# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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December 20, 2001

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Public Employees' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 2001. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The FY 2001 CAFR is divided into five sections:

- an **Introductory** Section, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Public Employees' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Information, and Notes to Required Supplementary Information;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current (June 30, 2000) annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

| | **PERS** | | |
|---|---|---|---|
| | **FY01** | **FY00** | **FY99** |
| Net Assets (millions) | $8,088.4 | 8,756.6 | 8,105.4 |
| Participating Employers | 150 | 151 | 153 |

December 20, 2001

**Reporting Entity**

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Public Employees' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section on pages 44-45. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

**Major Initiatives**

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2001, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

**Legislation**

During the FY 2001 legislative session; there were three laws that affected the PERS:

**Reemployment Retiree Legislation** — Legislation just enacted allows certain retirees who return to PERS employment after July 1, 2001, to continue receiving a retirement check while they are employed in a PERS covered position.

House Bill 242 adds an incentive for a retired public employee to return to permanent employment for a PERS employer. With this change, a retired public employee who took normal retirement and has been terminated for at least 30 days may elect a new option when reemployed. The new option:

- must be selected within 30 days of reemployment;
- allows the employee to elect continuation of retirement benefit payments during reemployment;
- would stop additional retirement benefit accrual;
- is not available to those who have chosen Early Retirement;
- is not available to Retirement Incentive Program participants; and
- expires on July 1, 2005.

If the retired public employee does not make the election within 30 days of rehire, the current method would apply. Under the current method, the employee would:

- stop receiving a retirement benefit during reemployment;
- begin making PERS contributions; and
- accrue an additional retirement benefit during the period of reemployment.
- This legislation was enacted to address critical workplace shortages.

**Medical Benefits Enhancement** — House Bill 242 adds an incentive for public employees to stay in PERS employment. Prior to enactment of this legislation, a retiree who first entered PERS on or after July 1, 1986, is not eligible for full system-paid medical coverage until age 65, regardless of how many years the person is in PERS.

With this change, an employee eligible for the police/fire retirement program who stays in the PERS police/fire program for 25 years, or an "all others" public employee who stays in PERS employment a total of 30 years, will be eligible for full system-paid medical insurance. In addition, all retired public employees who first entered PERS on or after July 1, 1986, and all those employees who first entered PERS on or after July 1, 1996, and meet the medical service requirement will be provided full system-paid medical insurance at age 60.

These incentives were implemented as a method of retaining public employees and attracting second and third career individuals to public employment.

**Village Public Safety Officers (VPSOs)**

- Bill will not be effective until March 1, 2002, due to a request for an IRS ruling.
- VPSO's will be participating as "all other" employees.
- Bill creates a Regional Public Safety Officer (RPSO) that participates as "police/fire" employees.
- There are 84 VPSOs, 5 RPSOs, and all 8 participating regional corporations will be treated as one employer for employer rate setting.
- Vested VPSOs and non-VPSOs can claim VPSO past service, no longer limited to 5 years.

## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Additions to Plan Net Assets**

The revenues required to finance retirement benefits are accumulated through a combination of employer and employee contributions and investment income.

| | Revenues | | | |
|---|---|---|---|---|
| | Millions | | Inc/(Dec) | |
| | FY01 | FY00 | Amt | % |
| Plan Member Contributions | $ 95.0 | 92.7 | 2.3 | 2.5% |
| Employer Contributions | 96.5 | 107.6 | (11.1) | (10.3%) |
| Net Investment Income (Loss) | (478.3) | 790.3 | (1,268.6) | (160.5%) |
| **Total** | **$(286.8)** | **990.6** | **(1,277.4)** | **(129.0%)** |

The decrease in employer contributions was primarily due to a no new RIP contributions in FY01. The decrease in investment income is discussed in the Investment Report beginning on page 46.

**Deductions From Plan Net Assets**

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

| | Expenses | | | |
|---|---|---|---|---|
| | Millions | | Inc/(Dec) | |
| | FY01 | FY00 | Amt | % |
| Pension Benefits | $ 259.7 | 239.4 | 20.3 | 8.5% |
| Healthcare Benefits | 103.9 | 83.8 | 20.1 | 24.0% |
| Refunds of Contributions | 13.1 | 12.0 | 1.1 | 9.2% |
| Administrative Expenses | 4.7 | 4.3 | 0.4 | 9.3% |
| **Total** | **$ 381.4** | **339.5** | **41.9** | **12.3%** |

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits.

**Investments**

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY 2001, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 17% in International Equities, 30% in Domestic Fixed Income, 5% in International Fixed Income, and 7% in Real Estate.

For FY 2001, PERS investments generated a -5.25% rate of return. The PERS annualized rate of return was 4.87% over the last three years and 9.35% over the last five years.

**Funding**

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY 2001 and a rolling amortization of the funding target surplus or the unfunded target accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased slightly from 105.5% to 101.1% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

There were significant changes in the actuarial assumptions and actuarial methods used in the determination of System liabilities this year. The member data used to determine system liabilities is as of June 30, 1999, projected using standard actuarial techniques to June 30, 2000. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The FY 2002 consolidated rate decreased from 8.67% to 8.07%, producing a total average rate for all employers in the System of 6.75%.

| | Millions | |
|---|---|---|
| **Valuation Year** | **2000** | **1999** |
| Valuation Assets | $7,454.8 | 7,016.3 |
| Accrued Liabilities | 7,376.9 | 6,648.7 |
| Funding ratio | 101.1% | 105.5% |

**Professional Services**

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

**Acknowledgments**

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

December 20, 2001

We would like to take this opportunity to express our gratitude to the Public Employees' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,

Jim Duncan
Commissioner

Guy Bell
Director

Janet L. Parker
Deputy Director

Anselm Staack, CPA, JD
Chief Financial Officer

Kevin T. Worley, CPA
Defined Benefits Accounting Supervisor

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alaska Public Employees' Retirement System

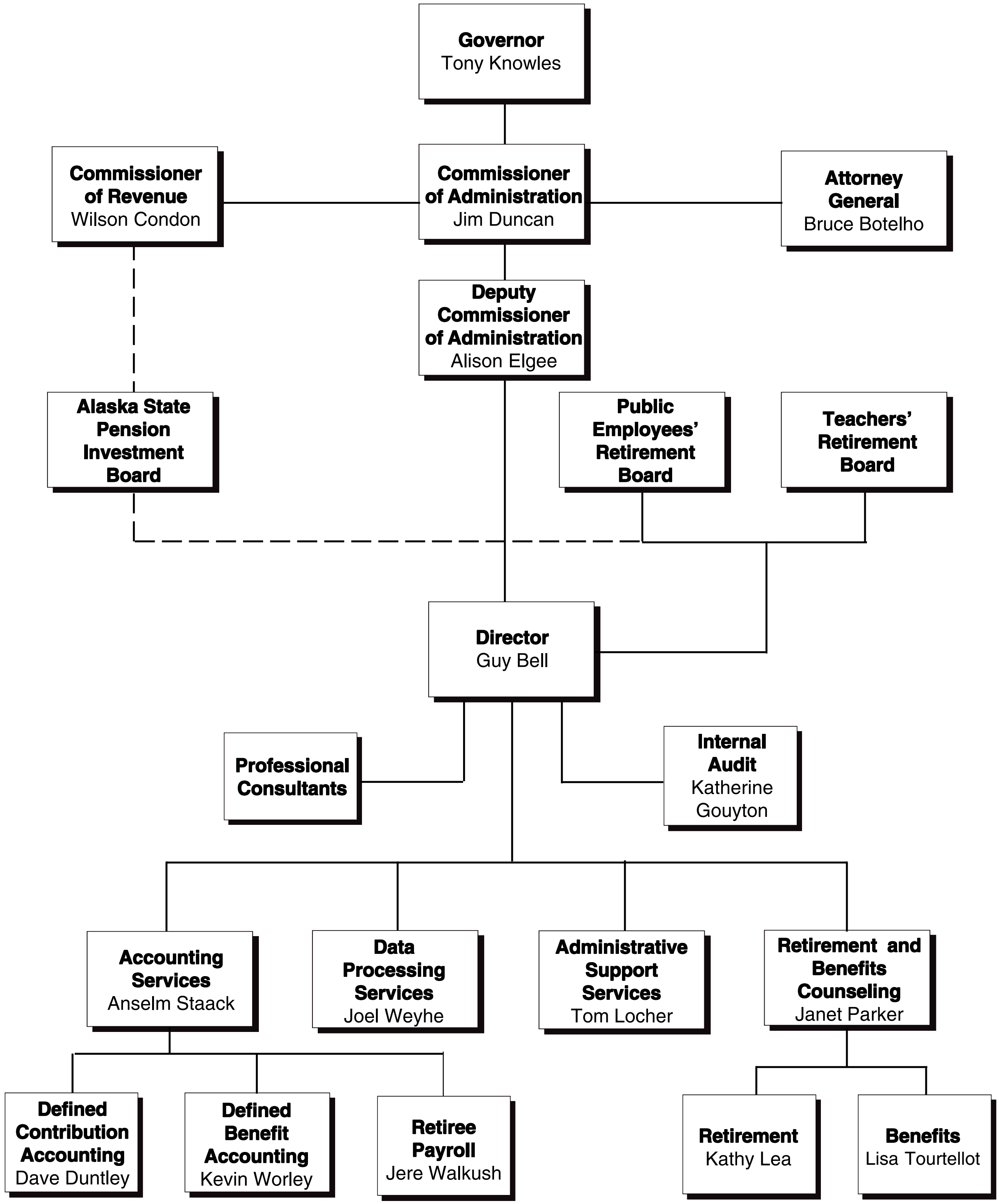
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

## ORGANIZATION CHART



## Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on-demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

### PROFESSIONAL CONSULTANTS

**Consulting Actuary**
William M. Mercer, Incorporated
*Seattle, Washington*

**Independent Auditors**
KPMG LLP
*Anchorage, Alaska*

**Benefits Consultant**
Deloitte & Touche, LLP
*Minneapolis, Minnesota*

**Third Party Health Claim Administrator**
Aetna Life Insurance Company
*Walnut Creek, California*

**Legal Counsel**
John Gaguine
Kathleen Strasbaugh
Assistant Attorney General
*Juneau, Alaska*

**Legal Counsel - Retirement Boards**
Wohlforth, Vassar, Johnson & Brecht
*Anchorage, Alaska*

**Consulting Physicians**
Kim Smith, M.D.
William Cole, M.D.
*Juneau, Alaska*

A list of external money managers and consultants for the System can be found on pages 44-45, and the Schedule of Investment Management Fees on pages 53-54.

# PUBLIC EMPLOYEES' RETIREMENT BOARD

**James "Pat" Wellington, Chair**
Term Expires: April 5, 2002

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Investment Board.

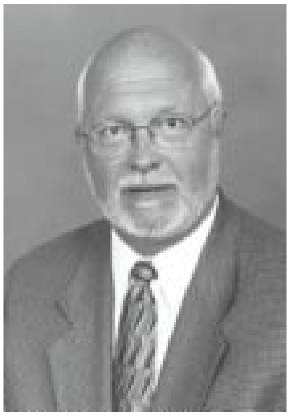
**Charles Borg, Vice Chair**
Term Expires: June 20, 2004

Charles Borg resides in Anchorage. Raised in Washington, he graduated from Eastern Washington University in 1960 and began his career in the Army Infantry the same year. His military assignments included two tours of duty in Vietnam, infantry troop assignments in Europe, Alaska Director of Selective Service, and duty on the Army staff at The Pentagon.

After his retirement from military active duty, he joined Alaska State government serving as Director of Veterans Affairs, and Deputy Commissioner of the Department of Military and Veterans Affairs. From 1991 to 1999, Mr. Borg served as Director of Managed Health Care at Elmendorf Hospital and federal health care coordinator for Veterans Affairs.

**Bette Reed**
Term Expires: June 20, 2006

Bette Reed has lived in Alaska since 1962. She is a graduate of Bellevue School of Nursing in New York City, Matanuska-Susitna College, and the University of the State of New York. Bette is retired from the Mat-Su Borough School District where she was employed as a school nurse. Prior employment includes hospitals in Anchorage as well as New York, Connecticut, and Maine. She is an active member of NEA-Alaska Retired. She also volunteers at Mat-Su schools and Alaska Health Fairs. Her husband, Gene, also a PERS member, is retired from the Municipality of Anchorage.



**Frank Narusch**
Term Expires: April 24, 2006

Frank Narusch has been an Alaskan resident since 1952. Raised in the coal mining camp of Suntrana on the Healy River, he boarded away to attend high school at Monroe High School in Fairbanks and Copper Valley School in Glennallen. While attending Seattle University, he worked summers commercial fishing in Cordova, coal mining in Suntrana, and surveying and inspecting projects around Fairbanks and Valdez for the Department of Highways (now DOT&PF). After receiving a degree in civil engineering in 1966, he began his professional career with the Department of Highways. During his 31 years of State employment, he held positions as Construction Project Manager, Regional Materials Engineer, Contract Claims Engineer, and Professional Services Chief. While with the State, he was active with the Alaska Public Employees Association.

He enjoys weekly breakfast get-togethers with retired friends as well as summer travel, camping, and exploring back roads around the State.

**Don Hoover**
Term Expires: June 20, 2002

Don Hoover resides in Fairbanks. He was born and raised in Washington, and graduated from Gonzaga University in 1952. He served in the US Navy from 1944-1946 in the Pacific Area prior to college. He moved to Alaska in 1956 and began a 22 year career in banking in Fairbanks and Nome. He also is a graduate of the Pacific Coast Banking School at the University of Washington in 1963. During his ten years in Nome, he served two terms as Mayor of Nome.

In 1978 he joined the State Department of Commerce until retirement in July 1985. He was appointed to the Older Alaska Commission on Aging (later the Alaska Commission on Aging) in 1994 and was a delegate to the White House Conference on Aging in 1995. He remained on the Commission on Aging until June 1, 2000. While on the Commission, he was also on the Pioneer Home Advisory Board for 6 years.

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KPMG

701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

**Independent Auditors' Report**

Division of Retirement and Benefits
Members of the Alaska Public Employees' Retirement Board and
State of Alaska Public Employees' Retirement System:

We have audited the accompanying combining statements of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2001 and 2000, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Public Employees' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information on pages 32 to 38 and additional information on pages 39 and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 41 through 85 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

September 25, 2001

KPMG LLP

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Combining Statements of Plan Net Assets

## June 30, 2001 and 2000
## (000's omitted)

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Pension | Postemployment Healthcare | Total | Pension | Postemployment Healthcare | Total |
| **Assets:** | | | | | | |
| Cash and cash equivalents (notes 3 and 4): | | | | | | |
| Short-term fixed income pool | $ 377 | 153 | 530 | 387 | 157 | 544 |
| Receivables: | | | | | | |
| Contributions | 6,605 | 2,684 | 9,289 | 5,571 | 2,264 | 7,835 |
| Retirement Incentive Program employer contributions (note 7) | 3,749 | 1,524 | 5,273 | 9,975 | 4,054 | 14,029 |
| Due from State of Alaska General Fund | 585 | 237 | 822 | 1,993 | 810 | 2,803 |
| Other accounts receivable | 1 | 1 | 2 | 1 | - | 1 |
| Total receivables | 10,940 | 4,446 | 15,386 | 17,540 | 7,128 | 24,668 |
| Investments, at fair value (notes 3 and 4): | | | | | | |
| Domestic equity pool | 2,417,050 | 918,940 | 3,335,990 | 2,715,529 | 1,038,516 | 3,754,045 |
| Retirement fixed income pool | 1,471,224 | 597,892 | 2,069,116 | 1,548,724 | 629,388 | 2,178,112 |
| International equity pool | 942,673 | 383,094 | 1,325,767 | 1,127,422 | 458,175 | 1,585,597 |
| Real estate pool | 418,479 | 170,066 | 588,545 | 332,616 | 135,173 | 467,789 |
| International fixed income pool | 273,627 | 111,200 | 384,827 | 286,226 | 116,319 | 402,545 |
| Private equity pool (note 8) | 146,805 | 59,660 | 206,465 | 117,155 | 47,611 | 164,766 |
| Emerging markets equity pool | 51,591 | 20,966 | 72,557 | 69,429 | 28,215 | 97,644 |
| External domestic fixed income pool | 69,249 | 28,143 | 97,392 | 61,811 | 25,120 | 86,931 |
| Total investments | 5,790,698 | 2,289,961 | 8,080,659 | 6,258,912 | 2,478,517 | 8,737,429 |
| Loans and mortgages, at fair value, net of allowance for loan losses of $202 in 2001, and 2000 | 248 | 101 | 349 | 402 | 163 | 565 |
| Total assets | 5,802,263 | 2,294,661 | 8,096,924 | 6,277,241 | 2,485,965 | 8,763,206 |
| **Liabilities:** | | | | | | |
| Accrued expenses | 6,068 | 2,466 | 8,534 | 4,696 | 1,908 | 6,604 |
| Alaska Department of Commerce escrow liability | 6 | 2 | 8 | 16 | 6 | 22 |
| Total liabilities | 6,074 | 2,468 | 8,542 | 4,712 | 1,914 | 6,626 |
| Commitments and Contingencies (note 8) | | | | | | |
| Net assets held in trust for pension and postemployment healthcare benefits | **$5,796,189** | **2,292,193** | **8,088,382** | **6,272,529** | **2,484,051** | **8,756,580** |

