# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

# COMPREHENSIVE ANNUAL FINANCIAL REPORT
## A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2010

**Sean Parnell, Governor**

Prepared by

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Annette Kreitzer, Commissioner
Pat Shier, Director

Located at: 333 Willoughby Avenue
State Office Building, 6th floor
Toll-Free 800-821-2251 or in Juneau (907) 465-4460
doa.alaska.gov/drb

This page intentionally left blank.

The Alaska Department of Administration complies with Title II of the 1990 Americans with Disabilities Act. This publication is available in alternative communication formats upon request. To make necessary arrangements, contact the ADA Coordinator for the Alaska Division of Retirement and Benefits at (907) 465-4460 or the TDD for the hearing impaired at (907) 465-2805.

## INTRODUCTORY SECTION



## FINANCIAL SECTION

## INVESTMENT SECTION



## ACTUARIAL SECTION



## STATISTICAL SECTION

# INTRODUCTORY SECTION

This page intentionally left blank.

STATE OF ALASKA

SEAN PARNELL, GOVERNOR

PO BOX 110203
Juneau, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE: 1-800-821-2251

**DEPARTMENT OF ADMINISTRATION**

*DIVISION OF RETIREMENT AND BENEFITS*

**LETTER OF TRANSMITTAL**

October 29, 2010

The Honorable Sean Parnell, 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) (System) for the fiscal year ended June 30, 2010. The CAFR is intended to fulfill the legal requirements of Alaska Statute (AS) 39.35.004(a)(8).

The CAFR provides comprehensive information on the financial operations of the System for the fiscal year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2010. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, have issued an unqualified opinion on the Systems' basic financial statements for the year ended June 30, 2010. The independent auditor's report is located at the front of the Financial Section of this report.

The management's discussion and analysis (MD&A) is also located in the Financial Section of this report. The MD&A provides an analytical overview of the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR is divided into five sections:

- **Introductory Section,** which contains the 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, 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.

**Profile of the System**

The System 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 2005 legislative session, a law was enacted that closed the Defined Benefit (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 (DCR) plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of: (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan and the Alaska Retiree Health Care Trust. The DCR Plan includes the DCR trust, occupational death and disability plan (OD&D), retiree major medical plan (RMP), and the health reimbursement arrangement plan (HRA).

**Reporting Entity**

The System is considered a component unit of the State of Alaska (State) for financial reporting purposes. Due to the closeness of the System's relationship to the State, it is included in the State CAFR as a fiduciary fund.

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

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).

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 System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting the System's financial condition to the governor, legislature, and individual employers participating in the System.

**Major Initiatives**

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

The System continues to assess and retool its communication efforts, which include printed handbooks, newsletters, and website content. The System strives to ensure that all communication material is clear, accurate, and user friendly.

The System also endeavors to provide the highest degree of customer service to all its members. The Division recently established Customer Service Centers to improve phone service and provide faster processing of all customer requests.

The System is a participant in a multi-agency project procuring and implementing Virtual Call Center functionalities for the phone system. These features will enable the Customer Service Representatives to provide faster and higher quality service to our members. The System will activate a new redesigned website in early January 2011. The new website will use a modern navigation model, will be compliant with the Americans with Disabilities Act, and use many "best practices" techniques of the web industry.

The System offers a broad array of fairs and seminars directed toward both active members and employers. A new seminar offered throughout the State of Alaska is titled "Marketing the Defined Contribution Retirement Plan." The goal of the seminar is to assist employers with successfully marketing the DCR plan. In addition, the System continues to expand its Benefits Fairs with the goal of educating members about all benefits available from early career through to retirement, encouraging healthy living and how to best use the health plan.

**Funding Requirements**

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2009, 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 postemployment healthcare benefits) of 61.8%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately $6.3 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.

**Investments**

At June 30, 2010, the DB Plan's investment portfolio was valued at $9.1 billion and earned an 11.39% return for the fiscal year ended June 30, 2010. The DCR Plan's investment portfolio was valued at $139 million for the fiscal year ended June 30, 2010. Over the past five years ending June 30, 2010, the DB Plan's investments earned a 2.65% return. The ARMB has statutory oversight of the System'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.

**Accounting System**

This CAFR has been prepared to conform with the principles of accounting and reporting established by the GASB. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report.

**Internal Controls**

System management is responsible for establishing and maintaining a system of internal controls to protect PERS assets from loss, theft, or misuse and to ensure adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. 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.

**Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government entity 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 and are submitting it to the GFOA for consideration.

**Acknowledgements**

The preparation of this report is made possible by the dedicated services of the staff of the Department of Administration, Division of Retirement and Benefits, Department of Law, 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 http://doa.alaska.gov/drb/pers/perscafr.html and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

We are grateful to the Alaska Retirement Management Board, the staff, the advisors, and to the many people who have diligently worked to assure the successful operation of the System.

Respectfully submitted,

Annette Kreitzer
Commissioner

Pat Shier
Director

Teresa Kesey, CPA
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alaska Public Employees' Retirement System

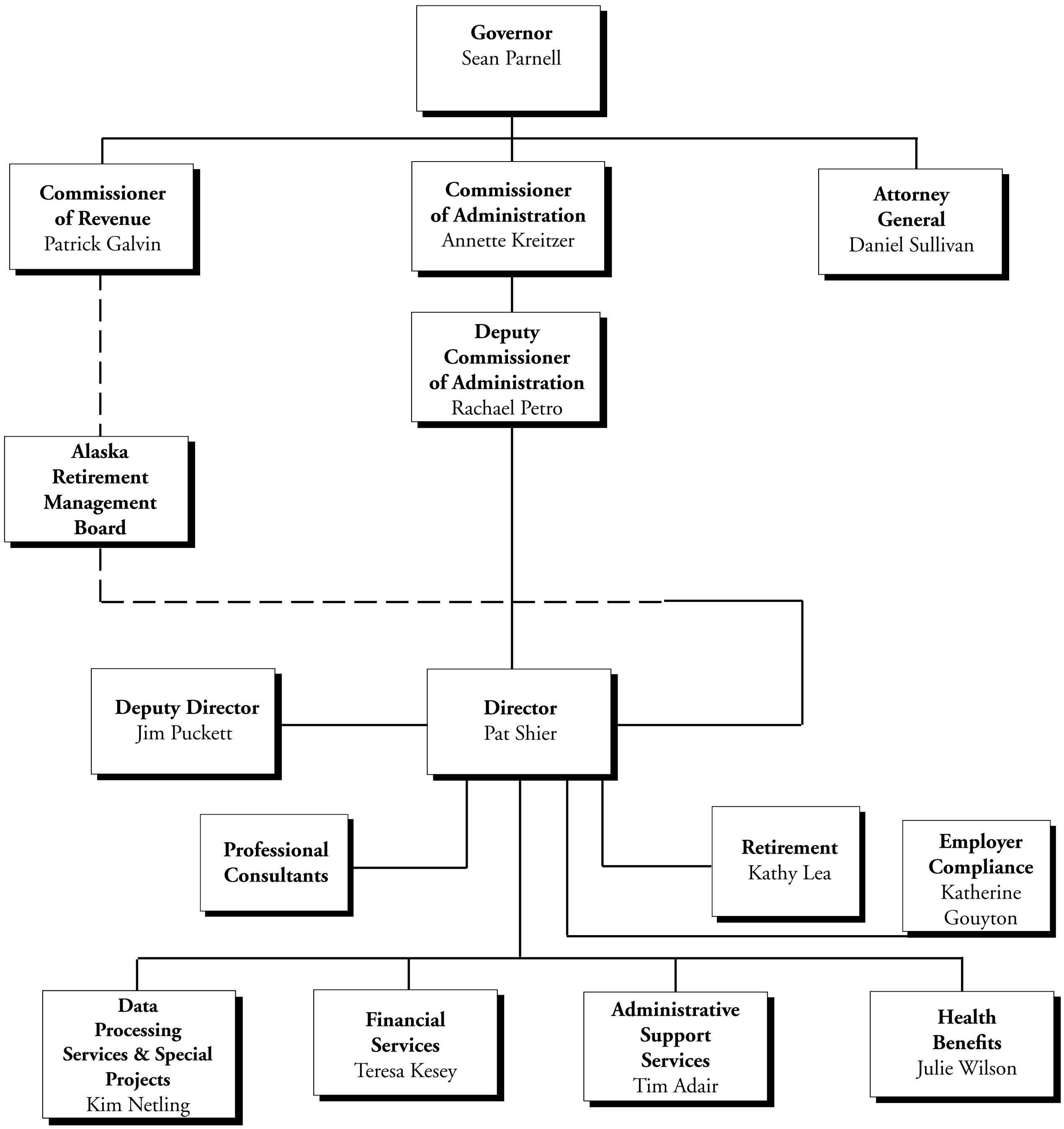
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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 employees retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

## ORGANIZATION CHART



**Section Responsibilities**

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. This section appoints members to retirement 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 **Financial Services Section** is responsible for maintaining the employee and employer records and accounts in each of the plans administered by the Division, producing financial statements and reports, and assuring compliance with Internal Revenue Service requirements.

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

**Consulting Actuary**
Buck Consultants
*Denver, Colorado*

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

**Benefits Consultant**
Buck Consultants
*Denver, Colorado*

**Third-Party Healthcare Claim Administrator**
Wells Fargo Insurance Services of Alaska
*Anchorage, Alaska*

**IT Consultant**
Computer Task Group
*Anchorage, Alaska*

**Legal Counsel**
Anne Johnson
Joan Wilkerson
Jessica Schrader
Toby Steinberger
Assistant Attorney Generals
*Juneau, Alaska*
Ice Miller LLP
*Indianapolis, Indiana*

**Consulting Physicians**
Kim Smith, M.D.
Melissa Hynes, M.D.
William Cole, M.D.
*Juneau, Alaska*
Thomas Rodgers, M.D.
*Ford, Washington*

A list of investment consultants can be found on pages 75-76 and on the Schedule of External Management Fees on pages 83-84.

# 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 a many not-for-profit organizations around Alaska. He has a Bachelor's degree 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. Ms. 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. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a Bachelor's of Science 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 former Governor Sarah Palin effective December 4, 2006. Before his appointment he served as a Petroleum Land Manager for the Alaska Department of Natural Resources (DNR), 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 Master of Business Administration 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.

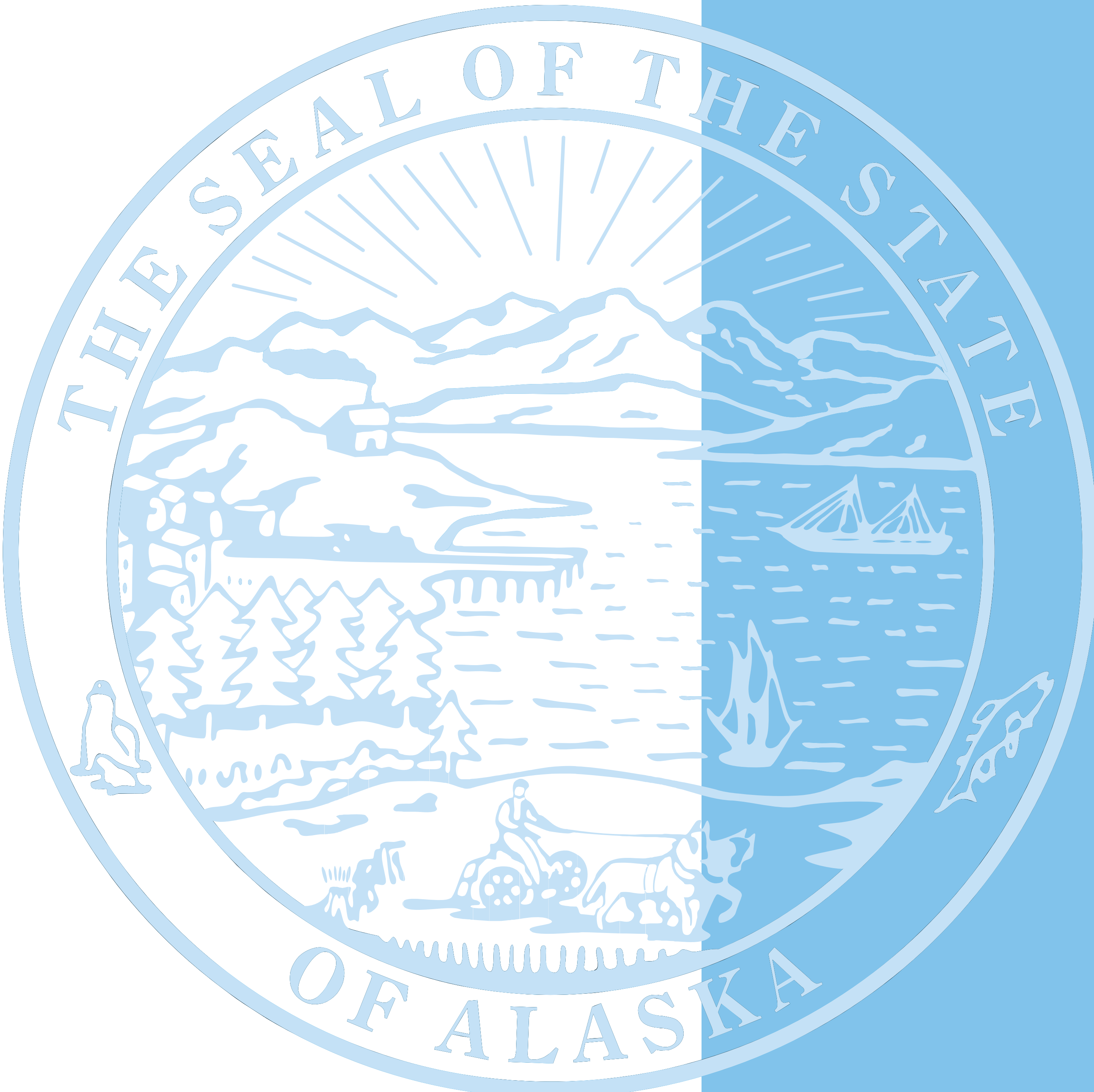
**Annette Kreitzer** was appointed Commissioner of the Department of Administration by former Governor Sarah Palin in January 2007. Most recently Ms. Kreitzer served as Chief of Staff for former Lieutenant Governor Loren Leman. She also served as Committee Aide for the Senate Special Committee on Oil 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 Bachelor's degree in Accounting from the University of Washington and has been a CPA since 1958.

**Kristin Erchinger** is currently finance director for the City of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director in 2000. Ms. Erchinger is past president of the Alaska Government Finance Officer's Association and represents that organization in the Alaska Municipal League. She also served on the Providence Alaska Region Board, the Graduate Medical Education Committee, the Alaska Municipal League Board, and the Board of the American Society for Public Administration, Alaska Chapter. Ms. Erchinger earned bachelor's degrees in international studies and Japanese language and literature, both from the University of Washington, and a master's degree in public administration from the University of Alaska Anchorage.

**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 Bachelor's degree in Accounting & German and a Master of Professional Accountancy from Weber State University.

**Tom Richards** recently retired after serving 29 years as a mathematics, science and economics teacher in Fairbanks and North Pole. He currently works as an education liaison at the Fairbanks Youth Facility. 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 with 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. He continues to enjoy Alaska with his wife, Debbie.




# FINANCIAL SECTION

This page intentionally left blank.

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

**Independent Auditors' Report**

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

We have audited the accompanying statement of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Public Employees' Retirement System as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Schedules of Contributions from Employers and the State of Alaska are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 this information and express no opinion on it.

KPMG

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 70- 72 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules are the responsibility of the management of the Plan. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 29, 2010

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

# Management's Discussion and Analysis

**June 30, 2010 and 2009**

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (System) financial position and performance for the year ended June 30, 2010 and 2009. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information and supplemental schedules to better understand the financial condition and performance of the System during the fiscal years ended June 30, 2010 and 2009. Information for fiscal year 2008 is presented for comparative purposes.

## Financial Highlights

The System financial highlights as of June 30, 2010 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits increased by $1,104.1 million during fiscal year 2010.
- The System's plan member and employer contributions increased by $32.7 million during fiscal year 2010.
- The State of Alaska directly appropriated $108.0 million during fiscal year 2010 as statutorily required.
- The System net investment income increased $3,075.6 million to $884.1 million during fiscal year 2010.
- The System's pension benefit expenditures totaled $496.0 million during fiscal year 2010.
- The System's postemployment healthcare benefit expenditures totaled $312.9 million in fiscal year 2010.

## Overview of the Financial Statements

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

*Statement of Plan Net Assets* – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2010 and 2009.

*Statement of Changes in Plan Net Assets* – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal year ended June 30, 2010 and 2009. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2010 and 2009, and the sources and uses of those funds during fiscal year 2010 and 2009.

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

*Notes to Financial Statements* – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the System's financial statements.

*Required Supplementary Information and Related Notes* – The required supplementary information consists of seven schedules and related notes concerning the funded status of the System and actuarial assumptions and methods used in the actuarial valuation.

*Supplemental Schedules* – Supplemental schedules include detailed information on administrative and investment deductions incurred by the System and payments to consultants (other than investment advisors) for professional services.

