



Reducing regional inequality

Long-term effects of the Alaska Permanent Fund Dividend on poverty

Matthew Berman

Institute of Social and Economic Research
University of Alaska Anchorage
matthew.berman@alaska.edu

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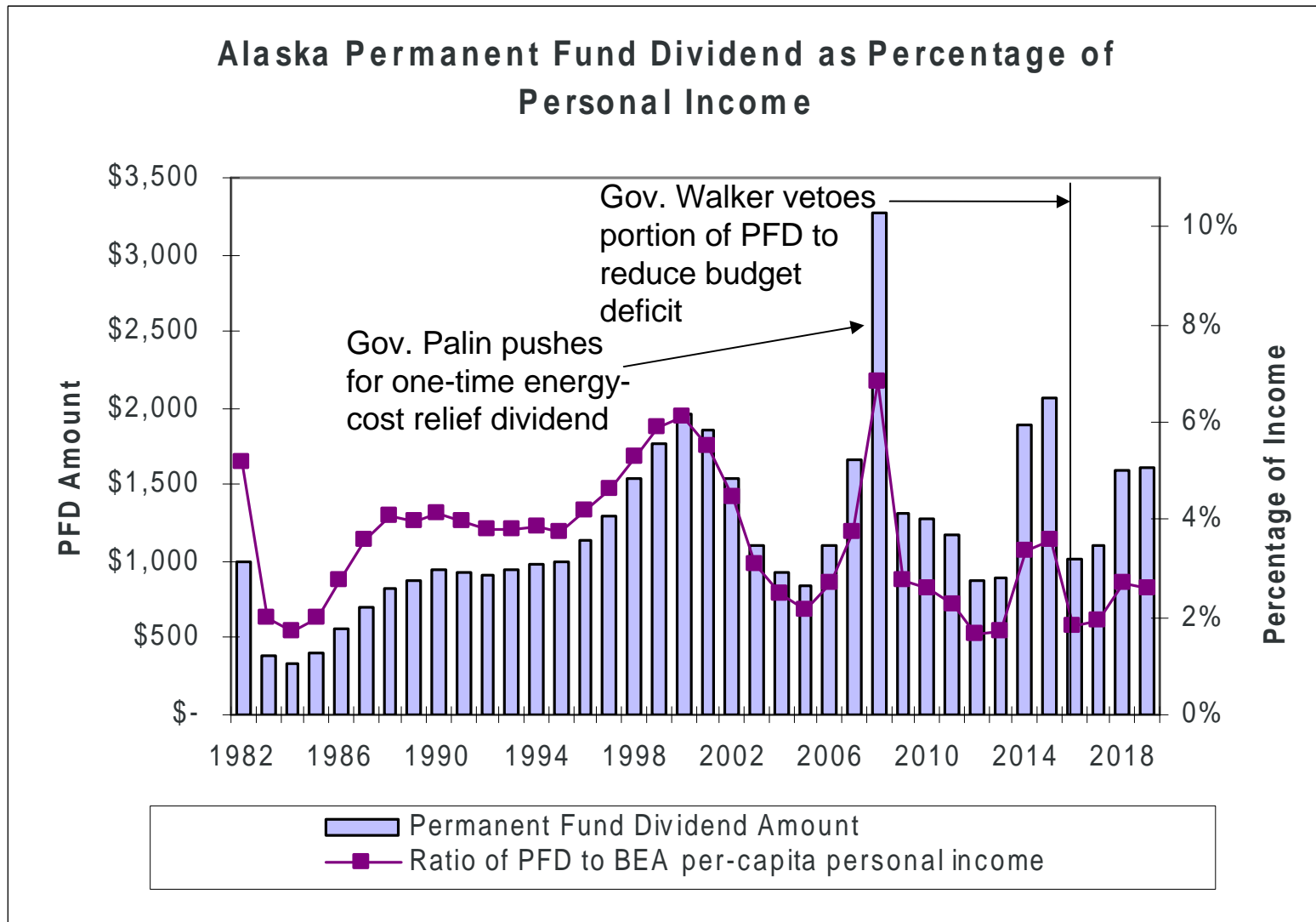
The Alaska Permanent Fund

- Sovereign wealth fund of the state of Alaska
 - Created in 1976 by constitutional amendment to save a portion of non-renewable resource wealth for future needs
 - At least 25% of oil and gas lease revenues deposited in the Fund; legislature may add more
 - Fund principal protected in perpetuity
 - Legislature may appropriate Fund earnings
- Fund management
 - Investment portfolio managed by the Alaska Permanent Fund Corporation
 - Followed a conservative investment policy since inception
 - PF initially grew rapidly with high oil lease revenues
 - Continues to grow from portfolio appreciation even as contributions wane

