PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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December 16, 2003

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, 2003.

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, 2003. 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 2003 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 Independent Auditors' Report, management's discussion and analysis (MD&A), Independent Auditors' Report, 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, 2002) annual actuarial valuation; and

- **Statistical Section**, which includes graphs and tables of significant data.

December 16, 2003

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		
	FY03	FY02	FY01
Net Assets (millions)	$7,391.5	7,412.8	8,088.4
Participating Employers	160	161	150

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 2003, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Financial Information

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 13.

December 16, 2003

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, Inc. completed the actuarial reviews and valuations as of June 30, 2002, 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 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.

Actuarial Audit

In Fiscal Year 2003, the System contracted for an actuarial audit of the System's consulting actuary, Mercer Human Resource Consulting, Inc. Based upon a review of the 2000 experience studies and the 2001 valuation reports, including the underlying data and calculations, the actuarial auditor, Milliman USA, found the actuarial work to be generally reasonable. However, the auditor found a 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 were categorized under two levels of significance to the overall funding status of the Plan. Level A findings included areas where changes were needed to correct the implementation of a method, calculation, or use of data, and which would result in a financial impact on the actuarial findings. Level B findings were in areas where the auditor recommended changes based on their professional opinion or preferences; these would also have some financial impact, if adopted, on the resulting actuarial valuation.

The actuarial audit reports are posted on the Division's website at www.state.ak.us/drb/pers/actuarial-audits.html.

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, 2002. 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.

December 16, 2003

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,

Mike Miller
Commissioner

Melanie Millhorn
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

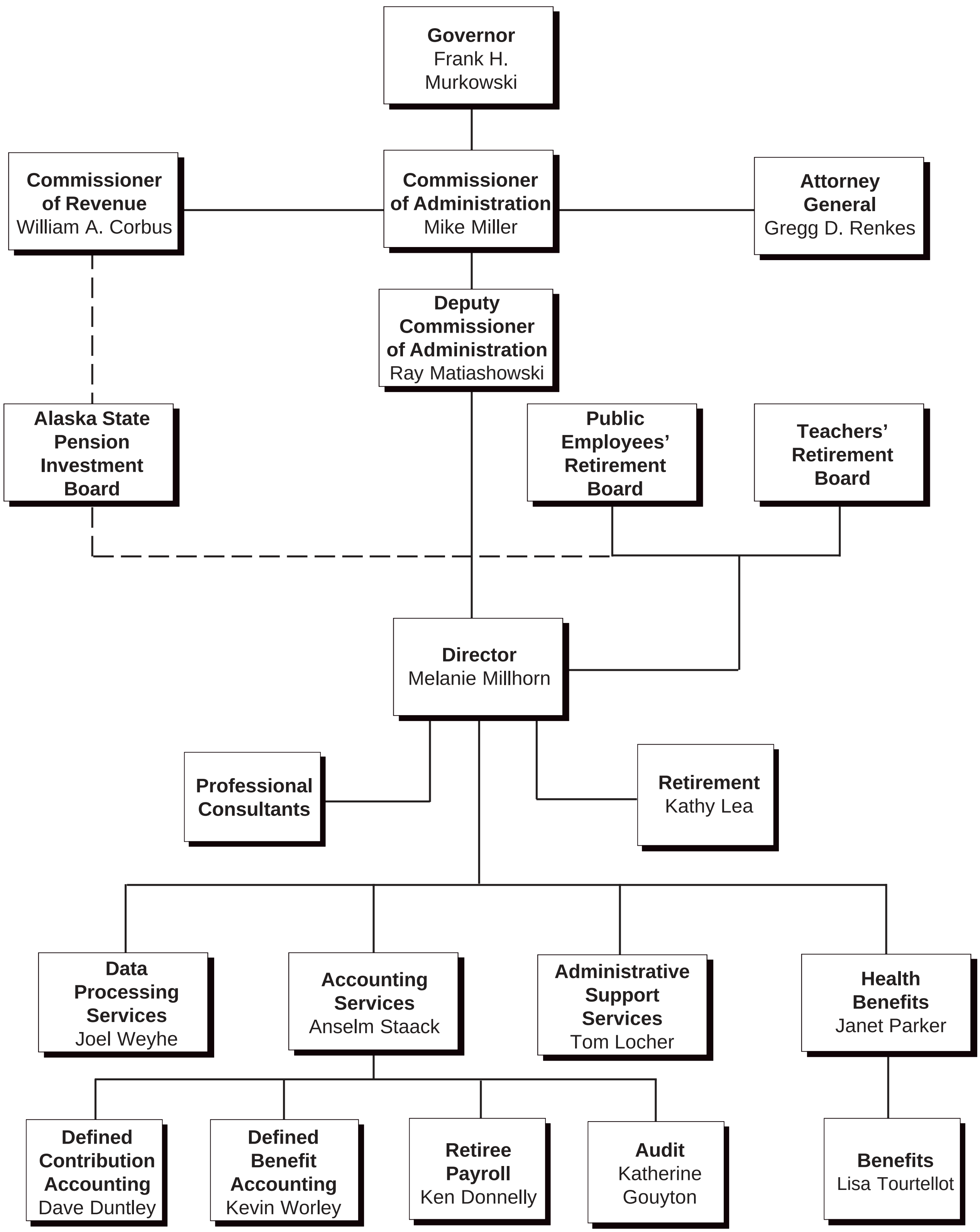
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

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

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

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

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

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

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

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

PROFESSIONAL CONSULTANTS

Consulting Actuary
Mercer Human Resource Consulting
Seattle, Washington

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

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

Legal Counsel
Keith Levy
Virginia Ragle
Kathleen Strasbaugh
Assistant Attorney Generals
Juneau, Alaska

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

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

A list of external money managers and consultants for the System can be found on pages 52-53, and the Schedule of Investment Management Fees on pages 60-61.

PUBLIC EMPLOYEES' RETIREMENT BOARD

(as of June 30, 2003)

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.

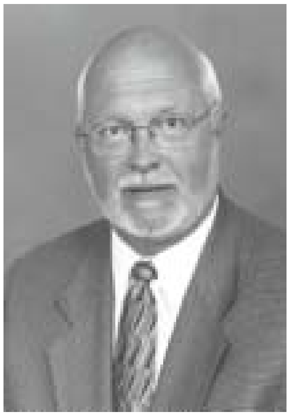
Charles Borg, Vice Chair
Term Expires: June 20, 2004

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.

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KPMG

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, 2003 and 2002, 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 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, 2003 and 2002, 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.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 38 to 40 and additional information on pages 41 to 45 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.

KPMG

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 46 and 47 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 49 through 91 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 26, 2003

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

Management's Discussion and Analysis

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (Plan) financial position and performance for the year ended June 30, 2003. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the letter of transmittal included in the Introductory Section, the financial statements, and other information to better understand the financial condition and performance of the Plan during the fiscal year ended June 30, 2003. Prior fiscal years' information is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $7,391,455,000 and $7,412,833,000 at the close of Fiscal Years 2003 and 2002, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2003 and 2002 decreased by $21,378,000 and $675,549,000 or 0.3% and 8.4% over the closing balances of those assets in Fiscal Years 2002 and 2001, respectively.

Plan member and employer contributions received totaled $211,310,000 and $195,408,000 during Fiscal Years 2003 and 2002, respectively; increases of $15,902,000 and $3,941,000 or 8.1% and 2.0% from Fiscal Years 2002 and 2001, respectively.

Net investment income (loss) increased from ($448,279,000) to $237,205,000 during Fiscal Year 2003 and decreased from ($478,249,000) to ($448,279,000) during Fiscal Year 2002; reflecting an increase of 152.9% and a decrease of 6.3% from Fiscal Years 2002 and 2001, respectively.

Pension benefit and postemployment healthcare payments totaled $451,015,000 and $404,536,000 during Fiscal Years 2003 and 2002, respectively; reflecting an increase of $46,479,000 and $40,919,000 or 11.5% and 11.3% from Fiscal Years 2002 and 2001, respectively.

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.

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

Management's Discussion and Analysis

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
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Condensed Financial Information

Public Employees' Retirement System
(000's omitted)

NET ASSETS

Description	2003	2002	Increase/Decrease Amount	%	2001
Assets:					
Cash and receivables	$ 9,373	14,009	(4,636)	(33.1%)	15,914
Investments, at fair value	7,388,741	7,406,520	(17,779)	(0.2%)	8,080,659
Other assets	166	118	48	40.7%	351
Total assets	7,398,280	7,420,647	(22,367)	(0.3%)	8,096,924
Liabilities:					
Accrued expenses	6,764	7,395	(631)	(8.5%)	8,534
Other liabilities	61	419	(358)	(85.4%)	8
Total liabilities	6,825	7,814	(989)	(12.7%)	8,542
Total net assets	$ 7,391,455	7,412,833	(21,378)	(0.3%)	8,088,382

CHANGES IN NET ASSETS

Description	2003	2002	Increase/Decrease Amount	%	2001
Net assets, beginning of year	$ 7,412,833	8,088,382	(675,549)	(8.4%)	8,756,580
Additions:					
Contributions	211,310	195,408	15,902	8.1%	191,467
Net investment income (loss)	237,205	(448,279)	685,484	152.9%	(478,249)
Other additions	27	10	17	170.0%	7
Total additions	448,542	(252,861)	701,403	277.4%	(286,775)
Deductions:					
Benefits	451,015	404,536	46,479	11.5%	363,617
Refunds	13,025	12,869	156	1.2%	13,134
Administrative expenses	5,880	5,283	597	11.3%	4,672
Total deductions	469,920	422,688	47,232	11.2%	381,423
Decrease in net assets	(21,378)	(675,549)	654,171	(96.8%)	(668,198)
Net assets, end of year	$ 7,391,455	7,412,833	(21,378)	(0.3%)	8,088,382

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

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2003 and 2002 showed total assets exceeding total liabilities by $7,391,455,000 and $7,412,833,000, respectively. These amounts represent the Plan's "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent a decrease in "Net assets held in trust for pension and postemployment healthcare benefits" of $21,378,000 and $675,549,000, or 0.3% and 8.4% from Fiscal Years 2002 and 2001, respectively. The decrease is mainly due to increased benefit costs for pensions and postemployment healthcare. Over the long term, plan member and employer contributions as well as investment income received are expected to cover the pension benefit and postemployment healthcare costs 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 2003, ASPIB adopted an asset allocation that includes 40% in Domestic Equities, 17% in International Equities, 31% in Domestic Fixed Income, 3% in International Fixed Income, and 9% in Real Estate.

