

Alaska

Public Employees' Retirement System

Defined Benefit Retirement Pension, Post Employment Healthcare Plan, and Defined Contribution Retirement Pension Trust Fund



A component unit of the State of Alaska
Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Sarah Palin, Governor

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and
Post Employment Healthcare Plan
Defined Contribution Retirement Pension Trust Fund

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2007



Sarah Palin, Governor

Prepared by

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Public Employees' Retirement System
PERS

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and Post
Employment Healthcare Plan
Defined Contribution Retirement Pension Trust Fund

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INTRODUCTORY SECTION



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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

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December 14, 2007

The Honorable Sarah Palin, Governor
Members of the Alaska State Legislature
Alaska Retirement Management Board
Employers and Plan Members

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) – Defined Benefit Retirement Pension and Post Employment Healthcare Plan (DB Plan) and Defined Contribution Retirement Pension Trust Fund (DCR Trust) for the fiscal year ended June 30, 2007.

This report is intended to provide comprehensive information on the financial operations of the DB Plan and DCR Trust for the year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the DB Plan and DCR Trust. 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 DB Plan and DCR Trust for the year ended June 30, 2007. All disclosures necessary to enable the reader to gain an understanding of the DB Plan's and DCR Trust's activities have been included.

For financial reporting purposes, the DB Plan and DCR Trust use 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*; GASB Statement No. 40, *Deposits and Investment Risk Disclosures*; GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*; and GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. Assets of the DB Plan and DCR Trust 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 PERS, and a list of the members serving on the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditor's Report, management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, 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 annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

The MD&A provides an analytical overview of the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located in the Financial Section of this report immediately following the Independent Auditor's Report.

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 Plan's age and service requirements. During the fiscal year 2005 legislative session, a law was enacted that closed the DB Plan. Senate Bill 141, signed into law on July 27, 2005, closed the DB Plan effective July 1, 2006, to new members and created a defined contribution retirement plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the PERS consists of two plans: (1) the DB Plan and (2) the DCR Plan. This report includes the DB Plan and the DCR Trust. The DCR Plan includes the trust, retiree major medical plan (RMP), and the health reimbursement arrangement (HRA) plan. The RMP and the HRA are reported for separately. That financial report can be requested from the division.

	Years Ended June 30		
	2007	2006	2005
Net Assets (millions)	\$10,938.8	9,379.5	8,590.8
Participating Employers	160	160	160

Reporting Entity

The DB Plan and DCR Trust are considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the DB Plan's and DCR Trust's relationship to the State, it is included in the State of Alaska CAFR as a fiduciary fund.

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

The Alaska Retirement Management Board (ARMB) constituted effective October 1, 2005, replaced the Public Employees' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (ASPIB) (effective October 1, 2005). Prior to October 1, 2005, the ASPIB had statutory oversight of the PERS' investments and the authority to invest the PERS' financial resources.

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 members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the PERS;
- coordinating with the PERS 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; and
- reporting to the governor, legislature and individual employers participating in the PERS on its financial condition.

Major Initiatives

The Public Employees' Retirement Board (governing board prior to July 1, 2005) looked at ways to reduce costs to the employers and address the unfunded status of the PERS while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. Senate Bill 141 passed during the 2005 legislative session and created Tier IV in the PERS. This new tier, a hybrid plan referred to as the defined contribution retirement plan (DCR Plan) became effective for members entering the PERS on or after July 1, 2006. The PERS administrator continues to work with legal counsel to obtain plan qualification and various private ruling letters related to the new tier.

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

PERS Unfunded Actuarial Accrued Liability

The PERS consulting actuary, Buck Consultants, presented the results of the June 30, 2006, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the PERS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for pension and post employment healthcare benefits) of 62.8%. ***The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$5.4 billion.*** The unfunded liability is being addressed at all levels of the State. The Governor's budget proposes to provide funding to PERS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the ARMB.

Independent Audit

The PERS DB Plan and DCR Trust 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.

Investments

At June 30, 2007, the DB Plan's investment portfolio was valued at \$10.9 billion and earned an 18.87% return for the fiscal year ended June 30, 2007. The DCR Trust's investment portfolio was valued at \$8.8 million for the fiscal year ended June 30, 2007. Over the past five years ending June 30, 2007, the Plan's investments earned an

11.54% return. The ARMB has statutory oversight of the DB Plan's and DCR Trust's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Internal Controls

PERS management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Actuarial Valuation

The PERS consulting actuarial firm, Buck Consultants, completed the actuarial review and valuation as of June 30, 2006, and served as technical advisor to the PERS. The actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the PERS. 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 PERS for its CAFR for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. 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 CAFR continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the Department of Administration, Division of Retirement and Benefits, and the Department of Revenue, Treasury Division. 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 PERS financial resources.

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 PERS and the membership. The cooperation of the membership contributes significantly to the success of the PERS. We hope the employers and plan members find this report informative.

December 14, 2007

We would like to take this opportunity to express our gratitude to the Alaska Retirement Management Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the PERS.

Respectfully submitted,



Annette Kreitzer
Commissioner



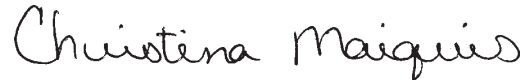
Rachael Petro
Deputy Commissioner



Pat Shier
Director



Kevin Worley
Chief Financial Officer



Christina Maiquis
Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.



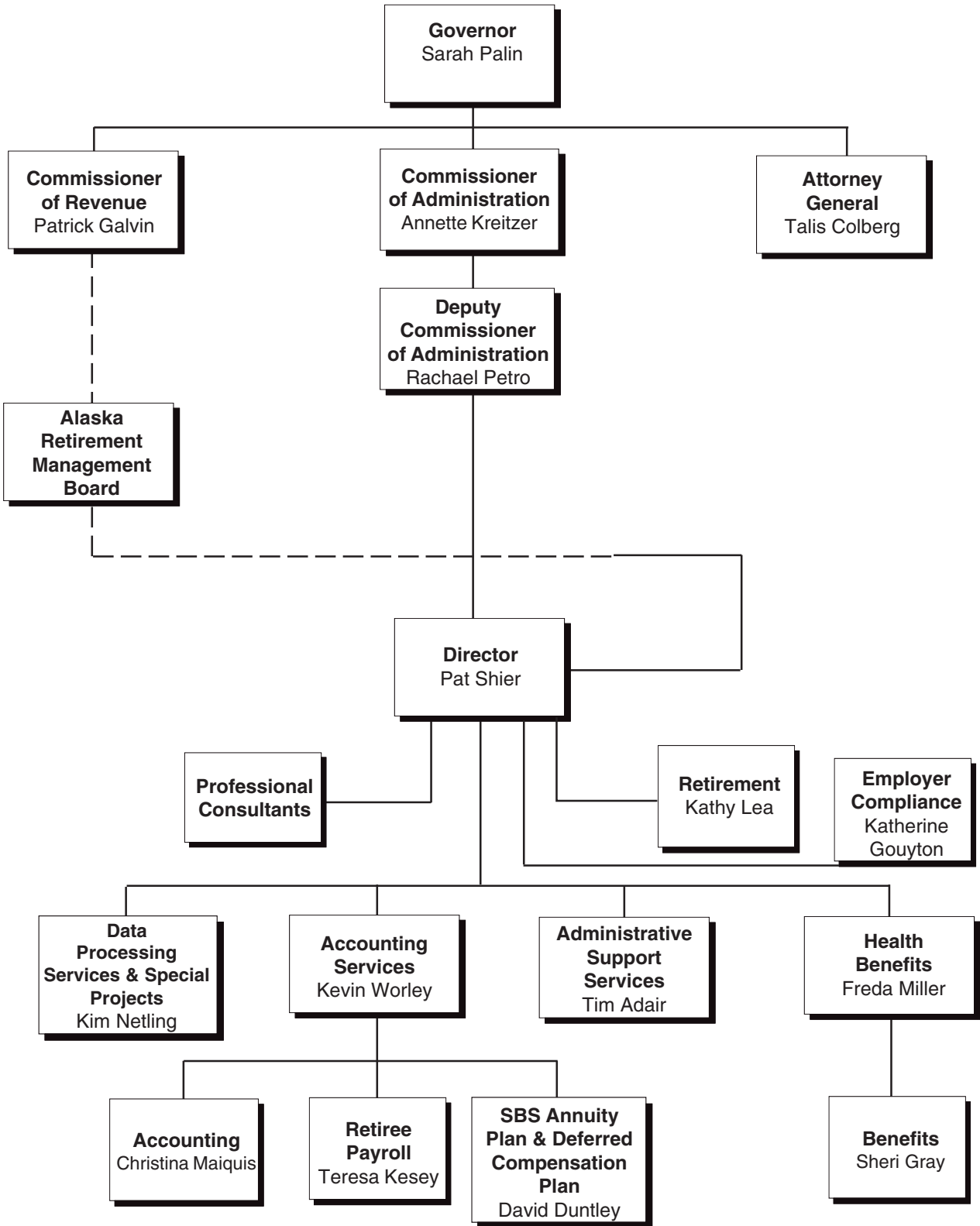
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

ORGANIZATION CHART



Section Responsibilities

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

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

The **Accounting Services 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 **SBS Annuity Plan and Deferred Compensation Plan Section** is responsible for accounting, plan operations, and financial activities related to the SBS Annuity and Deferred Compensation Plan administered by the Division.

The **Data Processing Services and Special Projects 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.

PROFESSIONAL CONSULTANTS	
<p>Consulting Actuary Buck Consultants <i>Denver, Colorado</i></p> <p>Independent Auditors KPMG LLP <i>Anchorage, Alaska</i></p> <p>Benefits Consultant Buck Consultants <i>Denver, Colorado</i></p> <p>Third-Party Healthcare Claim Administrator Premera Blue Cross Blue Shield of Alaska <i>Seattle, Washington</i></p>	<p>Legal Counsel Virginia Ragle Toby Steinberger Assistant Attorney Generals <i>Juneau, Alaska</i> Ice Miller LLP <i>Indianapolis, Indiana</i></p> <p>Legal Counsel - Retirement Boards Wohlforth, Johnson, Brecht, Cartledge & Brooking <i>Anchorage, Alaska</i></p> <p>Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p>

A list of investment consultants can be found on pages 75-76 and on the Schedule of External Management Fees on pages 84-85.

ALASKA RETIREMENT MANAGEMENT BOARD

Gail (Anagick) Schubert, Chair, is the Executive Vice President and General Counsel for the Bering Straits Native Corporation, and President/CEO of several of its subsidiary entities. Mrs. Schubert is an attorney licensed to practice law in the states of Alaska and New York, and holds a Law Degree and Masters Degree in Business Administration from Cornell University. She received her undergraduate degree from Stanford University. Mrs. Schubert serves as Chair of the Alaska Native Heritage Center, Chair of Akeela Treatment Services, Chair of the Alaska Retirement Management Board, Vice Chair of the Alaska Native Justice Center, Vice Chair of Khoanic Broadcast Corporation, Treasurer of the Bering Straits Native Corporation, and a board member of the Alaska Federation of Natives, and the Alaska Native Arts Foundation. Mrs. Schubert is also a member of the Alaska Rural Justice and Law Enforcement Commission.

Sam Trivette, Vice-Chair, is currently President of the Retired Public Employees of Alaska, and is on the national executive board of the American Federation of Teachers retirees. Mr. Trivette retired from public service after more than 32 years serving as Chief Probation Officer, Director of Community Corrections, Executive Director of the Parole Board, and as a probation and correctional officer. He is President of Quality Corrections Services, and on the board of directors of the Alaska Public Employees Association. Mr. Trivette has also served as an officer in a number of national and statewide professional organizations as well as many not-for-profit organizations around Alaska. He has a BA in Psychology from the University of Alaska, Anchorage and has completed postgraduate work in public administration, law, and psychological counseling.

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Mrs. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, and the NCTR Education Committee. She is also a co-manager of a family trust. Mrs. Harbo was named Alaska Teacher of the Year in 1989. She holds a BS in Mathematics from North Carolina State University, and a Masters in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law, and finance.

Patrick Galvin was appointed Commissioner of the Department of Revenue by Governor Sarah Palin effective December 4, 2006. Before his appointment he served as a Petroleum Land Manager for the Alaska Department of Natural Resources, Division of Oil and Gas. His responsibilities included managing the oil and gas leasing and licensing programs, lease administration, and oil and gas permitting for the division. His education background includes a Bachelor's degree in Visual Arts and Quantitative Economics from the University of California, San Diego, a Law Degree from the University of San Diego, and an MBA from San Diego State University. Prior to his position at DNR, Mr. Galvin served as Director of the Division of Governmental Coordination, overseeing the Alaska Coastal Management Program. Previously, Mr. Galvin was a private practice attorney focusing on municipal, corporate, and tribal law.

Annette Kreitzer was appointed Commissioner of the Department of Administration by Governor Sarah Palin in January 2007. Most recently Ms. Kreitzer served as Chief of Staff for former Lieutenant Governor Loren Leman. She also served as Committee Aide for the Senate Special Committee on Oil and Gas, then as Committee Aide for the Senate Labor & Commerce and Resources committees, and Senate Finance Subcommittee staff for the Departments of Revenue, Environmental Conservation, and Natural Resources. Ms. Kreitzer has served as the Governor's appointee to Rural CAP (2002 - 2007); represented the Alaska Senate on the National Conference of State Legislatures Chemical Weapons Study Group (1998-1999); and served on the Governor's Safety Advisory Council (1994-1997). Ms. Kreitzer has also worked as an Emergency Medical Services Squad Leader and EMT II, administrator for the Anna Livingston Memorial Clinic, a reporter and a freelance writer. Volunteer activities include service on the Bartlett Regional Hospital Board, the Aleutians East Borough Health Committee, teaching gun safety and assisting with Ducks Unlimited and National Rifle Association events. Ms. Kreitzer attended Wright State University with an emphasis on journalism and took additional courses through the University of Washington and University of Alaska Fairbanks.

Martin 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.

Larry Semmens is currently the Finance Director of the City of Kenai where he has been employed since 1996. Mr. Semmens started his career with Price Waterhouse and Co. in Anchorage in 1980, then worked in the Kenai Peninsula Borough finance department for 15 years in various positions, including finance director, prior to moving to Kenai. He is a past president of the Alaska Government Finance Officers Association and currently is Secretary of the Alaska Municipal League Investment Pool Board, Vice-Chair of the Alaska Public Entities Insurance Pool Board, and Chair of the Aurora Borealis Charter School Board. Mr. Semmens is a certified public accountant and a U.S. Air Force Veteran. He holds a BBA in accounting from Boise State University.

Michael R. Williams is currently a Revenue Auditor for the Alaska Department of Revenue, performing audits of large, multi-state and multi-national corporations since 1998. He is also a partner and principal owner of Williams & Payne, LLC, a tax preparation and consultation business in Anchorage. Mr. Williams has also worked as a tax consultant for Deloitte & Touche and as a tax auditor for the State of Utah. He has served as Secretary for ASEA/AFSCME Local 52, as trustee for the ASEA Health Benefits Trust, and is a member of the National Association of Enrolled Agents. Mr. Williams holds a BA in Accounting & German and a Master of Professional Accountancy from Weber State University.

Tom Richards is currently a mathematics and general education teacher at the Star of the North Charter School in Fairbanks. Mr. Richards previously taught mathematics, science and economics and was chair of the mathematics department at Lathrop High School. He also serves on the Alaska State Bond Reimbursement and Grant Review Committee. Mr. Richards received a bachelor of science from the University of Idaho (Moscow) in 1976 earning a major in zoology and a minor in chemistry, and obtained his State of Alaska teacher certification in 1978 with a secondary endorsement in biological science and mathematics. In 1999, he received a master of science in education from Western Oregon University (Monmouth) with an emphasis in information technology.



FINANCIAL SECTION



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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

Alaska Retirement Management Board and
Division of Retirement and Benefits
State of Alaska Public Employees' Retirement System
Defined Benefit Retirement Pension and Post Employment Healthcare Plans
Defined Contribution Retirement Pension Plan

We have audited the accompanying statements of net assets of the State of Alaska Public Employees' Retirement System's Defined Benefit Retirement Pension and Post Employment Healthcare Plan and Defined Contribution Retirement Pension Trust Fund, as of June 30, 2007 and 2006, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 1, the financial statements present only the Defined Benefits Retirement Pension and Post Employment Healthcare Plan and the Defined Contribution Retirement Pension Trust Fund and do not purport and do not present the net assets of the Public Employee Retirement System, a Component Unit of the State of Alaska, as of June 30, 2007 and 2006, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Public Employees' Retirement System's Defined Benefit Retirement Pension and Post Employment Healthcare Plan and Defined Contribution Retirement Pension Trust Fund, as of June 30, 2007 and 2006, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.



The accompanying required supplementary information of management's discussion and analysis on pages 13 to 21 and schedules of funding progress and employer contributions on pages 63 to 71 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 70 and 71 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 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 introductory section on pages 1 through 10 and investment, actuarial and statistical data on pages 73-127 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subject to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

KPMG LLP

November 30, 2007

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and
Post Employment Healthcare Plan
Defined Contribution Retirement Pension Trust Fund
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2007 and 2006

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement Systems' Defined Benefit Pension and Post Employment Healthcare Plan (DB) and the Defined Contribution Retirement Pension Trust Fund (DCR) financial position and performance for the years ended June 30, 2007 and 2006. The DCR plan was established July 1, 2006. 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 Plans during the fiscal years ended June 30, 2007 and 2006. Information for fiscal year 2005 is presented for comparative purposes.

Financial Highlights

The DB Plan's total assets exceeded its total liabilities by \$10,929,964,000 and \$9,379,471,000 at the close of fiscal years 2007 and 2006, respectively. The DCR Pension Trust Fund's total assets exceeded its total liabilities by \$8,770,000 at the close of fiscal year 2007.

The DB Plan's "Net assets held in trust for pension and post employment healthcare benefits" as of June 30, 2007 and 2006 increased by \$1,550,493,000 or 16.5% and \$788,719,000 or 9.2% in fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's "Net assets held in trust for pension and post employment healthcare benefits" as of June 30, 2007 totaled \$8,770,000.

The DB Plan's contributions received totaled \$474,981,000 and \$391,915,000 during fiscal years 2007 and 2006; an increase of \$83,066,000 and \$99,070,000 or 21.2% and 33.8% from fiscal years 2006 and 2005, respectively. The DCR Pension

Trust Fund's contributions received totaled \$8,769,000 during fiscal year 2007.

The DB Plan's net investment income increased from \$974,006,000 in 2006 to \$1,731,393,000 in 2007 and from \$692,303,000 in 2005 to \$974,006,000 in 2006; reflecting an increase of 77.8% and 40.7% from fiscal years 2006 and 2005, respectively. The DCR Pension Trust Fund's net investment income for fiscal year 2007 was \$364,000.

The DB Plan's pension benefit and post employment healthcare payments totaled \$635,098,000 and \$592,285,000 during fiscal years 2007 and 2006 reflecting an increase of \$42,813,000 and \$42,173,000 or 7.2% and 7.7% from fiscal years 2006 and 2005, respectively.

Overview of the Financial Statements

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

Statements of Net Assets—These statements present information regarding the assets, liabilities, and net assets of the DB Plan and DCR Pension Trust Fund. Net assets represent the total amount of assets less the total amount of liabilities.

Statements of Changes in Net Assets—These statements present how the net assets changed during the fiscal year as a result of contributions, investment income, operating deductions, and transfers.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and
Post Employment Healthcare Plan
Defined Contribution Retirement Pension Trust Fund
(A Component Unit of the State of Alaska)
Management's Discussion and Analysis
June 30, 2007 and 2006

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

Notes to 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 DB Plan and DCR Pension Trust Fund's financial statements.

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

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

STATE OF ALASKA
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Condensed Financial Information

NET ASSETS
(Dollars in thousands)

Description	Defined Benefit Plan				2005	Defined Contribution Pension Trust Fund 2007
	2007	2006	Increase/(Decrease)			
			Amount	Percentage		
Assets:						
Cash, cash equivalents and receivables	\$ 46,279	15,169	31,110	205.1%	12,275	\$ 1,458
Securities lending collateral Investments, at fair value	1,191,168	929,519	261,649	28.1	659,801	-
Other assets	4	4	-	-	12	-
Total assets	12,128,312	10,316,794	1,811,518	17.6	9,257,964	8,961
Liabilities:						
Accrued expenses	7,180	7,329	(149)	(2.0)	6,541	179
Securities lending collateral payable	1,191,168	929,519	261,649	28.1	659,801	-
Other liabilities	-	475	(475)	(100.0)	870	12
Total liabilities	1,198,348	937,323	261,025	27.8	667,212	191
Net Assets	\$10,929,964	\$ 9,379,471	1,550,493	16.5%	8,590,752	8,770

CHANGES IN NET ASSETS
(Dollars in thousands)

Net assets, beginning of year	\$9,379,471	8,590,752	788,719	9.2%	8,177,306	\$ -
Additions:						
Contributions	474,981	391,915	83,066	21.2	292,845	8,769
Net investment income	1,731,393	947,006	757,387	77.8	692,303	364
Other additions	84	312	(228)	(73.1)	3	-
Transfer from Retiree Health Fund	-	34,635	(34,635)	(100.0)	-	-
Total additions	2,206,458	1,400,868	805,590	57.5	985,151	9,133
Deductions:						
Benefits	635,098	592,285	42,813	7.2	550,112	-
Refunds	14,621	14,063	558	4.0	16,587	332
Administrative	6,246	5,801	445	7.7	5,006	31
Total deductions	655,965	612,149	43,816	7.2	571,705	363
Increase in net Assets	1,550,493	788,719	761,774	96.6	413,446	8,770
Net assets, end of year	\$10,929,964	9,379,471	1,550,493	16.5%	8,590,752	\$ 8,770

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Financial Analysis of the Plans

The Statement of Net Assets as of June 30, 2007 and 2006 showed total DB Plan's assets exceeding total liabilities by \$10,929,964,000 and \$9,379,471,000. The Statement of Net Assets as of June 30, 2007 showed total DCR Pension Trust Fund assets exceeding liabilities by \$8,770,000. These amounts represent the "Net assets held in trust for pension and post employment healthcare benefits". The entire amount is available to cover the DB Plan's and DCR Pension Trust Fund's obligations to pay pension and post employment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in the DB Plan's "Net assets held in trust for pension and post employment healthcare benefits" of \$1,550,493,000 or 16.5% and \$788,719,000 or 9.2% from fiscal years 2007 and 2006, respectively. The DCR Pension Trust Fund's "Net Assets held in trust for pension and post employment healthcare benefits" for fiscal year 2007 totaled \$8,770,000. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and post employment healthcare costs.

