Phase-Out.

Note : There is an additional fiscal note associated with this proposal for the administration component, for \$11,625 for computer modifications.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

No. 2
 Bill Version: HB 81
 (H) Publish Date: 1/22/93

Revision Date: _____
 Title: An act relating to the Longevity Bonus Program

 Sponsor: Rules Committee
 Requestor: Governor

Department Affected: Administration
 BRU: Pioneers' Benefits
 Component: Longevity Bonus

COMPONENT SERIAL NO. 27

Expenditures/Revenues:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	11.6	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	11.6	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:

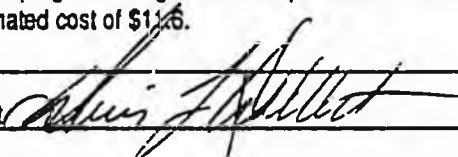
1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	11.6	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	11.6	0	0	0	0	0

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

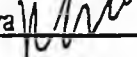
Estimate of current year (FY93) impact: 0

ANALYSIS: (Attach a separate page if necessary.)

The proposed Longevity Bonus program changes would require modifications to both mainframe and microcomputer software and revised interface programs at an estimated cost of \$11.6.

Prepared by: Dennis L. DeWitt 
 Division: Pioneers' Benefits

Phone: 465-4400
 Date: 1/15/93

Approved by Commissioner: Nancy Bear Usura 
 Agency: Administration

Date: 1/15/93

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FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

No. 1
Bill Version: HB 81
(H) Publish Date: 1/22/93

Revision Date: _____
Title: An act relating to the Longevity Bonus Program
Sponsor: Rules Committee
Requestor: Governor

Department Affected: Administration
BRU: Pioneers' Benefits
Component: Longevity Bonus
Grants
COMPONENT SERIAL NO. 26

Expenditures/Revenues:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
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	(413.9)*	(2,174.2)*	(6,138.7)*	(13,025.0)*	(20,017.0)*	(27,282.5)*
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(413.9)	(2,174.2)	(6,138.7)	(13,025.0)	(20,017.0)	(27,282.5)

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:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	(413.9)	(2,174.2)	(6,138.7)	(13,025.0)	(20,017.0)	(27,282.5)
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	(413.9)	(2,174.2)	(6,138.7)	(13,025.0)	(20,017.0)	(27,282.5)

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 (FY93) impact: 0

ANALYSIS: (Attach a separate page if necessary.)* Cost savings reflect the difference between current program costs and new program costs. Budget requests will continue to go up through FY96 due to growth in numbers of participants. By FY97 budget requests begin to go down. See attached tables for details of the calculations.

Prepared by: Dennis L. DeWitt Director *[Signature]* Phone: 465-4400
Division: Pioneers' Benefits Date: 01/12/93

Approved by Commissioner: Nancy Bear Usura *[Signature]*
Agency: Administration Date: 1/15/93

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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

March 4, 1993

The Honorable Brian Porter
Chairman
House Judiciary Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Representative Porter:

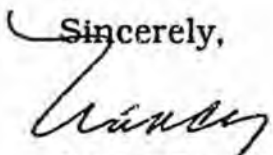
This is to request your consideration in scheduling HB 81 before the House Judiciary Committee pending referral. I am hopeful that the bill will be reported out of State Affairs on March 9.

This bill phases out the State's Longevity Bonus Program over several years. The ever-growing number of eligible seniors in Alaska, coupled with projected revenue declines, are making the bonus program unaffordable over the long term. The bill proposes a phased elimination of the program because many Alaskans who are receiving the bonus now or who will be eligible for it in the near future, have counted on receiving it in their retirement years.

In view of the rapid growth in this program, I believe that remedial action must be taken this session in order to protect current recipients and to provide a reasonable transition period. We are, therefore, anxious to secure passage of the provisions of HB 81 this session.

Thank you.

