LEG. FINANCE - BILLS 1983 - 1984 2056

SB 215 cont.

2056

IV. ANALYSIS:

C.S.S.B. 215
April 29, 1983

This is a revision of the fiscal note which was submitted on April 6, 1983. Since that time new information has come to light which drastically changes the estimate of the number of persons who would qualify for the Longevity Bonus under C.S.S.B. 215.

The Department of Revenue has found that of 356,000 Permanent Fund applications, 19,725 applications were from persons who were age 65 or older. Since these applications were for 1981-82, and those persons had been in Alaska for at least six months at that time, all of those persons, if still in Alaska, would qualify under the one-year residence requirement of C.S.S.B. 215. This does not take into consideration those who have since died or left the State. However, from the impact which is being felt on senior programs it can be deduced that the over-65 population is increasing in Alaska, rather than declining.

Therefore, it seems almost certain that there are at least 19,725 persons who will qualify for the Bonus under C.S.S.B. 215, rather than 13,228 which was estimated in the fiscal note dated April 6, 1983.

This means that an additional 10,300 persons must be provided for, rather than 3,803 estimated in the original fiscal note.

ASSUMPTIONS

(a) Residence requirements for eligibility for the Longevity Bonus Program would change from 25 years to one year, and the requirement for domicile in Alaska on or before January 3, 1959, would be eliminated. (b) An estimated 10,300 additional persons would immediately become eligible under the new regulations. (c) Retroactive payments will be paid in FY84 in a total amount of $30,900,000 to the approximately 10,300 persons who would have been eligible on July 1, 1982. (d) An increase in the Longevity Bonus staff will be needed to process the initial flood of applications, and continuing increased staff will be necessary to process the greater workload of the expanded program. (e) Annual growth of the program will be approximately 89 per month after the initial surge of applications. (f) the Act takes effect on July 1, 1983. (g) Grants for FY85-88 are increased by 3% each year. Section 4(d) (2) of the bill, which provides for an alternate monthly bonus amount, is not considered in this fiscal note because there is no way to know what the amount will be in the "Longevity Bonus account" each year.

Additional funds needed for FY84 are computed as follows:

	Annual Cost
Personal Services	$ 95,700
Clerk V, PFT (two positions) $53,460 Clerk II, PPT (four positions, 6 mo.) $42,240	
Contractual Services	105,000
Added postage, bonus warrants, printing of new regulations and application forms, data processing charges, increased telephone tolls.	

7/0428-01-2/BDGSF1

IV. ANALYSIS:

C.S.S.B. 215
April 29, 1983

Commodities	3,000
Office supplies and file cabinets for application and recipient files.	
Grants	
(additional estimated 10,300 persons who will be eligible for the Bonus due to one-year residence requirement x 12 x $250)	30,900,000
Retroactive payments for those who would have been eligible on July 1, 1982 (est. 10,300 x 12 x $250)	30,900,000
Additional FY84 funds required	$62,003,700

For years beyond FY84, two additional PFT staff positions needs to be retained, along with appropriate contractual and commodities costs, plus grants based on an estimated increase of 89 recipients per month, escalated at the rate of 3% per year.

Offered: 4/30/83
Referred: Finance

Original sponsors: Ray and Kerttula

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SENATE BILL NO. 215 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permanent fund dividend distribution program; and providing for an effective date."

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

* Section 1. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.147. LONGEVITY BONUS ACCOUNT. The longevity bonus account is established as a separate account in the Alaska permanent fund. Notwithstanding the provisions of AS 37.13.145, 12.5 percent of the income of the permanent fund earned during the fiscal year ending on June 30 of the current year that is available for distribution under AS 37.13.140 shall be credited to the longevity bonus account.

(b) Money in the longevity bonus account shall be invested in investments authorized under AS 37.13.120. The longevity bonus account shall be credited with earnings at an interest rate equal to the average rate of interest earned on the Alaska permanent fund.

(c) The legislature may annually appropriate an amount sufficient to pay monthly longevity bonuses for the subsequent fiscal year under AS 47.45.010(d) from the longevity bonus account to the Alaska longevity bonus fund established under AS 47.45.090.

* Sec. 2. AS 43.23.045(b) is amended to read:

(b) Notwithstanding any contrary provision of law, each year the commissioner shall transfer to the dividend fund 37.5 [50] percent of

the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year and available for distribution.

* Sec. 3. AS 47.45.010 is amended to read:

Sec. 47.45.010. PERSONS WHO MAY QUALIFY FOR LONGEVITY BONUS. (a) A person who is 65 years of age or over, who has been a resident of the state for at least one year immediately preceding the application for a longevity bonus under this chapter [WAS DOMICILED IN THE TERRITORY ON OR BEFORE JANUARY 3, 1959 AND WHO HAS MAINTAINED A CONTINUOUS DOMICILE IN THE TERRITORY OR STATE FOR 25 YEARS] may apply to the commissioner of administration for qualification to receive a monthly bonus [OF $250].

(b) When the commissioner of administration determines that an applicant qualifies under AS 47.45.010 - 47.45.170 the commissioner [HE] shall immediately begin payment of the bonus.

(c) A person who otherwise qualifies to receive a bonus provided for in AS 47.45.010 - 47.45.170 may continue to do so only as long as that person continues to be a resident of [HE CONTINUOUSLY RETAINS A DOMICILE IN] the state.

* Sec. 4. AS 47.45.010 is amended by adding a new subsection to read:

(d) The amount of the monthly bonus is (1) $250, increased by three percent each year beginning in the state fiscal year 1985; or (2) an amount equal to eight and one-third percent of the amount credited to the longevity bonus account for the previous fiscal year under AS 37.13.147, exclusive of earnings, divided by the number of qualified applicants under this section; whichever amount is less.

* Sec. 5. AS 47.45.030 is amended to read:

Sec. 47.45.030. ABSENCE FROM THE STATE. After qualification a [A] recipient shall notify the commissioner of administration when the recipient [HE] expects to be absent from the state if the absence is

for a continuous period that exceeds 30 days. After that notification, the recipient shall no longer receive bonuses from the Department of Administration after the [HIS] last regularly approved monthly application. Upon returning [HIS RETURN] to the state the recipient [HE] may again make application for a bonus. Whenever the absence is for a continuous period that exceeds 180 days the recipient shall be disqualified from receiving bonuses for the next 12 calendar months after returning [HIS RETURN] to the state. However, when the commissioner of administration determines a period of absence is beyond the control of the recipient, the recipient [HE] may not be disqualified, if the recipient [HE] still otherwise qualifies upon returning [HIS RETURN] to the state. Continual absences from the state, even though reported, and failure to notify the commissioner of an expected absence may be grounds for disqualification.

* Sec. 6. AS 47.45.090 is repealed and reenacted to read:

Sec. 47.45.090. ALASKA LONGEVITY BONUS FUND. The Alaska longevity bonus fund is established for the purpose of paying the monthly bonuses provided for in this chapter. The fund consists of money appropriated to the fund by the state legislature from the longevity bonus account established under AS 37.13.147.

* Sec. 7. AS 47.45.150 is amended by adding a new paragraph to read:

(3) "resident" or "resident of the state" means an individual who is physically present in the state with the intent to remain in the state indefinitely and to make a home in the state. A person demonstrates the requisite intent only be maintaining a principal place of abode in the state for the one year required by AS 47.45.010(a) and by providing other proof of intent the commissioner may require by regulation, including proof that the person is not claiming residency outside the state or obtaining benefits under a claim of

residency outside the state.

* Sec. 8. AS 47.45.170 is repealed and reenacted to read:

Sec. 47.45.170 FINDINGS AND PURPOSE. The legislature finds and declares that

(1) the high cost of goods and services in Alaska and the state's remoteness and harsh environment, make it difficult for many elderly Alaskans to remain in the state after retirement;

(2) when a person is forced to live out retirement years away from home, family and friends, that person suffers an irreparable loss;

(3) Alaska's elderly are a precious human resource, and it is in the public interest to provide a financial incentive for them to remain in the state after retirement;

(4) as oil revenues decrease, it will become increasingly difficult for the legislature to fund the longevity bonus program through annual appropriations and the income of the Alaska permanent fund is an appropriate source of funding for the longevity bonus program; and

(5) it is in the public interest to continue the longevity bonus program for all elderly Alaskans irrespective of need. The longevity bonus program is not a form of welfare, and is not a substitute for or supplement to public assistance. Other programs are available to provide the basic necessities of life. The longevity bonus program is intended only to encourage elderly Alaskans to spend their retirement years in the comfort of their homes.

* Sec. 9. AS 47.45.150(2) is repealed.

* Sec. 10. It is the intent of the legislature that any money appropriated from the general fund for the purpose of paying monthly longevity bonuses, after the state fiscal year ending June 30, 1982, be

reappropriated and transferred to the general fund from the longevity bonus account established under sec. 1 of this Act as soon as possible after the effective date of this Act.

* Sec. 11. Sections 3 and 7 of this Act are retroactive to July 1, 1982.

* Sec. 12. This Act takes effect July 1, 1983.

Offered: 4/30/83
Referred: Finance

Original sponsors: Ray and Kerttula

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SENATE BILL NO. 215 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

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(b) Money in the longevity bonus account shall be invested in investments authorized under AS 37.13.120. The longevity bonus account shall be credited with earnings at an interest rate equal to the average rate of interest earned on the Alaska permanent fund.

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(b) When the commissioner of administration determines that an applicant qualifies under AS 47.45.010 - 47.45.170 <u>the commissioner</u> [HE] shall immediately begin payment of the bonus.

