

ALASKA LEGISLATURE COMMITTEE FILES 1900-1900 00/2

4059 SJUD SB 56 (FILE 1) - SB 56 (FILE 3) 983

Introduced: 2/25/85
Referred: State Affairs
and Finance

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2

HOUSE BILL NO. 239

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the longevity bonus program; and
7 providing for an effective date."

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

9 * Section 1. AS 47.45.010 is amended by adding a new subsection to
10 read:

11 (d) Notwithstanding (a) of this section, on July 1, 1991, the
12 age requirement for eligibility for a longevity bonus shall be in-
13 creased to 66 years of age. On July 1 of each succeeding year the age
14 requirement shall be increased by one year.

15 * Sec. 2. Section 11, ch. 38, SLA 1984 is repealed.

16 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

Introduced: 3/4/85
Referred: Rules

BY HURLEY, ADAMS, GRUSSENDORF,
CLOCKSIN, KOPONEN, LARSON, SUND,
TAYLOR AND BOUCHER

1 IN THE HOUSE

2

HOUSE CONCURRENT RESOLUTION NO. 16

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

Relating to the longevity bonus program.

6

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

7

WHEREAS the state of Alaska has always been committed to the elderly;

8

and

9

WHEREAS that commitment has been evidenced by the Alaska longevity

10

bonus program since 1972; and

11

WHEREAS the ruling of the Alaska Supreme Court in Schafer v. Vest

12

compels the legislature to replace the original longevity bonus program;

13

and

14

WHEREAS the discussion of what form the longevity bonus program should

15

take in the future has caused uncertainty among recipients;

16

BE IT RESOLVED that the Alaska State Legislature is committed to the

17

principle that those currently receiving the longevity bonus will continue

18

to receive it regardless of what form the program may take in the future.

MEMORANDUM

State of Alaska

TO: Louann Cutler
Representative Adam's Office
Alaska State Legislature

January 28, 1985

DATE:

FILE NO:

TELEPHONE NO:

FROM: Barbara *BMP* McPherson
Assistant Director
Older Alaskans Commission
Department of Administration

SUBJECT:

The Older Alaskans Commission survey information that you requested is attached. Please note that this is preliminary information based on a sample of 1,000 respondents.

BMP/ro

Attachment

MEMORANDUM

State of Alaska

TO: Staff
Older Alaskans Commission

January 10, 1985

DATE:

FILE NO:

TELEPHONE NO:

FROM: Jon B. Wolfe, Executive Director
Older Alaskans Commission

SUBJECT: Results of Survey

We have received approximately 10,150 returned questionnaires which have been forwarded to the Long Term Care Center for analysis. This is a response rate of approximately 73%. As you all know, this is a phenomenally high rate considering that we did not do a follow up.

The Center has processed a random sample of 1,000 questionnaires. These results should be received today. This will include some cross tabulation of variables (eg. age and sex by health (question 23) and age and sex by disability (question 17)).

The Center plans to have the total survey entered by mid-February. They can run any analysis or cross tabulation we desire within the random sample or the total after 2/15. Processing time for all but very complex analysis will take only a day.

I recommend you all review the questionnaire. Let me know of any analysis you desire and I will request it of the Center.

I will brief you on the sample results after I have had an opportunity to review them.

JBW/ro

OLDER ALASKANS SURVEY
OCTOBER 1984
RANDOM SAMPLE ONLY*

1. AGE CODE = GIVEN AGE
MEAN = 71.915 YEARS OF AGE
MEDIAN = 70.565
MINIMUM = 55
MAXIMUM = 102

2. SEX 1 = MALE 51.6%
2 = FEMALE 48.4%

3. MARITAL STATUS (current)

1. Married 60.6%
2. Divorced 8.7
3. Separated 1.2
4. Widowed 25.6
5. Never Married 3.9

4. Ethnic/racial background

1. White/Caucasian 73.4%
2. Native Alaskan 21.4
3. American Indian 1.4
4. Black .5
5. Asian/Pacific Islander 2.3
6. Other .5

5. Hispanic Background

1. YES 1.3%
2. NO 98.7%

6. BORN IN ALASKA

1. YES 25.0%
2. NO 75.0

7. YEAR CAME TO ALASKA (See data page 9)

CODE = YEAR
RANGE = 1908 TO 1983
MEAN = 1952

(PEAK PERIOD IS DURING WORLD WAR II AND PARTICULARLY THE POST WAR YEARS)

C1C885

* RANDOM SAMPLE

OF 1000 RESPONDENTS. APPLICATIONS OF THIS DATA SHOULD BE LIMITED

8. HOUSING ARRANGEMENTS

1. HOUSE	78.6%
2. APARTMENT	17.1
3. GROUP QUARTERS (Nursing home, Pioneer home, etc.)	4.3

9. HOUSING SATISFACTION

1. EXCELLENT	34.5%
2. GOOD	43.5
3. FAIR	16.8
4. POOR	4.2
5. BAD	1.0

10. MONTHLY HOUSING COST
INCLUDING UTILITIES (see data page 15)

CODE = MONTHLY COST
 MEAN = \$447.04
 MEDIAN = 399.66
 MODE = 500.00

11. LIVING WITH SPOUSE

1. YES	58.9%
2. NO	7.9
3. NO RESPONSE	33.2

12. PEOPLE LIVING WITH RESPONDENT

1. PARENTS	
NONE	94.0%
ONE OR MORE	5.9%
2. CHILDREN	
NONE	73.4%
ONE OR MORE	26.5%
3. BROTHERS	
NONE	97.8%
ONE OR MORE	2.2%
4. SISTERS	
NONE	96.5%
ONE OR MORE	3.6%
5. GRANDCHILDREN	
NONE	84.8%
ONE OR MORE	15.3%
6. OTHER RELATIVES	
NONE	92.1%
ONE OR MORE	7.9%
7. OTHER PEOPLE	
NONE	89.3%
ONE OR MORE	10.6%

*More relatives
living w/ elders
than national
data would
indicate.*

13. TOTAL NUMBER OF PEOPLE LIVING WITH RESPONDENT (see data page 33)

CODE = Number

NONE	25.7%
ONE	46.9
TWO	10.8
THREE	6.2
FOUR OR MORE	10.3

14. NUMBER OF CHILDREN LIVING NEAR YOU

NONE	37.1%
ONE	29.2
TWO	17.4
THREE	8.3
FOUR	2.8
FIVE OR MORE	5.1

15. NUMBER OF SIBLINGS OR CLOSE RELATIVES LIVING NEAR YOU

NONE	72.9%
ONE	10.9
TWO	5.5
THREE	3.4
FOUR	1.6
FIVE OR MORE	5.8

16. NUMBER OF CLOSE RELATIVES THAT DO NOT LIVE NEAR YOU

SIBLINGS	NONE	41.1%
	ONE	17.3
	TWO	15.4
	THREE	9.4
	FOUR	7.5
	FIVE	3.5
	SIX	2.4
	SEVEN OR MORE	3.4

CHILDREN	NONE	43.4%
	ONE	20.7
	TWO	14.4
	THREE	9.8
	FOUR	5.3
	FIVE	2.4
	SIX	2.0
	SEVEN OR MORE	2.0

OTHER RELATIVES	NONE	53.1%
	ONE	7.6
	TWO	5.5
	THREE	3.5
	FOUR	4.0
	FIVE	3.6
	SIX	2.2
	SEVEN OR MORE	20.5

17. DISABILITY COMPARED TO COHORTS

1. Much more disabled	11.3%
2. Somewhat more	15.3
3. About the same	28.7
4. Less	21.4
5. Much Less	23.4

18. DEGREE OF HELP NEEDED WITH NECESSARY TASKS

1. Much help	10.9%
2. More than a little	12.4
3. A little help	34.8
4. No help needed	41.9

highly dependent

19. DEPENDENCE UPON OTHERS FOR DAILY TASKS

1. Very dependent	10.9%
2. Somewhat	19.2
3. Slightly	26.1
4. Not dependent at all	43.7

20. NUMBER OF DAYS SPENT IN A HOSPITAL IN THE PAST YEAR (see data page 43)

CODE = Number of days
 MEAN = 3.840 days

NONE	74.7%
ONE	1.9
TWO	3.1
THREE	2.6
FOUR	1.7
FIVE	1.8
SIX	1.2
SEVEN DAYS AND MORE	13.0

lower than national avg.

