PERMANENT FUND DIVIDEND

How PFDs Reduce Poverty in Alaska

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Permanent Fund dividends—payments the state makes to virtually all residents every year—lifted about 25,000 Alaskans out of poverty in 2015. That's 3 of every 100 residents. On average over the past five years, PFDs reduced the poverty rate in Alaska from 11.4% to 9.1%.

Those are some of our findings about how PFDs have reduced poverty in Alaska since 1990, based on our estimates of income and associated poverty rates. We developed and are reporting our own estimates, because we found strong evidence that the U.S. census data federal agencies use to calculate official poverty rates for Alaska don't include all PFD income.

Many people don't remember to include PFDs when answering census questions about income, and the census doesn't ask about or report income of anyone under 15. We estimate that as a result, the official poverty rates, averaged over the past five years, over-state poverty by 1.2 percentage points. We adjusted the census data to include all PFD income—and then looked at how the poverty rate changes, with and without PFDs (Figure 1). A longer paper details our methods (see back page).

Why Does the State Pay PFDs?

The state created the Alaska Permanent Fund in 1976, as a savings account for part of its non-renewable oil revenues. The idea was that as the fund grew over time, it could generate enough earnings to help pay for government services, when the state's oil revenues declined.

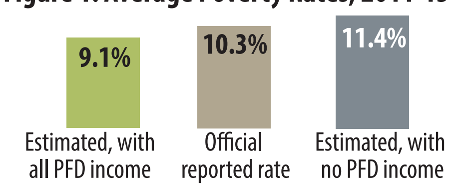
In the 1980s the legislature started using part of Permanent Fund earnings to pay PFDs, to strengthen public support for maintaining and adding to the Permanent Fund. PFDs undeniably created support for the fund: it had a balance of about $56 billion in late 2016.

But even though PFDs were not intended to reduce poverty in Alaska, they do. Now, however, Alaska faces a huge budget shortfall, created by low oil prices and falling production. State leaders will have to consider using Permanent Fund earnings for their original purpose: paying for state services.

But that would require substantially reducing or eliminating PFDs. So how might eliminating PFDs affect poverty in Alaska?

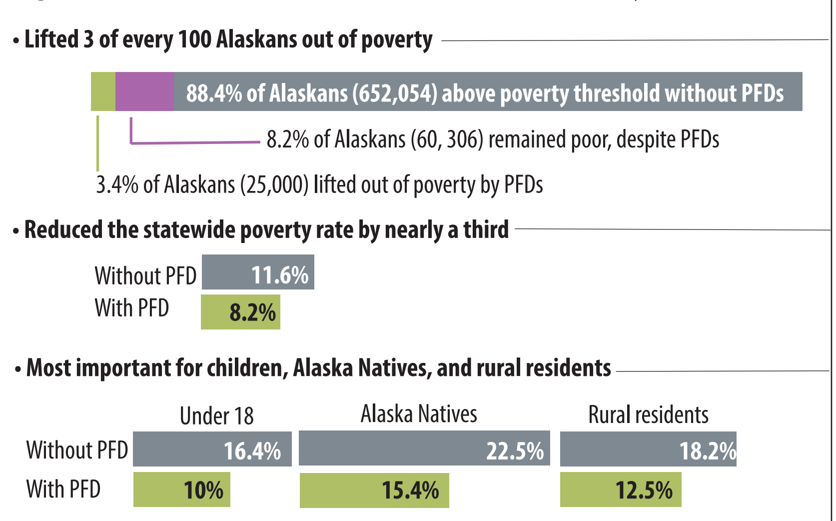
- *PFDs have kept 15,000 to 25,000 residents out of poverty annually since 1990* (Figure 5), depending on PFD amounts (Figure 3) and economic conditions.
- *Even with PFDs, a larger number and a higher percentage of Alaskans are poor now than in 1990*—partly because the population is 35% larger (Figures 4 and 5). But poverty rates in Alaska and across the country have been rising, as stagnating wages have pushed more low-wage workers below the poverty threshold.
- *PFDs are most important to children, Alaska Natives, and rural residents.* Without PFDs in 2015, poverty would have been close to 23% among Alaska Natives, 18% among rural residents, and more than 16% among children—compared with a statewide average of 11.6% (Figure 2).
- *Poverty rates have historically been higher in rural than in urban Alaska, and PFDs reduce poverty more in rural areas* (Figure 7). In 2015, the estimated rural rate without PFDs was 18.2% and 12.5% with PFDs, while in Anchorage the rate was 10.2% without PFDs and 7.5% with them.
- *Poverty among Alaskans 65 or older declined sharply since 1990, while poverty among children grew sharply.* Without or without PFDs, poverty among children is up more than 50% since 1990—but down about 50% among older Alaskans (Figure 8). Many who are now staying after retirement have pensions that keep them well above the poverty threshold.

