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An Alberta Dividend: The Key to Growing the Heritage Fund

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Summary

- The Smith government has promised to "re-build" the Heritage Fund so that eventually its earnings are significant enough to replace volatile resource revenue in the budget. While this is a worthy goal, it will require a long-term commitment.
- Building on work from Hill, Emes, and Clemens (2021), this bulletin uses Alaska's success with its resource revenue savings fund—the Alaska Permanent Fund—to demonstrate how the Smith government can introduce new fiscal rules to ensure growth in the Heritage Fund with a focus on the annual dividend.
- As demonstrated in Alaska, by giving citizens ownership shares in the state resources, they recognize their vested interest and demand that the state maximizes returns from such resources. Put simply, by creating public buy-in, the dividend generates political pressure to enforce robust fiscal rules around the fund's operation to ensure its growth.
- Using two illustrative models based on the Alaska Permanent Fund, which includes mandatory 25 percent resource revenue contributions and consistent inflation proofing of the fund's principal, each Albertan could be paid an estimated $148 to $297 in dividends in 2024/25, equivalent to $594 to $1,187 per family of four. From 2024/25 to 2026/27, each Albertan could receive a total of $571 to $1,108 in dividends, equivalent to $2,284 to $4,430 per family of four.
- Under these rules, the Heritage Fund would be worth between $35.8 billion and $38.7 billion by 2026/27, while paying out between $2.9 billion to $5.5 billion in dividends to Albertans.

Introduction

In 1976, Peter Lougheed's government created Alberta's Heritage Savings Trust Fund to save a share of the province's resource wealth to provide benefits to Albertans in the future.[1] Since its creation, however, resource revenue contributions have only been made in 11 out of 48 years of the fund's existence and just 3.9 percent of total resource revenue has been deposited to the fund over its lifetime.[2] Recently, the Smith government promised to "re-build" the Heritage Fund in an effort to "eliminate our province's reliance on resource revenues" (Alberta, 2024a). Specifically, the idea is to build up the fund so that eventually its investment income (i.e., earnings) will be significant enough to replace resource revenue in the budget. For perspective, the Heritage Fund's investment income is a forecasted $2.1 million in 2023/24, compared to a projected $19.4 billion in resource revenue (Alberta, 2024b). Put differently, while growing the Heritage Fund is a worthy goal, it will require a long-term commitment.

Up to this point, the Heritage Fund's growth has been significantly limited by weak fiscal rules around the fund's operation (Hill, Emes, and Clemens, 2021). The provincial government originally required via statutory law that 30 percent of all resource revenue be contributed to the fund annually.[3] A statutory rule, however, can be changed unilaterally by the Alberta legislature, and when oil prices declined in the 1980s and Alberta fell into recession, it was. Specifically, as provincial finances began to deteriorate, contributions from resource revenue were reduced to 15 percent in 1983/84, following a second oil price collapse in 1986/87, resource revenue contributions ended entirely. As a result of infrequent resource revenue contributions, paired with inconsistent inflation proofing to protect the fund's real value, and significant withdrawals from the fund, the Heritage Fund is worth a projected $21.3 billion in 2023/24 in real ($2024) terms, which is $10.5 billion less than in 1987/88, when consistent resource revenue contributions ended.

In other words, as history has shown, without robust fiscal rules, governments tend to change and/or break their commitments when they are no longer convenient. In 2021/22, Hill, Emes, and Clemens (2021) proposed a new approach to managing the Heritage Fund based on Alaska's success with its resource revenue savings fund (the Alaska Permanent Fund), which includes a constitutional rule for contributions, consistent inflation proofing, and crucially, an annual dividend. Using Alaska's experience, this bulletin demonstrates how the Smith government can introduce new fiscal rules to ensure growth in the Heritage Fund. Particular focus is on creating a dividend, which has proven to be crucial in the success of the Alaska Permanent Fund.

It is important to recognize upfront that the role of the Heritage Fund is one of long-term fiscal stabilization and it must be accompanied by a policy for short-term stabilization, namely, a renewed Alberta Sustainability Fund (ASF) as per the larger framework put forward by Hill, Emes, and Clemens

1 In 1997, the mission in the *Alberta Heritage Savings Trust Fund Act* was amended to providing prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans (Alberta, 2020).