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for a continuous period that exceeds 30 days. After that notification, the recipient shall no longer receive bonuses from the Department of Administration after the [HIS] last regularly approved monthly application. Upon returning [HIS RETURN] to the state the recipient [HE] may again make application for a bonus. Whenever the absence is for a continuous period that exceeds 180 days the recipient shall be disqualified from receiving bonuses for the next 12 calendar months after returning [HIS RETURN] to the state. However, when the commissioner of administration determines a period of absence is beyond the control of the recipient, the recipient [HE] may not be disqualified, if the recipient [HE] still otherwise qualifies upon returning [HIS RETURN] to the state. Continual absences from the state, even though reported, and failure to notify the commissioner of an expected absence may be grounds for disqualification.

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* Sec. 7. AS 47.45.150 is amended by adding a new paragraph to read:

(3) "resident" or "resident of the state" means an individual who is physically present in the state with the intent to remain in the state indefinitely and to make a home in the state. A person demonstrates the requisite intent only be maintaining a principal place of abode in the state for the one year required by AS 47.-45.010(a) and by providing other proof of intent the commissioner may require by regulation, including proof that the person is not claiming residency outside the state or obtaining benefits under a claim of

residency outside the state.

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Sec. 47.45.170. FINDINGS AND PURPOSE. The legislature finds and declares that

(1) the high cost of goods and services in Alaska and the state's remoteness and harsh environment, make it difficult for many elderly Alaskans to remain in the state after retirement;

(2) when a person is forced to live out retirement years away from home, family and friends, that person suffers an irreparable loss;

(3) Alaska's elderly are a precious human resource, and it is in the public interest to provide a financial incentive for them to remain in the state after retirement;

(4) as oil revenues decrease, it will become increasingly difficult for the legislature to fund the longevity bonus program through annual appropriations and the income of the Alaska permanent fund is an appropriate source of funding for the longevity bonus program; and

(5) it is in the public interest to continue the longevity bonus program for all elderly Alaskans irrespective of need. The longevity bonus program is not a form of welfare, and is not a substitute for or supplement to public assistance. Other programs are available to provide the basic necessities of life. The longevity bonus program is intended only to encourage elderly Alaskans to spend their retirement years in the comfort of their homes.

* Sec. 9. AS 47.45.150(2) is repealed.

* Sec. 10. It is the intent of the legislature that any money appropriated from the general fund for the purpose of paying monthly longevity bonuses, after the state fiscal year ending June 30, 1982, be

reappropriated and transferred to the general fund from the longevity bonus account established under sec. 1 of this Act as soon as possible after the effective date of this Act.

* Sec. 11. Sections 3 and 7 of this Act are retroactive to July 1, 1982.

* Sec. 12. This Act takes effect July 1, 1983.

MEMORANDUM

TO : Senators Sackett and Bennett, co-chairmen, and all other members of the Senate Finance Committee

FROM : Senator Ray
RE : CSSB 215--Longevity bonus
DATE : April 30, 1983

As you know, the Department of Administration ("DOA") has submitted a revised fiscal note dated April 29, 1983 with an attached "analysis."

According to the DOA's analysis, since submitting a fiscal note on April 6, 1983, "new information has come to light which drastically changes the estimate of the number of persons who would qualify for the Longevity Bonus under C.S.S.B. 215."

This so called "new information" consists of a finding by the Department of Revenue that out of "356,000 Permanent Fund applications, 19,725 applications were from persons who were age 65 or older."

Based solely on the above "new information," the DOA then concluded that "it seems almost certain that there are at least 19,725 persons who will qualify for the Bonus under C.S.S.B. 215, rather that 13,228 which was estimated in the fiscal note dated April 6, 1983."

For the reasons that follow, we feel that the DOA's "new information" and the conclusions and projections based thereon, may be very inaccurate and grossly misleading:

1. The so called "new information" isn't new at all. It was readily available or obtainable long before the DOA's prior fiscal note of April 6, 1983, yet it was never used in arriving at the previous estimate of 13,228 longevity bonus recipients.

> The DOA offers no explanation of why this information wasn't obtained or used before, or why it suddenly "came to light." Two reasonable inferences can be drawn from this omission: (1) the DOA is so inept and incompetent that noone ever thought of it before; or (2) they thought of it before, but decided that the data was so raw and so inconsistent with other, more reliable data that it was not worth using.
>
> For some of the reasons discussed below, we believe that the second inference is the more reasonable.

2. The so called "new information" is merely raw data that completely fails to consider various factors that might fully account for the difference between the number of 65 or over permanent fund applicants and the previously estimated number of longevity bonus recipients under CSSB 215.

> The DOA "analysis" itself recognizes or admits that the 19,725 figure "does not take into consideration those who have since died or left the State."
>
> However, that is not all the it fails to take into consideration. There

are a number of other factors which have been omitted and which may be far more important.

For example, no effort was made to estimate how many of the 19,725 applications were duplicates; or how many of them were fraudulent.

And, perhaps far more importantly, no consideration was given to how many of those 19,725 elderly applicants are absent from the state for more than 180 consecutive days a year and thus ineligible to receive a longevity bonus.

3. The so called "new information" is completely inconsistent with the carefully accumulated and recorded data and projections on which the prior estimate of 13,228 longevity bonus recipients was based.

In August, 1982, the Department of Law filed an Agreement and Settlement Order in the Vest case which, on page 4, estimated that if the original longevity bonus program residency requirement was dropped, approximately 13,124 persons would be eligible.

That figure was consistant with a DOA draft fiscal note done in January, 1983 (see Jon Tillinghast's report dated March 8, 1983, at page 24).

Starting in February, 1983, the DOA and other agencies provided us with the data supporting the 13,228 figure, including a 1981 Department of Labor ("DOL") population study and overview that estimated that in 1983 there would be 13,672 elderly in Alaska and that the percentage of elderly would remain fairly static through the year 2000 (see Tillinghast's report, at page 44).

In February and March of this year the DOL also provided us with data supporting their estimate that approximately 2.9% of the Alaska population was 65 or over. The 2.9% figure was then presented to and approved by actuarial experts of both the Aetna and Travelers insurance companies, who believed it was consistant with national figures and projections.

Even more recently, an actuarial expert retained by the DOA (a member of Mercer & Associates) estimated that in FY 84 3.1% of the Alaska population will be 65 or over.

The DOA's "new information," however, indicates that approximately 5% of the current Alaska population is 65 or over. Obviously, this is highly inconsistent with all previous, well documented, supported and relied upon data and projections and, at the very least, it provides ample reason to seriously question the accuracy of the DOA's "new information" and the validity of the conclusions and projections based thereon.

4. The DOA's revised fiscal note, in its "grants, claims, etc." projections for FY 84-88, fails to take into account that under CSSB 215 there is a built-in ceiling of 12.5% of the permanent fund earnings during a given fiscal year. Therefore, the DOA's projections appear to be completely arbitrary and meaningless.

5. Even if the DOA's "new information" proves to be accurate and dependable, the problem it creates is one that has to be dealt with by any of the options for revising the existing longevity bonus program, especially the Administration's own proposal where the problem would even be worse because the residency requirement will have to be limited to 30 days rather than one year.

4/30/83

COMMITTEE REPORT

SENATE

3/29/83

FURTHER: FINANCE

Date: 4/5/83

Mr. President:

The Committee on Ad Hoc Com on Residency has had SB 215
Authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permanent fund dividend distribution program; eff. date

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[✓] replace with CS for SB 215 (ResD) [X] same title [ ] new title

and recommends

[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note

[ ] reports it back without recommendation

[ ] referred to the as follows Committee

MEMBERS SIGNING DO PASS

1 [signature] Do pass

MEMBERS HAVING OTHER RECOMMENDATIONS:

1 [signature] - No rec.

1 Bill Ray
CHAIRMAN
Do PASS

4/30/83

COMMITTEE REPORT

SENATE

FURTHER: Rules

4/7/83

Date: 4/22/83

Mr. President:

The Committee on FINANCE has had SB 215
Authorizing the use of Alaska permanent fund income to pay longevity bonuses, amending the longevity bonus program and the permanent fund divident distribution program; eff. date.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s) recommends CS by Residency

[ ] ~~replace with CS for SB 215 Residency~~ [X] same title [ ] new title

and recommends with NR DO PASS

[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note

[ ] reports it back without recommendation

[ ] referred to the __________ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS:
Bob Mulcahy	Jan Faiks No Rec
Joe Josephson	Fischer No Rec
[illegible]	
John Sackett	

[illegible]

CHAIRMAN

4/30/83

COMMITTEE REPORT

SENATE RULES COMMITTEE

4/29/83

Date 4/29/83

Mr. President:

The Committee on Rules has had SB 215

Authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permenant fund dividend distribution program; eff. date.

under consideration and recommends ~~xxxxxxxxxxxxxxxxxx~~ that it

be returned to the Finance Committee. ~~XXXXXXXXXXX~~ cont on pg 2

( ) with attached amendment(s).

(✓) replace with CS for SB 215(Rules) (✓) same title ( ) new title

( ) and attaches a "Letter of Intent"

(✓) new fiscal note

MEMBERS ~~SIGNING FOR PLACEMENT~~ Fin Com ON THE CALENDAR	MEMBERS HAVING OTHER RECOMMENDATIONS
	Kelly - No Recommendation
[signature]	
[signature]	
Bill Ray	
[signature] CHAIRMAN	

COMMITTEE REPORT

ADDENDUM

The Rules Committee questions the validity of the figures used by the Department of Administration in their revised April 29th fiscal note. We would therefore request that the Finance Committee take a close look at the way in which the Department arrived at their cost estimate for Senate Bill 215.

1/30/83

Introduced: 3/29/83
Referred: Ad Hoc Committee on Residency and Finance

IN THE SENATE BY RAY AND KERTTULA

SENATE BILL NO. 215

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

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(b) Money in the longevity bonus account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the longevity bonus account shall be treated as an addition to that account.