**Condensed Financial Information**

**Plan Net Assets** (In thousands)

| | | | Increase/(Decrease) | | |
|---|---|---|---|---|---|
| **Description** | **2010** | **2009** | **Amount** | **Percentage** | **2008** |
| Assets: | | | | | |
| Cash and cash equivalents | $ 103,558 | 39,636 | 63,922 | 161.3% | $ 34,332 |
| Due from State of Alaska General Fund | 11,931 | 7,301 | 4,630 | 63.4 | 3,580 |
| Contributions receivable | 22,958 | 22,053 | 905 | 4.1 | 27,255 |
| Due from retiree health fund | 1,189 | 1,051 | 138 | 13.1 | — |
| Other receivables | 4,412 | 2,084 | 2,328 | 111.7 | 138 |
| Legal settlement | 445,415 | — | 445,415 | 100.0 | — |
| Due from postemployment healthcare | — | — | — | — | 3,490,576 |
| Investments, at fair value | 9,255,890 | 8,550,532 | 705,358 | 8.2 | 10,779,493 |
| Other assets | 2,829 | 2,824 | 5 | 0.2 | 8 |
| Total assets | 9,848,182 | 8,625,481 | 1,222,701 | 14.2 | 14,335,382 |
| Liabilities: | | | | | |
| Accrued expenses | 9,572 | 9,747 | (175) | (1.8) | 9,022 |
| Claims payable | 32,315 | — | 32,315 | 100.0 | — |
| Legal fees payable | 86,428 | — | 86,428 | 100.0 | — |
| Due to Alaska Retiree Health Care Trust | — | — | — | — | 3,490,576 |
| Due to other funds | 101 | 102 | (1) | (1.0) | 70,480 |
| Total liabilities | 128,416 | 9,849 | 118,567 | 1,203.8 | 3,570,078 |
| Net assets | $ 9,719,766 | 8,615,632 | 1,104,134 | 12.8% | $10,765,304 |

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

**Changes in Plan Net Assets** (In thousands)

| Description | 2010 | 2009 | Increase/(Decrease) Amount | Increase/(Decrease) Percentage | 2008 |
|---|---|---|---|---|---|
| Net assets, beginning of year | $ 8,615,632 | 10,765,304 | (2,149,672) | (20.0)% | $10,942,324 |
| Additions (reductions): | | | | | |
| Contributions | 581,222 | 548,525 | 32,697 | 6.0 | 514,976 |
| Appropriation – State of Alaska | 107,953 | 241,600 | (133,647) | (55.3) | 185,000 |
| Net investment income (loss) | 884,126 | (2,191,482) | 3,075,608 | (140.3) | (336,985) |
| Transfers | — | — | — | — | 3,490,576 |
| Other additions | 456,496 | 8,780 | 447,716 | 5,099.3 | 47 |
| Total additions (reductions) | 2,029,797 | (1,392,577) | 3,422,374 | (245.8) | 3,853,614 |
| Deductions: | | | | | |
| Pension and postemployment healthcare benefits | 808,916 | 722,493 | 86,423 | 12.0 | 516,197 |
| Refund of contributions | 15,393 | 13,884 | 1,509 | 10.9 | 15,159 |
| Legal settlement fees | 86,428 | — | 86,428 | 100.0 | — |
| Administrative | 14,926 | 20,718 | (5,792) | (28.0) | 8,702 |
| Transfers | — | — | — | — | 3,490,576 |
| Total deductions | 925,663 | 757,095 | 168,568 | 22.3 | 4,030,634 |
| Increase (decrease) in net assets | 1,104,134 | (2,149,672) | 3,253,806 | (151.4) | (177,020) |
| Net assets, end of year | $9,719,766 | 8,615,632 | 1,104,134 | 12.8% | $10,765,304 |

**Financial Analysis of the Plans**

The statement of plan net assets as of June 30, 2010 and 2009 show net assets held in trust for pension and postemployment healthcare benefits of $9,719,766,000 and $8,615,632,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net assets held in trust for pension and postemployment healthcare benefits of $1,104,134,000 or 12.8% from fiscal year 2009 to 2010 and a decrease of $2,149,672,000 or 20.0% from fiscal years 2009 and 2008. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives.

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

## Management's Discussion and Analysis

June 30, 2010 and 2009

***Defined Benefit (DB) Plan Asset Allocation***

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DB Plan:

| | 2010 | |
|---|---|---|
| | Pension & Healthcare Trust | |
| | Allocation | Range |
| Broad domestic equity | 30.0% | ± 6% |
| Global equity ex-U.S. | 22.0 | ± 4 |
| Private equity | 7.0 | ± 5 |
| Fixed income | 20.0 | ± 3 |
| Real assets | 16.0 | ± 8 |
| Absolute return | 5.0 | ± 4 |
| Cash | — | +6 |
| Total | 100.0% | |
| Expected five-year median return | 9.04% | |
| Standard deviation | 12.85 | |

| | 2009 | | | |
|---|---|---|---|---|
| | Pension | | Healthcare Trust | |
| | Allocation | Range | Allocation | Range |
| Broad domestic equity | 34.0% | ± 6% | 37.0% | ± 6% |
| Global equity ex-US | 20.0 | ± 4 | 22.0 | ± 4 |
| Private equity | 7.0 | ± 5 | 3.0 | ± 3 |
| Fixed income | 18.0 | ± 3 | 20.0 | ± 3 |
| Real assets | 15.0 | ± 8 | 8.0 | +5/-8 |
| Absolute return | 6.0 | ± 4 | 7.0 | +4/-7 |
| Cash | - | + 3 | 3.0 | +5/-3 |
| Total | 100.0% | | 100.0% | |
| Expected five-year median return | 8.15% | | 7.90% | |
| Standard deviation | 12.85% | | 12.11% | |

For fiscal years 2010 and 2009, the DB Plan's investments generated an 11.39% and (20.49%) rate of return, respectively. The DB Plan's annualized rate of return was (5.00%) over the last three years and 2.65% over the last five years, which is less than the actuarial assumed rate of return of 8.25%.

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

***Defined Contribution Retirement (DCR) Plan Asset Allocation***

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DCR Plan's retiree major medical insurance fund, health reimbursement arrangement fund, and occupational death and disability fund:

| | 2010 | |
|---|---|---|
| | Allocation | Range |
| Broad domestic equity | 30.0% | ± 6% |
| Global equity ex-U.S. | 22.0 | ± 4 |
| Private equity | 7.0 | ± 5 |
| Fixed income | 20.0 | ± 3 |
| Real assets | 16.0 | ± 8 |
| Absolute return | 5.0 | ± 4 |
| Cash | — | + 6 |
| Total | 100.0% | |
| Expected return | 9.04% | |
| Standard deviation | 12.85 | |

| | 2009 | |
|---|---|---|
| | Allocation | Range |
| Broad domestic equity | 34.0% | ±6% |
| Global equity ex-U.S. | 20.0 | ±4 |
| Private equity | 7.0 | +5/-7 |
| Fixed income | 18.0 | ±3 |
| Real assets | 15.0 | +5/-15 |
| Absolute return | 6.0 | +4/-6 |
| Cash | — | +3 |
| Total | 100.0% | |
| Expected return | 8.15% | |
| Standard deviation | 12.85 | |

**Actuarial Valuations and Funding Progress**

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 during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary and the actuarially determined contribution rate is considered for adoption by the Board annually. Decreases in investment results, increasing healthcare costs, and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 61.8%, at June 30, 2009 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

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 2010, (based on the June 30, 2007 actuarial valuation report) the consolidated normal cost rate decreased from 13.72% to 9.46%, the average past service rate decreased from 21.50% to 18.19%, thus producing a total fiscal year 2010, actuarially determined contribution rate of 27.65%. The Board adopted the actuarially determined contribution rate of 27.65% for fiscal year 2010.

| | Valuation Year (In thousands) | |
|---|---|---|
| | **2009** | **2008** |
| Valuation assets | $ 10,242,978 | 11,040,106 |
| Accrued liabilities (total benefits) | 16,579,371 | 15,888,141 |
| Unfunded accrued liability | 6,336,393 | 4,848,035 |
| Funding ratio | 61.8% | 69.5% |

**Contributions, Investment Income, and Other Additions**

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, State of Alaska appropriation, investment income (loss), and other additions as follows:

| | **Additions (Reductions)** (In thousands) | | | | |
|---|---|---|---|---|---|
| | | | **Increase/(decrease)** | | |
| | **2010** | **2009** | **Amount** | **Percentage** | **2008** |
| Plan members contributions | $152,787 | 141,073 | 11,714 | 8.3% | 134,151 |
| Employer contributions | 428,435 | 407,452 | 20,983 | 5.1 | 380,825 |
| Appropriation – State of Alaska | 107,953 | 241,600 | (133,647) | (55.3) | 185,000 |
| Net investment income (loss) | 884,126 | (2,191,482) | 3,075,608 | 140.3 | (336,985) |
| Transfer from postemployment health fund | — | — | — | — | 3,490,576 |
| Legal settlement | 445,414 | — | 445,414 | 100.0 | — |
| Other additions | 11,082 | 8,780 | 2,302 | 26.2 | 47 |
| Total | $2,029,797 | (1,392,577) | 3,422,374 | 245.8% | 3,853,614 |

The System's employer contributions increased from $407,452,000 in fiscal year 2009 to $428,435,000 in fiscal year 2010, an increase of $20,983,000 or 5.1%. There was an increase from $380,825,000 during fiscal year 2008 to $407,452,000 during fiscal year 2009, an increase of $26,627,000 or 7.0%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $107,953,000 for fiscal year 2010 and $241,600,000 for fiscal year 2009 in employer on behalf payments as required by Alaska Statute 39.35.280. The employer on behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate decreased from 35.22% in fiscal year 2009 to 27.65% in fiscal year 2010. The employer contribution rate of 22.00% is established in Alaska Statute 39.35.255(a).

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

The System's net investment income in fiscal year 2010 increased by $3,075,608,000 or 140.3% from amounts recorded in fiscal year 2009 and net investment loss increased in fiscal year 2009 by $1,854,497,000 or a change of (550.3)% compared to amounts recorded in fiscal year 2008. In fiscal year 2010 investments have started recovering from the economic downturn in fiscal year 2009 where investment results were heavily negative. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2010, the System experienced some recovery from the prior year's significant reduction in rates of return on investments. The assumed rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%.

The System's investment rate of returns at June 30, are as follows:

| | Year ended | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| System returns | 11.39% | (20.49)% | (3.06)% |
| Domestic equities | 15.45 | (26.72) | (13.53) |
| International equities | 12.05 | (29.11) | (7.58) |
| Fixed income | 11.19 | 3.39 | 6.58 |
| Private equity | 18.86 | (23.67) | — |
| Absolute return | 6.59 | (12.51) | — |
| Real assets | (0.28) | (21.02) | 5.71 |
| International fixed income | — | — | 18.96 |

During fiscal year 2010 the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to $500 million in exchange for dismissal of the lawsuit. The amount allocated to the Public Employees' Retirement System was $359.0 million after legal fees were deducted.

**Benefits and Other Deductions**

The primary deduction of the DB Plan is the payment of pension and postemployment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the plans comprise the costs of operations as follows:

| | **Deductions** (In thousands) | | | | |
|---|---|---|---|---|---|
| | | | **Increase/(decrease)** | | |
| | **2010** | **2009** | **Amount** | **Percentage** | **2008** |
| Pension | $ 496,015 | 466,085 | 29,930 | 6.4% | $ 439,123 |
| Postemployment healthcare | 312,901 | 256,408 | 56,493 | 22.0 | 77,074 |
| Refund of contributions | 15,393 | 13,884 | 1,509 | 10.9 | 15,159 |
| Administrative | 14,926 | 20,718 | (5,792) | (28.0) | 8,702 |
| Legal fees | 86,428 | — | 86,428 | 100.0 | — |
| Total | $ 925,663 | 757,095 | 168,568 | 22.3% | $ 540,058 |

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

The System's pension benefit payments in 2010 increased $29,930,000 or 6.4% from fiscal year 2009 and increased $26,962,000 or 6.1% from fiscal year 2008 to 2009. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2010 increased $56,493,000 or 22.0% from fiscal year 2009 and increased $179,334,000 or 232.7% from fiscal year 2008 to 2009. Healthcare costs continued to rise in fiscal year 2010. However, the increase between fiscal year 2008 and 2009 is largely the result of the establishment of the Alaska Retiree Healthcare Trust (ARHCT) and the transition from paying claims out of the Retiree Health Fund to paying healthcare claims out of the ARHCT.

The System's administrative deductions in 2010 decreased $5,792,000 or 28.0% from fiscal year 2009 and increased $12,016,000 or 138.1% from fiscal year 2009 and 2008. The fiscal year 2010 reduction in administrative expenses is due to a decrease in management and consulting fees.

During fiscal year 2010, the system incurred legal fees of $86,428,000 associated with the legal settlement paid to the State of Alaska by Mercer.

**Funding**

Retirement benefits are financed by accumulations from employers, plan members, State of Alaska appropriations, and income earned on System investments.

- The employer contribution rate is determined by the System's consulting actuary and adopted by the Board annually. Alaska Statute 39.35.255(a) sets the employer contribution rate at 22.0%. The difference between the actuarially determined rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.
- Plan member contributions are set by Alaska Statute 39.35.160 for the DB Plan and Alaska Statute 39.35.730 for the DCR Plan.
- Alaska Statute 39.35.280 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- The Board works with an external consultant to determine the proper asset allocation strategy.

**Legislation**

During fiscal year 2010, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 300 appropriates $165.8 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2011. This appropriation is to fund the difference

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

## Management's Discussion and Analysis

**June 30, 2010 and 2009**

between the statutory required contribution rate established in Senate Bill 125 of 22% and the actuarially determined contribution rate of 27.96% for fiscal year 2011.

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

The financial market environment continues to challenge investors, although fiscal year 2010 was a positive period for most investment categories. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceed its' actuarially assumed return of 8.25% with a system rate of return of 11.39% at June 30, 2010. Even with investment returns exceeding the actuarial rate of return, the System will continue to see an increase in employer actuarial determined contribution rates due to rising medical costs and past contribution shortfalls.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 35.22% in fiscal year 2009 to 27.65% in fiscal year 2010. The Board adopted the actuarially determined contribution rate of 27.65% for fiscal year 2010, down 7.57 points from the fiscal year 2009 Board adopted actuarially determined contribution rate of 35.22%. The statutory employer contribution rate remained at 22.00% for fiscal years 2009 and 2010.

The June 30, 2009, actuarial valuation for the DB Plan reported a funding ratio of 61.8% and an unfunded liability of $6.34 billion.

For fiscal year 2010 and 2009, the DCR Plan's employer contribution rate was established at 22.00%. The DCR Plan retiree medical plan contribution rate was adopted by the Board to be 0.83% and 0.99% for fiscal year 2010 and 2009, respectively. The DCR Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 1.33% for fiscal year 2010 and 2009. The DCR Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.30% and 0.58% for fiscal year 2010 and 2009, respectively.

**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:

State of Alaska Public Employees' Retirement System
Division of Retirement & Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

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

## Statements of Plan Net Assets
## June 30, 2010
### (with summarized financial information from June 30, 2009)
### (In thousands)

| | Defined benefit plans | | | Defined contribution pension trust fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Occupational death and disability | | | | | | |
| | Pension | Alaska Retiree Healthcare Trust | Total | Participant Directed | All Others | Peace Officer / Firefighter | Retiree Medical plan | Healthcare Reimbursement Arrangement | Total | System total June 30, 2010 | System total June 30, 2009 |
| Assets: | | | | | | | | | | | |
| Cash and cash equivalents (notes 2 and 3): | | | | | | | | | | | |
| Short-term fixed income pool | $ 63,836 | 34,990 | 98,826 | 500 | 15 | 15 | 50 | 197 | 777 | 99,603 | 38,051 |
| Great West/participant directed deposit | — | — | — | 3,955 | — | — | — | — | 3,955 | 3,955 | 1,585 |
| Total cash and cash equivalents | 63,836 | 34,990 | 98,826 | 4,455 | 15 | 15 | 50 | 197 | 4,732 | 103,558 | 39,636 |
| Receivables: | | | | | | | | | | | |
| Contributions | 22,952 | 5 | 22,957 | 1 | — | — | — | — | 1 | 22,958 | 22,053 |
| Legal Settlement | — | 445,415 | 445,415 | — | — | — | — | — | — | 445,415 | — |
| Due from State of Alaska General Fund | — | 13,374 | 13,374 | 3,488 | 74 | 30 | 223 | 924 | 4,739 | 18,113 | 13,145 |
| Due from retiree health fund | — | 11,724 | 11,724 | — | — | — | — | — | — | 11,724 | 1,051 |
| Other account receivable | — | 4,412 | 4,412 | — | — | — | — | — | — | 4,412 | 2,084 |
| Total receivables | 22,952 | 474,930 | 497,882 | 3,489 | 74 | 30 | 223 | 924 | 4,740 | 502,622 | 38,333 |
| Investments (notes 2, 3, 4 and 5) at fair value: | | | | | | | | | | | |
| Fixed income securities | | | | | | | | | | | |
| Retirement fixed income pool | 481,750 | 424,936 | 906,686 | — | 384 | 130 | 927 | 3,558 | 4,999 | 911,685 | 1,001,786 |
| US Treasury fixed income pool | 279,587 | 172,679 | 452,266 | — | 90 | 30 | 217 | 832 | 1,169 | 453,435 | — |
| High yield pool | 133,514 | 93,202 | 226,716 | — | 67 | 23 | 163 | 625 | 878 | 227,594 | 189,551 |
| International fixed income pool | 81,747 | 55,618 | 137,365 | — | 67 | 23 | 163 | 625 | 878 | 138,243 | 130,607 |
| Emerging markets debt pool | 41,357 | 28,608 | 69,965 | — | 66 | 22 | 160 | 614 | 862 | 70,827 | 65,839 |
| Total fixed income securities | 1,017,955 | 775,043 | 1,792,998 | — | 674 | 228 | 1,630 | 6,254 | 8,786 | 1,801,784 | 1,387,783 |
| Broad domestic equity | 1,555,438 | 1,101,756 | 2,657,194 | — | 923 | 313 | 2,231 | 8,564 | 12,031 | 2,669,225 | 2,847,537 |
| Global equity Ex-US: | | | | | | | | | | | |
| International equity pool | 825,142 | 573,735 | 1,398,877 | — | 549 | 186 | 1,327 | 5,092 | 7,154 | 1,406,031 | 1,311,011 |
| Emerging markets equity pool | 309,129 | 229,103 | 538,232 | — | 150 | 51 | 362 | 1,388 | 1,951 | 540,183 | 361,504 |
| Total global equity Ex-US | 1,134,271 | 802,838 | 1,937,109 | — | 699 | 237 | 1,689 | 6,480 | 9,105 | 1,946,214 | 1,672,515 |
| Private equity pool | 525,415 | 363,988 | 889,403 | — | 235 | 80 | 569 | 2,183 | 3,067 | 892,470 | 734,968 |
| Absolute return pool | 272,399 | 189,332 | 461,731 | — | 164 | 55 | 396 | 1,518 | 2,133 | 463,864 | 377,688 |
| Real assets: | | | | | | | | | | | |
| Real estate pool | 452,717 | 322,297 | 775,014 | — | 321 | 109 | 775 | 2,974 | 4,179 | 779,193 | 912,386 |
| Real estate investment trust pool | 22,057 | 13,855 | 35,912 | — | 9 | 2 | 23 | 88 | 122 | 36,034 | 23,626 |
| Energy pool | 34,968 | 23,173 | 58,141 | — | 10 | 4 | 25 | 93 | 132 | 58,273 | 53,783 |
| Farmland pool | 194,433 | 135,043 | 329,476 | — | 53 | 18 | 128 | 492 | 691 | 330,167 | 317,513 |
| Farmland water pool | 11,315 | — | 11,315 | — | — | — | — | — | — | 11,315 | 10,549 |
| Timber pool | 67,245 | 47,141 | 114,386 | — | 33 | 11 | 80 | 307 | 431 | 114,817 | 107,288 |
| Treasury inflation protected securities pool | 30,430 | 23,721 | 54,151 | — | 107 | 37 | 259 | 995 | 1,398 | 55,549 | 52,773 |
| Total real assets | 813,165 | 565,230 | 1,378,395 | — | 533 | 181 | 1,290 | 4,949 | 6,953 | 1,385,348 | 1,477,918 |
| Other investment funds, at fair value: | | | | | | | | | | | |
| Pooled investment funds | — | — | — | 19,200 | — | — | — | — | 19,200 | 19,200 | 2,568 |
| Collective investment funds | — | — | — | 77,785 | — | — | — | — | 77,785 | 77,785 | 49,555 |
| Total other investment funds | — | — | — | 96,985 | — | — | — | — | 96,985 | 96,985 | 52,123 |
| Total investments | 5,318,643 | 3,798,187 | 9,116,830 | 96,985 | 3,228 | 1,094 | 7,805 | 29,948 | 139,060 | 9,255,890 | 8,550,532 |
| Other | 14 | 2,815 | 2,829 | — | — | — | — | — | — | 2,829 | 2,824 |
| Total assets | 5,405,445 | 4,310,922 | 9,716,367 | 104,929 | 3,317 | 1,139 | 8,078 | 31,069 | 148,532 | 9,864,899 | 8,631,325 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses | 7,736 | 462 | 8,198 | 1,374 | — | — | — | — | 1,374 | 9,572 | 9,747 |
| Claims payable (note 6) | — | 32,315 | 32,315 | — | — | — | — | — | — | 32,315 | — |
| Legal fees | — | 86,428 | 86,428 | — | — | — | — | — | — | 86,428 | 5,844 |
| Due to State of Alaska General Fund | 6,182 | — | 6,182 | — | — | — | — | — | — | 6,182 | — |
| Due to Retiree Health Medical | — | 10,535 | 10,535 | — | — | — | — | — | — | 10,535 | — |
| Due to Alaska Retiree Healthcare Trust – TRS | — | 101 | 101 | — | — | — | — | — | — | 101 | 102 |
| Total liabilities | 13,918 | 129,841 | 143,759 | 1,374 | — | — | — | — | 1,374 | 145,133 | 15,693 |
| Commitment and contingencies (note 9) | | | | | | | | | | | |
| Net assets held in trust for pension and postemployment healthcare benefits | $5,391,527 | 4,181,081 | 9,572,608 | 103,555 | 3,317 | 1,139 | 8,078 | 31,069 | 147,158 | 9,719,766 | 8,615,632 |