2 Including ad hoc deposits, contributions have been made in 15 years.

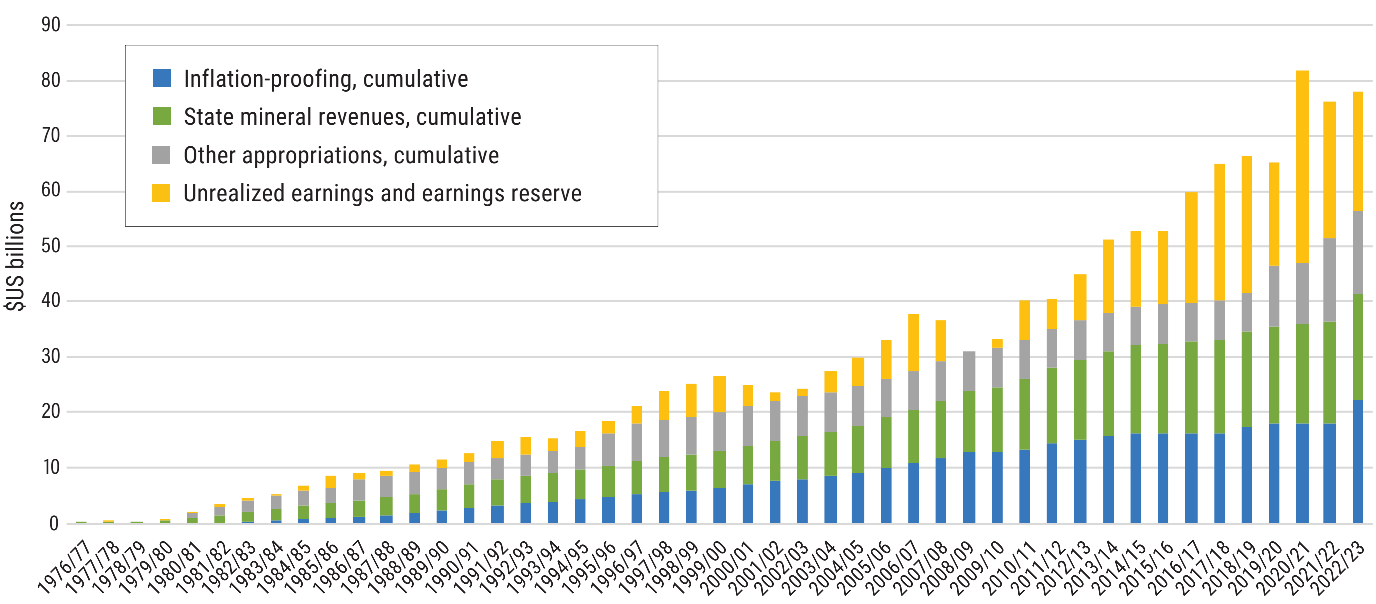
3 The *Alberta Heritage Savings Trust Fund Act*, RSA 1980, cA-27.

(2021).[4] The ASF is similar to a rainy-day account; the provincial government would set a stable (inflation-adjusted) amount of resource revenue to be included in the budget annually, with any excess above that amount during times of relatively high resource revenue saved in the fund to be used to maintain the stable amount during the "bad times" when resource revenue is relatively low. Stabilizing and limiting the amount of resource revenue included in the budget would temper the pressure for governments to increase spending during times of relatively high resource revenue, which is key. While a discussion of the ASF is beyond the scope of this paper, Hill, Emes, and Clemens (2021) explain the Heritage Fund and a renewed Alberta Sustainability Fund can work together to build a new fiscal framework that helps stabilize provincial finances.

Lessons from Alaska's Permanent Fund

Alaska's experience with its Permanent Fund serves as a useful comparator for the Heritage Fund. Both resource savings funds were created in 1976 under similar circumstances, yet Alaska's fund has grown much more substantial over time despite the state collecting far less resource revenue. For perspective, the state of Alaska collected $183.0 billion ($CDN) in total petroleum revenue[5] (Alaska Department of Revenue, Tax Division, 2020) between 1976/77 and 2022/23, compared to $289.4 billion in Alberta (Alberta, 2023a). As shown in figure 1, since its inception in 1976, the Permanent Fund has grown to US$78.0 billion in 2022/23, while the Heritage Fund was worth C$19.0 billion in the same year.

Figure 1: Contributions to total fund value in Alaska's Permanent Fund, $US billions



Sources: Alaska Department of Revenue, Permanent Fund Division, 2024; Alaska Permanent Fund Corporation, 2024a, 1978–2023.

4 See Hill and Palacios (2023) for more information.

5 This is the broadest measure of Alaska's natural resource revenue and includes items not included in Alberta's (income, petroleum and property taxes, for example).