The investment of pension funds is a longterm undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the DB Plan's constraints and objectives. During fiscal year 2007, the ARMB adopted an asset allocation for the DB Plan that includes 36% in domestic equities, 14% in international equities, 20% in domestic fixed income, 2% in international fixed income, 10% in real estate, 7% in private equity, 2% in high yield, 2% in emerging market equity, 4% in absolute return, and 3% in other investments. This

asset allocation is expected to provide a five year median return of 7.83%. The ARMB adopted an asset allocation for the DCR Pension Trust Fund that includes 100% cash as the plan was in a startup year with minimal expense activity. This asset allocation is expected to provide a five year median return of 4.00%.

For fiscal years 2007 and 2006, the DB Plan's investments generated an 18.87% and an 11.74% rate of return, respectively. The DB Plan's annualized rate of return was 13.11% over the last three years and 11.54% over the last five years. For fiscal year 2007, the DCR Pension Trust Fund was invested in cash and cash equivalents from July 1st through October 2006. The fiscal year 2007, rate of return for the DCR Pension Trust Fund was not calculated by the Division of Treasury.

Actuarial Valuations and Funding Progress – DB Plan

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2006 and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 62.8%, at June 30, 2006 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving the funding objectives of the DB Plan.

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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 DB Plan.

For fiscal year 2008, the employer consolidated normal cost rate increased from 13.32% to 14.48%, the average past service rate increased from 14.87% to 18.03%, thus producing a total fiscal year 2008 average annual required contribution rate for all employers in the DB Plan of 32.51%. The ARMB adopted an average employer contribution rate of 32.51% for fiscal year 2008.

	Valuation Year	
	(Dollars in thousands)	
	<u>2006</u>	<u>2005</u>
Valuation Assets	\$ 9,040,908	8,442,919
Accrued Liabilities (total benefits)	14,388,413	12,844,841
Funding ratio	62.8%	65.7%

Contributions, Investment Income and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, investment income and a transfer.

	Additions (in thousands)					
	Defined Benefit Plan					Defined
	Increase/(Decrease)					Contribution
	<u>2007</u>	<u>2006</u>	<u>Amount</u>	<u>Percentage</u>	<u>2005</u>	<u>2007</u>
Plan member contributions	\$ 121,103	119,566	1,537	1.3%	114,640	\$ 5,175
Employer contributions	335,296	253,922	81,374	32.0	178,205	3,594
State of Alaska	18,582	18,427	155	0.8	-	-
Net investment income	1,731,393	974,006	757,387	77.8	692,303	364
Other additions	84	312	(228)	(73.1)	3	-
Transfer from Retiree Health Fund	-	34,635	(34,635)	(100.0)	-	-
Total	<u>\$2,206,458</u>	<u>1,400,868</u>	<u>805,590</u>	<u>57.5%</u>	<u>985,151</u>	<u>\$ 9,133</u>

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DB Plan

The DB Plan's employer contributions increased from \$253,922,000 in fiscal year 2006 to \$335,296,000 in fiscal year 2007 an increase of \$81,374,000 or 32.0%. Employer contributions increased from \$178,205,000 in fiscal year 2005 to \$253,922,000 in fiscal year 2006 an increase of \$75,717,000 or 42.5%. Increases experienced in fiscal year 2007 are largely due to the contribution shortfall related to contributions made in fiscal year 2005 and 2006. Increases experienced in fiscal year 2007 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2004 (the valuation year used to set fiscal year 2007 employer contribution rates).

The DB Plan's net investment income in fiscal year 2007 increased by \$757,387 or 77.8% from amounts recorded in fiscal year 2006. Net investment income in fiscal year 2006 increased by \$281,703,000 or 40.7% from amounts recorded in fiscal year 2005. The DB Plan's total returns were 18.87%, 11.74% and 8.95% for the years ending 2007, 2006 and 2005, respectively. Changes in both years are due to the performance of the equity markets. The domestic equity pool realized a return of 20.1% in 2007 compared to 9.2% in 2006. The international equity pool realized a return of 27.9% in 2007 compared to 28.7% in 2006. The real estate pool realized a return of 20.7% in 2007 compared to 18.6% in 2006. The private equity pool realized a return of 28.7% in 2007 compared to 25.9% in 2006. The emerging markets equity pool realized a return of 48.0% in 2007 compared to 34.5 in 2006. The high yield pool realized a return of 10.9% in 2007 compared to 5.6% in 2006. The other investments pool realized a return of 11.3% in 2007 compared to 8.6% in 2006. More than seventy-six percent of invested assets were invested in these pools.

Over the long term, investment income has been a major component of additions to plan assets. During fiscal year 2007, the DB Plan continued to record significant rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the third consecutive year.

During 2006 a review was conducted of all DB Plan's medical reserve amounts in the Retiree Health Fund. No transfer occurred in 2007. However, in 2006 there was an excess reserve balance over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. In fiscal year 2006, the Plan recognized a transfer of \$34,635,000 from the Retiree Health Fund.

DCR Pension Trust Fund

The DCR Pension Trust Fund's Employer contributions in fiscal year 2007 totaled \$8,769,000. The DCR Pension Trust Fund's employer contribution rate for fiscal year 2007 was established by Alaska Statute 39.35.750 and adopted by the ARMB at 5.0%.

The DCR Pension Trust Fund's net investment income in fiscal year 2007 was \$364,000. For fiscal year 2007, the DCR Pension Trust Fund was maintained on a cash basis from July 1st through October 2006; therefore, no rate of return was calculated by the Division of Revenue.

Benefits and Other Deductions

The primary deduction of the DB Plan and DCR Pension Trust Fund is the payment of pension benefits. These benefit payments, together with post

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employment healthcare premiums paid, lump sum refunds made to former plan members, and the cost of administering the DB Plan and DCR Pension Trust Fund comprise the costs of operations. The DCR Pension Trust Fund started July 1, 2006.

	Deductions (in thousands)					Defined Contribution Pension Trust Fund
			Defined Benefit Plan			
			Increase/(Decrease)			
	2007	2006	Amount	Percentage	2005	
Pension benefits	\$ 410,545	381,672	28,873	7.6%	357,763	\$ -
Healthcare benefits	224,553	210,613	13,940	6.6	192,349	-
Refunds of contributions	14,621	14,063	558	4.0	16,587	332
Administrative	6,246	5,801	445	7.7	5,006	31
Total	\$ 655,965	612,149	43,816	7.2%	571,705	363

The DB Plan's pension benefit payments in 2007 and 2006 increased \$28,873,000 and \$23,909,000 or 7.6% and 6.7% from fiscal years 2006 and 2005, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees as well as a continuing increase in average benefits.

The DB Plan's post employment healthcare benefits in 2007 and 2006 increased \$13,940,000 and \$18,264,000 or 6.6% and 9.5% from fiscal years 2006 and 2005, respectively. Healthcare costs continue to rise year over year and this increase is directly related to the number of new retirees in the DB Plan.

The DCR Pension Trust Fund reflected \$15,000 in administrative expenses, which are management services paid out in fiscal year 2007 for managed account fees.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on Plans investments.

- The employer contributions are calculated by the DB Plan's consulting actuaries and approved by the ARMB annually. For fiscal year 2007 and 2008, the DCR Pension Trust Fund's employer contribution rate was established by Alaska Statute 39.35.750 and adopted by the ARMB.
- Plan member contributions are set by Alaska Statute 39.35.160. for the DB Plan and Alaska Statute 39.35.730 for the DCR Pension Trust Fund.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

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Legislation

During the fiscal year 2007 legislative session, two laws were enacted that affect the DB Plan and DCR Pension Trust Fund:

Senate Bill 123, passed by the twenty-fifth Alaska State Legislature, created the Alaska Retiree Healthcare Trust and conformed amendments between the DB Plan and DCR Pension Trust Fund.

Senate Bill 53, passed by the twenty-fifth Alaska State Legislature, appropriating \$185 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the public employee's retirement plan as partial payment of the participating public employee's retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to set the effective employer contribution rate of all public employee's retirement plan employers for the fiscal year ending June 30, 2008, at the lower of the level percentage of pay rate approved by the ARMB or 22.00% but not lower than 14.48%.

During the fiscal year 2006 second session of the twenty-fourth Alaska State Legislature, Senate Bill 231 passed, appropriating \$18.6 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2007.

During fiscal year 2005 Senate Bill 46, passed by the first special session of the twentyfourth Alaska State Legislature, appropriated \$18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

During the fiscal year 2005 legislative session, a law was enacted that closes the PERS defined benefit plan. Senate Bill 141, effective July 1, 2006 closed the PERS defined benefit plan to new members and creates a PERS defined contribution plan for members first hired on or after July 1, 2006.

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

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. The ARMB continues to diversify the portfolio of the DB Plan to maintain an optimal risk/return ratio.

The return on the DB Plan's investments exceeded its' actuarially assumed return of 8.25% for the third consecutive year. Even with investment returns exceeding the actuarial rate of return, the DB Plan will continue to see an increase in employer contribution rates due to rising medical costs and the contribution shortfall in fiscal year 2005 and 2006. In addition, employer contribution rates will rise in fiscal year 2008. Effective with the 2004 valuation, the assumptions used to value liabilities for retiree medical benefits were changed. The revised methods and assumptions more accurately measured retiree medical liabilities and incorporated the expected impact on the PERS liabilities of changes in the Medicare program.

The consulting actuary recommended an increase from the average employer contribution rate of 25.63% in fiscal year 2006 to 28.19% in fiscal year 2007. The ARMB adopted an average employer contribution rate of 21.77% for fiscal year 2007, up 5 points from the fiscal year 2006 ARMB adopted employer contribution rate of 16.77%. The reason for the five point

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change in the average employer contribution rate is 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 2.56 point change in the calculated average employer contribution rates from fiscal year 2006 to 2007 prescribed by the DB Plan's consulting actuary, regulations prohibit more than a five point change from year to year, so the ARMB was limited in its capacity to increase the employer contribution rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to those in 2001 and 2002, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs. Regulation 2 AAC 35.900 was repealed effective July 20, 2006.

The June 30, 2006, actuarial valuation for the DB Plan reported a funding ratio of 62.8% and an unfunded liability of \$5.3 billion.

For fiscal year 2007, the DCR Pension Trust Fund's employer contribution rate was set at 5.00%. The DCR Pension Trust Fund's fiscal year 2008 employer contribution rate has remained at 5.00%.

Requests for Information

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

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	Defined Benefit					
	2007			2006		
	Pension	Post- employment Healthcare	Total	Pension	Post- employment Healthcare	Total
Assets:						
Cash and Cash Equivalents (notes 3 and 5):						
Short-Term Fixed Income Pool	\$ 12,170	8,582	20,752	336	224	560
Securities Lending Collateral	698,584	492,584	1,191,168	557,143	372,376	929,519
Great-West / Participant Directed Deposit	-	-	-	-	-	-
Total Cash and Cash Equivalents	<u>710,754</u>	<u>501,166</u>	<u>1,211,920</u>	<u>557,479</u>	<u>372,600</u>	<u>930,079</u>
Receivables:						
Contributions	10,614	7,484	18,098	8,740	5,842	14,582
Due from State of Alaska General Fund	4,357	3,072	7,429	14	9	23
Other Account Receivable	-	-	-	2	2	4
Total Receivables	<u>14,971</u>	<u>10,556</u>	<u>25,527</u>	<u>8,756</u>	<u>5,853</u>	<u>14,609</u>
Investments (notes 3, 4, 5 and 8):						
Collective investment funds, at fair value:						
Great-West participant directed	-	-	-	-	-	-
Domestic Equity Pool	3,346,520	604,618	3,951,138	3,091,953	487,950	3,579,903
Domestic Fixed Income Pool	1,140,609	804,265	1,944,874	1,214,397	811,660	2,026,057
International Equity Pool	1,084,261	764,533	1,848,794	855,180	571,572	1,426,752
Real Estate Pool	695,894	490,688	1,186,582	563,987	376,949	940,936
International Fixed Income Pool	118,280	83,402	201,682	117,676	78,651	196,327
Private Equity Pool	427,896	301,717	729,613	338,860	226,483	565,343
Emerging Markets Equity Pool	166,513	117,411	283,924	108,084	72,240	180,324
Treasury Inflation Protection Pool	-	-	-	-	-	-
Other Investments Pool	74,947	52,847	127,794	42,577	28,457	71,034
High Yield Pool	113,398	79,959	193,357	87,688	58,608	146,296
Absolute Return Pool	248,137	174,966	423,103	143,332	95,798	239,130
Total Investments	<u>7,416,455</u>	<u>3,474,406</u>	<u>10,890,861</u>	<u>6,563,734</u>	<u>2,808,368</u>	<u>9,372,102</u>
Other:						
Loans and Mortgages, Net of Allowance for Loan Losses of \$5 for both 2007 and 2006	-	-	-	1	1	2
Other	2	2	4	2	-	2
Total Other	<u>2</u>	<u>2</u>	<u>4</u>	<u>3</u>	<u>1</u>	<u>4</u>
Total Assets	<u>8,142,182</u>	<u>3,986,130</u>	<u>12,128,312</u>	<u>7,129,972</u>	<u>3,186,822</u>	<u>10,316,794</u>
Liabilities:						
Accrued Expenses	4,211	2,969	7,180	4,393	2,936	7,329
Due to State of Alaska General Fund	-	-	-	285	190	475
Securities Lending Collateral Payable (note 5)	698,584	492,584	1,191,168	557,144	372,375	929,519
Total Liabilities	<u>702,795</u>	<u>495,553</u>	<u>1,198,348</u>	<u>561,822</u>	<u>375,501</u>	<u>937,323</u>
Commitments and Contingencies (note 8)						
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	<u>\$7,439,387</u>	<u>3,490,577</u>	<u>10,929,964</u>	<u>6,568,150</u>	<u>2,811,321</u>	<u>9,379,471</u>

(Schedules of funding progress are presented on pages 63 and 64.)

See accompanying notes to financial statements.

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	Defined Contribution		
	2007		
	Participant Directed	Occupational Death and Disability	Total
Assets:			
Cash and Cash Equivalents (notes 3 and 5):			
Short-Term Fixed Income Pool	604	13	617
Securities Lending Collateral	-	-	-
Great-West / Participant Directed Deposit	29	-	29
Total Cash and Cash Equivalents	<u>633</u>	<u>13</u>	<u>646</u>
Receivables:			
Contributions	537	12	549
Due from State of Alaska General Fund	245	18	263
Other Account Receivable	-	-	-
Total Receivables	<u>782</u>	<u>30</u>	<u>812</u>
Investments (notes 3, 4, 5 and 8):			
Collective investment funds, at fair value:			
Great-West participant directed	7,348	-	7,348
Domestic Equity Pool	-	66	66
Domestic Fixed Income Pool	-	21	21
International Equity Pool	-	29	29
Real Estate Pool	-	14	14
International Fixed Income Pool	-	3	3
Private Equity Pool	-	-	-
Emerging Markets Equity Pool	-	6	6
Treasury Inflation Protection Pool	-	16	16
Other Investments Pool	-	-	-
High Yield Pool	-	-	-
Absolute Return Pool	-	-	-
Total Investments	<u>7,348</u>	<u>155</u>	<u>7,503</u>
Other:			
Loans and Mortgages, Net of Allowance for Loan Losses of \$5 for both 2007 and 2006	-	-	-
Other	-	-	-
Total Other	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>8,763</u>	<u>198</u>	<u>8,961</u>
Liabilities:			
Accrued Expenses	179	-	179
Due to State of Alaska General Fund	-	12	12
Securities Lending Collateral Payable (note 5)	-	-	-
Total Liabilities	<u>179</u>	<u>12</u>	<u>191</u>
Commitments and Contingencies (note 8)			
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	<u>8,584</u>	<u>186</u>	<u>8,770</u>

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	Defined Benefit					
	2007			2006		
	Pension	Post- employment Healthcare	Total	Pension	Post- employment Healthcare	Total
Additions:						
Contributions:						
Employers	\$ 196,641	138,655	335,296	152,198	101,724	253,922
Plan Members	71,023	50,080	121,103	71,666	47,900	119,566
State of Alaska	10,898	7,684	18,582	11,045	7,382	18,427
Total contributions	<u>278,562</u>	<u>196,419</u>	<u>474,981</u>	<u>234,909</u>	<u>157,006</u>	<u>391,915</u>
Investment Income:						
Net Appreciation in Fair Value (note 3)	814,276	574,161	1,388,437	424,780	283,908	708,688
Interest	74,433	52,485	126,918	72,259	48,296	120,555
Dividends	138,326	97,536	235,862	99,085	66,224	165,309
Net Mortgage Loan Recovery	-	-	-	-	-	-
Total Investment Income	<u>1,027,035</u>	<u>724,182</u>	<u>1,751,217</u>	<u>596,124</u>	<u>398,428</u>	<u>994,552</u>
Less Investment Expense	<u>13,175</u>	<u>9,290</u>	<u>22,465</u>	<u>13,510</u>	<u>9,028</u>	<u>22,538</u>
Net Investment Income Before Security Lending Activities	<u>1,013,860</u>	<u>714,892</u>	<u>1,728,752</u>	<u>582,614</u>	<u>389,400</u>	<u>972,014</u>
Securities Lending Income (note 5)	30,765	21,693	52,458	20,111	13,441	33,552
Less Securities Lending Expenses (note 5)	<u>29,216</u>	<u>20,601</u>	<u>49,817</u>	<u>18,917</u>	<u>12,643</u>	<u>31,560</u>
Net Income from Securities Lending Activities	<u>1,549</u>	<u>1,092</u>	<u>2,641</u>	<u>1,194</u>	<u>798</u>	<u>1,992</u>
Net Investment Income	<u>1,015,409</u>	<u>715,984</u>	<u>1,731,393</u>	<u>583,808</u>	<u>390,198</u>	<u>974,006</u>
Other:						
Other	49	35	84	187	125	312
Transfer from Retiree Health Fund (note 6)	-	-	-	20,760	13,875	34,635
Total Additions	<u>1,294,020</u>	<u>912,438</u>	<u>2,206,458</u>	<u>839,664</u>	<u>561,204</u>	<u>1,400,868</u>
Deductions:						
Benefits	410,545	224,553	635,098	381,672	210,613	592,285
Refunds of Contributions	8,575	6,046	14,621	8,429	5,634	14,063
Administrative	3,663	2,583	6,246	3,477	2,324	5,801
Total Deductions	<u>422,783</u>	<u>233,182</u>	<u>655,965</u>	<u>393,578</u>	<u>218,571</u>	<u>612,149</u>
Net Increase	871,237	679,256	1,550,493	446,086	342,633	788,719
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:						
Balance, Beginning of Year	<u>6,568,150</u>	<u>2,811,321</u>	<u>9,379,471</u>	<u>6,122,064</u>	<u>2,468,688</u>	<u>8,590,752</u>
Balance, End of Year	<u>\$7,439,387</u>	<u>3,490,577</u>	<u>10,929,964</u>	<u>6,568,150</u>	<u>2,811,321</u>	<u>9,379,471</u>

See accompanying notes to financial statements.

(continued)

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	Defined Contribution 2007		
	Participant Directed	Occupational Death and Disability	Total
Additions:			
Contributions:			
Employers	3,413	181	3,594
Plan Members	5,175	-	5,175
State of Alaska	-	-	-
Total contributions	<u>8,588</u>	<u>181</u>	<u>8,769</u>
Investment Income:			
Net Appreciation in Fair Value (note 3)	-	4	4
Interest	359	1	360
Dividends	-	-	-
Net Mortgage Loan Recovery	-	-	-
Total Investment Income	<u>359</u>	<u>5</u>	<u>364</u>
Less Investment Expense	-	-	-
Net Investment Income Before Security Lending Activities	<u>359</u>	<u>5</u>	<u>364</u>
Securities Lending Income (note 5)	-	-	-
Less Securities Lending Expenses (note 5)	-	-	-
Net Income from Securities Lending Activities	<u>-</u>	<u>-</u>	<u>-</u>
Net Investment Income	<u>359</u>	<u>5</u>	<u>364</u>
Other:			
Other	-	-	-
Transfer from Retiree Health Fund (note 6)	-	-	-
Total Additions	<u>8,947</u>	<u>186</u>	<u>9,133</u>
Deductions:			
Benefits	-	-	-
Refunds of Contributions	332	-	332
Administrative	31	-	31
Total Deductions	<u>363</u>	<u>-</u>	<u>363</u>
Net Increase	8,584	186	8,770
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:			
Balance, Beginning of Year	-	-	-
Balance, End of Year	<u>8,584</u>	<u>186</u>	<u>8,770</u>

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(1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (PERS) Defined Benefit Retirement Pension and Post Employment Healthcare Plan (DB) and Defined Contribution Retirement Pension Trust Fund (DCR). PERS is a Component Unit of the State of Alaska. The DB Plan and DCR Pension Trust Fund do not purport and do not present the net assets of the PERS as of June 30, 2007 and 2006 and the changes in net assets of the years then ended. The DCR Pension Trust Fund also consists of a Retiree Medical Fund and a Health Reimbursement Arrangement Fund, both of which are reported in separate financial statements. Members should refer to the Plan agreement for more complete information than that noted in the notes to the financial statements.