For Fiscal Year 2003, the Plan's investments generated a 3.67% rate of return. The Plan's annualized rate of return was –2.48% over the last three years and 2.47% 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 eligible salaries, and reflect the cost of benefits accruing in Fiscal Year 2003 and a fixed amortization of the funding target surplus or the unfunded accrued liability. The amortization period is set by the Public Employees' Retirement Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Investment losses and increasing healthcare costs impacted the Plan's funding ratio as of June 30, 2002 (the date of the Plan's latest actuarial valuation report). The ratio of assets to liabilities decreased from 100.9% to 75.2% during the year, using June 30, 2002 net assets as a base. The goal for the Plan is to have progress toward achieving the funding objectives of 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 2003 employer consolidated rate decreased from 8.07% to 5.43%, the average past service rate was 0.69%, thus producing a total average rate for all employers in the Plan of 6.12%. The Public Employees' Retirement Board adopted an average employer contribution rate of 6.75%.

The Fiscal Year 2004 employer consolidated rate decreased from 5.43% to 5.42%, the average past service rate was 1.35%, thus producing a total average rate for all employers in the Plan of 6.77%.

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

Management's Discussion and Analysis

The Public Employees' Retirement Board adopted an average employer contribution rate of 6.77%.

Valuation Year	(000's omitted) 2002	2001
Valuation Assets	$7,412,833	7,941,753
Accrued Liabilities	9,859,591	7,868,574
Funding ratio	75.2%	100.9%

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)		
	FY03	FY02	Amt	%	FY01
Plan Member Contributions	$ 112.1	100.6	11.5	11.4%	94,983
Employer Contributions	99.2	94.8	4.4	4.7%	96,484
Net Investment Income (Loss)	237.2	(448.3)	685.5	152.9%	(478,249)
Total	**$448.5**	**(252.9)**	**701.4**	**277.4%**	**(286,782)**

Plan member contributions increased from $100,639,000 during Fiscal Year 2002 to $112,112,000 during Fiscal Year 2003, an increase of $11,473,000 or 11.4%. There was an increase from $94,983,000 in Fiscal Year 2001 to $100,639,000 during Fiscal Year 2002, an increase of $5,656,000 or 2.0%. Investment income increased by $685,484,000 or 152.9% over amounts recorded in Fiscal Year 2002, thereby providing a substantial boost to increase net assets of the Plan over the same period. Investment income decreased by $29,970,000 or 6.3% from amounts recorded in Fiscal Year 2001.

Over the long term, the investment portfolio has been a major component in additions to plan assets. A favorable fourth quarter for Fiscal Year 2003 propelled the Plan into positive annual earnings for the first time in three years. In the fourth quarter, the Plan generated a 10.45% return, which resulted in a 3.67% return for the fiscal year.

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 operations.

Expenses	Millions		Inc/(Dec)		
	FY03	FY02	Amt	%	FY01
Pension Benefits	$ 307.7	279.7	28.0	10.0%	259,771
Healthcare Benefits	143.3	124.8	18.5	14.8%	103,846
Refunds of Contributions	13.0	12.9	0.2	1.2%	13,1334
Administrative Expenses	5.9	5.3	0.6	11.3%	4,672
Total	**$ 469.9**	**422.7**	**47.2**	**11.2%**	**381,423**

Pension benefit payments increased $27,953,000 and $19,960,000 or 10.0% and 7.7% from Fiscal Years 2002 and 2001, respectively. 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 2003.

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

Management's Discussion and Analysis

Postemployment healthcare benefits increased $18,526,000 and $20,959,000 or 14.8% and 20.2% from Fiscal Years 2002 and 2001, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year.

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.
- ASPIB works in conjunction with the Department of Revenue, Division of Treasury, in determining the proper asset allocation strategy.

Legislation

During the Fiscal Year 2003 legislative session, three laws were enacted that affected the Plan:

Senate Bill 26 – This bill was written to authorize state employees who are members of a reserve or auxiliary component of the armed forces of the United States, including the organized militia of Alaska, and are called to active duty by the appropriate state or federal authority to continue to receive the equivalent of their state compensation and some or all of their state benefits.

Senate Bill 140 – This bill affects retired members who chose to retire early via retirement incentive programs (RIP) and are subsequently reemployed as a commissioner. This act removes a major disincentive to serving as a commissioner.

Senate Bill 177 – This bill affects retired PERS and TRS members who are called to active military duty so that their cost-of-living benefits are not affected while serving any length of time outside the state.

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

During the period July 1, 2002 to March 31, 2003, the Plan's investments continued to decline, a continuation of Fiscal Years 2001 and 2002. However, the last quarter of the fiscal year provided the necessary strength to push the Plan's rate of return into positive returns, resulting in a 3.67% return for the fiscal year. While the Plan did not meet its' actuarially assumed investment return of 8.25%, the year ended on a positive note. By not meeting the assumed rate of return, the Plan could see an increase in the employer contribution rates in Fiscal Year 2006.

The financial market environment during the period July 1, 2002 through March 31, 2003 was another harsh and challenging one. Financial conditions during the fourth quarter changed substantially to the positive and netted a quarterly return of 10.45%. 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 2001 and 2002's decline on the Plan's market value has an obvious impact on the Fiscal Year 2005 employer contribution rate as well as the Plan's funding status as of June 30, 2002. Due to these declines, the June 30, 2002 actuarial valuation report for the Plan reported a

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funding ratio of 75.2%. As a result of the decline in the funding ratio, the matching employer contribution rate would need to be increased to 24.91% for Fiscal Year 2005, per the recommendation from the Plan's consulting actuary. The PERS board adopted an average matching employer contribution rate of 11.77% for Fiscal Year 2005. The primary reason for the five (5) point change in the average matching employer contribution rate from 6.77% to 11.77% is due to the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states " (T)he maximum change in the contribution rate from one year to the next shall be no more than five percentage points, as actuarially calculated, whether the change is an increase or a decrease." Despite the 18 percentage point change in average employer contribution rates from Fiscal Year 2004 to 2005 prescribed by the Plan's consulting actuary, regulations prohibit more than a five percentage point change from year to year, so the Board was limited in its capacity to increase employer rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to the past couple of years, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs.

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.

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Statements of Plan Net Assets

June 30, 2003 and 2002
(000's omitted)

	2003			2002		
	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	$ 369	155	524	2,526	1,027	3,553
Receivables:						
Contributions	6,220	2,620	8,840	6,443	2,618	9,061
Retirement Incentive Program employer contributions (note 7)	7	2	9	992	403	1,395
Total receivables	6,227	2,622	8,849	7,435	3,021	10,456
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	2,210,167	764,062	2,974,229	1,978,677	729,663	2,708,340
Retirement fixed income pool	986,806	415,586	1,402,392	1,616,313	656,855	2,273,168
International equity pool	811,591	341,794	1,153,385	868,586	352,986	1,221,572
Real estate pool	364,096	153,337	517,433	412,699	167,718	580,417
International fixed income pool	193,697	81,574	275,271	177,589	72,171	249,760
Private equity pool (note 8)	152,079	64,046	216,125	139,265	56,597	195,862
Emerging markets equity pool	52,442	22,085	74,527	49,942	20,296	70,238
External domestic fixed income pool	545,603	229,776	775,379	76,197	30,966	107,163
Total investments	5,316,481	2,072,260	7,388,741	5,319,268	2,087,252	7,406,520
Loans and mortgages, at fair value, net of allowance for loan losses of $16 in 2003, and $86 in 2002	99	42	141	67	27	94
Other	17	8	25	17	7	24
Total assets	5,323,193	2,075,087	7,398,280	5,329,313	2,091,334	7,420,647
Current liabilities:						
Accrued expenses	4,759	2,005	6,764	5,258	2,137	7,395
Due to State of Alaska General Fund	44	17	61	297	120	417
Alaska Department of Commerce escrow liability	-	-	-	1	1	2
Total liabilities	4,803	2,022	6,825	5,556	2,258	7,814
Commitments and Contingencies (note 8)						
Net assets held in trust for pension and postemployment healthcare benefits	**$5,318,390**	**2,073,065**	**7,391,455**	**5,323,757**	**2,089,076**	**7,412,833**

(Schedules of funding progress are presented on pages 38 and 39)

See accompanying notes to financial statements.

