

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 8672

3678 HSTA HB 237 - HB 238

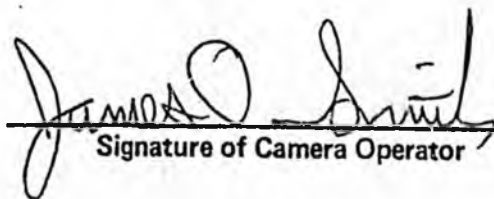
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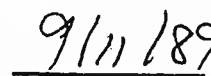


RECORDS CERTIFICATION



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Signature of Camera Operator


Date

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COMMITTEE REPORT

HOUSE

7/15

JUDICIARY

FURTHER: FINANCE

(7)

2/25/85

Date: 2/25/85

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 237

"An Act relating to pension reform; and providing for an effective date."

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]

CHAIRMAN

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to pension reform. This bill amends statutes pertaining to the state's retirement systems to include provisions similar to those enacted by the U.S. Congress in the Retirement Equity Act of 1984 (P.L. 98-397).

The bill amends a number of sections of the public employees' retirement system and teachers' retirement system statutes to require consent of an employee's spouse before the employee may waive a joint and survivor benefit, obtain a refund of contributions if the employee has a vested interest in benefits, or revoke a designation of the spouse as the employee's beneficiary for various death benefits. Consent of the spouse is also required by this bill for revocation of a designation of the spouse as beneficiary for death benefits under AS 26.05.224. Until consent is obtained, the joint and survivor benefit and designation of the spouse as beneficiary are required. The judicial retirement system statute is amended to allow the spouse of a justice or judge to receive survivors' benefits if the spouse was married to the justice or judge for one year before death, instead of the current two years.

The bill allows former spouses to share in survivor's benefits, to the extent provided in a "qualified domestic relations order," as defined in secs. 16, 18, 23, and 39 of the bill.

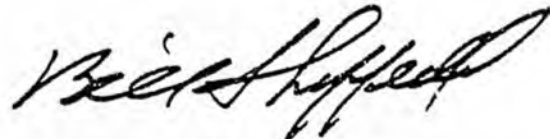
Prohibitions against assignment of retirement benefits are removed with respect to assignments of those benefits made to satisfy marital property rights, spousal support, and child support under a qualified domestic relations order.

The commissioner of administration is required to inform retirement system participants and their spouses of the changes accomplished by this bill, and effective dates are established to assure an orderly transition to the provisions of this pension reform bill.

This bill recognizes, as does the federal Retirement Equity Act of 1984, that rights to benefits accrued during a marriage are property rights in which both partners to the marriage have an interest. The bill has been drafted to require the joint and survivor option, and spousal consent for revocation of designation of the spouse as beneficiary for benefits, only if the spouse was married to the employee during a period when rights to those benefits were being accrued.

I note that the state's Supplemental Benefits System (SBS) plan has already been amended to comply with the Retirement Equity Act requirements that the plan require a joint and survivor benefit unless the spouse waives that form of benefit, and that the plan require payment of a preretirement survivor benefit to the spouse unless the spouse waives that form of benefit. These amendments to the SBS were necessary to maintain the plan's tax-deferred status under the Internal Revenue Code.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Sheffield", written in a cursive style.

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Page 1 of 2

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: 237
 Title: An Act Relating to Pension Reform
 Sponsor: _____
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: All State Agencies
 Program Category Affected: Elementary & Secondary Education, Labor Services
 BRU, Program or Subprogram(s) Affected: PERS, JRS, TRS

EXPENDITURES/REVENUES: (Thousands of Dollars)

Operating	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 Personal Svcs		10.0				
100 Ptmnt & Bnfts						
200 Travel						
300 Contractual						
400 Supplies		5.0				
500 Equipment						
600 Land & Struct						
700 Grants, Claims						
700 TRS Match						
TOTAL OPERATING	-0-	15.0	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		15.0				
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	15.0	-0-	-0-	-0-	-0-

POSITIONS:

	-0-	-0-	-0-	-0-	-0-	-0-
FULL-TIME						
PART-TIME						
TEMPORARY		2.0				

ANALYSIS: (Attach a separate page if necessary)

Prepared By: J.K. Humphreys, Director Phone: 465-4470
 Division: Retirement & Benefits Date: 2/20/85

Approved by Commissioner: Lisa Rudd Date: 2-21-85
 Agency: Department of Administration

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

HB 237

Fiscal Note Analysis

Prepared by Division of Retirement & Benefits

Department of Administration

February 20, 1985

IV Analysis:

Passage of this bill will; 1) require a married member of the Public Employees' (PERS), Teachers' (TRS) and Judicial (JRS) Retirement Systems to select one of the joint and survivor options upon retirement unless the requirement is waived by the spouse and would require that the spouse be the primary beneficiary of death benefits, and 2) would allow any benefit payable from the PERS, TRS and JRS to be subject to attachment to satisfy orders by divorce or dissolution of marriage orders.


The fiscal impact of this will be due to the research and notification efforts by the Division to inform effected members of the legislation.

The commissioner of administration is required to inform retirement system participants and their spouses of the changes accomplished by this bill, and effective dates are established to assure an orderly transition to the provisions of this pension reform bill.

This bill recognizes, as does the federal Retirement Equity Act of 1984, that rights to benefits accrued during a marriage are property rights in which both partners to the marriage have an interest. The bill has been drafted to require the joint and survivor option, and spousal consent for revocation of designation of the spouse as beneficiary for benefits, only if the spouse was married to the employee during a period when rights to those benefits were being accrued.

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Sincerely,

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Bill Sheffield
Governor

BILL SHEFFIELD
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OFFICE OF THE GOVERNOR
JUNEAU

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The bill amends a number of sections of the public employees' retirement system and teachers' retirement system statutes to require consent of an employee's spouse before the employee may waive a joint and survivor benefit, obtain a refund of contributions if the employee has a vested interest in benefits, or revoke a designation of the spouse as the employee's beneficiary for various death benefits. Consent of the spouse is also required by this bill for revocation of a designation of the spouse as beneficiary for death benefits under AS 26.05.224. Until consent is obtained, the joint and survivor benefit and designation of the spouse as beneficiary are required. The judicial retirement system statute is amended to allow the spouse of a justice or judge to receive survivors' benefits if the spouse was married to the justice or judge for one year before death, instead of the current two years.

The bill allows former spouses to share in survivor's benefits, to the extent provided in a "qualified domestic relations order," as defined in secs. 16, 18, 23, and 39 of the bill.

Prohibitions against assignment of retirement benefits are removed with respect to assignments of those benefits made to satisfy marital property rights, spousal support, and child support under a qualified domestic relations order.



STATE OF ALASKA

OFFICE OF THE GOVERNOR

ALASKA WOMEN'S COMMISSION
3601 C STREET - SUITE 742
ANCHORAGE, ALASKA 99503

MAR 4 1985

March 1, 1985

Representative Katie Hurley
Pouch V
Juneau, AK 99811

Dear Representative Hurley:

The Alaska Women's Commission urges your support for HB 237, an act relating to pension reform. This bill insures that public employees (in PERS, TRS, JRS and the Department of Military and Veterans Affairs) will share similar rights and protections in their retirement systems as do members of private retirement plans.

HB 237 recognizes, as does the federal law (Retirement Equity Act of 1984) that guides private retirement plans, that rights to benefits accrued during a marriage are property rights in which both partners to the marriage have an interest. Presently, retirement age represents a time of economic uncertainty for many women. At age 65, most people experience a reduction in their income by 44 percent. As a group, older women's incomes are yet smaller. Older women have the highest incidence of poverty in the state as well as in the nation. The median annual income for older women in Alaska is \$4,700 which is about one-half that for older Alaskan men.

Under current state law a married public employee is not required to select survivor benefits for a spouse or to inform the spouse that survivor benefits were or were not selected. Thus, many spouses are left unknowingly financially unprepared to face their retirement years. Among those married members currently enrolled in the PERS and TRS systems, only 20 percent and 37 percent respectively have chosen survivor benefits for their spouses and it is unknown how many have informed their spouses about this decision that ultimately affects both of their financial futures. HB 237 corrects this problem by making spouses the automatic beneficiary unless the spouse signs a waiver consenting to a change in beneficiary. It further provides that a vested member who terminates prior to retirement must also receive consent of the spouse before "cashing out" of the retirement system.

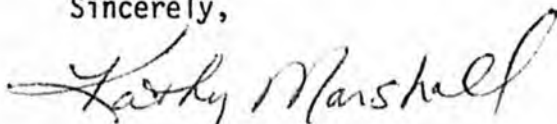
March 1, 1985
Page Two

HB 237 also addresses the rights of former spouses to retirement benefits. Under current state law, the court determines whether retirement benefits will be considered as a marital asset and very often it may be the most valuable asset attained during marriage. Since the TRS and PERS systems are protected by statute from assignment, the courts can do nothing more than establish a value to the benefits and adjust for its value from other assets if they exist. HB 237 waives this prohibition of assignment of the PERS and TRS system for purposes of satisfying marital property rights, spousal support and child support when a qualified domestic relations order is issued by the courts. It also extends to former spouses of members of all state retirement systems the right to share in survivor benefits to the extent outlined in a domestic relations order. This provision does not require an increase in benefits to the member in order to satisfy the domestic relations order, however.

In summary, HB 237 establishes equity and provides the same "right to know" and protections for spouses of public employees that is now provided to members and their spouses of private retirement systems under the federal Retirement Equity Act of 1984. Further, the state's Supplemental Benefits System (SBS) plan is regulated by this federal act and has been amended to comply with it. Thus, HB 237 will provide consistency in the regulation and treatment of the state's retirement and annuity plans.

If you have any questions or would like to discuss this bill in greater depth, please contact me at your convenience.

Sincerely,



Kathy Marshall
Executive Director

PROPOSED PENSION LEGISLATION

1. Current state law:

Sec. 39.35.330. Leave of absence. (a) A leave of absence with pay authorized by an employer will not be considered as interrupting employment. If the employee is a permanent part-time employee, credited service will be granted on a basis proportionate to that which would have been earned as a permanent full-time employee. (b) A leave of absence without pay which exceeds 10 working days in any calendar year or layoff status authorized by an employer will be considered as an interruption of employment and no credited service will be granted.

NEW ALASKA
PENSION
ACT
1981

Intent of proposed change:

Add section on exceptions to credited service that would treat a leave of absence not to exceed 501 hours due to pregnancy, birth, adoption or certain child care as credited service whether the absence was in payed or unpaid status. Such a leave of absence should not be applied to the 10 day rule of leave without pay.

2. Current state laws:

Sec. 39.35.450. Joint and survivor option. (a) Benefits payable under this section are in place of benefits payable under AS 39.35.370. Upon filing an application with the administrator, an employee may designate his or her spouse or a dependent approved by the administrator as the contingent beneficiary. The benefit shall be determined in accordance with one of the following options elected:

(c) An employee may elect, change, or revoke an option without the approval of the administrator if his election, change, or revocation is filed in writing with the administrator before the effective date of his retirement.

(d) A member, including a deferred vested member, may, regardless of his age, elect a joint and survivor option any time before appointment to receive a retirement benefit.

Sec. 39.35.490. Designation of beneficiary. (a) Each employee shall designate the beneficiary or beneficiaries to whom benefits payable under this chapter as a consequence of the employee's death shall be distributed.

(b) The designation may be changed or revoked by the employee without notice to the beneficiary or beneficiaries at any time. If an employee designates more than one beneficiary, each shall share equally unless the employee specifies a different allocation or preference. The designation of a beneficiary and a change or revocation of a beneficiary shall be made on a form provided by the administrator and is not effective until filed with the administrator.

(c) If an employee fails to designate a beneficiary, or if no designated beneficiary survives the employee, the death benefit shall be paid (1) to his surviving spouse, or, if there is none surviving, (2) to his surviving children in equal parts or, if there is none surviving, (3) to his surviving parents in equal parts or, if there is none surviving, (4) to his estate.

Intent of proposed change:

Make survivor benefits for spouses automatic unless both the participant and the spouse consent in writing to waive it.

3. Current state law:

Sec. 39.35.500. Safeguard of employee funds held by the system. Employee contributions and other amounts held in the pension fund are exempt from Alaska state and local taxes. Amounts held on behalf of, or payable to, any employee or other person who is or may become eligible for benefits under the system are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before being received by the person entitled to the amount under the terms of the system. An attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of a right to amounts held under the system is void.

Intent of proposed change:

Indicate that the assignment of retirement benefits to satisfy judgements in divorce actions, child support or alimony payments does not result in prohibited assignment under the terms of the system.

4. Current state law:

Sec. 25.24.160. Judgement. In a judgement in an action for divorce or action declaring a marriage void or at any time after judgement, the court may provide:

(6) for the division between the parties of their property, whether joint or separate, acquired only during coverture, in the manner as may be just, and without regard to which of the parties is in fault; however, the court, in making the division, may invade the property of either spouse acquired before marriage when the balancing of the equities between the parties requires it; and to accomplish this end the judgement may require that one or both of the parties assign, deliver, or convey any of their real property to the other party.

Intent of proposed change:

Specify that pension and retirement benefits constitute property not otherwise encumbered by law.

Congresswoman
Geraldine
FERRARO
NEWS

Ninth Congressional District

108-18 Queens Blvd.
Forest Hills, N.Y. 11375
(212) 793-8811

312 Cannon Bldg.
Washington, D.C. 20515
(202) 225-3965



THE RETIREMENT EQUITY ACT OF 1984 H.R. 4280

INTRODUCTION: On August 23, 1984, the President signed into law Rep. Geraldine A. Ferraro's private pension reform legislation. The Ferraro pension bill amends the Employee Retirement Income Security Act (ERISA). The pension changes will apply to both men and women, but they were crafted with an eye to modifying aspects of the private pension system which make it particularly difficult for women to qualify for retirement benefits.

PROVISIONS OF H.R. 4280:

WOMEN AS WIVES AND WIDOWS

I. The Retirement Equity Act requires written consent of both participant and spouse to waive survivor annuity option. (Currently, survivors' benefits are optional for the employee alone.)

** For Example: In order for your husband to waive survivor benefits he needs your permission in writing.

II. The Retirement Equity Act specifies that decisions to waive pre-retirement survivor benefits be made after workers turn 35, and that decisions to forgo post-retirement survivor benefits be made within 90 days before pension payments begin.

** For Example: Your husband must be 35 and have your permission in order to waive his pre-retirement survivor benefits. Your husband must make his decision to waive post-retirement survivor benefits with your permission during the three months before he retires.

III. The Retirement Equity Act requires payment of benefits to the spouse of a worker who was fully vested, even if that worker dies before the early retirement age, age 55, under ERISA. (Vested means that the employee has worked for the minimum years necessary to be eligible for a pension at retirement.)

** For Example: If your husband dies at age 40 after working for 11 years, (and vesting occurs at 10 years) you are entitled to survivor benefits, which you would receive at the date he would have reached early retirement age.

IV. The Retirement Equity Act abolishes the ERISA provision allowing plans to deny widow's/widower's benefits if an otherwise qualified spouse dies within two years of choosing survivor benefits (if death is from natural causes).

** For Example: If you and your husband opt for survivor benefits and he informs his employer, even if he dies a week afterward you are still eligible for survivor benefits.

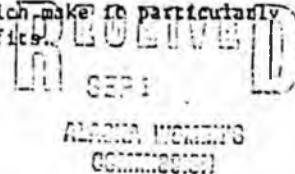
V. The Retirement Equity Act permits assignment of pension benefits by state divorce courts in cases related to alimony, child support and marital property.

** For Example: A court can award a woman the right to part of her ex-husband's pension in a divorce settlement.

WOMEN AS MOTHERS

VI. The Retirement Equity Act allows employees to take a year off for maternity or paternity leave, including leave to take care of an adopted child, without suffering a break in service for pension purposes.

** For Example: If you had worked for five years, you could take a year off to have a baby, and then take an additional five years off. When you



returned, your first five years of work would count toward your vesting and pension benefits.

WOMEN AS WORKERS

VII. The Retirement Equity Act lowers the minimum participation age for private pension plans from age 25 to age 21. It also requires pension plans to count the years of employees' service from the time they turn 18, in calculating when they have worked long enough to be vested.