Permanent Fund Dividend program

- Originally designed to serve two primary purposes
 - Give citizens a direct interest in how the fund is managed
 - Satisfy populist views: sovereign wealth fund is owned by citizens, not a government agency
- Eligibility criteria:
 - Residence for one full year, less than 180 days absence from state
 - Adults and children who meet residency criteria
 - Not serving jail sentence for felony conviction
- Dividend payments over time
 - Initial \$1,000 per-capita payment in 1982
 - Legislature appropriated 50% of average of previous 5-year Fund earnings for dividends, with balance saved for “inflation-proofing”
 - Payments have varied, due to variation in portfolio earnings, but population growth has

PFD varies from year to year, but recent PFD a smaller percentage of per-capita personal income than in the 1990s



Challenges for Assessing the Role of the PFD in Reducing Poverty

- Official definition of poverty is complex and imperfect
 - Based on a family living together in one household
 - Unmarried partners and their children not considered family members
 - Different poverty thresholds for 47 different family configurations
 - Adjusted every year for inflation
 - Regional cost-of-living differences ignored

Size of family unit	Weighted average thresholds	Related children under 18 years								
		None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual).....	12,071									
Under 65 years.....	12,316	12,316								
65 years and over.....	11,354	11,354								
Two people.....	15,379									
Householder under 65 years.....	15,934	15,853	16,317							
Householder 65 years and over.....	14,326	14,309	16,256							
Three people.....	18,850	18,518	19,055	19,073						
Four people.....	24,230	24,418	24,817	24,008	24,091					
Five people.....	28,695	29,447	29,875	28,960	28,252	27,820				
Six people.....	32,473	33,869	34,004	33,303	32,631	31,633	31,041			
Seven people.....	36,927	38,971	39,214	38,375	37,791	36,701	35,431	34,036		
Eight people.....	40,968	43,586	43,970	43,179	42,485	41,501	40,252	38,953	38,622	
Nine people or more.....	49,021	52,430	52,685	51,984	51,396	50,430	49,101	47,899	47,601	45,768

Source: U.S. Census Bureau. Poverty Thresholds, 2014

Challenges for Assessing the Role of the PFD in Reducing Poverty (continued)

- Data are limited
 - Information on income and detailed household characteristics needed for a representative sample of residents
 - National Surveys such as Current Population Survey and Consumer Expenditure Survey -- Alaska samples too small
 - Census Data (American Community Survey) provides large sample with information on race and region of residence
- Limitations of Census Data
 - Income self-reported
 - Because of survey timing and wording of questions, many people forget to report PFD in census surveys
 - No information about income asked or recorded for children under age 15