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

	<u>2007</u>	<u>2006</u>
State of Alaska	1	1
Municipalities	77	77
School districts	53	53
Other	<u>29</u>	<u>29</u>
	<u>160</u>	<u>160</u>

Inclusion in the DB Plan and DCR Pension Trust Fund 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 peace officer and firefighter employees covered by the Plans.

Defined Benefit Retirement Plan

General

The DB Plan is a defined benefit, agent, multiple employer plan within the PERS established and administered by the State of Alaska (State) to provide pension and post employment 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 DB Plan is a plan within PERS. PERS is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. The State employees who administer the DB Plan and DCR Pension

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Trust Fund participate in both. With the passing of SB141, the PERS DB Plan is closed to all new members effective July 1, 2006.

At June 30, DB Plan's membership consisted of:

	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries currently receiving benefits	22,992	21,852
Terminated plan members entitled to future benefits	<u>6,277</u>	<u>6,102</u>
Total current and future benefits	<u>29,269</u>	<u>27,954</u>
Active plan members:		
General	29,300	31,865
Peace officer and firefighter	<u>2,709</u>	<u>2,795</u>
Total active plan membership	<u>32,009</u>	<u>34,660</u>
	<u>61,278</u>	<u>62,614</u>
Active plan members:		
Vested:		
General	17,860	17,336
Peace officer and firefighter	1,898	1,815
Nonvested:		
General	11,440	14,529
Peace officer and firefighter	<u>811</u>	<u>980</u>
Total active plan membership	<u>32,009</u>	<u>34,660</u>

Pension Benefits

Members hired prior to July 1, 1986, with five or more paidup years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fiftyfive, or early retirement age, fifty. For members first hired after June 30, 1986, the normal and early retirement ages are sixty and fiftyfive, respectively. Members 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 members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the members' 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 members is equal to 2% of the member'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 21/4% of the member's average monthly compensation for the second ten years and 21/2% for all remaining years of service. For peace officer and firefighters, the benefit for years of service through a total of ten years is equal to 2% of the member's average monthly compensation and 21/2% for all remaining years of service.

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Minimum benefits for members 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 spouse consents to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The DB Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's Administrator if the funding ratio of the DB Plan meets or exceeds one hundred and five percent. 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.

Post employment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members 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. Peace officers and firefighters with 25 years of membership service also receive benefits at no premium cost.

Prior to July 1, 1997, post employment 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 selffunded and provides major medical coverage to retirees of the DB Plan. Retirees of three other State administered retirement plans also participate in the RHF. The DB Plan, along with the other participating plans, retains the risk of loss of allowable claims. The 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 general DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the DB Plan's member's salary. If an active peace officer or firefighter DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the DB Plan's 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 DB Plan's member's dependent child(ren) may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB 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 DB Plan member had lived

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and continued to work until normal retirement. If the death was from non-occupational causes, and the DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average monthly compensation at the time of death. If the DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

Active DB 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, DB Plan members must be vested to receive non-occupational disability benefits. The monthly occupational disability benefit is equal to 40% of the DB Plan's member's salary at the time of the disability. The non-occupational disability benefit is based on the DB Plan member's service and salary at the time of disability. At normal retirement age, a disabled general DB Plan member receives normal retirement benefits. A peace officer or firefighter Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

Contributions

Defined Benefit Plan Member Contributions

The DB Plan's member contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The DB Plan's member contributions are

deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the DB Plan. The DB Plan's member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and post employment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial funding method. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twentyfive year fixed period. Regulation 2AAC 35.900 Maximum Employer Contribution Rate Change, prohibits the ARMB from increasing or decreasing employer contribution rates by more than five percentage points over the rate adopted in the prior year. Regulation 2 AAC 35.900 was repealed effective July 20, 2006.

Contributions from the State of Alaska

Senate Bill 53, passed by the twenty-fifty Alaska State Legislature, appropriated \$185 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the public employee's retirement plan as partial payment of the participating public employee's retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to set the effective employer contribution rate of all public employee's retirement plan employers for the fiscal year ending June 30, 2008, at the lower of the level percentage of pay rate approved by the ARMB or 22.00% but not lower than 14.48%.

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Senate Bill 231, passed by the first special session of the twentyfourth Alaska State Legislature, appropriated \$18.6 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2007.

Senate Bill 46, passed by the first special session of the twentyfourth Alaska State Legislature, appropriated \$18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including post employment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating DB Plan

employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan' membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Administrative Costs

Administrative costs are financed through investment earnings.

Due from (to) State of Alaska General Fund

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

Defined Contribution Retirement Pension Trust Fund

General

The DCR Pension Trust Fund is a defined contribution, agent, multiple employer public employee retirement plan established and administered by the State of Alaska (State) to provide pension and post employment 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 DCR Pension Trust Fund was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

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At June 30, DCR Pension Trust Fund membership consisted of:

	<u>2007</u>
Retirees and beneficiaries currently receiving benefits	—
Terminated plan members entitled to future benefits:	
25% Vested	-
50% Vested	7
75% Vested	5
100% Vested	<u>6</u>
Total terminated plan members entitled to future benefits	<u>18</u>
Total current and future benefits	<u>18</u>
Active plan members:	
General	2,678
Peace officer and firefighter	<u>166</u>
Total active members	<u>2,844</u>
Active plan members:	
Vested General:	
25% Vested	4
50% Vested	5
75% Vested	4
100% Vested	<u>6</u>
Total vested general	<u>19</u>
Vested peace officer and firefighter	
25% Vested	-
50% Vested	-
75% Vested	-
100% Vested	<u>-</u>
Total vested peace officer and firefighter	<u>-</u>
Nonvested:	
General	2,659
Peace officer and firefighter	<u>166</u>
Total nonvested general and peace officer and firefighter	<u>2,825</u>
Total	<u>2,862</u>

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Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

Post employment Healthcare Benefits

Major medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

Death Benefits

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

Disability Benefits

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

Contributions

DCR Pension Trust Fund Member Contributions

Contribution rates are 8.0% for DCR Pension Trust Fund members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual

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account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 5.0% of the member's compensation.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds. Investment options are disclosed in note 3.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lumpsum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment. Distributions that are being paid to a member may not be affected by the member's subsequent reemployment with the employer. Upon reemployment, a new individual account shall be established for the member to whom any future contributions shall be allocated.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The 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. 43

The DB Plan and DCR Pension Trust Fund follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

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During the fiscal year, the DB Plan adopted GASB Statement No. 43, *Financial Reporting for Post employment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Post-employment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting or Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

Investments

Investments are carried at fair value in accordance with GASB 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 are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the exdividend 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 deductions consist of those administrative deductions directly related to the Plan's investment operations.

In fiscal year 2005, GASB Statement No. 40, *Deposits and Investment Risk Disclosures* (GASB 40) was implemented. GASB 40 addresses disclosures on deposits and invest-

ments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

Basis of Accounting

The schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net withdrawals represent contributions from employers and members, net of benefits paid to DB and DCR Pension Trust

Fund members as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Valuation

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 most current sale price or based on a valuation provided by investment managers.

Domestic and international equity securities are valued each business day using prices obtained from pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to

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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 investments in the other investments pool are 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 at least once every three years, in conjunction with the properties purchase anniversary date, by independent 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 mid point 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, 2007 and 2006, the allowance for loan loss totaled \$5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

ERISA commingled and mutual funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price on their principal exchange on valuation date, or official close for certain markets. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at fair value as determined in good faith by the Trustee.

Collective investment funds are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plans. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Pooled investment funds, held in trust, are stated at fair valued based on the unit value as reported by the Trustees multiplied by the number of units held by the Plans. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Income Allocation

Income in the fixed income and domestic and international equity pools is allocated to pool participants daily on a pro rata basis.

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

Income for the ERISA commingled and mutual funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Income for the pooled investment and collective investment funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Contributions Receivable

Contributions from the DB Plan and DCR Pension Trust Fund 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 DB Plan and DCR Pension Trust Fund are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the DB Plan and DCR Pension Trust Fund investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that invest-

ments 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 ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Additionally, Treasury manages mix of ERISA Commingled, Collective Investment, and Mutual Funds for the Defined Contribution Plan, which includes the Occupational Death and Disability benefits. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Securities Lending Collateral, Collective Investment Pools, ERISA Commingled and Mutual Funds, External Domestic Fixed Income Pool, International Fixed Income Pool, High Yield Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Other Investments Pool and, with the exception of real estate investment trust holdings the Real Estate Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, Short-term Fixed Income Pool, real estate investment trust holding and cash holding of certain external managers in addition to acting as oversight manager for all externally managed investments.

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Short-Term Fixed Income Pool

Both the DB Plan and DCR Pension Trust Fund's invested assets include participation in the State's internally managed shortterm 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 member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2007 and 2006, the Plan had a 0.55% and 0.38% direct ownership in the shortterm fixed income pool which included interest receivable of \$26,850 and \$21,543, respectively. The Plan had a 9.15% and 9.28% indirect ownership in the shortterm fixed income pool at June 30, 2007 and 2006, respectively.

DB Plan Pools

Enhanced Cash Fixed Income Pool

The DB Plan participates in the State's internally managed enhanced cash fixed income pool which was established on June 27, 2007 with a startup price of \$1,000. The share price at June 30, 2007 was \$1,000. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At year end only one pool, the domestic fixed income pool was invested in the enhanced cash fixed income pool. At June 30, 2007 the DB Plan's invested assets included a 68.76% direct ownership in the enhanced cash fixed income pool.

Domestic Fixed Income Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan's invested assets included a 68.50% and 68.04% ownership in the retirement fixed income pool, respectively.

International Fixed Income Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,826. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan had a 68.50% and 68.29% ownership in the international fixed income pool, respectively.

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High Yield Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,189. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan had a 68.76% and 68.22% ownership in the high yield pool, respectively.

Domestic Equity Pool

The domestic equity pool is comprised of an external large cap domestic equity pool and external small cap domestic equity pool.

Large Cap Domestic Equity Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan had a 68.65% and 68.13% ownership in the large cap domestic equity pool, respectively.

Small Cap Domestic Equity Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,375. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan had a 69.15% and 68.14% ownership in the small cap domestic equity pool, respectively.

International Equity Pool

The DB Plan participates in the ARMB'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, 2007, was \$4,301. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing

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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, 2007 and 2006, the DB Plan had a 68.64% and 68.50% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The DB Plan participates in the ARMB'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, 2007, was \$3,870. 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 member. 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, 2007 and 2006, the DB Plan had a 68.76% and 65.00% ownership in the emerging markets equity pool, respectively.

Private Equity Pool

The DB Plan participates in the ARMB'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,

2007, was \$2,214. 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 member. 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, 2007 and 2006, the DB Plan had a 69.04% and 68.62% ownership in the private equity pool, respectively.

Absolute Return Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,248. 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 shares held by each member. 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, 2007 and 2006, the DB Plan had a 68.74% and 68.21% ownership in the absolute return pool, respectively.

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Other Investments Pool

The DB Plan participates in the ARMB'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, 2007, was \$1,286. 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 member. 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, 2007 and 2006, the DB Plan had a 69.15% and 68.62% ownership in the other investments pool, respectively.

Real Estate Pool

The DB Plan participates in the ARMB'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, 2007, was \$3,006. 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 determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. 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, 2007 and 2006, the DB Plan had a 68.47% and 68.17% ownership in the real estate pool, respectively.

Participant – Directed DCR Pension Trust Fund Investments

Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate 4 participant-directed funds.

T. Rowe Alaska Balanced Fund

On July 1, 2006 the DCR Pension Trust Fund began participation in the Alaska Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2007 the DCR Pension Trust Fund invested assets included a .01% ownership in the Alaska Balanced Trust.

T. Rowe Long-Term Balanced Fund

On July 1, 2006 the DCR Pension Trust Fund began participation in the Long-Term Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money

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market instruments for investors with an average risk tolerance. At June 30, 2007 the DCR Pension Trust Fund invested assets included a .01% ownership in the Long-Term Balanced Trust.

T. Rowe Alaska Money Market Fund

On July 1, 2006 the DCR Pension Trust Fund began participation in the Alaska Money Market Trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by

US Treasury Instruments with the goal of maintaining a \$1.00 unit price. At June 30, 2007 the DCR Pension Trust Fund invested assets included an 83.58% ownership in the Alaska Money Market Trust

T. Rowe Alaska Target 2025 Fund

On July 1, 2006 the DCR Pension Trust Fund began participation in the Target 2025 Trust. The purpose of this fund is to provide a diverse mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. Underlying investments are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, and money market instruments. At June 30, 2007 the DCR Pension Trust Fund invested assets included a .15% ownership in the Alaska Target 2025 Trust.

Erisa Commingled and Mutual Funds

The ARMB contracts with external investment managers who maintain ERISA Commingled and Mutual Funds. Managers selected are subject to the provision of the ERISA Commingled and Mutual Funds the Board has selected.

SSGA Domestic Large Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSGA Domestic Small Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding securities, and trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSGA International Equity

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own the Index securities in market-weighted proportion.

SSGA Domestic Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The

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Passive Bond Market Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based upon criteria generated by SSGA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

SSGA International Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The Passive World Government Bond Ex-US Index Strategy seeks to replicate

the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and the sector of the Index.

SSGA Treasury Inflation Protection Securities (TIPS)

The U.S. Treasury Inflation Protected Securities Index Strategy seeks to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

SSGA Real Estate

The REIT Index Strategy seeks to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. To accomplish this, SSGA's strategy is to buy and hold securities, trading only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

Lazard Emerging Markets Equity Fund

The purpose of this fund is to meet or exceed the MSCI Emerging Markets Index by 3% per annum over a rolling five-year period. Underlying investments are comprised of domestic and global equities as well as alternative assets.

Collective Investment Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Managers selected are subject to the provisions of the collective investment fund the Board has selected.

SSGA Government/Corporate

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index

SSGA S&P Stock Index Fund

The purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's Composite Stock Price Index

Global Balanced Fund

This fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

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Brandes Institutional International Equity Fund

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Citizens Core Growth Fund

This fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner

T. Rowe Small Cap Stock Fund

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

Money Market Fund

Consists of nonparticipant directed funds used to pay administrative costs of the plan.

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At June 30, 2007, the DB Plan and DCR Pension Trust Fund's investments included the following:

	Fair value (In thousands)					Defined Contribution Pension Trust Fund		Total
	Defined Benefit Plan Fixed Income Pools					Pooled Investment		
	Short-term	Enhanced cash	Domestic	Intern'l	High yield	Funds	Other	
Deposits	\$ -	-	-	842	-	(1)	48,540	\$49,381
Overnight sweep account	2,319	-	-	-	11,801	-	-	14,120
Money market fund	-	-	-	-	-	-	1,191,209	1,191,209
Short-term investment fund	15,092	-	-	716	-	-	-	15,808
Commercial paper	33,429	-	2,238	-	3,419	41	-	39,127
Domestic Equity	-	-	-	-	-	45	-	45
International Equity	-	-	-	-	-	3	-	3
Collective Investment Funds	-	-	-	-	-	-	7,100	7,100
U. S. Treasury bills	-	-	-	-	-	-	3,757	3,757
U. S. Treasury notes	-	-	211,629	-	-	13	-	211,642
U. S. Treasury strips	-	-	171	-	-	-	-	171
U. S. Treasury bonds	-	-	94,840	-	-	-	-	94,840
U.S. Treasury - TIPS	-	-	-	-	-	-	-	-
U.S. Government agency discount notes	-	-	132,603	-	-	-	-	132,603
U.S. Government agency	-	-	845	-	-	1	-	846
Municipal bonds	-	-	1,269	-	-	-	-	1,269
Foreign government bonds	-	-	-	121,311	-	-	-	121,311
Mortgage-backed	25,827	-	1,092,721	-	-	21	-	1,118,569
Other asset-backed	185,578	1,250	124,587	-	459	-	-	311,874
Corporate bonds	96,222	1,749	350,802	75,586	155,141	19	-	679,519
Convertible bonds	-	-	-	-	2,909	-	-	2,909
Yankees:								
Government	-	-	10,921	-	-	1	-	10,922
Corporate	20,296	-	39,010	-	15,136	1	-	74,443
Fixed income pools:								
Equity	-	-	-	-	1,623	-	-	1,623
Domestic equity pool:								
Limited partnership	-	-	-	-	-	-	325,064	325,064
Equity	-	-	-	-	-	-	3,561,923	3,561,923
International Equity Pool:								
Equity	-	-	-	-	-	-	1,796,404	1,796,404
Emerging markets equity pool	-	-	-	-	-	-	283,924	283,924
Private equity pool:								
Limited partnerships	-	-	-	-	-	-	729,171	729,171
Absolute return pool:								
Limited partnerships	-	-	-	-	-	-	423,103	423,103
Other investments pool:								
Limited partnerships	-	-	-	-	-	-	52,291	52,291
Agricultural holdings	-	-	-	-	-	-	75,503	75,503
Real estate pool:								
Real estate	-	-	-	-	-	-	382,579	382,579
Commingled funds	-	-	-	-	-	-	221,159	221,159
Limited partnerships	-	-	-	-	-	-	519,634	519,634
Real estate investment trusts	-	-	-	-	-	-	62,416	62,416
DCR ERISA commingled funds	-	-	-	-	-	-	155	155
Net other assets (liabilities)	(1,693)	(530)	(417,494)	3,227	2,869	-	8,042	(408,444)
Other pool ownership	(356,318)	(2,469)	300,732	-	-	-	58,055	-
Unallocated deposits in transit	-	-	-	-	-	-	93	93
Total invested assets	<u>\$ 20,752</u>	<u>-</u>	<u>1,944,874</u>	<u>201,682</u>	<u>193,357</u>	<u>144</u>	<u>9,750,122</u>	<u>12,110,930</u>

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	Fair value (In thousands)					Total
	Short-term	Fixed Income Pools		High yield	Other	
		Domestic	International			
Deposits	\$ -	-	-	-	3,425	3,425
Overnight sweep account	425	734	-	12,431	-	13,590
Money market fund	-	-	-	-	929,519	929,519
Short-term investment fund	10,472	-	1,188	-	21,597	33,257
Commercial paper	21,002	6,800	-	-	-	27,802
U. S. Treasury notes	-	111,417	-	-	-	111,417
U. S. Treasury bonds	-	119,347	-	-	-	119,347
U. S. Treasury strips	-	11,488	-	-	-	11,488
U.S. Government agency discount notes	-	96,151	-	-	-	96,151
U.S. Government agency	-	175,690	-	-	-	175,690
Municipal bonds	-	1,415	-	-	-	1,415
Foreign government bonds	-	-	111,744	-	-	111,744
Mortgage-backed	18,079	961,003	-	-	-	979,082
Other asset-backed	125,717	118,192	-	250	-	244,159
Corporate bonds	65,044	419,280	76,247	125,017	-	685,588
Convertible bonds	-	-	-	2,720	-	2,750
Yankees:						
Government	-	15,603	-	-	-	15,603
Corporate	2,669	1,360	-	4,662	-	8,691
Fixed income pools:						
Equity	-	-	-	38	-	38
Domestic equity pool:						
Limited partnership	-	-	-	-	200,597	200,597
Equity	-	-	-	-	3,339,373	3,339,373
International equity pool:						
Convertible bonds	-	-	-	-	1,404,660	1,404,660
Emerging markets equity pool	-	-	-	-	180,324	180,324
Private equity pool:						
Limited partnerships	-	-	-	-	565,343	565,343
Absolute return pool:						
Limited partnerships	-	-	-	-	239,130	239,130
Other investments pool:						
Limited partnerships	-	-	-	-	27,598	27,598
Agricultural holdings	-	-	-	-	43,435	43,435
Real estate pool:						
Real estate	-	-	-	-	533,531	533,531
Commingled funds	-	-	-	-	190,943	190,943
Limited partnerships	-	-	-	-	147,192	147,192
Real estate investment trusts	-	-	-	-	68,333	68,333
Mortgages	-	-	-	-	2	2
Net other assets (liabilities)	(137)	(222,473)	7,148	1,178	5,280	(209,004)
Other pool ownership	(242,711)	210,049	-	-	32,662	-
Total invested assets	\$ 560	2,026,056	196,327	146,296	7,932,944	10,302,183

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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 twelvemonth prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the enhanced cash income portfolio to one year.

Through the ARMB'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 $\pm 20\%$ of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2007, was 4.70 years.

Through the ARMB'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 $\pm 25\%$ of the Citigroup NonU.S. World Government Bond Index. The effective duration for the Citigroup NonU.S. World Government Bond Index at June 30, 2007, was 6.00 years.

Through the ARMB'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 $\pm 20\%$ 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, 2007, was 4.59 years.

Defined Contribution Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At June 30, 2007, the duration of the government and corporate debt securities was 5.12 years and the duration of the Lehman Brothers Government Credit Index was 5.01 years.

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For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2007, the duration of the mortgage-backed securities was 4.29 years and the duration of the Lehman GNMA Index 4.31 years.

The weighted average maturity of the money market portfolio was fifty-three days at June 30, 2007.

The ARMB does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

ERISA Commingled and Mutual Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA commingled investment funds that consists solely of debt securities, domestic fixed income, international fixed income, and TIPS were 4.70, 6.16, and 7.80 years at June 30, 2007, respectively.