** For Example: If you begin a job at 18, at 21 you are eligible to join the pension plan and are credited with three years towards vesting. But if you begin work at 18 and leave the company at 20, your two years do not count towards vesting even if you return to the company at a later date.

WHO IS AFFECTED BY THIS ACT?

VIII. The Retirement Equity Act applies to all plans not yet in existence. Beginning after December 31, 1984 the Act will apply to all plans already in existence. Where collective-bargaining agreements are involved the Act takes effect when the last collective-bargaining agreement pertaining to pensions terminates. This Act is not retroactive.

** For Example: If you begin a job the day after the Act is enacted your pension plan must comply with the Act. If you are currently employed, have a pension plan, and are not yet collecting a pension your pension plan will have to comply with the Act beginning January 1, 1985. If your union has a contract with your employer which includes pension benefits, the Act will apply when the portion of the contract affecting pension benefits expires. The Act does not apply if you are already collecting a pension or if your husband waived survivor benefits and has died.

August 1984



Alaska Women:

A N D P E N S I O N S

Background

Until recently, pension laws have failed to consider the needs of working women, the work patterns of most females or marriage as an economic partnership.

According to the Institute of Gerontology at the University of Michigan, 60 percent of workers vested in pension plans have selected options that will provide nothing for a surviving spouse, the net result being that older women reach the end of their resource: long before they reach the end of their lives.

A recent study done at the federal level found that while 50 percent of all male workers were covered by a pension plan, only 31 percent of female workers were covered.

And in 1981, the U.S. Census Bureau estimated that the average private pension received by a man was \$4,152 a year as compared to \$2,427 received by a woman. The Census Bureau also reported:

- 60 percent of the U.S. population over 65 years are women.
- 72 percent of aged poor households consist of single women.
- 85 percent of single persons over 65 years who live below the poverty line are women.

Private Pensions and Spouses

However, on August 9, 1984, Congress adopted amendments to the Employee Retirement Income Security Act (ERISA), ending a ten-year struggle for pension equity for women. The amendments affect all women who work in the private sector. Major provisions include:

- Requiring a spouse's written permission before an employee can waive survivor benefits;
- Payment of benefits to the spouse of a worker fully vested but who dies before reaching retirement age;
- Requiring that employees be allowed to participate in pension plans when they turn 21, lowered from age 25;
- Forbidding pension plans from counting a one-year maternity or paternity leave as a break in service when adding up the years needed to earn a pension;
- Specifying that state courts may divide up pension benefits in divorce proceedings;

- Limiting a company's freedom to change a pension plan so that employees are better protected from losing benefits they have accrued; and
- Allowing companies to give cash in lieu of pension to an employee who leaves before retirement, if the benefit is worth less than \$3,500.

In Alaska

Amendments to ERISA could affect the 62 percent of women who work in the private sector. Since the balance of workers represented by local, state or federal pension plans are not affected by ERISA, those women may still face certain inequities. Although marriage should be recognized as an economic partnership, only 20 percent and 37 percent of those couples enrolled in the Public Employees Retirement System and the Teachers Retirement System respectively, have selected options that will provide benefits for a surviving spouse.

Legislation, supported by the Alaska Women's Commission, has been introduced to update the various public employees retirement systems. The proposed legislation would ensure that state and many municipal employees and their spouses are afforded similar benefits and protections as members of private pension plans receive. This legislation would have its biggest impact on women reaching retirement age.

According to the Older Alaskans Commission, in 1981 there were 3,793 women approaching retirement age. Now state officials believe a trend towards a growing elderly population is developing. The Older Alaskans Commission statistics also show that women tend to outlive their male counterparts. At age 70 and older, women outlive men, 45 percent to 55 percent. It is evident, by the growing older population and the longer life expectancy of women, that pension reform is of great importance. Here are some statistics.

- Women, 60 years and older, comprised 5 percent of the state's population and 34 percent of those people 60 years and older in 1980.
- The proportion of women over age 65 who head households has increased from 34 to 36 percent between 1960 and 1980.
- The median income for women age 65 years or older was \$4,702 in 1980 compared to \$7,741, the median income for men of the same age group.
- Of those women 65 years or older in 1980, approximately 13.4 percent lived in poverty.

Sources:

A New Beginning for Older Alaskans: A Three-Year Statewide Plan, Older Alaskans Commission, July 1983

Alaska Women: A Databook, Alaska Women's Commission, July 1984

"Retirement and Pension Reform Research Report," Barbara Baker, Alaska Women's Commission, August 15, 1984

The President's Commission on Pension Policy, Washington, D.C.

Women's Pension Project, Pension Rights Center, Washington, D.C.

Older Women's League, Washington, D.C.

Alaska Women's Commission

3601 C Street, Suite 742
Anchorage, Alaska 99503
(907) 561-4227

State Legislatures
Feb 1985

Pension inequities plague women who work for states

More women are part of the work force today than at any other time in our nation's history. Yet pension systems affect women not only as workers but also as wives, divorced spouses, and widows. In an effort to equalize some of the inequities and close the "gender gap" in private pension plans, Congress last year passed a pension reform bill.

But discrepancies still exist for state and local employees who are not regulated by federal law. For instance, in the past, women employees sometimes paid higher premiums and received lower monthly benefits than male employees, but two U.S. Supreme Court cases (*Los Angeles vs. Manhart*, 1978; and *Norris vs. State of Arizona*, 1983) struck down these practices.

Another problem concerns the survivor's annuity that is paid to the surviving spouse upon the death of a vested employee. Fewer than 40 percent of married pension participants choose joint and survivor annuity plans. Why? Because their monthly retirement benefits are reduced in order to allow benefits for the surviving spouse, but no one wants to live on reduced benefits. A "pop up" provision, which allows benefits to pop back up to the full amount if the protected spouse dies first, would resolve this problem. In addition, the spouse should be included in the decision to waive survivor's annuities. Requiring written consent of both partici-

pant and spouse to waive these benefits allows both parties to be aware of the options available to them.

Part-time workers are frequently in jobs traditionally lacking high pay, job security, advancement opportunities, and fringe benefits. In particular, most of them lack a pension plan. Women specifically, since they compose 61 percent of non-agricultural, part-time workers, are likely to experience the negative effects of part-time work. Prorating retirement and other fringe benefits would avert the penalties of a reduced workweek.

Women can be affected adversely by vesting requirements and breaks in service. The Bureau of Labor Statistics estimates that women leave and re-enter the work force more often than men. While men average 12.6 years of labor force involvement for every entry, women average only 6.1 years. These figures indicate that women are not likely to vest with a pension system that requires more than eight years to vest. Retirement credit is generally granted for continuous, uninterrupted service with an employer, and a break in service, for maternity leave, for example, prevents a woman from achieving her full entitlement of retirement benefits. An equitable plan would allow for authorized breaks such as illness, maternity leave, paternity leave, or military service.

Portability, which enables workers to transfer pension credits from job to job, is available in several state systems already, particularly for employees with teaching or military experience. Hawaii is one state with a system for all public workers. Social Security, of course, is the only universally portable pension system in the United States. Women, and others who move in and out of the labor force frequently, could benefit by portable pension plans that would protect them in the future.

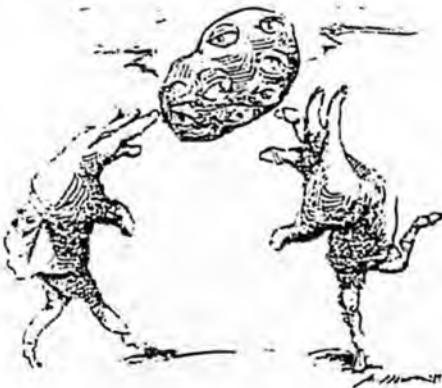
In divorce actions, the state must first recognize pensions as a legitimate property right in order for a divorced spouse to be entitled to a pro rata share of the other spouse's pension. In all states, most divorce settlements are worked out between

the parties without court intervention. State laws are needed, though, for those instances when parties cannot reach agreement and the courts must decide.

In a related issue, the garnishment of pensions for alimony and child support, the courts have been divided — a good reason to have a strong state statute. Some courts, while ruling that pensions are exempt from garnishment by creditors, acknowledge that support of dependents is a somewhat different category from claims by ordinary creditors. Yet the same courts have ruled that legislation prohibiting garnishment by creditors is not arbitrary. Therefore, legislation is needed to address the specific issue of garnishment of pensions for alimony and child support.

Some state systems now coordinate Social Security benefits with the benefits provided by the pension plan so that the worker's total pension does not exceed the pre-retirement income. Because low wage earners receive proportionately higher benefits from Social Security, integrated plans provide proportionately higher benefits for higher earners. Integration can mean all workers retire with about the same percentage of their salaries as retirement income, but it can also mean that pension plan money has been redistributed away from lower paid workers, who are generally women. As pension costs become more of a legislative concern, integration of some type may become more prevalent in public plans.

Finally, the composition of the board of trustees controlling pension plan assets needs to change. Questions of conflict of interest arise when bankers and brokers, whose institutions handle the funds, sit on the boards. It is better to have a representative board that includes members from the sponsoring agency and the taxpayers. — *Mary Jane Galer and Mary E. Stakes*



Steven Gold is a senior fellow in NCSL's Fiscal Affairs Program; Jane Carroll is an assistant editor of *State Legislatures*; Mary Jane Galer, a Georgia state representative, and Mary E. Stakes, legislative research associate at the University of Georgia, are co-authors of a recently published study of women and state pensions. It explores in greater detail the issues outlined in this article.



STATE OF ALASKA

OFFICE OF THE GOVERNOR

ALASKA WOMEN'S COMMISSION
3601 C STREET - SUITE 742
ANCHORAGE, ALASKA 99503

Handwritten initials

Background

Retirement age represents a time of economic uncertainty for most women whether they have worked outside the home or have spent most of their lives as homemakers. At age 65 most people experience a reduction in their income by 44 percent. As a group, older women's incomes are yet smaller since most exist only on Social Security benefits. Older women have the highest incidence of poverty in the state as well as in the nation. The median annual income for older women in Alaska is \$4,700 which is about one-half that for older Alaskan men.

Today more women work outside the home than ever before. In Alaska, 60 percent of all women aged sixteen and older are in the labor force. Sixty-two percent of those women work in the private sector with most of the remaining working in federal, state or local governments. Yet, according to a national survey covering private industry employment in 1979, only 31 percent of all women workers (including part-time workers) were covered by private retirement plans. (Alaskan data are not currently available.) Public sector employment covered by the Alaska Public Employee's Retirement System (PERS/TRS) provides coverage for all permanent employees of the state, participating local governments and the legislature. The system includes approximately 80-85 percent of the employment in state and local governments. The balance of local government employment is covered by private retirement plans if any are offered to an employee. Federal workers are covered by their own plan through the federal government. However, no data are currently available on federal retirement programs and participant characteristics for Alaska.

The number of employers offering retirement programs has continued to grow. However, coverage and vestment of women in these programs have not kept pace with men. Many factors contribute to the situation. Women are clustered in industries that are low paying and that offer few benefit programs for their employees. In Alaska, over 62 percent of working women are concentrated in low paying jobs such as clerical, sales and service. Women are also more likely to work part-time or on a temporary basis than men. Sixty-two percent of all part-time

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work performed in Alaska is done by women and since most women bear children during their working years they often experience a break in service. Private and public retirement plans reward long term, steady employment and generally do not consider the working patterns of women. Many private plans require ten years of service before vestment. In some cases an employee who returns after a break in service may lose credit for pre-break service. Nationally, men have spent an average of 5.1 years with the current employer while women had spent only 3.3 years. Less than half of the nation's women currently working in the private sector have gained "vested coverage" and will therefore be eligible for benefits at retirement age. The PERS/TRS plan vests at five years, however, retirement benefit credits stop during that period an employee exceeds 10 days of leave without pay even for reasons such as pregnancy, paternity or adoption of a child.

Marriage is recognized as an economic partnership and the pension of the working partner is often the most valuable asset of a marriage. Yet, spouses who are homemakers or who have worked outside the home but never vested are not always entitled to an equitable share of retirement income based on their partner's careers. Survivor benefits are not automatic in either private or public retirement systems. A joint and survivor option must be selected in order for the spouse to be covered. According to a national survey, over 60 percent of all married private plan participants who retired in 1978 did not elect a joint and survivor option. In the PERS and TRS system only 20% and 37% respectively choose joint and survivor options. Since there is no requirement to inform a spouse of the retirement option chosen by the plan participant, many spouses are left financially unprepared to face their retirement years. Nationally, only 10 percent of women aged 65 and older received income from private pensions or annuities in 1980.

Retirement and pension benefits are not always included in divorce property settlements although it may be the most valuable asset attained during a marriage. Recognizing that marriage is an economic partnership, pension credits accrued during a marriage should be considered as joint property. Alaska statutes contain no specific criteria for property settlements other than the requirement that they be "just and necessary." [AS 25.24.160(3)] However, retirement benefits controlled under PERS/TRS specifically exempt benefits from any type of attachment.

Changes in Federal Retirement and Pension Laws

On August 9, 1984 Congress passed amendments (H.R. 4280) to the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code of 1954. The purpose of the amendments is to improve the delivery of retirement benefits and provide for greater equity under private pension plans for workers and their spouses and dependents. The amendments took into account changes in work patterns, the status of marriage as an economic partnership, and the substantial contribution to that partnership of spouses who work both in and outside the home. Although the amendments are not as complete as the original package

Page Three

first sent to the House of Representatives, its impact can potentially directly affect 62 percent of the women who work in Alaska (private sector employment) and indirectly affect almost all other working women and spouses of workers.

The amendments detail seven significant areas of change in the law:

1. period of employee service taken into account under pension, profit sharing, and stock bonus plans
2. survivor benefit requirements
3. assignment or alienation of benefits in divorce, etc., proceedings
4. cash out of certain accrued benefits
5. notice of forfeitability of benefits
6. notice of rollover
7. reduction of accrued benefits

Only three areas of change in the ERISA law are of importance to this report since the Public Employees Retirement System incorporates many of these changes in their current plan. Employee service taken into account under pensions was modified to reduce from 25 to 21 the maximum age a plan can require an employee to obtain as a condition of becoming a participant in the plan. Additionally, the plan is not permitted to ignore service after age 18 for purposes of determining the vested portion of a participant's benefit. The bill also changes the break in service rules from one year to five years before an employer can disallow services performed previous to the break in service. Maternity and paternity leave are also addressed. Under the bill up to 501 hours of absence is allowed on account of pregnancy, birth, adoption, or certain child care without it being considered a break in service.

Under survivor benefit requirements, pension plans are required to provide automatic survivor benefits and preretirement survivor benefits. A participant is given the right to waive survivor benefits only if consent is given in writing and is signed by the participant and the participant's spouse. Additionally, the bill established that a spouse who had been married for one year or more qualified under joint and survivor benefits.

The third most significant area of change in ERISA is the ability to assign retirement benefits to satisfy marital property rights, child support or alimony payments pursuant to a State domestic relations law. The bill clarifies that such order does not result in prohibited assignment under the spendthrift provisions of the Code or ERISA.

Significance of Federal Statutory Changes to Alaska

Acknowledgment by Congress of the need to provide greater equity under pension plans for workers, their spouses and dependents signals the need to review and improve State statutes affecting pensions. While ERISA covers all private retirement and pension plans, state and local governments are not covered unless they purchase private plans. In Alaska, the PERS/TRS system covers the majority of state and local government employment and is regulated by law.

The PERS/TRS system has served as a model retirement plan. However with passage of amendments to ERISA, participants of the PERS/TRS plan do not share the same privileges and rights afforded under private sector pension plans. Inequities exist in three areas:

1. Treatment of pregnancy, birth, adoption or certain child care under break in service rules.
Current state law: If a participant exceeds 10 working days in a calendar year of leave without pay no credited service will be granted for the total time spent on leave without pay.
ERISA amendment: Up to 501 hours of absence is allowed on account of pregnancy, birth, adoption, or certain child care without it being considered a break in service.
Proposed change to state statute: AS 39.35.330 Leave of absence
Add section on exceptions to credited service that would treat a leave of absence not to exceed 501 hours due to pregnancy, birth, adoption or certain child care as credited service whether the absence was in payed or unpaid status. Such a leave of absence should not be applied to the 10 day rule of leave without pay. (The State's current policy for maternity leave is nine weeks. ERISA covers leave up to 501 hours or 13.36 weeks at 37.5 hours per week.)
2. Spousal consent of waiver to survivor option.
Current state law: A participant is not required to select a joint and survivor option nor is the participant required to inform the spouse that no survivor option was selected.
ERISA amendment: Survivor benefits are automatic unless both the participant and the spouse consent in writing to waive it.
Proposed changes to state statutes: AS 39.35.450 Joint and survivor option and AS 39.35.490.
Reword sections to indicate that survivor benefits are automatic unless both the participant and spouse consent in writing to waive it.
3. Assignment of retirement benefits to satisfy marital property rights, child support or alimony.
Current state law: Alaska statutes contain no specific criteria for property settlements other than the requirement that they be "just and necessary." However, Alaska statutes do prohibit the assignment or alienation of benefits from the PERS/TRS system.

