

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5107 HSTA SB 56 (FILE 1) - SB 56 (FILE 2)

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TABLE 1
COMPARISON OF LONGEVITY BONUS PROGRAM COSTS UNDER DIFFERENT PERMANENT FUND DIVIDEND PROJECTIONS

YEAR	NO CHANGE IN PFD PROGRAM						PFD PROGRAM MODIFIED BY SJR 40 (40-30-30 PLAN)								
	HRA PROJECTIONS OF FUTURE PFDS			APFC PROJECTIONS OF FUTURE PFDS			ASSUME CAPITAL GAINS = 10%			ASSUME CAPITAL GAINS = 20%					
	PFD AMOUNT	BONUS AMOUNT	ANNUAL COST ALB PROGRAM (MILLIONS)	PFD AMOUNT	BONUS AMOUNT	ANNUAL COST ALB PROGRAM (MILLIONS)	PFD AMOUNT	BONUS AMOUNT	ANNUAL COST ALB PROGRAM (MILLIONS)	PFD AMOUNT	BONUS AMOUNT	ANNUAL COST ALB PROGRAM (MILLIONS)			
1988			\$49.9			\$49.9			\$49.9			\$49.9			
1989			52.6			52.6			52.6			52.6			
1990	\$889		57.2	\$882		57.2	\$590		57.2	\$521		57.2			
1991	881	\$240	59.6	873	\$240	59.6	633	\$244	59.8	530	\$244	59.9			
1992	877	230	61.4	869	231	61.4	668	236	61.9	564	238	62.1			
1993	940	220	62.9	933	221	62.9	704	229	63.8	598	232	64.1			
1994	1,004	209	63.6	995	210	63.6	740	221	65.0	634	225	65.6			
1995	1,075	197	64.1	1,061	198	64.2	777	212	66.2	670	217	67.1			
1996	1,157	184	63.6	1,130	185	63.7	848	202	66.6	756	209	67.7			
1997	1,243	169	61.9	1,203	170	62.1	975	191	66.0	902	199	67.5			
1998	1,333	153	59.8	1,278	154	60.1	1,114	178	65.0	1,060	187	66.8			
1999	1,428	135	56.4	1,356	137	56.9	1,264	163	62.8	1,230	173	65.0			
2000	1,527	115	52.1	1,436	118	52.9	1,426	145	59.5	1,411	156	62.0			
2001	1,622	92	46.4	1,520	97	47.6	1,523	125	54.8	1,509	135	57.6			
2002	1,721	68	39.4	1,608	74	41.1	1,621	102	48.8	1,609	112	51.8			
2003	1,824	41	30.7	1,698	49	33.0	1,722	76	41.2	1,709	87	44.5			
2004	1,931	11	20.1	1,792	21	23.3	1,825	48	31.9	1,812	59	35.4			
2005	2,042	0	15.0	1,893	0	15.0	1,931	16	20.6	1,918	28	24.4			
CUMULATIVE COST THROUGH 2005			\$916.6	CUMULATIVE COST THROUGH 2005			\$927.1	CUMULATIVE COST THROUGH 2005			\$993.6	CUMULATIVE COST THROUGH 2005			\$1,021.1

NOTES:

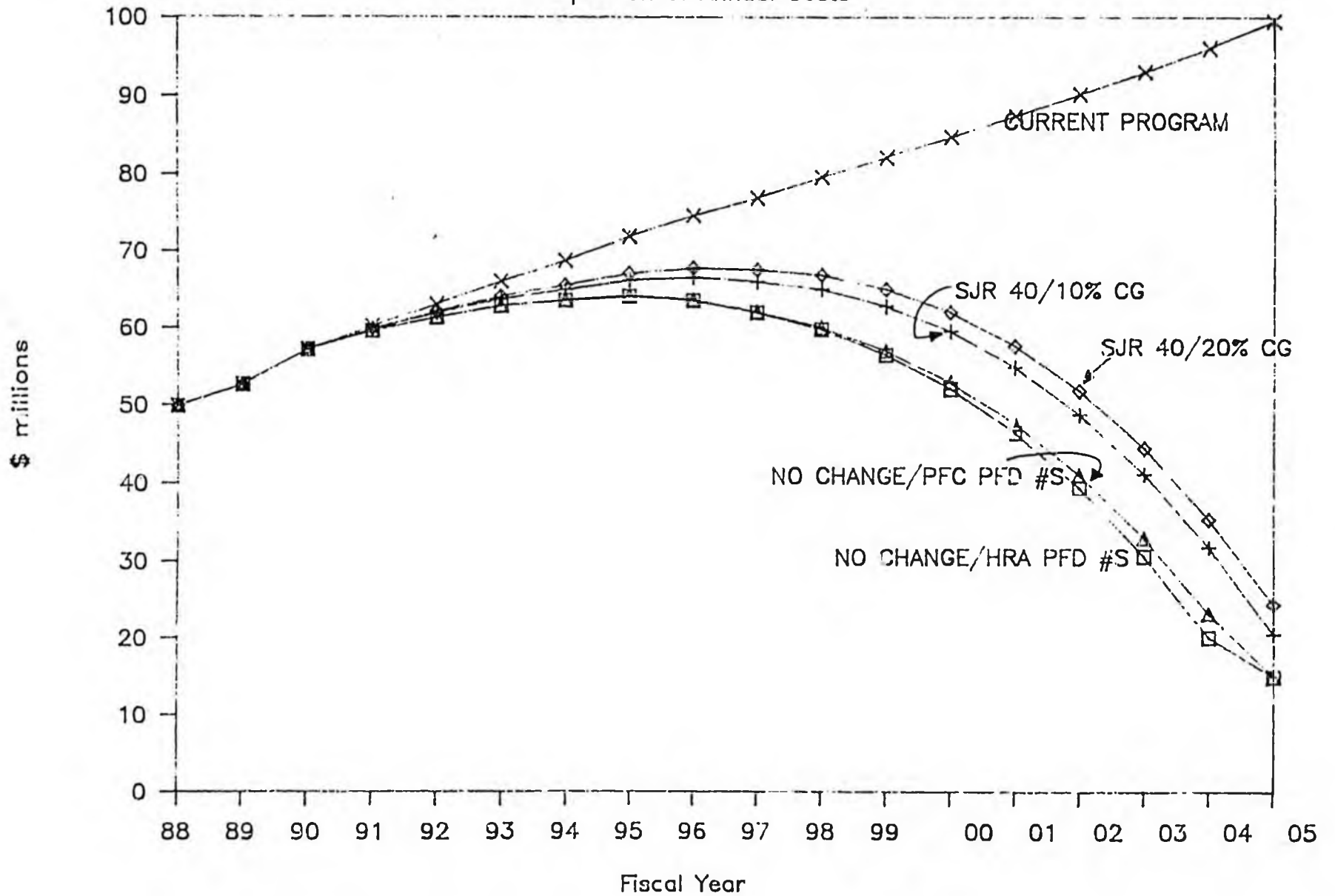
1. Projections of future Permanent Fund Dividends under Senate Joint Resolution 40 depend upon the portion of earnings attributable to capital gains. These projections do not include the anticipated Dinkum Sands settlement.
2. The projections of future PFDs by the Alaska Permanent Fund Corporation are from January 1988 and include anticipated funds from the Dinkum Sands settlement.

Prepared by the House Research Agency, February 1988, (88.147A).

FIGURE 1

ALASKA LONGEVITY BONUS

Comparison of Annual Costs



Prepared by the House Research Agency, February 1988.

QUALITY SERVICES

Date JAN 05 1988

Peninsula Clarion

Client No. 0615

This editorial is reprinted from the Jan. 6, 1987, edition of The Clarion.

The first sign to be read from the Cowper administration's tentative proposal for the state's Longevity Bonus program is the possibility that the ill-conceived advisory measure on last November's ballot will be ignored. With this possibility in mind, concerned Alaskans will consider contacting their legislators to let them know what they really think should be done with the bonus program.

It can't go on too long

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Here's a short refresher on our topic: When the courts a few years ago ruled the longevity program unconstitutional (basically for setting up pre-statehood pioneers as a special class of citizens), the Legislature responded by extending the bonus to all residents 65 and older. The

program has since grown to an annual cost of more than \$50 million. In legislative haggling over what to do, the Alaska Senate prevailed so far as getting its proposal in the ballot advisory measure. Voters were asked only if they favored having an annuity program anyone could enter by investing Permanent Fund dividends. There was no reference to options — chiefly the House-favored alternative of phasing the program out.

It is reasonable to declare the advisory measure meaningless. It was unfairly stacked and poorly understood. The Legislature should feel free to admit a mistake and ignore its result.

Once that is done, the topic is wide open again — which is just what Cowper's staff has said by suggesting that the program be redrawn based on needs, cutting off all seniors who have more than \$20,000 a year of income. This, of course, would be a welfare program, although the Cowper staff has avoided calling it that for political reasons.

Many Alaskans, including many seniors, have come to regret the longevity program for what the court's ruling did to it and for the resulting cost to the taxpayers, especially as our oil-fired boom has become a boomerang. But many oppose turning it into a welfare program. This fact is reflected in the unwillingness of the 14th Alaska Legislature to adopt such an approach. Neither the Senate's annuity nor the House phase-out plan addressed needs or income levels of recipients.

The most salient argument heard here is that poorer seniors should not be rewarded for failing to have planned for their futures and that those seniors who have only recently taken up Alaskan residence do not deserve the subsidy.

The vote here continues to favor phasing out the program. If the Legislature wants to phase in an income ceiling, or welfare line, at the same time, that might be tolerable so long as the full program is being phased out.

The original idea was to give pioneer Alaskans an incentive for staying on, rather than moving Outside in retirement. That idea is now far away. The number of pioneers unavoidably dwindles. The cost of the liberalized longevity program grows exorbitant. It is the 15th Legislature's duty to number its days.

Nothing has changed in the year since this



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

M E M O R A N D U M

TO: House State Affairs Committee

FROM: Representative Fran Ulmer, Chair
House State Affairs

SUBJECT: House CS For CSSB 56 (2d SA) Work Draft

DATE: January 22, 1988

This committee substitute, HCS CSSB 56 (2d SA), makes several changes which are outlined below:

Page 3, Section 6, Line 6: the bonus remains \$250 per month.

Page 3, Section 7, Lines 20 through 29 and Page 4, Lines 1 through 8: shows the monthly longevity bonus in a fiscal year for a person who is 65 years of age after January 1, 1989. The monthly bonus amounts are based on the most current projections of Permanent Fund Dividend payments (House Research Memorandum 88.127). Note that the bonus amount (Table 1, Case B) does not reach zero until 2005 - a year later than predicted last session (see House Research Memorandum 87.303). This results because the Permanent Fund net income is predicated to be lower relative to last year, thus dividends are lower. Administrative costs have increased, primarily for "hold harmless", and this also reduces the bonus amount too. It should also be noted that these projections include the addition of Dinkum Sands money.

A question was raised during the interim work sessions as to whether those participating in the annuity program were required to remain a resident of the state. I have attached a memorandum from the Division of Legal Services which addresses this question. Briefly, the one year residency requirement remains in effect for all seniors receiving the bonus. Therefore those seniors receiving the bonus and annuity would have to maintain their residency (to FY 2005). Seniors who leave the state prior to FY 2005 would lose the bonus (and the Dividend) but would continue to receive their annuity.



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House

P.O. BOX V
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Juneau, Alaska 99811

M E M O R A N D U M

TO: House State Affairs Committee

FROM: Representative Fran *Olmer*, Chair
House State Affairs

SUBJECT: Overview Of The Permanent Fund
Work Session, November 17, 1987

Attached you will find a summary of the overview given by Dave Rose on the Permanent Fund's 10-year performance.

AN OVERVIEW OF THE PERMANENT FUND'S 10-YEAR PERFORMANCE
AND A LOOK AT WHAT HAPPENED IN OCTOBER 1987

TESTIMONY OF DAVE ROSE
EXECUTIVE DIRECTOR,
ALASKA PERMANENT FUND CORPORATION
TO
HOUSE STATE AFFAIRS COMMITTEE
NOVEMBER 17, 1987

I would like to spend some time today talking about the Fund, give some historical perspectives, explain how we invest, and then talk about where the Fund is as a result of the gyrations of the financial markets in the last month.

The Fund was created in 1976 by constitutional amendment and is now in its 11th year of existence. To give you some perspective on the size of the Alaska Permanent Fund in comparison to other large funds around the country, consider the following:

* The Alaska Permanent Fund is larger than any private foundation. It is larger than the Ford Foundation, the J. Paul Getty Trust, and the Rockefeller Foundation.

* The Alaska Permanent Fund is larger than any union pension trust. It is larger than any single retirement fund of the Teamsters, the Electrical Workers, or the United Mine Workers.

* If the Alaska Permanent Fund were a corporate pension fund, it would be the fourteenth largest.

* If the Alaska Permanent Fund were a government pension fund, it would be the eighteenth largest.

* If the Alaska Permanent Fund were a Fortune 500 company, it would rank fifteenth in terms of net income - smaller only than GM, Exxon, Mobil, Ford, IBM, Texaco, Chevron, AT&T, du Pont, GE, Amoco, Chrysler, Shell Oil, and Philip Morris.

In short, there are a few funds larger than the Permanent Fund, but your Fund is one of the largest in the country, and certainly the most unique. In Alaska, it is the largest producer of net income in our state other than the petroleum industry.

Slide/chart #1: Gives an overview of how the Permanent Fund works. As you can see, the Fund is comprised of two parts: principal and an earnings reserve account. The principal in turn receives money

from three distinct sources: oil revenues automatically dedicated to the Fund by the state Constitution and the statutes; special one-time appropriations from the legislature; and inflation-proofing.

As we earn money, through investment of the total assets, all of those earnings go into the earnings reserve account which is basically a holding account for all earnings during the year - as well as for earnings from prior years which have not yet been distributed.

Frequently people err in the sense of looking at the earnings reserve account and saying "gee, we have \$800 - 900 million in that account," but a lot of that money is in that account waiting for distribution (dividends and inflation-proofing). You only get the true picture of the surplus on June 30 of each year - after the distribution has been made.

From that earnings reserve account, first are paid dividends according to statute and an appropriation; second, inflation-proofing back to the principal of the Fund which is automatic and not appropriated; and third, if there is any money left after dividends and inflation-proofing those earnings are surplus and remain in that account, subject to appropriation by the legislature for any lawful purpose.

Slide/chart #2: Since the inception of the Fund, in the 10-year period 1978 - 1987, the State has received about \$26 billion in total oil revenues. Of that amount, \$20.4 billion has been expended (about 78%) and \$5.6 billion, or 22%, has gone into the Permanent Fund.

Slide/chart #3: The source of funds is also somewhat interesting. Roughly 50% (\$3.9 billion) has gone into the Fund through legislative appropriation - over and above the flow of monies mandated by the Constitution and by statute. This has happened over an extended period of time. First, there was the \$900 million appropriation made in 1980 in memory of the earlier \$900 million Prudhoe Bay bonus of 1969. The following year, \$1.8 billion was appropriated by the legislature. One year ago, there was another appropriation of \$1.264 billion - not from the General Fund this time, but from Fund undistributed income left over after previous year payments of dividends and inflation-proofing.

In sum, almost \$4 billion has come from legislative appropriations; another \$2.9 billion (37% of the principal), has been contributed to the Fund by the constitutional and statutory dedication of revenues; and 13% (\$982 million) has gone into the principal as a result of inflation-proofing (adopted by the legislature in 1982).

Slide/chart #4: When you look at principal, you can see it has grown rather rapidly. From FY 78, the Fund has grown to \$7.9

billion as of the end of fiscal 1987. Dedicated revenues have fallen off in the last few years as we have seen oil prices fall. Falling oil prices have had the same effect on new money coming into the Fund as on new General Fund revenues.

Slide/chart #5: This chart shows that net income has been unusually high in recent years. If you look at the chart you can see that during the period fiscal years 1981 - 1985, there was a steady rise, from \$150 million in '81 to \$368, to \$471, to \$530 and up to \$658 million at the end of fiscal year 1985. A very nice rising line of growth. When you get to 1986 and 1987, you can see a very unusual skew. There was a tremendous surge in earnings in both of those years.

The cash earnings in 1986 were \$1.021 billion and in 1987, \$1.069 billion. Ordinarily in '86 and '87, the Fund would have earned somewhere between \$600 - 700 million. However in 1986, we saw a major shift in the bond market and capital gains were taken in that year - about \$280 million - and the money that was gained was invested in stock. In 1987 when the stock market rose rather substantially, there were market operations which took profits in stocks and placed that money in bonds. The years 1986 and 1987 were very unusual years, but years in which the earnings grew substantially.

Slide/chart #6: You can see from this chart the capital gains; that is, the gains made in terms other than dividends and interest and real estate earnings. These are the capital gains on the purchase and sale of stock and bonds. You can see in almost the whole history of the Fund, very little activity except for the years '86 and '87 where there were \$323 million in extraordinary gains taken in '86 and \$352 million taken in '87. These extraordinary gains are not likely to reoccur. This was strictly a market aberration.

Slide/chart #7: As far as the use of funds are concerned, money has gone out in five different directions since the inception of the Fund. The largest amount, \$1.305 billion has been paid out as dividends. The next largest amount, \$1.024 billion dollars, or about 30%, has been appropriated by the legislature back into the Fund. Next, \$982 million, 23%, has gone back to the principal for inflation-proofing, and \$529 million or 12% remains in the earnings reserve account as of June 30 of this past year. In addition, there were contributions in the early days of the Fund to the General Fund of another \$228 million. The last payment to the General Fund took place in 1983.

Slide/chart #8: This chart shows the amount paid out in dividends, and you can see there is a steady progression from \$12 million to \$391 million which were expended this last year. Dividends were not paid out in the first two years, and indeed some of the dividends paid out over time were General Fund monies. But these

were the earnings contributed by the Permanent Fund starting at \$12 million in 1980 and ending in \$391 million in 1987.

I would like to move on to allocation of assets. With respect to investments, the Fund is very conservative, and that is reflected in the mix of investments. The trustees set the asset allocation targets as follows:

* Not less than 73.5% of investments may be in fixed income (generally bonds). Within that amount, we have allocated \$300 million for an Alaska Certificates of Deposit program, and about \$80 million for home mortgages.

* In stocks, the operating parameters permit us to invest not less than 12% of invested funds in stocks, and not more than 20%.

* In real estate, the staff may not invest less than 3% nor more than 6.5% of the total assets.

These are the asset allocations made by my trustees every February and March, and they involve factors of risk of which I will discuss in a moment.

Given these parameters, let's see where we are as of the end of October - not exactly on target. Fixed-income is OK, at 84.4% - certainly above the 73.5% floor. Very conservative, a lot of money in bonds. Stocks you remember, the minimum is 12% and the maximum is 20%. At 11.4% priced at market, we are outside our parameters on the conservative side. In real estate we are in the middle range at 4.2%.

With respect to CD's within fixed-income, although we have \$300 million available, Alaska banking institutions have only taken down \$171,725,000 - there being little need in Alaska at this point for the banks to take more money. Similarly with mortgages, although \$80 million is available, only \$40.3 million has been taken down. We are not making many mortgage loans in this environment.

Slide/chart #9: When you take a look at the Fund and net asset allocation, you see we are conservatively postured. This chart, which is a scattergram, represents funds over a billion dollars in the public funds area. As you move vertically up toward the top of the chart, that represents earnings, or returns, and the higher you go vertically on the chart, the better you are. On the horizontal side, the more to the left you are the less risk you take and the more to the right of the chart, the higher risk.

If you take a look at the dot with a circle around it, which is the Permanent Fund, you see that there is not a fund in the country that has earned more money for the amount of risk taken. There are some funds to the left of that dot which have taken less risk than the Permanent Fund, and there are many to the right of the dot who

have taken more risk than the Fund. But you notice that the Permanent Fund has earned a little bit above average for all funds, a little bit above that horizontal line. Again, there is no fund in the country that has been as conservative yet has had as good a performance.

Slide/chart #10: This is the rationale of the asset allocation scheme that you have seen. If you look at common stocks over the last 60-year period, you can see that they have earned 9.8% - with inflation of 3.1% over that period - for a real rate of return of 6.7% over time on stocks. Similarly, with bonds, you can see that over time you would tend to earn 1.1% in real terms with your investment in government bonds.

In setting the present asset allocation scheme, the trustees have said they wish to earn a 3% real rate of return over time. So, the task is to blend a historical 6.7% in stock, and a historical 1.1% in bonds in such a way that the Fund will earn a 3% real rate of return. Now, the trustees have, to some degree, hedged their bets because they have attempted to blend the historical context with that of the current day investments. As a result, they have been able to invest a bit more heavily in bonds than they ordinarily would be able to simply because bond returns have been, in recent years, gracious to us all.

Slide/chart #11: With respect to the bond portfolio, it is primarily invested in AAA-rated US treasury bonds; nothing as risky as junk bonds. We spread our bonds throughout all maturities. The average life to maturity is about 8 years which is relatively short. You can see that at the end of the last fiscal year, the value of the bond portfolio was 102% or 2% greater than what we had paid for it.

Slide/chart #12: On the stock side, the stock portfolio is really in two pieces. Half is managed passively; that is, we have a computer simulation of the S&P 500, and we invest half of our stock in that simulation. The other half of the money is in the hands of active managers we retain for diversification and hopefully to beat the market. They actively buy and sell stock based on their intuition and professional knowledge. You can see that at the end of the last fiscal year, the stock was at 140% of cost, about 40% higher than what we paid for.

Slide/chart #13: I alluded before to the mortgage program; we have about \$40 million in Alaska mortgages. These are loans made by Alaska lending institutions, single to four-plex loans. Our program is a little bit different than the AHFC program in that we require 20% down payment and generally lend money on some of the larger homes (because of the lower maximum loan amount limits of AHFC). This is a 30-year program. We have a fairly low foreclosure rate for two reasons: the downpayment is rather high so people do not easily walk away from these homes; and secondly, we

have a program which allows us to work very closely with the people who are in trouble by making certain adjustments or extending payments. If we do have to foreclose, we rent those homes to protect them. This program has not grown in recent years. It has been as high as \$48 million, and is now at \$40 million. The chart shows the mortgage loan rates.

Slide/chart #14: The Alaska CD program, again, is designed to lend money to Alaska lending institutions. You have heard a lot about the banking institutions in the state undergoing rocky times. We have money in some of those banks, but the money loaned is fully collateralized; the collateral is held physically by us in third party trusts. We find that we do not consider deposits in Alaska banks are in great risk. The chart shows the cost of the money to the banks.

Slides/charts #15-18: The last class of Fund investment, equity real estate, is depicted here in a series of pie charts. We have diversified a portion of our real estate portfolio by investing in real estate pools in which many pension funds and endowment funds are also investors. About 24 - 25% of our real estate portfolio is in these pools, and the other 76% is invested in joint ventures in individual properties.

We also have diversification in respect to where our real estate is located. Most of it is on the East coast, the least is in the Midwest. We try to get a balance so that if one area gets sick, the whole portfolio is not harmed.