Figure 1. Average Poverty Rates, 2011-15



Sources: Authors' estimates; U.S. census data

Figure 2. How Did the 2015 PFD of $2,015 Reduce Poverty in Alaska?*



*Authors' estimates, based on adjusting data from American Community Survey, Public Use Microdata Sample

PFD Program is Unique

The PFD program is a unique social experiment, providing a basic income—a recurring cash payment paid unconditionally—to an entire population. There are many questions we could ask about the program, but we looked only at how it reduces poverty in Alaska.

How Do we Measure Poverty?

The official measure of poverty in the U.S. is the federal poverty threshold, which differs by the size and make-up of families. For example, in 2015, a family of four, including two children under 18, was considered poor if it had an income below about $24,000.

The threshold isn't a perfect measure. It is adjusted for inflation, but not for regional differences in living costs—and in rural Alaska, living costs are far above the U.S. average. Also, it measures poverty based on a family living together in a household. But unmarried partners and children not related to the household head are not counted as family members—so any income they have isn't included in determining if the household is poor.

Data Sources and Methods

We began with data from the U.S. Census Bureau, which calculates how many Alaskans are poor by applying the poverty threshold to the income data it collects. Until 2000, the bureau collected income data during 10-year censuses, on a long-form questionnaire distributed to some households. After that, it dropped the long form during the 10-year census, but in 2005 began using essentially the same questionnaire to collect data every year, through the American Community Survey.

For our research, we got public-use sample data from the 1990 and 2000 censuses and from the annual American Community Survey (ACS) from 2005 through 2015.

In analyzing the census data—and cross-checking it with data from the Permanent Fund Dividend Division—we discovered that many people didn't report PFD income, for themselves or their children. We were able to tell that because PFD income is "unearned" (as opposed to income earned from working), and in the two places where census respondents would report unearned income, many didn't report any income at all, or reported amounts far less than the PFDs paid.

Our full paper (see back page) details how we estimated the shortfall in reported PFD income, by using census data on individuals and households to determine who was eligible to receive PFDs each year—and likely would have received them.

Once we had an estimate that included all PFD income of households, we looked at how poverty rates among Alaskans would be affected by eliminating PFD income.

PFD Amounts and Percentage of Per-Capita Income

Figure 3 shows annual PFDs from the first, in 1982, through 2016. How are these amounts determined? Half the Permanent Fund's earnings are reinvested to protect the fund principal from inflation, while the other half is available for dividends. The formula for paying dividends ties the annual amount to the average of fund earnings over the previous five years.

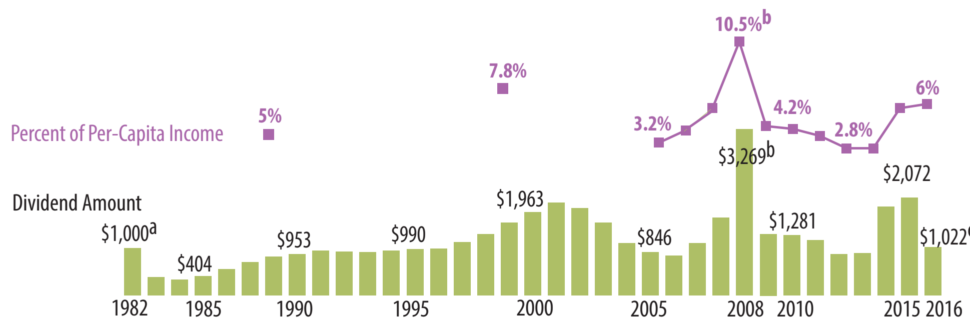
Using a five-year average smoothes the volatility of earnings somewhat, but the annual PFD has still varied substantially from year to year (and in a few cases, the legislature or the governor made decisions that affected the dividend amount; see notes on Figure 3).

Over the long term, however, the Permanent Fund principal and its earnings have increased—but so has the number of people potentially eligible for PFDs: the state population was up a third from 1990 to 2015 (Figure 4).

And if we adjust PFDs for inflation, we find that real PFDs during much of the 1990s were larger than in many recent years. For example, in today's dollars, the 1999 PFD was $2,587, compared with $2,072 in 2015.

At the same time, real per-capita incomes of Alaskans—that is, adjusted for inflation—have not been increasing: real per-capita income was essentially flat from 1990 to 2015. The result is that recent PFDs, although nominally larger than those in earlier years, represented a smaller percentage of per-capita personal income (Figure 3).