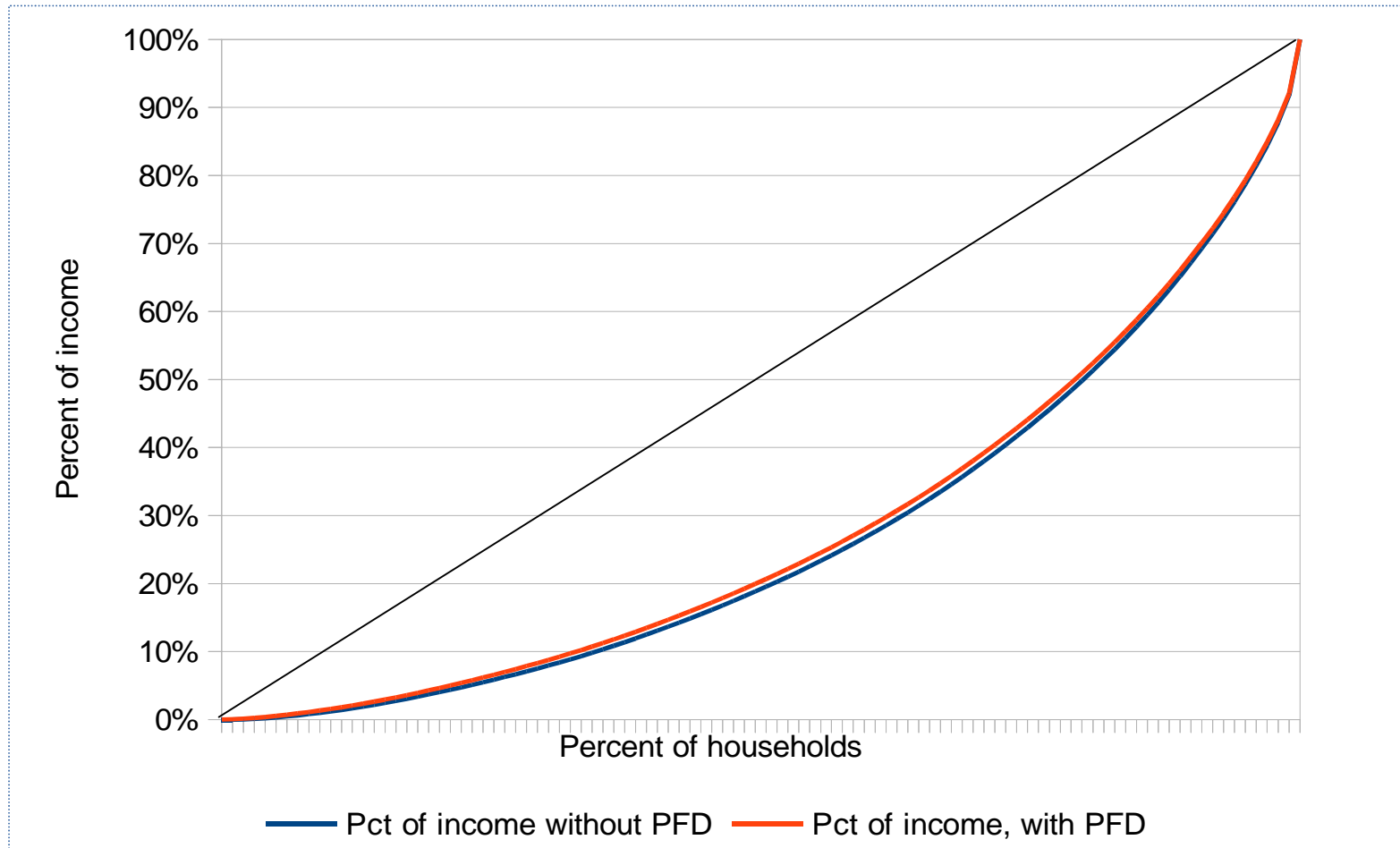
Methods

- Individual and household records from Census Public Use Microdata Samples
 - 1990 and 2000 Census Long Form Survey
 - American Community Surveys one-year samples, 2005-2020
- Problem! Census questionnaires neither ask about nor record income of children under 15
 - Census claims parents should record income of children in their own income
 - Data analysis shows this almost never occurs
