PUBLIC EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2005

Frank H. Murkowski, Governor

Prepared by

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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November 18, 2005

The Honorable Frank H. Murkowski, Governor
Members of the Alaska State Legislature
Alaska Retirement Management 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, 2005.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy, completeness, and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information 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, 2005. 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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures;* and GASB Statement No. 40, *Deposits and Investment Risk 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 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 and the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditors' Report, management's discussion and analysis (MD&A), 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, 2003) annual actuarial valuation; and
- **Statistical Section**, which includes graphs and tables of significant data.

The 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		
	2005	2004	2003
Net Assets (millions)	$8,590.7	8,177.3	7,391.5
Participating Employers	160	161	160

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.

Prior to July 1, 2005, the Public Employees' Retirement Board (Board) prescribed policies and regulations, heard appeals, and approved employers' contribution rates prepared by the System's independent actuary.

Prior to October 1, 2005, the ASPIB had statutory oversight of the System's investments and the authority to invest the System's monies.

The Alaska Retirement Management Board (ARMB) was constituted effective October 1, 2005, and replaces the Public Employees' Retirement Board and the ASPIB. The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for member's individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations;
- providing a report to the legislature fifteen days after the first day of the legislative session on the short-term and long-term recommendations for addressing the unfunded liability of the System; and
- reporting to the governor, legislature and individual employers participating in the PERS on the financial condition of the system.

November 18, 2005

The Department of Revenue, Treasury Division (Treasury), is responsible for carrying out investment policies established by the ASPIB prior to October 1, 2005, and the ARMB beginning October 1, 2005. Actual investing continues to be performed by external investment firms and Treasury staff listed in the Investment Section of this report.

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.

The Public Employees' Retirement Board looked at ways to reduce costs to the employers and address the unfunded status of the System while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. Senate Bill 141 was passed during the 2005 legislative session creating Tier IV in the PERS. This new tier is a defined contribution plan and becomes effective for members entering the system on or after July 1, 2006.

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

The actuarial firm, Mercer Human Resource Consulting, Inc., completed the actuarial review and valuation as of June 30, 2003, and served as technical advisor to the System. Actuarial certifications and supporting statistics are included in the Actuarial and Statistical Sections of this report.

Professional Services

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alaska Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2004. 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. We are confident our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

Future Employer Contribution Rates

The System's consulting actuary presented the results of the June 30, 2003, actuarial valuation report to the Administrator and the Board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report (June 30, 2003), the System has a funding ratio (assets of the System divided by the total liabilities for pension and postemployment healthcare) of 72.8%. The unfunded portion of the System's liabilities totals approximately $2.9 billion. The unfunded liability is amortized over a 25-year period, as established by the Board. In order to bridge the gap between assets and liabilities of the System, the employer contribution rate is projected to increase over the same 25-year period from the fiscal year 2004 rate of nearly 12 percent to approximately 34 percent in fiscal year 2028, if the System's actual experience agrees with the assumptions underlying the valuation. The current asset allocation that the ASPIB set for the System's investments is expected to provide a five year median return of 7.84 percent.

There are three primary reasons that have contributed to the System's current funding ratio: (1) loss of investment income; (2) rising health care costs; and (3) change in assumptions. These three factors coupled together have negatively impacted the funding ratio for PERS and resulted in increasing employer contribution rates.

For additional information on how a defined benefit system like PERS operates, the Division has developed a "white paper" that describes how the System is funded and where the System costs are. This "white paper" is titled "Employee Benefits and Retirement System Funding" and is located at: www.state.ak.us/drb/news/retirement-system-funding.pdf.

Currently, the Alaska PERS is among the few retirement systems that pre-fund and account for medical costs. The PERS system is fortunate in that the creators and administrators of the System had foresight to fund the healthcare costs in advance. Most other major governmental retirement systems only account for their current annual liability for healthcare costs. Once GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* is implemented, all systems will account for their future healthcare costs making comparisons between systems more meaningful. Implementation will occur with the largest plans no later than the financial reporting period beginning after December 15, 2005. The smallest plans will implement no later than the financial reporting period beginning after December 15, 2007.

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 System's monies.

The report is available on the web at www.state.ak.us/drb/pers/perscafr.shtml and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

November 18, 2005

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,

Scott J. Nordstrand
Commissioner

Melanie Millhorn
Director

Kevin Brooks
Deputy Commissioner

Charlene Morrision, CPA
Chief Financial Officer

Christina Maiquis, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System, Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.

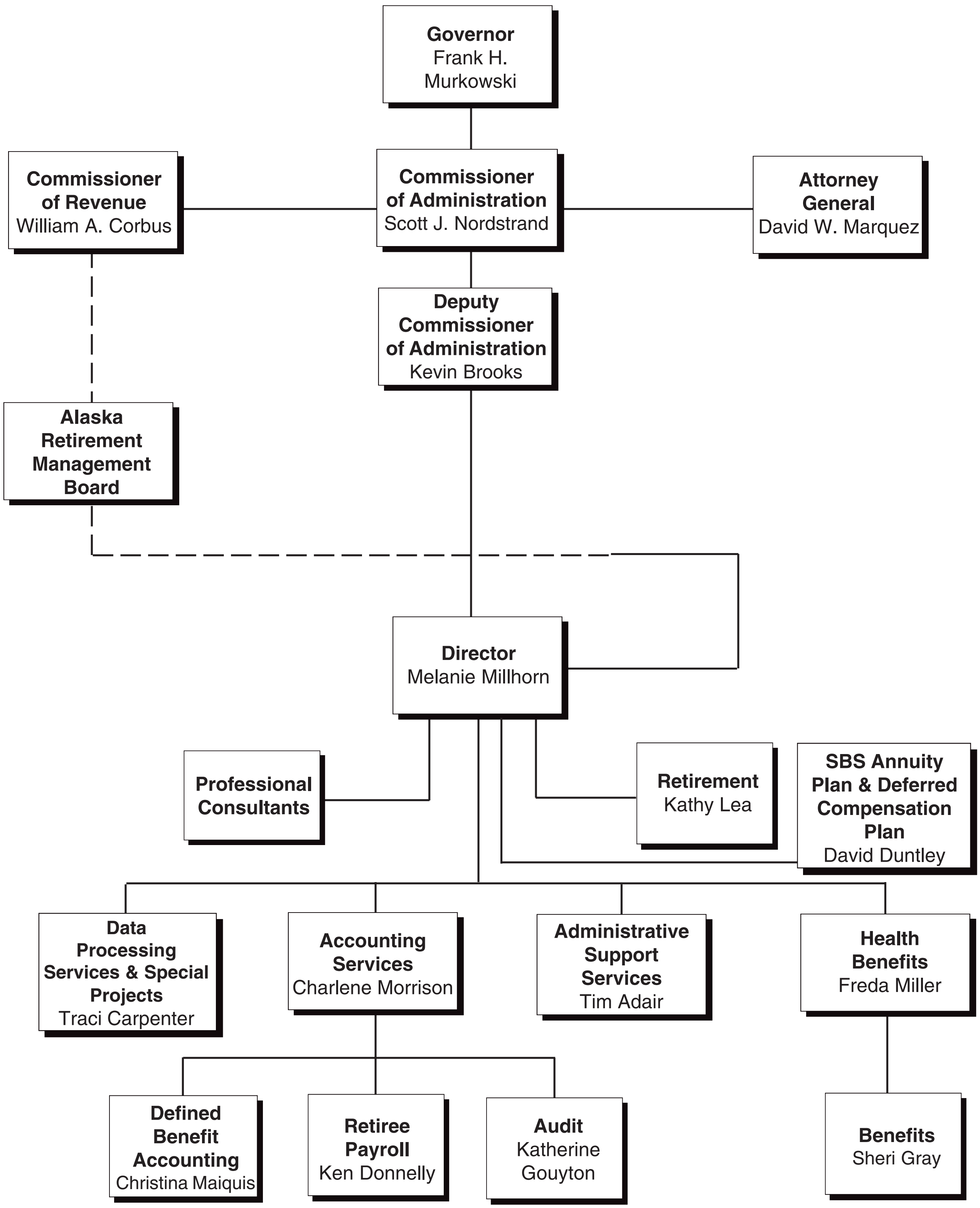
Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

ORGANIZATION CHART
(as of November 15, 2005)



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. This 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 System uses. 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
Virginia Ragle
Toby Steinberger
Assistant Attorney Generals
Juneau, Alaska

Legal Counsel - Retirement Boards
Wohlforth, Johnson, Brecht, Cartledge & Brooking
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 60-61, and the Schedule of Investment Management Fees on pages 68-69.

PUBLIC EMPLOYEES' RETIREMENT BOARD

(as of June 30, 2005)

George Sullivan, Chair

George Sullivan grew up in Alaska. After graduation from Valdez High School, he joined the Army during WWII and served in the Aleutians. George represented the Anchorage area in the legislature in the mid 60's and was mayor of Anchorage from 1967 to 1982. He has always been active in the community and continues to give leadership to a number of organizations in Alaska, including the Anchorage Senior Center, Boys and Girls Club, Enstar Gas Board, Pioneers of Alaska, and the Veterans of Foreign Wars. George lives in Anchorage with his wife, Margaret. They divide their retirement days between a very appreciative community and the families of their 9 children, which include 15 grandchildren and 1 great-grandchild.

Alyce Hanley, Vice Chair

Alyce Hanley has lived in Anchorage since 1971. She graduated from high school in Pawtucket, Rhode Island, and completed her nurse's training at the New England Deaconess Hospital School of Nursing in Boston, Massachusetts. She was elected to the Anchorage School Board in 1981 and to the Alaska House of Representatives in 1984. After serving three terms, she chose not to run for re-election. In 1993, Mrs. Hanley was appointed to serve as a Commissioner with the Alaska Public Utilities Commission. She retired from that position in April 1999.

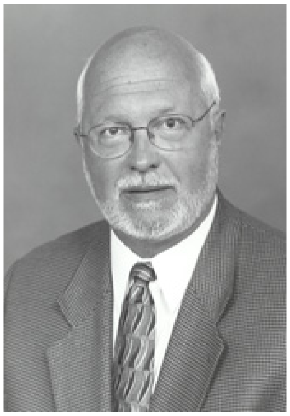
Alyce enjoys family activities with her five sons, their wives and seven grandchildren, all of whom live in the Anchorage area.

Bronk Jorgensen

Bronk Jorgensen was born in Jackson Hole, Wyoming. He became an Alaskan resident in 1978, before he was one year old. Bronk attended Tok School, the University of Alaska Fairbanks, and attended the University of Pittsburgh, Semester at Sea program, graduating with a degree in Business Administration.

Bronk lives in Tok and is the owner/manager of All Alaska Gifts and Crafts and Jorgensen Realty. He is also a member of the Tok and State of Alaska Chambers of Commerce and was the 2002 recipient of the Chuck West New Pioneer Award from the Alaska Travel Industry Association.

Bronk enjoys Alaska's hunting, fishing, and outdoor activities.



Frank Narusch

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.

James "Pat" Wellington

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.

ALASKA RETIREMENT MANAGEMENT BOARD

The Alaska Retirement Management Board (ARMB) replaced the Public Employees' Retirement Board and the Alaska State Pension Investment Board effective October 1, 2005. The ARMB is made up of nine members appointed by the Governor. Initial ARMB members and their related term expiration dates are as follows:

Commissioner of Administration – Scott J. Nordstrand

Commissioner of Revenue – William A. Corbus

Two public members who are not members or beneficiaries of either the PERS or TRS:
Gail Schubert, Chair (March 1, 2007)
Martin R. Pihl (March 1, 2008)

One political subdivision finance officer – Lawrence A. Semmens (March 1, 2007)

Two members of the PERS:
Sam Trivette, Vice Chair (March 1, 2006)
Michael R. Williams (March 1, 2008)

Two members of the TRS:
Gayle W. Harbo, Secretary (March 1, 2006)
John R. Roses (March 1, 2008)

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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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 15 to 21 and schedules of funding progress and employer contributions on pages 47 to 53 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 54 and 55 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 57 through 101 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 30, 2005, except as to note 7
which is as of October 28, 2005

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

Management's Discussion and Analysis

June 30, 2005 and 2004

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (Plan) financial position and performance for the years ended June 30, 2005 and 2004. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary, and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2005 and 2004. Information for fiscal year 2003 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $8,590,752,000 and $8,177,306,000 at the close of fiscal years 2005 and 2004, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2005 and 2004 increased by $413,446,000 or 5.1% and $785,851,000 or 10.6% over the closing balances of those assets in fiscal years 2004 and 2003, respectively.

Plan member and employer contributions received totaled $292,845,000 and $224,139,000 during fiscal years 2005 and 2004; an increase of $68,706,000 and $12,829,000 or 30.7% and 6.1% from fiscal years 2004 and 2003, respectively.

Net investment income decreased from $1,064,605,000 to $692,303,000 during fiscal year 2005 and increased from $237,205,000 to $1,064,605,000 during fiscal year 2004; reflecting a decrease of (35.0%) and an increase of 348.8% from fiscal years 2004 and 2003, respectively.