We also diversify by type of investment and investment advisor. You can see we have a substantial holding in shopping malls, a lesser amount in office buildings, some industrial parks, and very little multi-family residential. It is a little overbalanced in retail, however we live with it because the market in office buildings is rather slim.

Slides/charts #19-21: I would like to move on to returns. There are a series of charts here. You can see for the 10-year period, that we have had different levels of returns. Last few years, 11.6%, 14.4%, 13.4% - these are nominal returns (cash returns) not paper profits. If you take the nominal return and you subtract from it inflation, you get the real return - the realized rate of return after inflation. You can see that in 1987, that return was 11.5%, the highest in the history of the fund.

Remember that over time, the trustees goal is a 3% realized rate of return. You can see that bogey has been met over the last six years. A 3% realized real rate of return over time is a very difficult bogey to make, but it has not been that difficult in the markets we have had recently. Let me assure you that the constant ability to exceed that is not the result of good management; it really is the result of the markets we have enjoyed.

If you look at a 10-year horizon - because that is what you want to look at rather than year to year - you can see the nominal return on average for the past 10 years has been 12.1%. Inflation has been an average of 6.8%, rather high for the last 10 years, and the realized real rate of return has been 5.3%.

Let me talk current market and what October did to us.

On February 24 1987, the staff of the Fund became very concerned that the market was overvalued. In other words by looking at price-to-earnings ratio, dividends, earnings, etc., it became very clear that the fundamentals in the market were no longer there. The stock market continued to go up because there was a great deal of euphoria, everyone was doing it, and because everyone was marching in the parade they kept buying, forcing the market up. There was a great deal of foreign money, and a fair amount of liquidity. It seemed to us as managers of your trust, that we had to have a better reason for investing than simply pointing out that everyone else is doing it. So we made a calculated decision to liquidate a portion of that portfolio - \$713 million worth - and take \$221 million in profits.

What we decided was that, since 2/3 of the money was in the passive account - the computer-driven mirror of the S&P 500 - that if the market was to turn around, it would not suffice just to look at our computer screen and watch our values dwindle. It seemed that more of our stocks should be actively managed. Thus, the decision was made to move that portfolio from an investment of 2/3 passive and 1/3 active to a 50/50 split. In making that balance, the decision was made not to add money into the market on the active side, but to subtract money from the passive side.

So, \$221 million was taken in profits. At that time, the Dow Jones was about 2300. Subsequently the market went to 2700, and then in October, it dropped to 1700. It was a bittersweet experience for us since we had sold off 1/3 of the stock and were glad we did as a hedge. But we held on to 2/3 of the stock - about \$1 billion at cost - and we lost value on that as did everyone else. The only difference between our Fund and others throughout the country was that we had a relatively low dedication to common stock.

So what happened during October? Our income from interest, dividends and real estate was about \$62.3 million, roughly \$2 million per day. In the stock and bond area, some \$7.3 million in capital gains were taken. This was a question of selling off some of the profitable items, cutting some losses, and even though the market went to pot, we were able to recognize some gains. So the total income to the Fund during October was almost \$70 million. This was hard cash, not net losses. So, from an income standpoint, October was a business-as-usual month.

From an unrealized gain perspective, however, it was a different story. At September 30, the fixed-income portfolio was in the hole; that is, the market value of our bonds was \$178 million below cost. Now that could be alarming, but generally when we buy bonds we plan to hold until maturity, so in effect we never would have had that kind of loss. Stocks at September 30 were in the black, \$414 million. Real estate was valued at \$24 million more than we paid for it. So at the end of September 30, the total portfolio on paper was worth \$259 million more than cost.

Lots of things happened in October. The bond market underwent a substantial rally, and its position changed to the good by \$167 million. By month-end, our bonds were worth just \$10 million less than we paid for them. The stock market, however, went to pot. The Fund's stock holdings were worth \$302 million less than on September 30, but still \$111 million dollars more than what they cost. Real estate remained the same. So that by the end of October, on paper, the total Fund was still worth \$124 million more than what we had paid for it, but substantially less than on September 30 - \$135,65,000 less.

What does this mean in terms of hard numbers? The \$135 million drop against the Fund value of about \$8.9 billion at market means that the market value of the Fund in October dropped by about 1.6%. Because your Fund was heavily invested in fixed-income and not equities, we did not have substantial loss compared to other U.S. funds.

Let me conclude with a few other issues.

Slide/chart #22: This is a chart of unrealized gains. You can see over the 10-year period, the Fund has been above water and below water with respect to unrealized gains. We as Fund managers watch these numbers, but quite frankly this doesn't add to your bottom line. We measure ourselves not only in cash return, but also where we are in respect to the total portfolio. And this is just illustrative of the fact that your portfolio has both good and bad times. At the end of June, we were above water, in the black, in the amount of \$551 million.

Slide/chart #23: This chart perhaps tells it all in terms of issues. This is the bottom line of all the items that you are faced with as legislators. One line shows the pattern of state oil revenues. You can see that they have fallen dramatically, are projected to hold steady for awhile, but then tail off in '97 and beyond. The other line is the Permanent Fund earnings line. You can see that little blip in 1986-87, those are the two big sales on capital gains first in bonds then in stock. But taking away that two-year blip, you can see it is a fairly steady line upward.

There are essentially two main sources of state revenue we are looking at over the long haul. One is, of course, oil revenue and

the other is earnings of the Permanent Fund. These are the #1 and #2 producers of revenue, and will be the largest producers for many years to come. You can see that around 1996 those lines cross, where the Fund's earnings overtake oil, and the Permanent Fund becomes the largest producer of revenue. But right now, this is the state picture. We have tourism, mining, fishing, timber and many other industries in the state, but when you step back and look at it, these are the two sources of income for the state.

It seems like the major argument/debate today relates to how the Fund's earnings should be spent. My task, and that of the trustees is to invest the Fund wisely. It is not our job to get into the debate on how the money should be spent --- except that you should consider two things:

- * first is the continuing need for use of a portion of the earnings for inflation-proofing; and

- * second is, that while you have seen dramatic earnings over the past few years, you do not want to assume the Fund will be earning at that level on a continual basis, lest you put too much pressure on those of us who have to invest your Fund. You have seen the risk chart, there is no question that we can earn more money for the Fund if we take more risk. There is no question we could also lose a lot of money if we take risk. As Fund managers, we would not like to see a spending pattern which would compel us to put the Fund at risk in order to meet a spending appetite.

Let's look more closely at inflation-proofing.

Right now there are two legislative uses of the earnings of the Fund. One is the payment of dividends and the second is inflation-proofing to protect purchasing power. If there is money left over, then it is subject to appropriation by the legislature. In the past few years, in very favorable markets, we have been able to cover dividends and inflation-proofing and still have something left over for possible use by the legislature. This has been habit forming, but be cautious. We are approaching a point in time where we cannot be all things to all people. While we may be able to meet all of the goals now, we likely will not be able to meet all three in the future.

Slides/chart #24: When you take away inflation-proofing you do several things. The first chart shows the growth of Fund principal. If you have inflation-proofing, your Fund grows to \$26 billion by the year 2005, but if you didn't have inflation-proofing your Fund would be less than \$12 billion dollars at that time.

Slide/chart #25: This chart shows that if you inflation-proof, the Fund can earn \$2.3 billion a year by the year 2005, which you can use. If you don't inflation-proof, the earnings will be closer to \$1.1 billion a year. That is a big difference.

Slide/chart #26: How does this translate to the people? Well, this last chart shows if you keep the dividend formula the same and you continue inflation-proofing, the per capita dividend reaches the \$2,000 mark. Without inflation-proofing, the per capita dividend stays under \$1,000.

As you can see, inflation-proofing has a dramatic impact on the principal, earnings, and dividend program.

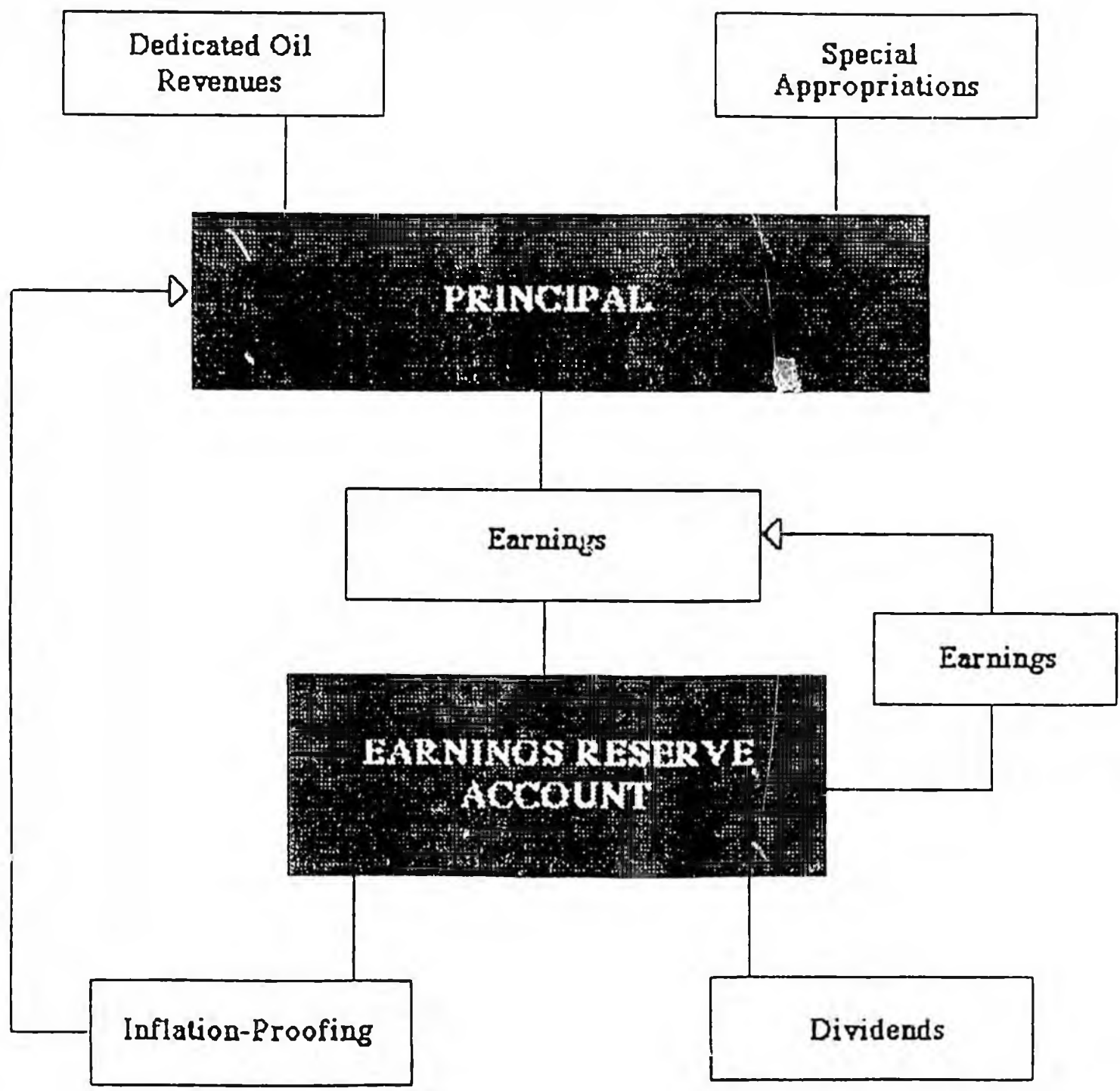
Lastly, I want to address the question of social and political investment. The Permanent Fund up to now has been a bottom line organization. We do economic investing, we don't make investments for social or political reasons. Unlike our sister fund in Alberta which started at about the same time we did, we have been able to grow and sustain ourselves. Not so in Alberta.

In Alberta, up until 1983-84, 70% of the resource revenue went to their General Fund, and 30% went to the Heritage Savings Trust Fund. That fund invested its money and it was able to keep all its income. Unlike Alaska, the fund got 30% rather than 25% and it was able to keep in its fund all of its money. But the politicians, and the perceived need to use the fund for social and political rather than economic and trust purposes, brought about some changes.

First of all instead of 30% of the resource revenue going into the fund, after 1984, 85% went to their General Fund and 15% went to the Heritage Fund. In addition, the Heritage Fund from that time on was disallowed from reinvesting any of its earnings. Instead, it had to pay out all its earnings to the government. Finally, beginning with the current fiscal year, not only are all the earnings of the Alberta Heritage Trust being siphoned off to government, but all new money has stopped flowing into the fund as well. The Fund gets no new money and the Fund pays out all of its income. The bottom line is that the fund is not keeping up with inflation.

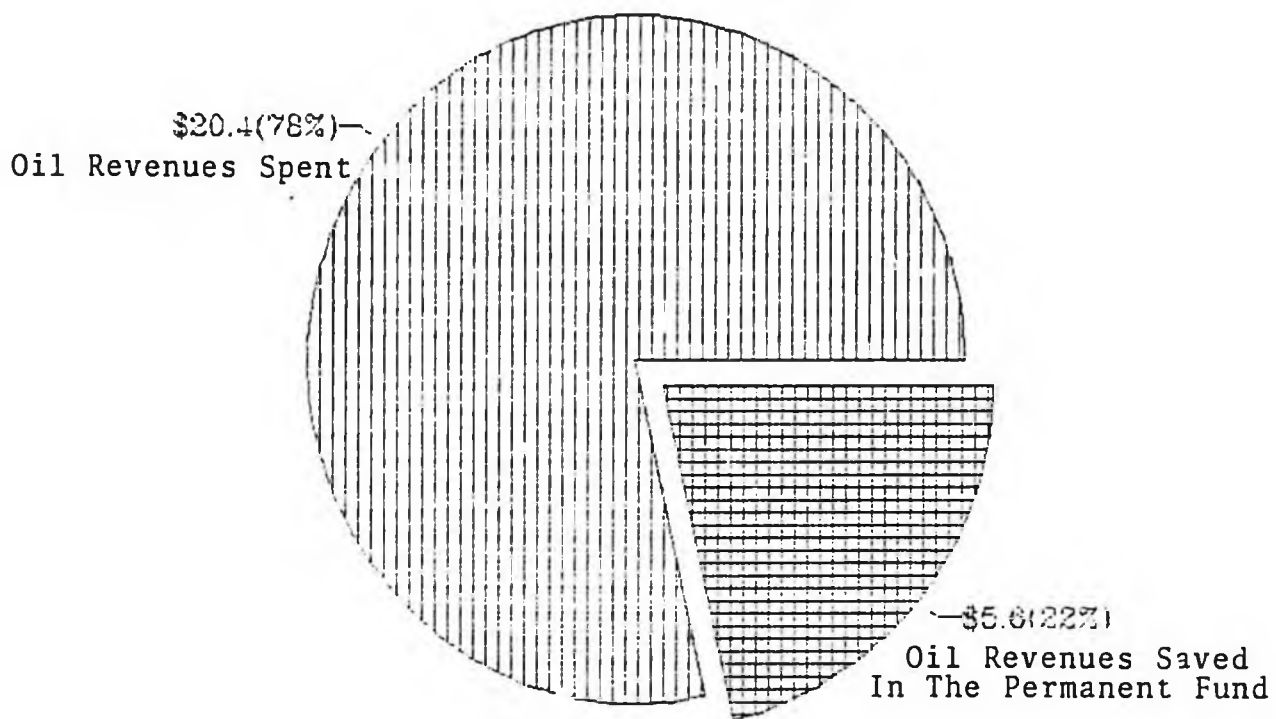
The Alberta Fund ought to be a history lesson for Alaska, and I would ask you all to consider this case study in how to make a trust disappear. We must be smarter in Alaska. Thank you.

HOW THE PERMANENT FUND WORKS



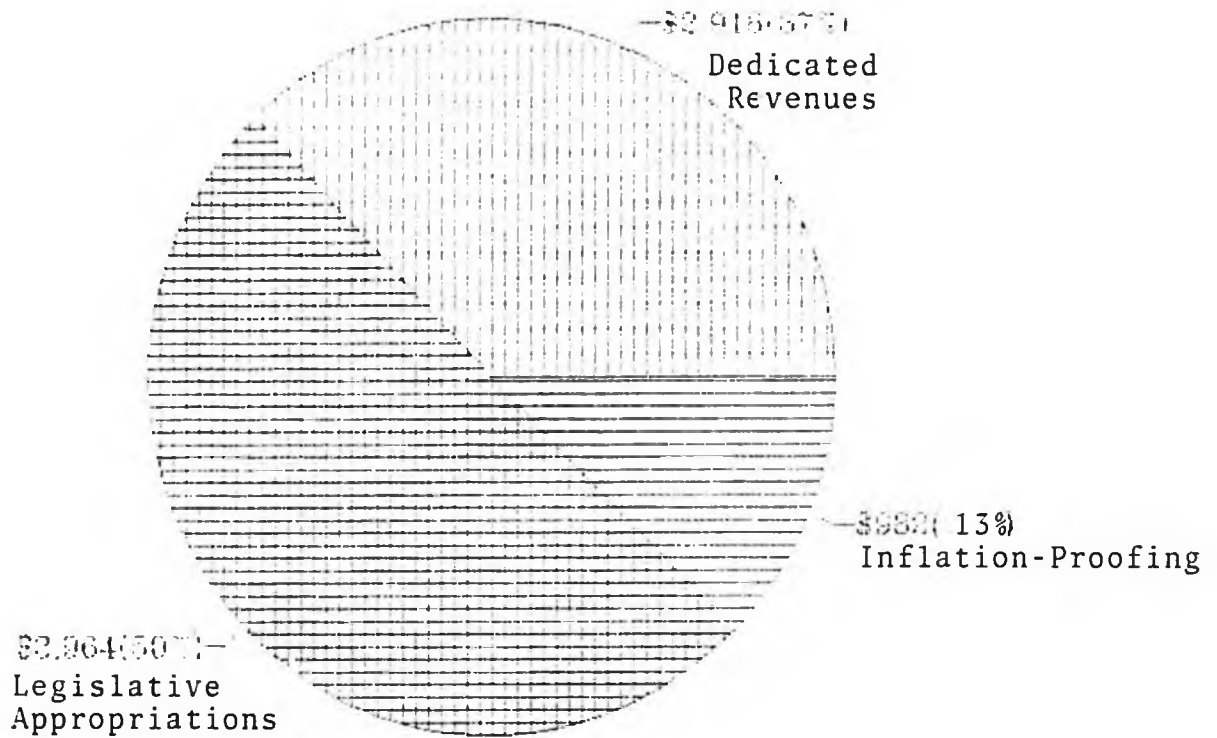
TOTAL STATE OIL REVENUES FY 1987-1978

\$26 Billion



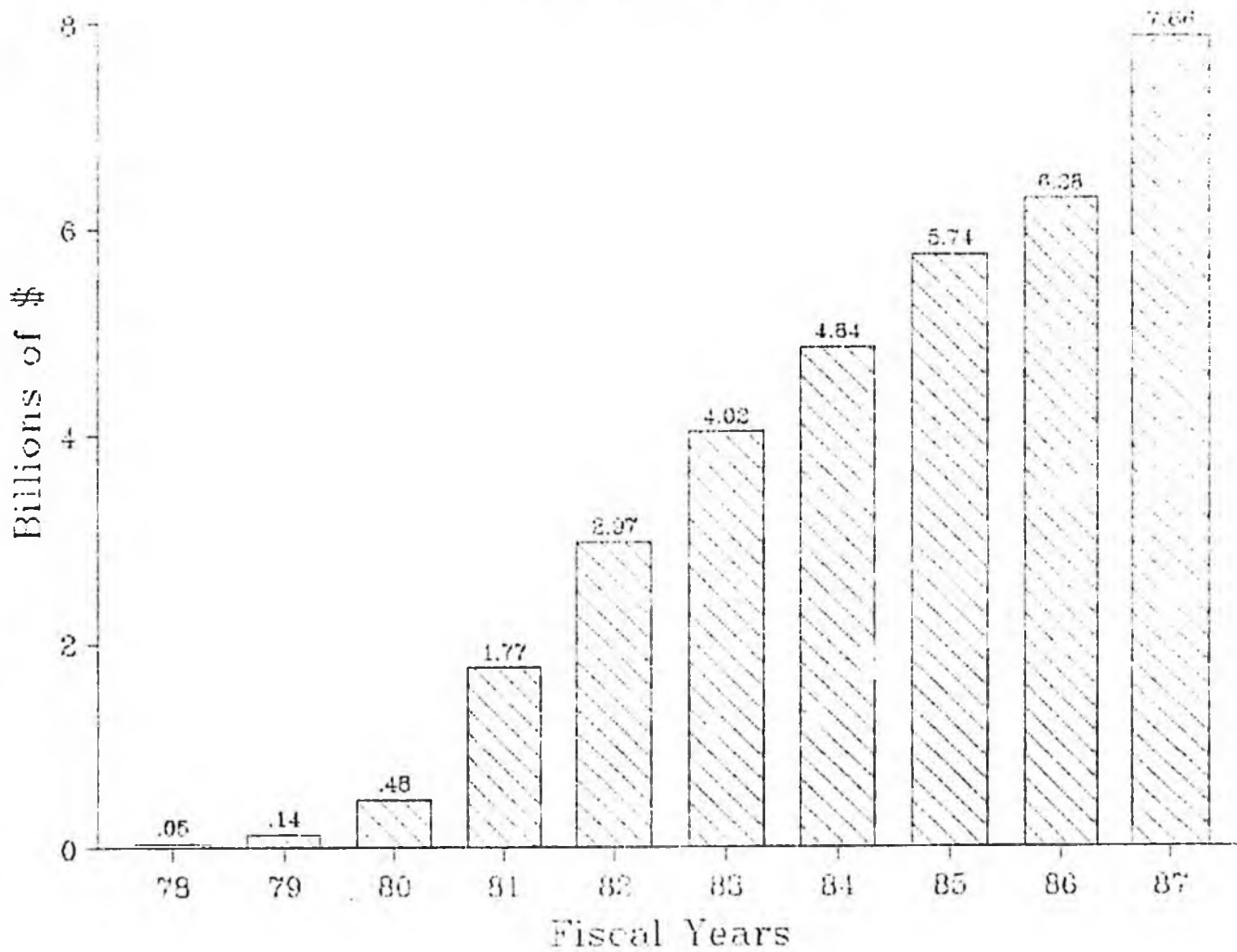
SOURCE OF FUNDS

Contributions to Principal Since Inception
(in millions)