Collective Investment Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the collective investment fund that consisted solely of debt securities, the government/corporate bond fund, was 5.33 years at June 30, 2007.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100basis 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, 2007, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (In years)			
	Enhanced Cash	Domestic	International	High Yield
U.S. Treasury notes	—	4.07	—	—
U.S. Government agency	—	4.52	—	—
Municipal bonds	—	12.33	—	—
Mortgage-backed	—	4.26	—	—
Other asset-backed	1.84	4.82	—	4.39
Corporate bonds	0.22	5.36	3.80	4.21
Convertible bonds	—	—	—	2.20
Yankees:				
Government	—	6.46	—	—
Corporate	—	11.03	8.86	3.88
Portfolio effective duration	0.08	3.99	4.81	3.82

Credit Risk

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

The ARMB does not have a policy to limit the concentration of credit risk for the collective investment, ERISA commingled, and mutual funds.

The DCR Pension Trust Fund's invested assets in externally managed pools may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counter party to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

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

With the exception of the sweep account, shortterm fixed income pool investments are limited to instruments with a longterm credit rating of at least A3 or equivalent and instruments with a shortterm credit rating of at least A1 or equivalent. For securities with longterm credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Assetbacked and non-agency 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.

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The ARMB'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, assetbacked 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. Assetbacked and non-agency 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.

Enhanced Cash Fixed Income:

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

No more than five percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than two percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

International fixed income:

Corporate debt and assetbacked 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.

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, the ARMB does not consider this investment subject to the credit risk limitations above.

Defined Contribution Pooled Investments Funds:

All government and corporate fixed income securities must be rated BBB or better at the time of purchase

All mortgage-backed securities must be issued by the Government National Mortgage Association and

Commercial paper and other short-term debt obligations must be rated A1 or equivalent

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Defined Benefit						
Internally managed fixed income pools						
	Rating¹	Short-term	Enhanced cash	Domestic	Inter-national	High yield
Overnight sweep account	Not Rated	0.61%	-%	-%	-%	6.10%
Money market fund	Not Rated	-	-	-	-	-
Short-term investment account	Not Rated	3.96	-	-	0.36	-
Commercial paper	AA	1.88	-	-	-	-
Commercial paper	A	3.09	-	-	-	1.77
Commercial paper	Not Rated	3.86	-	0.14	-	-
U. S. government agency discount notes	Not Rated	-	-	8.07	-	-
U. S. government agency	AAA	-	-	-	-	-
U. S. government agency	Not Rated	-	-	0.05	-	-
Mortgage-backed	AAA	6.50	-	51.10	-	-
Mortgage-backed	A	0.32	-	-	-	-
Mortgage-backed (agency)	Not Rated	-	-	15.36	-	-
Other asset-backed	AAA	40.98	2.65	5.14	-	-
Other asset-backed	AA	0.91	-	0.27	-	-
Other asset-backed	A	6.34	-	0.09	-	-
Other asset-backed	BBB	-	1.00	0.74	-	-
Other asset-backed	BB	-	-	-	-	0.24
Other asset-backed	Not Rated	0.78	-	1.34	-	-
Municipal bonds	AA	-	-	0.08	-	-
Corporate bonds	AAA	1.97	-	1.89	25.92	-
Corporate bonds	AA	15.13	0.60	4.28	11.43	-
Corporate bonds	A	8.31	3.46	6.98	-	-
Corporate bonds	BBB	-	1.04	7.15	-	1.56
Corporate bonds	BB	-	-	-	-	21.55
Corporate bonds	B	-	-	-	-	41.49
Corporate bonds	CCC	-	-	-	-	11.57
Corporate bonds	D	-	-	-	-	0.48
Corporate bonds	Not Rated	-	-	1.03	0.28	3.59
Convertible bonds	BBB	-	-	-	-	0.20
Convertible bonds	BB	-	-	-	-	0.06
Convertible bonds	B	-	-	-	-	1.19
Convertible bonds	D	-	-	-	-	0.05
Yankees:						
Government	AAA-BBB	-	-	0.66	56.57	-
Government	Not Rated	-	-	-	3.83	-
Corporate	AAA	3.09	-	-	-	-
Corporate	AA	1.75	-	-	-	-
Corporate	A	-	-	1.47	-	-
Corporate	BBB	-	-	0.61	-	0.35
Corporate	BB	-	-	-	-	1.06
Corporate	B	-	-	-	-	5.88
Corporate	CCC	-	-	-	-	0.21
Corporate	Not Rated	0.52	-	0.30	-	0.32
No credit exposure		-	91.25	(6.75)	1.61	2.33
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

¹Rating modifiers are not disclosed

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	<u>Defined Contribution</u>			<u>Collective</u>
	<u>Pooled investment funds</u>			
	<u>GNMA</u>	<u>Govt/Corp</u>	<u>Money market</u>	<u>Investment funds</u>
Overnight sweep account	-%	-%	-%	-%
Money market fund	-	-	-	0.58
Short-term investment account	7.40	0.84	-	-
Commercial paper	-	-	-	-
Commercial paper	-	-	-	-
Commercial paper	-	-	6.22	-
U. S. government agency discount notes	-	-	83.66	-
U. S. government agency	-	2.42	-	-
U. S. government agency	-	-	-	-
Mortgage-backed	88.91	17.08	-	-
Mortgage-backed	-	-	-	-
Mortgage-backed (agency)	3.69	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	-	-	-	-
Other asset-backed	0.24	-	-	-
Other asset-backed	-	-	-	-
Municipal bonds	-	-	-	-
Corporate bonds	-	1.67	3.13	-
Corporate bonds	-	6.70	3.13	-
Corporate bonds	-	15.45	6.25	-
Corporate bonds	-	11.42	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Corporate bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Convertible bonds	-	-	-	-
Yankees:				
Government	-	2.85	-	-
Government	-	-	-	-
Corporate	-	0.27	-	-
Corporate	-	0.96	-	-
Corporate	-	0.91	-	-
Corporate	-	0.71	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
Corporate	-	-	-	-
No credit exposure	-	38.72	(2.39)	90.42
	<u>100.00%</u>	<u>100.00%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2007, the DB Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International equity pool	\$ <u>3,677</u>

Foreign Currency Risk

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

The ARMB'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 NonU.S. World Government Bond Index. In addition, the ARMB's asset allocation

policy permits the DB Plan to hold up to four percent of total investments in international fixed income.

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

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the DB Plan to hold up to ten percent of total investments in private equity.

The ARMB has no policy regarding foreign currency risk in the Defined Contribution Investment Trust Pool.

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At June 30, 2007, the DB Plan had exposure to foreign currency risk with the following investment pools:

Currency	Amount (In thousands)	
	Defined Benefit	
	International fixed income pool	International equity pool
Australian Dollar	\$ -	353
Canadian Dollar	-	2
Euro Currency	-	(967)
Hong Kong Dollar	-	451
Japanese Yen	257	2,406
Mexican Peso	584	-
New Zealand Dollar	-	7
Norwegian Krone	-	116
Pound Sterling	-	1,240
Singapore Dollar	-	1
Swedish Krona	-	67
Swiss Franc	-	1
	\$ 841	3,677

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At June 30, 2007, the DB Plan and DCR Pension Trust Fund had exposure to foreign currency risk with the following investments:

<u>Currency</u>	<u>Amount (In thousands)</u>				
	<u>Defined Benefit</u>			<u>Defined Contribution</u>	
	<u>Fixed income</u>			<u>Private equity pool</u>	<u>International trust pool</u>
	<u>International fixed income pool</u>		<u>International equity pool</u>		
	<u>Foreign government</u>	<u>Corporate</u>	<u>Equity</u>	<u>partnerships</u>	<u>Limited Equity</u>
Australian Dollar	\$ 4,080	1,929	40,213	-	-
Canadian Dollar	-	-	36,062	-	-
Danish Krone	-	-	2,052	-	-
Euro Currency	95,510	-	672,454	60,765	1
Hong Kong Dollar	-	-	246	-	-
Japanese Yen	17,824	73,657	3,466	-	1
Mexican Peso	3,897	-	—	-	-
New Taiwan Dollar	-	-	6,485	-	-
New Zealand Dollar	-	-	70	-	-
Norwegian Krone	-	-	133	-	-
Pound Sterling	-	-	334,160	7,104	-
Singapore Dollar	-	-	17,969	-	-
South African Rand	-	-	1,384	-	-
South Korean Won	-	-	27,069	-	-
Swedish Krona	-	-	31,346	-	-
Swiss Franc	-	-	112,797	-	-
	<u>\$ 121,311</u>	<u>75,586</u>	<u>1,285,906</u>	<u>67,869</u>	<u>2</u>

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At June 30, 2007, the DB 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

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

The ARMB'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 five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2007, the DB Plan had \$557 million in Federal National Mortgage Association securities which represented 5% of the DB Plan's total investments. Federal National Mortgage Association securities are not classified as corporate bonds.

The DB Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands) for the year ended June 30:

	<u>2007</u>	<u>2006</u>
Domestic equity pool	\$618,798	253,306
Domestic fixed income pool	16,046	(98,600)
International equity pool	356,859	319,293
Real estate pool	161,815	103,690
International fixed income pool	(3,363)	(12,328)
Private equity pool	132,696	99,185
Emerging markets equity pool	58,077	20,300
Absolute return pool	39,207	25,794
High yield pool	2,242	(3,687)
Other investments pool	<u>6,060</u>	<u>1,735</u>
	<u>\$1,388,437</u>	<u>708,688</u>

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Collective Investment Funds

The DCR Pension Trust Fund's investments include the following collective investment funds at June 30:

	<u>Units</u> <u>owned</u>	<u>2007</u> <u>Unit</u> <u>value</u>	<u>Balance</u> <u>(In thousands)</u>
Global balanced fund	\$3,486	\$35.090	\$122
Alaska balanced trust	2,169	33.828	73
Brandes INST international equity fund	75,900	26.700	2,027
Citizens core growth fund	77,076	19.150	1,476
Alaska target 2025 trust	1,011	12.649	13
S&P 500 stock index fund	63,805	28.304	1,806
Alaska long-term balanced trust	1,091	14.285	16
Daily government/corporate bond fund	92	21.757	2
T. Rowe Price small cap stock trust	36,179	46.090	1,668
Money market fund	42,155	1.000	42
Unallocated Deposits in Transit	-	-	<u>103</u>
Total collective investment funds			<u>\$7,348</u>

(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:

	<u>2007</u>	<u>2006</u>
Net realized gain on foreign currency	\$43,067,735	21,661,967
Net unrealized loss on foreign currency	(13,875)	(26,077)
Net realized gain on foreign exchange contracts	215,198	252,345

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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 twentyfour days. The DB Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	<u>2007</u>	<u>2006</u>
Net contract sales	\$1,379,172	2,976,479
Less fair value	<u>1,370,948</u>	<u>2,984,540</u>
Net unrealized gains (losses)	<u>\$ 8,224</u>	<u>(8,061)</u>

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 ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ARMB'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, 2007 and 2006, the fair value of securities on loan allocable to the DB Plan's invested assets totaled \$1,226,646,651 and \$915,963,861, respectively. There is no limit to the amount that can be loaned and the ARMB 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 in the amount of \$1,191,167,776 is invested in a registered 2(a) 7 money market fund. 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. Collateral securities in the amount of \$72,719,147 may be pledged or sold upon borrower default. Since the ARMB 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 at fair value. The Bank, the DB Plan and the borrower receive a fee from earnings on invested collateral. The Bank and the DB 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 ARMB 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 ARMB against loss due to borrower rebates in excess of earnings on cash

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collateral. Indemnifications are subject to limitations relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the years ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions and there were neither significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(6) Transfer to Retirement Systems

During fiscal year 2006, 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. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive. The result was no excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. No review or transfer occurred in fiscal year 2007.

(7) Funded Status and Funding Progress - DB Plan

The funding status of the DB Plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
June 30, 2006	\$2,709,843	11,455,015	8,745,172	23.7%	\$1,590,693	549.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	24 years
Asset valuation method	5 year smoothed market

Actuarial Assumptions

Investment rate of return 4.50%

Health cost trend –

	<u>Medical</u>	<u>Prescription Drugs</u>
FY07	9.0%	13.0%
FY08	8.5%	12.0%
FY09	8.0%	11.0%
FY10	7.5%	10.0%
FY11	7.0%	9.0%
FY12	6.5%	8.0%
FY13	6.0%	7.0%
FY14	5.5%	6.0%
FY15	5.0%	5.0%
FY16 and later	5.0%	5.0%

GASB 43 requires that the discount rate used in the actuarial valuation be the estimated long-term yield on investments that are expected to finance post employment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

PERS' retiree healthcare benefits are partially funded. GASB 43 outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of annual required contributions actually being contributed to the plan. The State of

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Alaska has utilized the second methodology to develop a discount rate of 4.50% as of June 30, 2006 to be used for fiscal year 2007 disclosure.

(8) Commitments and Contingencies

Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, the DB Plan's share of the unfunded commitment totaled \$8,892,586. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB 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, 2007, the DB Plan's share of these unfunded commitments totaled \$495,067,445. These commitments are estimated to be paid through 2014.

The ARMB 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, 2007, the DB Plan's share of this unfunded commitment totaled \$62,924,790 to be paid through the year 2017.

The ARMB 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, 2007, the DB Plan's share of these unfunded commitments totaled \$318,407,443 to be paid through the year 2011.

Contingencies

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the fiscal year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT will be funded through contributions from employers and premiums paid by retirees.

The Department of Administration intends to seek a tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009, concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). The Department of Administration also intends to seek private letter rulings regarding the status of the ARHCT. Finally, The Department of Administration intends to seek rulings and/or guidance from the Internal Revenue Service with respect to the prior structure of the Defined Benefit Retiree Health Program. As a result, invested assets may need to be reallocated between net assets available for pension benefits and net assets available for retiree health

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benefits, which could require a transfer of assets included in the accompanying schedule of invested assets into the ARHCT. At this time, The Department of Administration is unable to predict the exact timing of the making of its intended filing with the Internal Revenue Service, the timing of any guidance that may be obtained from the Internal Revenue Service, the results or impact of such guidance on the statements of invested assets and changes therein, or the amount of a transfer, if any to the ARHCT.

Approximately 50 Plan members have filed administrative challenges to the DB Plan administrator's refusal to include leave cashin payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cashin payments included. The DB Plan's prior board, which heard appeals from decisions of the Plan administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the State's favor. The administrator intends to vigorously contest all of the remaining claims and believes that the State's success to date will result in dismissal of the remaining cases and pending claims. The Plan has not recorded an accrual related to any of these cases or pending claims, 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 State was a defendant in a class action lawsuit involving a constitutional challenge to DB 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 claimed 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. On summary judgment motions, the Superior Court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the Superior Court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State appealed to the Alaska Supreme Court. The Superior Court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. On December 29, 2006, the State received a favorable ruling from the Alaska Supreme Court that reversed the Superior Court's ruling against the plaintiffs on the issue.

An IRS assessment may eventually result from the statutory provision and the Plan's practice under which retiree medical benefits were paid to some survivors' spouses and dependents who were not eligible dependents under the IRC, or from the manner in which retiree health benefits

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were funded before June 6, 2007. However, management believes that any such assessment would be paid from the State's general fund, not from the Plan's assets. Furthermore, the Plan's statutes under which payment of medical benefits was made for ineligible dependents was corrected by SB 141, effective January 1, 2006, and the funding of retiree medical benefits was clarified and corrected by SB 123, which was effective June 6, 2007. Finally, although there were press reports of possible legal action regarding amendments to the PERS and TRS statutes by HB 161 (rehired retiree legislation), no litigation has been served on the Plan challenging provisions of that legislation. Management is not aware of any other specific unasserted claims or assessments against the Plan.

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2007
(Dollars in thousands)

<u>Actuarial Valuation Date as of June 30</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Funded Excess (FE) (Unfunded Actuarial Accrued Liabilities) (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>FE/(UAAL) as a Percentage of Covered Payroll</u>
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)
2004	4,709,592	6,711,507	(2,001,915)	70.2	1,305,670	(153.3)
2005	4,658,413	7,087,191	(2,428,778)	65.7	1,404,043	(173.0)
2006	6,331,065	8,094,043	(1,762,978)	78.2	1,590,693	(110.8)

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

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2007
(Dollars in thousands)

<u>Actuarial Valuation Date as of June 30</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Funding Excess (FE) (Unfunded Actuarial Accrued Liabilities) (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>FE/(UAAL) as a Percentage of Covered Payroll</u>
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)
2004	3,320,822	4,732,409	(1,411,587)	70.2	1,305,670	(108.1)
2005	3,784,506	5,757,650	(1,973,144)	65.7	1,404,043	(140.5)
2006	2,709,843	11,455,015	(8,745,172)	23.7	1,590,693	(549.8)

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

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Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers and the State of Alaska
Pension and Postemployment Healthcare Benefits

June 30, 2007
(Dollars in thousands)

Year Ended June 30	Actuarial Valuation Date as of June 30 ⁽¹⁾	Annual Required Contribution			Pension Percentage Contributed		Post-employment Healthcare Percentage Contributed		Total Percentage Contributed (note 3)
		Pension	Post-employment Healthcare	Total	by Employer (note 3)	by State of Alaska (note 3)	by Employer (note 3)	by State of Alaska (note 3)	
2002	1999	\$ 65,485	26,613	92,098	102.9%	-%	102.9%	-%	102.9%
2003	2000	63,283	26,651	89,934	110.3	-	110.3	-	110.3
2004	2001	74,178	31,407	105,585	100.0	-	100.0	-	100.0
2005	2002	234,361	142,393	376,754	47.3	-	47.3	-	47.3
2006	2003	249,488	166,749	416,237	61.0	4.4	61.0	4.4	65.4
2007	2005	268,742	189,495	458,237	73.2	4.1	73.2	4.1	77.3

⁽¹⁾ Actuarial valuation related to annual required contribution for fiscal year.

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

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(1) Description of Schedule of Funding Progress

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

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

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2006 are as follows:

- (a) Actuarial cost method – entry age, unfunded actuarial accrued liability or funding excess amortized over a fixed 25-year period as a level percentage of expected payroll.
- (b) Valuation of assets – recognizes 20% of the investment gain or loss 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 are constrained to a range of 80% to 120% of the market value of assets.
- (c) Valuation of medical and prescription drug benefits – base claims cost rates are incurred healthcare cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility of free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes 7.5% of the current retiree population does not receive Part A coverage.
- (d) Investment return/Discount Rate – 8.25% per year, compounded annually, net of expenses.
- (e) Salary scale – inflation 3.5% per year. Peace Officer/Firefighter - Merit 2.5% per year for the first 6 years of employment, 0.5% thereafter. Productivity 0.5% per year. Others: Merit – 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%. Productivity – 0.5% per year.
- (f) Payroll Growth – 4.0% per year.
- (g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

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- (h) Mortality (Pre-retirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Others: based upon the 2001-2005 actual experience. 42% of 1994 Group Annuity Table 1994 Base Year for males and females. Deaths are assumed to be occupation 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.
- (i) Mortality (Post-retirement) – 1994 Group Annuity Table Base Year for males and females, 1994 Base year.
- (j) Turnover – based upon the 2001–2005 actual withdrawal experience.
- (k) Disability – incidence rates based upon the 2001–2005 actual experience. Post-disability mortality in accordance with the 1974 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 75% of the time for Peace Officers/Firefighters, 50% of the time for Others.
- (l) Retirement – retirement rates based on the 2001–2005 actual experience. Deferred vested members are assumed to retire at their earliest retirement date.
- (m) Marriage and age difference – wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.
- (n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
- (o) Contribution refunds – 15% of those terminating are assumed to have their contributions refunded.
- (p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
- (q) Post-Retirement Pension Adjustment (PRPA) – 50% and 75% of assumed inflation, of 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute.
- (r) Expenses – all expenses are included in the investment return assumption.
- (s) Part-time status – part-time members are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighters and 0.65 years for credited service per year for Other members.
- (t) Per capita claims cost – sample claims cost rates for FY07 medical benefits are shown below:

	Medical	Prescription Drugs
Total	\$ 9,095	\$ 2,414
Medicare Part A & B	\$ 8,133	N/A
Medicare Part B Only	\$ 7,171	N/A
Medicare Part D	N/A	\$ 516

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(u) Health cost trend –

<u>Fiscal year</u>	<u>Medical</u>	<u>Prescription</u>
2007	9.0%	13.0%
2008	8.5	12.0
2009	8.0	11.0
2010	7.5	10.0
2011	7.0	9.0
2012	6.5	8.0
2013	6.0	7.0
2014	5.5	6.0
2015	5.0	5.0
2016 and later	5.0	5.0

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as of the 2005 valuation.

(v) Aging Factors –

<u>Age</u>	<u>Medical</u>	<u>Prescription Drugs</u>
0-44	2.0%	4.5%
45-54	2.5%	3.5%
55-64	3.5%	3.0%
65-74	4.0%	1.5%
75-84	1.5%	0.5%
85+	0.5%	0.0%

(w) Retired member contributions for medical Benefits—currently contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for Peace Officer/ Firefighter). Eligible Tier 1 members are exempt from contribution re-

quirements. Annual FY07 contributions based on monthly rates shown below for calendar 2006 and 2007 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service:

<u>Coverage Category</u>	<u>FY07 Annual Contribution</u>	<u>Calendar 2007 Monthly Contribution</u>	<u>Calendar 2006 Monthly Contribution</u>
Retiree Only	\$ 7,080	\$ 590	\$ 590
Retiree and Spouse	\$14,148	\$1,179	\$1,179
Retiree and Child(ren)	\$ 9,996	\$ 883	\$ 883
Retiree and Family	\$17,076	\$1,423	\$1,423
Composite	\$10,512	\$ 876	\$ 876

(x) Trend Rate for Retired Member Contributions –

FY08	8.0%
FY09	7.7%
FY10	7.3%
FY11	7.0%
FY12	6.7%
FY13	6.3%
FY14	6.0%
FY15	5.7%
FY16	5.3%
FY17 and later	5.0%

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new assumptions above for the contribution trends. Note that actual FY07 retired member medical contributions are

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June 30, 2007

reflected in the valuation so trend on such contribution during FY07 is not applicable.

