

PUBLIC EMPLOYEES' RETIREMENT SYSTEM TABLE OF CONTENTS

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December 16, 2002

The Honorable Frank H. Murkowski, 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, 2002.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2002. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The FY 2002 CAFR is divided into five sections:

- **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;
- **Financial Section**, which contains the management's discussion and analysis (MD&A) (new disclosure information), the Independent Auditors' Report, the basic financial statements, required supplementary information, and additional information;
- **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;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current (June 30, 2001) annual actuarial valuation; and
- **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 | | |
|-------------------------|-------------|-------------|-------------|
| | FY02 | FY01 | FY00 |
| Net Assets (millions) | \$7,412.8 | 8,088.4 | 8,756.6 |
| Participating Employers | 161 | 150 | 151 |

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 of this report. 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 2002, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Independent Audit

The System's annual audit was conducted by the independent accounting firm of KPMG LLP. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Actuarial Valuation

An actuarial valuation of the System is performed annually. An assumption experience study is performed at least every other year. The actuarial firm, Mercer Human Resource Consulting, completed the actuarial reviews and valuations as of June 30, 2001, and served as technical advisor to the System. Actuarial certifications and supporting statistics are included in the Actuarial and Statistical Sections of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. 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.

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 Alaska Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. 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.

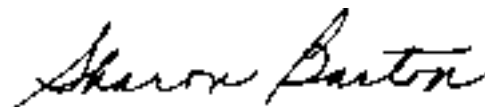
Acknowledgments

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.

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.

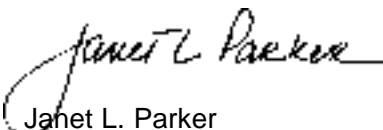
Respectfully submitted,



Sharon Barton
Acting Commissioner



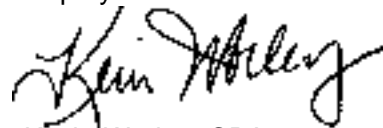
Guy Bell
Director



Janet L. Parker
Deputy Director



Anselm Staack, CPA, JD
Chief Financial Officer



Kevin 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, 2001

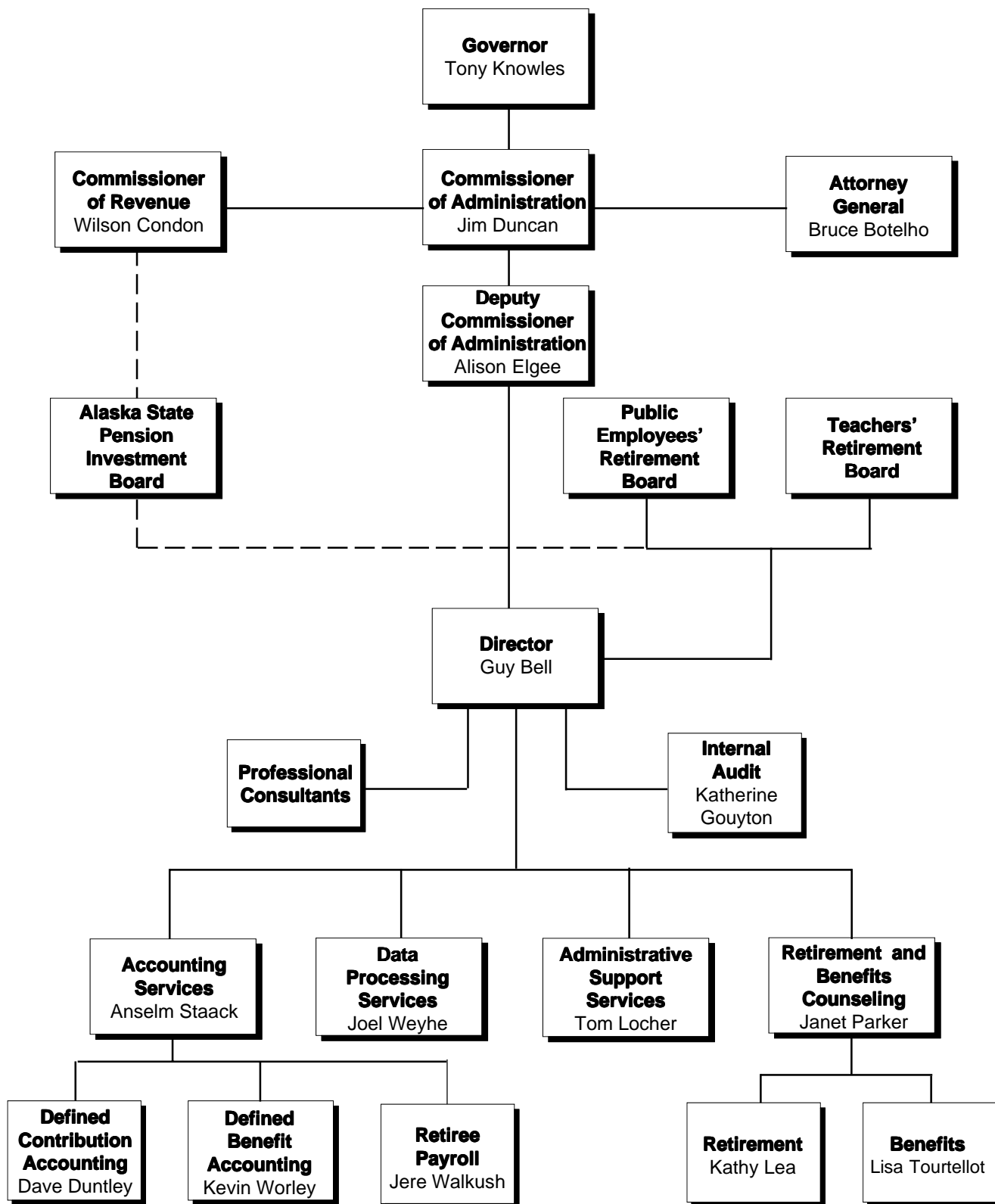
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Timothy A. Brown
President

Jeffrey L. Esser
Executive Director

ORGANIZATION CHART
as of June 30, 2002



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, 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 | |
|--|---|
| <p style="text-align: center;">Consulting Actuary Mercer Human Resource Consulting <i>Seattle, Washington</i></p> <p style="text-align: center;">Independent Auditors KPMG LLP <i>Anchorage, Alaska</i></p> <p style="text-align: center;">Benefits Consultant Deloitte & Touche, LLP <i>Minneapolis, Minnesota</i></p> <p style="text-align: center;">Third Party Health Claim Administrator Aetna Life Insurance Company <i>Walnut Creek, California</i></p> | <p style="text-align: center;">Legal Counsel John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i></p> <p style="text-align: center;">Legal Counsel - Retirement Boards Wohlforth, Vassar, Johnson & Brecht <i>Anchorage, Alaska</i></p> <p style="text-align: center;">Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p> |

A list of external money managers and consultants for the System can be found on pages 48-49, and the Schedule of Investment Management Fees on pages 58-59.

PUBLIC EMPLOYEES' RETIREMENT BOARD



James "Pat" Wellington, Chair

Term Expires: April 5, 2008

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, 2004

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.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Public Employees' Retirement System's (Plan) financial position and performance for the year ended June 30, 2002. It is presented as a narrative overview and analysis. Please read this in conjunction with the Letter of Transmittal included in the Introductory Section, the financial statements and other information which are presented in the Financial Section of this report.

Financial Highlights

The Plan's total assets exceeded its liabilities by \$7,412,833,000 at the close of Fiscal Year 2002.

The Plan's net assets held in trust for pension and postemployment healthcare benefits decreased by \$675,549,000 or 8.4% from the closing balance of those assets in Fiscal Year 2001.

Net contributions totaled \$195,408,000, an increase of 2.0% over Fiscal Year 2001.

Net investment losses decreased from \$478,249,000 to \$448,279,000, a decrease of 6.3% over Fiscal Year 2001.

Benefit payments totaled \$404,536,000, an increase of 11.3% over Fiscal Year 2001.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total liabilities. The Statement of Plan Net Assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

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

Management's Discussion and Analysis

Condensed Financial Information

**Public Employees' Retirement System
(000's omitted)**

NET ASSETS

| Description | 2002 | 2001 | Increase (Decrease) |
|----------------------------|---------------------|------------------|--------------------------------|
| Assets: | | | |
| Cash and receivables | \$ 14,009 | 15,914 | (1,905) |
| Investments, at fair value | 7,406,520 | 8,080,659 | (674,139) |
| Other assets | 118 | 351 | (233) |
| Total assets | 7,420,647 | 8,096,924 | (676,277) |
| Liabilities: | | | |
| Accrued expenses | 7,395 | 8,534 | (1,139) |
| Other liabilities | 419 | 8 | 411 |
| Total liabilities | 7,814 | 8,542 | (728) |
| Total net assets | \$ 7,412,833 | 8,088,382 | (675,549) |

CHANGES IN NET ASSETS

| | | | |
|--------------------------------------|---------------------|------------------|------------------|
| Net assets, beginning of year | \$ 8,088,382 | 8,756,580 | (668,198) |
| Additions: | | | |
| Contributions | 195,408 | 191,467 | 3,941 |
| Net investment loss | (448,279) | (478,249) | 29,970 |
| Other additions | 10 | 7 | 3 |
| Total additions | (252,861) | (286,775) | 33,914 |
| Deductions: | | | |
| Benefits | 404,536 | 363,617 | 40,919 |
| Refunds | 12,869 | 13,134 | (265) |
| Administrative expenses | 5,283 | 4,672 | 611 |
| Total deductions | 422,688 | 381,423 | 41,265 |
| Decrease in net assets | (675,549) | (668,198) | (7,351) |
| Net assets, end of year | \$ 7,412,833 | 8,088,382 | (675,549) |

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

The Statement of Plan Net Assets at the close of June 30, 2002 showed total assets exceeding total liabilities by \$7,412,833,000. This amount represents the total plan assets held in trust for pension and postemployment healthcare benefits. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries.

This amount also represents a decrease in net assets of \$675,549,000, or 8.4% from Fiscal Year 2001. The decrease is mainly due to declines in the value of investment portfolios, which reflect the substantial financial market declines of this fiscal year. The decline was partially offset by employer and plan member contributions of \$195,408,000.

Financial Analysis of the Plan

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2002, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 18% in International Equities, 31% in Domestic Fixed Income, 3% in International Fixed Income, and 7% in Real Estate.

For Fiscal Year 2002, the Plan's investments generated a -5.48% rate of return. The Plan's annualized rate of return was -0.49% over the last three years and +4.57% over the last five years.

Actuarial Valuations and Funding Progress

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 Fiscal Year 2002 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 101.1% to 100.9% during the year, using June 30, 2001 net assets as a base.

The Division of Retirement and Benefits implemented a new administrative computer system called the Combined Retirement System (CRS) in 2000. The new computer system provides more accurate data to be used in the annual actuarial valuation. Due to the differences in data between the old and new computer systems, there were minor one-time data adjustments, which affected the liabilities calculated for the Plan. A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

The Fiscal Year 2002 employer consolidated rate decreased from 8.67% to 8.07%, producing a total average rate for all employers in the Plan of 6.56%.

The Fiscal Year 2003 employer consolidated rate decreased from 8.07% to 5.43%, producing a total average rate for all employers in the Plan of 6.12%.

| Valuation Year | Millions | |
|---------------------|-----------|---------|
| | 2001 | 2000 |
| Valuation Assets | \$7,941.8 | 7,454.8 |
| Accrued Liabilities | 7,868.6 | 7,376.9 |
| Funding ratio | 100.9% | 101.1% |

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

Management's Discussion and Analysis

Contributions and Investment Income (Loss)

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

| | Revenues | | | |
|---------------------------|------------------|----------------|-------------|--------------|
| | Millions | | Inc/(Dec) | |
| | FY02 | FY01 | Amt | % |
| Plan Member Contributions | \$ 100.6 | 95.0 | 5.6 | 5.9% |
| Employer Contributions | 94.8 | 96.5 | (1.7) | (1.8%) |
| Net Investment Loss | <u>(448.3)</u> | <u>(478.3)</u> | <u>30.0</u> | 6.3% |
| Total | \$(252.9) | (286.8) | 33.9 | 11.8% |

Over the long term, the investment portfolio has been a major component in additions to plan assets. However, in Fiscal Year 2002, the Plan suffered its second consecutive year of significant losses. This reflects the substantial reversals in the major equity markets during these time frames.

Benefits, Refunds, and Expenses

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

| | Expenses | | | |
|--------------------------|-----------------|--------------|-------------|--------------|
| | Millions | | Inc/(Dec) | |
| | FY02 | FY01 | Amt | % |
| Pension Benefits | \$ 279.7 | 259.7 | 20.0 | 7.7% |
| Healthcare Benefits | 124.8 | 103.9 | 20.9 | 20.1% |
| Refunds of Contributions | 12.9 | 13.1 | (0.2) | 1.5% |
| Administrative Expenses | <u>5.3</u> | <u>4.7</u> | <u>0.6</u> | 12.8% |
| Total | \$ 422.7 | 381.4 | 41.3 | 10.8% |

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the Plan granted a discretionary

cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in healthcare benefits is due to the increase in retirees and rising costs of providing such benefits.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are determined by statute.

Legislation

During the Fiscal Year 2002 legislative session, one law was enacted that affected the Plan:

House Bill 254 – This bill was written to bring the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS) into compliance with federal tax law and keep the plans qualified for pretax contributions. Much of the bill is technical in nature but several benefits were added.