- Estimating effect on poverty with accurate accounting of PFD income received involves three steps
 - Apply PFD eligibility criteria to adjust individual incomes for PFDs
 - Reconstruct family incomes using Census relationship responses
 - Compare reconstructed family incomes to the relevant poverty thresholds

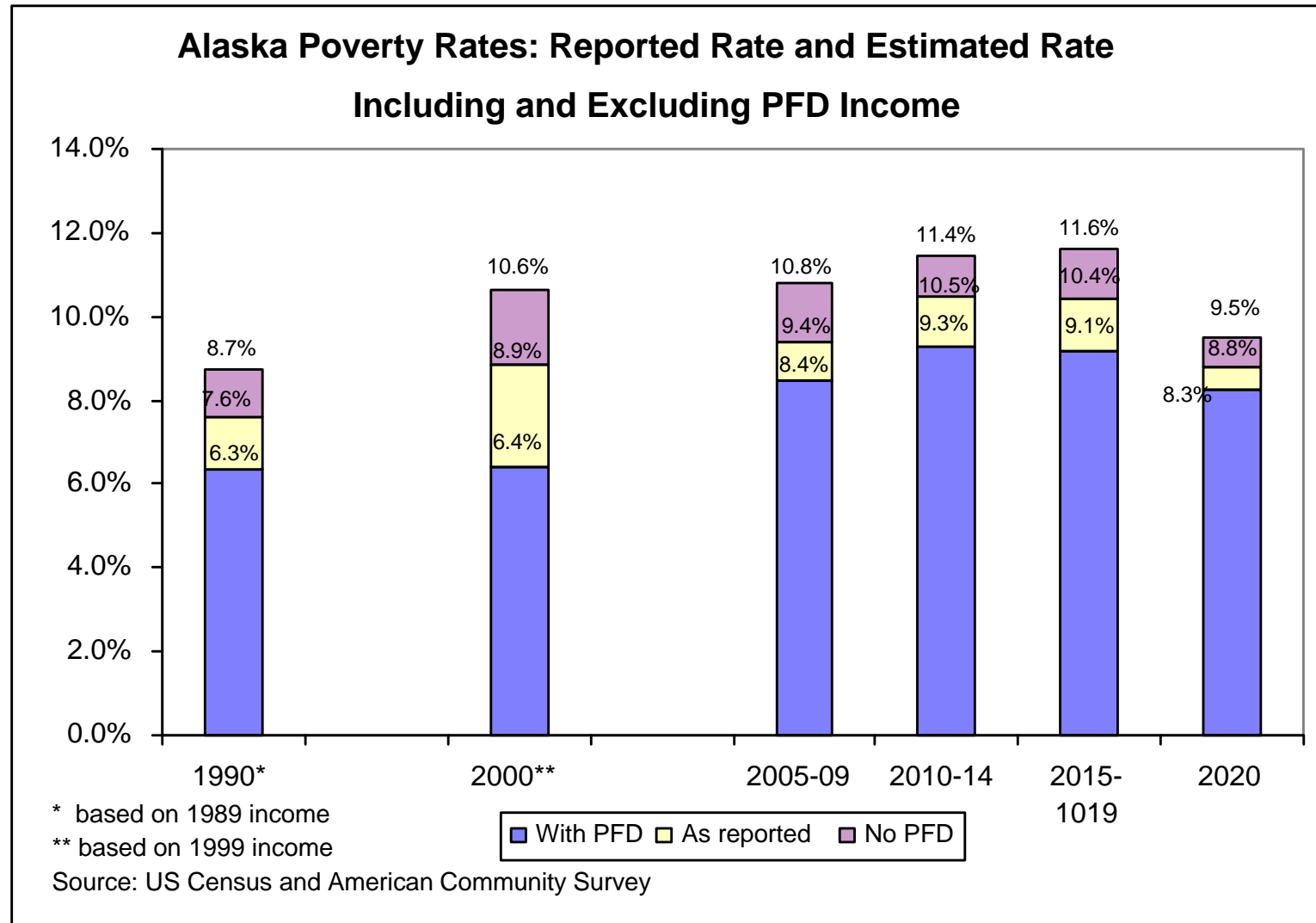
Effect of PFD on income distribution appears slight overall