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.

Effective June 30, 2006, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The ARMB adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed of the population experience from June 30, 2001 through June 30, 2005. The changes in assumptions were adopted by the ARMB during the October 2006 ARMB meeting.

Changes in Assumptions since the Last Valuation

- (a) Salary scale – Other: based on actual experience from 2001 to 2005. Peace Officer/Firefighter: rates are increased for the first 6 years. Based on actual experience 2001 to 2005.
- (b) Payroll Growth – 4.0%
- (c) Pre-retirement mortality – Peace Officers/Firefighter: no change. Others: 42.0% of the 1994 GAM table, 1994 base year.
- (d) Turnover – rates adjusted based on actual experience from 2001 to 2005.
- (e) Disability – Peace Officer/Firefighter: no change. Others: male/female rates increased by 5% based on actual experience from 2001 to 2005.
- (f) Retirement – rates adjusted based on actual experience from 2001 to 2005.
- (g) Marriage and age difference – male 80% married, female 70% married, and males 3 years older.
- (h) Dependent children – married members have two dependent children from age 25 through 45.
- (i) Contribution refunds – 15% for all ages and vested status.
- (j) COLA – of all benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive COLA.
- (k) Part-time status – part-time employees are assumed to earn 0.65 years of credited service per year. All Peace Officer/Firefighters are assumed to be full-time.
- (l) Occupational death and disability – other 50% and Peace Officers/Firefighters 75%.
- (m) Healthcare – included effect of Medicare Part A & B vs. Medicare Part B only. Active employees hired after April 1, 1986 are assumed to be covered by Medicare Parts A& B. 7.5% of current retirees are assumed to be covered by Part B only. Changed the assumed lag between medical claims incurred and paid dates from 3 months to 2 lag months. Changed trend rate table for retiree medical contributions to start at 8.0% and grade down to 5.0%.

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2007
with Summarized Financial Information for 2006
(In thousands)

	Administrative	Investment	Totals	
			2007	2006
Personal Services:				
Wages	\$ 2,101	1,174	3,275	2,927
Benefits	<u>1,548</u>	<u>539</u>	<u>2,087</u>	<u>1,500</u>
Total Personal Services	<u>3,649</u>	<u>1,713</u>	<u>5,362</u>	<u>4,427</u>
Travel:				
Transportation	35	77	112	121
Per Diem	8	11	19	15
Honorarium	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>
Total Travel	<u>43</u>	<u>88</u>	<u>131</u>	<u>144</u>
Contractual Services:				
Management and Consulting	521	19,122	19,643	20,504
Accounting and Auditing	31	912	943	946
Data Processing	380	304	684	744
Communications	211	43	254	172
Advertising and Printing	111	3	114	100
Rental/leases	164	45	209	202
Legal	648	94	742	493
Medical Specialists	29	-	29	12
Repairs and Maintenance	6	11	17	65
Transportation	3	3	6	6
Securities Lending	-	49,817	49,817	31,560
Other Services	<u>284</u>	<u>33</u>	<u>317</u>	<u>255</u>
Total Contractual Services	<u>2,388</u>	<u>70,387</u>	<u>72,775</u>	<u>55,059</u>
Other:				
Equipment	78	15	93	163
Supplies	<u>88</u>	<u>77</u>	<u>165</u>	<u>106</u>
Total Other	<u>166</u>	<u>92</u>	<u>258</u>	<u>269</u>
Total Administrative and Investment Deductions	<u>\$ 6,246</u>	<u>72,280</u>	<u>78,526</u>	<u>59,899</u>

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Defined Benefit Retirement Pension and
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Defined Contribution Retirement Pension Trust Fund
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants
Other than Investment Advisors

Years ended June 30, 2007 and 2006
(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2007</u>	<u>2006</u>
State Street Corporation	Custodian Banking Services	\$ 897	1,319
Deloitte and Touche LLP	Benefits Consultation	15	24
Buck Consultant LLP	Actuarial Services	370	256
Mercer Human Resource Consulting	Actuarial Services	-	190
Systems Central Services, Inc.	Data Processing Consultants	216	237
Wostmann & Associates	Data Processing Consultants	26	130
State of Alaska, Department of Law	Legal Services	406	307
First National Bank Alaska	Banking Services	40	20
KPMG LLP	Auditing Services	25	21
		<u>\$ 1,995</u>	<u>2,504</u>

See accompanying independent auditors' report.



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INVESTMENT SECTION



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CALLAN ASSOCIATES^{INC.}



October 15, 2007

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Alaska Retirement Management Board
State of Alaska, Department of Revenue
Treasury Division
333 Willoughby Avenue, 11th Floor
Juneau, AK 99801

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2007.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. Callan Associates Inc. serves as ARMB's independent general investment consultant and evaluates the Board's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made in compliance with Global Investment Performance Standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, the ARMB periodically evaluates liabilities, expected contributions, and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential and acceptable risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

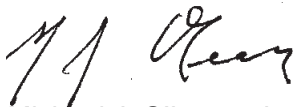
Fiscal year 2007 was an excellent year for domestic equities and even better performance for international stocks. The Russell 3000 Index, a measure of the broad U.S. equity market achieved a strong return of 20.07%. International stocks, as measured by the MSCI-EAFE Index, posted an exceptional overall return of 27.00%. Interest rates declined thereby raising bond prices and performance. The Lehman Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, achieved an overall return of 6.12%. Equity real estate enjoyed another strong year with returns of more than 17%.

For the fiscal year, the Public Employees Retirement System (PERS) had a time-weighted total return of 18.88% and the Teachers Retirement System (TRS) had a time-weighted total return of 18.92%. Both Systems exceeded their strategic policy benchmark target return of 16.99% and ranked in the 9th percentile of Callan's Public Fund database. The policy benchmark was largely unchanged during the year. Over the trailing 3-year period, a span that includes three years of strong equity market and real estate returns, PERS and TRS have achieved annualized returns of 13.11% and 13.16% respectively. These results were better than the policy target index return of 12.17% and ranked in the 34th and 37th percentile of the Callan Public Fund database. Over the longest period for which Callan has detailed data (15 ³/₄ years), PERS and TRS have achieved annualized total returns of 9.50% and 9.56% respectively while the policy benchmark return for the same span was 9.32%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a "real" return slightly greater than 5%.

In summary, fiscal 2007 was an unusually strong year during which the Systems participated fully in robust global financial markets.

Sincerely,



Michael J. O'Leary, Jr., CFA
Executive Vice President

**Department of Revenue
Treasury Division
Staff**

Commissioner

Patrick Galvin

Chief Investment Officer

Gary Bader

Investment Officers

Bob G. Mitchell
Stephen R. Sikes
Philip Bartlett
Zachary Hanna
Victor Djajalie
James McKnight

Casey Colton
Clay Cummins
Nicholas Orr
Ryan Bigelow
Bree Simpson

Deputy Commissioner

Brian Andrews

Comptroller

Pamela Green, CPA

Cash Management

Michelle M. Prebula, MBA, CPA, CCM

ARMB Liaison Officer

Judy Hall

External Money Managers and Consultants

Investment Consultants

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

McKinley Capital Management, Inc.
Anchorage, AK
Relational Investors LLC
San Diego, CA

Investment Advisory Council

William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
George Wilson
Boston, MA

Domestic Equity Small Capitalization

Jennison Associates LLC
New York, NY
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, TX
Trust Company of the West
New York, NY
Turner Investment Partners, Inc.
Berwyn, PA

Absolute Return

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

Domestic Equity Index Fund

State Street Global Advisors
Boston, MA

Domestic Fixed-Income

BlackRock Financial Management, Inc.
New York, NY

Emerging Markets

Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Fleming Asset Management, Inc.
New York, NY

Domestic Equity Large Capitalization

Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA

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

Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed-Income

Delaware International Advisers Ltd.
London, England

Private Equity

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

Real Estate – Agriculture

Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT

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

Supplemental Benefits System

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

Deferred Compensation

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

Global Master Custodian

State Street Bank & Trust Co.
Boston, MA

Independent Auditors

KPMG LLP
Anchorage, AK

Legal Counsel

Wohlforth, Johnson, Brecht,
Cartledge & Brooking
Anchorage, AK

Public Employees' Retirement System Investment Report

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

INVESTMENTS

The State of Alaska Public Employee 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 Retirement Management Board (ARMB) 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 ARMB.

During the 2007 fiscal year¹, ARMB's target asset allocation was 36% domestic equities, 16% international equities, 20% domestic fixed income, 2% international fixed income, 10% real estate, 7% private equity, 4% absolute return, 2% high yield fixed income, and 3% other (farmland, energy and treasury inflation protected securities).

For the 2007 fiscal year, PERS investments generated a 18.88% rate of return. The PERS annualized rate of return was 11.54% over the last five years. The annualized rate of return over the last fifteen and three-quarter years has been 9.50%.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect overall returns. For the 2007 fiscal year, the real estate portfolio gained 20.75% and the international equity portfolio gained 30.20%. The U.S equity portfolio generated a 20.10% return up from 9.23% the previous year.

EQUITIES

The Total 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 2007 fiscal year, the pool posted a return of 20.10%. This was greater than the target return of 19.91%. The annualized domestic equity return for the five year period was 10.26% up from 2.44% in the 2006 fiscal year. Investment guidelines for all asset classes are approved by ARMB 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. The International Equity pool return was 30.20% which was greater than the target return of 29.25%. The international equity return for the five year period was 19.20% from 11.14% in fiscal year 2006.

FIXED-INCOME

The domestic fixed-income portfolio represented 18.0% of the total assets of PERS as of June 30, 2007. 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.

¹ July 1, 2006 – June 30, 2007

Public Employees' Retirement System Investment Report

Over the 2007 fiscal year, the PERS domestic bond portfolio gained 6.20%, up from .05% the year before. The Lehman Brothers Aggregate Bond Index returned 6.12%, versus a negative .81% during 2006 fiscal year. The annualized domestic fixed-income return for the five year period was 4.85% from 5.23% in the 2006 fiscal year.

The international fixed-income portfolio, which represented about 1.8% of the total assets of PERS, returned 1.97% over the 2007 fiscal year, compared with a 2.20% posted by the Salomon Brothers Non U.S. Government Index. The annualized international fixed-income return for the five year period was 8.37% from 12.44% in the 2006 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.

The High Yield portfolio, which represented 1.8% of the total assets of PERS, returned 10.89% over the 2007 fiscal year. This was less than the target return of 11.69%. 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.

REAL ESTATE

At the end of the 2007 fiscal year, PERS had 11.2% 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, office, 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. 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 20.75% in fiscal year 2007 compared to 18.58% for the 2006 fiscal year. The five year annualized net total return was 15.37% from 12.27% in the 2006 fiscal year.

PRIVATE EQUITY

PERS had 6.7% of its 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 2007 fiscal year, the Private Equity component of the PERS portfolio had a net return of 28.74% with a five year annualized return of 14.65%.

ABSOLUTE RETURN

During the 2006 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 3.9% 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. Absolute Return returned 10.00% over the 2007 fiscal year. This was more than the target return of 9.53%.

**Public Employees' Retirement System
Investment Report**

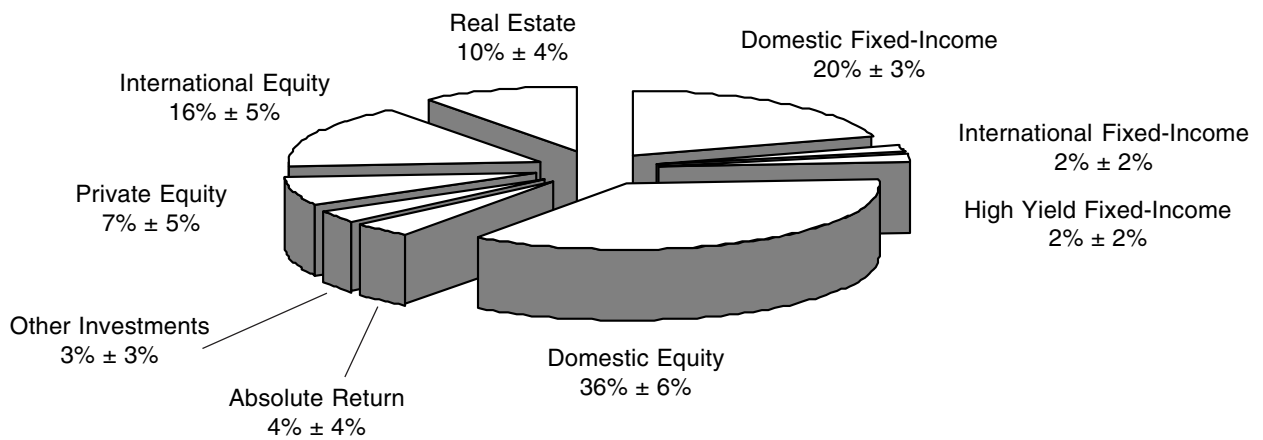
OTHER

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 1.2% of the overall portfolio and had a net return of 11.28% for the 2007 fiscal year.

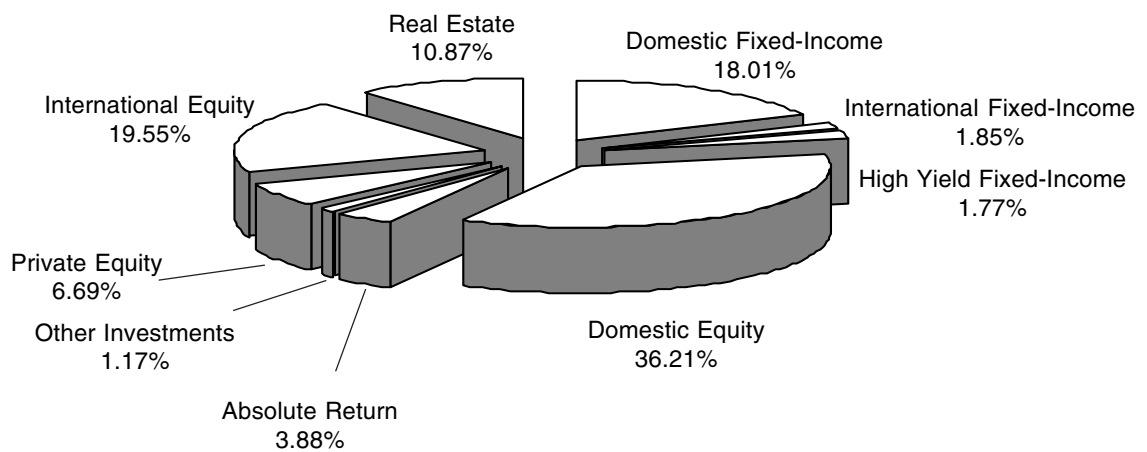
Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
	2003	2004	2005	2006	2007	Annualized	
						3 Year	5 Year
Total Fund							
PERS	3.67%	15.08%	8.95%	11.74%	18.88%	13.11%	11.54%
<i>Actuarial Earnings Rate</i>	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	(0.97%)	20.06%	4.47%	9.23%	20.10%	11.08%	10.26%
<i>S&P 500/Russell 2000 Composite</i>	0.25%	19.11%	6.87%	9.67%	20.59%	11.68%	10.71%
International Stock Returns							
PERS International Equities	(5.18%)	31.71%	14.96%	28.73%	30.00%	24.44%	19.20%
<i>Morgan Stanley Capital International EAFE</i>	(6.46%)	32.37%	13.65%	26.56%	27.00%	22.24%	17.73%
Domestic Fixed-Income							
PERS	10.69%	0.60%	7.08%	0.05%	6.20%	4.40%	4.85%
<i>Lehman Brothers Aggregate Index</i>	10.40%	0.32%	6.80%	(0.81%)	6.12%	3.98%	4.48%
International Fixed-Income							
PERS	24.48%	7.52%	9.84%	(0.27%)	1.97%	3.76%	8.37%
<i>Salomon Non-U.S. Government</i>	17.90%	7.60%	7.75%	(0.01%)	2.20%	3.26%	6.91%
Real Estate Equity							
PERS	8.97%	11.55%	17.42%	18.58%	20.75%	18.91%	15.37%
<i>NCREIF</i>	7.64%	10.83%	18.02%	18.79%	17.24%	17.98%	14.40%
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							

**Public Employees' Retirement System
Asset Allocation
June 30, 2007**

Policy

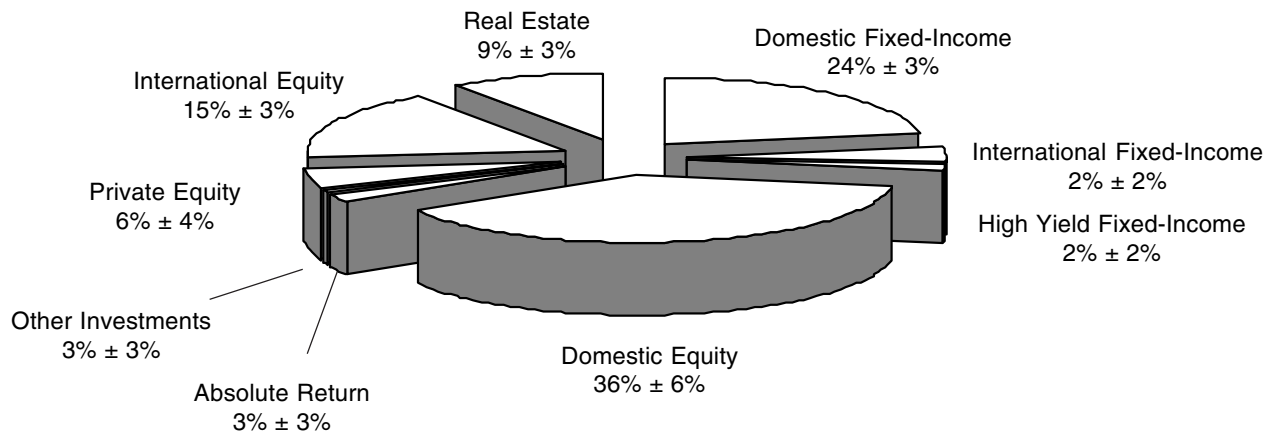


Actual

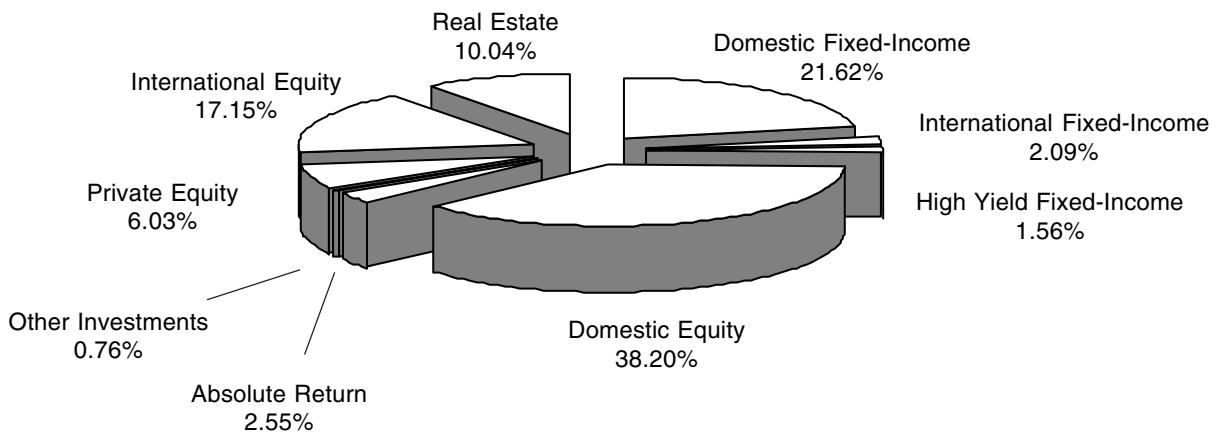


**Public Employees' Retirement System
Asset Allocation
June 30, 2006**

Policy



Actual



**Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2007**

Invested assets under the fiduciary responsibility of the Alaska Retirement Management Board (ARMB) 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 ARMB. 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 ARMB 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, 2007.

	Rank	Security	Par Values/ Fair Value	Shares
Fixed- Income	1	Federal Farm Credit Discount Note 7/5/2007	\$99,393,00	99,393,000
	2	Federal Home Loan Discount Note 7/2/2007	94,198,000	94,198,000
	3	United States Treasury 4.875 6/30/2012	94,200,000	93,935,061
	4	United States Treasury 6.25 8/15/2023	81,696,000	90,733,625
	5	United States Treasury 4.875 6/30/2009	82,720,000	82,707,075
	6	FNMA 5.00 Aug 2007 Mortgage Backed Security TBA	72,118,000	67,520,478
	7	United States Treasury 4.50 5/15/2017	68,313,000	65,495,089
	8	FNMA 5.50 Aug 2007 Mortgage Backed Security TBA	64,638,000	62,335,271
	9	FNMA 6.00 Aug 2007 Mortgage Backed Security TBA	51,000,000	50,398,358
	10	United States Treasury 4.75 2/28/2009	47,300,000	47,174,359

Note: As of 06/30/07, the above pool of fixed income securities was owned by the following retirement systems: PERS—68.50%; TRS—30.70%; JRS—0.45%; NGNMRS —0.36%

	Rank	Shares	Fair Value	Security
Equities	1	\$1,367,372	114,695,163	Exxon Mobil Corp.
	2	\$2,666,800	102,085,104	General Electric
	3	\$1,959,852	81,333,858	AT&T
	4	\$2,452,800	72,284,016	Microsoft Corp.
	5	\$1,211,364	62,130,860	Citigroup
	6	\$1,154,972	55,958,393	JP Morgan Chase
	7	\$1,961,600	54,630,560	Cisco Systems
	8	\$1,102,661	53,909,096	Bank America Corp.
	9	\$1,905,300	48,718,521	Pfizer Inc.
	10	\$673,100	47,211,234	Altria Group Inc.