Public employees and teachers will be allowed to purchase service credit in their retirement plans with transfers of pretax savings from certain plans allowed by the Internal Revenue Code or through pretax payroll deductions. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) gave retirement plans the authority to accept pretax purchases of service credit with transfers from IRC 457 and 403(b) plans. Passage of HB 254 gives Alaskan public employees and teachers the ability to take advantage of them.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

The Plan is awaiting approval from the Internal Revenue Service (IRS) before implementing pretax payroll deductions to pay down an indebtedness.

Several other changes were made to the retirement systems during Fiscal Year 2002. Together, these changes have the following effect on the systems:

1. Creates an incentive for retired public employees to enter teaching by reducing the requirement for a TRS "conditional service benefit" from two years to one year. A retired PERS member will now be able to teach one year in a TRS covered position and earn a TRS pension benefit.
2. Allows PERS members who were temporary employees of the legislature before July 1, 1979, to claim that service. Prior to July 1, 1979, temporary legislative employees were not allowed in PERS. The new law allows PERS members to claim this service. The service must be claimed no later than July 1, 2003, or by the date of retirement if sooner. A member is eligible to receive up to 10 years of credited service for service as a temporary employee of the legislature of the state or territory during legislative sessions before July 1, 1979. Members claiming this legislative service must pay the full actuarial cost of the associated pension and health benefits.
3. Allows a disabled peace officer or fire fighter to elect the higher of their disability benefit or their normal retirement benefit upon reaching normal retirement age. Currently, they are automatically converted to a normal retirement benefit, which often has the effect of reducing their pension benefit.
4. Increases the death benefit for survivors of peace officers or fire fighters who die on the

job from 40% of final salary to the higher of 50% of final salary or 75% of the normal retirement benefit the officer would have earned had the officer survived to normal retirement.

5. Changes the number of years for calculation of average monthly compensation for peace officers and fire fighters from five years to three years.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

The financial market environment during the period July 1, 2001 through June 30, 2002 was another harsh and challenging one. The Plan's results for this period reflected this environment. While equities have typically outperformed other investment types over longer periods, equity investments can yield disappointing or even negative returns for indefinite periods of time.

The impact of Fiscal Year 2002's decline on the Plan's market value will impact both the Fiscal Year 2005 employer rates as well as the Plan's funding status as of June 30, 2002. The Plan and its employer members will know the impact of this continued stock market decline in March 2003, when the Fiscal Year 2005 employer consolidated rate will be known.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Public Employees' Retirement System, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

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

We have audited the accompanying 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, 2002 and 2001, and the related 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, 2002 and 2001, 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.

As discussed in note 2, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, effective July 1, 2001.

The accompanying required supplementary information of management's discussion and analysis on pages 9 to 13 and schedules of funding progress and employer contributions on pages 35 to 37 and additional information on pages 38 to 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 43 and 44 are presented for the purpose of additional analysis and are 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 45 through 90 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.

KPMG LLP

September 27, 2002

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

Statements of Plan Net Assets

**June 30, 2002 and 2001
(000's omitted)**

| | 2002 | | | 2001 | | |
|---|---------------------------|-----------------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
| | Pension | Post- employment Healthcare | Total | Pension | Post- employment Healthcare | Total |
| Current assets: | | | | | | |
| Cash and cash equivalents (notes 3 and 4): | | | | | | |
| Short-term fixed income pool | \$ 2,526 | 1,027 | 3,553 | 377 | 153 | 530 |
| Receivables: | | | | | | |
| Contributions | 6,443 | 2,618 | 9,061 | 6,605 | 2,684 | 9,289 |
| Retirement Incentive Program employer contributions (note 7) | 992 | 403 | 1,395 | 3,749 | 1,524 | 5,273 |
| Due from State of Alaska General Fund | - | - | - | 585 | 237 | 822 |
| Total receivables | <u>7,435</u> | <u>3,021</u> | <u>10,456</u> | <u>10,939</u> | <u>4,445</u> | <u>15,384</u> |
| Investments, at fair value (notes 3 and 4): | | | | | | |
| Domestic equity pool | 1,978,677 | 729,663 | 2,708,340 | 2,417,050 | 918,940 | 3,335,990 |
| Retirement fixed income pool | 1,616,313 | 656,855 | 2,273,168 | 1,471,224 | 597,892 | 2,069,116 |
| International equity pool | 868,586 | 352,986 | 1,221,572 | 942,673 | 383,094 | 1,325,767 |
| Real estate pool | 412,699 | 167,718 | 580,417 | 418,479 | 170,066 | 588,545 |
| International fixed income pool | 177,589 | 72,171 | 249,760 | 273,627 | 111,200 | 384,827 |
| Private equity pool (note 8) | 139,265 | 56,597 | 195,862 | 146,805 | 59,660 | 206,465 |
| Emerging markets equity pool | 49,942 | 20,296 | 70,238 | 51,591 | 20,966 | 72,557 |
| External domestic fixed income pool | 76,197 | 30,966 | 107,163 | 69,249 | 28,143 | 97,392 |
| Total investments | <u>5,319,268</u> | <u>2,087,252</u> | <u>7,406,520</u> | <u>5,790,698</u> | <u>2,289,961</u> | <u>8,080,659</u> |
| Loans and mortgages, at fair value, net of allowance for loan losses of \$86 in 2002, and \$202 in 2001 | 67 | 27 | 94 | 248 | 101 | 349 |
| Other current assets | 17 | 7 | 24 | 1 | 1 | 2 |
| Total assets | <u>5,329,313</u> | <u>2,091,334</u> | <u>7,420,647</u> | <u>5,802,263</u> | <u>2,294,661</u> | <u>8,096,924</u> |
| Current liabilities: | | | | | | |
| Accrued expenses | 5,258 | 2,137 | 7,395 | 6,068 | 2,466 | 8,534 |
| Due to State of Alaska General Fund | 297 | 120 | 417 | - | - | - |
| Alaska Department of Commerce escrow liability | 1 | 1 | 2 | 6 | 2 | 8 |
| Total liabilities | <u>5,556</u> | <u>2,258</u> | <u>7,814</u> | <u>6,074</u> | <u>2,468</u> | <u>8,542</u> |
| Commitments and Contingencies (note 8) | | | | | | |
| Net assets held in trust for pension and postemployment healthcare benefits | <u>\$5,323,757</u> | <u>2,089,076</u> | <u>7,412,833</u> | <u>5,796,189</u> | <u>2,292,193</u> | <u>8,088,382</u> |

(Schedules of funding progress are presented on pages 35 and 36)

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Assets

June 30, 2002 and 2001
(000's omitted)

| | 2002 | | | 2001 | | |
|--|---------------------------|-----------------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
| | Pension | Post- employment Healthcare | Total | Pension | Post- employment Healthcare | Total |
| Additions: | | | | | | |
| Contributions: | | | | | | |
| Employers | \$ 67,385 | 27,384 | 94,769 | 68,604 | 27,880 | 96,484 |
| Plan members | 71,558 | 29,081 | 100,639 | 67,537 | 27,446 | 94,983 |
| Total contributions | <u>138,943</u> | <u>56,465</u> | <u>195,408</u> | <u>136,141</u> | <u>55,326</u> | <u>191,467</u> |
| Investment income (loss): | | | | | | |
| Net depreciation in fair value of investments (note 3) | (502,081) | (204,041) | (706,122) | (558,855) | (227,114) | (785,969) |
| Interest | 116,210 | 47,226 | 163,436 | 125,703 | 51,085 | 176,788 |
| Dividends | 79,222 | 32,196 | 111,418 | 107,221 | 43,574 | 150,795 |
| Net recognized mortgage loan recovery | 66 | 27 | 93 | - | - | - |
| Total investment loss | <u>(306,583)</u> | <u>(124,592)</u> | <u>(431,175)</u> | <u>(325,931)</u> | <u>(132,455)</u> | <u>(458,386)</u> |
| Less investment expense | 12,162 | 4,942 | 17,104 | 14,123 | 5,740 | 19,863 |
| Net investment loss | <u>(318,745)</u> | <u>(129,534)</u> | <u>(448,279)</u> | <u>(340,054)</u> | <u>(138,195)</u> | <u>(478,249)</u> |
| Other | 7 | 3 | 10 | 5 | 2 | 7 |
| Total additions | <u>(179,795)</u> | <u>(73,066)</u> | <u>(252,861)</u> | <u>(203,908)</u> | <u>(82,867)</u> | <u>(286,775)</u> |
| Deductions: | | | | | | |
| Benefits | 279,731 | 124,805 | 404,536 | 259,771 | 103,846 | 363,617 |
| Refunds of contributions | 9,150 | 3,719 | 12,869 | 9,339 | 3,795 | 13,134 |
| Administrative expenses | 3,756 | 1,527 | 5,283 | 3,322 | 1,350 | 4,672 |
| Total deductions | <u>292,637</u> | <u>130,051</u> | <u>422,688</u> | <u>272,432</u> | <u>108,991</u> | <u>381,423</u> |
| Net decrease | (472,432) | (203,117) | (675,549) | (476,340) | (191,858) | (668,198) |
| Net assets held in trust for pension and postemployment healthcare benefits: | | | | | | |
| Balance, beginning of year | 5,796,189 | 2,292,193 | 8,088,382 | 6,272,529 | 2,484,051 | 8,756,580 |
| Balance, end of year | <u>\$5,323,757</u> | <u>2,089,076</u> | <u>7,412,833</u> | <u>5,796,189</u> | <u>2,292,193</u> | <u>8,088,382</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements

**Years ended June 30, 2002 and 2001
(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, 2002 and 2001, the number of participating local government employers and public organizations including the State was:

| | <u>2002</u> | <u>2001</u> |
|------------------|-------------|-------------|
| State of Alaska | 1 | 1 |
| Municipalities | 80 | 75 |
| School districts | 52 | 47 |
| Other | <u>28</u> | <u>27</u> |
| | <u>161</u> | <u>150</u> |

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, 2001 and 1999, the dates of the two most recent actuarial valuations, which included Plan membership data, Plan membership consisted of:

| | <u>2001</u> | <u>1999</u> |
|---|----------------------|----------------------|
| Retirees and beneficiaries currently receiving benefits | 16,274 | 14,185 |
| Terminated Plan members entitled to future benefits | <u>6,187</u> | <u>5,395</u> |
| | <u>22,461</u> | <u>19,580</u> |
| Current Plan members: | | |
| General | 29,758 | 29,590 |
| Police and fire | <u>2,683</u> | <u>2,624</u> |
| | <u>32,441</u> | <u>32,214</u> |
| | <u>54,902</u> | <u>51,794</u> |
| Current Plan members: | | |
| Vested: | | |
| General | 16,755 | 17,254 |
| Police and fire | 1,814 | 1,781 |
| Nonvested: | | |
| General | 13,003 | 12,336 |
| Police and fire | <u>869</u> | <u>843</u> |
| | <u>32,441</u> | <u>32,214</u> |

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

Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

(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, and all police and fire employees, the average monthly compensation is based upon the employees' three highest, consecutive years salaries. For all other 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 are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Police and fire employees with 25 years of membership service also receive benefits at no premium cost.

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

Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust 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 other Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the Plan member's salary. If an active police and fire Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the Plan member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. 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 other Plan member receives normal retirement benefits. A police and fire Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

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

Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

(f) Contributions

Plan Member Contributions

Contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, 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 collected 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.

(h) Due To/From State of Alaska General Fund

Amounts due to/from the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and 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

**STATE OF ALASKA
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Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

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.

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,

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Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

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.

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.

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

Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

(f) Federal Income Tax Status

The Plan is 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

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2001, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of fiduciary net assets and statements of changes in fiduciary net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The adoption of GASB No. 34 had no cumulative effect on net assets. The 2001 financial statements have been adjusted to conform to the requirements of GASB No. 34.