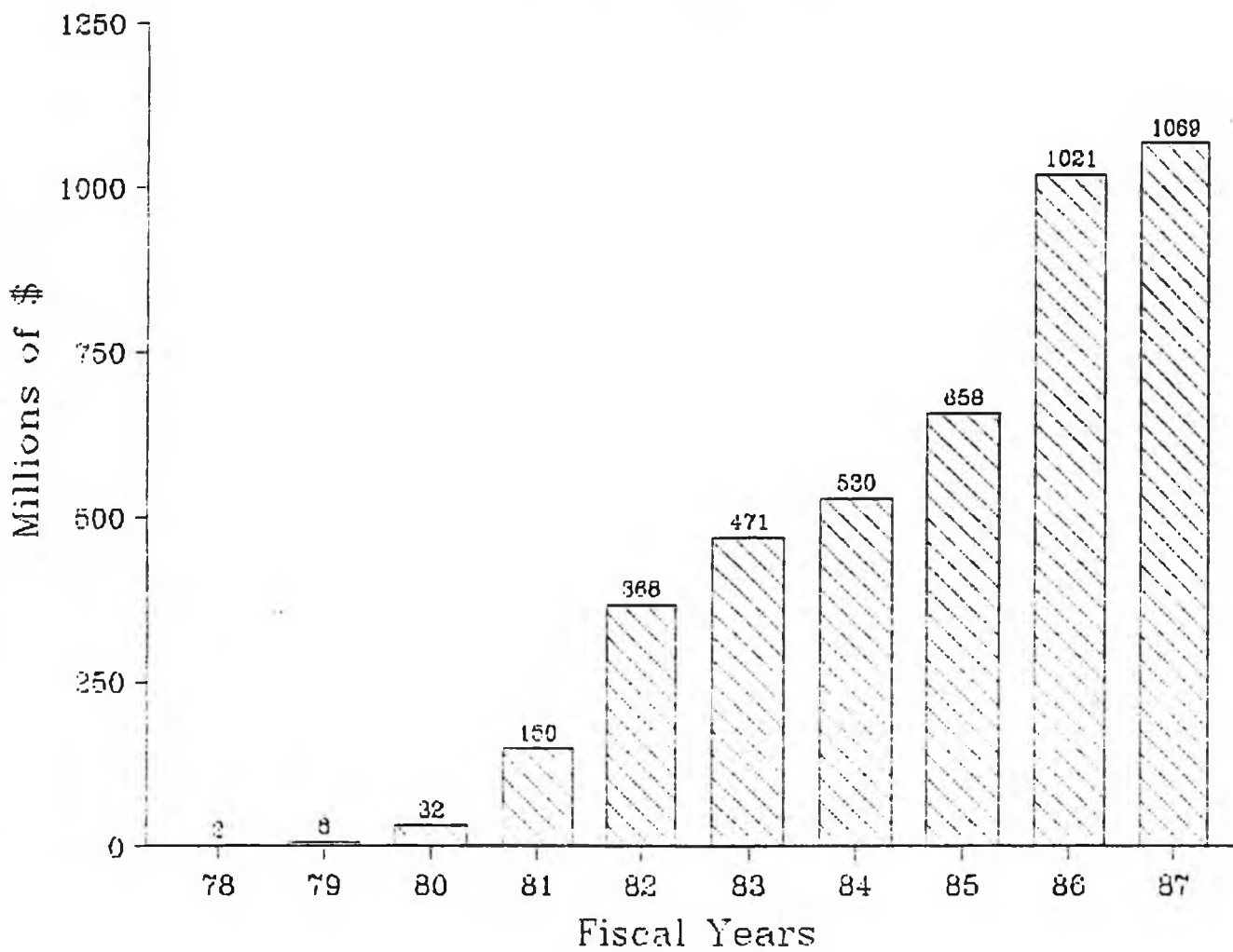


Total Principal as of June 30, 1987: \$7.86 Billion

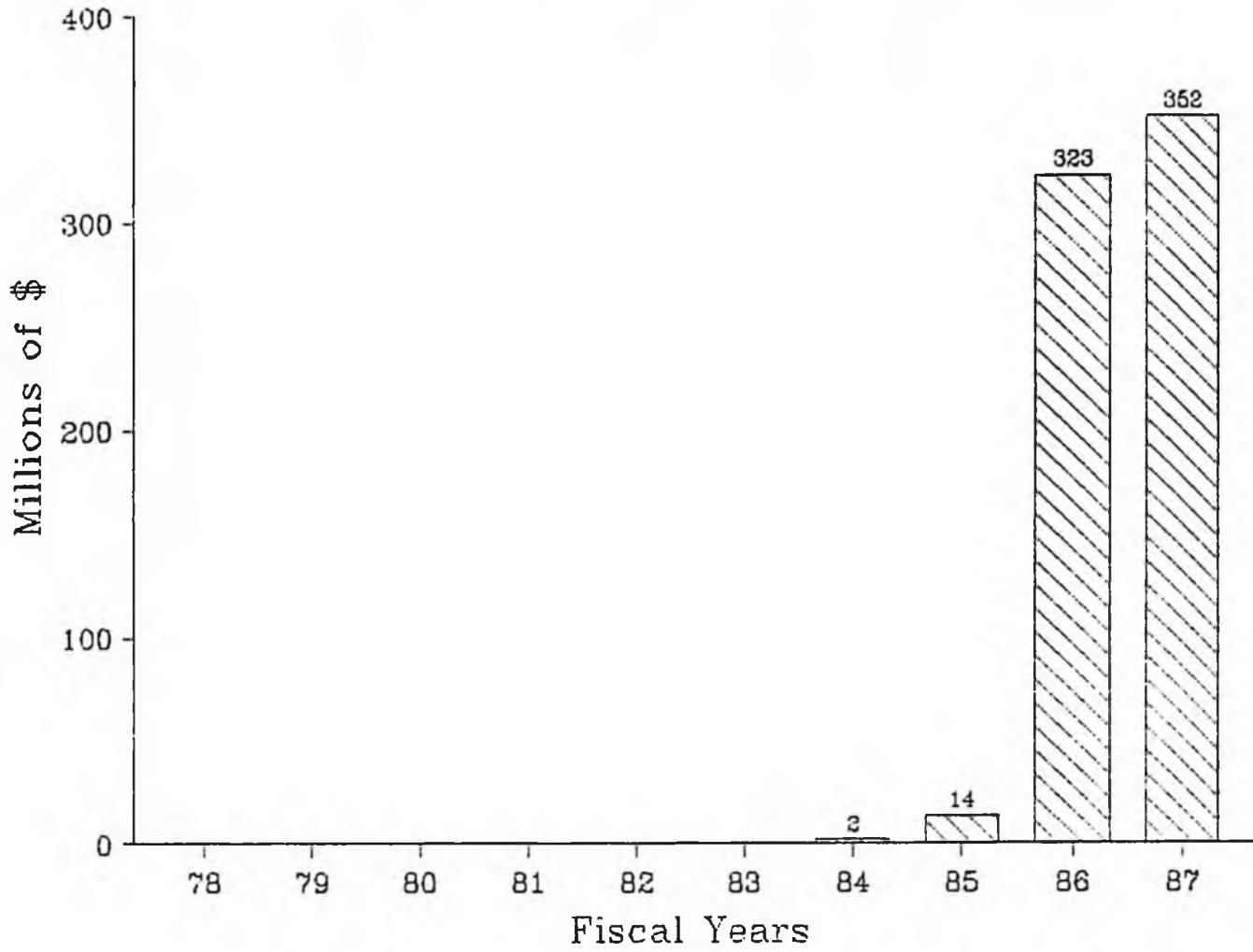
PRINCIPAL



NET INCOME

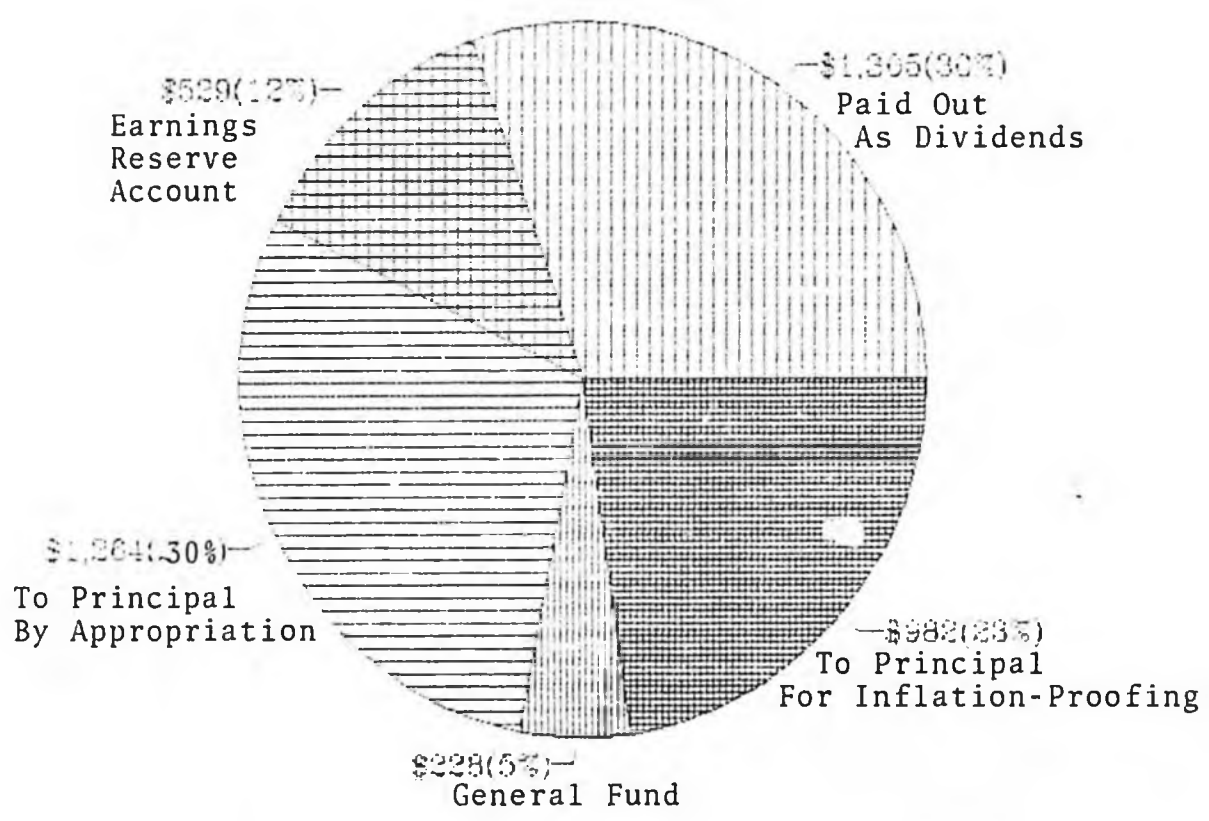


TOTAL FUND REALIZED CAPITAL GAINS



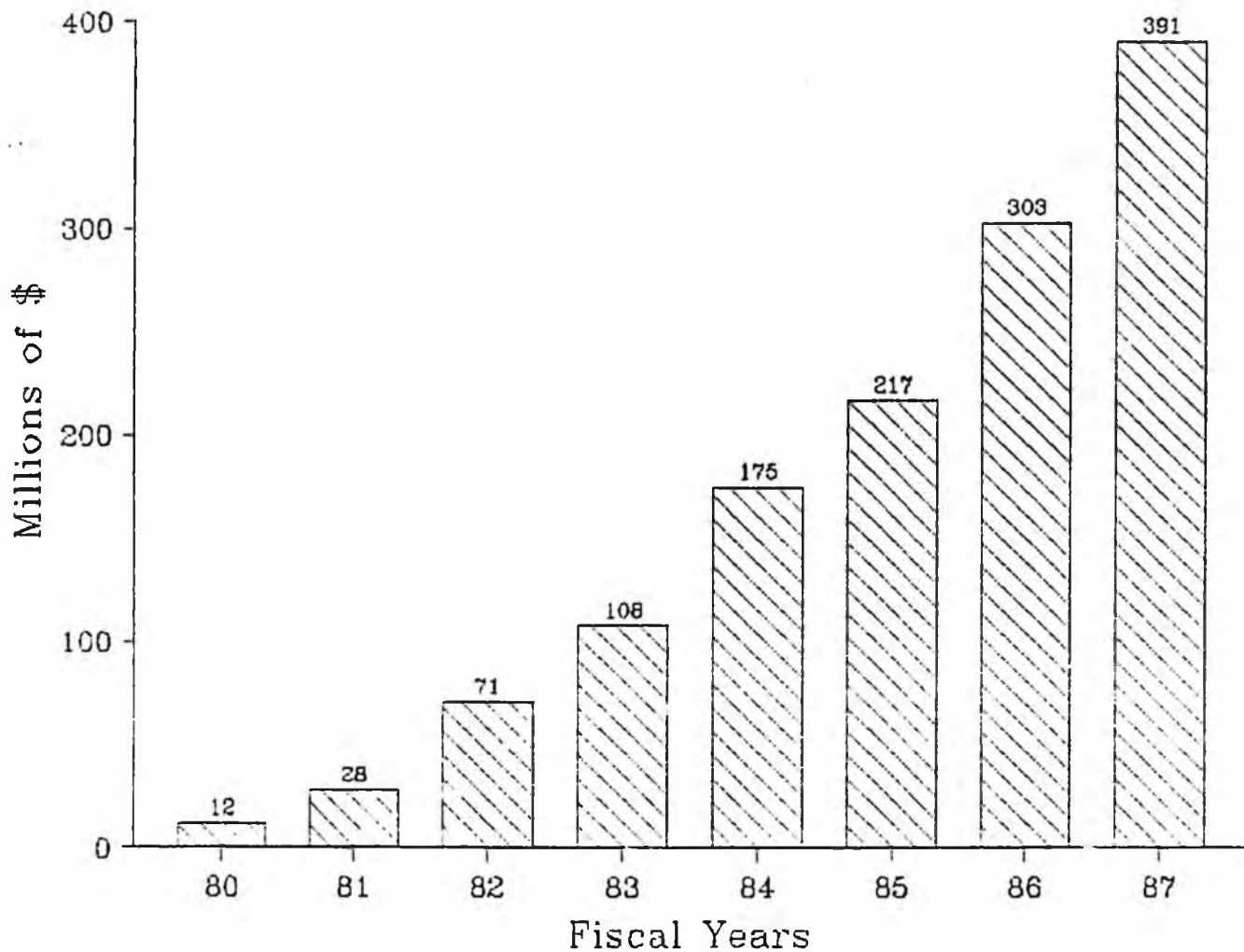
USE OF FUNDS

Distribution of Earnings Since Inception
(in millions)



Total Net Income FY 1987-1977: \$4.3 Billion

FUND INCOME PAID OUT FOR DIVIDENDS



RISK-ADJUSTED PERFORMANCE ANALYSIS

Public Funds Investing in Stocks and Bonds

~~REWARD VS. RISK ANALYSIS~~

~~BALANCED FUNDS BACKGROUND~~

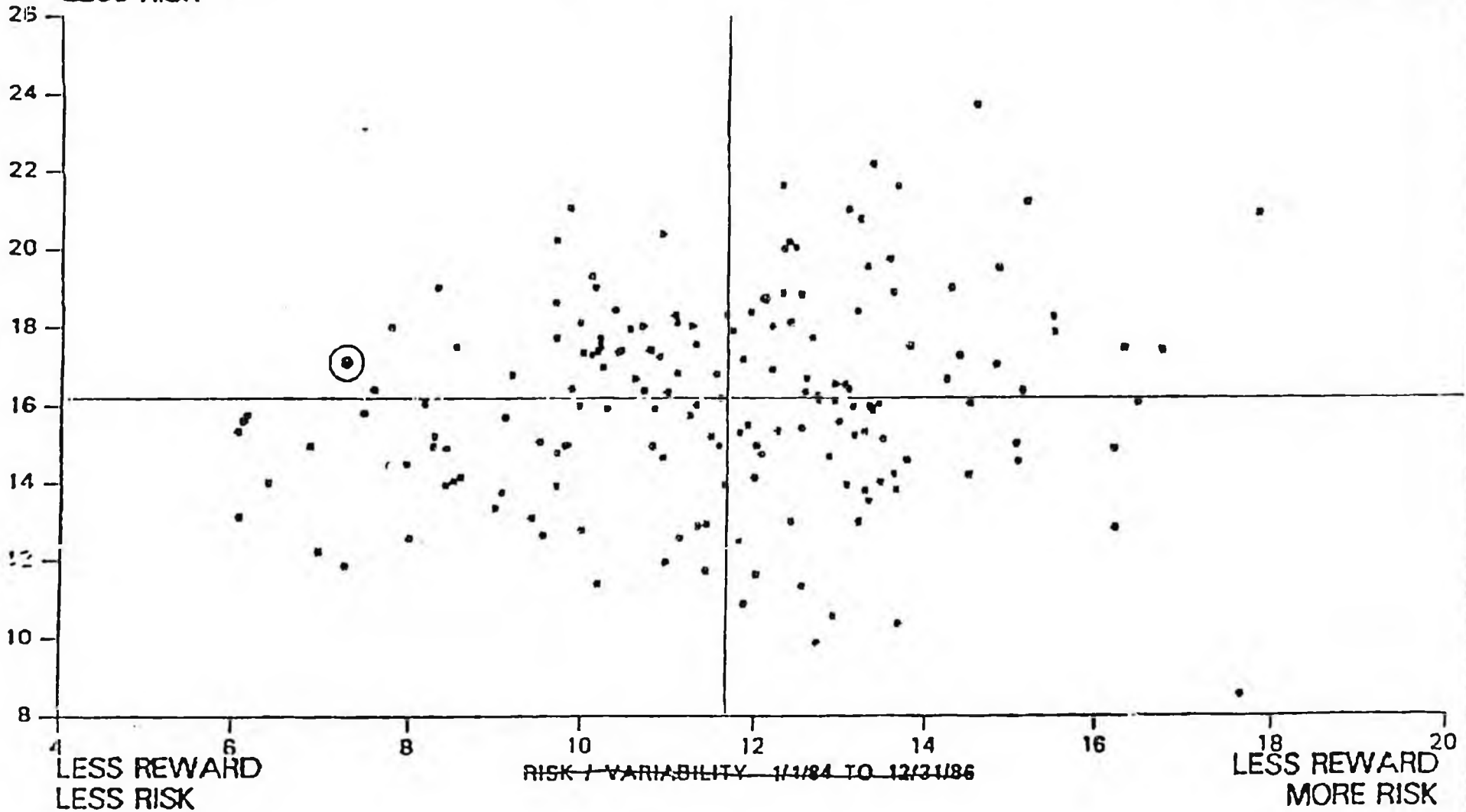
~~TOTAL FUND RATES OF RETURN VS. VARIABILITY~~