(c) The commissioner of revenue shall transfer money in the longevity bonus account to the Alaska longevity bonus fund to pay monthly longevity bonuses in accordance with AS 47.45.090.

* Sec. 2. AS 43.23.045(b) is amended to read:

(b) Notwithstanding any contrary provision of law, each year the commissioner shall transfer to the dividend fund 37.5 [50] percent of

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(b) When the commissioner of administration determines that an applicant qualifies under AS 47.45.010 - 47.45.170 the commissioner [HE] shall immediately begin payment of the bonus.

(c) A person who otherwise qualifies to receive a bonus provided for in AS 47.45.010 - 47.45.170 may continue to do so only as long as that person continues to be a resident of [HE CONTINUOUSLY RETAINS A DOMICILE IN] the state.

* Sec. 4. AS 47.45.010 is amended by adding a new subsection to read:

(d) The initial amount of the monthly bonus is $250. On July 1 of each year, beginning July 1, 1984, the amount then paid as the monthly bonus shall be increased by three percent.

* Sec. 5. AS 47.45.030 is amended to read:

Sec. 47.45.030. ABSENCE FROM THE STATE. After qualification a [A] recipient shall notify the commissioner of administration when the recipient [HE] expects to be absent from the state if the absence is for a continuous period that exceeds 30 days. After that notification, the recipient shall no longer receive bonuses from the Department of Administration after the [HIS] last regularly approved monthly application. Upon returning [HIS RETURN] to the state the recipient [HE] may again make application for a bonus. Whenever the absence is for a continuous period that exceeds 180 days the recipient shall be disqualified from receiving bonuses for the next 12 calendar months after returning [HIS RETURN] to the state. However, when the commissioner of administration determines a period of absence is beyond the control of the recipient, the recipient [HE] may not be disqualified, if the recipient [HE] still otherwise qualifies upon returning [HIS RETURN] to the state. Continual absences from the state, even though reported, and failure to notify the commissioner of an expected absence may be grounds for disqualification.

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* Sec. 7. AS 47.45.090 is amended by adding a new subsection to read:

(c) At the request of the commissioner of administration the commissioner of revenue shall transfer amounts needed for the payment of monthly bonuses under this chapter from the longevity bonus account in the Alaska permanent fund (AS 37.13.145(b)) to the longevity bonus fund.

* Sec. 8. AS 47.45.150 is amended by adding a new paragraph to read:

(3) "resident" or "resident of the state" means an individual who is physically present in the state with the intent to remain permanently in the state or, if the individual is not

physically present in the state, intends to return to the state and is absent only for medical treatment or other reasons that the commissioner of administration may establish by regulation;

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* Sec. 10. AS 47.45.150(2) is repealed.

* Sec. 11. This Act takes effect July 1, 1983.

4/30/83

Offered: 4/30/83
Referred: Finance

Original sponsors: Ray and Kerttula

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SENATE BILL NO. 215 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permanent fund dividend distribution program; and providing for an effective date."

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

* Section 1. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.147. LONGEVITY BONUS ACCOUNT. The longevity bonus account is established as a separate account in the Alaska permanent fund. Notwithstanding the provisions of AS 37.13.145, 12.5 percent of the income of the permanent fund earned during the fiscal year ending on June 30 of the current year that is available for distribution under AS 37.13.140 shall be credited to the longevity bonus account.

(b) Money in the longevity bonus account shall be invested in investments authorized under AS 37.13.120. The longevity bonus account shall be credited with earnings at an interest rate equal to the average rate of interest earned on the Alaska permanent fund.

(c) The legislature may annually appropriate an amount sufficient to pay monthly longevity bonuses for the subsequent fiscal year under AS 47.45.010(d) from the longevity bonus account to the Alaska longevity bonus fund established under AS 47.45.090.

* Sec. 2. AS 43.23.045(b) is amended to read:

(b) Notwithstanding any contrary provision of law, each year the commissioner shall transfer to the dividend fund 37.5 [50] percent of

the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year and available for distribution.

* Sec. 3. AS 47.45.010 is amended to read:

Sec. 47.45.010. PERSONS WHO MAY QUALIFY FOR LONGEVITY BONUS. (a) A person who is 65 years of age or over, who has been a resident of the state for at least one year immediately preceding the application for a longevity bonus under this chapter [WAS DOMICILED IN THE TERRITORY ON OR BEFORE JANUARY 3, 1959 AND WHO HAS MAINTAINED A CONTINUOUS DOMICILE IN THE TERRITORY OR STATE FOR 25 YEARS] may apply to the commissioner of administration for qualification to receive a monthly bonus [OF $250].

(b) When the commissioner of administration determines that an applicant qualifies under AS 47.45.010 - 47.45.170 the commissioner [HE] shall immediately begin payment of the bonus.

(c) A person who otherwise qualifies to receive a bonus provided for in AS 47.45.010 - 47.45.170 may continue to do so only as long as that person continues to be a resident of [HE CONTINUOUSLY RETAINS A DOMICILE IN] the state.

* Sec. 4. AS 47.45.010 is amended by adding a new subsection to read:

(d) The amount of the monthly bonus is (1) $250, increased by three percent each year beginning in the state fiscal year 1985; or (2) an amount equal to eight and one-third percent of the amount credited to the longevity bonus account for the previous fiscal year under AS 37.13.147, exclusive of earnings, divided by the number of qualified applicants under this section; whichever amount is less.

* Sec. 5. AS 47.45.030 is amended to read:

Sec. 47.45.030. ABSENCE FROM THE STATE. After qualification a [A] recipient shall notify the commissioner of administration when the recipient [HE] expects to be absent from the state if the absence is

for a continuous period that exceeds 30 days. After that notification, the recipient shall no longer receive bonuses from the Department of Administration after the [HIS] last regularly approved monthly application. Upon returning [HIS RETURN] to the state the recipient [HE] may again make application for a bonus. Whenever the absence is for a continuous period that exceeds 180 days the recipient shall be disqualified from receiving bonuses for the next 12 calendar months after returning [HIS RETURN] to the state. However, when the commissioner of administration determines a period of absence is beyond the control of the recipient, the recipient [HE] may not be disqualified, if the recipient [HE] still otherwise qualifies upon returning [HIS RETURN] to the state. Continual absences from the state, even though reported, and failure to notify the commissioner of an expected absence may be grounds for disqualification.

* Sec. 6. AS 47.45.090 is repealed and reenacted to read:

Sec. 47.45.090. ALASKA LONGEVITY BONUS FUND. The Alaska longevity bonus fund is established for the purpose of paying the monthly bonuses provided for in this chapter. The fund consists of money appropriated to the fund by the state legislature from the longevity bonus account established under AS 37.13.147.

* Sec. 7. AS 47.45.150 is amended by adding a new paragraph to read:

(3) "resident" or "resident of the state" means an individual who is physically present in the state with the intent to remain in the state indefinitely and to make a home in the state. A person demonstrates the requisite intent only be maintaining a principal place of abode in the state for the one year required by AS 47.45.010(a) and by providing other proof of intent the commissioner may require by regulation, including proof that the person is not claiming residency outside the state or obtaining benefits under a claim of

residency outside the state.

* Sec. 8. AS 47.45.170 is repealed and reenacted to read:

Sec. 47.45.170. FINDINGS AND PURPOSE. The legislature finds and declares that

(1) the high cost of goods and services in Alaska and the state's remoteness and harsh environment, make it difficult for many elderly Alaskans to remain in the state after retirement;

(2) when a person is forced to live out retirement years away from home, family and friends, that person suffers an irreparable loss;

(3) Alaska's elderly are a precious human resource, and it is in the public interest to provide a financial incentive for them to remain in the state after retirement;

(4) as oil revenues decrease, it will become increasingly difficult for the legislature to fund the longevity bonus program through annual appropriations and the income of the Alaska permanent fund is an appropriate source of funding for the longevity bonus program; and

(5) it is in the public interest to continue the longevity bonus program for all elderly Alaskans irrespective of need. The longevity bonus program is not a form of welfare, and is not a substitute for or supplement to public assistance. Other programs are available to provide the basic necessities of life. The longevity bonus program is intended only to encourage elderly Alaskans to spend their retirement years in the comfort of their homes.

* Sec. 9. AS 47.45.150(2) is repealed.

* Sec. 10. It is the intent of the legislature that any money appropriated from the general fund for the purpose of paying monthly longevity bonuses, after the state fiscal year ending June 30, 1982, be

reappropriated and transferred to the general fund from the longevity bonus account established under sec. 1 of this Act as soon as possible after the effective date of this Act.

* Sec. 11. Sections 3 and 7 of this Act are retroactive to July 1, 1982.

* Sec. 12. This Act takes effect July 1, 1983.

A M E N D M E N T

Offered in the SENATE By Ray

TO: CSSB 215 (Residency)

Page 4, after line 26, add a new section to read:

"* Sec. 10. It is the intent of the legislature that any money appropriated from the general fund for the purpose of paying monthly longevity bonuses, after the state fiscal year ending June 30, 1982, be reappropriated and transferred to the general fund from the longevity bonus account established under sec. 1 of this Act as soon as possible after the effective date of this Act."

Renumber remaining sections.