This section provides a summary of key aspects of the Alaska Permanent Fund that have contributed to its success with a focus on the Permanent Fund Dividend. The discussion is largely based on two papers: *A New (Old) Fiscal Rule for Non-Renewable Resource Revenue in Alberta* and *Repairing Alberta's Heritage Fund for the Long Term.*[6]

Unlike Alberta's Heritage Fund, the Permanent Fund operates under robust fiscal rules, ensuring its growth. First, upon the Permanent Fund's creation, a constitutional amendment was introduced that required at least 25 percent[7] of all mineral royalty revenue to be deposited into a dedicated fund annually.[8] A constitutional rule is much more robust than a statutory rule (like that used in Alberta), as it ultimately requires a majority vote by Alaskan citizens to amend or change. (A constitutional rule would be somewhat different in Alberta, but it could be introduced.)[9] This has helped ensure consistent contributions since inception, steadily growing the fund over time. Additional transfers made by special legislative appropriations have been common in many years, so that the actual contribution rate is often higher than the mandated 25 percent. However, this mandated contribution ensures a minimum annual contribution. Overall, $19.2 billion in mineral revenues have been contributed to the fund over time (figure 1), which accounts for 25 percent of the fund's total value in 2022/23.

In addition, "inflation-proofing" was established by statute in 1982 to preserve the market value of the fund. Specifically, a share of the fund's earnings is set aside each year to ensure that the principal of the fund is not eroded through inflation. Alaska also legally prohibits the use of the principal without approval by a referendum; only the earnings of the fund (minus inflation proofing) may be spent. The decisions about how to use annual earnings—beyond those required to inflation-proof the fund—are made each year by the State Legislature and the Governor. As shown in figure 1, $22.2 billion has been retained in the fund for inflation-proofing since its inception and accounts for 28 percent of the fund's total value in 2022/23.[10]

6 For more information, see Hill, Emes, and Clemens (2021), and Hill, Emes, and Lafleur (2021).

7 The contribution rates in Alaska, like the contribution rates used by the Lougheed government in the early years of the Heritage Fund, are to some extent arbitrary. Other research suggests the contribution rate should be closer to 50 percent, for instance (Kneebone, McKenzie, and Taylor, 2004). The key is that some meaningful share of the resource revenue be earmarked for savings.

8 Mineral revenues are defined as all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the State; legislation passed in 1980 imposed even stricter discipline. Specifically, the 1980 Permanent Fund Act required that 50 percent of revenues from new oil and gas fields be deposited into the fund. However, Alaska's largest oil and gas fields including those in the Prudhoe Bay were leased prior to the 1980s, so the 25 percent constitutionally mandated rate has dominated (Alaska Permanent Fund Corporation, 2020).

9 See Hill, Emes, and Clemens (2021) for more information on how a constitutional rule could be introduced in Alberta.

10 While inflation proofing has been required for the Heritage Fund in certain years, it has not been consistent. Specifically, in 1996/97, a statutory law was introduced that required a portion of earnings to be set aside to inflation-proof the fund (Alberta Heritage Savings Trust Fund Act, SA 1996, c A-27.01). However, by 1998/99, a stipulation was added that there would be no requirement to inflation-proof the fund until the accumulated provincial debt was eliminated, unless deemed advisable by the Provincial Treasurer (Alberta, 1999). Under these conditions, inflation-proofing occurred only in three years until 2005/06. As the provincial debt was eliminated, inflation-proofing resumed in 2005/06. Inflation proofing continues to be required today, excluding years of deflation or investment loss.

Other appropriations, which include special legislative appropriations from the earnings of the fund or other sources, such as the State's General Fund, account for US$15.1 billion (19 percent) of the fund's total value in 2022/23. The fund's earnings (consisting of the earnings reserve and unrealized earnings) account for the remainder of its value in 2022/23 at US$21.6 billion (28 percent).

As shown, constitutionally mandated contributions, consistent inflation-proofing, and compound earnings have contributed to the Permanent Fund's growth. Legally prohibiting the use of the principal without approval by a referendum has also allowed the fund to grow. However, there is another crucial aspect of the Permanent Fund's success that is less visible: The Permanent Fund Dividend. Specifically, a share of earnings has been paid out to Alaskan citizens via a dividend since 1982, which has been key to supporting growth in the fund over the long term.

The idea came from Jay Hammond, a former Governor of Alaska, who argued that if citizens were given an ownership share in the state's mineral resources, they would recognize their vested interest and demand that the state maximize returns from such resources (Hammond, 2012). Put differently, the dividend was created to generate political support for responsible management of the fund and ultimately increase the likelihood that it would be protected over time. This rationale draws from public-choice theory, which holds that people—whether acting as private individuals, politicians, bureaucrats, or otherwise—are rational, self-interested actors.[11] Politicians tend to pursue policies and spend money in ways that support their re-election. Similarly, bureaucrats are driven by the desire to expand their role and domain, which contributes to the demand for ever-increasing spending. As a result, public-choice theory suggests that in the context of resource-savings funds governments will be motivated to spend resource revenue intended for the fund, and/or earnings from the fund, in ways that may not align with the public interest.