21. NUMBER OF TIMES SEEN BY A PHYSICIAN OR OTHER HEALTH PRACTITIONER DUE TO ILLNESS OR INJURY IN THE PAST YEAR

CODE :: NUMBER OF TIMES
 MEAN :: 5.146 TIMES

NONE	25.2%
ONE	14.1
TWO	13.8
THREE	6.9
FOUR	8.9
FIVE	5.5
SIX	5.7
SEVEN OR MORE	19.9

healthy

22. DAYS SICK IN BED AT HOME DURING THE PAST YEAR (see data page 47)

CODE = NUMBER OF DAYS
 MEAN = 11.711 DAYS IN BED

NONE	55.6%
ONE	2.8
TWO	4.2
THREE	3.1
FOUR	3.3
FIVE	3.4
SIX	1.7
SEVEN OR MORE	28.9

23. HEALTH RATING

1. PERFECT	4.1%
2. VERY GOOD	19.2
3. GOOD	41.0
4. FAIR	27.4
5. NOT GOOD AT ALL	8.3

THE AVERAGE RESPONDENT RATED THEIR HEALTH AS GOOD *> high*

24. HEALTH COMPARED TO COHORTS

1. MUCH BETTER THAN MOST	14.5%
2. BETTER	18.6
3. ABOUT THE SAME	44.9
4. SOMEWHAT WORSE	16.5
5. DEFINITELY WORSE	5.5

THE AVERAGE RESPONDENT RATED THEIR HEALTH AS SLIGHTLY WORSE THAN OTHERS OF THEIR AGE AND SEX

25. LEVEL OF SCHOOLING COMPLETED

1. FOURTH GRADE OR LESS	14.3%
2. FIFTH TO EIGHT GRADE	19.3
3. SOME HIGH SCHOOL	14.4
4. HIGH SCHOOL GRADUATE	19.9
5. SOME COLLEGE	15.9
6. COLLEGE GRADUATE	7.6
7. GRADUATE OR PROFESSIONAL SCHOOL	8.7

52.1%

26. SPOUSE ALSO RECEIVING ALB

1. YES	40.7
2. NO	26.7
3. NOT MARRIED	32.6

27. PERSONS RECEIVING INCOME FROM THE FOLLOWING SOURCES (see data)

	<u>YES</u>	<u>NO</u>
1. SAVINGS, INVESTMENTS STOCKS, BONDS	62.0%	38.0%
2. SOCIAL SECURITY	93.3	6.7
3. SSI	26.7	73.3
4. ADULT PUBLIC ASSISTANCE	25.6	74.4
5. RETIREMENT BENEFITS	57.8	42.2
6. WORK/JOB	21.9	78.1
7. OTHER	25.9	74.1

28.. TOTAL INCOME

1.	LESS THAN \$5,000	19.2
2.	\$5,000 - 9,999	31.5
3.	\$10,000 - 14,999	20.5
4.	\$15,000 - 19,999	13.0
5.	\$20,000 and over	15.9

29. CURRENTLY EMPLOYED

YES - 10.8%

FULL TIME	4.8
PART TIME	4.2
SEASONALLY	1.8

NO - 89.1%

RETIRED	69.1
UNEMPLOYED AND LOOKING FOR WORK	1.4
NOT USUALLY EMPLOYED	18.6

30. JOB OR OCCUPATION (see data page 112)

31. PROBLEM IN PERFORMING THE FOLLOWING TASK

	NEEDED NO HELP	NEED SOME HELP	NEED A LOT OF HELP	TOTAL NEEDING HELP
Bathing	89.5%	7.7%	2.8%	10.5%
Toilet	96.6	2.0	1.4	3.4
Dressing	94.0	4.6	1.4	6.0
Moving in/out bed/chairs	93.5	5.1	1.4	6.5
Eating	96.2	2.9	.8	3.7
Buying or getting food	77.8	15.0	7.2	22.2
Telephone	86.3	9.5	4.2	13.7
Transportation	70.8	17.1	12.2	29.3
Cooking	81.4	12.8	5.7	18.5
Taking Medications	89.5	7.7	2.8	10.5
Housework	74.4	17.8	7.8	25.6
Managing money	86.0	9.9	4.1	14.0

*great need -
correlates
w/ past
research*

32. HEALTH PROBLEM SEVERITY

	NO IMPAIRMENT	LITTLE PROBLEM NO LIMITATIONS	MODERATE PROBLEM SOME LIMITATIONS	SERIOUS PROBLEM
Hearing	45.1%	32.6%	17.1%	5.2%
Eyes	32.5	43.9	17.1	6.5
Back	49.2	26.1	17.0	7.7
Feet or legs	44.5	27.3	18.9	9.3
Lungs	65.6	16.9	9.7	7.8
Arthritis	41.2	31.3	18.7	8.8
Bladder or Bowel	76.6	15.1	5.9	2.3
Diabetes	89.0	5.1	3.4	2.6
Teeth/Dentures	61.6	26.0	8.6	3.8
Memory	64.7	24.3	7.5	3.4
Speech	87.5	9.1	2.3	1.1
Heart	65.3	18.4	11.0	5.3
Alzheimers	96.0	2.7	.6	.7

33. FREQUENCY OF USE OF SERVICES DURING
THE PAST MONTH

	NONE	1-2 DAYS	3-10 DAYS	11-31 DAYS
HOSPITAL	85.8%	5.9%	5.6%	2.7%
NURSING HOME	98.6	.1	.3	1.0
PIONEER HOME	97.3	0	0	2.7
ALASKA PSYCHIATRIC INSTITUTE	100.0	0	0	0
MENTAL HEALTH CLINICS	99.6	.3	0	.1
NUTRITION PROGRAM	90.9	2.0	3.9	3.2
HOME DELIVERED MEALS	95.8	.4	2.0	1.8
SENIOR CITIZEN CENTER	81.3	7.4	7.1	4.2
HOMEMAKER/CHORE	95.5	1.5	1.4	1.5
HOME HEALTH AIDE/NURSE	93.2	3.7	2.0	1.1
SENIOR TRANSPORTATION	88.8	4.0	4.1	3.1
PUBLIC TRANSPORTATION	86.9	6.4	4.5	2.2
DENTAL CARE	89.3	7.2	3.0	.5
ALCOHOL AND DRUG TREATMENT	99.3	.2	.2	.2
PUBLIC HOUSING	96.2	.2	.1	3.5
ALASKA LEGAL SERVICES CORP.	97.1	2.1	.6	.2
ADULT PROTECTIVE SERVICES	99.4	.4	0	.1
ADULT DAY CARE	99.3	.2	.2	.2
PHYSICIAN	64.6	20.9	10.2	4.4
VILLAGE CLINIC	90.1	6.5	2.5	.9
PUBLIC HEALTH CENTER	93.0	5.7	.9	.4
FOOT CARE	96.3	3.1	.2	.4
SENIOR CITIZEN OMBUDSMAN	98.5	.8	.6	.2

info from cross tabulation:

- ① Whites - more men than women
natives - more women than men - more like
Outside trend,

women have less income, live longer, are
more dependent. if \uparrow elders increase
higher than Outside, then affects
annuity prog, long term care plans, etc.

only cost \$4,000 to do survey.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 8, 1985

SUBJECT: Longevity bonus/annuity program bill
(CSSB 56 (State Affairs))

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

FROM: Keith B. Levy *KB*
Legislative Counsel

You have asked the following questions relating to CSSB 56 (SA), the longevity bonus/annuity program bill:

1. Are the annuity provisions of the bill prohibited by ERISA or other federal or state statutes?
2. What are the implications of AS 43.23.130(f), added by sec. 16 of the bill, which provides that an individual has no vested property right in an annuity payment until that payment is made?

1. Implications of federal/state statutes.

The Employee Retirement Income Security Act of 1974, P.L. 93-406, (ERISA), was enacted by Congress in 1974 to protect certain employees' rights under employee benefit plans maintained for them by their employers or employee organizations if the employer is engaged in interstate commerce or activities affecting interstate commerce. Section 4(a) of the act specifically states the coverages of the act, and refers only to employees and employers. Thus, the act was clearly not intended to apply to the type of annuity plan created by CSSB 56(SA), since there is no employee/employer relationship between the annuitants and the state.

Representative Albert P. Adams
February 8, 1985
Page 2

Moreover, even if the annuity plan could be construed as an employee benefit plan, it would still not be covered by ERISA. Section 4(b) of the act specifically excludes from its coverage governmental employee benefit plans. The term "governmental plan" is defined in sec. 3(32) of the act as

. . . a plan established or maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by an agency or instrumentality of any of the foregoing. (Emphasis added.)

Accordingly, it is clear that ERISA could not be applied to the annuity plan established in CSSB 56(SA).