ERISA amendment: Enables retirement benefits to be assigned to satisfy marital property rights, child support or alimony payments pursuant to a State domestic relations law.

Proposed changes to state statutes: AS 39.35.500 Safeguard of employee funds held by the system and AS 25.24.160.

Under AS 39.35.500, add that the assignment of retirement benefits to satisfy marital property rights, child support or alimony payment does not result in prohibited assignment under the terms of the system.

AS 25.24.160 should specify that pension and retirement benefits accrued during a marriage constitute marital property.

Effective Dates for Proposed Changes

The amendments to ERISA generally are effective for plan years beginning after December 31, 1984. In the case of a plan maintained pursuant to one or more collective bargaining agreements ratified before August, 1984 between employee representatives and one or more employers, the provisions are not effective for plan years until the bargaining agreement terminates or January 1, 1987, whichever is earlier. To reduce the impact to public employees, the State of Alaska should revise its statutes in a timely manner as to conform with these federal time lines.

ANALYSIS OF HB 237
"An act relating to pension reform."
March 1985

I. Sections 1-16 relate to changes in the Teachers' Retirement System.

Sections 1-3 amend the eligibility requirements for normal and early retirement of the TRS system to stipulate that members must designate their spouse* (which could include former spouses) the contingent beneficiary and select a joint and survivor benefit plan. The member must chose among three options that currently exist in the retirement plan.

Exceptions to these requirements are:

1. if the spouse has signed a consent form waiving the right as the contingent beneficiary;
2. if the spouse was not married to the member during any period of the member's employment covered by the retirement system;
3. if there is no spouse or that the spouse cannot be located or other circumstances described by the administrator by regulation

*Under sections 1-3, "spouse" means the person to whom the member is married at the time of appointment to retirement except to the extent that a qualified domestic relations order, orders otherwise.

Section 5 amends vested members' right to refund upon termination by requiring vested members to obtain their spouse's* (which could include former spouses) consent to the refund, in writing.

Exceptions to this requirement are:

1. the member is not vested;
2. the spouse was not married to the member during any period of the member's employment;
3. there is no spouse;
4. consent cannot be obtained because the spouse cannot be located.

*Under this section "spouse" means the person to whom the member is married at the time of application for the refund, except to the extent that a qualified domestic relations order, orders otherwise.

Sections 6 and 7 amend the designation of beneficiary for non-occupational and occupational death benefits by clarifying the definition of spouse* to include former spouses to the extent that a qualified domestic relations order so orders.

*Under these sections "spouse" means the person to whom the member was married during the member's employment and is married to at the time of the member's death, except to the extent that a qualified domestic relations order, orders otherwise.

Sections 8-10 amend the designation of beneficiary for death benefits from the member's designated choice to the member's spouse if the member is married, becomes married or remarries. Revocation of the designation of the member's spouse can only be accomplished by the spouse signing a consent form waiving the right as beneficiary.

The definition of spouse is clarified to mean the person to whom the member was married during the member's employment and is married to at the time of the member's death, except to the extent that a qualified domestic relations order, orders otherwise. A qualified domestic relations order can establish a former spouse as the designated beneficiary.

Procedures for the claiming of spousal entitlement to death benefits is outlined. A ten day time period, following the member's death, is established for all entitlement claims to be filed with the administrator. If a claim is not received within the ten day period, the person claiming entitlement is not entitled to receive any benefit already paid by the administrator.

Sections 11-13 amend the joint and survivor option of retirement plans by changing the designation of contingent beneficiary to require that a member's spouse (which could include former spouses) must be the contingent beneficiary. The member, however, maintains the choice of which joint and survivor option plan to select. The member must choose among three options currently existing in the retirement plan.

Exceptions to this requirement are:

1. if the spouse signs a consent form waiving the right as contingent beneficiary;
2. if the spouse was not married to the member during any period of the members employment covered by this retirement plan;

3. if there is no spouse or that the spouse cannot be located or other circumstances described by the administrator.

In the case where there is 'no spouse', a member may designate a dependent as a contingent beneficiary or may take normal or early retirement.

Spouse is defined as the person to whom the member is married at the time of appointment to retirement, except to the extent that a qualified domestic relations order, orders otherwise. A qualified domestic relations order can establish a former spouse as the contingent beneficiary.

Procedures for claiming to be a contingent beneficiary is outlined. A 60 day time period, following a member's application for retirement, is established for filing of all claims as contingent beneficiary. No claim, following the 60 day period, may be paid if the payment would result in an increase in the actuarial cost to the retirement system.

Sections 14-15 amend the TRS exemption status from assignments to provide for assignments resulting from qualified domestic relations orders.

Section 16 defines a domestic relations order. Which means a divorce or dissolution judgement, including an order approving a property settlement, provision of child support and spousal support. It also defines surviving spouse as the spouse of a member at the time of a member's death except to the extent that a qualified domestic relations order, orders otherwise.

II. Sections 17 and 18 relate to changes in the Judicial Retirement System.

Section 17 amends survivor benefits by reducing the requirement from two years to one year that a spouse be married prior to the death of the justice or judge in order to be eligible for survivor benefits. This change conforms to PERS definition and ERISA's requirements for eligibility of survivor benefits.

It also allows former spouses who were married for at least one year and who have not remarried to share in survivors' benefits to the extent provided in a qualified domestic relations order.

Section 18 defines a qualified domestic relations order. The definition is the same as described in Section 16 under the TRS plan.

III. Sections 19 and 20 relate to changes in the Marital and Domestic Relations statute. The amendments require that if a divorce or dissolution judgement distributes benefits from PERS, TRS, NGRS to an alternate payee (former spouse), the judgement must be a qualified domestic relations order.

IV. Sections 21-23 relate to changes in the Alaska National Guard Retirement System.

Sections 21 and 22 amend retirement benefits for vested members by changing the designation of beneficiary for death benefits from the vested member's designated choice to the member's spouse if the member is married, becomes married or remarries while employed under this retirement plan. It also allows former spouses who were married to the member while employed under this retirement plan to share in survivors' benefits to the extent provided in a qualified domestic relations order.

Requirements and procedures for revocation of consent of the spouse, proof of a claim to entitlement and a 10 day notification of claim period are the same as for the death benefits under TRS (referred to in Sections 8-10).

Section 23 defines a qualified domestic relations order. It is identical to all other references in TRS, JRS (Sections 16 and 18).

V. Sections 24-39 relate to changes in the Public Employees' Retirement System.

Section 24 amends a vested member's right to refund upon termination by requiring vested members to obtain their spouse's consent to the refund in writing. Definition of spouse and exceptions to this requirement are the same as in TRS (Section 5).

Sections 26-29 amend the eligibility requirements for normal and early retirement under PERS to stipulate that members must designate their spouses as the contingent beneficiary and select a joint and survivor benefit plan. The member must choose among three options which currently exist in the retirement plan. The exceptions to this requirement and definition of spouse are the same as in TRS (Sections 1-3).

Sections 30-32 amend the designation of beneficiary for non-occupational and occupational death benefits by clarifying the definition of spouse which could include former spouses to the extent that a qualified domestic relations order so orders. The change in definition of spouse is the same as in TRS (Sections 6-7).

Sections 33-35 amend the joint and survivor option of retirement plan by changing the designation of contingent beneficiary to require that a member's spouse (which could include former spouses) must be the contingent beneficiary. The member, however, maintains the choice of which joint and survivor option plan to select. The member must choose among three options that currently exist in the retirement plan. Revocation of this requirement, spousal waiver, right to designate a dependent as beneficiary or take normal retirement, definition of spouse, procedures for spousal claim to right of contingent beneficiary and time period allotted for claim is the same as in TRS (Sections 11-13).

Section 36 amends the designation of beneficiary for death benefits from the member's designated choice to the member's spouse if the member is married, becomes married or remarries. Revocation of designation, spousal waiver of the right to beneficiary, the definition of spouse, procedures for spousal claim to right of beneficiary and time period allotted for claim is the same as in TRS (Sections 8-10).

Section 37 amends the PERS exemption status from assignments to provide for assignments resulting from qualified domestic relations orders. This is the same in TRS (Sections 14-15).

Section 38 amends the definition of surviving spouse in the PERS plan to include former spouses to the extent that a qualified domestic relations order, orders.

Section 39 defines a domestic relations order. This is the same definition used in TRS, JRS, NGRS (Sections 16, 18, 23).

Section 40 charges the Department of Administration with the duty to notify members of the state's retirement plans of the changes previously outlined within 90 days following enactment of the legislation. Notification will be provided through the division of retirement's newsletter and publication in newspapers in each judicial district of the state. They will also provide all necessary forms to implement the Act.

Sections 41-42 set out the effective dates of the Act. Notification of the changes to the state's retirement plans will take effect immediately. Sections 1-39 take effect January 1, 1986.

BILL HISTORY

HB 237

HOUSE CALENDAR:

BILL HB0237
 PAGE 00436
 DATE 02/25/85
 CHAMBER HOUSE
 TEXT HOUSE BILL NO. 237 by the Rules Committee by request of the Governor, entitled:

"An Act relating to pension reform; and providing for an effective date."

was read the first time and referred to the State Affairs, Judiciary and Finance Committees.

A fiscal note was attached and appears in House Journal Supplement No. 22.

The Governor's transmittal letter dated February 25, 1985 appears below:

"Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to pension reform. This bill amends statutes pertaining to the state's retirement systems to include provisions similar to those enacted by the U.S. Congress in the Retirement Equity Act of 1984 (P.L. 98-397).

The bill amends a number of sections of the public employees' retirement system and teachers' retirement system statutes to require consent of an employee's spouse before the employee may waive a joint and survivor benefit, obtain a refund of contributions if the employee has a vested interest in benefits, or revoke a designation of the spouse as the employee's beneficiary for various death benefits. Consent of the spouse is also required by this bill for revocation of a designation of the spouse as beneficiary for death benefits under AS 26.05.224. Until consent is obtained, the joint and survivor benefit and designation of the spouse as beneficiary are required. The judicial retirement system statute is amended to allow the spouse of a justice or judge to receive survivors' benefits if the spouse was married to the justice or judge for one year before death, instead of the current two years.

The bill allows former spouses to share in survivor's benefits, to the extent provided in a "qualified domestic relations order," as defined in secs. 16, 18, 23, and 39 of the bill.

Prohibitions against assignment of retirement benefits are removed with respect to assignments of those benefits made to satisfy marital property rights, spousal support, and child support under a qualified domestic relations order.

The commissioner of administration is required to inform retirement system participants and their spouses of the changes accomplished by this bill, and effective dates are established to assure an orderly transition to the provisions of this pension reform bill.

This bill recognizes, as does the federal Retirement Equity Act of 1984, that rights to benefits accrued during a marriage are property rights in which both partners to the marriage have an interest. The bill has been drafted to require the joint and survivor option, and spousal consent for revocation of designation of the spouse as beneficiary for benefits, only if the spouse was married to the employee during a period when rights to those benefits were being accrued.

I note that the state's Supplemental Benefits System (SBS) plan has already been amended to comply with the Retirement Equity Act requirements that the plan require a joint and survivor benefit unless the spouse waives that form of benefit, and that the plan require payment of a preretirement survivor benefit to the spouse unless the spouse waives that form of benefit. These amendments to the SBS were necessary to maintain the plan's tax-deferred status under the Internal Revenue Code.

Sincerely,
/s/
Bill Sheffield,
Governor"

HB0237
00600
03/15/85
HOUSE

The State Affairs Committee has considered HOUSE BILL NO. 237 (relating to pension reform; effective date) and reports it back as follows: Hurley (Chairman), Navarre, M.M. Miller, Collins and Boucher recommend do pass; Jenkins has no recommendation.

HB 237 was referred to the Judiciary Committee.

HB0237
00885
04/11/85
HOUSE

The Judiciary Committee has considered HOUSE BILL NO. 237 (relating to pension reform; effective date) and reports it back as follows: M.M. Miller (Chairman), Sund, Gruenberg and Clocksin recommend do pass; Taylor, Pettyjohn and Phillips have no recommendation.

HB 237 was referred to the Finance Committee.

HB0237
01053
04/24/85
HOUSE

The Finance Committee has considered HOUSE BILL NO. 237 (pension reform; effective date) and reports it back as follows: Adams (Chairman), Ringstad, Szymanski, Duncan, Larson, Pourchot, Uehling, Rieger, Frank, Binkley and Cotten recommend do pass.

A zero fiscal note was attached.

HB 237 was referred to the Rules Committee for placement on the calendar.

Pension Reform

HOUSE BILL NO. 237, by the Rules Committee by Request of the Governor. Relates to pension reform (see letter from Governor).

Introduced February 25 and referred to State Affairs, Judiciary, Finance.

In his message transmitting the bill, Governor Sheffield stated:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to pension reform. This bill amends statutes pertaining to the state's retirement systems to include provisions similar to those enacted by the U.S. Congress in the Retirement Equity Act of 1984 (P.L. 98-197).

The bill amends a number of sections of the public employees' retirement system and teachers' retirement system statutes to require consent of an employee's spouse before the employee may waive a joint and survivor benefit, obtain a refund of contributions if the employee has a vested interest in benefits, or revoke a designation of the spouse as the employee's beneficiary for various death benefits. Consent of the spouse is also required by this bill for revocation of a designation of the spouse as beneficiary for death benefits under AS 26.05.224. Until consent is obtained, the joint and survivor benefit and designation of the spouse as beneficiary are required. The judicial retirement system statute is amended to allow the spouse of a justice or judge to receive survivors' benefits if the spouse was married to the justice or judge for one year before death, instead of the current two years.

The bill allows former spouses to share in survivor's benefits, to the extent provided in a "qualified domestic relations order," as defined in secs. 16, 18, 23, and 39 of the bill.

Prohibitions against assignment of retirement benefits are removed with respect to assignments of those benefits made to satisfy marital property rights, spousal support, and child support under a qualified domestic relations order.

The commissioner of administration is required to inform retirement system participants and their spouses of the changes accomplished by this bill, and effective dates are established to assure an orderly transition to the provisions of this pension reform bill.

This bill recognizes, as does the federal Retirement Equity Act of 1984, that rights to benefits accrued during a marriage are property rights in which both partners to the marriage have an interest. The bill has been drafted to require the joint and survivor option, and spousal consent for revocation of designation of the spouse as beneficiary for benefits, only if the spouse was married to the employee during a period when rights to those benefits were being accrued.

I note that the state's Supplemental Benefits System (SBS) plan has already been amended to comply with the Retirement Equity Act requirements that the plan require a joint and survivor benefit unless the spouse waives that form of benefit, and that the plan require payment of a preretirement survivor benefit to the spouse unless the spouse waives that form of benefit. These amendments to the SBS were necessary to maintain the plan's tax-deferred status under the Internal Revenue Code.

HOUSE BILL NO.-237, (see page 363). Reported back to the House March 15 by State Affairs recommending it do pass. Concurring: Hurley (Chair), Navarre, M. M. Miller, Collins and Boucher. Not concurring: Jenkins has no recommendation. To Judiciary.

HOUSE BILL NO. 237, (see pages 363;461). Reported back to the House April 11 by Judiciary recommending as follows: M. M. Miller (Chair), Sund, Gruenberg and Clocksin recommend do pass. Taylor, Pettyjohn and Phillips have no recommendation. To Finance.



Alaska Women:

A N D P E N S I O N S

Background

Until recently, pension laws have failed to consider the needs of working women, the work patterns of most females or marriage as an economic partnership.

According to the Institute of Gerontology at the University of Michigan, 60 percent of workers vested in pension plans have selected options that will provide nothing for a surviving spouse, the net result being that older women reach the end of their resources long before they reach the end of their lives.