Private individuals are also rational and self-interested. Correspondingly, when Alaskans were given a share of the Permanent Fund earnings, they were more inclined to support effective rules governing the fund, including consistent contributions, inflation-proofing, prudent investment, and use of fund earnings, because these factors have a direct impact on the size of their dividend. Further, the cost of government policies that require spending from the fund or its dedicated resource revenue can be directly quantified by citizens, who note their reduced dividends. The cost of current government spending is, therefore, much more salient than some unknown future tax increase (Murphy and Clemens, 2013).

The dividend is based on statutory law and subject to both legislative appropriation and veto by the state's Governor. Put simply, the state legislature and/or the Governor have the authority to reduce or eliminate the annual dividend entirely. Despite this, the legislature has consistently allocated funds to the dividend for 40 years, even though doing so reduces the amount of money the government has access to for spending. The legislature has even made contributions to the Permanent Fund beyond those required to avoid potentially reducing the dividend in certain years (Goldsmith, 2011). Put simply, through creating public buy-in,

11 For an overview of public-choice economics, see Mitchell and Simmons (1994).

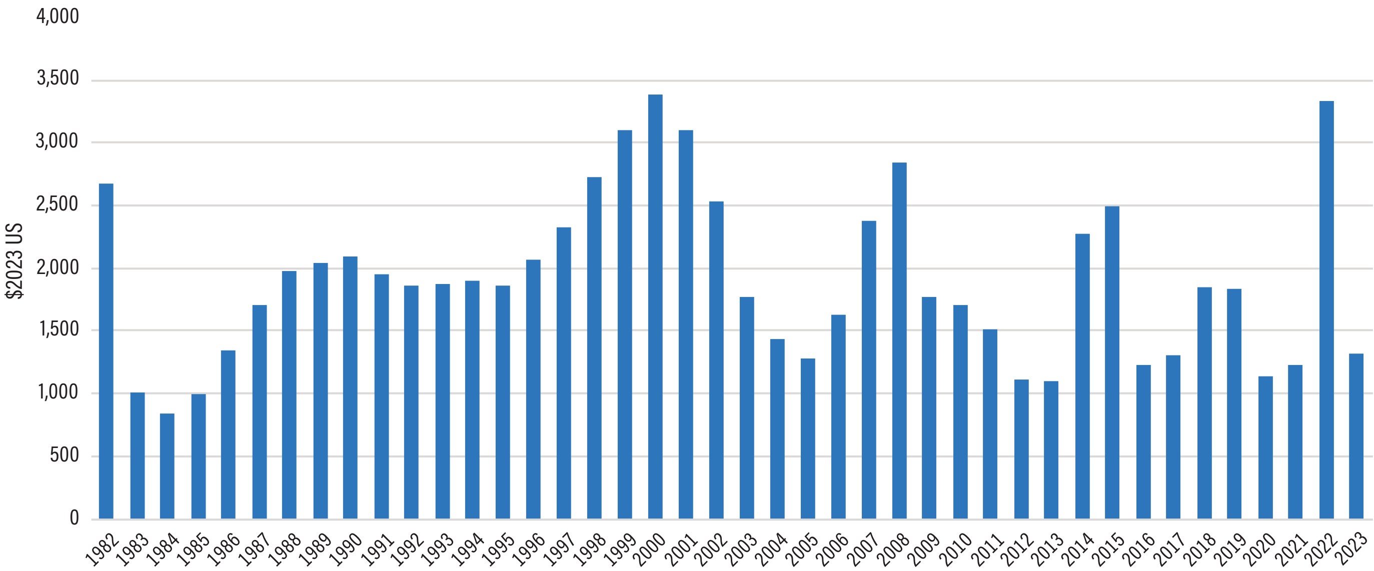
the dividend has generated political pressure to enforce robust fiscal rules around the fund's operation to ensure its growth over time.

To calculate the Permanent Fund Dividend, a portion of earnings are first set aside to inflation-proof the principal. The remaining earnings in the five most recent fiscal years are adjusted to calculate a dividend for each eligible Alaskan resident.[12] In simple terms, the dividend is based on a five-year rolling average of half of the fund's annual earnings after inflation-proofing, which provides a more stable dividend to citizens by smoothing annual fluctuations.