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Statements of Changes in Plan Net Assets

June 30, 2003 and 2002
(000's omitted)

	2003			2002		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 69,801	29,397	99,198	67,385	27,384	94,769
Plan members	78,889	33,223	112,112	71,558	29,081	100,639
Total contributions	148,690	62,620	211,310	138,943	56,465	195,408
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments (note 3)	9,723	4,094	13,817	(502,081)	(204,041)	(706,122)
Interest	87,690	36,930	124,620	116,210	47,226	163,436
Dividends	80,905	34,073	114,978	79,222	32,196	111,418
Net recognized mortgage loan recovery	50	21	71	66	27	93
Total investment income (loss)	178,368	75,118	253,486	(306,583)	(124,592)	(431,175)
Less investment expense	11,457	4,824	16,281	12,162	4,942	17,104
Net investment income (loss)	166,911	70,294	237,205	(318,745)	(129,534)	(448,279)
Other	19	8	27	7	3	10
Total additions	315,620	132,922	448,542	(179,795)	(73,066)	(252,861)
Deductions:						
Benefits	307,684	143,331	451,015	279,731	124,805	404,536
Refunds of contributions	9,165	3,860	13,025	9,150	3,719	12,869
Administrative expenses	4,138	1,742	5,880	3,756	1,527	5,283
Total deductions	320,987	148,933	469,920	292,637	130,051	422,688
Net decrease	(5,367)	(16,011)	(21,378)	(472,432)	(203,117)	(675,549)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	5,323,757	2,089,076	7,412,833	5,796,189	2,292,193	8,088,382
Balance, end of year	**$5,318,390**	**2,073,065**	**7,391,455**	**5,323,757**	**2,089,076**	**7,412,833**

See accompanying notes to financial statements.

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June 30, 2003 and 2002
(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, 2003 and 2002, the number of participating local government employers and public organizations including the State was:

	2003	2002
State of Alaska	1	1
Municipalities	78	80
School districts	53	52
Other	28	28
	160	**161**

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, 2002 and 2001, the dates of the two most recent actuarial valuations, which included Plan membership data, Plan membership consisted of:

	2002	2001
Retirees and beneficiaries currently receiving benefits	17,215	16,274
Terminated Plan members entitled to future benefits	5,702	6,187
	22,917	22,461
Current Plan members:		
General	30,547	29,758
Police and fire	2,695	2,683
	33,242	32,441
	56,159	**54,902**
Current Plan members:		
Vested:		
General	16,944	16,755
Police and fire	1,715	1,814
Nonvested:		
General	13,603	13,003
Police and fire	980	869
	33,242	**32,441**

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(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.

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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.

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(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 percentage of pay method to amortize the unfunded liability or the funding surplus over a twenty-five year fixed 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.

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

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

(d) Investments

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

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

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separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

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

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.

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(e) Contributions Receivable

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

(f) Federal Income Tax Status

The Plan 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 plan net assets and statements of changes in plan 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.

(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, 2003 and 2002, 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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June 30, 2003 and 2002
(000's omitted)

The cost and fair value of the Plan's investments at June 30, 2003 and 2002 are as follows:

	Cost	Fair Value
2003:		
Domestic equity pool	$ 2,879,386	2,974,229
Retirement fixed income pool	1,345,983	1,402,392
International equity pool	1,368,516	1,153,385
Real estate pool	478,080	517,433
International fixed income pool	241,082	275,271
Private equity pool	295,669	216,125
Emerging markets equity pool	91,005	74,527
External domestic fixed income pool	757,370	775,379
	$ 7,457,091	**7,388,741**
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	104,944	107,163
	$ 7,641,257	**7,406,520**

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(000's omitted)

During 2003 and 2002, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2003	2002
Investments measured by quoted fair values in an active market:		
Domestic equity pool	$ (26,722)	(586,485)
Retirement fixed income pool	68,371	36,650
International equity pool	(98,684)	(140,920)
Real estate pool	6,929	(9,661)
International fixed income pool	44,907	34,300
Private equity pool	(33,551)	(40,568)
Emerging markets equity pool	3,847	(2,899)
External domestic fixed income pool	48,720	3,461
	$ 13,817	**(706,122)**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2003 and 2002, 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, 2003 and 2002, the Plan has a 0.03% and 0.26% direct ownership in the short-term fixed income pool totaling $524 and $3,553, respectively. These amounts include interest receivable of $8 and $5, respectively.

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(000's omitted)

(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, 2003 and 2002, the Plan's investment in the domestic equity pool totaled 66.84% and 66.50%, respectively, and consisted of the following:

	2003	2002
Domestic equity securities	$2,942,732	2,671,201
Convertible bonds	2,051	7,747
Cash and cash equivalents held in the short-term fixed income pool, other short-term debt instruments, and currency	28,723	34,052
Net receivables (payables)	723	(4,660)
	$2,974,229	**2,708,340**

(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, 2003 and 2002, the Plan's investment in the retirement fixed income pool totaled 66.69% and 65.91%, respectively, and consisted of the following:

	2003	2002
Mortgage related	$ 623,423	805,422
Corporate	393,174	584,398
U.S. Treasury	172,370	406,115
Yankees	14,089	30,730
Municipal	15,701	-
Asset backed	73,366	144,141
U.S. government agency	68,382	140,229
Available cash held in the short-term fixed income pool	191,825	181,700
Net payables	(149,938)	(19,567)
	$1,402,392	**2,273,168**

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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, 2003 and 2002, the Plan's investment in the international equity pool totaled 67.01% and 66.51%, respectively, and consisted of the following:

	2003	2002
International equity securities	$1,134,731	1,198,356
Cash and cash equivalents held in short-term debt instruments and foreign currency	18,468	17,989
Net receivables	186	5,227
	$1,153,385	**1,221,572**

(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, 2003 and 2002, the Plan has 66.88% and 66.76% direct ownership in the real estate equity pool totaling $517,433 and $580,417, 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, 2003 and

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2002, the Plan's investment in the international fixed income pool totaled 66.98% and 66.85%, respectively and consisted of the following:

	2003	2002
International fixed income securities	$ 266,857	241,314
Cash and cash equivalents held in short-term debt instruments and foreign currency	3,030	3,875
Net receivables	5,384	4,571
	$ 275,271	**249,760**

(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, 2003 and 2002, the Plan has 67.32% and 66.87% direct ownership in the private equity pool totaling $216,125 and $195,862, 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, 2003 and 2002, the Plan has a 65% ownership in the pool totaling $74,527 and $70,238, 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

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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, 2003 and 2002, the Plan's investment in the external domestic fixed income pool totaled 66.32% and 66.09%, respectively and consisted of the following:

	2003	2002
Mortgage related	$344,769	42,751
Corporate	154,372	22,071
U.S. Treasury	71,338	18,443
U.S. government agency	51,603	2,984
Asset backed	25,005	6,990
Yankees	8,620	666
Municipal	9,578	660
Cash and cash equivalents held in short-term debt instruments	254,036	10,262
Net receivables (payables)	(143,942)	2,336
	$775,379	**107,163**

(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:

	2003	2002
Net contract sales	$ 967	8,209
Less: fair value	955	8,794
Net unrealized gains (losses) on contracts	**$ 12**	**(585)**

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 Alaska State Pension Investment Board (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 securities and simultaneously agrees to return the collateral for the same securities in the future.

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At June 30, 2003 and 2002, the fair value of securities on loan allocable to the Plan totaled $624,928 and $737,354, 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 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. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. 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, 2003 and 2002, 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 2003 or 2002.

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.

(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, 2003, the Plan's share of these unfunded commitments totaled $265,987 to be paid through the year 2008.

(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.

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

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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 Supreme Court reversed the Superior Court and remanded for further proceedings. The Supreme Court ruled that provisions to health coverage programs can be made if, from the perspective of the retiree group as a whole, they are balanced by comparable increases in benefits. The issue is now pending before the Superior Court. The likelihood of an unfavorable outcome is reasonably 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. The ultimate outcome of this matter is not currently determinable.

The State is a defendant in a class action lawsuit involving a constitutional challenge to PERS and TRS statutes that provide a 10 percent cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of non-resident benefit recipients, and therefore, the 10 percent COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied. The likelihood of an unfavorable outcome of the litigation is reasonably possible and the Plan believes that an unfavorable outcome, if rendered, would negatively impact its financial position and funding status. The ultimate impact cannot be determined within a reasonable range.

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Schedule of Funding Progress
Pension Benefits

June 30, 2003 and 2002
(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
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%
2002	4,611,170	6,133,182	(1,522,012)	75.2%	1,245,054	(122.2%)

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

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Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2003 and 2002
(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
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%
2002	2,801,663	3,726,409	(924,746)	75.2%	1,245,054	(74.3%)

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

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Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2003 and 2002
(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)
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%
2003	63,283	26,651	89,934	110.3%	110.3%	110.3%

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

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June 30, 2003 and 2002
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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, 2002 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year fixed period level percentage of pay.

(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, 35% of the time for other members.

(c) Retirement – 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	
03-05	12.0%
06	11.5%
07	11.0%
08	10.5%
09	10.0%
10	9.5%
11	9.0%
12	8.5%
13	8.0%
14	7.5%
15	7.0%
16	6.0%
FY17 and later	5.0%

(f) Salary scale – inflation 3.5%, productivity and merit (first five years) for police and fire members, 1.0% 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.

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

(i) Contribution refunds – 100% of those employees terminating after age thirty-five 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 – incidence rates 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 – recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets cannot be outside a 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) as specified by statute.

(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 – based upon the 1997-1999 actual withdrawal experience.

(t) Part-time status – part time employees are assumed to earn 0.600 years of credited service per year.

(u) 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%.

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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%.

Effective June 30, 2002, the following changes were made:

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

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- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

- The salary scale assumptions were changed. Productivity rates (first five years) for police/fire members were set at 1.0% from 0.5%.

- Part-time employees are assumed to earn 0.600 years of credited service per year.

- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

- The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

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

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

The Plan's utilization of the enhanced actuarial projection system resulted in 1998-1999 employer contributions being equal to the annual required contribution and 2000-2003 employer contributions being more than the annual required contribution.

(4) APPROVED FUTURE CONTRIBUTION RATES

Due primarily to declines in the market value of Plan assets, the June 30, 2002 actuarial valuation report for the Plan reported a funding ratio of 75.2%. As a result of the decline in the funding ratio, the matching employer contribution rate would need to be increased to 24.91% for Fiscal Year 2005, per the recommendation from the Plan's consulting actuary. The PERS board members voted for the average matching employer contribution rate to be 11.77% for Fiscal Year 2005. The primary reason for the five (5) point change in the average matching employer contribution rate from 6.77% to 11.77% is due to the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states " (T)he maximum change in the contribution rate from one year to the next shall be no more than five percentage points, as actuarially calculated, whether the change is an increase or a decrease."