3 YEARS January 1, 1984 - December 31, 1986

MORE REWARD
LESS RISK

MORE REWARD
MORE RISK

~~REWARD / RATES OF RETURN 1/1/84 TO 12/31/86~~

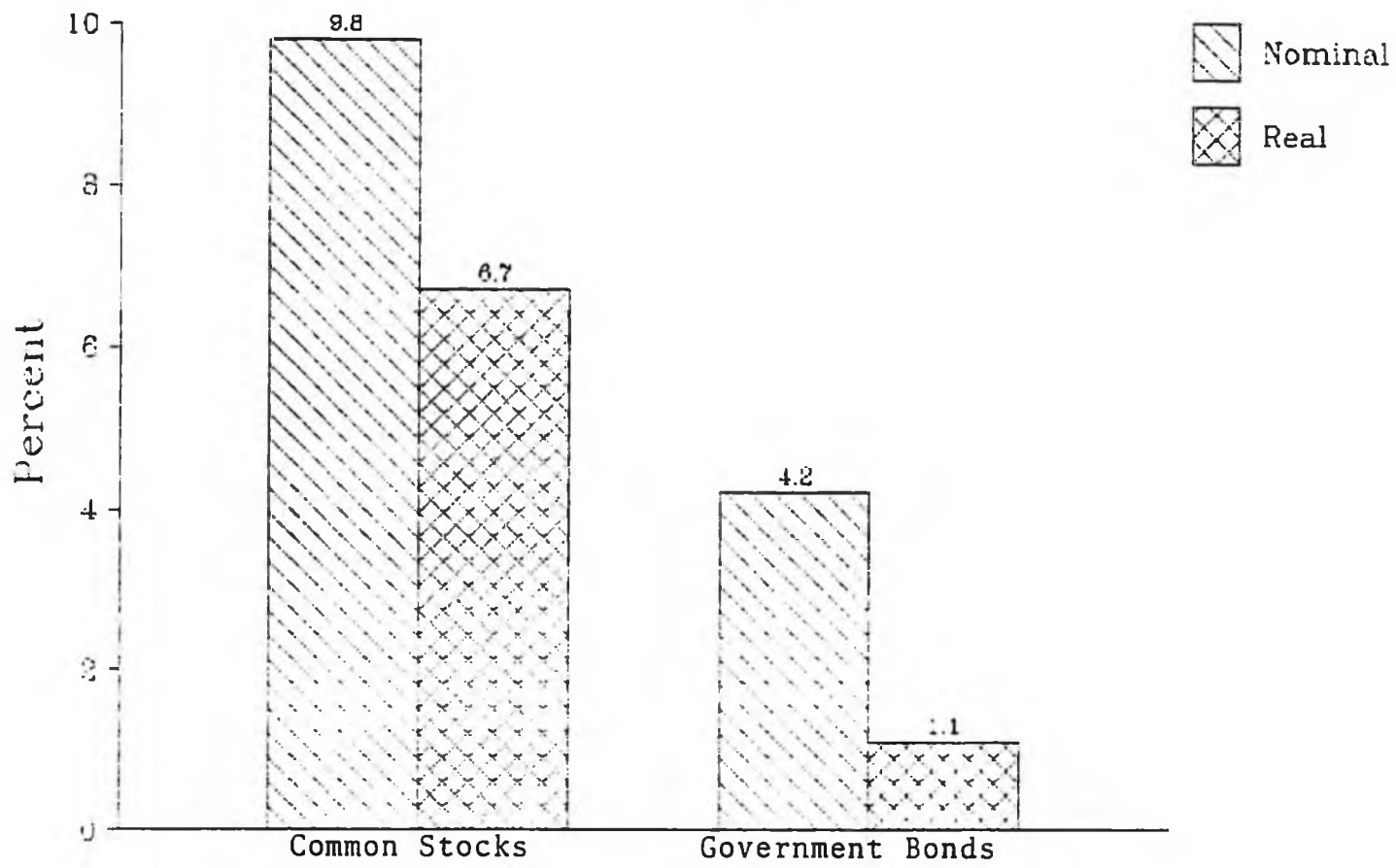


LESS REWARD
LESS RISK

LESS REWARD
MORE RISK

STOCKS AND BONDS

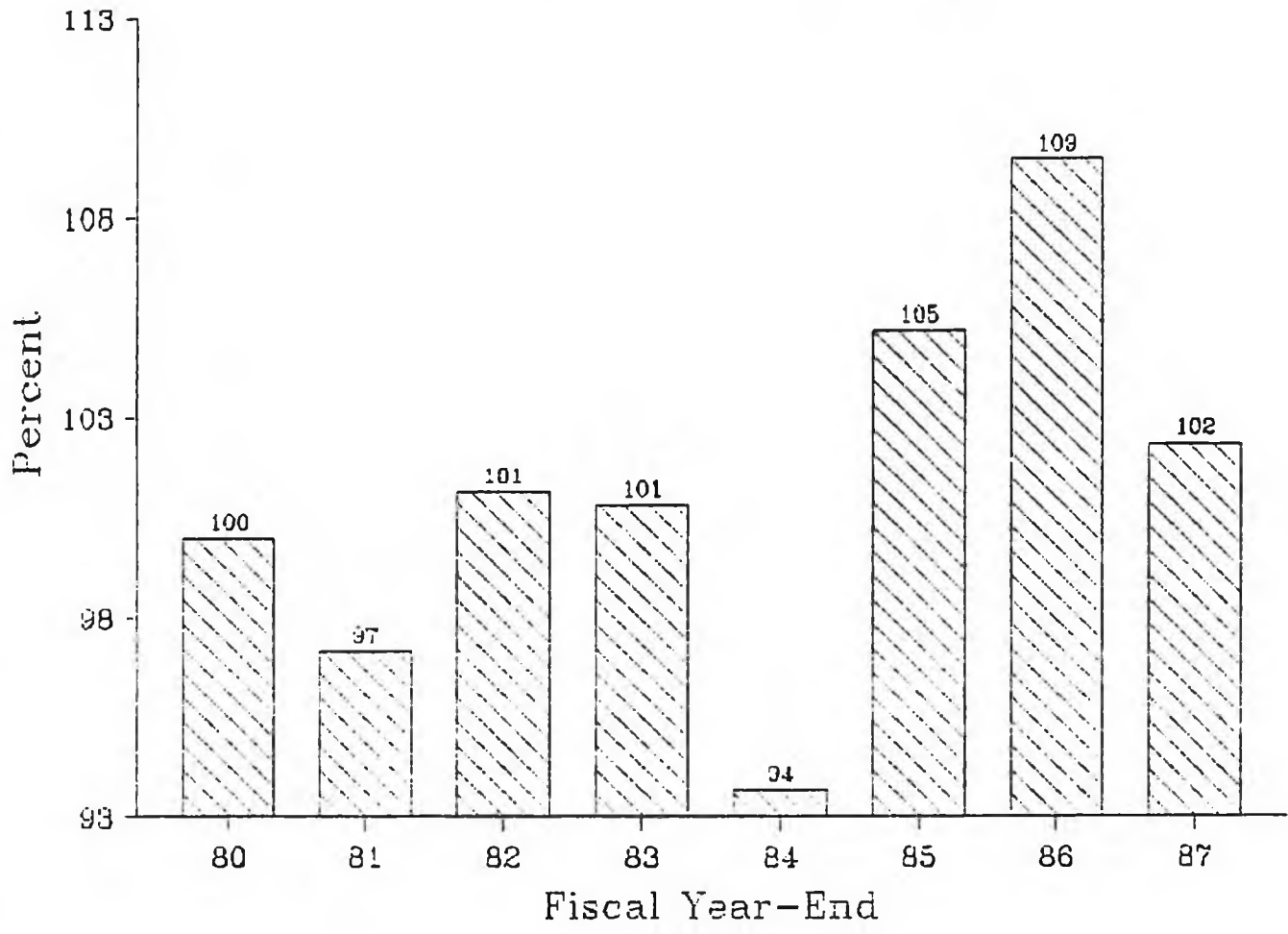
60 Years of Historical Performance



Average Annual Rates of Return 1985 - 1926

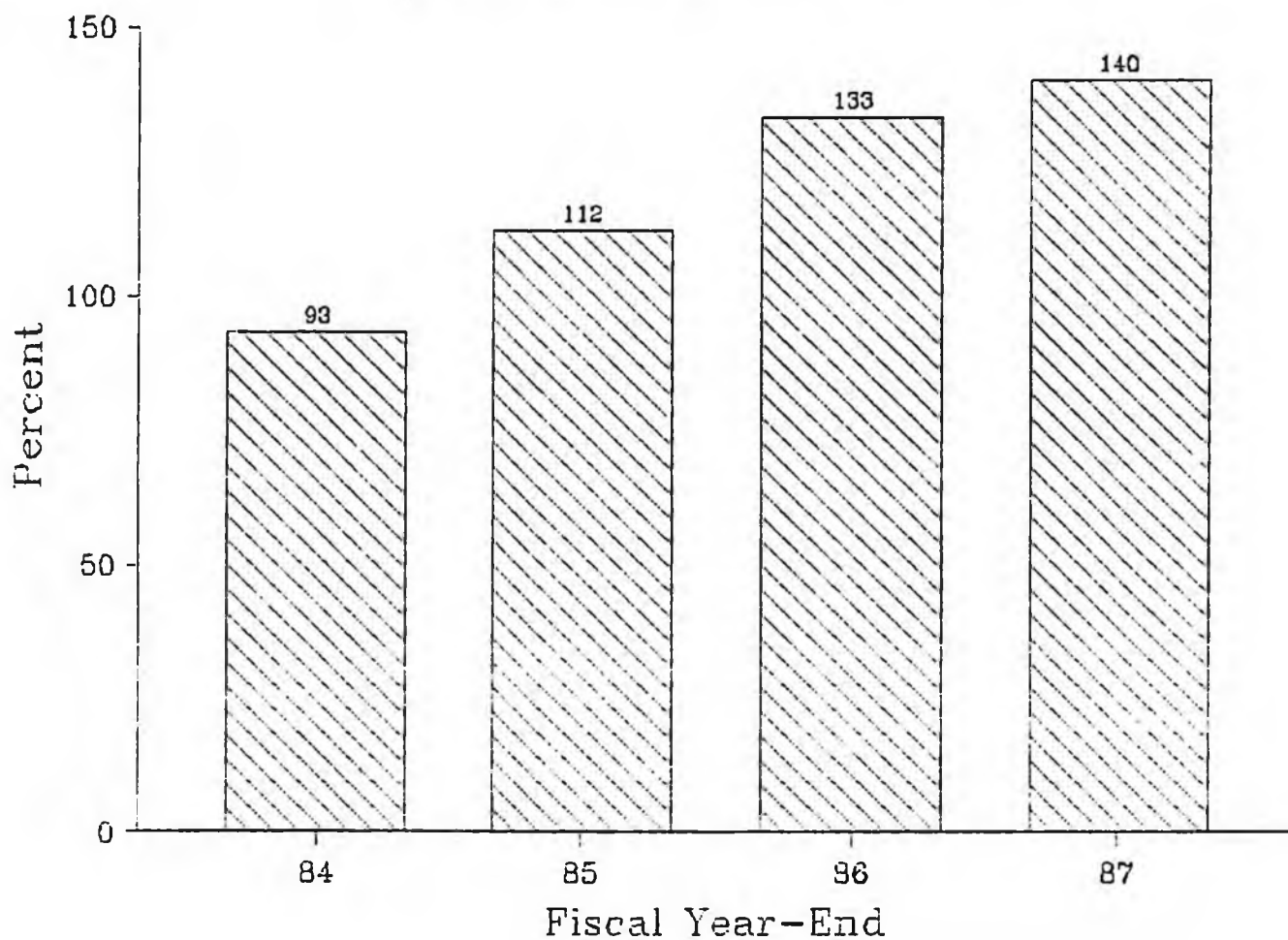
THE VALUE OF THE BOND PORTFOLIO

Market Value as a % of Cost Value

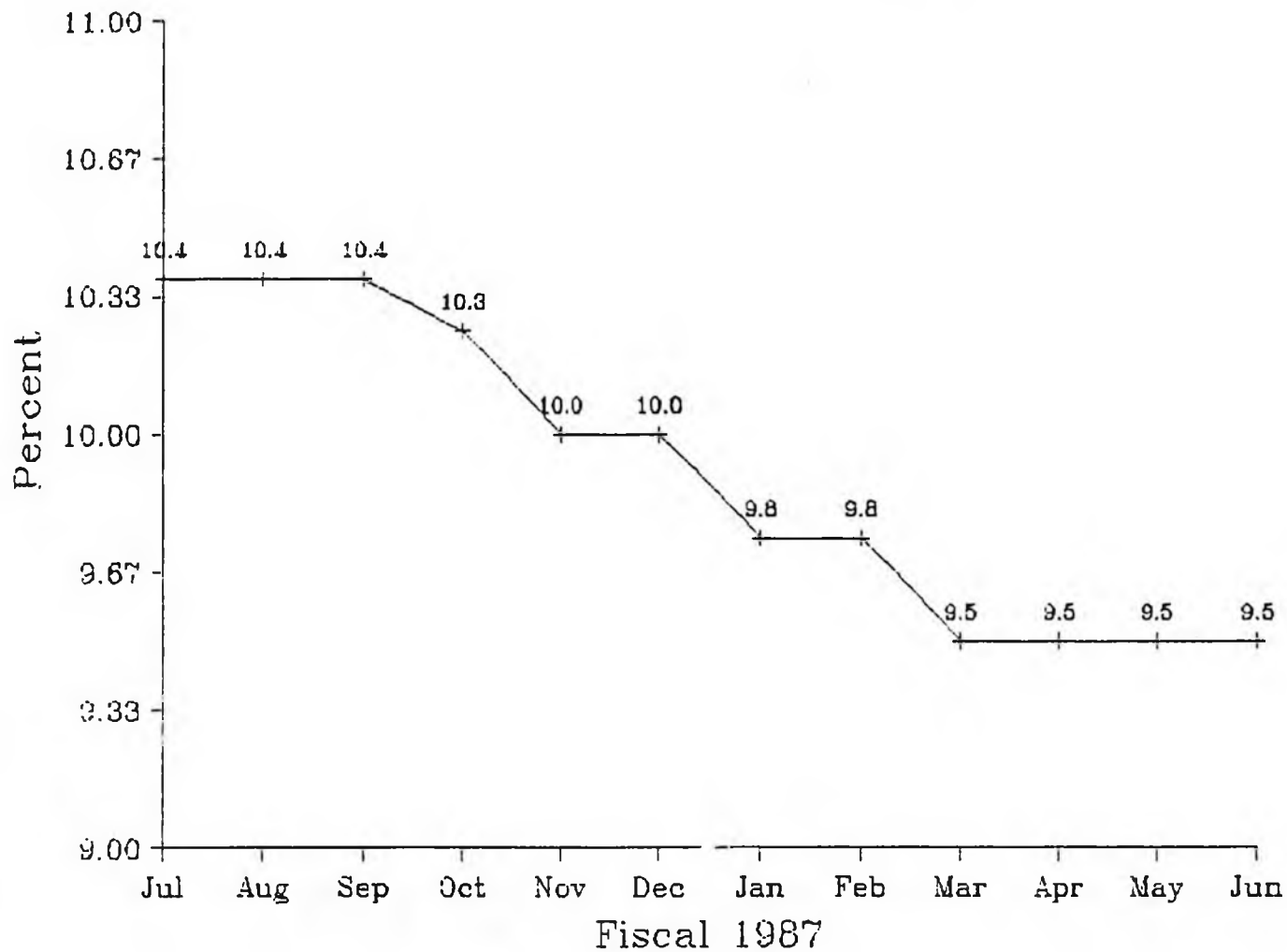


PERMANENT FUND STOCK PORTFOLIO

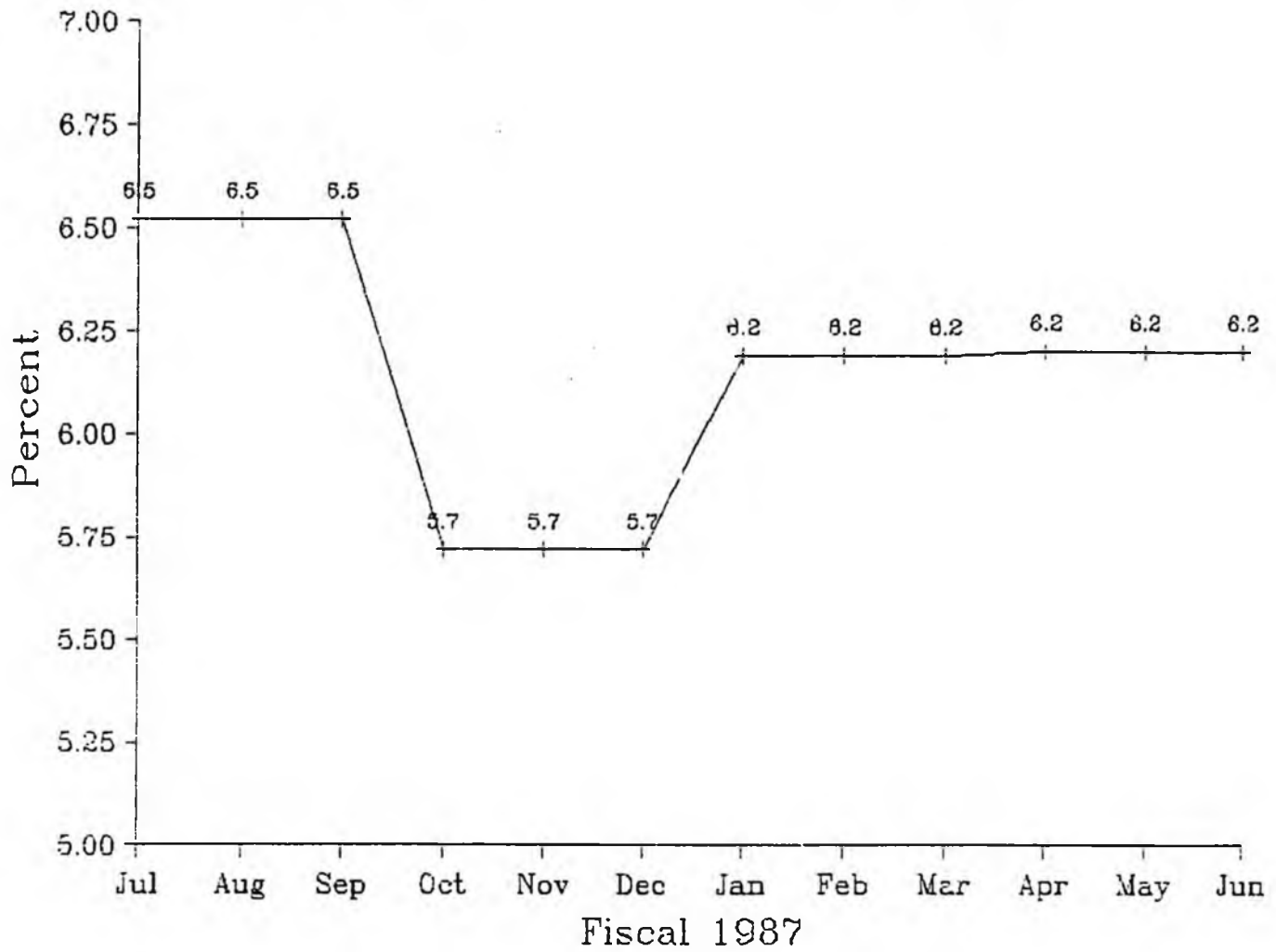
Market Value as a % of Cost Value



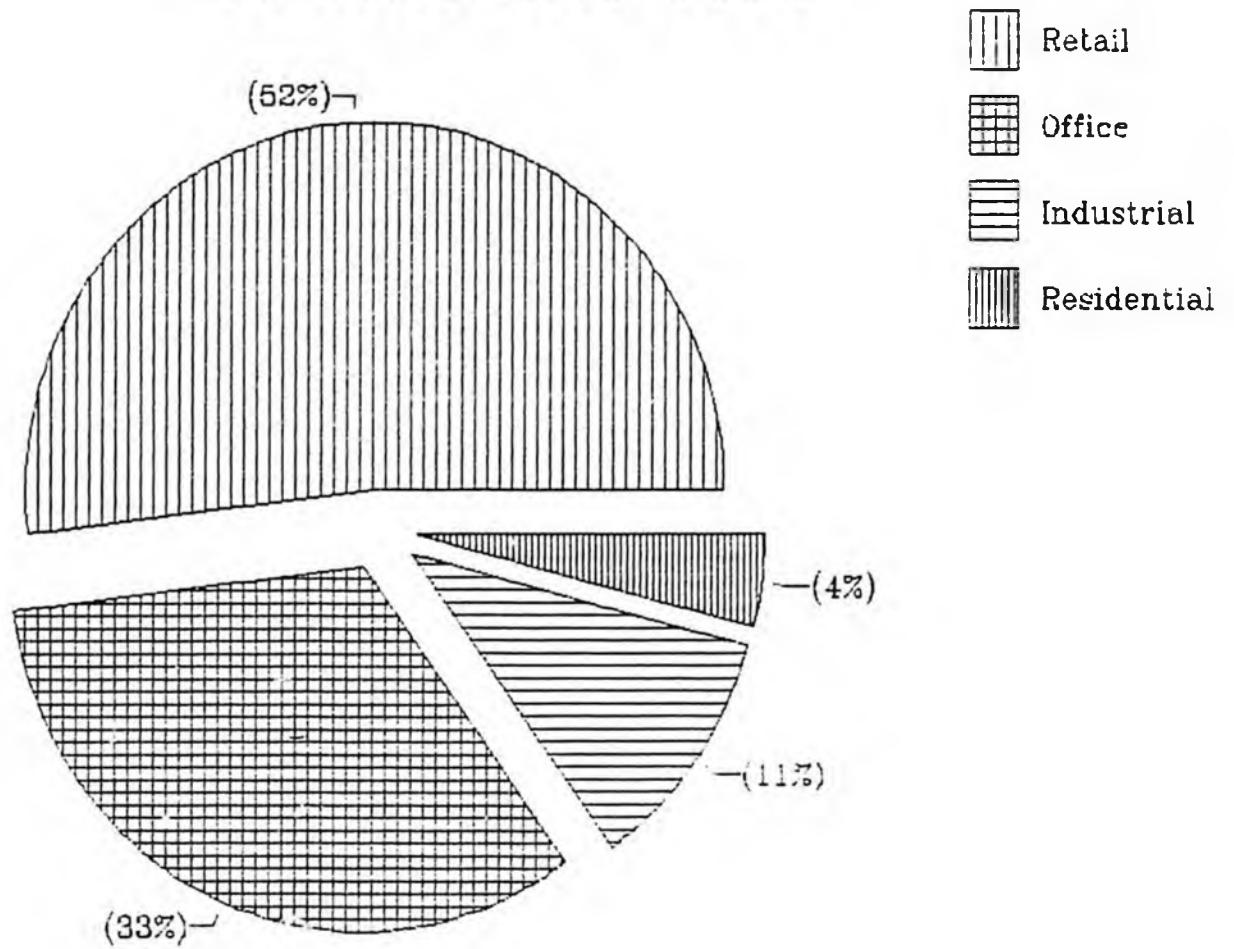