Figure 2 shows the dividend in real terms since 1982. Since inception, a total of US$30.2 billion has been paid out to Alaskan citizens as dividends. In nominal terms, dividends have ranged from US$331 in 1984 to US$3,284 in 2022. In real terms ($2023), as shown in figure 2, dividends have ranged from US$835 to US$3,389 and averaged US$1,902 annually.[13]

It is important to note that rules around the Alaska Permanent Fund have changed somewhat in recent years as it was determined that mineral revenues were in a structural decline and a portion of earnings would now be needed to support the state budget (Alaska Permanent Fund Corporation, 2020a). Accordingly, legislation was passed in 2017/18 to distribute earnings to both the state budget and annual dividend according to a new formula (Alaska Statute 37.13.140(b)). The rules that prevailed for the vast majority of the fund's existence

Figure 2: Alaska dividend amount, $2023 US



Sources: Alaska Permanent Fund Corporation, 2024b; Bureau of Labor Statistics, n.d.

12 Alaska Statute 43.23.025. The sum of annual earnings less inflation proofing over the last five fiscal years is multiplied by 21 percent, divided by two, and then divided by the number of eligible Alaskans. The actual internal fund transfers and calculation of the dividend are complex and we have focused on the salient details only. See Alaska Permanent Fund Corporation (2008), for a detailed review.

13 The Permanent dividend is taxable. Disposable income will vary by individual.

and ultimately allowed it to grow to a size where its earnings can now support the budget are the focus of this bulletin as Alberta is currently at the stage of building up the Heritage Fund for this purpose.

It is again worth emphasizing that although the dividend has helped protect and grow Alaska's Permanent Fund, it is not a policy for *short-term* fiscal stabilization. In fact, Alaska has a relatively high debt-to-GDP ratio and spending per capita compared to other states.[14] This reinforces that such policies must be accompanied by supporting short-term fiscal stabilization, such as a rainy-day account.

Overall, the dividend has enforced robustness in fiscal rules around Alaska's Permanent Fund, including consistent contributions and inflation-proofing. In other words, the evidence suggests that the political discipline of paying out dividends to citizens has helped ensure the permanent fund's growth over the long term.

Creating the Heritage Fund Dividend

The Smith government has committed to rebuilding the Heritage Fund to reduce Alberta's reliance on resource revenue. However, the Heritage Fund has no mechanism similar to that of Alaska's Permanent Fund to help reinforce robust fiscal rules around the fund's operation. As history has shown, without robust fiscal rules, governments tend to change and/or break their commitments when they are no longer convenient.

The remainder of this section estimates the potential of the Alberta Heritage Fund and dividend by 2026/27 if the Alberta government introduces fiscal rules similar to Alaska's permanent fund as per the recommendations in Hill, Emes, and Lafleur (2021). The year 2026/27 is used simply as it is the final year of data projected by the provincial government in the most recent budget (Alberta, 2024b). For the purposes of this paper, the Alaskan model is defined by and incorporates a mandatory contribution of 25 percent of resource revenue, consistent inflation-proofing, and annual dividends—it is not intended to precisely replicate Alaska's approach. The focus of this analysis is the dividend as it is key to protecting fiscal rules around the fund (contributions and inflation-proofing) that will ensure its growth over time.[15]

It is worth briefly noting that the Smith government has suggested its approach to building up the Heritage Fund will be to increase program spending by less than inflation and population growth, which would lead to surpluses that could be saved in the Heritage Fund. Based on the Smith governments current fiscal framework, however, surpluses can also be used to pay down debt or for one-time spending initiatives, which means there is no guarantee that deposits will be made to the Heritage Fund. Moreover, surpluses are projected to total just $4.4 billion from 2024/25 to 2026/26 (Alberta, 2024b), which, for perspective, is equivalent to just one year of resource revenue contributions under the 25 percent rule. For this reason, and to align with the original recommendation in Hill, Emes, and Lafleur (2021), this analysis uses the 25 percent resource revenue contribution.

14 For more information see https://www.data-z.org/state_data_and_comparisons/; spending per capita includes state and local expenditures.

15 Recall, Alaska legally prohibits use of the Permanent Fund's principal without referendum approval; only the fund's earnings may be spent. While this paper focuses on the dividend, this rule has played an important role in growing the fund over time and a similar rule should therefore be considered for Alberta.