Pension benefit and postemployment healthcare payments totaled $550,112,000 and $496,750,000 during fiscal years 2005 and 2004; reflecting an increase of $53,362,000 and $45,735,000 or 10.7% and 10.1% from fiscal years 2004 and 2003, 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 amount of liabilities. The Statement of Plan Net Assets classifies assets, liabilities, and net assets as current, noncurrent, 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, operating expenses, and transfers.

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.

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

Management's Discussion and Analysis

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

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

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

NET ASSETS
(000's omitted)

Description	2005	2004	Increase/Decrease Amount	Increase/Decrease %	2003
Assets:					
Cash and receivables	$ 12,275	9,702	2,573	26.5%	9,373
Securities lending collateral	659,801	993,268	(333,467)	(33.6)	637,427
Investments, at fair value	8,585,876	8,174,863	411,013	5.0	7,388,741
Other assets	12	126	(114)	(90.5)	166
Total assets	9,257,964	9,177,959	80,005	0.9	8,035,707
Liabilities:					
Accrued expenses	6,541	7,281	(740)	(10.2)	6,764
Security lending collateral payable	659,801	993,268	(33,467)	(33.6)	637,427
Other liabilities	870	104	766	736.5	61
Total liabilities	667,212	1,000,653	(333,441)	(33.3)	644,252
Total net assets	$8,590,752	8,177,306	413,446	5.1%	7,391,455

CHANGES IN NET ASSETS
(000's omitted)

Description	2005	2004	Increase/Decrease Amount	Increase/Decrease %	2003
Net assets, beginning of year	$8,177,306	7,391,455	785,851	10.6%	7,412,833
Additions:					
Contributions	292,845	224,139	68,706	30.7	211,310
Net investment income	692,303	1,064,605	(372,302)	(35.0)	237,205
Other additions	3	152	(149)	(98.0)	27
Transfer in from Retiree Health Fund	-	13,724	(13,724)	(100.0)	-
Total additions	985,151	1,302,620	(317,469)	(24.4)	448,542
Deductions:					
Benefits	550,112	496,750	53,362	10.7	451,015
Refunds	16,587	14,723	1,864	12.7	13,025
Administrative expenses	5,006	5,296	(290)	(5.5)	5,880
Total deductions	571,705	516,769	54,936	10.6	469,920
Increase (decrease) in net assets	413,446	785,851	(372,405)	(47.4)	(21,378)
Net assets, end of year	$8,590,752	8,177,306	413,446	5.1%	7,391,455

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, 2005 and 2004 showed total assets exceeding total liabilities by $8,590,752,000 and $8,177,306,000. These amounts represent the Plan "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 an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $413,446,000 or 5.1% and $785,851,000 or 10.6% from fiscal years 2004 and 2003, respectively. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund 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/return level given the Plan's constraints and objectives. During fiscal year 2005, ASPIB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed income, 2% in international fixed income, 6% in private equity, 2% in high yield, 3% in absolute return, 3% in other investments, and 9% in real estate. This asset allocation is expected to provide a five year median return of 7.84%.

For fiscal years 2005 and 2004, the Plan's investments generated a 8.95% and a 15.08% rate of return, respectively. The Plan's annualized rate of return was 9.13% over the last three years and 3.06% 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 employer contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2005 and a fixed amortization of the unfunded accrued liability. The amortization period is set by the Public Employees' Retirement Board. Employer contribution levels are recommended by the Actuary and adopted by the Board each year. Increasing healthcare costs continue to impact the Plan's funding ratio. The ratio of assets to liabilities was 72.8%, using June 30, 2003 net assets as a base (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make 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 2006 employer consolidated rate decreased from 13.31% to 13.24%, the average past service rate was 12.39%, thus producing a total average rate for all employers in the Plan of 25.63%.

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Management's Discussion and Analysis

The Public Employees' Retirement Board adopted an average employer contribution rate of 16.77%.

	Valuation Year (000's omitted) 2003	2002
Valuation Assets	$ 7,687,281	7,412,833
Accrued Liabilities	10,561,653	9,859,591
Funding ratio	72.8%	75.2%

Contributions and Investment Income

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

Revenues
(000's omitted)

	2005	2004	Increase/(Decrease) Amount	Percent	2003
Plan Member Contributions	$ 114,640	118,554	(3,914)	(3.30)%	112,112
Employer Contributions	178,205	105,585	72,620	68.78	99,198
Net Investment Income	692,303	1,064,605	(372,302)	(34.97)	237,205
Total	**$ 985,148**	**1,288,744**	**(303,596)**	**(23.56)%**	**448,515**

Employer contributions increased from $105,585,000 in fiscal year 2004 to $178,205,000 during fiscal year 2005; an increase of $72,620,000 or 68.8%. Employer contributions increased from $112,112,000 in fiscal year 2003 to $118,554,000 during fiscal year 2004, an increase of $6,442,000 or 5.7%. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation year used to set fiscal year 2005 employer contribution rates). Increases experienced in fiscal year 2004 are due to normal differences between actual experience and experience assumed in the valuation.

Investment income in fiscal year 2005 decreased by $372,302,000 or (35.0%) from amounts recorded in fiscal year 2004. Investment income in fiscal year 2004 increased by $827,400,000 or 348.8% from amounts recorded in fiscal year 2003. Changes in both years are due to the performance of the equity markets. Returns in these markets in fiscal year 2004 were in excess of 20% compared to a negative return in fiscal year 2003; likewise, returns in these markets in fiscal year 2005 were back in the 4.5% range for domestic securities and 15% range for international securities. The Plan's investments in equities represent more than 50% of total investments.

Over the long term, the investment portfolio has been a major component in additions to plan assets. During fiscal year 2005, the Plan continued to record significant rates of return on investments. The Plan's rate of return for fiscal year 2005 was 8.95%. The rate of return used in the actuarial valuation report to determine liabilities of the plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the second consecutive year.

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund, the result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount of $20,000,000 was moved back to the respective retirement system. In fiscal year 2004, the Plan recognized a transfer of $13,724,000 from the Retiree Health Fund.

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Management's Discussion and Analysis

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
(000's omitted)

			Increase/(Decrease)		
	2005	**2004**	**Amount**	**%**	**2003**
Pension Benefits	$ 357,763	329,390	28,373	8.6%	307,684
Healthcare Benefits	192,349	167,360	24,989	14.9	143,331
Refunds of Contributions	16,587	14,723	1,864	12.7	13,025
Administrative Expenses	5,006	5,296	(290)	(5.5)	5,880
Total	**$ 571,705**	**516,769**	**54,936**	**10.6%**	**469,920**

Pension benefit payments in 2005 and 2004 increased $28,373,000 and $21,706,000 or 8.6% and 7.1% from fiscal years 2004 and 2003, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment [ad hoc PRPA]) increase for fiscal year 2005.

Postemployment healthcare benefits in 2005 and 2004 increased $24,989,000 and $24,029,000 or 14.9% and 16.8% from fiscal years 2004 and 2003, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the increase is also directly related to the increased number of retirees in the Plan.

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

Legislation

During the fiscal year 2005 legislative session, two laws were enacted that affect the Plan:

House Bill 161 – An Act relating to reemployment of and benefits for retired teachers and public employees and to teachers or employees who participated in retirement incentive programs and are subsequently reemployed as a commissioner; and providing for an effective date.

Senate Bill 141 – An Act creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2006; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; and providing for an effective date.

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Management's Discussion and Analysis

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

Overall, the Plan's investments returned 8.95% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the second consecutive year. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely continue to see an increase in employer contribution rates.

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. ASPIB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The impact of fiscal year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in fiscal year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return, or experiences costs in excess of those assumed, the effect is an increase to the employer contribution rate. This was the case in fiscal year 2003, which impacts the Plan's funding status as of June 30, 2003, as well as the fiscal year 2005 employer contribution rate. Due to investment deficiencies, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003, actuarial valuation report for the Plan reported a funding ratio of 72.8%, slightly lower than the fiscal year 2002's funding ratio of 75.2%.

The consulting actuary recommended an increase from the average employer contribution rate of 24.91% in fiscal year 2005 to 25.63% in fiscal year 2006. The PERS board adopted an average employer contribution rate of 16.77% for fiscal year 2006, up 5 points from the fiscal year 2005 employer contribution rate of 11.77%. The primary reason for the 5 point change in the average employer contribution rate is due to the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states "The 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 a modest 0.72 point change in the calculated average employer contribution rates from fiscal year 2005 to 2006 prescribed by the Plan's consulting actuary, regulations prohibit more than a 5 point change from year to year, so the Board was limited in its capacity to increase the 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. However, even with the 5 point increase to 16.77%, employers are paying only a little less than two-thirds of the average total employer contribution rate of 25.63% in fiscal year 2006.

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 and Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

STATE OF ALASKA
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Statements of Plan Net Assets

June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 5):						
Short-term fixed income pool	$ 407	247	654	359	152	511
Securities lending collateral	410,431	249,370	659,801	697,815	295,453	993,268
Total cash and cash equivalents	410,838	249,617	660,455	698,174	295,605	993,779
Receivables:						
Contributions	7,229	4,392	11,621	6,457	2,734	9,191
Total receivables	7,229	4,392	11,621	6,457	2,734	9,191
Investments (notes 3-5 and 7):						
Domestic equity pool	2,828,626	467,654	3,296,280	2,453,196	845,777	3,298,973
Domestic fixed income pool	1,188,353	722,022	1,910,375	1,552,168	657,183	2,209,351
International equity pool	832,084	505,559	1,337,643	958,337	405,757	1,364,094
Real estate pool	514,772	312,766	827,538	441,475	186,619	628,394
International fixed income pool	198,622	120,679	319,301	208,994	88,487	297,481
Private equity pool	236,282	143,561	379,843	189,148	80,085	269,233
Emerging markets equity pool	83,402	50,674	134,076	69,676	29,501	99,177
Absolute return pool	131,012	79,601	210,613	-	-	-
High yield pool	86,119	52,325	138,444	-	-	-
Other investment pool	19,758	12,005	31,763	5,733	2,427	8,160
Total investments	6,119,030	2,466,846	8,585,876	5,878,727	2,296,136	8,174,863
Loans and mortgages, net of allowance for loan losses of $5 in 2005 and $16 in 2004	6	4	10	83	36	119
Other	2	-	2	5	2	7
Total assets	6,537,105	2,720,859	9,257,964	6,583,446	2,594,513	9,177,959
Current liabilities:						
Accrued expenses	4,069	2,472	6,541	5,115	2,166	7,281
Due to State of Alaska General Fund	541	329	870	71	31	102
Securities lending collateral payable (note 5)	410,431	249,370	659,801	697,815	295,453	993,268
Mortgage escrow liability	-	-	-	2	-	2
Total liabilities	415,041	252,171	667,212	703,003	297,650	1,000,653
Commitments and Contingencies (note 7)						
Net assets held in trust for pension and postemployment healthcare benefits	**$6,122,064**	**2,468,688**	**8,590,752**	**5,880,443**	**2,296,863**	**8,177,306**

(Schedules of funding progress are presented on pages 47 and 48.)

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 110,853	67,352	178,205	74,178	31,407	105,585
Plan members	71,312	43,328	114,640	83,290	35,264	118,554
Total contributions	182,165	110,680	292,845	157,468	66,671	224,139
Investment income:						
Net appreciation in fair value (note 3)	285,594	173,522	459,116	591,306	250,357	841,663
Interest	77,430	47,045	124,475	88,159	37,327	125,486
Dividends	87,430	53,120	140,550	87,121	36,886	124,007
Net mortgage loan recovery	7	4	11	-	-	-
Total investment income	450,461	273,691	724,152	766,586	324,570	1,091,156
Less investment expense	19,812	12,037	31,849	18,653	7,898	26,551
Net investment income	430,649	261,654	692,303	747,933	316,672	1,064,605
Other	2	1	3	107	45	152
Transfer in from Retiree Health Fund (note 6)	-	-	-	-	13,724	13,724
Total additions	612,816	372,335	985,151	905,508	397,112	1,302,620
Deductions:						
Benefits	357,763	192,349	550,112	329,390	167,360	496,750
Refunds of contributions	10,318	6,269	16,587	10,344	4,379	14,723
Administrative expenses	3,114	1,892	5,006	3,721	1,575	5,296
Total deductions	371,195	200,510	571,705	343,455	173,314	516,769
Net increase	241,621	171,825	413,446	562,053	223,798	785,851
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	5,880,443	2,296,863	8,177,306	5,318,390	2,073,065	7,391,455
Balance, end of year	**$6,122,064**	**2,468,688**	**8,590,752**	**5,880,443**	**2,296,863**	**8,177,306**

See accompanying notes to financial statements.

STATE OF ALASKA
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Notes to Financial Statements

June 30, 2005 and 2004

(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.