I am unaware of any other provisions of federal law that could have an impact on the annuity provisions of CSSB 56(SA) other than the provisions of the Internal Revenue Code. It is my understanding that tax counsel was hired by the Longevity Bonus Committee so that the bill could be prepared to have the least tax impact on annuitants. I would defer to the expertise of tax counsel on matters related to the interpretation of the Internal Revenue Code.

probably makes people vest.

There are a number of provisions of state law related to the establishment of annuity plans in the state (see, e.g., AS 21.45 and 21.48). However, to the extent that these provisions conflict with CSSB 56(SA), the bill would prevail if enacted since it is the later enactment. In any case, nothing in existing law (other than constitutional provisions) could prevent the state from setting up the annuity program the way it wants, since the existing provisions could simply be amended by the legislature. Thus, state law is not an impediment to the provisions of CSSB 56(SA).

2. Vested property rights in the annuity.

AS 43.23.130(f), added by sec. 16 of the bill provides:

An individual does not receive a vested property right in an annuity payment until that payment is made. Notwithstanding this section, the state is not obligated

to provide annuity payments for annuity credits granted under AS 43.23.005.

The significance of this section is that, a person could elect to take the permanent fund dividend in the form of an annuity credit for their entire lives and lose the entire benefit if a future legislature chose to repeal the program or spend the money elsewhere. If the bill is enacted, the state would not be obligated to make annuity payments and a person would have no legal rights to them except for payments already received.

It is clear that an individual has no property interest in a permanent fund dividend payment other than that created by statute. Accordingly, the legislature can set up the statutory scheme so that a person has no vested interest in receiving an annuity payment if that person elects to take an annuity credit instead of a cash permanent fund dividend. In discussing the nature of these kinds of property rights, the United States Supreme Court has said:

To have a property interest in a benefit, a person clearly must have more than an abstract need or desire for it. He must have more than a unilateral expectation of it. He must, instead, have a legitimate claim of entitlement to it.

* * *

Property interests, of course, are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law -- rules or understandings that secure certain benefits and that support claims of entitlement to those benefits. (Emphasis added).

Board of Regents v. Roth, 408 U.S. 564, 33 L.Ed 2d 548, 561, 92 S.Ct. 2701 (1971) (nontenured employee of state university has no property interest in job that would require hearing before dismissal without cause). In other words, an individual has no vested right to benefits from the state unless the statutes creating those benefits create such an entitlement. AS 43.23.130(f) makes it clear that the annuity program is not an entitlement. Thus, if a person were to select an annuity credit under the bill, they would do so knowing that, under the provisions of the bill, they have no

Representative Albert P. Adams
February 8, 1985
Page 4

right to sue the state if they never receive an annuity payment.

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

KBL:ojb
J11/067

Not an entitlement

can't sue bec/ you realize
that the st. is under no
obligation to ever get it.

Administration Criticism of Annuity Plan

- * 3% escalator has no economic justification
- * annuity plan has nothing to do with the Alaska Longevity Bonus program; it is a completely separate proposal (current recipients are grandfathered into current ALB program at current payments)
- * after the initial years of "front-loading", the plan likely loses its tax shelter features;
- * a tax shelter program is neither necessary nor appropriate for state government;
- * regarding participation, the plan likely won't be attractive for low-income people and young people; in fact, the architects of the plan estimate only a 30 percent participation rate;
- * as an investment, the plan is not that attractive:
 - the annuitant does not own the annuity
 - not part of the estate if death occurs
 - no capital gain
- * the plan does not address the problem experienced by low-income persons in terms of Old Age Assistance, SSI and Medicaid payments;
- * the front-loading costs are a bad use of precious revenues that do nothing for basic needs;
- * the plan does not protect the Permanent Fund;
- * it is untested;

According to Marsha Hubbard, the plan would be more acceptable if it did not depend on any use of General Fund or Permanent Fund money; this is the biggest criticism. Without the front-loading, however, the architects of the plan fear participation would be even less. Mandatory participation is unacceptable to Jay Hammond, Rick Halford, Al Adams, and probably others. Lisa Rudd does not support any plan funded by PF. Adams has publicly expressed support for the Administration needs-based proposal, but mostly because he did not want to support the annuity plan. He is likely to support other options. His bottom line will be at least continuation of the existing program for another year beyond the June 30, 1985 sunset.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

S-5A 1-24-85 8:35 am
" 1-25-85 3:30 pm
" 1-29-85 8:35 am

WORK ORDER REQUEST FORM

114 - 1835

KEYWORDS: longevity bonus

ASSIGNED TO Levy

REQUEST FOR: BILL RESOLUTION RESEARCH OTHER

SUBJECT Longevity Bonus

REQUESTED FOR Sen. Rodey BY Roger Lewis EXT. _____

* DELIVER TO Sen. Rodey TAKEN BY Levy

INSTRUCTIONS, EXPLANATIONS Prepare a bill to continue the longevity bonus in its present form until June 30, 1966.

OBTAIN

SPECIAL DRAFTING INSTRUCTIONS ATTACHED

AUTHORIZED TO CONFER WITH _____

RETURN _____

_____ TO REQUESTER

APPROVED: SGE Director, Legal Services

REVIEWED _____

SPECIAL INSTRUCTIONS TO TYPIST/PROOFREADER

IN 03/04/66 DUE _____

TYPED - Draft _____ DATE _____

Final _____ DATE _____

PROOFED _____ DELIVERED _____

DRAFT

FINAL



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.

James O. Smith
Signature of Camera Operator

11/7/89
Date

SB

56

(FILE 2)

OVERVIEW 2/21/85

MEMORANDUM

TO: Senate Judiciary Committee Members
FROM: Committee Staff
DATE: February 21, 1985
RE: SB56 Hearing #1 - Overview

Enclosed you will find the following information:

- * CS for SB56 (State Affairs)
- * Sectional Analysis
- * Senate State Affairs Letter of Intent on SB56
- * Department of Administration - Fiscal Notes and Position Paper
- * Department of Revenue - Position Paper and Fiscal Notes
- * State Special Committee on Longevity Bonus - Comments on Senate State Affairs Committee Consideration of Annuity Bill
- * Report to the Fourteenth Legislature and Governor Bill Sheffield from the State Special Committee on the Alaska Longevity Bonus Program
- * Dept. of Health + Social Services Position Paper and Fiscal Notes

SECTIONAL SB 56 (SA)

SECTION 1

Findings and Purpose

SECTION 2

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

SECTION 3

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

SECTION 4

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

SECTION 5

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

SECTION 6

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

SECTION 7

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

SECTION 8

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

SECTION 9

Conforms the penalties and enforcement laws to include annuity credits.

SECTION 10

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

SECTION 11

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

SECTION 12

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

SECTION 13

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

SECTION 14

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

SECTION 15

New definition of permanent fund dividend to include annuities.

SECTION 16

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

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

SECTION 17

Deletes the dollar amount in the Longevity Bonus program.

SECTION 18

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

SECTION 19

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

SECTION 20

Repealers of existing Longevity Bonus Program

SECTION 21

Repealers of existing Longevity Bonus Program

SECTION 22

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

SECTION 23

Immediate Effective Date

SENATE STATE AFFAIRS COMMITTEE
LETTER OF INTENT
ON SENATE BILL 56

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

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

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

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


Senator Mitch Abood, Chairman
Senate State Affairs Committee

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: CSSB 56 (SA)
 Title: An act amending the longevity bonus program
 Sponsor: State Affairs
 Requestor: Judiciary
 Date of Request: 2/20/85

FISCAL DETAIL

Agency Affected: Department of Administration
 Program Category Affected: Centralized Administrative Services
 BRU, Program or Subprogram(s) Affected: BRU, Program or Subprogram(s) Affected:
 Data Processing Services/Annuity Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

Operating	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 Personal Svcs		60.0	63.0	66.2	69.5	72.9
100 Rtmnt & Bnfts						
200 Travel						
300 Contractual		20.0	21.0	22.0	23.2	24.3
400 Supplies		.5	.5	.6	.6	.6
500 Equipment		4.0	4.2	4.4	4.6	4.9
600 Land & Struct						
700 Grants, Claims						
700 TRS Match						
TOTAL OPERATING	-0-	84.5	88.7	93.2	97.9	102.7
CAPITAL		750.0				
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		834.5	88.7	93.2	97.9	102.7
TOTAL	-0-	834.5	88.7	93.2	97.9	102.7

POSITIONS:

-0-

FULL-TIME		1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared By: J.K. Humphreys, Director
 Division: Retirement & Benefits

Phone: 465-4470

Date: 2/21/85

Approved by Commissioner: Lisa Rudd
 Agency: Department of Administration

Date: 2-21-85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CS Senate Bill 56 (State Affairs)
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration

February 21, 1985

IV: Analysis: This Fiscal Note addresses costs in the Labor Services Program Category. The cost of the annuity program is anticipated to be borne entirely by the participants. We estimate that approximately four full-time employees will be needed to administer this program on a continuing basis. We estimate that the program supervisor and chief accountant will be needed for the entire first year to assist in the development and analysis of the computer system needs with the other two staff members being needed for only half of FY 86 to assist with the implementation and testing.