A recent study done at the federal level found that while 50 percent of all male workers were covered by a pension plan, only 31 percent of female workers were covered.

And in 1981, the U.S. Census Bureau estimated that the average private pension received by a man was \$4,152 a year as compared to \$2,427 received by a woman. The Census Bureau also reported:

- 60 percent of the U.S. population over 65 years are women.
- 72 percent of aged poor households consist of single women.
- 85 percent of single persons over 65 years who live below the poverty line are women.

Private Pensions and Spouses

* However, on August 9, 1984, Congress adopted amendments to the Employee Retirement Income Security Act (ERISA), ending a ten-year struggle for pension equity for women. The amendments affect all women who work in the private sector. Major provisions include:

- Requiring a spouse's written permission before an employee can waive survivor benefits;
- Payment of benefits to the spouse of a worker fully vested but who dies before reaching retirement age;
- Requiring that employees be allowed to participate in pension plans when they turn 21, lowered from age 25;
- Forbidding pension plans from counting a one-year maternity or paternity leave as a break in service when adding up the years needed to earn a pension;
- Specifying that state courts may divide up pension benefits in divorce proceedings;

- Limiting a company's freedom to change a pension plan so that employees are better protected from losing benefits they have accrued; and
- Allowing companies to give cash in lieu of pension to an employee who leaves before retirement, if the benefit is worth less than \$3,500.

In Alaska

Amendments to ERISA could affect the 62 percent of women who work in the private sector. Since the balance of workers represented by local, state or federal pension plans are not affected by ERISA, those women may still face certain inequities. Although marriage should be recognized as an economic partnership, only 20 percent and 37 percent of those couples enrolled in the Public Employees Retirement System and the Teachers Retirement System respectively, have selected options that will provide benefits for a surviving spouse.

Legislation, supported by the Alaska Women's Commission, has been introduced to update the various public employees retirement systems. The proposed legislation would ensure that state and many municipal employees and their spouses are afforded similar benefits and protections as members of private pension plans receive. This legislation would have its biggest impact on women reaching retirement age.

According to the Older Alaskans Commission, in 1981 there were 3,793 women approaching retirement age. Now state officials believe a trend towards a growing elderly population is developing. The Older Alaskans Commission statistics also show that women tend to outlive their male counterparts. At age 70 and older, women outlive men, 45 percent to 55 percent. It is evident, by the growing older population and the longer life expectancy of women, that pension reform is of great importance. Here are some statistics.

- Women, 60 years and older, comprised 5 percent of the state's population and 34 percent of those people 60 years and older in 1980.
- The proportion of women over age 65 who head households has increased from 34 to 36 percent between 1960 and 1980.
- The median income for women age 65 years or older was \$4,702 in 1980 compared to \$7,741, the median income for men of the same age group.
- Of those women 65 years or older in 1980, approximately 13.4 percent lived in poverty.

Sources:

A New Beginning for Older Alaskans: A Three-Year Statewide Plan, Older Alaskans Commission, July 1983

Alaska Women: A Databook, Alaska Women's Commission, July 1984

"Retirement and Pension Reform Research Report," Barbara Baker, Alaska Women's Commission, August 15, 1984

The President's Commission on Pension Policy, Washington, D.C.

Women's Pension Project, Pension Rights Center, Washington, D.C.

Older Women's League, Washington, D.C.

Alaska Women's Commission

3601 C Street, Suite 742
Anchorage, Alaska 99503
(907) 561-4227



STATE OF ALASKA
OFFICE OF THE GOVERNOR
ALASKA WOMEN'S COMMISSION
3601 C STREET - SUITE 742
ANCHORAGE, ALASKA 99503

RETIREMENT AND PENSION REFORM RESEARCH REPORT

(revised) March 1985

Background

Retirement age represents a time of economic uncertainty for most women whether they have worked outside the home or have spent most of their lives as homemakers. At age 65 most people experience a reduction in their income by 44 percent. As a group, older women's incomes are yet smaller since most exist only on Social Security benefits. Older women have the highest incidence of poverty in the state as well as in the nation. The median annual income for older women in Alaska is \$4,700 which is about one-half that for older Alaskan men.

Today more women work outside the home than ever before. In Alaska, 60 percent of all women aged sixteen and older are in the labor force. Sixty-two percent of those women work in the private sector with most of the remaining working in federal, state or local governments. Yet, according to a national survey covering private industry employment in 1979, only 31 percent of all women workers (including part-time workers) were covered by private retirement plans. (Alaskan data are not currently available.) Public sector employment covered by the state of Alaska's retirement plans (PERS, TRS, JRS, NGRS) provides coverage for all permanent employees of the state, participating local governments and the legislature. These systems include approximately 80 to 85 percent of the employment in state and local governments. The balance of local government employment is covered by private retirement plans if any is offered to an employee. Federal workers are covered by their own plan through the federal government. However, no data are currently available on federal retirement programs and participant characteristics for Alaska.

The number of employers offering retirement programs has continued to grow. However, coverage and vestment of women in these programs have not kept pace with men. Many factors contribute to the situation. Women are clustered in industries that are low paying and that offer few benefit programs for their employees. In Alaska, over 62 percent of working women are concentrated in low paying jobs such as clerical, sales and service. Women are also more likely to work part-time or on a temporary basis than men, consequently making vestment difficult to obtain. Sixty-two percent of all part-time work performed in Alaska is done by women.

Private and public retirement plans reward long term, steady employment and generally do not consider the working patterns of women. While women carry the responsibility of child bearing, they are often penalized by retirement plans when they take a leave of absence or break their service in order to provide necessary care for their families. For example, the state of Alaska allows nine weeks leave without pay for purposes of pregnancy or adoption. However, retirement credit stops after an employee exceeds 10 days of leave without pay, thus penalizing an employee who takes the necessary leave.

Rules guiding vestment in retirement plans have also limited many women's abilities to qualify for retirement benefits. In some cases, an employee who returns to work after a break in service may lose retirement credit for pre-break service. This is not a problem in the state's retirement plans, however. No service is lost unless an employee "cashes out" the benefit upon termination and does not repay it when the employee returns to work for the state.

The term of employment required in order to be eligible for vestment is often times extraordinarily long. National statistics indicate that men spend an average of 5.1 years with the current employer while women had spent only 3.3 years. Yet many private plans require 10 years of service before vestment and the state of Alaska's retirement plans require a minimum of 5 years.

Marriage is an economic partnership and the pension of the working partner is often one of the most valuable assets of a marriage. Yet, spouses who are homemakers or who have worked outside the home but never vested are not always entitled to an equitable share of retirement income based on their partner's careers. Survivor benefits are not automatic in either private or public retirement systems. A joint and survivor option must be selected in order for the spouse to be covered. According to a national survey, over 60 percent of all married private plan participants who retired in 1978 did not elect a joint and survivor option. In the state's retirement plans, PERS and TRS, only 20% and 37% respectively choose joint and survivor options. Since there is no requirement to inform a spouse of the retirement option chosen by the plan participant, many spouses are left unknowingly financially unprepared to face their retirement years. Nationally, only 10 percent of women aged 65 and older received income from private pensions or annuities in 1980.

Retirement and pension benefits are not always considered or included in the determination of marital assets during a divorce or dissolution action, although it may be the most valuable asset attained during a marriage. Recognizing that marriage is an economic partnership, pension benefits accrued during a marriage should be considered as joint property. Alaska statutes, however, contain no specific criteria for property settlements other than the requirement that they be "just and necessary."

Private pension plans and the state's retirement plans, PERS and TRS, have been protected by law from any type of assignment including the satisfying of marital property rights, spousal support and child support. Consequently, when marital property is divided during divorce, the courts can do nothing more than establish a value to retirement benefits and adjust for its value from others assets if they exist.

Changes in Federal Retirement and Pension Laws

On August 9, 1984 Congress passed amendments (H.R. 4280) to the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code of 1954. Known as the Retirement Equity Act of 1984, the purpose of the amendments is to improve the delivery of retirement benefits and provide for greater equity under private pension plans for workers and their spouses and dependents. The amendments took into account changes in work patterns, the status of marriage as an economic partnership, and the substantial contribution to that partnership of spouses who work both in and outside the home. Although the amendments are not as complete as the original package first sent to the House of Representatives, its impact can potentially affect 62 percent of the women who work in Alaska (private sector employment) and serve as a model to the state in examining its own retirement laws.

The Retirement Equity Act detailed seven significant areas of change to the federal law which affects private pensions. However, only two of these areas are of importance to the report since the state's retirement plans incorporate many of these changes in their current plan.

1. The Act requires pension plans to provide automatic survivor benefits and pre-retirement survivor benefits. A participant is given the right to waive survivor benefits only if consent is given in writing and is signed by the participant and the participant's spouse. Additionally, the bill established that a spouse who had been married for one year or more qualified under joint and survivor benefits.
2. The Act permits assignment of retirement benefits to satisfy marital property rights, child support or alimony payments pursuant to a state domestic relations law. The bill clarifies that such an order does not result in prohibited assignment under the spendthrift provisions of the Code or ERISA.

Proposed Changes to Alaska's Retirement Law

Acknowledgement by Congress of the need to provide greater equity under pension plans for workers, their spouses and dependents signals the need to review and improve State statutes affecting pensions. While the Retirement Equity Act covers all private retirement and pension

plans, state and local governments are not covered unless they purchase private plans. In Alaska, the state's retirement plans cover the majority of state and local government employment. These plans are considered to be very fair to the employee, however, with the passage of the Retirement Equity Act participants of the state's plans do not share the same protections and rights afforded under private sector pension plans. Inequities exist in two areas:

1. Joint and survivor benefits.

Current state law does not require a married participant to select survivor benefits nor is the participant required to inform the spouse that survivor benefits were selected.

Proposed change - Amend all appropriate sections in TRS, JRS, PERS to indicate that survivor benefits for spouses are automatic unless both the participant and spouse consent in writing to waive it.

2. Assignment of retirement benefits in domestic relations cases.

Current state law protects the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS) from assignment for any purpose including the satisfying of marital property rights, child support or spousal support.

Proposed change - Amend sections of PERS and TRS to remove the prohibition of assignment only for the purposes of satisfying marital property rights, child support or spousal support.

A third shortcoming in the state's retirement plans relate to the loss of retirement credit due to pregnancy or adoption. Although this was not addressed in the final version of the Retirement Equity Act, the discriminatory situation created by the state's current leave without pay policy is obvious. While the state recognizes and supports the working parent by funding child care programs and providing up to nine weeks of leave without pay for the purposes of pregnancy or adoption, it penalizes any employee who takes over ten days of leave without pay by stopping the accrual of retirement credit. Working women are the primary group affected by this. They must choose between taking the necessary time off to care for their families and lose valuable retirement credit or risk neglect of their families in order to insure no loss to their retirement benefits.

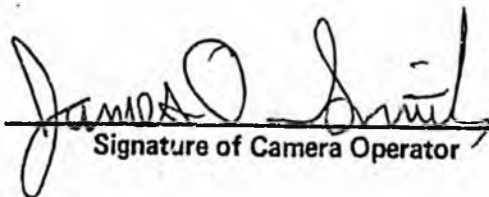
Proposed change - Amend the leave without pay policies to allow an employee to purchase back up to nine weeks of retirement credit when the absence is due to pregnancy, birth, adoption or certain child care responsibilities.

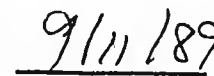


RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

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2 3 8

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the state's retirement systems. This bill amends statutes pertaining to the teachers', judicial, and public employees' retirement systems to allow credit for service for certain approved leave without pay.

The bill allows for credited service to be obtained for up to nine weeks of approved leave of absence without pay taken in connection with pregnancy, birth, or adoption of a child, and care of a child immediately after the birth or adoption of the child. Once an employee returns to work after such a leave of absence, the employee may obtain credited service by paying the full actuarial cost of providing benefits for the service claimed. Any unpaid indebtedness for the service claimed at the time of retirement will result in an actuarial reduction in benefits.

The bill requires the commissioner of administration to inform retirement system participants of the changes accomplished by this bill.

Sincerely,

A handwritten signature in cursive script that reads "Bill Sheffield".

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Page 1 of 2
REQUEST
 Bill/Resolution No.: HB 238
 Title: "An Act Relating to
Credited Service..."
 Sponsor: _____
 Requestor: _____
 Date of Request: _____

Revision Date: _____
 Page 1 of 2
FISCAL DETAIL
 Agency Affected: All State Agencies
 Program Category Affected: Elementary &
Secondary Education, Labor Services
 BRU, Program or Subprogram(s) Affected:
PERS, JRS & TRS

EXPENDITURES/REVENUES: (Thousands of Dollars)

Operating	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 Personal Svcs						
100 Rtmnt & Bnfts		44.8	48.4	52.3	56.3	60.9
200 Travel						
300 Contractual						
400 Supplies						
500 Equipment						
600 Land & Struct						
700 Grants, Claims						
700 TRS Match		23.3	25.2	27.2	29.4	31.7
TOTAL OPERATING	-0-	68.1	73.5	79.4	85.8	92.6

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		64.2	69.3	74.9	80.9	87.3
FEDERAL FUNDS		1.9	2.1	2.2	2.4	2.6
OTHER		2.0	2.2	2.3	2.5	2.7
TOTAL	-0-	68.1	73.5	79.4	85.8	92.6

POSITIONS: -0- -0- -0- -0- -0- -0-

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

J.K. Humphreys

Prepared By: J.K. Humphreys, Director Phone: 465-4470
 Division: Retirement & Benefits Date: 2/21/85

Approved by Commissioner: Lisa Rudd *A. Sullivan* Date: 2-22-85
 Agency: Department of Administration *for*

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

HB 238 · Maternity Credit Bill
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration

February 21, 1985

IV Analysis:

Passage of this bill will allow members of the Public Employees (PERS), Judicial (JRS) and Teachers' (TRS) Retirement Systems to claim and purchase service for periods of authorized Leave Without Pay which resulted from pregnancy, birth of a member's child, adoption or care of the child immediately following birth. The bill also establishes a nine week limit on the amount of Leave Without Pay which may be claimed.

To fund this bill, the state PERS contribution rate would be increased by .0075% in FY 86. The state PERS payroll is estimated to be \$544,046,592 in FY 86 and to increase by 8% each year thereafter.

The state TRS contribution rate must be increased by .0056% for FY 86. The state TRS payroll is estimated to be \$71,490,744 in FY 86 and to increase by 8% each year thereafter. The TRS State Match contribution would increase by .0056% in FY 86. The TRS State Match salary is estimated to be \$416,297,654 for FY 86 and to increase by 8% each year thereafter.

The State FY 86 cost of \$68.1 is calculated as follows:

The increase in State PERS contribution rate (.0075%) times the estimated FY 86 State PERS salary (\$544,046,592.00) equals;
\$40,800.00

The increase in State TRS contribution rate (.0056%) times the estimated FY 86 State TRS salary (\$71,490,744.00) equals;
\$ 4,000.00

The increase in TRS State Match contribution rate (.0056%) times the estimated FY 86 TRS State Match salary (\$416,297,654) equals; \$23,300.00

Total cost \$68,100.00

We have also estimated that Political Subdivision and School Districts costs would increase as follows:

<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
\$51.4	\$55.5	\$60.0	\$64.7	\$69.9



MAR 7 1985

STATE OF ALASKA
OFFICE OF THE GOVERNOR

ALASKA WOMEN'S COMMISSION
3601 C STREET - SUITE 742
ANCHORAGE, ALASKA 99503

March 5, 1985

Representative Katie Hurley
Pouch V
Juneau, AK 99811

Dear Representative Hurley:

The Alaska Women's Commission urges your support for HB 238, "An Act relating to credit for service in the state's retirement systems for certain leave without pay." With passage of this bill, the state's retirement systems will no longer penalize its members (PERS, TRS, JRS) who have taken authorized leave without pay for purposes of pregnancy, birth, adoption or special child care.

The state of Alaska acknowledges and supports an employee's decision to have a family and recognizes an employee's responsibility to support and care for their family. State programs and administrative decisions have been developed to support the working parent such as child care assistance and providing up to nine weeks of leave without pay for purposes of pregnancy, birth of a child or adoption.

While the state has demonstrated a commitment to fair and equitable treatment of working people, current state policy involving retirement credit negatively affects potentially one-half of all state and municipal employees - those who carry the responsibility for childbearing.