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, 2005 and 2004, the number of participating local government employers and public organizations including the State was:

	2005	2004
State of Alaska	1	1
Municipalities	77	79
School districts	53	53
Other	29	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, 2003 and 2002, the dates of the two most recent actuarial valuations, which included Plan membership data, Plan membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	18,431	17,215
Terminated plan members entitled to future benefits	5,841	5,702
	24,272	22,917
Current plan members:		
General	31,338	30,547
Police and fire	2,727	2,695
	34,065	33,242
	58,337	**56,159**
Current plan members:		
Vested:		
General	16,369	16,944
Police and fire	1,739	1,715
Nonvested:		
General	14,969	13,603
Police and fire	988	980
	34,065	**33,242**

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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 post retirement 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.

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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June 30, 2005 and 2004

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.

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).

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.

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

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Notes to Financial Statements

June 30, 2005 and 2004

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.

Administrative Costs

Administrative costs are financed through investment earnings.

Due To State of Alaska General Fund

Amounts due to 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

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.

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.

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.

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Notes to Financial Statements

June 30, 2005 and 2004

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. 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." 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. 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.

In fiscal year 2005, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk, and concentration of credit risk.

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the midpoint between the bid and asked price or at prices for securities of comparable maturity, quality, and type. Money market funds are valued at amortized cost, which approximates fair value.

Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued at their current market or fair values on the last business day of each month by the Trustee.

Private equity securities 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 valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investment in the other investments pool is valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised once every three years, in conjunction with the property's purchase anniversary date, by independent

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June 30, 2005 and 2004

appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the midpoint of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2005 and 2004, the allowance for loan loss totaled $5,221 and $16,221, respectively, and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

The cost of securities is determined on the average cost basis.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis.

Income in the net domestic fixed income pool, equity pools, international fixed income pool, and the high yield pool is credited daily to each participant on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments and real estate pools is credited to pool participants monthly on a pro rata basis.

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.

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).

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2004 amounts in order to conform to the 2005 presentation.

(3) INVESTMENTS

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments. 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.

The Department of Revenue, Treasury Division (Treasury), provides staff for the ASPIB. Treasury has created a pooled environment by which it manages the investments the ASPIB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ASPIB has developed investment

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guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2005 and 2004, the Plan had a 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $8,927 and $5,103 respectively. The Plan had a 3.35% and 7.17% indirect ownership in the short-term fixed income pool at June 30, 2005 and 2004, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool is comprised of an internally managed and an externally managed pool.

<u>Retirement Fixed Income Pool</u>

The Plan participates in the ASPIB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2005, was $1,848. Treasury staff determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.32% and 67.03% ownership in the retirement fixed income pool, respectively.

<u>External Domestic Fixed Income Pool</u>

The Plan participates in the ASPIB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2005, was $1,546. Each manager independently determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 66.86% and 66.73% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ASPIB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $1,790. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the

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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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.81% and 67.32% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ASPIB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2005, was $1,016. The manager independently determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 68.14% ownership in the high yield pool.

Domestic Equity Pool

Effective July 1, 2004, the domestic equity pool was replaced with an external large cap domestic equity pool and an external small cap domestic equity pool. At June 30, 2004, the Plan had a 67.20% ownership in the domestic equity pool.

<u>Large Cap Domestic Equity Pool</u>

The Plan participates in the ASPIB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,050. Each manager independently determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 67.63% ownership in the large cap domestic equity pool.

<u>Small Cap Domestic Equity Pool</u>

The Plan participates in the ASPIB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,019. Each manager independently determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 67.70% ownership in the small cap domestic equity pool.

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International Equity Pool

The Plan participates in the ASPIB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2005, was $2,622. Each manager independently determines 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.00% and 67.46% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ASPIB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2005, was $1,944. 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 65.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ASPIB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2005, was $1,365. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.15% and 67.68% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ASPIB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,027. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of

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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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 68.15% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ASPIB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,065. Underlying assets in the pool are comprised of a limited partnership interest in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 68.15% and 67.68% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ASPIB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $2,104. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. 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 beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 67.70% and 67.54% ownership in the real estate pool, respectively.

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At June 30, 2005, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	6,587	-	3,052	9,639
Overnight Sweep Account	88	935	-	37,348	-	38,371
Money Market Fund	-	-	-	-	659,801	659,801
Short-term Investment Fund	-	-	2,220	-	22,460	24,680
Commercial Paper	4,920	9,216	-	-	-	14,136
U.S. Treasury Bills	3,852	-	-	-	-	3,852
U.S. Treasury Notes	3,346	101,314	-	-	-	104,660
U.S. Treasury Bonds	-	123,573	-	-	-	123,573
U.S. Treasury Strips	-	25,160	-	-	-	25,160
U.S. Government Agency Discount Notes	851	7,245	-	-	-	8,096
U.S. Government Agency	-	125,170	-	-	-	125,170
Municipal Bonds	-	969	-	-	-	969
Foreign Government Bonds	-	-	212,977	-	-	212,977
Mortgage-backed	9,721	917,260	-	-	-	926,981
Other Asset-backed	27,264	112,094	-	272	-	139,630
Corporate Bonds	12,365	429,452	99,155	94,720	-	635,692
Convertible Bonds	-	-	-	1,445	-	1,445
Yankees:						
Government	-	9,502	-	-	-	9,502
Corporate	474	6,915	-	2,917	-	10,306
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	177,777	177,777
Equity	-	-	-	-	3,074,626	3,074,626
International Equity Pool:						
Convertible Bonds	-	-	-	-	313	313
Equity	-	-	-	-	1,311,369	1,311,369
Emerging Markets Equity Pool	-	-	-	-	134,076	134,076
Private Equity Pool:						
Limited Partnerships	-	-	-	-	379,843	379,843
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	210,613	210,613
Other Investments Pool:						
Limited Partnerships	-	-	-	-	15,097	15,097
Agricultural Holdings	-	-	-	-	16,666	16,666
Real Estate Pool:						
Real Estate	-	-	-	-	473,584	473,584
Commingled Funds	-	-	-	-	172,117	172,117
Limited Partnerships	-	-	-	-	104,288	104,288
Real Estate Investment Trusts	-	-	-	-	76,249	76,249
Mortgages	-	-	-	-	10	10
Net Other Assets (Liabilities)	637	16,443	(1,638)	1,742	7,889	25,073
Ownership by Other Pools	(62,864)	25,127	-	-	37,737	-
Invested assets	**$ 654**	**1,910,375**	**319,301**	**138,444**	**6,877,567**	**9,246,341**

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to ±20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2005, was 4.16 years.

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ±25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2005, was 6.09 years.

Through ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ±20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2005, was 4.58 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100 basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options, and other variable cash flows for purposes of the effective duration calculation.

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At June 30, 2005, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	**International**	**High yield**
U.S. Treasury Notes	3.27	-	-
U.S. Treasury Bonds	10.10	-	-
U.S. Treasury Strips	17.29	-	-
U.S. Government Agency	5.69	-	-
Municipal Bonds	13.95	-	-
Foreign Government Bonds	-	5.59	-
Mortgage-Backed	2.50	-	-
Other Asset-Backed	1.19	-	5.28
Corporate Bonds	5.27	4.17	3.59
Convertible Bonds	-	-	4.54
Yankees:			
Government	6.98	-	-
Corporate	7.68	-	4.43
Portfolio effective duration	3.99	5.00	2.64

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Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The ASPIB's investment policy has the following limitations with regard to credit risk:

Domestic fixed income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

International fixed income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

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Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, ASPIB does not consider this investment subject to the credit risk limitations above.

At June 30, 2005, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool				International
	Rating[1]	Short-term	Domestic	International	High Yield	Equity
Overnight Sweep Account	Not Rated	-%	-%	-%	27%	-%
Short-term Investment Account	Not Rated	-	-	1	-	1
Commercial Paper	A	8	1	-	-	-
U.S. Government Agency						
Discount Notes	Not Rated	1	-	-	-	-
U.S. Government Agency	Not Rated	-	6	-	-	-
Foreign Government	AAA	-	-	53	-	-
Foreign Government	AA	-	-	9	-	-
Foreign Government	A	-	-	5	-	-
Mortgage-backed	AAA	15	13	-	-	-
Mortgage-backed (Agency)	Not Rated	-	34	-	-	-
Other Asset-backed	AAA	39	6	-	-	-
Other Asset-backed	A	3	-	-	-	-
Corporate Bonds	AAA	1	3	24	-	-
Corporate Bonds	AA	11	3	7	-	-
Corporate Bonds	A	9	7	-	-	-
Corporate Bonds	BBB	-	10	-	1	-
Corporate Bonds	BB	-	-	-	17	-
Corporate Bonds	B	-	-	-	43	-
Corporate Bonds	CCC	-	-	-	8	-
Convertible Bonds	B	-	-	-	1	-
Yankees:						
Government	BBB	-	1	-	-	-
Corporate	A	1	-	-	-	-
Corporate	BB	-	-	-	1	-
Corporate	B	-	-	-	1	-
No credit exposure		12	16	1	1	99
		100%	**100%**	**100%**	**100%**	**100%**

[1]Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. ASPIB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2005, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International fixed income pool	$ 6,587
International equity pool	2,984
	$ 9,571

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ASPIB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, ASPIB's asset allocation policy permits the Plan to hold up to 4% of total investments in international fixed income.

The ASPIB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to 18% of total investments in these two pools combined.

The ASPIB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to 10% of total investments in private equity.

At June 30, 2005, the Plan had exposure to foreign currency risk with the following deposits:

	Amount (In thousands)	
Currency	**International fixed income pool**	**International equity pool**
Australian Dollar	$ 68	24
Canadian Dollar	-	21
Danish Krone	-	126
Euro Currency	-	446
Hong Kong Dollar	-	171
Japanese Yen	6,519	1,181
New Zealand Dollar	-	2
Norwegian Krone	-	249
Pound Sterling	-	232
Singapore Dollar	-	3
South Korean Won	-	1
Swiss Franc	-	4
	$6,587	**2,460**

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At June 30, 2005, the Plan had exposure to foreign currency risk with the following investments:

	Amount (In thousands)				
	International fixed income pool		International equity pool		Private equity pool
Currency	**Foreign government**	**Corporate**	**Convertible bonds**	**Equity**	**Limited partnerships**
Australian Dollar	$ -	-	-	21,988	-
Canadian Dollar	-	-	-	20,501	-
Danish Krone	-	-	-	2,859	-
Euro Currency	-	5,954	-	492,397	39,194
Hong Kong Dollar	-	-	-	13,425	-
Japanese Yen	27,956	93,201	-	266,857	-
New Zealand Dollar	-	-	-	4,947	-
Norwegian Krone	-	-	-	12,624	-
Polish Zloty	16,977	-	-	-	-
Pound Sterling	-	-	-	260,786	843
Singapore Dollar	-	-	-	18,458	-
South African Rand	-	-	-	4,696	-
South Korean Won	-	-	-	9,770	-
Swedish Krona	168,044	-	-	11,532	-
Swiss Franc	-	-	313,443	108,431	-
	$212,977	**99,155**	**313,443**	**1,249,271**	**40,037**

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At June 30, 2005, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ASPIB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income, and high yield pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2005, the Plan had $589.6 million in Federal National Mortgage Association securities which represented 6% of the Plan's total investments.

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The cost and fair value of the Plan's investments at June 30 were as follows (in thousands):

	Cost	Fair Value
2005:		
Domestic equity pool	$ 2,906,143	3,296,280
Domestic fixed income	1,889,244	1,910,375
International equity pool	1,335,398	1,337,643
Real estate pool	735,409	827,538
International fixed income pool	299,418	319,301
Private equity pool	429,216	379,843
Emerging markets equity pool	93,026	134,076
Absolute return pool	204,146	210,613
High yield pool	137,771	138,444
Other investments pool	31,138	31,763
	$ 8,060,909	**8,585,876**
2004:		
Domestic equity pool	$ 2,855,031	3,298,973
Domestic fixed income pool	2,223,992	2,209,351
International equity pool	1,341,813	1,364,094
Real estate pool	587,151	628,394
International fixed income pool	272,320	297,481
Private equity pool	329,777	269,233
Emerging markets equity pool	92,092	99,177
Other investments pool	8,122	8,160
	$ 7,710,298	**8,174,863**

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The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands):

	2005	2004
Domestic equity pool	$ 94,882	525,916
Domestic fixed income pool	45,707	(87,609)
International equity pool	139,368	321,070
Real estate pool	76,173	10,796
International fixed income pool	17,143	7,836
Private equity pool	44,189	40,053
Emerging markets equity pool	33,965	23,562
Absolute return pool	6,504	-
High yield	599	-
Other investments pool	586	39
	$ 459,116	**841,663**

(4) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The international fixed income and international equity pool's investment income includes the following at June 30:

	2005	2004
Realized gain on foreign currency	$122,903,509	87,803,704
Unrealized gain (loss) on foreign currency	(26,827)	19,401
Realized gain (loss) on foreign exchange contracts	(217,279)	82,142

The international equity pool includes 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. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2005	2004
Net contract sales	$6,587,214	4,980,969
Less fair value	6,302,248	5,312,169
Net unrealized gains (losses)	**$ 284,966**	**(331,200)**

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

Notes to Financial Statements

June 30, 2005 and 2004

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. ASPIB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ASPIB'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.