We are basing this Fiscal Note on the assumption that the Department of Revenue will verify ages of those who elect to participate in the annuity program. This is critical.

We estimated an inflation rate of 5% in all categories. Further, we assumed that "other funds" would be available for FY 86 costs.

We estimate that four positions are needed to administer this program.

Supervisor: Retirement & Benefits Specialist III
Accountant: Accountant II
Technician: Retirement & Benefits Technician I/II
(6 months FY86, full-time thereafter)
Clerk: Accounting Clerk III
(6 months FY86, full-time thereafter)

We propose that a notification will be sent to all Alaska boxholders to inform them of the provisions of the bill and to advise them of the contact persons or agencies. We estimate an annual cost of \$20.0 for independent audits. We also propose that there will be annual statements of account that will be sent to approximately 150,000 participants. This cost is estimated to be \$41.0 for FY 86.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: CSSB 56 (SA)

Title: An act amending the
longevity bonus program

Sponsor: State Affairs

Requestor: _____

Date of Request: _____

FISCAL DETAIL

Agency Affected: Department of Administration

Program Category Affected: _____

Labor services

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

Operating	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 Personal Svcs		124.5	164.7	173.0	181.6	190.7
100 Rtmnt & Bnfts						
200 Travel						
300 Contractual		61.0	67.1	73.8	81.2	89.3
400 Supplies		10.6	12.7	15.3	18.3	22.0
500 Equipment		16.0				
600 Land & Struct						
700 Grants, Claims						
700 TRS Match						
TOTAL OPERATING	-0-	212.1	244.5	262.1	281.1	302.0

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	-0-	212.1	244.5	262.1	281.1	302.0
TOTAL	-0-	212.1	244.5	262.1	281.1	302.0

POSITIONS: -0-

FULL-TIME		4	4	4	4	4
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

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

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)

CS Senate Bill 56 (State Affairs)
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration

February 21, 1985

IV Analysis: This Fiscal Note addresses costs in the Data Processing Services BRU. We estimate that the annuity program will be fully automated to reduce the need for staff. We estimate that system analysis, development and construction costs would be \$750,000 and would be a capital appropriation from "other funds".

We anticipate the need for one full-time programmer/analyst IV to provide guidance in the development of the annuity systems with the contractors and, after implementation, to provide ongoing maintenance. We also estimate a cost of \$20.0 for computer records storage.

We estimated an inflation rate of 5%. Further, we assumed that "other funds" would be available for FY 86 costs.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: CSSB 56(SA)

Title: Longevity Bonus/Annuity

Program _____

Sponsor: Ray

Requestor: _____

Date of Request: _____

FISCAL DETAIL

Agency Affected: Administration

Program Category Affected: Social and

Economic Assistance for the Aged

BRU, Program or Subprogram(s) Affected:

Longevity Bonus Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	0	0	0	0	0	0
200 TRAVEL						
300 CONTRACTUAL	0	10.0	0	0	0	0
400 SUPPLIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	10.0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	10.0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL	0	10.0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: E. Louis Keller, Director *ARK*

Division: Pioneers' Benefits

Phone: 465-4400

Date: February 19, 1985

Approved by Commissioner: Lisa Rudd *L. Rudd*

Agency: Department of Administration *for*

Date: 2-21-85

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

CSSB 56(SA)
Fiscal Note Analysis
Prepared by Division of Pioneers' Benefits
Department of Administration
February 19, 1985

ASSUMPTIONS

This fiscal note addresses administrative costs only for the Longevity Bonus Program.

Two payment systems will be run in the Division of Pioneers' Benefits. The first would pay a monthly target amount for those eligibles age 65 before January 1, 1986. The second would pay monthly payments, varying each year, for those age 65 after January 1, 1986. The second system would be impacted by information from the Annuity program.

The Longevity Bonus program would need additional resources for modifications to data processing files.

FY 86 Administrative Costs (Start-up)

Contractual Services	\$10,000
Computer System Modification by Contractor	
Printing Costs already in 86 Budget	

FY 87 Administrative Costs (Operations)

No Additional Cost

POSITION PAPER

CSSB 56 (STATE AFFAIRS)

This bill would affect three departments of state government, i.e., administration, revenue, and health and social services.

Basically the bill would amend the longevity bonus program and the permanent fund dividend program, establish an annuity program, and provide for an effective date. The effect of the bill would be to phase out the general funded longevity bonus program and replace it with individual annuity accounts funded primarily by deferral of participants permanent fund dividends by approximately the year 2003. The bill would also authorize the legislature to "front-load" the annuity fund with annual appropriations.

The bill "grandparents" in those citizens who are 65 years of age before January 1, 1986 in the longevity bonus program for their lifetime.

Following are some of the potential problems of administration, areas where it might be desirable to amend this bill before passage, and possible legal and social difficulties with the bill as proposed.

1. On page 2, under Section 3, AS 43.23.005 (d) beginning in midline 22 reads, "Alternatively, a person may elect to receive not less than 25 percent of the dividend in cash and the remainder as an annuity credit." This could create a problem of where a citizen may request any amount of permanent fund dividend in cash as long as it is more than 25 percent of the whole.

To amend the section as follows would greatly enhance the ability of those charged with administrative responsibilities to administer the fund and make elections simpler for participants. "Alternatively, a person may elect to receive 25, 50, or 75 percent of the dividend in cash and the remainder as an annuity credit." It is possible this could be addressed by regulations.

2. Page 6, Section 11, AS 43.23.055 (5) causes the commissioner of revenue to provide the commissioner of administration with information necessary to maintain individual annuity account records and administer the annuity program.

The regulations that would be written must meet the needs of both departments and at least the following information must be transmitted to the commissioner of administration: the verified age of the participant; the address of participant; the social security number of the participant; the particular election made by the participant; i.e., amount of cash or annuity credit; any deferrals that may affect the participant's account; the funds earnings; and the amount of any appropriations to the fund for distribution.

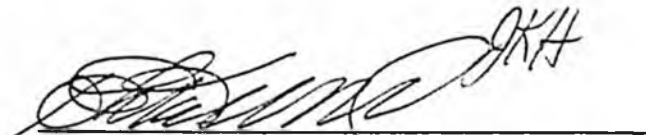
Much of the above information would have to come from the application for the permanent fund dividend and the verification of age would need to be accomplished by the department of revenue.

3. On page 8, Section 16, AS 43.23.110 (b) the legislature is authorized, if they deem appropriate, to appropriate money from either general funds or earnings of the undistributed income account in the Alaska permanent fund into the annuity investment fund. This is a process of "front-loading."

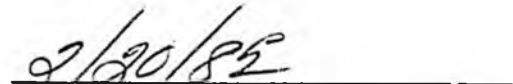
Inasmuch as the "front-loading" need not occur every year, or in any year, and inasmuch as it is the opinion of the longevity bonus committee's tax counsel that the permanent fund dividend is taxable in years when no "front-loading" occurs, the problem of record keeping becomes apparent.

4. On page 9, Section 16, AS 43.23.110 (b) (2) (3) the bill deals with two levels of increment earnings on individual annuity accounts. One level for persons age 18 through 35 and an escalating level for persons age 35 through 65.
5. On page 10, Section 16, AS 43.23.110 (e) the bill states that any costs of administration funded under this subsection will be allocated equally among all individual annuity accounts. Under this section it seems apparent that the writers of this bill have made the assumption that "front-loading" will occur at least during the first years of the program. If such "front-loading" should not occur during these initial years, sufficient funds may not be available for administrative costs.
6. The bill is vague on what happens to account balances of participants over the age of 65. If annuities vary from year to year, then do account balances also? When a participant becomes eligible to receive an annuity, what happens to that account balance? Does it get redistributed, or is a special reserve fund perhaps established? What if a participant over 65 dies? This lack of a definite cut off point greatly complicates the program and restricts the choice of participants.
7. On page 12, Section 19, AS 47.45.070 (2) under "Unqualified Persons" the bill states that participants become unqualified upon being admitted into a nursing home as defined in AS 08.70.180. This may raise the legal question of whether or not the state could disqualify an otherwise qualified annuity participant merely because that participant changes their place of residence, i.e., a nursing home.
8. It appears that it would be possible to provide for beneficiaries of those over the age of 65 without incurring undue costs. This would answer the concerns many have expressed.