*See accompanying notes to financial statements.*

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

# Statements of Changes in Plan Net Assets

**June 30, 2010**
**(with summarized financial information from June 30, 2009)**
**(In thousands)**

| | Defined benefit plans | | | Defined contribution pension trust plans | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Occupational death and disability | | | | | | |
| | Pension | Alaska Retiree Healthcare Trust | Total | Participant Directed | All Others | Peace Officer / Firefighter | Retiree Medical Plan | Healthcare Reimbursement Arrangement | Total | System total June 30, 2010 | System total June 30, 2009 |
| Additions (reductions): | | | | | | | | | | | |
| Contributions: | | | | | | | | | | | |
| Employers | $142,157 | 250,190 | 392,347 | 18,258 | 980 | 515 | 3,031 | 13,304 | 36,088 | 428,435 | 407,452 |
| Plan members | 123,066 | 475 | 123,541 | 29,246 | — | — | — | — | 29,246 | 152,787 | 141,073 |
| State of Alaska | 44,460 | 63,493 | 107,953 | — | — | — | — | — | — | 107,953 | 241,600 |
| Total contributions | 309,683 | 314,158 | 623,841 | 47,504 | 980 | 515 | 3,031 | 13,304 | 65,334 | 689,175 | 790,125 |
| Investment income (loss): | | | | | | | | | | | |
| Net appreciation (depreciation) in fair value (note 2) | 424,662 | 305,482 | 730,144 | 3,380 | 144 | 32 | 287 | 913 | 4,756 | 734,900 | (2,478,207) |
| Interest | 43,499 | 31,066 | 74,565 | 24 | 24 | 7 | 55 | 204 | 314 | 74,879 | 91,358 |
| Dividends | 55,298 | 36,239 | 91,537 | — | 23 | 8 | 56 | 214 | 301 | 91,838 | 213,324 |
| Net recognized loan recovery | — | — | — | — | — | — | — | — | — | — | 13 |
| Total investment income (loss) | 523,459 | 372,787 | 896,246 | 3,404 | 191 | 47 | 398 | 1,331 | 5,371 | 901,617 | (2,173,512) |
| Less investment expense | 17,416 | 75 | 17,491 | — | — | — | — | — | — | 17,491 | 17,970 |
| Net investment income (loss) | 506,043 | 372,712 | 878,755 | 3,404 | 191 | 47 | 398 | 1,331 | 5,371 | 884,126 | (2,191,482) |
| Other: | | | | | | | | | | | |
| Legal settlement | — | 445,414 | 445,414 | — | — | — | — | — | — | 445,414 | — |
| Other | 105 | 10,977 | 11,082 | — | — | — | — | — | — | 11,082 | 8,780 |
| Total additions (reductions) | 815,831 | 1,143,261 | 1,959,092 | 50,908 | 1,171 | 562 | 3,429 | 14,635 | 70,705 | 2,029,797 | (1,392,577) |
| Deductions: | | | | | | | | | | | |
| Pension and postemployment benefits | 496,015 | 312,901 | 808,916 | — | — | — | — | — | — | 808,916 | 722,493 |
| Refunds of contributions | 12,364 | — | 12,364 | 3,029 | — | — | — | — | 3,029 | 15,393 | 13,884 |
| Legal settlement fees | — | 86,428 | 86,428 | — | — | — | — | — | — | 86,428 | — |
| Administrative | 6,365 | 8,226 | 14,591 | 335 | — | — | — | — | 335 | 14,926 | 20,718 |
| Total deductions | 514,744 | 407,555 | 922,299 | 3,364 | — | — | — | — | 3,364 | 925,663 | 757,095 |
| Net increase (decrease) | 301,087 | 735,706 | 1,036,793 | 47,544 | 1,171 | 562 | 3,429 | 14,635 | 67,341 | 1,104,134 | (2,149,672) |
| Net assets held in trust for pension and postemployment healthcare benefits: | | | | | | | | | | | |
| Balance, beginning of year | 5,090,440 | 3,445,375 | 8,535,815 | 56,011 | 2,146 | 577 | 4,649 | 16,434 | 79,817 | 8,615,632 | 10,765,304 |
| Balance, end of year | $5,391,527 | 4,181,081 | 9,572,608 | 103,555 | 3,317 | 1,139 | 8,078 | 31,069 | 147,158 | 9,719,766 | 8,615,632 |

***See accompanying notes to financial statements.***

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

# Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

**(1) Description**

The following is a brief description of the State of Alaska Public Employees' Retirement System (PERS or System) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (DB Plan) and Defined Contribution Retirement Trust Fund (DCR Plan). PERS is a Component Unit of the State of Alaska (State). The DB Plan is a plan within the System, which includes the DB Retirement Pension Trust Fund and Alaska Retiree Health Trust Fund. The DCR Plan consists of a Participant Directed Fund, Retiree Medical Fund, Health Reimbursement Arrangement Fund, and Occupational Death and Disability Fund. Participants should refer to the System agreement for more complete information.

At June 30, 2010 and 2009 the number of participating local government employers and public organizations including the State was:

| | |
|---|---|
| State of Alaska | 1 |
| Municipalities | 77 |
| School districts | 53 |
| Other | 29 |
| Total employers | 160 |

Inclusion in the DB Plan and DCR Plan is a condition of employment for eligible State employees, except as otherwise provided for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and peace officer and firefighter employees covered by the System.

**Defined Benefit Retirement Plan**

***General***

The DB Plan is a defined benefit, cost-sharing, multiple employer plan within PERS established and administered by the State to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The system is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. With the passing of SB141, the PERS DB Plan is closed to all new members effective July 1, 2006.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

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

| | Valuation as of June 30 | |
|---|---|---|
| | **2009** | **2008** |
| Retirees and beneficiaries currently receiving benefits | 25,015 | 24,082 |
| Terminated plan members entitled to future benefits | 6,566 | 6,627 |
| Total current and future benefits | 31,581 | 30,709 |
| Active plan members: | | |
| General | 25,089 | 26,301 |
| Peace officer and firefighter | 2,476 | 2,549 |
| Total active plan membership | 27,565 | 28,850 |
| Total members | 59,146 | 59,559 |
| Active plan members: | | |
| Vested: | | |
| General | 18,654 | 18,130 |
| Peace officer and firefighter | 2,017 | 1,928 |
| Nonvested: | | |
| General | 6,435 | 8,171 |
| Peace officer and firefighter | 459 | 621 |
| Total active plan membership | 27,565 | 28,850 |

***Pension Benefits***

Members hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty five, or early retirement age, fifty. For members first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, 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 2 1/4% of the member's average monthly compensation for the second ten years and 2 ½% 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 2 ½% for all remaining years of service.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

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.

***Postemployment Healthcare Benefits***

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired on or after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired on or after July 1, 1996) may pay the full monthly premium if they are under age sixty (or over age 60 with less than 10 years of service for those first hired on or after July 1, 1996), 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 and all other members with 30 years of membership service also receive benefits at no premium cost.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

***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 children may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

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 and continued to work until normal retirement. If the death was from nonoccupational 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 nonoccupational 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 nonoccupational 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***

**DB 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 postemployment 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 twenty-five year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the adopted actuarially determined contribution rate for the fiscal year.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

**Contributions from the State of Alaska**

Alaska Statute 39.35.280 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year.

***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 postemployment 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 re-establish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not re-established 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.

**Defined Contribution Retirement Plan**

***General***

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within PERS established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible 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.

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

At June 30, 2010 and 2009, the DCR Pension Trust Fund membership consisted of:

| | 2010 | 2009 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | — | — |
| Terminated plan members entitled to future benefits: | | |
| 25% Vested | 233 | 110 |
| 50% Vested | 61 | 1 |
| 75% Vested | 3 | 3 |
| 100% Vested | 7 | 9 |
| Total terminated plan members entitled to future benefits | 304 | 123 |
| Total current and future benefits | 304 | 123 |
| Active plan members: | | |
| General | 8,760 | 6,807 |
| Peace officer and firefighter | 652 | 586 |
| Total active plan membership | 9,412 | 7,393 |
| Total members | 9,716 | 7,516 |
| Active plan members: | | |
| Vested General: | | |
| 25% Vested | 1,873 | 1,368 |
| 50% Vested | 1,227 | 12 |
| 75% Vested | 180 | 2 |
| 100% Vested | 10 | 8 |
| Total vested general | 3,290 | 1,390 |
| Vested peace officer and firefighter | | |
| 25% Vested | 203 | 152 |
| 50% Vested | 168 | — |
| 75% Vested | 24 | — |
| 100% Vested | — | — |
| Total vested peace officer and firefighter | 395 | 152 |
| Nonvested: | | |
| General | 5,470 | 5,417 |
| Peace officer and firefighter | 257 | 434 |
| Total nonvested general and peace officer and firefighter | 5,727 | 5,851 |
| Total members | 9,716 | 7,516 |

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

***Pension Benefits***

A participating member is immediately and fully vested in that member's contributions and related earnings (losses). A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings (losses), 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.

***Postemployment 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.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

***Contributions***

**DCR Plan Member Contributions**

Contribution rates are 8.0% for DCR Plan 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 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 lump sum 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.

***Participant Accounts***

Participant accounts under the DCR Plan are self-directed with respect to investment options. Investment options are disclosed in note 3.

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.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum 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.

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

**(2) Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Use of Estimates***

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

***GASB Statements No. 25 and No. 43***

The DB Plan and DCR Plan 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.

The DB Plan follows the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment 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 reported under the Department of Revenue, Division of Treasury (Treasury). Treasury financial statements 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 contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

**Pooled Investments**

With the exception of the Short-Term Fixed Income Pool, ownership in the various pools is based on the number of shares

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. 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 ask prices.

***Valuation and Income Allocation***

**Fixed Income Investment Pools**

With the exception of the Emerging Markets Debt Pool, 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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determines the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares which are valued on the last business day of each month by the investment manager.

**Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools**

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determines the allocation between permissible securities.

**Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water and Timber Pools**

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Emerging markets securities are valued on the last business day of each month by the investment managers. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries.

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

*DCR Plan Participant Directed Investments*

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. 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 daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. 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. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other 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 U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. 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. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

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

**Notes to Financial Statements**

June 30, 2010

(With summarized financial information from June 30, 2009)

***Contributions Receivable***

Contributions from the System's 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.

***Administrative Costs***

Administrative costs are paid from 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.

***Federal Income Tax Status***

The DB Plan and DCR Plan 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 (Board) is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Division of Treasury (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

The Short-Term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of the Board as well as other state funds.

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

# Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

## (4) Deposit and Investment Risk

At June 30, 2010, the System's investments included the following (in thousands):

| | Fair value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fixed income pools | | | | | | | | |
| | Short-term | Retirement | U.S. Treasury | High yield | International | Convertible | TIPS | Other | Total |
| Bridge loans | $ — | — | — | 369 | — | — | — | — | 369 |
| Commercial paper | 12,521 | — | — | — | — | — | — | — | 12,521 |
| Convertible bonds | — | — | — | 1,197 | — | — | — | — | 1,197 |
| Corporate bonds | 117,286 | 179,982 | 6,932 | 213,598 | — | — | — | — | 517,798 |
| Deposits | (472) | — | — | — | 145 | — | — | 22,290 | 21,963 |
| Foreign corporate bonds | — | — | — | — | 49,597 | — | — | — | 49,597 |
| Foreign government bonds | — | — | — | — | 86,155 | — | — | — | 86,155 |
| Mortgage-backed | 1,976 | 263,340 | — | — | — | — | — | — | 265,316 |
| Mortgage-backed TBA | — | 86,360 | — | — | — | — | — | — | 86,360 |
| Mutual funds | — | — | — | — | — | — | — | 67,944 | 67,944 |
| Other asset-backed | 55,040 | 2,652 | — | 367 | — | — | — | — | 58,059 |
| Overnight sweep account (Imcs) | — | — | — | 7,787 | — | 445 | — | — | 8,232 |
| Short-term investment fund | — | — | — | — | 640 | — | — | 10,496 | 11,136 |
| U.S. government agency | 16,644 | 4,967 | — | — | — | — | — | — | 21,611 |
| Treasury bills | 30,470 | — | — | — | — | — | — | — | 30,470 |
| Treasury bonds | — | 50,560 | 39,189 | — | — | — | — | — | 89,749 |
| Treasury notes | — | 143,479 | 333,022 | — | — | — | — | — | 476,501 |
| Treasury notes when-issued | — | 155,284 | 60,634 | — | — | — | — | — | 215,918 |
| Treasury bills when-issued | 4,688 | — | — | — | — | — | — | — | 4,688 |
| Treasury TIP bonds | — | — | — | — | — | — | 18,829 | — | 18,829 |
| Treasury TIP notes | — | — | — | — | — | — | 35,819 | — | 35,819 |
| Yankees: | | | | | | | | | |
| Corporate | 3,284 | — | — | — | — | — | — | — | 3,284 |
| Government | — | 983 | — | — | — | — | — | — | 983 |
| Fixed income pools: | | | | | | | | | |
| Equity | — | — | — | 295 | — | — | — | — | 295 |
| Warrants | — | — | — | 18 | — | — | — | — | 18 |
| Emerging markets debt pool | — | — | — | — | — | — | — | 70,827 | 70,827 |
| Broad domestic equity pool: | | | | | | | | | |
| Convertible bonds | — | — | — | — | — | 32,948 | — | — | 32,948 |
| Equity | — | — | — | — | — | 2,471 | — | 2,438,711 | 2,441,182 |
| Limited partnership | — | — | — | — | — | — | — | 165,384 | 165,384 |
| Treasury bills | — | — | — | — | — | — | — | 1,409 | 1,409 |
| International equity pool: | | | | | | | | | |
| Convertible bonds | — | — | — | — | — | — | — | 1,066 | 1,066 |
| Corporate bonds | — | — | — | — | — | — | — | 408 | 408 |
| Equity | — | — | — | — | — | — | — | 1,301,235 | 1,301,235 |
| Rights | — | — | — | — | — | — | — | 262 | 262 |
| Warrants | — | — | — | — | — | — | — | 1 | 1 |
| Emerging markets equity pool | — | — | — | — | — | — | — | 540,183 | 540,183 |
| Private equity pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 892,434 | 892,434 |
| Absolute return pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 463,864 | 463,864 |
| Real estate pool: | | | | | | | | | |
| Commingled funds | — | — | — | — | — | — | — | 151,945 | 151,945 |
| Limited partnerships | — | — | — | — | — | — | — | 169,844 | 169,844 |
| Real estate | — | — | — | — | — | — | — | 457,402 | 457,402 |
| Real estate investment trust pool: | | | | | | | | | |
| Equity | — | — | — | — | — | — | — | 35,860 | 35,860 |
| Energy pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 58,272 | 58,272 |
| Farmland pool: | | | | | | | | | |
| Agricultural holdings | — | — | — | — | — | — | — | 330,167 | 330,167 |
| Farmland water pool: | | | | | | | | | |
| Agricultural holdings | — | — | — | — | — | — | — | 11,315 | 11,315 |
| Timber pool: | | | | | | | | | |
| Timber holdings | — | — | — | — | — | — | — | 114,818 | 114,818 |
| Participant directed: | | | | | | | | | |
| Collective investment funds | — | — | — | — | — | — | — | 76,474 | 76,474 |
| Pooled investment funds | — | — | — | — | — | — | — | 19,200 | 19,200 |
| Net other assets (liabilities) | (398) | (69,753) | (4,287) | 3,962 | 1,706 | 190 | 417 | 1,030 | (67,133) |
| Other pool ownership | (141,436) | 93,831 | 17,945 | — | — | — | 484 | 29,176 | — |
| Unallocated deposit in transit | — | — | — | 1 | — | — | — | 1,313 | 1,314 |
| Total invested assets | $99,603 | 911,685 | 453,435 | 227,594 | 138,243 | 36,054 | 55,549 | 7,433,330 | 9,355,493 |

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

**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 to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

***Other DB Plan Fixed Income Pools***

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100 basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows to calculate effective duration.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ±20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2010, was 4.30 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to ±20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2010, was 4.01 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield portfolio to ±20% of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2010, was 4.40 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ±25% of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2010, was 6.76 years.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ±20% of the Barclays Capital U.S. Treasury Inflation Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2010 was 8.99 years.