At June 30, 2005 and 2004, the fair value of securities on loan allocable to the Plan's invested assets totaled $642,524,010 and $960,292,029, respectively. There is no limit to the amount that can be loaned and the ASPIB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost, which approximates fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral may be pledged or sold upon borrower default. Since the ASPIB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral, and cash collateral payable are recorded on the financial statements. The Bank, the Plan, and the borrower receive a fee from earnings on invested collateral. The Bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the ASPIB is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ASPIB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest, or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2005 and 2004, 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.

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

Notes to Financial Statements

June 30, 2005 and 2004

(6) TRANSFER TO RETIREMENT SYSTEMS

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received $13,724,000 in fiscal year 2004 from the Retiree Health Fund.

(7) COMMITMENTS AND CONTINGENCIES

Commitments

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2005, the Plan's participant share of the unfunded commitment totaled $104,826,035. This commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $482,295,527. Ninety-four percent of this commitment is estimated to be paid through the year 2010. Six percent of this commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2005, the Plan's participant share of this unfunded commitment totaled $39,800,301 to be paid through the year 2007.

The ASPIB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $235,140,626 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union and a number of same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependants, thus excluding coverage for domestic partners of employees. An adverse ruling against the State was issued on October 28, 2005. The effect of this ruling will increase the number of persons covered by insurance paid by the Plan.

STATE OF ALASKA
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Notes to Financial Statements

June 30, 2005 and 2004

The court ruling states that the Plan's current benefit program will remain in effect until the issue of remedies is resolved. The potential effect of this ruling cannot be reasonably estimated until the issue of remedies is resolved. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution process.

The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters 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. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

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. The Superior Court granted summary judgment in favor of the plaintiffs on the issue of liability, and the Alaska Supreme Court granted the Plan's petition for review. Following briefing and argument, the Supreme Court reversed the Superior Court and remanded for further proceedings. This issue is now pending in the Superior Court for a determination of the matter in accordance with the Supreme Court's instructions.

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 State is a defendant in a class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% 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 nonresident benefit recipients, and therefore, the 10% 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.

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

Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Funding Progress
Pension Benefits

June 30, 2005 and 2004

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
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)
2003	4,607,673	6,330,541	(1,722,868)	72.8	1,300,041	(132.5)

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

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

Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2005 and 2004

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
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)
2003	3,079,608	4,231,112	(1,151,504)	72.8	1,300,041	(88.6)

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Required Supplementary Information
(Unaudited)
(000's omitted)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2005 and 2004

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)
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
2004	74,178	31,407	105,585	100.0	100.0	100.0
2005	210,147	127,682	337,829	52.7	52.7	52.7

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

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

(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, 2003, 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	
2005	12.0%
2006	11.5
2007	11.0
2008	10.5
2009	10.0
2010	9.5
2011	9.0
2012	8.5
2013	8.0
2014	7.5
2015	7.0
2016	6.0
2017 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.

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

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

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

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

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

(o) Postretirement pension adjustment–50% and 75% of assumed inflation is valued for the automatic Post Retirement Pension Adjustment (PRPA) as specified by statute.

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

(q) Total turnover–based upon the 1997-1999 actual withdrawal experience.

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

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

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

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Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

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, 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 three valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

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%.

- 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.

Schedule 1

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

Schedule of Administrative and Investment Expenses

Year ended June 30, 2005
with comparative totals for 2004
(000's omitted)

			Totals	
	Administrative	Investment	2005	2004
Personal services:				
Wages	$ 2,174	892	3,066	3,066
Benefits	941	324	1,265	1,168
Total personal services	3,115	1,216	4,331	4,234
Travel:				
Transportation	50	83	133	80
Per diem	11	11	22	64
Moving	-	21	21	-
Honorarium	15	17	32	33
Total travel	76	132	208	177
Contractual services:				
Management and consulting	514	15,876	16,390	17,020
Accounting and auditing	21	822	843	815
Other professional services	-	-	-	836
Data processing	307	248	555	240
Communications	101	50	151	256
Advertising and printing	90	45	135	331
Rentals/leases	172	25	197	115
Legal	320	93	413	68
Medical specialists	75	-	75	29
Repairs and maintenance	5	9	14	16
Transportation	1	3	4	4
Securities lending	-	13,221	13,221	7,448
Other services	109	41	150	129
Total contractual services	1,715	30,433	32,148	27,307
Other:				
Equipment	55	16	71	11
Supplies	45	52	97	118
Total other	100	68	168	129
Total administrative and investment expenses	**$ 5,006**	**31,849**	**36,855**	**31,847**

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, 2005 and 2004
(000's omitted)

Firm	Services	2005	2004
State Street Corporation	Custodian banking services	$ 991	942
Deloitte and Touche LLP	Benefits consultation	46	148
Mercer Human Resource Consulting	Actuarial services	339	316
Systems Central Services, Inc.	Data processing consultants	241	214
State of Alaska, Department of Law	Legal services	284	253
Mikunda, Cottrell & Co., Inc.	PERS Board elections	55	-
Wohlforth, Johnson, Brecht, Cartledge and Brooking	PERS Board legal services	-	25
First National Bank of Alaska	Banking services	27	25
KPMG LLP	Auditing services	48	22
		$ 2,031	**1,945**

See accompanying independent auditors' report.

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MERCER
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April 30, 2004

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, 2003 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, 2003;

(2) a determination of the appropriate contribution rate for each employer in the System which will be applied for the fiscal year ending June 30, 2006; 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
April 30, 2004
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 Division of Retirement and Benefits 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 FY04 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 75.2% to 72.8% during the year primarily due to lower than expected equity market returns. 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
April 30, 2004
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.

Sincerely,

Robert M. Reynolds, ASA, MAAA

Marcia L. Chapman, FSA, EA, MAAA

MAG/CMB/RMR/kmp/cam

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

The demographic and nonhealth economic assumptions used in this valuation were recommended by Mercer Human Resource Consulting and were adopted at the Fall 2000 PERS Board Meeting. These assumptions were the result of an experience study performed in the Fall of 2000. The funding method used in this valuation was adopted June 30, 1985, 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

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 over a 25-year fixed period level percentage of pay. However, in keeping with GASB requirements, the net amortization period for all gains and losses will not exceed 30 years.

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

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

The <u>Unfunded Liability</u> at the valuation date is the excess of the accrued liability over the assets of the plan. The annual payment to be made over a stipulated number of years to amortize the unfunded liability is the <u>Past Service Cost.</u>

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

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

B. Actuarial Assumptions

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

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

4.	Health Cost Trend	FY04 - 12.0% 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 FY04, the pre-65 monthly premium is $1,016.04 and the post-65 premium is $387.06, based on an assumed total blended premium of $777.28. The assumed total blended premium for FY04 is the average of the 2003 and 2004 calendar year actual blended premiums. For the time period January 1, 2004, to December 31, 2004, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is $806.00.

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

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

Police and Fire:

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

Other:

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

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

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

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

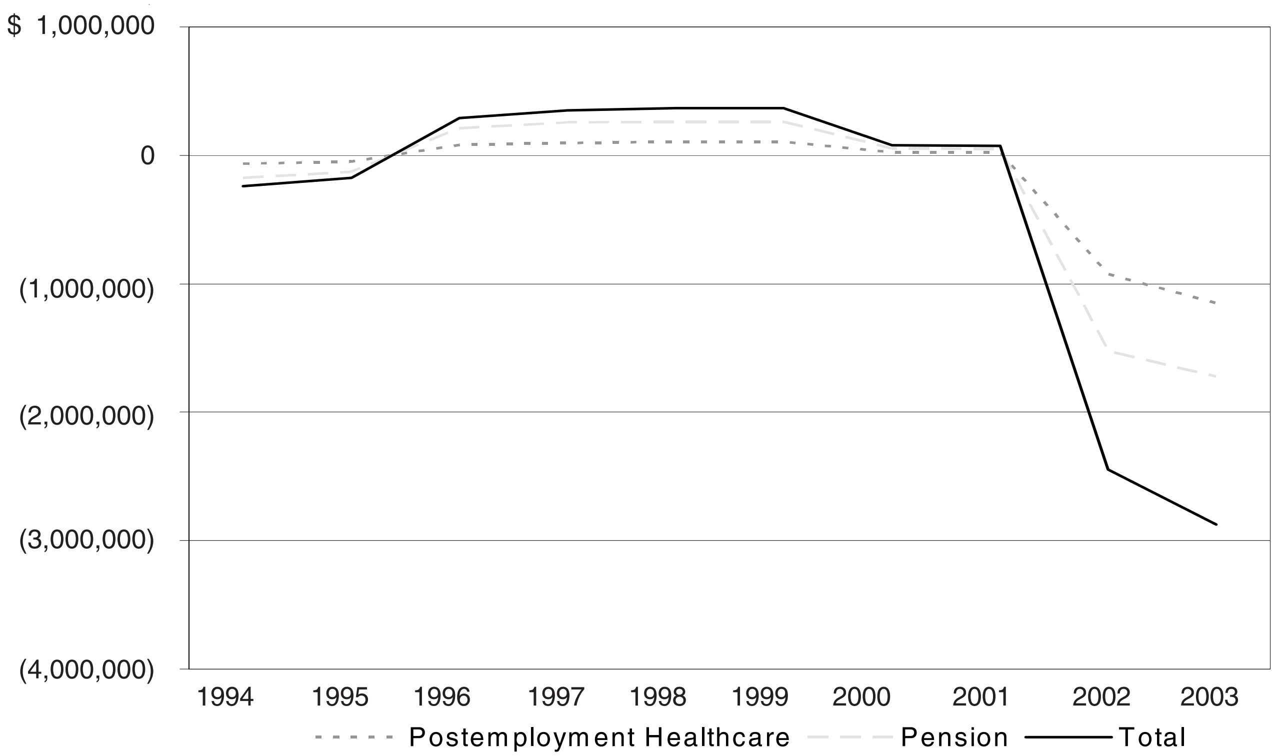
Police and fire members retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Other members retiring at ages under 50 are assumed to retire immediately upon attaining 31 years of service.

Members currently under age 50 who have already attained 21 years of service (31 years for Others) are assumed to retire 1 year after the valuation date.

Public Employees' Retirement System Underfunded Liability (In thousands)			
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total
1994	$ (64,793)	$ (176,084)	$ (240,877)
1995	(48,189)	(128,229)	(176,418)
1996	81,028	210,267	291,295
1997	95,402	255,907	351,372
1998	105,713	261,858	367,571
1999	106,055	261,612	367,667
2000	23,069	54,777	77,846
2001	21,768	51,414	73,182
2002	(924,746)	(1,522,012)	(2,446,758)
2003	(1,151,504)	(1,722,868)	(2,874,372)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR TREND OF UNFUNDED LIABILITY

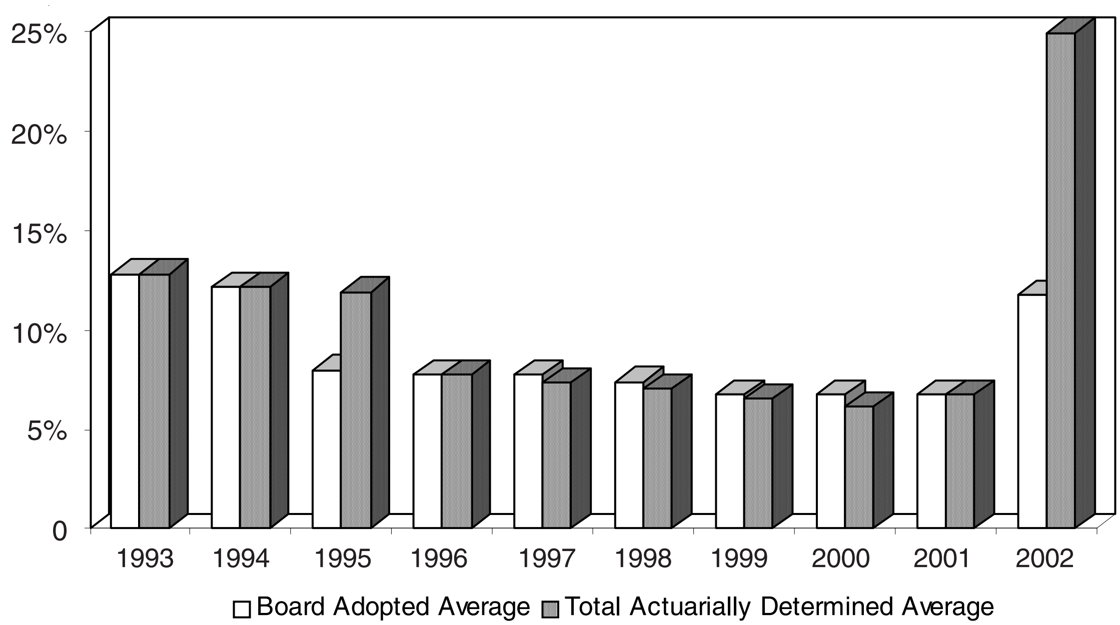


Public Employees' Retirement System Average Employer Contribution Rates				
	Actuarially Determined			
Actuarial Valuation Year Ended June 30	Normal Cost[1]	Average Past Service	Total Actuarially Determined Average	Board Adopted Average
1993	11.29%	1.53%	12.82%	12.82%
1994	10.36%	1.78%	12.14%	12.14%
1995	10.61%	1.29%	11.90%	8.00%
1996	9.85%	(2.11)%	7.74%	7.74%
1997	9.89%	(2.53)%	7.36%	7.74%
1998	8.67%	(1.64)%	7.03%	7.40%
1999	8.07%	(1.51)%	6.56%	6.75%
2000	5.43%	0.69%	6.12%	6.75%
2001	5.42%	1.35%	6.77%	6.77%
2002	13.31%	11.60%	24.91%	11.77%

[1]Also referred to as the consolidated rate.