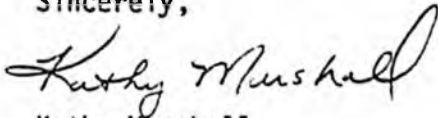
Frequent visits to physicians prior to the birth of a child and after delivery, recuperation of the mother following birth, the special needs of a baby during the first six months of life and the shortage of adequate child care facilities for newborns forms the basis for the state's maternity leave without pay policy. Yet, the state's retirement systems allow only ten days annually of leave without pay before retirement credit stops accruing, thus penalizing most members who take the necessary nine weeks of leave to care for their families. HB 238 would alleviate this inequity by allowing members to "buy back" credited service for up to nine weeks of authorized leave without pay taken for pregnancy, birth of a child, adoption or care of the child following birth or adoption.

March 5, 1985
Page Two

Passage of HB 238 will also bring consistency to the state's policy in recognizing the changing work patterns in which women are both parent and worker and supporting the concept of the working parent.

If you have any questions or would like to discuss this bill in greater depth, please contact me at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Kathy Marshall". The signature is written in dark ink and is positioned above the typed name.

Kathy Marshall
Executive Director

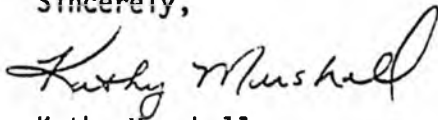
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March 5, 1985
Page Two

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Kathy Marshall
Executive Director

1a



MAR 7 1985

STATE OF ALASKA
OFFICE OF THE GOVERNOR

ALASKA WOMEN'S COMMISSION
3601 C STREET - SUITE 742
ANCHORAGE, ALASKA 99503

March 5, 1985

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Pouch V
Juneau, AK 99811

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The state of Alaska acknowledges and supports an employee's decision to have a family and recognizes an employee's responsibility to support and care for their family. State programs and administrative decisions have been developed to support the working parent such as child care assistance and providing up to nine weeks of leave without pay for purposes of pregnancy, birth of a child or adoption.

While the state has demonstrated a commitment to fair and equitable treatment of working people, current state policy involving retirement credit negatively affects potentially one-half of all state and municipal employees - those who carry the responsibility for childbearing.

Frequent visits to physicians prior to the birth of a child and after delivery, recuperation of the mother following birth, the special needs of a baby during the first six months of life and the shortage of adequate child care facilities for newborns forms the basis for the state's maternity leave without pay policy. Yet, the state's retirement systems allow only ten days annually of leave without pay before retirement credit stops accruing, thus penalizing most members who take the necessary nine weeks of leave to care for their families. HB 238 would alleviate this inequity by allowing members to "buy back" credited service for up to nine weeks of authorized leave without pay taken for pregnancy, birth of a child, adoption or care of the child following birth or adoption.

ALASKA WOMEN'S LOBBY

POST OFFICE BOX 10-1571, ANCHORAGE, ALASKA 99510

March 27, 1985

The Alaska Women's Lobby urges your support for HB 238.

The State of Alaska has recognized the needs of new parents by allowing maternity leave without pay for up to nine weeks.

Yet, women can be adversely effected by breaks in service for maternity leave because the state's retirement systems allow only 10 days of leave without pay before retirement credit stops accruing. Breaks in service can sometimes prevent a woman from achieving her full entitlement of retirement benefits.

Allowing members to pay for the credited service lost as provided for in HB 238, is an equitable plan and would be consistent with state policy.

Sherrie Goll

Sherrie Goll

for the Alaska Women's Lobby



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

TO: Representative Katie Hurley, Chairperson
House State Affairs Committee

FROM: Cherie Shelley
Executive Director, APEA

SUBJECT: House Bill 238 - Credit for certain leave without pay

DATE: March 27, 1985

MAR 27 1985

The Alaska Public Employees Association supports House Bill 238 allowing credit for service in the state's retirement systems for certain leave without pay. The credit would be authorized when the reason for the leave of absence is

1. pregnancy of the member;
2. birth of the child of the member;
3. placement of a child with the member in connection with the adoption of the child by the member; or
4. care of the child immediately following the child's birth or placement with the member.

The legislation would allow the member the opportunity to obtain credit for the time on leave without pay by establishing an indebtedness to the system for the full actuarial cost of providing benefits for the service claimed. The legislation provides employees with the opportunity to purchase the service credits.

This bill reduces the inherent discriminatory nature of the retirement systems in dealing with women during pregnancy and following birth or adoption of a child.

CS/kg

Fairbanks Field Office
825-D College Road
Fairbanks, AK 99701
Telephone: (907) 456-5412

Anchorage Field Office
833 Gambell Street, Suite A
Anchorage, AK 99501
Telephone: (907) 274-1688

Juneau Field Office
227 4th Street
Juneau, AK 99801
Telephone: (907) 586-6305

*Chapman - Is that what
 POURCHOT
 Amendment Save?*

COST COMPARISONS OF LONGEVITY BONUS LEGISLATION

Attached is an amendment to HB 239, the stair-stepping alternative program to replace the present, temporary Alaska Longevity Bonus Program. This amendment would begin the stair-step increments in FY 87 (July 1, 1986) rather than FY 92 (July 1, 1991).

For the information of the committee, the yearly costs* of the FY 87 stair-step alternative, the FY 92 stair-step alternative and the annuity alternative (CSSB 56), that passed the Senate March 21, are:

In Millions of Dollars

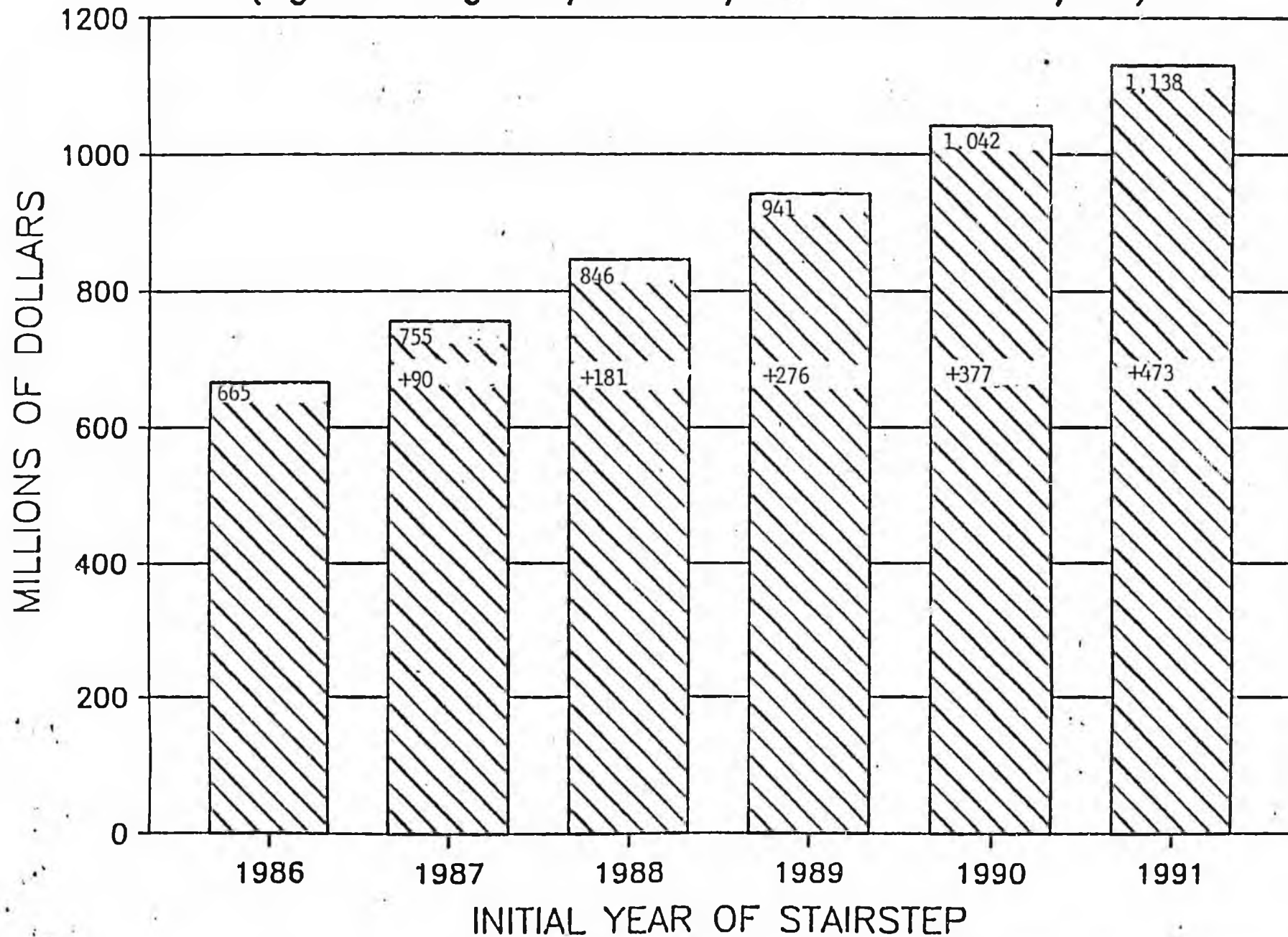
*WMA
 (Lanning)
 (Jeon)
 (Kraus)*

Fiscal Year	HB 239 (stair-stepping)	HB 239 (with proposed amendment)	Savings with amendment	Cumulative Savings with amendment	CSSB 56 (Annuity)
86	50.2	50.2	0.0		50.2
87	53.3	48.0	(5.3)		53.1
88	56.3	45.8	(10.5)		55.7
89	59.5	43.6	(15.9)		58.2
90	62.7	41.4	(21.3)		60.3
91	65.7	39.2	(26.5)	(79.5)	61.7
92	62.5	37.1	(25.4)		62.4
93	59.7	34.9	(24.8)		62.5
94	56.9	32.8	(24.1)		61.7
95	53.9	30.6	(23.3)		60.0
96	51.0	28.5	(22.5)	(199.6)	56.9
97	48.1	26.4	(21.7)		52.1
98	45.2	24.4	(20.8)		45.9
99	42.4	22.4	(20.0)		37.6
00	39.6	20.4	(19.2)		27.0
01	36.8	18.6	(18.2)	(299.5)	15.7
02	34.0	16.7	(17.3)		14.0
03	31.3	15.0	(16.3)		12.5
04	28.7	13.4	(15.3)		11.0
05	26.2	11.8	(14.4)		9.6
06	23.7	10.4	(13.3)	(376.1)	8.4
07	21.3	9.0	(12.3)		7.2
08	19.1	7.8	(11.3)		6.2
09	17.0	6.7	(10.3)		5.3
10	15.0	5.7	(9.3)		4.3
11	12.7	4.9	(7.8)	(427.1)	3.6
TOTALS	1072.8	645.7	(427.1)		903.1
TOTALS as of 2034	1138.0	665.0	(473.0)		916.5

* These costs are in nominal dollars and are from projections made by the Office of Management and Budget on March 27. There may be minor modifications of numbers as they continue to refine the computer program but these numbers give a fairly accurate picture of future costs.

STAIRSTEP PROGRAM COSTS, FY 1986-2034

(age 66 eligibility on July 1 of indicated year)



LONGEVITY BONUS
Analysis of Survey Returns

On March 1 an informational letter was mailed to all longevity bonus recipients in District 13. Included in this letter was a return post card which requested the recipient to check his or her preference for the following options: continue present temporary program, stair-stepping program, annuity program, or needs-based program. A total of 324 letters were sent and 93 post cards were returned. I would like to share these responses with you.

Annuity Program	Present Temporary Program	Stair-Stepping Program	Needs-Based Program	None of Above
34 (36.6%)	23 (24.7%)	19 (20.4%)	8 (8.6%)	2 (2.2%)

COMMENTS

Fifty-seven (61.3%) persons included comments on the longevity bonus in general or on specific programs. Some sample comments are listed below.

Regarding Annuity Program

- * "I vote for the annuity program as I think it may be the best plan. However, it is difficult to take seriously the Legislature's concern for the program's cost for this worthy bonus when I realize that they have authorized \$147 million on the Susitna Hydro Project--for study!! Think about it please!!
- * "This program would help those who are nearing 65 also, and who have lived in Alaska nearly 40 years. This is more in line with intent of original program. I'm opposed to needs-based program (welfare)."
- * "A program that becomes self-sustaining is a good program."
- * "...best program. But whether or not people would do it (willingly) is the question"...

Regarding Stair-Stepping Program

- * "This, I believe, is the best of a bad situation. This program will in time have to be phased out. It probably should have never been started; however, it would be very cruel and heartless to withdraw it from those who are currently receiving it."
- * "This program seems to be about the fairest one, to me."
- * "...seems that it's the most stable of the four"...

COMPARISON COSTS ALASKA LONGEVITY BONUS PROPOSALS
In Millions of Dollars

FY	Senate-Passed Annuity Bill	House-Passed Bill July 1, 1986 Cutoff	Proposed Conference Comm. Jan. 1, 1988 Cutoff	Proposed Conference Committee Annuity Plan
86	50.2	50.2	50.2	50.2
87	53.1	48.0	53.3	53.3
88	55.7	45.8	56.3	56.3
89	58.2	43.6	59.5	59.5
90	60.3	41.4	56.8	62.5
91	61.7	39.2	54.2	64.9
92	62.4	37.1	51.6	66.7
93	62.5	34.9	48.9	68.2
94	61.7	32.8	46.3	68.9
95	60.0	30.6	43.7	69.2
96	56.9	28.5	41.1	68.2
97	52.1	26.4	38.6	65.9
98	45.9	24.4	36.0	62.6
99	37.6	22.4	33.5	57.6
00	27.0	20.4	31.0	50.9
01	15.7	18.6	28.6	42.2
02	14.0	16.7	26.2	31.1
03	12.5	15.0	23.9	23.9
04	11.0	13.4	21.7	21.7
05	9.6	11.8	19.6	19.6
06	8.4	10.4	17.5	17.5
07	7.2	9.0	15.6	15.6
08	6.2	7.8	13.8	13.8
09	5.3	6.7	12.1	12.1
10	4.3	5.7	10.5	10.5
11	3.6	4.9	9.1	9.1
12	3.0	4.1	7.8	7.8
13	2.5	3.4	6.7	6.7
14	2.0	2.7	5.4	5.4
15	1.6	2.2	4.5	4.5
16	1.2	1.7	3.8	3.8
17	.9	1.4	3.1	3.1
18	.7	1.0	2.5	2.5
19	.5	.8	2.0	2.0
20	.3	.6	1.5	1.5
21	.2	.4	1.2	1.2
22	.1	.3	.9	.9
23	.1	.2	.6	.6
24	.1	.1	.4	.4
25	.0	.1	.3	.3
26	.0	.0	.2	.2
27	.0	.0	.1	.1
28	.0	.0	.1	.1
29	.0	.0	.0	.0
30	.0	.0	.0	.0
31	.0	.0	.0	.0
32	.0	.0	.0	.0
33	.0	.0	.0	.0
34	.0	.0	.0	.0
TOTAL COSTS	\$917.0	\$665.0	\$941.0	\$1,183.0

Figures prepared by the Division of Strategic Planning, OMB

SUMMARY OF REPORT FROM THE STATE SPECIAL COMMITTEE ON
THE ALASKA LONGEVITY BONUS PROGRAM, February 1, 1985

I. MAJORITY REPORT

The report recommends phasing out the existing longevity bonus program, replacing it with individual annuity accounts funded by the permanent fund dividends of participants. (This proposal is now embodied in SB56). At age 65, participants (those who reach age 65 after 1985) will receive at least \$250, inflated by 3% annually. Current participants will continue to receive their \$250 monthly bonus, but inflated by 3% annually, without having to forego their permanent fund dividend. During a transition period, some participants would receive annuity proceeds combined with a reduced longevity bonus. The annuity amounts would increase and the longevity bonus payments decrease each year, with the transition period ending by the year 2003. Thus, a state retirement program would be created for those under 65 by 1986 who choose to invest their permanent fund dividends in it.

The committee also considered a "means test" program. Elders earning less than \$25,000 per year would receive \$250 a month payments, with those earning more than \$25,000 receiving \$100 per month. No inflation adjustments would be made. This proposal was rejected by the committee, as was a "stairstepping" approach.