The Board does not have a policy to limit interest rate risk for the Convertible Bond portfolio.

At June 30, 2010, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

| | **Effective duration** (In years) | | | | |
|---|---|---|---|---|---|
| | **Retirement** | **U.S. Treasury** | **High yield** | **International** | **TIPS** |
| Corporate bonds | 6.19 | 4.13 | 4.24 | — | — |
| Convertible bonds | — | — | 3.32 | — | — |
| Foreign corporate bonds | — | — | — | 6.80 | — |
| Foreign government bonds | — | — | — | 6.01 | — |
| Mortgage-backed | 2.73 | — | — | — | — |
| Mortgage-backed TBA | 2.97 | — | — | — | — |
| Other asset-backed | 3.57 | — | 2.92 | — | — |
| U.S. government agency | 6.73 | — | — | — | — |
| U.S. Treasury bonds | 10.77 | 7.98 | — | — | 7.05 |
| U.S. Treasury notes | 4.40 | 3.53 | — | — | 2.78 |
| U.S. Treasury notes when-issued | 3.52 | 4.83 | — | — | — |
| Warrants | — | — | 3.95 | — | — |
| Yankees: | | | | | |
| Government | 6.95 | — | — | — | — |
| **Portfolio effective duration** | **4.25** | **4.83** | **4.08** | **6.26** | **4.21** |

***DCR Plan Pooled Investment Funds***

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

> For government, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. At June 30, 2010, the duration of the government corporate debt, and mortgage-backed securities was 4.18 years and the duration of the Barclays Capital Aggregate Bond Index was 4.30 years.

The Board does not have a policy with respect to money market or other pooled investment funds to limit interest rate risk. The weighted average maturity of the money market portfolio was 0.15 years at June 30, 2010.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

***DCR Plan Collective Investment Funds***

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2010 the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-U.S. Index: 6.95 years, SSgA Long U.S. Treasury Bond Index: 13.75 years, SSgA TIPS Index: 8.06 years, Barclays Gov/Corp Bond Fund: 5.18 years, and the Barclays Intermediate Bond Fund: 3.62 years.

**Credit Risk**

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short term credit rating of at least P1 or equivalent. Asset backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

***Retirement Fixed Income:***

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

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

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

***Intermediate U.S. Treasury Fixed Income:***

No more than 5% of the portfolio's assets may be invested in securities that are not full faith and credit obligations of the U.S. government at the time of purchase.

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, coupon-paying United States Treasury obligations at the time of purchase.

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and nonagency mortgage securities ma 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.

***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.

No more than 10% of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, 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.

***International Fixed Income:***

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

***Convertible Bonds:***

Nonrated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's or Fitch. Nonrated securities are limited to 35% of the total market value of the portfolio.

The weighted-average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

***TIPS:***

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

No more than 5% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% of the portfolio's assets may be invested in BBB+ to BBB-  rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

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

***Domestic Equity, International Equity and Emerging Markets Separate Accounts:***

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The Board does not have a policy to limit the concentration of credit risk for the Collective Investment Funds.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

At June 30, 2010, the System's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

| | | Fixed income pools | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Investment type** | **Rating** | **Short-term** | **Retirement** | **U.S. treasury** | **High yield** | **International** | **Convertible** | **TIPS** |
| Bridge loans | Not rated | 0.00% | 0.00% | 0.00% | 0.16% | 0.00% | 0.00% | 0.00% |
| Commercial paper | A-1 | 1.17 | — | — | — | — | — | — |
| Commercial paper | Not rated | 4.03 | — | — | — | — | — | — |
| Convertible bonds | AAA | — | — | — | — | — | 1.52 | — |
| Convertible bonds | AA | — | — | — | — | — | 2.22 | — |
| Convertible bonds | A | — | — | — | — | — | 8.61 | — |
| Convertible bonds | BBB | — | — | — | — | — | 14.31 | — |
| Convertible bonds | BB | — | — | — | — | — | 19.80 | — |
| Convertible bonds | B | — | — | — | 0.33 | — | 18.13 | — |
| Convertible bonds | CCC | — | — | — | — | — | 4.51 | — |
| Convertible bonds | Not rated | — | — | — | 0.20 | — | 22.29 | — |
| Corporate bonds | AAA | 41.70 | 0.10 | 0.77 | — | — | — | — |
| Corporate bonds | AA | 1.88 | 2.64 | — | — | — | — | — |
| Corporate bonds | A | 3.74 | 9.77 | — | — | — | — | — |
| Corporate bonds | BBB | — | 6.85 | 0.75 | 3.67 | — | — | — |
| Corporate bonds | BB | — | — | — | 33.72 | — | — | — |
| Corporate bonds | B | — | — | — | 42.61 | — | — | — |
| Corporate bonds | CCC | — | — | — | 9.69 | — | — | — |
| Corporate bonds | D | — | — | — | 0.12 | — | — | — |
| Corporate bonds | Not rated | 1.35 | 0.39 | — | 4.04 | — | — | — |
| Foreign corporate bonds | AAA | — | — | — | — | 26.91 | — | — |
| Foreign corporate bonds | AA | — | — | — | — | 2.89 | — | — |
| Foreign corporate bonds | A | — | — | — | — | 4.91 | — | — |
| Foreign corporate bonds | BBB | — | — | — | — | 1.16 | — | — |
| Foreign government bonds | AAA | — | — | — | — | 13.30 | — | — |
| Foreign government bonds | AA | — | — | — | — | 18.67 | — | — |
| Foreign government bonds | A | — | — | — | — | 16.02 | — | — |
| Foreign government bonds | NA | — | — | — | — | 14.34 | — | — |
| Mortgage-backed | AAA | 0.79 | 27.48 | — | — | — | — | — |
| Mortgage-backed | AA | — | 0.64 | — | — | — | — | — |
| Mortgage-backed | A | — | 0.18 | — | — | — | — | — |
| Mortgage-backed | Not rated | 0.03 | 0.58 | — | — | — | — | — |
| Mortgage-backed TBA | Not rated | — | 9.47 | — | — | — | — | — |
| Other asset-backed | AAA | 21.16 | 0.09 | — | — | — | — | — |
| Other asset-backed | AA | — | 0.09 | — | — | — | — | — |
| Other asset-backed | BBB | — | 0.11 | — | — | — | — | — |
| Other asset-backed | BB | — | — | — | 0.16 | — | — | — |
| Other asset-backed | Not rated | 1.68 | — | — | — | — | — | — |
| Overnight sweep account (lmcs) | Not rated | — | — | — | 3.42 | — | 1.23 | — |
| Short-term investment fund | Not rated | — | — | — | — | 0.46 | — | — |
| U.S. government agency | AAA | 1.07 | 0.54 | — | — | — | — | — |
| U.S. government agency | Not rated | 5.84 | — | — | — | — | — | — |
| U.S. Treasury bills | AAA | 12.65 | — | — | — | — | — | — |
| U.S. Treasury bills when-issued | AAA | 1.95 | — | — | — | — | — | — |
| U.S. Treasury bonds | AAA | — | 5.55 | 8.64 | — | — | — | 33.90 |
| U.S. Treasury notes | AAA | — | 15.74 | 73.46 | — | — | — | 64.48 |
| U.S. Treasury notes when-issued | AAA | — | 17.03 | 13.37 | — | — | — | — |
| Yankees: | | | | | | | | |
| Government | BBB | — | 0.11 | — | — | — | — | — |
| Corporate | AAA | 0.58 | — | — | — | — | — | — |
| Corporate | AA | 0.20 | — | — | — | — | — | — |
| Corporate | Not rated | 0.58 | — | — | — | — | — | — |
| No credit exposure | | (0.40) | 2.64 | 3.01 | 1.88 | 1.34 | 7.38 | 1.62 |
| | | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

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

## Notes to Financial Statements

June 30, 2010

(With summarized financial information from June 30, 2009)

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2010, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

| | Amount (In thousands) |
|---|---|
| International Equity Pool | $ 22,975 |
| International Fixed Income Pool | 145 |

***Foreign Currency Risk***

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board'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 Citigroup Non-USD World Government Bond Index and Mexico. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S. and private equity to the following:

| Fixed-income | Global equity ex-U.S. | Private equity pool |
|---|---|---|
| 23% | 26% | 12% |

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. At June 30, 2010, the System had exposure to foreign currency risk with the following deposits:

| | **Amount** (In thousands) | |
|---|---|---|
| **Currency** | **International fixed income pool** | **International equity pool** |
| Australian Dollar | $ — | 47 |
| Canadian Dollar | — | 91 |
| Danish Krone | — | 10 |
| Euro Currency | 101 | 20,021 |
| Hong Kong Dollar | — | 128 |
| Israeli Shekel | — | 22 |
| Japanese Yen | 44 | 2,415 |
| New Taiwan Dollar | — | 1 |
| New Zealand Dollar | — | 2 |
| Norwegian Krone | — | 13 |
| Pound Sterling | — | 100 |
| Singapore Dollar | — | 49 |
| South Korean Won | — | — |
| Swedish Krona | — | 28 |
| Swiss Franc | — | 48 |
| | $ 145 | 22,975 |

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

At June 30, 2010, the System had exposure to foreign currency risk with the following investments:

| | **Amount** (In thousands) | | | |
|---|---|---|---|---|
| | **International fixed income pool** | | **International equity pool** | **Private equity pool** |
| **Currency** | **Foreign government** | **Corporate** | **Equity** | **Limited partnerships** |
| Australian Dollar | $ 19,818 | — | 28,698 | — |
| Brazilian Real | — | — | 2,173 | — |
| Canadian Dollar | — | — | 40,156 | — |
| Danish Krone | — | — | 11,786 | — |
| Euro Currency | 27,141 | 8,402 | 404,822 | 87,876 |
| Hong Kong Dollar | — | — | 30,725 | — |
| Indonesian Rupah | — | — | 1,926 | — |
| Israeli Shekel | — | — | 471 | — |
| Japanese Yen | 15,713 | 41,195 | 309,353 | — |
| Malaysian Ringgit | — | — | 1,814 | — |
| New Taiwan Dollar | — | — | 5,122 | — |
| New Zealand Dollar | — | — | 1,205 | — |
| Norwegian Krone | — | — | 6,712 | — |
| Polish Zloty | 5,104 | — | — | — |
| Pound Sterling | 18,380 | — | 232,457 | 13,288 |
| Singapore Dollar | — | — | 7,144 | — |
| South African Rand | — | — | 724 | — |
| South Korean Won | — | — | 22,142 | — |
| Swedish Krona | — | — | 23,319 | — |
| Swiss Franc | — | — | 90,902 | — |
| Turkish Lira | — | — | 4,066 | — |
| | $ 86,156 | 49,597 | 1,225,717 | 101,164 |

At June 30, 2010, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled 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 Short-Term 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. This provision does not apply to securities backed by the full faith and credit of the United States Government.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, Intermediate U.S. Treasury Fixed Income, High Yield, International Fixed Income and Convertible Bond 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. The Board does not have a policy with regard to concentration of credit for the TIPS Pools.

At June 30, 2010, the System did not have exposure to any one issuer greater than 5% of total invested assets.

**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk**

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2010 the Board had the following derivative instruments outstanding (in thousands):

| | Changes in fair value | | Fair value at June 30, 2010 | | |
|---|---|---|---|---|---|
| | **Classification** | **Amount** | **Classification** | **Amount** | **Notional** |
| Rights | Investment revenue | $ 419 | Common stock | $ 262 | 8,234 |
| Warrants | Investment revenue | (80) | Common stock | 19 | 7 |
| Index futures long | Investment revenue | 3,165 | Futures | (992) | 19 |
| FX forwards | Investment revenue | 2,187 | Long term instruments | 419 | — |
| TBA transactions long | Investment revenue | 9,172 | Long term instruments | 1,033 | 82,096 |
| Grand totals | | $14,863 | | $ 741 | |

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 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.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

At June 30, 2010 the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

| Counterparty name | Amount of net exposure | S&P rating | Fitch rating | Moody's rating |
|---|---|---|---|---|
| Credit Suisse London Branch (GFX) | $ 116 | A+ | AA- | Aa1 |
| Mellon Bank | 757 | AA- | AA- | Aa2 |

| | |
|---|---|
| Maximum amount of loss Alaska ARMB (PERS) would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2010 | $ 873 |
| Effect of collateral reducing maximum exposure | — |
| Liabilities subject to netting arrangements reducing exposure | — |
| Resulting net exposure | $ 873 |

**(6) Claims Payable**

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported, as of the balance sheet date. The Plan's reserve estimates are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are reevaluated periodically to consider the effects of inflation, claims settlement trends and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the healthcare business.

Changes in the balances of claims liabilities follows:

| | 2010 (In thousands) |
|---|---|
| Beginning of year | $ — |
| Benefit deductions | 312,901 |
| Benefits paid | (280,586) |
| Total, end of year | $ 32,315 |
| End of year: | |
| Due to State of Alaska General Fund for outstanding warrants | $ — |
| Outstanding claims received but not paid | — |
| Incurred but not reported | 32,315 |
| Total, end of year | $ 32,315 |

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

**(7) Transfers**

During fiscal year 2009, the System transferred the $3,490,576,000 balance of the Postemployment Healthcare Fund as of June 30, 2008, to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which became effective on July 1, 2007.

Under SB 123, enacted in 2007, the State of Alaska sought to enhance compliance of the states' pension systems with the Internal Revenue Code by creating a new defined benefit retiree healthcare trust into which other postemployment benefits (OPEB) contributions would be deposited, and from which OPEB benefits would be paid. Historically, all such contributions had been deposited and benefits paid from the pension trust fund account. With the creation of the new healthcare trust fund account, the systems then sought approval from the Internal Revenue Service through the Voluntary Compliance Program (VCP) to post the amount allocated to healthcare in the 2007 CAFR to the new healthcare trust fund. On October 10, 2008, the Internal Revenue Service (IRS) orally advised tax counsel for the states' pension systems that the request to transfer the 2007 CAFR amount in the new healthcare trust had been approved. The systems received formal VCP decision from the IRS in May 2009.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

**(8) Funded Status and Funding Progress**

The funded status of the defined benefit pension and postemployment healthcare benefit plan is as follows (dollars in thousands):

| | Actuarial valuation date | Actuarial valuation assets | Actuarial aggregate accrued liability (AAL) – entry age | Unfunded actuarial accrued liability (UAAL) | Assets as a percent of accrued liability (funded ratio) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|---|
| Pension | June 30, 2009 | $ 6,108,528 | 9,702,086 | 3,593,558 | 63.0% | $ 1,585,490 | 226.7% |
| Post employment healthcare | June 30, 2009 | 4,134,450 | 12,770,990 | 8,636,540 | 32.4 | 1,585,490 | 544.7 |

The funded status of the defined contribution retirement plan occupational death and disability and retiree medical benefits is as follows (dollars in thousands):

| | Actuarial valuation date | Actuarial valuation assets | Actuarial aggregate accrued liability (AAL) – entry age | Unfunded actuarial accrued liability (UAAL) | Funded Ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|---|
| Death and disability plan | June 30, 2009 | $ 3,138 | 403 | (2,735) | 778.7% | $ 314,118 | (0.9)% |
| Retiree medical | June 30, 2009 | 5,475 | 4,594 | (881) | 119.2 | 314,118 | (0.3) |

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 schedules 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.

The accompanying schedules of contributions from employers 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

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

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:

| | Defined benefit | Defined contribution ODD and retiree medical |
|---|---|---|
| **Valuation date** | June 30, 2009 | June 30, 2009 |
| **Actuarial cost method** | Entry age normal; level percentage of pay for pension; level dollar for healthcare | Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical |
| **Amortization method** | Level dollar, closed with bases established annually | Level dollar, closed with bases established annually |
| **Equivalent single amortization period** | 20 years | 24 years |
| **Asset valuation method** | 5 year smoothed market | 5 year smoothed market |
| **Actuarial assumptions:** | | |
| **Investment rate of return** | 8.25% for pension, 4.70% for healthcare (includes inflation at 3.5%) | 8.25% (includes inflation at 3.5%) |
| **Projected salary increases** | Peace Officer/Firefighter: merit – 2.5% per year for the first 6 years of employment, 0.5% thereafter.<br>Productivity – 0.5% per year.<br>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 0.0%.<br>Productivity – 0.5% per year. | 4.0% |
| **Cost-of-living adjustment** | Postretirement pension adjustment | Not applicable |

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

Health cost trend for defined benefit, defined contribution occupational death and disability and retiree medical plans:

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2010 | 7.5% | 9.6% |
| 2011 | 6.9 | 8.3 |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

GASB 43 requires that the discount rate used in the valuation be the estimated long term yield on investments that are expected to finance postemployment 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.

### (9) Commitments and Contingencies

***Commitments***

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2010, the System's share of the unfunded commitment totaled $25,217,850. This commitment can be withdrawn annually in December with ninety days notice.

The Board 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, 2010, the System's share of these unfunded commitments totaled $561,232,783. These commitments are estimated to be paid through 2020.