(Schedules of funding progress are presented on pages 32 and 33)

*See accompanying notes to combining financial statements.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Combining Statements of Changes in Plan Net Assets

## Years ended June 30, 2001 and 2000
## (000's omitted)

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Pension | Postemployment Healthcare | Total | Pension | Postemployment Healthcare | Total |
| **Additions:** | | | | | | |
| Contributions: | | | | | | |
| Employers | $ 68,604 | 27,880 | 96,484 | 66,637 | 27,079 | 93,716 |
| Plan members | 67,537 | 27,446 | 94,983 | 65,387 | 26,573 | 91,960 |
| Retirement Incentive Program - Employers (note 7) | - | - | - | 9,869 | 4,011 | 13,880 |
| Retirement Incentive Program - Plan members (note 7) | - | - | - | 576 | 234 | 810 |
| Total contributions | 136,141 | 55,326 | 191,467 | 142,469 | 57,897 | 200,366 |
| Investment income: | | | | | | |
| Net appreciation (depreciation) in fair value of investments (note 3) | (558,855) | (227,114) | (785,969) | 365,752 | 148,638 | 514,390 |
| Interest | 125,703 | 51,085 | 176,788 | 134,682 | 54,734 | 189,416 |
| Dividends | 107,221 | 43,574 | 150,795 | 75,215 | 30,567 | 105,782 |
| Net recognized mortgage loan recovery | - | - | - | 234 | 95 | 329 |
| | (325,931) | (132,455) | (458,386) | 575,883 | 234,034 | 809,917 |
| Less investment expense | 14,123 | 5,740 | 19,863 | 13,923 | 5,658 | 19,581 |
| Net investment income (loss) | (340,054) | (138,195) | (478,249) | 561,960 | 228,376 | 790,336 |
| Other | 5 | 2 | 7 | - | - | - |
| Total additions | (203,908) | (82,867) | (286,775) | 704,429 | 286,273 | 990,702 |
| **Deductions:** | | | | | | |
| Benefits | 259,771 | 103,846 | 363,617 | 239,441 | 83,794 | 323,235 |
| Refunds of contributions | 9,339 | 3,795 | 13,134 | 8,531 | 3,467 | 11,998 |
| Administrative expenses | 3,322 | 1,350 | 4,672 | 3,020 | 1,227 | 4,247 |
| Total deductions | 272,432 | 108,991 | 381,423 | 250,992 | 88,488 | 339,480 |
| Net increase (decrease) | (476,340) | (191,858) | (668,198) | 453,437 | 197,785 | 651,222 |
| Net assets held in trust for pension and postemployment healthcare benefits: | | | | | | |
| Balance, beginning of year | 6,272,529 | 2,484,051 | 8,756,580 | 5,819,092 | 2,286,266 | 8,105,358 |
| Balance, end of year | **$5,796,189** | **2,292,193** | **8,088,382** | **6,272,529** | **2,484,051** | **8,756,580** |

*See accompanying notes to combining financial statements.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Notes to Combining Financial Statements

## June 30, 2001 and 2000
## (000's omitted)

### (1) DESCRIPTION

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

#### (a) General

The Plan is a defined benefit, agent, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. The State employees who administer the Plan participate in the Plan.

At June 30, 2001 and 2000, the number of participating local government employers and public organizations including the State was:

| | 2001 | 2000 |
|---|---|---|
| State of Alaska | 1 | 1 |
| Municipalities | 75 | 73 |
| School districts | 47 | 50 |
| Other | 27 | 27 |
| | **150** | **151** |

Inclusion in the Plan is a condition of employment for eligible State employees, except, as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 1999 and 1998, the dates of the most recent actuarial valuations, Plan membership consisted of:

| | 1999 | 1998 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 14,185 | 13,101 |
| Terminated Plan members entitled to future benefits | 5,395 | 5,143 |
| | 19,580 | 18,244 |
| Current Plan members: | | |
| General | 29,590 | 29,293 |
| Police and fire | 2,624 | 2,617 |
| | 32,214 | 31,910 |
| | **51,794** | **50,154** |
| Current Plan members: | | |
| Vested: | | |
| General | 17,254 | 17,335 |
| Police and fire | 1,781 | 1,799 |
| Nonvested: | | |
| General | 12,336 | 11,958 |
| Police and fire | 843 | 818 |
| | **32,214** | **31,910** |

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Notes to Combining Financial Statements

## June 30, 2001 and 2000
## (000's omitted)

The most recent actuarial valuation as of June 30, 2000, did not include participant census information subsequent to June 30, 1999.

### (b) Pension Benefits

Employees hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For employees hired prior to July 1, 1996, the average monthly compensation is based upon the employees' three highest, consecutive years salaries. For employees hired after June 30, 1996, average monthly compensation is based upon the employees' five highest, consecutive years salaries.

The benefit related to all years of service prior to July 1, 1986, and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986, is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

### (c) Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all employees hired before July 1, 1986. Employees hired after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they

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are under age sixty, must pay half of the monthly premium if they are over age sixty but under age sixty-five, and receive benefits at no cost if they are over age sixty-five.

Prior to July 1, 1997, postemployment health-care benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), an internal service fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report, which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

**(d) Death Benefits**

If an active Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the Plan member's salary. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

**(e) Disability Benefits**

Active Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age or when the service requirement for normal retirement is met. Although there are no minimum service requirements for Plan members to be eligible for occupational disability, Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the Plan member's salary at the time of the disability. The nonoccupational disability benefit is based on the Plan member's service and salary at the time of disability. At normal retirement age, a disabled Plan member receives normal retirement benefits.

**(f) Contributions**

<u>Plan Member Contributions</u>

Contribution rates are 7.5% for peace officers and firefighters and 6.75% for other Plan members, as required by statute. The Plan member contributions are deducted before federal income tax is withheld. Contributions are col-

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lected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability or the funding surplus over a rolling twenty-five year period.

**(g) Administrative Costs**

Administrative costs are financed through investment earnings.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

**(b) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

**(c) GASB Statements No. 25 and No. 26**

Government Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

**(d) Investments**

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily.

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Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale."

As the emerging markets equity pool recognizes income, the per share value changes, resulting in the recognition of unrealized gains/ losses at the pool and participant level. When participants' shares in the pool are sold, previously unrealized income is realized at the participant level.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant. Total income, which includes interest and realized and unrealized gains and losses on securities, is calculated daily and distributed monthly to each participant on a pro rata basis.

Income in the retirement fixed income pool and the external domestic fixed income pool is calculated daily and is reinvested. Total income, which includes interest and realized and unrealized gains and losses on securities, is allocated daily to each participant on a pro rata basis but is not distributed.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

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The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

**(e) Contributions Receivable**

Contributions from Plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

**(f) Federal Income Tax Status**

The Plan purports to be a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

**(g) GASB Statement No. 34**

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), its revolutionary new reporting model. The new model dramatically changes the presentation of governments' external financial statements. In the GASB's view the objective of the new model is to enhance the clarity and usefulness of governmental financial statements to the citizenry, oversight bodies, investors and creditors. As a component unit of the State of Alaska (State), the Plan is required to implement the standard concurrent with the State during the

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year ended June 30, 2002. The new reporting model fundamentally changes the format, content and basis of accounting used by state and local governments. For example, management's discussion and analysis (MD&A) will be a required part of the financial statements under GASB 34. The full impact of GASB 34 has not yet been determined.

**(3) INVESTMENTS**

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2001 and 2000, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

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The cost and fair value of the Plan's investments at June 30, 2001 and 2000 are as follows:

| | Cost | Fair Value |
|---|---|---|
| 2001: | | |
| Domestic equity pool | $ 2,961,249 | 3,335,990 |
| Retirement fixed income pool | 2,064,488 | 2,069,116 |
| International equity pool | 1,484,537 | 1,325,767 |
| Real estate pool | 539,404 | 588,545 |
| International fixed income pool | 417,952 | 384,827 |
| Private equity pool | 199,575 | 206,465 |
| Emerging markets equity pool | 89,983 | 72,557 |
| External domestic fixed income pool | 96,544 | 97,392 |
| | **$ 7,853,732** | **8,080,659** |
| 2000: | | |
| Domestic equity pool | $ 2,844,774 | 3,754,045 |
| Retirement fixed income pool | 2,249,202 | 2,178,112 |
| International equity pool | 1,416,005 | 1,585,597 |
| Real estate pool | 443,062 | 467,789 |
| International fixed income pool | 445,608 | 402,545 |
| Private equity pool | 138,617 | 164,766 |
| Emerging markets equity pool | 89,601 | 97,644 |
| External domestic fixed income pool | 87,172 | 86,931 |
| | **$ 7,714,041** | **8,737,429** |

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During 2001 and 2000, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

| | 2001 | 2000 |
|---|---|---|
| Investments measured by quoted fair values in an active market: | | |
| Domestic equity pool | $(497,598) | 312,667 |
| Retirement fixed income pool | 90,518 | (63,976) |
| International equity pool | (321,990) | 242,687 |
| Real estate pool | 11,458 | 3,829 |
| International fixed income pool | (44,615) | (36,530) |
| Private equity pool | (2,248) | 42,072 |
| Emerging markets equity pool | (25,469) | 14,323 |
| External domestic fixed income pool | 3,975 | (682) |
| | **$(785,969)** | **514,390** |

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2001 and 2000, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

## (4) POOLED INVESTMENTS

### (a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up unit price of $1 per share. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pool. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, U.S. Government agency debt, corporate debt and other U.S. dollar denominated bonds. At June 30, 2001 and 2000, the Plan has a .05% and .03% direct ownership in the short-term fixed income pool totaling $530 and $544, respectively. These amounts include interest receivable of $15 and $17, respectively.

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**(b) Domestic Equity Pool**

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equity and other permissible securities. All income, including interest, dividends and realized and unrealized gains and losses, is allocated daily to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan's investment in the domestic equity pool totaled 66.16% and 65.67%, respectively, and consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| Domestic equity securities | $3,245,953 | 3,663,628 |
| Convertible bonds | 4,271 | 880 |
| Available cash held in the short-term fixed income pool, other short-term debt instruments and currency | 41,950 | 90,722 |
| Net receivables (payables) | 43,816 | (1,185) |
| | **$3,335,990** | **3,754,045** |

**(c) Retirement Fixed Income Pool**

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and 2000, the Plan's investment in the retirement fixed income pool totaled 66.53% and 66.25%, respectively, and consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| Mortgage related | $ 775,202 | 652,740 |
| Corporate | 656,149 | 518,425 |
| U.S. Treasury | 384,952 | 443,633 |
| Yankees | 69,813 | 266,902 |
| Asset backed | 68,267 | 24,771 |
| U.S. government agency | 67,114 | 211,779 |
| Available cash held in the short-term fixed income pool | 79,673 | 376,546 |
| Net payables | (32,054) | (316,684) |
| | **$2,069,116** | **2,178,112** |

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**(d) International Equity Pool**

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equities and other permissible securities. All income, including interest, dividends and realized and unrealized gains and losses, is allocated daily to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan's investment in the international equity pool totaled 66.13% and 65.53%, respectively, and consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| International equity securities | $1,300,832 | 1,531,885 |
| Available cash held in short-term debt instruments and foreign currency | 22,860 | 50,084 |
| Net receivables | 2,075 | 3,628 |
| | **$1,325,767** | **1,585,597** |

**(e) Real Estate Pool**

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up unit price of $1 per share. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest, income from operations, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis. All income is reinvested except for cash distributions which are transferred to the retirement fixed income pool based on a pro rata ownership in the originating pool. At June 30, 2001 and 2000, the Plan has 66.59% and 65.57% direct ownership in the real estate equity pool totaling $588,545 and $467,789, respectively.

**(f) International Fixed Income Pool**

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and 2000, the Plan's investment in the international

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fixed income pool totaled 66.50% and 65.62%, respectively, and consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| International fixed income securities | $196,851 | 386,808 |
| Available cash held in short-term debt instruments and foreign currency | 4,004 | 2,945 |
| Net receivables | 183,972 | 12,792 |
| | $384,827 | 402,545 |

**(g) Private Equity Pool**

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up unit price of $1,000 per share. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested. At June 30, 2001 and 2000, the Plan has 66.44% and 65.50% direct ownership in the private equity pool totaling $206,465 and $164,766, respectively.

**(h) Emerging Markets Equity Pool**

The Plan, along with one other State retirement system, participates in an emerging markets equity pool. The pool was established May 2, 1994, with a start up unit price of $1,000 per share. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries. At June 30, 2001 and 2000, the Plan has a 65% ownership in the pool totaling $72,557 and $97,644, respectively.

**(i) External Domestic Fixed Income Pool**

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. At June 30, 2001 and 2000, the Plan's investment in the external

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domestic fixed income pool totaled 65.73% and 65.33%, respectively, and consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| Mortgage related | $ 49,391 | 44,088 |
| Corporate | 18,666 | 16,932 |
| U.S. Treasury | 17,333 | 11,600 |
| U.S. government agency | 3,930 | 4,253 |
| Asset backed | 3,619 | 6,820 |
| Yankees | 1,658 | 650 |
| Municipal | 557 | 975 |
| Available cash held in short-term debt instruments | 4,052 | 16 |
| Net receivables (payables) | (1,814) | 1,597 |
| | $ 97,392 | 86,931 |

### (5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions in these currencies. The maturity periods for these contracts range from one to two months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30 as follows:

| | 2001 | 2000 |
|---|---|---|
| Net contract sales | $ 5,258 | 12,340 |
| Less: fair value | 5,118 | 12,323 |
| Net unrealized gains on contracts | $ 140 | 17 |

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

### (6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001 the Board entered into an agreement with State Street Bank and Trust Co. (the Bank) to lend marketable debt and equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

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At June 30, 2001, the fair value of securities on loan attributable to the Plan totals $674,797. The Board is able to sell any securities out on loan. There is no limit to the amount that can be loaned. U.S. dollar denominated securities loans are fully collateralized at not less than 102 percent of their fair value. Non-U.S. dollar denominated securities loans are fully collateralized at not less than 105 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. The Bank may pledge or sell collateral upon borrower default. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2001, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

### (7) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provides for a retirement incentive program (RIP or program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encourages eligible employees to retire up to three years earlier than they had planned as a cost savings to the employer. The incentive program may be implemented if the program will produce an overall cost savings to the employer. The application and retirement deadlines are determined by the employer when they establish a program. The original application period for employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods on an "as needed basis" anytime through June 30, 1999.

Senate Bill 1003 (Chapter 4, FSSLA 96) was passed on June 28, 1996, and provides for a RIP for employees of the State, the University of Alaska and all employers other than school districts. Under this legislation, the State and University of Alaska could open a RIP application period on an "as needed basis" anytime between July 18, 1996 and June 30, 1999. The program was designed to allow State agencies to use the RIP in a strategic, targeted approach tailored to the specific budget and personnel situation of each agency. Some State agencies may determine that the RIP is not cost-effective for their agency and elect not to participate in the RIP. Other agencies may offer the RIP only in divisions or job classifications facing budget reductions or position cuts.

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Employers who participate in either of the RIP programs are required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers are due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which each employee retires. Employers are also required to reimburse the Plan for the estimated costs of administering the program. The Plan establishes a receivable for employer reimbursements and administrative costs as employees retire. During fiscal year 2000, the Plan recognized $13,880 of additions to plan net assets for contributions from employers for required reimbursements under the RIP. There were no additions to plan net assets during fiscal year 2001.

When employees terminate employment to participate in the program, they are indebted to the Plan for the following percentages of their annual compensation for the calendar year in which they terminate:

| | |
|---|---|
| Police and fire members | 22.50% |
| Other members | 20.25% |

Any outstanding indebtedness at the time an employee is appointed to retirement results in an actuarial adjustment of his/her benefit amount. During fiscal year 2000, the Plan recognized $810 of additions to plan net assets for contributions from employees related to the RIP. There were no additions to plan net assets during fiscal year 2001.

**(8) COMMITMENTS AND CONTINGENCIES**

**(a) Commitments**

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2001, the Plan's share of these unfunded commitments totaled $211,685 to be paid through the year 2006.

**(b) Contingencies**

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and six same-sex couples with regards to the statutes limiting retiree health insurance coverage to retirees and their spouses and dependents, thus excluding coverage for domestic partners of retirees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

Although the ultimate outcome of the litigation discussed above is uncertain at this point in time, the Plan believes that an unfavorable outcome, if rendered, would not have a material adverse effect on its financial position or funding status. The Plan has not recorded an accrual related to the above lawsuit, because an unfavorable outcome in this matter is, in

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**(A Component Unit of the State of Alaska)**

**Notes to Combining Financial Statements**

**June 30, 2001 and 2000**
**(000's omitted)**

management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. Subsequent to June 30, 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment. The Plan has not recorded an accrual based on this unfavorable outcome as the potential loss cannot be reasonably estimated at this time and management intends to vigorously contest this decision.