Gini coefficient changes from .46 to .44

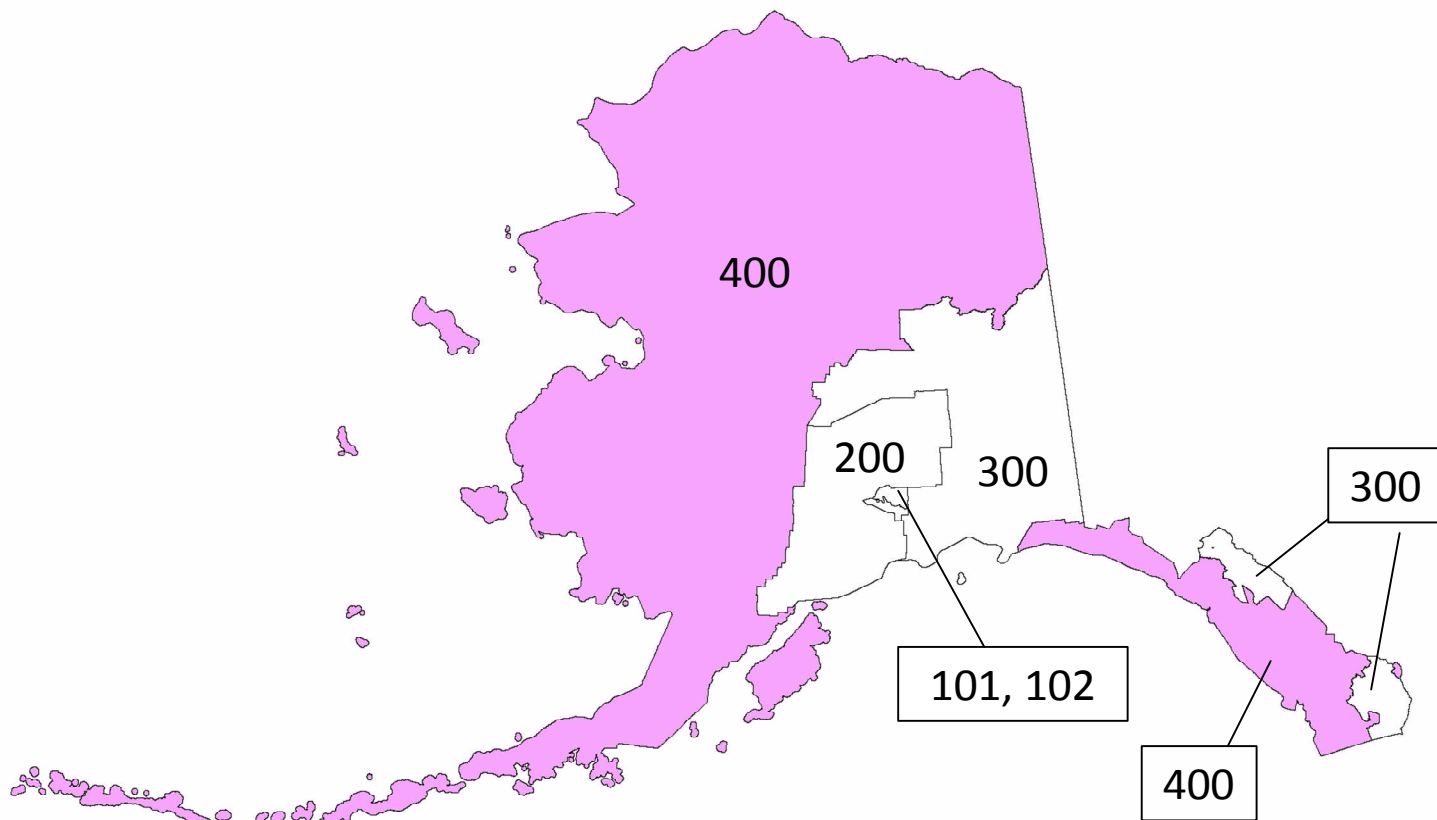
(Data from ACS 2019 1-year Public Use Microdata Sample)