4/19/83

4/25/85

DISTRIBUTION OF PERMANENT
FUND INCOME
(LONGEVITY BONUS ADDED - SB 215)

	1979	1980	1981	1982	1983
Net income as determined by Statute	$6,500	$23,900	$86,200	$317,000	$327,000
Undistributed Account Balance 6/30/82					206,000
					$533,500
Income for dividends (37½% of distributible income*)					(70,744)
Income for inflation proofing (6% Factor)					(225,000)
Income for Longevity Bonus (12½% of distributible income)					(23,581)
Income for transfer to general fund (FY 83 only)					(94,325)
Undistributed Account Balance 6/30/83					$119,650

Note that the undistributed income account is declining. It is the Permanent Fund Corporations Projection, under current law, that in 1988 funds may not be sufficient to cover an adequate level of inflation proofing of the principal balance of the fund.

* Distributable income is limited by the weighted average of the last five years net income.

DISTRIBUTION OF PERMANENT
FUND INCOME
(LONGEVITY BONUS ADDED - SB 215)

	1979	1980	1981	1982	1983
Net income as determined by Statute	$6,500	$23,900	$86,200	$317,000	$327,000
Undistributed Account Balance 6/30/82					206,000
					$533,500
Income for dividends (37½% of distributible income*)					(70,744)
Income for inflation proofing (6% Factor)					(225,000)
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* Distributable income is limited by the weighted average of the last five years net income.

DISTRIBUTION OF PERMANENT
FUND INCOME
(Current Law)

	1979	1980	1981	[illegible]	1983
Net income as determined by Statute	$6,500	$23,900	$86,200	$317,000	$327,000
Undistributed Account Balance 6/30/82					206,000
					$533,500
Income for dividends (50% of distributible income*)					(94,325)
Income for inflation proofing (6% Factor)					(225,000)
Income for transfer to general fund (FY 83 only)					(94,325)
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Note that the undistributed income account is declining. It is the Permanent Fund Corporations Projection, under current law, that in 1988 funds may not be sufficient to cover an adequate level of inflation proofing of the principal balance of the fund.

* Distributable income is limited by the weighted average of the last five years net income.

DISTRIBUTION OF PERMANENT
FUND INCOME
(LONGEVITY BONUS ADDED - SB 215)

	1979	1980	1981	1982	1983
Net income as determined by Statute	$6,500	$23,900	$86,200	$317,000	$327,000
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* Distributable income is limited by the weighted average of the last five years net income.

4/27/83

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* NOT ADMITTED IN ALASKA

April 27, 1983

The Honorable Joe Josephson
Alaska State Senate
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: CSSB #215
April 26 Finance Committee Hearing

Dear Senator Josephson:

At the close of yesterday's hearing on CSSB 215, you requested that I draft a letter on the equities of using some permanent fund earnings to sustain the longevity bonus program.

When the Alaska permanent fund was created by constitutional amendment in 1976 (Alaska Const., Art. IX, § 15), the electorate provided that "all income from the permanent fund shall be deposited in the general fund unless otherwise provided by law." At least with respect to the Alaska Constitution, then, there would seem no commitment that the earnings of the permanent fund be distributed equally to all Alaskans.

The "equal distribution" concept is a product of Alaska's permanent fund dividend legislation. AS 43.23. The permanent fund dividend program has two primary purposes. First, there is the obvious legislative desire that, as to a portion of the permanent fund earnings, all Alaskans should benefit equally in the fruits of nonrenewable resource development. Equally, the permanent fund dividend program was intended to give each Alaskan a stake in the prudent management of the fund itself.

CSSB 215 is consistent with both these goals. First, each Alaskan will continue to receive a pro rata share of fund earnings -- although, under the bill, that share will be reduced from 50 to 37.5 percent of annual fund income.[1]

Moreover, CSSB 215 should be viewed as providing equal enjoyment of permanent fund earnings to all Alaskans. If in fact the projections of Aetna and Travelers are correct, the segregation of 12.5 percent of fund earnings will result in the accumulation of a substantial savings account which will provide some assurance of future retirement benefits for younger Alaskans. Plainly, the beneficiaries of CSSB 215 for any particular year will represent but a fraction of the Alaska population. Nonetheless, retirement security is of substantial current value to any rational person, and to the extent that the bill serves both the present needs of existing recipients, and the future expectations of younger Alaskans, the impacts of the bill are indeed "equitably spread" throughout the population.

Additionally, the financial condition of Alaska's elderly is such that the longevity bonus is an equitable use of the permanent fund. I have enclosed Section I(B) from my March 8, 1983 report foryour consideration. That section compiles available data on the financial status of our state's older citizens.

There is, of course, one subclass of Alaskans who would not "share equally" in the benefits of CSSB 215 -- those younger Alaskans who have no intention of retiring in the state. Whether policy decisions should be made in deference to those who do not intend to establish ties to Alaska is something for the Finance Committee to decide.

The use of permanent fund earnings to fund a long-term, self-sustaining retirement program seems uniquely suited to the second goal of the permanent fund dividend program -- i.e., to give each Alaskan a stake in the sound management of the fund itself. The current dividend program confers a financial interest in the maximization of short-term profits from the fund. Conversely, sound financial management requires consideration of both short-term and long-term gains. Indeed, it is customary for the former to be sacrificed for the latter. Under CSSB 215, Alaskans would retain their stake in short-term earnings, but as well would acquire an interest in the long-term health of the fund -- thereby acquiring that depth of view which is indispensible to sound financial management.

These considerations set CSSB 215 aside from other proposed uses of permanent fund earnings. There is a very special concern which people hold for their retirement or annuity accounts.

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[1] At yesterday's hearing, Senator Faiks voiced the concern that the segregation of 12.5 percent of permanent fund earnings would jeopardize the legislature's ability to "inflation-proof" the fund. Under CSSB 215, the net impact upon fund earnings -- and hence "inflation-proofing" -- is unchanged. Currently, 50 percent of fund earnings are distributed as dividends. Under the bill, 37.5 percent would be distributed as dividends, while 12.5 percent would be used to fund the longevity bonus account.

All this, of course, would be lost if the provisions of the bill were funded by general revenues. Moreover, I fear that general revenue funding would tend to defeat one purpose of the bill -- the establishment of a savings account for the "baby boom" years of the early 21st century. As general revenues continue to decline, it is likely that the legislature would limit ALB funding to meet current expenditures.

I realize, of course, that not even CSSB 215 guarantees that 12.5 percent of permanent fund earnings will be appropriated each year to the ALB account. Nonetheless, and absent a constitutional amendment allowing the dedication of these funds, available alternatives provide less security.

In sum, CSSB 215 does equitably spread permanent fund earnings among all Alaskans -- save a short-time subclass -- by providing some assurance of additional financial security upon retirement in the state. It is also uniquely consistent with the goal of the permanent fund dividend program to provide a financial stake in sound, long-term fund management.

Finally, I would like to briefly respond to the comments of Vern Perry, Director of Pioneer's Benefits, Department of Administration. Mr. Perry stated that he could not understand why we felt that the administration's "alternative" would not result in substantially increased Medicaid caseload. A person is eligible for Medicaid if he is eligible for state Old Age Assistance. The current state assistance level is $546/mo., excluding the longevity bonus.[2] Under the administration's alternative, a person would be eligible for assistance, and thus Medicaid, if his or her monthly income was $796 or less per month. As our March 8, 1983 report indicated, there are many elderly with monthly incomes between $546 and $796 who are not now eligible for Medicaid, but who would become eligible under the administration's bill. Our estimates are that, by FY 1988, some 2,500 additional Alaskans will become eligible for Medicaid under the administration's proposal -- a figure which does not account for inmigration.

As to the inmigration problem, if a relative of a current Alaskan receives, for example, $650/mo. in pensions and other income, they would currently be eligible for Medicaid (and hence nursing home coverage) in neither their existing residence, nor Alaska. Under the administration's approach, however, they will immediately become eligible upon relocation to the state.

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[2]The longevity bonus is excluded from income calculations for various federal assistance programs under 42 U.S.C. Sec. 1382(a)(b)(2)(b).

I hope this letter has answered some of your questions on CSSB 215. On behalf of the Senate Ad Hoc Residency Committee, I want to express my appreciation for the time and concern which the committee has afforded us, and I look forward to working with you and the committee on this bill.

Sincerely,

BIRCH, HORTON, BITTNER,
PESTINGER AND ANDERSON

Judann E. Bailey
for Jon K. Tillinghast

JKT:rdg

cc: Members/Senate Finance Committee, w/encl.
Sen. Jalmar Kertulla, w/encl.
Sen. Bill Ray, w/encl.

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 $28.4 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

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[8] Under 42 U.S.C. §1382(a)(b)(2)(B), 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 is 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 1,896 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 1,896 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

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[10]In 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.")

[12]ALB Survey, op. cit. n. 9 at 18-19.

COMMITTEE REPORT

SENATE

3/29/83

FURTHER: FINANCE

Date: 4/5/83

Mr. President:

The Committee on Ad Hoc Com on Residency has had SB 215
Authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permanent fund dividend distribution program; eff. date

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[✓] replace with CS for SB 215 (ResD) [X] same title [ ] new title

and recommends

[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note

[ ] reports it back without recommendation

[ ] referred to the as follows Committee

MEMBERS SIGNING DO PASS

1 J Kerttula Do pass

MEMBERS HAVING OTHER RECOMMENDATIONS:

1 James Duncan - No rec.

1 Bill Ray
CHAIRMAN
Do Pass

Introduced: 3/29/83
Referred: Ad Hoc Committee on Residency and Finance

IN THE SENATE BY RAY AND KERTTULA

SENATE BILL NO. 215

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act authorizing the use of Alaska permanent fund income to pay longevity bonuses; amending the longevity bonus program and the permanent fund dividend distribution program; and providing for an effective date."

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

* Section 1. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.147. LONGEVITY BONUS ACCOUNT. The longevity bonus account is established as a separate account in the Alaska permanent fund. Notwithstanding the provisions of AS 37.13.145, 12.5 percent of the income of the permanent fund earned during the fiscal year ending on June 30 of the current year that is available for distribution under AS 37.13.140 shall be transferred to the longevity bonus account.