Sincerely,


Nancy Bear Usera
Commissioner

NBU/nl
cc: Kris Lethin
Legislative Liaison

MEMORANDUM

State of Alaska

Department of Law

TO Nancy Bear Usera
Commissioner
Department of Administration

DATE March 5, 1993

FILE NO 663-93-0335

TEL. NO. 465-3600

SUBJECT Constitutionality of
"grandfathering" in
current longevity bonus
recipients and those
who will soon turn 65

FROM John B. Gaguine ^{RG}
Assistant Attorney General
Governmental Affairs - Juneau

You have asked for an opinion as to the constitutionality of the "grandfather" provisions of HB 81 and SB 58. These identical bills, both introduced by the respective rules committee on behalf of the governor, eliminate the longevity bonus for people who turn 65 on or after January 1, 1997. However, they contain "grandfather" provisions that allow persons turning 65 by the end of this year to keep receiving \$250 a month for the rest of their lives; persons turning 65 in 1994 to keep receiving \$200 a month for the rest of their lives; persons turning 65 in 1995 to keep receiving \$150 a month for the rest of their lives; and persons turning 65 in 1996 to keep receiving \$100 a month for the rest of their lives.

The question that these bills raise is whether the "grandfather" provisions violate the equal protection clause of the Alaska constitution, article I, section 1.¹ While we cannot give you a certain answer to this question, we believe strongly that a court would not overturn the "grandfather" provisions if either bill is entitled into law and the provisions were challenged.

Equal protection analysis in Alaska uses a "sliding scale" approach. When a legislative classification impairs an individual's interest, the court first looks at the weight of the that interest. The court then examines the legitimacy of the legislative purpose in enacting the classification. Finally, if the court finds that the interest is legitimate, it examines the "closeness of the fit" between the classification and the purpose. If the individual's interest is not especially weighty, a less-than-perfect fit will be tolerated. Rose v. Commercial Fisheries Entry Commission, 647 P.2d 154, 158-60 (Alaska 1982).

¹ If the provisions pass constitutional muster under the Alaska constitution, they will also pass muster under the federal equal protection clause, part of the Fourteenth Amendment, because the federal clause has been construed as more deferential to legislative enactments than the state clause. Rose v. Commercial Fisheries Entry Commission, 647 P.2d 154, 158 (Alaska 1982).

Nancy Bear Usera
Commissioner
Our File: 663-93-0335

March 5, 1993
Page 2

The Alaska Supreme Court has held that an individual's interest in receiving government benefits is at the bottom of the sliding scale. State v. Anthony, 810 P.2d 155 (Alaska 1991) (permanent fund dividend); Sonneman v. Knight, 790 P.2d 702 (Alaska 1990) (unemployment compensation benefits). The Governor's introduction letter for both bills explains the purpose of the "grandfather" provisions: to protect current recipients, and those reaching age 65 in the next four years, because many of them have counted on the bonus in planning for retirement, and an abrupt termination of the program would cause hardship. Acting to prevent such hardship is obviously a legitimate legislative purpose. Finally, there is a substantial relationship between the purpose of the "grandfather" provisions and those provisions: by "grandfathering" in current recipients and those soon to turn 65, hardship is prevented. The fit is not perfect: there are obviously some current wealthy recipients who would suffer no hardship if their bonus was terminated, and some persons in their fifties who have made retirement plans relying on the bonus. But, as noted, when the individual's interest is at the bottom of the sliding scale, the fit does not have to be perfect. There is here a sufficiently substantial relationship that we are confident a court would not invalidate the "grandfather" provisions.

Our research has not disclosed any Alaska cases concerning the constitutionality of "grandfather" provisions. However, other jurisdictions have upheld such provisions, when there was a reason for them. In City of New Orleans v. Dukes, 427 U.S. 297 (1976), the U.S. Supreme Court upheld a New Orleans ordinance banning pushcart food sales in the French Quarter but allowing pushcart vendors who had operated in the Quarter for eight years to continue operating. Even though only two vendors qualified under this "grandfather" provision, the Court upheld the ordinance, finding it to be a permissible economic regulation "aimed at enhancing the vital role of the French Quarter's tourist-oriented charm in the economy of New Orleans." Id. at 303. Dukes has been widely followed by state and federal courts.

For the above reasons we believe that if HB 81 or SB 58 were enacted into law, and a court were presented with a claim that the "grandfather" provisions of the enactment violate the equal protection clause of the Alaska constitution, the court would reject the challenge and uphold the "grandfather" provision.