(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, 2002 and 2001, 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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(A Component Unit of the State of Alaska)**

Notes to Financial Statements

**June 30, 2002 and 2001
(000's omitted)**

The cost and fair value of the Plan's investments at June 30, 2002 and 2001 are as follows:

| | <u>Cost</u> | <u>Fair Value</u> |
|-------------------------------------|----------------------------|-------------------------|
| 2002: | | |
| Domestic equity pool | \$ 2,787,975 | 2,708,340 |
| Retirement fixed income pool | 2,235,539 | 2,273,168 |
| International equity pool | 1,405,234 | 1,221,572 |
| Real estate pool | 540,968 | 580,417 |
| International fixed income pool | 239,819 | 249,760 |
| Private equity pool | 236,216 | 195,862 |
| Emerging markets equity pool | 90,562 | 70,238 |
| External domestic fixed income pool | <u>104,944</u> | <u>107,163</u> |
| | <u>\$ 7,641,257</u> | <u>7,406,520</u> |
| 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 | <u>96,544</u> | <u>97,392</u> |
| | <u>\$ 7,853,732</u> | <u>8,080,659</u> |

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

**Notes to Financial Statements
June 30, 2002 and 2001
(000's omitted)**

During 2002 and 2001, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

| | <u>2002</u> | <u>2001</u> |
|--|---------------------------|-------------------------|
| Investments measured by quoted fair value in an active market: | | |
| Domestic equity pool | \$(586,485) | (497,598) |
| Retirement fixed income pool | 36,650 | 90,518 |
| International equity pool | (140,920) | (321,990) |
| Real estate pool | (9,661) | 11,458 |
| International fixed income pool | 34,300 | (44,615) |
| Private equity pool | (40,568) | (2,248) |
| Emerging markets equity pool | (2,899) | (25,469) |
| External domestic fixed income pool | <u>3,461</u> | <u>3,975</u> |
| | <u>\$(706,122)</u> | <u>(785,969)</u> |

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2002 and 2001, 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 and maintained share price of \$1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, mortgage and asset-backed securities, corporate debt and other U.S. dollar denominated bonds. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2002 and 2001, the Plan has a 0.26% and 0.05% direct ownership in the short-term fixed income pool totaling \$3,553 and \$530, respectively. These amounts include interest receivable of \$5 and \$15, 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 share price of \$1,000. Each manager may independently determine the allocation between equity and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan's investment in the domestic equity pool totaled 66.50% and 66.16%, respectively, and consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|---|---------------------------|-------------------------|
| Domestic equity securities | \$2,671,201 | 3,245,953 |
| Convertible bonds | 7,747 | 4,271 |
| Available cash held in the short-term fixed income pool, other short-term debt instruments and currency | 34,052 | 41,950 |
| Net receivables (payables) | <u>(4,660)</u> | <u>43,816</u> |
| | <u>\$2,708,340</u> | <u>3,335,990</u> |

(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 share price of \$1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan's investment in the retirement fixed income pool totaled 65.91% and 66.53%, respectively, and consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|---|---------------------------|-------------------------|
| Mortgage related | \$ 805,422 | 775,202 |
| Corporate | 584,398 | 656,149 |
| U.S. Treasury | 406,115 | 384,952 |
| Yankees | 30,730 | 69,813 |
| Asset backed | 144,141 | 68,267 |
| U.S. government agency | 140,229 | 67,114 |
| Available cash held in the short-term fixed income pool | 181,700 | 79,673 |
| Net payables | <u>(19,567)</u> | <u>(32,054)</u> |
| | <u>\$2,273,168</u> | <u>2,069,116</u> |

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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 share price of \$1,000. Each manager may independently determine the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan's investment in the international equity pool totaled 66.51% and 66.13%, respectively, and consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|---|---------------------------|-------------------------|
| International equity securities | \$1,198,356 | 1,300,832 |
| Available cash held in short-term debt instruments and foreign currency | 17,989 | 22,860 |
| Net receivables | <u>5,227</u> | <u>2,075</u> |
| | <u>\$1,221,572</u> | <u>1,325,767</u> |

(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 share price of \$1. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan has 66.76% and 66.59% direct ownership in the real estate equity pool totaling \$580,417 and \$588,545, 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 share price of \$1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan's investment in the international

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fixed income pool totaled 66.85% and 66.50%, respectively and consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|---|-------------------------|-----------------------|
| International fixed income securities | \$ 241,314 | 196,851 |
| Available cash held in short-term debt instruments and foreign currency | 3,875 | 4,004 |
| Net receivables | <u>4,571</u> | <u>183,972</u> |
| | <u>\$249,760</u> | <u>384,827</u> |

(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 share price of \$1,000. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. 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, 2002 and 2001, the Plan has 66.87% and 66.44% direct ownership in the private equity pool totaling \$195,862 and \$206,465, 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 share price of \$1,000. 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 securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan has a 65% ownership in the pool totaling \$70,238 and \$72,557, 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 share price of \$1,000. Each manager may independently determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. 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 shares of the pool outstanding on the valuation date. 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, 2002 and 2001, the Plan's investment in the external domestic fixed income pool totaled 66.09% and

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65.73%, respectively and consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|--|-------------------------|----------------------|
| Mortgage related | \$ 42,751 | 49,391 |
| Corporate | 22,071 | 18,666 |
| U.S. Treasury | 18,443 | 17,333 |
| U.S. government agency | 2,984 | 3,930 |
| Asset backed | 6,990 | 3,619 |
| Yankees | 666 | 1,658 |
| Municipal | 660 | 557 |
| Available cash held in short-term debt instruments | 10,262 | 4,052 |
| Net receivables (payables) | <u>2,336</u> | <u>(1,814)</u> |
| | <u>\$107,163</u> | <u>97,392</u> |

**(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 (losses) with respect

to such contracts, calculated using forward rates at June 30 as follows:

| | <u>2002</u> | <u>2001</u> |
|---|------------------------|-------------------|
| Net contract sales | \$ 8,209 | 5,258 |
| Less: fair value | <u>8,794</u> | <u>5,118</u> |
| Net unrealized gains (losses) on contracts | <u>\$ (585)</u> | <u>140</u> |

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 Corporation (the Bank) to lend short-term fixed income, marketable debt, domestic equity and international 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

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securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2002 and 2001, the fair value of securities on loan allocable to the Plan totaled \$737,354 and \$674,797, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 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 are 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 years ended June 30, 2002 and 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 provided 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 encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings to the employer. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established 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

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situation of each agency. Some State agencies could determine that the RIP was not cost-effective for their agency and elect not to participate in the RIP. Other agencies offered the RIP only in divisions or job classifications facing budget reductions or position cuts.

Employers who participated in either of the RIP programs were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received 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 were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired. Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retire. There were no additions to plan net assets during fiscal year 2002 or 2001.

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

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

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount. There were no additions to plan net assets during fiscal year 2002 or 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, 2002, the Plan's share of these unfunded commitments totaled \$268,652 to be paid through the year 2006.

The Plan, through its investment in the real estate pool, entered into an agreement through an external investment manager to provide capital funding for construction of real estate. At June 30, 2002, the Plan's share of these unfunded commitment totaled \$9,726 to be paid in 2003.

(b) Contingencies

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

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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 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. In 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment. The likelihood of an unfavorable outcome is possible, however the costs would be passed through to employers through the normal contribution process.

Approximately 50 Plan members have filed administrative challenges to the Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the Plan statutes in effect before that date, to have leave cash-in payments included. The Plan board, which hears appeals from decisions of the Plan administrator, has ruled on two of the appeals, and those

rulings have in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the Plan board. In addition, a class action lawsuit, raising the same issues, has been filed in the superior court, but has been put on hold until final resolution of the members' claim. The administrator intends to vigorously contest all of these claims.

(9) SUBSEQUENT EVENTS

(a) Litigation

The Plan has settled two consolidated class action lawsuits in Alaska Superior Court, subject to court approval. The lawsuits claim that the Plan owed interest on retroactive benefit payments made by the Plan resulting from a change in the way benefits were calculated for members who retired more than once. The Alaska Superior Court ruled that the Plan was liable for interest and settlement was reached after the ruling. The interest cost to the Plan is approximately \$2.2 million and will be paid by the Plan subsequent to the Plan's year end.

(b) Actuarial Audit

The Plan contracted for an actuarial audit of the Plan's consulting actuary, Mercer Human Resource Consulting. Based upon a review of the 2000 experience studies and the 2001 valuation reports, including the underlying data and calculations, the auditor (Milliman USA) found the actuarial work to be generally reasonable. The valuations were performed in accordance with generally accepted actuarial standards and principles. However, the auditor found a

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number of areas where changes are needed, and made additional observations and recommendations for improving the actuarial process.

The major issues noted by the auditor are categorized under two levels of significance to the overall funding status of the Plan. Level A findings include areas where changes are needed to correct the implementation of a method, calculation, or use of data, and which will result in a financial impact on the actuarial findings. Level B findings are in areas where the auditor recommends changes based on their professional opinion or preferences; these will also ultimately have some financial impact, if adopted, on the resulting actuarial valuation.

The financial impact of level A findings would

have increased the June 30, 2001 target liability by \$44.5 million, or 0.57%. All level A changes will be incorporated into the June 30, 2002 actuarial valuation report. Those level B changes that do not require prior Board approval will also be implemented for the June 30, 2002 actuarial valuation report; the precise financial effect of these changes has not been determined at this time. Additionally, documentation describing the implications of the remaining level B items that require Board approval will be prepared for presentation to the Board. The Board will then determine which level B items should be adopted and will incorporate those changes in future actuarial valuation reports.

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**Required Supplementary Information
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June 30, 2002 and 2001

**Schedule of Funding Progress
Pension Benefits
(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% |
| 2001 | 5,579,440 | 5,528,026 | 51,414 | 100.9% | 1,208,700 | 4.3% |

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

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**Schedule of Funding Progress
Postemployment Healthcare Benefits
(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% |
| 2001 | 2,362,316 | 2,340,548 | 21,768 | 100.9% | 1,208,700 | 1.8% |

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

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June 30, 2002 and 2001

**Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits
(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) |
|-------------------------------|---|---|---|--|--|--|
| 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% |
| 2002 | 65,485 | 26,613 | 92,098 | 102.9% | 102.9% | 102.9% |

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

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**June 30, 2002 and 2001
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(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 Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuations as of June 30, 2001 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 | |
|--------------|------|
| 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, 0.5% and 1.5%, respectively, and for all other members, productivity and merit (first ten years) 0.5% and 1.5%, respectively.
- (g) 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.
- (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.

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- (i) Contribution refunds – 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the Plan and 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 are 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 3.381643% 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.

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

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

**Notes to Required Supplementary Information
(Unaudited)**

**June 30, 2002 and 2001
(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% 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.

Effective June 30, 2001, the following changes were made:

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 3.381643% from 2.343757%.

(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

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

**Notes to Required Supplementary Information
(Unaudited)**

**June 30, 2002 and 2001
(000's omitted)**

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
(A Component Unit of the State of Alaska)**

Schedule of Administrative and Investment Expenses

**Year ended June 30, 2002
with comparative totals for 2001
(000's omitted)**

| | <u>Administrative expenses</u> | <u>Investment expenses</u> | <u>Totals</u> | |
|---|------------------------------------|--------------------------------|----------------------|----------------------|
| | | | <u>2002</u> | <u>2001</u> |
| Personal services: | | | | |
| Wages | \$ 2,077 | 777 | 2,854 | 2,755 |
| Benefits | <u>791</u> | <u>219</u> | <u>1,010</u> | <u>968</u> |
| Total personal services | <u>2,868</u> | <u>996</u> | <u>3,864</u> | <u>3,723</u> |
| Travel: | | | | |
| Transportation | 56 | 45 | 101 | 89 |
| Per diem | 50 | 43 | 93 | 75 |
| Moving | - | 5 | 5 | 5 |
| Honorarium | <u>20</u> | <u>10</u> | <u>30</u> | <u>22</u> |
| Total travel | <u>126</u> | <u>103</u> | <u>229</u> | <u>191</u> |
| Contractual services: | | | | |
| Management and consulting | 430 | 14,875 | 15,305 | 17,786 |
| Accounting and auditing | 21 | 711 | 732 | 733 |
| Other professional services | 711 | 17 | 728 | 546 |
| Data processing | 271 | 18 | 289 | 377 |
| Communications | 225 | 36 | 261 | 261 |
| Advertising and printing | 50 | 162 | 212 | 191 |
| Rentals/leases | 121 | 53 | 174 | 166 |
| Legal | 49 | 26 | 75 | 65 |
| Medical specialists | 49 | - | 49 | 52 |
| Repairs and maintenance | 20 | 2 | 22 | 12 |
| Transportation | 12 | 2 | 14 | 6 |
| Other services | <u>64</u> | <u>34</u> | <u>98</u> | <u>131</u> |
| Total contractual services | <u>2,023</u> | <u>15,936</u> | <u>17,959</u> | <u>20,326</u> |
| Other: | | | | |
| Equipment | 28 | 55 | 83 | 197 |
| Supplies | <u>238</u> | <u>14</u> | <u>252</u> | <u>98</u> |
| Total other | <u>266</u> | <u>69</u> | <u>335</u> | <u>295</u> |
| Total administrative and investment expenses | <u>\$ 5,283</u> | <u>17,104</u> | <u>22,387</u> | <u>24,535</u> |

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, 2002 and 2001
(000's omitted)**

| <u>Firm</u> | <u>Services</u> | <u>2002</u> | <u>2001</u> |
|---------------------------------------|-----------------------------|-----------------|--------------|
| State Street Corporation | Custodian banking services | \$ 904 | 841 |
| Deloitte and Touche LLP | Benefits consultation | 215 | - |
| Mercer Human Resource Consulting | Actuarial services | 215 | 218 |
| The Retirement Concepts Group, Ltd. | Data processing consultants | 193 | 202 |
| State of Alaska, Department of Law | Legal services | 120 | 57 |
| Mikunda, Cottrell & Co., Inc. | PERS Board elections | 77 | 39 |
| Wohlforth, Vasser, Johnson and Brecht | PERS Board legal services | 49 | 55 |
| Cost Effectiveness Measurement | Cost study | 25 | 25 |
| First National Bank of Alaska | Banking services | 23 | 19 |
| KPMG LLP | Auditing services | 21 | 51 |
| | | <u>\$ 1,842</u> | <u>1,507</u> |

See accompanying independent auditors' report.

MERCER

Human Resource Consulting

One Union Square
600 University Street, Suite 3200
Seattle, WA 98101-3137
206 808 8800 Fax 206 382 0627
www.mercerHR.com

March 18, 2002

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, 2001 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, 2001;
- (2) a determination of the appropriate contribution rate for each employer in the System; and
- (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 benefit recipients added to and removed from rolls
- (4) Solvency test
- (5) Analysis of financial experience

MERCER

Human Resource Consulting

Public Employees' Retirement Board

March 18, 2002

Page 2

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 101.1% to 100.9% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

The Division of Retirement and Benefits implemented a new administrative system (CRS) in 2000. The new system provides more accurate data to be used in the annual actuarial valuation. Due to the differences in the data between the old and new computer systems there were minor one-time data adjustments which affected the liabilities calculated for the System. A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, 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.

