

LEG. FINANCE - BILLS 1985 - 1986 2166

SB 56 cont. 2166

ANALYSIS FOR SENATE BILL 57

An Act relating to preferential use of Alaska agricultural or fisheries products

This bill would require that any agricultural or fisheries products purchased with state money must be Alaskan in origin if they are competitively priced, available and of like quality when compared with Outside products.

It also states that this requirement shall be inserted in all calls for bids by the state and in any contracts awarded by the state for agricultural or fisheries products.

As originally introduced, this bill required that any Alaskan agricultural must receive an inspection certificate before being purchased by the state. This requirement was deleted from the Resources Committee Substitute.

You may recall that a similar bill (SB 411) passed the Senate last year but died in the House.

There is no fiscal impact.

SECTIONAL ANALYSIS CSSB 56 (JUD)

SECTION 1

Findings and Purpose

SECTION 2

A parent, guardian, or other authorized representative may elect to receive an annuity share on behalf of the eligible minor or individual in lieu of a cash dividend.

SECTION 3

A person who is eligible to receive a permanent fund dividend may elect to receive an annuity share in lieu of a cash dividend. Alternatively, a person may elect up to 75% in cash and the remainder as a annuity credit.

SECTION 4

The Commissioner of Revenue shall adopt regulations establishing the process for determining eligibility of individuals for permanent fund dividend.

SECTION 5

The permanent fund application form shall be prepared to allow an applicant to elect to receive cash in lieu of a permanent fund dividend.

SECTION 6

If a public agency claims a cash dividend on behalf of individuals, the public agency shall hold the dividend in trust for the individual.

SECTION 7

The state is not responsible for a guardian or parents decision for an individual on whether to take an annuity credit or cash dividend.

SECTION 8

The permanent fund dividend application form shall be prepared to allow an applicant, other than a person who is 65 before January 1, 1986 to elect to receive cash in lieu of a permanent fund dividend.

SECTION 9

Conforms the penalties and enforcement laws to include annuity credits.

SECTION 10

Sets up a procedure so if a permanent fund dividend is credited to an individuals account erroneus a debit can be made against the account. If the credit is the fault of the individual, the debit must be made within 10 years. If the credit is the fault of the state, the debit must be made within 3 years.

SECTION 11

Adds duties to the Department of Revenue to maintain records of annuity shares for individuals and adopt regulations (to the extent allowable) to structure the annuity program so that annuity benefits are not taxable to people until they actually receive the annuity money.

SECTION 12

Allows only cash payments exempt from attachment for collection of debt.

SECTION 13

Allows only cash payments for those ordered by the courts or attached for collections.

SECTION 14

Conforming language to contain annuity credits within the eligibility laws and regulations for public assistance,

SECTION 15

New definition of permanent fund dividend to include annuities.

SECTION 16

Establishes the Annuity Investment Fund within the state treasury. An amount, equal to the permanent fund dividend multiplied by the number of persons electing to receive an annuity share, shall be annually credited to the Annuity Account. The Legislature may appropriate either general funds or earnings from the undistributed income account in the Alaska Permanent Fund. The definition of permanent fund

dividend is amended to include annuities. Establishes the Annuity Fund. Money in the Annuity Fund is appropriated by the Legislature to pay annuities. An individual who holds one or more annuity shares may receive an annuity upon reaching the age of 65. The annuity will be paid monthly as a straight life annuity or other payment plan authorized by the Commissioner of the Department of Administration. If the annuitant dies before age 65 a lump sum payment is made to the beneficiary.

SECTION 17

Deletes the dollar amount in the Longevity Bonus program.

SECTION 18

Makes the Longevity bonus payment \$250 plus a 3% annum minus the maximum possible annuity.

SECTION 19

Adds people residing in nursing homes, and the nursing home wing of of Pioneer Homes as unqualified persons to receive Longevity borus payments. (This is to protect those people on Medicaid who were adversely impacted by Federal regulations)

SECTION 20

Repealers of existing Longevity Bonus Program

SECTION 21

Repealers of existing Longevity Bonus Program

SECTION 22

This act applies to Permanent Fund dividends for years beginning after December 31, 1985.

SECTION 23

Immediate Effective Date

POSITION PAPER FOR

COMMITTEE SUBSTITUTE FOR SENATE BILL No. 56

For "An Act amending the longevity bonus program and the permanent fund dividend program, establishing an annuity program; and providing for an effective date."

I. Alaska Longevity Bonus - Enactment of the amendments to the Longevity Bonus Program included in CSSB 56 would protect Medicaid coverage for approximately 33 nursing home residents in FY86; however, benefits for approximately 750 Alaskans who currently receive Old Age Assistance, Medicaid, and federal Supplemental Security Income payments as outlined below would continue to be seriously jeopardized. This negative impact is a combined result of federal and state statutes that require the Longevity Bonus to be counted as income when determining these individuals' eligibility for assistance for residents of less than 25 years.

Nursing home residents are excluded from receiving the Longevity Bonus by CSSB 56 and therefore will continue to be eligible for Medicaid if their income is under \$975 per month.

Federal Supplemental Security Income (SSI) recipients are not protected by CSSB 56 and therefore those who are not 25-year residents by October 1, 1985 would suffer either a reduction or a termination of their federal SSI grant.

Old Age Assistance (OAA) recipients would also suffer either a reduction in their state grant or a termination of their grant.

Medicaid recipients who are not residing in a nursing home and who become ineligible for Old Age Assistance and Supplemental Security Income will also become ineligible for Medicaid. CSSB 56 does not provide a hold-harmless to replace the loss of these Medicaid benefits. The Department estimates that 333 elderly Alaskans will lose Medicaid benefits in FY86.

These low-income Longevity Bonus recipients can be protected from financial harm by the enactment of a series of amendments to General Relief and Longevity Bonus statutes (substantially as proposed in CSSB No. 128), to provide that:

- (1) The Department will use General Relief funds to replace federal SSI payments lost or reduced by the federal government counting some bonus payments as income;
- (2) The Department will use General Relief funds to replace Old Age Assistance (OAA) payments lost or reduced by the Adult Public Assistance program following the SSI policy of counting some Bonus payments as income; and

Position Paper CSSB 56
Page 2

- (3) The Department will use General Relief-Medical funds to provide medical assistance to anyone who loses Medicaid coverage solely because their Longevity Bonus payments were counted as income.

The majority of the 750 individuals who would lose benefits under CSSB 56, as now written, depend on federal SSI and the state OAA payments as their primary source of income. Their medical bills are covered by Medicaid. The Department believes it essential, for basic humanitarian reasons, that enactment of CSSB 56 be accompanied by a "hold-harmless" provision that would protect those who would lose cash and medical assistance because they receive the Longevity Bonus.

If a hold-harmless provision is not enacted during this session, the Department will be compelled by federal requirements to end Medicaid eligibility for approximately 333 recipients and to reduce Old Age Assistance grants to an additional 400 recipients starting July 1, 1985.

II. Annuity Program - Enactment of the annuity program proposed in CSSB 56 would not have a substantial effect on most public assistance and Medicaid recipients. These individuals, whose annual incomes are less than \$10,000, cannot afford to defer their Permanent Fund checks, as they have an immediate need for these funds to buy basic necessities.

III. Federal Waiver - The Department is unable to make any commitments as to whether any changes in the Longevity Bonus Program will again alter the federal government's position and, perhaps, end the special exclusion for 25-year residents who receive the Bonus. If this were to occur, the number of recipients placed in jeopardy and the costs of providing them with "hold-harmless" protection would grow substantially beyond our current estimates.

RECOMMENDATION

Given the broad scope of this policy change and the fact that public assistance is only a minor part of it, we do not take any position either supporting or opposing this bill. However, we do oppose any change in the Longevity Bonus Program which does not include a hold-harmless for SSI, Old Age Assistance, and Medicaid recipients. We recommend adding a complete hold-harmless for SSI, Old Age Assistance, and Medicaid.

Recommended by: Rod Betit 2/21/85
Rod Betit, Director
Division of Medical Assistance

Date: _____

Recommended by: John R. Taber
John R. Taber, Director
Division of Public Assistance

Date: 2/21/85

Approved by: John R. Pugh
John R. Pugh, Commissioner
Department of Health & Social
Services

Date: 2/21/85

POSITION PAPER

BILL NO.: SENATE BILL NO. 56

DATE: 1-24-85

TITLE: "An Act amending the longevity bonus program and the permanent dividend program, establishing an annuity program, and providing for an effective date."

CONTACT: DHSS/3030
DOA/2200
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1. INTRODUCTION -

Senate Bill 56 amends various sections of the Alaska Statutes regarding the longevity bonus and the Permanent Fund and thereby creates three major impacts:

a) Continues the bonus program for all persons age 65 by 1986 and pays these persons a benefit level of \$250 per month plus 3% per annum for life. b) Phases out the bonus program for everyone younger than 65 (in 1986) and pays these persons an ever-reducing benefit level until sometime in the early part of the 21st Century when the benefit reaches zero. c) Creates a state supplemental retirement program (the annuity program) for those under 65 (in 1986) who choose to defer/invest their annual permanent fund dividends.

This position paper contains analyses provided by the Departments of Health and Social Services, Administration, and Revenue. The Departments of Revenue and Administration have provided fiscal notes for the costs of administration of both the altered Longevity Bonus Program and the Annuity Program.

Fiscal notes are limited to the administrative costs of implementation of this Act, because the program costs (the cost of living escalator in the Longevity Bonus Program and the front loading costs in the annuity program) are so interrelated and dependent upon one another that the variables generate a multitude of different estimated costs of the program.

When this bill was presented to the Alaska Longevity Bonus Task Force, the authors of the bill envisioned a 3% escalator in the longevity bonus and a front loading match of 25% of the Permanent Fund dividend checks which were deferred. The number of checks deferred was based upon an assumption that 30% of those eligible to defer would defer 100% of their check. Based upon all of these assumptions, the costs of the program would be an additional \$25.2 million in FY 86, \$26.5 million in FY 87, and \$27.7 million in FY 88 above that which is already budgeted for the current longevity bonus payment. The drafters also assumed that these front loading costs would cease after FY 88.

Therefore the costs of the bill using these assumptions would be as follows:

	<u>FY86</u>	<u>FY87</u>	<u>FY-88</u>	<u>Source</u>
Front-Loading	25,200.0	26,500.0	27,000.7	Gen. Fund/Reserve Acct. PF
PFD BRU	1,306.2	-0-	-0-	Annuity Fund
Treasury BRU	9.3	11.1	14.8	Annuity Fund
Public Svcs BRU	635.7	450.5	339.3	General Fund
Longevity Bonus BRU	10.0	-0-	-0-	General Fund
Annuity DP BRU	814.5	67.7	71.2	Annuity Fund
Annuity Mgt BRU	150.1	174.8	183.6	Annuity Fund
SB 56 Cost:	<u>28,125.8</u>	<u>27,204.1</u>	<u>27,609.6</u>	
ALB Program	50,200.0	53,900.0	57,300.0	General Fund
Total Cost:	<u>78,325.8</u>	<u>81,104.1</u>	<u>84,909.6</u>	

2. DEPARTMENT OF ADMINISTRATION -

The Department of Administration has two concerns about the 3% annual escalation of the longevity bonus proposed in SB56. First, it is artificial, not based on real inflation projections. Second, the cost-of-living increase is only for grandfathered seniors, paid for by the reduction in benefits paid to those seniors who were not grandfathered.

Under the annuity program described in Senate Bill 56, the Department of Administration will administer individual annuity accounts for 30% of the Permanent Fund dividend eligibles. This account management will include approximately 145,500 accounts in FY 86.

<u>FY</u>	<u># of PFD Eligibles</u>				<u># of Annuity Accounts</u>
FY86	485,000	x	30%	=	145,500
FY87	490,000	x	30%	=	147,000
FY88	500,000	x	30%	=	150,000
FY89	510,000	x	30%	=	153,000
FY90	521,000	x	30%	=	156,300

The Department will also make annuity payments to those persons over the age of 65 who were eligible. The payment stream of each individual account will be based on actuarial tables. Each year the analysis will have to be redone because account balances and fund balances would vary. The attached fiscal notes describe the resources required to manage these accounts.

3. DEPARTMENT OF REVENUE -

The proposed legislation directly impacts four divisions within DOR:

- Division of Administrative Services
- Division of Enforcement
- Division of Treasury
- Division of Public Services

For purposes of convenience, we have consolidated our responses into categories instead of along division lines:

- I. Introduction - The Annuity Program
- II. Section-by-Section Analysis of Amendments to AS 43
- III. Proposed Amendments
- IV. Division(s) Fiscal Notes

I Introduction The Annuity Program

Annuity Program

Under the annuity program established by SB 56, an eligible Alaska resident under the age of 65 as of January 1, 1986 may forego all or a portion, but not less than 25%, of their permanent fund dividend in exchange for a credit to an individual annuity account. Upon reaching the age of 65, that person will receive a monthly annuity for the remainder of their life that is based on the accumulated value of their annuity account, including interest, at age 65.

As it does currently, the Enforcement Division of the Department of Revenue will determine eligibility for a dividend. Under SB 56 the division of Administrative Services will provide to the Department of Administration, the amount, if any, each resident's annuity account would be credited as a result of electing such credit rather than a cash dividend. The total of such credits will be transferred to the annuity investment fund from the dividend fund.

The Treasury Division of the Department of Revenue will invest the annuity investment fund. Investments permitted are the same as those of the Public Employees Retirement Fund except that the fund may also be invested in commercial insurance contracts. *Periodically, the Treasury Division will notify the Department of Administration of the income realized by the fund. The Department of Administration will allocate this as a pro-rata credit to each person's annuity account based on the balance in their account.

At age 65, a monthly annuity payment will be established for each individual. It will be determined by either the annuity available on the market which can be purchased with the amount in the annuitant's account or an amount determined by the Department of Administration based on then current interest rates, mortality tables, and amounts on the account if an "in-house" option is chosen to meet the liability for annuity payments. Under the "in-house" option the State would continue to manage the investment of the funds in annuitants' accounts at age 65 and thereafter.

Each year, the legislature may appropriate from the annuity investment account the amount required to make the monthly payments to annuitants who are 65 or older. The amounts required will be transferred to the Department of Administration which will make the payments.

The appropriation could be of "the amount required by AS 43.23.130" or the Department of Administration could provide an estimate each year which would be inexact due to deaths during the year of annuitants or those who would become annuitants in that year.

Comments

The private insurance option transfers from the fund the risk of inadequate earnings on post-65 annuitants' accounts to cover liabilities for payments. Of course the risk is not totally avoided since there is always some credit risk that the insurer will fail.

However, by incorporating the private insurance option into the investment fund as an investment, a conflict can arise with AS 43.23.110(c) which required crediting annuity accounts with investment fund earnings. If average fund rate-of-return is less than that on the insurance contracts, full payment of monthly annuities to those over 65 cannot be made while also crediting under-65 accounts at the average rate of return. This is because in this case the average rate of return on under-65 accounts would be higher than the actual returns. Of course, the credits can be made since they don't require cash payment and over time the problem may be eliminated by years on which average fund earnings exceed insurance contract rates of return.