Schedule 1

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Schedule of Administrative and Investment Expenses

Year ended June 30, 2003
with comparative totals for 2002
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2003	Totals 2002
Personal services:				
Wages	$ 2,133	887	3,020	2,854
Benefits	1,243	186	1,429	1,010
Total personal services	3,376	1,073	4,449	3,864
Travel:				
Transportation	62	48	110	101
Per diem	58	41	99	93
Moving	-	6	6	5
Honorarium	25	9	34	30
Total travel	145	104	249	229
Contractual services:				
Management and consulting	393	13,609	14,002	15,305
Accounting and auditing	14	908	922	732
Other professional services	540	137	677	728
Data processing	241	24	265	289
Communications	301	35	336	261
Advertising and printing	86	188	274	212
Rentals/leases	251	58	309	174
Legal	-	77	77	75
Medical specialists	47	1	48	49
Repairs and maintenance	9	-	9	22
Transportation	4	2	6	14
Other services	85	18	103	98
Total contractual services	1,971	15,057	17,028	17,959
Other:				
Equipment	122	29	151	83
Supplies	266	18	284	252
Total other	388	47	435	335
Total administrative and investment expenses	**$ 5,880**	**16,281**	**22,161**	**22,387**

See accompanying independent auditors' report.

Schedule 2

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, 2003 and 2002
(000's omitted)

Firm	Services	2003	2002
State Street Corporation	Custodian banking services	$ 849	904
Deloitte and Touche LLP	Benefits consultation	76	215
Mercer Human Resource Consulting	Actuarial services	317	215
Milliman USA	Actuarial audit	46	-
Systems Central Services, Inc.	Data processing consultants	199	193
State of Alaska, Department of Law	Legal services	155	120
Mikunda, Cottrell & Co., Inc.	PERS Board elections	110	77
Wohlforth, Vasser, Johnson and Brecht	PERS Board legal services	51	49
Cost Effectiveness Measurement	Cost study	25	25
First National Bank of Alaska	Banking services	24	23
KPMG LLP	Auditing services	106	21
		$ 1,958	**1,842**

See accompanying independent auditors' report.

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MERCER

Human Resource Consulting

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Seattle, WA 98101-3137
206 808 8800 Fax 206 382 0627
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March 13, 2003

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, 2002 by Mercer Human Resource Consulting. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 2002;

(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 13, 2003
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. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY03 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. 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 relatively constant as a percentage of payroll. The ratio of assets to liabilities changed from 100.9% to 75.2% during the year primarily due to continuing poor equity market performance and a change in the asset valuation method. Over the years, progress has been made toward achieving the funding objectives of 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.

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

MERCER

Human Resource Consulting

Public Employees' Retirement Board
March 13, 2003
Page 3

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 Alaska Public Employees' Retirement System Actuarial Valuation Report as of June 30, 2002, 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 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 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

A. Valuation of Liabilities

Actuarial Method - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The initial unfunded accrued liability and future gains/losses are amortized as a 25-year fixed period level percentage of pay.

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 Police/Fire Merit (first 5 years of employment) - 1.5% per year Productivity - 1.0% per year Others 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	FY03 - FY05 - 12.0% FY06 - 11.5% FY07 - 11.0% FY08 - 10.5% FY09 - 10.0% FY10 - 9.5% FY11 - 9.0%	FY12 - 8.5% FY13 - 8.0% FY14 - 7.5% FY15 - 7.0% FY16 - 6.0% FY17 and later 5.0%

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% of the time 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.

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

15.	Expenses	Expenses are covered in the investment return assumption.
16.	Part-Time Status	Part-time employees are assumed to earn 0.600 years of credited service per year.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. 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. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

D. 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 FY03, the pre-65 monthly premium is $907.18 and the post-65 premium is $345.59, based on an assumed total blended premium of $694.00. The assumed total blended premium for FY03 is the average of the 2002 and 2003 calendar year actual blended premiums. For the time period January 1, 2003 to December 31, 2003, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is $720.00.

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 5 Years of Employment

Ultimate Rates of Turnover After the First 5 Years of Employment

Police and Fire:

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

Other:

Year of Employment	-------- Age at Hire 20-34	-------- 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

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 and fire members retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Other members retiring at ages under 50 are assumed to retire immediately upon attaining 31 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, 2002	30,547	$ 1,245,055	$40,759	0.3%	161
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
Police/Fire					
June 30, 2002	2,695	$175,632	$58,490	3.4%	161
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

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

Year Ended	Added to Rolls No.*	Added to Rolls Annual Allowances*	Removed from Rolls No.*	Removed from Rolls Annual Allowances*	Rolls - End of Year No.	Rolls - End of Year Annual Allowances	Increase in Annual Allowances	Average Annual Allowance
All Others								
June 30, 2002	1,135	$27,484,388	332	$8,039,486	15,346	$235,911,130	9.0%	$15,373
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
Police/Fire								
June 30, 2002	157	$6,155,365	19	$ 744,917	1,869	$57,285,773	10.4%	$30,650
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

* Numbers are estimated, and include other internal transfers.

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

Public Employees' Retirement System Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2002	$967,045	$6,301,095	'$2,591,451	$7,412,833	100%	100%	5.6%
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%

[(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 2002	2001	2000	1999	1998
Health Experience	3.68%	-	-	-	-
Salary Experience	(0.20)%	(1.03)%	-	(0.23)%	(0.46)%
Investment Experience	7.24%	0.11%	(0.12)%	(0.49)%	(3.26)%
Demographic Experience	1.21%	0.77%	(0.81)%	0.21%	1.12%
(Gain) or Loss During Year From Experience	11.93%	(0.15)%	(0.93)%	(0.51)%	(2.60)%
Non-recurring changes					
Asset Valuation Method	4.11%	-	(2.67)%	-	-
Past Service Amortization Change	(5.06)%	-	-	-	-
Assumption Changes	6.98%	-	3.09%	-	1.08%
System Benefit Changes	0.04%	0.17%	-	-	-
Liability Loading Adjustment	-	0.57%	-	-	0.99%
Ad hoc PRPA	0.14%	0.06%	0.07%	0.04%	0.20%
Composite (Gain) or Loss During Year	18.14%	0.65%	(0.44)%	(0.47)%	(0.33)%
Beginning Average Employer Contribution Rate	6.77%	6.12%	6.56%	7.03%	7.36%
Ending Average Employer Contribution Rate	24.91%	6.77%	6.12%	6.56%	7.03%
Board Adopted Employer Contribution Rate	11.77%	6.77%	6.75%	6.75%	7.40%
Fiscal Year above rate is applied	FY05	FY04	FY03	FY02	FY01

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2002. 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 161 employers participating in the PERS, including the State of Alaska and 160 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 employer 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 halftime 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.
- Village Public Safety Officer service;
- service as a temporary employee of the legislature before July 1, 1979, but this service must be claimed no later than July 1, 2003, or by the date of retirement, if sooner (not more than 10 years may be claimed).

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

<u>Mandatory Contributions:</u> Police/Fire members are required to contribute 7.5% of their compensation; all Others contribute 6.75%. Those all Others 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.

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

<u>Voluntary Contributions:</u> 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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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

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

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

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

(8) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60[3] , 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;

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

(v) Two years of paid-up PERS service and a minimum three years of TRS service to qualify for a public service benefit.

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

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

STATE OF ALASKA
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Summary of Plan Provisions

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 five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

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

The percentage multipliers for all Others 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 refund 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 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. The Waiver Option is not available to members who retired early or under the Retirement Incentive Programs (RIPs).

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 1996-2000 RIP, which may include costs for health insurance, excluding amounts that they paid to participate for the 1986 and 1989 RIPs. Under prior RIPs, the penalty is 110% 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 by the PERS 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)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

must pay the full monthly premium if they are under age sixty and will receive benefits paid by the PERS 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 paid by the PERS, regardless of their age or 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.

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. Police/Fire members may elect to retain the disability benefit formula for the calculation of their normal retirement benefits.

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. Survivors of Police/Fire members receive the greater of 50% of the member's gross monthly compensation on the date of death or disability, or 75% of the member's monthly normal retirement benefit (including service projected to Normal Retirement).

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

STATE OF ALASKA
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Summary of Plan Provisions

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

(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 an ad hoc PRPA is granted, eligible recipients will 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 first entered the PERS before July 1, 1986, and their survivors;

(b) members who 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 2003 Annual Report of Investments for the period ending June 30, 2003 to you, the participants and beneficiaries of this retirement trust fund.

The difficult economic and stock market environment experienced in fiscal 2001 and 2002 continued through much of fiscal 2003. The stock market reached a low in October 2002, rallied and then tested the low in March 2003. Fortunately, the market rebounded strongly in the June quarter and ended the year with a fractional gain. For the twelve months, U.S. stocks registered a slight positive return of 0.25% 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 1.6% for the 12 months. International stocks, as measured by the MSCI EAFE Index, declined 6.5%. As was the case throughout the bear market, the real 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 handsome 10.4% while various measures of the real estate market produced returns in excess of 7.6%. PERS experienced an overall positive return of 3.7% for the 12 months ended June 30, 2003. While this was below our long-term targets, it is refreshing to see evidence suggesting that the worst market environment in modern financial market history may well have ended and the economy is on a path to gradual recovery.

The System's domestic equity investments experienced mixed results. The System's large company component continued to outperform the S&P 500 by posting a gain of 0.35%. The smaller company component of the domestic portfolio registered a loss of 5.4% and underperformed the Russell 2000 stock index, which fell 1.6% for the year. The System's international equity composite declined 5.8%. While negative, this result was better than the MSCI EAFE Index loss of 6.5%.