Permanent Fund Mortgage Rates



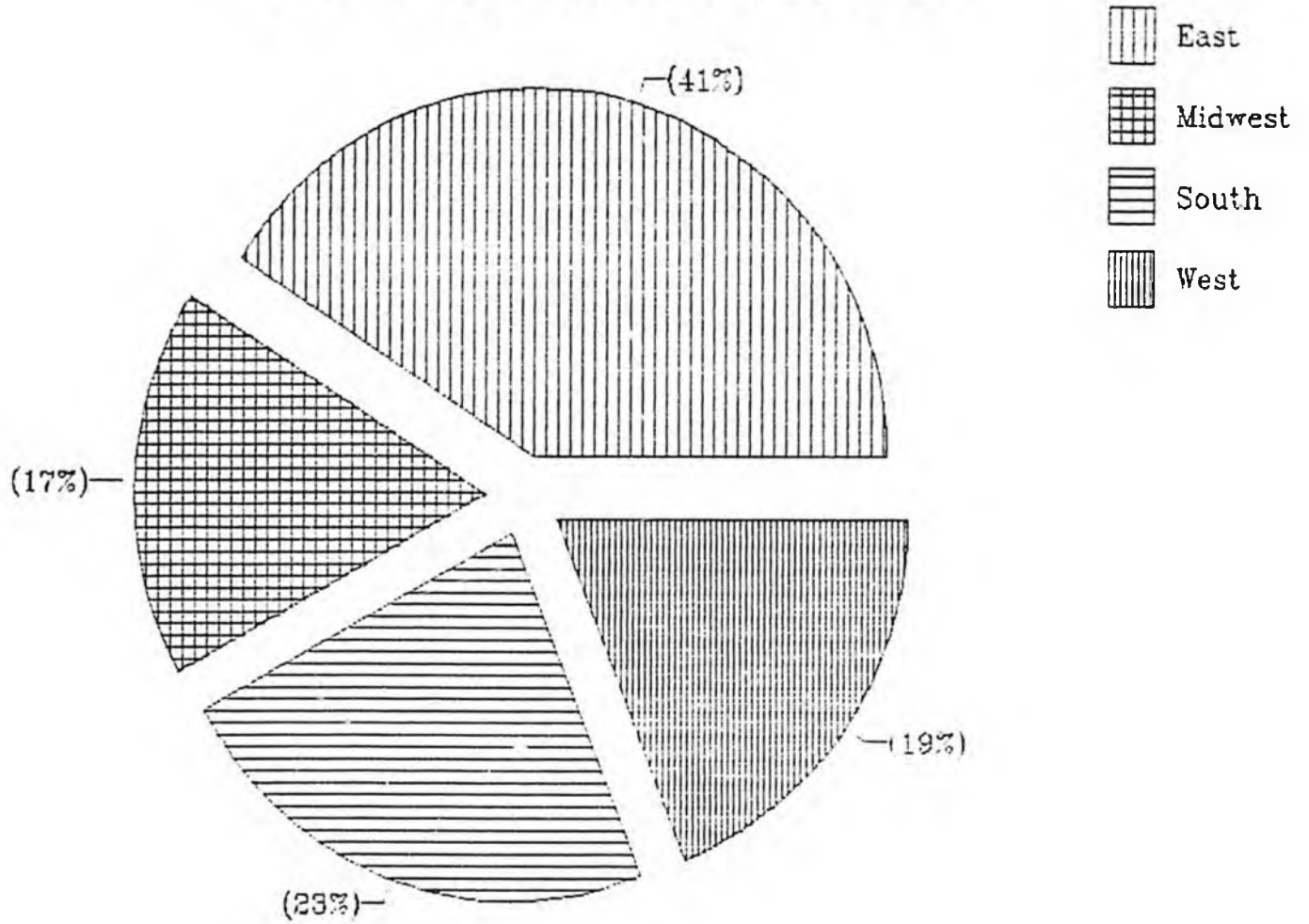
Permanent Fund CD Rate



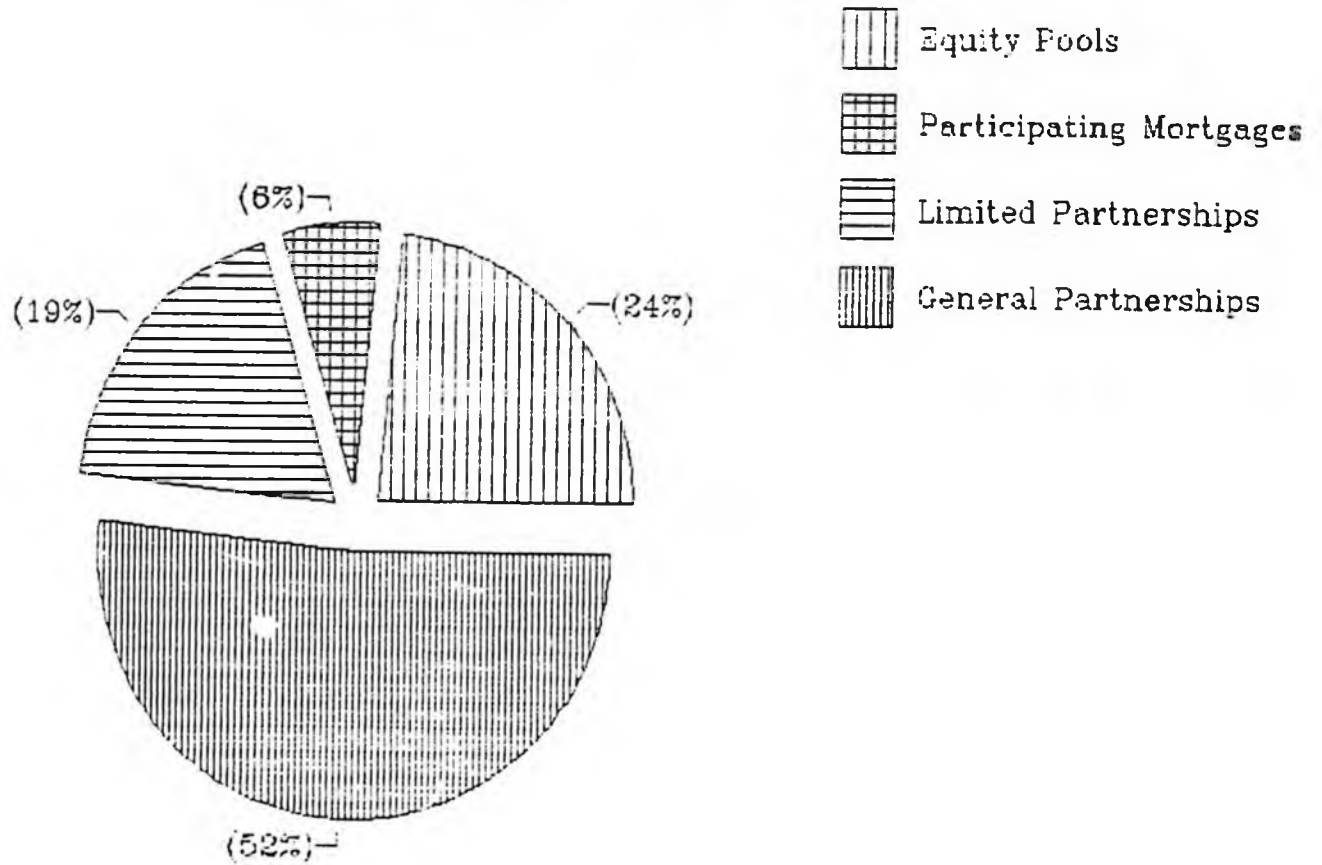
BY PROPERTY TYPE



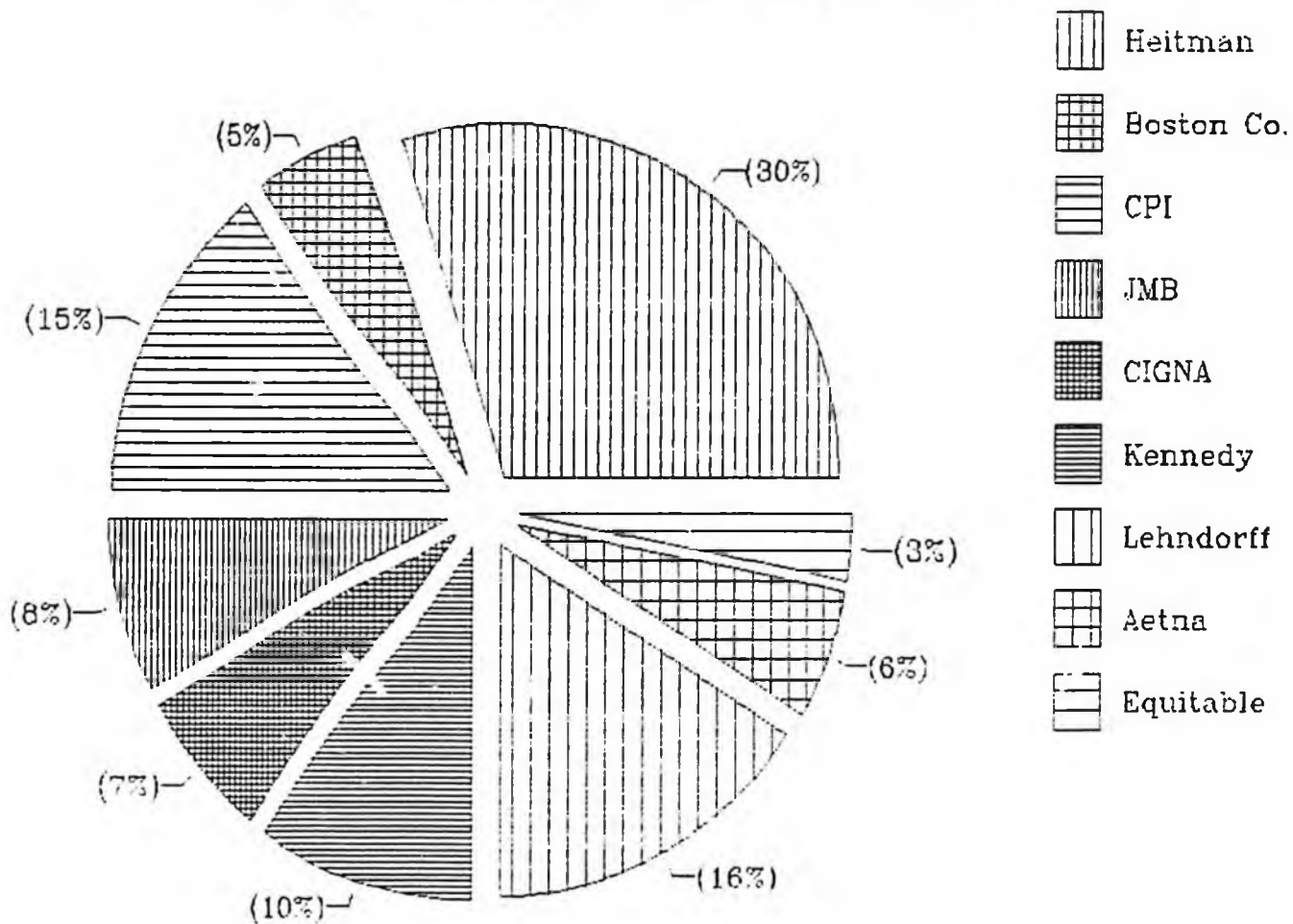
BY PROPERTY LOCATION



BY INVESTMENT TYPE

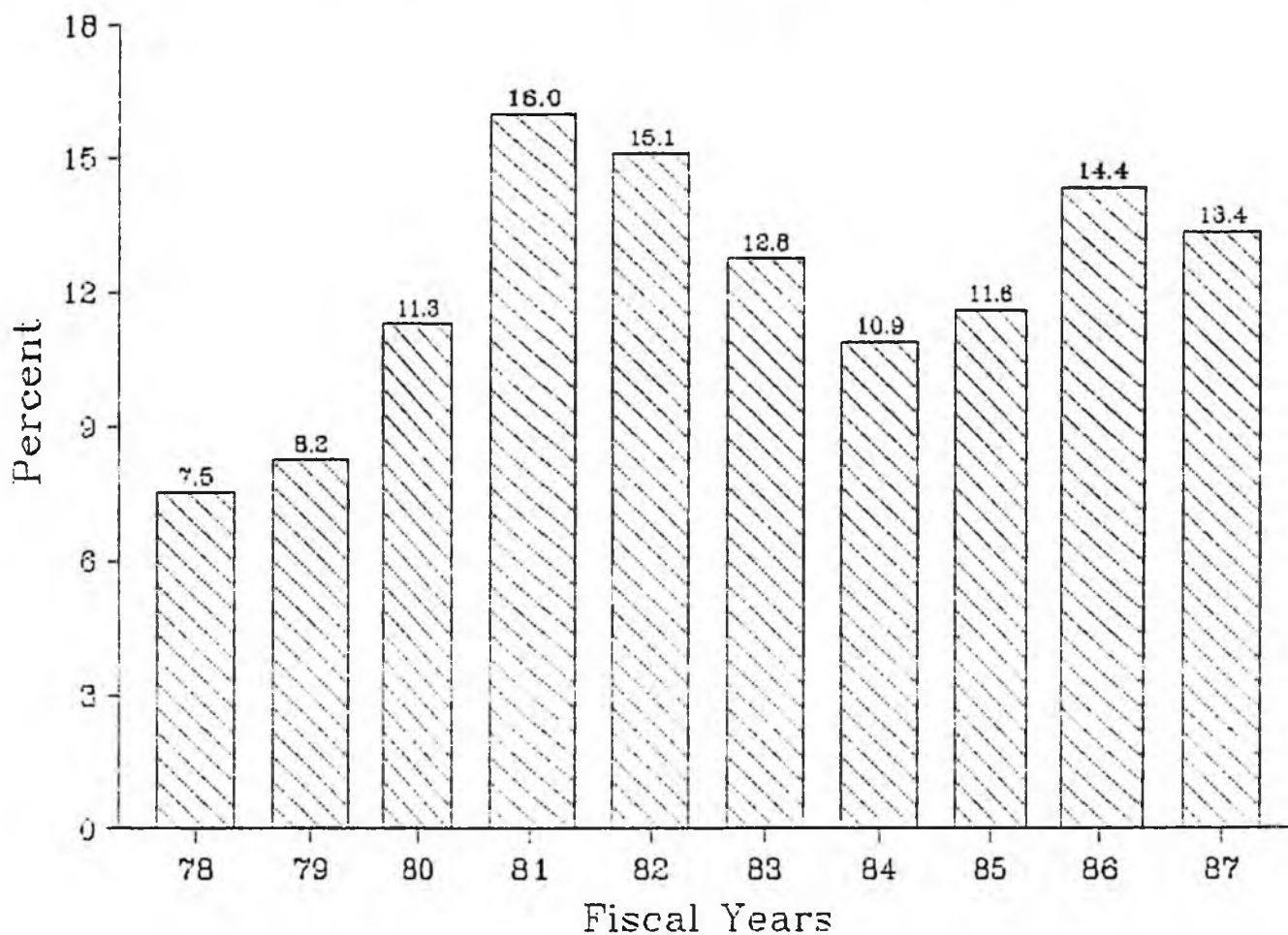


BY INVESTMENT ADVISOR



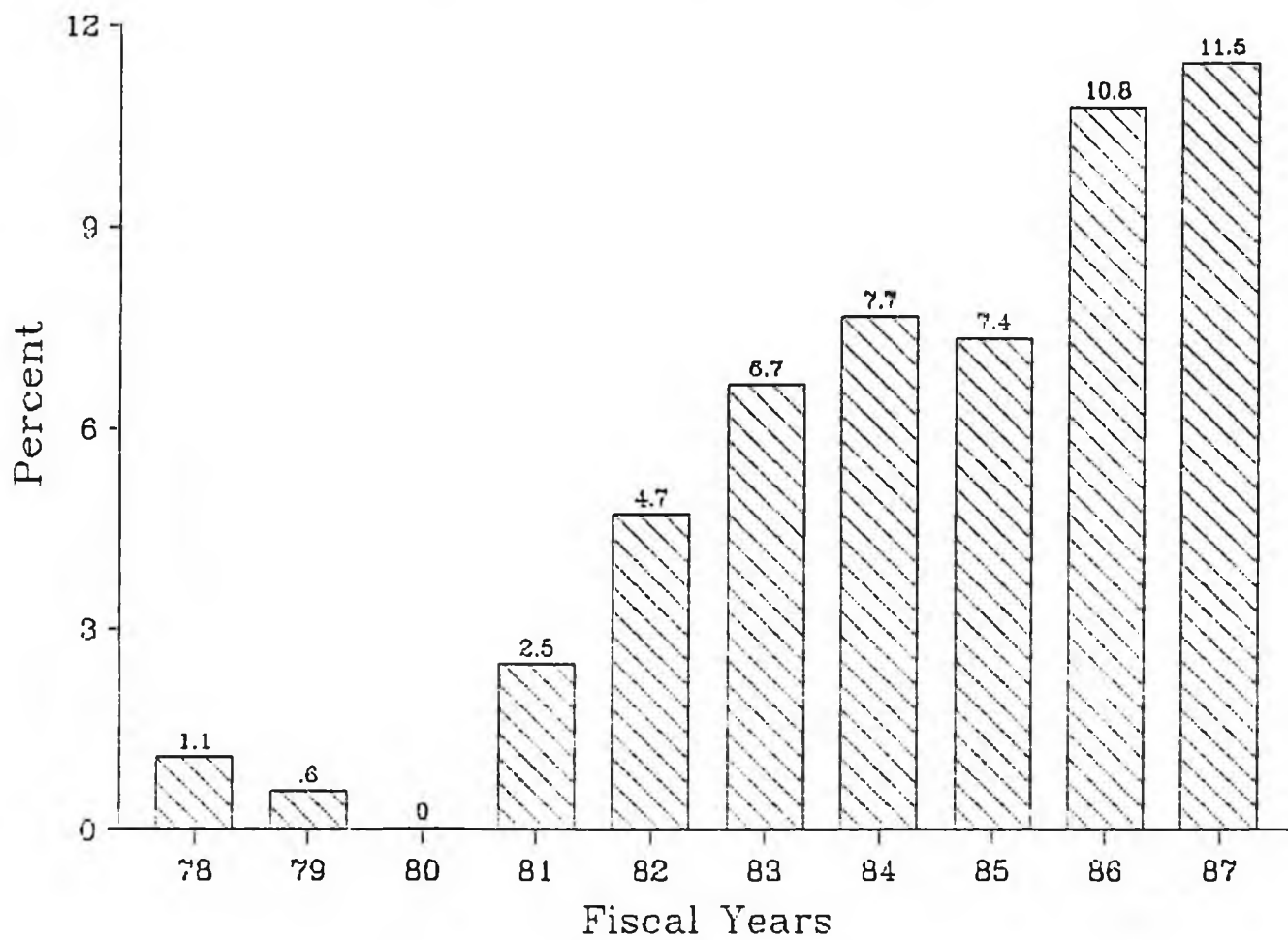
REALIZED RATES OF RETURN

Nominal



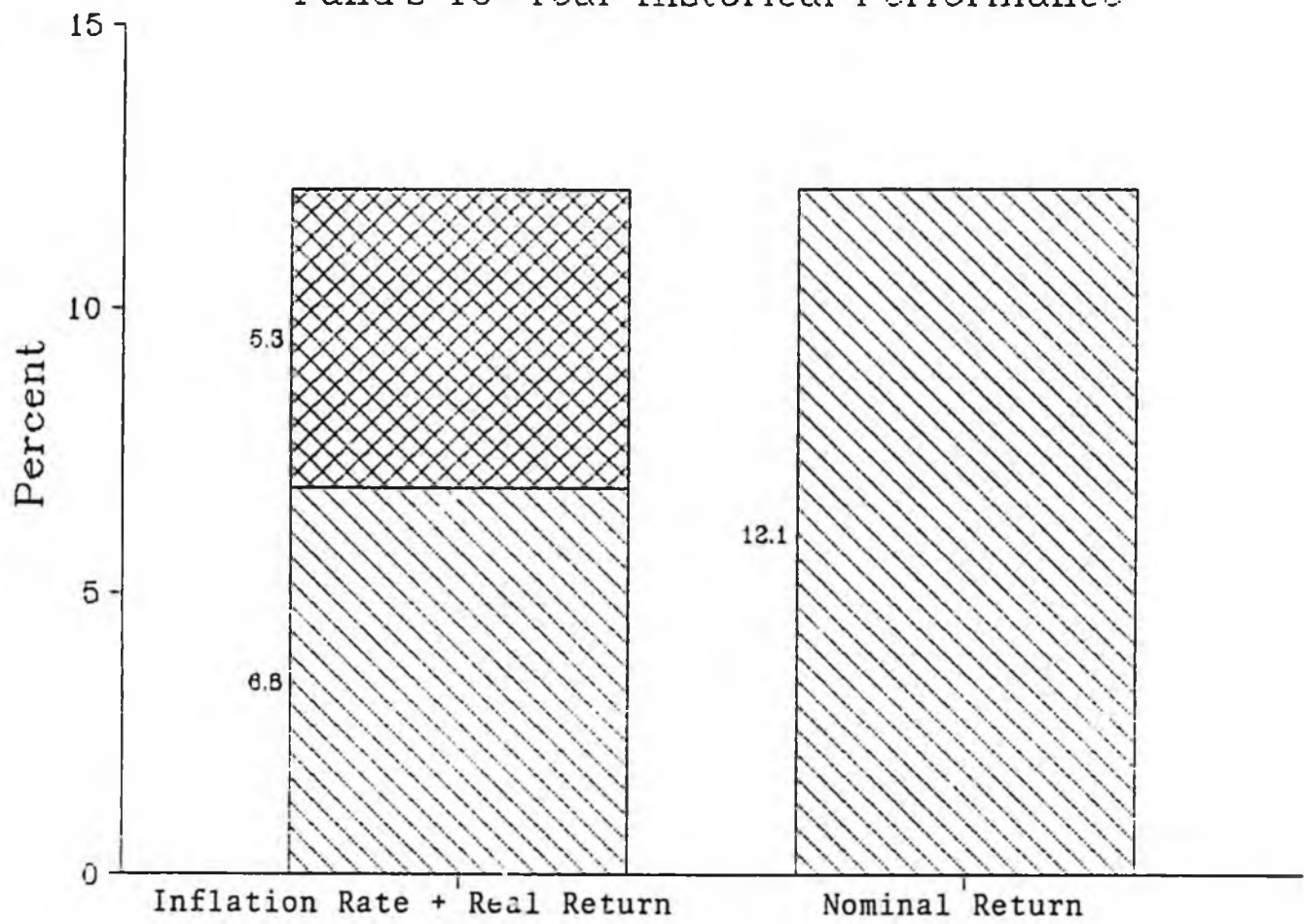
REALIZED RATES OF RETURN

Real



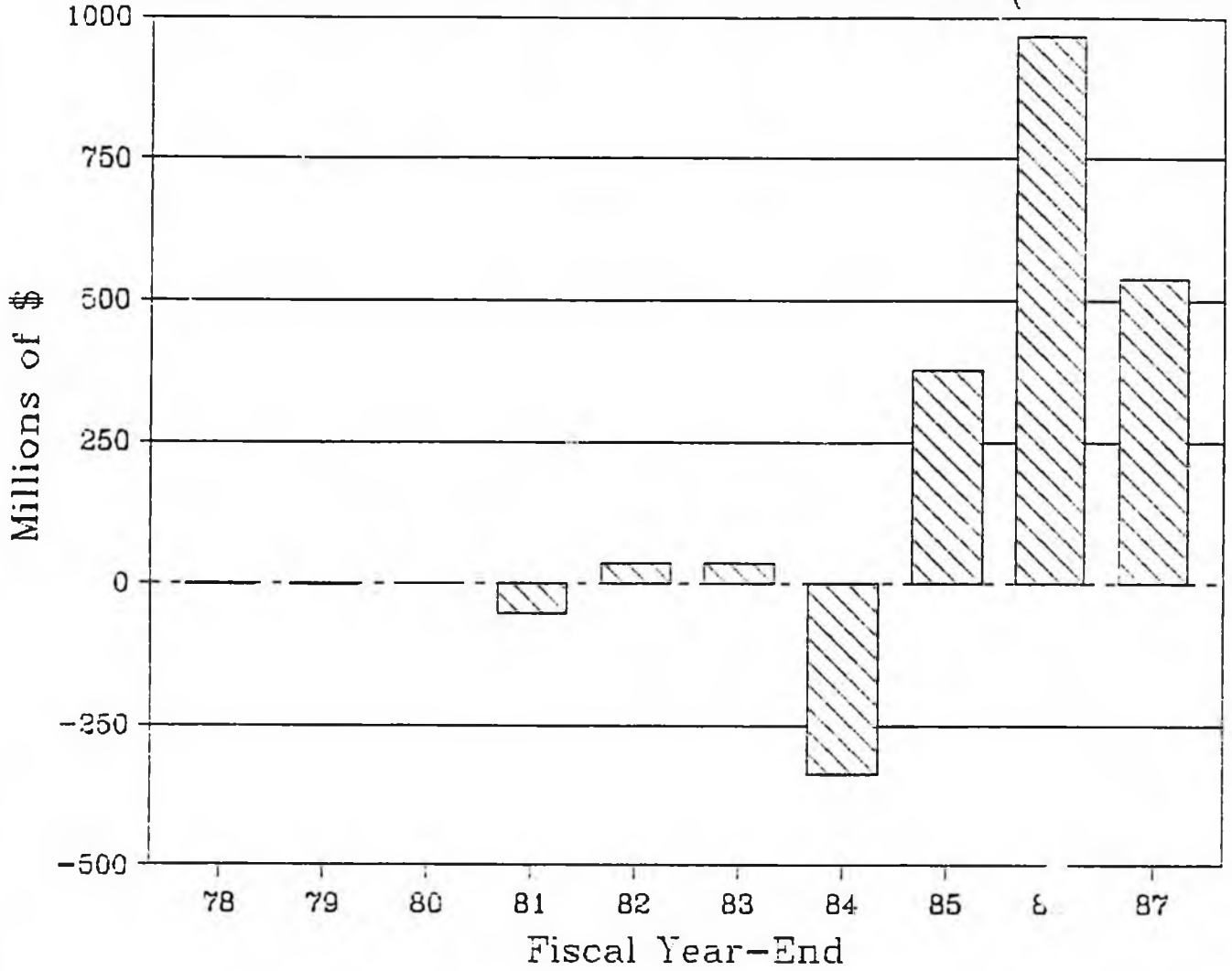
AVERAGE REALIZED RATES OF RETURN

Fund's 10-Year Historical Performance



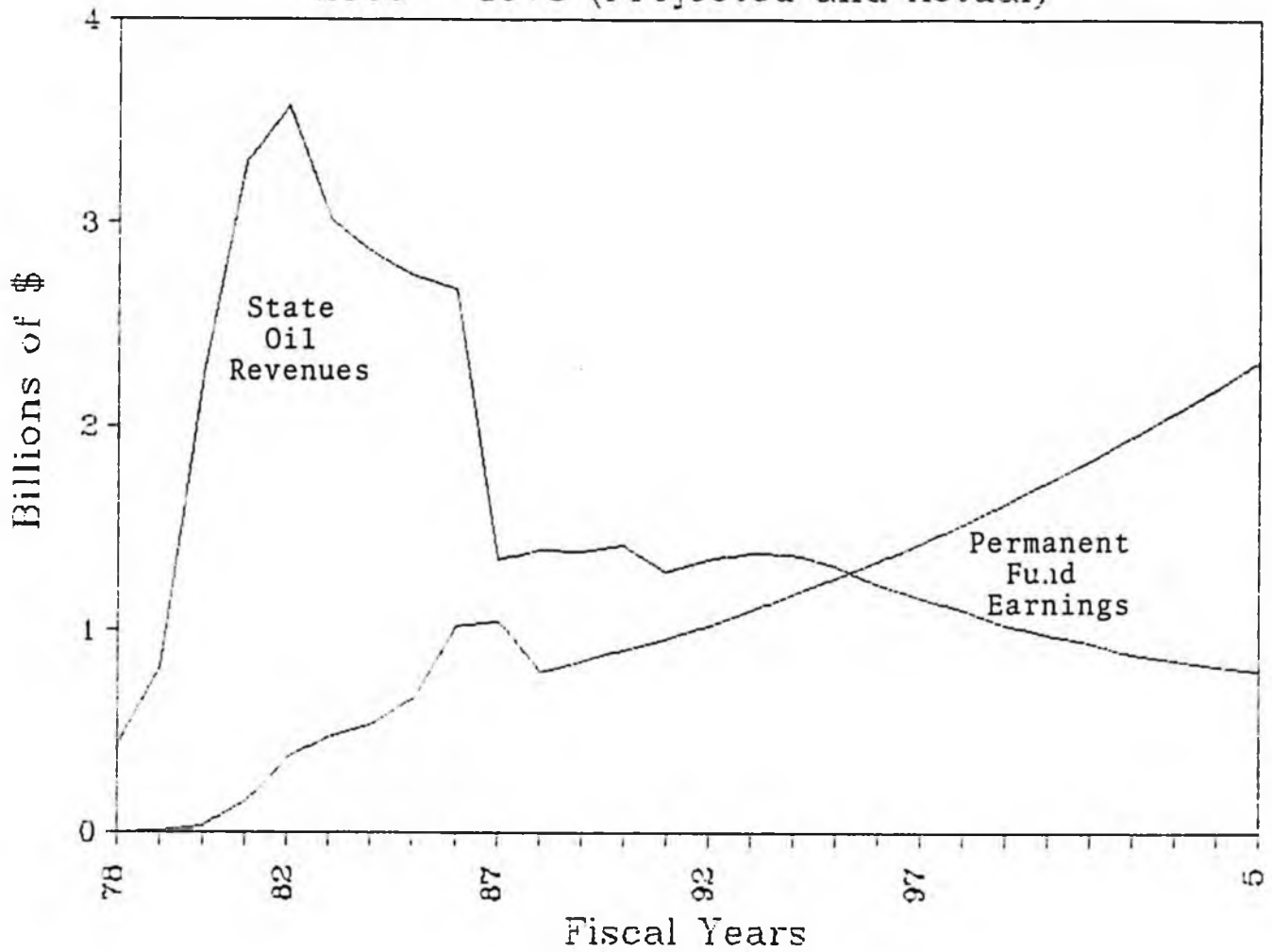
Fiscal 1987 - Fiscal 1978

TOTAL FUND UNREALIZED GAINS (LOSSES)