The following are the major features of the annuity program:

1. Front-loading. Front-loading (additional legislative appropriations to individual annuity accounts) will increase individuals' incentive to participate and decrease residual longevity bonus payments in later years (resulting in lower general fund obligations in later years). "The committee bill will work only if Alaskans participate. If they do not, Alaska's future elderly may still place demands on the general fund." The source of front-loading funds may be the earnings of the undistributed income account of the Permanent Fund.
2. 3% Escalator. Rather than leave inflation adjustments to future legislative action, the committee chose to provide certainty through a 3% annual inflation adjustment.
3. Administrative Costs. Administrative costs would be appropriated from the annuity accounts, with costs allocated taking into account factors such as number of participants, age, and relative account balances.
4. Choice of Benefits. Since the annuity program is available to both spouses, the committee decided to not include survivor benefits. (Senate State Affairs CSSB56 now includes survivor benefits only for those who die prior to reaching age 65).
5. Setting the Amount of the Longevity Bonus Payment. The longevity bonus portion (during the transition period) of the payment is calculated by adding an annual 3% increase and then deducting from that payment the maximum possible annuity available to a person who turns 65 in the year in question.

6. Residency Questions. There are no residency requirements (but a person must be a one year resident to receive a permanent fund dividend).

7. Federal Income Tax Considerations. There is no assurance that the proposed annuity will be considered tax deferred by the IRS. If no frontloading takes place in a particular year, "there would be a substantial risk that those receiving annuity credits would be taxable immediately on the amount of cash they could have elected in lieu of the credit."

8. Annuity Credits Are Not A Vested Right. "Thus, the legislature may legally appropriate annuity funds for any public purpose. An individual's right to an annuity payment prior to dispersal is an unfunded, unsecured promise of the state." (The decision not to allow vested rights was made to improve the possibility of the annuity receiving tax-deferral status).

9. Protection of Alaska's Existing Elderly. Persons who reach 65 before 1986 will not be required to forego their permanent fund dividend in order to receive a \$250 per month Longevity Bonus, inflated 3% annually. This approach protects current recipients who are dependent upon both the Longevity Bonus and the permanent fund dividend.

10. Possible Participation Rates. Differences between the proposed annuity plan and voluntary employee retirement plans are such that comparison of participation rates may be meaningless. "...the committee does not believe that any meaningful projection, or even range of projections, can be provided."

11. Impact Upon Eligibility for Old Age Assistance and Medicaid. Under a recent change in federal statute, longevity bonus payments count as income except for those who are 65 on or before September 30, 1985, and who have 25 years on continuous residency in Alaska by that date. This change adversely affects Alaskans' eligibility for Supplemental Security Income and/or state Old Age Assistance and Medicaid. The bill provides, however, that persons residing in a nursing home are ineligible to receive the longevity bonus, thus preventing the loss of federal Medicaid nursing home coverage. Nursing home residents lose the \$250 per month bonus, but retain eligibility for the \$50,000 per year nursing home payments.

12. Costs of Various ALB Alternatives. The committee developed general fund cost estimates for the following: (1) continuing the current longevity bonus program; (2) the annuity program (SB 56) but requiring existing seniors to forego their permanent fund dividends; (3) the longevity bonus portion of SB56; and (4) stairstepping (as identified in last session's legislation). No costs were estimated for the "means test" approach. The committee also estimated the costs of "front loading" the program. (Note: Cost figures have since been revised).

II. MINORITY REPORT

PHILOSOPHICAL DIFFERENCES: Each option represents a different philosophy. Philosophical assumptions underlying the annuity proposal are that the current program should be replaced with a state retirement program for all Alaskans; that individuals need encouragement from the State to prepare for retirement; that there is a need for cash assistance to elders regardless of their length of residency; and that Alaskans should choose between the alleged short term benefits of permanent fund dividends and the supposed long term benefits of the annuity program.

Stairstepping philosophy includes: (1) the original program was always intended to end if the courts ever declared it unconstitutional; (2) many older Alaskans count on the bonus for their retirement plans, despite its constitutional status; (3) State faces declining revenues; (4) younger individuals will provide for their own retirement through the private sector or will be eligible for public assistance; (5) fiscal reality is faced by phasing out the program rather than shifting its cost to the permanent fund; and (6) need is not taken into account.

Means test proposal philosophical assumptions include: (1) longevity program should continue, but provide larger benefit to those who need it the most; and (2) the program should mesh with federal entitlement programs so State can provide more benefits for the poor overall with less State cash.

The option of maintaining the current program assumes that the bonus should continue in its present form because all Alaskans rely on it, regardless of whom it was originally intended to benefit.

ANNUITY PROPOSAL-Aspects not discussed in the majority report:

(1) Front-loading. To subsidize the program by using the permanent fund reserve account is an inappropriate use of the permanent fund. Front-loading, if undertaken, would likely be necessary "far beyond 1989" as tax counsel has advised tax shelter status will only be available in years in which the program is front-loaded, if then. The amount of each year's general fund bonus is tied to the maximum annuity of a 65 year old. Thus, since the maximum annuity will be smaller if not subsidized, the general fund cost would be more than indicated in the majority report.

(2) 3% Escalator. Rather than 3%, an inflation factor should be tied to some acknowledged COLA indicator so that the bonus amount is increased for valid economic reasons.

(3) Participation. Forty percent of current bonus recipients have annual incomes of less than \$10,000. IRS indicates that only 2% of taxpayers in this income category buy IRAs. Deferred compensation participation statistics are similar.

Current longevity bonus recipients are protected under SB56 as they do not have to forego their permanent fund dividends, but others have to choose to take cash now to meet basic needs or skimp on basic needs and defer their dividend for a promise of a future payment. Wealthier Alaskans may not participate because of (1) uncertain tax deferral status; (2) no survivor benefits; (3) inability to liquidate or transfer an annuity account; and (4) lack of vested property rights.

STAIRSTEPPING PROPOSAL:

Impact on Younger Alaskans. Stairstepping protects today's elders, but not those who will turn 60 after July, 1985. Its purpose is to ensure that those who have counted on the bonus for their retirement years receive it throughout the rest of their lives. Given revenues, "the only affordable method of protecting the bonus for current elders is to discontinue the program for everyone else."

Why Protection for 60 Year Olds Instead of 65 Year Olds. Alaskans counting on the bonus include those approaching 65. Many of these people also count on the permanent fund dividend also. Any age cut off is arbitrary, but age 60 gives those in their 50s time to prepare for a retirement without a bonus.

Legality of the Proposal. Stairstepping appears constitutional and able to withstand any legal challenge.

MEANS TEST PROPOSAL:

The \$25,000 cap would allow 80% of Alaskan elders to continue to receive the \$250 monthly bonus. Wealthier individuals would receive the smaller \$100 monthly bonus.

Reasons for a Means Test Program. The federal government insists that the \$250 bonus be counted when determining public assistance eligibility for some Alaskan elders. The means test proposal directly cancels the affect of the federal action. It favors those Alaskans who need the bonus most.

Legality of Proposal. The legal issue raised is residency. The "one year residency" requirement is valid if the proposal does not provide a "basic necessity."

STATUS QUO PROPOSAL:

Bonus as a Priority for State Funding. This proposal assumes the current form of the bonus is a major priority and should be continued for all Alaskans despite the high cost. Dwindling revenues raise fears that other statewide needs such as education, roads, water and sewer, and health care will suffer if the bonus program continues in its present form.

IMMEDIATE IMPACT ON PUBLIC ASSISTANCE ELIGIBILITY:

How to Protect the Bonus Income of Public Assistance Recipients. Federal and state laws require seniors to apply for the longevity bonus, and then reduce or eliminate public assistance payments, dollar for dollar. Senior citizens on public assistance thus recognize no material gain from their longevity bonuses, unlike middle and high income seniors who receive the longevity bonus on top of all other income. Also, many lose their entitlement to public assistance medical benefits that the longevity bonus does not replace. "The poorest of our seniors--those who need the bonus the most--are actually harmed by the Alaska longevity bonus."

This impact hits two groups of seniors: (1) those who became 65 during 1984 through September 30, 1985, and who did not meet the unconstitutional residency requirements; and (2) those who reach age 65 after September 30, 1985, irrespective of their residency.

Only two solutions exist: (1) create a means test longevity bonus program, or (2) create a "hold harmless" provision in State statutes to ensure that the State makes up the difference in federal benefits lost and continues to pay State public assistance to these affected seniors.

The cost for FY86 includes \$760,000 (already budgeted) for State Older Alaskan Assistance payments, \$1,400,000 to substitute for federal Supplemental Security Income payments, and \$413,847 to substitute for federal non-nursing Home Medical payments. In addition, the new program, regardless of which approach is adopted, needs to exclude individuals in nursing homes from receiving the bonus--this protects their eligibility for federal Medicaid assistance for nursing home care, worth approximately \$4,000 a month. This exclusion "is intended to protect such elders from the exorbitant cost of nursing home care."

COST INFORMATION

Note: Cost figures have since been revised.

DEC 3 1984

Alaska State Legislature

House of Representatives

Al Adams

Chairman

Committee on Finance



Official Business

November 16, 1984

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MEMORANDUM

TO: Governor Jay Hammond, Chair
State Special Committee on the
Alaska Longevity Bonus Program

FROM: Representative Al Adams *APA*

SUBJ: Summary of my remarks to the Committee
on November 9, 1984

My opinion of the proposed committee legislation
In resolving the future of the longevity bonus program, I think it is important to consider the situation of current recipients and those close to age 65 differently from that of any future recipients. Many current recipients and many of those who are close to 65 count the bonus into their plans for an independent, self supporting retirement. We must insure that these individuals are not harmed by any new program that we create to replace the constitutionally unacceptable program of the past.

I am explaining my attitude towards the future of the bonus program so that the committee will understand the basis for my analysis of the committee's proposed legislation. Incidentally, this is the same attitude I have had since learning of the difficulties of defending the old program and the same attitude that led to the "stairstepping" proposal of last year.

The proposed legislation phases out the current bonus program by decreasing the dollar amount of the monthly bonus. The bonus program is then replaced by an annuity program. The annuity program will make up the decrease in dollar amount of the residual bonus checks of current recipients and provide a retirement stipend for future recipients. But in order to get the monthly annuity, an individual must give up the permanent fund dividend.

As presently drafted, I think both the phase out bonus plan and the annuity plan are flawed. I do not think that all of today's elders will be adequately protected and I do not think that the annuity program will be especially attractive to future recipients.

Since my main concern is today's elders, however, I am more uncomfortable with the proposed bonus phase out than I am with the proposed annuity plan.

Who will benefit the most?

According to OMB, 40% of current bonus recipients have an annual income of less than \$10,000. According to the IRS, only 2% of taxpayers with this level of annual income buy IRAs even though it is to their advantage to do so. The statistics on deferred compensation plans are similar. Generally, people without spare cash do not put off receiving income until a future point in time because they cannot afford to. I do not think that the current bill draft adequately addresses this known fact. Bonus checks will be less and less each year yet individuals will have to give up their permanent fund dividend checks in order to make up the difference. Under the "front loading" scenario, bonus recipients get approximately \$50 less each month by 1995. This is substantial to a person without a lot of cash --- a \$10,000 annual income means that a person's monthly intake is only \$833.33.

This is my biggest criticism of the proposed bill draft. I do not think that it will adequately protect today's elders because a large percentage of them cannot afford to participate in the annuity program. Either they get smaller bonus checks and keep their permanent fund cash or give up the cash in order to get a monthly amount equivalent to what they get now from the bonus program. I feel that we would be asking those who can least afford it to make this choice. According to the Permanent Fund Corporation's recent report on the dividend program, about 18% of adult recipients making less than \$26,000 annually used their 1982 dividend to reduce debt and another 22% used it to help with regular expenses. These people need the dividend to meet their basic needs and I don't think we should ask them to give it up in order to continue receiving a longevity bonus equivalent to what they currently receive. They also need the same amount of bonus they are getting today without having to give up their dividend.

In my opinion, those who will benefit the most from the proposed bill will be the young and the affluent. I do not agree with this order of priority.

Affect on Old Age Assistance

Even though most Old Age Assistance (OAA) recipients will not be in a position to participate in the annuity program, if one does, it is possible that the annuity program could increase income to the point that the person would not qualify for OAA. If the annuity income is considered a prior resource by the federal government, I understand that this could happen. We would then have the same problem that we have now with Secretary Heckler's recent ruling on the current bonus program. I do not think that this problem has been adequately researched by the committee.

Changing the Dividend Program

The proposed bill contemplates a significant change in the dividend program. Essentially the program would become an annuity program and a person would have to elect to receive cash instead of annuity shares. I realize that this change is not intended by the bill drafters to be dramatic. Instead, it is for appearances and is designed to elicit a tax exempt ruling from the IRS. To me, however, it is of greater significance. The dividend program was created to distribute the state's wealth directly to its citizens. That's why it is a cash dividend program. I think that any changes to the program, especially a dramatic change such as switching from a cash distribution to a retirement program, should be very carefully considered by the legislature. Is this what the public wants? If a large percentage of Alaskans continue to spend their dividends on basic needs, I'm not convinced that they will want a distribution program that emphasizes the annuity.

Front Loading

In order to make the annuity program more attractive to potential investors and to encourage a tax exempt ruling, "front loading" or general fund subsidization has been provided for in the latest bill draft. I understand that this means putting about \$40 million from the general fund into the annuity fund for the first two or three years. I feel very uncomfortable about this suggestion. Even though it would increase an individual's monthly annuity payment and therefore help today's elders if they can afford to participate, I wonder what kind of a precedent we would be setting if we subsidize the program from its inception. Will we be able to get away from further subsidization in the future? I thought that one of the main reasons to use permanent fund dividends to finance the annuity program was to have a self sustaining program. Subsidization would seem to defeat the original reason for using the dividends as a source of capital.

Tax Status

It seems to me that many people assume that the annuity program will enable Alaskans to receive a benefit from the state that is tax deferrable. Yet this program's tax status is far from certain. The IRS will not rule until after the program becomes law and it may be necessary to litigate in order to achieve the tax deferrable status.

This inability to determine the tax status in advance of enacting the legislation appears to have generated various ideas to strengthen the tax deferrable argument that have other consequences such as the ones discussed previously. I do not think that the tax status of the annuity program is so important that it should overshadow these other considerations, especially since the dividends are currently taxable. It would be an excellent advantage to ultimately obtain a tax deferrable ruling but since we cannot assure this outcome before enacting the statute, I do not think we should act at the expense of other important considerations.

Other Participation Factors

The more Alaskans that participate in the program and the longer they choose to continue participating, the more likely the program will be truly self sustaining in the future. In other words, I feel that if enough people choose to participate in the program over a long period of time, there will be no need to use the general fund to subsidize the program. I am skeptical about the ability of the program to achieve a high and continuous rate of participation, however.

The following factors may deter participation: (1) income level; (2) affect on eligibility for other government programs; (3) the final determination of the annuity's tax status; (4) the fact that even though the cash dividend is foregone for future cash, no benefit is derived if the person does not live to 65 since the annuity cannot be passed on to a beneficiary; (5) the lack of assurance that the program will exist in the future if a person takes this risk by foregoing the dividend cash; (6) the individual's lack of control over how much will be contributed to the annuity, when the investment can be liquidated or if it can be transferred.

All of these disadvantages of the annuity investment lead me to the conclusion that even those who can afford the program may not choose to join if they have other investment options that are more attractive. Moreover, there is no way to insure that an individual's investment in the annuity will be long

term since there is no way to predict how attractive other investments will be as one's financial situation changes over the course of a lifetime.

Suggestions

I have some suggestions that I think will improve the committee's proposal. First, I think the committee needs to appreciate the real life situation of Alaskan elders with modest incomes. Since they probably cannot afford to participate in the annuity program, they will lose benefits under the proposed bill draft. Rather, the program is more likely to benefit younger Alaskans who will plan now to give up dividend cash in order to save for the future if it is an attractive investment option for them.