On a positive note, the System's domestic bond portfolio slightly outperformed its benchmark index (10.7% for the portfolio versus 10.4% 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 8.97% return. For the second year in succession, the biggest bright spot was the performance of the System's international bond portfolio. The portfolio enjoyed a 24.5% 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 return during FY03 of 3.7% was slightly below its target return of 4.6%. The primary explanatory factor was a slight over target allocation to equities. A secondary factor was the underperformance of the U.S. small cap equity composite relative to its market benchmark.

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. Therefore, we are encouraged to observe that the 11 ¾ year cumulative annualized return (the longest period available) of 8.14% compares favorably with the System's policy target index return of +8.13% and is very close to the System's 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 FY03 called for an investment distribution as follows: 36% in domestic equities, 15% in international equities, 31% in domestic fixed income, 3% in international fixed income, 6% in private equity and 9% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year; it is designed to provide competitive returns at a reasonable level of risk. Fiscal 2003 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 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.

Gail Schubert, Acting Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2003)

Gail R. Schubert, Acting Chair

Appointed by the Governor

Gail R. Schubert, Acting Chair, was first appointed to the board by Governor Hickel, and reappointed by Governor Knowles. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and 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 the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2003.

William "Riley" Snell, Vice Chair

Appointed by the Governor

William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Expert Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2003.

Merritt C. Olson, Secretary

TRS Representative

Merritt C. Olson was elected by the Teachers' Retirement System. He 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.

Wilson L. Condon

PERS Representative

Wilson L. Condon was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as 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. Mr. Condon's term expires December 31, 2006.

William Corbus
Statutory Representative

William Corbus was appointed Revenue Commissioner in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

Jeffrey E. Sinz
Appointed by the Governor

Jeffrey E. Sinz 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.

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

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

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

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

External Money Managers and Consultants

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

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

Domestic Equity Large Capitalization
Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA
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
Hartfort, CT

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

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

Supplemental Benefits System
Barclays Global Investors
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 Bank & Trust Co.
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.

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.

INVESTMENTS

The State of Alaska Public Employee Retirement System's investment goals are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually the Alaska State Pension Investment Board (ASPIB) sets its asset allocation strategy in order to reflect changes in the market place while still retaining an optimal risk/return level within the set constraints and objectives of the Investment Board.

During the 2003 Fiscal Year[1], ASPIB's asset allocation was 40.24% domestic equities, 16.6% international equities, 29.6% domestic fixed income, 3.72% international fixed income, 6.94% real estate and 2.9% alternative investments.

For the 2003 Fiscal Year, PERS investments generated a 3.67% rate of return. The PERS annualized rate of return was negative 2.48% over the last three years and 2.47% over the last five years.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio fell -0.97% and the international equity portfolio dropped -5.83% (as compared to the 2002 Fiscal Year losses of –16.8% and –8.3%, respectively). Positive performance was provided in the U.S fixed-income market, which generated a 10.69% return up from 8.2% the previous year.

ASPIB continued the systematic increase in PERS investments in real estate and private equity. The real estate portfolio earned 8.97% for the 2003 Fiscal Year versus 5.2% in Fiscal Year 2002. The PERS investments in private equities lost 14.75%, as compared to a 17.1% loss in 2002. Over the past five years, PERS real estate investments have earned an average of 10.5% per year.

DOMESTIC ECONOMY

The U.S. economy grew slowly during the 2003 Fiscal Year as it climbed out of the recession, which began during the last quarter of the 2001 Fiscal Year. The continued effects of September 11th as well as market ripples from the collapse and scandals of Enron, WorldCom, and Arthur Anderson were felt throughout the markets. Built atop these events were the military actions in Afghanistan and Iraq.

By historical standards, the U.S. recession was extremely mild and short-lived. The economy actually expanded by 3.9% during the 2003 Fiscal Year, compared with 3.3% in 2002 and 2.3% in 2001. Although the net change in the consumer confidence index was negative, there was a steep climb and leveling out of the curve during the third and fourth quarters as the Iraq war drew to an official end. Retail sales maintained historical patterns although the index fell 2.5% from the previous year.

Lower and lower mortgage rates spurred consumers to purchase new houses. Sales of new homes totaled 1,028,417 up from the 2002 Fiscal Year number of 914,580. Sales of existing homes hit a five year high with the sale of 5.713 million units, a 4.7% increase from 5.457 million units in 2002. Finally this change in interest rates spurred the largest growth in mortgage refinancing seen in a lifetime, with a 227% increase in the number of refinancing in June, 2003 as compared to June 2002.

[1] July 1st, 2002 – June 30th, 2003

Public Employees' Retirement System
Investment Report

Inflationary concerns were within acceptable constraints in the 2003 Fiscal Year as The Consumer Price Index (CPI) rose only 2.1% compared to 1.1% in the 2002 Fiscal Year. The Producer Price Index (PPI) rose 2.9% in the 2003 Fiscal Year while it dropped 2.1% in the 2002 Fiscal Year.

EQUITIES

The domestic market rose, following the resolution of the Iraq war, in the third and fourth quarters of the 2003 Fiscal Year. With a net return of -0.97% these year-end gains were not quite enough to bring the equity returns into the black and PERS felt a third year of negative domestic equity returns. The International Equity pool felt a similar fluctuation as it ended with a -5.83% return, which was higher than the index return of -6.46%.

The annualized domestic equity return for the five year period fell to a negative 1.43% versus 3.1% in the 2002 Fiscal Year. While the international equity return for the five year period fell to a negative 0.13%.

Small-cap managers underperformed large-cap managers over year as a whole, while small-cap managers had a very strong fourth quarter with 23.67% returns.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 29.6% of the total assets of PERS as of June 30, 2003. 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.

As the domestic economy continued to slowly build interest rates remained at all time lows, which translated into good news for bond investors. The 10-Year U.S. Treasury yield dropped from 4.82% to 3.53% during the 2003 Fiscal Year, reaching a low of 3.10% in mid June of 2003. The 30-year U.S. Treasury yield dropped from 5.50% to 4.57%. Corporate fixed-income markets were well monitored, as ratings agencies maintained conservative ratings methodologies.

Over the 2003 Fiscal Year, the PERS domestic bond portfolio gained 10.69%, up from 8.2% the year before. The Lehman Brothers Aggregate Bond Index returned 10.40%, versus 8.6% during 2002 Fiscal Year.

The international fixed-income portfolio, which represented just about 3.72% of the total assets of PERS, returned 24.48% over the 2003 Fiscal Year, well above the 17.90% posted by the Salomon Brothers Non U.S. Government Index.

REAL ESTATE

At the end of the 2003 Fiscal Year, PERS had 6.93% of its portfolio invested in real estate, just shy of its target of 9% (+/- 2%). At fiscal year end, the real estate portfolio totaled $767 million. The total return for real estate, net of fees, was 8.97% compared to 5.2% for the 2002 Fiscal Year. The three and five year total returns were 8.15% and 9.06%, respectively.

ASPIB's early defensive strategy benefited the portfolio in the 2003 Fiscal Year. The delay in the recovery of the economy and the real estate market has increased the value of that position. Although there have not been large capital gains, the defensive strategy has helped ASPIB maintain a very competitive position in relationship to other real estate portfolios. ASPIB's real estate portfolio is made up of 31% apartment, 31% office, 23% industrial, 14% retail and 1% hotel.

Public Employees' Retirement System
Investment Report

PRIVATE EQUITY

During the 2003 Fiscal Year the Private Equity component of the PERS portfolio showed a net return of -14.75% with three and five year annualized returns of -10.60% and -.081%, respectively.

ASPIB's managers have committed $29.7 Million during the 2003 Calendar Year, as compared to the $195 million targeted for the 2003 Calendar year. The slow pace of new commitments represents the relative dearth of fund raising activity among many of the high quality General Partner groups.

IPO activity has declined, with only seven in the first half of the 2003 calendar year, as compared to 422 in 2000, 90 in 2001 and 85 in 2002.

Although the rise in the public equity markets seen late in the Fiscal Year, as noted above, did strengthen the overall outlook of the markets, it did not help to build the private equity markets which remains anemic compared to the internet boom of late-1999/early-2000.

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

	1999	2000	2001	2002	2003	Annualized 3 Year	Annualized 5 Year
Total Fund							
PERS	10.59%	10.07%	(5.25%)	(5.48%)	3.67%	(2.48%)	2.47%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	16.56%	10.41%	(12.20%)	(16.85%)	(0.97%)	(10.25%)	(1.43%)
S&P 500	22.76%	7.24%	(14.83%)	(17.99%)	0.25%	(11.20%)	(1.61%)
International Stock Returns							
PERS International Equities	14.72%	20.59%	(16.89%)	(8.27%)	(5.18%)	(10.25%)	0.00%
Morgan Stanley Capital International EAFE	7.62%	18.11%	(23.83%)	(9.49%)	(6.46%)	(13.52%)	(4.00%)
Domestic Fixed Income							
PERS	2.24%	4.55%	11.83%	8.17%	10.69%	10.22%	7.43%
*Lehman Brothers Aggregate Index**	2.69%	1.69%	11.22%	8.63%	10.40%	10.08%	7.46%
International Fixed Income							
PERS	5.27%	(3.27%)	(5.68%)	22.56%	24.48%	12.90%	7.94%
Salomon Non-U.S. Government	4.87%	2.42%	(7.43%)	15.73%	17.90%	8.10%	6.29%
Real Estate Equity							
PERS	10.51%	8.43%	11.43%	5.24%	8.97%	8.15%	9.06%
NCREIF	11.24%	11.61%	11.15%	5.60%	7.64%	8.21%	9.79%