If we can be of further assistance, please let us know.

cc: Roberley Waldron
Eileen Plate

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

January 26, 1993

The Honorable Al Vezey
Alaska State Representative
State Capitol
Juneau, AK 99811-1182

JAN 28 REC'D

Dear Representative Vezey:

Re: Governor's Longevity Bonus Phase
Out Bill SB 58 and HB 81

As you know, this administration has submitted a proposal (SB 58/HB 81) to phase out the Longevity Bonus program. We would like to share with you the reasons for the approach we took in crafting our plan.

It is evident from the Economic Summit and public comments that there is a movement to reduce or do away with some non-needs based programs. The Longevity Bonus program falls into that category and is, therefore, extremely vulnerable. Financial pressure to reduce the cost of the program is building greater every year. We are concerned that the State's ability to grandfather in current recipients is threatened, the more expensive the program becomes. In view of these factors, we believe a solution must be reached this year to protect those currently in the program and to provide for a reasonable phase out period.

The Governor's proposal is a single issue and simple. It pays \$250 per month to all current recipients for life, and transitions in new participants at a reduced amount over a three-year period.

We recognize that since the advisory vote in 1986, there has been significant interest in an "annuity plan" to replace the Longevity Bonus. Several versions of an annuity proposal have been developed. However, many fear that too much time has elapsed since the original annuity proposal to be able to accommodate such a long-term approach. The State has already spent \$88 million more than it would have if the phase out had started in 1986.

January 26, 1993

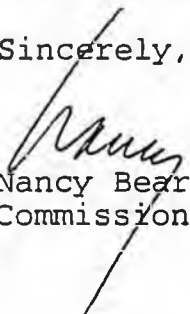
Two other issues regarding the annuity plan concern us. First, investment professionals at the Department of Revenue estimate that an unrealistically high level of participation by Permanent Fund Dividend (PFD) recipients will be necessary to maintain a financially viable program. Second, we are concerned that those most in need of supplementing their senior income will not be able to participate. Many Alaskans use their PFD for living priorities and would be unlikely to set aside their dividends for investment purposes. Accordingly, the plan would serve more as a government subsidized investment program for the more affluent.

We strongly believe it is not in the State's best interest to create a new long-term, open-ended program that is uncertain, costly, and duplicates programs already available through the private sector. We urge you to consider the Longevity Bonus phase out and the annuity option as separate issues.

Enclosed are some summaries which provide more information. If you have any questions or need additional information, please let me know.

Thank you for your consideration of the Governor's alternatives.

Sincerely,



Nancy Bear Usera
Commissioner

NBU/pal
9/2/02611.sf&pf
Enclosures

cc: Kris Lethin
Legislative Liaison
Office of the Governor

Roberley Waldron
Deputy Commissioner
Department of Administration

Division of Pioneers' Benefits
Department of Administration

**GOVERNOR'S PROPOSAL
LONGEVITY BONUS PHASE OUT
TALKING POINTS**

Phase out program

- ~ Grandfathering all current recipients
- ~ End new enrollment with those who turn 65 before January 1, 1997
- ~ Reduce payment for new eligibles over next three years (94 -- \$200; 95 -- \$150; 96 -- \$100)

Origin of program

- ~ Established in 1972 to pay \$100/month to those over age 65 who lived in Alaska prior to statehood (January 3, 1959)
- ~ Intended to provide for Alaskans who helped build our state but didn't have retirement income to stay in Alaska

Program changes

- ~ Vest case (1984) eliminated original residency requirements
- ~ Changes focus of program and made it open ended
- ~ Monthly bonus increased from \$100 to \$250

Program growth and costs

- | | | |
|--------|-------------------|----------------------------|
| ~ 1973 | 4,753 recipients | \$346,100 annual cost |
| ~ 1983 | 9,731 recipients | \$27.5 million annual cost |
| ~ 1986 | 15,763 recipients | \$44 million annual cost |
| ~ 1993 | 23,000 recipients | \$66 million annual cost |
| ~ 2000 | 31,000 recipients | \$93 million annual cost |
- ~ We've spent \$88 million more than we would if the program had been phased out in 1986.
 - ~ Each year phase out is delayed, the total (aggregate through end) cost of the program increases over \$100 million.