Note: As of 06/30/07, the above pool of fixed income securities was owned by the following retirement systems: PERS—68.50%; TRS—30.70%; JRS—0.45%; NGNMRS —0.36%

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

**Public Employees' Retirement System
Schedule of External Management Fees
Year Ended June 30, 2007**

Investment Management Fees	Fair Value	Fees
International Fixed-Income		
Mondrian Investment Partners	\$ 201,681,837	372,254
High Yield Pool		
ING Investment Management	97,243,527	421,096
MacKay Shields, LLC	98,112,787	386,361
Total High Yield	<u>193,356,315</u>	<u>807,457</u>
Domestic Equity Pool		
Cap Guardian Trust Co.	274,298,397	432,247
SSgA S&P 500 Index Fund	-	102,770
TCW Asset Management Company	14,029	1,099,728
Jennison Associates, LLC	145,771,393	956,325
Lord Abbett & Co	145,353,163	861,698
Luther King Capital Management	126,095,324	577,700
Lazard Freres	294,065,771	973,786
McKinley Capital Management	272,025,761	822,667
RCM	282,444,450	817,064
Relational Investors, LLC	325,063,855	2,059,587
Tukman, Value	619,938	1,140,911
Turner Investment Partners	140,952,441	962,722
SSgA Russell 2000 ERISA	10,094,711	1,303
SSgA Russell 2000 Value	163,867,902	6,494
SSgA Russell 200	68,585,327	2,701
SSgA Russell 1000 Growth	598,643,668	42,384
SSgA Russell 1000 Value	888,949,046	56,991
SSgA Futures Small Cap	4,661,198	16,998
SSgA Futures Large Cap	4,583,489	18,547
Barrow, Haney, Mewhinny & Strauss	102,510,301	-
Quantitative Management Assoc.	102,537,496	-
Invesco Realty Advisors	-	21,678
Total Domestic Equity Pool	<u>3,951,137,661</u>	<u>10,974,297</u>
Private Equity Pool		
Blum Capital Partners-Strategic	34,565,219	-
Blum Capital Partners-Public	43,327,645	450,981
Pathway Capital Management LLC	264,802,956	717,205
Abbott Capital	386,917,498	826,324
Total Private Equity	<u>729,613,318</u>	<u>1,994,510</u>
International Equity Pool		
Brandes Investment Partners	465,224,593	1,633,063
Cap Guardian Trust Co	385,657,703	949,006
Lazard Freres	365,933,963	765,151
McKinley Capital Management	322,741,067	1,317,768
State Street Global Advisors	303,466,595	1,278,908
State Street Global Advisors Futures International	5,769,756	12,826
Total International Equities	<u>1,848,793,677</u>	<u>5,956,722</u>

**Public Employees' Retirement System
Schedule of External Management Fees (con't)
Year Ended June 30, 2007**

	<u>Fair Value</u>	<u>Fees</u>
Absolute Return Pool		
Mariner Investment Group	\$ 165,729,290	649,495
Cadogan Management LLC	85,051,119	446,569
Crestline Investors, Inc.	<u>117,322,780</u>	<u>845,169</u>
Total Absolute Return	<u>423,103,189</u>	<u>1,941,234</u>
Other Investment Pool		
TCW Energy Fund	43,301,322	180,797
UBS Agrinvest, LLC	41,722,232	134,607
Hancock Agricultural Investment Group	33,781,212	53,516
TCW Energy Fund XIV-A	<u>8,989,256</u>	<u>-</u>
Total Other Investment	<u>127,794,022</u>	<u>1,598,458</u>
Emerging Markets Equity Pool		
JP Morgan Investment Management	126,500,202	834,985
The Capital Group Inc.	<u>157,423,428</u>	<u>763,473</u>
Total Emerging Market	<u>283,923,631</u>	<u>1,598,458</u>
Real Estate Pool		
Cornerstone Real Estate Advisors	140,593,835	317,534
Lasalle Investment Management	174,423,387	430,714
Coventry Real Estate Advisors	34,993,385	255,652
Lowes Hospitality Investment Partners	36,091,843	207,070
Tishman Speyer Real Estate Venture VI	64,438,206	203,456
Rothschild Five Arrows	21,784,847	188,124
Cornerstone Rotational Fund	19,317,259	119,299
ING Clarion Partners	23,256,937	129,637
Lehman Brothers Real Estate Partners	77,819,184	515,552
J.P. Morgan Strategic Partners	159,897,888	540,869
UBS Brinson Consolidated Account	61,261,284	210,111
UBS Brinson Separate Account	238,417,428	577,044
Sentinel Real Estate Corporation	57,161,293	113,743
BlackRock Diamond Property Fund	10,347,427	6,155
LaSalle Medical Office Fund II	<u>1,323,144</u>	<u>132,063</u>
Total Real Estate	<u>1,121,127,346</u>	<u>3,947,023</u>
Total	<u>\$ 8,880,530,996</u>	<u>27,960,875</u>
Custodian		
State Street Corporation		<u>896,720</u>
Investment Advisory		
Callan Associates		37,471
The Townsend Group		<u>98,583</u>
Total Investment Advisory		<u>136,053</u>
Investment Performance Measurement		
Callan Associates		<u>168,027</u>
Total External Management Fees		<u>\$ 29,161,675</u>

**Public Employees' Retirement System
Investment Summary Schedule
June 30, 2007**

	<u>Asset Allocation Policy</u>	<u>Range</u>	<u>Market Value</u>	<u>% of Asset Class</u>	<u>% of Total Assets</u>
Participation in Pools Owning Fixed-Income Securities					
Domestic					
Short-Term Retirement			\$ 20,752,106	1.06%	0.19%
External			1,944,874,450	98.94%	17.82%
			<u>-</u>	<u>0.00%</u>	<u>0.00%</u>
Total Domestic Fixed-Income	20%	17-23%	1,965,626,556	<u>100.00%</u>	18.01%
International					
International Fixed Income Pool	2%	0-4%	201,681,837	<u>100.00%</u>	1.85%
High Yield					
High Yield Fixed Income Pool	<u>2%</u>	<u>0-4%</u>	<u>193,356,315</u>	<u>100.00%</u>	<u>1.77%</u>
Total Fixed-Income	<u>24%</u>	<u>21-35%</u>	<u>2,360,664,708</u>		<u>21.63%</u>
Participation in Pools Owning Domestic Equities					
Small cap ⁽¹⁾	6%	3-9%	736,810,161	18.65%	6.75%
Large cap	<u>30%</u>	<u>27-33%</u>	<u>3,214,327,500</u>	<u>81.35%</u>	<u>29.46%</u>
Total Domestic Equities	<u>36%</u>	<u>30-42%</u>	<u>3,951,137,661</u>	<u>100.00%</u>	<u>36.21%</u>
Participation in Pools Owning International Equities					
International	14%	11-17%	1,848,793,677	86.69%	16.94%
Emerging Markets	<u>2%</u>	<u>0-4%</u>	<u>283,923,631</u>	<u>13.31%</u>	<u>2.60%</u>
Total International Equities	<u>16%</u>	<u>11-21%</u>	<u>2,132,717,309</u>	<u>100.00%</u>	<u>19.55%</u>
Participation in Pools owning Alternative Investments					
Private Equity	<u>7%</u>	<u>2-12%</u>	<u>729,613,318</u>	<u>100.00%</u>	<u>6.69%</u>
Other Investments	<u>3%</u>	<u>0-6%</u>	<u>127,794,022</u>	<u>100.00%</u>	<u>1.17%</u>
Absolute Return	<u>4%</u>	<u>0-8%</u>	<u>423,103,198</u>	<u>100.00%</u>	<u>3.88%</u>
Participation in Real Estate					
Mortgages, net of allowances			2	0.00%	0.00%
Real Estate Pool	<u>10%</u>	<u>6-14%</u>	<u>1,186,582,353</u>	<u>100.00%</u>	<u>10.87%</u>
Total Real Estate	<u>10%</u>	<u>6-12%</u>	<u>1,186,582,355</u>	<u>100.00%</u>	<u>10.87%</u>
Total Invested Assets	<u>100%</u>		<u>\$10,911,612,562</u>		<u>100.00%</u>

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

**Public Employees' Retirement System
Recaptured Commission Fees
Year Ended June 30, 2007**

Domestic Equity	International Equity	Total
\$ 420,134	52,468	472,602

The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. 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 managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

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.

**Net Securities Lending Income
Year Ended June 30, 2007**

Securities lending income	\$ 52,457,009
Less Securities lending expense	<u>49,817,085</u>
Net income from securities lending activities	<u>\$ 2,639,924</u>

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed-income securities. The Bank, acting as the ARMB'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 approximating fair value. The ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, therefore securities collateral is not recorded on the financial statements.



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ACTUARIAL SECTION



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December 13, 2007

State of Alaska
Alaska Retirement Management 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, 2006 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the Plan as of June 30, 2006;
- (2) a review of experience under the Plan for the year ended June 30, 2006;
- (3) a determination of the appropriate contribution rate for each employer in the System which will be applied for the fiscal year ending June 30, 2009; and
- (4) 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 the Actuarial Section:

- (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

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Alaska Retirement Management Board

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In addition, we have provided the data necessary for the schedules of Funding Progress and the Notes to Required Supplementary Information included in the Financial Section.

In preparing the 2006 actuarial 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 in the financial statements audited by 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. The actuarial assumptions are based on the results of an experience study presented to and adopted by the Board in October 2006. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed and revised during the experience study.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY07 and a fixed 25-year amortization as level percentage of payroll 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. The ratio of valuation assets to liabilities decreased from 65.7% to 62.8% during the year. The 2006 actuarial valuation provides an analysis of the factors that led to the decrease. The Actuarial Section and the 2006 actuarial valuation report also provide a history of the funding ratio of the System.

The assumptions, when applied in combination, fairly represent past and anticipated future experience in 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. We believe that the assumptions and methods used for funding purposes and for the disclosures presented satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 43.

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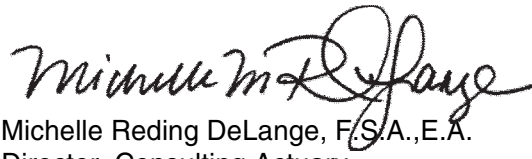
We believe that the 2006 actuarial valuation conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

It is our understanding that most of the information presented in the Required Supplementary Information in the Financial Section and in the supporting schedules in the Actuarial and Statistical Sections of this annual financial report was taken from the State of Alaska Public Employees' Retirement System Actuarial Valuation Report as of June 30, 2006, that was prepared by Buck Consultants.

Sincerely,

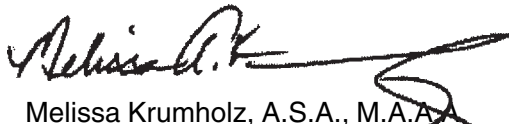


David H. Sliskinsky, A.S.A., E.A.
Principal, Consulting Actuary



Michelle Reding DeLange, F.S.A., E.A.
Director, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Krumholz, A.S.A., M.A.A.
Senior Consultant, Health & Productivity

Public Employees' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

The demographic and economic assumptions used in the June 30, 2006 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in October 2006. These assumptions were the result of an experience study performed as of June 30, 2005. The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

Valuation of Liabilities

A. Actuarial Method - Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percent of pay. Payroll is assumed to increase 4.0% per year for this purpose. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

Projected pension and postemployment healthcare benefits were determined for all active members. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for pension benefits (constant dollar amount for healthcare benefits), from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Public Employees' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

Changes in Methods from the Prior Valuation

The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal effective with the June 30, 2006 valuation.

B. 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 financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

C. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Public Employees' Retirement System postemployment healthcare plan. Note that methodology is greatly revised from the prior valuation and reflects the results of our Experience Study for the period July 1, 2001 to June 30, 2005.

Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription drug costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claims data.

We analyzed Aetna management-level reporting for calendar 2003 through fiscal 2006 and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.
2. Available reporting does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups. We used summary statistics provided to split claims and enrollment into Medicare and non-Medicare buckets each year.
3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these "no-Part A" individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claims and enrollment experience is not available

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The larger the no-Part A population, the more accrued liabilities will decrease.

Current retiree census does not include date of hire, although the Tier indicator does imply that Tier I PERS retirees should probably be considered as no-Part A retirees. After analysis of active employee data, and accounting for retirees who return to work and therefore pay Medicare taxes, we assume that 7.5% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, we assume 7.5% of the current retiree population does not receive Part A coverage.

We are working with the State to compile census records for no-Part A members to build an historic claims database isolating no-Part A members.

Due to data constraints, we were unable to establish credible rates for Medicare A&B and Medicare B only. We therefore conservatively set Medicare A&B rates relatively close to aggregate Medicare rates previously established and then set Medicare B only rates to reflect a reasonable no-Part A cost to the State's plan. To the extent future data specific to Medicare subgroups becomes credible, we can modify this conservative assumption.

4. The steps above result in separate paid claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four calendar years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription drug claims cost rates reflect differing average ages. We converted paid claims data to incurred cost rates projected from each historical data period to the valuation year and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is 2 months. This "trend and blend" methodology differs mechanically from the prior method that essentially averaged three years of paid claims before projecting forward to an incurred basis for the valuation year. During transition to a trended blended average basis, we recommend weighting each year's data in the 4-year experience period at 25% and further averaging such results with expected claims cost rates based on prior valuation methodology. Because prior methodology produces significantly greater claims costs for Medicare members we have assumed that resulting per capita claims cost rates are sufficient to cover administrative costs. In the future, we will incorporate actual administrative costs and may recommend weighting recent experience more heavily and/or reducing the experience period analyzed back to a 3-year period.

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

June 30, 2006 Valuation – FY 2007 Claims Cost Rates

	Medical				Total
	Pre-Medicare	Medicare A&B	Medicare B Only	Prescription Drugs	
Calendar 2003 Paid Claims	\$123,938,420	\$4,006,301	\$1,087,554	\$57,596,427	\$186,628,703
Membership	31,619	15,748	1,277	48,644	48,644
Paid Claims Cost Rate	\$3,920	\$254	\$852	\$1,184	\$3,837
Trend to FY2007	1.383	1.383	1.383	1.592	
FY 2007 Paid Cost Rate	\$5,422	\$352	\$1,178	\$1,885	
Paid to Incurred Factor**	1.015	1.015	1.015	1.007	
FY 2007 Incurred Cost Rate	\$5,503	\$357	\$1,196	\$1,899	
Calendar 2004 Paid Claims	\$139,793,036	\$7,336,033	\$1,379,219	\$69,523,105	\$218,031,393
Membership	32,858	17,096	1,386	51,340	51,340
Paid Claims Cost Rate	\$4,254	\$429	\$995	\$1,354	\$4,247
Trend to FY2007	1.252	1.252	1.252	1.385	
FY 2007 Paid Cost Rate	\$5,326	\$537	\$1,246	\$1,875	
Paid to Incurred Factor**	1.015	1.015	1.015	1.007	
FY 2007 Incurred Cost Rate	\$5,405	\$545	\$1,264	\$1,889	
Calendar 2005 Paid Claims	\$163,066,241	\$11,021,966	\$1,863,519	\$80,293,244	\$256,244,971
Membership	33,343	18,114	1,469	52,926	52,926
Paid Claims Cost Rate	\$4,891	\$608	\$1,269	\$1,517	\$4,842
Trend to FY2007	1.143	1.143	1.143	1.215	
FY 2007 Paid Cost Rate	\$5,591	\$696	\$1,450	\$1,843	
Paid to Incurred Factor**	1.015	1.015	1.015	1.007	
FY 2007 Incurred Cost Rate	\$5,674	\$706	\$1,472	\$1,856	
Fiscal 2006 Paid Claims	\$166,902,156	\$10,350,915	\$1,660,228	\$87,341,702	\$266,255,001
Membership	35,601	16,777	1,360	53,738	53,738
Paid Claims Cost Rate	\$4,688	\$617	\$1,221	\$1,625	\$4,955
Trend to FY2007	1.090	1.090	1.090	1.130	
FY 2007 Paid Cost Rate	\$5,110	\$672	\$1,331	\$1,837	
Paid to Incurred Factor**	1.015	1.015	1.015	1.007	
FY 2007 Incurred Cost Rate	\$5,186	\$682	\$1,350	\$1,850	
Weighted Average 7/2006 – 6/2007 Incurred Claims Cost Rates					
At average age	\$5,442	\$573	\$1,320	\$1,873	
At age 65*	\$9,112	\$395	\$793	\$2,635	
Prior Methodology FY2007 Incurred Cost Rates (6/2005 valuation with trend):					
At age 65*	\$9,078	\$1,528	\$3,056	\$2,193	
Final Base Cost Rates at age 65	\$9,095	\$962	\$1,924	\$2,414	

* Final Medicare rates are adjusted so that net plan cost for members with Parts A & B are one-half of net plan costs for members with Part B only. Also, prior methodology did not include separate Part B only analysis; applicable rates above are determined so that the composite Medicare rate equates to separate A&B and B only rates based on the 7.5% of membership assumed to lack Part A.

** As data specific to Medicare and Pre-Medicare retirees is provided, lag factors specific to Medicare status will be reflected.

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.

Below are the results of this analysis:

**Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2006 through June 30, 2007**

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug and Medicare Retiree Drug Subsidy
45	\$ 5,037	\$ 5,037	\$ 1,273
50	5,699	5,699	1,512
55	6,448	6,448	1,796
60	7,658	7,658	2,082
65	962	1,924	1,898
70	1,170	2,341	2,045
75	1,390	2,779	2,181
80	1,497	2,994	2,236

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

D. Actuarial Assumptions

- | | | |
|----|-------------------------------------|---|
| 1. | Investment Return/
Discount Rate | 8.25% per year, compounded annually, net of expenses. |
| 2. | Salary Scale | Inflation - 3.5% per year
<u>Peace Officers/Firefighter:</u>
Merit - 2.5% per year
Productivity - 1.0% per year for the first 6 years of employment, 0.5% thereafter.
Productivity - 0.5% per year
<u>Others:</u>
Merit - 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%.
Productivity - 0.5% per year |
| 3. | Payroll Growth | 4.0% per year |
| 4. | 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. |
| 5. | Mortality (Pre-Retirement) | <u>Peace Officers/Firefighter:</u>
1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year.
<u>Others:</u>
Based upon the 2001-2005 actual mortality experience (see Table 1). 42% of the 1994 Group Annuity Table, 1994 Base Year for males and females.
Deaths are assumed to be occupational 75% of the time for Peace Officers/Firefighter, 50% of the time for Others. |
| 6. | Mortality (Post-Retirement) | 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. |
| 7. | Total Turnover | Based upon the 2001-2005 actual withdrawal experience. (See Table 2.) |
| 8. | Disability | Incidence rates based upon the 2001-2005 actual experience, in accordance with Table 3. Post-disability mortality in accordance with the 1974 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 75% of the time for Peace Officers/ Firefighter, 50% of the time for Others. |
| 9. | Retirement | Retirement rates based upon the 2001-2005 actual experience in accordance with Tables 4 and 5. Deferred vested members are assumed to retire at their earliest retirement date. |

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

- 10. Marriage and Age Difference Wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.
- 11. Dependent Children Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
- 12. Contribution Refunds 15% of terminated members are assumed to have their contributions refunded.
- 13. COLA Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
- 14. Post-Retirement Pension Adjustment 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
- 15. Expenses All expenses are included in the investment return assumption.
- 16. Part-Time Status Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighters and 0.65 years of credited service per year for Other members.
- 17. Per Capita Claims Cost Sample claims cost rates for FY07 medical and prescriptions are shown below:

	<u>Medical</u>	<u>Prescription Drugs</u>
Total	\$9,095	\$2,414
Medicare Parts A & B	\$8,133	N/A
Medicare Part B Only	\$7,171	N/A
Medicare Part D	N/A	\$516

- 18. Health Cost Trend

	<u>Medical</u>	<u>Prescription Drugs</u>
FY07	9.0%	13%
FY08	8.5%	12%
FY09	8.0%	11%
FY10	7.5%	10%
FY11	7.0%	9%
FY12	6.5%	8%
FY13	6.0%	7%
FY14	5.5%	6%
FY15	5.0%	5%
FY16	5.0%	5%
FY17 and later	5.0%	5%

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as for the 2005 valuation.

19. Aging Factors

<u>Age</u>	<u>Medical</u>	<u>Prescriptions Drugs</u>
00-44	2.0%	4.5%
45-54	2.5%	3.5%
55-64	3.5%	3.0%
65-74	4.0%	1.5%
75-84	1.5%	0.5%
85+	0.5%	0.0%

20. Retired Member Contributions for Medical Benefits

Currently contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for peace officer/firefighter). Eligible Tier 1 members are exempt from contribution requirements. Annual FY07 contributions based on monthly rates shown below for calendar 2006 and 2007 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service.