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Required Supplementary Information

## Schedule of Funding Progress
## Pension Benefits
## June 30, 2001 and 2000
## (000's omitted)

| Actuarial valuation year ended June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Funded excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL) | Funded ratio | Covered payroll | FE/(UAAL) as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 1996 | $3,804,973 | 3,594,706 | 210,267 | 105.8% | $1,221,866 | 17.2% |
| 1997 | 4,287,497 | 4,031,527 | 255,970 | 106.3% | 1,299,135 | 19.7% |
| 1998 | 4,692,095 | 4,430,237 | 261,858 | 105.9% | 1,235,439 | 21.2% |
| 1999 | 4,992,453 | 4,730,841 | 261,612 | 105.5% | 1,283,549 | 20.4% |
| 2000 | 5,245,612 | 5,190,835 | 54,777 | 101.1% | 1,321,480 | 4.1% |

*See accompanying notes to required supplementary information and independent auditors' report.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Required Supplementary Information

## Schedule of Funding Progress
## Postemployment Healthcare Benefits
## June 30, 2001 and 2000
## (000's omitted)

| Actuarial valuation year ended June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Funding excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL) | Funded ratio | Covered payroll | FE/(UAAL) as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 1996 | $1,466,280 | 1,385,252 | 81,028 | 105.8% | $1,221,866 | 6.6% |
| 1997 | 1,597,991 | 1,502,589 | 95,402 | 106.3% | 1,299,135 | 7.3% |
| 1998 | 1,879,467 | 1,773,754 | 105,713 | 105.9% | 1,235,439 | 8.6% |
| 1999 | 2,023,887 | 1,917,832 | 106,055 | 105.5% | 1,283,549 | 8.3% |
| 2000 | 2,209,146 | 2,186,077 | 23,069 | 101.1% | 1,321,480 | 1.7% |

*See accompanying notes to required supplementary information and independent auditors' report.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Required Supplementary Information

## Schedule of Employer Contributions
## Pension and Postemployment Healthcare Benefits
## June 30, 2001 and 2000
## (000's omitted)

| Year ended June 30 | Pension annual required contribution | Postemployment healthcare annual required contribution | Total annual required contribution | Pension percentage contributed (note 3) | Postemployment healthcare percentage contributed (note 3) | Total percentage contributed (note 3) |
|---|---|---|---|---|---|---|
| 1996 | $107,058 | 40,582 | 147,640 | 100% | 100% | 100% |
| 1997 | 104,409 | 40,454 | 144,863 | 100% | 100% | 100% |
| 1998 | 69,259 | 25,958 | 95,217 | 100% | 100% | 100% |
| 1999 | 69,337 | 27,860 | 97,197 | 100% | 100% | 100% |
| 2000 | 63,344 | 25,740 | 89,084 | 105.2% | 105.2% | 105.2% |
| 2001 | 65,151 | 26,477 | 91,628 | 105.3% | 105.3% | 105.3% |

*See accompanying notes to required supplementary information and independent auditors' report.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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## Notes to Required Supplementary Information

## June 30, 2001 and 2000
## (000's omitted)

**(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS**

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

**(2) ACTUARIAL ASSUMPTIONS AND METHODS**

The actuarial valuation is prepared by William M. Mercer, Incorporated. The significant actuarial assumptions used in the valuations as of June 30, 2000 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year period, which is an open amortization period.

(b) Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Deaths are assumed to be occupational 85% of the time for police and fire members and 35% for other members.

(c) Retirement age – retirement rates based on the 1997-1999 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of expenses.

(e) Health cost trend –

| Fiscal Year | |
|---|---|
| 00 | 8.5% |
| 01 | 7.5% |
| 02 | 6.5% |
| 03 | 5.5% |
| 04-08 | 5.0% |
| 09-13 | 4.5% |
| 14 and later | 4.0% |

(f) Salary scale – inflation 3.5%, productivity and merit (first five years) for police and fire members, 1% and 1.5%, respectively, and for all other members, productivity and merit (first five years) 0.5% and 1.5%, respectively.

(g) Total inflation – total inflation as measured by the Consumer Price Index (CPI) for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Cost of living allowance (domicile in Alaska) – 68% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds – 100% of those employees terminating after age thirty-five will leave their contributions in the Plan and

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## Notes to Required Supplementary Information

## June 30, 2001 and 2000
## (000's omitted)

thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Disability – assumptions are based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(k) Asset valuation method – no asset gain or loss for the fiscal year is recognized if the expected actuarial value of assets plus (minus) the outstanding balance of previously amortized amounts is within a 5% corridor of the market value of assets. Any amount outside this 5% corridor is set aside and applied to the employer rate as a level percentage of pay over twenty years under the 1% population projection scenario. Valuation assets cannot be outside the range of 80% to 120% of the market value of assets.

(l) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(m) 102% target funding ratio – the target unfunded (surplus) accrued liability is determined by first reducing the actuarial value of assets by 2.343757% and calculating the resulting unfunded (surplus) accrued liability. This unfunded (surplus) liability is then loaded by 6% to account for the 2-year delay in employer contributions. Both of these factors are determined empirically from the actuarial projection valuation. This target unfunded accrued liability (surplus) is then added to the actuarial value of assets to determine the target accrued liability. This target accrued liability is the basis for the determination of the employer contribution rate before the rate is adjusted for the deferred gains or losses outside the 5% corridor as discussed above.

(n) Spouse's age – wives are assumed to be four years younger than husbands.

(o) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(p) Post-retirement pension adjustment – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA).

(q) Expenses – expenses are covered in the investment return assumption.

(r) Marital status – 75% of participants are assumed to be married.

(s) Total turnover – assumptions are based upon the 1997-1999 actual withdrawal experience.

# STATE OF ALASKA
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## Notes to Required Supplementary Information

## June 30, 2001 and 2000
## (000's omitted)

(t) New entrants – growth projections are made for the active PERS population under three scenarios:

| | |
|---|---|
| Pessimistic: | 0% per year |
| Median: | 1% per year |
| Optimistic: | 2% per year |

(u) Participant data – for the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 1994, there was a change in the asset valuation method. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Disability assumptions were revised based on actual experience in 1991-1995. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

Effective June 30, 1998, the following changes were made:

- The asset valuation method was changed. The new asset valuation method produces no gains or losses for a fiscal year if the expected actuarial value of assets plus (minus) any deferred gains (losses) is within a 5% corridor of the market value. Expected assets outside this corridor are amortized over 20 years as a level percent of pay and applied directly to the consolidated employer rate. The gain (loss) amount that is set aside is not expected to be offset by any future gains (losses). The method is restarted if this is not the case. The old asset valuation method recognized 20% of the investment gain or loss in each of the current and preceding four years. All assets were valued at fair value. Valuation assets could not be outside a range of 80% to 120% of the fair value of assets.

- The target-funding ratio was changed from 100% to 102%.

# STATE OF ALASKA
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## Notes to Required Supplementary Information

## June 30, 2001 and 2000
## (000's omitted)

Effective June 30, 2000, the following changes were made:

- The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table, 1994 base year.
- The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.
- The retirement age assumptions were revised based on actual experience in 1997-1999.
- The health cost trend assumptions were changed for fiscal years 2009 and later from an ultimate rate of 4.5% to 4.5% for fiscal years 2009-2013 and 4% for all subsequent fiscal years.
- The salary scale assumptions were changed. The inflation assumption was changed to 3.5% from 4%, the productivity and merit (first five years) assumptions of 0.5% and 1%, respectively, were broken out for police/fire members and other members. Productivity and merit (first five years) for police/fire members and other members were set at 1% and 1.5%, and 0.5% and 1.5%, respectively.
- The total inflation assumption was changed from 4% to 3.5%.
- The cost of living allowance was decreased from 71% to 68%.
- Disabilities are no longer assumed to be occupational 85% of the time for police and fire members and 35% for other members.
- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 2.343757% from 2.296%.
- For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

### (3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Public Employees Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1996-1999 employer contributions being equal to the annual required contribution and 2000 and 2001 employer contributions being more than the annual required contribution.

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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## Schedule of Administrative and Investment Expenses

## Year ended June 30, 2001
## with comparative totals for 2000
## (000's omitted)

| | Administrative expenses | Investment expenses | Totals 2001 | Totals 2000 |
|---|---|---|---|---|
| Personal services: | | | | |
| Wages | $ 2,029 | 726 | 2,755 | 2,571 |
| Benefits | 743 | 217 | 960 | 895 |
| Other | 8 | - | 8 | 6 |
| Total personal services | 2,780 | 943 | 3,723 | 3,472 |
| Travel: | | | | |
| Transportation | 48 | 41 | 89 | 116 |
| Per diem | 35 | 40 | 75 | 89 |
| Moving | - | 5 | 5 | 4 |
| Honorarium | 11 | 11 | 22 | 9 |
| Total travel | 94 | 97 | 191 | 218 |
| Contractual services: | | | | |
| Management and consulting | 218 | 17,568 | 17,786 | 17,738 |
| Accounting and auditing | 35 | 698 | 733 | 759 |
| Other professional services | 494 | 52 | 546 | 231 |
| Data processing | 358 | 19 | 377 | 204 |
| Communications | 198 | 63 | 261 | 275 |
| Advertising and printing | 18 | 173 | 191 | 352 |
| Rentals/leases | 105 | 61 | 166 | 73 |
| Legal | 53 | 12 | 65 | 92 |
| Medical specialists | 52 | - | 52 | 76 |
| Repairs and maintenance | 12 | - | 12 | 18 |
| Transportation | 3 | 3 | 6 | 9 |
| Other services | 15 | 116 | 131 | 112 |
| Total contractual services | 1,561 | 18,765 | 20,326 | 19,939 |
| Other: | | | | |
| Equipment | 155 | 42 | 197 | 126 |
| Supplies | 82 | 16 | 98 | 73 |
| Total other | 237 | 58 | 295 | 199 |
| Total administrative and investment expenses | **$ 4,672** | **19,863** | **24,535** | **23,828** |

See accompanying independent auditors' report.

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM
# (A Component Unit of the State of Alaska)

## Schedule of Payments to Consultants Other than Investment Advisors

## Years ended June 30, 2001 and 2000 (000's omitted)

| Firm | Services | 2001 | 2000 |
|---|---|---|---|
| State Street Bank and Trust Company | Custodian banking services | $ 841 | 1,131 |
| William M. Mercer, Inc. | Actuarial services | 218 | 271 |
| The Retirement Concepts Group, Ltd. | Data processing consultants | 202 | 118 |
| Powertech Toolworks, Inc. | Data processing consultants | 7 | 90 |
| Wohlforth, Vasser, Johnson and Brecht | PERS Board legal services | 55 | 50 |
| KPMG LLP | Auditing services | 51 | 49 |
| State of Alaska, Department of Law | Legal services | 57 | 25 |
| | | $ 1,431 | 1,734 |

See accompanying independent auditors' report.

WILLIAM M.
MERCER

March 15, 2001

State of Alaska
Public Employees' Retirement Board
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

**Actuarial Certification**

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2000 by William M. Mercer, Incorporated. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 2000;

(2) a determination of the appropriate contribution rate for each employer in the System;

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

(3) Schedule of retirants and beneficiaries added to and removed from rolls

(4) Solvency test

(5) Analysis of financial experience

William M. Mercer, Incorporated
One Union Square, Suite 3200
600 University Street
Seattle, WA 98101-3137

Phone 206 808 8800
Fax 206 382 0627

A Marsh & McLennan Company

WILLIAM M.
MERCER

Public Employees' Retirement Board
March 15, 2001
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In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. Actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY01 and a rolling amortization of the funding surplus or the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities changed from 105.5% to 101.1% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

There were significant changes in the actuarial assumptions and actuarial methods used in the determination of system liabilities this year. The member data used to determine system liabilities is as of June 30, 1999 projected using standard actuarial techniques to June 30, 2000. A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries or the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

WILLIAM M.
MERCER

Public Employees' Retirement Board
March 15, 2001
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We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee, FSA, MAAA

James W. Jacobson, ASA, MAAA

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

The demographic and non-health economic assumptions used in this valuation were recommended by William M. Mercer, Incorporated and were adopted at the fall 2000 PERS Board Meeting. These assumptions were the result of an experience study performed in the fall of 2000. The funding method used in this valuation was adopted June 30, 1985. The asset smoothing method used to determine valuation assets was changed effective June 30, 1998, and enhanced effective June 30, 2000.

### Valuation of Liabilities

**A. Actuarial Method -** Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. Any funding surpluses or unfunded accrued liability is amortized over a rolling 25 years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

**B. Actuarial Assumptions**

| | | |
|---|---|---|
| 1. | Investment Return | 8.25% per year, compounded annually, net of expenses. |
| 2. | Salary Scale | Inflation - 3.5% per year<br>Police/Fire<br>Merit (first 5 years of employment) - 1.5% per year<br>Productivity - 1.0% per year<br>Others<br>Merit (first 10 years of employment) - 1.5% per year<br>Productivity - 0.5% per year |
| 3. | Total Inflation | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually. |

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

| | | |
|---|---|---|
| 4. | Health Cost Trend | FY00 - 8.5%<br>FY01 - 7.5%<br>FY02 - 6.5%<br>FY03 - 5.5%<br>FY04 - FY08 - 5.0%<br>FY09 & FY13 - 4.5%<br>FY14 & later - 4.0% |
| 5. | Mortality | 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for Others. |
| 6. | Total Turnover | Based upon the 1997-99 actual withdrawal experience. (See Table 1.) |
| 7. | Disability | Incidence rates, based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. |
| 8. | Retirement | Retirement rates based upon the 1997-99 actual experience in accordance with Table 3. |
| 9. | Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 10. | Dependent Children | Benefits to dependent children have been valued assuming members who are not single have one dependent child. |
| 11. | Contribution Refunds | 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 12. | C.O.L.A. | Of those benefit recipients who are eligible for the C.O.L.A., 65% are assumed to remain in Alaska and receive the C.O.L.A. |
| 13. | New Entrants | Growth projections are made for the active PERS population under three scenarios:<br><br>Pessimistic: 0% per year<br>Median: 1% per year<br>Optimistic: 2% per year |
| 14. | Post-Retirement Pension Adjustment | 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute. |
| 15. | Expenses | Expenses are covered in the investment return assumption. |
| 16. | Marital Status | 75% of participants are assumed to be married. |

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

17. Participant Data — For this valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

### Valuation of Assets

In the development of valuation assets, we use an expected investment return equal to the investment return assumption of 8.25%. The valuation assets, plus (minus) the outstanding balance of previously amortized amounts, are then compared to a 5% corridor around the market value of assets. Any amount outside the corridor is amortized and applied to the employer contribution rates as a level percentage of pay over 20 years under the 1% population projection scenario. Valuation assets cannot be outside the range of 80% to 120% of the market value of assets. Assets are accounted for on an accrual basis and are taken directly from audited financial statements provided by KPMG LLP.

### Determination of the Adjustment for the 102% Target Funding Ratio

The target unfunded (surplus) accrued liability is determined by first reducing the actuarial value of assets by 2.343757% and calculating the resulting unfunded (surplus) accrued liability. This unfunded (surplus) liability is then loaded by 6% to account for the 2-year delay in employer contributions. Both of these factors are determined empirically from the actuarial projection valuation. This target unfunded accrued liability (surplus) is then added to the actuarial value of assets to determine the target accrued liability. This target accrued liability is the basis for the determination of the employer contribution rate before the rate is adjusted for the deferred gains or losses outside the 5% corridor as discussed above.

### Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY01, the pre-65 monthly premium is $689.31 and the post-65 premium is $262.59, based on an assumed total blended premium of $527.31. For the time period January 1, 2001 - December 31, 2001, the actual blended premium as provided by the State of Alaska Division of Retirement and Benefits is $610.00.