At this point, the Department of Administration is maintaining a neutral position on this bill.



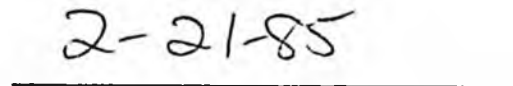
E. Louis Keller, Director
Division of Pioneers' Benefits




Date



Commissioner Lisa Rudd
Department of Administration



Date

 DEPARTMENT OF REVENUE -

The proposed legislation directly impacts four divisions within DOR:

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

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

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

I
Introduction
The Annuity Program

Annuity Program

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

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

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

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

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

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

Comments

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

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

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

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

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

II

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 23: Provides an effective date.

III

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

Submitted by Division of Administrative Services:

Eliminate Internal Contradictions Regarding Cash vs Annuity

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

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

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

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

Making Annuity/Cash Election Irrevocable

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

Limit Choice

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

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

Avoidance of Debts to State Agencies

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

Submitted by Division of Treasury: Comments on SB 56

1. Page 6, line 15

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

2. Page 8

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

3. Page 10, line 6

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

4. Page 10, line 23

"received" should be "receive"

Treasury Division's Comments on SB 56

1. Page 6, line 15

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

2. Page 8

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

3. Page 9

Sec. 43.23.110(b)(2) and (3) are not clear as to how the credits for "front-loading" are to be determined.

4. Page 9, line 20

"rate of interest" should be amended to "rate of return"

5. Page 10, line 6

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

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: CSSB 56 (SA)
 Title: An act amending the Longevity Bonus program
 Sponsor: Ray, Halford, et al
 Requestor: Senate Judiciary
 Date of Request: 2/15/85

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: General Government
 BRU, Program or Subprogram(s) Affected: BRU, Program of Subprogram(s) Affected: PFD - Admin. Services, Enforcement, Public Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<u>OPERATING</u>						
100 PERSONAL SERVICES	-	229.2	-	-	-	-
200 TRAVEL	-	2.5	-	-	-	-
300 CONTRACTUAL	-	73.5	-	-	-	-
400 SUPPLIES	-	1.0	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<u>TOTAL OPERATING</u>	-	306.2	-	-	-	-
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	306.2	-	-	-	-
<u>TOTAL</u>	-	306.2	-	-	-	-

POSITIONS:

FULL-TIME	-	4	-	-	-	-
PART-TIME	-	3	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached.

Prepared By: *E. B. Jones* Ervin B. Jones, Director
 Division: Administrative Services

Phone: 465-2313
 Date: _____

Approved by Commissioner: *Mary J. Skudale*
 Agency: Revenue

Date: 2/21/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CSSB 56
Fiscal Note Analysis
Department of Revenue
PFD BRU - Administrative Services Component
February 19, 1985

As can be seen from the attached analysis of the bill, section by section, the primary impact on the Administrative Services component of the Permanent Fund Dividend BRU is going to be in Data Processing. This impact can be summarized in three areas:

- 1) The need to completely re-program the 1985 PFD system, with its approximately one hundred DP programs, both batch and on-line. These programs are for both the IBM mainframe and for the WANG VS system that is used in Anchorage and in Juneau.
- 2) The dramatic changes wrought by this bill will push the Department to combine all years in some fashion. Carrying multiple, separate systems on-line, and maintaining these separate systems has become very costly in terms of data processing resources. Revenue has been looking at a modified system that allows both look-up and interaction with prior year accounts, but the addition of the annuity based 1986 system will severely complicate that system design.
- 3) The addition of the annuity choice and its related edit requirements will impact the data entry section.

The incremental costs of performing these functions between the assumed effective date of approximately July 1, 1985 and the end of FY86 is estimated as follows:

Personal Services

- 1) reprogram for 1986 PFD system
 - 1 Analyst/Programmer V, R21, @ \$4,653.05/Mo
including salary and benefits for 12 months \$55,836
 - 1 Analyst/Programmer IV, R19, @ \$4100.75/Mo
including salary and benefits for 12 months \$49,209
- 2) Project to consolidate 1986 system with
prior four years (online, same as above)
 - 1 Analyst/Programmer V, R21, @ \$4,653.05/Mo
including salary and benefits for 12 months \$55,836
 - 1 Analyst/Programmer IV, R19, @ \$4100.75/Mo
including salary and benefits for 12 months \$49,209
- 3) Data capture of additional data required
on PFD applications.
 - 3 Data Entry Clerk I's, R8, @ \$2,120.77/Mo
including salary and benefits, for 3 Mos each
\$19,087

CSSB 56
Fiscal Note Analysis
Department of Revenue
PFD BRU - Administrative Services Component
February 19, 1985

TOTAL Personal Services		\$229,200
<u>Travel</u> (all 3 projects)		\$2,500
To pay travel/per diem costs of system analysts attending meetings in Anchorage and Juneau to map out the needed changes to the current PFD system.		
TOTAL Travel		\$2,500
<u>Contractual</u>		
1)	To contract with Wang Labs, Inc to modify the existing garnishment system for PFD's. The Analyst/Programmer who built the original garnishment system currently works for Wang Labs, Inc as a systems consultant. Assuming he was available, he could redesign the system much faster than any other programmer available. This amount is calculated at \$80/hour X 8 hour days X 5 day weeks X 16 weeks	= \$51,200
2)	4 Wang 4250 workstations rented for 12 Mos, @ \$398/Mo including emulator boards @ \$805 each, so they may be used as IBM terminals or Wang terminals	= \$22,300
TOTAL Contractual		\$73,500
Supplies		1,000
TOTAL Administrative Services Cost		\$306,200

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: CS SB 56 (SA)
 Title: Longevity Bonus, Permanent Fund Dividend and Annuity
 Sponsor: Senate State Affairs
 Requestor: Senate Judiciary
 Date of Request: February 15, 1985

FISCAL DETAIL

Agency Affected: Department of Revenue
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: Treasury

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<u>OPERATING</u>						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	9.3	11.1	14.8	19.3	24.7
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<u>TOTAL OPERATING</u>	-	9.3	11.1	14.8	19.3	24.7
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER Annuity Investment Fund	-	9.3	11.1	14.8	19.3	24.7
<u>TOTAL</u>	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: See attached analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: February 15, 1985

Approved by Commissioner: *William A. Hudak*
 Agency: Department of Revenue

Date: 2/21/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CS SB 56
Fiscal Note Analysis

Costs in this fiscal note are based on the following projected balances of the Annuity Investment Fund:

<u>Fiscal Year</u>	<u>Average Fund Balance (\$ Millions)</u>
1986	\$ 53
1987	88
1988	159
1989	244
1990	347

These projections assume three years of front-loading, 30% participation by eligibles, and 12% rate of return on investments.

Based on these average balances, the following costs would be incurred (\$000):

<u>Fiscal Year</u>	<u>Securities Custody</u>
1986	9.3
1987	11.1
1988	14.8
1989	19.3
1990	24.7

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date 02/22/85

REQUEST

Bill/Resolution No: CS SB56(SA)
 Title: An Act Amending the Longevity Bonus Program & Permanent Fund Dividend Program Establishing an Annuity Program and Providing an Effective Date.
 Sponsor: Ray (et all)
 Requestor:
 Date of Request: January 22, 1985

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: Revenue Collections & Management
 BRU, Program or Subprogram(s) Affected: Public Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	78.3	164.3	174.2	184.7	195.8
200 TRAVEL	-	13.5	25.2	27.2	28.8	31.1
300 CONTRACTUAL	-	404.5	414.6	138.5	138.7	139.0
400 SUPPLIES	-	2.0	.8	.9	1.0	1.1
500 EQUIPMENT	-	5.0	-0-	-0-	-0-	-0-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	503.3	604.9	340.8	353.2	367.0
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	503.3	604.9	340.8	353.2	367.0
TOTAL	-	503.3	604.9	340.8	353.2	367.0

POSITIONS:

FULL-TIME	-	5	5	5	5	5
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: See attached.

Prepared By: Sally Smith, Director
 Division: Public Services

Phone: 465-2392
 Date: February 22, 1985

Approved by Commissioner: [Signature]
 Agency: Department of Revenue

Date: 2/26/85

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

ASSUMPTIONS

490,000 eligible individuals
1986 application period, beginning April 1

PROGRAM SUMMARY

Public education and application assistance will be provided in rural and urban areas. Phone, letter and computer response to inquiries as well as application assistance will be provided at Public Service Centers in Anchorage, Fairbanks and Juneau, and forms distribution and application assistance will be available at various Legislative Information and Governor's Offices throughout the state.