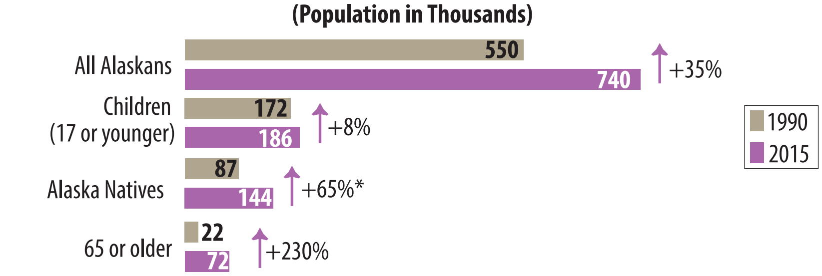
Figure 3. Permanent Fund Dividend Amount and Percent of Per-Capita Income, 1982 - 2016



[a]Special legislative appropriation [b]Special $1,200 legislative appropriation added to PFD of $2,069 [c]Governor vetoed half of a projected $2,052 PFD

Sources: Alaska Permanent Fund Corporation and U.S. Census Bureau

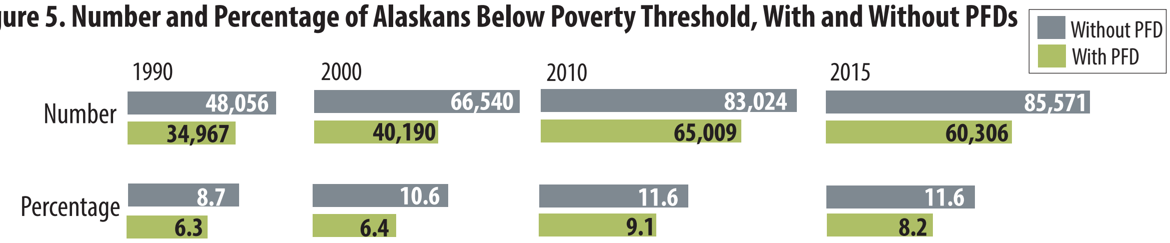
Figure 4. Growth in the Alaska Population, 1990 - 2015
(Population in Thousands)



*Growth in the Alaska Native population is probably overstated, because in the 1990 U.S. census, respondents had to choose just one race to identify themselves. Beginning with the 2000 U.S. census, respondents could report themselves as more than one race, and figures from then on include both those who identified themselves as Alaska Native and as Alaska Native and some other race.

Source: U.S. Census and American Community Survey, Public Use Microdata Sample (PUMS)

Figure 5. Number and Percentage of Alaskans Below Poverty Threshold, With and Without PFDs



Source: Authors' estimates, based on adjusted data from 1990 and 2000 U.S.censuses and American Community Survey, Public Use Microdata Sample (PUMS)

Numbers and Percentages of Alaskans Living in Poverty

• *PFDs have kept roughly 15,000 to 25,000 Alaskans out of poverty every year since 1990—and reduced the poverty rate from about 2.5 to 4 percentage points*— depending on the size of the PFD and the state of the economy (Figure 5). In 2000, for example, PFDs lifted reduced the number of residents in poverty by almost 40%. The PFD that year was large—but many people were living close to the poverty threshold then as well, so a relatively small addition to income had a big effect.

• *PFDs appear to have been less able to ameliorate poverty in recent years, largely because poverty rates—without PFDs—have been rising*. That increase in poverty rates in Alaska parallels the trend in the U.S. as a whole. Despite low unemployment rates, stagnating wages have pushed more low-wage workers below the poverty threshold, in Alaska as well as nationwide.