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

## Table 1
## Total Turnover Assumptions

**Select Rates of Turnover During the First 5 Years of Employment** | **Ultimate Rates of Turnover After the First 5 Years of Employment**

**Police and Fire:**

| Year of Employment | Rate | | Age | Rate |
|---|---|---|---|---|
| 1 | .12 | . | 20+ | .03 |
| 2 | .10 | | | |
| 3 | .08 | | | |
| 4 | .07 | | | |
| 5 | .06 | | | |

**Other:**

| Year of Employment | Age at Hire 20-34 | Age at Hire 35+ | Age | Rate |
|---|---|---|---|---|
| 1 | .25 | .15 | 20-34 | .11 |
| 2 | .23 | .15 | 35-39 | .08 |
| 3 | .20 | .13 | 40-44 | .06 |
| 4 | .16 | .12 | 45+ | .05 |
| 5 | .15 | .11 | | |

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

### Table 2
### Disability Rates
### Annual Rates Per 1,000 Employees

| Age | Police & Fire Rate | "Other" Member Rate |
|---|---|---|
| 20 | .88 | .28 |
| 21 | .89 | .28 |
| 22 | .90 | .29 |
| 23 | .91 | .29 |
| 24 | .93 | .30 |
| 25 | .94 | .30 |
| 26 | .95 | .30 |
| 27 | .98 | .31 |
| 28 | 1.00 | .32 |
| 29 | 1.03 | .33 |
| 30 | 1.05 | .34 |
| 31 | 1.08 | .34 |
| 32 | 1.10 | .35 |
| 33 | 1.13 | .36 |
| 34 | 1.16 | .37 |
| 35 | 1.20 | .38 |
| 36 | 1.24 | .40 |
| 37 | 1.29 | .41 |
| 38 | 1.34 | .43 |
| 39 | 1.39 | .44 |
| 40 | 1.44 | .46 |
| 41 | 1.50 | .48 |
| 42 | 1.59 | .51 |
| 43 | 1.70 | .54 |
| 44 | 1.85 | .59 |
| 45 | 2.03 | .65 |
| 46 | 2.20 | .70 |
| 47 | 2.39 | .76 |
| 48 | 2.59 | .83 |
| 49 | 2.79 | .89 |
| 50 | 3.00 | .96 |
| 51 | 3.25 | 1.04 |
| 52 | 3.58 | 1.14 |
| 53 | 3.98 | 1.27 |
| 54 | 4.44 | 1.42 |
| 55 | 5.00 | 1.60 |
| 56 | 5.74 | 1.84 |
| 57 | 6.68 | 2.14 |
| 58 | 7.63 | 2.44 |
| 59 | 9.00 | 2.88 |
| 60 | 10.54 | 3.37 |
| 61 | 12.19 | 3.90 |
| 62 | 14.13 | 4.52 |
| 63 | 16.31 | 5.22 |
| 64 | 18.63 | 5.96 |

## Public Employees' Retirement System
## Summary of Actuarial Assumptions and Methods

### Table 3
### Retirement Rates

| Age | Police & Fire Rate | "Other" Member Rate |
|---|---|---|
| 50 | .10 | .05 |
| 51 | .10 | .05 |
| 52 | .10 | .05 |
| 53 | .05 | .06 |
| 54 | .05 | .06 |
| 55 | .20 | .10 |
| 56 | .13 | .10 |
| 57 | .13 | .10 |
| 58 | .13 | .10 |
| 59 | .13 | .10 |
| 60 | .20 | .10 |
| 61 | .25 | .10 |
| 62 | .25 | .15 |
| 63 | .25 | .15 |
| 64 | .25 | .15 |
| 65 | 1.00 | .20 |
| 66 | 1.00 | .20 |
| 67 | 1.00 | .20 |
| 68 & Up | 1.00 | 1.00 |

For ages under 50, Police/Fire members are assumed to retire immediately upon attaining 21 years of service.

## Public Employees' Retirement System
## Schedule of Active Member Valuation Data

| Valuation Date | Number | Annual Payroll (000s) | Annual Average Pay | Average Increase/ (Decrease) In Average Pay | Number of Participating Employers |
|---|---|---|---|---|---|
| **All Others** | | | | | |
| June 30, 1999 | 29,590 | $1,140,706 | $38,550 | 3.0% | 148 |
| June 30, 1998 | 29,293 | 1,096,786 | 37,442 | 0.2% | 148 |
| June 30, 1997 | 29,267 | 1,093,433 | 37,361 | 0.7% | 156 |
| June 30, 1996 | 29,326 | 1,087,504 | 37,083 | 1.3% | 156 |
| June 30, 1995 | 28,893 | 1,057,840 | 36,612 | 0.9% | 153 |
| June 30, 1994 | 28,883 | 1,048,541 | 36,303 | 2.3% | 155 |
| June 30, 1993 | 28,509 | 1,011,864 | 35,493 | 4.2% | 155 |
| June 30, 1992 | 28,206 | 961,054 | 34,073 | 2.5% | 155 |
| June 30, 1991 | 27,307 | 907,567 | 33,236 | 4.6% | 145 |
| June 30, 1990 | 26,667 | 846,935 | 31,760 | 0.6% | 143 |
| **Police/Fire** | | | | | |
| June 30, 1999 | 2,624 | $142,843 | $54,437 | 2.7% | 148 |
| June 30, 1998 | 2,617 | 138,653 | 52,982 | 1.0% | 148 |
| June 30, 1997 | 2,587 | 135,702 | 52,455 | 2.8% | 156 |
| June 30, 1996 | 2,634 | 134,362 | 51,011 | 0.2% | 156 |
| June 30, 1995 | 2,557 | 130,204 | 50,921 | (1.7)% | 153 |
| June 30, 1994 | 2,481 | 128,456 | 51,776 | 2.8% | 155 |
| June 30, 1993 | 2,463 | 124,025 | 50,355 | 3.2% | 155 |
| June 30, 1992 | 2,515 | 122,762 | 48,812 | 2.8% | 155 |
| June 30, 1991 | 2,533 | 120,240 | 47,470 | 9.2% | 145 |
| June 30, 1990 | 2,419 | 105,135 | 43,462 | 0.9% | 143 |

## Public Employees' Retirement System
## Schedule of Retirants and Beneficiaries Added to and Removed from Rolls

| Year Ended | Added to Rolls No.* | Added to Rolls Annual Allowances* | Removed from Rolls No.* | Removed from Rolls Annual Allowances* | Rolls - End of Year No. | Rolls - End of Year Annual Allowances | Increase in Annual Allowances | Average Annual Allowance |
|---|---|---|---|---|---|---|---|---|
| **All Others** | | | | | | | | |
| June 30, 1999 | 1,053 | $19,402,623 | 124 | $2,284,829 | 12,707 | $179,714,326 | 10.5% | $14,143 |
| June 30, 1998 | 1,219 | 25,116,364 | 113 | 2,328,260 | 11,778 | 162,596,532 | 16.3% | 13,805 |
| June 30, 1997 | 830 | 23,255,081 (1) | 101 | 2,829,835 (1) | 10,672 | 139,808,428 | 17.1% | 13,100 |
| June 30, 1996 | 702 | 8,803,872 | 40 | 501,645 | 9,943 | 119,383,182 | 7.5% | 12,007 |
| June 30, 1995 | 561 | 8,327,484 | 123 | 850,316 | 9,281 | 111,080,955 | 7.2% | 11,969 |
| June 30, 1994 | 567 | 7,584,088 | 100 | 225,631 | 8,843 | 103,603,787 | 7.6% | 11,716 |
| June 30, 1993 | 464 | 5,408,670 | 93 | 4,057,669 | 8,376 | 96,245,330 | 1.4% | 11,491 |
| June 30, 1992 | 435 | 8,520,963 | 116 | 1,323,560 | 8,005 | 94,894,329 | 8.2% | 11,854 |
| June 30, 1991 | 876 | 15,277,842 | 8 | 85,072 | 7,686 | 87,696,926 | 21.0% | 11,410 |
| June 30, 1990 | 457 | 5,776,756 | 94 | 986,060 | 6,818 | 72,504,156 | 7.1% | 10,634 |
| **Police/Fire** | | | | | | | | |
| June 30, 1999 | 163 | $4,761,117 | 8 | $233,673 | 1,478 | $42,127,224 | 12.0% | $28,503 |
| June 30, 1998 | 195 | 6,096,918 | 2 | 62,532 | 1,323 | 37,599,780 | 19.1% | 28,420 |
| June 30, 1997 | 161 | 6,672,261 (1) | 9 | 372,984 (1) | 1,130 | 31,565,394 | 24.9% | 27,934 |
| June 30, 1996 | 88 | 2,217,256 | 2 | 50,392 | 978 | 25,266,117 | 9.4% | 25,834 |
| June 30, 1995 | 95 | 2,697,924 | 3 | 85,198 | 892 | 23,099,253 | 12.8% | 25,896 |
| June 30, 1994 | 77 | 2,428,767 | 4 | 119,938 | 800 | 20,486,527 | 12.7% | 25,608 |
| June 30, 1993 | 39 | 982,991 | 11 | 212,565 | 727 | 18,177,698 | 4.4% | 25,004 |
| June 30, 1992 | 35 | 1,202,004 | 8 | 195,248 | 699 | 17,407,272 | 6.1% | 24,903 |
| June 30, 1991 | 129 | 3,408,774 | 4 | 95,704 | 672 | 16,400,516 | 25.3% | 24,406 |
| June 30, 1990 | 38 | 907,997 | 3 | 71,784 | 547 | 13,087,446 | 6.8% | 23,926 |

* Numbers are estimated, and include other internal transfers.

1 Includes additional benefits to current retirees from a one time retroactive ad hoc Post-Retirement Pension Adjustments.

## Public Employees' Retirement System Solvency Test

| Valuation Date | Aggregate Accrued Liability For: (1) Active Member Contributions (000s) | (2) Inactive Members (000s) | (3) Active Members (Employer-Financed Portion) (000s) | Valuation Assets (000s) | Portion of Accrued Liabilities Covered by Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| June 30, 2000[2][3] | $892,949 | $1,588,201 | $1,895,762 | $7,454,758 | 100% | 100% | 100.0% |
| June 30, 1999 | 854,497 | 3,961,063 | 1,833,113 | 7,016,340 | 100% | 100% | 100.0% |
| June 30, 1998[1][2][3] | 819,226 | 3,610,352 | 1,774,413 | 6,571,562 | 100% | 100% | 100.0% |
| June 30, 1997 | 795,170 | 3,020,608 | 1,716,338 | 5,885,488 | 100% | 100% | 100.0% |
| June 30, 1996[2] | 754,679 | 2,511,953 | 1,713,326 | 5,271,253 | 100% | 100% | 100.0% |
| June 30, 1995 | 673,196 | 2,445,870 | 1,852,106 | 4,794,754 | 100% | 100% | 90.5% |
| June 30, 1994[1][2] | 615,925 | 2,233,349 | 1,770,908 | 4,379,305 | 100% | 100% | 86.4% |
| June 30, 1993 | 551,753 | 1,921,967 | 1,652,041 | 3,936,776 | 100% | 100% | 88.6% |
| June 30, 1992[1] | 484,590 | 1,783,020 | 1,473,272 | 3,409,859 | 100% | 100% | 77.5% |
| June 30, 1991[2] | 422,656 | 1,621,590 | 1,294,899 | 2,942,121 | 100% | 100% | 69.3% |

(1) Change in Asset Valuation Method.
(2) Change of Assumptions.
(3) Change in Methods.

## Public Employees' Retirement System Analysis of Financial Experience

**Change in Average Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience**

| Type of Gain or Loss | Change in Average Contribution Rate During Fiscal Year 00 | 99 | 98 | 97 | 96 |
|---|---|---|---|---|---|
| Health Experience | - | - | - | - | - |
| Salary Experience | - | (0.23)% | (0.46)% | (0.06)% | (0.50)% |
| Investment Experience | (0.12)% | (0.49)% | (3.26)% | (1.26)% | (0.46)% |
| Demographic Experience | (0.81)% | 0.21% | 1.12% | 0.03% | (0.73)% |
| (Gain) or Loss During Year From Experience | (0.93)% | (0.51)% | (2.60)% | (1.29)% | (1.69)% |
| **Non-recurring changes** | | | | | |
| Asset Valuation Method | (2.67)% | - | - | - | - |
| Assumption Changes | 3.09% | - | 1.08% | - | (2.47)% |
| Ad hoc PRPA | 0.07% | 0.04% | 0.20% | 0.91% | - |
| Plan Changes | - | - | - | - | - |
| Method Changes | - | - | 0.99% | - | - |
| Composite (Gain) or Loss During Year | (0.44)% | (0.47)% | (0.33)% | (0.38)% | (4.16)% |
| Beginning Average Employer Contribution Rate | 6.56% | 7.03% | 7.36% | 7.74% | 11.90% |
| Ending Average Employer Contribution Rate | 6.12% | 6.56% | 7.03% | 7.36% | 7.74% |
| Board Adopted Employer Contribution Rate | 6.75% | 6.75% | 7.40% | 7.74% | 7.74% |

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

### (1) Effective Date

January 1, 1961, with amendments through June 30, 2000. Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986. Members who were first hired after June 30, 1996 are eligible for different health benefits and a different Final Average Earnings calculation than members from the other tiers.

### (2) Administration of Plan

The Commissioner of Administration is responsible for administering the system. The Public Employees' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division is responsible for investing PERS funds. The Attorney General represents the system in legal proceedings.

### (3) Employers Included

Currently there are 148 employers participating in the PERS, including the State of Alaska and 147 political subdivisions and public organizations.

### (4) Members Included

PERS membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the PERS. Elected officials may waive PERS membership.

Certain members of the Alaska Teachers' Retirement System (TRS) are eligible for PERS retirement benefits for their concurrent elected public official service with municipalities. In addition, employees who work half-time in the PERS and TRS simultaneously are eligible for half-time PERS and TRS credit.

### (5) Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976;
- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;
- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;
- military service (not more than five years may be claimed);
- temporary service after December 31, 1960;
- elected official service before January 1, 1981;
- Alaska Bureau of Indian Affairs service;

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

- past service rendered by employees who worked half-time in the PERS and Teachers' Retirement System (TRS) simultaneously; and
- leave without pay service after June 13, 1987, while receiving Workers' Compensation.

Except for service before January 1, 1961, with the State, former Territory of Alaska, or U.S. Government in Alaska, contributions are required for all past service.

Past employment with participating political subdivisions that occurred before the employers joined the PERS is creditable if the employers agree to pay the required contributions.

At the election of certain PERS members, certain service may be credited in the same fashion as members in the State of Alaska Teachers' Retirement System (TRS).

**(6) Employer Contributions**

Individual contribution rates are established for PERS employers based upon their consolidated and past service rates.

The consolidated rate is a uniform rate for all participating employers, amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The past service rate is determined separately for each employer to amortize their unfunded past service liability with level payments over 25 years. Effective June 30, 1996, funding surpluses are amortized over 25 years.

**(7) Member Contributions**

Mandatory Contributions: Police and fire members are required to contribute 7.5% of their compensation; all other members contribute 6.75%. Members' contributions are deducted from gross wages before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (5) above.

Voluntary Contributions: Members may voluntarily contribute up to 5% of their salary. Voluntary contributions are recorded in a separate account and are payable to the:

(a) member in lump sum payment upon termination of employment;

(b) member's beneficiary if the member dies; or

(c) member in a lump sum, life annuity, or payments over a designated period of time when the member retires.

Interest: Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid qualified domestic relations orders.

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

Reinstatement of Contributions: Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

**(8) Retirement Benefits**

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60[1], or early retirement at age 55, if they have at least:

   (i) five years of paid-up PERS service;

   (ii) 60 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS before May 30, 1987;

   (iii) 80 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS after May 29, 1987; or

   (iv) two years of paid-up PERS service and they are vested in the Teachers' Retirement System.

(b) Members may retire at any age when they have:

   (i) 20 paid-up years of PERS police/fire service; or

   (ii) 30 paid-up years of PERS "all other" or "elected official" service.

[1] Members participating before July 1, 1986 are eligible for normal retirement at age 55 or early retirement at age 50.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements under the "20 and out" or "30 and out" provisions. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may also select level income or joint and survivor options. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the three highest (five highest if hired after June 30, 1996), consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire members are 2% for the first ten years of service and 2.5% for all service over 10 years.

The percentage multipliers for all other members are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Indebtedness: Members who terminate and are refunded their PERS contributions are not eligible to retire, unless they return to PERS employment

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. PERS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded PERS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

**(9) Reemployment of Retired Members**

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS service and contributions are withheld from their wages.

Members retired under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

(a) forfeit the three years of incentive credits that they received;

(b) owe the PERS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and

(c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

**(10) Postemployment Healthcare Benefits**

Major medical benefits are provided to retirees without cost for all employees hired before July 1, 1986. Employees hired after June 30, 1986, with five years of credited service (or ten years of credited service for those first hired after June 30, 1996) must pay the full monthly premium if they are under age sixty, must pay half of the monthly premium if they are over age sixty but under age sixty-five, and received benefits at no cost if they are over age sixty-five.

**(11) Disability Benefits**

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. Members are appointed to normal retirement on the first of the month after they become eligible.

<u>Occupational Disability</u>: Members are not required to satisfy age or service requirements to be eligible for occupational disability. Monthly benefits are equal to 40% of their gross monthly compensation on the date of their disability. Members on occupational disability continue to earn PERS service until they become eligible for normal retirement.

<u>Nonoccupational Disability</u>: Members must be vested (five paid-up years of PERS service) to be eligible for nonoccupational disability benefits. Monthly benefits are calculated based on the member's average monthly compensation and PERS service on the date of termination from employment because of disability. Members do not earn PERS service while on nonoccupational disability.

**(12) Death Benefits**

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

<ins>Occupational Death</ins>: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

<ins>Death after Occupational Disability</ins>: When a member dies while occupationally disabled, benefits are paid as described above in *Occupational Death.*

<ins>Nonoccupational Death</ins>: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of termination or death.

<ins>Lump Sum Benefit</ins>: Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. If the member has more than one year of PERS service, the beneficiary also receives $1,000 and $100 for each year of PERS service.

<ins>Death After Retirement</ins>: When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives continuing, lifetime monthly benefits.