Hearings on regulations to be promulgated for the new law will be conducted in various cities (Juneau, Anchorage, Fairbanks, Nome, Kotzebue, Barrow, Kodiak and Ketchikan).

Technical training will be provided for those individuals who will be assisting the general public in completing their applications.

EXPENDITURES

FY '86 FY '87

This revision corrects erroneously calculated personal services.

Personal Services

2 FT Document Proc. Clk 3 in Anchorage	30.5	64.1
2 FT Document Proc. Clk 3 in Juneau	30.5	64.1
1 FT Document Proc. Clk 3 in Fairbanks	<u>17.3</u>	<u>36.1</u>
	78.3	164.3

The experience with the Permanent Fund Dividend start-up was that we had an insufficient number of telephone lines and insufficient personnel to handle the volume of "walk-ins." Being available to explain the program adequately could prevent the need to reopen filing as happened with 1982 and 1983 PFD's.

Travel

Regulation Hearings

Two employees to Anchorage, Fairbanks, Nome, Kotzebue, Kodiak, Barrow and Ketchikan	3.1	-0-
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Administrative

Anchorage, Fairbanks, and Legislative Information and Governor's Offices	<u>10.4</u>	<u>25.2</u>
	13.5	25.2

Contractual

*1/Advertising Campaign	250.0	50.0
Postage	10.0	11.0
*2/Long Distance Charges	100.0	250.0
Computer Terminals (2)	8.5	17.2
Space Rental (Anchorage, Juneau)	<u>36.0</u>	<u>86.4</u>
	404.5	414.6

Office Supplies

Supplies	2.0	.8
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Office Equipment

Desk, chair, filing cabinet, etc. for each new position	5.0	-0-
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FUNDING

The fiscal note from January 22, 1985 incorrectly shows the funding as being from general fund sources. More appropriately, these monies should be drawn from the Annuity Investment Fund. This revision reflects that change.

*1/Advertising

The experience of the Permanent Fund Dividend program is an indication of the need for adequate advertising. Because of inadequacies, the PFD filing period was reopened for both 1982 and 1983 filing years. Public Services currently spends \$50,000 on contracts to work in and with rural Alaska for filing assistance. Communities which no longer receive assistance would again need this contact.

A public awareness campaign would provide basic information on the change in program expectations while providing the public with phone numbers and names of contractors for further information.

*2/Long Distance Charges

When first calculating the figures, we erroneously figured the bulk of the calls came during the filing period which would likely be contained in FY '86. On closer scrutiny of our past experience we found that the major impact was during check distribution, later in the calendar year. To correct this error, figures for FY '86 and FY '87 have been reversed. Historically, once the program is fully implemented, the calls drop off. This drop should occur in FY '88.

POSITION TITLE Document Processing Clerk III				GRADE/STEP 10B	DEPT. UNIT G	PAGE/LINE	CONT.	APPROV.	FILE
TYPE OF POSITION PFT	STAFF MONTHS 6	RP NUMBER	PEN NUMBER	BRU PRIORITY	LOCATION JBA	ELECTION DISTRICT	ELC.		
CONTINUATION LEVEL		ADDITION		JUSTIFICATION					
TYPE OF EXPENDITURE			AMOUNT						
1	2	3							
PERSONAL SERVICES									
Salary	12,810								
Benefits	4,394								
Supplemental Benefits									
Fixed Benefits									
TOTAL PERSONAL SERVICES	01		17,204						
Travel	02								
Contractual	03								
Commodities	04								
Equipment	05		1,000						
Other									
TOTAL COST			18,204						
RECEIPT CODE	FUNDING SOURCE								
	Federal Receipts 1002								
	C.F. Hatch 1003								
	General Funds 1004								
	I-A Receipts 1005								
	Program Receipts 1028								
	Other		18,204						
FOR BSM USE ONLY									
KEY NUMBER									

**REQUEST FOR
NEW POSITION**

AGENCY Revenue
PROGRAM Revenue Collections & Management
BRU PFD
COMPONENT Public Services Operating

Page 1 of 1
Revised Date _____

FY 86

POSITION TITLE Document Processing Clerk III				RANGE/STEP 10B	BARG. UNIT G	PAGE/LINE	COY.	APPROV.	DIS.
TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION AWA	ELECTION DISTRICT 4	CCG.		
JUSTIFICATION									
CLASSIFICATION LEVEL		POSITION		AMOUNT					
1		2		3					
PERSONAL SERVICES									
Salary		22,716							
Benefits		7,792							
Supplemental Benefits									
Other benefits									
TOTAL PERSONAL SERVICES		01		30,508					
Travel		02							
Contractual		03							
Utilities		04							
Equipment		05		2,000					
Other									
TOTAL COST				32,508					
FUNDING SOURCE									
Federal Receipts		1002							
G.F. Match		1003							
General Funds		1004							
Firm receipts		1005							
Program receipts		1009							
Other				32,508					
<div style="border: 1px solid black; padding: 5px; width: fit-content;"> INTERNAL USE ONLY KEY NUMBER _____ </div>									

REQUEST FOR
NEW POSITION

AGENCY Revenue

PROGRAM Revenue Collections & Management

BRU PFD

COMPONENT Public Services Operating

Page 1 of 1

Revised Date _____

FY 86

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

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

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

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF ADMINISTRATION

DIVISION OF PIONEERS' BENEFITS
PIONEERS' HOME-LONGEVITY BONUS
STATE SPECIAL COMMITTEE ON THE
ALASKA LONGEVITY BONUS PROGRAM

POUCH CL (MS 0211)
JUNEAU, ALASKA 99811
PHONE: (907) 465-4416

February 13, 1985

Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senators:

COMMENTS ON SENATE STATE AFFAIRS COMMITTEE CONSIDERATION OF ANNUITY BILL

The State Special Committee on the Alaska Longevity Bonus Program is aware that several changes were considered or made in the bill recommended by our committee when that bill (SB 56) was in the Senate State Affairs Committee. We therefore pass on to you our comments on these aspects of the bill.

1. The three percent escalator.

A motion was made and defeated in the Senate State Affairs Committee to delete the provision of the bill which provides that the Longevity Bonus be increased by 3% annually. Our committee recognizes that the 3% escalator is one of the most expensive features of the bill. The comparative costs estimated through the year 2034 are: 1/

1/ Cost estimates prepared by the Division of Strategic Planning, OMB, 2/7/85.

Committee bill (without front loading) 2/

	With 3% escalator	Without escalator
Nominal dollars	\$1,402	\$916
Constant 1985 dollars	784	566
Present value in 1985	617	464

Our committee included the escalator in recognition of the fact that the original longevity bonus was increased rapidly over time from \$100 to \$250. The escalator is not, however, an integral part of the overall structure of the bill. While we felt that pressure to increase the amount of the bonus is inevitable, we hoped that a modest statutory increase would deflect this pressure on the legislature, and that in the long run the provision would prove to be fiscally conservative. While the committee would prefer that the provision remain in the bill, we recognize the fiscal realities which the legislature now faces.

2. Death benefits for those who die prior to age 65.

Our committee did not include death benefits and made receipt of annuity payments dependant upon survival in part for simplicity and in part because the longevity bonus is available only to those who survive. Without death benefits, those who survive would receive a higher annuity because the contributions of those who die would be spread among survivors. We understand that during teleconference hearings there was considerable public testimony that younger individuals would be reluctant to participate in the program if they thought their contributions would be lost upon death. Certainly, participation is a very important consideration.

Our committee's projections as to the phase out of the longevity bonus payments were made by including the "actuarial gain" to annuity accounts from those who died prior to reaching age 65. Without this gain, annuity payments will be smaller and therefore the longevity bonus must be larger to reach the target amount. As a result, it takes longer for the longevity bonus to phase out altogether. The following chart compares annuity payments including the actuarial gain with payments excluding

2/ For an example of the effect of the 3% escalator on the cost of the bill with three years of front loading, see Exhibit A, attached.

that gain. The example includes three years' front loading, since the effect is more apparent when annuities are larger.

(Example includes three years front loading)

	<u>Without Death Benefits</u>		<u>With Death Benefits</u>	
	<u>Annuity</u>	<u>ALB</u>	<u>Annuity</u>	<u>ALB</u>
1987	\$11.92	\$245.58	\$11.92	\$245.58
1990	\$46.94	\$234.44	\$45.55	\$235.83
1995	\$111.73	\$214.46	\$103.72	\$222.47
2000	\$243.52	\$134.63	\$219.97	\$158.18
2004	\$429.25	\$.00	\$380.64	\$44.97
2006	\$560.18	\$.00	\$451.53	\$.00

3. Hold harmless for non-nursing home medicaid benefits.

We understand that the Senate State Affairs Committee heard testimony concerning the loss of medicaid benefits which may occur if receipt of the longevity bonus (which must now be counted as income for Alaskans with less than 25 years residency) results in an individual no longer qualifying for adult public assistance. As you know, our committee included a provision making the longevity bonus unavailable to nursing home residents; thus, the Senate State Affairs Committee was concerned only with the loss of medical benefits to non-nursing home individuals. Commissioner Pugh testified that his department could replace lost benefits if money were appropriated and if it were the intent of the legislature that his department take that action. Thus, that committee passed out the bill with the letter of intent.