The Board entered into agreements through external investment managers to provide capital funding for a limited partnerships as it continues to build the energy investment portfolio. At June 30, 2010, the System's share of these unfunded commitments totaled $29,147,275. These commitments are estimated to be paid through 2017.

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

## Notes to Financial Statements

**June 30, 2010**

**(With summarized financial information from June 30, 2009)**

The Board 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, 2010, the System's share of these unfunded commitments totaled $125,100,064. These commitments are estimated to be paid through 2019.

***Contingencies***

The Division of Retirement and Benefits (the Division) is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Division's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Division.

**(10) Medicare Part D Retiree Drug Subsidy**

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to twenty-eight percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2007. The RDS for the six month period ended June 30, 2010, cannot be reasonably estimated, and therefore is not recorded in the financial statements for the period ended June 30, 2010.

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

# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress
# Defined Benefit Retirement Pension Benefits

**June 30, 2010**
**(In thousands)**

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Unfunded actuarial accrued liabilities (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 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 |
| 2007 | 6,739,004 | 8,662,324 | 1,923,320 | 77.8 | 1,605,819 | 119.8 |
| 2008 | 7,210,772 | 9,154,282 | 1,943,510 | 78.8 | 1,577,846 | 123.2 |
| 2009 | 6,108,528 | 9,702,086 | 3,593,558 | 63.0 | 1,585,490 | 226.7 |

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

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

# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress
# Defined Benefit Retirement Postemployment Healthcare Benefits

**June 30, 2010**
**(In thousands)**

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Unfunded actuarial accrued liabilities (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 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 |
| 2007 | 3,161,956 | 11,108,553 | 7,946,597 | 28.5 | 1,605,819 | 494.9 |
| 2008 | 3,829,334 | 13,013,450 | 9,184,116 | 29.4 | 1,577,846 | 582.1 |
| 2009 | 4,134,450 | 12,770,990 | 8,636,540 | 32.4 | 1,585,490 | 544.7 |

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

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

# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress
# Defined Contribution Retirement Occupational Death and Disability Benefits

**June 30, 2010**
**(In thousands)**

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Unfunded actuarial accrued liabilities (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2007 | $ 188 | 48 | (140) | 391.7% | 105,611 | (0.1)% |
| 2008 | 1,288 | 242 | (1,046) | 532.2 | 203,955 | (0.5) |
| 2009 | 3,138 | 403 | (2,735) | 778.7 | 314,118 | (0.9) |

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

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

# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress
# Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010
(In thousands)

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Unfunded actuarial accrued liabilities (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2007 | $ 1,067 | 803 | (264) | 132.9% | 105,611 | (0.2)% |
| 2008 | 2,719 | 2,123 | (596) | 128.1 | 203,955 | (0.3) |
| 2009 | 5,475 | 4,594 | (881) | 119.2 | 314,118 | (0.3) |

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

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

# Required Supplementary Information (Unaudited)
# Schedule of Contributions from Employers and the State of Alaska
# Defined Benefit Retirement Pension and Postemployment Healthcare Benefits

**June 30, 2010**

**(In thousands)**

| | | Annual required Contribution | | | Pension percentage contributed | | Postemployment healthcare percentage contributed | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended June 30 | Actuarial valuation date as of June 30 [1] | Pension | Postem-ployment healthcare | Total | By employer | By State of Alaska (note 3) | By employer | By State of Alaska (note 3) | Total percentage contributed (note 3) |
| 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 | 2004 | 268,742 | 189,495 | 458,237 | 73.2 | 4.1 | 73.2 | 4.1 | 77.3 |
| 2008 | 2005 | 140,729 | 370,456 | 511,185 | 71.2 | 36.2 | 71.2 | 36.2 | 107.4 |
| 2009 | 2006 | 166,016 | 391,321 | 557,337 | 68.1 | 48.0 | 68.1 | 41.4 | 111.4 |
| 2010 | 2007 | 162,177 | 275,306 | 437,483 | 87.7 | 27.4 | 90.9 | 23.1 | 114.4 |

[1] Actuarial valuation related to annual required contribution for fiscal year.
See accompanying notes to required supplementary information and independent auditors' report.

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

## Required Supplementary Information (Unaudited)
## Schedule of Contributions
## Defined Contribution Retirement Occupational Death and Disability Benefits

**June 30, 2010**

**(In thousands)**

| Year ended June 30 | Annual required contribution | Percentage of ARC contributed |
|---|---|---|
| 2007 | $ 181 | 100.0% |
| 2008 | 1,063 | 100.0 |
| 2009 | 1,787 | 100.0 |

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

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

# Required Supplementary Information (Unaudited)
# Schedule of Contributions
# Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010
(In thousands)

| Year ended June 30 | Annual required contribution | Percentage of ARC Contributed |
|---|---|---|
| 2007 | $ 1,028 | 100.0% |
| 2008 | 1,845 | 85.0 |
| 2009 | 3,152 | 85.0 |

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

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

# Notes to Required Supplemental Information (Unaudited)

**June 30, 2010**

### (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 System 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 defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2009 are as follows:

(a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded actuarial accrued liability is amortized over 25 years as a level percentage of pay.

(b) Valuation of assets – recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at fair value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(c) Valuation of medical 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 nonprescription 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 that 3.5% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, the valuation assumes that 3.5% of the current Medicare retiree population does not receive Part A coverage.

(d) Investment return/discount rate – 8.25% per year (geometric), 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 (inflation + productivity).

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

## Notes to Required Supplemental Information (Unaudited)

**June 30, 2010**

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

(h) Mortality (Preretirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin. Others: based upon the 2001 2005 actual experience. 42% of 1994 Group Annuity Table, 1994 Base Year without margin for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Postretirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.

(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 1979 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 terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits 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, or 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute.

(r) Expenses – all expenses are net of the investment return assumption.

(s) Part-time status – part-time members are assumed to earn 1.00 year of credited service per year for Peace Officer/Firefighters and 0.65 years of credited service per year for Other members.

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

## Notes to Required Supplemental Information (Unaudited)

June 30, 2010

(t) Final Average Earnings – final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.

(u) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

| | Medical | Prescription drugs |
|---|---|---|
| Pre-Medicare | $ 7,503 | 2,419 |
| Medicare Part A and B | 1,336 | 2,419 |
| Medicare Part B Only | 4,754 | 2,419 |
| Medicare Part D | N/A | 477 |

(v) Third party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(w) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.0% is applied to the FY09 rate claims cost to get the FY10 claims costs.

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2010 | 7.5% | 9.6% |
| 2011 | 6.9 | 8.3 |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

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

## Notes to Required Supplemental Information (Unaudited)

**June 30, 2010**

(x) Aging Factors:

| Age | Medical | Prescription drugs |
|---|---|---|
| 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 – 94 | 0.5 | — |
| 95+ | — | — |

(y) 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 FY10 contributions based on monthly rates shown below for calendar 2009 and 2010 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled:

| | Calendar 2010 | | Calendar 2009 |
|---|---|---|---|
| Coverage category | Annual contribution | Monthly contribution | Monthly contribution |
| Retiree only | $ 8,628 | 719 | 631 |
| Retiree and spouse | 17,268 | 1,439 | 1,262 |
| Retiree and child(ren) | 12,192 | 1,016 | 891 |
| Retiree and family | 20,832 | 1,736 | 1,523 |
| Composite | 12,816 | 1,068 | 937 |

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

## Notes to Required Supplemental Information (Unaudited)

June 30, 2010

(z) Trend rate for retired member contributions – the table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 7.0% is applied to the FY10 retired member medical contributions to get the FY11 retired member medical contributions.

| Fiscal year: | |
|---|---|
| 2010 | 7.0% |
| 2011 | 6.7 |
| 2012 | 6.3 |
| 2013 | 6.0 |
| 2014 | 5.7 |
| 2015 | 5.3 |
| 2016 | 5.0 |
| 2017 | 5.0 |
| 2018 and later | 5.0 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY09 retired member medical contributions are reflected in the valuation so trend on such contribution during FY09 is not applicable.

(aa) Healthcare participation – 100% of members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2009 are as follows:

(a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded accrued liability is amortized over 25 years 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. This method will be phased in over five years. Market Value of Assets were $0 as of June 30, 2006. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of market value of assets.

(c) Valuation of retiree medical benefits – due to lack of experience for the DCR Plan only, base claims cost are based on those described in the actuarial valuation as of June 30, 2009 for defined benefit pension and postemployment healthcare benefit plan (PERS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, fiscal year 2009 claims cost were reduced to 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend cost to the ultimate trend rate.

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

# Notes to Required Supplemental Information (Unaudited)

June 30, 2010

(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.

(h) Mortality (Preretirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin. Others: based upon the 2001 2005 actual mortality experience of the PERS DB Plan. 42% of the 1994 Group Annuity Table, 1994 Base Year without margin for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Postretirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.

(j) Turnover – select rates were estimated and ultimate rates were set to the PERS DB Plan's rate loaded by 10%.

(k) Disability – incidence rates based upon the 2001 2005 actual experience of the PERS DB Plan. Post-disability mortality in accordance with the 1979 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.

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

# Notes to Required Supplemental Information (Unaudited)

June 30, 2010

(l) Retirement – retirement rates were estimated in accordance with the following table:

| Age | Rate |
|---|---|
| < 55 | 2% |
| 55-59 | 3 |
| 60 | 5 |
| 61 | 5 |
| 62 | 10 |
| 63 | 5 |
| 64 | 5 |
| 65 | 25 |
| 66 | 25 |
| 67 | 25 |
| 68 | 20 |
| 69 | 20 |
| 70 | 100 |

(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) Expenses – all expenses are net of the investment return assumption.

(o) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

| | Medical | Prescription drugs |
|---|---|---|
| Pre-Medicare | $ 7,503 | 2,419 |
| Medicare Part A and B | 1,336 | 2,419 |
| Medicare Part B Only | 4,754 | 2,419 |
| Medicare Part D | N/A | 477 |

(p) Third party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(q) Base claims cost adjustments – due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following adjustments were made: 0.941 for medical plan, 0.993 for the prescription drug plan, and 0.952 for the annual indexing for member cost sharing.

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

## Notes to Required Supplemental Information (Unaudited)

June 30, 2010

(r) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY10 rate claims cost to get the FY11 claims costs.

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2010 | 7.5% | 9.6% |
| 2011 | 6.9 | 8.3 |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been populated with assumptions that are specific to the State of Alaska.

(s) Aging Factors:

| Age | Medical | Prescription drugs |
|---|---|---|
| 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 – 94 | 0.5 | — |
| 95+ | — | — |

(t) Retiree medical participation – 100% of member and their spouses are assumed to elect retiree medical benefits as soon as they are eligible.

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

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

# Notes to Required Supplemental Information (Unaudited)

June 30, 2010

**Changes in Assumptions Since the Last Valuation**

There were no changes in assumptions from the prior valuation for the defined benefit pension and postemployment healthcare benefit plan.

There was one change in assumptions for the defined contribution retirement plan occupational death and disability and retiree medical benefits from the prior valuation. The occupational factor was changed from 100% for all deaths and disabilities to 75% for Peace Officers/Firefighters deaths and disabilities, 50% for others deaths and disabilities.

**(3) Contributions – State of Alaska**

Alaska Statute 39.35.280 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 22%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Alaska Retirement Management Board (Board) for the fiscal year. During fiscal year 2010, the actuarially required contribution adopted by the Board for fiscal year 2012 was 30.76%.

Schedule 1

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

# Schedule of Administrative and Investment Deductions (Unaudited)

## Defined Benefit Plan

**Year ended June 30, 2010 and 2009**

**(In thousands)**

| | Administrative | Investment | Totals 2010 | Totals 2009 |
|---|---|---|---|---|
| Personal services: | | | | |
| Wages | $3,160 | 1,101 | 4,261 | 4,348 |
| Benefits | 1,735 | 472 | 2,207 | 2,673 |
| Total personal services | 4,895 | 1,573 | 6,468 | 7,021 |
| Travel: | | | | |
| Transportation | 46 | 113 | 159 | 156 |
| Per diem | 10 | 18 | 28 | 24 |
| Honorarium | 3 | — | 3 | 2 |
| Total travel | 59 | 131 | 190 | 182 |
| Contractual services: | | | | |
| Management and consulting | 93,708 | 14,280 | 107,988 | 27,644 |
| Accounting and auditing | 36 | 656 | 692 | 812 |
| Data processing | 841 | 480 | 1,321 | 1,187 |
| Communications | 212 | 35 | 247 | 183 |
| Advertising and printing | 130 | 4 | 134 | 90 |
| Rentals/leases | 239 | 84 | 323 | 241 |
| Legal | 277 | 130 | 407 | 133 |
| Medical specialists | 10 | — | 10 | 36 |
| Repairs and maintenance | 39 | 21 | 60 | 75 |
| Transportation | 2 | 3 | 5 | 23 |
| Other services | 311 | 47 | 358 | 410 |
| Total contractual services | 95,805 | 15,740 | 111,545 | 30,834 |
| Other: | | | | |
| Equipment | 203 | 10 | 213 | 301 |
| Supplies | 57 | 37 | 94 | 204 |
| Total other | 260 | 47 | 307 | 505 |
| Total administrative and investment deductions | $ 101,019 | 17,491 | 118,510 | 38,542 |

See accompanying independent auditors' report.

Schedule 2

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

# Schedule of Administrative Deductions (Unaudited)
# Defined Contribution Retirement Trust Plan

**Year ended June 30, 2010 and 2009**

**(In thousands)**

| | 2010 | 2009 |
|---|---|---|
| Personal services: | | |
| Wages | $ 94 | 62 |
| Benefits | 9 | — |
| Total personal services | 103 | 62 |
| Travel: | | |
| Transportation | 3 | — |
| Per diem | 1 | — |
| Total travel | 4 | — |
| Contractual services: | | |
| Management and consulting | 191 | 46 |
| Accounting and auditing | — | 22 |
| Data processing | 12 | 1 |
| Communications | 3 | — |
| Rentals/leases | 7 | — |
| Legal | 8 | 15 |
| Repairs and maintenance | 2 | — |
| Other services | 2 | — |
| Total contractual services | 225 | 84 |
| Other: | | |
| Equipment | 1 | — |
| Supplies | 2 | — |
| Total other | 3 | — |
| Total administrative and investment deductions | $ 335 | 146 |

See accompanying independent auditors' report.

SCHEDULE 3

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

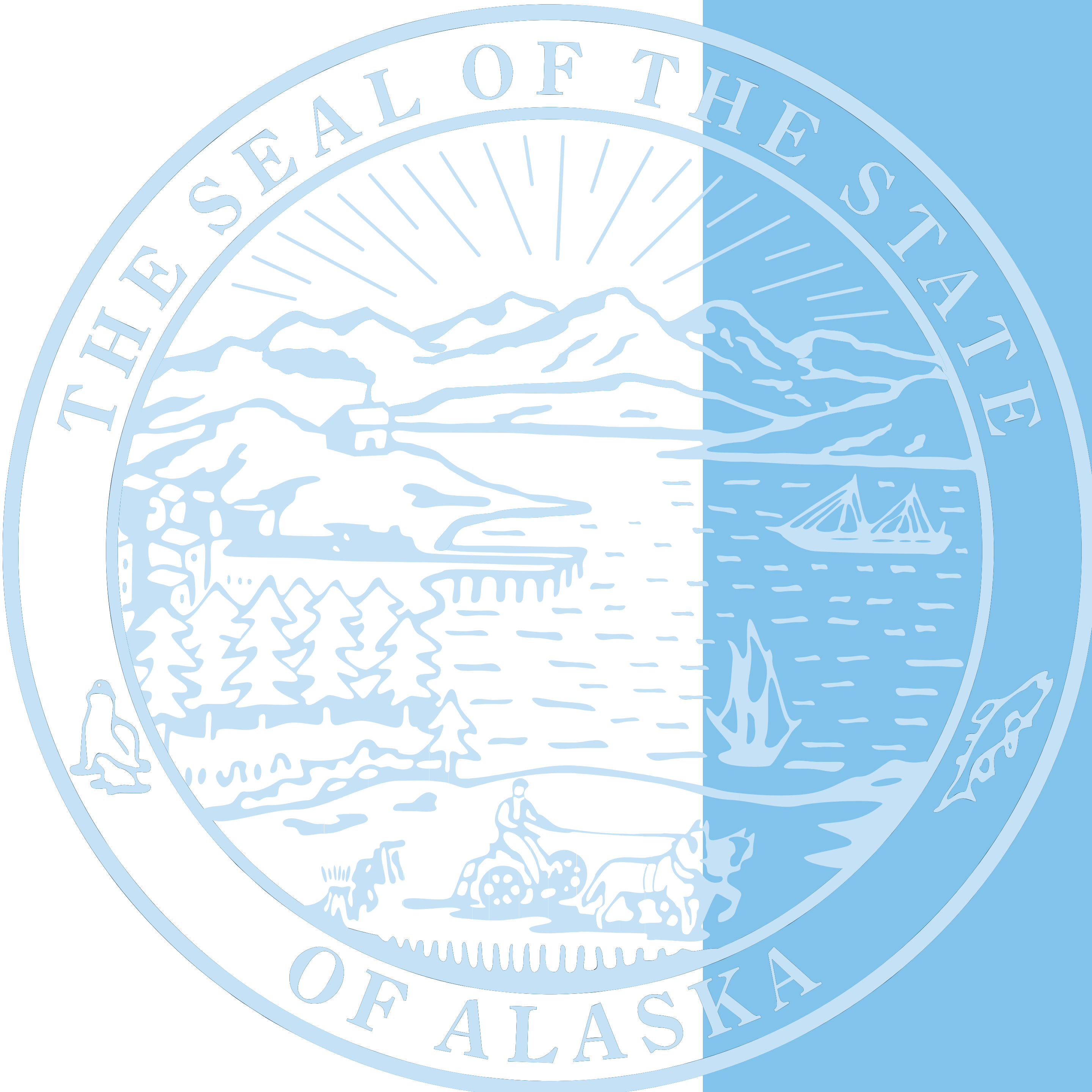
# Schedule of Payments to Consultants Other than Investment Advisors (Unaudited)

**Year ended June 30, 2010 and 2009**

**(In thousands)**

| Firm | Services | 2010 | 2009 |
|---|---|---|---|
| Paul, Weiss, Rifkind, Wharton & Garrison, LLP | Legal services | $ 86,428 | — |
| State Street Bank and Trust Corporation | Custodian banking services | 648 | 794 |
| Computer Task Group Inc. | Data processing consultants | 508 | 153 |
| Buck Consultant LLP | Actuarial services | 412 | 426 |
| State of Alaska, Department of Law | Legal services | 267 | 379 |
| Wostmann & Associates | Data processing consultants | 101 | 89 |
| Six Degrees Consulting | Data processing consultants | 33 | — |
| KPMG LLP | Auditing services | 33 | 50 |
| First National Bank Alaska | Banking services | — | 19 |
| | | $ 88,430 | 1,910 |

*See accompanying independent auditors' report.*




# INVESTMENT SECTION

This page intentionally left blank.