The effect on poverty rates is substantial, however

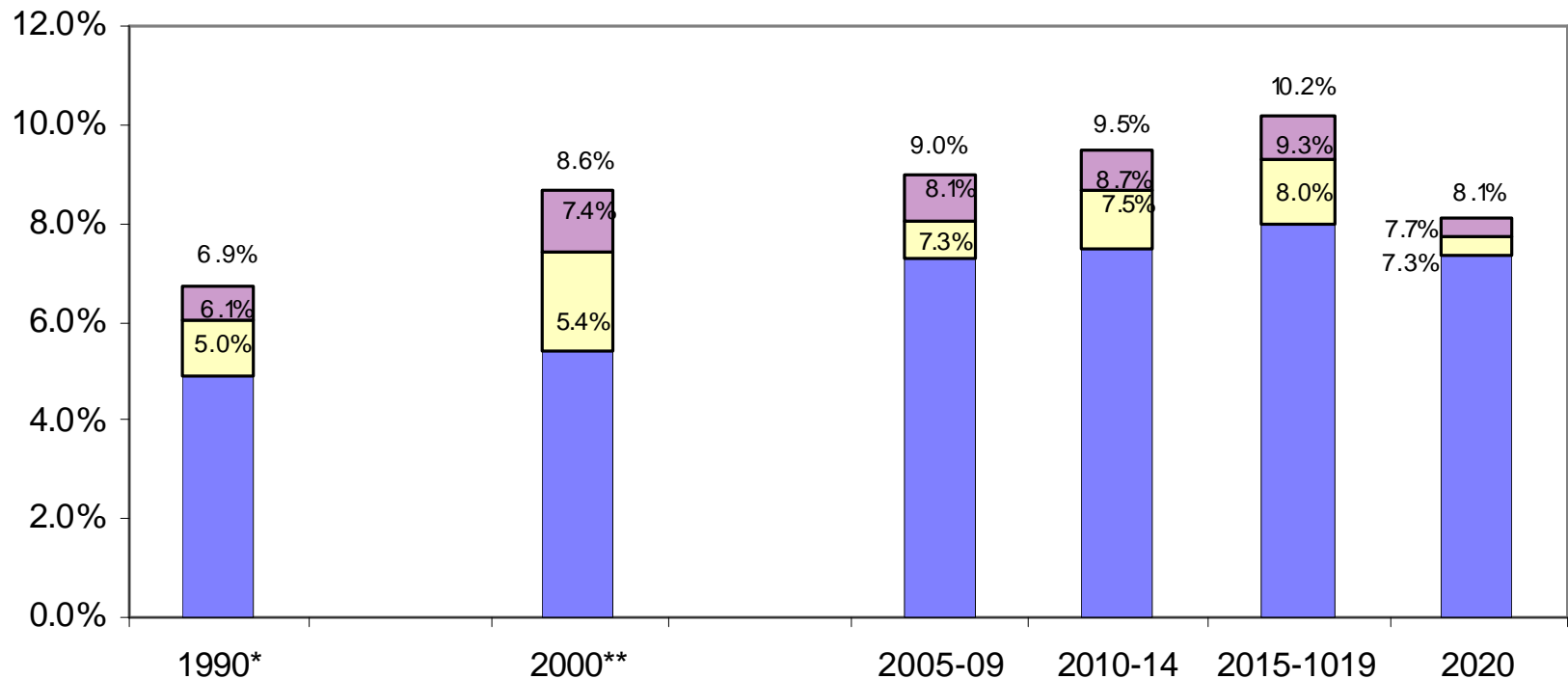


Alaska regions defined by 2010 Census Public Use Microdata Areas (PUMAs): Anchorage (101, 102), Other urban and road system (200, 300), Remote rural (Subsistence Alaska) (400).