Our committee of course supports any action which will protect these individuals. We would only point out that the group of individuals whose longevity bonus is not counted will grow smaller and the group who need this added protection will increase each year. Thus the appropriation which would be necessary for this protection will increase over time.

Sincerely,

State Special Committee on the
Alaska Longevity Bonus Program

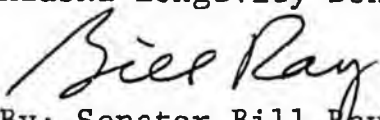

By: Senator Bill Ray
Vice Chairman

EXHIBIT A

Committee bill with three years front loading

	With 3% escalator	Without escalator
Nominal dollars	\$1,387	\$937
Constant 1985 dollars	805	600
Present value in 1985	646	501



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.

James O. Smith
Signature of Camera Operator

11/7/89
Date

SB

56

(FILE 3)

HEARING 2-3,

2/27/85 + 2/28/85

BILL CONTACT/ACTION

SB 56 Hearings #2 Annuities
#3

DATE	CONTACT/ACTION
	#2: To present from perspective of individual investor
	- Humphreys
	- Thomas Terry
	- Insurance Agent (Steve Woodruff)
	- Financial Planner
	- Division of Insurance (state law on annuities)
	- Debra Vogt
	- Keith Levy
	<hr/>
	#3 To present from perspective of the state as investor
	- MIT Barker
	- Sally Smith
	- Merin Jones
	- Humphreys
	- Lou Keller
	- Keith Levy
	Charts + Graphs - retirement options

MEMORANDUM

TO: SENATE JUDICIARY COMMITTEE
FROM: COMMITTEE STAFF
DATE: FEBRUARY 27, 1985
RE: SB56 - HEARING #2 - ANNUITIES/PRIVATE INVESTOR

For today's hearing you will find enclosed two articles relating to choosing annuities, and retirement income options.

SB56 weaves Longevity Bonus, Permanent Fund Dividends, and an annuity program into a single fabric. If the Alaskan public rejects the annuity for any reason, that fabric may unravel. The focus of today's meeting is on the practical requirements of marketing the annuity to the Alaska public. We will be comparing the marketing methods used by private industry against those contemplated by the state.

Ann

QUESTIONS FOR DEBRA VOGT
SB56 HEARING #2
2/27/85

- 1) To what degree was marketing of the annuity considered in the development of the annuity concept?
- 2) How much emphasis did the committee place on the marketing advantage of the "box checking" procedure versus the anticipation of a favorable IRS ruling because of the procedure.
- 3) Did you or did the committee discuss the potential for litigation if the annuity payment is not larger than an individual could earn through private investment?
- 4) In the state effort to successfully market its' annuity, do you foresee any liability to the state for failure to adequately notify under Page 7, line 21-23, Sec. 43.23.075(a)

D.W.

QUESTIONS FOR STEVE WOODRUFF
SB56 HEARING #2
2/27/85

- 1) Please give the committee a step by step outline of what you do to market an annuity.
- 2) What is the minimum amount of time you think necessary to inform a person of the value of an annuity to their retirement plans?
- 3) Could you market the annuity to the public as written in SB56? And do you think the state can market the annuity?
- 4) If the annuity was equal or better than those offered by yourself, and the only means of payment was an exchange of Permanent Fund Dividend, how would you convince at least 30% of all Alaskans to participate?

by Denise M. Topolnicki

HOW TO PICK THE RIGHT ANNUITY

Finding one with high yields and low fees now will pay off in more retirement income later on.

Annuities—those retirement investments sponsored by insurance companies—can play one or two roles in your retirement planning. While you're working, you can stash cash in a so-called deferred annuity and watch it grow unchecked by taxes. After you retire, you can use that money—or other funds—to buy an immediate annuity that pays you monthly income for the rest of your life. Every check you receive comprises principal, which isn't taxable, and earnings, which are. By then, however, you're presumably in a lower tax bracket.

You shouldn't buy either type of annuity solely on the recommendation of any insurance agent or stockbroker. Shopping is essential because returns on deferred and immediate annuities vary enormously from insurer to insurer. Also, your money is safer with some companies than with others. The financial woes of two major annuity sponsors, Baldwin-United and Charter Co., underscore the importance of doing business with sound insurers. People who bought annuities from bankrupt Baldwin-United will get their principal back, but they won't collect all the earnings they initially expected, and their cash may be tied up until at least 1987. The Charter Co. insurance subsidiaries that sold annuities haven't gone bust along with their parent company, but thousands of investors have cashed in their annuities early—despite withdrawal penalties of up to 7% on account balances—because they feared a Baldwin-United-style fiasco.

One clue to an annuity sponsor's financial stability is its rating published in the life and health edition of *Best's Insurance Reports*, available at large public libraries. Most financial planners recommend dealing only with major insurers rated A+.

Because contributions to an annuity aren't tax-deductible, a deferred annuity shouldn't be the first, or even second, way you shield savings from the tax collector. Instead, you should first make as many tax-deductible contributions to IRAs or



Keogh plans as you can. Also, put pretax dollars in a 401(k) salary-reduction plan if your employer offers one.

Deferred annuities are advertised as IRA investments, but many financial planners advise against using them that way. Says Gail Pendell, a San Diego planner: "You waste one tax-advantaged investment opportunity by doubling up your IRA and an annuity."

You can buy a deferred annuity with a single premium, typically \$5,000 or more, or you can pay in periodic installments. Your money compounds tax-free, typically until you retire. You can then take it in a lump sum and invest it as you wish, or you can buy an immediate annuity and receive periodic payments for the remainder of your life. You may contract for such payments with the insurer who managed your deferred annuity or with a different insurance company that offers a better return on your investment.

Deferred annuities come in two types, fixed or variable. Fixed annuities, which are invested in bonds and mortgages, pay interest, like a bank account. Your principal is guaranteed. Variable annuities produce fluctuating returns based on the performance of stock, bond or money-market funds managed by the insurer. More unusual funds are also available, including some that invest in real estate. Many insurers let you reallocate your cash among several funds. If a fund flops, of course, you can lose principal.

Despite their monicker, fixed annuities guarantee a stable rate of return for only a few months or a year. After that, the rate changes at the insurer's discretion, though it can't fall below a stated minimum, typically 3.5%. Fees can also affect your return. Insurers usually let you withdraw up to 10% of the money in your annuity each year without charge. If you take out more than 10%, the insurer imposes so-called surrender fees that usually start at 7% of your excess withdrawal during the contract's first year and decline until they disappear in

50 Plus' Money Plan For Your Retirement

*An up-to-date look at
the sources of retirement
income and how you
can best use them.*

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seven to 12 years. Some insurers offer a bailout clause under which you can get all your money at no charge if interest rates dip a point or two below what you were originally promised. If you buy an annuity after Jan. 18, 1985, and make withdrawals before you reach age 59½, you'll pay a 5% federal tax penalty, as well as income tax, on earnings withdrawn.

Ideally, you ought to be able to compare the historical investment performance of annuities. That's what the National Educational Association did in its 1982 study of fixed annuities sold to teachers by 45 companies. The findings were startling. After fees were deducted, \$14,100 invested over nearly 12 years grew to \$23,560 at the best-performing company—an average annual return of 8%. The worst company produced only \$14,484—a dismal average annual return of less than one-half of 1%.

Insurers don't compile such data for individuals, however. Comparative Annuity Reports, an Albuquerque-based firm, compiles data on annuities sponsored by 200 insurers and sells it to insurance companies and school districts. (For lists of recommended fixed annuities based on the firm's computations, see the box at right.) Since annuity contract provisions and interest rates change frequently, you should ask agents where companies they represent rank in the most current report by Comparative Annuity Reports; be sure that the agents quote from the lists that take fees into account.

It's easier to identify the top variable annuities because Lipper Analytical Services, an investment advisory firm, monitors many of them, as it does with mutual funds. As a group, variable annuities invested in stock have gained 77% in the past five years vs. 51% for Standard & Poor's 500-stock index, with dividends reinvested. Two annuities available outside of IRAs and sold by insurers rated A+ by Best's outperformed the pack. National Life's Variable Annuity Account I gained 107% while Aetna Life's Variable Fund increased 98.92%.