CALLAN ASSOCIATES INC

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

September 3, 2010

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, 2010.

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. ARMB's real estate consultant, the Townsend Group, calculates returns for the real estate segment of the portfolio. Callan incorporates that data into the total plan returns. Callan 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 2010 was a positive period for most investment categories with the exception of private real estate instruments. The Russell 3000 Index, a measure of the broad U.S. equity market gained 15.72% for the fiscal year despite a difficult June quarter where the index declined 11.32%. International stocks, as measured by the MSCI-ACWI ex-U.S. Index, increased 10.87%. In the last fiscal year 2010, the Barclays Capital Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, achieved an overall return of 9.50%. Absolute Return Strategies such as hedge funds-of-funds also posted positive returns during the fiscal year. For example, the Callan Hedge Fund-of-Funds database median return was a positive 7.69%. Private real estate investments reflected large valuation losses. The NCREIF Property Index posted a loss of 1.48% for the fiscal year. Publicly traded real estate, as measured by the NAREIT Index, increased 53.90%.

For the fiscal year, the Public Employees Retirement System (PERS) had a time-weighted total return of 11.39% and the Teachers Retirement System (TRS) had a time-weighted total return of 11.58%. Both Systems outperformed their strategic policy benchmark target return of 11.11% but ranked below the 12.57% median return for Callan's Public Fund database.

The greatest sources of out-performance relative to the policy target were: strong return in Private Equity (+18.86% versus a target index return of +13.87%) and the international equity component's 12.05% return versus a target return of 10.87%. The 2010 lower than median Peer Group performance was primarily attributable to the negative real estate return within the real asset category. The comparatively low allocation to fixed income was a positive factor this fiscal year, the reverse of fiscal 2009. Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 5-year annualized return was 2.65% versus the policy benchmark's 2.56%. Over the longest period for which Callan has detailed data (18 3/4 years), PERS and TRS have achieved annualized total returns of 7.04% and 7.09% respectively while the policy benchmark return for the same span was 7.04%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a long-term "real" return of 5% or more.

In summary, fiscal 2010 was a strong recovery year for all investors particularly those with significant equity exposure.

Sincerely,

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

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

**Commissioner**
Patrick Galvin

**Deputy Commissioner**
Jerry Burnett

**Chief Investment Officer**
Gary Bader

**Comptroller**
Pamela Leary, CPA

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

**Investment Officers**
Bob G. Mitchell
Stephen R. Sikes
Zachary Hanna
Victor Djajalie
Elizabeth Walton
James McKnight
Jie Shao
Casey Colton
Nicholas Orr
Ryan Bigelow
Steve Verschoor
Shane Carson
Sean Howard

**ARMB Liaison Officer**
Judy Hall

## External Money Managers and Consultants

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

**Investment Advisory Council**
William Jennings
*Colorado Springs, CO*
Jerrold Mitchell
*Wayland, MA*
George Wilson
*Boston, MA*

**Absolute Return**
Crestline Investors, Inc.
*Fort Worth, TX*
Global Asset Management, Inc
*Los Angeles, CA*
Mariner Investment Group, Inc.
*Harrison, NY*
Prisma Capital Partners
*New York, NY*

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

**Domestic Equity Large Capitalization**
Barrow, Hanley, Mewhinney & Strauss
*Dallas, TX*
Capital Guardian Trust Co.
*Los Angeles, CA*
RCM Global Investors
*San Francisco, CA*
McKinley Capital Management, Inc.
*Anchorage, AK*
Quantitative Management Associates
*Newark, NJ*
Relational Investors LLC
*San Diego, CA*

**Domestic Equity Index Fund**
State Street Global Advisors
*San Francisco, CA*

**Emerging Markets**
Capital Guardian Trust Co.
*Los Angeles, CA*
Eaton Vance Management
*Boston, MA*

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

**High Yield**
Advent Capital Management
*New York, NY*
MacKay Shields LLC
*New York, NY*
Rogge Global Partners
*Hartford, CT*

## External Money Managers and Consultants (cont.)

**International Equity – EAFE**
Brandes Investment Partners, L.P.
*San Diego, CA*
Capital Guardian Trust Co.
*Los Angeles, CA*

**International Fixed Income**
Mondrain Investment Partners
*London, England*

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

**Real Estate – Farmland**
Hancock Agricultural Investment Group
*Boston, MA*
UBS AgriVest, LLC
*Hartford, CT*

**Real Estate – Commingled Funds**
BlackRock Realty
*San Francisco, CA*
Colony Capital
*Los Angeles, CA*
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*
Tishman Speyer Properties
*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*

**Supplemental Benefits System and Deferred Compensation Plan**
Black Rock
*San Francisco, CA*
Brandes Investment Partners
*San Diego, CA*
Capital Guardian Trust Company
*Los Angeles, CA*
RCM
*San Francisco, CA*
State Street Global Advisors
*Boston, MA*
T. Rowe Price Investment Services
*Baltimore, MD*

**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

### 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.

The ARMB categorizes its investments into six asset classes: domestic equities, global equities ex-U.S., fixed income, real assets, private equity and absolute return. The performance of each asset class is compared with a benchmark comprised of one or more market indices. The performance for the total portfolio is compared with its policy portfolio, determined by calculating the weighted performance of the underlying asset class benchmarks at the portfolio's target asset allocation. The asset class benchmarks are illustrated below:

| Asset Class | Benchmark |
|---|---|
| Domestic Equities | Russell 3000 Index |
| Global Equities Ex-U.S. | MSCI All Country World Index Ex-U.S. |
| Fixed Income | 70% Barclays Capital Aggregate Index, 10% Barclays Capital Treasury Index, 10% Citigroup Non-U.S. World Government Bond Index, 10% Merrill Lynch High Yield Master II Constrained Index |
| Real Assets | 60% NCREIF Property Index, 20% Barclays Capital TIPS Index, 10% NCREIF Farmland Index, 10% NCREIF Timber Index |
| Private Equity | 33.3% S&P 500 Index, 33.3% Russell 2000, 33.3% MSCI EAFE Index |
| Absolute Return | 91 Day Treasury Bill + 5% |

The target asset allocation is determined by the ARMB, utilizing capital market assumptions provided by its independent general investment consultant, Callan Associates. During the 2010 fiscal year, ARMB's target asset allocation was 30% domestic equities, 22% global equities ex-U.S., 20% fixed income, 16% real assets, 7% private equity, and 5% absolute return. The target asset allocation was expected to generate a return of 9.39% with a standard deviation of returns of 12.85%.

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

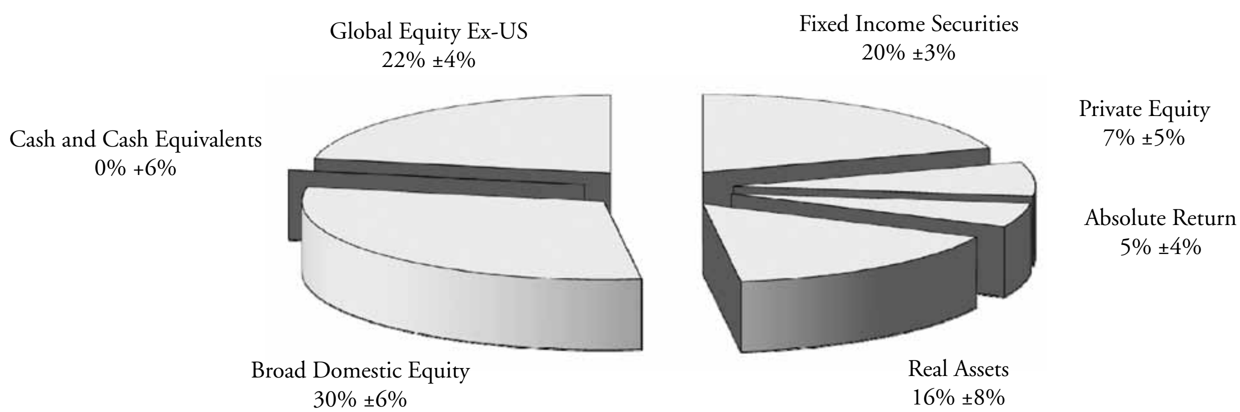
| | 2006 | 2007 | 2008 | 2009 | 2010 | Annualized 3 Year | Annualized 5 Year |
|---|---|---|---|---|---|---|---|
| **Total Fund** | | | | | | | |
| PERS | 11.74% | 18.88% | (3.06%) | (20.49%) | 11.39% | (5.00%) | 2.65% |
| *Actuarial Earnings Rate* | 8.25% | 8.25% | 8.25% | 8.25% | 11.11% | (4.22%) | 2.56% |
| **U.S. Common Stock Returns** | | | | | | | |
| PERS Domestic Equities | 9.23% | 20.10% | (13.53%) | (26.72%) | 15.45% | (9.90%) | (0.82%) |
| *Custom Composite Index* | - | - | - | (26.56%) | 15.72% | (9.81%) | (0.72%) |
| S&P 500/Russell 2000 Composite | 9.67% | 20.59% | (13.68%) | - | - | - | - |
| **International Stock Returns** | | | | | | | |
| PERS International Equities | 28.73% | 30.00% | (7.58%) | (29.11%) | 12.05% | (9.79%) | 4.23% |
| *Morgan Stanley Capital International ACWI ex-US* | - | - | - | (30.54%) | 10.87% | (11.09%) | 2.83% |
| *Morgan Stanley Capital International EAFE* | 26.56% | 27.00% | (10.61%) | - | - | - | - |
| **Fixed-Income** | | | | | | | |
| PERS | - | - | - | 3.39% | 11.19% | 7.00% | 5.42% |
| *Custom Composite Index* | - | - | - | 5.41% | 10.16% | 7.62% | 5.58% |
| **Private Equity** | | | | | | | |
| PERS | - | - | - | (23.67%) | 18.86% | 0.89% | 10.73% |
| *Custom Composite Index* | - | - | - | (27.19%) | 13.87% | (10.42%) | 0.32% |
| **Absolute Return** | | | | | | | |
| PERS | - | - | - | (12.51%) | 6.59% | (1.81%) | 2.85% |
| *3-month Treasury Bill +5%* | - | - | - | 5.95% | 5.16% | 6.47% | 7.46% |
| **Real Assets** | | | | | | | |
| PERS | - | - | - | (21.02%) | (0.28%) | (6.22%) | 3.46% |
| *Custom Composite Index* | - | - | - | (10.82%) | 1.17% | (1.23%) | 6.00% |
| **Domestic Fixed-Income** | | | | | | | |
| PERS | 0.05% | 6.20% | 6.58% | - | - | - | - |
| *Lehman Brothers Aggregate Index* | (0.81%) | 6.12% | 7.12% | - | - | - | - |
| **International Fixed-Income** | | | | | | | |
| PERS | (0.27%) | 1.97% | 18.96% | - | - | - | - |
| *Salomon Non-U.S. Government* | (0.01%) | 2.20% | 18.72% | - | - | - | - |
| **Real Estate Equity** | | | | | | | |
| PERS | 18.58% | 20.75% | 5.71% | - | - | - | - |
| *NCREIF* | 18.79% | 17.24% | 6.82% | - | - | - | - |

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

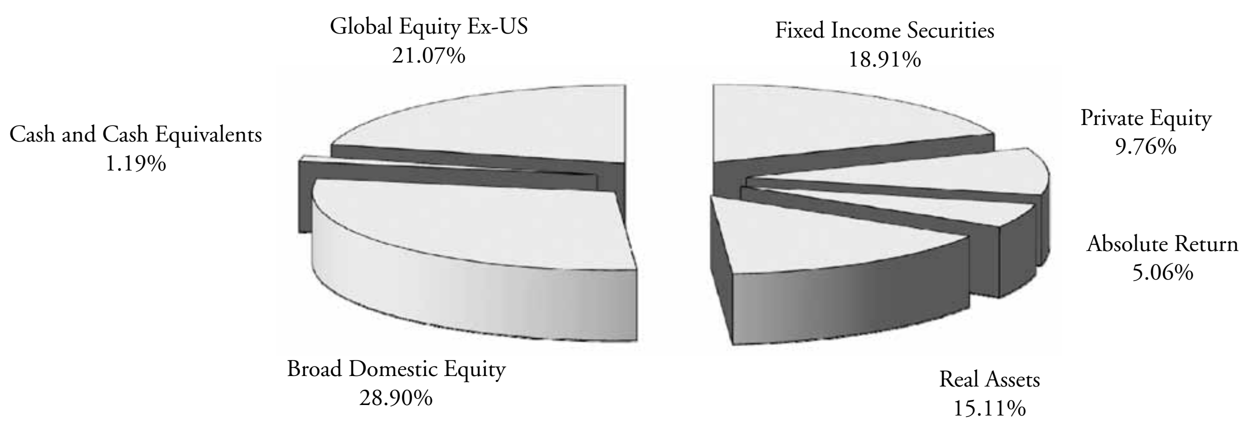
Basis of calculation: Time-weighed rate of return based on the market rate of return.