Urban Alaska poverty rates are relatively low, but have been increasing

Anchorage and other urban Alaska Poverty Rates: Reported Rate and Estimated Rate Including and Excluding PFD Income

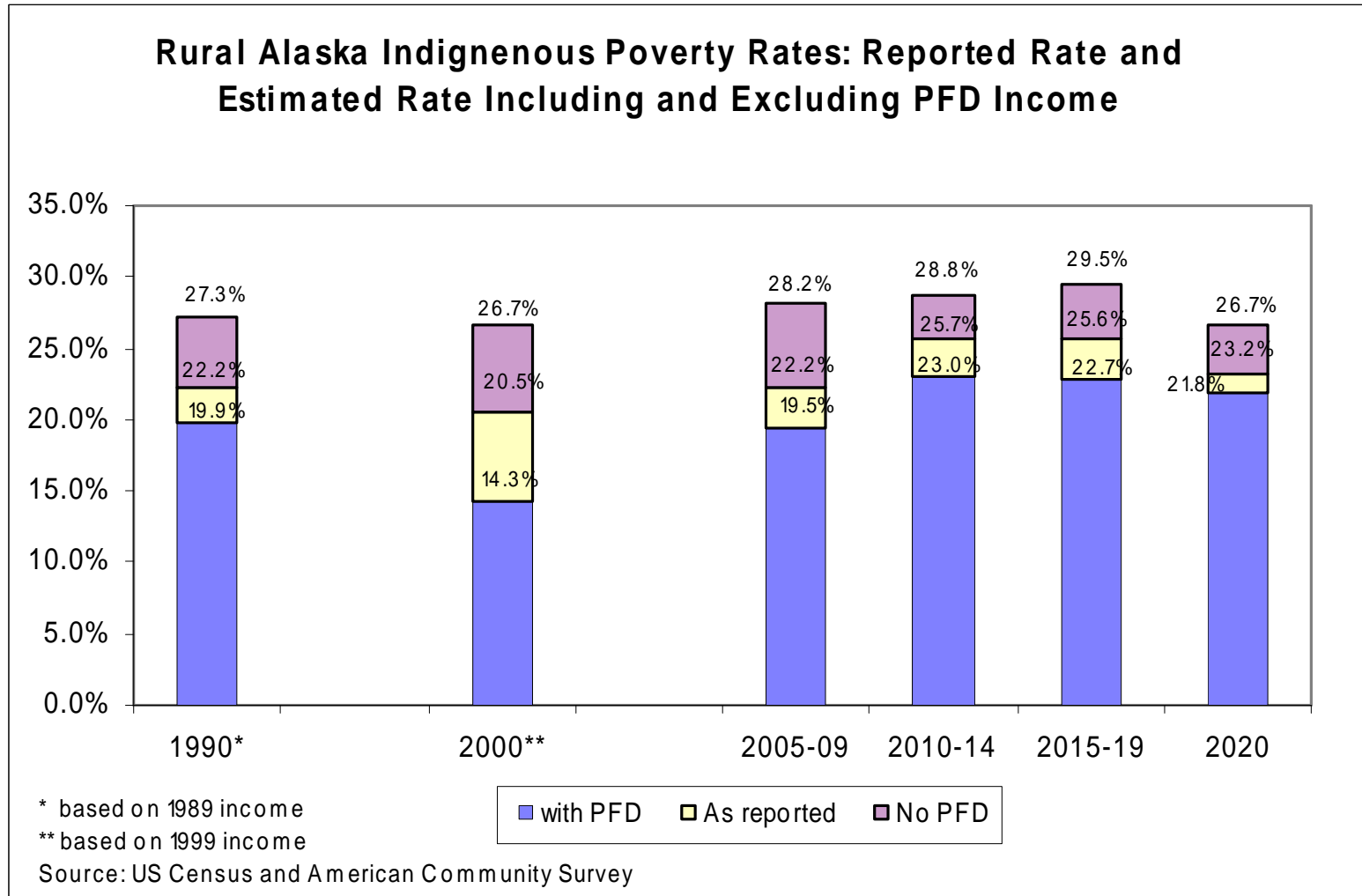


* based on 1989 income

** based on 1999 income

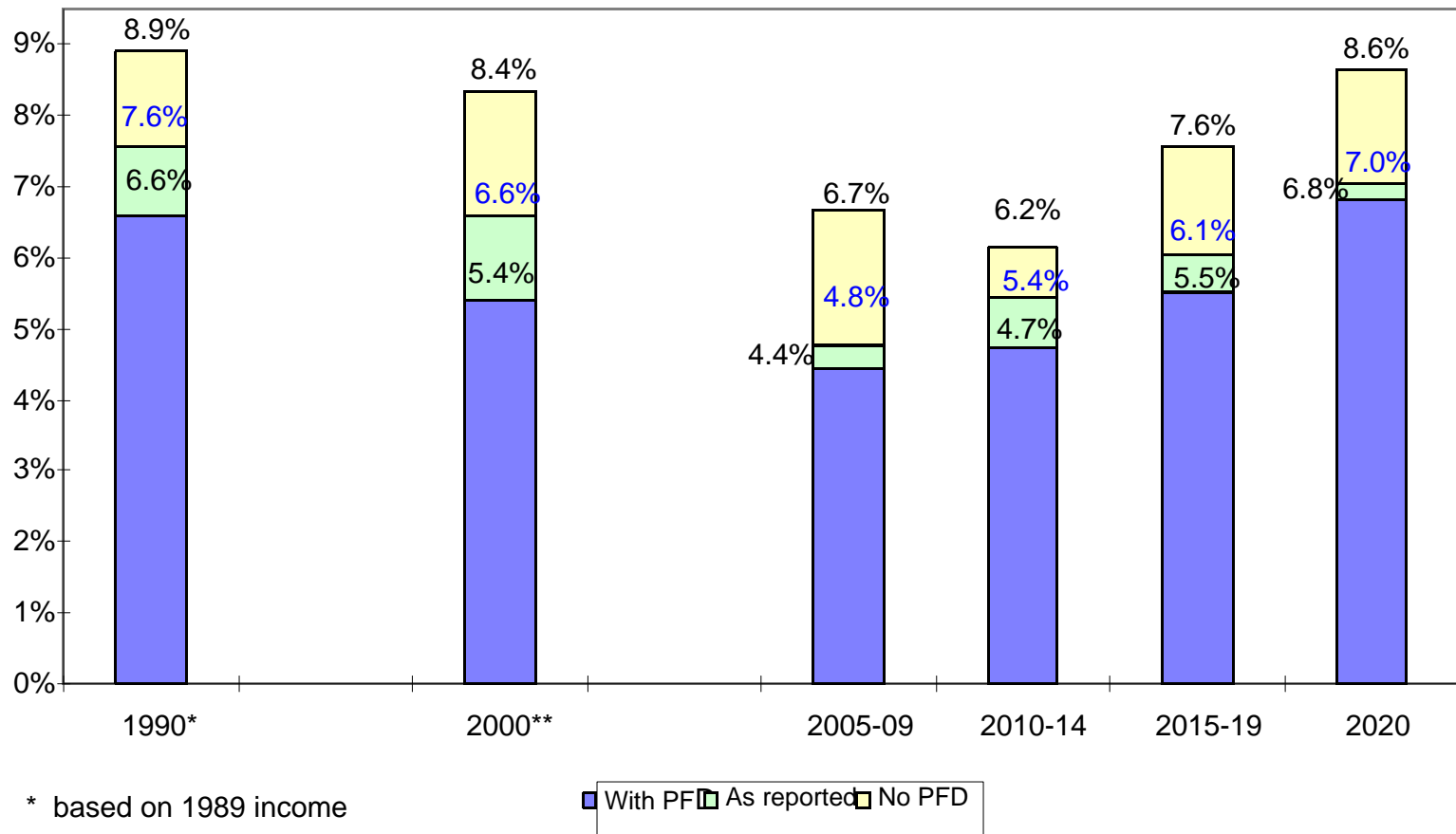
Source: US Census and American Community Survey

For Rural Alaska Indigenous peoples, the effect of the PFD has declined by half since 2000, from a 46% reduction in poverty rates to a 22% reduction