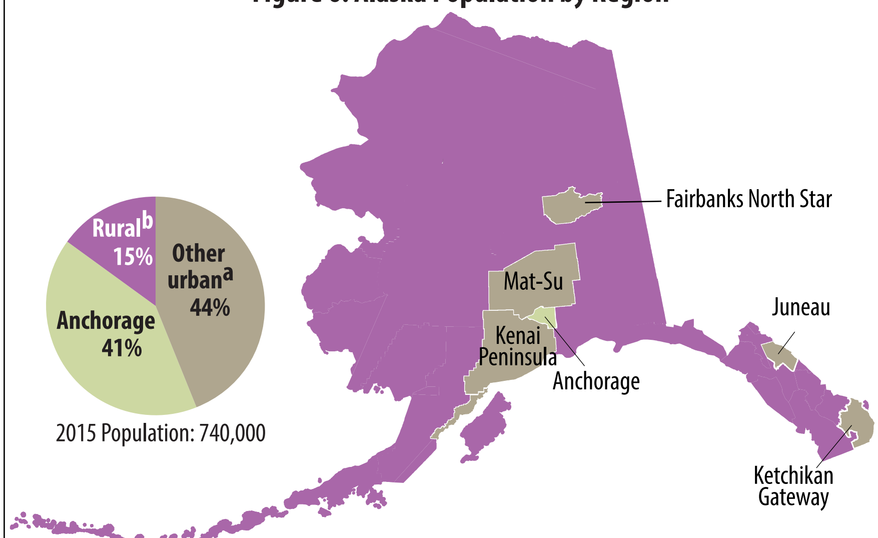
Poverty by Region

Most Alaskans—around 85%—live in Alaska's more urban areas, with the remaining 15% in smaller communities in the vast stretches of rural Alaska (Figure 6). Jobs are scarce in many rural places—especially in the small, remote villages—and poverty is much more common. Without PFDs, around 20% of rural residents would have been below the poverty threshold in recent years.

• *PFDs have cut poverty rates in rural areas from 4 to 9 percentage points* over the years since 1990, and in urban areas around 3 percentage points. Still, as is true statewide, poverty rates are up in all regions—with and without PFDs (Figure 7).

• *Anchorage saw a large increase in its poverty rate—without PFDs— in the first decade of the 21st century.* In the most recent five years, that rate has fallen somewhat—but the decline appears to be due entirely to PFD income. Immigration seems to be an important cause of this pattern in Anchorage. ACS data show that about 1,800 foreign immigrants have arrived in Anchorage annually since 2005. Between 2005 and 2009, 45% of these immigrants were poor, and of course not eligible to receive PFDs until the year after they arrived—but in the most recent years they would have qualified. More recent immigrants appear to have arrived better off than those who arrived 5 to 10 years ago.

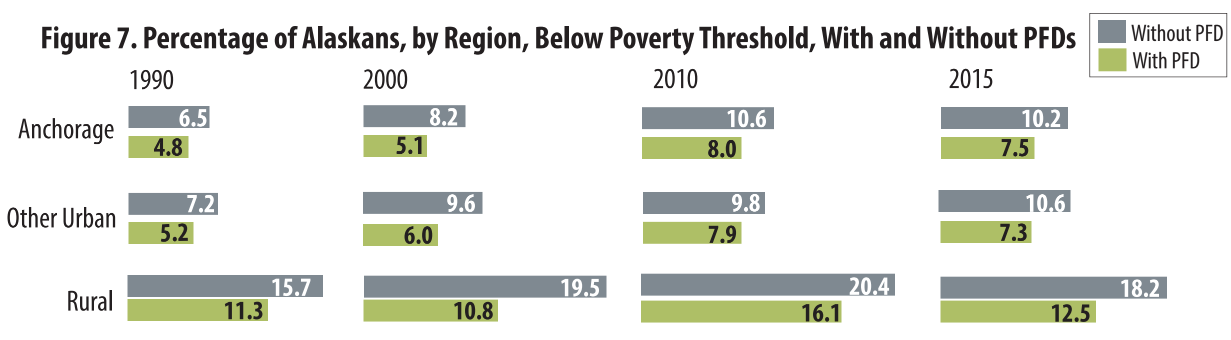
Figure 6. Alaska Population by Region



Source: American Community Survey, Public Use Microdata Sample

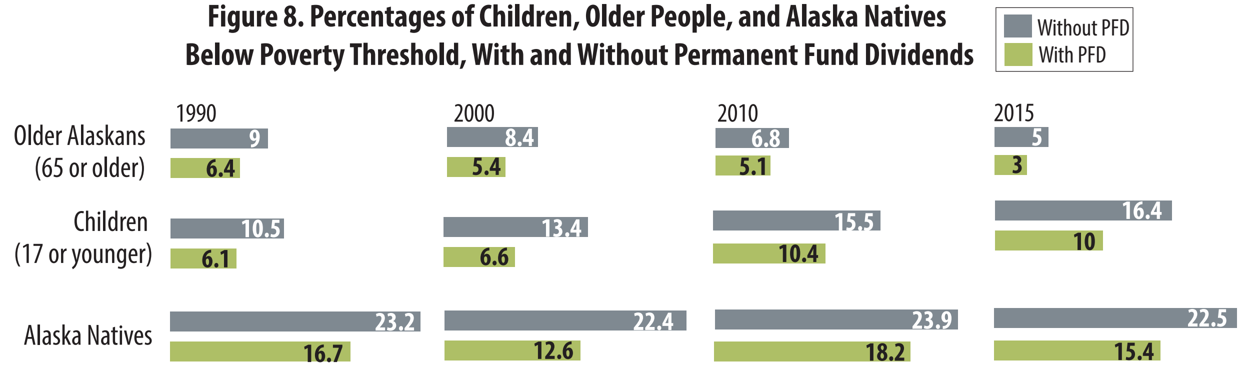
[a]Fairbanks North Star, Mat-Su, Juneau, and Ketchikan Gateway boroughs.
[b]All areas of the state outside Anchorage and other urban boroughs.