A more definitive solution might be to credit under-65 accounts only with earnings net of annuity payments, to establish separate funds for those over and under 65, or to make the insurance contracts simply contracts of the Department of Administration and not investments of the annuity investment funds. In the case of "in-house" management, similar conflict would exist AS 43.23.110(c) when assumed rates of return and mortality differ from that realized.

The other major aspect of the annuity program which may present technical problems is the allocation from "front-loading" in AS 43.23.110(b)(2) and (3). If the base amount in (b)(2) is a separate

appropriation or allocation in the legislation appropriating the "front-loading", then that base amount can be determined. In any event, (b)(3)'s derivation remains ambiguous.

II

Alaska Department of Revenue
Section by Section Analysis of SB 56
January 21, 1985

- Section 1: Intent section, no effect on Department of Revenue except that paragraph (4), lines 3-5 sets up the relationship of two choices: annuity is the default unless applicant chooses cash. This affects form design and programming.
- Section 2: Amends AS 43.23.005(c). Replaces the word "payment" with "dividend," for consistency reasons. There is no direct effect on the Department of Revenue.
- Section 3: Amends AS 43.23.005 by establishing alternatives for PFD applicants:
- a) If person is 65 or older on December 31, 1985, there is only one choice - 100% cash dividend.
 - b) If person is under 65 on December 31, 1985, there are two basic choices:
 - 1) 100% cash.
 - 2) At least 25% cash, and between 1 and 75% annuity.
- Section 4: Amends AS 43.23.015(a). This change would appear to have no effect on the Department of Revenue unless the intent is to limit the Department of Revenue's ability to adopt regulations defining residency, etc., as opposed to just establishing the process.
- Section 5: Amends AS 43.23.015(b) by changing the affidavit printed on the application, so that the applicant signs a statement that he or she understands that they will lose all dividends and interest credited to his/her annuity account. It should be amended to say the person also loses all the legislative appropriations credited under AS 43.23.110 (Section 16 of this bill). This represents a major forms change, and more importantly, creates substantial collection problems leaving many questions unanswered. For example, it is clear that the Department of Revenue can use collection procedures to collect money paid to applicants as cash dividends and within the limits of Section 10, as well as collect funds transferred to the Department of Administration based on an option for annuity, however what about:

- 1) Collecting annuities already paid to a person over 65? Who collects it and how?
- 2) If Revenue attempts to retrieve money from the Department of Administration after conviction or discovery of error, which agency goes after money from the annuitant? Under what provision of law? What if there aren't enough funds in the dividends account?

Section 6: Amends AS 43.23.015(e) in an attempt at consistency. But given the extreme difficulties that exist in administering a trust for persons in custody of a public agency (typically children in custody of the Department of Health & Social Services) and the animosity that is generated in the parents, giving a state agency the option of irrevocably placing a custodial person's dividend in an annuity account seems certain to generate extreme animosity from those parents and potential law suits for the recovery of the funds.

Section 7: Amends AS 43.23.015(f) for consistency with the new concept of the PFD annuity. It is important to note that this does nothing to correct the potential problem mentioned in the analysis of Section 6. Otherwise there is no effect on the Department of Revenue.

Section 8: Amends AS 43.23.015 by adding a paragraph directing the Department of Revenue to provide an option on the PFD application. For consistency's sake, the wording on line 16-17 should be changed to reflect the wording of the option as given in Section 3. Section 8 implies only two choices: 100% cash or 100% annuity. This doesn't square with Section 3, which provides that every applicant receives at least 25% of the dividend value in cash. It should also be noted that the use of the term "permanent fund dividend" on line 17 in juxtaposition to the term "cash" implies that the term "permanent fund Dividend" is defined as meaning annuity credit. This is not the definition provided in Section 15. The only effect on the Department of Revenue of this section is to modify the form and explain the choices to the public.

Section 9: Amends AS 43.23.035 to reflect the new concept of the PFD annuity option. It is unclear as to whether "additional credits" on line 24 means an allocation of future legislated appropriations and/or interest accrued to original annuity credits. The language here should be coordinated with the language in Section 5. Again, there are enforcement/collection problems. What if annuity payments have already started and there is not enough left to pay back all the erroneously credited dividends? How is the balance collected, and by whom? To what fund(s) are collections credited?

Section 10: Amends AS 43.23.035 to provide a mechanism for the Department of Revenue to collect dividends erroneously credited to the annuity investment account. This section also distinguishes between the remedy available to the Department of Revenue when the error is the fault of the state and when the error is the fault of the individual. It is difficult to evaluate which date starts the clock - date credited, or date discovered.

Section 11: Amends AS 43.23.055 to redefine the duties of the Department of Revenue to reflect the new concept of a PFD annuity option. Lines 19-20 again implies two choices - 100% cash or 100% annuity. Under the provisions of Section 3, everyone receives at least 25% cash. Lines 11-13 on page 6 requires the Department of Revenue to provide information to the Department of Administration necessary to maintain the individual annuity account records and administer the annuity program. It would appear that this information exchange would consist of the following:

- 1) Each week, starting with the first PFD payment run in October, the Department of Revenue would notify the Department of Administration (via a computer tape) of those applicants who came up for payment and who chose that a percentage of their dividend be credited to their annuity account. This will allow the Department of Administration to credit the account with the proper amount and as of the date on which the applicant would have otherwise been paid cash. This reporting will go on weekly as long as the Department of Revenue is making payments from that particular year's file.
- 2) On a regular basis, the Department of Revenue would have to provide the Department of Administration with the interest rate that reflects the earnings of the annuity investment fund.
- 3) On a case by case basis over a 10-year period the Department of Revenue - Enforcement would notify the Department of Administration of erroneous payments and seek reimbursement from the annuity investment fund.

Sections 12 & 13: Amend AS 43.23.065 to reflect the new concept of a PFD annuity option. The general effect of Sections 12 and 13, taken together, seems to be that the portion of a dividend which is taken as a credit to an annuity is not subject to levy, execution, garnishment, attachment, or other remedies for the collection of debt. As a statute change unrelated to the annuity concept, Section 12 provides for 100% attachment of a cash dividend to satisfy a court-ordered restitution under AS 12.55.045 - 12.55.051 or 12.55.100. It is important that the court order will serve to attach

the dividend only if served on the Department of Revenue timely, as in the case of any other attachment order (CSED, IRS, etc.). Section 13 goes further by providing that in the case of a CSED arraignment or in the case of a civil judgement or order of restitution, the Department of Revenue or the Alaska courts, respectively, may require the defendant to take his/her entire PFD in cash. First of all, it is important to note that neither the Department of Revenue nor the court can force a person to apply for a dividend, but can force a selection of cash once the applicant has filed. There are two potential problems with Section 13:

- 1) The Department of Revenue cannot determine that an applicant meets the criteria of Section 13 until either CSED or a court agency serves an attachment order on the Department of Revenue - Enforcement, and in the case of CSED, indicating a past-due debt, and
- 2) Given that the overall thrust of Sections 12 and 13 is to exempt dividends selected as annuity credits from attachment, in the case of a person who owes (under Section 13) less than the amount of the total dividend, and originally chose the annuity option, it would seem that only an amount necessary to satisfy the debts under both the proposed AS 43.23.065(b) and (c) could be converted to the cash option, with the residual amount still protected from general attachment. This needs to be clarified.

Section 14: Amends AS 43.23.075 to reflect the new concept of a PFD annuity option. There is no effect on the Department of Revenue.

Section 15: Amends AS 43.23.095(b) to change the definition of "permanent fund dividend" to include the PFD annuity option. There is no effect on the Department of Revenue, save substantial changes to existing regulations.

Section 16: This section establishes the Annuity Program, to be administered by the Department of Administration. Although this section of the bill has very little impact on the Department of Revenue - PFD BRU, the following thoughts are offered for consideration:

- 1) AS 43.23.110(a), as proposed, provides for the gross amount selected as annuity credits to be transferred from the PFD fund to the annuity investment fund annually. As previously noted, the Department of Revenue could provide a magnetic file weekly as annuity participants come up for payment. The question is when does the interest envisioned in the proposed AS 43.23.110(c) begins to accrue: at payment of the residual cash dividend, or at some annual date upon transfer of the gross amount.

2) AS 43.23.110(b), as proposed, provides that the Legislature may appropriate additional funds to the annuity investment fund. Since this appropriation will likely be made during January - May of a given year, it should be clarified as to whether the appropriation is to be allocated between annuity participants of that same calendar year, or amongst those who selected the annuity option for the prior calendar year. If as the bill implies, the former is the case, then the Legislature will be making an appropriation without prior knowledge of the number of participants or the total amount of dividends selected as annuity credits. The applications are filed between April 1 - June 30 and the information is not on computer file until approximately July 31.

AS 43.23.110(b)(1), as proposed, appears to have the same constitutional flaws that caused the Legislature to include the children of Alaska in the PFD program in 1982.

AS 43.23.110(b)(2), as proposed, does not specify what portion of the appropriation should be used as the "base" amount. Also there needs to be definitions of the formula for determining the base amount, i.e. half the appropriation divided by the number of eligible annuitants.

AS 43.23.110(b)(3), as proposed, is a very confusing paragraph and makes no comprehensible sense. The formula for showing the appropriation must be clarified and simplified to the point that it can be easily explained to the public, in written form in the application booklet, in person during the required rural assistance program, and to the tens of thousands of Alaskans who will be asking the Department of Revenue's Public Services Assistance Centers for a lucid explanation.

AS 43.23.110(b)(4), as proposed, again implies that a person has an option of opting for 100% annuity, in contradiction of Section 3.

AS 43.23.110(c), as proposed, requires the Department of Revenue to provide the Department of Administration with the appropriate interest rate. The question unanswered is how often? The other implication is that the monies in the annuity investment fund are not to be co-mingled with other monies in the General Fund, but truly invested as a separate fund. This needs to be nailed down.

AS 43.23.130, as proposed, describes the benefit PFD applicants would receive in exchange for the option of receiving their whole dividend in cash, versus accepting up to 75% of the dividend in annuity credit. For this reason, it is extremely important that this section be very clear

to the reader, and it is. In (f) of this section, there appears to be an attempt to shelter the original dividend given up, in part, for an annuity credit, from taxation by the federal government as income in the year the dividend was available in cash. The doctrine of "constructive receipt" would hold the dividend taxable in the current year and this will have to be pointed out to recipients of the dividend at the time their dividend is paid, whether it is paid in credits or in cash.

Section 22: Provides an implementation schedule for the provisions of this bill and makes the Act applicable to PFD years 1986 and thereafter. This defines the time period in which the Department of Revenue has to accomplish all of the necessary program changes. The Department of Revenue will have from the date this bill becomes law until March 31, 1986. This accelerated schedule will be costly and will make it very difficult to get everything on line by the 1986 filing period.

Section 23: Provides an effective date.

III
Alaska Department of Revenue
Suggested Amendments to SB 56
January 21, 1985

Submitted by Division of Administrative Services:

Eliminate Internal Contradictions Regarding Cash vs Annuity

1. Section 1 and Section 3 are contradictory as to the options available and should be modified.

Page 2, lines 3 - 5 implies that the entire dividend is applied to the annuity account absent a conscious election by the applicant.

Page 2, lines 22-24 says that the only choice other than 100% cash is 25% or more cash and between 1 and 75% annuity. Per Section 3, there does not appear to be a 100% annuity option.

2. Page 4, lines 16-17 should be amended to reflect the same wording of Section 3, to eliminate the contradiction regarding the available options.

Making Annuity/Cash Election Irrevocable

3. Page 5, lines 17-20 like Section 1, implies only two choices: 100% cash or 100% annuity. This should be amended to square with Section 3.
4. It is important that the election be binding and irrevocable. If people change their mind, make a mistake, or whatever, there should be no opportunity to change election. Otherwise, the cost of this program will go up dramatically.

Limit Choice

5. Page 2, lines 19-25 should be amended to limit the choice of hybrid payments to:
 - a) 100% cash,
 - b) 25% cash, 75% annuity credit,
 - c) 50% cash, 50% annuity credit, or
 - d) 75% cash, 25% annuity credit.

As it currently reads, there are at least 76 real options, significantly complicating the administration of the program.

Avoidance of Debts to State Agencies

6. Page 7, line 13 should be amended by adding a new subsection (d) to include debts to a state agency as a valid reason for compelling an applicant to elect a cash dividend.

Submitted by Division of Treasury: Comments on SB 56

1. Page 6, line 15

"(a)" should be inserted before "Fifty."

2. Page 8

Sec. 43.23.110(a) should include the statement that "Income of the annuity investment fund shall be added to the principal of the annuity investment fund." However, the Attorney General in a November 30, 1982 opinion expressed some doubt about whether a retention of investment earnings by a fund is permissible under the Constitution's prohibition of dedicated revenues.

3. Page 10, line 6

Add "purchased from insurance companies which have a Best's Policyholders' Rating of A or better and belong to Best's financial size Group XV at the time of purchase" at the end of the sentence.

4. Page 10, line 23

"received" should be "receive"

4. DEPARTMENT OF HEALTH AND SOCIAL SERVICES-

a) Alaska Longevity Bonus - Enactment of the amendments to the Longevity Bonus Program included in SB56 would not adversely affect nursing home residents but would continue to seriously jeopardize many needy elderly Alaskans who currently receive old age assistance, medicaid, and federal supplemental security income payments as outlined below. This negative impact is a direct result of the federal and state statutes specifying which longevity bonus payments must be counted as income when determining these individuals' eligibility for assistance.

Nursing home residents are excluded from receiving the longevity bonus and therefore will be protected from either the loss of their medicaid coverage or a loss or decrease in their state assistance grant.

Federal supplemental security income (SSI) recipients are not protected and therefore would suffer either a reduction of their SSI grant or a termination of their federal SSI grant.

Old Age Assistance (OAA) recipients would also suffer either a reduction in their state grant or a termination of their grant.

Medicaid recipients who are not residing in a nursing home and who have a gross income in excess of 300% of the SSI need standard (i.e., \$975) will become ineligible for medicaid.

These low-income longevity bonus recipients can be protected from financial harm by the enactment of the following amendments to the Adult Public Assistance statutes (AS 47.25.430ff) to provide that:

(i) The department shall increase the amount of an individual's Adult Public Assistance payment by the amount of any reduction in assistance provided under Title XVI of the Social Security Act which occurs solely because of considering payments made under AS 47.45 as available income; and

(ii) Notwithstanding AS 47.25.435, in determining eligibility for Adult Public Assistance and the amount of Adult Public Assistance payment, the department will not consider any payment made under AS 47.45 as income available to the applicant or recipient.

The costs of protecting these individuals from the harm caused by the loss of their assistance coverage would be:

	FY86	FY87
Federal (SSI) Payment	1,400,000	1,530,517
State (OAA) Payment	760,000*	830,737*
Non Nursing Home Medical	413,847	471,609
Nursing Home Medical	-0-@	-0-@
	<u>\$1,813,847</u>	<u>\$2,002,126</u>

* As these costs are already budgeted for FY 86- this is a non-add item.

@ No cost if the exclusion is effective upon enactment of SB56.

The majority of these individuals receive most of their income from the federal SSI and the state APA programs while their primary source of payment for medical bills is medicaid.