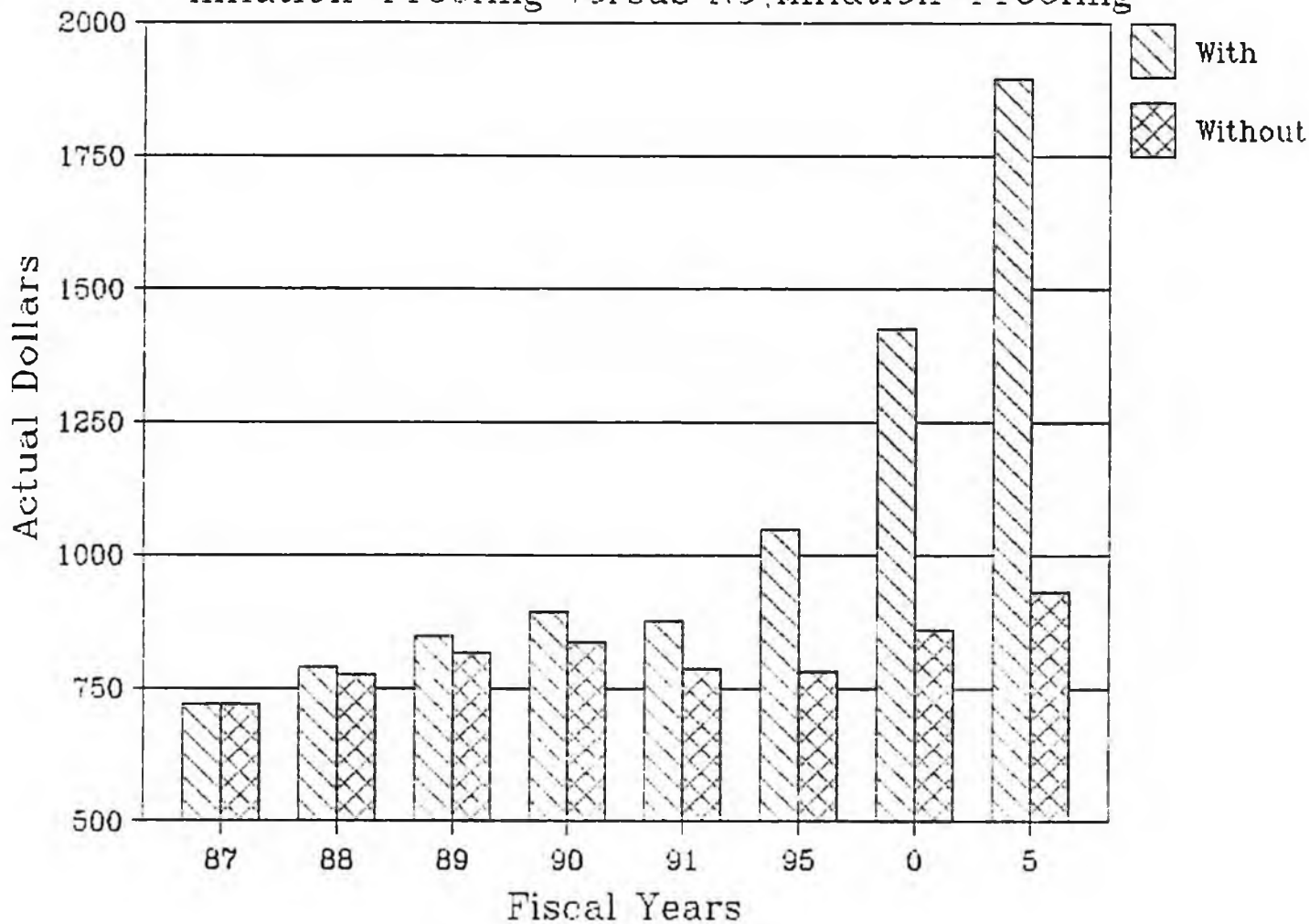
STATE OIL REVENUES VS. FUND EARNINGS

2005 - 1978 (Projected and Actual)



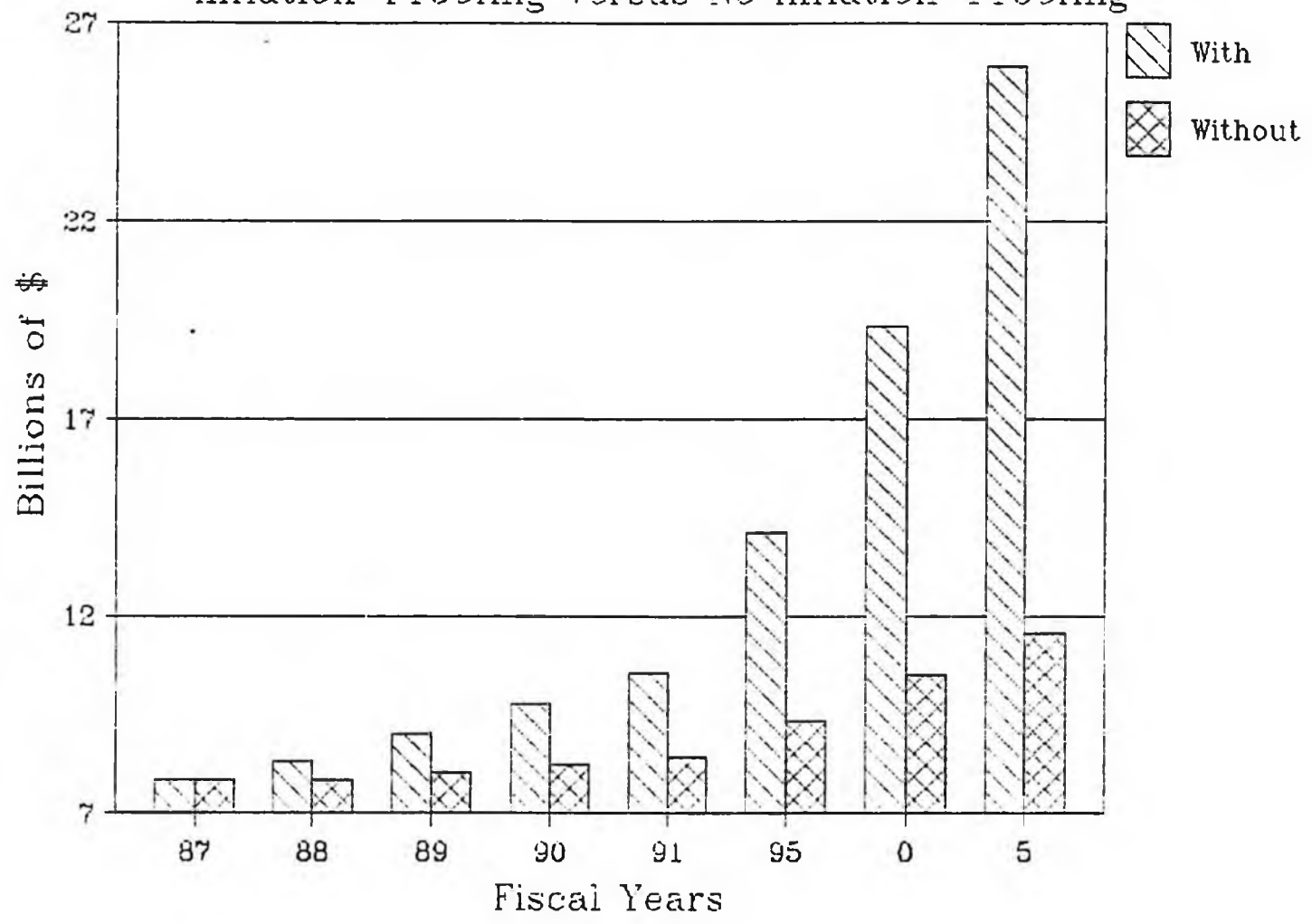
Projected Per Capita PF Dividends

Inflation-Proofing Versus No Inflation-Proofing



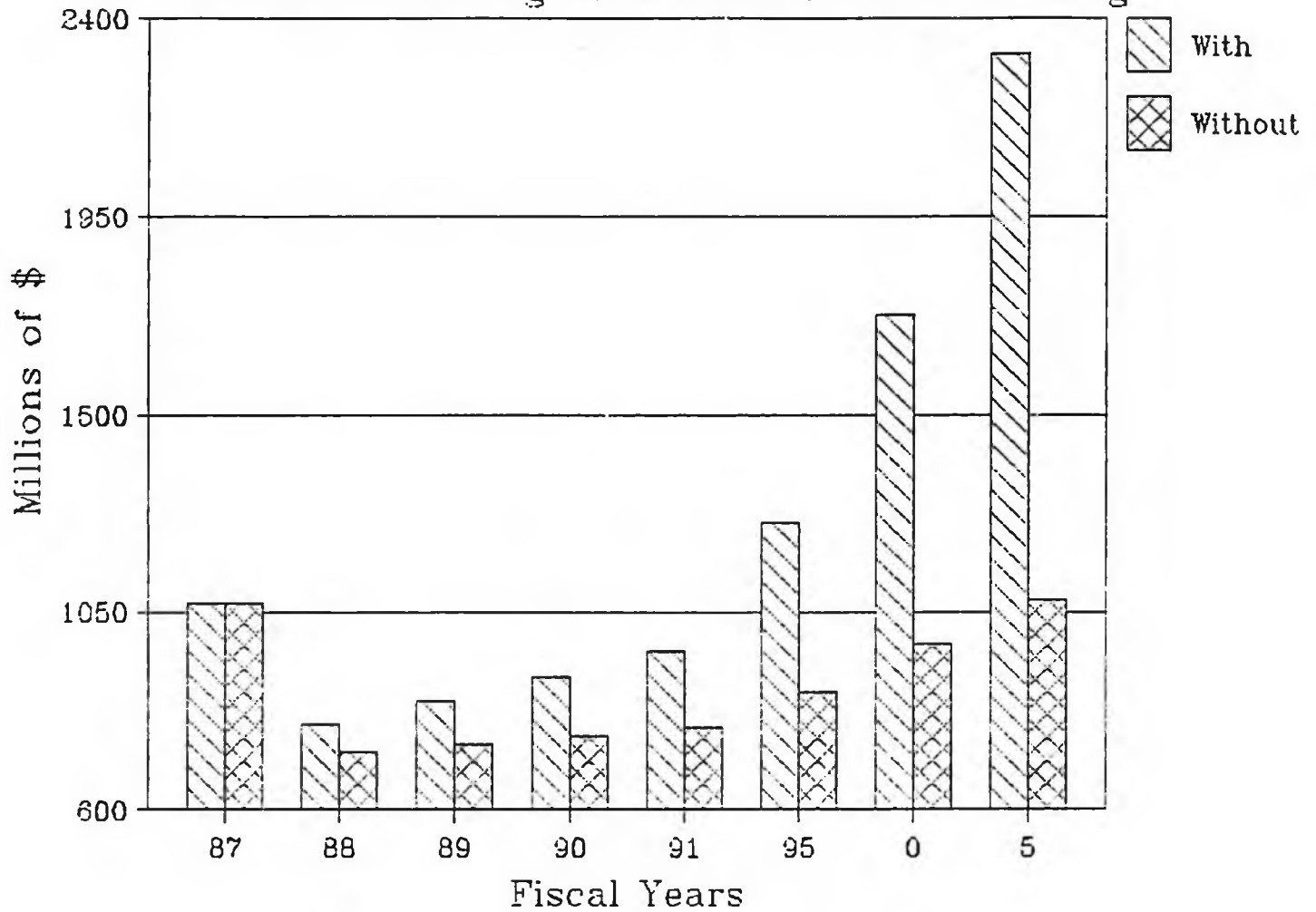
PROJECTED GROWTH OF FUND PRINCIPAL

Inflation-Proofing Versus No Inflation-Proofing



PERMANENT FUND PROJECTED EARNINGS

Inflation-Proofing Versus No Inflation-Proofing





STATE OF ALASKA
 THE LEGISLATURE
 LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

December 23, 1987

SUBJECT: Longevity Bonus Program (CSSB 56 (Jud))

TO: Representative Fran Ulmer
 Chair, State Affairs Committee

FROM: Tamara Brandt Cook *TBC*
 Director
 Division of Legal Services

You have asked whether a person must be a resident of the state to qualify for a longevity bonus and whether anything in CSSB 56 (Jud) changes the residency requirement. Under current law to qualify for a longevity bonus payment, a person must be at least 65 years of age and have resided in the state for at least one (1) year. AS 47.45.010 provides:

Sec. 47.45.010 PERSONS WHO MAY QUALIFY FOR LONGEVITY BONUS.

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

(b) When the commissioner of administration determines that an applicant qualifies under this chapter the commissioner shall immediately begin payment of the bonus.

(c) A person who otherwise qualifies to receive a bonus provided for in this chapter may continue to do so only as long as that person continues to be a resident of the state.

CSSB 56 (Jud) repeals Section 1, ch. 99, SLA 1985. That section would have modified AS 47.45.010(a), but it has never taken effect and will not take effect under

Representative Fran Ulmer
Page 2
December 23, 1987

CSSB 56 (Jud). As a result of that repeal, section 17, ch. 99, SLA 1985 does take effect. That section amends AS 47.45.010(a) only by eliminating the \$250.00 bonus amount as follows:

(a) A person who is 65 years of age or over, who resides in the state for at least one year immediately preceding application for a longevity bonus under this chapter may apply to the commissioner of administration for qualification to receive a monthly bonus [OF \$250.00].

Other than the repealer the only change made in CSSB 56 (Jud) to the longevity bonus program is an amendment to AS 47.45.015(a) contained in section 6 of the bill. That amendment provides for implementation of the annuity program, but does not address the residency requirement. Therefore, under CSSB 56 (Jud) the one year residency requirement currently contained in AS 47.45.010 remains in effect.

TBC:bb
B1/001

FORMULA PROGRAMS

- LONGEVITY BONUS

FY 89 Increment: \$2,371.0 GF.

The department plans to fund the costs of this program under provisions of current statutes. As currently mandated in AS 47.45, eligible recipients are to be paid \$250 per month.

The number of longevity bonus recipients varies from month to month depending upon relocation, death, incarceration, and attaining eligible status. The increment reflects a projected increase of 800 in the average number of monthly recipients during FY 89. These projections are based upon FY 87 actuals, on FY 88 projections, and on the current economic environment. ✓

SB

56

File #2

5/24/87



by
Clem
Tillion

A little bit of bonus history

Since the legislators' work is going to have to take some going over to see who won, who lost and who just got lost, I will leave it alone for a week or so.

A legislative aid in Juneau wrote me asking some questions regarding what the legislature was thinking back when we first considered the longevity bonus. I was asked if the legislature considered things like the constitutionality of the legislation and how it was to be funded?

The constitutionality was considered, and in fact a provision was inserted in the original legislation specifying that if the courts struck down any portion of the bill, the whole program was to be discontinued.

How an attorney general could later consider that paying it to everyone made it legal I'll never know!

I'm not necessarily in disagreement with paying it to everyone over 65; I just feel his ruling was more from the heart than on the law itself.

There are some who think the program has become too expensive, but I'm not so sure that it's not worth keeping regardless of cost. If, for instance, you just compare it to other government programs.

With a population of under five hundred thousand people, do we need as many state employees as we have?

I'm not insinuating they don't work hard and do the best work possible but after reading the local papers, it seems more tears are being shed for the loss of the local pay roll into the economy than the loss of the state work being done.

So, if some of the purpose of payroll is its impact on the economy I think that I, for one, would rather give it to the old folks. For one thing we don't have to pay them when they leave the state as we do with employee retirement and benefits, thus a larger portion stays in Alaska.

The other question asked was why we didn't address the funding in the original legislation. The answer is, we did.

When the state received the first big oil bonanza, some nine hundred million, in a state with an annual budget of one hundred million some of us wanted to save at least a portion of this windfall like the Permanent Fund of today. So the first longevity bonus bill which paid \$150 a month to our pioneers was to be funded from the earnings of one hundred million placed in a Permanent Fund with the understanding that if earnings dropped the pioneers might really receive less than \$150.

But the longevity bonus legislation and the Permanent Fund passed both houses and went to Gov. Miller's office.

Gov. Miller was pushing for the ice road to Prudhoe Bay and wanted to call a special session for this purpose.

A number of us in the leadership took a less than enthusiastic view not only of the cost but of the ice road itself.

George Hohman was chairman of Finance Committee and opposed to both the longevity bonus and the lock up of any funds. To bypass him Sens. John Butrovitch and Bill Ray sent a Senate version of the longevity bonus over to the House hooked to one of their bills, thus bypassing the Finance Committee.

As the funding for the bill did have to go through the Finance Committee the second version of the longevity bonus came out of general fund appropriations instead of the earnings of the Permanent Fund.

Halibut Cove charter boat skipper Clem Tillion is a former president of the Alaska Senate.

QUOTE

"He's not a king and this is not a monarchy."

— Sen. George Mitchell, D-Maine, saying President Reagan is wrong about being exempt from congressional restrictions on aid to Nicaraguan rebels.



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

May 15, 1987

Dear Representative:

Enclosed is a packet of information concerning CSSB 56 (Judiciary); the Annuity/Longevity Bonus bill.

In 1972, the Alaska Legislature instituted the Alaska Longevity Bonus program. The program was brought about to reward the people who built this state out of their own hard labor, and to enable them to remain in Alaska, rather than having to move south for a cheaper cost of living.

We started this program before the big oil years. The availability of large amounts of money was not the motivating factor in beginning the longevity bonus - rather an enlightened approach toward our elders and the realization that our future remains more secure with their knowledge, motivated us.

It is unacceptable to force our senior citizens to live in poverty after they have given their energy, their youth, and their good will to build our state and make our own lives better. The Alaskan senior is justifiably a proud individual. He or she should not be put through the degradation of a welfare program in their waning years of life.

The bill I have proposed will enable us to legally secure the Alaska Longevity Bonus program. Senate Bill 56 represents years of work on behalf of many Alaskans.

Senate Bill 56 was studied in four committees this session and is now in the House as a Senate Judiciary Committee Substitute. The bill will keep senior citizens who are now 65 years old just as they are. The bill will put into place an annuity program that people turning 65 after January 1, 1988, will have the option to join. If a person contributes 100% of his or her Permanent Fund Dividends (or the cash equivalency) into the annuity program, that person will be assured of receiving no less than \$250 a month for life. In all likelihood, the amount will be much more.

The difference between the bottom line of \$250 a month and a senior's individual annuity amount will be made up with a general fund payment. Because the annuity amount will continue

MAY 15, 1987

growing, the general fund amount will decline. This is why the annuity plan will save the state a great deal of money. By about the year 2003, the annuity amount will be high enough that the state will no longer be contributing general fund money. Unless we do something to change our current program, by the year 2005, the state will be paying \$94,900,000 to run it.


The House Finance Committee has proposed that we change the Longevity Bonus program by "stair-stepping" it. This will cut off any senior who turns 65 after January 1, 1988. Under this scenario someone who has been in Alaska only one year but turns 65 before the cut-off date will get the bonus, whereas someone who has been in Alaska for life but turns 65 after the cut-off date won't get the bonus. The inequity of the plan is obvious and Alaskans overwhelmingly rejected this plan at the polls last summer.

The Administration's original plan would turn the bonus into a thinly-disguised welfare program. Even our oldest seniors would not be safe from getting cut off the program. Because the plan would depend on a person's taxable income a person with thousands of tax-free dollars coming in from something like municipal bonds would still be eligible for the bonus, while a person barely eking out an existance would not be eligible.

Senate Bill 56 is the result of a hard look at the best way to continue our Longevity Bonus program. It will save the state money - which in reality is necessary to save the program; but more critical than even the economics of the situation is the fact that it saves our state's dignity in the manner in which we treat our elders.

I hope the information is useful to you in making your important decisions concerning the future of our old-timers' Longevity Bonus program.