**(13) Post Retirement Pension Adjustments**

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability; or

(b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase.

**(14) Alaska Cost of Living Allowance**

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits or $50, whichever is more. The following benefit recipients are eligible:

(a) members who were first hired under the PERS before July 1, 1986, and their survivors;

(b) members who were first hired under the PERS after June 30, 1986, and their survivors if they are at least age 65; and

(c) all disabled members.

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## Message from the Chair

I am pleased to present the 2001 Annual Report of Investments for the period ending June 30, 2001 to you, the participants and beneficiaries of this retirement trust fund.

The 12 months ending June 30, 2001 were very difficult for investors. Stock markets both domestically and internationally suffered substantial declines. Growth oriented stocks, that had fueled the extraordinary market returns of the last several years, suffered sharp declines. U.S. stocks registered a loss of 14.83% as measured by the Standard & Poor 500 Stock Index, while the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization) achieved a modest positive return of 0.57%. International stocks, as measured by the MSCI-EAFE Index, fell 23.83%. The only bright spots were real estate and fixed income markets. Both achieved very attractive positive returns.

PERS weathered this challenging environment in reasonably good form. The System's well-diversified investment approach limited PERS' decline to -5.25%. This negative return almost matched the System's policy target index return of -5.13%. With the exception of domestic equity, ASPIB's managers exceeded their benchmark targets. On balance, PERS was slightly overallocated to equities relative to the long-term target. This detracted from performance in the 2001 fiscal year while it contributed positively to returns in prior years.

Despite the disappointing year, over the longer term, fund performance exceeds the returns of the policy benchmark, and the System's actuarial earnings target. For example, PERS has achieved a trailing five-year return of 9.35% annually. This exceeds the System's policy target index return of 9.21% and the actuarial earnings assumption.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees called for an investment distribution as follows: 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year. It, however, is designed to provide competitive returns at a reasonable level of risk. Fiscal 2001 results were well within the range of shorter-term returns envisioned as possible.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at www.revenue.state.ak.us/treasury/aspib/index.htm. We continue to encourage member participation at our meetings, and welcome your letters and comments.

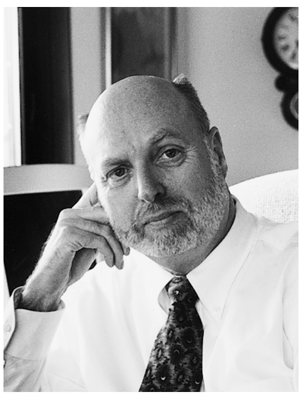
On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

Jeffrey E. Sinz, Chair

# ALASKA STATE PENSION INVESTMENT BOARD

### Jeffrey E. Sinz, Chair
Appointed by the Governor

Jeffrey E. Sinz, Chair, was appointed to the board by Governor Knowles. Mr. Sinz is currently employed as Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance including thirteen years with the Municipality of Anchorage where he was Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked for two years as a financial planner and supervisor with the Alaska Railroad Corporation, and for five years as a financial administrator with a Wisconsin public school district. Jeff also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. Mr. Sinz's term expires December 31, 2004.



### William "Riley" Snell, Vice Chair
Appointed by the Governor

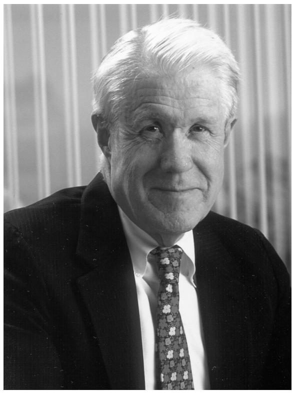
William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Expert Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2002.

### Gail R. Schubert, Secretary
Appointed by the Governor

Gail R. Schubert, Board Secretary, was appointed to the board by Governor Knowles. She is currently a member of the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Ms. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Ms. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Ms. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She served on Governor Knowles' Fiscal Policy Transition Team, and serves as Chair of the Alaska Native Heritage Center, and on the boards of the Bering Straits Native Corporation, Khoanic Broadcast Corporation, Alaska Native Justice Center, and Akeela Treatment Services. Ms. Schubert's term expires December 31, 2003.

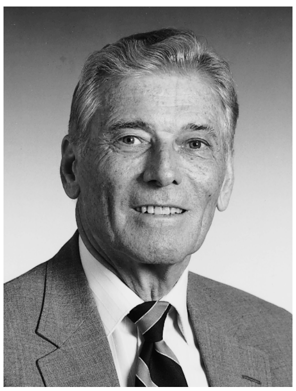
### Gary M. Bader
PERS Representative

Gary M. Bader was elected by the Public Employees' Retirement System. Mr. Bader has held numerous positions in State government including three years in the Office of Management and Budget and seven years in the Department of Administration, where he was Deputy Commissioner and Director of Retirement and Benefits. He is currently Superintendent of Schools for the Juneau School District. Mr. Bader has a B.S. in Business Administration and a master's degree in Education Administration. He was previously employed with a major Wall Street investment firm where he was licensed with the New York Stock Exchange. Mr. Bader's term expires December 31, 2002.



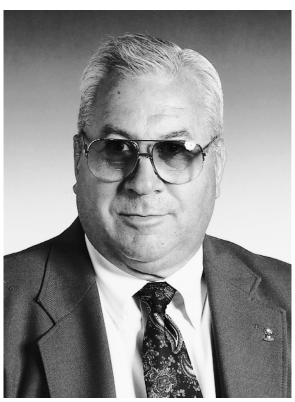
**Wilson L. Condon**
Statutory Representative

Wilson L. Condon was appointed Revenue Commissioner in February 1995. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. He was a partner in a private law firm from 1983-1995. Wilson was lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980-1982 and as Deputy Attorney General from 1975-1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation.



**Merritt C. Olson**
TRS Representative

Merritt C. Olson served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident since 1953 and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph.D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.



**James "Pat" Wellington**
PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.

**Dorothy Wells**
TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 38 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota of Minneapolis and did graduate work both there and at the University of Alaska, Fairbanks. Ms. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Mrs. Wells term expires December 31, 2005.

## Department of Revenue
## Treasury Division
## Staff

**Commissioner**
Wilson L. Condon

**Deputy Commissioner**
Neil Slotnick

**Chief Investment Officer**
John R. Jenks, CFA

**Comptroller**
Betty Martin, CPA

**ASPIB Liaison Officer**
Judy Hall

**Investment Officers**
Lee Livermore, CFA, Marketable Debt
Bob Mitchell
Steve Sikes
Christine Vea

**Cash Management**
Michelle M. Prebula, MBA, CPA, CCM

## External Money Managers and Consultants

**Investment Consultants**
Callan Associates Inc.
*San Francisco, CA*
The Townsend Group
*Denver, CO*

**Domestic Fixed Income**
BlackRock Financial Management, Inc.
*New York, NY*

**Domestic Equity Large Capitalization**
Capital Guardian Trust Co.
*Los Angeles, CA*
Dresdner RCM Global Investors
*San Francisco, CA*
Invesco Capital Management, Inc.
*Atlanta, GA*
McKinley Capital Management, Inc.
*Anchorage, AK*
Tukman Capital Management, Inc.
*San Francisco, CA*

**Domestic Equity Small Capitalization**
Capital Guardian Trust Co.
*San Francisco, CA*
Dresdner RCM Global Investors
*San Francisco, CA*
John McStay Investment Counsel
*Dallas, TX*

**Domestic Equity Index Fund**
State Street Global Advisors
*Boston, MA*

**Domestic Enhanced Index**
Invesco Capital Management, Inc.
*New York, NY*

**Emerging Markets**
Capital Guardian Trust Co.
*Los Angeles, CA*
J.P. Morgan Investment Management, Inc.
*New York, NY*

**Global Equity**
Lazard Freres Asset Management
*New York, NY*

**International Equity—EAFE**
Bank of Ireland Asset Management (US) Ltd
*Santa Monica, CA*
Brandes Investment Partners, L.P.
*San Diego, CA*

**International Equity—European**
Citibank Global Asset Management
*London, England*

## External Money Managers and Consultants (con't)

**International Equity—Pacific Basin excluding Japan**
Invesco Asia Limited
*Hong Kong*
Wellington Management Co. LLP
*Boston, MA*

**International Fixed Income**
Delaware International Advisers Ltd.
*London, England*

**Private Equity**
Abbott Capital Management, L.P.
*New York, NY*

**Performance Measurement**
Callan Associates Inc.
*Denver, CO*

**Real Estate Management—Commingled Funds**
Heitman Capital Management
*Chicago, IL*
J.P. Morgan Investment Management Inc.
*New York, NY*
Sentinel Real Estate Corporation
*New York, NY*
UBS Realty Investors, LLC
*Hartfort, CT*

**Real Estate—Core Separate Accounts**
PM Realty Advisors
*Newport Beach, CA*
Sentinel Real Estate Corporation
*New York, NY*
UBS Realty Investors, LLC
*San Francisco, CA*

**Real Estate—Value Added Separate Accounts**
Invesco Realty Advisors
*Dallas, TX*
Lowe Enterprises Investment Management Inc.
*Los Angeles, CA*

**Investment Advisory Council**
Shlomo Benartzi
*Los Angeles, CA*
Jerrold Mitchell
*Wayland, MA*
Timothy O'Brien
*Denver, CO*

**Independent Auditors**
KPMG LLP
*Anchorage, AK*

**Global Master Custodian**
State Street Bank & Trust Co.
*Boston, MA*

**Legal Counsel**
Wohlforth, Vassar, Johnson & Brecht
*Anchorage, AK*

**Supplemental Benefits System**
Barclays Global Investors, N.A.
*San Francisco, CA*
Capital Guardian Trust Company
*Los Angeles, CA*
Citizens Funds
*Portsmouth, NH*
State Street Global Advisors
*Boston, MA*
T. Rowe Price Investment Services
*Baltimore, MD*

**Deferred Compensation**
Barclays Global Investors, N.A.
*San Francisco, CA*
Capital Guardian Trust Company
*Los Angeles, CA*
T. Rowe Price Investment Services
*Baltimore, MD & Glen Allen, VA*

# Public Employees' Retirement System
# Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

## INVESTMENTS

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives. ASPIB adopted an asset allocation that includes 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate for FY01.

For FY01, PERS investments generated a –5.25% rate of return. The PERS annualized rate of return was 4.87% over the last three years and 9.35% over the last five years.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR ) Performance Presentation Standards.

## INVESTMENT OVERVIEW

The Public Employees' Retirement System (PERS) investments matched the returns of the average large retirement system. For FY01, PERS suffered a decline in value of –5.25%, a significant reversal from the 10.07% return earned in FY00. The annualized return for the last five years was 9.35%, still ahead of the 8.25% actuarial assumption rate.

For FY01, the well diversified PERS investment portfolio muted the impact of the bear market in equities that began in the spring of 2000. For the year, the U.S. equity portfolio fell -12.2% and the international equity portfolio dropped –16.9% (versus strong gains of 10.4% and 20.6%, respectively in FY00). Positive performance was provided in the U.S fixed-income market, which generated a 11.8% return in FY01, up from last year's more modest return of 4.6%. The system's real estate investments also continued to provide strong positive returns.

ASPIB continued the systematic increase in PERS' investments in real estate and private equity. The real estate portfolio earned 11.4% for FY01 versus 8.4% in FY00. The private equity market weakened in FY01 in sync with the public equity markets. PERS' investments in this sector did earn a positive return of 1.03%, down from the generous 46.2% results earned in FY00.

## DOMESTIC ECONOMY

The U.S. Economy stumbled during FY01, with the nation's GDP rising a mere 1.2%. This was a substantial decline from the robust 5.2% growth experienced during FY00. The year closed on a weak note with GDP growth in the quarter ending June 30, 2001 a weak 0.3%.

Employment statistics demonstrated a downward shift in the job market's momentum during FY01. Last year the economy created an average of only 38,500 new jobs a month compared to 269,000 new jobs per month in FY00. Even though the pace of job growth slowed sharply this year, the overall unemployment rate only rose from 4.0% to 4.5%. Most of this rise took place in the final months of FY01. Confidence created by this relatively low unemployment rate helped maintain consumer spending and make it one of the few bright spots for the U.S. economy.

Purchases of big-ticket items held up better than expected even as the economy slowed. The housing sector prospered as the relatively low jobless rate and low interest rates gave people the confidence to buy homes. Sales of new homes totaled 912,000 in FY01 up from 864,000 the year before. Sales of existing homes also remained strong and finished the year at 5.18 million units, virtually tied

## Public Employees' Retirement System Investment Report

with the 5.16 million units pace of FY00. The record pace for housing sales was 5.5 million units in FY99. Auto sales also exceeded expectations, averaging just under 17 million units in FY01 compared to a pace of 17.5 million units in the more robust climate of FY00. Overall retail sales growth slowed to a more modest 3.5% pace from the robust 8.1% increase seen during FY00.

Worries about inflation also subsided in FY01. The Consumer Price Index (CPI) rose 3.2% in FY01 compared to 3.7% in FY00. The Producer Price Index (PPI) increased just 2.5% versus a 4.3% rise last year. Both indices were trending lower as the fiscal year drew to a close. On average, energy prices were higher in FY01 than in FY00, but similar to the CPI & PPI benchmarks, levels were trending down during the spring. West Texas Intermediate crude averaged $29.82 in FY01 compared to $25.75 in FY00. More interesting was the trip these prices took over the last twelve months. The high price for FY00 was $32.47 on June 30, 2000. Prices continued to rise before peaking at $35.81 on September 20, 2001 and declining thereafter and closing FY01 at $26.08 per barrel. Taking out the volatility of energy prices, the core-CPI rose a more moderate 2.8% and the core-PPI was up only 1.6%.

The weakening economy forced the Federal Reserve to aggressively reverse its tight monetary policy of FY00. In FY00, the Fed had raised the overnight funds rate six times to 6.50% to slow the very robust economy and reduce stock market euphoria. The medicine worked a bit too well and the Fed moved quickly to add liquidity to the financial markets. On January 3, 2001 the Fed cut the discount rate 50 bps to 6.00%. By the end of FY01, the Fed had cut the rate 5 more times to close the year at 3.75%.

### EQUITIES

The bear market in equity prices hit the PERS portfolio hard during FY01. The domestic stock portfolios declined in value by –12.2% last year compared to a positive 10.41% rate of return for FY00. This decline pulled the annualized return for the last five years down to 12.35% from the unsustainable 20.60% pace at the close of FY00.

There was also a seismic shift in the relative performance of the major sectors within the equity markets. After a long undisputed reign, large-company growth-oriented stocks ceded the lead to value stocks last year. Small-capitalization value stocks also returned to favor, outdoing their growth stock cousins by a significant margin. For the year, the median large-company growth manager experienced a decline of –27.9% (vs. 22.7% in FY00) and the average large-company value manager gained 10.03% (vs. –7.5% in FY00). The same story was true in smaller capitalization companies with median returns of –19.28% for growth-oriented managers (54.1% in FY00) and positive results of 27.59% median results for those invested in value-oriented companies (vs. 1.00% in FY00).

Returns for international managers were poor worldwide. Pacific Basin median manager returns dropped to –28.6% (vs. 21% last year) and European managers fell –22.8% (compared to 22% in FY00). Those invested in Japanese stocks gave back their excellent 36% returns of a year ago with a fall of –30.5% in FY01. For the year, the median core-international equity manager lost –22.5%, a bit less than the –23.8% drop in the Morgan Stanley EAFE Index.

As for PERS, its international equity portfolio fared better than the median manager with a decline of –16.9%. The annualized return for the past five years was 6.5%, much better than the 2.8% result for the Morgan Stanley EAFE Index.

### FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 27% of the total assets of PERS as of June 30, 2001. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury

## Public Employees' Retirement System
## Investment Report

securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the PERS bond portfolio is the Lehman Brothers Aggregate Bond Index.

All the turmoil in the equity markets eventually translated into good news for bond investors. However, during the first half of FY01, the perceived risk for corporate bonds rose significantly. A series of credit problems pushed the yield spreads for corporate securities to near record levels compared to Treasuries. Asbestos litigation in particular precipitated a number of ratings downgrades and forced several firms into bankruptcy. The financial market had little tolerance for credit problems and spreads could significantly widen on the mere hint of financial difficulty. This exemplified the economic problems previously discussed. The PERS fixed income portfolios were relatively unscathed by these credit events and did not hold the bonds most impacted by these credit events.

To combat those financial problems, the Federal Reserve lowered interest rates six times during the second half of FY01. Confident that Mr. Greenspan's group could rescue the economy once again, fixed income investors jumped back into the corporate bond market and pushed spreads tighter. The rate cuts by the Fed also gave support to the general bond market and rates declined, particularly in shorter maturity securities.

Lower rates and tighter spreads generated strong bond portfolio results. For all of FY01, the PERS domestic bond portfolio gained 11.8%, compared to 4.6% the year before. This compares favorably to the Lehman Brothers Aggregate Bond Index return of 11.2% during FY01.