Changes for today's seniors

- ~ Alaska's life style and cost of living are now comparable to other states
- ~ More traditional employment opportunities have employer-based pensions
- ~ Social Security benefits have increased
- ~ Medical assistance programs are now available
- ~ ERISA protection for pensions is now provided

**ALASKA LONGEVITY BONUS
-PHASE OUT
Questions and Answers**

1. Whom was the Longevity Bonus intended to serve?

In 1972 the Legislature established the Longevity Bonus Program to serve seniors who were 25 year residents and lived in Alaska prior to statehood.

2. What was the purpose of the Longevity Bonus Program?

"The sole purpose of this chapter is to offer..... an incentive to continue uninterrupted residency in the state." Chapter 205 SLA 1972

3. What changes have occurred since the creation of the Longevity Bonus Program in 1972 that reduce the need for the program?

The need for future seniors to rely on the Longevity Bonus has been mitigated by a number of programs/protections that were not available when the Longevity Bonus was created.

- ~ Alaska's life style and cost of living are now comparable to other states
- ~ More traditional employment opportunities have employer-based pensions
- ~ Social Security benefits have increased
- ~ Medical assistance programs are now available
- ~ ERISA protection for pensions is now provided
- ~ The Permanent Fund Dividend program was initiated
- ~ Senior citizen tax relief is available
- ~ Free and/or subsidized private and governmental services are available for all senior citizens
- ~ OAC grant programs which fund a variety of community-based senior services have been initiated

In addition, elimination of the 25 year residency and requirement to be in Alaska before January 3, 1959, (Statehood) has drastically enlarged the group the program was designed to served.

4. Why phase out the Longevity Bonus program?

The state budget cannot sustain the projected growth of this program. Current recipients who are dependent on the Longevity Bonus are in jeopardy of eventually losing the benefit if growth is not curtailed. Projections indicate the program will exceed \$100,000,000 in the year 2002.

5. Why end eligibility with those who are now age 62?

This provides those with reasonable expectations of receiving the bonus some financial support from the Longevity Bonus. It provides adequate notice to others who have time for planning that the Longevity Bonus will no longer be available.

GOVERNOR'S PROPOSAL LONGEVITY BONUS PHASE OUT

The original Longevity Bonus legislation stated, "The sole purpose of this chapter is to offer and provide ... an incentive to continue uninterrupted residency in the state." (Ch. 205, SLA 1972) We propose to phase out the Longevity Bonus Program because:

- ~ Other incentives are now offered that enhance the living conditions of seniors
 - Alaska's life style and cost of living are now comparable to other states
 - More traditional employment opportunities have employer based pensions
 - Social Security benefits have increased
 - Medical assistance programs are now available
 - ERISA protection for pensions is now available
 - The Permanent Fund Dividend program was initiated
 - Senior citizen tax relief is available
 - Free and/or subsidized private and governmental services are available for all senior citizens
 - OAC grant programs which fund a variety of community based services have been initiated
- ~ 25 year residency requirement was struck down, negating the original intent of the program
- ~ It is serving all those who were at least 45 years old when it was passed
- ~ Bonus amount has increased from \$100 to \$250 and will need further adjustment to keep pace with inflation
- ~ Combination of the increased Bonus and more recipients due to shorter residency has made the program too costly
- ~ Limited state resources should be focused on those less able to help themselves
- ~ Alaskans generally agree it's time to phase out the current program

Key Provisions of Proposal

Terms	3-year phase out \$200, \$150, \$100 Grandfather all current recipients
Cost	Declines rapidly after 1996 Set formula allows for accurate budgeting
Administration	No new administrative cost Program ends by 2040
Investment Options for Permanent Fund Dividend (PFD)	Self-directed through direct deposit instructions on PFD application
Effect on Alaska's Seniors	Proposal easily understood Current recipients continue bonus at \$250 Provides for a reasonable transition

**GOVERNOR'S PROPOSAL
LONGEVITY BONUS PROGRAM
PHASE OUT
SUMMARY OF INTENT**

The Alaska Longevity Bonus Program was established in 1972 to pay \$100 per month as a "bonus" to those over age 65 who had lived in Alaska for 25 years and were here at the time of statehood. This was a finite, self liquidating group. The purpose of the program was to "offer and provide.... an incentive to continue interrupted residency in the state." (Ch. 205, SLA 1972) Were the original criteria still in place, those eligible to enroll in the program in 1996 would have been 28 years old at the time of statehood.