Figure 7. Percentage of Alaskans, by Region, Below Poverty Threshold, With and Without PFDs



Source: Authors' estimates, based on adjusted data from 1990 and 2000 U.S.censuses and American Community Survey, Public Use Microdata Sample

Figure 8. Percentages of Children, Older People, and Alaska Natives Below Poverty Threshold, With and Without Permanent Fund Dividends



Source: Authors' estimates, based on adjusted data from 1990 and 2000 U.S.censuses and American Community Survey, Public Use Microdata Sample

What About Effects of PFDs on Groups of Alaskans?

• *Older Alaskans are much less likely to be poor now than in 1990, with or without PFDs*. Without PFDs, 9% of residents over 65 fell below the poverty line in 1990, compared with 5% in 2015 (Figure 8). Decades ago, older Alaskans who could afford to leave Alaska mostly did leave when they retired—and those who remained were generally poorer. But in recent times, more older Alaskans have stayed, and others have moved here to be close to their families. There are 50,000 more older Alaskans now than in 1990—and many have pensions that keep them out of poverty.

• *Children, by contrast, have become much more likely to be poor*. Without PFDs, one in six Alaskans under 18 would have been living in poverty in 2015. With PFDs, that share was still about one in 10. We don't know just why more children are poor now. Partly it's that stagnating wages have likely pushed more low-income workers—and their children—below the poverty line. We also know that more children are living in households with unmarried adult partners rather then married couples. But the census doesn't count unmarried partners and children as family members if they aren't related to the household head—so any income they may contribute isn't counted in determining if the household is poor.

• *Poverty among Alaska Natives remains stubbornly high*: without PFDs, nearly one-quarter of Alaska Natives were below the poverty threshold, in 1990 and still in 2015. Over the years PFDs have reduced that poverty rate by anywhere from 6 to 10 percentage points. And the Alaska Native population is about two-thirds larger now than in 1990—meaning the number of Alaska Natives in poverty is also much larger.

Another Issue: Under-Reporting of ANCSA Corporation Dividends

Census data also under-report another type of income some children in Alaska receive: dividends paid by Alaska Native regional corporations. The corporations were formed under terms of the 1971 Alaska Native Claims Settlement Act (ANCSA), and originally just Alaska Natives alive in 1971 became shareholders. Over the years, some children have received shares through inheritance or gifts, and several corporations have also enrolled descendants of the original beneficiaries.

We did not have enough information to estimate the size of dividends individual children might have received. But our analysis of census data makes it clear that the dividends children did receive were not reported.

Conclusion

It's not only in Alaska that census data don't include all the income of children under 15—since the same census questionnaire is used nationwide. But the under-reporting is almost certainly more acute in Alaska, since nearly all Alaska children receive PFDs, and some receive Alaska Native corporation dividends.

Even after we adjusted census data to include all PFD income, we saw that poverty rates have been rising in Alaska, especially for children and residents of urban areas. One reason PFDs have not stemmed those increases is that more new residents arriving in urban areas are poor and not eligible to receive PFDs right away. Still, poverty rates in urban places remain far below those in rural Alaska, where there are fewer jobs.

Reducing or eliminating PFDs to help fill the budget gap will significantly increase the number of Alaskans below the poverty threshold. But unless the census revises its methods for collecting income data, poverty in Alaska will actually increase by more than the official poverty rates show.

About This Analysis and the Authors

This summary is based on *Permanent Fund Dividends and Poverty in Alaska*, by Matthew Berman and Random Reamey, Institute of Social and Economic Research, UAA, November 2016. It is available on ISER's website (www.iser.uaa.alaska.edu).

Matthew Berman is a professor of economics at ISER; he has been studying economic issues in Alaska since the 1980s. Random Reamey was formerly an intern with First Alaskans Institute and is now is a research professional at ISER. The findings reported here are theirs, and shouldn't be attributed to research sponsors, ISER, or the University of Alaska Anchorage. If you have questions you can reach Matthew Berman at 907-786-5426.

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