The department believes that it is therefore absolutely essential for basic humanitarian reasons that enactment of SB56 be accompanied by enactment of a "hold-harmless" program that would protect those harmed by receipt of the proposed longevity bonus.

b) Annuity Program - Enactment of the annuity program proposed in SB56 would not have a substantial effect on most public assistance and medicaid recipients. These individuals, whose annual incomes are less than \$10,000, cannot afford to defer their Permanent Fund checks as they have an immediate need for these funds to buy basic necessities.

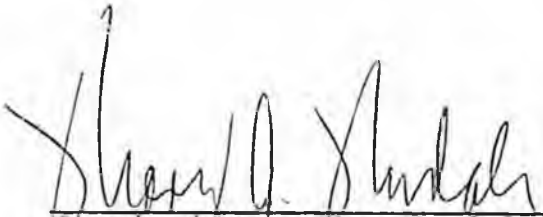
c) Federal Waiver - Currently, people who are eligible to receive the longevity bonus before October 1, 1985, have grandfathered eligibility rights to federal SSI and medicaid because federal law prohibits counting their bonus payments as income. People not eligible to receive the longevity bonus by this date are not covered under this grandfather clause. As they begin to receive countable bonus payments, their SSI assistance and OAA is reduced or terminated. Those whose assistance is terminated become ineligible for medicaid.

This change from the previous universal exclusion of consideration of the longevity bonus as income was precipitated by the 1984 change in the residency eligibility standards for the Longevity Bonus Program.

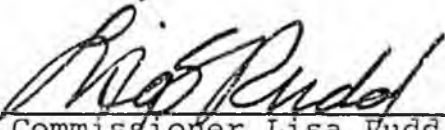
The Department is unable to make any commitments as to whether any changes in the Longevity Bonus Program will again

alter the federal government's position and, perhaps, end the special exclusion for 25-year residents who receive the Bonus. If this were to occur, the number of recipients placed in jeopardy and the costs of providing them with a "hold-harmless" protection would grow substantially beyond the estimate provided above.

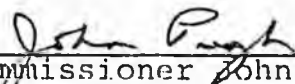
Approved:



Commissioner Mary Nordale
Department of Revenue



Commissioner Lisa Rudd
Department of Administration



Commissioner John Pugh
Department of Health and
Social Services

Alaska Department of Revenue
Enforcement Division
Fiscal Impact of SB 56
January 21, 1985

The fiscal impact of SB 56 is \$-0- given the following assumptions.

1. Garnishment EDP programming changes can be accomplished at least three months before the 1986 payment schedule begins.
2. Orders of Restitution are served on the Division just as any other garnishment document, such as writs or Orders to Withhold.
3. Language is included that assures a creditor may not defeat a State agency by electing an annuity. If this is not done, the potential impact is a loss of revenue. Although not readily estimateable it is not anticipated to be significant.
4. Deposit and fund crediting procedures for collections of erroneously paid annuities are kept simple and/or allocation between funds are determined by the Department of Administration.

AMENDMENT

To: CSSB 55 (Jud)

By: Senator Faiks

Page 9, Line 11

After the word "determined", insert, "by the legislature"

Page 9, Line 16

Delete "shall be" and insert "is"

Page 9, Line 17

After the word "established", insert, "by the legislature"

HARD COPY

3/18/85

EFFECTS OF MANDATORY CONTRIBUTIONS

The enclosed chart was prepared by the House Research Agency for Representative Larson and House Bill 222. A copy of the latest version of that bill was not yet available however Representative Larson will be at this morning's meeting to explain.

Essentially, HB 222 would ~~require mandatory contributions to~~ fund both current Longevity Bonus recipients as well as future annuitants. The bill establishes the following:

- 1) Beginning in 1986, approximately 20.9% of each Alaskan's Permanent Fund Dividend would be used to fund a \$250 bonus to those people that are 65 years of age or older by 1/1/86. It is estimated that the dividend for 1986 will be around \$496 hence this bill would reduce that to \$393.
- 2) The second feature of HB 222 would require that an additional 50% of the remaining PFD balance would go directly into an annuity fund. Therefore, $\frac{1}{2}$ of \$393 would result in a 1986 Permanent Fund Dividend of \$196.50.
- 3) The third main provision of HB 222 would be to make contribution of the remaining 50% optional.
- 4) This 50% mandatory contribution into the annuity plan results in tax deferability ie. that money is not considered income hence it is not taxed until you start to collect.
- 5) The state would no longer have to fund current Longevity Bonus payments because that would now be funded from a percentage of each Alaskan's PFD.

3/18/85

LONGEVITY BONUS COST REVALYSIS
 (20000 (revised))
 All paid from PFD Account

John Long
John

Fiscal Year	Div 63 after 1/7/86	Div 63 after 1/7/86	Eligible Recipients	Target Bonus	Maximum Bonus	Residual Bonus	Monthly Payment with Full PFD Contribution	Monthly Payment with Half PFD Contribution	Annual Cumulative PF Cost (millions)	Annual PF Cost (millions)	Annual CF Cost (millions)	Dividend Pool (millions)	Revised Dividend Pool (millions)	Original PFD	Revised X PFD	Decrease in PFD	(Full PFD) Monthly Balance	Cash Dividend	% Decrease in Cash Dividend
1966	10,039	1,705	16,244	\$250	\$0.00	\$250	\$250	\$250	\$50.2	\$0.0	\$0.0	\$240.6	\$190.4	\$496	\$393	50.9	\$410	\$196	60
1967	14,349	3,419	17,768	250	30.96	256	250	248	102.7	0.0	0.0	400.0	313.7	543	436	19.7	701	218	69
1968	13,600	3,109	16,709	250	14.72	241	250	246	157.0	0.0	0.0	500.0	341.4	577	469	10.8	1,444	214	53
1969	12,974	6,034	19,008	250	81.24	226	250	245	213.1	0.0	0.0	510.0	352.9	619	509	17.8	2,139	234	53
1970	12,393	8,630	20,913	250	20.66	222	250	240	270.7	0.0	0.0	521.0	352.9	672	567	16.3	2,733	295	53
1971	11,416	10,332	21,748	250	28.24	222	250	238	309.0	0.0	0.0	537.0	352.9	744	633	14.8	3,079	317	52
1972	10,943	11,506	22,449	250	37.10	213	250	236	372.3	0.0	0.0	537.0	352.9	814	703	11.3	3,409	317	52
1973	10,325	13,500	23,825	250	47.63	202	250	235	445.3	0.0	0.0	543.0	352.9	884	771	10.6	3,732	310	52
1974	9,606	15,193	24,799	250	57.02	190	250	230	501.9	0.0	0.0	543.0	352.9	964	842	10.6	4,055	310	52
1975	8,945	16,946	25,891	250	67.91	176	250	213	568.6	0.0	0.0	543.0	352.9	1,042	943	10.6	4,378	310	52
1976	8,291	18,048	26,339	250	80.10	163	250	213	600.1	0.0	0.0	543.0	352.9	1,120	1,030	10.6	4,701	310	52
1977	7,644	20,040	27,684	250	94.10	141	250	213	650.1	0.0	0.0	543.0	352.9	1,200	1,139	10.6	5,024	310	52
1978	7,012	21,643	28,655	250	109.14	120	250	213	700.4	0.0	0.0	543.0	352.9	1,280	1,239	10.6	5,347	310	52
1979	6,396	23,160	29,556	250	125.94	96	250	213	750.4	0.0	0.0	543.0	352.9	1,360	1,349	10.6	5,670	310	52
1980	5,789	24,712	30,501	250	143.63	75	250	213	800.4	0.0	0.0	543.0	352.9	1,440	1,440	10.6	5,993	310	52
2000	5,225	26,254	31,479	250	162.32	57	250	213	850.4	0.0	0.0	543.0	352.9	1,520	1,520	10.6	6,316	310	52
2001	4,676	27,792	32,468	250	181.63	40	250	213	900.4	0.0	0.0	543.0	352.9	1,600	1,600	10.6	6,639	310	52
2002	4,126	29,324	33,450	250	201.27	25	250	213	950.4	0.0	0.0	543.0	352.9	1,680	1,680	10.6	6,962	310	52
2003	3,576	30,851	34,427	250	220.92	10	250	213	1,000.4	0.0	0.0	543.0	352.9	1,760	1,760	10.6	7,285	310	52
2004	3,026	32,378	35,404	250	240.57	0	250	213	1,050.4	0.0	0.0	543.0	352.9	1,840	1,840	10.6	7,608	310	52
2005	2,476	33,905	36,381	250	260.22	0	250	213	1,100.4	0.0	0.0	543.0	352.9	1,920	1,920	10.6	7,931	310	52
2006	2,026	35,432	37,409	250	280.87	0	250	213	1,150.4	0.0	0.0	543.0	352.9	2,000	2,000	10.6	8,254	310	52
2007	2,402	36,959	38,436	250	301.52	0	250	213	1,200.4	0.0	0.0	543.0	352.9	2,080	2,080	10.6	8,577	310	52
2008	2,030	38,486	40,463	250	322.17	0	250	213	1,250.4	0.0	0.0	543.0	352.9	2,160	2,160	10.6	8,900	310	52
2009	1,778	40,013	42,041	250	342.82	0	250	213	1,300.4	0.0	0.0	543.0	352.9	2,240	2,240	10.6	9,223	310	52
2010	1,449	42,540	44,012	250	363.47	0	250	213	1,350.4	0.0	0.0	543.0	352.9	2,320	2,320	10.6	9,546	310	52

Prepared by the House Research Agency 10-HR-05

15-HR-05

Ballot: G.F. &

Brygg Erickson

ASSUMED PARTICIPATION RATE BY AGE GROUP

AGE	RATE	AGE	RATE
18	.2%	41	43.5%
19	.4%	42	47.5%
20	.7%	43	51.5%
21	1.0%	44	55.4%
22	1.5%	45	59.3%
23	2.0%	46	63.2%
24	2.7%	47	66.8%
25	3.5%	48	70.4%
26	4.4%	49	73.7%
27	5.5%	50	76.8%
28	6.8%	51	79.7%
29	8.3%	52	82.4%
30	10.0%	53	84.8%
31	12.0%	54	87.0%
32	14.1%	55	88.9%
33	16.6%	56	90.6%
34	19.2%	57	92.1%
35	22.1%	58	93.4%
36	25.2%	59	94.5%
37	28.6%	60	95.5%
38	32.1%	61	96.3%
39	35.8%	62	96.9%
40	39.6%	63	97.4%
		64	97.9%

Prepared by the Division of Strategic Planning.
3/17/85

3/18/85

INDIVIDUAL FRONT-LOADING PAYMENTS BY AGE

ASSUMPTIONS:

(Base amount = \$50.00; Tilt = 10 percent per year)

AGE	AMOUNT	AGE	AMOUNT
1	\$.00	34	\$50.00
2	\$.00	35	\$50.00
3	\$.00	36	\$55.00
4	\$.00	37	\$60.50
5	\$.00	38	\$66.55
6	\$.00	39	\$73.21
7	\$.00	40	\$80.53
8	\$.00	41	\$88.58
9	\$.00	42	\$97.44
10	\$.00	43	\$107.18
11	\$.00	44	\$117.90
12	\$.00	45	\$129.69
13	\$.00	46	\$142.66
14	\$.00	47	\$156.92
15	\$.00	48	\$172.61
16	\$.00	49	\$189.87
17	\$.00	50	\$208.86
18	\$50.00	51	\$229.75
19	\$50.00	52	\$252.72
20	\$50.00	53	\$278.00
21	\$50.00	54	\$305.80
22	\$50.00	55	\$336.37
23	\$50.00	56	\$370.01
24	\$50.00	57	\$407.01
25	\$50.00	58	\$447.72
26	\$50.00	59	\$492.49
27	\$50.00	60	\$541.74
28	\$50.00	61	\$595.91
29	\$50.00	62	\$655.50
30	\$50.00	63	\$721.05
31	\$50.00	64	\$793.15
32	\$50.00	65	\$872.47*
33	\$50.00	66 & OVER	\$.00

* CSSB56 (Jud) provides for payments to persons age 65 (p. 9, line 15). Accompanying calculations assume that payments stop at age 64.

Prepared by the Division of Strategic Planning.

3/17/85

3/18/85

11/29/84

Memorandum to: State Special Committee on the
Alaska Longevity Bonus Program

SUMMARY

Johnson & Higgins was retained to review, as actuaries, technical materials presented to the Committee.

Our review of materials prepared by the Division of Strategic Planning showed their work to be complete and accurate. Our only suggestion is regarding the anticipated level of participation. We feel that lower and higher levels of participation should be examined, since the results will probably vary and are more likely to average well below a 50% participation.

We have expressed some concern over the proposals offered by Benefit Concepts. The investment package they are recommending is very attractive, but we have expressed serious doubt that it can actually be delivered. Further analysis by Benefit Concepts is needed and should be investigated carefully. Our calculations have shown that the proposals offered to date will not be nearly as attractive as suggested by Benefit Concepts.

3/18/85

3/18/85

CONTACT: ROD BETIT 465-3355

DATE: MARCH 6, 1985

SUMMARY OF LONGEVITY BONUS HOLD HARMLESS
DIVISION OF MEDICAL ASSISTANCE

BILL NO.	HOLD HARMLESS COVERAGE				FY86 HOLD HARMLESS COSTS (SAVINGS) IN STATE DOLLARS				
	MEDICAL	NURSING HOME	OAA	SSI	MEDICAL	NURSING HOME	OAA	SSI	TOTAL
CSSB56	YES	YES	NO	NO	\$413.8	-0-	-0-	-0-	413.8
CSSB128	YES	YES	YES	YES	413.8	521.1*	760.0	1400.0	3094.9
HB210	NO	YES	NO	NO	(466.7)	-0-	-0-	-0-	(466.7)
HB212	YES	YES	YES	YES	413.8	521.1*	760.0	1400.0	3094.9
HB222	NO	YES	NO	NO	(466.7)	-0-	-0-	-0-	(466.7)**
HB239	NO	NO	NO	NO	(466.7)	(781.6)	-0-	-0-	(1248.3)

* Note: This \$521.1 could be avoided if a nursing home exclusion is added to HB212, or the exclusion passes the Legislature in a separate piece of legislation (ie SB56, HB210, HB222)

** Note: In FY87 an additional savings of \$496.1 would occur in the Department's Permanent Fund (PFD) Hold Harmless budget. This is due to HB222's mandatory PFD contribution to the annuity which will reduce the Department's PFD Hold Harmless costs for AFDC (240.8), Aid to the Disabled (100.0), and Medicaid (155.3).