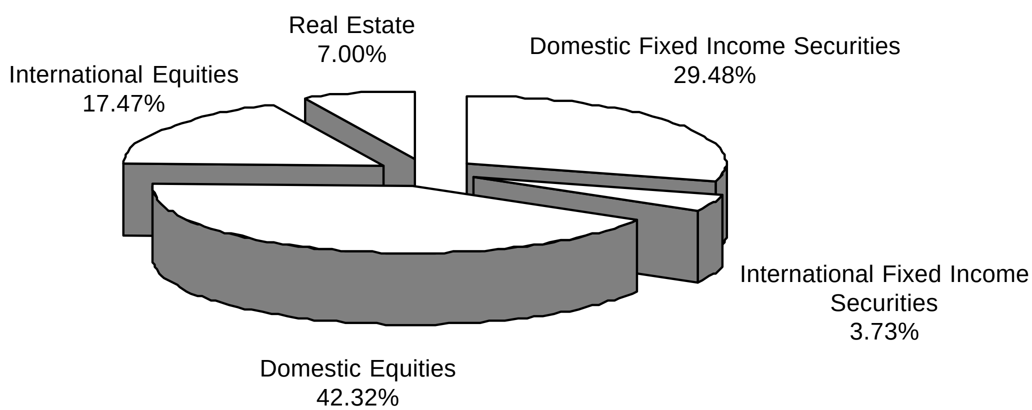
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

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

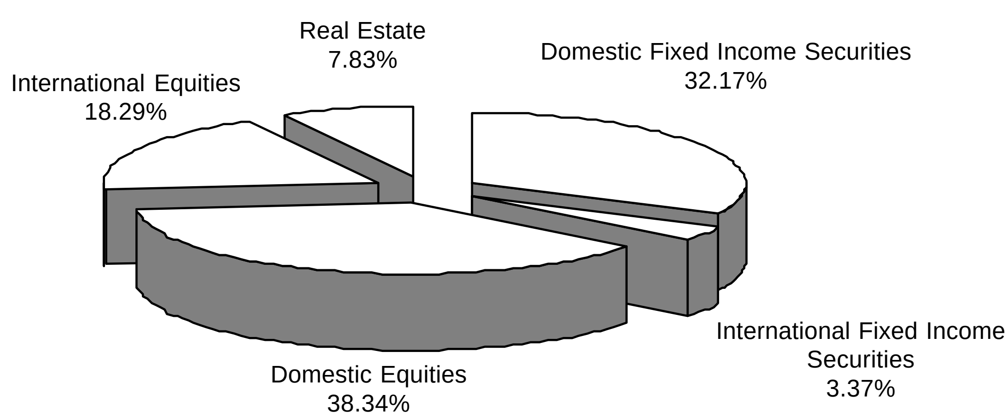
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

Public Employees' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2003



June 30, 2002



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2003

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	133,105,425	128,140,000	Federal National Mtg. Assn.	6.000%	12/31/2099	Aaa
	2	99,795,000	100,000,000	U.S. Treasury Bill	0.000%	9/25/2003	Aaa
	3	61,603,236	59,700,000	Federal Home Loan Mtg. Corp.	5.500%	12/31/2099	Aaa
	4	57,980,322	49,266,548	U.S. Treasury Note	4.250%	1/15/2010	Aaa
	5	45,120,250	43,700,000	Federal National Mtg. Assn.	5.000%	12/31/2029	Aaa
	6	44,881,471	42,974,273	Federal National Mtg. Assn.	6.500%	5/1/2029	Aaa
	7	40,922,294	36,335,000	U.S. Treasury Bond	5.375%	2/15/2031	Aaa
	8	38,608,666	28,900,000	U.S. Treasury Bond	10.375%	11/15/2012	Aaa
	9	38,076,754	26,150,000	U.S. Treasury Bond	12.000%	8/15/2013	Aaa
	10	37,349,624	25,530,000	U.S. Treasury Bond	8.125%	8/15/2021	Aaa
Equities	1	125,092,338	3,663,026	Pfizer Inc.			
	2	104,630,376	3,648,200	General Electric Co.			
	3	93,630,672	3,656,020	Microsoft Corporation			
	4	93,240,891	1,737,300	Wal Mart Stores, Inc.			
	5	76,113,328	2,119,558	Exxon Mobil Corporation			
	6	74,006,079	1,729,114	Citigroup Inc.			
	7	68,693,184	1,362,960	Wells Fargo Company			
	8	64,217,601	1,163,784	American International Group Inc.			
	9	63,574,500	770,600	International Business Machines			
	10	63,016,476	934,408	Federal National Mtg. Assn.			

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, 2003

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	$ 1,169,059,304	$ 1,018,369
International Fixed Income		
Delaware International Advisers, Ltd.	410,977,477	418,973
Domestic Equity		
Capital Guardian Trust Co.	808,784,270	698,401
John McStay Investment Counsel	265,076,051	1,135,711
Trust Company of the West	192,351,674	852,664
State Street Global Advisors	1,204,552,187	168,398
Invesco Capital Management, Inc.	532,009,749	506,973
Lazard Freres Asset Management	408,950,062	958,576
McKinley Capital Management, Inc.	212,491,222	467,264
Dresdner RCM Global Investors	456,482,259	810,893
Tukman Capital Management, Inc.	369,261,976	1,240,562
Total Domestic Equity	4,449,959,450	6,839,442
Private Equity		
Pathway Capital Management, LLC	30,241,060	200,621
Abbott Capital Management, L.P.	290,780,031	640,052
Total Private Equity	321,021,091	840,673
International Equity		
Bank of Ireland Asset Management Ltd	375,067,645	796,321
Brandes Investment Partners, L.P.	569,331,965	1,360,268
Lazard Freres Asset Management	410,796,235	947,419
Capital Guardian Trust Co.	365,995,645	575,716
Total International Equity	1,721,191,490	3,679,724
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management, Inc.	51,736,666	285,401
Capital Guardian Trust Co.	62,924,237	220,607
Total Emerging Markets Equity	114,660,903	506,008
Total External Management Fees	$8,186,869,715	13,303,189

Public Employees' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2003

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corporation		680,415
Investment Advisory		
Callan Associates Inc.		64,308
The Townsend Group		83,455
Total		147,763
Investment Performance Measurement		
Callan Associates Inc.		110,742
Total Other Management Fees		938,920
Total Management Fees		$14,242,109

Public Employees' Retirement System
Investment Summary Schedule
June 30, 2003

	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			$ 523,685	0.02%	0.01%
Retirement Fixed Income Pool			1,402,391,645	64.38%	18.98%
External Domestic Fixed Income Pool			775,378,644	35.60%	10.49%
Total Domestic Fixed Income	31%	28-34%	2,178,293,974	**100.00%**	29.48%
International					
International Fixed Income Pool	3%	2-4%	275,270,800	**100.00%**	3.73%
Total Fixed Income Securities	**34%**	**30-38%**	**2,453,564,774**		**33.21%**
Participation in Pools Owning Domestic Equities					
Small cap[1] and Alternative Investments					
Domestic Equity Pool			615,814,197	19.69%	8.33%
Private Equity Pool			31,672,694	1.01%	0.43%
Total Small Cap Domestic Equities and Alternative Investments	8%	6-10%	647,486,891	20.70%	8.76%
Large cap and Alternative Investments					
Domestic Equity Pool-active			1,197,745,009	38.31%	16.21%
Domestic Equity Pool-passive			1,160,669,556	37.11%	15.71%
Private Equity Pool			121,298,508	3.88%	1.64%
Total Large Cap Domestic Equities and Alternative Investments	32%	29-35%	2,479,713,073	79.30%	33.56%
Total Domestic Equities	**40%**	**35-45%**	**3,127,199,964**	**100.00%**	**42.32%**
Participation in Pools Owning International Equities					
International Equity Pool			1,153,385,203	89.34%	15.61%
Emerging Markets Equity Pool			74,527,573	5.77%	1.01%
Private Equity Pool			63,154,285	4.89%	0.85%
Total International Equities	**17%**	**14-20%**	**1,291,067,061**	**100.00%**	**17.47%**
Participation in Real Estate					
Mortgages, net of allowances			141,537	0.03%	0.00%
Real Estate Pool			517,432,671	99.97%	7.00%
Total Real Estate	**9%**	**6-12%**	**517,574,208**	**100.00%**	**7.00%**
Total Invested Assets	**100%**		**$ 7,389,406,007**		**100.00%**

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

Public Employees' Retirement System
Credit Risk of Investments
Pension Trust Funds
(Expressed in Thousands)
June 30, 2003

	Category 1	Category 2	Category 3	Fair Value
Marketable debt securities				
Domestic fixed income	$ 2,177,771			2,177,771
International fixed income	275,271			275,271
Equity securities				
Domestic equities	2,974,229			2,974,229
International equities	1,153,385			1,153,385
Emerging market equities		74,527		74,527
	$ 6,580,656	**74,527**	**-**	6,655,183
Not Categorized				
Private equities				216,125
Real estate equities				517,574
Total investments not categorized				733,699
Total investments				**7,388,882**

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, indentifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The 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 2003

	Domestic Equity	International Equity	Total
PERS	$ 395,758	149,403	545,161
TRS	194,552	73,085	267,637
Judicial	3,675	1,363	5,038
Military	612	166	778
Total	**$ 594,597**	**224,017**	**818,614**