(b) Money in the longevity bonus account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the longevity bonus account shall be treated as an addition to that account.

(c) The commissioner of revenue shall transfer money in the longevity bonus account to the Alaska longevity bonus fund to pay monthly longevity bonuses in accordance with AS 47.45.090.

* Sec. 2. AS 43.23.045(b) is amended to read:

(b) Notwithstanding any contrary provision of law, each year the commissioner shall transfer to the dividend fund 37.5 [50] percent of

the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year and available for distribution.

* Sec. 3. AS 47.45.010 is amended to read:

Sec. 47.45.010. PERSONS WHO MAY QUALIFY FOR LONGEVITY BONUS. (a) A person who is 65 years of age or over, who has been a resident of the state for at least one year immediately preceding the application for a longevity bonus under this chapter [WAS DOMICILED IN THE TERRITORY ON OR BEFORE JANUARY 3, 1959 AND WHO HAS MAINTAINED A CONTINUOUS DOMICILE IN THE TERRITORY OR STATE FOR 25 YEARS] may apply to the commissioner of administration for qualification to receive a monthly bonus [OF $250].

(b) When the commissioner of administration determines that an applicant qualifies under AS 47.45.010 - 47.45.170 the commissioner [HE] shall immediately begin payment of the bonus.

(c) A person who otherwise qualifies to receive a bonus provided for in AS 47.45.010 - 47.45.170 may continue to do so only as long as that person continues to be a resident of [HE CONTINUOUSLY RETAINS A DOMICILE IN] the state.

* Sec. 4. AS 47.45.010 is amended by adding a new subsection to read:

(d) The initial amount of the monthly bonus is $250. On July 1 of each year, beginning July 1, 1984, the amount then paid as the monthly bonus shall be increased by three percent.

* Sec. 5. AS 47.45.030 is amended to read:

Sec. 47.45.030. ABSENCE FROM THE STATE. After qualification a [A] recipient shall notify the commissioner of administration when the recipient [HE] expects to be absent from the state if the absence is for a continuous period that exceeds 30 days. After that notification, the recipient shall no longer receive bonuses from the Department of Administration after the [HIS] last regularly approved monthly application. Upon returning [HIS RETURN] to the state the recipient [HE] may again make application for a bonus. Whenever the absence is for a continuous period that exceeds 180 days the recipient shall be disqualified from receiving bonuses for the next 12 calendar months after returning [HIS RETURN] to the state. However, when the commissioner of administration determines a period of absence is beyond the control of the recipient, the recipient [HE] may not be disqualified, if the recipient [HE] still otherwise qualifies upon returning [HIS RETURN] to the state. Continual absences from the state, even though reported, and failure to notify the commissioner of an expected absence may be grounds for disqualification.

* Sec. 6. AS 47.45.090(a) is amended to read:

Sec. 47.45.090. ALASKA LONGEVITY BONUS FUND. (a) The [THERE IS THE] Alaska longevity bonus fund is created for the purpose of paying the monthly bonuses provided for in this chapter. The fund consists of all money made available by appropriations of the state legislature, and from other appropriated money transferred from the Alaska permanent fund [FUNDS], all contributions from whatever source, and income and interest derived from the investment of money.

* Sec. 7. AS 47.45.090 is amended by adding a new subsection to read:

(c) At the request of the commissioner of administration the commissioner of revenue shall transfer amounts needed for the payment of monthly bonuses under this chapter from the longevity bonus account in the Alaska permanent fund (AS 37.13.145(b)) to the longevity bonus fund.

* Sec. 8. AS 47.45.150 is amended by adding a new paragraph to read:

(3) "resident" or "resident of the state" means an individual who is physically present in the state with the intent to remain permanently in the state or, if the individual is not

physically present in the state, intends to return to the state and is absent only for medical treatment or other reasons that the commissioner of administration may establish by regulation;

* Sec. 9. AS 47.45.170 is repealed and reenacted to read:

Sec. 47.45.170. FINDINGS AND PURPOSE. The legislature finds and declares that

(1) the high cost of goods and services in Alaska and the state's remoteness and harsh environment, makes it difficult for many elderly Alaskans to remain in the state after retirement;

(2) when a person is forced to live out retirement years away from home, family and friends, that person suffers an irreparable loss;

(3) Alaska's elderly are a precious human resource, and it is in the public interest to provide a financial incentive for them to remain in the state after retirement;

(4) as oil revenues decrease, it will become increasingly difficult for the legislature to fund the longevity bonus program through annual appropriations and the income of the Alaska permanent fund is an appropriate source of funding for the longevity bonus program; and

(5) it is in the public interest to continue the longevity bonus program for all elderly Alaskans irrespective of need. The longevity bonus program is not a form of welfare, and is not a substitute for or supplement to public assistance. Other programs are available to provide the basic necessities of life. The longevity bonus program is intended only to encourage elderly Alaskans to spend their retirement years in the comfort of their homes.

* Sec. 10. AS 47.45.150(2) is repealed.

* Sec. 11. This Act takes effect July 1, 1983.

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SB 215
Title An Act amending the Alaska Longevity Bonus Program
Requested by ______ Date 4/22/83

II. FISCAL DETAIL
Agency Affected Department of Administration
Program Category Affected ______
BRU, Program, or Subprogram(s) Affected Alaska Longevity Bonus Program
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY
100 PERSONAL SERVICES	58.4	26.7	26.7	26.7	26.7	
200 TRAVEL						
300 CONTRACTUAL	43.5	26.5	27.0	27.5	28.0	
400 COMMODITIES	1.6	1.0	1.0	1.0	1.0	
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.	42250.0	30400.0	42130.0	58830.0	61430.0	
Retroactive Grants	11409.0	--	--	--	--	
TOTAL	53762.5	30454.2	42184.7	58885.2	61485.7	

FUNDING (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY
GENERAL FUND	11512.5	54.2	54.7	55.2	55.7	
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Permanent Fund Earnings	42250.0	30400.0	42130.0	58830.0	61430.0	

POSITIONS

	FY 84	FY 85	FY 86	FY 87	FY 88	FY
FULL TIME	1.0	1.0	1.0	1.0	1.0	
PART TIME	1.5					
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Clerk V PFT (1 position)	$ 26,730
Clerk III PPT (3 positions) (6 months)	31,680
Personal Services TOTAL	$ 58,410

IV. DATE 4/22/83 PREPARED BY Jon Tillinghast
AGENCY ______
PHONE ______

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/79)

STATE OF ALASKA
FISCAL NOTE

Revision Date:

I. REQUEST
Bill/Resolution No.: S.B. 215
Title: Longevity Bonus/Permanent Fund
Sponsor: Ray
Requestor:

II. FISCAL DETAIL
Agency Affected: Administration
Program Category Affected: Social Services
BRU, Program of Subprogram(s) Affected:
Longevity Bonus Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES	-0-	58.4	26.7	26.7	26.7	26.7
200 TRAVEL						
300 CONTRACTUAL	-0-	43.5	26.5	27.0	27.5	28.0
400 COMMODITIES	-0-	1.6	1.0	1.0	1.0	1.0
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC	-0-	22,818.0	12,785.9	14,400.2	16,260.8	18,378.7
TOTAL OPERATING	-0-	22,921.5	12,840.1	14,454.9	16,316.0	18,434.4
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
PERMANENT FUND	-0-	22,921.5	12,840.1	14,454.9	16,316.0	18,434.4

POSITIONS:

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME		1.5	-0-	-0-	-0-	-0-
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Alaska Permanent Fund Income

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: George T. Michael, Administrative Officer George T. Michael
Phone: 465-4401
Division: Pioneers' Benefits
Date: 4/6/83

Approved by Commissioner: Lisa Rudd LSR
Date: 4/6/83
Department: ADMINISTRATION

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7/0401-02-1/BDGSF1

IV. ANALYSIS: Senate Bill 215

ASSUMPTIONS

(a) Residence requirements for eligibility for the Longevity Bonus Program would change from 25 years to one year, and the requirement for domicile in Alaska on or before January 3, 1959, would be eliminated. (b) An estimated 3,803 additional persons would immediately become eligible under the new regulations. (c) Retroactive payments will be paid in FY84 in a total amount of $11,409,000 to the approximately 3,803 persons who would have been eligible on July 1, 1982. (d) An increase in the Longevity Bonus staff will be needed to process the initial flood of applications, and continuing increased staff will be necessary to process the greater workload of the expanded program. (e) Annual growth of the program will be approximately 89 per month. (f) The Act takes effect on July 1, 1983. (g) Grants for FY85-88 are increased by 3% each year.

Additional funds needed for FY84 are computed as follows:

	Annual Cost
Personal Services Clerk V, PFT (one position) $26,730 Clerk II, PPT (three positions, 6 mo.) $31,680	$ 58,410
Contractual Services Added postage, bonus warrants, printing of new regulations and application forms, data processing charges, increased telephone tolls.	43,500
Commodities Office supplies and file cabinets for application and recipient files.	1,600
Grants (additional estimated 3,803 persons who will be eligible for the Bonus due to one-year residence requirement x 12 x $250)	11,409,000
Retroactive payments for those who would have been eligible on July 1, 1982 (est. 3,803 x 12 x $250)	11,409,000
Additional FY84 funds required	$22,921,510

For years beyond FY84, one additional PFT staff position needs to be retained, along with appropriate contractual and commodities costs, plus grants based on an estimated increase of 89 recipients per month, escalated at the rate of 3% per year.