R. Jett
10/23/84

CASE TYPE I

CASE TYPE II

CASE TYPE III

	Client with exempt ALB and no other income			Client with countable ALB and no other income			Client with countable ALB and \$400 other income (INC)			
	SSI + OAA + ALB = TOTAL			SSI + OAA + ALB = TOTAL			SSI + OAA + ALB + INC = TOTAL			
BEFORE LATEST ACTION TAKEN BY CONGRESS	314	252	250 = \$816	314	252	-0- = \$565	-0-	186	-0-	400 = \$386
1) APPLY RULE PASSED BY CONGRESS (EMER REG)	314	252	250 = \$816	84	252	250 = \$586	-0-	-0-	250	400 = \$650
2) HOLD HARMLESS OAA BENEFITS ONLY	314	252	250 = \$816	84	252	250 = \$586	-0-	186	250	400 = \$836
3) HOLD HARMLESS SSI AND OAA BENEFITS	314	252	250 = \$816	84	482	250 = \$816	-0-	186	250	400 = \$836

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YEAR	DAA EXEMPT	DAA NON- EXEMPT	DAA TOTAL	(1)	(2)				(1) MINUS (2)	YEAR
				RAISE ALL DAA BY \$250/MO COST	HOLD HARMLESS NON-EXEMPTS				COMPARISON	
					MEDICAL	DAA	SSI	TOTAL		
1	1,750	750	2,500.0	7,500.0	413.7	760.0	1,400.0	2,573.7	4,926.3	1
2	1,610	990	2,600.0	7,800.0	546.1	1,003.2	1,848.0	3,397.3	4,402.7	2
3	1,470	1,230	2,700.0	8,100.0	678.5	1,246.4	2,296.0	4,220.9	3,879.1	3
4	1,330	1,470	2,800.0	8,400.0	810.9	1,489.6	2,744.0	5,044.5	3,355.5	4
5	1,190	1,710	2,900.0	8,700.0	943.2	1,732.8	3,192.0	5,868.0	2,832.0	5
6	1,050	1,950	3,000.0	9,000.0	1,075.6	1,976.0	3,640.0	6,691.6	2,308.4	6
7	910	2,190	3,100.0	9,300.0	1,208.0	2,219.2	4,088.0	7,515.2	1,784.8	7
8	770	2,430	3,200.0	9,600.0	1,340.4	2,462.4	4,536.0	8,338.8	1,261.2	8
9	630	2,670	3,300.0	9,900.0	1,472.8	2,705.6	4,984.0	9,162.4	737.6	9
10	490	2,910	3,400.0	10,200.0	1,605.2	2,948.8	5,432.0	9,986.0	214.0	10
11	350	3,150	3,500.0	10,500.0	1,737.5	3,192.0	5,880.0	10,809.5	(309.5)	11
12	210	3,390	3,600.0	10,800.0	1,869.9	3,435.2	6,328.0	11,633.1	(833.1)	12
13	70	3,630	3,700.0	11,100.0	2,002.3	3,678.4	6,776.0	12,456.7	(1,356.7)	13
14	0	3,800	3,800.0	11,400.0	2,096.1	3,850.7	7,093.3	13,040.1	(1,640.1)	14
15	0	3,900	3,900.0	11,700.0	2,151.2	3,552.0	7,280.0	13,383.2	(1,683.2)	15
16	0	4,000	4,000.0	12,000.0	2,206.4	4,053.3	7,466.7	13,726.4	(1,726.4)	16
17	0	4,100	4,100.0	12,300.0	2,261.6	4,154.7	7,653.3	14,069.6	(1,769.6)	17

ASSUMPTIONS:

- 1) DAA Exempt declines by 140 cases per year - 8% Death Rate
- 2) DAA total cases increases by 100 cases per year
- 3) Raising qualifying limit by \$250 for DAA would not cause higher caseload growth
- 4) All costs projected in current dollars
- 5) If all DAA cases were raised by \$250; APD and ABL cases will not receive same increase

CONCLUSION:

Hold Harmless is most cost effective solution until year 10

ROD BETIT, DIRECTOR
 DIVISION OF MEDICAL ASSISTANCE
 March 8, 1985
 EXEMPTS.WKS

CSSB 56 - MAJOR FEATURES

CSSB 56 (Judiciary) is a bill which would gradually phase out the Alaska Longevity Bonus (ALB) program and replace it with annuities funded by the permanent fund dividends of participants. The major features are:

1. Three percent annual increase in amount of ALB (the 3% escalator) (Sec. 18 - AS 47.45.015 (a)).

The monthly longevity bonus is increased above \$250 by 3% each year beginning in FY 87. This provision has a very significant fiscal impact on the cost of the program under the bill over the years.

2. Grandfathering current seniors (Sec. 18 - AS 47.45.15(b)).

An individual who reaches age 65 before January 1, 1986 will receive the full amount of the longevity bonus as increased in paragraph 1.

3. Establishing annuity accounts (Sec. 16).

An individual who is not grandfathered as set out in paragraph 2 may deposit his or her permanent fund dividend in an annuity account which will be managed by the state. If the individual dies before reaching age 65, his or her account balance (less any "front-loading" contributions - see paragraph 5 below) will be paid to his or her spouse or beneficiary. (This provision was added in the Senate State Affairs Committee.) Upon reaching age 65, the individual will receive an annuity payment each month based on his or her account balance. The annuity payment will be a straight life annuity or other payment plan (such as joint and survivor) authorized by the Department of Administration. (Choice of payment plans was added by the Senate Judiciary Committee.)

4. Reduction of ALB payments (Sec. 18 - AS 47.45.015(a)).

For individuals who are not grandfathered (see paragraph 2), the monthly longevity bonus payment is \$250 plus the 3% annual addition reduced by the maximum possible annuity that could be received by a person who is 65 year old that year. This provision phases out the ALB program by amount over time, as the annuity accounts increase. An individual reaching age 65 who has participated in the annuity program every year will receive, from the longevity bonus combined with his or her annuity, approximately \$250 plus the 3% escalation. An individual who does not participate will receive only the declining longevity bonus payment.

5. Front loading (Sec. 16 - AS 43.23.110(b)).

The bill authorizes the legislature to annually add to the annuity accounts by an appropriation either from the general fund or from the earnings of the undistributed income account. Thus, an individual who invests his or her permanent fund dividend would have that dividend plus an additional amount contributed by the state credited to his or her annuity account. The appropriation would be allocated among individual annuity accounts according to a formula set out in the bill.

The formula is heavily weighted in favor of older Alaskans. There would be a base amount, for example \$50, credited to individuals from age 18 through 35. For individuals older than 35, the base amount is increased by a percentage, for example 10%, for every year over 35. Thus, using the \$50 base and the 10% "tilt," an individual at or near age 65 would receive approximately \$800 in front loading.

The State Special Committee on the Alaska Longevity Bonus Program included the front loading authorization for three reasons. First, front loading would be a substantial incentive, particularly for those nearing retirement age, to participate in the annuity program. The Committee perceived that the closer one gets to retirement age, the more important it is to provide for retirement - thus older Alaskans would receive increased amounts.

Second, front loading increases the maximum possible annuity. Since the reduced longevity bonus payment is a function of the maximum possible annuity (see paragraph 4), front loading in the early years of the program reduces general fund obligations for the longevity bonus program in future years. Thus, front loading for three years actually reduces the total nominal dollar costs of the program through FY 2034. In constant dollars, front loading of about \$67 million in the first three years would save about \$44 million in bonus payments later, for a net cost of about \$23 million over those years. 1/ The Committee recognized that oil revenues are predicted to decline in future years, and recommended front loading now in order to reduce the demands on the general fund in future years.

Finally, front loading brings tax deferrability. Special tax counsel retained by the Committee concluded that if the legislature provides a substantial front load to annuity accounts in a particular year, an individual should not be subject to tax on his or her dividend that year.

SB 56

POLICY CONSIDERATIONS OF 3% ESCALATOR

CSSB 56 provides that the amount of the Alaska Longevity Bonus is increased by 3% annually beginning in FY 87. 1/ This element of the bill is one of the most costly provisions over time - in nominal dollars through the year 2034, the bill with the escalator (without front loading) is estimated to cost \$1,401 million; without the escalator the cost is estimated at \$916 million.

The State Special Committee on the Alaska Longevity Bonus Program included the 3% escalator because it recognized that the ALB, which was initially \$100, has been increased over the years and it anticipated similar pressure on the legislature to increase the bonus in the future. The committee felt that a guideline of 3% was a fiscally conservative measure to inform Alaska's seniors about what they could expect, and relieve this pressure on the legislature. Others believe that future increases, if any, should be left to future legislators who will be better able to assess cost of living increases.

SB 56

POLICY CONSIDERATIONS OF FRONT LOADING

CSSB 56 authorizes the legislature to make an appropriation in any year into the annuity accounts of individuals who have chosen, in that year, to contribute their permanent fund dividends to their annuity accounts. The appropriation may be made, under the bill, either from the general fund or from the income of the undistributed income account within the permanent fund.

The bill sets out a formula for the allocation of this appropriation, or "front loading," among the annuity accounts. Individuals from age 18 through 35 receive a base amount, for example \$50, and that amount is increased by a percentage, for example 10%, for each year of age above 35. 1/ Under this formula using this base and this "tilt" an individual at age 65 would receive approximately \$700 of front loading in his or her account.

1/ The cost projections done by the Division of Strategic Planning which include front loading have used a base amount of \$50 and a "tilt" of 10%, and have hypothesized that the legislature would appropriate for front loading for three years. The projections further assume that with this front loading, approximately half of all Alaskans would choose to defer, with heavy participation among older Alaskans and little participation among younger Alaskans. Obviously, these projections are dependant upon many variables which may or may not prove to be true.

The State Special Committee on the Alaska Longevity Bonus Program provided for this "front loading" for several reasons. First, front loading is an obvious incentive to participate in the program, and that incentive increases the older the individual. Second, front loading in the early years saves general fund obligations for the ALB program in later years. Because the annuity accounts are increased by front loading, the residual ALB payment decreases more rapidly with front loading than without it. As a result, front loading in early years actually saves nominal dollars over the life of the program, and results in only a slight constant dollar increase.

Finally, tax counsel to the Committee concluded that under Internal Revenue Service rules, front loading annuity account will probably protect annuity investments from taxation in the year in which the dividend is issued.

CSSB 56 Costs
(All amounts in millions)

<u>FY 86</u>		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	50.2	50.2
<u>FL</u>	50.2	50.2

<u>FY 87</u>		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	53.1	54.7
<u>FL</u>	52.8 GF	54.4 GF
	25.2 Opt	25.2 Opt
Total:	78.0	79.6

<u>FY 88</u>		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	55.7	59.1
<u>FL</u>	54.8 GF	58.2 GF
	26.5 Opt	26.5 Opt
Total:	81.3	84.7

<u>FY 89</u>		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	58.2	63.7
<u>FL</u>	56.3 GF	61.8 GF
	27.7 Opt	27.7 Opt
Total:	84.0	89.5

CUMULATIVE THRU FY 2034 NOMINAL DOLLARS		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	942.7	1,479.5
<u>FL</u>	883.9 GF	1,385.5 GF
	79.4 Opt	79.4 Opt
Total:	963.3	1,464.9

CUMULATIVE THRU FY 2034 CONSTANT 1985 DOLLARS		
	<u>No 3%</u>	<u>3%</u>
<u>No FL</u>	578.0	813.2
<u>FL</u>	546.5 GF	769.5 GF
	66.6 Opt	66.6 Opt
Total:	613.1	836.3

No 3% = Remove 3% annual increase in amount of ALB from bill (\$ 18).
 3% = Bill as currently drafted, with annual increase in amount of ALB of 3%
 FL = Front loading in the amounts indicated, for three years only
 GF = General fund obligations (ALB costs)
 Opt = Optional; bill permits front loading from either general fund or income of undistributed income account.

*With Death Benefits
Included*

SB 56 Costs
(All amounts in millions)

FY 86		
	<u>No 3%</u>	<u>3%</u>
No FL	50.2	50.2
<u>FL</u>	50.2	50.2

FY 87		
	<u>No 3%</u>	<u>3%</u>
No FL	53.1	54.7
<u>FL</u>	52.8 GF	54.4 GF
	25.2 Opt	25.2 Opt
Total:	78.0	79.6

FY 88		
	<u>No 3%</u>	<u>3%</u>
No FL	55.7	59.1
<u>FL</u>	54.8 GF	58.2 GF
	26.5 Opt	26.5 Opt
Total:	81.3	84.7

FY 89		
	<u>No 3%</u>	<u>3%</u>
No FL	58.2	63.7
<u>FL</u>	56.3 GF	61.8 GF
	27.7 Opt	27.7 Opt
Total:	84.0	89.5

CUMULATIVE THRU FY 2034 NOMINAL DOLLARS		
	<u>No 3%</u>	<u>3%</u>
No FL	916.5	1,401.7
<u>FL</u>	857.6 GF	1,307.8 GF
	79.4 Opt	79.4 Opt
Total:	937.0	1,387.2

CUMULATIVE THRU FY 2034 CONSTANT 1985 DOLLARS		
	<u>No 3%</u>	<u>3%</u>
No FL	566.1	783.7
<u>FL</u>	533.8 GF	738.7 GF
	66.6 Opt	66.6 Opt
Total:	600.4	805.3

No 3% = Remove 3% annual increase in amount of ALB from bill (\$ 18).
 3% = Bill as currently drafted, with annual increase in amount of ALB of 3%
 FL = Front loading in the amounts indicated, for three years only
 GF = General fund obligations (ALB costs)
 Opt = Optional; bill permits front loading from either general fund or income of undistributed income account.

*Without
Death/Survivor
Benefits*

15



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 12, 1985

MEMORANDUM

TO: Representative Al Adams
Attention: Louann Cutler

FROM: Gretchen Keiser *Gretchen Keiser*
Legislative Analyst

RE: Longevity Bonus Cost Analysis
Research Request 85-218; Supplemental Information

You requested that this agency prepare a series of simplified tables which present the total recipients, annual and cumulative costs for the various stairstepping options. We were also asked to graph the annual and cumulative costs of the various stairstepping options. These tables and graphs are attached.

Please contact us if we can be of further assistance.