<u>Coverage Category</u>	<u>FY07 Annual Contribution</u>	<u>Calendar 2007 Monthly Contribution</u>	<u>Calendar 2006 Monthly Contribution</u>
Retiree Only	\$ 7,080	\$ 590	\$ 590
Retiree and Spouse	\$ 14,148	\$ 1,179	\$ 1,179
Retiree and Child(ren)	\$ 9,996	\$ 883	\$ 883
Retiree and Family	\$ 17,076	\$ 1,423	\$ 1,423
Composite	\$ 10,512	\$ 876	\$ 876

Public Employees' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

21. Trend Rate for Retired Member Medical Contributions	FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 and later	8.0% 7.7% 7.3% 7.0% 6.7% 6.3% 6.0% 5.7% 5.3% 5.0%
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Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new rates above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

**Table 1
Alaska PERS Other
Mortality Table (Preretirement)**

Age	Male	Female
20	.0229%	.0128%
21	.0239	.0129
22	.0251	.0131
23	.0266	.0131
24	.0282	.0131
25	.0299	.0131
26	.0315	.0133
27	.0328	.0136
28	.0341	.0142
29	.0352	.0150
30	.0362	.0158
31	.0371	.0168
32	.0379	.0179
33	.0383	.0191
34	.0383	.0202
35	.0384	.0216
36	.0389	.0231
37	.0402	.0249
38	.0424	.0270
39	.0452	.0294
40	.0484	.0320
41	.0522	.0347
42	.0565	.0373
43	.0611	.0396
44	.0659	.0417
45	.0713	.0439
46	.0778	.0467
47	.0858	.0502
48	.0949	.0545
49	.1050	.0591
50	.1165	.0645
51	.1297	.0708
52	.1451	.0783
53	.1619	.0861
54	.1797	.0941
55	.1998	.1036
56	.2235	.1157
57	.2252	.1318
58	.2845	.1517
59	.3202	.1745
60	.3602	.2005

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

**Table 2
Alaska PERS
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**

Peace Officer and Firefighter:

<u>Year of Employment</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
1	11%	12%	20	4.57%	5.76%
2	9	10	25	4.54	5.75
3	7	8	30	4.49	5.71
4	6	7	35	4.46	5.66
5	5	6	40	4.39	5.56
			45	4.20	5.38
			50	3.88	5.09
			55	3.24	4.51
			60	1.74	2.94
			65+	4.80	6.00

Other:

<u>Year of Employment</u>	<u>-----Age at Hire-----</u>				<u>Age</u>	<u>Male</u>	<u>Female</u>
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>			
1	25%	26%	15%	16%	20	12.01%	13.68%
2	23	24	15	16	25	11.99	13.67
3	20	21	13	14	30	11.97	13.66
4	16	17	12	12	35	8.66	9.89
5	15	16	11	11	40	6.42	7.35
					45	5.24	6.04
					50	5.09	5.94
					55	4.80	5.74
					60	4.19	5.23
					65+	5.50	6.25

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

**Table 3
Alaska PERS
Retirement Rates**

Age	Peace Officer/ Firefighter Rate	Other Member Rate	
		Male	Female
20	.088%	.032%	.029%
21	.089	.032	.029
22	.090	.033	.031
23	.091	.033	.031
24	.093	.035	.032
25	.094	.035	.032
26	.095	.035	.032
27	.098	.036	.033
28	.100	.037	.034
29	.103	.038	.035
30	.105	.039	.036
31	.108	.039	.036
32	.110	.040	.037
33	.113	.041	.038
34	.116	.043	.039
35	.120	.044	.040
36	.124	.046	.042
37	.129	.047	.043
38	.134	.050	.045
39	.139	.051	.046
40	.144	.053	.048
41	.150	.055	.050
42	.159	.059	.054
43	.170	.062	.057
44	.185	.068	.062
45	.203	.075	.068
46	.220	.081	.074
47	.239	.087	.080
48	.259	.096	.087
49	.279	.102	.094
50	.300	.110	.101
51	.325	.120	.109
52	.353	.131	.120
53	.398	.146	.133
54	.444	.163	.149
55	.500	.184	.168
56	.574	.212	.193
57	.668	.246	.225
58	.763	.281	.256
59	.900	.331	.302
60	1.054	.388	.354

**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

**Table 4
Alaska PERS Peace Officer/Firefighter
Retirement Table**

<u>Age at Retirement</u>	<u>Retirement Rate</u>			
	<u>Reduced</u>		<u>Unreduced</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
<50	N/A	N/A	10.40%	10.40%
50	10.50%	6.30%	40.00	40.00
51	14.80	10.00	27.50	27.50
52	15.00	10.00	27.50	27.50
53	19.70	10.00	25.00	25.00
54	19.60	10.00	25.00	25.00
55	8.80	15.60	30.00	30.00
56	9.60	13.00	22.75	22.75
57	13.00	13.00	22.75	22.75
58	12.70	13.00	15.60	15.60
59	13.00	13.00	15.60	15.60
60	N/A	N/A	25.00	25.00
61	N/A	N/A	25.00	25.00
62	N/A	N/A	26.00	26.00
63	N/A	N/A	25.00	25.00
64	N/A	N/A	25.00	25.00
65	N/A	N/A	100.00	100.00



**Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures**

**Table 5
Alaska PERS Other
Retirement Table**

Age at Retirement	Retirement Rate			
	Reduced		Unreduced	
	Male	Female	Male	Female
<50	N/A	N/A	7.10%	7.20%
50	6.00%	7.30%	20.00	20.00
51	6.20	7.50	17.50	20.00
52	7.50	7.50	20.00	15.00
53	7.50	8.90	18.00	24.00
54	6.00	5.40	30.00	21.00
55	7.90	8.20	30.00	30.00
56	9.50	9.20	17.50	17.50
57	9.60	9.10	17.50	17.50
58	9.50	9.10	15.00	17.50
59	4.70	3.80	15.00	17.50
60	N/A	N/A	20.00	21.00
61	N/A	N/A	17.50	15.00
62	N/A	N/A	30.00	18.75
63	N/A	N/A	22.50	18.75
64	N/A	N/A	26.25	18.75
65	N/A	N/A	27.00	25.00
66	N/A	N/A	27.00	25.00
67	N/A	N/A	27.00	25.00
68	N/A	N/A	30.00	25.00
69	N/A	N/A	30.00	30.00
70	N/A	N/A	100.00	100.00

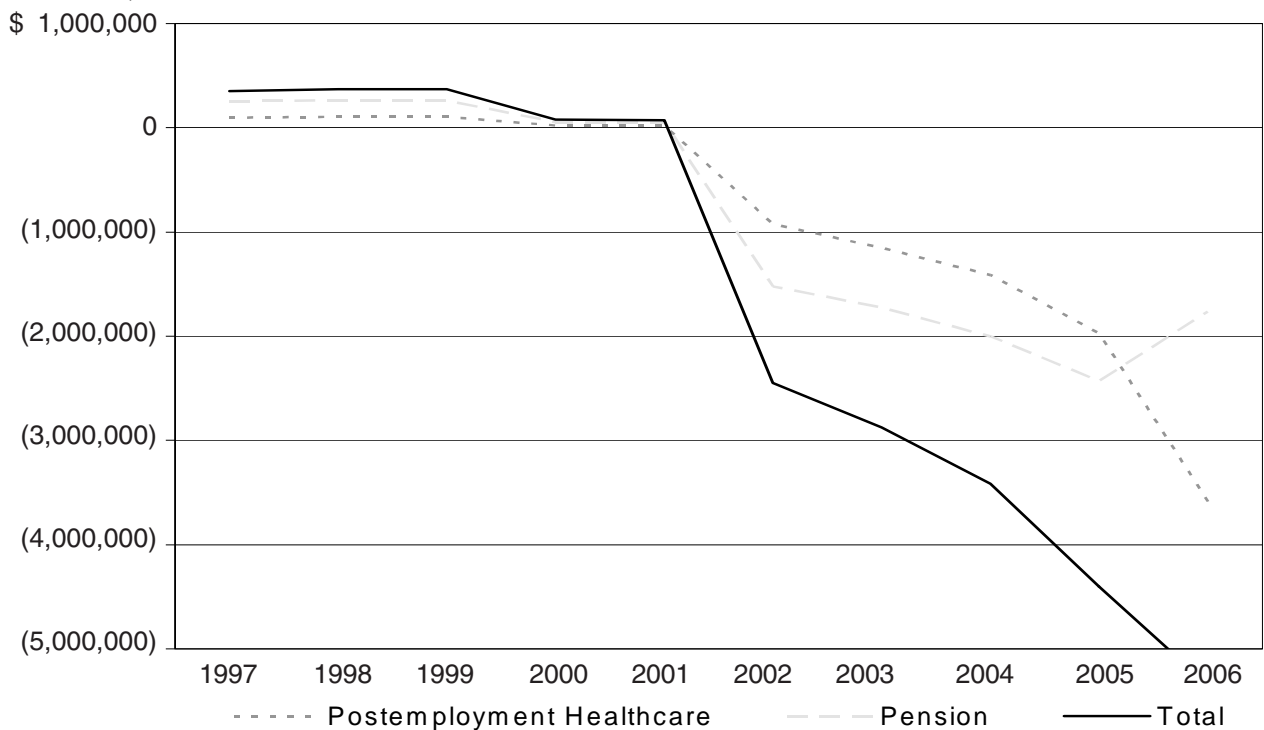
Public Employees' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

Changes in Actuarial Assumptions Since the Prior Valuation

	June 30, 2005	June 30, 2006
Salary Scale	Based on actual experience from 1997 to 1999	Others: Based on actual experience from 2001 to 2005. Peace Officer/Firefighter: Rates are increased for the first 6 years. Based on actual experience 2001 to 2005.
Payroll Growth	4.25%	4.0%
Preretirement Mortality	1994 GAM table, 1994 base year	Peace Officer/Firefighter: No change. Others: 42% of the 1994 GAM table, 1994 base year.
Turnover	Based on actual experience from 1997 to 1999	Rates adjusted based on actual experience from 2001 to 2005.
Disability	Based on actual experience from 1991 to 1995	Peace Officer/Firefighter: No change. Others: Male/Female rates increased by 5% based on actual experience from 2001-2005.
Retirement	Based on actual experience from 1997 to 1999	Rates were adjusted based on actual experience from 2001 to 2005.
Marriage and Age Difference	If married as of the valuation date, remain married until retirement; same if single. Males 4 years older.	Male 80% / Female 70%. Males 3 years older.
Dependent Children	Married members will always have one dependent child	Married members have two dependent children from age 25 through 45.
Contribution Refunds	100% for those vested and under age 35 and nonvested, 0% otherwise	15% for all ages and vested statuses.
COLA	Of those benefit recipients who are eligible for the COLA, 68% are assumed to remain in Alaska and receive the COLA.	Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
Part-time Status	Part-time employees are assumed to earn 0.60 years of credited service per year.	Part-time employees are assumed to earn 0.65 years of credited service per year. All Peace Officer/Firefighters are assumed to be full-time.
Occupational Death and Disability	Others: 35% Peace Officer/ Firefighters: 85%	Others: 50% Peace Officer/Firefighters: 75%
Healthcare	Aggregate post-65 claims cost rate. Trend rates for retiree medical contributions started at 10.2% and graded down to 5.0%.	Included effect of Medicare Part A & B vs. Medicare Part B only. Active employees hired after April 1, 1986 are assumed to be covered by Medicare Parts A & B. 7.5% of current retirees are assumed to be covered by Part B only. Changed assumed lag between medical claim incurred and paid dates from 3 months to 2 lag months. Changed trend rate table for the retiree medical contributions to start at 8.0% and graded down to 5.0%.

Public Employees' Retirement System Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total Funding Excess/ (Unfunded Liability)	Funded Ratio
1997	\$ 95,402	\$ 255,907	\$ 351,372	106.3%
1998	105,713	261,858	367,571	105.9
1999	106,055	261,612	367,667	105.5
2000	23,069	54,777	77,846	101.1
2001	21,768	51,414	73,182	100.9
2002	(924,746)	(1,522,012)	(2,446,758)	75.2
2003	(1,151,504)	(1,722,868)	(2,874,372)	72.8
2004	(1,411,587)	(2,001,915)	(3,413,502)	70.2
2005	(1,973,144)	(2,428,778)	(4,401,922)	65.7
2006	(3,584,527)	(1,762,978)	(5,347,505)	62.8

10-YEAR TREND OF UNFUNDED LIABILITY



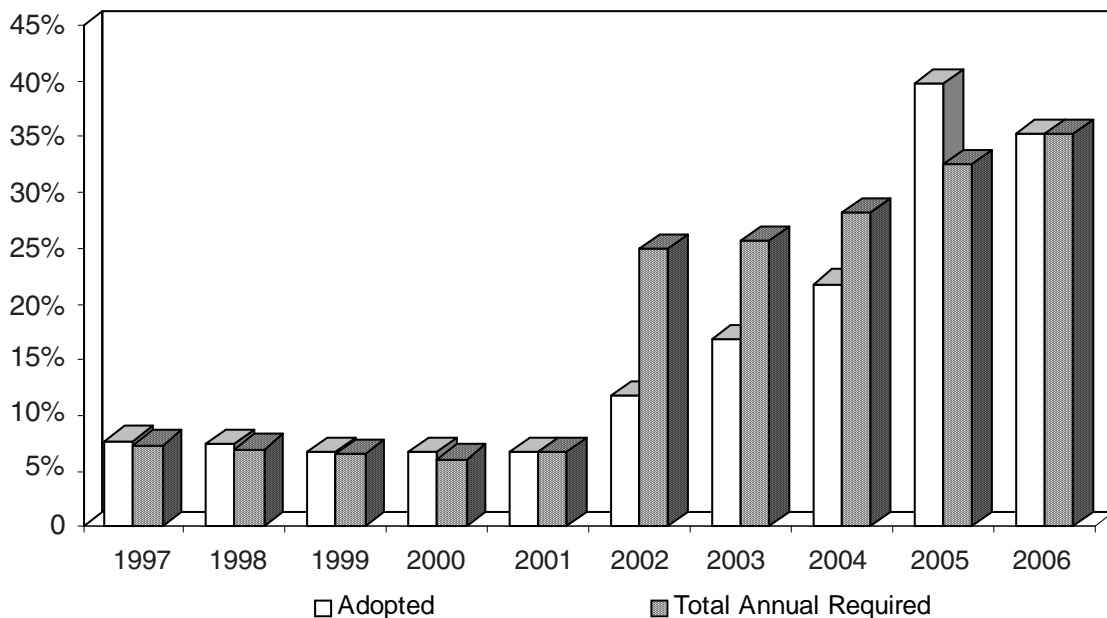
Public Employees' Retirement System Average Employer Contribution Rates					
Year Ended June 30	Actuarially Determined				Adopted
	Valuation Year Ended June 30	Normal Cost ¹	Average Past Service	Total Annual Required	
2000	1997	9.89	(2.53)%	7.36%	7.74%
2001	1998	8.67	(1.64)	7.03	7.40
2002	1999	8.07	(1.51)	6.56	6.75
2003	2000	5.43	0.69	6.12	6.75
2004	2001	5.42	1.35	6.77	6.77
2005	2002	13.31	11.60	24.91	11.77
2006	2003	13.24	12.39	25.63	16.77
2007	2004	13.32	14.87	28.19	21.77
2008	2005	14.48	18.03	32.51	39.76 ²
2009	2006	13.72	21.50	35.22	35.22

¹Also referred to as the consolidated rate.

Valuations are used to set contribution rates in future years.

²The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

10-YEAR COMPARISON OF AVERAGE EMPLOYER CONTRIBUTION RATES



Public Employees' Retirement System Schedule of Active Member Valuation Data					
Valuation Date	Number	Annual Payroll (In thousands)	Annual Average Earnings	Percent Increase/ (Decrease) in Average Earnings	Number of Participating Employers
All Others					
June 30, 2006	31,286	\$1,408,863 ¹	\$ 45,032	4.2%	160
June 30, 2005	30,997	1,338,962	43,197	2.3	160
June 30, 2004	30,907	1,305,670	42,245	1.8	161
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
Peace Officer/Firefighter					
June 30, 2006	2,785	\$181,830 ¹	\$ 65,289	2.5%	160
June 30, 2005	2,733	174,155	63,723	3.0	160
June 30, 2004	2,705	167,317	61,855	4.9	161
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

¹Prior to June 30, 2006, unannualized earnings were used. Starting June 30, 2006, annualized earnings are used.

Public Employees' Retirement System Schedule of Benefit Recipients Added to and Removed From Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Benefits	Average Annual Benefits
	No.*	Annual Benefits*	No.*	Annual Benefits*	No.	Annual Benefits		
All Others								
June 30, 2006	1,494	\$26,193,750	384	\$ 2,265,651	19,533	\$307,875,037	8.4%	\$15,762
June 30, 2005	1,287	22,966,842	296	17,019,851	18,423	283,946,938	2.1	15,413
June 30, 2004	1,346	27,617,383	354	6,823,010	17,432	277,999,947	8.1	15,948
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
Peace Officer/Firefighter								
June 30, 2006	118	\$3,289,370	30	\$ 209,287	2,368	\$70,543,278	4.6%	\$29,790
June 30, 2005	145	3,904,737	5	3,332,357	2,280	67,463,195	0.9	29,589
June 30, 2004	174	6,388,270	25	904,310	2,140	66,890,815	8.9	31,257
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
* 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:			Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)		(1)	(2)	(3)
June 30, 2006 ⁽²⁾⁽³⁾	\$1,157,755	\$8,923,811	\$4,306,847	\$9,040,908	100%	88.3%	0.0%
June 30, 2005	1,104,821	8,667,058	3,072,962	8,442,919	100	84.7	0.0
June 30, 2004 ⁽²⁾	1,070,268	7,650,156	2,723,492	8,030,414	100	91.0	0.0
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
⁽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				
	2006	2005	2004	2003	2002
Health Experience	(4.06)%	1.49%	-%	-%	3.68%
Salary Experience	0.02	(0.32)	0.08	(0.19)	(0.20)
Investment Experience	(0.29)	(0.02)	0.02	0.31	7.24
Demographic Experience	1.05	0.01	0.54	0.40	1.21
Contribution Shortfall	<u>1.01</u>	<u>0.98</u>	<u>0.89</u>	<u>1.10</u>	<u>-</u>
(Gain) or Loss During Year From Experience	(2.27)	2.14	1.53	1.62	11.93
Non-recurring changes					
Asset Valuation Method	-	-	-	-	4.11
Past Service Amortization Change	-	-	-	-	(5.06)
Assumption Changes	4.98	-	1.03	-	6.98
System Benefit Changes	-	-	-	-	0.04
Addition of 102% Target Funding Ratio	-	-	-	-	-
Elimination of 102% Target Funding Ratio	-	-	-	(0.90)	-
Ad hoc PRPA	-	-	-	-	0.14
Change Due to Revaluation of Plan Liability as of June 30, 2004	<u>-</u>	<u>2.18</u>	<u>-</u>	<u>-</u>	<u>-</u>
Composite (Gain) Loss During Year	2.71	4.32%	2.56%	0.72%	18.14%
Beginning Average Employer Contribution Rate	<u>32.51</u>	<u>28.19</u>	<u>25.63</u>	<u>24.91</u>	<u>6.77</u>
Ending Average Employer Contribution Rate	<u>35.22</u>	<u>32.51%</u>	<u>28.19%</u>	<u>25.63%</u>	<u>24.91%</u>
Board Adopted Employer Contribution Rate	<u>35.22</u>	<u>22.00%</u>	<u>21.77%</u>	<u>16.77%</u>	<u>11.77%</u>
Fiscal Year Above Rate is Applied	FY09	FY08	FY07	FY06	FY05

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2005. 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-Peace Officer/Firefighter 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 Attorney General represents the system in legal proceedings.

Prior to June 30, 2005, the Public Employees' Retirement Board prescribed policies and adopted regulations and performed other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division was responsible for investing PERS funds.

On July 27, 2005, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Public Employees' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

(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.

Senate Bill 141, signed into law on July 27, 2005, closes the Plan effective July 1, 2006, to new members first hired on or after July 1, 2006.

(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 whose survivors are receiving occupational death benefits continue to earn PERS credit while occupational survivor benefits are being paid.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Members may claim other types of service, including:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976;
- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;
- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;
- military service (not more than five years may be claimed);
- temporary service after December 31, 1960;
- elected official service before January 1, 1981;
- Alaska Bureau of Indian Affairs service;
- past service rendered by employees who worked half-time in the PERS and 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 have been 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 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 peace officers/ firefighter 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 on the consolidated normal cost and past service rates.

The consolidated normal cost rate is a uniform rate for all participating employers (less the value of members' contributions).

The past service rate is determined separately for each employer to amortize their unfunded past service liability with payments that are a level percentage of pay amount over fixed 25-year periods.

Employer rates cannot be less than the consolidated normal cost rate.

(7) Member Contributions

Mandatory Contributions: Peace Officers/Firefighter 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 TRS rules contribute 9.6% of

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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 on an after-tax basis. Voluntary contributions are recorded in a separate account and are payable to the:

- (a) member in lump-sum payment upon termination of employment;
- (b) member's beneficiary if the member dies; or
- (c) member in a lump-sum, life annuity, or payments over a designated period of time when the member retires.

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

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

Reinstatement of Contributions: Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS prior to July 1, 2010. Accounts attached to satisfy claims

under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(8) Retirement Benefits

Eligibility:

- (a) Members, including deferred vested members, are eligible for normal retirement at age 60¹, or early retirement at age 55, if they have at least:
 - (i) five years of paid-up PERS service;
 - (ii) 60 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS before May 30, 1987;
 - (iii) 80 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS after May 29, 1987;
 - (iv) two years of paid-up PERS service and they are vested in the TRS; 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 Peace Officer/Firefighter service; or
 - (ii) 30 paid-up years of PERS "all other" or "elected official" service.