Sincerely,



Senator Jay Kerttula



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

DATE: May 8, 1987
SUBJECT: CSSB 56 (Judiciary)
FROM: Senator Jay Kerttula

In 1972, the Alaska State Legislature created the Alaska Longevity Bonus Program. The Longevity Bonus Program recognized the contribution made by Alaskan seniors to our state and set in place a system of rewarding their service.

A person was eligible for a bonus under the original program if he or she

1. Was 65 years old
2. Was "domiciled in the territory" on or before January 3, 1959, and
3. had continuously lived in the state for 25 years.

In 1984, the Alaska Supreme Court ruled in the VEST case that the residency requirements of the Longevity Bonus Program violated the equal protection provisions of the Alaska and United States Constitutions. The Longevity Bonus Program was then changed to give a bonus to anyone who lived in Alaska for one year and was 65.

5/8/87

This is an optional program. People can contribute either their Permanent Fund Dividend or cash. They can make a one time emergency withdrawal.

After much study, this option seems to be the most equitable and saves the state a great deal of money.

THE CURRENT HOUSE BILL - SCHB 151 (FIN)

ANYONE 65 YEARS OF AGE BY JANUARY 1, 1988, (INCLUDING NEW COMERS) RECEIVES AN ANNUITY PAYMENT.

ANYONE NOT 65 YEARS OF AGE BY JANUARY 1, 1988, WOULD NOT.

SECTIONAL CSSB 56 (JUDICIARY)

This bill puts into effect the annuity plan voted on by the people of Alaska in November 1986, which is contained within Chapter 99, SLA 1985. The changes to that annuity plan are contained within Sections 1-5 of this committee substitute.

Section 1

Allows for cash contributions into the annuity accounts

Section 2

If a cash contribution is made, the cash contribution may not exceed the amount of the permanent fund dividend for that year.

Section 3

Conforming language so that a cash contribution can be made.

Section 4

Conforming language so that a cash contribution can be made.

Section 5

Adds language to allow for a emergency withdrawal. The amount withdrawn shall be limited to the amount sufficient only to meet the emergency and may not exceed the amount in the individual's annuity account. Regulated by the Commissioner of Revenue.

Section 6

Repeals the stair-stepping plan contained within Chapter 99, SLA 1985 and adds language insuring a \$250 payment if a 100% of PFD's or cash equivalent are contributed to annuity account.

Section 7

This act apply for only to those permanent fund dividends after December 31, 1987.

Section 8

Immediate Effective Date Clause.



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

FROM SENATOR JAY KERTTULA

COMMITTEE SUBSTITUTE FOR SENATE BILL 56 (JUDICIARY)

INDEX FOR HOUSE STATE AFFAIRS PACKET, MAY 15, 1987

*Date of entry -
what is period of eligibility to
sign up?
close in age - less
cost to recipient.*

A. KERTTULA LETTERS

1. INTRODUCTORY LETTER FROM SENATOR KERTTULA, 5-15-87
2. LETTER TO THE STATE SENATE FROM SENATOR KERTTULA, 5-8-87

B. CSSB-56 (JUDICIARY)

1. CSSB-56 (JUDICIARY)
2. FISCAL NOTE
3. SECTIONAL ANALYSIS

C. COSTS

1. COMPARISON OF ANNUAL COSTS - ORIGINAL SB-56
2. COMPARISON OF ANNUAL COSTS - CSSB-56 (JUDICIARY)

D. YEARLY COMPARISON

1. GRAPH SHOWING WHAT SENIORS TURNING 65 EVERY YEAR WILL RECEIVE

E. KERTTULA SURVEY

1. KERTTULA LONGEVITY BONUS SURVEY

F. ARTICLES, BUDGET AND BALLOT INFORMATION

1. SENIOR VOICE EDITORIAL, MAY, 1987
2. SENIOR PROGRAM, FY 86 - FY 88
3. BALLOT QUESTION, NOVEMBER, 1986
4. SENIOR VOICE GRAPH COMPARISON OF BONUS PLANS
5. SENIOR VOICE ANALYSIS OF CSSB-56 (JUDICIARY) AND ORIGINAL HB-151
6. CLEM TILLION COMMENTARY, 1987
7. SENIOR VOICE OPINIONS, 1987

G. SLA 1985

1. SLA 1985, CHAPTER 99

H. STUDIES

1. TILLINGHAST STUDY, 1983
2. REPORT TO THE 14TH LEGISLATURE, 1985
3. 1986 OMB REPORT CONCERNING BALLOT MEASURE NO. 3

5/7/87

WHAT SRS. TURNING 65
EVERY YEAR WILL RECEIVE.

Fiscal Year	Dividend Received	Annuity Balance at Interest Rate of: 9.0%	Monthly Annuity Payment	Decreasing Longevity Bonus Pymt.
1989	\$787.72	\$840.89		\$250.00
1990	845.00	1,818.61	\$8.30	241.70
1991	887.30	2,929.48	17.96	232.04
1992	869.34	4,121.15	28.92	221.08
1993	857.54	5,407.48	40.69	209.31
1994	907.67	6,863.09	53.39	196.61
1995	961.63	8,507.31	67.76	182.24
1996	1,018.74	10,360.47	83.99	166.01
1997	1,079.58	12,445.36	102.29	147.71
1998	1,143.49	14,786.12	122.87	127.13
1999	1,209.69	17,408.21	145.98	104.02
2000	1,278.38	20,339.62	171.87	78.13
2001	1,349.65	23,610.94	200.81	49.19
2002	1,423.66	27,255.68	233.11	16.89
2003	1,500.35	31,310.32	269.09	0
2004	1,580.11	35,815.02	309.13	0
2005	1,662.65	40,813.25	353.60	0

Estimates of monthly annuity payments based on March 19, 1987 Permanent Fund Dividend Corporation projects of dividend amounts, an interest rate of 9 percent and a life expectancy of 15.9 years for 65 year-olds.

LONGEVITY BONUS SURVEY, JANUARY TO MAY, 1987

During this session Senator Kerttula's office did a longevity bonus survey of seniors receiving the longevity bonus.

Attatched is a copy of the survey sent and the results as of May 6, 1986.

There were 1,456 surveys sent.

860 surveys were returned.

The survey was sent without return postage. The seniors themselves paid the 22¢ to return them to Senator Kerttula.

LONGEVITY BONUS SURVEY

Please take a moment to answer the survey and drop it in the mail. You do not need to put your name on the survey. Answers to the questions will help provide information to legislators.

1. How many years have you lived in Alaska? _____

2. For which of the following do you use your Longevity Bonus?

_____ Food _____ Housing _____ Utilities
_____ Taxes _____ Auto Expenses _____ Medication
_____ Doctor _____ Children/Grandchildren _____ Travel

3. Are there other things for which you use your Longevity Bonus?

Comments: _____

4. The Governor is proposing to reduce Longevity Bonus payments from \$250.00 down to \$200.00. You will be eligible for \$200.00 if your taxable income is less than \$20,000 annually.

_____ oppose the reduction _____ agree with reduction
Comments: _____

5. Is your taxable income more or less than \$25,000?

_____ Over \$25,000 _____ Less than \$25,000
Comments: _____

6. The Governor is proposing to base Longevity Bonus payments on need. Those individuals who have a taxable income over a certain amount would no longer receive the bonus.

_____ Agree with the needs based program.
_____ Disagree with the needs based program.

7. Another proposal would reduce the bonus payments \$25.00 each year until it would be eliminated. Next year they would be reduced to \$225.00 the following year \$200.00, and so on until payments are completely eliminated.

_____ oppose this idea _____ agree with this idea

LONGEVITY BONUS SURVEY

May 6, 1987

1. Years in Alaska.....least # 1 1/2 most # 89

2. Use of Money.....

Food...654	Housing...341
Taxes...206	Utilities...566
Auto...272	Medication...426
Doctor...358	Child/grand...79
Travel...60	

3. Other Uses.....Many comments but mostly "none left over".

4. Governor's reductions.....Yes.....37 No.....723

5. Income level.....Over 25m...118 Under 25m..649

6. Needs Based.....Agree...37 Disagree...730

7. Phasing out.....Oppose...734 Agree...41

Survey shows how seniors use bonus money

by Rebecca Goodman

Within days after Sen. Jay Kerttula (D-Palmer) and his staff aides sent out more than 1,450 surveys to Longevity Bonus recipients in Southcentral Alaska, piles of responses were returned in the mail.

By mid-April more than 750 people had taken time to fill out the seven-question survey, affix a 22-cent postage stamp and return the blue form to Juneau.

Kerttula, sponsor of the Longevity Bonus annuity bill CSSB 56, said his aim in distributing the survey was to collect information about seniors' needs and their use of the bonus payments.

"No statistics have been collected or made public concerning seniors in Alaska for several years," he said. "Some people feel seniors are already comfortably well off and are saving their bonus money or

spending it on vacations or frivolous things. This is one of the hurdles we've had to get around in justifying the Longevity Bonus."

So how do seniors use their bonus payments?

"The message is pretty clear: They need those bonus checks for the basic necessities of life," said Joyce Kerttula, who serves as her husband's legislative aide and has spent hours poring over the responses.

Survey questions and responses included:

•How many years have you lived in Alaska? Length of residency answers ranged from 1.5 to 89 years. The average length for respondents was 37 years.

•For which of the following do you use your Longevity Bonus? Food purchases, 611; utilities, 523; medications, 399; doctors' expenses, 333; housing, 320; auto expenses, 257; taxes, 192; child/grandchild assistance, 75; travel, 53.

•Are there other things for which you use your Longevity Bonus? Most common response: "No money left over." Some said the bonus helped pay for warm clothes. One individual wrote, "Yes, with money left over I have a beer now and then." Another wrote that the bonus money was "saved up to buy two hearing aids and eyeglasses."

•The governor is proposing to reduce Longevity Bonus payments from \$250 down to \$200. You will be

eligible for \$200 if your taxable income is less than \$20,000 annually. Opposed to the reduction were 656; in agreement were 34.

'They need those bonus checks for the basic necessities of life.'

—Joyce Kerttula
Legislative aide

•Is your taxable income more or less than \$25,000? Over \$25,000 were 107; under \$25,000 were 590. Many respondents added comments indicating their combined Social Security and Longevity Bonus payments, together amounting to \$7,000 or less per year, comprised their total yearly income. More than 50 respondents refused to answer the income question.

•The governor is proposing to base Longevity Bonus on need. Those individuals who have a taxable income over a certain amount would no longer receive the bonus. In agreement with the needs-based program were 18; disagreeing were 679. Several respondents wrote, "Needs based? NO! NO! NO! NO! NO!" One individual wrote: "I know several older people who are eligible for food

stamps and welfare but won't apply. Basing the bonus on need would have the same results."

•Another proposal would reduce bonus payments \$25 each year until it would be eliminated. (Since the survey was mailed, this plan has been shelved.) Opposed to the \$25 reductions were 667; in agreement were 38.

Many respondents went beyond answering the survey questions and attached emotional letters filled with concerns over illnesses and high health care costs, fears of losing the bonus payments and fears of losing homes and being forced into poverty.

One respondent wrote: "The governor has no feelings for the aged. He cannot comprehend what it is like to grow old. Older people were in the workforce when wages were low..."

Another said: "Please, please let us low-income seniors on fixed incomes live above poverty level..."

A 52-year resident of Alaska wrote: "I have only a small Social Security and the Longevity Bonus as my income. The Longevity is my lifeline..."

And one worried: "I really don't think I could meet my obligations and would have to consider leaving. That would hurt as my granddaughter lives with me and goes to school here."

Kerttula plans to share results of the survey with other lawmakers.

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Longevity Bonus: Can it be solved?

Senior Voice
May, 1987

It's been four long years and five legislative sessions since the courts struck down the Alaska Longevity Bonus 25-year residency requirement and lawmakers first began grooving with how to cut — or pay for — the ~~existing~~ expanded program.

And now we're hearing in session rumors, once again, that a Longevity Bonus replacement solution will be put off for another year.

That's a shame. After voters gave approval on the advisory vote last fall to an annuity program

COMMENTS

based on voluntary Permanent Fund check contributions, we thought this session might be the one to solve it.

But now we wonder, can it be solved?

We ran the question by a white-haired friend (her own description) the other day, and her answer was interesting.

"I happen to think it *can* be solved," she told us. "And the annuity plan proposed in the Senate is the way to do it."

What about all the objections to the plan that have been raised by Gov. Steve Cowper and members of the House?

Let's take them one at a time, she proposed.

First, they object to it because the state's up-front costs are too high. Solution? Make current recipients of the Longevity Bonus ante up, just as those who go on the program in later years will have to do, she suggested. Perhaps these folks could give up their Permanent Fund Dividend check the first year of the program. Perhaps they'd have to give it up every year, just like later annuity participants will have to do.

Second, some House members and Gov. Cowper claim basing the annuity on individuals contributing their Permanent Fund Dividend each year is risky, because there might not be Permanent Fund Dividend checks in the future.

But the current bill has taken care of that, she said, since it allows people to place an equivalent amount — if not the check itself — into the annuity program each year.

Third, she said, the argument that the annuity would run a poor second to IRAs as an investment choice for many may disappear with the new tax laws in which IRAs lose most of their tax advantages.

And finally, she said, is the argument that young people won't buy in to the annuity.

"So then we *educate* them, she explained. "We go out and talk to them. We volunteer to speak wherever we can to "young" gatherings." And what do we tell them, we asked?

We teach them, and we remind ourselves, she said, that seniors are important to the state of Alaska.

"We need to quit thinking of the Longevity Bonus as a handout and start thinking of it as a investment," she said.

"The state is putting out \$50 million a year to retain a \$500 million investment — the worth of Alaska's seniors in terms of the cash they put into the economy each year."

Perhaps it's time for all of us to carry our debate beyond the senior centers, beyond the legislative halls, beyond the governor's office. Perhaps we'll then raise enough ruckus to get the issue off dead center and decided once and for all.

Senior

I noted with interest proposed '87 budget Department of Admition groups the Alaska Longevity Bonus, P.O. Homes and Older A. Commission together the heading "social se

This reorganizat sneaky, unnecessary, handed and without hearings, due process releases.

It reflects an acute unawareness, a disregard for the pu well as the elderly of.

I refer you to page: Governor's Operating

'Caught

I seem to be caught the middle because of My sister and I came in 1955 with her tv boys. We worked a homesteaded by our 1959 and bought a sm in Anchorage so we have a place for us in age (ha!) because v Alaska so much.

But my sister began in 1975, has been in home five times since then I became disabled and couldn't work n

In search

Alaska Public Tele Anchorage (KA researching the life of Sidney Laurence documentary.

We have been information for quit and are beginning together parts of Syrence's fascinating have found many stories in *My Life with Laurence* by Jeanne *The Man and the Mc*

Medicare pro

I have had oxygen hours a day since heart failure in August I also have emphysema very bad lungs.

Medicare says I c oxygen and have Abbey Medical ai time. The bill is now am \$1 and a 43-year resident. How about that in the *Seni* Nothing else has he

Ru

2

Senior Programs FY86-FY88 (General Funds)

Dept.	Program	FY 86 Actual	FY87 Auth	FY87 Final	FY88 Gov	FY88 Rev	FY 87 Collection
ADMIN							
	Longevity Bonus	44,468.0	47,503.2	47,447.2	31,945.5	37,777.3	15,710.3
	Pioneer Homes	20,469.2	19,916.3	19,694.3	17,665.9	17,895.6	503.4
	Older Alaskans Comm	4,534.8	4,207.3	4,132.0	3,735.1	3,735.1	13,000
H & SS							
	Old Age Assist	6,026.2	6,797.4	6,927.4	7,882.6	7,463.5	2,412.7
	OAA-ALB Hold Harmless	1,241.0	2,112.5	2,614.7	0.0	1,940.6	374.4
	Personal Care Attendants	0.0	514.5	514.5	514.5	764.5	
	Home Health	808.2	824.6	802.9	793.5	793.5	
	Public Health Nursing *	418.7	502.8	405.1	401.0	401.0	
	Adult Homemaker Services	1,008.0	1,050.8	893.2	893.2	893.2	
	Medicaid **	9,167.8	9,507.6	9,507.6	8,000.0	12,671.8	
	Manilaq Homemaker Service	126.2	119.9	104.9	99.7	99.7	
	Manilaq Senior Center	972.8	925.0	818.7	706.6	706.6	
	Norton Sound Homemaker	189.2	179.6	157.1	149.2	149.2	
C&RA							
	Senior Citizen Tax Exemption	3,958.6	3,184.2	2,866.3	0.0	0.0	0.0
	Renter's Equivalency Rebate	308.7	245.8	221.2	0.0	0.0	0.0
TOTAL		93,697.4	97,591.5	97,107.1	72,786.8	85,291.6	

*Estimate of Public Health Nursing services for the elderly.

** FY88 Revised figure is estimated.

30 2/28/87 per mail

THIS WAS THE BALLOT QUESTION NOVEMBER, 1986.

THE VOTE WAS: 99,222 FOR; 65,789 AGAINST.

**Ballot Language For
Advisory Vote on Longevity
Bonus Annuity Program**

The Fourteenth Alaska State Legislature considered two alternatives to the present longevity bonus program. Both were adopted into law, but neither will take effect unless the legislature chooses one of them. The legislature has asked for an advisory vote of the public on the annuity option which is described below.

The annuity option provides that every individual who reaches age 65 by January 1, 1988, including those already receiving the bonus, would receive a longevity bonus payment of \$250 per month. In addition, a person under age 65 on January 1, 1988, could participate in an optional annuity program by depositing all or part of his or her permanent fund dividends in an account held by the state. Upon reaching age 65, a person would receive a monthly payment in an amount determined by how much was contributed to the account. The annuity payments would be supplemented with declining longevity bonus payments paid for with general funds until the annuity accounts were large enough to provide monthly payments of \$250 a month.

The second option provides that every individual who is 65 years old by January 1, 1988, including those already receiving the bonus, will receive a longevity bonus payment of \$250 per month, but that anybody younger than age 65 by January 1, 1988, would not be eligible for benefits.

Should the legislature adopt the annuity option?

YES () NO ()

Comparing bonus plans: Which does what?

BILL	What will be the cost to the state?	What happens if I turn 65 before 1/1/88?	What happens if I turn 65 on or after January 1, 1988?				
<p>CSSD 56¹ (Sen. Jay Keritula) Bill sets up annuity retirement account based on yearly Permanent Fund Dividend contributions into account</p>	<p>\$49.9 million in 1988, \$7.46 million from 1988-2001. (projected)</p>	<p>\$250 monthly bonus will continue. You will be able to keep your yearly Permanent Fund Dividend Check.</p>	<p>If you decide <i>not</i> to participate in the annuity, you will get a bonus, but the amount will decrease each year.</p>	<p>If you decide to participate in the annuity, you will get a monthly check after age 65. This check will be a combination of moneys from the bonus and annuity programs.</p>	<p>If you decide to participate, you will contribute all or a portion of your yearly Permanent Fund Dividend check to the annuity program.</p>	<p>If you decide to participate, upon your death your existing equity in the annuity program becomes a part of your estate.</p>	<p>If you decide to participate, you may make a one-time emergency withdrawal from your annuity account.</p>
<p>HB 151 and SB 145² (Gov. Steve Cowper) Companion bills would set up a "needs-based" bonus, placing an income cap on eligibility and limiting it to those who reach age 65 by January 1, 1988.</p>	<p>\$43.1 million in 1988 \$34.3 million from 1988-2001. (projected)</p>	<p>You will get a \$200 monthly bonus check if your income is under \$20,000 (\$40,000 for married couples). You'll get a smaller bonus if your income is \$20,000 to \$25,000 (\$40,000 to \$51,000 for married couples). No bonus if your income is over these amounts.</p>	<p>You will receive no bonus and no annuity.</p>				

CSSB 56 ¹
(Sen. Jay Kerttula)

¹ CSSB 56 would give \$250 per month to qualified seniors who reach age 65 before January 1, 1988. These seniors would keep their yearly Permanent Fund Dividend check and would not participate in the annuity account portion of the program.

Those who turn 65 AFTER January 1, 1988, could participate in SB 56's optional annuity program based on yearly contributions of Permanent Fund Dividend checks to an individual annuity account.

This bill set up a dual program which links the gradually declining bonus program with the individual annuity account program. Here's one way to view these dual programs: Picture two side-by-side elevators. One elevator, the Longevity Bonus program, is now on the top floor offering current recipients \$250 per month. (Current recipients will hang out on the top floor.) For Alaskans who turn 65 after January 1, 1988, the Longevity Bonus elevator will begin inching down toward the ground floor - a complete phase-out sometime after the year 2000.

At the same time, the individual annuity account "elevator" - now on the ground floor - would rise as individuals opted to deposit all or part of their yearly Permanent Fund Dividend checks into their personal annuity accounts. The more dividend checks you deposit, the higher your annuity account "elevator" rises.

In other words, if you had participated in the annuity account program over the years, you would, at age 65 receive two different checks: a gradually decreasing Bonus check and an annuity payment based on the amount of yearly dividend checks you had deposited into your account.

HB 151 and SB 145 ²
(Gov. Steve Cowper)

² HB 151 and SB 145 would require seniors now on the bonus program and any who reach age 65 before January 1, 1988, to annually submit copies of their federal income tax returns as proof of income qualification. Under Cowper's plan, the *maximum* amount of monthly bonus of \$200 would be available only to those seniors whose income (excluding the bonus and Permanent Fund Dividend income) is less than \$20,000 (or whose joint income, for a married couple, is less than \$40,000). For individuals with higher incomes, the amount of the bonus decreases, until at the income level of \$25,500 (or joint income of less than \$51,000) an individual would not receive a bonus.

Don't turn Longevity Bonus into welfare

by Clem Tillion

I see that one of the governor's task forces has recommended that the old timers' bonus, the \$250 a month for those over 65, be converted to a welfare system.

For the most part, I have liked the course set by our new man in Juneau. But making charity cases out of our old Alaskans under the guise of saving money is a joke!

Number one, it will not save money. It will make liars out of a lot of good people and make jobs for a lot of "do gooders" in the welfare department.

The percentage of those over 65 here in Alaska who couldn't figure a way to stay on the program under a welfare (needs) system is so small that the cost of screening them out would exceed the savings.

If the cost of the program is too great for the state to bear, then shorten the months that an Alaskan can be gone from the state each year and prune a few more "snow birds" off the list.

When the Longevity Bonus Program was first envisioned, one of the basic purposes was to keep winners as well as losers here in Alaska.

As the population of our state had such a

low percentage of those over 65, there were many who thought that keeping grandmother and grandfather near the rest of the family had a great many beneficial side effects. The reason the cost of living bonus was paid without regard to people's income was twofold. One, with less than 10 percent of our 65-year-olds in the non-needy category, it was far cheaper to pay all than set up a bureaucracy to screen all the old folks.

Now, I'm sure you will hear some welfare types say, "We could screen for less than 10 percent of the program." All I can ask is, "Then why didn't they?"