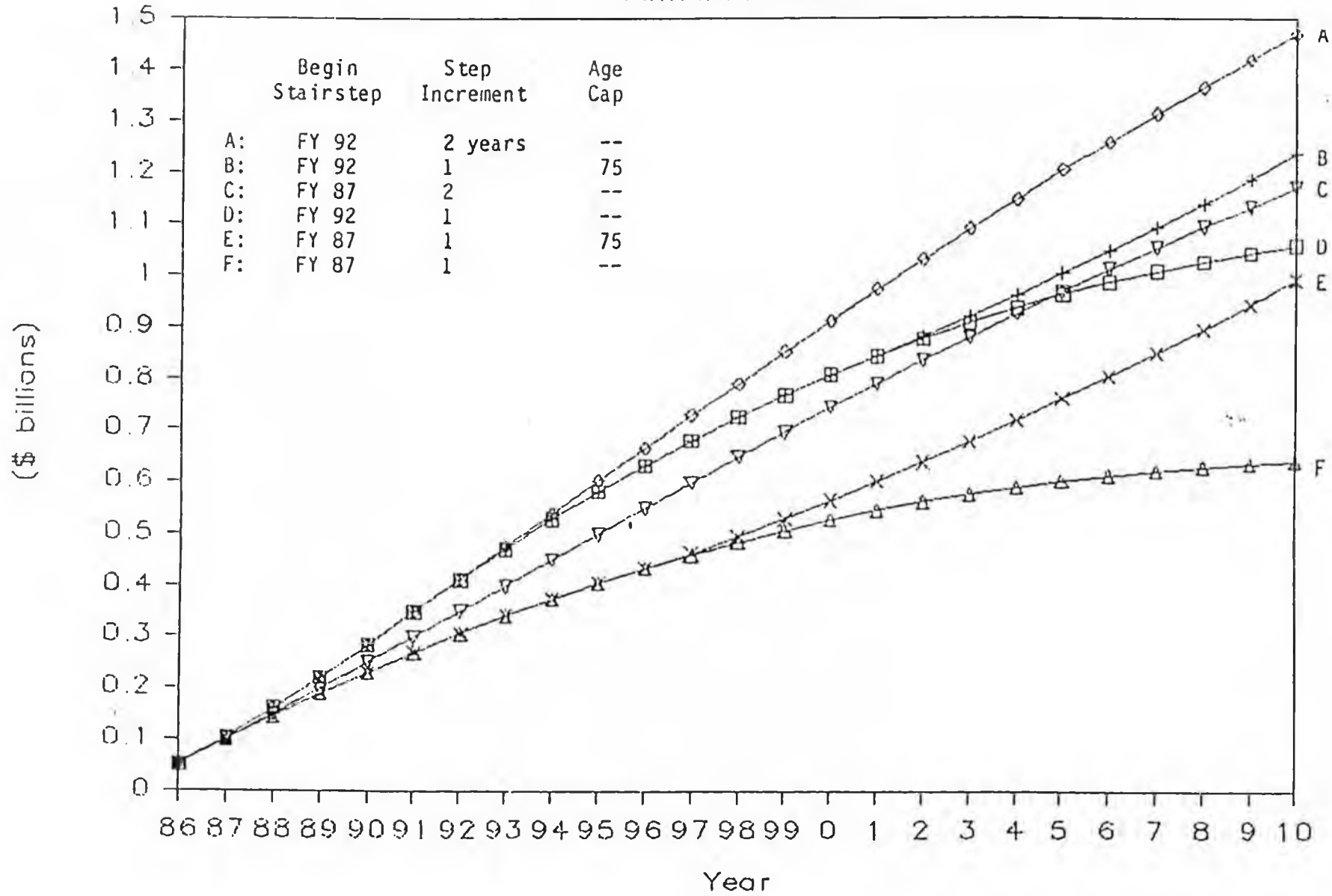
GK

Attachments

3/15/85

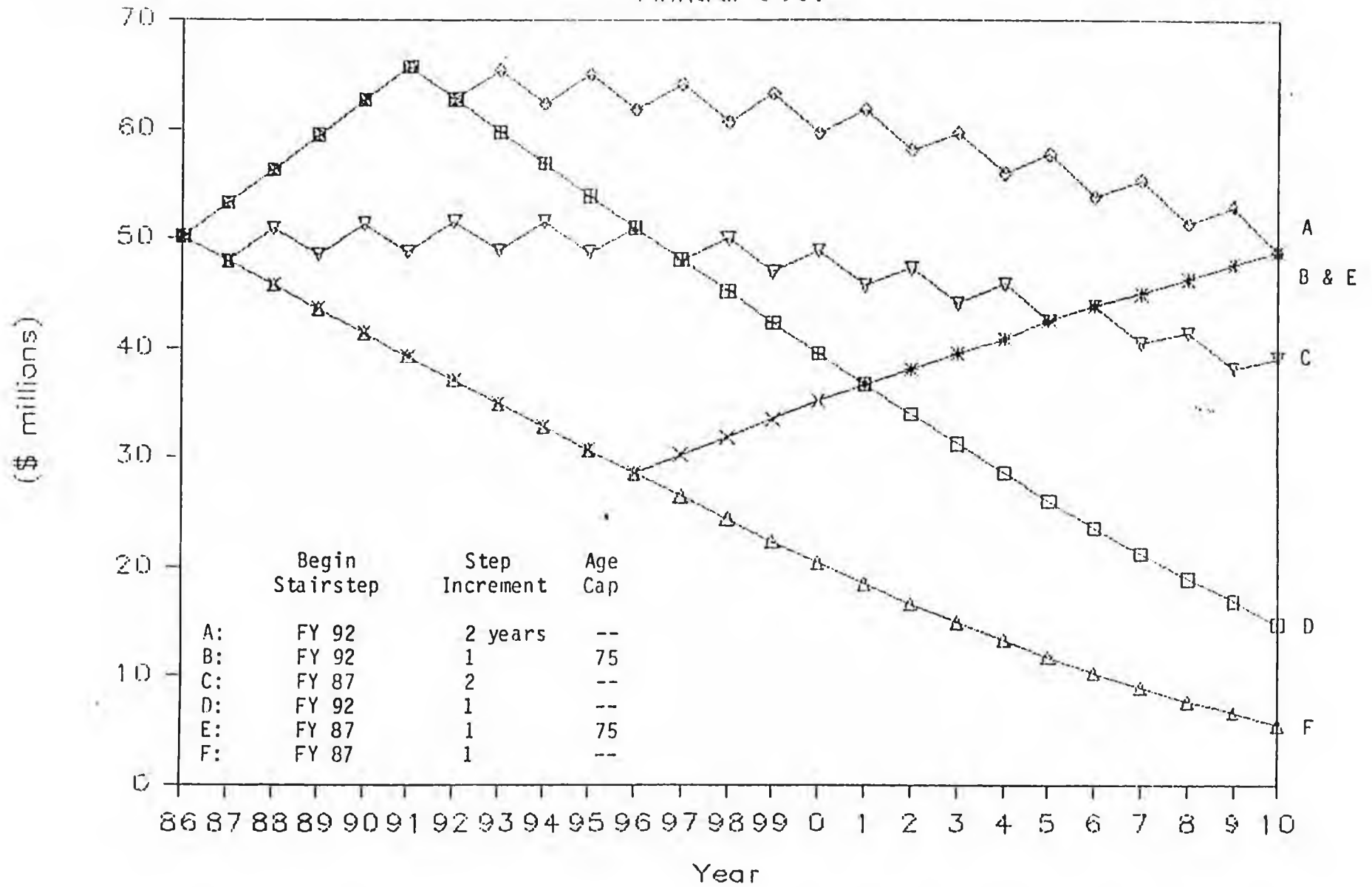
LONGEVITY BONUS COST ANALYSIS

Cumulative Cost



LONGEVITY BONUS COST ANALYSIS

Annual Cost



	Begin Stairstep	Step Increment	Age Cap
A:	FY 92	2 years	--
B:	FY 92	1	75
C:	FY 87	2	--
D:	FY 92	1	--
E:	FY 87	1	75
F:	FY 87	1	--

LONGEVITY BONUS COST ANALYSIS

HB 239

Begin Stairstep: FY 92
 Step Increment: 1
 Age Cap: None

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	65	17,768	250	53.8	103.5
1988	65	18,769	250	56.3	159.8
1989	65	19,828	250	59.5	219.3
1990	65	20,913	250	62.7	282.1
1991	65	21,908	250	65.7	347.8
1992	66	20,925	250	62.8	410.6
1993	67	19,938	250	59.8	470.4
1994	68	18,952	250	56.9	527.2
1995	69	17,974	250	53.9	581.2
1996	70	17,001	250	51.0	632.2
1997	71	16,032	250	48.1	680.3
1998	72	15,071	250	45.2	725.5
1999	73	14,116	250	42.3	767.8
2000	74	13,169	250	39.5	807.3
2001	75	12,233	250	36.7	844.0
2002	76	11,313	250	33.9	878.0
2003	77	10,411	250	31.2	909.2
2004	78	9,530	250	28.6	937.8
2005	79	8,676	250	26.0	963.8
2006	80	7,851	250	23.6	987.4
2007	81	7,059	250	21.2	1,008.5
2008	82	6,304	250	18.9	1,027.5
2009	83	5,635	250	16.9	1,044.4
2010	84	4,922	250	14.8	1,059.1

Prepared by the House Research Agency 11-Mar-85

Begin Stairstep: FY 92
 Step Increment: 1
 Age Cap: 75

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	65	17,768	250	53.3	103.5
1988	65	18,769	250	56.3	159.8
1989	65	19,828	250	59.5	219.3
1990	65	20,913	250	62.7	282.1
1991	65	21,908	250	65.7	347.8
1992	66	20,925	250	62.8	410.6
1993	67	19,938	250	59.8	470.4
1994	68	18,952	250	56.9	527.2
1995	69	17,974	250	53.9	581.2
1996	70	17,001	250	51.0	632.2
1997	71	16,032	250	48.1	680.3
1998	72	15,071	250	45.2	725.5
1999	73	14,116	250	42.3	767.8
2000	74	13,169	250	39.5	807.3
2001	75	12,233	250	36.7	844.0
2002	75	12,689	250	38.1	882.1
2003	75	13,190	250	39.6	921.7
2004	75	13,632	250	40.9	962.6
2005	75	14,180	250	42.5	1,005.1
2006	75	14,638	250	43.9	1,049.0
2007	75	14,994	250	45.0	1,094.0
2008	75	15,446	250	46.3	1,140.3
2009	75	15,897	250	47.7	1,188.0
2010	75	16,297	250	48.9	1,236.9

Prepared by the House Research Agency

12-Mar-85

LONGEVITY BONUS COST ANALYSIS

HB 239

Begin Stairstep: Fr 92
 Step Increment: 2
 Age Cap: None

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	65	17,768	250	53.3	103.5
1988	65	18,769	250	56.3	159.8
1989	65	19,828	250	59.5	219.3
1990	65	20,913	250	62.7	282.1
1991	65	21,908	250	65.7	347.8
1992	66	20,925	250	62.8	410.6
1993	66	21,815	250	65.4	476.0
1994	67	20,776	250	62.3	538.3
1995	67	21,681	250	65.0	603.4
1996	68	20,591	250	61.8	665.2
1997	68	21,366	250	64.1	729.3
1998	69	20,230	250	60.7	789.9
1999	69	21,088	250	63.3	853.2
2000	70	19,905	250	59.7	912.9
2001	70	20,603	250	61.8	974.7
2002	71	19,383	250	58.1	1,032.9
2003	71	19,911	250	59.7	1,092.6
2004	72	18,657	250	56.0	1,148.6
2005	72	19,247	250	57.7	1,206.3
2006	73	17,961	250	53.9	1,260.2
2007	73	18,451	250	55.4	1,315.6
2008	74	17,139	250	51.4	1,367.0
2009	74	17,672	250	53.0	1,420.0
2010	75	16,297	250	48.9	1,468.9

Prepared by the House Research Agency

12-Mar-85

LONGEVITY BONUS COST ANALYSIS

HR 239

Begin Stairstep: FY 87
 Step Increment: 1
 Age Cap: None

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	66	16,012	250	48.0	98.3
1988	67	15,277	250	45.8	144.1
1989	68	14,540	250	43.6	187.7
1990	69	13,809	250	41.4	229.1
1991	70	13,082	250	39.2	268.4
1992	71	12,360	250	37.1	305.5
1993	72	11,642	250	34.9	340.4
1994	73	10,927	250	32.8	373.2
1995	74	10,216	250	30.6	403.8
1996	75	9,511	250	28.5	432.4
1997	76	8,810	250	26.4	458.8
1998	77	8,122	250	24.4	483.2
1999	78	7,449	250	22.3	505.5
2000	79	6,794	250	20.4	525.9
2001	80	6,160	250	18.5	544.4
2002	81	5,550	250	16.7	561.0
2003	82	4,967	250	14.9	575.9
2004	83	4,413	250	13.2	589.2
2005	84	3,893	250	11.7	600.8
2006	85	3,408	250	10.2	611.1
2007	86	2,961	250	8.9	619.9
2008	87	2,549	250	7.6	627.6
2009	88	2,221	250	6.7	634.3
2010	89	1,840	250	5.5	639.8

Prepared by the House Research Agency

12-Mar-85

Begin Stairstep: FY 87
 Step Increment: 2
 Age Cap: None

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	66	16,012	250	48.0	98.3
1988	66	16,989	250	51.0	149.2
1989	67	16,204	250	48.6	197.8
1990	67	17,109	250	51.3	249.2
1991	68	16,277	250	48.8	298.0
1992	68	17,184	250	51.6	349.6
1993	69	16,308	250	48.9	398.5
1994	69	17,183	250	51.5	450.0
1995	70	16,261	250	48.8	498.8
1996	70	17,001	250	51.0	549.8
1997	71	16,032	250	48.1	597.9
1998	71	16,669	250	50.0	647.9
1999	72	15,661	250	47.0	694.9
2000	72	16,302	250	48.9	743.8
2001	73	15,253	250	45.8	789.6
2002	73	15,785	250	47.4	836.9
2003	74	14,701	250	44.1	881.0
2004	74	15,296	250	45.9	926.9
2005	75	14,180	250	42.5	969.5
2006	75	14,638	250	43.9	1,013.4
2007	76	13,500	250	40.5	1,053.9
2008	76	13,817	250	41.5	1,095.3
2009	77	12,715	250	38.1	1,133.5
2010	77	13,042	250	39.1	1,172.6

Prepared by the House Research Agency

12-Jan-85

LONGEVITY BONUS COST ANALYSIS

HB 239

Begin Stairstep: FY 87
 Step Increment: 2
 Age Cap: 75

Fiscal Year	Eligibility Age	Total Recipients	Monthly Bonus	Annual Cost (millions)	Cumulative Cost (millions)
1986	65	16,744	\$250	\$50.2	\$50.2
1987	66	16,012	250	48.0	98.3
1988	66	16,989	250	51.0	149.2
1989	67	16,204	250	48.6	197.8
1990	67	17,109	250	51.3	249.2
1991	68	16,277	250	48.8	298.0
1992	68	17,184	250	51.6	349.6
1993	69	16,308	250	48.9	398.5
1994	69	17,183	250	51.5	450.0
1995	70	16,261	250	48.8	498.8
1996	70	17,001	250	51.0	549.8
1997	71	16,032	250	48.1	597.9
1998	71	16,669	250	50.0	647.9
1999	72	15,661	250	47.0	694.9
2000	72	16,302	250	48.9	743.8
2001	73	15,253	250	45.8	789.6
2002	73	15,785	250	47.4	836.9
2003	74	14,701	250	44.1	881.0
2004	74	15,296	250	45.9	926.9
2005	75	14,180	250	42.5	969.5
2006	75	14,638	250	43.9	1,013.4
2007	75	14,994	250	45.0	1,058.3
2008	75	15,446	250	46.3	1,104.7
2009	75	15,897	250	47.7	1,152.4
2010	75	16,297	250	48.9	1,201.3

Prepared by the House Research Agency

12-Mar-85

Rep. Bill (15)

SENATE FINANCE COMMITTEE TESTIMONY

MADAME CHAIR, MEMBERS OF THE COMMITTEE:

AS YOU KNOW, THE HOUSE STATE AFFAIRS COMMITTEE IS IN THE MIDST OF HEARINGS ON BOTH THE ANNUITY PROPOSALS AND THE STAIRSTEPPING PROPOSAL. THEY HAVE HEARD ALOT OF TESTIMONY AND DEBATED THE ISSUES EXTENSIVELY, BUT THEY HAVE NOT YET COMPLETED THEIR HEARINGS AND HAVE NOT YET MARKED UP ANY LEGISLATION. SO, I CAN'T REALLY TELL YOU TODAY WHAT BILL THE HOUSE WILL ACT ON, SINCE REPRESENTATIVE HURLEY'S COMMITTEE IS STILL REVIEWING THE OPTIONS. HOWEVER, I CAN TELL YOU THAT THE HOUSE IS VERY INTERESTED IN COMPLETING WORK ON THIS ISSUE BEFORE THE END OF THE REGULAR SESSION. WE LOOK FORWARD TO WORKING WITH THE SENATE TO DEVELOP LEGISLATION THAT IS AGREEABLE TO BOTH BODIES.