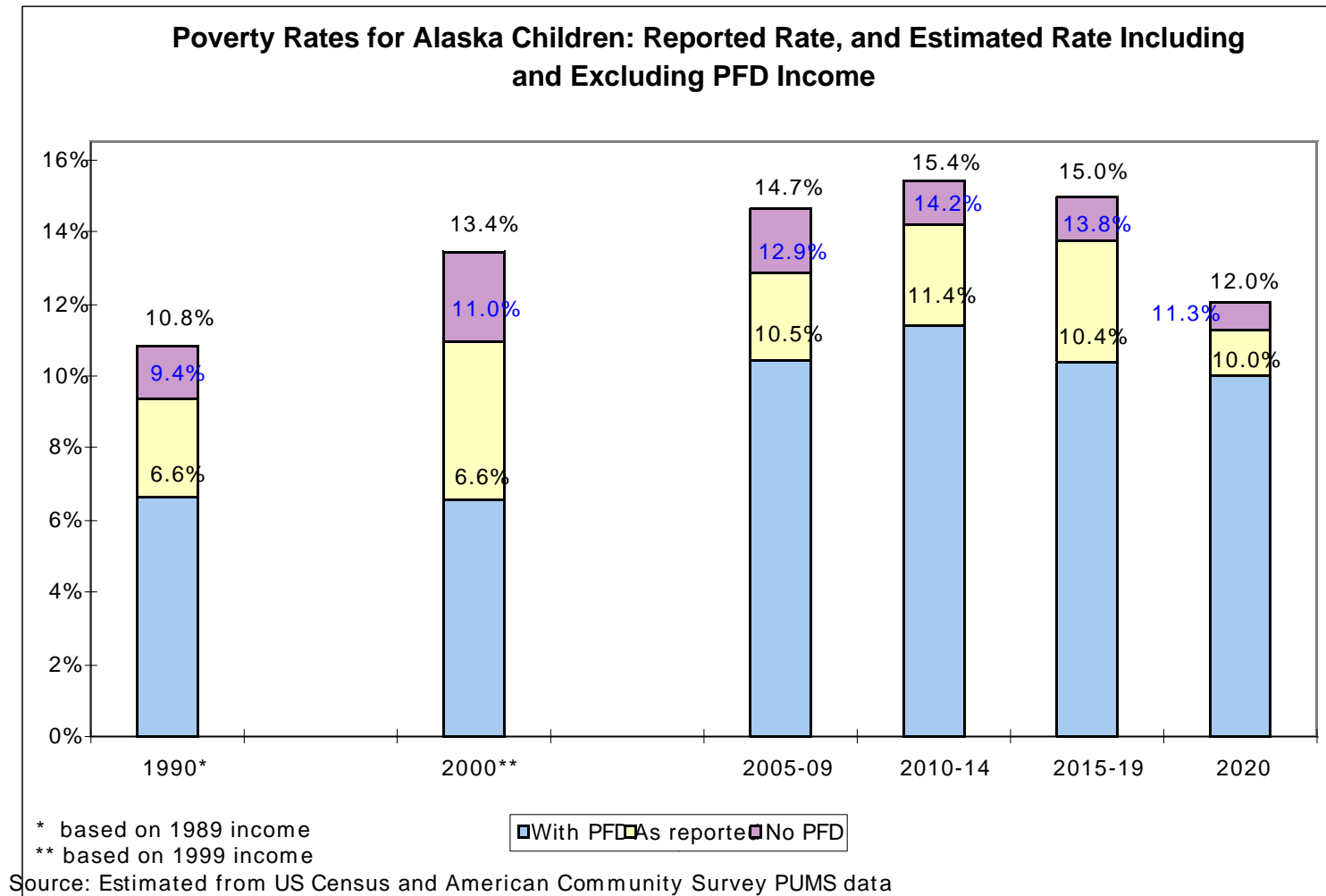


PFD has reduced elder poverty rates by over 40 percent, but rates have been increasing recently

Poverty Rates for Alaska Seniors: Reported Rate, and Estimated Rate Including and Excluding PFD Income



PFD has reduced poverty rates for Alaska children by one-30 percent more



Summary

- Estimated poverty rates that include PFD income accurately show that the Alaska PFD has lifted 15,000 to 25,000 Alaskans out of poverty annually
- Without the PFD, as many as one-third more Alaska Indigenous people would have seen their income drop below the poverty threshold
- Eliminating the PFD would increase the number of children living below the poverty threshold by as much as 50 percent, based on rates over the past five years
- Despite the ameliorating effects of the PFD, poverty rates have not declined, and have even been rising (aside from the unusual temporary effects of Covid relief programs), especially for seniors.

Outlook for the Permanent Fund Dividend program

- Alaska faces increasing budget pressures as oil production declines
- No good options for raising revenue through taxes
 - Industries besides oil difficult to tax
 - Few wealthy Alaskans: income taxes would have to be steep and largely target middle class
 - Sales taxes heavily used by local governments, would add to already high living costs
- PFD deeply entrenched in economy as well as politically
 - Cutting or eliminating PFD should be seen as a broad-based tax
 - Most regressive of all tax options
- Unless the Census Bureau changes its methods, official poverty rates will show a much smaller increase in poverty rates than will actually occur as the PFD is reduced.

Thank you!

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