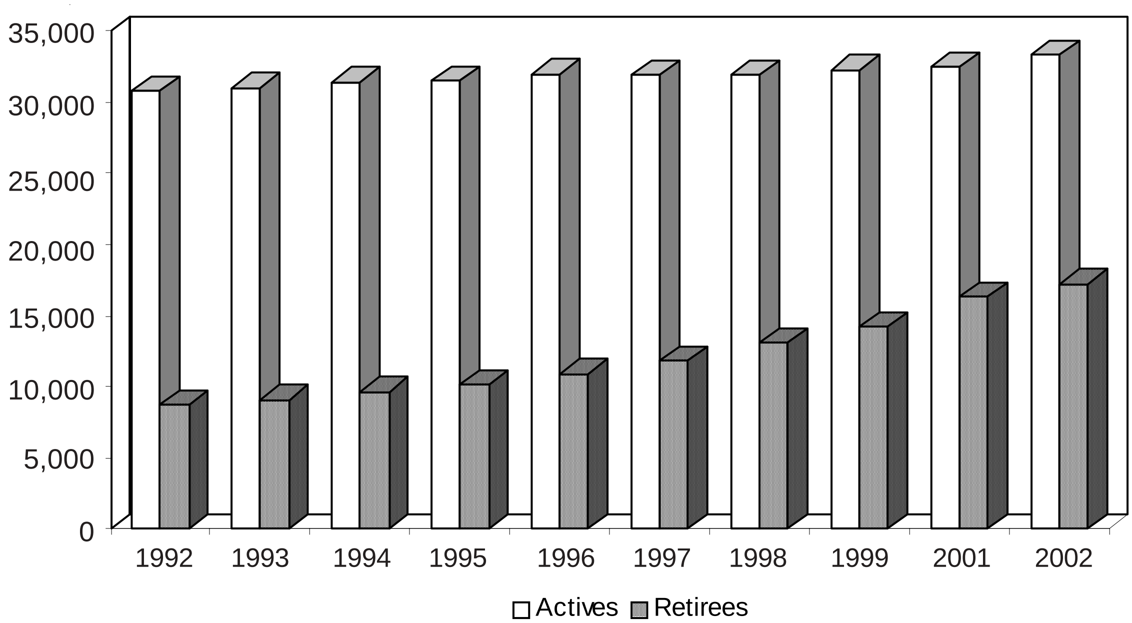
The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer 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**
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
2002	33,242	17,215	5,702	11,301	67,460

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

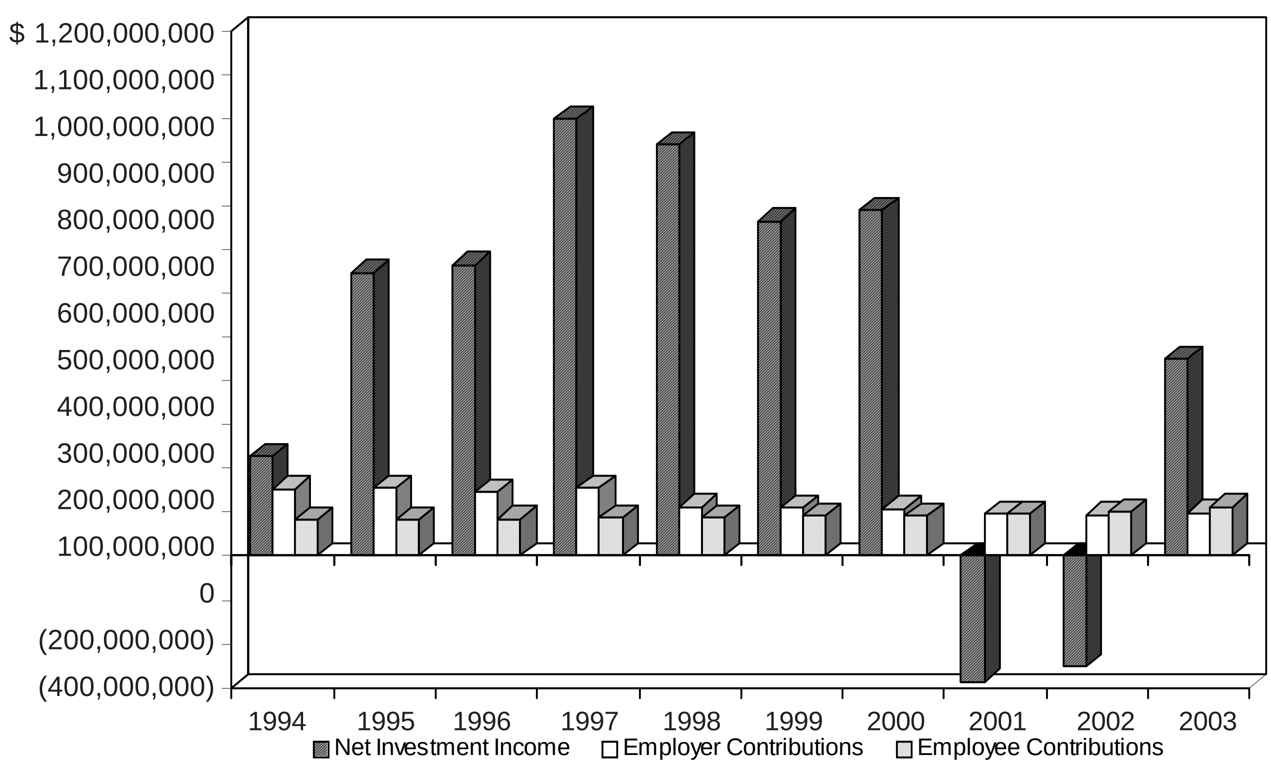
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



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
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)
2003	112,112	99,198	237,205	27	448,542

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

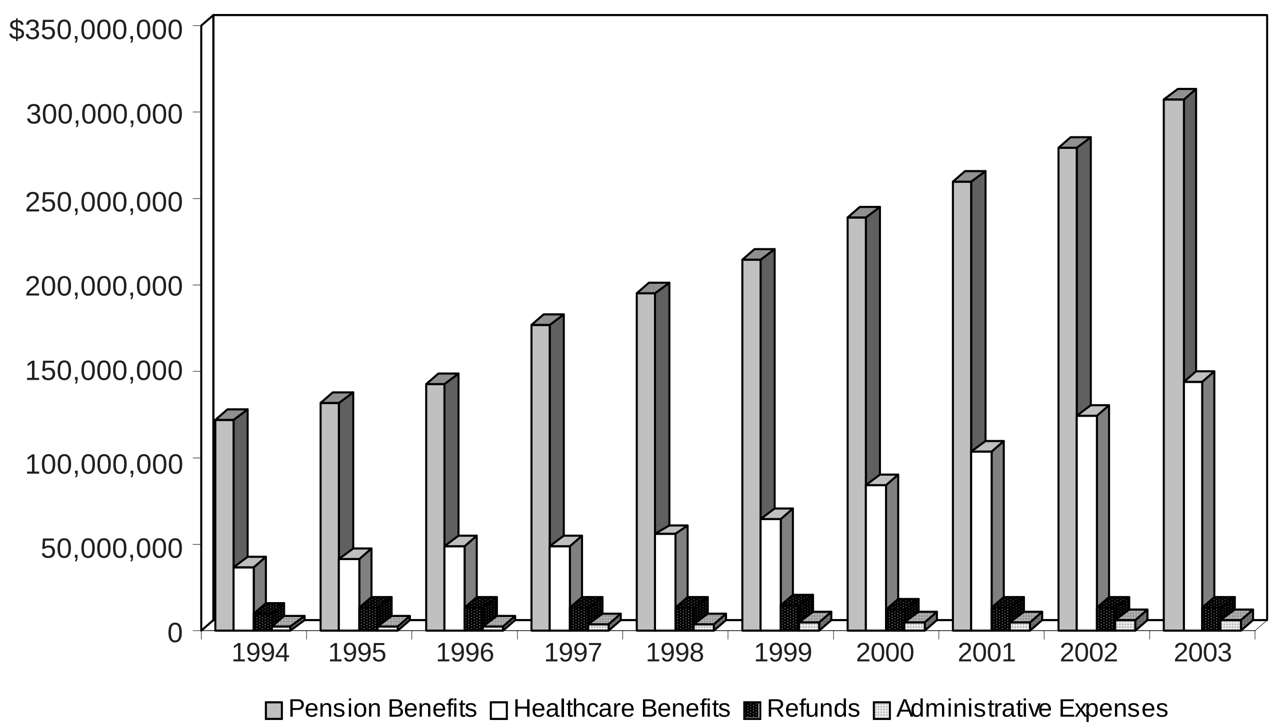


Public Employees' Retirement System
Expenses by Type (000's omitted)

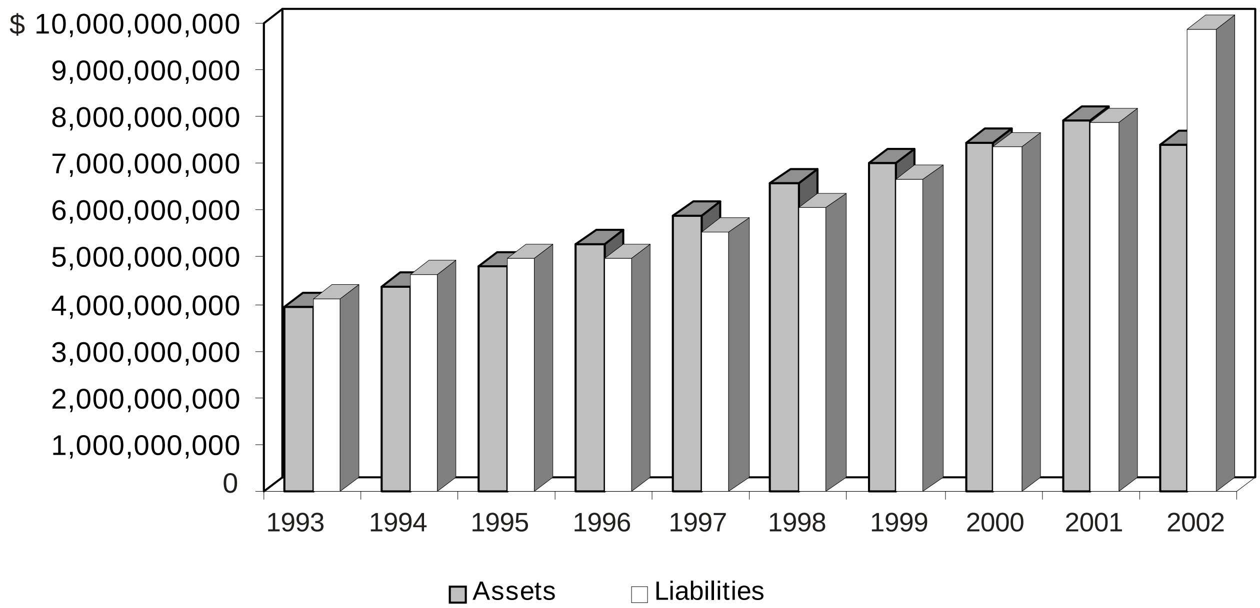
Year ended June 30	Pension Benefits	Healthcare Benefits	Refunds of Contributions	Administrative Expenses*	Total
1994	$121,867	$ 36,046	$ 9,584	$ 2,455	$ 169,952
1995	131,634	40,687	12,774	2,253	187,348
1996	143,039	47,964	13,413	2,522	206,938
1997	177,328	48,361	13,012	2,830	241,531
1998	195,544	55,165	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
2003	307,684	143,331	13,025	5,880	469,920

*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.