MERCER

Human Resource Consulting

Public Employees' Retirement Board
March 18, 2002
Page 3

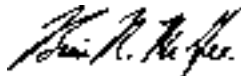
The undersigned are members of the American Academy of Actuaries or the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

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.

It is our understanding that most of the information presented in the Required Supplementary Information in the Financial Section and in the supporting schedules in the Actuarial and Statistical Sections of this annual financial report was taken from the State of Public Employees' Retirement System Actuarial Valuation Report as of June 30, 2001, that was prepared by Mercer Human Resource Consulting.

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 (now known as Mercer Human Resource Consulting) and were adopted at the Fall 2000 TRS 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, 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 the 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 <u>Police/Fire</u> Merit (first 5 years of employment) - 1.5% per year Productivity - 1.0% per year <u>Others</u> Merit (first 10 years of employment) - 1.5% per year 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 | FY01 - 7.5% FY02 - 6.5% FY03 - 5.5% | FY04 - FY08 - 5.0% FY09 - FY13 - 4.5% 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., 68% 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: Pessimistic: 0% per year Median: 1% per year 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**

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 are then compared to a 5% corridor around the market value of assets. Any amount below the corridor is a current deferred gain and any amount above the corridor is a current deferred loss. The outstanding balance of previously deferred amounts is determined. If both the outstanding balance and any current amount are deferred gains or losses, the greater of the two is amortized. If one of either the outstanding balance or the current amount is a deferred gain and the other is deferred loss, the difference is amortized. The amount amortized is applied to the employer contribution rate as a level percentage of the present value 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. All assets are valued at market value. Assets are accounted for on an accrued 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 3.381643% 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 FY02, the pre-65 monthly premium is \$754.76 and the post-65 premium is \$287.53, based on an assumed total blended premium of \$577.40. For the time period January 1, 2002 to December 31, 2002, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is \$668.00.

**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 | ----- 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 |

Police/fire members retiring at ages under 50 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, 2001 | 29,758 | \$ 1,208,700 | \$40,618 | 5.4% | 158 |
| 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 |
| Police/Fire | | | | | |
| June 30, 2001 | 2,683 | \$151,701 | \$56,542 | 3.9% | 158 |
| 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 |

| Public Employees' Retirement System Schedule of Retirants and Beneficiaries Added to and Removed from Rolls | | | | | | | | |
|---|----------------|---------------------------|--------------------|--------------------------|---------------------|-------------------|-------------------------------|--------------------------|
| Year Ended | Added to Rolls | | Removed from Rolls | | Rolls - End of Year | | Increase in Annual Allowances | Average Annual Allowance |
| | No.* | Annual Allowances* | No.* | Annual Allowances* | No. | Annual Allowances | | |
| All Others | | | | | | | | |
| June 30, 2001 | 2,342 | \$46,880,694 | 506 | \$10,128,792 | 14,543 | \$216,466,228 | 20.5% | \$15,071 |
| 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 | 7.2% | 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 |
| Police/Fire | | | | | | | | |
| June 30, 2001 | 328 | \$12,637,854 | 75 | \$2,889,753 | 1,731 | \$51,875,325 | 23.1% | \$29,986 |
| 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 |
| * 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: | | | Valuation Assets (000s) | Portion of Accrued Liabilities Covered by Assets | | |
| | (1) Active Member Contributions (000s) | (2) Inactive Members (000s) | (3) Active Members (Employer-Financed Portion) (000s) | | (1) | (2) | (3) |
| June 30, 2001 | \$920,702 | \$5,059,386 | \$1,888,486 | \$7,941,756 | 100% | 100% | 100.0% |
| June 30, 2000 ⁽²⁾⁽³⁾ | 892,949 | 4,588,201 | 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% |

(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 | | | | |
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| Health Experience | - | - | - | - | - |
| Salary Experience | (1.03)% | - | (0.23)% | (0.46)% | (0.06)% |
| Investment Experience | 0.11% | (0.12)% | (0.49)% | (3.26)% | (1.26)% |
| Demographic Experience | <u>0.77%</u> | <u>(0.81)%</u> | <u>0.21%</u> | <u>1.12%</u> | <u>0.03%</u> |
| (Gain) or Loss During Year From Experience | (0.15)% | (0.93)% | (0.51)% | (2.60)% | (1.29)% |
| Non-recurring changes | | | | | |
| Asset Valuation Method | - | (2.67)% | - | - | - |
| Assumption Changes | - | 3.09% | - | 1.08% | - |
| Ad hoc PRPA | 0.06% | 0.07% | 0.04% | 0.20% | 0.91% |
| System Benefit Changes | 0.17% | - | - | - | - |
| Target Liability Adjustment | <u>0.57%</u> | - | - | <u>0.99%</u> | - |
| Composite (Gain) or Loss During Year | <u>0.65%</u> | <u>(0.44)%</u> | <u>(0.47)%</u> | <u>(0.33)%</u> | <u>(0.38)%</u> |
| Beginning Average Employer Contribution Rate | <u>6.12%</u> | <u>6.56%</u> | <u>7.03%</u> | <u>7.36%</u> | <u>7.74%</u> |
| Ending Average Employer Contribution Rate | <u>6.77%</u> | <u>6.12%</u> | <u>6.56%</u> | <u>7.03%</u> | <u>7.36%</u> |
| Board Adopted Employer Contribution Rate | <u>6.77%</u> | <u>6.75%</u> | <u>6.75%</u> | <u>7.40%</u> | <u>7.74%</u> |

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2001. 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. Chapter 4, 1996 Session Laws of Alaska created a third tier. Members who were first hired after June 30, 1996 have a 10 year requirement for system paid 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 158 employers participating in the PERS, including the State of Alaska and 147 political subdivisions and public organizations.

(4) Membership

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;

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

- Alaska Bureau of Indian Affairs service;
- 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).

Members employed as dispatchers or within a state correctional facility may, at retirement, elect to convert their dispatcher or correctional facility service from "all other" service to police/fire service and retire under the 20 year retirement option. Members pay full actuarial cost of conversion.

(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%. Those all other members who have elected to have their service calculated under the Teachers' Retirement System rules contribute 9.6% of their compensation. 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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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.

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 60¹, 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.

- (v) Two years of paid-up PERS service and a minimum three years of TRS service.

- (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.

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 elect an early retirement or joint and survivor option. Members who entered the PERS prior to July 1, 1986 may also select level income. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculations: 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 calculated benefit is less.

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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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 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, if a member is otherwise eligible to retire, 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. A member who retired with a normal retirement benefit (non-RIP) can elect to waive payment of PERS contributions. The waiver allows the member to continue receiving the retirement benefit during the period of reemployment. Members who elect the waiver option do not earn additional PERS service. This is not available to RIP participants.

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 150% of the benefits that they received for state and political subdivision members, and 110% for school district employees, under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate for the 1986 and 1989 RIPs. Under the 1996-2000 RIP, the penalty is 150% of the benefits received; 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 and receive benefits at no cost if they are over age sixty. In addition, peace officers with twenty-five years of peace officer service and other employees with thirty years of membership service receive benefits at no cost, regardless of their age and date of hire.

(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.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Occupational Disability: 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.

Nonoccupational Disability: 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.

Occupational Death: 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.

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

Nonoccupational Death: 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.

Lump Sum Benefit: 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.

Death After Retirement: 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

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

Summary of Plan Provisions

(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 first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase.

In a year where both an ad hoc and an automatic PRPA are granted, eligible members receive the higher of the two calculations.

(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 entered the PERS after June 30, 1986, and their survivors if they are at least age 65; and
- (c) all disabled members.



Alaska State Pension Investment Board

P.O. Box 110405
Juneau, Alaska 99811-0405
(907) 465-3749

Message from the Chair

I am pleased to present the 2002 Annual Report of Investments for the period ending June 30, 2002 to you, the participants and beneficiaries of this retirement trust fund.

The difficult financial market environment experienced in fiscal 2001 continued throughout fiscal 2002. The 2000-2002 bear market now ranks as the worst in modern financial market history. For the twelve months, U.S. stocks registered a loss of -18.0% as measured by the Standard & Poors' 500 Stock Index. Small cap stocks, as measured by the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization), lost -8.6% for the 12 months. International stocks, as measured by the MSCI EAFE Index, declined -9.5%. As was the case in fiscal 2001, the only bright spots were high quality investment grade bonds and real estate. The Lehman Aggregate Index, a measure of the investment grade bond market, benefited from the decline in interest rates and returned a positive +8.6% while various measures of the real estate market produced returns in excess of +5%.

While it is never pleasant to lose money, particularly for two years in succession, it is encouraging and reassuring to observe the benefits of prudent diversification. PERS experienced an overall negative return of -5.5% for the 12 months ended June 30, 2002. The System's total domestic equity composite declined -16.8%, which was better than broad measures of the total domestic equity market. For example, the Russell 3000 Stock Index declined -17.2%. The System's international equity composite declined -8.3%. This result was better than the MSCI EAFE Index loss of -9.5% but also significantly better than the domestic equity result. Thus, the decision to have meaningful international equity exposure helped dampen the global equity market decline. Similarly, while the System's domestic bond portfolio slightly underperformed its benchmark index (positive +8.2% for the portfolio and +8.6% for the index) the decision to maintain significant bond exposure contributed importantly to minimizing losses. PERS' real estate portfolio also helped overall results by posting a positive +5.2% return. The biggest bright spot was the performance of the System's international bond portfolio. The portfolio enjoyed a +22.6% return much of which was attributable to the weakness in the value of the U.S. dollar during the fiscal year. In total, the PERS negative return for FY02 of -5.5% was below its target return of negative -4.4%. The primary explanatory factor was a slight over target allocation to equities. A secondary factor was the underperformance of the U.S. bond portfolio and the small cap equity composite relative to their respective market benchmarks.

It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. We, therefore, are encouraged to observe that the 10 $\frac{3}{4}$ year cumulative annualized return (the longest period available) of +8.6% compares favorably with the System's policy target index return of 8.45% 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 for FY02 called for an investment distribution as follows: 41% in domestic equities, 18% in international equities, 31% in domestic fixed income, 3% 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 2002 results were 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 <http://www.revenue.state.ak.us/treasury/aspib/index.htm>. We continue to encourage member participation at our meetings, and welcome your letters and comments.

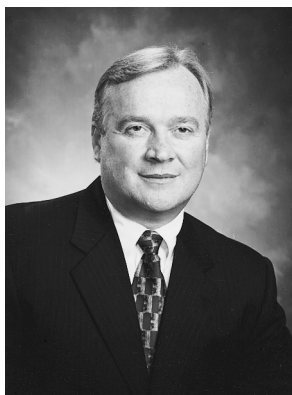
On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

A handwritten signature in black ink, appearing to read "Jeffrey E. Sinz".

Jeffrey E. Sinz, Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2002)



Jeffrey E. Sinz, Chair

Appointed by the Governor

Jeffrey E. Sinz, Chair, was appointed to the board in 1998 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. While at the Municipality, he served as 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 as a financial planner and supervisor with the Alaska Railroad Corporation and 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. His 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 Export 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

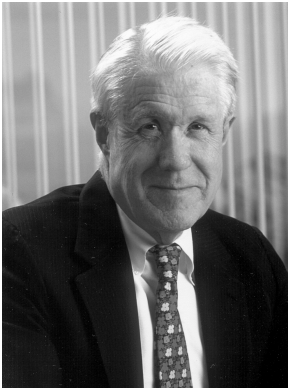
Gail R. Schubert, Board Secretary, was appointed to the board by Governor Knowles. She is currently a member of the law firm of Foster, Pepper, Rubini & Reeves LLC in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Mrs. 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. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of Board of the Alaska Native Heritage Center and of Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. 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 37 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/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

**Department of Revenue
Treasury Division
Staff
(as of June 30, 2002)**

Commissioner
Wilson L. Condon

Chief Investment Officer
Lee E. Livermore, CFA

Investment Officers
Bob G. Mitchell, CFA, Marketable Debt
Stephen R. Sikes
Philip Bartlett
Michael T. Oliver, CFA, Alternatives
Maria E. Tsu, CFA

Deputy Commissioner
Neil Slotnick

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

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

External Money Managers and Consultants

Investment Consultants

Callan Associates Inc.
Denver, CO
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
McKinley Capital Management, Inc.
Anchorage, AK
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization

Capital Guardian Trust Co.
San Francisco, CA
John McStay Investment Counsel
Dallas, TX
Trust Company of the West
New York, NY

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 Fleming Asset 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
Capital Guardian Trust Co.
Los Angeles, CA

External Money Managers and Consultants (con't)

International Fixed Income

Delaware International Advisers Ltd.
London, England

Private Equity

Abbott Capital Management, L.P.
New York, NY
Pathway Capital Management, LLC
Irvine, CA

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
Hartford, 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

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
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
T. Rowe Price Investment Services
Baltimore, MD & Glen Allen, VA

Global Master Custodian

State Street Corporation
Boston, MA

Investment Advisory Council

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

Independent Auditors

KPMG LLP
Anchorage, AK

Legal Counsel

Wohlforth, Vassar, Johnson & Brecht
Anchorage, AK

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. During FY02, ASPIB's adopted asset allocation included 41% in domestic equities, 18% in international equities, 31% in domestic fixed income, 3% in international fixed income, and 7% in real estate.

For FY02, PERS' investments generated a -5.5% rate of return. The PERS annualized rate of return was -0.5% over the last three years and +4.6% 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

For FY02, PERS suffered a decline in value of -5.5%, a continuation of the -5.2% return earned in FY01. The annualized return for the last five years was +4.6%, below the 8.25% actuarial assumption rate.