At the end of 1973 the program had 4,753 recipients and an annual cost of \$346,100. The program grew at a steady rate up through 1983 when there were 9,731 recipients and an annual budget of \$27,586,750. The \$100 monthly bonus was increased in 1976, 1978, 1981, and 1982 to its current level of \$250 per month. Current projections suggest the annual cost of the ALB will exceed \$90 million in the year 2000 and will pass the \$100 million mark in 2002.

In 1984, the Supreme Court found the residency rules unconstitutional in the Vest case. By the end of 1986 the Longevity Bonus Program had 15,763 recipients with an annual budget of \$44,105,500. Compared to 1983, that represented a 62% increase in recipients and a 60% increase in budget. More important, the Vest case changed the group being served from a finite, self liquidating group (65 years old, 25 years in state, here at time of statehood) to a continually growing group (anyone age 65 with one year residency). Beyond the change in the size of the group, the basic purpose of the Longevity Bonus Program changed. It was no longer a program to provide an incentive to long term Alaskans who helped build our state prior to statehood.

During the years since the creation of the Longevity Bonus, there have been several changes that have improved the economic condition of Alaskan seniors. The federal government passed the Employee Retirement Income Security Act (ERISA) in 1976, Individual Retirement Accounts (IRAs) became widely available, Senior Citizen Property Tax Relief was enacted, property values increased, The Permanent Fund Dividend was established, State income taxes were repealed, and Social Security incomes steadily increased. As a group, those reaching age 65 today, have had the advantage of the economic growth of the past 20 years and are more economically stable than any previous group of seniors.

This proposal protects those who planned their retirement around the Longevity Bonus Program. They will be able to depend on it for the rest of the time they remain in Alaska. The three year transition period before new enrollment is ended allows those close to retirement to receive the Longevity Bonus. It gives future retirees time to make other plans for retirement income. This proposal does not provide for creating a government operated annuity plan. For those who wish to invest their Permanent Fund Dividend to provide for future retirement income, today they can do so by directing the Permanent Fund Dividend Division to send the PFD to a private annuity plan or other investment of their choice. This can be accomplished through direct deposit instructions on the PFD application. This preserves the investment concept without creating a new bureaucracy to implement an insurance type program.

This proposal returns the Longevity Bonus Program to its original goal – assisting a finite group who may not have remained in Alaska in retirement without this assistance.

Longevity Bonus Fiscal Note

Analysis of New Program Costs

FY		Cost Increase	Net Increase From Year to Year	Average Monthly ALB Warrants	ALB Grants	Projected Cost of Proposed Changes	Savings to the State
1989	Actual			17,824	53,472,250		
1990	Actual	6.92%	1,234	19,058	57,172,700		
1991	Actual	5.31%	1,012	20,070	60,209,600		
1992	Actual	4.76%	955	21,025	63,073,750		
1993	Projection	5.03%	1,058	22,083	66,249,000	66,249,000	0
1994	Projection	5.03%	1,112	23,195	69,584,250	69,170,302	413,948
1995	Projection	5.03%	1,167	24,362	73,084,500	70,910,273	2,174,227
1996	Projection	5.03%	1,225	25,587	76,760,500	70,621,770	6,138,730
1997	Projection	5.03%	1,287	26,874	80,621,500	67,596,525	13,024,975
1998	Projection	5.03%	1,352	28,226	84,677,000	64,659,990	20,017,010
1999	Projection	5.03%	1,419	29,645	88,936,000	61,653,512	27,282,488

Note - There is an additional fiscal note associated with this proposal for the administration component, for \$11,625 for computer modifications.