7/0331-02/BDGSF1

S.B. 215
POSITION PAPER

Senate Bill 215 would change the Longevity Bonus Program in the following ways:

(a) Residence requirements for eligibility would change from 25 years to one year, and the requirement for domicile in Alaska on or before January 3, 1959, would be eliminated. (b) An estimated 3,803 additional persons would immediately become eligible under the new regulations. (c) Retroactive payments will be paid in FY 84 in a total amount of $11,409,000 to the approximately 3,803 persons who would have been eligible on July 1, 1982. (d) An increase in the Longevity Bonus staff will be needed to process the initial flood of applications, and continuing increased staff will be necessary to process the greater workload of the expanded program. (e) Grants for FY 85-88 will be increased by 3% each year. (f) The funding source would be earnings from the Permanent Fund, rather than the State General Fund. (g) Cost of bonuses for an ever-increasing number of people will continue to rise year after year as a greater number of one-year residents reach age 65, and an over-65 segment of the population in the lower 48 states migrate to Alaska to take advantage of the benefits for seniors.

This bill, along with others which liberalize eligibility requirements, raises a number of questions.

1. Is there merit in rewarding senior citizens simply because of their age, or should monetary assistance from the State be based on need?

   Many of the people who receive the Longevity Bonus have accumulated wealth as a result of their years of endeavor in the State, and have no financial need but to share equally with all Alaskans the earnings of the Permanent Fund.

2. Are the huge increases in funds which will be required justified?

   S.B. 215 would result in the largest cost increase of all alternatives considered to date. The fiscal note on this bill reveals that $53.4 million would be required for the Longevity Bonus Program in FY 84 if residence requirements are reduced to one year, and would grow to $93.7 million by FY 93 with growth of the Program and escalation of the bonus by 3% per year.

   Even though these costs will be borne by earnings from the Permanent Fund, it is questionable whether this is the best use of these resources.

3. Will this change attract seniors from the lower 48 states, and if so, is that desirable?

   While Alaska's severe weather may deter many from coming, consensus is that a considerable number would take advantage of this economic windfall, especially if after only one year's residence they can also receive other benefits, such as permanent fund dividends, senior housing, tax relief, free licenses for hunting and fishing, passes on the State ferries, etc.

Attracting senior citizens to Alaska may, in fact, be beneficial to society as a whole. This is a class of citizen which is generally seasoned, mature, stable and knowledgeable. If, in moving to Alaska they can be near their families, additional benefits of a personal nature may accrue.

On the other hand, people over 65 are more prone to disease and accidents, especially where Alaska's colder climate can aggravate respiratory problems or cause slip-and-fall and automobile accidents. This could result in a considerable increase in the demand on Medicaid and Medicare programs, not to mention the additional suffering of the seniors.

4. Will this liberalization of the Longevity Bonus Program be perceived by the rest of the nation as another "giveaway" program in Alaska?

   If so, it will be increasingly difficult to obtain federal funding for needed programs.

The most difficult question to answer is whether it is fair to use part of all Alaskans' earnings from the Permanent Fund to pay a special group of people, when that group's payments are not based on need.

Because answers to these questions are not clear and compellingly positive, the Department of Administration is not in favor of passage of Senate Bill 215.

Instead, an alternative has been developed which would phase out the Longevity Bonus Program over a ten-year period, with supplemental benefits available through other State programs which would assure all seniors of receiving a reasonable level of income for their needs. This latter plan is favored by the Department of Administration.

Prepared by:

Director
Division of Pioneers' Benefits
Department of Administration

Date

Approved by:

Commissioner
Department of Administration

Date

7/0407-03-2/BDGSF1

SENATE AD HOC RESIDENCY COMMITTEE
REPORT ON CSSB 215

1. INTRODUCTION

The Senate Ad Hoc Residency Committee has passed, and has forwarded to the Senate Finance Committee, CSSB 215 (Residency). The bill would amend the existing Alaska longevity bonus ("ALB") program (AS 47.45.010 et. seq.) by creating an equal retirement benefits program funded by 12.5 percent of the state's permanent fund earnings.

Legislation amending the ALB program is necessary to cure severe constitutional problems with the existing law. Under current AS 47.45.010, a person is eligible for a $250/month longevity bonus if the person:

1. is 65 year 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.

Following the U.S. Supreme Court's decision in Zobel vs. Williams, 72 L. Ed. 2d. 672 (1982), the residency requirements of the ALB program were challenged in Vest v. Schafer, 1JU-82-1103 Civil (1st Jud. Dst., 1982). On August 9, 1982, the Alaska Legislative Council, together with Mr. Vest and the Attorney General's office, entered into an agreement which stayed all proceedings in the case through adjournment of this legislative session. This session, the Alaska Legislative Council would use its "best efforts" to secure the passage of legislation which would treat all elderly Alaskans with one-year's residency equally in the payment of longevity bonuses.

The settlement was entered into because of the non-severability clause of the original ALB legislation. Under § 2, Ch. 205, SLA 1972, if the residency provisions of the ALB program were invalidated, the result would be the termination of the program. Thus, it is vital that legislation amending the ALP program be enacted this session. If it is not, the Vest case will resume, with the inevitable result that the existing program will be declared unconstitutional, and all payments under the program stopped.

II. PROCEEDINGS BEFORE THE AD HOC RESIDENCY COMMITTEE

On March 8, 1983, the Senate Ad Hoc Residency Committee released a comprehensive report which analyzed some 10 options available to the legislature in amending the ALB program.[1] The committee explored each of the 10 options in light of (1) constitutional problems; (2) the fiscal impacts of the alternative; (3) tax consequences, and the option's impact upon the elderly's eligibility for other governmental services; and (4) the consistency of the option with the basic goals of the ALB program.

It was plain to the committee that there was no painless solution to the problems posed by the Zobel decision

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[1]"The Longevity Bonus Program: Options Under The Vest Settlement," Jon K. Tillinghast.

and the <u>Vest</u> case. Nonetheless, the committee believes that the ALB program, in some form, should continue. It was the intent of the original legislation, introduced in 1972 by Senators Ray and Butrovich, to establish a permanent program to provide supplemental payments to Alaska's elderly. This is apparent from the statement of purposes of the Act, which notes the high cost of retirement in Alaska, and that without the longevity bonus:

> "These pioneers would be 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 relationships 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 will hopefully provide our pioneers with the economic means to remain and to continue to serve their state..." § 1, Ch. 205, SLA 1972.

Of course, the high cost of retirement in Alaska is hardly a temporary problem. Moreover, even under the existing program, the number of recipients would not peak until the years 2010-2020, and the program would continue through about the year 2050.

Moreover, as the committee's March 8, 1983 report noted, between 1/2 and 2/3 of Alaska's elderly have income only marginally above the state poverty level of $546 a month. The ALB program has thus enabled many of Alaska's elderly to remain off public assistance. This factor, as well, argued in favor of retention of a viable program.

Finally, while opening the program to all one-year residents, as is constitutionally required, would be viewed by some as providing unwarranted benefits to "newcomers," the committee's report demonstrated that even those Alaskan elderly who currently do not receive the bonus have lived in the state for several years. Indeed, only 10 percent of Alaska's elderly have resided in the state for 10 years or less.

Guided by a desire to retain a meaningful ALB program, the committee gave particular consideration to several of the 10 options analyzed in its report. Among the options considered and rejected were:

1. expanding the class of ALB recipients to all one-year residents in FY 1984. Thereafter the program would be terminated while providing "grandfather rights" to those eligible in 1984 to continue to receive bonuses for their lives. While the committee's counsel believed that this option was probably constitutional, the Department of Law has expressed serious conserns in this regard. Moreover, the committee believes that it is arbitrary to give a lifetime bonus to someone who has reached the age of 65 or achieved their one-year residency by June 30, 1984, while providing no assistance to those who reach the age of 65 thereafter;

2. expanding the class of eligible recipients to all one-year elderly residents, and funding the program from general revenues. This option was rejected primarily for fiscal reasons. There are currently some 9,425 Alaskans who receive bonuses totalling $28.28 million. When the class is expanded to all one-year residents, an additional 3,803 elderly will be eligible in FY 1984, which would raise the general fund burden to $40.28 million in FY 1984, and $41.98 million in FY 1988. As oil revenues continue to decline, the committee believes that the general fund would be unable to absorb an ever-increasing burden created by an expanded ALB program;

3. gradually phasing out the ALB program, while at the same time raising the income "ceiling" for state old age assistance. This is the Sheffield administration's preferred option, and was rejected by the committee for several reasons. First, it converts the ALB program into a welfare scheme -- an approach universally opposed by Alaska's elderly. Second, once the $250/mo. ALB payment has been translated into additional welfare entitlements, the maximum constitutional residency requirement drops from one year to 30 days. This is because, unlike the ALB, welfare is considered a "basic necessity of life," for which the courts generally tolerate no more than a one month durational residency provision. Finally, since an increased welfare ceiling would provide not only additional monetary benefits, but also substantially expanded eligibility for Medicaid -- which includes

free and unlimited nursing home coverage -- there is a substantial risk of in-migration created by this option; and

4. an annuity program. Under this option, each Alaskan, in lieu of receiving a cash permanent fund dividend, would receive a credit to a retirement account equal to the cash dividend. Over the years, those who continued to reside in the state would accumulate substantial annuity accounts. However, the option would require each Alaskan to forego the entirety of his or her permanent fund dividend. Moreover, for many years, and until individual annuity accounts reached some meaningful proportion, substantial general fund "supplements" would be required if the state were to provide a benefit of any size. For these reasons, this option was rejected by the committee.