The well-diversified PERS investment portfolio muted the impact of the bear market in equities that began in the spring of 2000. For FY02, the U.S. equity portfolio fell -16.8% and the international equity portfolio dropped -8.3% (versus losses of -12.2% and -16.9%, respectively in FY2001). Positive performance was provided in the U.S. fixed-income market, which generated a +8.2%

return in FY02, down from last year's return of +11.8%. The system's real estate investments also continued to provide positive returns.

ASPIB continued the systematic increase in PERS' investments in real estate and private equity. The real estate portfolio earned +5.2% for FY02 versus +11.4% in FY01. The private equity market weakened in FY02 in sync with the public equity markets. PERS' investments in private equities lost -17.1%, down from a positive +1.0% earned in FY01. Over the past five years, PERS' real estate investments have earned an average of +10.5% per year. PERS' private equity investments have broken even over the last three and one quarter years, the amount of time PERS has invested in this asset class.

DOMESTIC ECONOMY

The U.S. economy continued its struggle during FY02. It entered a recession during the last quarter of FY01 (April to June 2001) as businesses began to spend less on capital goods. The events on September 11, 2001 exacerbated the slowdown. The terrorist attacks on the World Trade Center succeeded in throwing the financial markets into chaos, closing the bond and stock markets for almost a week before they limped back into operation. Americans were collectively glued to their television sets assessing the possibility of further attacks and developments in the war in Afghanistan. Shopping malls, aircraft flights and hotel rooms were sparsely populated during the weeks following the attacks.

In addition, in one of the most spectacular developments in business history, Enron collapsed during November and December of 2001. The fraud and conflict of interest accusations leveled on Enron's senior management, board of directors, and "independent" auditors called into question the accuracy of Corporate America's financial statements and credit analysis.

Public Employees' Retirement System Investment Report

Employment statistics demonstrated a downward shift in momentum during FY02. Last year the economy lost an average of 111,670 jobs a month compared to creating 15,250 new jobs per month in FY01 and 269,000 new jobs per month in FY00. The overall unemployment rate rose from 4.6% to 5.9%.

By historical standards, the U.S. recession was relatively mild and short-lived. The economy actually expanded by 3.2% during FY02, compared with 2.3% for FY01. As the immediate threat of terrorist attacks waned, consumer sentiment improved. Consumers, who account for two-thirds of economic activity, provided a much needed boost to GDP.

Generation-low mortgage rates spurred consumers to purchase new houses. Sales of new homes totaled 914,580 in FY02 up from 912,000 the year before. Sales of existing homes also remained strong at 5.457 million units, virtually tied with the 5.228 million units pace of FY01. The highest recorded pace of housing sales occurred in FY99 at 5.5 million units. Auto sales also held up, averaging just under 16.92 million units in FY02 compared to a pace of 16.95 million units in the more robust climate of FY01. Overall retail sales growth slowed to a more modest 3.6% pace from the 3.9% pace seen during FY01.

Worries about inflation continued to subside in FY02. The Consumer Price Index (CPI) rose only +1.1% in FY02 compared to +3.2% in FY01. The Producer Price Index (PPI) dropped -2.1% in FY02 versus a +2.6% rise last year. On average, energy prices were lower in FY02 than in FY01. West Texas Intermediate (WTI) crude averaged \$23.27 per barrel last year compared to \$24.10 in FY01. More interesting was the trip these prices took during the year. Oil prices dropped from the \$24 to \$25 range during the summer and early fall of 2001 down to the low \$19 area during the depths of economic uncertainty in November 2001. Rising tensions on the West Bank, concerns over a military

conflict between India and Pakistan, and possible war between the United States and Iraq, gave a lift to oil prices. WTI finished FY02 at \$26.44 per barrel.

The weakening economy forced the Federal Reserve to continue the easing it began in January 2001. The Federal Reserve's discount rate was cut five times between July and December of 2001 from 3.75% to 1.75%. The Fed hoped to stimulate the ailing economy and to provide liquidity to the financial markets following the terrorist attacks. In addition, on October 31, 2001 the U.S. Treasury suspended scheduled issuance of 30-year Treasury bonds. This increased the scarcity value of longer maturity Treasuries and helped to lower long-term financing rates. This move aided both businesses and consumers. Lower long-term Treasury rates translated into lower long-term borrowing costs for companies and lower mortgage rates for homeowners. Lower overall interest rates spurred record corporate bond issuance as well as strong home sales and mortgage refinancing volumes.

EQUITIES

The bear market in equity prices hit the PERS portfolio for the second consecutive year. The domestic stock portfolios declined in value by -16.8% last year on top of a decline of -12.2% during FY01. This decline pulled the annualized return for the last five years down to +3.1% in FY02 from +12.4% in FY01.

Domestic equity performance reflected the slowdown in the economy, reduced growth expectations and the shaken investor confidence following the Enron accounting scandal. Large-cap managers underperformed small-cap managers, and value managers outperformed growth managers. Small-capitalization stocks continued their relative outperformance, outdoing their mid and large cap stock cousins by a significant margin. For the year, the median large-cap manager

Public Employees' Retirement System Investment Report

experienced a decline of -16.7%. The average mid-cap manager lost -12.2% and the average small-cap manager lost -5.6%. The S&P 500 Index experienced a loss of -18.0% for the year. Small-cap value managers were the best performing group with median returns of a positive +10.4% during the year. Large-cap growth managers barely edged out small-cap growth managers for the worst performing group with returns -22.1% during the year.

Returns for international managers were generally poor as well. The Japanese equity market experienced brutal returns during the year. The median Japan-only manager lost -16.5% over the year. In contrast, the median emerging market manager earned +2.71% during FY02 despite a debt default in Argentina and increasing talk of a bailout of Brazil by the International Monetary Fund.

Pacific Basin median manager returns improved to a -10.4% loss (vs. -28.6% last year) and European managers lost -6.9% (compared to -22.8% in FY01). For the year, the median core-international equity manager lost -8.4%, an improvement from the -22.5% loss reported last year.

As for PERS, its international equity portfolio fared better than the Morgan Stanley EAFE Index with a decline of -8.3% versus -9.5%. The annualized return for the past five years was +1.2%, much better than the -1.6% result for the index.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 32% of the total assets of PERS as of June 30, 2002. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury 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.

The slowing domestic economy guided interest rates lower, which translated into good news for bond investors. The 10-Year U.S. Treasury yield dropped from 5.32% to 4.78% during FY02, reaching a low of 4.17% in early November of 2001. However, the news was not all good in the bond market. The collapse of companies such as Enron, Quest and WorldCom, coupled with scandals at the likes of Tyco and Adelphia Communications helped to increase the perceived risk of corporate bonds. Ratings agencies became noticeably more conservative in their ratings methodologies, placing pressure on credit ratings. Slowing revenue growth expectations, combined with historically high corporate debt levels and more vigilant ratings agencies resulted in a high level of ratings downgrades. The volume of corporate bonds downgraded to junk status, known as "fallen angels," increased to record levels during FY02.

Lower interest rates drove down the rate charged on mortgages. As a result, mortgage refinance activity soared during November and December of 2001, and again in June 2002.

For all of FY02, the PERS domestic bond portfolio gained +8.2%, compared to +11.8% the year before. The Lehman Brothers Aggregate Bond Index returned +8.6% during FY02 and +11.2% in FY01.

The international fixed-income portfolio represented just about 3% of the total assets of PERS. During FY02, the international bond portfolio earned +22.6%, far surpassing the +15.7% posted by the Salomon Brothers Non U.S. Government Index. This compares well to results for FY01 of -5.7% and -7.4%, respectively.

The relative weakness of the U.S. economy and the weakening value of the dollar made it easier going for international fixed-income markets in FY02. The Euro reversed its trend of weakening versus the dollar in FY02. During FY01 the Euro fell 11% to \$0.849 but by June 30, 2002 it closed at \$0.9776,

Public Employees' Retirement System Investment Report

up 15.15% for FY02. The Japanese Yen also appreciated in value, improving by 3.95%. On July 1, 2001 one dollar could buy 124.65 Yen, but by June 30, 2002 it could only buy 119.73 Yen.

PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

Private market investments or "Alternative Investments" are used in a portfolio to improve over-all portfolio returns in the long term. The volatility and return characteristics of these investments are not directly correlated to return characteristics of stocks and bonds.

At the end of FY02, PERS had 10.4% of its portfolio in private markets, compared to a target of 12%. The total market value of the private market portfolio decreased by -2.7% to \$776.4 million. The decrease was due to sale of real estate properties in excess of new investments and declines in the values of the private equity and real estate investments.

REAL ESTATE

At the end of FY02, PERS had 7.8% of its portfolio invested in real estate, well within its target of 7% (+/- 2%). At fiscal year end, the real estate portfolio totaled \$580.5 million. The total return for real estate, net of fees, was +5.2% compared to +11.4% for FY01. The income component of return was partially offset by a modest decline in the value of the real estate portfolio. The three and five year total returns were +8.6% and +10.5%, respectively.

Due to the recession and subsequent slow recovery, real estate experienced an unprecedented decline in demand in FY02 in the four major property types, resulting in increasing vacancies, declining rents and lower returns. For example, never in the history of U.S. real estate has the absorption of available space declined for any two consecutive quarters for any property type. However, in March 2002, negative absorption was

experienced in the office and industrial markets on a national basis for the fifth consecutive quarter. The hardest hit property type was office, where national vacancy rates doubled to nearly 16%. Industrial properties were similarly affected, but to a lesser extent. Higher vacancies in apartments were the result of the strong single family housing market. However, the good news is that the new construction market for income producing property has declined dramatically in response to the above factors. Thus, supply and demand, in most markets, is only modestly out of balance and the markets should recover as the economy, job growth and resultant demand improve.

While the total real estate return declined from FY01 to FY02, the income component of the return remained stable. This stability factor contributes to the lower volatility of this asset class. Real estate's high and stable income component is the major reason why this asset class is included in the PERS' portfolio. Based upon budgets submitted by the real estate advisors, it is expected that income will grow modestly over the next two years. This income growth and a rise in acquisition volume should provide increased total returns in the future.

PRIVATE EQUITY

At year-end FY02, PERS' investment in private equity amounted to 2.6% of its portfolio. The estimated market value was \$195.8 million and the total return was -17.1%. Total returns since inception now amount to 0.0%.

Private Equity investments also experience investment cycles. Capital raised, the number of deals and investment disbursements reached record levels during 1999, 2000 and the first half of calendar 2001. Initial Public Offerings (IPOs), especially for technology-oriented issues, were also at record levels and the NASDAQ market attained a high of 5,048.62 on March 10, 2000. These factors resulted in sharply increasing valuations of private equity investments, the ability to realize profits on

**Public Employees' Retirement System
Investment Report**

some of these investments in a shorter than normal period of time, unrealistic expectations for company prospects, and created what is now referred to as the "technology bubble."

FY02 witnessed a sharp reversal of these trends, with new capital raised, deal flows and disbursement volumes falling dramatically. By FY02 year-end the NASDAQ market had declined 73% from its high, reducing valuations of many private equity investments. The combination of falling valuations and a dramatic slowdown in IPO activity caused returns to decline significantly last year.

The private equity markets are now and are expected to be for the foreseeable future more normal with respect to the pace of raising capital,

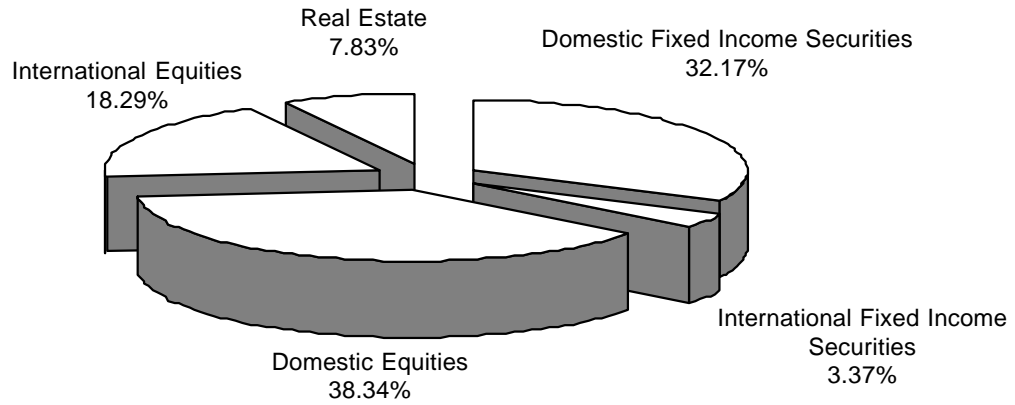
investments and return realization. New deal activity, while low compared to recent times, has begun to pick up. The IPO market, especially healthcare issues, has also shown some, albeit small, recovery. In addition, industry observers expect rising investments to replace technology equipment based upon historical spending patterns.

Results of private equity investments are measured over long periods of time because of the nature of the investment. According to Venture Economics, private equity returns for the year ended March 31, 2002 (the latest data available) were -14.6%, while the three, five and ten year returns were +10.0%, +13.5% and +16.6%, respectively. As the economy recovers, private equity returns are expected to once again be attractive.