Because most insurers have just recently started to offer variable annuities invested in bond and money-market funds, Lipper has followed only a few such funds for more than a year. The variable annuity bond fund sold by Sun Life

of Canada topped Lipper's charts over the past year, as did the money-market annuity from Security Benefit.

Lipper's figures take investment management charges into account, but not sales commissions, which range from zero to 8½%. Insurers typically trim 1.5% off of a variable-annuity account's balance annually for administrative expenses. Ask insurance agents where companies they represent currently rank on Lipper's lists.

When you're considering buying an immediate annuity, bear in mind that the guaranteed lifetime income is most appropriate for people who fret about outliving their savings—or squandering them all in Las Vegas. Be warned too that immediate annuities aren't for fickle folk: once you sign a contract for lifetime income, you're locked in.

You can use cash you've accumulated in a deferred annuity to fund an immediate annuity. It's also possible to buy an immediate annuity with a lump sum from, say, a pension or profit-sharing plan. Immediate annuities are available in fixed and variable varieties.

There are four basic ways to receive an immediate annuity. Monthly payments

get increasingly smaller with each succeeding option:

A *straight-life* annuity pays you until you die. If you're unlucky enough to expire after cashing just one check, the insurance company keeps the remainder of your capital.

An *installment-refund* annuity pays you and a beneficiary at least as much money as you invested.

A *period-certain life* annuity guarantees that you or a beneficiary will collect for at least a set number of years.

A *joint-and-survivor* annuity continues until both you and a beneficiary are dead.

Under any option, the size of your monthly check depends on how much you invested, how old you are, and whether you're male or female. It also varies from insurer to insurer. For example, a 65-year-old man could recently buy a straight-life annuity for \$25,000 from Alexander Hamilton Life and receive monthly payments of \$297.19. Yet Federal Kemper Life would pay him only \$265 a month. Once again, you'll have to shop around. Wait until you're close to retirement, however, because rates change constantly. S

SHOPPING FOR ANNUITIES

All the top-performing annuities listed here are of the deferred type: your investment in them grows tax-free until you make withdrawals. Immediate annuities, which begin paying income at once, are not listed because ever-changing payout rates fluctuate widely. Comparative Annuity Reports, a company that sells information on annuities to insurance companies and school systems, provided the two lists of fixed annuities. In both cases, *Money* has omitted annuities designed only for IRAs as well as annuities of insurers rated less than A+ by Best's, a

firm that grades companies based on their financial stability.

The list of fixed-rate annuities with flexible premiums is based on projected returns over the next 15 years as well as the annuities' actual performance over the past five years. Insurers' fees are included.

Comparative Annuity Reports expects the fixed-rate, single-premium annuities on the second list to post the highest returns in their category over the next 15 years, based on interest rates and fee schedules in effect last August.

Top-performing fixed annuities (flexible premiums)

Company	Current interest rate
Fidelity Union Life	10%
Northern Life	12.50
Security Benefit Life	12.25
Travelers	11.75
Western National Life	12

Top-performing fixed annuities (single premium)

Company	Current interest rate
Alexander Hamilton Life	12%
Bank Life	12.1
Minnesota Mutual Life	12.25
New York Life & Annuity	12
Travelers	11.75
Western National Life	12

Reporter associate: Eric Schurenberg

- your current income in an investment program which will ripen in 10, 20, or 30 years, to provide you with years of retirement income. This "habit" is fully as important in acquiring a portfolio of stocks and bonds as it is in making regular additions to your savings account.

Since there is no stock market barometer that has proven 100% accurate in all kinds of economic weather, the only "safe" solution is to set up a regular, periodic investment program. This is called "dollar-cost averaging" and, if continued over a long period of time, can result in the investor being able to acquire more shares when prices are low and fewer shares when prices are high. The result: an average

long-term cost that's usually far more favorable than the straight mathematical average of prices over the same period of time. Furthermore, it takes much of the nail-biting worry out of investing in stocks.

But it must be kept firmly in mind that, in this pursuit of capital gains with which to increase your retirement stake, the laws of risk are always in force! Risk is ever-present *in every form of investment*. And the amount of risk rises with the expectation of profit. You can't hope to double your money overnight unless you also are prepared to risk a heavy loss. Wall Street may be a one-way street for automobiles—but not for securities prices!

Annuities

AN ANNUITY is primarily a *contract*, not an "investment." It is a contract by which you buy an income for as long as you live (and, in the case of a "joint" annuity, for as long as both you and your spouse live). For many people it is a comforting contract, because it assures you that you will not outlive your income. But, as is the case with every financial contract, it has its plusses and minuses.

great many years, or they may be bought with a single, lump-sum payment on the eve of retirement.

If you buy them over a long period of years, you may find that you have fixed your retirement income 10, 20, or 30 years before retirement—and done so unrealistically in terms of the buying power of the dollar when you actually retire.

An annuity income program purchased with a single lump sum of money on the eve of retirement at least reduces your vulnerability to inflation by many years. If you should buy such a program today, to begin providing income next month, you have a more current view of what the dollar of income will buy. You have not only escaped 10 or 20 years of seeing your premium money melt away, but you are able to buy the entire contract with "now" (cheaper) dollars. Although no fixed annuity income can protect you against further inflation, a lump-sum purchase on the eve of retirement can at least reduce much of the effect of past years of inflation.

Single Premium Annuity To Get \$100 a Month		
BOUGHT AT AGE	"LIFE ANNUITY"	"REFUND ANNUITY"
Males		
60	\$12,037	\$12,666
65	11,130	11,892
70	10,031	11,008
75	8,816	10,039
80	7,551	9,015
Females		
60	\$12,956	\$13,161
65	12,142	12,514
70	11,071	11,581
75	9,807	10,516
80	8,466	9,376
Joint and Survivor		
60	\$14,548	\$14,314
65	13,764	13,647
70	12,799	12,741
75	11,595	11,673
80	10,155	10,470

The table on page 76, furnished by the American Council of Life Insurance, shows how much it will cost you currently to buy \$100 a month of annuity income. You will notice that the cost is based on present age (the lower one's life expectancy, the more generous the insurance company can afford to be). Also, women—because, statistically they live longer—must pay more than men for the same \$100-a-month income. And a married couple must pay even a bit more (the conjugal life is evidently conducive to living longer, at least statistically).

The *plusses*: (1) lifetime income; (2) knowing exactly how much to count on each year; (3) assured income (provided, of course, that you make the contract with a reputable insurance company licensed to do business in your state, or with an educational, charitable, or religious institution licensed and supervised by your state's Superintendent of Life Insurance).

The "life annuity" column shows one type of annuity and the sums which must be paid to receive \$100 a month "for life"—for the life of a man, a woman, or "joint." (If you die a few years after taking out the annuity, the insurance company "wins.") The "refund annuity" column shows the amount you must pay to receive \$100 a month income for life with the additional proviso that if the annuitants do not live long enough to collect all that they've paid in, their estate will get the balance.

The *minuses*: (1) the fixed-income type of annuity offers no protection against inflation; (2) any variable-income program must depend upon the manager's skill as an investor in the securities markets; (3) erosion of your capital to the point where there may be no estate left for your heirs.

Annuities may be bought along with insurance through premiums paid over a

PMR Questions

2/28/85

How will revenue invest the annuity credits, front-end load?

What public information on annuity v. cash is planned?

How will annuity work without front-end load?

Can PFD recipients change their mind on cash, and when? How?

What economic impact of cash PFD, region, city, i.e., roll over of the cash in the economy? How will that change with 30% annuity participation?

Level of public inquiry now? How will that change with box check?

What public info is planned to make a knowledgeable investor?
Will public education raise to level required for a contract?

****Ask about amendments

- 1) Continuation of L.B. program if SB56 fails
- 2) Use of undistributed income of p.f.
- 3) Survivor Benefits
- 4) Reverse Box check procedure

Mention Hugh Malone solution - take it to the voters.
This may be best for the annuity program.

PMR SB56

Recap of testimony 2/27/85

Steve Woodruff:

Annuity product is unmarketable by private standards
Overly broad statement of claims in purpose
Unknown or uncertain or bad tax consequences
No survival benefits
Non-qualified investors - yield 1 percent ("5 percent
may fall for it.")

John George, Director, Division of Insurance:

State is entering into the insurance business without
regulation imposed on private annuity marketers -
annuity is a contract with all that implies. Without
contract annuity is social security program.

Debra Vogt:

Amend to include survival benefits O.K., but payment is
reduced. Percentage of investors is not important