It is also important to note that saving 25 percent of resource revenue in the Heritage Fund would have budget implications and therefore require sacrifice. For perspective, assuming no other changes, the budget balance would fall to a $4.0 billion deficit in 2024/25, a $3.0 billion deficit in 2025/26, and a $1.8 billion deficit in 2026/27, compared to projected surpluses of $367 million, $1.4 billion, and $2.6 billion, respectively.[16] While it's beyond the scope of this paper to prescribe how the government should address the fiscal impact, it is worth noting that this would be an opportunity to reduce spending so that it is more closely aligned with ongoing stable levels of government revenue rather than temporary windfalls.[17] Moreover, removing a share of resource revenue from the budget would reduce the pressure for governments to increase spending with temporary windfalls in the future, which would ultimately help support fiscal stability.[18]

As Alaska's experience has shown, the dividend is crucial to garner public support for building up the Heritage Fund, and consequently, create the political pressure to sustain growth in the fund over time. For this reason, the Alberta dividend should be introduced as soon as earnings (minus those required for inflation-proofing) are sufficient to pay meaningful dividends to Albertans. The size of dividend that would be "meaningful" is subjective and therefore difficult to determine. Recall, in Alaska, the first dividend was worth $385 ($1,011 in $2023).[19] A smaller dividend could still be meaningful, however, particularly as Albertans are facing high rates of inflation and overall increase in cost of living.[20] Moreover, the size of the dividend will grow over time, which will help garner stronger public support.

Recall that the Alaska dividend is based upon a five-year rolling average of half of the fund's annual earnings after inflation proofing; this provides a more stable dividend annually. However, it is just one approach. Alternatively, the provincial government may prefer to calculate the dividend based on the previous year's earnings so that citizens are more conscious of the fund's performance each year. This approach is used in this calculation both for simplicity and due to the limited period over which the dividend is calculated, although a five-year rolling average is likely preferable from a policy perspective.

Two potential dividends are calculated. Option 1 uses half of the fund's annual earnings after inflation proofing (similar to the Alaska approach) and option 2 uses the fund's full earnings after inflation proofing. Earnings for 2023/24 to 2026/27 are

16 It is worth noting that to mitigate these budget deficits would require a cut in provincial government spending, tax increases, or some combination of both, which may (at least in the short term) lessen support for adopting the Alaskan model.

17 See Hill and Palacios (2024) for more information.

18 See Hill, Emes, and Lafleur (2021) for more information.

19 This is the first dividend paid from the fund. Technically, however, the first dividend was $1,000 and paid from general revenues (correspondence with Brian Fechter, Administrative Services Director, Alaska Department of Revenue, June 16, 2021). The larger $1,000 initial payment was simply because the first dividend included retroactive payments since the Permanent Dividend Program was first approved by the legislature in 1980 (Turner, 1982).

20 Moreover, there may be limitations and/or unwanted consequences to such a large dividend under the Alaskan model. For instance, if the dividend payout is very large, it has the potential to impact labour supply negatively and create dependency on the dividend. Policymakers must consider these factors and trade-offs when determining the specific dividend formula.

Table 1: Alberta's Hypothetical Heritage Fund, dividend option 1 and 2, 2023/24 to 2026/27

	Option 1: half earnings						Option 2: full earnings				
Years	Resource revenue allocation	Earnings	Inflation-proofing	Total dividend amount	Annual Dividend per person	Value, $billions	Earnings	Inflation-proofing	Total dividend amount	Annual Dividend per person	Value, $billions
2023/24	0	1,795	621	0	0	20.8	1,795	621	0	0	20.8
2024/25	4,329	1,965	519	723	148	26.3	1,965	519	1,445	297	25.6
2025/26	4,460	2,491	580	956	192	32.3	2,423	564	1,859	373	30.6
2026/27	4,485	3,058	711	1,173	231	38.7	2,898	674	2,224	438	35.8

Note: In 2023/24 there was an ad hoc deposit of $753 million.

Sources: Alberta, 2024b, 2023b, 1999; Statistics Canada, 2024a, 2024b.

calculated by multiplying the fund's nominal value (i.e., fund equity, at cost) in the previous year by the fund's ten-year average rate of return (9.5 percent).[21] The share of earnings to be set aside annually for inflation-proofing is calculated by multiplying the previous year's fund value by the change in the Consumer Price Index (CPI). For option 1, half of the excess annual earnings, beyond those used to inflation-proof the fund and pay dividends, is retained for further investment. For option 2, there are no excess earnings as all earnings after inflation proofing are used for the dividend. There are pros and cons to each approach. Using half of the fund's earnings (after inflation proofing) to pay out the dividend would build up the Heritage Fund more quickly, however, it will result in a smaller dividend. In contrast, using the fund's full annual earnings (after inflation proofing) would result in slower growth in the Heritage fund, but a larger dividend, which may garner more public attention and support. To be clear, there are a multitude of options beyond those used here to calculate the dividend, each with their own pros and cons.[22] The dividend options used are intended to provide a range that is both illustrative and informative.