III. <u>THE EQUAL RETIREMENT BENEFITS PROGRAM OF CSSB 215</u>

The Equal Retirement Benefits program which would be created by CSSB 215 provides both equality of treatment and permanence, while at the same time retaining some of the fiscal advantages of the annuity approach. Under <u>Section 1</u> of the bill, 12.5 percent of the income from the permanent fund will be credited to a special account within the permanent fund. This longevity bonus account would be available for appropriation to fund the ALB program. At the same time, and under <u>Section 2</u> of the bill, the amount of permanent fund earnings distributed as dividends would be reduced from 50 percent to 37.5 percent.

For FY 1984, the full 12.5 percent of permanent fund earnings will be necessary to fund the ALB program. This year, some $41 million will be required to provide a $250/mo. bonus to all one-year elderly residents. Conversely, the 12.5 percent credit to the longevity bonus account this year will equal $42.2 million. The $1.2 million surplus will remain credited to the ALB account, as will future earnings on that surplus. Section 1; Section 37.13.147(b). Of course, the money itself will remain in the permanent fund. The ALB account is, after all, only an "account." The committee believes that it was unwise to create a separate ALB "fund" -- both because of the redundant costs of administration, and the loss of leverage inherent in any smaller fund.

As the years go by, less than 12.5 percent of permanent fund earnings will be required to fund the ALB program. As a result, the ALB account will continue to build a substantial "savings account" which, in time, is intended to make the ALB account partially if not wholly self-sustaining.

In projecting the growth of the ALB "savings account," the committee relied upon elderly population projections and assumptions developed by the Alaska Department of Labor, the U.S. Social Security Administration, Aetna Insurance Company and Travelers Insurance Company.

Using these assumptions, the financial projections for the ALB savings account were encouraging. Between now and the year 2000, the percentage of permanent fund earnings required to fund the ALB program will gradually decline, to the point where only 7.5 percent of earnings will be required by the year 2000. As attachment #1 to this report indicates, in that year, $198 million may be appropriated to the account, while only $118-$121 million will be necessary to fund the program -- resulting in a savings account deposit in that year alone of between $76-79 million. The aggregate "savings account" balance in the year 2000 should be approximately $704 million. By the year 2005, the ALB savings account may reach $1.7 billion. Since only $168 million would be required to fund the program that year, the ALB program may become entirely self-sustaining in that year.

Of course, the assumptions used to calculate these figures may be too liberal, or too conservative. The point is that under any reasonable assumptions, the ALB account will build a substantial savings account. This savings account is important for two reasons. As current oil revenues continue to decline, the time may come when a substantial portion of permanent fund earnings are needed for general government expenses. Second, commencing in the year 2010, the elderly population in Alaska should begin to experience significant growth, due to the aging of those born during the post-World War II baby boom. The savings account provides a hedge against both problems.

Under Section 4 of the bill, and commencing in FY 1985, the amount of the longevity bonus will increased by three percent annually. Thus, the amount of the bonus increases from $3,000 per year in 1984 to $4,814 in the year 2000.

Section 4, however, also places a ceiling on the bonus. If the legislature, in any year, appropriates 12.5 percent of permanent fund earnings, and that amount is insufficient to pay the full amount of the bonus for that year, it is the committee's intent that the amount of the bonus should be reduced to avoid the need for a general fund supplement. Since, in essence, the ALB program will be preserved by the permanent fund, the committee believes that it is fair for Alaska's elderly to look only to a given percentage of the permanent fund to provide the bonus. Accordingly, in any year of shortfall, Section 4 provides that the bonus may be no greater than a *per capita* distribution among all eligible applicants of 12.5 percent of fund earnings.

There is at least one year in which this "ceiling" will materially reduce the size of the bonus. Through FY 84, permanent fund earnings have been based in part on undistributed earnings from prior years in which the state's former dividend plan was held up in court. In FY 1985, the permanent fund will finally stand on its own -- resulting in a reduction of permanent fund dividend distributions from $169 million in FY 84 to $121 million in FY 85. The consequences of this reduction on FY 85 bonuses are depicted in attachment #2. If there was no "ceiling," the legislature would be required to appropriate a general fund supplement of $14.09 million to award each eligible applicant their annual bonus of $3,090 ($3,000 plus a 3% COLA). By virtue of the ceiling, each elderly Alaskan will receive an annual per capita distribution of some $2,110.

The qualifications for the bonus are set forth in Section 3 of the bill. In essence, the residency requirement is reduced to one year. However, the bill also improves upon the existing definition of "residency." Under Section 7 of the bill, a person satisfies the residency requirement only if he maintains his principal place of abode in the state for one year, and does not claim residency benefits in any other state.

Under existing 47.45.030, an eligible applicant is entitled to be absent from the state for up to six months during any year without jeopardizing his eligibility. Under Section 5 of the bill, § 030 is amended to make clear that this automatic six-month absence period only applies after initial qualification.

Finally, Section 10 of the bill would make the liberalized residency requirements of Sections 3 & 7 retroactive to July 1, 1982. This provision of the legislation is necessary under the Vest settlement, and will require a one-time appropriation of approximately $12 million from the general fund to pay retroactive bonuses to all elderly Alaskans who had resided in the state for one year as of July 1, 1982.

FISCAL YEAR 85

SRCE.	% OF ELDERLY	TOTAL DIV. DIST.	25%	AMOUNT NEEDED	SIZE OF COLA	BONUS CEIL.	SVGS. ACCT.
Aetna	2.9	121.6	30.4	44.49	3090	2110	(14.09)
Trvlr	2.9	121.6	30.4	44.49	3090	2110	(14.09)

FISCAL YEAR 2000

SRCE.	% OF ELDERLY	TOTAL DIV. DIST.	25%	AMOUNT NEEDED	SIZE OF COLA	BONUS CEIL.	SVGS. ACCT.
Aetna	3.0	792.34	198.08	121.11	4814	NA	76.97
Trvlr	2.9	792.34	198.08	118.35	4814	NA	79.23

SENATE AD HOC RESIDENCY COMMITTEE

RESPONSE TO:

"SB 215 POSITION PAPER," ALASKA DEPARTMENT OF ADMINISTRATION, April 13, 1983

The Senate Ad Hoc Residency Committee has prepared legislation (CSB215) which would amend the Alaska Longevity Bonus (ALB program) to create an equal retirement benefits program. Under the legislation, all elderly Alaskans with one year's residency would be entitled to receive a $250/month longevity bonus. Funding for the program would be provided by 12.5 percent of permanent fund earnings. If the amount of permanent fund earnings were insufficient, the amount of the bonus would be correspondingly reduced. Alternatively if 12.5 percent of permanent fund earnings would be in excess of the amount required to fund the program for any particular year, the surplus would be placed in a "savings account." The earnings from the savings account will serve to make the program at least partially self-sustaining in future years.

This option was chosen from among 10 alternatives presented to the Committee in a March 8, 1983 report. The Committee's reasons for choosing this alternative are discussed in detail in the "Senate Ad Hoc Residency Committee Report on CSSB 215."

Conversely, the Alaska Department of Administration has proposed to terminate the ALB program over a 10 year "phase-out period." Each year, the amount of the bonus would be reduced by $25.00/month. During that same period, the amount available as state Old Age Assistance welfare payments would be increased by $25.00/month. In FY 1994, the state's welfare payment would rise from its current $546/month to $796/month.

On April 13, 1983, Department of Administration Commissioner Rudd issued a "position paper" which was very critical of SB 215, and which advocated, in its place, the welfare alternative developed by that department. The purpose of this response is two-fold:

1. Part I clarifies the "position paper's" description of SB 215. While the description is partially accurate, it implies that certain of the more controversial provisions of SB 215 are unique to that bill. To the contrary, most of the difficult changes described in the position paper are mandated by the Vest settlement, and are common to all proposals which have been advanced -- including the Department of Adminis ra- tion's; and

2. Part II discusses the four criticisms of SB 215 advanced by the position paper. In addition to discussing the merits of the criticisms, Part II also discusses their applicability to the Department of Administration's proposal.

PART I

DESCRIPTION OF SB 215.

A. Residency Requirements.

The position paper correctly states that SB 215 would reduce the residency requirement of the ALB program from 25 years to one year. A one year residency requirement is the maximum constitutionally permissible for programs which do not provide "basic necessities of life." The Administration, on the other hand, has proposed converting the ALB program into additional state welfare payments. This would involve the provision of a "basic necessity of life." Whatever difficulties are posed by SB 215's one year residency requirement are, obviously, multiplied by the 30-day residency requirement of the Administration's option.

B. Increased Number of Eligible Applicants.

The position paper correctly states that under SB 215 there will be approximately 3,803 new recipients of the longevity bonus -- a result caused by the reduction in the residency requirement. This is equally true of the Administration's proposal. Moreover, under the Administration approach, there will also be a substantial number of new applicants for state welfare. The Residency Committee projects that as many as 2,500 more people will be added to the welfare roles as a result of Commissioner Rudd's suggestions. Moreover, that figure does not take into account the likelihood that Commissioner Rudd's approach will attract substantial numbers of new elderly to the state (see below).

C. Retroactive Payments.

The position paper correctly notes that $11.4

million in retroactive payments must be made under SB 215 to those elderly Alaskans with one-year's residency as of July 1, 1982. These retroactive awards are mandated under the Vest settlement, and they are included in the Administration's proposal as well. Under both proposals, the $11.4 million appropriation would come from general revenues. However, under a proposed amendment to CSSB 215, the general fund would be reimbursed as surpluses accrue in the Alaska longevity bonus account.

D. Staff Increases.

The position paper notes that with 3,803 new ALB applicants, some additional staff will be required in the Department of Administration. The Department of Administration projects that the amount will be nominal -- approximately $100,000. The Department of Administration admits that its increased fiscal costs for the Rudd alternative would be identical to that of SB 215. Moreover, and unlike SB 215, the Rudd alternative would require substantially increased administrative costs within the Department of Health and Social Services, to handle the some 2,500 new state welfare recipients. Those costs alone are likely to be substantially higher than all of the administrative costs under SB 215. Remarkably, the Administration has yet to prepare fiscal projections on these costs.