TODAY I'M GOING TO OUTLINE FOR YOU SOME OF MY PERSONAL THOUGHTS ABOUT THE PROS AND CONS OF THE ANNUITY AND STAIRSTEPPING APPROACHES. AS YOU KNOW, MY PERSONAL PREFERENCE FOR RESOLUTION OF THIS ISSUE IS HB 239, THE SO CALLED "STAIRSTEPPING" PROPOSAL. THE BILL WOULD MAKE ONLY ONE CHANGE TO THE CURRENT PROGRAM --- IT WOULD INCREASE THE AGE OF ELIGIBILITY BY ONE YEAR, EACH YEAR, BEGINNING IN FY 92. THE EFFECT OF THIS CHANGE IS TO EVENTUALLY PHASE OUT THE PROGRAM BECAUSE NO ONE YOUNGER THAN 65 IN JULY OF 1991 WOULD BE ELIGIBLE FOR A BONUS. IN OTHER WORDS, ANYONE WHO TURNS 60 BY JULY OF 1986 WILL BE ELIGIBLE FOR A MONTHLY BONUS FOR LIFE WHEN THEY BECOME 65. THE BILL ALLOWS THOSE PRESENTLY IN

3/18/85

THEIR 60s TO CONTINUE GETTING A BONUS BECAUSE I BELIEVE THAT THERE ARE MANY INDIVIDUALS IN THIS AGE GROUP WHO ARE COUNTING ON RECEIVING THE BONUS EVEN THOUGH THEY ARE NOT ELIGIBLE YET. ALSO, I BELIEVE THERE ARE MANY ELDERS IN THEIR SIXTIES WHO NEED THE BONUS EVEN THOUGH THEY ARE NOT YET RECEIVING IT. OF COURSE ANY AGE CUT OFF IS ULTIMATELY ARBITRARY, BUT A LINE MUST BE DRAWN SOMEWHERE, AND I THINK 60 IS A GOOD PLACE TO DRAW THAT LINE.

IN TERMS OF LONG RANGE GENERAL FUND COSTS, HB 239 IS PROBABLY GOING TO BE A LITTLE LESS EXPENSIVE THAN THE TWO ANNUITY PROPOSALS. I THINK ITS IMPORTANT TO REMEMBER, HOWEVER, THAT THOSE ANNUITY PROPOSALS REALLY HAVE A MUCH LARGER TOTAL COST BECAUSE IN ADDITION TO THE GENERAL FUND MONIES NEEDED TO PAY FOR THE RESIDUAL LONGEVITY BONUS PROGRAM, EACH INDIVIDUAL ALASKAN CONTRIBUTES THEIR DIVIDEND CHECK IN ORDER TO RECEIVE AN ANNUITY. THUS, THE TRUE COST OF THE PROGRAM INCLUDES THIS AMOUNT THAT INDIVIDUALS WILL PAY OUT OF THEIR OWN POCKETS. HB 239 ENDS THE PROGRAM AND THE COST ASSOCIATED WITH IT WHEREAS THE ANNUITY PROPOSALS REPLACE THE OLD PROGRAM WITH A STATE RETIREMENT PROGRAM AND SHIFT THE COST FROM THE STATE TO THE PEOPLE.

THIS DIFFERENCE IN TOTAL COST UNDERSCORES PERHAPS THE MAJOR POLICY CHOICE THAT WE FACE IN RESOLVING THE FUTURE OF THE BONUS PROGRAM. STAIRSTEPPING ENDS THE PROGRAM WITH PLENTY OF NOTICE. IT ALLOWS YOUNGER INDIVIDUALS THE TIME NEEDED TO ADJUST AND MAKE ALTERNATIVE ARRANGEMENTS. IN CONTRAST, THE ANNUITY PROPOSALS END THE CURRENT BONUS PROGRAM AND ESTABLISH A STATE SPONSORED

RETIREMENT PROGRAM IN ITS PLACE. THE MAIN QUESTION THE LEGISLATURE FACES IS WHETHER THE STATE SHOULD BE IN THE RETIREMENT BUSINESS. DO WE NEED TO ESTABLISH A PROGRAM TO ENCOURAGE ALASKANS TO SAVE FOR THEIR RETIREMENT, OR IS THIS SOMETHING THAT IS BETTER HANDLED ON AN INDIVIDUAL BASIS IN THE PRIVATE SECTOR?

MY PREFERENCE IS TO KEEP THE STATE OUT OF THE RETIREMENT BUSINESS. THIS IS ESPECIALLY IMPORTANT, I THINK, IF THE ANNUITY OPTION OFFERED BY THE STATE IS NOT GOING TO BE COMPETITIVE WITH RETIREMENT OPTIONS AVAILABLE IN THE PRIVATE SECTOR. OUR STATE AFFAIRS COMMITTEE HAS HEARD TESTIMONY INDICATING THAT THE ANNUITY WILL ONLY BE COMPETITIVE IF IT IS TAX DEFERRABLE. YET IT IS MY UNDERSTANDING THAT TAX DEFERABILITY IS LIKELY ONLY FOR THOSE YEARS THAT THE ANNUITY IS SUBSIDIZED. I AM NOT PREPARED TO SUPPORT SUBSIDIZATION FOR THREE REASONS: (1) IT GOES AGAINST ONE OF THE MAJOR PURPOSES OF THE ANNUITY PROPOSAL -- TO RELIEVE THE STATE'S BURDEN TO SUPPORT THE PROGRAM, (2) I DO NOT THINK THERE IS ENOUGH GENERAL FUND MONEY TO ACCOMPLISH ANNUAL FRONTLOADING AND (3) I DO NOT SUPPORT USING THE UNCDISTRIBUTED INCOME ACCOUNT FOR THIS PURPOSE.

also survivors' benefits

ANOTHER MAJOR ISSUE THAT WE FACE IS HOW POOR ELDERS WILL FARE UNDER BOTH APPROACHES. THE QUESTION OF ELDERS 65 AND OVER IS ADDRESSED IN ALL PLANS BY ALLOWING THEM TO CONTINUE RECEIVING BOTH A BONUS AND A DIVIDEND FOR THE REST OF THEIR LIVES. BUT WHAT ABOUT LOWER INCOME ELDERS THAT HAVE NOT YET TURNED 65? I

BELIEVE THAT ONLY THE AFFLUENT CAN AFFORD TO INVEST IN THE ANNUITY PROGRAM PROPOSED IN SB 56. THEREFORE, LESS FORTUNATE ELDERS ARE GOING TO HAVE TO MAKE A CHOICE THAT THEY CANNOT AFFORD --- EITHER THEY GET A BONUS EQUIVALENT TO \$3000 PER YEAR AND NO DIVIDEND OR THEY GET A REDUCED BONUS AND CONTINUE TO GET A FULL DIVIDEND. HB 239 ALLOWS POORER ELDERS TO CONTINUE TO GET BOTH THEIR BONUS AND THEIR DIVIDEND. I THINK THESE TWO SOURCES OF INCOME ARE BOTH VERY IMPORTANT TO ELDERS, ESPECIALLY THOSE THAT LIVE IN RURAL ALASKA.

ONE OF THE BIGGEST CRITICISMS OF HB 239 IS THAT IT DOES NOT HELP ANY ONE, AFFLUENT OR POOR, WHO DOES NOT REACH 65 BY JULY, 1991. THIS MEANS THAT SOME LONG TERM RESIDENTS WILL NOT RECEIVE A BONUS. ONE OF THE MAIN GOALS OF STAIRSTEPPING IS TO INSURE THAT THOSE WHO NOW COUNT ON THE BONUS ARE ABLE TO RECEIVE IT FOR THE REST OF THEIR LIVES, NOT TO INSURE THAT FUTURE GENERATIONS OF ELDER ALASKANS CONTINUE TO RECEIVE A BONUS. IT IS MY UNDERSTANDING THAT THE ORIGINAL PURPOSE OF THE BONUS PROGRAM WAS TO ENCOURAGE PRE STATEHOOD ELDER ALASKANS TO STAY IN ALASKA IN THEIR SENIOR YEARS. I BELIEVE THAT STAIRSTEPPING IS THE ONLY AFFORDABLE AND FAIR WAY TO PROTECT THE BONUS OF THE LARGE MAJORITY OF THESE ELDERS.

SOME SAY THAT THE ANNUITY PROPOSAL IN SB 56 IS ALSO A STAIRSTEPPING PROPOSAL BECAUSE IT PHASES OUT THE GENERAL FUND COST OF THE PROGRAM. BUT I THINK THERE IS A BIG DIFFERENCE BETWEEN STAIRSTEPPING BY AGE AND STAIRSTEPPING BY DOLLAR

DECREASES. THE BIG DIFFERENCE IS THE WAY IN WHICH THE POOREST ELDERS ARE TREATED. STAIRSTEPPING BY AGE INSURES THAT THESE POOREST ELDERS CONTINUE TO RECEIVE THE FULL BONUS AND THE FULL DIVIDEND CHECK. STAIRSTEPPING BY DOLLAR DECREASES MAKES THESE INDIVIDUALS SUFFER, IN MY OPINION, BECAUSE OF THE CHOICE THEY HAVE TO MAKE BETWEEN SOURCES OF INCOME.

NOW I KNOW THAT ALOT OF SENIORS OBJECT TO THE LEGISLATURE CONSIDERING FINANCIAL NEED IN RESOLVING THIS PROBLEM. I HAVE RESPECTED THAT POINT OF VIEW BY NOT ADVANCING A SOLUTION THAT IS BASED SOLELY ON NEED. BUT I THINK I WOULD BE ACTING IRRESPONSIBLY IF I DID NOT CONSIDER HOW LOW INCOME SENIORS ARE GOING TO FARE UNDER THE VARIOUS SOLUTIONS BEFORE US. STAIRSTEPPING ADDRESSES THEIR NEEDS WITHOUT MAKING THE LONGEVITY BONUS NEEDS BASED. THE POOREST ELDERS ARE TREATED FAIRLY WITHOUT ATTACHING ANY STIGMA TO THE BONUS THAT BETTER OFF ELDERS WOULD ALSO RECEIVE. IN OTHER WORDS, ALL CURRENT ELDERS ARE TREATED EQUALLY AND THE NEEDS OF BOTH ARE MET. THE TRADE OFF, OF COURSE, IS THAT YOUNGER ALASKANS, LIKE YOU AND ME, WOULD NOT GET A BONUS.

THESE COMMENTS SHOULD NOT BE INTERPRETED AS EVIDENCE OF A LACK OF CONCERN FOR THE RETIREMENT YEARS OF THOSE ALASKANS WHO WILL NOT REACH 65 BY FY 92. INSTEAD, THEY REFLECT A PHILOSOPHY OF TRULY "SUBSTITUTING PRIVATE THRIFT FOR PUBLIC LARGESSE", THE SUPPOSED THEME OF THE ANNUITY PROPOSAL. I DO NOT THINK THAT WE NEED TO FORCE OR EVEN ENCOURAGE YOUNGER ALASKANS TO SAVE BY ESTABLISHING A STATE RETIREMENT PROGRAM. THERE ARE PLENTY OF SAVINGS OPTIONS

AVAILABLE IN THE PRIVATE SECTOR FOR THOSE INDIVIDUALS WHO ARE IN A POSITION TO DEFER CASH UNTIL A FUTURE POINT IN TIME.

I THINK ITS ALSO IMPORTANT TO REMEMBER ALL THE OTHER STATE PROGRAMS THAT EXIST TO SERVE THE ELDERLY. I'LL ONLY REMIND YOU OF A FEW: WE PROVIDE LOW COST HOUSING TO SENIORS, WE SUPPLEMENT THEIR SOCIAL SECURITY CHECKS THROUGH OLD AGE ASSISTANCE, WE PROVIDE THEM WITH TAX RELIEF, AND WE PROVIDE GRANTS FOR SENIOR CENTERS AND THE LIKE IN ALMOST EVERY ALASKAN COMMUNITY. THE POINT TO BE MADE IS THAT THE BONUS IS NOT THE ONLY WAY IN WHICH WE SHOW OUR ELDERLY HOW IMPORTANT THEY REALLY ARE TO US.

MOREOVER, IT IS LIKELY THAT A FUTURE LEGISLATURE WILL DECIDE THAT SOME OTHER METHOD OF ASSISTING POOR ELDERS IS NECESSARY TO SUPPLEMENT A PHASED OUT LONGEVITY BONUS PROGRAM. I DO NOT THINK THAT THIS IS SOMETHING THAT WE, THE LEGISLATURE OF 1985, CAN ANALYZE AND REACT TO AT THIS TIME. WE SHOULD NOT VIEW OUR ACTION THIS YEAR AS THE FINAL ACTION THAT WILL EVER BE TAKEN TO ASSIST ALASKAN ELDERS. THE COURTS HAVE TOLD US THAT THE 25 YEAR RESIDENCY REQUIREMENT OF THE ORIGINAL PROGRAM WAS UNCONSTITUTIONAL. WE HAVE TO LIVE WITH THIS FACT. I BELIEVE WE SHOULD END THAT PROGRAM IN AS FAIR A MANNER AS POSSIBLE AND LET FUTURE LEGISLATURES DECIDE IF ANOTHER PROGRAM IS NEEDED TO ASSIST ALASKAN ELDERS AT THAT FUTURE POINT IN TIME.

EVEN IF I AM NOT SUCCESSFUL IN CONVINCING MY COLLEAGUES THAT WE SHOULD LEAVE THE QUESTION OF A REPLACEMENT PROGRAM TO FUTURE

LEGISLATORS, I WILL CONTINUE TO PRESS FOR SEPARATE CONSIDERATION OF PHASING OUT THE BONUS AND ESTABLISHING A STATEWIDE RETIREMENT PROGRAM. I REALLY DO BELIEVE THAT THEY ARE TWO DIFFERENT ISSUES. IF YOU REALLY WANT TO SET UP AN ANNUITY PROGRAM, IT WOULD BE MUCH MORE ATTRACTIVE TO ME IF IT WAS NOT TIED TO THE PHASE OUT OF THE BONUS PROGRAM. I HAVE TOLD YOU MY FEELINGS ABOUT TODAY'S ELDERS NEEDING BOTH THEIR FULL BONUS AND THE FULL DIVIDEND. ADDITIONALLY, I FEEL STRONGLY THAT WE SHOULD NOT RUSH TO CHANGE THE DIVIDEND PROGRAM. I'M NOT CONVINCED THAT THE GENERAL PUBLIC SUPPORTS ANY CHANGES TO THE DIVIDEND PROGRAM, AND I WANT TO HEAR MORE FROM THEM.

WITH REGARD TO THE HOLD HARMLESS ISSUE, I THINK WE ARE ALL BASICALLY IN AGREEMENT ON THE HOLD HARMLESS ISSUE. WHAT WE ARE NOT FULLY TOGETHER ON YET IS HOW TO DEAL WITH THE LARGER QUESTION. I HOPE THAT THESE REMARKS WILL AID YOU IN THAT TASK AND I PLEDGE TO KEEP WORKING WITH ALL LEGISLATORS UNTIL WE DO FIND A MUTUALLY AGREEABLE SOLUTION.