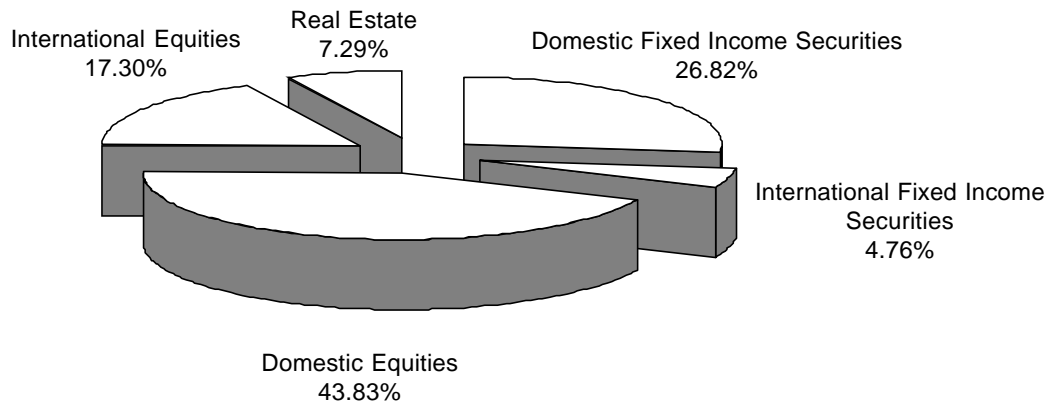
| Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30 | | | | | | | |
|--|--------|--------|---------|----------|----------|------------|---------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | Annualized | |
| | | | | | | 3 Year | 5 Year |
| Total Fund | | | | | | | |
| PERS | 14.73% | 10.59% | 10.07% | (5.25)% | (5.48%) | (0.49%) | 4.57% |
| <i>Actuarial Earnings Rate</i> | 8.25% | 8.25% | 8.25% | 8.25% | 8.25% | 8.25% | 8.25% |
| U.S. Common Stock Returns | | | | | | | |
| PERS Domestic Equities | 24.22% | 16.56% | 10.41% | (12.20%) | (16.85%) | (6.93%) | 3.14% |
| <i>S&P 500</i> | 30.27% | 22.76% | 7.24% | (14.83%) | (17.99%) | (9.18%) | 3.66% |
| International Stock Returns | | | | | | | |
| PERS International Equities | 0.66% | 14.72% | 20.59% | (16.89%) | (8.27%) | (2.76%) | 1.20% |
| <i>Morgan Stanley Capital International EAFE</i> | 6.10% | 7.62% | 18.11% | (23.83%) | (9.49%) | (6.78%) | (1.55%) |
| Domestic Fixed Income | | | | | | | |
| PERS | 11.53% | 2.24% | 4.55% | 11.83% | 8.17% | 8.14% | 7.60% |
| <i>Lehman Brothers Aggregate Index*</i> | 11.28% | 2.69% | 1.69% | 11.22% | 8.63% | 8.12% | 7.63% |
| International Fixed Income | | | | | | | |
| PERS | 0.36% | 5.27% | (3.27%) | (5.68%) | 22.56% | 3.80% | 3.39% |
| <i>Salomon Non-U.S. Government</i> | 0.89% | 4.87% | 2.42% | (7.43%) | 15.73% | 3.14% | 3.03% |
| Real Estate Equity | | | | | | | |
| PERS | 16.38% | 10.51% | 8.43% | 11.43% | 5.24% | 8.59% | 10.51% |
| <i>NCREIF</i> | 17.21% | 11.24% | 11.61% | 11.15% | 5.60% | 9.56% | 11.74% |
| <p>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</p> <p>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.</p> <p>*Lehman Brothers Government/Corporate Index prior to 3/31/2000.</p> | | | | | | | |

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

June 30, 2002



June 30, 2001



**Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2002**

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 | 117,413,683 | 115,820,000 | U.S. Treasury Note | 4.375% | 5/15/2007 | Aaa |
| | 2 | 105,346,041 | 81,625,000 | U.S. Treasury Bond | 8.125% | 8/15/2021 | Aaa |
| | 3 | 70,301,834 | 68,754,850 | Federal National Mtg. Assn. | 6.500% | 5/1/2029 | Aaa |
| | 4 | 66,071,010 | 60,903,360 | U.S. Treasury Note | 4.250% | 1/15/2010 | Aaa |
| | 5 | 50,115,139 | 47,771,471 | Fed Home Loan Mtg. Corp. | 7.500% | 10/1/2031 | Aaa |
| | 6 | 47,681,745 | 43,675,000 | U.S. Treasury Note | 6.750% | 5/15/2005 | Aaa |
| | 7 | 43,806,250 | 43,000,000 | Federal National Mtg. Assn. | 6.500% | 12/1/2099 | Aaa |
| | 8 | 36,222,488 | 35,995,000 | U.S. Treasury Note | 3.000% | 2/29/2004 | Aaa |
| | 9 | 35,476,064 | 34,266,127 | Federal National Mtg. Assn. | 7.000% | 7/1/2031 | Aaa |
| | 10 | 35,438,972 | 35,033,980 | Fed Home Loan Mtg. Corp. | 5.500% | 1/1/2009 | Aaa |
| Equities | 1 | 86,993,130 | 2,994,600 | General Electric Co. | | | |
| | 2 | 85,600,266 | 1,254,584 | American Intl Group Inc. | | | |
| | 3 | 82,696,533 | 1,503,300 | Wal Mart Stores Inc. | | | |
| | 4 | 82,310,375 | 2,351,725 | Pfizer, Inc. | | | |
| | 5 | 79,167,310 | 1,447,300 | Microsoft Corp. | | | |
| | 6 | 72,823,442 | 1,779,654 | Exxon Mobil Corp. | | | |
| | 7 | 66,220,000 | 1,324,400 | Anheuser Busch Companies, Inc. | | | |
| | 8 | 65,196,142 | 1,302,360 | Wells Fargo Company | | | |
| | 9 | 62,333,500 | 845,200 | Federal National Mortgage Assn. | | | |
| | 10 | 55,874,560 | 1,091,300 | Wyeth | | | |

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, 2002**

| | Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2002 | Fees |
|--|---|-------------------|
| External Management Fees | | |
| Domestic Fixed Income | | |
| BlackRock Financial Management, Inc. | \$ 162,137,646 | \$ 239,947 |
| International Fixed Income | | |
| Delaware International Advisers, Ltd. | <u>373,602,721</u> | <u>383,666</u> |
| Domestic Equity | | |
| Capital Guardian Trust Co. | 800,400,309 | 1,231,675 |
| John McStay Investment Counsel | 291,991,865 | 1,394,678 |
| Trust Company of the West | 202,029,294 | 327,501 |
| State Street Global Advisors | 905,790,905 | 164,480 |
| Invesco Capital Management, Inc. | 479,631,826 | 532,027 |
| Lazard Freres Asset Management | 402,010,037 | 1,038,672 |
| McKinley Capital Management, Inc. | 177,098,748 | 503,109 |
| Dresdner RCM Global Investors | 434,738,344 | 1,385,657 |
| Tukman Capital Management, Inc. | <u>378,951,731</u> | <u>1,383,266</u> |
| Total Domestic Equity | <u>4,072,643,059</u> | <u>7,961,065</u> |
| Private Equity | | |
| Pathway Capital Management, LLC | 2,954,983 | 55,368 |
| Abbott Capital Management, L.P. | <u>289,927,754</u> | <u>644,928</u> |
| Total Private Equity | <u>292,882,737</u> | <u>700,296</u> |
| International Equity | | |
| Bank of Ireland Asset Management Ltd | 414,386,620 | 903,093 |
| Brandes Investment Partners, L.P. | 595,263,960 | 1,540,748 |
| Citibank Global Asset Management | - | 33,116 |
| Lazard Freres Asset Management | 433,662,307 | 1,000,213 |
| Capital Guardian Trust Co. | 393,171,522 | 834,956 |
| Wellington Management Co. | <u>56,756</u> | <u>4,915</u> |
| Total International Equity | <u>1,836,541,165</u> | <u>4,317,041</u> |
| Emerging Markets Equity | | |
| J.P. Morgan Fleming Asset Management, Inc. | 49,332,850 | 272,031 |
| Capital Guardian Trust Co. | <u>58,728,508</u> | <u>235,096</u> |
| Total Emerging Markets Equity | <u>108,061,358</u> | <u>507,127</u> |
| Total External Management Fees | <u>\$6,845,868,686</u> | <u>14,109,142</u> |

**Public Employees' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2002**

| | Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2002 (con't) | Fees (con't) |
|---|---|---------------------|
| External Management Fees (con't) | | |
| Other Management Fees | | |
| Custodian | | |
| State Street Corporation | | <u>683,711</u> |
| Investment Advisory | | |
| Callan Associates Inc. | | 44,949 |
| The Townsend Group | | <u>81,963</u> |
| Total | | <u>126,912</u> |
| Investment Performance Measurement | | |
| Callan Associates Inc. | | <u>99,529</u> |
| Total Other Management Fees | | <u>910,152</u> |
| Total Management Fees | | <u>\$15,019,294</u> |

**Public Employees' Retirement System
Investment Summary Schedule
June 30, 2002**

| | 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 | | | \$ 3,552,547 | 0.15% | 0.05% |
| Retirement Fixed Income Pool | | | 2,273,168,079 | 95.36% | 30.67% |
| External Domestic Fixed Income Pool | | | <u>107,163,124</u> | <u>4.49%</u> | <u>1.45%</u> |
| Total Domestic Fixed Income | 31% | 28-34% | <u>2,383,883,750</u> | <u>100.00%</u> | <u>32.17%</u> |
| International | | | | | |
| International Fixed Income Pool | <u>3%</u> | <u>2-4%</u> | <u>249,760,233</u> | <u>100.00%</u> | <u>3.37%</u> |
| Total Fixed Income Securities | <u>34%</u> | <u>30-38%</u> | <u>2,633,643,983</u> | | <u>35.54%</u> |
| Participation in Pools Owning Domestic Equities | | | | | |
| Small cap⁽¹⁾ and Alternative Investments | | | | | |
| Domestic Equity Pool | | | 647,287,002 | 22.78% | 8.74% |
| Private Equity Pool | | | <u>31,693,478</u> | <u>1.12%</u> | <u>0.43%</u> |
| Total Small Cap Domestic Equities and Alternative Investments | 9% | 7-11% | <u>678,980,480</u> | <u>23.90%</u> | <u>9.17%</u> |
| Large cap and Alternative Investments | | | | | |
| Domestic Equity Pool-active | | | 1,139,735,806 | 40.12% | 15.38% |
| Domestic Equity Pool-passive | | | 921,317,092 | 32.43% | 12.43% |
| Private Equity Pool | | | <u>100,916,491</u> | <u>3.55%</u> | <u>1.36%</u> |
| Total Large Cap Domestic Equities and Alternative Investments | <u>32%</u> | <u>29-35%</u> | <u>2,161,969,389</u> | <u>76.10%</u> | <u>29.17%</u> |
| Total Domestic Equities | <u>41%</u> | <u>36-46%</u> | <u>2,840,949,869</u> | <u>100.00%</u> | <u>38.34%</u> |
| Participation in Pools Owning International Equities | | | | | |
| International Equity Pool | | | 1,221,572,026 | 90.15% | 16.49% |
| Emerging Markets Equity Pool | | | 70,237,985 | 5.18% | 0.95% |
| Private Equity Pool | | | <u>63,251,619</u> | <u>4.67%</u> | <u>0.85%</u> |
| Total International Equities | <u>18%</u> | <u>15-21%</u> | <u>1,355,061,630</u> | <u>100.00%</u> | <u>18.29%</u> |
| Participation in Real Estate | | | | | |
| Mortgages, net of allowances | | | 94,253 | 0.02% | 0.00% |
| Real Estate Pool | | | <u>580,416,746</u> | <u>99.98%</u> | <u>7.83%</u> |
| Total Real Estate | <u>7%</u> | <u>5-9%</u> | <u>580,510,999</u> | <u>100.00%</u> | <u>7.83%</u> |
| Total Invested Assets | <u>100%</u> | | <u>\$ 7,410,166,481</u> | | <u>100.00%</u> |

⁽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, 2002**

| | Category | | | Fair Value |
|-----------------------------------|---------------------|---------------|----------|-------------------------|
| | 1 | 2 | 3 | |
| Marketable debt securities | | | | |
| Domestic fixed income | \$ 2,380,331 | | | 2,380,331 |
| International fixed income | 249,760 | | | 249,760 |
| Equity securities | | | | |
| Domestic equities | 2,708,340 | | | 2,708,340 |
| International equities | 1,221,572 | | | 1,221,572 |
| Emerging market equities | | 70,238 | | 70,238 |
| | <u>\$ 6,560,003</u> | <u>70,238</u> | <u>-</u> | <u>6,630,241</u> |
| Not Categorized | | | | |
| Private equities | | | | 195,862 |
| Real estate equities | | | | <u>580,511</u> |
| Total investments not categorized | | | | <u>776,373</u> |
| Total investments | | | | <u><u>7,406,614</u></u> |

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the System's securities fails. 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 securities as defined by GASB.