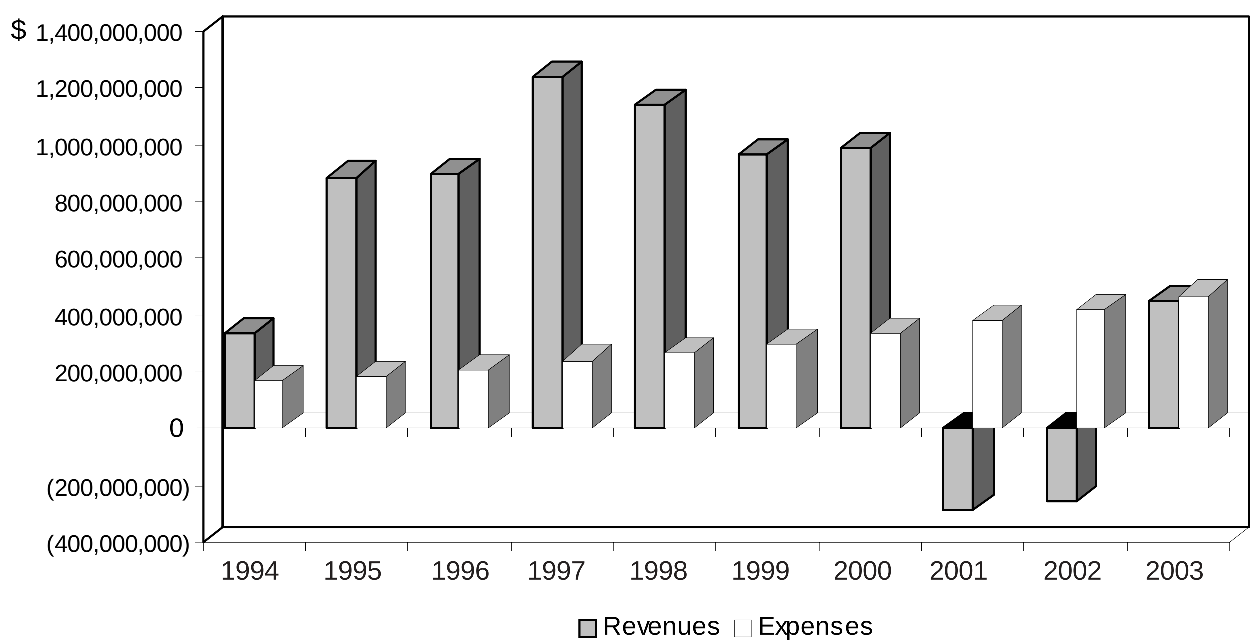
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



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



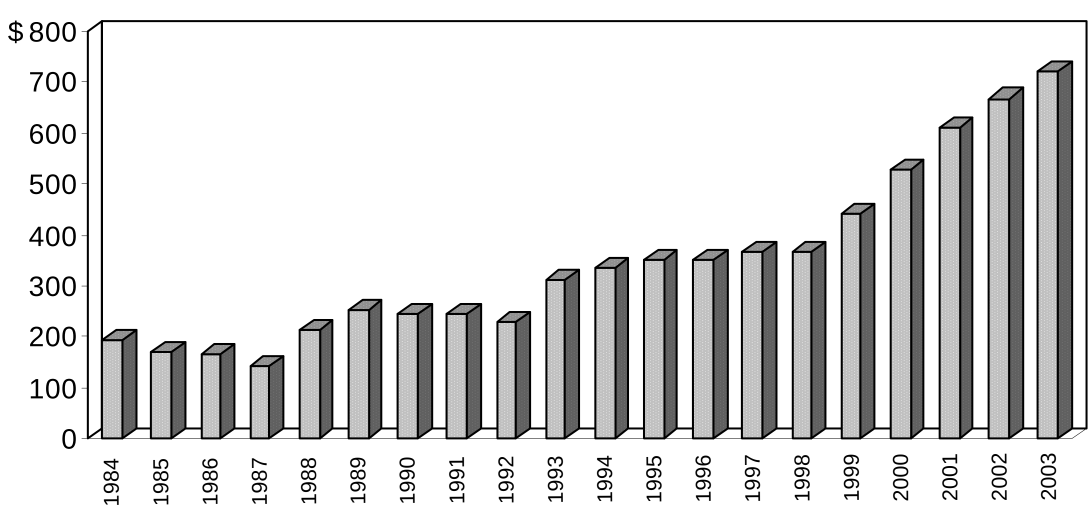
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES



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**
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
2003	283,927	8,827	14,930	-	-	-	143,331	451,015

(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, 2002

Amount of Monthly Benefit	Number of Recipients	Type of Benefit 1	2	3	Option Selected Opt. 1	Opt. 2	Opt. 3	Opt. 4
Others								
$ 1 - $ 300	1,378	1,121	245	12	862	271	189	56
301 - 600	3,066	2,645	371	50	1,776	663	447	180
601 - 901	2,568	2,257	264	47	1,464	564	345	195
901 - 1200	2,029	1,814	174	41	1,112	491	271	155
1201 - 1500	1,554	1,370	126	58	812	389	239	114
1501 - 1800	1,201	1,088	66	47	615	321	167	98
1801 - 2100	895	795	42	58	428	254	138	75
2101 - 2400	657	610	20	27	313	196	94	54
2401 - 2700	482	461	11	10	222	141	82	37
2701 - 3000	419	398	14	7	181	127	69	42
3001 - 3300	290	281	5	4	114	105	45	26
3301 - 3600	207	195	5	7	73	85	37	12
3601 - 3900	167	158	3	6	75	66	16	10
3901 - 4200	135	133	0	2	35	60	25	15
over 4200	298	293	1	4	113	108	46	31
Totals	**15,346**	**13,619**	**1,347**	**380**	**8,195**	**3,841**	**2,210**	**1,110**
Police/Fire								
$ 1 - $ 300	25	16	9	0	16	8	1	0
301 - 600	95	71	22	2	47	25	16	7
601 - 900	96	65	27	4	58	25	6	7
901 - 1200	123	96	20	7	75	22	18	8
1201 - 1500	108	87	18	3	58	27	10	13
1501 - 1800	118	89	19	10	60	30	14	14
1801 - 2100	139	106	17	16	70	43	14	12
2101 - 2400	156	130	11	15	62	66	16	12
2401 - 2700	182	166	11	5	57	81	30	14
2701 - 3000	143	135	7	1	42	65	23	13
3001 - 3300	152	152	0	0	40	78	19	15
3301 - 3600	131	127	4	0	40	62	19	10
3601 - 3900	117	117	0	0	28	57	14	18
3901 - 4200	91	90	1	0	19	52	8	12
Over 4200	193	190	3	0	53	107	23	10
Totals	1,869	1,637	169	63	725	748	231	165

Type of Benefit

1 - Normal retirement
2 - Survivor payment
3 - Disability

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

Public Employees' Retirement System
Schedule of Average Benefit Payments
New Benefit Recipients

	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Others							
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
Period 7/1/0199 - 6/30/02:							
Average Monthly Benefit	$ 488	$ 500	$ 886	$1,428	$2,020	$2,663	$3,653
Number of Recipients	15	283	246	227	198	94	72
Police/Fire							
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
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$1,903	$ 466	$1,056	$1,561	$2,567	$3,447	$5,996
Number of Recipients	1	6	12	19	85	32	2

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

Public Employees' Retirement System
Participating Employers

Akutan, City of
Alaska, State of
Alaska Gateway School District
Alaska Housing Finance Corporation
Alaska Municipal League
Alaska, University of
Alaska 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

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

Chatham School District
Chugach 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

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

Egegik, City of
Elim, City of

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

Galena, City of
Galena City School District

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

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

Juneau School District, City and Borough of
Juneau, City and Borough of

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
Klawock, City of

Public Employees' Retirement System
Participating Employers (continued)

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

Lake and Peninsula Borough
Lake and Peninsula Borough School District, The
Lower Kuskokwim School District
Lower Yukon School District

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

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

Palmer, City of
Pelican, City of
Pelican City School District
Petersburg, City of
Petersburg General Hospital
Petersburg City School District
Pribilof School District

Quinhagak, City of

Ruby, City of

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

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

Unalakleet, City of
Unalaska, City of
Unalaska City School District
Upper Kalskag, City of

Valdez, City of
Valdez City School District

Wasilla, City of
Whittier, City of
Wrangell, City of
Wrangell Public School District

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

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