The international fixed-income portfolio represented just under 5% of the total assets of PERS. During FY01, the international bond portfolio had a loss of –5.7%, which was less than the –7.4% drop in the Salomon Brothers Non U.S. Government Index. This compares to results for FY00 of –3.3% and 2.4%, respectively. The relative strength of the U.S. economy and the strong dollar made it hard going for international fixed-income markets in FY01.

The Euro, in particular, continued to struggle in FY01. Introduced at the end of calendar year 1998, the Euro slid 13% against the U.S. dollar in its first six months of existence. During FY00 the Euro fell another 8% to $0.9525 and by June 30, 2001 it closed at $0.849, a drop of 11% for FY01. The low point was reached in October 2000 at $0.8272. The European Central Bank has not cut rates like the Federal Reserve as it continues to combat inflation.

### PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

Private market investments, often referred to as "Alternative Investments", are placed in an investment portfolio to diversify risk and to improve overall portfolio returns in the long term; the volatility and return characteristics of these investments do not correlate directly with the returns of the stock and bond portfolios.

At the end of FY01, PERS had 9.8% of its portfolio in private markets, compared to a target of 12%. The total market value of the private market portfolio increased by 25.7% to $795.0 million. This increase was a result of new invested capital and modest appreciation.

***Real Estate***

At the end of FY01, PERS had 7.3% of its portfolio invested in real estate, well within its target of 7.0% (+/- 3.0%). At fiscal year end, the real estate portfolio amounted to $588.5 million. The total return for real estate, net of fees, was 11.4% compared to 8.4% in FY00. Importantly, over 75% of the total return was in the form of cash distributions to the Fund. The three and five year returns were 10.1% and 11.8%, respectively.

## Public Employees' Retirement System
## Investment Report

During the year, the pace of new commitments by the Fund's advisors moderated as competition from other sources of capital intensified and anticipated total returns on new projects were driven down. With the decline in the stock market and funding of real estate commitments made over the past 18 months, many institutions are now at or above their real estate allocations. In addition, the slowing economy has resulted in modest increases in vacancies and slight declines in some rents, resulting in a slight decline in the valuations of some real estate properties. However, the current real estate markets are not substantially over built, as was the case in the early 1990's, and, in fact, most real estate markets are generally in equilibrium in terms of supply and demand. Thus, a slowing economy may result in 1) lower pricing for real estate assets, but 2) a decline in the percentage appreciation on an annual basis in the intermediate term. The favorable supply/demand balance should result in improved performance as the economy recovers.

Real estate has proven its ability to provide a stable return component in otherwise volatile markets. As a result, the Trustees modestly increased the allocation to real estate subsequent to fiscal year-end.

***Private Equity***

At year-end FY01, PERS' investment in private equity amounted to 2.6% of its portfolio. The estimated market value was $206.5 million and the total return for the year was 1.0%. The decline in the total return compared to FY00, reflects the cyclical nature of this type of investment, the collapse of the "dot coms" and a sharp decline in the NASDAQ market. Nevertheless, the net compounded internal rate of return since inception (3 ½ years) was 15.1%.

The initial public offering ('IPO") and the merger and acquisition ("M&A") markets for venture capital-backed companies slowed down considerably during FY01. While the private equity market has been negatively impacted by the burst in the "technology bubble," the pricing and terms for new investments have returned to more normal levels.

PERS' private equity investments are made through commitments to partnerships, which, in turn, make investments in privately-held companies, ranging from new businesses seeking venture capital to established businesses seeking capital to undertake a buyout or a special situation transaction. Commitments made in one year are typically funded over a three to five year period as the partnerships make investments. Investments currently made by partnerships are the result of commitments made over the past three years. As companies complete a public offering of stock or are acquired by another company, the partnerships realize their investment proceeds. Thus, the results of these private equity investments are evaluated over the long term. Historically, private equity investments have generated superior long-term returns.

Due to the success of the existing private equity program and the attractive long-term outlook, the Trustees increased the target allocation to private equity from 3% to 7%. The target allocation increases in increments through FY05.

## Public Employees' Retirement System
## Schedule of Investment Results
## Fiscal Years Ended June 30

| | 1997 | 1998 | 1999 | 2000 | 2001 | Annualized 3 Year | Annualized 5 Year |
|---|---|---|---|---|---|---|---|
| **Total Fund** | | | | | | | |
| PERS | 18.18% | 14.73% | 10.59% | 10.07% | (5.25%) | 4.87% | 9.35% |
| *Actuarial Earnings Rate* | 8.25% | 8.25% | 8.25% | 8.25% | 8.25% | N/A | N/A |
| **U.S. Common Stock Returns** | | | | | | | |
| PERS Domestic Equities | 27.52% | 24.22% | 16.56% | 10.41% | (12.20%) | 4.16% | 12.35% |
| *S&P 500* | 34.66% | 30.27% | 22.76% | 7.24% | (14.83%) | 3.89% | 14.48% |
| **International Stock Returns** | | | | | | | |
| PERS International Equities | 18.52% | 0.66% | 14.72% | 20.59% | (16.89%) | 4.76% | 6.52% |
| *Morgan Stanley Capital International EAFE* | 12.84% | 6.10% | 7.62% | 18.11% | (23.83%) | (1.34%) | 2.83% |
| **Domestic Fixed Income** | | | | | | | |
| PERS | 7.96% | 11.53% | 2.24% | 4.55% | 11.83% | 6.13% | 7.55% |
| *Lehman Brothers Aggregate Index** | 7.76% | 11.28% | 2.69% | 1.69% | 11.22% | 6.11% | 7.46% |
| **International Fixed Income** | | | | | | | |
| PERS | - | 0.36% | 5.27% | (3.27%) | (5.68%) | (1.34%) | - |
| *Salomon Non-U.S. Government* | - | 0.89% | 4.87% | 2.42% | (7.43%) | (0.19%) | - |
| **Real Estate Equity** | | | | | | | |
| PERS | 12.44% | 16.38% | 10.51% | 8.43% | 11.43% | 10.14% | 11.82% |
| *NCREIF* | 11.29% | 17.21% | 11.24% | 11.61% | 11.15% | 11.85% | 12.75% |

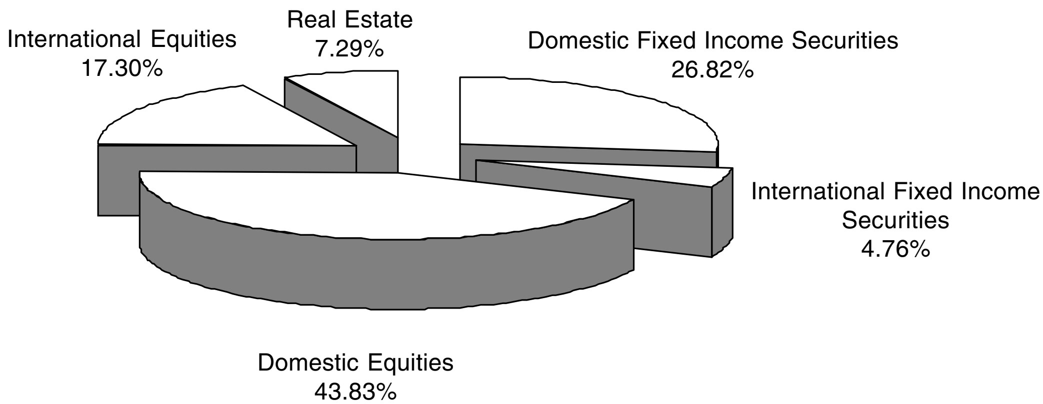
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

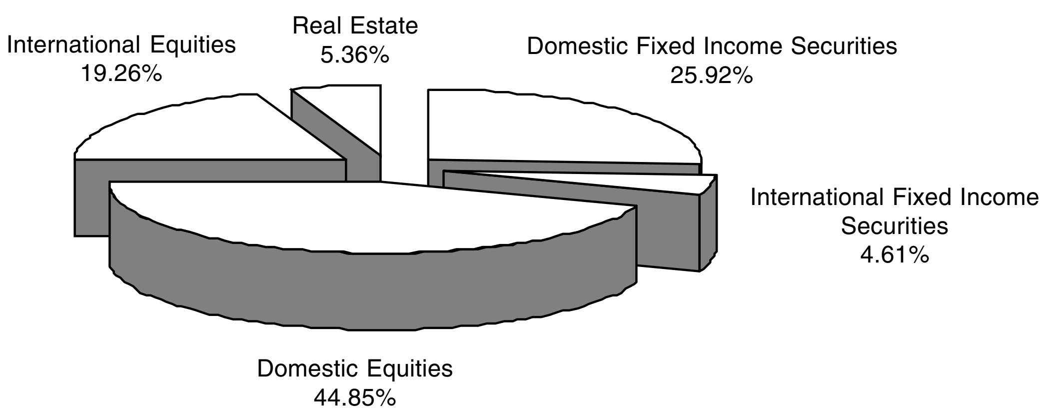
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

## Public Employees' Retirement System Trust Fund
## Actual Asset Allocation

### June 30, 2001




### June 30, 2000



## Alaska State Pension Investment Board
## Top Ten Holdings by Asset Type
## June 30, 2001

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

| | Rank | Fair Value | Par Values/ Shares | Security | Coupon | Due | Credit Rating |
|---|---|---|---|---|---|---|---|
| **Bonds** | 1 | 81,006,380 | 76,375,000 | U.S. Treasury Bond | 6.250% | 5/15/30 | AAA |
| | 2 | 61,201,290 | 59,000,000 | U.S. Treasury Bond | 6.125% | 8/15/29 | AAA |
| | 3 | 60,052,653 | 56,770,200 | U.S. Treasury Note | 4.250% | 1/15/10 | AAA |
| | 4 | 58,917,656 | 59,833,710 | Fed Home Loan Mtg Corp. | 6.500% | 5/1/31 | AAA |
| | 5 | 57,111,540 | 58,092,135 | Gov Nat Mortgage Assn. | 6.500% | 6/20/30 | AAA |
| | 6 | 56,632,050 | 45,000,000 | U.S. Treasury Bond | 8.125% | 8/15/21 | AAA |
| | 7 | 53,677,855 | 55,878,344 | Fed Home Loan Mtg Corp. | 6.000% | 3/1/31 | AAA |
| | 8 | 53,377,101 | 52,250,579 | Federal National Mtg Assn. | 7.500% | 2/1/31 | AAA |
| | 9 | 52,460,000 | 53,750,000 | Federal National Mtg Assn. Disc Note | 0.000% | 2/22/02 | AAA |
| | 10 | 51,176,436 | 50,921,827 | Federal National Mtg Assn. | 7.000% | 11/1/30 | AAA |
| **Equities** | 1 | 141,935,625 | 2,911,500 | General Electric Co. | | | |
| | 2 | 103,608,900 | 1,419,300 | Microsoft Corp. | | | |
| | 3 | 103,179,704 | 1,199,764 | American Intl Group Inc. | | | |
| | 4 | 82,065,454 | 2,049,075 | Pfizer, Inc. | | | |
| | 5 | 81,910,453 | 937,727 | Exxon Mobil Corp. | | | |
| | 6 | 78,196,489 | 1,479,873 | Citigroup Inc. | | | |
| | 7 | 74,310,405 | 872,700 | Federal National Mortgage Assn. | | | |
| | 8 | 68,734,800 | 1,408,500 | Wal Mart Stores Inc. | | | |
| | 9 | 67,887,700 | 1,280,900 | AOL Time Warner Inc. | | | |
| | 10 | 65,121,900 | 576,300 | International Business Machines | | | |

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

## Public Employees' Retirement System
## Schedule of Investment Management Fees
## Year Ended June 30, 2001

| | Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001 | Fees |
|---|---|---|
| **External Management Fees** | | |
| Domestic Fixed Income | | |
| BlackRock | $ 148,179,796 | $ 219,087 |
| International Fixed Income | | |
| Delaware International Advisers, LTD. | 578,643,617 | 501,526 |
| Domestic Equity | | |
| Capital Guardian Trust Co. | 1,005,090,696 | 1,428,159 |
| John McStay | 384,812,997 | 1,583,699 |
| RCM Capital Management | 810,595,948 | 2,112,970 |
| SSgA S&P 500 Index Fund | 1,082,605,405 | 166,433 |
| Invesco, Enhanced Index | 582,178,705 | 354,756 |
| Invesco, Large Cap Active | 66,296,835 | 851,454 |
| Lazard Freres | 471,082,201 | 996,951 |
| McKinley Capital | 239,567,742 | 645,823 |
| Tukman, Value | 399,889,616 | 1,358,465 |
| Total | 5,042,120,145 | 9,498,710 |
| Private Equity | | |
| Abbott Capital Management | 310,747,989 | 646,273 |
| International Equity | | |
| Bank of Ireland Asset Management | 454,861,627 | 1,041,185 |
| Brandes Investment Partners | 632,255,202 | 1,671,453 |
| Lazard Freres | 481,858,617 | 1,199,623 |
| Citibank Global Asset Mgmt. | 247,005,550 | 931,415 |
| Invesco Global Asset Mgmt | 81,141,724 | 309,905 |
| Wellington Management Co. | 107,656,034 | 375,460 |
| Total | 2,004,778,754 | 5,529,041 |
| Emerging Markets Equity | | |
| J.P. Morgan Investment Management | 49,387,482 | 337,377 |
| The Capital Group Inc. | 62,242,396 | 269,618 |
| Total | 111,629,878 | 606,995 |
| Total External Management Fees | $8,196,100,179 | 17,001,632 |

## Public Employees' Retirement System
## Schedule of Investment Management Fees (con't)
## Year Ended June 30, 2001

| | Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001 (con't) | Fees (con't) |
|---|---|---|
| **External Management Fees (con't)** | | |
| Other Management Fees | | |
| Custodian | | |
| State Street Corp. | | 670,032 |
| Investment Advisory | | |
| Callan Associates | | 27,385 |
| Investment Advisory Council | | 51,074 |
| The Townsend Group | | 81,785 |
| Total | | 160,244 |
| Investment Performance Measurement | | |
| Callan Associates | | 105,187 |
| Total Other Management Fees | | 935,463 |
| Total Management Fees | | $17,937,095 |

## Public Employees' Retirement System
## Investment Summary Schedule
## June 30, 2001

| | Public Employees' Asset Allocation Policy | Range | Market Value | % of Asset Class | % of Total Assets |
|---|---|---|---|---|---|
| **Participation in Pools Owning Fixed Income Securities** | | | | | |
| **Domestic** | | | | | |
| Short-Term Fixed Income Pool | | | $ 529,479 | 0.03% | 0.01% |
| Retirement Fixed Income Pool | | | 2,069,116,197 | 95.48% | 25.60% |
| External Domestic Fixed Income Pool | | | 97,391,635 | 4.49% | 1.21% |
| Total Domestic Fixed Income | 30% | 20-40% | 2,167,037,311 | **100.00%** | 26.82% |
| **International** | | | | | |
| International Fixed Income Pool | 5% | 2-8% | 384,826,957 | **100.00%** | 4.76% |
| Total Fixed Income Securities | **35%** | **22-48%** | **2,551,864,268** | | **31.58%** |
| **Participation in Pools Owning Domestic Equities** | | | | | |
| **Small cap(1) and Alternative Investments** | | | | | |
| Domestic Equity Pool | | | 835,560,191 | 23.59% | 10.34% |
| Private Equity Pool | | | 206,465,711 | 5.83% | 2.55% |
| Total Small Cap Domestic Equities and Alternative Investment | 12% | 9-15% | 1,042,025,902 | 29.42% | 12.89% |
| **Large cap** | | | | | |
| Domestic Equity Pool-active | | | 1,398,968,016 | 39.49% | 17.31% |
| Domestic Equity Pool-passive | | | 1,101,461,926 | 31.09% | 13.63% |
| Total Large Cap Domestic Equities | 29% | 24-34% | 2,500,429,942 | 70.58% | 30.94% |
| Total Domestic Equities | **41%** | **33-49%** | **3,542,455,844** | **100.00%** | **43.83%** |
| **Participation in Pools Owning International Equities** | | | | | |
| International Equity Pool | | | 1,325,766,627 | 94.81% | 16.40% |
| Emerging Markets Equity Pool | | | 72,557,460 | 5.19% | 0.90% |
| Total International Equities | **17%** | **13-21%** | **1,398,324,087** | **100.00%** | **17.30%** |
| **Participation in Real Estate** | | | | | |
| Mortgages, net of allowances | | | 349,018 | 0.06% | 0.01% |
| Real Estate Pool | | | 588,544,735 | 99.94% | 7.28% |
| Total Real Estate | **7%** | **4-10%** | **588,893,753** | **100.00%** | **7.29%** |
| Total Invested Assets | **100%** | | **$ 8,081,537,952** | | **100.00%** |

(1) Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

## Public Employees' Retirement System
## Credit Risk of Investments
## Pension Trust Funds
## (Expressed in Thousands)
## June 30, 2001

| | Category 1 | Category 2 | Category 3 | Fair Value |
|---|---|---|---|---|
| Marketable debt securities | | | | |
| Domestic fixed income | $ 2,166,508 | | | 2,166,508 |
| International fixed income | 384,827 | | | 384,827 |
| Equity securities | | | | |
| Domestic equities | 3,335,990 | | | 3,335,990 |
| International equities | 1,325,767 | | | 1,325,767 |
| Emerging market equities | | 72,557 | | 72,557 |
| | **$ 7,213,092** | **72,557** | **-** | 7,285,649 |
| Not Categorized | | | | |
| Venture capital limited partnerships | | | | 206,465 |
| Real estate equities | | | | 588,545 |
| Total investments not categorized | | | | 795,010 |
| Total investments | | | | **8,080,659** |

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Fund's deposits or securities fails. Deposits and those investments represented by specific, indentifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The Fund's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Fund's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Fund participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Venture capital limited partnerships and the Real estate equity pool which, like the Fund's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

## Alaska State Pension Investment Board
## Recaptured Commission Fees Received in FY 2001

| | Domestic Equity | International Equity | Total |
|---|---|---|---|
| PERS | $ 567,336 | 351,307 | 918,643 |
| TRS | 287,764 | 177,829 | 465,593 |
| Judicial | 3,665 | 3,224 | 6,889 |
| Military | 768 | 393 | 1,161 |
| Total | **$ 859,533** | **532,753** | **1,392,286** |

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time, ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January 1998 have resulted from international equity trades.