The System's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the System's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools 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 Equity Pool which, like the System'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 2002**

| | <u>Domestic Equity</u> | <u>International Equity</u> | <u>Total</u> |
|----------|----------------------------|---------------------------------|-------------------------|
| PERS | \$ 399,190 | 273,573 | 672,763 |
| TRS | 199,507 | 136,267 | 335,774 |
| Judicial | 2,595 | 2,496 | 5,091 |
| Military | <u>542</u> | <u>304</u> | <u>846</u> |
| Total | <u>\$ 601,834</u> | <u>412,640</u> | <u>1,014,474</u> |

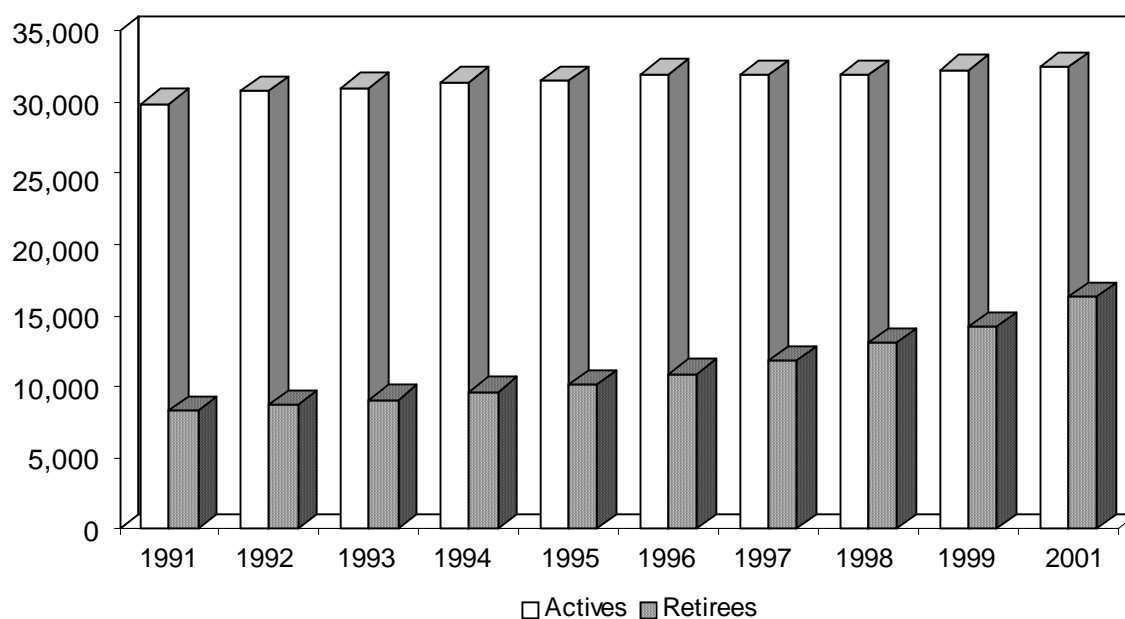
The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer 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.

| Public Employees' Retirement System System Membership by Status | | | | | |
|--|--------|-----------------------------|------------------------|--|--------|
| Year ended June 30 | Active | Retirees & Beneficiaries | Vested Terminations | Nonvested Terminations w/Balance | Total |
| 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 |
| 2001 | 32,441 | 16,274 | 6,187 | 11,403 | 66,305 |

Data not available for FY 2000 due to transition to a new computer system.

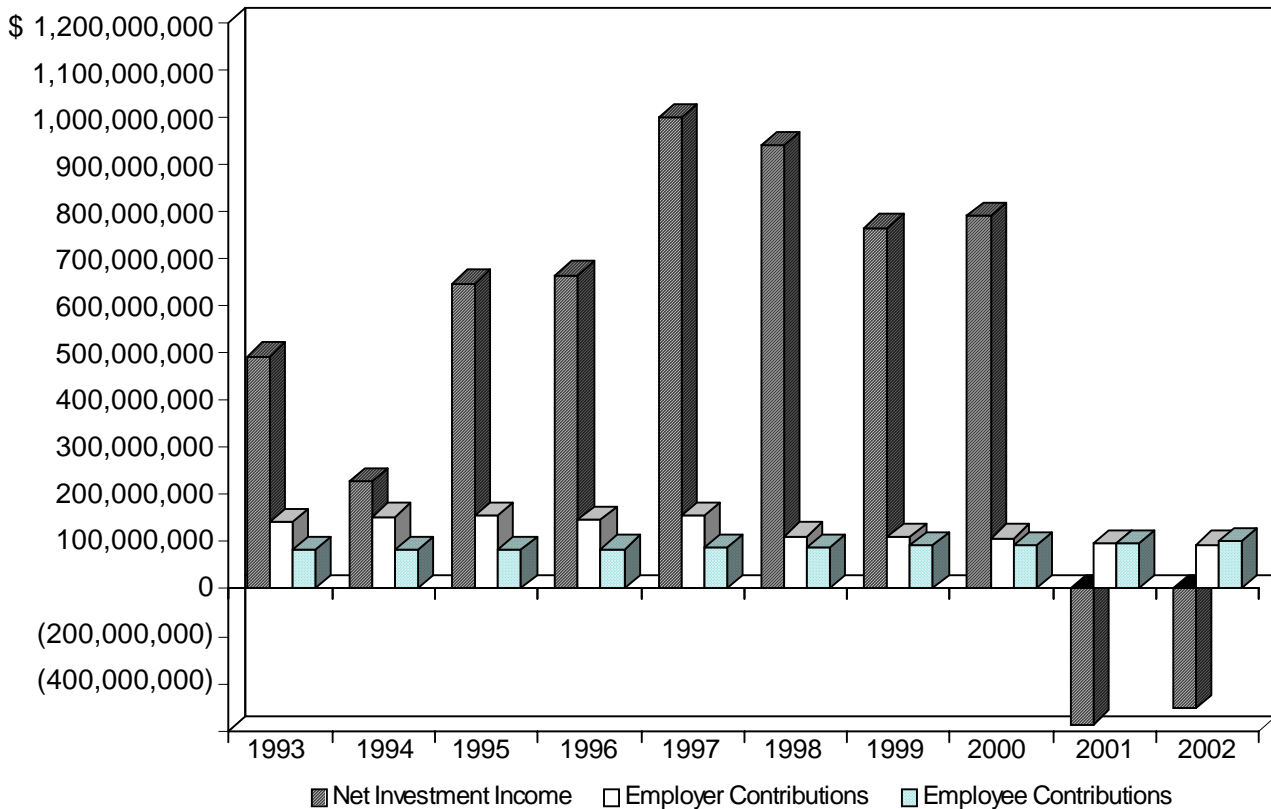
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS**



Data not available for FY 2000 due to transition to a new computer system.

| Public Employees' Retirement System Revenues by Source (000's omitted) | | | | | |
|---|------------------------------|---------------------------|--------------------------------|-------|------------|
| Year ended June 30 | Plan Member Contributions | Employer Contributions | Investment Income (Loss) | Other | Total |
| 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) |
| 2002 | 100,639 | 94,769 | (448,279) | 10 | (252,861) |

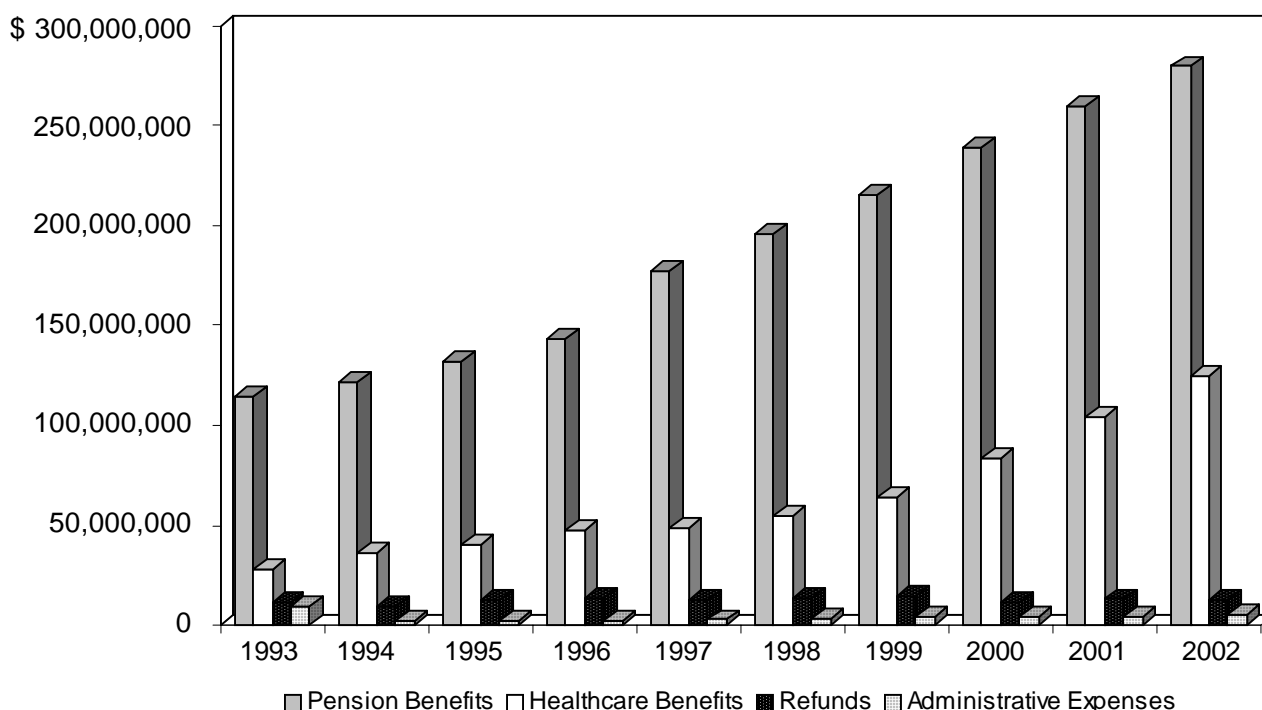
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES BY SOURCE**



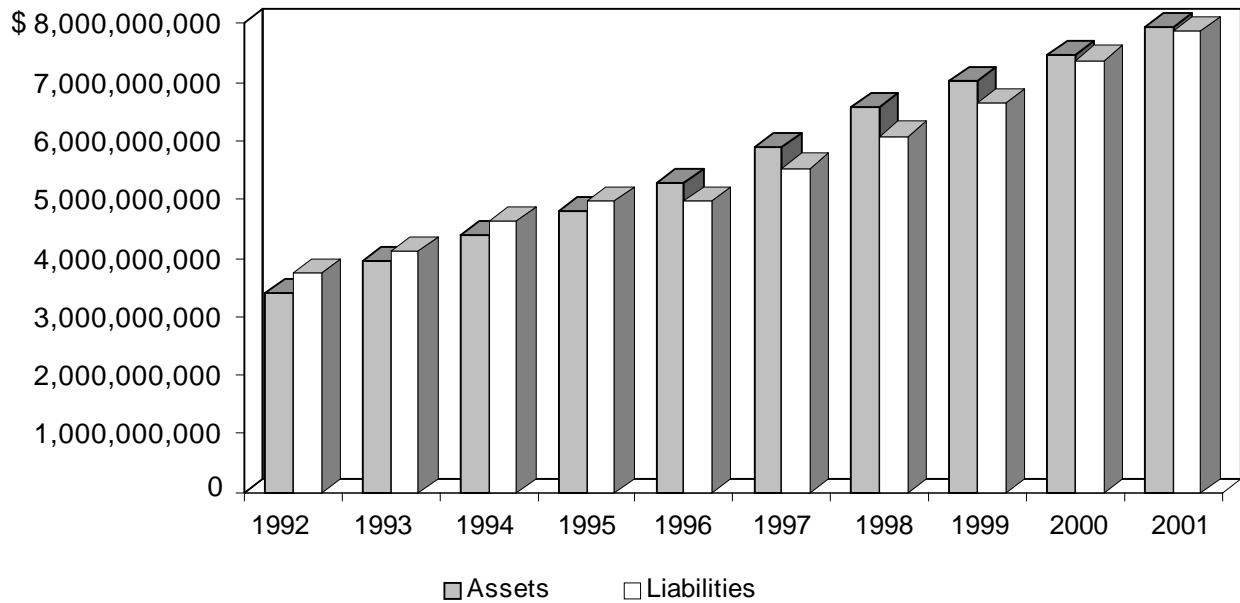
| Public Employees' Retirement System Expenses by Type (000's omitted) | | | | | |
|---|---------------------|------------------------|-----------------------------|-----------------------------|------------|
| Year ended June 30 | Pension Benefits | Healthcare Benefits | Refunds of Contributions | Administrative Expenses* | Total |
| 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 |
| 2002 | 279,731 | 124,805 | 12,869 | 5,283 | 422,688 |

*For all years prior to FY 1994, administrative expenses include investment expenses. Separate accounting of investment expenses since FY 1994 is due to a new accounting system.