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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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

Members may elect an early retirement or a joint and survivor option. Members who entered the PERS prior to July 1, 1986, may also select a 66-2/3 last survivor option and 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 Peace Officer/Firefighter 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 Peace Officer/Firefighter 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 and retiree healthcare 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 first became effective July 1, 2005, and applies to reemployment periods after that date. The Waiver Option is not available to members who retired early or under the Retirement Incentive Programs (RIPs). The Waiver Option is no longer available after June 30, 2009.

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

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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

- (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.

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

(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.

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

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

(12) Death Benefits

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

Occupational Death: When an active member (vested or nonvested) 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 Peace Officers/Firefighter members receive the greater of 50% of

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

the member's gross monthly compensation on the date of death or disability, or 75% of the member's monthly normal retirement benefit (including service projected to normal retirement).

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

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

Lump-Sum Nonoccupational Death 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 funding ratio is at least 105%.

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.

(15) Changes in Plan Provisions Since the Prior Valuation

There have been no changes in plan provisions since the prior valuation.



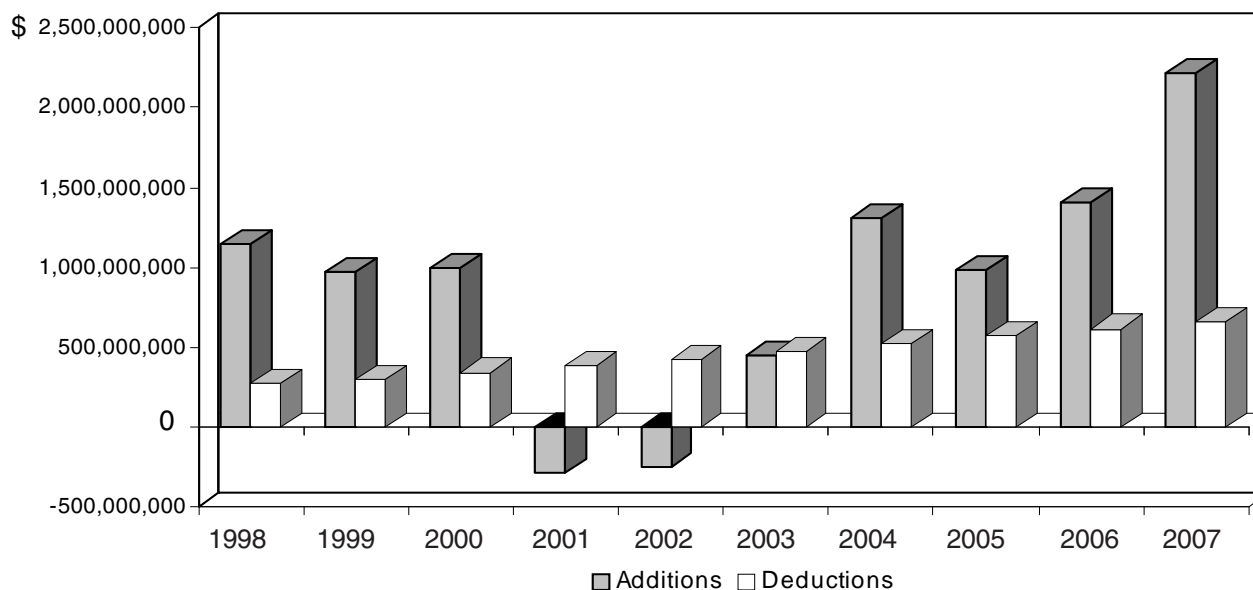
STATISTICAL SECTION



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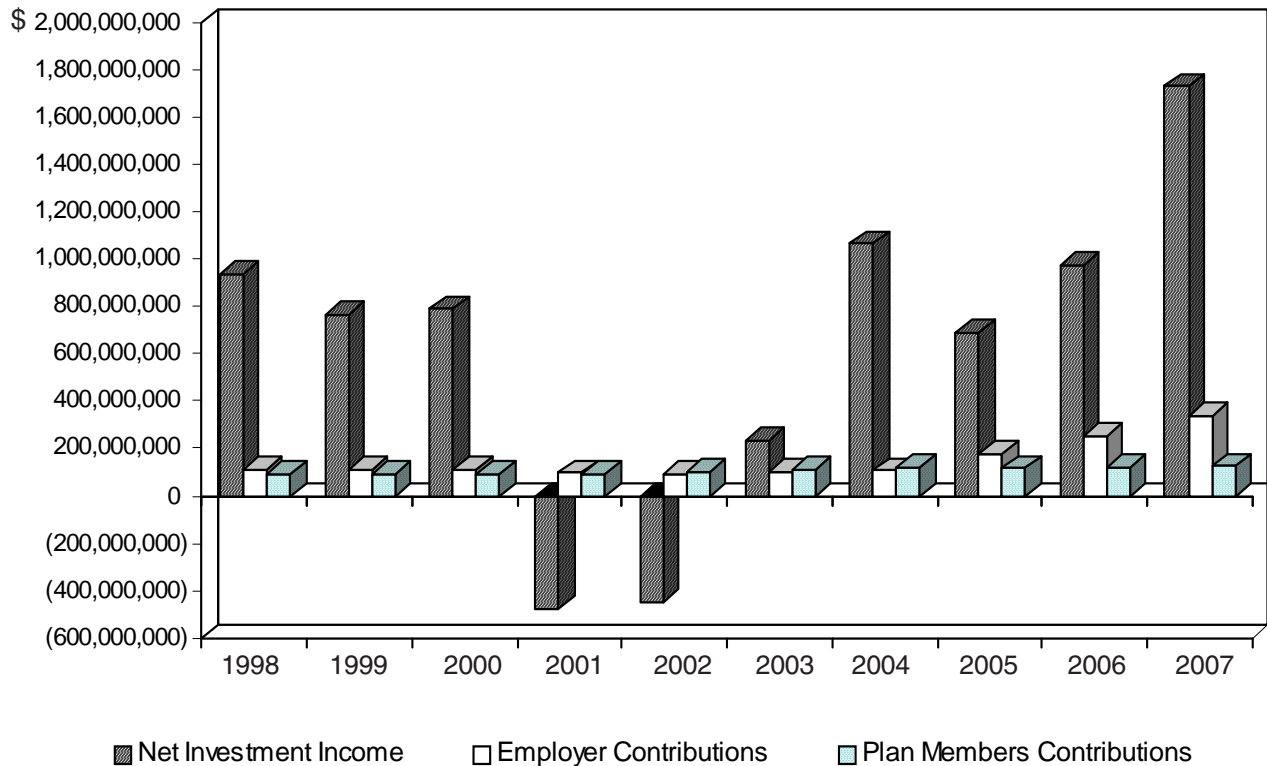
Public Employees' Retirement System Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
1998	6,566,155	1,139,429	267,186	872,243	7,438,398
1999	7,438,398	965,199	298,239	666,960	8,105,358
2000	8,105,358	990,702	339,480	651,222	8,756,580
2001	8,756,580	(286,775)	381,423	(668,198)	8,088,382
2002	8,088,382	(252,861)	422,688	(675,549)	7,412,833
2003	7,412,833	448,542	469,920	(21,378)	7,391,455
2004	7,391,455	1,302,620	516,769	785,851	8,177,306
2005	8,177,306	985,151	571,705	413,446	8,590,752
2006	8,590,752	1,400,868	612,149	788,719	9,379,471
2007	9,379,471	2,215,591	656,328	1,559,263	10,938,734

10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS



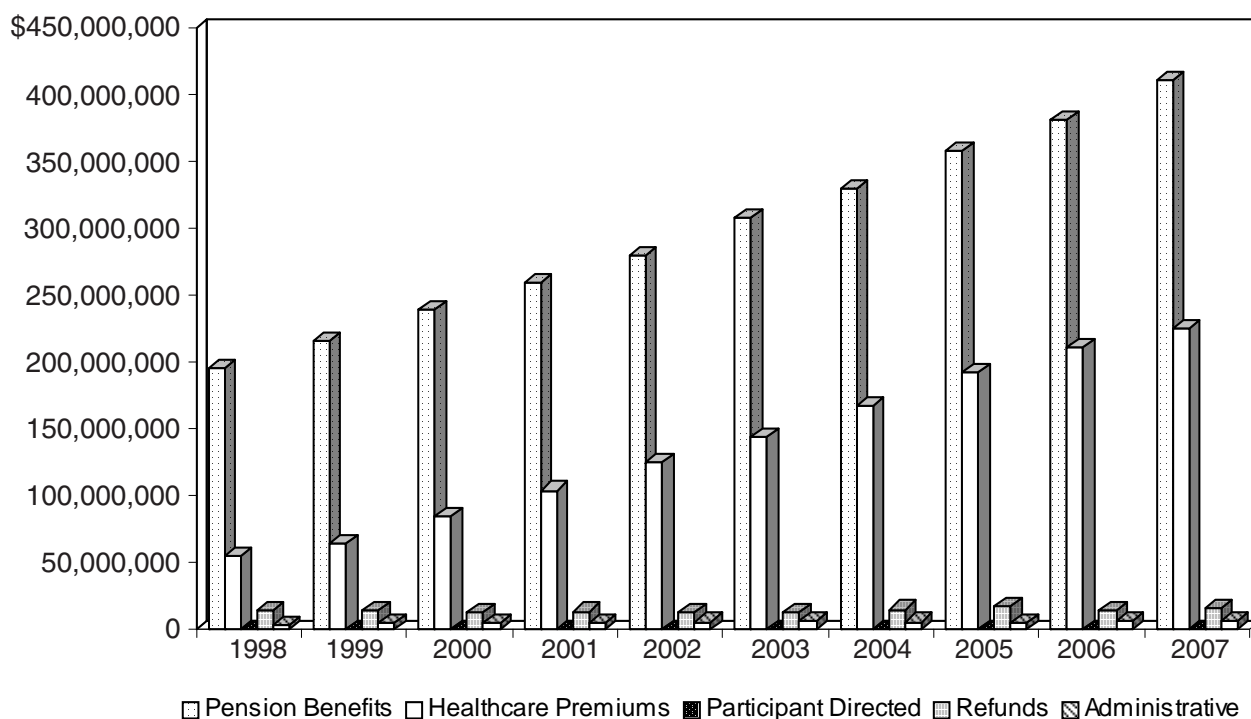
Public Employees' Retirement System Additions by Source (In thousands)						
Year Ended June 30	Employer Contributions	Plan Member Contributions	State of Alaska	Net Investment Income (Loss)	Other	Total
1998	\$112,384	\$89,256	\$ -	\$ 937,782	\$ 7	\$1,139,429
1999	109,938	90,635	-	764,622	4	965,199
2000	107,596	92,770	-	790,336	-	990,702
2001	96,484	94,983	-	(478,249)	7	(286,775)
2002	94,769	100,639	-	(448,279)	10	(252,861)
2003	99,198	112,112	-	237,205	27	448,542
2004	105,585	118,554	-	1,064,605	13,876	1,302,620
2005	178,205	114,640	-	692,303	3	985,151
2006	253,922	119,566	18,427	974,006	34,947	1,400,868
2007	338,890	126,278	18,582	1,731,757	84	2,215,591

10-YEAR COMPARISON OF ADDITIONS BY SOURCE



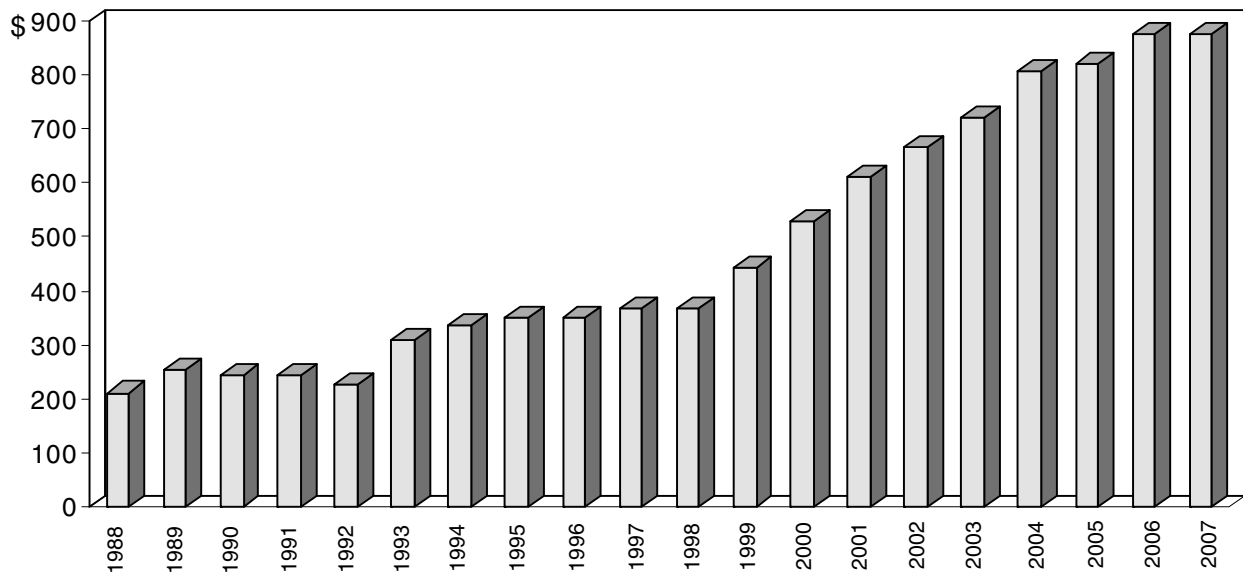
Public Employees' Retirement System Deductions by Type (In thousands)						
Year Ended June 30	Pension Benefits	Healthcare Premiums	Participant Directed	Refunds of Contributions	Administrative	Total
1998	\$195,544	\$ 55,165	-	\$13,557	\$ 2,920	\$ 267,186
1999	215,170	64,486	-	14,435	4,148	298,239
2000	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
2006	381,672	210,613	-	14,063	5,801	612,149
2007	410,545	224,553	15	14,953	6,262	656,328

10-YEAR COMPARISON OF DEDUCTIONS BY TYPE



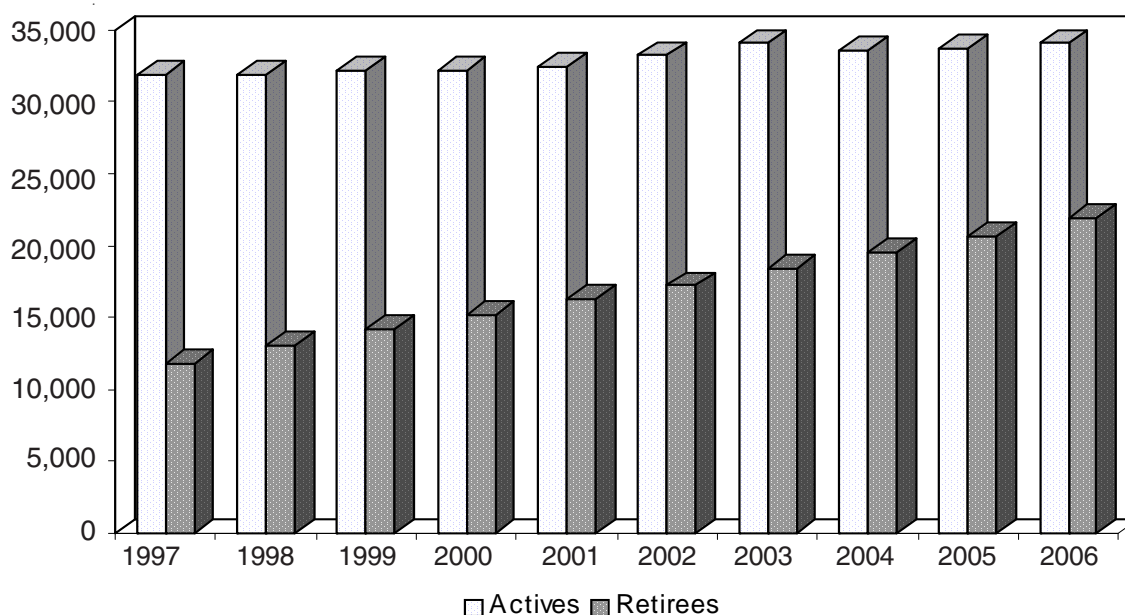
Public Employees' Retirement System Schedule of Benefit Deductions by Type (In thousands)						
Year Ended June 30	Service	Disability	Survivor	Dependent	Healthcare	Total
1998	\$177,556	\$6,598	\$10,823	\$ 567	\$ 55,165	\$250,709
1999	195,605	7,195	12,141	229	64,486	279,656
2000	216,118	9,669	13,650	4	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
2006	355,841	7,779	18,052	-	210,613	592,285
2007	383,516	7,603	19,426	-	224,553	635,098

20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS



Public Employees' Retirement System System Membership by Status					
Year Ended June 30	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
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	33,730	20,703	6,105	12,761	73,299
2006	34,071	21,901	6,219	14,155	76,346

10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Public Employees' Retirement System Schedule of Benefit Recipients by Type June 30, 2007				
Amount of Monthly Benefit	Number of Recipients	Type of Benefit		
		Service	Survivor/QDRO	Disability
\$ 0 - 300	2,011	1,623	376	12
301 - 600	3,807	3,298	464	45
601 - 900	3,196	2,781	362	53
901 - 1,200	2,713	2,407	257	49
1,201 - 1,500	2,043	1,797	176	70
1,501 - 1,800	1,652	1,493	106	53
1,801 - 2,100	1,354	1,212	78	64
2,101 - 2,400	1,066	982	52	32
2,401 - 2,700	928	881	36	11
2,701 - 3,000	770	738	26	6
3,001 - 3,300	584	568	14	2
3,301 - 3,600	490	480	5	5
3,601 - 3,900	374	367	5	2
3,901 - 4,200	282	278	3	1
over 4,200	631	625	5	1
Totals	21,901	19,530	1,965	406

Schedule of Benefit Recipients by Option Selected June 30, 2007						
Amount of Monthly Benefit	Number of Recipients	Option Selected				
		1	2	3	4	5
\$ 0 - 300	2,011	901	412	283	84	331
301 - 600	3,807	1,783	950	588	229	257
601 - 900	3,196	1,508	788	457	236	207
901 - 1,200	2,713	1,183	725	415	189	201
1,201 - 1,500	2,043	852	569	314	125	183
1,501 - 1,800	1,652	631	485	267	142	127
1,801 - 2,100	1,354	500	452	210	94	98
2,101 - 2,400	1,066	354	363	189	75	85
2,401 - 2,700	928	279	359	157	69	64
2,701 - 3,000	770	204	324	135	55	52
3,001 - 3,300	584	169	240	80	48	47
3,301 - 3,600	490	137	222	70	37	24
3,601 - 3,900	374	88	184	56	27	19
3,901 - 4,200	282	62	141	44	20	15
over 4,200	631	168	288	87	58	30
Totals	21,901	8,819	6,502	3,352	1,488	1,740

Options

1 - Whole Life Annuity

2 - 75% Joint and Survivor Annuity

3 - 50% Joint and Survivor Annuity

4 - 66 2/3% Joint and Survivor Annuity

5 - Level Income

Public Employers' Retirement System Schedule of Benefit Recipients by Healthcare Coverage June 30, 2006							
Amount of Monthly Benefit	Number of Recipients	Medical			Other Member Paid		
		1	2	3	DVA	LTC	Life
\$ 0 - 300	1,758	-	1,520	238	701	365	43
301 - 600	3,802	-	3,508	294	1,972	1,086	168
601 - 900	3,103	14	2,934	155	1,800	997	160
901 - 1,200	2,637	10	2,525	102	1,703	985	199
1,201 - 1,500	1,984	11	1,918	55	1,390	825	180
1,501 - 1,800	1,636	6	1,594	36	1,222	739	160
1,801 - 2,100	1,369	8	1,342	19	1,051	664	148
2,101 - 2,400	1,083	1	1,074	8	880	539	158
2,401 - 2,700	918	4	910	4	751	481	133
2,701 - 3,000	775	1	770	4	659	426	138
3,001 - 3,300	664	-	658	6	583	371	131
3,301 - 3,600	480	1	478	1	426	271	114
3,601 - 3,900	442	-	441	1	395	266	119
3,901 - 4,200	347	-	346	1	305	218	95
over 4,200	854	-	847	7	768	520	243
Totals	21,852	56	20,865	931	14,606	8,753	2,189
<u>Type of Medical Coverage</u>				<u>Type of Other Coverage</u>			
1 - None				DVA = Dental, Vision, and Audio			
2 - Member paid				LTC = Long-term Care			
3 - Plan paid				Life = Life Insurance			

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+
Other							
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	\$ 423	\$ 516	\$1,008	\$1,571	\$2,249	\$3,176	\$3,369
Number of Recipients	40	363	266	211	213	118	76
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	\$ 519	\$ 536	\$ 950	\$1,464	\$2,212	\$3,247	\$3,837
Number of Recipients	72	319	271	246	197	184	50
Peace Officer/Firefigher							
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	\$ 277	\$ 700	\$1,209	\$1,823	\$2,852	\$3,804	\$3,846
Number of Recipients	1	14	20	23	66	13	3
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	\$1,556	\$ 748	\$1,280	\$2,236	\$2,931	\$3,595	\$4,190
Number of Recipients	5	11	9	26	29	13	3
"Average Monthly Benefit" includes post-retirement pension adjustments and cost-of-living increases.							

Public Employees' Retirement System Principal Participating Employers June 30, 2006			
Employer	Non-retired Members	Rank	Percentage of of Total Non-retired Members
State of Alaska	23,449	1	41.5%
University of Alaska	4,954	2	8.8
Anchorage School District	<u>4,495</u>	3	<u>7.9</u>
Total	<u>32,948</u>		<u>58.2%</u>



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