Valuations are used to set contribution rates in future years. For example, financial data at June 30, 2002, used in the 2002 valuation determined the actuarial contribution rate for fiscal year 2005. The Board uses the 2002 valuation information to set the Board adopted rate for fiscal year 2005.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF AVERAGE EMPLOYER CONTRIBUTION RATES



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, 2003	31,338	$1,300,041	$41,484	1.8%	160
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
Police/Fire					
June 30, 2003	2,727	$160,743	$58,945	0.8%	160
June 30, 2002	2,695	157,632	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

Public Employees' Retirement System
Schedule of Benefit Recipients 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, 2003	1,445	$27,802,265	351	$6,507,821	16,440	$257,205,574	9.0%	$15,645
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	139,808,955	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
Police/Fire								
June 30, 2003	143	$ 4,923,581	21	$ 802,499	1,991	$61,406,855	7.2%	$30,842
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

* 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 Adjustment.

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, 2003	$1,026,730	$6,860,834	$2,674,089	$7,687,281	100%	97.1%	0.0%
June 30, 2002(1)(2)(3)	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%
June 30, 2000(2)(3)	892,949	4,588,201	1,895,762	7,454,758	100%	100%	100%
June 30, 1999	854,497	3,961,063	1,833,113	7,016,340	100%	100%	100%
June 30, 1998(1)(2)(3)	819,226	3,610,352	1,774,413	6,571,562	100%	100%	100%
June 30, 1997	795,457	3,021,700	1,716,959	5,885,488	100%	100%	100%
June 30, 1996(2)	754,679	2,511,953	1,713,326	5,271,253	100%	100%	100%
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%

(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 2003	2002	2001	2000	1999
Health Experience	-	3.68%	-	-	-
Salary Experience	(0.19)%	(0.20)%	(1.03)%	-	(0.23)%
Investment Experience	0.31%	7.24%	0.11%	(0.12)%	(0.49)%
Demographic Experience	0.40%	1.21%	0.77%	(0.81)%	0.21%
Contribution Shortfall	1.10%	-	-	-	-
(Gain) or Loss During Year From Experience	1.62%	11.93%	(0.15)%	(0.93)%	(0.51)%
Non-recurring changes					
Asset Valuation Method	-	4.11%	-	(2.67)%	-
Past Service Amortization Change	-	(5.06)%	-	-	-
Assumption Changes	-	6.98%	-	3.09%	-
System Benefit Changes	-	0.04%	0.17%	-	-
Addition of 102% Target Funding Ratio	-	-	0.57%	-	-
Elimination of 102% Target Funding Ratio	(0.90)%	-	-	-	-
Ad hoc PRPA	-	0.14%	0.06%	0.07%	0.04%
Composite (Gain) or Loss During Year	0.72%	18.14%	0.65%	(0.44)%	(0.47)%
Beginning Average Employer Contribution Rate	24.91%	6.77%	6.12%	6.56%	7.03%
Ending Average Employer Contribution Rate	25.63%	24.91%	6.77%	6.12%	6.56%
Board Adopted Employer Contribution Rate	16.77%	11.77%	6.77%	6.75%	6.75%
Fiscal Year Above Rate is Applied	FY06	FY05	FY04	FY03	FY02

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2003. 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 non-Police/Fire members have 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 adopts 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 160 employers participating in the PERS, including the State of Alaska and 159 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 half-time PERS and TRS credit.

(5) Credited Service

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

Members may claim other types of service, including:

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

- Alaska Bureau of Indian Affairs service;
- past service rendered by employees who worked half-time in the PERS and Teachers' Retirement System (TRS) simultaneously;
- leave without pay service after June 13, 1987, while receiving Workers' Compensation;
- Village Public Safety Officer service; and
- 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 the 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 payments that are level as a percentage of pay over fixed 25-year periods. Effective June 30, 1996, funding surpluses are amortized over 25 years.

(7) Member Contributions

Mandatory Contributions: 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.

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

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

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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

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

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

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

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

(8) Retirement Benefits

Eligibility:

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

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

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

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

(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.

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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.

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.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(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) 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.

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

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

(12) Death Benefits

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

<u>Occupational Death</u>: 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).

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

<u>Nonoccupational Death</u>: 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.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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

Death After Retirement: When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check. 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 2005 Annual Report of Investments for the period ending June 30, 2005 to you, the participants and beneficiaries of the PERS retirement trust fund.

The Alaska State Pension Investment Board (ASPIB) is responsible for the investment of the money paid into the State public employees', teachers', judicial, and military retirement systems. In addition, ASPIB selects the investment managers for the Supplemental Benefit System and Deferred Compensation.

Trustees of ASPIB owe a fiduciary duty to the participants in the retirement systems and by law all investment decisions made by ASPIB must comply with the prudent investor rule. ASPIB consists of two elected members from the Public Employees' Retirement System (PERS), two elected members from the Teachers' Retirement System (TRS), three members appointed by the Governor, and the Commissioner of the Department of Revenue (DOR).

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. This asset allocation is reviewed annually and is designed to provide competitive returns at a reasonable level of risk. 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 13 ¾ year cumulative annualized return (the longest period available) of 8.69% compares favorably to the System's actuarial earnings assumption of 8.25%.

The Investment Report on the following pages provides more detail regarding the investment results of each asset category, as well as an economic overview of the market conditions existing during the past fiscal year.

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

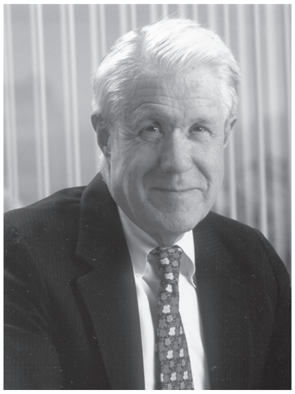
On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

Sincerely,

Wilson Condon, Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2005)



Wilson L. Condon, Chair

PERS Representative

Wilson L. Condon, Chair, 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.

Dorothy Wells, Vice Chair

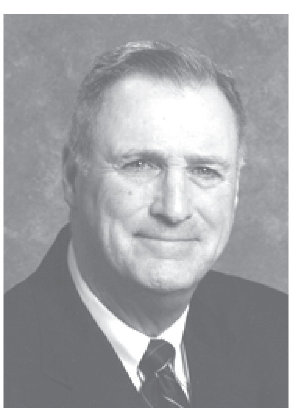
TRS Representative

Dorothy Wells, Vice Chair, 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.

James "Pat" Wellington, Secretary

PERS Representative

James "Pat" Wellington, Secretary, 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.



William Corbus

Statutory Representative

William Corbus was appointed Commissioner of the Department of Revenue 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. The Commissioner 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.

Merritt C. Olson
TRS Representative

Merritt C. Olson was elected in 1992 to serve as a trustee on the newly-created ASPIB and was reelected for three more terms. Mr. Olson served previously as a trustee for the Teachers' Retirement System Board. He also served as president of NEA-Alaska/Retired and sat on the national NEA-Retired Advisory Council for six years. He earned the doctoral degree in psychology from Rutgers University and was a Fulbright scholar and lecturer at the University of Ibadan in Nigeria. Dr. Olson taught mathematics in Anchorage secondary schools and served as an adjunct professor of psychology at the University of Alaska Anchorage and at Alaska Methodist University.

Martin Pihl
Appointed by the Governor

Martin Pihl was appointed to the board in 2003 by Governor Murkowski. Mr. Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a BA in Accounting from the University of Washington and has been a CPA since 1958.

Gail R. Schubert
Appointed by the Governor

Gail R. Schubert was first appointed to the board by Governor Hickel, then reappointed by Governor Knowles and Governor Murkowski. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of four of its 8(a) subsidiaries, and of counsel to the law firm of Amodio, Stanley & 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 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.

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 Chief Fiscal Officer for the Municipality of Anchorage. He has over twenty years experience in public sector financial management and analysis, including fourteen years with the Municipality of Anchorage. Prior to accepting his current position in Anchorage, he served as Director of Finance for the Kenai Peninsula Borough. Mr. Sinz has also held positions with the Alaska Railroad Corporation and prior to moving to Alaska in 1981, with a Wisconsin public school district. He also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors and is on the Board of Directors for the Anchorage Parking Authority. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire.

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Susan Taylor, CPA

ASPIB Liaison Officer
Judy Hall

Investment Officers
Bob G. Mitchell, Marketable Debt
Casey Colton
Clay Cummins
Michael T. Oliver, CFA, Alternatives
Philip Bartlett
Stephen R. Sikes
Victor Djajalie
Zachary Hanna

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

Investment Advisory Council
William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
Timothy O'Brien
Denver, CO

Absolute Return
Cadogan Management, LLC
New York, NY
Crestline Investors, Inc.
Fort Worth, TX
Mariner Investment Group, Inc.
Harrison, NY

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
Relational Investors LLC
San Diego, CA
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Jennison Associates LLC
New York, NY
TCW Asset Management Co.
Los Angeles, CA
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, TX
Turner Investment Partners, Inc.
Berwyn, PA

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

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

External Money Managers and Consultants (con't)

High Yield
ING Investment Management
Hartford, CT
MacKay Shields LLC
New York, NY

International Equity – EAFE
Bank of Ireland Asset Management (US) Ltd.
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA
McKinley Capital Management
Anchorage, AK
State Street Global Advisors
Boston, MA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed Income
Mondrian Investment Partners Limited
London, England

Private Equity
Abbott Capital Management, L.P.
New York, NY
Blum Capital Partners
San Francisco, CA
Pathway Capital Management, LLC
Irvine, CA

Other
Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT
TCW Asset Management Co.
Los Angeles, CA

Real Estate – Commingled Funds
Cornerstone Real Estate Advisers, LLC
Hartford, CT
Coventry Real Estate Fund II, LLC
New York, NY
Heitman Capital Management
Chicago, IL
ING Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Lehman Brothers Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Estate – Core Separate Accounts
Cornerstone Real Estate Advisers, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
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

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

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Johnson, Brecht, Cartledge and Brooking
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 Employees' Retirement System's (PERS) 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 marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the ASPIB.

During the 2005 fiscal year[1], ASPIB's asset allocation was 36% domestic equities, 15% international equities, 24% domestic fixed income, 2% international fixed income, 9% real estate, 6% private equity, 3% absolute return, 2% high yield fixed income, and 3% other (farmland and energy).

For the 2005 fiscal year, PERS investments generated a 8.95% rate of return. The PERS annualized rate of return was 3.06% over the last five years. The annualized rate of return over the last thirteen and three-quarter years has been 8.69%.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect overall returns. For the 2005 fiscal year, the real estate portfolio gained 17.42% and the international equity portfolio gained 14.96%. The U.S equity portfolio generated a 4.47% return down from 20.06% the previous year.

ASPIB continued the systematic increase of PERS investments in real estate and alternative investments. ASPIB added investments in high yield fixed income, absolute return strategies, farmland, and energy to the portfolio with the objective of enhancing returns and reducing risk through diversification.

DOMESTIC ECONOMY

The economy grew at a healthy pace throughout fiscal 2005. Growth was fairly stable throughout the year ranging from 3% to 4% annual growth each quarter. Economic growth is generally expected to continue this pace heading into calendar year 2006. Employment was also up during the fiscal year with nonfarm payrolls increasing by over 2 million jobs and the unemployment rate dropping from 5.6% to 5% during the fiscal year.

The economy's continued recovery has raised concerns regarding the possible re-emergence of inflation. However, broad measures indicate inflation is contained with the Consumer Price Index increasing 2.2% and the Producer Price Index increasing 3.6% from June 2004 to June 2005. CPI and PPI measures declined to 2.0% and 2.2% respectively over the last year. Oil continues to be a concern to the inflation outlook as West Texas Intermediate increased by over $19 a barrel, a 52% increase to $56.50, during the fiscal year.

The Federal Reserve raised short-term rates from 1.25% to 3.25% incrementally through 0.25% increases at each of its Federal Open Market Committee (FOMC) meetings during the fiscal year. The FOMC continues to view monetary policy as accommodative and has indicated continued measured removal of this stimulus.

