

Percent Of Market Value

A Concept to Consider

Over the course of the interim, I have had the distinct pleasure of meeting with Alaskans throughout the state to discuss the financial situation of the State of Alaska, the reality of budget cuts and reductions in government services, and solutions that state leaders need to consider upon returning to Juneau for the upcoming legislative session. Solutions to the state's fiscal problems will be complex and controversial. For this reason, I have hosted a series of public hearings and informational sessions on a concept that I think is worthy of consideration: Percent of Market Value as it relates to the Permanent Fund.

The concept of Percent of Market Value (POMV) was introduced to the Legislature in 2001. It is a concept that was introduced by the Permanent Fund Corporation's Board of Trustees in an effort to make the Permanent Fund just that, permanent. The Board of Trustees brought forth a proposal that would provide for the permanent inflation proofing of the Fund, and allow for a payout of the Fund of not more than five percent of the Fund's total market value. The set percent is based on the expected difference between the total annual return on investments and the rate of inflation. The five percent was derived from an 8% projected average annual return, minus a 3% projected average annual inflation rate.

The POMV concept is important to consider for three reasons: Protection, Predictability, and Stability. POMV protects the option of an annual distribution, or what we have commonly come to know as our Permanent Fund Dividend Checks. POMV protects the Fund for future generations by restricting the payout to only five percent and placing the remaining earnings back into the principal.

If you were to compare the current method of earnings-based payout with a POMV 5% spending limit, you will see that the impact of market volatility is recorded against the earnings reserve. However, with the endowment model, market movements have a much smaller effect on the total Fund value than they do on earnings alone. Markets are inherently volatile and, in recent years, the annual realized earnings have varied from \$257 million (2002) to \$2.6 billion (1998). POMV-based payouts buffer this volatility and improve stability among year-to-year dollar amounts.

The POMV formula constitutionally protects the Fund against inflation. Under the current earnings-based method, inflation proofing the Fund is only statutorily required, discretionary at the Legislature's will. If the POMV formula is adopted, then inflation-proofing of the entire Fund would be required by the Alaska State Constitution.

I encourage all Alaskans to become involved and educated on the Percent of Market Value concept. On Thursday evening, November 20, there will be a presentation by the Alaska Permanent Fund Board of Trustees on the POMV concept, with time following for public comment and questions. The meeting will be held at the Kenai Peninsula Borough Chambers. I feel that this is an excellent opportunity for Alaskans to meet with their state leaders to discuss the possibility of this concept, as well as to learn how this could be a significant part of a fiscal solution.