ALSO, MADAME CHAIR, I WILL MENTION BRIEFLY THAT THERE ARE MANY DIFFERENT WAYS TO STAIRSTEP. DEPENDING ON WHEN YOU START, IF YOU STOP AT A GIVEN POINT IN TIME, HOW OFTEN YOU RAISE THE AGE, AND WHETHER OR NOT YOU STAIRSTEP BY DOLLARS OR BY AGE, THE RESULTS ARE DIFFERENT FROM HB 239. MY STAFF IS PREPARED TO BRIEF YOU FURTHER ON THIS POINT IF YOU ARE INTERESTED.

THANK YOU, MADAME CHAIR, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 28, 1985

SUBJECT: Sectional analysis of HB 239
(phase out of longevity bonus program)

TO: Representative Albert P. Adams
Chairman, House Finance Committee

FROM: Keith B. Levy ^{KBL}
Legislative Counsel

You have requested a sectional analysis of HB 239, the so-called "stair-stepping" longevity bonus bill.

Section 1 of the bill provides that, on July 1, 1991, the age requirement for eligibility to receive a longevity bonus payment will increase from 65 to 66 years of age. On July 1 of each year after that, the age of eligibility will increase by one year so that in 1992 it will be 67, in 1993 it will be 68, and so on. As a result, anyone who is not 65 years old before July 1, 1991, will never become eligible for the program. After that date, the only people not already eligible for the longevity bonus who may begin receiving the bonus are those who move to the state, meet the new age requirements, and meet the other requirements such as the one year residency requirement. Because there will be very few new recipients, the program will gradually phase itself out through the mortality of those already eligible when the stair-stepping begins.

Section 2 repeals sec. 11, ch. 38, SLA 1984, which would have repealed the longevity bonus program on June 30, 1985. This is necessary to make it clear that the longevity bonus program is not repealed on that date.

Section 3 provides for an immediate effective date.

If I may be of any further assistance please feel free to contact me.

KBL:ojb
J12/036

3/18/85

SENATE STATE AFFAIRS COMMITTEE
LETTER OF INTENT
ON SENATE BILL 56

The legislature is aware that changes in the federal statutory scheme for determining eligibility for assistance programs have created problems for individuals newly eligible to receive the Alaska Longevity Bonus. Specifically, eligibility for the Bonus is resulting in some needy individuals losing the benefits for which they were previously eligible. The Department of Health and Social Services has informed the legislature that they can rectify the most serious aspects of the problem if sufficient funds are appropriated, and if the legislature expresses its intent that the Department do so. The funds needed are estimated to be \$413,847.00. This letter is evidence of that legislative intent.

Prior to the last Congress, federal law provided that income from the Alaska Longevity Bonus program would not be counted as income for the purpose of determining eligibility for Supplemental Social Security (SSI). 42 U.S.C. 1382(b)(2)(B). Last year, the Alaska Longevity Bonus program was amended to open the program up to any individual over age 65 who had resided in the state for one year. Congress amended the above-cited statute to provide that income from the bonus would not be counted only if an individual became eligible prior to September 30, 1985 and if that individual met the 25 year residency requirement of the former law. Thus, individuals who either do not meet the 25 year requirement or who become eligible for the bonus after September 30, 1985 will have the bonus counted as income for SSI and, as a result, for medicaid. Further, even if an individual does not apply for the bonus, the bonus is treated as a "prior resource" which must be exhausted before assistance can be claimed.

For those individuals without medical problems, these changes in the law mean that what they receive from the bonus is deducted from what they would have received from assistance programs. They are not worse off, but they do not receive the benefit of the bonus. However, if receipt of the bonus makes them ineligible for assistance, they also lose eligibility for medicaid, and receipt of the bonus does not offset lost medical benefits. SB 56 provides that a resident of a nursing home is not eligible for the bonus, thus nursing home residents are protected from losing medical benefits because of the bonus. It is the individual who is not in a nursing home, but who receives medical assistance through medicaid, who may be harmed by receipt of the bonus.

It is the intent of the legislature that the Department of Health and Social Services take steps to insure that eligibility for the Alaska Longevity Bonus not deprive needy individuals of necessary medical care.


Senator Mitch Abood, Chairman
Senate State Affairs Committee

Offered: 1/30/85
Referred: Judiciary

Original sponsors: Ray, Halford,
Bennett, et al

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR SENATE BILL NO. 56 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act amending the longevity bonus program and the
7 permanent fund dividend program, establishing an
8 annuity program; and providing for an effective
9 date."

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

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

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

18 (2) it is appropriate that individuals save for their own re-
19 tirement, and it is also appropriate that the state establish both means
20 and incentives for Alaska residents to set aside retirement funds; accord-
21 ingly, it is a purpose of this legislation to create an annuity program,
22 and to encourage Alaskans to participate in that program by authorizing
23 general fund supplements that would result in annuity payments that are
24 larger than an individual could earn through private investment of the
25 permanent fund dividend;

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

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

8 (5) neither the longevity bonus program, nor the annuity pro-
9 gram, should be viewed as a form of welfare; other state and federal pro-
10 grams are available to meet the basic necessities of life, and amounts
11 received by an individual under this Act are not calculated on the basis of
12 need.

13 * Sec. 2. AS 43.23.005(c) is amended to read:

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

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

19 (d) A person who is eligible to receive a permanent fund divi-
20 dend under this section, or who is authorized to claim a dividend on
21 behalf of another under (c) of this section, may elect to receive cash
22 in lieu of an annuity share. Alternatively, a person may elect to
23 receive not less than 25 percent of the dividend in cash and the
24 remainder as an annuity credit. A person who is 65 years of age
25 before January 1, 1986, may only receive cash.

26 * Sec. 4. AS 43.23.015(a) is amended to read:

27 (a) The commissioner shall adopt regulations under the Adminis-
28 trative Procedure Act (AS 44.62) establishing the process for de-
29 termining the eligibility of individuals for permanent fund dividends.

1 The commissioner may require an individual to provide proof of eli-
2 gibility, and the commissioner may use other information available
3 from other state departments or agencies to determine the eligibility
4 of an individual.

5 * Sec. 5. AS 43.23.015(b) is amended to read:

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

10 I certify that

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

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

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

24

25

26

27

28

29

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

* Sec. 6. AS 43.23.015(e) is amended to read:

(e) If a public agency claims a cash [PERMANENT FUND] dividend

1 on behalf of an individual under this section, the public agency shall
2 hold the dividend in trust for the individual. Money held in trust
3 under this subsection shall be invested by the commissioner in accor-
4 dance with AS 37.10.070.

5 * Sec. 7. AS 43.23.015(f) is amended to read:

6 (f) A minor or an incompetent individual may not maintain a
7 claim against the state or an officer or employee of the state based
8 either on the manner in which the parent, guardian, or authorized
9 representative other than a public agency of the state managed or
10 disposed of permanent fund dividends received on behalf of the minor
11 or incompetent, or an election made or not made on that individual's
12 behalf under AS 43.23.005(d) [INDIVIDUAL].

13 * Sec. 8. AS 43.23.015 is amended by adding a new subsection to read:

14 (i) The permanent fund dividend application form shall be pre-
15 pared to allow an applicant, other than a person who is exempt under
16 AS 47.4^r.015(b), to elect to receive cash in lieu of a permanent fund
17 dividend.

18 * Sec. 9. AS 43.23.035 is amended to read:

19 Sec. 43.23.035. PENALTIES AND ENFORCEMENT. (a) In addition to
20 any criminal penalties imposed by state law, if an individual is
21 convicted of a crime in connection with a false statement made in a
22 certification required under AS 43.23.015, and the conviction is not
23 reversed, that individual forfeits all permanent fund dividends cred-
24 ited or paid, together with any additional credits to that indi-
25 vidual's annuity account and is not eligible for a future permanent
26 fund dividend.

27 (b) If the commissioner determines that a cash [PERMANENT FUND]
28 dividend should not have been claimed by or paid to an individual, the
29 commissioner may use all collection procedures or remedies available

1 for collection of taxes under this title to recover the payment of a
2 permanent fund dividend that was improperly made. A notice of an
3 improperly paid dividend must be sent to the individual within 10
4 years after the improper payment. If notice is not sent within the
5 10-year period, proceedings may not be commenced in court for recovery
6 of the improper payment.

7 * Sec. 10. AS 43.23.035 is amended by adding a new subsection to read:

8 (c) If the commissioner determines that a permanent fund divi-
9 dend should not have been credited to an individual's annuity account,
10 the commissioner may, after notice and opportunity for hearing, direct
11 the commissioner of administration to debit the individual's annuity
12 account for the amount wrongly credited. If the credit is the fault
13 of the individual, the debit must be made within 10 years. If the
14 credit is the fault of the state, the debit must be made within three
15 years.

16 * Sec. 11. AS 43.23.055 is amended to read:

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

18 (1) annually make payments to individuals who are 65 years
19 of age before January 1, 1986, and to individuals who elect to receive
20 cash under AS 43.23.005(d) [PAY PERMANENT FUND DIVIDENDS FROM THE
21 DIVIDEND FUND];

22 (2) adopt regulations under the Administrative Procedure
23 Act (AS 44.62) that establish procedures and time limits for claiming
24 a permanent fund dividend or for electing an annuity share; the de-
25 partment shall set the time limit for applications for permanent fund
26 dividends so that the number of eligible applicants is determined by
27 October 1 of the year for which the dividend is declared and permanent
28 fund dividends for a year are paid before April 30 of the year follow-
29 ing that year;

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

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

11 (5) provide the commissioner of administration with infor-
12 mation necessary to maintain individual annuity account records, and
13 administer the annuity program.

14 * Sec. 12. AS 43.23.065 is amended to read:

15 Sec. 43.23.065. EXEMPTION OF PERMANENT FUND DIVIDENDS. Fifty
16 percent of a cash [THE ANNUAL] permanent fund dividend payment [PAY-
17 ABLE TO AN INDIVIDUAL] is exempt from levy, execution, garnishment,
18 attachment, or any other remedy for the collection of debt. This
19 exemption applies to an eligible individual's permanent fund dividend
20 both before and after payment is made to the individual. An exemption
21 is not available under this section for cash permanent fund dividend
22 payments [DIVIDENDS] taken to satisfy (1) child support obligations
23 required by court order or decision of the child support enforcement
24 agency under AS 47.23.140 - 47.23.220; (2) a debt owed by an eligible
25 individual to an agency of the state, unless the debt is contested and
26 an appeal is pending, or the time limit for filing an appeal has not
27 expired; or (3) court ordered restitution under AS 12.55.045 -
28 12.55.051 or 12.55.100. A child support obligation under (1) of this
29 section has priority over a debt owed to an agency of the state, and a

1 permanent fund dividend may not be taken to satisfy a debt under (2)
2 of this section until any portion of the dividend necessary to satisfy
3 a child support obligation has been taken.

4 * Sec. 13. AS 43.23.065 is amended by adding new subsections to read:

5 (b) When an individual owes a past-due debt described in (a)(1)
6 of this section, the department shall require that the individual take
7 the individual's permanent fund dividend in cash.

8 (c) The courts of this state may, as a condition of any civil
9 judgment or restitution order under AS 12.55.045 - 12.55.051 or
10 12.55.100, require the defendant to take the defendant's permanent
11 fund dividend in cash.

12 * Sec. 14. AS 43.23.075 is amended to read:

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

24 (b) An individual who is denied medical assistance under 42
25 U.S.C. 1396 - 1396p (Social Security Act, Title XIX) solely because of
26 the credit or receipt of a permanent fund dividend by the individual
27 or by a member of the individual's household is eligible for state-
28 funded medical assistance under the general relief assistance program
29 (AS 47.25.120 - 47.25.300). The individual is entitled to receive,

1 for a period not to exceed four months, the same level of medical
2 assistance as the individual would have received under 42 U.S.C.
3 1396 - 1396p (Social Security Act, Title XIX) had there been no perma-
4 nent fund dividend program.

5 (c) An individual who is denied assistance solely because perma-
6 nent fund dividends credited to or received by the individual or by a
7 member of the individual's household are counted as income or re-
8 sources under federal law or regulation is eligible for cash assis-
9 tance under the general relief assistance program (AS 47.25.120 -
10 47.25.300). Notwithstanding the limit in AS 47.25.130, the individual
11 is entitled to receive, for a period not to exceed four months, the
12 same amount as the individual would have received under other public
13 assistance programs had there been no permanent fund dividend program.

14 * Sec. 15. AS 43.23.095(6) is repealed and reenacted to read:

15 (6) "permanent fund dividend" means a credit to an annuity
16 account under this chapter except that, as applied to an individual
17 who may receive only cash under AS 43.23.005(d) or 43.23.065, it means
18 a cash payment under this chapter;

19 * Sec. 16. AS 43.23 is amended by adding new sections to read:

20 ARTICLE 2. ANNUITY PROGRAM.

21 Sec. 43.23.110. ANNUITY INVESTMENT FUND. (a) The annuity
22 investment fund is established as a separate fund in the state trea-
23 sury. Notwithstanding AS 37.13.145, an amount equal to the permanent
24 fund dividends taken as annuity credits under this chapter shall be
25 annually transferred from the dividend fund to the annuity investment
26 fund.

27 (b) The legislature may appropriate either general funds, or
28 earnings of the undistributed income account in the Alaska permanent
29 fund, to the annuity investment fund. Funds appropriated under this

1 subsection shall be allocated to the individual annuity accounts of
2 those who are eligible to receive a dividend for that year and do not
3 elect cash under AS 43.23.005(d). The allocation shall be made in the
4 following manner:

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

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

10 (3) the credit for persons over the age of 35 is the base
11 amount, increased for each year of age over 35 up to and including the
12 age of 65; the incremental increase for each year of age is a percent-
13 age over the credit for the prior year of age; that percentage shall
14 be established with due regard for historical and projected permanent
15 fund returns on investment;

16 (4) if a person elects to receive a portion of the dividend
17 in cash under AS 43.23.005(d), the allocation to which that person is
18 otherwise entitled will be reduced proportionately.

19 (c) Money in the annuity investment fund shall be invested by
20 the commissioner of revenue in investments authorized under AS 39.-
21 35.110. The commissioner of administration shall credit individual
22 annuity accounts with earnings at a rate equal to the rate of interest
23 earned by the annuity investment fund.

24 (d) The legislature may annually appropriate to the Department
25 of Administration an amount sufficient to pay monthly annuity payments
26 for the subsequent fiscal year under AS 43.23.130 from the annuity
27 investment fund. Funds appropriated under this subsection shall be
28 transferred from the annuity investment fund to the Department of
29 Administration in order to meet the current demands of the annuity

1 program.

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

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

9 Sec. 43.23.120. ANNUITY PROGRAM. (a) The annuity program is
10 administered by the commissioner of administration. The commissioner
11 of administration shall adopt regulations necessary to implement the
12 annuity program.

13 (b) The commissioner of administration shall maintain records of
14 individual annuity accounts and make annuity payments under AS 43.23.-
15 130.