[1] July 1, 2004 – June 30, 2005

Public Employees' Retirement System
Investment Report

EQUITIES

The Domestic Equity Pool is diversified across large cap value, large cap growth, core, small cap value, and small cap growth equity styles so as to gain broad market exposure. For the 2005 fiscal year, the fund posted a return of 4.47%. This was less than the target return of 6.87%. The annualized domestic equity return for the five-year period was a negative 1.94% from a negative 0.85% in the 2004 fiscal year. Investment guidelines for all asset classes are approved by ASPIB and govern investment objectives, program risk management and implementation, procedures for investment, and other operational requirements. Equity investment guidelines include policies with regard to the types of permissible equity investments, limitations on holding and investment of cash, proxy voting, and restrictions/prohibitions on the use of leverage and derivatives.

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool return was 14.96% which was greater than the target return of 13.65%. The international equity return for the five year period was 1.82% from 2.80% in fiscal year 2004.

FIXED INCOME

The domestic fixed-income portfolio represented 22.2% of the total assets of PERS as of June 30, 2005. 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. Fixed income investment guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, and company concentration.

Over the 2005 fiscal year, the PERS domestic bond portfolio gained 7.08%, up from 0.60% the year before. The Lehman Brothers Aggregate Bond Index returned 6.80%, versus 0.32% during the 2004 fiscal year. The annualized domestic fixed-income return for the five-year period was 7.60% from 7.09% in the 2004 fiscal year.

The international fixed-income portfolio, which represented about 3.7% of the total assets of PERS, returned 9.84% over the 2005 fiscal year, exceeding the 7.75% posted by the Salomon Brothers Non-U.S. Government Index. The annualized international fixed-income return for the five year period was 11.19% from 8.40% in the 2004 fiscal year. International fixed income guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, company concentration, country restrictions, and currency hedging.

During the 2005 fiscal year, PERS began investing in the High Yield Sector of the U.S. Fixed Income Market. High yield fixed income guidelines include policies with regard to duration, credit quality, geographic concentration, sector concentration, issuer concentration, and restrictions/prohibitions on the use of leverage and derivatives. Full year results are not yet available since PERS has been invested in high yield for less than a year.

REAL ESTATE

At the end of the 2005 fiscal year, PERS had 9.6% of its portfolio invested in real estate. The portfolio is primarily invested in specific institutional properties geographically diversified across the U.S. Property types include apartments, offices, industrial, and retail. The portfolio is also invested in value-added real estate funds and REIT equity securities. Investing in real estate helps diversify the overall portfolio due to its low correlation to stocks and bonds. Real estate adds a stable source of income and provides a degree of inflation hedge.

Public Employees' Retirement System
Investment Report

Real estate guidelines include policies with regard to property quality, geographic concentration, property size, property type, leverage, insurance coverage, and environmental evaluations.

The total return for real estate, net of fees, was 17.42% in fiscal year 2005 compared to 11.55% for the 2004 fiscal year. The five-year annualized net total return was 10.68% from 9.30% in the 2004 fiscal year.

PRIVATE EQUITY

Four point four percent of the PERS portfolio is invested in Private Equity for long-term return enhancement and diversification. Investments are made through three investment managers. These investment managers have invested in over 100 private equity partnerships focused on venture capital, buyouts, or special situations. The private equity portfolio is well diversified by strategy, industry, geography, manager, and time. Private equity policies and procedures include guidelines with regard to investment quality, diversification, investment structure, and operation of the program.

During the 2005 fiscal year, the Private Equity component of the PERS portfolio had a net return of 18.07% with a five-year annualized return of 0.48%.

ABSOLUTE RETURN

During the 2005 fiscal year the PERS portfolio began investing in absolute return strategies for additional diversification. Absolute return investments are made through three fund-of-fund managers and are 2.4% of the total portfolio. Each fund is well diversified by strategy and manager and targets a 5% real return with low correlation to equity and fixed income markets. Absolute return policies and procedures include guidelines with regard to investment objectives, investment structure, investment quality, leverage, liquidity, strategy, manager concentration, risk management, and operation of the program. Full year results are not available since PERS has been invested in absolute return for less than a year.

OTHER

The PERS portfolio is also invested in farmland and energy investments. These investments are relatively new and are focused on providing the portfolio with additional diversification. The farmland investments are made through two separate account managers responsible for assembling a well diversified portfolio. The energy investment manager is focused on creating a balanced and diversified portfolio of oil, gas, and electric investments. Collectively, farmland and energy investments represent 0.4% of the overall portfolio and had a net return of 5.52% for the 2005 fiscal year.

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

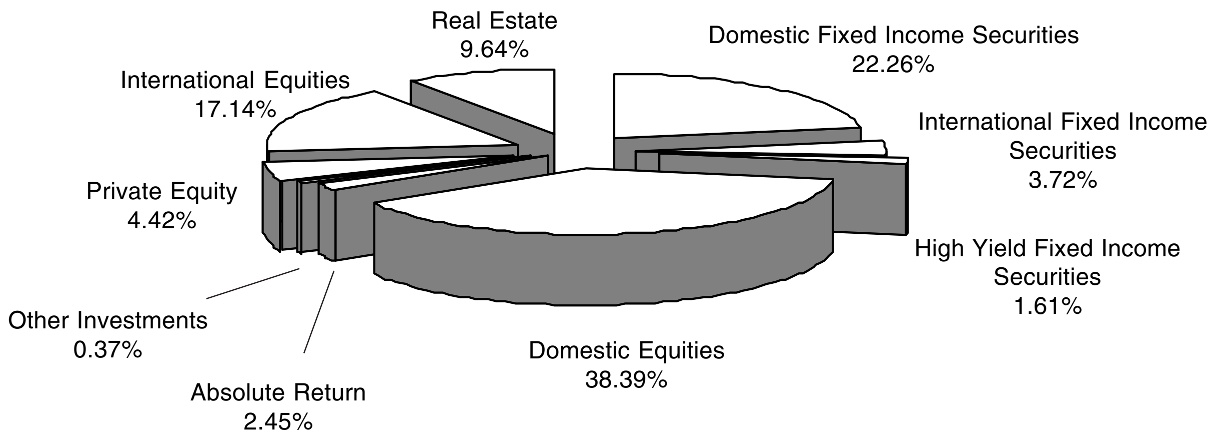
	2001	2002	2003	2004	2005	Annualized 3 Year	Annualized 5 Year
Total Fund							
PERS	(5.25%)	(5.48%)	3.67%	15.08%	8.95%	9.13%	3.06%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	(12.20%)	(16.85%)	(0.97%)	20.06%	4.47%	7.49%	(1.94%)
S&P 500/Russell 2000 Composite	(14.83%)	(17.99%)	0.25%	19.11%	6.87%	9.02%	(0.49%)
International Stock Returns							
PERS International Equities	(16.89%)	(8.27%)	(5.18%)	31.71%	14.96%	12.81%	1.82%
Morgan Stanley Capital International EAFE	(23.83%)	(9.49%)	(6.46%)	32.37%	13.65%	12.06%	(0.55%)
Domestic Fixed Income							
PERS	11.83%	8.17%	10.69%	0.60%	7.08%	6.04%	7.60%
Lehman Brothers Aggregate Index	11.22%	8.63%	10.40%	0.32%	6.80%	5.76%	7.40%
International Fixed Income							
PERS	(5.68%)	22.56%	24.48%	7.52%	9.84%	13.70%	11.19%
Salomon Non-U.S. Government	(7.43%)	15.73%	17.90%	7.60%	7.75%	10.98%	7.93%
Real Estate Equity							
PERS	11.43%	5.24%	8.97%	11.55%	17.42%	12.59%	10.68%
NCREIF	11.15%	5.60%	7.64%	10.83%	18.02%	12.08%	10.63%

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

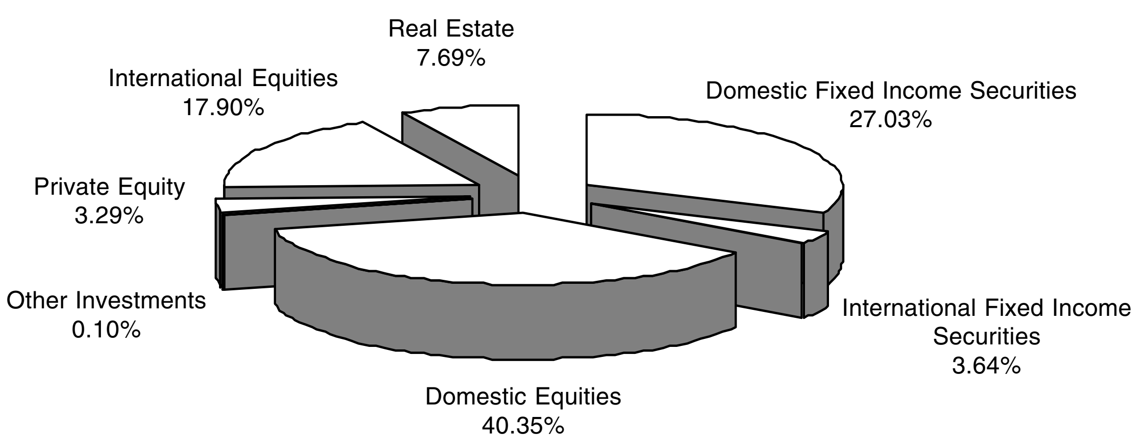
The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

Public Employees' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2005



June 30, 2004



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2005

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 twelve 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. 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 as of June 30, 2005.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	$70,191,563	$70,500,000	Federal National Mtg. Assn.	5.00%	9/1/2035	Not Rated
	2	$57,739,829	$39,350,000	U.S. Treasury Bond	8.50%	2/15/2020	Not Rated
	3	$53,370,405	$53,530,000	U.S. Treasury Note	3.50%	5/31/2007	Not Rated
	4	$36,434,882	$36,768,000	U.S. Treasury Note	3.00%	12/31/2006	Not Rated
	5	$33,759,824	$68,000,000	Federal National Mtg. Assn.	0.00%	10/09/2019	AA-
	6	$32,674,958	$32,204,860	Federal National Mtg. Assn.	5.50%	4/1/2034	Not Rated
	7	$30,788,074	$30,676,656	Merrill Lynch Mtg. Invs Inc.	4.76%	12/25/2034	AAA
	8	$25,452,697	$25,161,058	Federal National Mtg. Assn.	5.29%	5/25/2009	Not Rated
	9	$25,295,962	$25,200,000	Federal Home Loan Mtg. Assn.	5.125%	11/07/2013	Not Rated
	10	$24,897,545	$16,643,000	U.S. Treasury Bonds	9.125%	5/15/2018	Not Rated
Equities	1	$143,031,735	4,127,900	General Electric Co.			
	2	$85,237,090	1,483,158	Exxon Mobil Corp.			
	3	$78,768,137	3,171,020	Microsoft Corp.			
	4	$77,641,460	1,194,484	Johnson & Johnson			
	5	$69,246,120	1,284,000	Pepsico Inc.			
	6	$64,926,013	1,404,413	Citigroup Inc.			
	7	$64,718,117	1,050,960	Wells Fargo Company			
	8	$59,401,680	1,232,400	Wal Mart			
	9	$55,312,407	2,005,526	Pfizer Inc.			
	10	$52,882,340	712,700	IBM			

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, 2005

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2005	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management	$ 857,480,531	$ 937,939
International Fixed Income		
Mondrian Investment Partners	470,909,750	453,614
High Yield Pool		
ING Investment Management	101,872,269	68,077
MacKay Shields, LLC	101,297,351	65,003
Total High Yield	203,169,620	133,080
Domestic Equity Pool		
Cap Guardian Trust Co.	440,734,606	807,330
TCW Asset Management Company	324,617,017	1,403,695
SSgA S&P 500 Index Fund	1,605,944,030	184,582
Invesco, Enhanced Index	-	139,711
Jennison Associates, LLC	161,594,778	-
Lord Abbett & Co	160,729,875	120,043
Luther King Capital Management	106,891,181	-
Lazard Freres	422,050,861	1,112,288
McKinley Capital Mgmt.	305,639,340	704,578
Dresdner RCM Global Investors	425,276,241	820,028
Relational Investors, LLC	262,867,859	-
SSgA Russell 2000	11,014,995	22,972
Tukman, Value	373,817,109	1,429,734
Turner Investment Partners	271,806,009	1 ,011,620
Total Domestic Equity Pool	4,872,983,901	7,756,581
Private Equity Pool		
Blum Capital Partners-Strategic	6,060,606	-
Blum Capital Partners-Public	21,546,700	12,868
Pathway Capital Management LLC	111,026,204	398,230
Abbott Capital	418,704,720	704,791
Total Private Equity	557,338,230	1,115,889
International Equity Pool		
Bank of Ireland Asset Mgmt.	666,272	659,046
Brandes Investment Partners	702,725,943	1,964,048
Cap Guardian Trust Co	416,217,173	930,106
Lazard Freres	439,646,229	532,071
McKinley Capital Management	203,763,215	63,553
State Street Global Advisors (SSgA)	204,391,056	84,465
Total International Equities	1,967,409,888	4,233,289