At the time the first Longevity Bonus was passed, 49 percent of the money appropriated for Old Age Assistance here in Alaska was used by the bureaucracy to administer the program or an amount that just about equalled the Federal Matching Funds then received by the state for the program.

I'm sure that to get their hands on that amount of money, welfare would promise anything. But it's a rare program indeed that they administer for less than 20 percent of the appropriation. It's why the legislature put the program under the Department of

Administration instead of letting the bleeding hearts get it to "do good" with. When I say this, I'm thinking of the old families of Hawaii. The saying goes: "Their ancestors came to 'do good' and they did very well indeed."

The second reason that need was not a requisite part of the first legislation was simple. We wanted to keep as many of life's winners as possible here in Alaska. Fishing is an on and off thing, oil and timber depends on the fluctuations of international politics and world price. Of all incomes, retirement income tends to be more stable than most.

With exceptions, of course, most people over 65 are not into making great fortunes. They spend their money either on their own comfort or on those around them. They don't cause problems with the police or their neighbors and they often have income retirement from a number of sources, be it teachers' retirement or railroad retirement as well as property amassed long years ago.

Be they rich or poor they are well worth keeping in Alaska.

Clem Tillion, Halibut Cove, is former president of the Alaska Senate. His column originally appeared in the Anchorage Times.

Many seniors can't live on Cowper budget cuts

Action: Gov. Steve Cowper submits his budget proposal to the legislature. It calls for slicing Longevity Bonus payments by \$50 per month for all, axing bonus payments completely for those with incomes over \$20,000 and eliminating property tax exemptions and renter's rebates.

Reaction: Seniors are scared. Fearful. What next? they ask. Will they be able to keep their homes? Will they have to move outside where the cost of living is cheaper? How will they pay medical bills? And what happened to the promises of the past that said current bonus recipients would keep their \$250 per month payments no matter what was decided for future seniors?

State-gathered statistics show the median income for older Alaskans is \$10,000. That's \$833 per month. If you figure rent at \$400 or more per month, you have \$433 or less to pay for such trifles as food, doctor's bills, heat, lights and transportation. A challenge to make ends meet each month? You bet. Try getting along, now, on \$50 less per month. No wonder there's fear out there.

And then add the \$700 you'll have to pay under Cowper's budget plan for property taxes — or subtract the \$400 in income you won't get from the renter's rebate this year.

It all adds up to too little money.

We've said it before: These programs were put in place before the oil boom by a thoughtful populace which wanted to do right by its senior citizen population, which wanted to keep its retirees — and their retirement pensions and assets (big and small) — in Alaska.

Despite the need to cut the state budget, seniors should not be made to bear such a large share of the burden.

Long-running bonus debate heats up

by Rebecca Goodman

The loud and long-running debate over the Longevity Bonus program grew even louder in March with the first legislative hearing on Gov. Steve Cowper's "needs-based" bonus plan, HB 134.

Cowper's legislation — both the House bill and an identical Senate companion, SB 145 — have three key parts which would dramatically change the current bonus program:

- a cut-off of eligibility for the bonus to those who reach age 65 on or after January 1, 1988;
- a reduction of the maximum amount of the bonus to \$200 per month; and
- an income cap on eligibility for the bonus so that the

full bonus amount of \$200 would be available only to those whose annual income (excluding the bonus and Permanent Fund Dividend income) is less than \$20,000 (or whose joint income, for a married couple, is less than \$40,000). As an individual's income goes up, the amount of the bonus paid out would go down, until, at the income level of \$25,500 (or \$51,000 of joint income) an individual would not receive a bonus payment.

Under the current bonus program, any Alaskan who is 65 or older and has lived in the state at least one year receives \$250 per month. More than 15,500 persons participate in the \$50 million program.

"We can no longer afford to provide this substantial benefit to an ever-increasing population of senior citizens," Cowper told lawmakers.

Cowper's plan is expected to cost \$43.1 million for fiscal year 1988.

Senior advocates have called Cowper's plan unfair. They have argued the current bonus program is affordable and the \$3,000 per-person annual payments help older Alaskans stay in Alaska and in their own homes, out of costly institutions.

Senior Voice

OPAG

Older Persons Action Group, Inc. Vol. 10, No. 4 April 1987

Bonus debate heated, long-running

"The question isn't whether or not I need the \$250. It's the philosophical point: If I were to approach state employees and ask them to take a \$250 cut in their monthly state retirement pay, I'd be hung in effigy," said Rep. Red Boucher (D-Anchorage) during a House committee meeting in early March.

Rep. Fran Ulmer (D-Juneau) argued: "There's no question this is a good program. The question is how much of this good program can we actually afford now?"

In the Senate, the bonus debate is proceeding more rapidly following a series of

statewide teleconferences on Sen. Jay Kerttula's (D-Palmer) Longevity Bonus/annuity bill, CSSB 56.

Kerttula's bill would put in place an annuity retirement account plan approved by voters last November in an advisory vote. That plan would establish a tandem program which includes a gradually phased-out bonus program and an optional annuity program allowing Alaskan residents to deposit their annual Permanent Fund Dividend checks into a retirement account available to them at age 65. Those already 65 would continue to receive \$250 bonus checks and Permanent Fund Dividend checks.

Now in its third Senate committee, Kerttula's bill has gar-

nered support from many senior advocates. But Cowper administration officials see both flaws in the annuity plan.

"One problem with SB 56 is that it assumes Permanent Fund Dividend checks continue forever," Division of Policy Director Mary Halloran told senators during a recent committee hearing.

"We really shouldn't go to the bank on this. It's dangerous to build a long-term retirement program on the Permanent Fund."

Another problem Cowper officials point to is the plan's lack of "hold-harmless" protection. Following federal rulings in 1984 that the bonus would be counted as income for any "new" bonus recipients who received federal public assistance payments, the

legislature enacted a clause that assures needy elderly who receive a bonus payment do not lose either the bonus or federal assistance payments such as Medicaid.

But Kerttula argued the "hold-harmless" problem in SB 56 could be adjusted with a minor amendment.

Cowper's bonus plan, however, would require more state administrators to oversee the income eligibility requirements of the plan, Kerttula said.

"Governor Cowper's needs-based program would require 16 administrators, or one administrator to every 200 recipients," Kerttula said. "The annuity program would require only one administrator to every 1,000 recipients."

MAR 17 1983

THE LONGEVITY BONUS PROGRAM:
OPTIONS UNDER THE VEST SETTLEMENT

JON K. TILLINGHAST
Birch, Horton, Bittner, Pestinger & Anderson

March 8, 1983

TABLE OF CONTENTS

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

I. INTRODUCTION

On June 14, 1982, the United States Supreme Court ruled that the cumulative residency requirements of Alaska's permanent fund dividend distribution program violated the Equal Protection Clause of the United States Constitution.¹ Shortly thereafter, Alaska's Longevity Bonus ("ALB") Program was challenged on equal protection grounds.² On August 9, 1982, the Department of Law, with the approval of the Alaska Legislative Council, entered into a stipulation in the Vest case which stayed all proceedings pending adjournment of this legislative session, in order to afford the legislature an opportunity to address the constitutional problems with the existing program.

The purpose of this report is to analyze some 10 options available to the legislature in amending the Alaska Longevity Bonus Program. This report is a first step in a process which must be completed by the end of this session. As subparts (C) and (D) of this section discuss, the likely consequence of failing to enact remedial legislation this session is that the ALB program will be judicially terminated.

A. Description Of The Longevity Bonus Program

Predecessors of the existing ALB program can be traced to 1915. In that year, the Territorial Legislature authorized a monthly allowance of \$12.50 for needy elderly Alaskans of 10 years

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

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

residency who chose not to enter the newly-created Pioneers' Homes.³ The current program was enacted in 1972⁴ as a result of legislation introduced by Senators Butrovich and Ray.⁵ Quite unlike the "need-based" focus of its predecessors, the 1972 legislation was to:

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

³Chapter 54, SLA 1915.

⁴Chapter 205, SLA 1972; AS 47.45.010 et. seq.

⁵SB 211, 7th Leg., 2nd Sess.

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

The ALB program, then, has several purposes:

1. providing an incentive for a particular class of senior citizens to remain in the state;
2. compensating for the hardships faced by retirement in Alaska;
3. rewarding the past contributions of Alaska's elderly;
4. compensating for past hardships suffered by Alaska's pioneers; and
5. retaining the wisdom and experience of Alaska's pioneers.

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

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

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

⁶Chapter 13, SLA 1981

⁷AS 47.45.010

Exceptions are made if the absence "is beyond the control of the recipient." Id.

The longevity bonus is taxable under the Internal Revenue Code. However, it is almost universally excluded in calculating income eligibility for state and federal assistance programs.⁸

3. The Individuals Covered by The Alaska Longevity Bonus Program.

There are currently some 9,425 Alaskans receiving some \$23.4 million in longevity bonus payments. Sketching an accurate portrait of the state's ALB recipients is difficult, because the ALB application form requires little personal information. In 1976, the Alaska Department of Health and Social Services conducted a random survey of ALB recipients,⁹ and, in conjunction with the Vest

⁸Under 42 U.S.C. §1382(a)(b)(2)(B), which governs eligibility for federal Supplemental Security Income, and by reference also controls other federal programs such as Medicaid and energy assistance, the following is excluded from the definition of income:

"monthly (or other periodic) payments received by any individual under a program established prior to July 1, 1973, if such payments are made by the State of which the individual receiving such payments is a resident, and if eligibility of any individual for such payments is not based on need and is based solely on attainment of age 65 and duration of residence in such state by such individual."

⁹"Alaska Longevity Bonus Impact Survey," Alaska Department of Health and Social Services (1976) (hereinafter "ALB Survey")

settlement, the Department of Law conducted a non-random survey of some 1,396 participants.

From those surveys, it is apparent that a large percentage of ALB recipients are Alaska Natives living in rural areas of the state.¹⁰ Moreover, and in large part because of the ineligibility of many rural residents for social security, the longevity bonus is often the primary source of income for rural residents. For example, 41% of the elderly in Southwest Alaska, and 66% in Northwest Alaska, rely on the longevity bonus as their primary source of income.¹¹

Available evidence suggests that a large percentage of ALB recipients have incomes only marginally above the current state welfare assistance level of \$546 per month. The Department of Law's 1982 survey -- which was skewed toward the more needy recipients of the ALB -- found that 81.4% of the 1,396 recipients sampled had monthly incomes of \$750 or less. The 1976 ALB survey found that half of the ALB recipients had a monthly income, "including that of their spouse," of under \$500 per month.¹² Another

¹⁰In 1976, 41% of the ALB recipients lived in rural areas of the state and 24.1% were Alaska Natives. ALB Survey at 14-15.

¹¹"An Assessment of the Status and Needs of Alaska's Elderly," Department of Sociology, College of Arts & Sciences, University of Alaska (1981) (hereinafter "Assessment.")

¹²ALB Survey, op. cit. n. 9 at 18-19.

44% had incomes of less than \$1,000 per month. A 1981 University of Alaska survey indicated that roughly half of Alaska's elderly had monthly incomes of less than \$800.00.¹³

The 1976 ALB survey suggests that, in light of the high percentage of bonus recipients in the 65-70 age group, the bonus has had a material effect in allowing older citizens to remain in the state after retirement.¹⁴ The report also indicates that the ALB program has allowed a significant percentage of the elderly to remain off various public assistance programs -- including food stamps and state Old Age Assistance.¹⁵

One significant characteristic of Alaska's elderly in general warrants note -- one that will become quite significant in our analysis of alternatives. Only 10% of Alaska's elderly have resided in the state for 10 years or less.¹⁶

C. The Effects of Zobel And Vest On The ALB Program.

In reviewing the 1972 legislation creating the Longevity Bonus Program, the Department of Law concluded that "... the classification predicated upon being domiciled in the territory on or before January 3, 1959, bears little, if any, rational relationship to any legitimate legislative purpose which this bill is conceivably designed to serve and thus is in

¹³Assessment, op. cit. n. 11 at 31.

¹⁴ALB Survey, op. cit. n. 9 at 12.

¹⁵Id. at 10, 13.

¹⁶Assessment, op. cit. n. 11 at 12.

all probability unconstitutional."¹⁷

Nonetheless, the ALB program remained unchallenged until 1982, following the U.S. Supreme Court's decision in Zobel v. Williams (hereafter "Zobel III").¹⁸

The law in issue in Zobel III (AS 43.23.010 et. seq.) provided for the distribution of a permanent fund dividend of \$50.00 for each year of accumulated Alaska residency. The Court ruled, 8-1, that the cumulative residency requirement of the program was not rationally related to the goals of the statute -- a ruling which is discussed in more detail in section II(A), post.

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

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

¹⁸In Williams v. Zobel, 619 P.2d 422 (Alaska 1980) ("Zobel I"), the Alaska Supreme Court invalidated the state's graduated personal income tax repeal. In Williams v. Zobel, 619 P.2d 448 (Alaska 1980) ("Zobel II"), the court upheld the cumulative residency requirement of Alaska's permanent fund dividend distribution plan -- a ruling reversed by the U.S. Supreme Court in Zobel III.

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

which awarded dividends solely on the basis of residency.²⁰

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

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

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

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

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

²²See n. 2, ante.

"if any provision of this act, or the application of a provision of this act to any person or circumstance is held invalid, this entire act shall be considered invalid."

As the Department of Law explained in reviewing the 1972 law:

"It is clear that the intent of the Legislature expressed in Section 2 of the bill is to forestall the possibility that a partial declaration of unconstitutionality would result in broadening the coverage of the bill to include additional clauses. This would be the case, for example, if either the 25 year waiting period requirement or the January 3, 1959 cutoff date were declared invalid, and the bill was expressly or impliedly severable."²³

Thus, invalidation of the Longevity Bonus Program would result not in expanding the number of ALB recipients, but rather in the abrupt termination of the entire program.

Facing that grim probability, the State, with the approval of the Alaska Legislative Council, entered into an agreement with Vest, a copy of which is attached as Appendix A. The essence of the agreement is as follows:

1. Proceedings in the Vest case are stayed through the conclusion of this legislative session. Because that case has been subsequently certified as a class action,²⁴ existing ALB recipients are not in jeopardy at least through adjournment of this session;
2. The Alaska Legislative Council promised to use its "best efforts" to secure the enactment of legislation which created equally "all persons 65 years or older as of July 1, 1982, who have been bona fide Alaska residents for at least one year prior to that date";

²³Op. cit. n. 17 at 5.

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

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

4. Recognizing that the Council could not bind the legislature, if legislation is not enacted, Mr. Vest may pursue his case, with the probable result that the program will be terminated.

There are three aspects of the settlement which warrant note. First, obviously, are the severe time constraints under which the legislature is operating. Second, there is the settlement's intentionally broad litmus test of acceptable legislation. All the legislature need do is treat all elderly, one-year Alaskan residents "equally." The standard could be met by any number of options, including repeal of the program. Third, there is the inescapable financial impact of the settlement itself. In order to treat all elderly Alaskans who were one-year residents as of July 1, 1932 equally, it will be necessary to fund retroactive longevity bonus payments under the existing program to the some 3,300 elderly Alaskans who would have qualified. The necessary retroactive appropriation is approximately \$11.4 million.

Of course, the legislature itself is not "bound" to pass any particular kind of legislation, or any legislation or appropriation at all. While a "best efforts" clause is enforceable, that obligation runs only to the Alaska Legislative Council, which has already demonstrated both good faith and diligence in attempting to meet the obligations of the order and settlement.

D. Scope And Intent Of This Report.

The purpose of this report is not to recommend particular amendments to the Alaska Longevity Bonus Program. As Section II, post makes plain, any "recommendation" is a function of the goals which the legislature seeks to achieve through this exercise.

Rather, the goal of this report is to assemble a comprehensive list of alternatives proposed by various interested parties, and to analyze the alternatives in light of:

1. constitutional constraints;
2. fiscal impacts;
3. practicability; and
4. the effect of any changes on the elderly's eligibility for other programs.²⁵

In developing a list of alternatives, this report has included five options examined by the Sheffield Administration, and five alternatives developed by the authors of this report. The information presented with respect to each option is intended to be sufficient for a threshold determination of feasibility. The report attempts to anticipate the major problems and issues surrounding each option; however, it is not intended to exhaust the details of every proposal.

Rather, the report should be used as a basis for the Senate Judiciary Committee's preliminary indication of

²⁵See Section II.(C) post.

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

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

E. Alternatives Included in This Report.

The options included in this report, which are analyzed in turn in Section III, are:

1. expand the Alaska Longevity Bonus Program to include all elderly Alaskans with one-year's residency;
2. phase out the Alaska Longevity Bonus Program by gradually reducing benefits;
3. phase out the Alaska Longevity Bonus Program by gradually reducing benefits, while contemporaneously raising the eligibility limits for general state assistance;
4. providing a minimal base payment under the Alaska Longevity Bonus Program based solely on one-year's residency, with supplemental payments made on the basis of need;
5. phase out the Alaska Longevity Bonus Program by increasing the age eligibility each year;
6. create an annuity plan, with the annuity corpus consisting of permanent fund distributions. This option would necessitate a transition program for those persons 40 years and older;

7. fund the Alaska Longevity Bonus Program through a "pay as you go" social security system, funded by approximately 25% of the existing permanent fund dividend distributions;

8. replacing the Alaska Longevity Bonus Program with a comprehensive health insurance program for elderly Alaskans;

9. condition eligibility for a longevity bonus upon a demonstration of hardship which would be suffered by being unable to continue Alaska residency; and

10. open the Alaska Longevity Bonus Program to all one-year residents, and terminate the program -- giving FY 1984 recipients a grandfather right to continued bonuses.

II. CONSTRAINTS ON THE CHOICE OF OPTIONS

There are four basic considerations in choosing a package of amendments to the Alaska Longevity Bonus Program. The purpose of this section is to provide an overview of the constraints and policy choices which should play a role in this committee's decision.

A. Constitutional Constraints.

The obvious and primary constraint on any set of amendments to the Alaska Longevity Bonus Program lies in the equal protection clauses of the United States (Amendment 14) and Alaska (Art. 1, §1) constitutions. The existing Alaska Longevity Bonus Program discriminates between Alaska residents based on their duration of residency; moreover, all of the alternatives considered by this report involve some durational residency requirement.

Under both the federal and Alaska constitutions, a durational residency requirement which conditions or denies either a "fundamental right" or a "basic necessity of life" is valid only if the discrimination is necessary to further a compelling state interest. Zobel II, 519 P.2d at 448; Memorial Hospital v. Maricopa County, 415 U.S. 250, 259 (1974). "Fundamental rights" involve such things as voting,²⁶ while "basic necessities of life" include basic medical care²⁷ and welfare.²⁸

The so called "right to travel" -- which any durational residency requirement arguable affects -- is not a fundamental right automatically triggering the compelling state interest test. Zobel II, 519 P.2d at 425-426, Zobel III, 72 L.Ed. 2nd at 677-673.²⁹

We are confident in concluding that longevity bonus is not a "basic necessity of life." The program is not welfare -- it is not based on need. Basic indigent assistance -- including both income supplements and Medicaid -- are available to the

²⁶Dunn v. Blumstein, 405 U.S. 330 (1972).

²⁷Memorial Hospital v. Maricopa County, 415 U.S. 450 (1974).

²⁸Shapiro v. Thompson, 394 U.S. 613 (1969).

²⁹One of the oddities of Justice Brennan's concurrence in Zobel III was his view that the "right to travel" is a "fundamental" right (id. at 682) -- although impairment of that right by a durational residency requirement should be tested under the deferential "rationally related" standard (see text, post) or at worst "intensified ... scrutiny." Id. at 681.

needy in this state.³⁰ The longevity bonus program seems more akin to the permanent fund dividend, which the Alaska Supreme Court held in Zobel II was not a "basic necessity of life." 619 P.2d at 443. As the Court of Appeals for the Ninth Circuit has observed:

"Deprivations which are only uncomfortable are not enough, such as conditioning lower tuition at state institutions of higher education upon a one-year residency requirement." Fisher v. Reiser, 610 F.2d 629, 639 n. 5 (1979), cert. denied 447 US 930.

Under the federal constitution, then, any durational residency requirement imposed by amendments to the ALB program need only be "rationally related" to a legitimate governmental purpose. Zobel III, 72 L.Ed. 2d at 678. As this section will discuss, however, that standard is occasionally more deferential in its terms than in its application.

Conversely, under the Alaska Constitution, a durational residency requirement will withstand scrutiny only if it is "fairly and substantially related" to a legitimate governmental purpose. Zobel I, 619 P.2d at 427. The more the balance tips in favor of the individual, the more necessary the discrimination must be in order to further the law's purpose. Id.

From these standards, the following ground rules can be extracted from applicable case law:

³⁰See Memorial Hospital v. Maricopa County, 415 U.S. at 261

1. Unquestionably, the "length of residence may be used to test the bona fides of citizenship." Zobel III, 72 L.Ed. 2d at 634 (Brennan conc.). In other words, the state may, by a durational residency requirement, "make virtually certain (that the recipients of the program are) bona fide residents of the state ..." Vlandis v. Kline, 412 U.S. 441, 453-454 (1973).

As a general rule, attorneys have assumed that in cases not involving the "compelling state interest" standard, a one-year durational residency requirement is permissible as a presumption of domiciliary. See, Starns v. Malkerson, F. Supp. 326, 234 (Minn. 1970), affid. mem. 401 U.S. 985 (1971). Moreover, the State of Alaska has taken the position that in cases involving either particularly attractive benefits, or particularly transient populations, a durational residency requirement in excess of one year is constitutionally permissible. See Motion For Summary Judgment, September 8, 1982, Andress v. Baxter, et al., No. A82-307 Civil, U.S. District Court, (D. Alaska 1982).

For the purposes of the Longevity Bonus Program, there are three reasons why it makes little sense to attempt a multi-year durational residency requirement as a presumption of domiciliary. First, the attempt would lack substantial

precedential support. Second, it would be contrary to the August 9, 1932 settlement in the Vest case. Finally, and as noted previously, a durational residency requirement would not begin to exclude significant numbers of elderly Alaskans unless it was in excess of 10 years.

2. . Durational residency requirements may be permissible for reasons other than presuming domiciliary, although at least four justices of the United States Supreme Court believe that those situations are "rare." Zobel III, 72 L.Ed. 2d at 684.³¹

At the outset, a state cannot use a lengthy durational residency requirement to reward long time residents for their prior contributions to the state. To a majority of the court, while the purpose itself is permissible, a durational residency requirement is irrationally tailored to that goal -- a point bluntly made by Justice O'Connor in her concurrence:

"A multitude of native Alaskans -- including children and paupers -- may have failed to contribute to the state in the past. Yet the state does not dock paupers for their prior failures to contribute, and it awards every person over the age of 18 dividends equal to the number of years that person has lived in the state." 72 L.Ed.2d at 689.

The flip side of rewarding a person for prior contributions is compensating a person for prior hardships. That, as noted previously, is a second major goal of the

³¹One "rare" example cited by the four concurring justices was qualification of public office. Id.