**Public Employees' Retirement System**
**Asset Allocation**
**June 30, 2010**

**Policy**

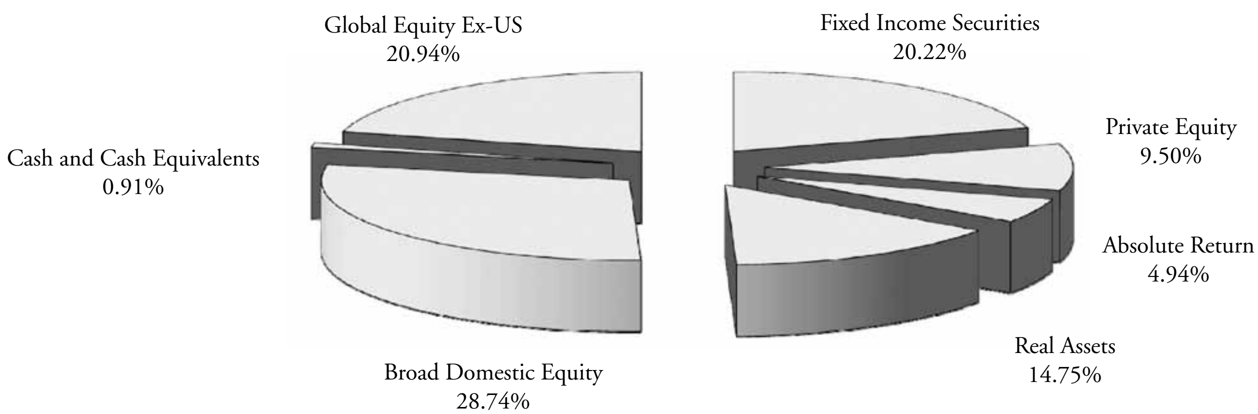



**Actual — Defined Benefit Pension**

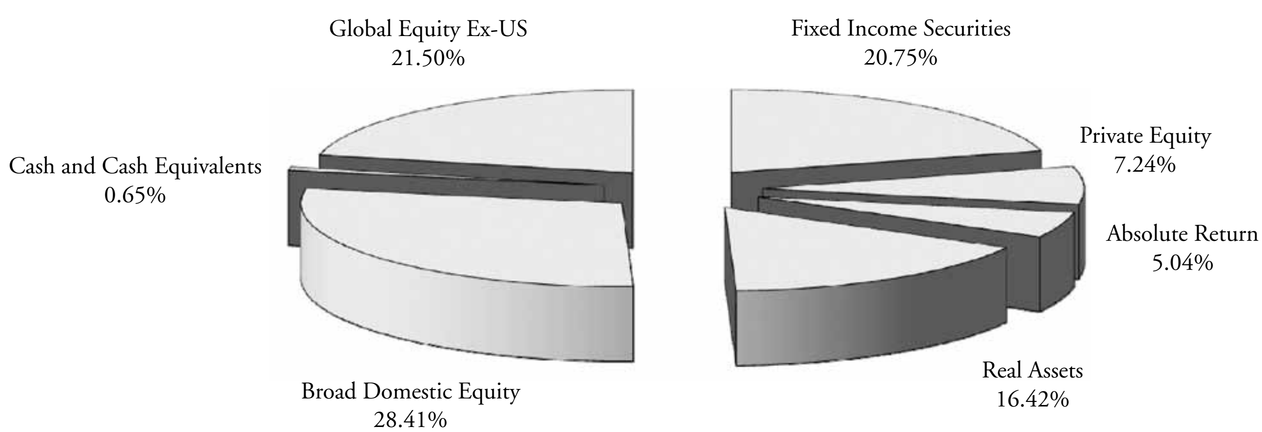


**Public Employees' Retirement System**
**Asset Allocation**
**June 30, 2010**

### Actual — Defined Benefit Alaska Retiree Healthcare Trust

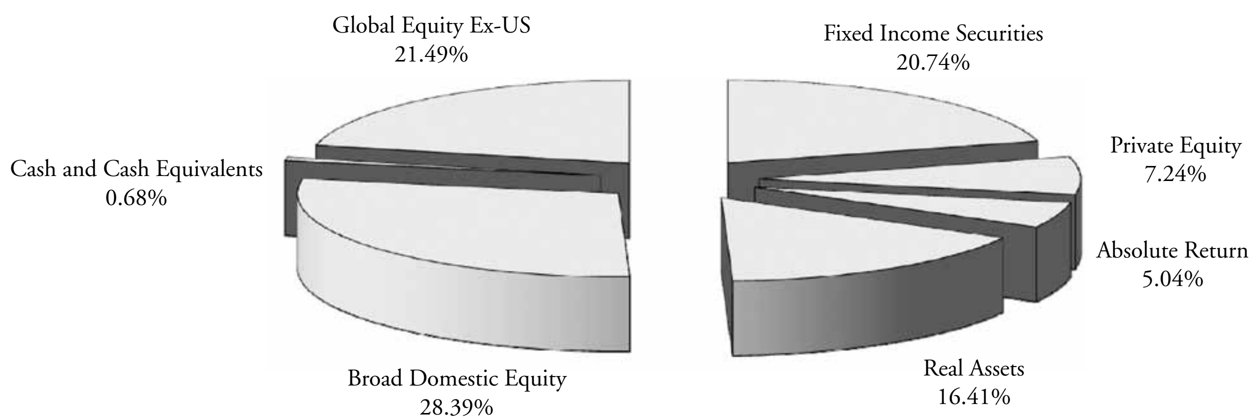



### Actual — Defined Contribution Health Reimbursement Arrangement

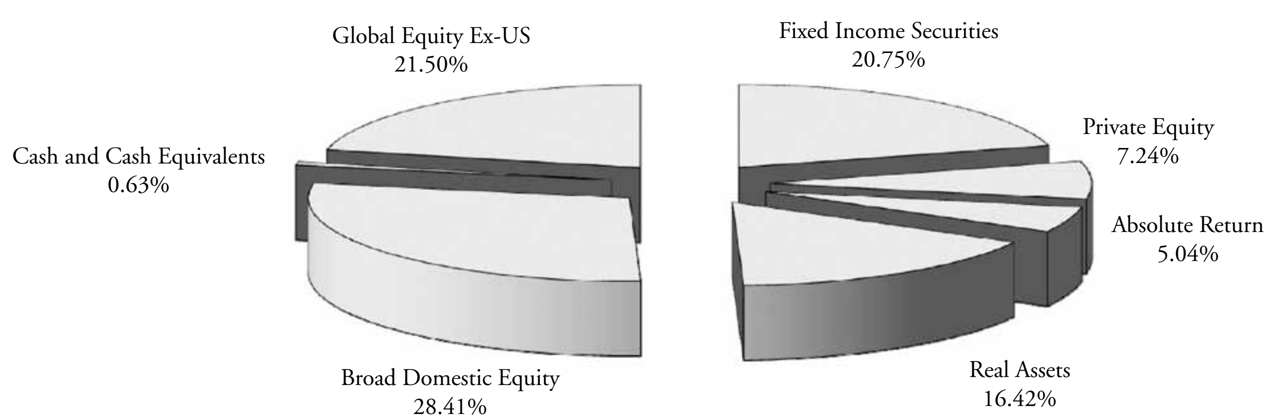


**Public Employees' Retirement System**
**Asset Allocation**
**June 30, 2010**

**Actual — Defined Contribution Occupational Death & Disability**




**Actual — Defined Contribution Retiree Medical Plan**



## Alaska Retirement Management Board
## Top Ten Holdings by Asset Type
## June 30, 2010

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 eighteen 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. Below are the ten largest bond and equity holdings.

**Fixed Income**

| Rank | Security | Market Value | Par Value |
|---|---|---|---|
| 1 | US Treasury 1.125% 06/15/13 | $357,380,092 | $355,967,739 |
| 2 | US Treasury 1.875% 06/30/15 | 144,572,215 | 144,022,698 |
| 3 | US Treasury 0.625% 06/30/12 | 71,346,130 | 71,346,131 |
| 4 | US Treasury 3.625% 02/15/20 | 55,071,409 | 52,131,969 |
| 5 | US Treasury 3.125% 01/31/17 | 46,182,308 | 44,173,781 |
| 6 | US Treasury 3.5% 05/15/20 | 41,256,631 | 39,422,807 |
| 7 | FNMA 4.5% TBA JUL 30 | 36,915,853 | 35,621,781 |
| 8 | FNMA 5.0% TBA JUL 30 | 18,880,030 | 17,845,542 |
| 9 | FNMA 5.5% TBA JUL 30 | 16,068,792 | 14,969,464 |
| 10 | FNMA 5.0% POOL 725027 | 15,366,612 | 14,456,848 |

**Equities**

| Rank | Largest Domestic Equity Holdings | Market Value |
|---|---|---|
| 1 | Apple Inc. | $43,699,383 |
| 2 | JPMorgan Chase & Co. | 39,696,512 |
| 3 | Microsoft Corp. | 34,899,540 |
| 4 | Exxon Mobile Corp. | 33,149,810 |
| 5 | Wells Fargo & Co. | 30,809,569 |
| 6 | Johnson & Johnson | 29,936,378 |
| 7 | Proctor & Gamble Co. | 29,861,884 |
| 8 | Chevron Corp. | 28,774,846 |
| 9 | Bank of America Corp. | 27,347,747 |
| 10 | AT&T Inc. | 26,719,252 |

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, 2010

| Investment Management Fees | Fair Value | Fees |
|---|---|---|
| **International Fixed Income** | | |
| * Mondrian Investment Partners | $ 138,243,044 | $ 310,675 |
| **High Yield Pool** | | |
| * Mackay Shields, LLC | 117,308,838 | 519,756 |
| * ING Investments | 110,284,103 | 519,924 |
| Total High Yield | 227,592,941 | 1,039,680 |
| **Domestic Equity Pool** | | |
| ** Relational Investors | 165,383,566 | 1,319,370 |
| * Advent Capital | 36,503,311 | 191,403 |
| * Barrow, Hanley, Mewhinney & Strauss, Inc | 75,147,182 | 378,212 |
| * Capital Gaurdian Trust | 6,983 | 166,659 |
| * Jennison Associates LLC | 79,553,639 | 713,723 |
| * Lazard Asset Management | 187,892,431 | 859,079 |
| * Lord Abbett & Co. | 94,342,999 | 733,271 |
| * Luther King Cap. Management | 59,518,311 | 370,983 |
| * McKinley Capital | 215,009,769 | 758,016 |
| * Quantitative Management Associates | 73,046,524 | 311,480 |
| * Dresdner RCM Capital | 233,905,442 | 733,182 |
| * SSgA Russell 1000 Growth | 275,912,397 | 45,984 |
| * SSgA Russell 1000 Value | 653,443,136 | 85,793 |
| * SSgA Russell 2000 Growth | 53,603,464 | 14,645 |
| * SSga Russell 2000 Value | 256,167,224 | 97,326 |
| * SSgA Russell 200 | 205,196,489 | 70,225 |
| * SSgA Futures Large Cap | 2,531,095 | 9,883 |
| * SSgA Future Small Cap | 2,508,324 | 7,583 |
| * Turner Investment Partners | - | 255,507 |
| Total Domestic Equities | 2,669,672,286 | 7,122,279 |
| **Private Equity Pool** | | |
| ** Blum Capital Partners-Strategic | 18,979,990 | 296,499 |
| ** Warburg Pincus X | 9,360,741 | 311,115 |
| ** Angelo Gordon & Co. | 20,396,588 | 184,391 |
| ** Onex Partners | 1,031,056 | 209,938 |
| ** Lexington Partners | 158,174 | 241,546 |
| * Pathway Capital Management | 399,852,226 | 1,468,821 |
| * Abbott Capital Management | 442,697,843 | 1,027,879 |
| Total Private Equities | 892,476,618 | 3,740,189 |
| **International Equity Pool** | | |
| * SSgA | 165,156,017 | 294,974 |
| * Brandes Investment Partners | 507,948,714 | 2,083,277 |
| * Capital Guardian Trust Co. | 341,052,673 | 1,252,407 |
| * McKinley Capital Mgmt. | 195,961,775 | 1,022,985 |
| * Lazard Freres | 195,910,901 | 747,929 |
| Total International Equities | 1,406,030,080 | 5,401,572 |
| **Absolute Return Pool** | | |
| ** Mariner Investment Group | 165,993,182 | 1,388,938 |
| ** Cadogan Management LLC | 16,668,013 | 516,508 |
| ** Crestline Investors Inc. | 160,170,993 | 1,324,029 |
| ** Global Asset Management | 69,212,509 | 197,230 |
| ** Prisma Capital Partners | 51,819,164 | 136,171 |
| Total Absolute Return | 463,863,861 | 3,562,875 |

*(continued)*

## Public Employees' Retirement System
## Schedule of External Management Fees (cont.)
## Year Ended June 30, 2010

| | Fair Value | Fees |
|---|---|---|
| **Emerging Markets Equity Pool** | | |
| ** The Capital Group Inc. | $ 250,439,999 | $ 1,442,185 |
| ** Lazard Freres Asset Managers | 166,585,459 | - |
| ** Eaton Vance | 123,157,683 | - |
| Total Emerging Markets | 540,183,141 | 1,442,185 |
| **Real Estate Pool** | | |
| ** JPM Strategic | 97,713,398 | 959,397 |
| ** UBS Consolidated | 42,373,188 | 403,430 |
| ** Cornerstone | 103,158,571 | 879,829 |
| ** Lasalle | 114,733,475 | 930,778 |
| ** Sentinel , SA | 61,993,785 | 380,871 |
| ** UBS Separate | 177,515,706 | 1,359,053 |
| ** Lowe Hospitality | 1,265,025 | 210,353 |
| ** ING Clarion | 12,986,905 | 398,047 |
| ** Lehman Brothers Real Estate Partners | 59,007,288 | 1,268,851 |
| ** Rothschild Five Arrows | 36,691,399 | 524,390 |
| ** Tishman Speyer | 23,150,853 | 844,919 |
| ** BlackRock Diamond | 11,858,837 | 336,361 |
| ** Colony Investors VIII, L.P. | 17,348,549 | 715,225 |
| ** LaSalle Medical Office Fund II | 9,846,642 | 313,971 |
| ** Cornerstone Apartment Venture III | 9,547,621 | 178,822 |
| Total Real Estate | 779,191,242 | 9,704,297 |
| **Timber Pool** | | |
| ** Timberland INVT Resources | 82,296,834 | 581,637 |
| ** Hancock Natural Resource Group | 32,521,119 | 214,319 |
| Total Timber Pool | 114,817,953 | 795,956 |
| **Farmland Pool** | | |
| ** UBS Agrivest | 215,648,163 | 895,776 |
| ** Hancock Agriculture Investment Group | 114,518,386 | 1,738,423 |
| Total Farmland | 330,166,549 | 2,634,199 |
| **Farmland Water Pool** | | |
| ** Hancock Farmland & Water | 3,378,399 | 25,614 |
| ** UBS Agrivest | 7,936,348 | 65,868 |
| Total Farmland Water Pool | 11,314,747 | 91,482 |
| **Energy Pool** | | |
| ** TCW Energy Fund XD | 162,662,265 | 178,163 |
| ** TCW Energy Fund XIV-A | 42,005,628 | 1,832,227 |
| Total Energy Pool | $ 204,667,893 | 2,010,390 |
| **Custodian** | | |
| * State Street Bank | | 648,405 |
| **Investment Advisory** | | |
| * Townsend Group | | 69,246 |
| * Callan Associates | | 124,780 |
| * Investment Advisory Council | | 21,155 |
| Total Investment Advisory | | 215,181 |
| **Investment Performance** | | |
| * Callan Associates | | 185,865 |
| **Total External Management Fees** | | **$ 38,905,230** |

*These fees are paid through the Alaska Statewide Accounting System (AKSAS)
**These fees are deducted from earnings by the fund manager and are not directly recorded in AKSAS.

## Public Employees' Retirement System
## Investment Summary Schedule

### June 30, 2010

| | Defined Benefit - Pension | | | |
|---|---|---|---|---|
| | Asset Allocation | | | % of Total |
| **Investments (at Fair Value)** | **Policy** | **Range** | **Fair Market Value** | **Assets** |
| **Cash and Cash Equivalents** | | | | |
| Short-term Fixed Income Pool | | | $ 63,836,378 | |
| Total Cash and Cash Equivalents | 0% | 0-6% | 63,836,378 | 1.19% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 481,749,630 | |
| U.S. Treasury Fixed Income Pool | | | 279,587,042 | |
| High Yield Pool | | | 133,513,792 | |
| International Fixed Income Pool | | | 81,746,987 | |
| Emerging Debt Pool | | | 41,357,382 | |
| Total Fixed Income Securities | 20% | 17-23% | 1,017,954,834 | 18.91% |
| **Broad Domestic Equity** | | | | |
| Broad Domestic Equity | | | 1,555,437,706 | |
| Total Broad Domestic Equity | 30% | 24-36% | 1,555,437,706 | 28.90% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 825,141,671 | |
| Emerging Markets Equity Pool | | | 309,129,358 | |
| Total Global Equity Ex-U.S. | 22% | 18-26% | 1,134,271,029 | 21.07% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 525,415,317 | |
| Total Private Equity | 7% | 2-12% | 525,415,317 | 9.76% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 272,398,457 | |
| Total Absolute Return | 5% | 1-9% | 272,398,457 | 5.06% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 452,717,152 | |
| Real Estate Investment Trust Pool | | | 22,056,908 | |
| Energy Pool | | | 34,968,382 | |
| Farmland Pool | | | 194,432,612 | |
| Farmland Water Pool | | | 11,314,745 | |
| Timber Pool | | | 67,245,052 | |
| Treasury Inflation Protected Securities Pool | | | 30,430,401 | |
| Total Real Assets | 16% | 8-24% | 813,165,253 | 15.11% |
| **Total Invested Assets** | **100%** | | **$ 5,382,478,973** | **100%** |

## Public Employees' Retirement System
## Investment Summary Schedule
## June 30, 2010

| | Defined Benefit - Alaska Retiree Healthcare Trust | | | |
|---|---|---|---|---|
| | Asset Allocation | | | |
| Investments (at Fair Value) | Policy | Range | Fair Market Value | % of Total Assets |
| **Cash and Cash Equivalents** | | | | |
| Short-term Fixed Income Pool | | | $ 34,990,398 | |
| Total Cash and Cash Equivalents | 0% | 0-6% | 34,990,398 | 0.91% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 424,936,335 | |
| U.S. Treasury Fixed Income Pool | | | 172,678,521 | |
| High Yield Pool | | | 93,201,369 | |
| International Fixed Income Pool | | | 55,618,337 | |
| Emerging Debt Pool | | | 28,608,127 | |
| Total Fixed Income Securities | 20% | 17-23% | 775,042,688 | 20.22% |
| **Broad Domestic Equity** | | | | |
| Broad Domestic Equity | | | 1,101,755,824 | |
| Total Broad Domestic Equity | 30% | 24-36% | 1,101,755,824 | 28.74% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 573,735,080 | |
| Emerging Markets Equity Pool | | | 229,102,891 | |
| Total Global Equity Ex-U.S. | 22% | 18-26% | 802,837,971 | 20.94% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 363,987,805 | |
| Total Private Equity | 7% | 2-12% | 363,987,805 | 9.50% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 189,332,512 | |
| Total Absolute Return | 5% | 1-9% | 189,332,512 | 4.94% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 322,296,571 | |
| Real Estate Investment Trust Pool | | | 13,854,860 | |
| Energy Pool | | | 23,172,548 | |
| Farmland Pool | | | 135,043,124 | |
| Farmland Water Pool | | | - | |
| Timber Pool | | | 47,141,072 | |
| Treasury Inflation Protected Securities Pool | | | 23,721,500 | |
| Total Real Assets | 16% | 8-24% | 565,229,674 | 14.75% |
| **Total Invested Assets** | **100%** | | **$ 3,833,176,873** | **100%** |

**Public Employees' Retirement System**
**Investment Summary Schedule**

**June 30, 2010**

| Investments (at Fair Value) | Asset Allocation Policy | Asset Allocation Range | Fair Market Value | % of Total Assets |
|---|---|---|---|---|
| | **Defined Contribution - Health Reimbursement Arrangement** | | | |
| **Cash and Cash Equivalents** | | | | |
| Short-term Fixed Income Pool | | | $ 196,917 | |
| Total Cash and Cash Equivalents | 0% | 0-6% | 196,917 | 0.65% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 3,558,223 | |
| U.S. Treasury Fixed Income Pool | | | 832,610 | |
| High Yield Pool | | | 624,767 | |
| International Fixed Income Pool | | | 624,755 | |
| Emerging Debt Pool | | | 613,988 | |
| Total Fixed Income Securities | 20% | 17-23% | 6,254,344 | 20.75% |
| **Broad Domestic Equity** | | | | |
| Broad Domestic Equity | | | 8,563,650 | |
| Total Broad Domestic Equity | 30% | 24-36% | 8,563,650 | 28.41% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 5,091,837 | |
| Emerging Markets Equity Pool | | | 1,388,629 | |
| Total Global Equity Ex-U.S. | 22% | 18-26% | 6,480,466 | 21.50% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 2,182,714 | |
| Total Private Equity | 7% | 2-12% | 2,182,714 | 7.24% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 1,518,176 | |
| Total Absolute Return | 5% | 1-9% | 1,518,176 | 5.04% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 2,973,559 | |
| Real Estate Investment Trust Pool | | | 88,063 | |
| Energy Pool | | | 93,193 | |
| Farmland Pool | | | 491,717 | |
| Farmland Water Pool | | | - | |
| Timber Pool | | | 307,372 | |
| Treasury Inflation Protected Securities Pool | | | 994,691 | |
| Total Real Assets | 16% | 8-24% | 4,948,594 | 16.42% |
| **Total Invested Assets** | **100%** | | **$ 30,144,861** | **100%** |