2-13-93
 HB-81
 Comm. U.S.ERA

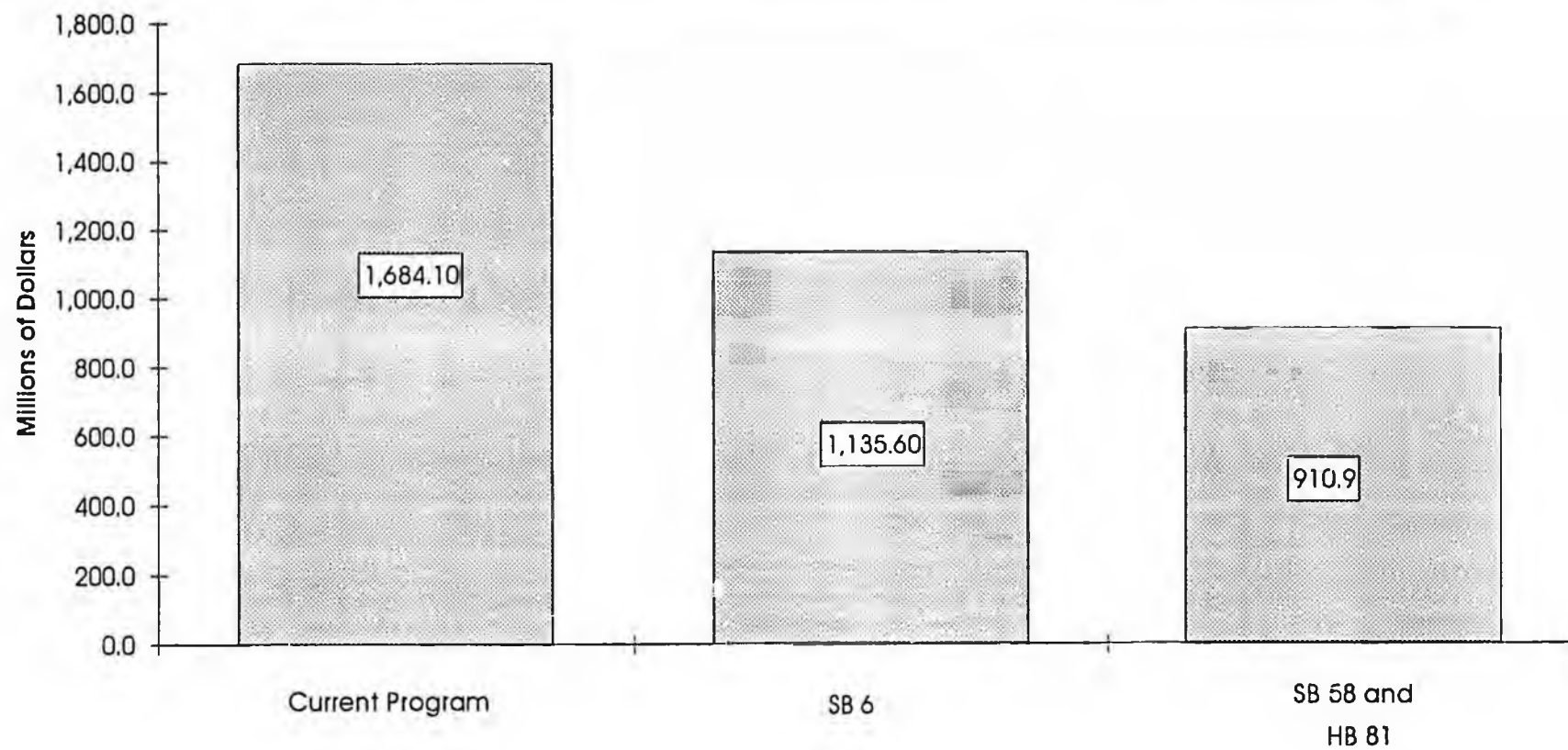
Longevity Bonus Program Alternative Funding Proposals