Second, I think we should phase out the current bonus program in a manner that better protects the income of today's elders. I think age stairstepping is one option that should be further explored. If we don't start the stairstepping for five years, we could assure a monthly \$250 bonus check to everyone who is 60 years old today for the rest of their lives. I realize that everyone under 60 would have to make other arrangements (like joining the annuity program) but I think it is fairer to today's poorer elders because they would get the full \$250 without giving up their dividend checks. Another option that should be explored is a combination of age stairstepping and dollar decreases. Perhaps there is a particular combination that both protects the elders who cannot afford the annuity program and encourages those who can to invest in it. A final option to be considered here is to adjust the old age assistance program so that it protects the income of those elders who cannot afford to join the annuity program. This approach is the least promising, I think, because of the potential for negatively impacting an individual's medicaid or SSI eligibility, but I don't think the committee has fully explored it.

Third, I think we should have a more realistic attitude towards the attractiveness of the annuity program and tailor it accordingly. Let's not fundamentally change the nature of the permanent fund distribution program for the sake of tax status without the public's assent. I would advocate a statewide vote before changing the emphasis of the program from a cash distribution to a retirement program. I also strongly suggest we not subsidize the annuity program from its inception. In the future, if participation is not high and annuity payments are small, there will be pressure to supplement the payments with additional subsidies. It seems to me that we insure this outcome if we start the program off with large subsidies even if they are

provided for the best of intentions and are only expected to last for a few years. If we start off using the general fund to pay for annuities, we may never get away from this funding source.

Fourth, we should research further the potential affect that annuity income could have on a person eligible for Old Age Assistance. Even though I don't think people at this level of income are going to join the annuity program, I still feel that this issue should be fully addressed by the committee.

Fifth, I think public hearings on this proposal and the entire issue are in order now. I respectfully disagree with the chair that the public hearings should be conducted by the full legislature during the session. The legislation establishing this committee mandated that the committee consider the "opinions of recipients of longevity bonus payments on the question of replacing the longevity bonus program with an alternative program". To date, no formal mechanism such as a public hearing has been used to gather these opinions. (The teleconference network would enable us to hold a statewide hearing all in one day, incidentally.) I think the legislature and the governor intended that public opinion be formally voiced before presentation of final recommendations.

I would request that the committee explore these suggestions. I feel that the bill needs to be vastly improved before I can join in recommending its enactment to the legislature and the governor.

cc: Committee Members
Other Interested Parties

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

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March 22, 1985

Honorable Katie Hurley
Alaska State House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Hurley:

You have asked whether a two year residency requirement in the Alaska Longevity Bonus Program would be legal. The answer is not clear but probably is that such a requirement would not be legal; what is clear is that such a requirement would result in a lawsuit.

The legitimate purpose of a durational residency requirement is to distinguish, in a not too burdensome manner, between those individuals who are truly Alaskans and those who are merely visitors. AS 01.10.055 sets out the constitutional requirements of residency. That statute states, in pertinent part:

(a) A person establishes residency in the state by being physically present in the state with the intent to remain in the state indefinitely and to make a home in the state.

(b) A person demonstrates the intent required under (a) of this section

(1) by maintaining a principal place of abode in the state for at least 30 days or for a longer period if a longer period is required by law or regulation; and

(2) by providing other proof of intent as may be required by law or regulation....

Thus, the critical factor in determining residency is intent, and the law recognizes that external indicators of intent, such as durational residency, are pertinent.

Courts have held that when a fundamental right - such as the right to vote - or when a basic necessity of life - such as welfare - is involved, only a very limited residency requirement will be upheld. This is because the individual right

outweighs the administrative convenience of a longer period. When one of those rights is not involved, such as in the longevity bonus program, the permissible residency requirement will vary from program to program. For example, a 30 day requirement would be of little help in distinguishing resident commercial fishermen from those who live elsewhere but fish in Alaska's fisheries, since non-residents commonly come to the state for months on end. Conversely, in housing loans, since one must intend to use the loan for a permanent home, an applicant evidences the constitutional intent by making the application, so no additional residency requirement will help to weed out visitors.

The federal courts have recently upheld Alaska's two year residency requirement for student loans. The arguments supporting the requirement relied heavily on the fact that student populations are very mobile, many students do not own homes, and a shorter requirement might well induce students who had no intent to make Alaska a permanent home to come to the state simply in order to avail themselves of the liberal loan program. Student loans, of course, are available for use outside the state once an applicant has qualified.

Some of the same considerations are present in the senior citizen population. Because most seniors do not have permanent employment in a particular location, they are more free than younger individuals to move about for relatively long periods of time. But most seniors do have a permanent place of abode, and strong ties to one location or another. Further, the bonus is available only when the recipient is within the state. Thus, unlike student the loan program, there is no incentive to move to the state in order to qualify for the bonus if one has the intent of leaving again as soon as the qualification is met. The question for the court would be whether the longer residency requirement really did help to distinguish between Alaskans and visitors, or rather whether the requirement only served to deny the bonus to bona-fide Alaskans until they had actually been residents for a longer period of time. If the court drew the latter conclusion, it would strike the requirement.

If the state had a significant amount of evidence that non-residents, who did not intend to make Alaska a permanent home, were migrating to the state in order to qualify for the bonus, it is possible that the requirement could be upheld. It is, in my opinion, more likely that any in-migrants (if they could be shown to exist) who fulfill the present requirement of residing in the state for twelve consecutive months, come with the intent of remaining permanently - and are therefore bona-fide

Honorable Katie Hurley
Alaska State House of Representatives

March 22, 1985
Page 3

Alaskans. Since seniors do visit for extended periods, without the intent to remain, I believe that a one year requirement helps to distinguish between Alaskans and visitors. But I believe that it is doubtful that a two year requirement would be better than a one year requirement at weeding out visitors, and that it is likely that a court would hold that a two year requirement is imposed only to distinguish between new Alaskans and older Alaskans.

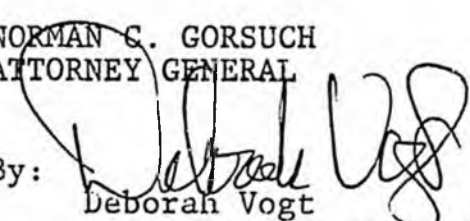
Perhaps the most important consideration here is that a two year requirement would almost surely invite a lawsuit. The state has been embroiled in legal battles over the bonus program for nearly three years. Attorney General Norman Gorsuch has repeatedly expressed his hope that any legislation dealing with the bonus should be clearly constitutional, and alleviate the uncertainty in this area.

Please let me know if I can be of any other assistance.

Sincerely,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By:


Deborah Vogt
Assistant Attorney General

DV:jf

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5) .
Testimony

Alaska's Longevity Bonus

by Gov. Bill Sheffield

Right now, there's only one sure thing about the Alaska Longevity Bonus program: The courts have changed the original intent, and we have to change our program.

The debate about what form that program will take is far from over. It may be a annuity program, a "stair-stepping" approach, a program with a special emphasis on helping low- and middle-income senior citizens - or any combination of the three. Each approach has its advocate. I'm not choosing sides yet; as long as the final proposal is sound, I'll sign the bill.

The important thing is to debate the proposals, choose the best one, and get it done this year. We can't keep older Alaskans in limbo any longer. To get the longevity program out of limbo, we've got to get the debates out of the fog.

What's clear is that Alaska has a long tradition of respecting senior citizens. Today, a wide variety of benefits, tax credits, health care and other programs for seniors are backed up by more than \$100 million in state funds. About half of that goes to the Longevity Bonus program.

These benefits date back to the 1st Territorial Legislature, which set up the first Pioneer Home in 1913. Two years later, the territory decided that older Alaskans who were in need should get \$12.50 a month (about \$145 in current dollars) to help them stay in Alaska. Later, former Gov. Ernest Gruening called it "the first old-age pension in the United States."

That pension was revived in 1972, with a similar intent. The \$100-per-month bonus (later increased to \$250 monthly) was targeted specifically for a group of older Alaskans who had lived and worked in the state for many years.

Last year the Alaska Supreme Court struck down that residency requirement. Citing federal court decisions, the justices said "pioneer" status can't be used as a standard for a benefit program. As a result, we now have various plans for replacing the current stop-gap longevity program under debate in the Legislature. Each answers the residency question, but other questions remain.

The "stair-stepping" approach, proposed last year by Rep. Al Adams, D-Kotzebue, comes close to meeting the intent of the original Longevity Bonus program. Simply put, the bill limits the number of recipients by setting a cut-off date (to be eligible, you must turn 65 by 1992) and raising the age of eligibility each year (65 in 1992, 66 in 1993, 67 in 1994, and so on). That way, seniors who are now eligible would remain

eligible for the rest of their lives; in addition, seniors between the ages of 60 and 65 (who may have been planning on the bonus to supplement retirement income) would also be "protected" for life. As that group of older Alaskans dwindled over the years, the program would eventually phase itself out.

The annuity program, introduced as a bill with 17 co-sponsors in the Alaska State Senate, combines the "stair-stepping" approach with a retirement insurance program. Like the "stair-stepping" program, the current group of older Alaskans would continue to receive a Longevity Bonus, but the amount would get smaller every year, and eventually disappear. Payments from the annuity fund would take the place of the bonus - but only if you bought into the annuity program. The price is your annual Permanent Fund dividend.

In short, if you're 40 years old now and want a full longevity payment after the age of 65, you must defer your Permanent Fund dividend each year and put it in your retirement account. If you choose to keep your dividends each year, you'll get no annuity from the state.

It's an intriguing idea. However, some questions remain.

Senior Voice, the newspaper serving the community of older Alaskans, raised a number of those questions in a recent editorial. Among them were these: Will enough younger Alaskans

give up their dividends, join the plan and make the annuity financially sound? Will the plan provide any benefit to the poor and near-poor who can't afford to give up their dividends? Will the program offer a secure investment for younger Alaskans? And what will happen to the approximately 800 needy senior citizens who will lose federal benefits because the Alaska program isn't based on need?

Good questions, and we should have the answers before we make a decision.

I have similar concerns. First of all, there's no guarantee people will contribute their Permanent Fund dividends to the annuity program. The incentive to join the program is a tax break: If you put your check in now, you won't have to pay federal income tax on it until you retire. However, according to the federal tax code, the annuity would not be a tax-exempt investment without the state's \$79 million "front-loading."

Without the "front-loading," there's no tax break; without the tax break, many people would probably choose to invest their Permanent Fund dividends differently.

Like the editorial writer at the Senior Voice, I'm concerned that tying the annuity to Permanent Fund dividends could make it difficult for many Alaskans to invest in the program. Low-income

families, working single mothers and rural Alaskans might have a hard time giving up needed cash now for a long-term investment.

Then there's a question the Voice didn't ask: What about the \$79 million in state money needed to build up the annuity fund over the first three years? If we decide that the annuity program is best, we may be faced with some serious changes in our spending priorities over the next several years. Considering the recent downturn in our revenue forecasts - and the continuing downward pressure on the price of oil - that three-year, \$79 million commitment could reduce our financial flexibility, along with our ability to meet other needs.

All these questions need to be answered before we create a new longevity program. But whatever we choose - an annuity program, a "stair-stepping" proposal, a needs-based program, or any combination of the three - it must be fair, it must be cost-effective, and it must be created this year.

It should also retain the spirit of the laws passed by the territorial Legislature in 1915, and the state Legislature in 1972. The Longevity Bonus is a way to help keep older Alaskans in the state. That's not welfare; it's an investment in Alaska's future. Because without the wisdom and experience of the past, we wouldn't have much of a future.

MEMORANDUM

State of Alaska

TO: The Honorable Katie Hurlburt
Chairperson
House State Affairs Committee

DATE: March 29, 1985

FILE NO: 85D-232

Gordon S. Harrison, Associate Director
Office of Management and Budget

TELEPHONE NO: 465-3168

FROM: Gregg Erickson, Principal Analyst
Alan Shelly, Senior Analyst
Thomas Chester, Principal Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Impact of Annuity
Program on Alaska
Personal Income and
Employment

Your letter of March 15th asked us to assess the potential impact of an annuity program on Alaska personal income and employment.

THE ANNUITY PROPOSALS

The annuity program proposed by the State Special Committee on the Alaska Longevity Bonus (later in SB 56 and various committee substitutes) would allow Alaska residents to elect to have their Permanent Fund dividends deposited in a State run annuity account. Under another version of the plan (HB 222), dividend recipients would be required to deposit one-half of their dividend in the account.

To the extent that dividend recipients make these deposits, dividend income will be diverted away from the ordinary stream of commerce. As we understand the proposals, the State will invest the annuity account balances in much the same manner as the Permanent Fund is invested, with little direct effect on Alaska economic activity. Eventually the State will pay the principal and accrued earnings back to the annuitants. If the annuitants have remained in Alaska, the funds deposited, augmented by interest earnings, will then return to the Alaska economy.

VOLUNTARY PARTICIPATION

The extent to which Alaskans participate in an annuity scheme is clearly a critical variable in assessing the economic impact of the program. Our own analysis as well as testimony by actuarial consultants retained by the Special Committee suggest that voluntary acceptance of the program will be relatively low unless dividend recipients are offered tax deferability and additional front-loading payments from the State designed to encourage participation. It now appears unlikely that front-loading will be available. The Department of Law advises that without front-loading the prospects of tax deferability

are dim. Assuming that neither front-loading nor tax deferral is available, participation rates as low as 5 percent of the eligible population appear plausible.

Even if a voluntary annuity program tied to the dividend does achieve a high participation rate, it is unlikely to produce significant changes in individual spending and saving patterns. These patterns are determined by individual preferences, which in aggregate are relatively stable, and by the mix of available spending and saving options. Unless those options change dramatically with the introduction of the State run annuity, participation in the annuity program - if it develops at all - will be offset by nearly compensating reductions in other kinds of saving. Consumption, and the flow of goods and services in the Alaska stream of commerce will be largely unaffected. We conclude that the economic impacts resulting from a voluntary annuity program of the sort embodied in CSSB 56 (fin.), without front-loading inducements or tax shelter potential, are likely to be so slight as to be unmeasurable.

COMPULSORY PROGRAMS

Another proposal, HB 222, would require that one-half of every dividend be deposited in the State-run annuity account. According to projections supplied by the Alaska Permanent Fund Corporation, 1986 dividends are expected to total \$257 million, of which about 98 percent or \$252 million will be received by Alaska residents. If half of this amount is diverted to State mandated annuity savings, personal income will be directly reduced by about 1.3 percent.

The direct economic impact of the dividend is amplified by the multiplier. As a result, personal income will decrease by an amount greater than aggregate reduction in the dividend. According to a 1984 study by the Institute of Social and Economic Research (ISER) at the University of Alaska, the 1986 dividend will account for \$494 million, or roughly 5 percent of Alaska's projected \$9.7 billion in personal income that year. Since the total dividend distribution is expected to be about \$250 million, the ISER study implies that each dollar of dividends in 1986 will produce an additional dollar of indirectly generated personal income.

With respect to employment, ISER projects that the dividend program will sustain a total of 7,400 jobs in Alaska in 1986, with 64 percent of these found in the support sectors such as trade, services, real estate, etc. Larger real dividends in later years are projected to produce even greater employment, with the 1990 impact estimated at 8,400 jobs.

The ISER projections were derived from the MAP econometric model of Alaska's economy. The Division of Strategic Planning's

SAGE econometric model projects slightly different impacts: a personal income multiplier of 1.8 and an employment effect of 6,300 jobs resulting from the 1986 dividends. Like all econometric projections, both the SAGE and MAP results are subject to various uncertainties associated with the many assumptions required to run an econometric simulation, and should be considered as general rather than precise indicators of impact.

It may be that reducing the dividends by half, as contemplated in HB 222, would simply reduce these impacts by an equal proportion. If so, the reductions in personal income and employment suggested by MAP and SAGE would be as follows:

	<u>MAP</u>	<u>SAGE</u>
Personal Income Loss (millions)	\$ 24	\$ 224
Employment Loss (jobs)	3,700	3,200

It is entirely possible, however, that the loss of jobs and indirect personal income would be mitigated by other effects associated with the annuity. For example the buildup of annuity accounts may allow people to reduce their saving elsewhere, allowing a less than proportional decrease in consumption and economic activity. The significance of this and similar effects is uncertain, but is important enough to suggest caution in using the econometric projections given above.

GE/dmc

cc: Representative Red Boucher
Representative Ron Larson

The Alaska Permanent Fund Dividend Program

Economic Effects and Public Attitudes

by

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EXECUTIVE SUMMARY

This study for the Alaska Permanent Fund Corporation examines public attitudes toward the Permanent Fund Dividend Program, the impacts of dividends on recipients, and the effects of dividends on the Alaska economy. The key findings are:

Attitudes - About 60 percent of Alaskans think the Permanent Fund Dividend Program is a good idea. Twenty-nine percent have mixed feelings. Ten percent think it is a bad idea.