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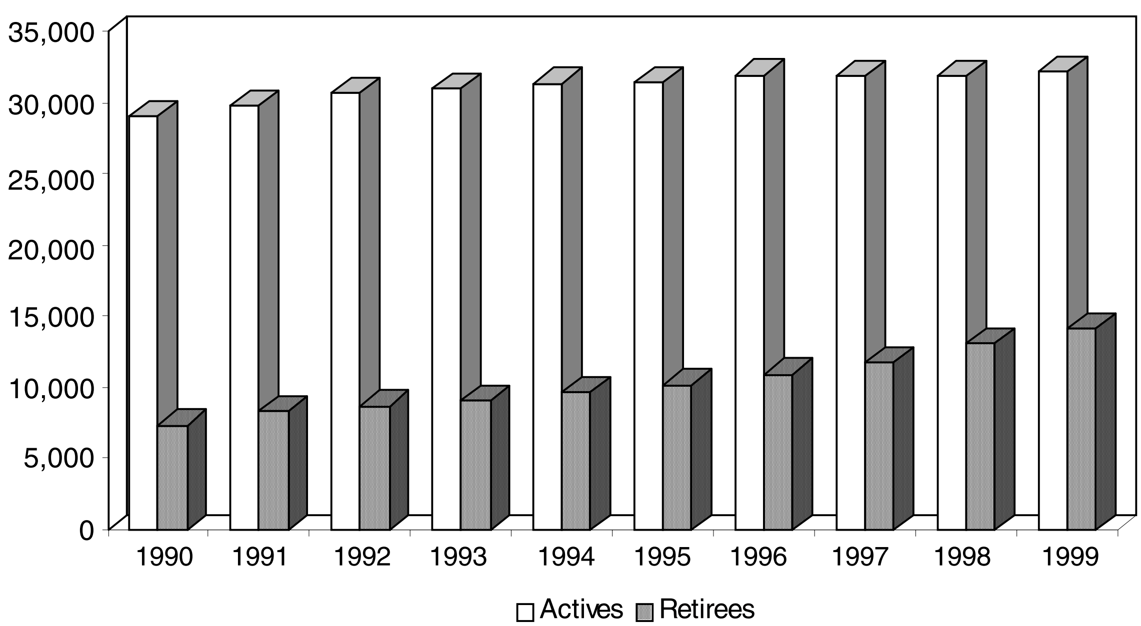
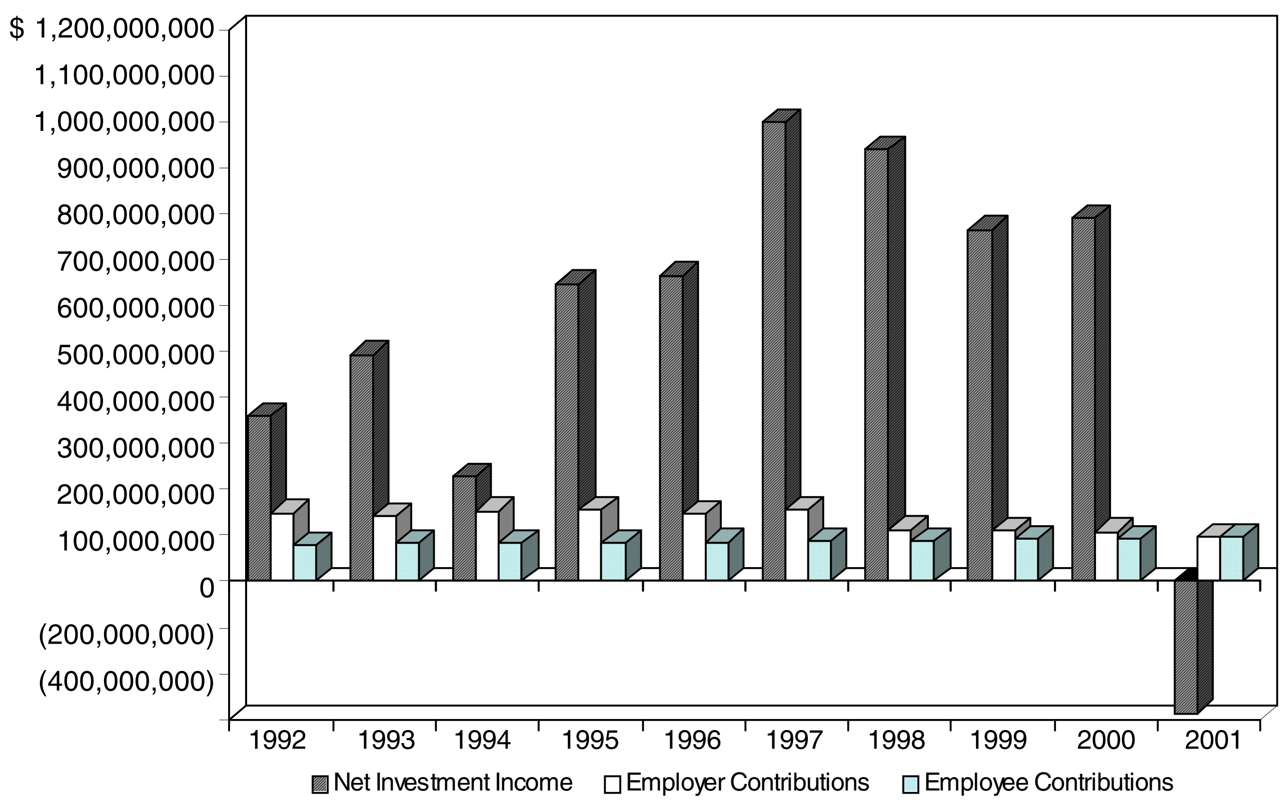
| Public Employees' Retirement System System Membership by Status | | | | | |
|---|---|---|---|---|---|
| **Year** | **Active** | **Retirees & Beneficiaries** | **Vested Terminations** | **Nonvested Terminations w/Balance** | **Total** |
| 1990 | 29,086 | 7,365 | 2,745 | 3,695 | 42,891 |
| 1991 | 29,840 | 8,358 | 3,015 | 4,108 | 45,321 |
| 1992 | 30,721 | 8,704 | 3,249 | 4,380 | 47,054 |
| 1993 | 30,972 | 9,103 | 3,572 | 4,721 | 48,368 |
| 1994 | 31,364 | 9,643 | 3,771 | 4,859 | 49,637 |
| 1995 | 31,450 | 10,173 | 4,144 | 5,398 | 51,165 |
| 1996 | 31,960 | 10,921 | 4,382 | 5,847 | 53,110 |
| 1997 | 31,854 | 11,802 | 4,742 | 6,260 | 54,658 |
| 1998 | 31,910 | 13,101 | 5,143 | 6,571 | 56,725 |
| 1999 | 32,214 | 14,185 | 5,395 | 7,500 | 59,294 |

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS**



| Public Employees' Retirement System<br>Revenues by Source (000's omitted) | | | | | |
|---|---|---|---|---|---|
| **Year ended June 30** | **Plan Member Contributions** | **Employer Contributions** | **Investment Income (Loss)** | **Other** | **Total** |
| 1992 | $77,674 | $149,192 | $361,123 | $ - | $ 587,989 |
| 1993 | 81,889 | 141,368 | 493,279 | 6 | 716,542 |
| 1994 | 82,503 | 153,285 | 103,238 | 32 | 339,058 |
| 1995 | 83,683 | 156,445 | 647,012 | 3 | 887,143 |
| 1996 | 85,120 | 147,640 | 665,087 | 4 | 897,851 |
| 1997 | 87,949 | 154,599 | 997,410 | 7 | 1,239,965 |
| 1998 | 89,256 | 112,384 | 937,782 | 7 | 1,139,429 |
| 1999 | 90,635 | 109,938 | 764,622 | 4 | 965,199 |
| 2000 | 92,770 | 107,596 | 790,336 | - | 990,702 |
| 2001 | 94,983 | 96,484 | (478,249) | 7 | (286,775) |

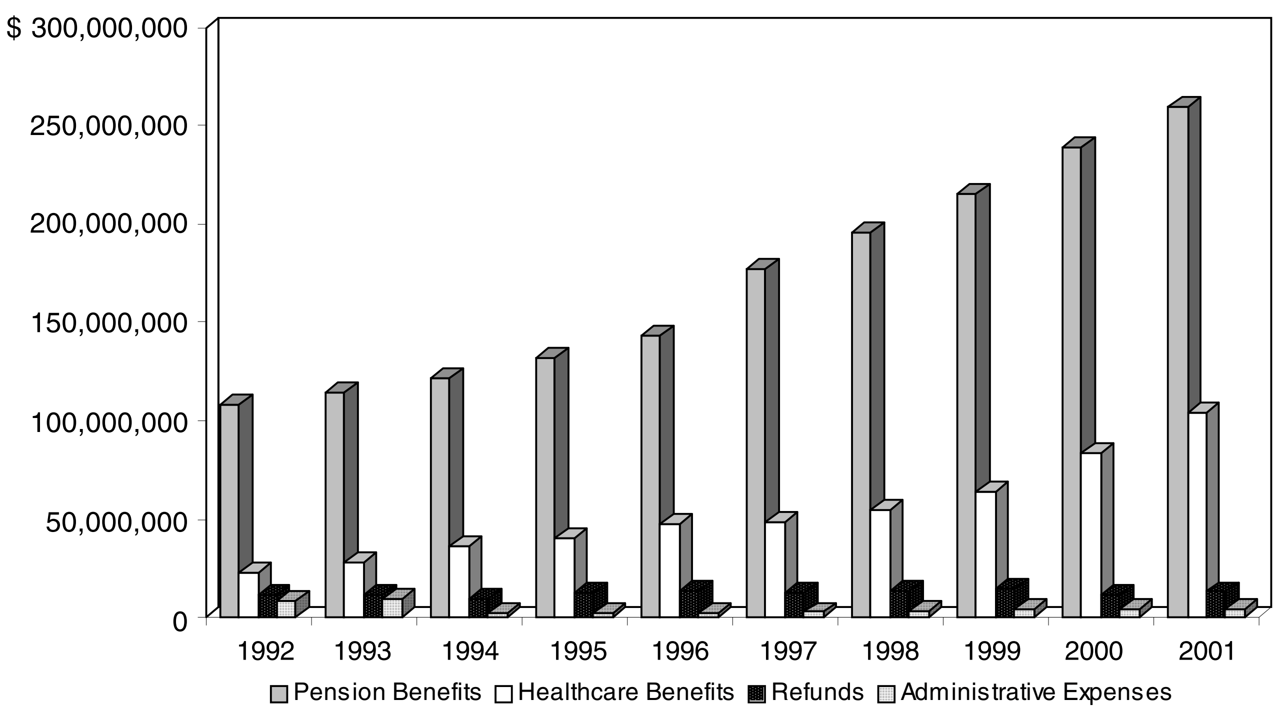
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR COMPARISON OF REVENUES BY SOURCE



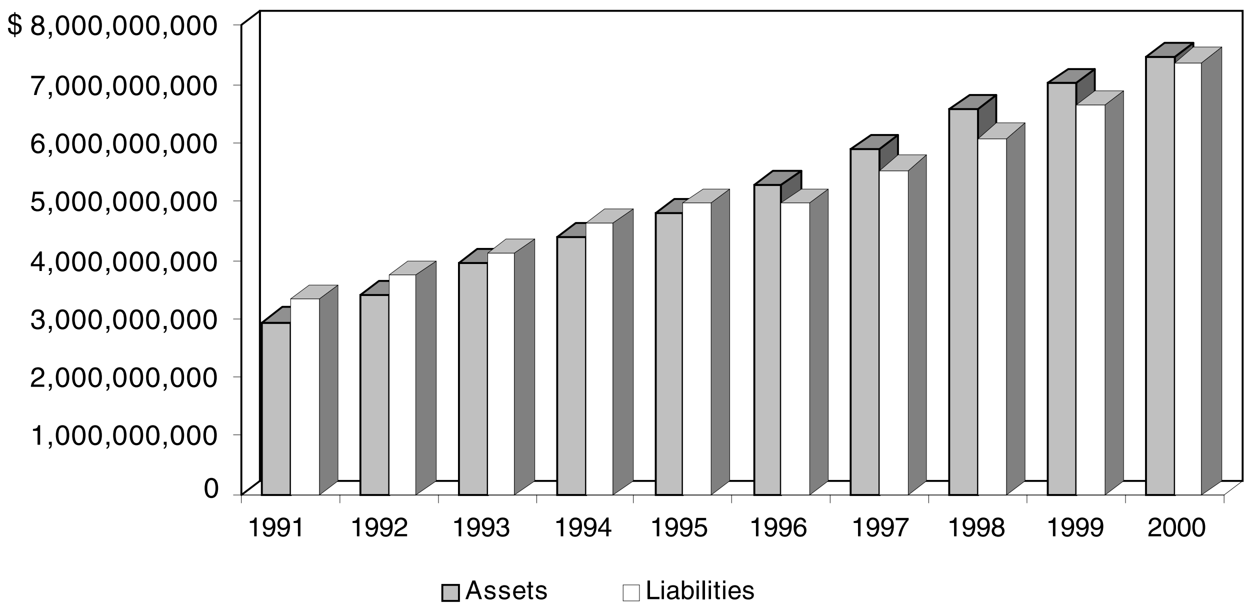
| Public Employees' Retirement System<br>Expenses by Type (000's omitted) | | | | | |
|---|---|---|---|---|---|
| **Year ended June 30** | **Pension Benefits** | **Healthcare Benefits** | **Refunds of Contributions** | **Administrative Expenses*** | **Total** |
| 1992 | $108,360 | $ 23,120 | $11,901 | $ 8,045 | $ 151,426 |
| 1993 | 114,060 | 27,879 | 11,522 | 9,278 | 162,739 |
| 1994 | 121,867 | 36,046 | 9,584 | 2,455 | 169,952 |
| 1995 | 131,634 | 40,687 | 12,774 | 2,253 | 187,348 |
| 1996 | 143,039 | 47,964 | 13,413 | 2,522 | 206,938 |
| 1997 | 177,328 | 48,361 | 13,012 | 2,830 | 241,531 |
| 1998 | 195,544 | 55,165 | 13,557 | 2,920 | 267,186 |
| 1999 | 215,170 | 64,486 | 14,435 | 4,148 | 298,239 |
| 2000 | 239,441 | 83,794 | 11,998 | 4,247 | 339,480 |
| 2001 | 259,771 | 103,846 | 13,134 | 4,672 | 381,423 |

*For all years prior to FY94, administrative expenses include investment expenses. Separate accounting of investment expenses since FY94 is due to a new accounting system.