Fiscal Year	Projected Cost			Projected Number of Participants		
	Current Program	Senate Bill 6	Senate Bill 58 and House Bill 81	Current Program	Senate Bill 6	Senate Bill 58 and House Bill 81
1994	69.6	69.6	69.1	24,059	24,059	24,059
1995	74.8	74.7	70.8	25,864	25,864	25,864
1996	78.2	77.5	71.1	27,021	27,021	27,021
1997	81.2	79.5	69.9	28,081	28,081	26,581
1998	84.4	81.1	66.9	29,188	29,188	25,525
1999	87.5	82.0	63.9	30,266	30,266	24,444
2000	90.8	82.3	60.9	31,408	31,408	23,385
2001	93.9	81.4	57.7	32,456	32,456	22,272
2002	97.1	79.7	54.7	33,557	33,557	21,181
2003	100.4	76.9	51.6	34,704	34,704	20,087
2004	103.8	72.9	48.5	35,880	35,880	18,950
2005	107.5	67.7	45.4	37,153	37,153	17,814
2006	111.9	61.0	42.2	38,675	38,675	16,666
2007	116.9	52.7	39.1	40,428	40,428	15,512
2008	123.1	42.3	36.0	42,572	42,572	14,367
2009	128.9	29.3	33.0	44,559	44,559	13,239
2010	134.1	25.0	30.1	46,376	46,376	12,136

Cumulative Costs Through 2010		
1,684.1	1,135.6	910.9

All dollars in millions

Longevity Bonus Proposals - Cumulative Cost Through Fiscal Year 2010



2/1/93
IN THE LEGISLATURE OF THE STATE OF ALASKA
with reference to:

In the HOUSE, Bill No. 58
In the SENATE, Bill No. 81

2/15/93
[Signature]

Please do not support these bills requested by the Governor.

This is my second shot at writing this. The first attempt is in the circular file because it seemed even to me that all I did was cry about how it would impact me personally. Let it suffice to say we have been here 23 years and have toughed out a lot and made difficult family decisions because of the thought there would be a pay-off at the end to make it all worthwhile.

I am a grandfather now, but not yet old enough to fit in the slot of the Governor's program. I find it incredible that he would offer these benefits to a one year resident and deny them later to a family with our history in the state.

Please consider this alternative. I do not particularly like it but I understand your need to balance budgets and I would consider it much more fair:

1. Determine the amount of money funding the existing longevity bonus program requires annually and set up a cost of living adjustment factor.
2. Require applications each year like the permanent fund system, for example.
3. Divide the annual amount by the number of approved applications and send out the checks.

I think this system could be implemented simply and efficiently, would put a cap on the annual fund, would reward those who stayed thru the tough times, and would only gradually diminish the amount each recipient received as population increased within this age group.

Sincerely,

[Signature]

Bruce E. Schirmers

FAX 262 4121

FEB 10 1993



Bruce & Co

P.O. Box ~~2559~~ 2856

262-4500

Soldotna, Alaska 99669



Alaska State Legislature

Please enter into the record my testimony to the H State Affairs
 committee on HB 81 ^{Phase out} Longevity, dated Feb 2, 1993
 bill/subject Bonus

See attached

Signed: John J. Shaffer
 Testifier
SLC AARP
 Representing (Optional)
303 Kinsham Sitka AK 99835
 Address
907 747-8425
 Phone No.



**ALASKA STATE LEGISLATION
ALASKA LONGEVITY BONUS PROGRAM
POSITION PAPER
1993**

AARP POSITION

The Alaska State Legislative Committee of the American Association of Retired Persons advocates the reform of the Longevity Bonus Program to an annuity program.

This annuity program should include the following recommendations:

- 1) Protect current recipients and continue their benefits.
- 2) Assure program stability to recipients.

Discussion

Monthly longevity bonus payments by the State of Alaska to persons 65 years or more of age were initiated in 1972 with stipulations. The payments were intended to acknowledge long time contributions to the state and to encourage post-retirement residency. The courts nullified all but limited residency requirements.

The program has expanded and exceeded expectations. The rapid growth of the retirement community accelerated the financial obligations upon the Alaska General Fund. The current program is one of the most successful and broadest based programs of state government contributing to the economy and social well being of all Alaskans.

Many proposals have been made to modify the longevity bonus program. In 1985 an annuity program was submitted for a state-wide advisory vote, passing by a 60 percent margin.

Seniors are a valuable contributing force in our state. The longevity bonus program enables seniors to retire in the state. Implementation of an annuity program would solve the accelerating obligations upon the General Fund by phasing out that obligation and would enable current recipients to remain in Alaska.

For further information, please contact:

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