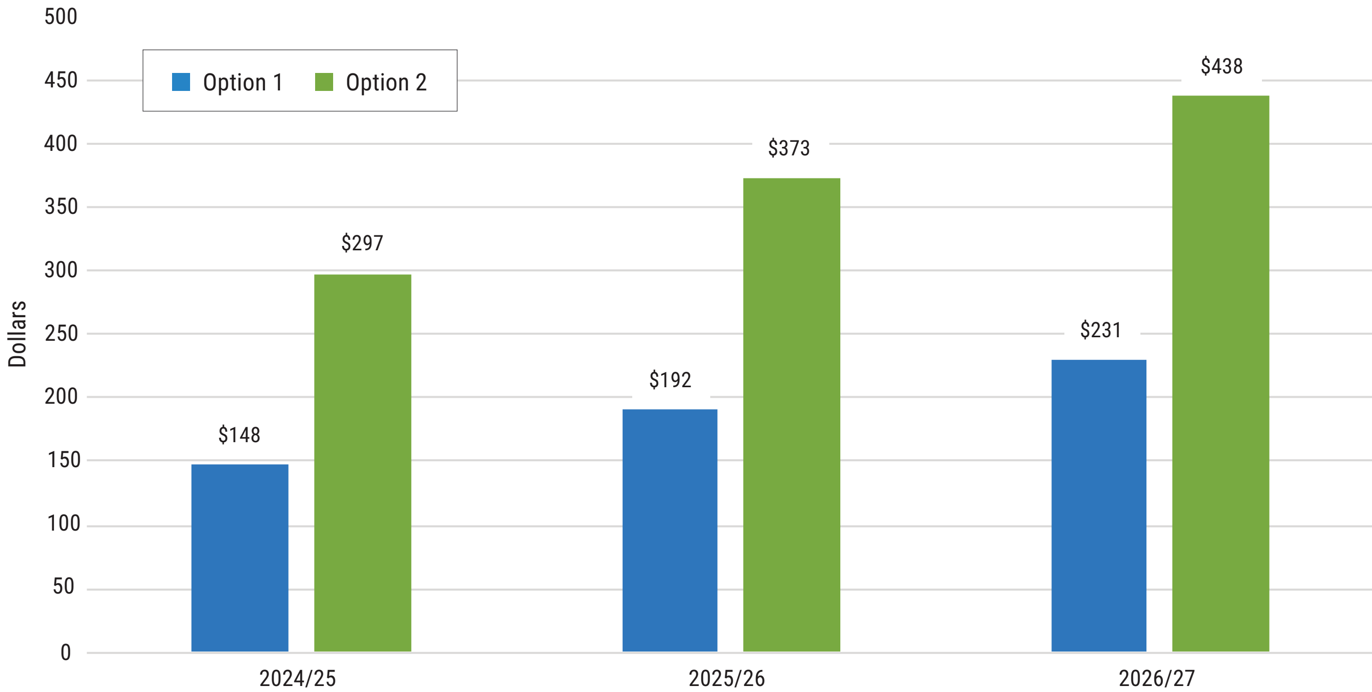
Table 1 shows a summary of the Heritage Fund including resource revenue contributions, earnings, inflation proofing, the potential dividend, and the fund value from 2023/24 to 2026/27. The new fiscal rules described above begin in 2024/25. Figure 3 shows the size of the dividend under option 1 and option 2 from 2024/25 to 2026/27.

In 2023/24, no resource revenue was deposited to the Heritage Fund; however, a $753 million ad

21 Over the entirety of the Heritage Fund's existence (1976/77 through 2022/23), the rate of return has averaged 8.8 percent.

22 A few other points should be carefully considered by policy-makers: First, whether the dividend should be administered through the tax system. One point is clear—the dividend payment must be salient to residents. In other words, if delivered separately from the tax system via direct cheque, or if delivered through the tax system, residents should receive notice of their specific payment. This is key to maintaining awareness of the fund and its direct financial impact on residents. There are also trade-offs in terms of making the dividend taxable or not (the Alaska dividend is taxable). For instance, a taxable dividend would be smaller, particularly in the early years as the fund grows, however, not taxing the dividend may be deemed unfair as residents receive equal payments regardless of their incomes. An Alberta residency requirement should also be considered similar to Alaska's requirements. (See https://pfd.alaska.gov/eligibility/eligibility-requirements).

Figure 3: Annual dividend per person, half earnings (option 1) and full earnings (option 2)



Sources: Alberta, 2024b, 2023b, 1999; Statistics Canada, 2024a, 2024b.

hoc deposit was made into the fund. The fund's value is projected to be $20.8 billion, with earnings projected at $1.8 billion. As shown in Table 1, of that $1.8 billion, $621 million would be required to be retained to inflation-proof the fund; however, the provincial government plans to keep all of the fund's earnings in 2023/24 (Alberta, 2024b).