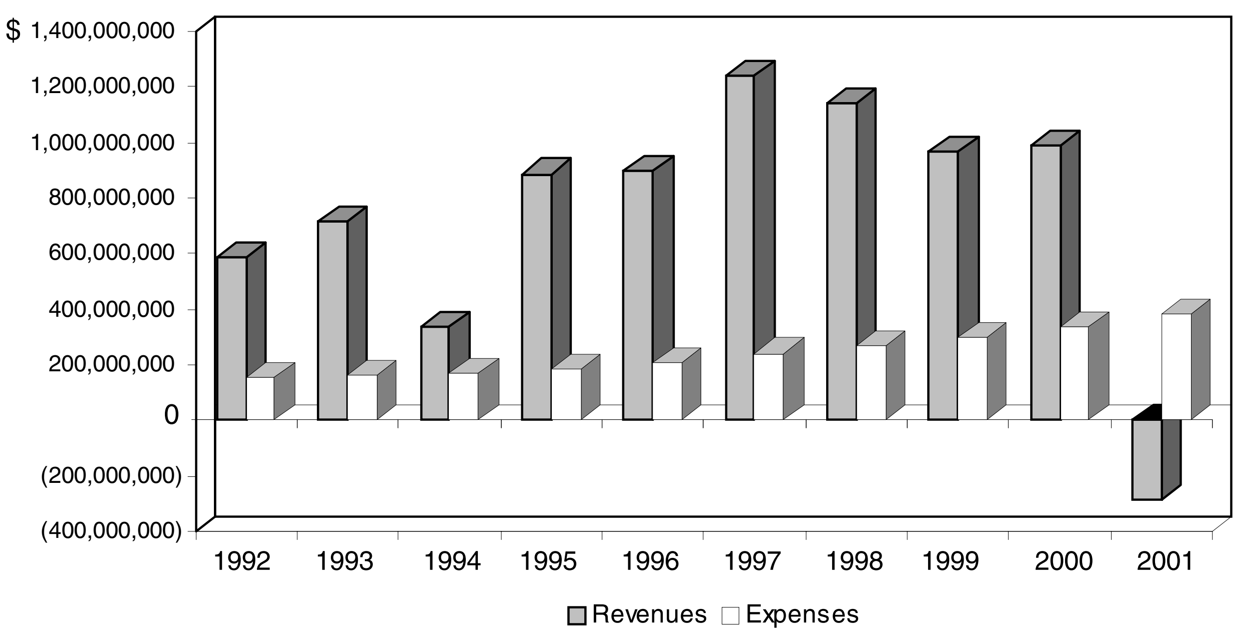
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
## 10-YEAR COMPARISON OF EXPENSES BY TYPE



**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES**




**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**10-YEAR COMPARISON OF REVENUES AND EXPENSES**

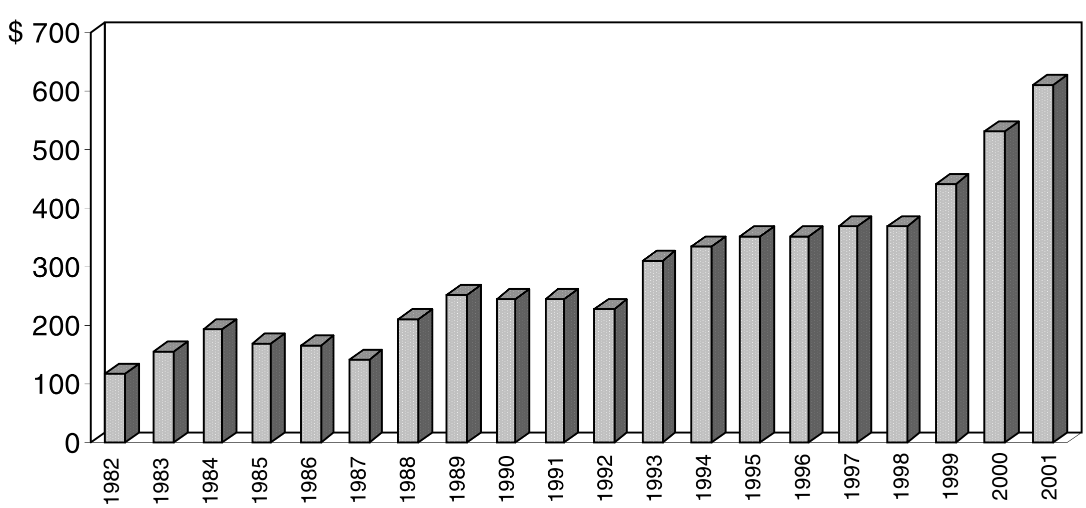


## Public Employees' Retirement System Schedule of Benefit Expenses by Type (000's Omitted)

| Fiscal Year | Service | Disability | Survivor | Dependent[1] | COLA[2] | PRPA[3] | Medical | Total |
|---|---|---|---|---|---|---|---|---|
| 1992 | $ 81,530 | $3,212 | $ 3,638 | - | $6,685 | $13,295 | $23,120 | $131,480 |
| 1993 | 84,676 | 3,735 | 4,405 | - | 6,820 | 14,424 | 27,879 | 141,939 |
| 1994 | 90,388 | 3,895 | 4,668 | - | 7,099 | 15,817 | 36,046 | 157,913 |
| 1995 | 97,730 | 4,076 | 5,431 | - | 7,597 | 16,800 | 40,687 | 172,321 |
| 1996 | 107,082 | 4,608 | 5,546 | - | 8,244 | 17,559 | 47,964 | 191,003 |
| 1997[1] | 160,103 | 6,228 | 10,314 | 683 | - | - | 48,361 | 225,689 |
| 1998 | 177,556 | 6,598 | 10,823 | 567 | - | - | 55,165 | 250,709 |
| 1999 | 195,605 | 7,195 | 12,141 | 229 | - | - | 64,486 | 279,656 |
| 2000 | 216,118 | 9,669 | 13,650 | 4 | - | - | 83,794 | 323,235 |
| 2001 | 239,814 | 8,185 | 11,772 | - | - | - | 103,846 | 363,617 |

[1] Due to the implementation of a new computer system, COLA and PRPAs can now be combined with the appropriate base benefit and dependent benefits can be separated from survivor and disability benefits.
[2] Cost-of-Living in Alaska (COLA)
[3] Post-Retirement Pension Adjustment (PRPA)

## PUBLIC EMPLOYEES' RETIREMENT SYSTEM 20-YEAR COMPARISON OF RETIREE MONTHLY HEALTH INSURANCE PREMIUMS



## Public Employees' Retirement System
## Schedule of Retired Members by Type of Retirant and Option Selected
## June 30, 2000

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement 1 | 2 | 3 | Option Selected # Opt. 1 | Opt. 2 | Opt. 3 | Opt. 4 |
|---|---|---|---|---|---|---|---|---|
| **Others** | | | | | | | | |
| $ 1 - $ 300 | 1,264 | 1,046 | 210 | 8 | 829 | 234 | 154 | 47 |
| 301 - 600 | 2,764 | 2,413 | 300 | 51 | 1,703 | 523 | 359 | 179 |
| 601 - 900 | 2,236 | 1,990 | 209 | 37 | 1,291 | 485 | 286 | 174 |
| 901 - 1200 | 1,784 | 1,592 | 148 | 44 | 1,013 | 390 | 228 | 153 |
| 1201 - 1500 | 1,256 | 1,141 | 72 | 43 | 693 | 288 | 188 | 87 |
| 1501 - 1800 | 916 | 839 | 45 | 32 | 477 | 235 | 114 | 90 |
| 1801 - 2100 | 643 | 586 | 21 | 36 | 340 | 154 | 91 | 58 |
| 2101 - 2400 | 499 | 464 | 15 | 20 | 236 | 135 | 79 | 49 |
| 2401 - 2700 | 354 | 332 | 11 | 11 | 180 | 96 | 43 | 35 |
| 2701 - 3000 | 287 | 270 | 8 | 9 | 136 | 86 | 38 | 27 |
| 3001 - 3300 | 194 | 184 | 6 | 4 | 72 | 70 | 36 | 16 |
| 3301 - 3600 | 152 | 141 | 4 | 7 | 67 | 57 | 18 | 10 |
| 3601 - 3900 | 122 | 119 | 0 | 3 | 45 | 49 | 18 | 10 |
| 3901 - 4200 | 71 | 67 | 1 | 3 | 29 | 25 | 8 | 9 |
| over 4200 | 165 | 161 | 0 | 4 | 69 | 50 | 30 | 16 |
| Totals | **12,707** | **11,345** | **1,050** | **312** | **7,180** | **2,877** | **1,690** | **960** |
| **Police/Fire** | | | | | | | | |
| $ 1 - $ 300 | 16 | 13 | 3 | 0 | 11 | 3 | 2 | 0 |
| 301 - 600 | 87 | 61 | 20 | 6 | 46 | 24 | 11 | 6 |
| 601 - 900 | 89 | 58 | 25 | 6 | 59 | 21 | 3 | 6 |
| 901 - 1200 | 118 | 95 | 19 | 4 | 76 | 15 | 16 | 11 |
| 1201 - 1500 | 99 | 78 | 16 | 5 | 55 | 21 | 12 | 11 |
| 1501 - 1800 | 103 | 71 | 18 | 14 | 59 | 22 | 11 | 11 |
| 1801 - 2100 | 121 | 94 | 13 | 14 | 60 | 46 | 10 | 5 |
| 2101 - 2400 | 135 | 115 | 10 | 10 | 51 | 54 | 18 | 12 |
| 2401 - 2700 | 116 | 105 | 5 | 6 | 33 | 49 | 22 | 12 |
| 2701 - 3000 | 126 | 123 | 1 | 2 | 40 | 53 | 15 | 18 |
| 3001 - 3300 | 120 | 120 | 0 | 0 | 35 | 57 | 18 | 10 |
| 3301 - 3600 | 107 | 106 | 1 | 0 | 29 | 53 | 11 | 14 |
| 3601 - 3900 | 82 | 79 | 0 | 3 | 21 | 46 | 7 | 8 |
| 3901 - 4200 | 61 | 60 | 1 | 0 | 15 | 31 | 11 | 4 |
| over 4200 | 98 | 96 | 1 | 1 | 31 | 53 | 9 | 5 |
| Totals | **1,478** | **1,274** | **133** | **71** | **621** | **548** | **176** | **133** |

Type of Retirement

1 - Normal retirement
2 - Survivor payment
3 - Disability retirement

Option 1 - Whole Life Annuity
Option 2 - 75% Joint and Contingent Annuity
Option 3 - 50% Joint and Contingent Annuity
Option 4 - 66-2/3% Joint and Survivor Annuity

## Public Employees' Retirement System
## Schedule of Average Benefit Payments
## New Retirees

| | Years of Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0 - 4 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ |
| **Others** | | | | | | | |
| Period 7/1/93 - 6/30/94: | | | | | | | |
| Average Monthly Benefit | $ 503 | $ 449 | $ 863 | $1,412 | $1,886 | $2,710 | $3,131 |
| Number of Active Retirants | 17 | 149 | 169 | 136 | 60 | 17 | 19 |
| Period 7/1/94 - 6/30/95: | | | | | | | |
| Average Monthly Benefit | $ 754 | $ 483 | $ 890 | $1,523 | $2,087 | $2,688 | $2,607 |
| Number of Active Retirants | 5 | 148 | 154 | 132 | 76 | 25 | 21 |
| Period 7/1/95 - 6/30/96: | | | | | | | |
| Average Monthly Benefit | $ 652 | $ 483 | $ 855 | $1,385 | $1,920 | $2,624 | $3,473 |
| Number of Active Retirants | 46 | 179 | 188 | 143 | 87 | 35 | 24 |
| Period 7/1/96 - 6/30/97: | | | | | | | |
| Average Monthly Benefit | $ 905 | $ 481 | $ 872 | $1,507 | $2,086 | $2,821 | $3,308 |
| Number of Active Retirants | 43 | 254 | 223 | 191 | 112 | 54 | 27 |
| Period 7/1/97 - 6/30/98: | | | | | | | |
| Average Monthly Benefit | $ 943 | $ 511 | $ 935 | $1,512 | $2,090 | $3,007 | $3,700 |
| Number of Active Retirants | 107 | 246 | 281 | 282 | 175 | 86 | 42 |
| Period 7/1/98 - 6/30/99: | | | | | | | |
| Average Monthly Benefit | $ 653 | $ 518 | $ 894 | $1,477 | $2,129 | $2,853 | $3,813 |
| Number of Active Retirants | 55 | 237 | 249 | 225 | 157 | 86 | 44 |
| **Police/Fire** | | | | | | | |
| Period 7/1/93 - 6/30/94: | | | | | | | |
| Average Monthly Benefit | $ 417 | $ 748 | $1,054 | $1,532 | $2,748 | $3,825 | $ - |
| Number of Active Retirants | 1 | 7 | 9 | 13 | 32 | 9 | - |
| Period 7/1/94 - 6/30/95: | | | | | | | |
| Average Monthly Benefit | $ - | $ 893 | $ 851 | $1,608 | $3,002 | $3,107 | $ - |
| Number of Active Retirants | - | 8 | 10 | 18 | 42 | 10 | - |
| Period 7/1/95 - 6/30/96: | | | | | | | |
| Average Monthly Benefit | $1,938 | $ 757 | $1,708 | $1,852 | $2,916 | $3,375 | $3,870 |
| Number of Active Retirants | 3 | 6 | 5 | 11 | 39 | 10 | 2 |
| Period 7/1/96 - 6/30/97: | | | | | | | |
| Average Monthly Benefit | $1,263 | $ 592 | $ 957 | $1,719 | $2,811 | $3,545 | $4,733 |
| Number of Active Retirants | 10 | 12 | 18 | 40 | 68 | 15 | 3 |
| Period 7/1/97 - 6/30/98: | | | | | | | |
| Average Monthly Benefit | $1,472 | $ 723 | $1,177 | $2,091 | $3,199 | $3,548 | $3,380 |
| Number of Active Retirants | 13 | 8 | 13 | 40 | 64 | 22 | 4 |
| Period 7/1/98 - 6/30/99: | | | | | | | |
| Average Monthly Benefit | $1,879 | $ 698 | $1,214 | $1,808 | $2,849 | $3,713 | $4,097 |
| Number of Active Retirants | 22 | 8 | 23 | 29 | 61 | 17 | 3 |

Average Monthly Benefit includes post-retirement pension adjustments and cost-of-living increases.

## Public Employees' Retirement System
## Participating Employers

Akutan, City of
Alaska, State of
Alaska Gateway School District
Alaska Housing Finance Corporation
Alaska Municipal League
Alaska, University of
Alaska, University of, Geophysical Institute
Aleutian Housing Authority
Aleutian Region School District
Aleutians East Borough
Aleutians East Borough School District
Aleutians West Coastal Resource Service Area
Allakaket, City of
Anchorage, Municipality of
Anchorage Parking Authority
Anchorage School District
Anderson, City of
Annette Island School District
Atka, City of

Baranof Island Housing Authority
Barrow, City of
Bartlett Regional Hospital
Bering Straits Coastal Resource Service Area
Bering Straits Regional Housing Authority
Bering Strait School District
Bethel, City of
Bristol Bay Borough
Bristol Bay Borough School District
Bristol Bay Housing Authority

Chatham School District
Chugach Regional School District
Cook Inlet Housing Authority
Copper River Basin Regional Housing Authority
Copper River School District
Cordova, City of
Cordova Community Medical Center
Cordova Public Schools
Craig, City of
Craig School District

Delta/Greely School District
Delta Junction, City of
Denali Borough
Denali Borough School District
Dillingham, City of
Dillingham City School District

Egegik, City of
Elim, City of

Fairbanks, City of
Fairbanks North Star Borough
Fairbanks North Star Borough School District
Fort Yukon, City of

Galena, City of
Galena City Schools

Haines Borough
Haines Borough School District
Haines, City of
Homer, City of
Hoonah, City of
Hoonah City Schools
Hooper Bay, City of
Huslia, City of
Hydaburg City Schools

Iditarod Area School District
Ilisagvik College
Interior Regional Housing Authority
Inter-island Ferry Authority

Juneau Borough School District
Juneau, City and Borough of

Kachemak, City of
Kake, City of
Kake City School District
Kaltag, City of
Kashunamuit School District
Kenai, City of
Kenai Peninsula Borough
Kenai Peninsula Borough School District
Ketchikan, City of
Ketchikan Gateway Borough
Ketchikan Gateway Borough School District
King Cove, City of
Kivalina, City of
Klawock, City of

## Public Employees' Retirement System
## Participating Employers

Klawock City School District
Kodiak, City of
Kodiak Island Borough
Kodiak Island Borough School District
Kotzebue, City of
Koyuk, City of
Kuspuk School District

Lake and Peninsula Borough
Lake and Peninsula School District
Lower Kalskag, City of
Lower Kuskokwim School District
Lower Yukon School District

Matanuska-Susitna Borough
Matanuska-Susitna Borough School District
Mekoryuk, City of

Nenana, City of
Nenana City Public Schools
Nome, City of
Nome City Public Schools
Nome Joint Utility System
Noorvik, City of
North Pacific Fisheries Management Council
North Pacific Rim Housing Authority
North Pole, City of
North Slope Borough
North Slope Borough School District
Northwest Arctic Borough
Northwest Arctic Borough School District

Old Harbor, City of

Palmer, City of
Pelican, City of
Pelican Schools
Petersburg, City of
Petersburg General Hospital
Petersburg Public Schools
Pribilof Regional School District

Quinhagak, City of

Ruby, City of

Saint George, City of
Saint Mary's, City of
Saint Mary's School District
Saint Paul, City of
Sand Point, City of
Saxman, City of
Saxman Seaport
Selawik City Council
Seldovia, City of
Seward, City of
Sitka, City and Borough of
Sitka Community Hospital
Sitka Borough School District
Skagway, City of
Skagway City School District
Soldotna, City of
Southeast Islands School District
Southeast Regional Resource Center
Southwest Region Schools
Special Education Service Agency

Tanana, City of
Tanana City School District
Thorne Bay, City of
Tlingit-Haida Regional Housing Authority
Toksook Bay, City of

Unalakleet, City of
Unalaska, City of
Unalaska City School District

Valdez, City of
Valdez City Schools

Wasilla, City of
Whittier, City of
Wrangell, City of
Wrangell City Schools

Yakutat, City and Borough of
Yakutat City School District
Yukon Flats School District
Yukon-Koyukuk School District

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