E. Size of Bonus.

The position paper incorrectly states that the amount of the bonus under SB 215 will invariably increase by three percent per annum. While the bill does contain a three percent cost of living adjustment, the adjustment will only be applicable if the funding source for the program -- 12.5 percent of permanent fund earnings -- is sufficient to provide that amount. If there is a shortfall, the size of the bonus will be correspondingly reduced. This "ceiling" was inserted at the behest of Commissioner Rudd, yet the position paper contains no discussion of its existence or significance.

F. Funding Source.

The position paper states that the funding source for SB 215 will be permanent fund earnings. That is half the story. While 12.5 percent of permanent fund earnings would be credited to the longevity bonus accoun-, it is anticipated by the Committee, based on reliable and corroborated data, that over the years the ALB will build a substantial surplus. In time, SB 215 will be funded in part, if not in whole, by earnings from its own account.

G. Cost of the Bonuses.

The position paper incorrectly states that the cost of the bonuses will "continue to rise" as the years go by. To the extent that this implies an ever-increasing burden on the general fund, SB 215, of course, does not use general fund revenues. Moreover, the percentage of permanent fund earnings is fixed by statute. Moreover, and as noted previously, the ALB account created by SB 215 will continue to build substantial surpluses.

PART II

THE POSITION PAPER'S CRITICISMS OF SB 215.

A. The "Need Based" Issue.

When the Alaska Longevity Bonus Program was created in 1972 as a result of legislation introduced by Senators Ray and Butrovich, a conscious decision was made not to base the program on "need." The program is intended to partially compensate for the increased cost of retirement in Alaska, and provide a financial incentive for the state to retain the precious human resource of its elderly. The program is a source of pride to all elderly Alaskans, and any option which converts the undertaking into a welfare scheme is both an insult to Alaska's elderly, and politically naive.

This fact was underscored in testimony by Rose Palmquist of the Alaska Older Persons' Action Group. That testimony strongly opposed Commissioner Rudd's alternative because of its emphasis on "welfare."

The position paper stresses that "many" wealthy people have no moral claim to a longevity bonus. First, as this Committee's March 8, 1983, report concluded, there are very few Alaskan elderly who can be called "wealthy." Moreover, and contrary to the implications of the position paper, SB 215 would not be providing a bonus to a large number of "newcomers."

Indeed, most elderly Alaskans who are currently not receiving the bonus have lived here in excess of ten years.

In sum, criticism #1 simply rehashes a debate resolved a decade previous -- whether or not the ALB program should be structured on a welfare basis.

B. "Huge Increases in Funds."

The Position paper characterizes SB 215 as providing for "huge increases of funds," and resulting in "the largest cost increase of all alternatives considered." This criticism is not true. As noted previously, the bonuses provided by SB 215 are subject to a ceiling which ensures that it never exceeds 12.5 percent of permanent fund earnings. Again, this critical provision of the bill is conspicuous in its absence in the position paper. Additionally, and because the program will become partially if not wholly self-sustaining in future years, it is widely viewed as the most fiscally responsible of any option being considered.

The converse is true of the Rudd alternative. While over the years the cost of the ALB program will decrease, the cost of additional welfare assistance will continue to increase. Some 2,500 persons may be added to the state welfare roles as a result of the Rudd alternative -- a figure which does not include substantial elderly in-migration. As our response to criticism #3 below indicates, there will in all likelihood be substantial in-migration as a result of the Rudd proposal.

Under the Rudd option, the general fund will bear this ever-increasing burden.

It must be stressed, moreover, that the increased welfare burdens of the Rudd alternative do not consist solely of increased welfare payments. Every person added to the welfare roles under the Rudd proposal will also be entitled to receive Medicaid -- which encompasses free and comprehensive medical insurance, including unlimited nursing home coverage.

C. <u>In-Migration</u>.

The position paper opines that providing $250 per month to all one-year elderly Alaskans will result in substantial in-migration of new elderly. Indeed, Commissioner Rudd argues that SB 215 may result in physical harm to the elderly, who will be lured to the state by the bill's generosity, only to slip and fall on Alaska's icy street. Given the extreme economic and environmental hardships of retirement in Alaska, and the fact that a year's residency is required under SB 215 before any benefits are received, the Committee simply disagrees.

On the other hand, the in-migration caused by the Rudd alternative may be extreme. As noted previously, under the Rudd alternative, any person whose net income is less than $796 a month -- which is substantially higher than any other state's welfare ceiling -- will, upon moving to Alaska, immediately be entitled to a state subsidized income of that amount, together with free medical coverage and nursing home care for life. At a minimum, this would provide an enormous incentive for current Alaskans to relocate their institutionalized parents or relatives to the state. In short, no alternative considered with respect to the ALB poses more severe in-migration problems than that of the Rudd alternative.

D. Fairness.

Finally, the position paper suggests that it is "unfair" to set apart a portion of the permanent fund earnings for the ALB program. This observation is inconsistent with the repeated statements of the Sheffield Administration that a portion of the permanent fund earnings should be set aside to fund the ALB program. Many state programs set aside funds for the benefit of particular classes. Whether those funds are set aside as a portion of general revenues or the permanent fund hardly seems significant.

CONCLUSION

Finally, the position paper ends with a one paragraph synopsis and endorsement of the Rudd alternative. This alternative has, even at this late date, not appeared in legislative form. No analyses or reports on this alternative have ever been prepared by the Administration; nor has the Administration made any effort to respond to any of criticisms of the alternative which have been repeatedly advanced by this Committee, other legislators and elderly Alaskans. The paper states that it is "not in favor" of SB 215 because there have not been "clear and compelling positive" answers to the four criticisms suggested in the document. Conversely, there have been no answers whatsoever given to the plain and fatal failings of the Rudd alternative.

THE LONGEVITY BONUS PROGRAM:
OPTIONS UNDER THE VEST SETTLEMENT

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TABLE OF CONTENTS

I.	Introduction	2
	A. Description of the Alaska Longevity Bonus	2
	B. The Individuals Covered By the Alaska Longevity Bonus	5
	C. The Effects of Zobel and Vest on the Alaska Longevity Bonus Program	7
	D. Scope and Intent of this Report	12
	E. Alternatives Included in this Report	13
II.	Constraints on the Choice of Options	14
	A. Constitutional Constraints	14
	B. Varying Goals of Several Longevity Bonus Options	20
	C. Consequential Effects of Any Amendment To the Longevity Bonus Program	22
III.	Discussion of Alternatives	24
	A. Expanding the Class of Alaska Longevity Bonus Recipients To Include All Elderly With One-year's Residency	24
	B. Phase Out The Existing Longevity Bonus Program	25
	C. Phase Out the Existing Longevity Bonus Program With a Contemporaneous Increase In State Assistance Levels	26
	D. Retaining a Modest Longevity Bonus, While Providing a "Need Based" Supplement	30
	E. Gradual Increase In The Age of Eligibility	32
	F. Self-Sustaining Annuities	33
	G. State Social Security System	43
	H. Health Insurance For the Elderly	48
	I. Longevity Bonus Premised On Individualized Relocation Hardship	54
	J. Grandfathering	57
IV.	Conclusion	58

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

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

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

residency who chose not to enter the newly-created Pioneers' Homes.[3] The current program was enacted in 1972[4] as a result of legislation introduced by Senators Butrovich and Ray.[5] Quite unlike the "need-based" focus of its predecessors, the 1972 legislation was to:

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

[3]Chapter 64, SLA 1915.

[4]Chapter 205, SLA 1972; AS 47.45.010 _et_. _seq_.

[5]SB 211, 7th Leg., 2nd Sess.

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

The ALB program, then, has several purposes:

1. providing an incentive for a particular class of senior citizens to remain in the state;

2. compensating for the hardships faced by retirement in Alaska;

3. rewarding the past contributions of Alaska's elderly;

4. compensating for past hardships suffered by Alaska's pioneers; and

5. retaining the wisdom and experience of Alaska's pioneers.

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

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

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

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[6]Chapter 13, SLA 1981

[7]AS 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 $28.4 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

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[8]Under 42 U.S.C. §1382(a)(b)(2)(B), 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 is 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 1,896 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 1,896 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

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[10] In 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.")

[12] ALB Survey, op. cit. n. 9 at 18-19.

44% had incomes of less than $1,000 per month. A 1981 University of Alaska survey indicated that roughly half of Alaska's elderly had monthly incomes of less than $800.00.[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. <u>The Effects of Zobel And Vest On The ALB Program.</u>

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

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[13]Assessment, *op. cit.* n. 11 at 31.

[14]ALB Survey, *op. cit.* n. 9 at 12.

[15]*Id.* at 10, 18.

[16]Assessment, *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, 8-1, that the cumulative residency requirement of the program was not rationally related to the goals of the statute -- a ruling which is discussed in more detail in section II(A), post.

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

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

[18]In 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.

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

which awarded dividends solely on the basis of residency.[20]

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

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

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

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[20]See Brennan conc., 72 L. Ed.2nd at 684: O'Connor conc., 72 L. Ed. 2nd at 685.

[21]Brennan conc., 72 L. Ed. 2nd at 681, 684.

[22]See 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 included 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";

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[23] op. cit. n. 17 at 5.

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

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

4. Recognizing that the Council could not bind the legislature, if legislation is not enacted, Mr. Vest 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 3,800 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

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[25]See Section II.(C) post.

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

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

E. <u>Alternatives Included In This Report.</u>

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;