In 2024/25, all the new fiscal rules are in effect, which means the Alberta government would deposit 25 percent of resource revenue into the fund, in addition to inflation-proofing the fund and delivering an annual dividend. As shown in table 1, $4.3 billion in resource revenue is deposited into the Heritage Fund in 2024/25. Earnings are $2.0 billion, of which $519 million is retained in the fund for inflation-proofing, leaving $1.4 billion for dividend payments. Dividend option 1, which uses half of those remaining earnings ($723 million) to pay dividends, would result in a $148 dividend for each Albertan, while option 2, which uses the full remaining earnings ($1.4 billion) to pay dividends, would result in a $297 dividend for each Albertan. Put differently, a family of four would receive a total dividend payment ranging from $594 to $1,187 in 2024/25. Using dividend option 1, an additional $723 million in "excess earnings" is retained in the Heritage Fund. Correspondingly, the fund's value with dividend option 1 is $26.3 billion in 2024/25, compared to $25.6 billion with dividend option 2.

In 2025/26, $4.5 billion in resource revenue is deposited into the Heritage Fund. In dividend option 1, annual earnings are $2.5 billion. Of this amount, $580 million is retained in the fund for inflation-proofing, and $956 million is used for dividend payments. Option 1 would result in a

$192 dividend for each Albertan, which, for perspective, is equal to a total dividend payment of $767 for a family of four. In dividend option 2, annual earnings are $2.4 billion. A total of $564 million is retained in the fund for inflation-proofing, which leaves $1.9 billion for dividend payments. Option 2 would result in a $373 dividend for each Albertan. Put differently, a family of four would receive a total dividend payment of $1,493 that year. Overall, in 2025/26 the Heritage fund is worth $32.3 billion in dividend option 1 and $30.6 billion in dividend option 2.

Finally, in 2026/27, $4.5 billion in resource revenue is deposited into the Heritage Fund. Using dividend option 1, annual earnings are $3.1 billion. A total of $711 million is retained in the fund for inflation-proofing and $1.2 billion is used for dividend payments. Option 1 would result in a $231 dividend for each Albertan, which for a family of four is equal to $923. Under dividend option 2, annual earnings are $2.9 billion. A total of $674 million is retained in the fund for inflation-proofing, which leaves $2.2 billion for dividend payments. Option 2 would result in a $438 dividend for each Albertan. Put differently, a family of four would receive a total dividend payment of $1,750 in 2026/27.

Figure 4 compares the actual Heritage Fund to the size of the Heritage Fund under these new fiscal rules, including the dividend options 1 and 2. In option 1, $2.9 billion in excess earnings—beyond those required for inflation proofing and dividends—would have been retained in the fund from 2023/24 to 2026/27. These excess earnings contribute to stronger growth in the Heritage Fund over time reaching $38.7 billion by 2026/27, compared to the current projected Heritage Fund target value of $26.5 billion (Alberta, 2024b), and

Figure 4: Heritage Fund Equity, half earnings (option 1), full earnings (option 2) and actual, $Billions

Sources: Alberta, 2024b, 2023b, 1999; Statistics Canada, 2024a, 2024b.

the Heritage Fund value of $35.8 billon using dividend option 2. Put differently, the Heritage Fund would be worth between $35.8 billion or $38.7 billion by 2026/27, all while paying out between $2.9 billion to $5.5 billion in dividends to Albertans. In total, each Albertan would receive between $571 to $1,108 in dividends from 2023/24 to 2026/27, which is equivalent to between $2,284 and $4,430 per family of four. As discussed, option 1 results in a smaller dividend but grows the Heritage Fund more quickly over time. Option 2 results in a larger dividend, but slower growth in the fund over time. Policymakers must weight the tradeoffs to determine the specific dividend formula. Moreover, similar to the Alaska Permanent Fund, when the Heritage Fund is built to a size where annual earnings can support resource revenue in the budget while maintaining its growth (and the dividend), the specific dividend formula may be adjusted.

As shown, the Heritage Fund has the potential to pay dividends to Albertans in 2024/25, which would help garner public interest and buy-in to ensure fiscal rules around the fund's operation—including contributions and inflation-proofing—are enforced over the long term.

Conclusion

The size of Alberta's Heritage Fund is relatively modest compared to its potential due to a lack of robust fiscal rules governing the fund's operation. To build up the fund, Alberta should learn from Alaska's success with the Permanent Fund. That includes adopting a constitutional rule that requires a set amount of resource revenues be saved in the fund each year and a share of earnings to be used to inflation-proof the principal annually. Critically, a dividend should be introduced as soon as excess earnings (beyond those required to inflation-proof the fund) are available to pay out a dividend, which would garner public support for the fund's growth and create political pressure for successive governments to maintain the fund responsibly, thus supporting growth in the Heritage Fund over the long term.

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