Public Employees' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2005

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2005 (con't)	Fees (con't)
External Management Fees (con't)		
Absolute Return Pool		
Mariner Investment Group	102,784,100	412,696
Cadogan Management LLC	101,608,405	368,333
Crestline Investors, Inc.	104,637,516	392,302
Total Absolute Return	309,030,021	1,173,331
Other Investment Pool		
TCW Energy Fund	22,152,744	126,193
UBS Agrivest, LLC	18,437,180	7,163
Hancock Agricultural Investment Group	6,016,762	6,783
Total Other Investment	46,606,686	140,139
Emerging Markets Equity Pool		
JP Morgan Investment Mgmt.	98,174,011	473,423
The Capital Group Inc.	108,102,297	372,798
Total Emerging Market	206,276,308	846,221
Total External Management Fees	$9,491,204,935	16,790,083
Other		
Custodian		
State Street Bank & Trust Co.		803,243
Investment Advisory		
Callan Associates		69,616
The Townsend Group		152,166
Total Investment Advisory		221,782
Investment Performance Measurement		
Callan Associates		105,627
Miscellaneous		
Securities Lending		13,221,428
Other		7,573
Total Miscellaneous		13,229,001
Total Other Fees		14,359,653
Total External Investment Fees		$31,149,736

Public Employees' Retirement System
Investment Summary Schedule
June 30, 2005

	Asset Allocation Policy	Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 653,551	0.03%	0.01%
Retirement Fixed Income Pool			1,337,040,886	69.96%	15.57%
External Domestic Fixed Income Pool			573,333,526	30.00%	6.68%
Total Domestic Fixed Income	24%	21-27%	1,911,027,963	**100.00%**	22.26%
International					
International Fixed Income Pool	2%	0-4%	319,300,896	**100.00%**	3.72%
High Yield					
High Yield Fixed Income Pool	2%	0-4%	138,443,544	**100.00%**	1.61%
Total Fixed Income Securities	**28%**	**21-35%**	**2,368,772,403**		**27.59%**
Domestic Equities					
Small cap[1]					
Domestic Equity Pool					
Total Small Cap Domestic Equities	6%	3-9%	701,780,040	21.29%	8.17%
Large cap					
Domestic Equity Pool-active			1,508,404,390	45.76%	17.57%
Domestic Equity Pool-passive			1,086,095,865	32.95%	12.65%
Total Large Cap Domestic Equities	30%	27-33%	2,594,500,255	78.71%	30.22%
Total Domestic Equities	**36%**	**30-42%**	**3,296,280,295**	**100.00%**	**38.39%**
International Equities					
International Equity Pool			1,337,642,720	90.89%	15.58%
Emerging Markets Equity Pool			134,075,977	9.11%	1.56%
Total International Equities	**15%**	**12-18%**	**1,471,718,697**	**100.00%**	**17.14%**
Alternative Investments					
Private Equity Pool	**6%**	**2-10%**	**379,843,136**	**100.00%**	**4.42%**
Other Investment Pools	**3%**	**0-6%**	**31,763,002**	**100.00%**	**0.37%**
Absolute Return Pool	**3%**	**0-6%**	**210,613,031**	**100.00%**	**2.45%**
Real Estate					
Mortgages, net of allowances			10,335	0.00%	0.00%
Real Estate Pool			827,537,553	100.00%	9.64%
Total Real Estate	**9%**	**6-12%**	**827,547,888**	**100.00%**	**9.64%**
Total Invested Assets	**100%**		**$ 8,586,538,452**		**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.

Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2005

	Domestic Equity	International Equity	Total
PERS	$ 1,026,910	231,901	1,258,811
TRS	483,462	107,836	591,298
Judicial	9,435	2,340	11,775
Military	1,407	303	1,710
Total	**$ 1,521,214**	**342,380**	**1,863,594**

The Alaska State Pension Investment Board (ASPIB) has had a commission recapture program in place since 1995 working directly with brokerage firms. In fiscal year 2005, ASPIB enhanced its Commission Recapture program by selecting State Street Global Markets to administer the program on its behalf. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund. The program allows brokers to place trades for commission recapture purposes, if the direction continues to fulfill their fiduciary obligation to achieve best execution of transactions. ASPIB has not established direction percentages for the managers to strive for, but instead has requested their involvement as a means to enhance the portfolio return over time.

The current rebate arrangement with State Street Global Markets is: 80% of the brokerage commissions earned in executing domestic equity transactions; 72% of the brokerage commissions earned in executing domestic equity transactions via correspondent brokers; and, 60% of the brokerage commissions earned in executing international equity transactions.

Alaska State Pension Investment Board
Securities Lending Income in FY 2005

Securities lending income	$ 14,681,382
Securities lending expense:	
Borrower rebates	12,937,165
Management fees	284,261
Total securities lending expense	13,221,426
Net securities lending income	$ 1,459,956

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. ASPIB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ASPIB'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.

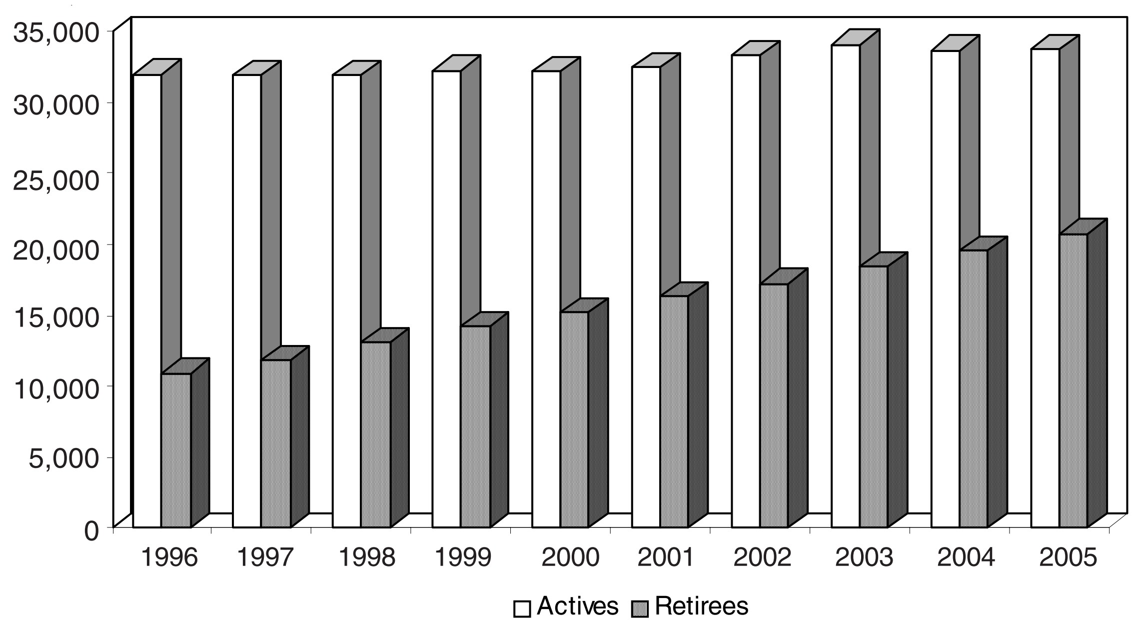
Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost, which approximates fair value. ASPIB does not have the ability to pledge or sell securities collateral unless the borrower defaults.

Income as a result of the investment of cash collateral is recorded in the System's financial statements as interest. Securities lending expense is recorded in the System's financial statements as investment expense.

Public Employees' Retirement System
System Membership by Status

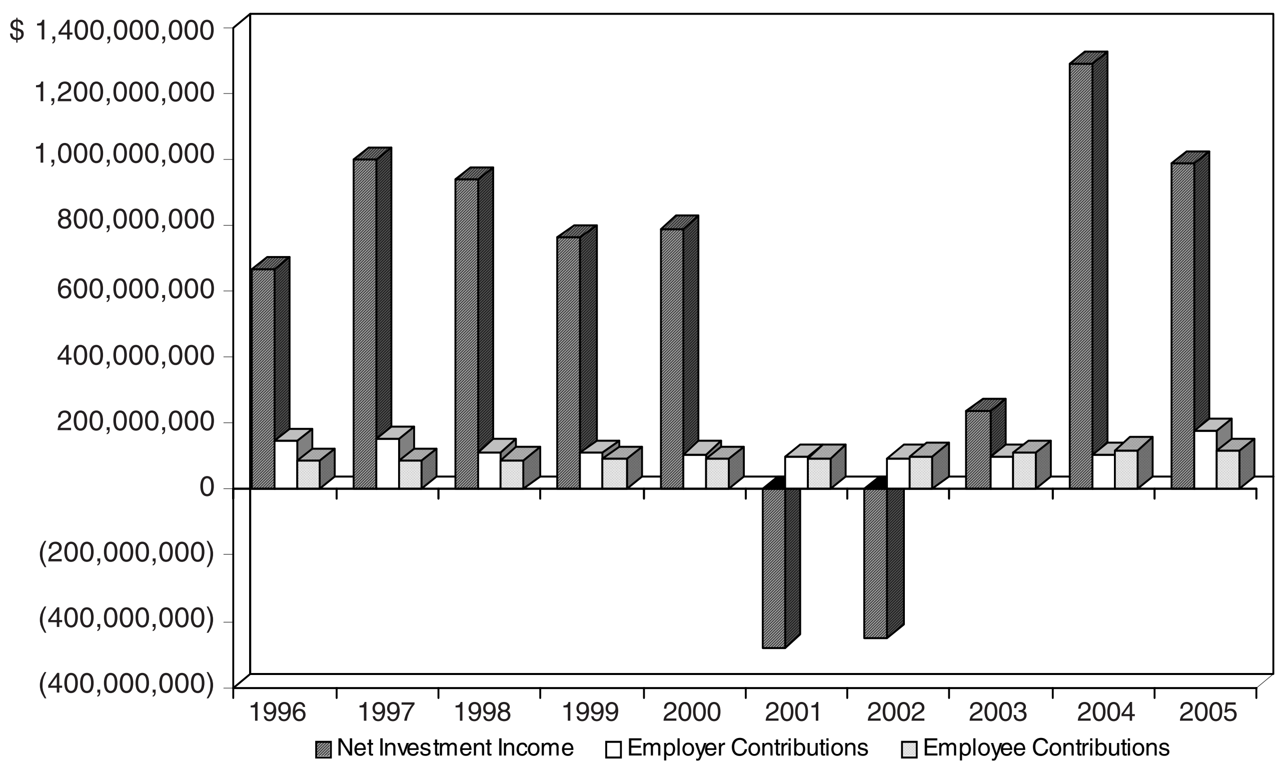
Year Ended June 30	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
1996	31,960	10,921	4,382	5,847	53,110
1997	31,854	11,802	4,742	6,260	54,658
1998	31,910	13,101	5,143	6,571	56,725
1999	32,214	14,185	5,395	7,500	59,294
2000	32,134	15,174	5,433	11,465	64,206
2001	32,441	16,274	6,187	11,403	66,305
2002	33,242	17,215	5,702	11,301	67,460
2003	34,065	18,431	5,841	10,798	69,135
2004	33,612	19,572	5,965	11,860	71,009
2005	33,732	20,703	6,517	12,773	73,725

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



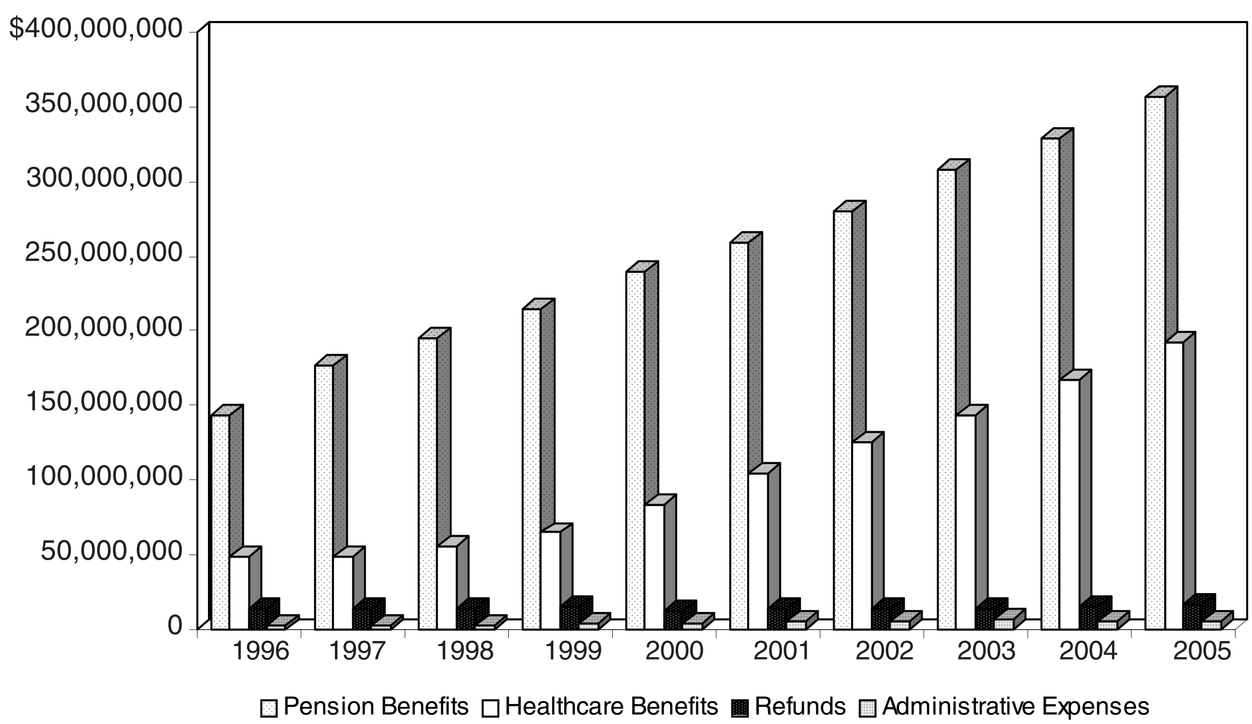
Public Employees' Retirement System Revenues by Source (000's omitted)					
Year Ended June 30	Plan Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total
1996	$85,120	$147,640	$ 665,087	$ 4	$ 897,851
1997	87,949	154,599	997,410	7	1,239,965
1998	89,256	112,384	937,782	7	1,139,429
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
2004	118,554	105,585	1,064,605	13,876	1,302,620
2005	114,640	178,205	692,303	3	985,151