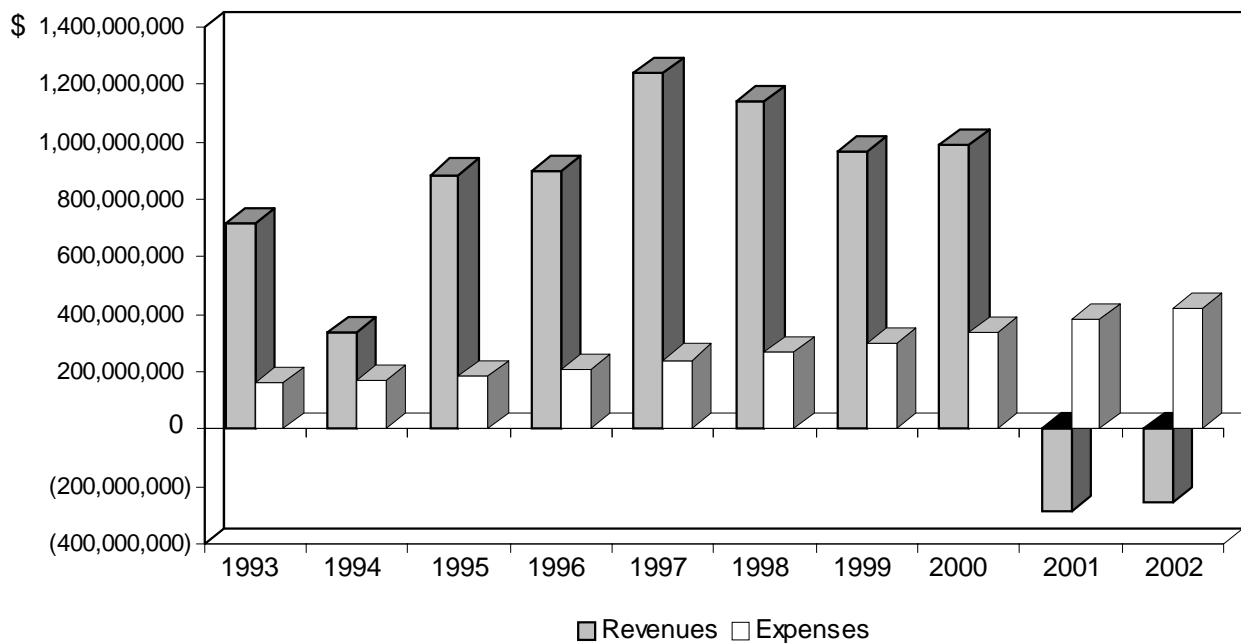
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE**



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



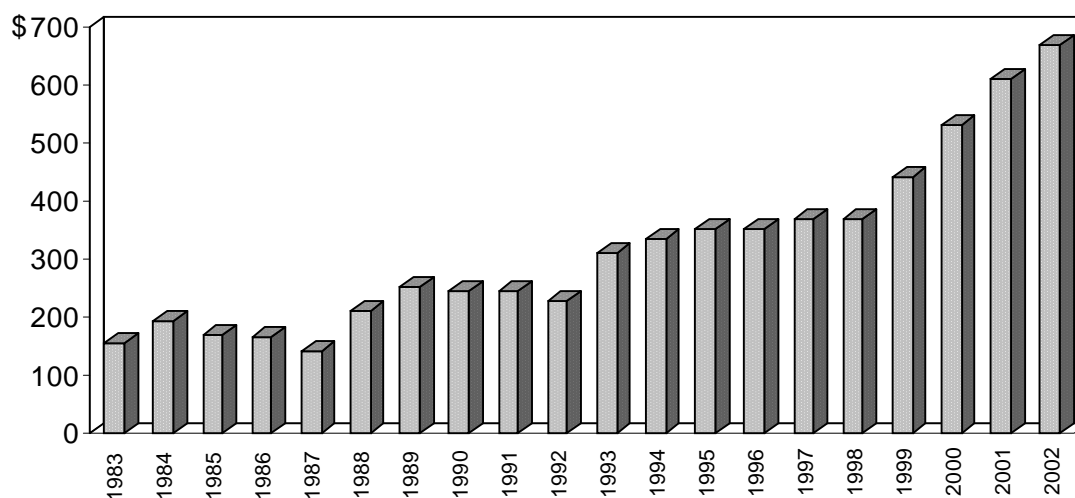
PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR COMPARISON OF REVENUES AND EXPENSES



| Public Employees' Retirement System Schedule of Benefit Expenses by Type (000's Omitted) | | | | | | | | |
|--|----------|------------|----------|--------------------------|---------------------|---------------------|----------|-----------|
| Year Ended June 30 | Service | Disability | Survivor | Dependent ⁽¹⁾ | COLA ⁽²⁾ | PRPA ⁽³⁾ | Medical | Total |
| 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 |
| 2002 | 258,189 | 8,379 | 13,163 | - | - | - | 124,805 | 404,536 |

(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 Benefit Recipients by Type of Benefit and Option Selected June 30, 2001 | | | | | | | | |
|---|----------------------|---|--------------|------------|-----------------|--------------|--------------|--------------|
| Amount of Monthly Benefit | Number of Recipients | Type of Benefit | | | Option Selected | | | |
| | | 1 | 2 | 3 | Opt. 1 | Opt. 2 | Opt. 3 | Opt. 4 |
| Others | | | | | | | | |
| \$ 1 - \$300 | 1,293 | 1,087 | 196 | 10 | 797 | 261 | 183 | 52 |
| 301 - 600 | 2,910 | 2,549 | 311 | 50 | 1,710 | 611 | 404 | 185 |
| 601 - 900 | 2,461 | 2,177 | 233 | 51 | 1,399 | 551 | 329 | 182 |
| 901 - 1200 | 2,012 | 1,800 | 167 | 45 | 1,119 | 464 | 266 | 163 |
| 1201 - 1500 | 1,457 | 1,302 | 97 | 58 | 753 | 361 | 230 | 113 |
| 1501 - 1800 | 1,127 | 1,015 | 76 | 36 | 575 | 300 | 156 | 96 |
| 1801 - 2100 | 831 | 738 | 46 | 47 | 428 | 214 | 120 | 69 |
| 2101 - 2400 | 647 | 593 | 34 | 20 | 321 | 168 | 98 | 60 |
| 2401 - 2700 | 438 | 414 | 13 | 11 | 213 | 119 | 69 | 37 |
| 2701 - 3000 | 403 | 369 | 24 | 10 | 188 | 113 | 63 | 39 |
| 3001 - 3300 | 250 | 238 | 9 | 3 | 93 | 91 | 40 | 26 |
| 3301 - 3600 | 198 | 186 | 7 | 5 | 84 | 76 | 29 | 9 |
| 3601 - 3900 | 142 | 134 | 3 | 5 | 59 | 56 | 18 | 9 |
| 3901 - 4200 | 113 | 106 | 5 | 2 | 32 | 50 | 18 | 13 |
| over 4200 | 261 | 246 | 10 | 5 | 109 | 84 | 42 | 26 |
| Totals | 14,543 | 12,954 | 1,231 | 358 | 7,880 | 3,519 | 2,065 | 1,079 |
| Police/Fire | | | | | | | | |
| \$ 1 - \$300 | 23 | 14 | 9 | 0 | 16 | 6 | 1 | 0 |
| 301 - 600 | 91 | 71 | 16 | 4 | 44 | 23 | 15 | 9 |
| 601 - 900 | 90 | 62 | 23 | 5 | 54 | 25 | 5 | 6 |
| 901 - 1200 | 116 | 90 | 19 | 7 | 72 | 20 | 18 | 6 |
| 1201 - 1500 | 105 | 86 | 15 | 4 | 57 | 23 | 10 | 15 |
| 1501 - 1800 | 113 | 86 | 18 | 9 | 59 | 27 | 12 | 15 |
| 1801 - 2100 | 142 | 105 | 17 | 20 | 71 | 48 | 12 | 11 |
| 2101 - 2400 | 142 | 120 | 8 | 14 | 59 | 55 | 18 | 10 |
| 2401 - 2700 | 163 | 152 | 6 | 5 | 45 | 75 | 27 | 16 |
| 2701 - 3000 | 136 | 129 | 6 | 1 | 43 | 59 | 21 | 13 |
| 3001 - 3300 | 142 | 139 | 1 | 2 | 44 | 69 | 18 | 11 |
| 3301 - 3600 | 127 | 124 | 3 | 0 | 35 | 59 | 19 | 14 |
| 3601 - 3900 | 112 | 112 | 0 | 0 | 28 | 59 | 11 | 14 |
| 3901 - 4200 | 66 | 63 | 3 | 0 | 12 | 37 | 8 | 9 |
| Over 4200 | 163 | 162 | 1 | 0 | 48 | 90 | 17 | 8 |
| Totals | 1,731 | 1,515 | 145 | 71 | 687 | 675 | 212 | 157 |
| <u>Type of Benefit</u> | | | | | | | | |
| 1 - Normal retirement | | Option 1 - Whole Life Annuity | | | | | | |
| 2 - Survivor payment | | Option 2 - 75% Joint and Contingent Annuity | | | | | | |
| 3 - Disability | | 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 Benefit Recipients | | | | | | | |
|--|----------------------------------|--------------|----------------|----------------|----------------|----------------|------------|
| | Years of Credited Service | | | | | | |
| | 0 - 4 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ |
| Others | | | | | | | |
| Period 7/1/94 - 6/30/95: | | | | | | | |
| Average Monthly Benefit | \$ 754 | \$ 483 | \$ 890 | \$1,523 | \$2,087 | \$2,688 | \$2,607 |
| Number of Recipients | 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 Recipients | 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 Recipients | 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 Recipients | 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 Recipients | 55 | 237 | 249 | 225 | 157 | 86 | 44 |
| Period 7/1/99 - 6/30/01: | | | | | | | |
| Average Monthly Benefit | \$ 602 | \$ 577 | \$ 791 | \$1,129 | \$1,392 | \$1,771 | \$1,949 |
| Number of Recipients | 8 | 174 | 289 | 594 | 542 | 438 | 297 |
| Police/Fire | | | | | | | |
| Period 7/1/94 - 6/30/95: | | | | | | | |
| Average Monthly Benefit | \$ - | \$ 893 | \$ 851 | \$1,608 | \$3,002 | \$3,107 | \$ - |
| Number of Recipients | - | 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 Recipients | 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 Recipients | 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 Recipients | 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 Recipients | 22 | 8 | 23 | 29 | 61 | 17 | 3 |
| Period 7/1/99 - 6/30/01: | | | | | | | |
| Average Monthly Benefit | \$1,416 | \$ 927 | \$1,249 | \$1,704 | \$2,824 | \$2,892 | \$2,702 |
| Number of Recipients | 2 | 13 | 34 | 61 | 143 | 57 | 18 |
| "Average Monthly Benefit" includes post-retirement pension adjustments and cost-of-living increases. | | | | | | | |

**Public Employees' Retirement System
Participating Employers**

| | |
|---|--|
| <p>Akutan, City of Alaska, State of Alaska Gateway School District Alaska Housing Finance Corporation Alaska Municipal League Alaska, University of Alaska Geophysical Institute, University of 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 Angoon, City of Annette Island School District Atka, City of</p> <p>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</p> <p>Chatham School District Chugach School District Cook Inlet Housing Authority Copper River Basin Regional Housing Authority Copper River School District Cordova, City of Cordova Community Medical Center Cordova City School District Craig, City of Craig City School District</p> <p>Delta-Greely School District Delta Junction, City of Denali Borough</p> | <p>Denali Borough School District Dillingham, City of Dillingham City School District</p> <p>Egegik, City of Elim, City of</p> <p>Fairbanks, City of Fairbanks North Star Borough Fairbanks North Star Borough School District Fort Yukon, City of</p> <p>Galena, City of Galena City School District</p> <p>Haines Borough Haines Borough School District Haines, City of Homer, City of Hoonah, City of Hoonah City School District Hooper Bay, City of Huslia, City of Hydaburg City School District</p> <p>Iditarod Area School District Ilisagvik College Interior Regional Housing Authority Inter-island Ferry Authority</p> <p>Juneau School District, City and Borough of Juneau, City and Borough of</p> <p>Kachemak, City of Kake, City of Kake City School District Kaltag, City of Kashunamiut 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</p> |
|---|--|

| |
|--|
| Public Employees' Retirement System Participating Employers (continued) |
|--|

| | |
|---|--|
| Klawock, City of | Saint George, City of |
| Klawock City School District | Saint Mary's, City of |
| Kodiak, City of | Saint Mary's School District |
| Kodiak Island Borough | Saint Paul, City of |
| Kodiak Island Borough School District | Sand Point, City of |
| Kotzebue, City of | Saxman, City of |
| Koyuk, City of | Saxman Seaport |
| Kuspuk School District | Selawik, City of |
| | Seldovia, City of |
| Lake and Peninsula Borough | Seward, City of |
| Lake and Peninsula Borough School District, The | Sitka, City and Borough of |
| Lower Kuskokwim School District | Sitka Community Hospital |
| Lower Yukon School District | Sitka Borough School District |
| | Skagway, City of |
| Matanuska-Susitna Borough | Skagway City School District |
| Matanuska-Susitna Borough School District | Soldotna, City of |
| Mekoryuk, City of | Southeast Island School District |
| | Southeast Regional Resource Center |
| Nenana, City of | Southwest Region School District |
| Nenana City School District | Special Education Service Agency |
| Nome, City of | |
| Nome City School District | Tanana, City of |
| Nome Joint Utility System | Tanana School District |
| Noorvik, City of | Thorne Bay, City of |
| North Pacific Fishery Management Council | Tlingit-Haida Regional Housing Authority |
| North Pacific Rim Housing Authority | Toksook Bay, City of |
| North Pole, City of | |
| North Slope Borough | Unalakleet, City of |
| North Slope Borough School District | Unalaska, City of |
| Northwest Arctic Borough | Unalaska City School District |
| Northwest Arctic Borough School District | Upper Kalskag, City of |
| Northwest Inupiat Housing Authority | |
| | Valdez, City of |
| Palmer, City of | Valdez City School District |
| Pelican, City of | |
| Pelican City School District | Wasilla, City of |
| Petersburg, City of | Whittier, City of |
| Petersburg General Hospital | Wrangell, City of |
| Petersburg City School District | Wrangell Public School District |
| Pribilof School District | |
| | Yakutat, City and Borough of |
| Quinhagak, City of | Yakutat School District |
| | Yukon Flats School District |
| Ruby, City of | Yukon-Koyukuk School District |

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