Impacts - The "average" recipient saved \$200 of his 1982 dividend, paid \$200 in federal taxes, paid off \$50 in debt, and spent \$550. Of that \$550, \$450 went to day-to-day expenses (e.g., food, heat, clothing) and \$100 went to "special" items (e.g., airline tickets, VCRs).

Effects - Dividends create more spending money and jobs--and result in more population growth--than other ways of spending the same amount of public money, including bigger operating and capital budgets, tax reductions, and subsidizing economic activity.

Other major findings include:

Attitudes

- A majority of Alaskans prefer the dividend program over more state and local construction projects, reduced property taxes, subsidized loan programs, or putting the money for dividends back into the Permanent Fund.
- Seventy-one percent of Alaskans would now choose to end the dividend rather than bring back the personal income tax. Fifty-five percent would be willing to give up some part of their dividends to pay for the longevity bonus for senior citizens. However, eighty-seven percent would not halt the "inflation-proofing" of the Permanent Fund so that the State could use the earnings for other purposes.

Impacts

- The 1982 dividend distribution of \$450 million directly increased personal income in Alaska by 6.3 percent, about the same amount as the payroll of the Petroleum Industry.
- The relative benefits of the Permanent Fund Dividend Program to Alaskans vary widely. For one-third of all Alaskans, the 1982 dividends increased family income by less than five percent after taxes. But for one-eighth of all Alaskans, the dividends increased family income by more than twenty percent.
- Dividends substantially raised the incomes of many rural Alaskans. The 1982 dividends increased family income by more than twenty percent for over one-half of rural Alaska Natives.
- How Alaskans used their dividends varied with income. Lower-income Alaskans used more of the money to reduce their debt and for day-to-day expenses while higher-income Alaskans used more of the money for taxes and savings.

Effects

- The 1982 and 1983 dividends have been significant factors in the rapid economic growth of the early 1980s. As the dividends entered the Alaska economy, they created about five thousand jobs, primarily in support industries, and added about \$360 million to consumer purchasing power in 1983. Although the direct program effects impacted every corner of the state, the secondary effects have concentrated in the urban areas, which are the centers for economic support activities.
- Inflation and the desire to work were little affected by the dividends, and few people moved to Alaska solely to receive a dividend. However, because the dividend program stimulates employment more than other uses of public funds, it does have the effect of bringing more people to Alaska.
- No use of Permanent Fund earnings, including retaining dividends in the Fund, is able to arrest the projected decline in state revenues due to depletion of petroleum reserves if contributions to the Permanent Fund continue at the current rate.
- The use of current Permanent Fund earnings for dividends or public expenditures reduces the level of public wealth available in future years. Accumulation of dividends in the Permanent Fund increases future wealth but reduces current levels of economic activity.

Purpose and Design of the Study

The purpose of this study was to examine economic effects of the Permanent Fund dividend program and public attitudes toward the program. The study was carried out by the Institute of Social and Economic Research of the University of Alaska.

In order to study dividend uses and public attitudes, we conducted a survey of 1,016 Alaska households. The limited budget restricted this survey to telephone interviews, which excluded some families from the sample but not sufficient numbers to significantly affect the reliability of the results. To ensure equal reliability of the results for all areas of the state, we conducted equal numbers of interviews in three different geographic classifications of the state: Anchorage, other urban areas, and rural areas. The overall results of the survey were then weighted to reflect the relative share of the total population represented by each geographic area. The results reported for the entire state are accurate within plus or minus three percentage points.

A second major source of information for the study was the Institute of Social and Economic Research's Man-in-the-Arctic Program (MAP) econometric model of the Alaska economy. We used the model to project changes in the Alaska economy resulting from the Permanent Fund Dividend Program.

Other major sources of information for the study included data on dividend distributions provided by the Alaska Department of Revenue, census data on the distribution of income in Alaska, sales data for rural stores provided by Alaska Commercial Company, banking data from a large number of sources, small community sales tax data, and public assistance payments data from the Alaska Department of Health and Social Services.

Alaskans' Attitudes Towards the Dividend Program

We asked survey respondents three types of questions concerning their views on the dividend program: first whether they favored or opposed the program; second, whether they preferred the dividend program over a number of alternative uses for the dividend money; and, third, the extent to which they agreed or disagreed with various perceptions about the dividend program. Several well-known supporters and opponents of the dividend program reviewed the survey before it was conducted to assure maximum objectivity in the attitudinal questions. Our results reflect the attitudes of household members most responsible for household finances, whom we selected as our survey respondents.

A majority of those surveyed think the Permanent Fund dividend program is a good idea and favor it over such other public uses as reinvestment of Fund earnings, large state construction projects,

local construction projects, property tax reductions, or loans. Almost three-quarters would prefer that the state stop the dividend program, if necessary, to avoid reinstating a state personal income tax. Only one in ten respondents favored limiting the dividend program to low-income households, but just over one of every two persons support the idea of using a portion of the money now spent on dividends to pay for longevity bonus checks.

A substantial majority of persons interviewed think that they are entitled to a share in the earnings of the Permanent Fund and have no problem with receiving money directly from the state. Most respondents emphatically believe that how residents use the money is of no concern to the state. In addition to viewing dividends as an entitlement, most respondents see the dividend program as a means of protecting the principal of the Permanent Fund and as a more effective vehicle for using public funds to benefit Alaska residents than legislative appropriations. They also think that the dividend program has made them pay closer attention to how the state spends the money it receives.

Survey respondents were mixed in their perceptions about whether dividends had been wasted on liquor or drugs, whether loss of dividend money in taxes to the Federal government is a problem with the dividend program, whether the dividends harm Alaska's image, and whether dividends are important sources of income in their communities. Rural residents were much more likely to see dividends as an important source of income.

Support for the dividend program is widespread among survey respondents, particularly among groups which tend to have lower incomes: rural residents, recent immigrants, persons with relatively less education, and younger and older Alaskans. Income itself is strongly related to attitudes toward the Permanent Fund dividend program, but even 45 percent of those living in households which received more than \$60,000 in income in 1983 supported the dividend program.

Three perceptions appear to be particularly important to those favoring the dividend program. Respondents were much more likely to favor dividends if they felt that (1) residents are entitled to a share in the state's wealth; (2) Alaska residents are better able to decide how to spend the state's money than the legislature; and (3) dividends are an important source of income. Household income did not explain any additional variation in public attitudes toward the dividends but accounts for much of the difference in perceptions about the importance of dividends as a source of income.

The importance of income and income-related perceptions in explaining support for dividends and the view that dividends are an entitlement suggest that much of the support for the dividend program will not diminish over time. Since support for the dividend program is apparently also a function of trust in the legislature's

motivations and abilities, public attitudes may shift in response to future state spending patterns, generally, and in response to specific proposals concerning the Permanent Fund in particular.

Finally, we observed that respondents who firmly expect that state revenues will decline in ten years were likely to oppose the dividend program in favor of increased savings while the reverse was true for those who firmly expect that state revenues will not decline. Less than half the persons we interviewed had either of these firm perceptions, however, and perceptions about future state revenues overall did not explain a substantial variation in attitude toward the dividend fund. This suggests that public expectations concerning future state revenues are not likely to substantially influence public attitudes toward the Permanent Fund dividend program, unless firmer public consensus on state revenue prospects should develop.

Effects of the Dividends on Income

The Alaska Permanent Fund Dividend Program has distributed more than 458 thousand 1982 dividend checks of \$1,000 and more than 430 thousand 1983 dividend checks of \$386.15 to Alaskans. More than \$15 million in 1982 dividend checks were distributed each month between June of 1982 and February of 1983, reaching a peak in December of 1982 at \$122 million. Almost all of the 1983 dividends were distributed between September and November of 1983.

About 31 percent of dividend recipients were children. Of all recipients, one-half had resided in Alaska for eleven or more years; one-fifth had resided in Alaska since 1959; and eight percent claimed only one year of residency. Two percent of the dividend checks were mailed to addresses outside Alaska.

Adults paid 28.4 percent of their 1982 dividends as federal income taxes. Since most children's dividend income was not taxed, the average tax rate for all dividend income was about 20.2 percent. Total federal income taxes were \$88 million on 1982 dividends and \$32 million on 1983 dividends.

The 1982 dividends directly increased Alaskans' after-tax income by about \$362 million, or by about 6.2 percent. However, the relative effects of dividends on after-tax income were much higher for large, low-income families. We prepared the estimates shown on the following table for the relative effects of 1982 Permanent Fund Dividends on after-tax income.

EFFECTS OF 1982 PERMANENT FUND DIVIDENDS
ON AFTER-TAX INCOME OF ALASKANS

Percent Increase in After-tax Income of Individual's Family	Percent of All Alaskans	Percent of Rural Alaskans	Percent of Rural Alaska Natives
0 - 5%	35	29	12
6 - 10	26	23	11
11 - 15	15	15	15
16 - 20	6	7	11
21 - 25	4	5	11
26 - 30	4	5	8
31 - 35	3	4	7
36 - 40	2	4	8
41 - 45	1	1	3
46 - 50	-	-	1
> 50	<u>3</u>	<u>6</u>	<u>14</u>
Total	100	100	100

- Less than 0.5 percent.

NOTE: Totals may not add to 100 due to rounding.

As shown in the table above, the relative effects of dividends varied widely among Alaskan households. For 61 percent of Alaskans, 1982 Permanent Fund Dividend income represented less than a 10 percent increase in their families' after-tax incomes. For another 26 percent, the dividends represented an increase in after-tax income of between 10 and 25 percent. For the remaining 13 percent of Alaskans, the dividends represented more than a 25 percent increase in family income.

The contribution of dividends to family income was relatively greater in rural Alaska, and especially so for rural Alaska Natives. Our estimates suggest that dividends represented in 1982 more than a 25 percent increase in family income for 41 percent of rural Alaska Natives.

In sum, the 1982 dividends represented a substantial increase in family income for many Alaskans, especially in rural areas. However, for a majority of Alaskans, the dividends represented a relatively small increase in family income, especially after federal income taxes were paid. Since the 1983 dividends were about one-third the size of the 1982 dividends, their contribution to after-tax income was also smaller.

How Alaskans Used Their Dividend Income

In each household surveyed, we spoke with the adult who knew the most about the use of the household's dividend checks and asked a series of questions about how much dividend income household members had used for the following categories:

- Special purchases
- Savings
- Debt reduction
- Day-to-day purchases
- Taxes

We asked separate questions about the uses of adults' and children's dividends and the uses of 1982 and 1983 dividends. Many interesting questions went unasked because the amount of time available in a telephone interview is limited.

As in any survey, respondents may not recall their households' purchases correctly. They may also avoid mentioning undesirable or illegal uses of income (none of our survey respondents mentioned any such uses). Similarly, many respondents may under- or overstate their total expenditures or have difficulty attributing purchases to special sources of income. To compensate for these limitations, we employed standard survey research techniques to internally check for the consistency of responses and referenced our survey responses to other secondary sources of information. We prepared several estimates of overall uses of dividend income based on different sets of assumptions about how to adjust for any overstated or understated uses.

Based on the survey results, between 5 and 15 percent of dividend income was used for special purchases, about one-fifth of which were airline tickets. Respondents mentioned a wide variety of other special purchases, among the most common of which were cars, furniture, houses, home additions, televisions, appliances, bicycles, law-machines, and three-wheelers.

Between 15 and 25 percent of dividend income was saved, and about 5 percent was used to reduce debt. About 20 percent went to taxes. The remainder of dividend income--between 35 and 55 percent--was used for day-to-day purchases such as food, heat, clothing, and rent.

Lower-income and rural households used relatively less of their dividend income for taxes or savings and relatively more for debt reduction and special purchases.

Parents decided how their children's dividends would be used in over one-half of all households while children alone made the decisions in less than one-tenth. In the remainder of households, the decisions were made collectively. The greater the children's say in the use of the dividends, the greater the share of the

dividends which was spent, while the greater the parents' say, the greater the share which was saved or used to reduce debt.

In order to summarize the effects of the dividends, we asked each respondent the following question: "Overall, how would you say your household's spending, saving, and debt was changed by your dividend checks?" We categorized the answers in terms of the most significant effect which was mentioned. The following table summarizes the answers for the 1982 adults' and children's dividends, broken down by household income group. There were clear differences in the effects of dividends between income groups. The lower the income group, the greater the share of households which cited "reduced debt," "help with regular expenses," and "help with special purchases" as the most significant effects of dividends and the lower the share of households which cited "savings" or "little or no effect." Less than one-third of the lowest-income households thought that dividends had "little or no effect," compared to over half of the highest income households. The effects of adults' and children's dividends were also viewed differently: "reduced debt" and "help with regular expenses" were mentioned less frequently as effects of children's dividends while "increased savings" was mentioned more frequently.

MOST SIGNIFICANT OVERALL EFFECTS OF PERMANENT FUND
DIVIDEND INCOME, AS SUMMARIZED BY SURVEY RESPONDENTS,
BY HOUSEHOLD AND INCOME GROUP
(Percent of Households)

Most Significant Overall Effect	1982 Adults' Dividends				1982 Children's Dividends			
	Under \$26,000	\$26,000-\$40,000	\$41,000-\$60,000	More Than \$60,000	Under \$26,000	\$26,000-\$40,000	\$41,000-\$60,000	More Than \$60,000
Reduced Debt	18.3	13.8	11.9	4.9	10.7	5.5	1.9	1.7
Increased Savings	9.1	19.3	25.0	15.8	20.1	24.5	28.9	21.7
Help with Regular Expenses	22.1	11.9	14.6	11.9	19.1	9.0	8.6	2.9
Special Purchases	10.8	9.8	4.9	5.1	7.2	5.5	9.4	1.7
Little or No Effect	27.9	36.3	33.5	49.3	31.7	41.1	38.7	52.6
Unaccounted for or No Answer Given	<u>11.8</u>	<u>8.9</u>	<u>10.1</u>	<u>13.0</u>	<u>11.2</u>	<u>14.4</u>	<u>12.5</u>	<u>19.4</u>
TOTAL	100	100	100	100	100	100	100	100

We examined dividend use in rural areas by comparing sales in twelve rural stores to dividend distributions using regression analysis. For eleven of these stores, we found that dividends significantly affected sales in at least some departments. In nine of the stores, total monthly sales increased by between \$83 and \$373 for every thousand dollars of dividends distributed locally during the month. Departments in which the effects on sales were greatest included groceries, soft goods, and hardware. Generally, the 1982 dividends had a greater direct effect on sales per dollar distributed than did the 1983 dividends. These results suggest that a large share of dividend income in rural areas was used to make purchases locally. They also serve to substantiate survey responses on how dividends were used in rural areas.

Economic Effects of the Dividend Program

This part of the study was divided into three sections which analyzed (1) the past and projected economic effects of the current dividend distribution program, (2) the relative economic effects of the program in comparison to other uses of an equivalent amount of Permanent Fund earnings, and (3) the economic effects of variations in the timing of the use of Permanent Fund earnings for dividends or other purposes.

The economic impact of the dividend program results primarily from the personal consumption spending it generates. Alaskans perceive dividend income to be some combination of permanent, transitory, and windfall income; and, consequently, less of it is spent than ordinary income. This is less so for lower-income Alaskans who consume most of their current income, including dividend income.

The dividends have been one of the most important sources of growth in disposable (after-tax) personal income in Alaska since the current economic boom began in 1980. The dividends directly accounted for 17 percent of the increase in disposable income for the years 1981-1983. Because of lags in both the distribution of dividends and personal expenditures, the spending of this income created 3 thousand jobs in 1982 and 5 thousand jobs in 1983. People moving to Alaska to fill these new jobs increased the state's population by 2 thousand in 1982 and another 2 thousand in 1983, resulting in higher government expenditures. In addition, the new jobs further increased disposable income by 9 percent in 1982 and by 23 percent in 1983.

The dividend program has not had any discernible effects on inflation. Few, if any, people have left the labor force as a result of dividend income. There is no evidence of substantial migration to Alaska by people hoping to receive dividends; at most, some people may have postponed their departure from Alaska in order to receive dividends. The secondary effects of dividends were felt