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

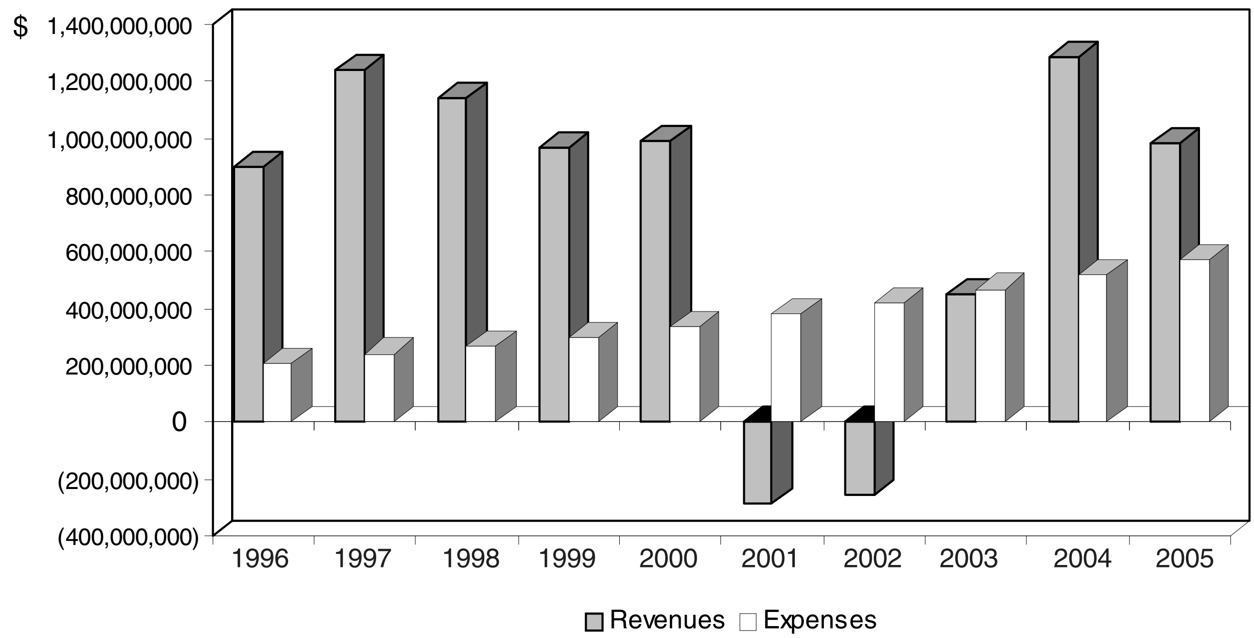


Public Employees' Retirement System Expenses by Type (000's omitted)					
Year Ended June 30	**Pension Benefits**	**Healthcare Benefits**	**Refunds of Contributions**	**Administrative Expenses**	**Total**
1996	$143,039	$ 47,964	$13,413	$ 2,522	$ 206,938
1997	177,328	48,361	13,012	2,830	241,531
1998	195,544	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
2004	329,390	167,360	14,723	5,296	516,769
2005	357,763	192,349	16,587	5,006	571,705

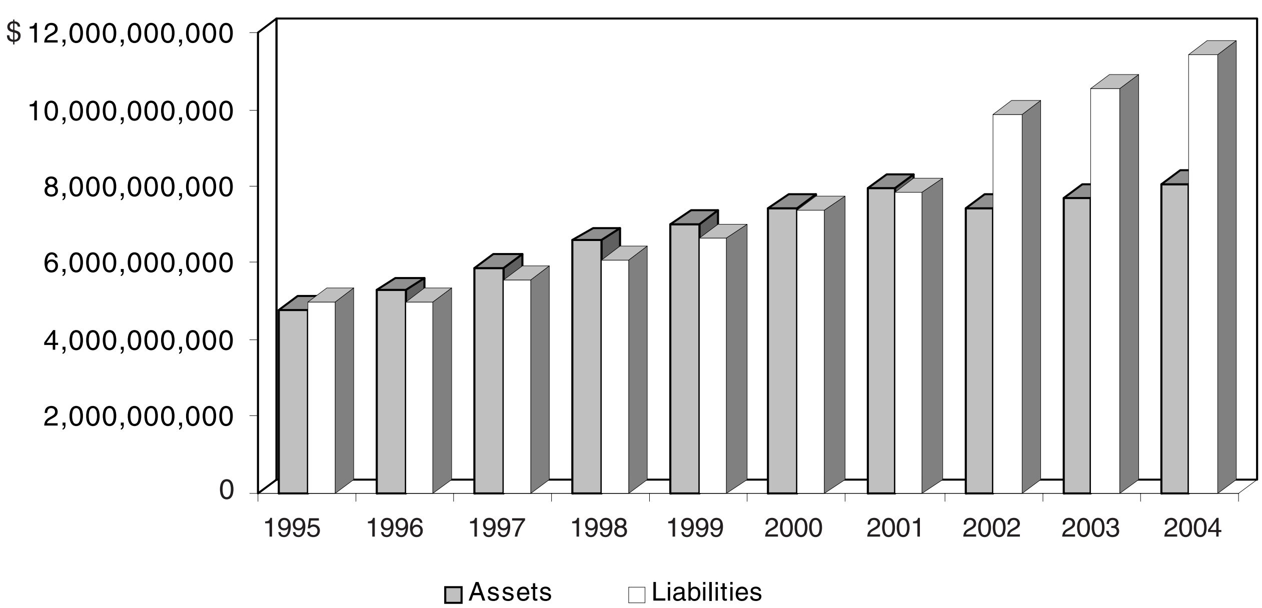
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



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



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

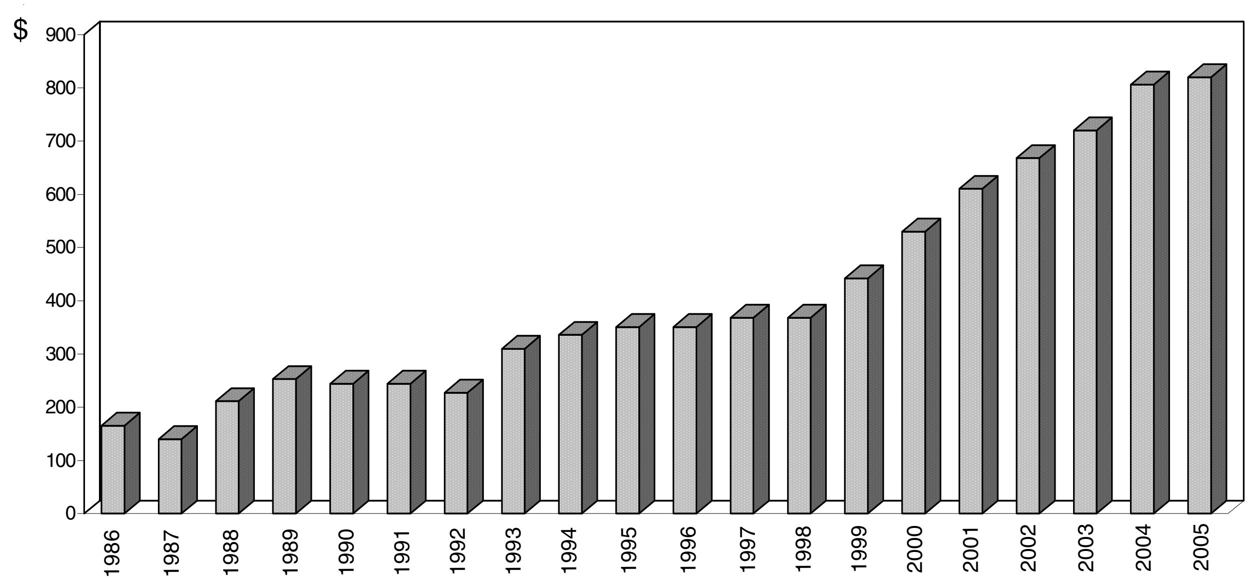


Public Employees' Retirement System
Schedule of Benefit Expenses by Type
(000's omitted)

Year Ended June 30	Service	Disability	Survivor	Dependent(1)	COLA(2)	PRPA(3)	Medical	Total
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
2004	305,047	8,691	15,652	-	-	-	167,360	496,750
2005	332,179	8,720	16,864	-	-	-	192,349	550,112

(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, 2005

Amount of Monthly Benefit	Number of Recipients	Type of Benefit 1	Type of Benefit 2	Type of Benefit 3	Option Selected 1	Option Selected 2	Option Selected 3	Option Selected 4	Option Selected 5
Others									
$ 1 - 300	1624	1319	295	10	714	325	220	67	298
301 - 600	3536	3063	424	49	1678	851	545	215	247
601 - 900	2879	2536	304	39	1376	701	400	206	196
901 - 1,200	2381	2119	214	48	1073	617	350	170	171
1,201 - 1,500	1738	1539	144	55	706	487	266	119	160
1,501 - 1,800	1461	1324	91	46	576	425	224	102	134
1,801 - 2,100	1129	1019	58	52	406	353	191	90	89
2,101 - 2,400	867	808	30	29	294	289	139	63	82
2,401 - 2,700	618	578	25	15	205	203	110	50	50
2,701 - 3,000	538	519	12	7	173	178	102	40	45
3,001 - 3,300	422	404	12	6	125	163	64	33	37
3,301 - 3,600	293	285	5	3	82	115	49	22	25
3,601 - 3,900	258	252	2	4	77	114	33	17	17
3,901 - 4,200	183	181	1	1	46	85	33	13	6
Over 4,200	496	492	3	1	138	209	80	42	27
Totals	18,423	16,438	1,620	365	7,669	5,115	2,806	1,249	1,584
Police/Fire									
$ 1 - 300	33	20	13	0	15	9	1	0	8
301 - 600	120	87	31	2	48	34	18	10	10
601 - 900	111	71	35	5	64	30	4	7	6
901 - 1,200	145	107	33	5	63	29	20	9	24
1,201 - 1,500	129	107	17	5	51	34	14	14	16
1,501 - 1,800	130	106	19	5	50	31	23	15	11
1,801 - 2,100	163	114	27	22	74	53	12	14	10
2,101 - 2,400	177	156	12	9	47	81	23	11	15
2,401 - 2,700	219	198	12	9	58	95	39	15	12
2,701 - 3,000	191	182	9	0	39	97	28	17	10
3,001 - 3,300	184	180	3	1	41	94	21	18	10
3,301 - 3,600	156	153	3	0	30	82	23	14	7
3,601 - 3,900	145	143	2	0	29	67	19	15	15
3,901 - 4,200	129	129	0	0	22	75	11	13	8
Over 4200	248	242	6	0	48	146	30	16	8
Totals	2,280	1,995	222	63	679	957	286	188	170

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
Option 5 - Level Income Option

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 7/1/98 - 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 7/1/01 - 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
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$ 984	$ 678	$1,022	$1,601	$2,201	$3,116	$4,004
Number of Recipients	202	379	290	219	179	99	77
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$ 659	$ 745	$ 806	$ 968	$ 917	$1,163	$1,488
Number of Recipients	28	300	231	218	234	109	58
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 451	$ 494	$ 961	$1,508	$2,298	$3,134	$3,648
Number of Recipients	34	357	310	247	232	138	111
Police/Fire							
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
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$1,594	$ 697	$1,131	$2,043	$3,013	$4,079	$4,313
Number of Recipients	1	9	20	20	79	11	3
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$1,644	$2,392	$2,298	$2,093	$2,435	$2,895	$2,546
Number of Recipients	4	78	46	43	61	30	8
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 327	$ 768	$1,248	$1,676	$2,528	$3,307	$3,628
Number of Recipients	1	11	14	31	73	33	5

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

Public Employees' Retirement System
Participating Employers
at June 30, 2005

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 Straits 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

Eek, City of
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

Public Employees' Retirement System Participating Employers at June 30, 2005

King Cove, City of
Kivalina, City of
Klawock, City of
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
Lower Kuskokwim School District
Lower Yukon School District

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

Tagiugmiullu Nunamiullu Housing Authority
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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