16 Sec. 43.23.130. PAYMENT OF ANNUITIES. (a) An individual with
17 one or more annuity credits may receive an annuity upon reaching the
18 age of 65.

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

24 (c) An individual need not be a resident of the state to be
25 eligible to received an annuity payment from the individual's account.

26 (d) Except as provided in (e) of this section, an annuity
27 account may not be assigned, sold, or otherwise transferred from one
28 individual to another. The right to receive an annuity under this
29 section terminates upon the death of the person who is eligible for

1 the annuity and does not pass to that person's estate.

2 (e) If a person dies before age 65, a lump sum payment shall,
3 subject to appropriation, be paid to the surviving spouse by right of
4 survivorship unless a different beneficiary was designated. When no
5 spouse survives and no beneficiary was designated, the lump sum shall
6 be paid to the decedent's estate. The lump sum payment shall include
7 all permanent fund dividend contributions made by the individual,
8 together with interest, but shall not include any credits to the
9 individual's account made pursuant to AS 43.23.110(b), or interest on
10 those credits.

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

15 * Sec. 17. AS 47.45.010(a) is amended to read:

16 (a) A person who is 65 years of age or over, who resides in the
17 state for at least one year immediately preceding application for a
18 longevity bonus under this chapter may apply to the commissioner of
19 administration for qualification to receive a monthly bonus [OF \$250].

20 * Sec. 18. AS 47.45 is amended by adding a new section to read:

21 Sec. 47.45.015. AMOUNT OF BONUS. (a) Except as provided in (b)
22 of this section, the monthly longevity bonus is equal to \$250, in-
23 creased by three percent each year beginning in fiscal year 1987,
24 minus the maximum possible annuity for a person 65 years of age under
25 the annuity program (AS 43.23.110 - 43.23.130), as determined by the
26 commissioner of administration.

27 (b) A person who is 65 years of age before January 1, 1986, is
28 entitled to the full longevity bonus payment without reduction for the
29 annuity program.

1 * Sec. 19. AS 47.45.070 is amended to read:

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

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

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

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

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

25 * Sec. 20. Section 11, ch. 38, SLA 1984 is amended to read:

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

28 * Sec. 21. AS 43.23.045(c) is repealed.

29 * Sec. 22. This Act applies only to permanent fund dividends for years

1 beginning after December 31, 1985. Notwithstanding the amendments to
2 AS 43.23 made by this Act, permanent fund dividends for 1985 and prior
3 years shall be made under the law as it existed before the effective date
4 of this Act.

5 * Sec. 23. This Act takes effect immediately in accordance with AS 01.-
6 10.070(c).

Introduced: 1/15/85
Referred: State Affairs and
Finance

BY RAY, HALFORD, BENNETT, KERTTULA, KELLY,
ZIEGLER, FAIKS, V.FISCHER, SACKETT,
STURGULEWSKI, DEVRIES, FERGUSON,
P.FISCHER, ELIASON, ABOOD, FAHRENKAMP,
AND COGHILL

1 IN THE SENATE

2

SENATE BILL NO. 56

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act amending the longevity bonus program and the
7 permanent fund dividend program, establishing an
8 annuity program; and providing for an effective
9 date."

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

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

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

18 (2) it is appropriate that individuals save for their own re-
19 tirement, and it is also appropriate that the state establish both means
20 and incentives for Alaska residents to set aside retirement funds; accord-
21 ingly, it is a purpose of this legislation to create an annuity program,
22 and to encourage Alaskans to participate in that program by authorizing
23 general fund supplements that would result in annuity payments that are
24 larger than an individual could earn through private investment of the
25 permanent fund dividend;

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

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

8 (5) neither the longevity bonus program, nor the annuity pro-
9 gram, should be viewed as a form of welfare; other state and federal pro-
10 grams are available to meet the basic necessities of life, and amounts
11 received by an individual under this Act are not calculated on the basis of
12 need.

13 * Sec. 2. AS 43.23.005(c) is amended to read:

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

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

19 (d) A person who is eligible to receive a permanent fund divi-
20 dend under this section, or who is authorized to claim a dividend on
21 behalf of another under (c) of this section, may elect to receive cash
22 in lieu of an annuity share. Alternatively, a person may elect to
23 receive not less than 25 percent of the dividend in cash and the
24 remainder as an annuity credit. A person who is 65 years of age
25 before January 1, 1986, may only receive cash.

26 * Sec. 4. AS 43.23.015(a) is amended to read:

27 (a) The commissioner shall adopt regulations under the Adminis-
28 trative Procedure Act (AS 44.62) establishing the process for de-
29 termining the eligibility of individuals for permanent fund dividends.

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

5 * Sec. 5. AS 43.23.015(b) is amended to read:

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

10 I certify that

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

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

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

24

25 _____
26 (signature of individual, parent,
27 guardian, or other authorized
representative)

28 * Sec. 6. AS 43.23.015(e) is amended to read:

29 (e) If a public agency claims a cash [PERMANENT FUND] dividend

1 on behalf of an individual under this section, the public agency shall
2 hold the dividend in trust for the individual. Money held in trust
3 under this subsection shall be invested by the commissioner in
4 accordance with AS 37.10.070.

5 * Sec. 7. AS 43.23.015(f) is amended to read:

6 (f) A minor or an incompetent individual may not maintain a
7 claim against the state or an officer or employee of the state based
8 either on the manner in which the parent, guardian, or authorized
9 representative other than a public agency of the state managed or
10 disposed of permanent fund dividends received on behalf of the minor
11 or incompetent, or an election made or not made on that individual's
12 behalf under AS 43.23.005(d) [INDIVIDUAL].

13 * Sec. 8. AS 43.23.015 is amended by adding a new subsection to read:

14 (i) The permanent fund dividend application form shall be pre-
15 pared to allow an applicant, other than a person who is 65 years of
16 age before January 1, 1986, to elect to receive cash in lieu of a
17 permanent fund dividend.

18 * Sec. 9. AS 43.23.035 is amended to read:

19 Sec. 43.23.035. PENALTIES AND ENFORCEMENT. (a) In addition to
20 any criminal penalties imposed by state law, if an individual is
21 convicted of a crime in connection with a false statement made in a
22 certification required under AS 43.23.015, and the conviction is not
23 reversed, that individual forfeits all permanent fund dividends cred-
24 ited or paid, together with any additional credits to that indi-
25 vidual's annuity account and is not eligible for a future permanent
26 fund dividend.

27 (b) If the commissioner determines that a cash [PERMANENT FUND]
28 dividend should not have been claimed by or paid to an individual, the
29 commissioner may use all collection procedures or remedies available

1 for collection of taxes under this title to recover the payment of a
2 permanent fund dividend that was improperly made. A notice of an
3 improperly paid dividend must be sent to the individual within 10
4 years after the improper payment. If notice is not sent within the
5 10-year period, proceedings may not be commenced in court for recovery
6 of the improper payment.

7 * Sec. 10. AS 43.23.035 is amended by adding a new subsection to read:

8 (c) If the commissioner determines that a permanent fund divi-
9 dend should not have been credited to an individual's annuity account,
10 the commissioner may, after notice and opportunity for hearing, direct
11 the commissioner of administration to debit the individual's annuity
12 account for the amount wrongly credited. If the credit is the fault
13 of the individual, the debit must be made within 10 years. If the
14 credit is the fault of the state, the debit must be made within three
15 years.

16 * Sec. 11. AS 43.23.055 is amended to read:

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

18 (1) annually make payments to individuals who are 65 years
19 of age before January 1, 1986, and to individuals who elect to receive
20 cash under AS 43.23.005(d) [PAY PERMANENT FUND DIVIDENDS FROM THE
21 DIVIDEND FUND];

22 (2) adopt regulations under the Administrative Procedure
23 Act (AS 44.62) that establish procedures and time limits for claiming
24 a permanent fund dividend or for electing an annuity share; the de-
25 partment shall set the time limit for applications for permanent fund
26 dividends so that the number of eligible applicants is determined by
27 October 1 of the year for which the dividend is declared and permanent
28 fund dividends for a year are paid before April 30 of the year follow-
29 ing that year;

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

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

11 (5) provide the commissioner of administration with infor-
12 mation necessary to maintain individual annuity account records and
13 administer the annuity program.

14 * Sec. 12. AS 43.23.065 is amended to read:

15 Sec. 43.23.065. EXEMPTION OF PERMANENT FUND DIVIDENDS. Fifty
16 percent of a cash [THE ANNUAL] permanent fund dividend payment [PAY-
17 ABLE TO AN INDIVIDUAL] is exempt from levy, execution, garnishment,
18 attachment, or any other remedy for the collection of debt. This
19 exemption applies to an eligible individual's permanent fund dividend
20 both before and after payment is made to the individual. An exemption
21 is not available under this section for cash permanent fund dividend
22 payments [DIVIDENDS] taken to satisfy (1) child support obligations
23 required by court order or decision of the child support enforcement
24 agency under AS 47.23.140 - 47.23.220; (2) a debt owed by an eligible
25 individual to an agency of the state, unless the debt is contested and
26 an appeal is pending, or the time limit for filing an appeal has not
27 expired; or (3) court ordered restitution under AS 12.55.045 -
28 12.55.051 or 12.55.100. A child support obligation under (1) of this
29 section has priority over a debt owed to an agency of the state, and a

1 permanent fund dividend may not be taken to satisfy a debt under (2)
2 of this section until any portion of the dividend necessary to satisfy
3 a child support obligation has been taken.

4 * Sec. 13. AS 43.23.065 is amended by adding new subsections to read:

5 (b) When an individual owes a past-due debt described in (a)(1)
6 of this section, the department shall require that the individual take
7 the individual's permanent fund dividend in cash.

8 (c) The courts of this state may, as a condition of any civil
9 judgment or restitution order under AS 12.55.045 - 12.55.051 or
10 12.55.100, require the defendant to take the defendant's permanent
11 fund dividend in cash.

12 * Sec. 14. AS 43.23.075 is amended to read:

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

24 (b) An individual who is denied medical assistance under 42
25 U.S.C. 1396 - 1396p (Social Security Act, Title XIX) solely because of
26 the credit or receipt of a permanent fund dividend by the individual
27 or by a member of the individual's household is eligible for state-
28 funded medical assistance under the general relief assistance program
29 (AS 47.25.120 - 47.25.300). The individual is entitled to receive,

1 for a period not to exceed four months, the same level of medical
2 assistance as the individual would have received under 42 U.S.C.
3 1396 - 1396p (Social Security Act, Title XIX) had there been no perma-
4 nent fund dividend program.

5 (c) An individual who is denied assistance solely because perma-
6 nent fund dividends credited to or received by the individual or by a
7 member of the individual's household are counted as income or re-
8 sources under federal law or regulation is eligible for cash assis-
9 tance under the general relief assistance program (AS 47.25.120 -
10 47.25.300). Notwithstanding the limit in AS 47.25.130, the individual
11 is entitled to receive, for a period not to exceed four months, the
12 same amount as the individual would have received under other public
13 assistance programs had there been no permanent fund dividend program.

14 * Sec. 15. AS 43.23.095(6) is repealed and reenacted to read:

15 (6) "permanent fund dividend" means a credit to an annuity
16 account or a cash payment under this chapter;

17 * Sec. 16. AS 43.23 is amended by adding new sections to read:

18 ARTICLE 2. ANNUITY PROGRAM.

19 Sec. 43.23.110. ANNUITY INVESTMENT FUND. (a) The annuity
20 investment fund is established as a separate fund in the state trea-
21 sury. Notwithstanding AS 37.13.145, an amount equal to the permanent
22 fund dividends taken as annuity credits under this chapter shall be
23 annually transferred from the dividend fund to the annuity investment
24 fund.

25 (b) The legislature may appropriate either general funds, or
26 earnings of the undistributed income account in the Alaska permanent
27 fund, to the annuity investment fund. Funds appropriated under this
28 subsection shall be allocated to the individual annuity accounts of
29 those who are eligible to receive a dividend for that year and do not

1 elect cash under AS 43.23.005(d). The allocation shall be made in the
2 following manner:

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

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

8 (3) the credit for persons over the age of 35 is the base
9 amount, increased for each year of age over 35 up to and including the
10 age of 65; the incremental increase for each year of age is a percent-
11 age over the credit for the prior year of age; that percentage shall
12 be established with due regard for historical and projected permanent
13 fund returns on investment;

14 (4) if a person elects to receive a portion of the dividend
15 in cash under AS 43.23.005(d), the allocation to which that person is
16 otherwise entitled will be reduced proportionately.

17 (c) Money in the annuity investment fund shall be invested by
18 the commissioner of revenue in investments authorized under AS 39.-
19 35.110. The commissioner of administration shall credit individual
20 annuity accounts with earnings at a rate equal to the rate of interest
21 earned by the annuity investment fund.

22 (d) The legislature may annually appropriate to the Department
23 of Administration an amount sufficient to pay monthly annuity payments
24 for the subsequent fiscal year under AS 43.23.130 from the annuity
25 investment fund. Funds appropriated under this subsection shall be
26 transferred from the annuity investment fund to the Department of
27 Administration in order to meet the current demands of the annuity
28 program.

29 (e) The legislature may annually appropriate from the annuity

1 investment fund an amount sufficient to administer the annuity pro-
2 gram. Any costs of administration funded under this subsection shall
3 be allocated equitably among all individual annuity accounts.

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

7 Sec. 43.23.120. ANNUITY PROGRAM. (a) The annuity program is
8 administered by the commissioner of administration. The commissioner
9 of administration shall adopt regulations necessary to implement the
10 annuity program.

11 (b) The commissioner of administration shall maintain records of
12 individual annuity accounts and make annuity payments under AS 43.23.-
13 130.

14 Sec. 43.23.130. PAYMENT OF ANNUITIES. (a) An individual with
15 one or more annuity credits may receive an annuity upon reaching the
16 age of 65.

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

22 (c) An individual need not be a resident of the state to be
23 eligible to received an annuity payment from the individual's account.

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

28 (e) If a person dies before age 65, that person's account shall
29 be distributed equitably among the annuity accounts of all individuals

1 of the same age.

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

6 * Sec. 17. AS 47.45.010(a) is amended to read:

7 (a) A person who is 65 years of age or over, who resides in the
8 state for at least one year immediately preceding application for a
9 longevity bonus under this chapter may apply to the commissioner of
10 administration for qualification to receive a monthly bonus [OF \$250].

11 * Sec. 18. AS 47.45 is amended by adding a new section to read:

12 Sec. 47.45.015. AMOUNT OF BONUS. (a) Except as provided in (b)
13 of this section, the monthly longevity bonus is equal to \$250, in-
14 creased by three percent each year beginning in fiscal year 1987,
15 minus the maximum possible annuity for a person 65 years of age under
16 the annuity program (AS 43.23.110 - 43.23.130), as determined by the
17 commissioner of administration.

18 (b) A person who is 65 years of age before January 1, 1986, is
19 entitled to the full longevity bonus payment without reduction for the
20 annuity program.

21 * Sec. 19. AS 47.45.070 is amended to read:

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

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

26 (2) meets the age and residence requirements of this chap-
27 ter but either is confined in a state or federal mental health insti-
28 tution or facility and is certified by the state as unable to manage
29 personal affairs, or resides in a nursing home as that term is defined