**Public Employees' Retirement System**
**Investment Summary Schedule**

**June 30, 2010**

**Defined Contribution - Occupational Death & Disability**

| Investments (at Fair Value) | Asset Allocation Policy | Range | Fair Market Value | % of Total Assets |
|---|---|---|---|---|
| **Cash and Cash Equivalents** | | | | |
| Short-term Fixed Income Pool | | | $ 29,609 | |
| Total Cash and Cash Equivalents | 0% | 0-6% | 29,609 | 0.68% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 513,466 | |
| U.S. Treasury Fixed Income Pool | | | 120,153 | |
| High Yield Pool | | | 90,173 | |
| International Fixed Income Pool | | | 90,148 | |
| Emerging Debt Pool | | | 88,595 | |
| Total Fixed Income Securities | 20% | 17-23% | 902,535 | 20.74% |
| **Broad Domestic Equity** | | | | |
| Broad Domestic Equity | | | 1,235,334 | |
| Total Broad Domestic Equity | 30% | 24-36% | 1,235,334 | 28.39% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 734,626 | |
| Emerging Markets Equity Pool | | | 200,375 | |
| Total Global Equity Ex-U.S. | 22% | 18-26% | 935,001 | 21.49% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 315,049 | |
| Total Private Equity | 7% | 2-12% | 315,049 | 7.24% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 219,067 | |
| Total Absolute Return | 5% | 1-9% | 219,067 | 5.04% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 429,051 | |
| Real Estate Investment Trust Pool | | | 12,708 | |
| Energy Pool | | | 13,446 | |
| Farmland Pool | | | 70,952 | |
| Farmland Water Pool | | | - | |
| Timber Pool | | | 44,354 | |
| Treasury Inflation Protected Securities Pool | | | 143,542 | |
| Total Real Assets | 16% | 8-24% | 714,053 | 16.41% |
| **Total Invested Assets** | **100%** | | **$4,350,648** | **100%** |

**Public Employees' Retirement System**
**Investment Summary Schedule**

**June 30, 2010**

| | Defined Contribution - Retiree Medical Plan | | | |
|---|---|---|---|---|
| | Asset Allocation | | | % of |
| | | | Fair | Total |
| **Investments (at Fair Value)** | **Policy** | **Range** | **Market Value** | **Assets** |
| **Cash and Cash Equivalents** | | | | |
| Short-term Fixed Income Pool | | | $ 49,649 | |
| Total Cash and Cash Equivalents | 0% | 0-6% | 49,649 | 0.63% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 927,342 | |
| U.S. Treasury Fixed Income Pool | | | 216,995 | |
| High Yield Pool | | | 162,841 | |
| International Fixed Income Pool | | | 162,817 | |
| Emerging Debt Pool | | | 160,010 | |
| Total Fixed Income Securities | 20% | 17-23% | 1,630,005 | 20.75% |
| **Broad Domestic Equity** | | | | |
| Broad Domestic Equity | | | 2,231,390 | |
| Total Broad Domestic Equity | 30% | 24-36% | 2,231,390 | 28.41% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 1,326,866 | |
| Emerging Markets Equity Pool | | | 361,888 | |
| Total Global Equity Ex-U.S. | 22% | 18-26% | 1,688,754 | 21.50% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 568,817 | |
| Total Private Equity | 7% | 2-12% | 568,817 | 7.24% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 395,648 | |
| Total Absolute Return | 5% | 1-9% | 395,648 | 5.04% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 774,909 | |
| Real Estate Investment Trust Pool | | | 22,950 | |
| Energy Pool | | | 24,286 | |
| Farmland Pool | | | 128,145 | |
| Farmland Water Pool | | | - | |
| Timber Pool | | | 80,103 | |
| Treasury Inflation Protected Securities Pool | | | 259,238 | |
| Total Real Assets | 16% | 8-24% | 1,289,630 | 16.42% |
| **Total Invested Assets** | **100%** | | **$ 7,853,893** | **100%** |

## Public Employees' Retirement System
## Recaptured Commission Fees
## Year Ended June 30, 2010

| Fund | Domestic Equity | International Equity | Total |
|---|---|---|---|
| Defined Benefit - Pension | $ 111,193 | $ 55,741 | $ 166,934 |
| Defined Benefit - Retiree Heathcare Trust | 78,941 | 39,109 | 118,050 |
| Defined Contribution - Health Reimbursement Arrangement | 469 | 262 | 731 |
| Defined Contribution - Occupational Death & Disability - Police/Firerighter | 17 | 10 | 27 |
| Defined Contribution - Occupational Death & Disability - All Others | 57 | 30 | 87 |
| Defined Contribution Retiree Medical Pan | 128 | 71 | 199 |
| **Total Recaptured Commission Fees** | **$ 190,805** | **$ 95,223** | **$ 286,028** |

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.

# ACTUARIAL SECTION

This page intentionally left blank.

buckconsultants A Xerox Company

July 9, 2010

State of Alaska
The Alaska Retirement Management Board
The Department of Revenue, Treasury Division
The Department of Administration, Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

**Actuarial Certification**

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2009 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the System as of June 30, 2009;
(2) a review of experience under the System for the year ended June 30, 2009;
(3) a determination of the appropriate contribution rate for all employers in the System, including additional State contributions pursuant to SB 125, which will be applied for the fiscal year ending June 30, 2012; 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 this report:

(1) Summary of actuarial assumptions and methods
(2) Schedule of active member valuation data
(3) Schedule of benefit recipients added to and removed from rolls
(4) Solvency test
(5) Analysis of financial experience
(6) Summary of GASB No. 25 and 43 disclosure information.

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

**The Alaska Retirement Management Board, The Department of Revenue,**
**and The Department of Administration**
**July 9, 2010**
**Page 2**

In preparing this 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 employee 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 Alaska Retirement (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 FY10 and a fixed 25-year amortization as level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses. The payroll used to determine the contribution rates is the total payroll of all active members in the System, including those hired after July 1, 2006 who are in the Defined Contribution Retirement (DCR) Plan. 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 69.5% to 61.8% during the year. This report provides an analysis of the factors that led to the decrease. This report also provides a history of the funding ratio of the System.

A summary of the actuarial assumptions and methods is presented in this report. The assumptions when applied in combination, fairly represent past and anticipated future experience of the System.

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

(1) differences between actual experience and anticipated experience based on the assumptions;
(2) changes in actuarial assumptions or methods;
(3) changes in statutory provisions; or
(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska, and are available to answer questions regarding this report.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 43.

buckconsultants

**The Alaska Retirement Management Board, The Department of Revenue,**
**and The Department of Administration**
**July 9, 2010**
**Page 3**

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

Sincerely,

David H. Slishinsky, ASA, EA, MAAA
Principal, Consulting Actuary

Michelle Reding DeLange, FSA, EA, MAAA
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 Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

buckconsultants

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

The demographic and economic assumptions used in the June 30, 2009 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 by the payroll growth assumption 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, for GASB disclosure 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.

**Changes in Methods from the Prior Valuation**

There were no changes in methods from the prior valuation, except for any described in the healthcare sections below.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

## B. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at fair 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 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 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 claim data.

We analyzed Aetna and Premera management level reporting for calendar 2005 through fiscal 2009, as well as Aetna and Premera claim level data for calendar 2005, and fiscal years 2006 through 2009, 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 management level 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. Claim level reporting was used to augment cost data by Medicare status.

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, claim and enrollment experience is not available 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.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

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, including individual claim records, and accounting for retirees who return to work and therefore pay Medicare taxes, we assume that 3.5% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, we assume 3.5% of the current Medicare retiree population does not receive Part A coverage.

All claim cost rates developed from management level reporting have compared to similar rates developed from claim level data.

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 fiscal years and calendar year 2005. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We converted paid claim data to incurred cost rates projected from each historical data period to the valuation year using an average of national and Alaska-specific trend factors and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is approximately 2.57 months for medical claims and 0.5 months for prescription claims. This "trend and blend" methodology differs mechanically from the method used for 2004 and 2005 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 5-year experience period at approximately 20%. We also incorporated actual administrative costs that are projected to increase at 5%.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

## June 30, 2009 Valuation – FY 2010 Claims Cost Rates

| | Medical | | |
|---|---|---|---|
| | **Pre-Medicare** | **Medicare A&B** | **Medicare B Only** |
| **Calendar 2005 Paid Claims** | **$146,356,647** | **$25,618,571** | **$3,976,509** |
| Membership | 33,343 | 18,603 | 979 |
| Paid Claims Cost Rate | $4,389 | $1,377 | $4,061 |
| Trend to FY2010 | 1.468 | 1.468 | 1.468 |
| FY 2010 Paid Cost Rate | $6,445 | $2,022 | $5,963 |
| Paid to Incurred Factor** | 1.021 | 1.021 | 1.021 |
| **FY 2010 Incurred Cost Rate** | **$6,580** | **$2,064** | **$6,088** |
| **Calendar 2006 Paid Claims*** ** | **$150,287,171** | **$24,546,905** | **$4,079,223** |
| Membership | 33,473 | 19,490 | 1,026 |
| Paid Claims Cost Rate | $4,490 | $1,259 | $3,977 |
| Trend to FY2010 | 1.361 | 1.361 | 1.361 |
| FY 2010 Paid Cost Rate | $6,112 | $1,715 | $5,413 |
| Paid to Incurred Factor** | 1.021 | 1.021 | 1.021 |
| **FY 2010 Incurred Cost Rate** | **$6,240** | **$1,750** | **$5,527** |
| **Fiscal 2007 Paid Claims*** ** | **$129,762,975** | **$22,677,328** | **$3,524,812** |
| Membership | 33,446 | 20,315 | 1,069 |
| Paid Claims Cost Rate | $3,880 | $1,116 | $3,297 |
| Trend to FY2010 | 1.313 | 1.313 | 1.313 |
| FY 2010 Paid Cost Rate | $5,096 | $1,466 | $4,330 |
| Paid to Incurred Factor** | 1.021 | 1.021 | 1.021 |
| **FY 2010 Incurred Cost Rate** | **$5,202** | **$1,497** | **$4,421** |
| **Fiscal 2008 Paid Claims** | **$169,598,064** | **$28,657,490** | **$6,079,463** |
| Membership | 33,630 | 21,434 | 893 |
| Paid Claims Cost Rate | $5,043 | $1,337 | $6,807 |
| Trend to FY2010 | 1.190 | 1.190 | 1.190 |
| FY 2010 Paid Cost Rate | $5,999 | $1,591 | $8,098 |
| Paid to Incurred Factor** | 1.021 | 1.021 | 1.021 |
| **FY 2010 Incurred Cost Rate** | **$6,125** | **$1,624** | **$8,268** |
| **Fiscal 2009 Paid Claims** | **$187,868,089** | **$30,550,328** | **$10,093,527** |
| Membership | 33,832 | 23,424 | 850 |
| Paid Claims Cost Rate | $5,553 | $1,304 | $11,881 |
| Trend to FY2010 | 1.080 | 1.080 | 1.080 |
| FY 2010 Paid Cost Rate | $5,997 | $1,408 | $12,830 |
| Paid to Incurred Factor** | 1.021 | 1.021 | 1.021 |
| **FY 2010 Incurred Cost Rate** | **$6,122** | **$1,438** | **$13,099** |
| Weighted Average 7/1/2009 – 6/30/2010 Incurred Claims Cost Rates: | | | |
| At average age | $6,075 | $1,691 | $7,289 |
| At age 65* | $7,503 | $1,336 | $4,754 |

* Methodology prior to 2006 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 3.5% of Medicare 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.

*** Calendar 2006 Paid Claims covers the period from 01/01/2006 through 06/30/2006, along with estimated claims runout under the then current TPA. Fiscal 2007 Paid Claims covers the period 07/01/2006 through 06/30/2007, with claims paid under the then current TPA.

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
## Summary of Actuarial Assumptions, Methods and Procedures

### June 30, 2009 Valuation – FY 2010 Claims Cost Rates (cont.)

| | Prescription Drugs | | | |
|---|---|---|---|---|
| | Pre-Medicare | Medicare A&B | Medicare B Only | Total |
| **Calendar 2005 Paid Claims** | **$42,812,358** | **$35,481,585** | **$ 1,999,302** | **$256,244,972** |
| Membership | 33,343 | 18,603 | 979 | 52,925 |
| Paid Claims Cost Rate | $1,284 | $1,907 | $2,042 | $4,842 |
| Trend to FY2010 | 1.558 | 1.558 | 1.558 | |
| FY 2010 Paid Cost Rate | $2,000 | $2,971 | $3,180 | $7,244 |
| Paid to Incurred Factor** | 1.005 | 1.005 | 1.005 | |
| **FY 2010 Incurred Cost Rate** | **$2,009** | **$2,985** | **$3,195** | **$7,359** |
| **Calendar 2006 Paid Claims*** ** | **$45,461,356** | **$39,644,399** | **$2,235,948** | **$266,255,002** |
| Membership | 33,473 | 19,490 | 1,026 | 53,989 |
| Paid Claims Cost Rate | $1,358 | $2,034 | $2,180 | $4,932 |
| Trend to FY2010 | 1.407 | 1.407 | 1.407 | |
| FY 2010 Paid Cost Rate | $1,912 | $2,863 | $3,068 | $6,788 |
| Paid to Incurred Factor** | 1.005 | 1.005 | 1.005 | |
| **FY 2010 Incurred Cost Rate** | **$1,920** | **$2,876** | **$3,082** | **$6,894** |
| **Fiscal 2007 Paid Claims*** ** | **$46,176,199** | **$42,348,638** | **$2,391,089** | **$246,881,041** |
| Membership | 33,446 | 20,315 | 1,069 | 54,830 |
| Paid Claims Cost Rate | $1,381 | $2,085 | $2,236 | $4,503 |
| Trend to FY2010 | 1.340 | 1.340 | 1.340 | |
| FY 2010 Paid Cost Rate | $1,851 | $2,794 | $2,998 | $5,959 |
| Paid to Incurred Factor** | 1.005 | 1.005 | 1.005 | |
| **FY 2010 Incurred Cost Rate** | **$1,859** | **$2,807** | **$3,012** | **$6,048** |
| **Fiscal 2008 Paid Claims** | **$53,506,123** | **$52,529,773** | **$2,346,512** | **$312,717,425** |
| Membership | 33,630 | 21,434 | 893 | 55,957 |
| Paid Claims Cost Rate | $1,591 | $2,451 | $2,627 | $5,589 |
| Trend to FY2010 | 1.200 | 1.200 | 1.200 | |
| FY 2010 Paid Cost Rate | $1,910 | $2,942 | $3,154 | $6,669 |
| Paid to Incurred Factor** | 1.005 | 1.005 | 1.005 | |
| **FY 2010 Incurred Cost Rate** | **$1,919** | **$2,956** | **$3,169** | **$6,771** |
| **Fiscal 2009 Paid Claims** | **$63,181,353** | **$57,263,605** | **$2,226,629** | **$351,183,531** |
| Membership | 33,832 | 23,424 | 850 | 58,106 |
| Paid Claims Cost Rate | $1,867 | $2,445 | $2,621 | $6,044 |
| Trend to FY2010 | 1.080 | 1.080 | 1.080 | |
| FY 2010 Paid Cost Rate | $2,017 | $2,640 | $2,830 | $6,527 |
| Paid to Incurred Factor** | 1.005 | 1.005 | 1.005 | |
| **FY 2010 Incurred Cost Rate** | **$2,026** | **$2,652** | **$2,844** | **$6,627** |
| Weighted Average 7/1/2008 – 6/30/2009 Incurred Claims Cost Rates: | | | | |
| At average age | $1,941 | $2,868 | $3,076 | $6,756 |
| At age 65* | $2,419 | $2,419 | $2,419 | $7,252 |

* Methodology prior to 2006 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 3.5% of Medicare 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.

*** Calendar 2006 Paid Claims covers the period from 01/01/2006 through 06/30/2006, along with estimated claims runout under the then current TPA. Fiscal 2007 Paid Claims covers the period from 07/01/2006 through 06/30/2007, with claims paid under the then current TPA.

**STATE OF ALASKA**
**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, 2009 through June 30, 2010**

| Age | Medical and Medicare Parts A & B | Medical and Medicare Part B Only | Prescription Drug | Medicare Retiree Drug Subsidy |
|---|---|---|---|---|
| 45 | $ 4,155 | $ 4,155 | $ 1,276 | $ 0 |
| 50 | 4,701 | 4,701 | 1,516 | 0 |
| 55 | 5,319 | 5,319 | 1,800 | 0 |
| 60 | 6,318 | 6,318 | 2,087 | 0 |
| 65 | 1,336 | 4,754 | 2,419 | 477 |
| 70 | 1,626 | 5,784 | 2,606 | 514 |
| 75 | 1,931 | 6,867 | 2,780 | 548 |
| 80 | 2,080 | 7,398 | 2,850 | 562 |

## D. Actuarial Assumptions

1. Investment Return/ Discount Rate — 8.25% per year (Geometric), compounded annually, net of expenses.

2. Salary Scale — Inflation - 3.5% per year
   Peace Officers/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

3. Payroll Growth — 4.0% per year (Inflation + Productivity)

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.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

| | | |
|---|---|---|
| 5. | Mortality (Pre-Retirement) | Peace Officers/Firefighter:<br>1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.<br>Others:<br>Based upon the 2001-2005 actual mortality experience (see Table 1). 42% of the 1994 Group Annuity Table, 1994 Base Year without margin 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 without margin. |
| 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 1979 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. |
| 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 terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with non-vested benefits 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 net of 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. | Final Average Earnings | Final Average Earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future. |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

18. Per Capita Claims Cost

Sample claims cost rates for FY10 medical and prescription are shown below:

| | Medical | Prescription Drugs |
|---|---|---|
| Pre-Medicare | $7,503 | $2,419 |
| Medicare Parts A & B | $1,336 | $2,419 |
| Medicare Part B Only | $4,754 | $2,419 |
| Medicare Part D | n/a | $ 477 |

19. Third Party Administrator Fees

$153.33 per person per year; assumed trend rate of 5% per year.

20. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.0% is applied to the FY09 rate claims costs to get the FY10 claims costs.

| | Medical | Prescription Drugs |
|---|---|---|
| FY10 | 7.5% | 9.6% |
| FY11 | 6.9% | 8.3% |
| FY12 | 6.4% | 7.1% |
| FY13 | 5.9% | 5.9% |
| FY14 | 5.9% | 5.9% |
| FY15 | 5.9% | 5.9% |
| FY16 | 5.9% | 5.9% |
| FY25 | 5.8% | 5.8% |
| FY50 | 5.7% | 5.7% |
| FY100 | 5.1% | 5.1% |

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

21. Aging Factors

| Age | Medical | Prescriptions Drugs |
|---|---|---|
| 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% |
| 85-94 | 0.5% | 0.0% |
| 95+ | 0.0% | 0.0% |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

22. 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 FY10 contributions based on monthly rates shown below for calendar 2009 and 2010 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled.

| Coverage Category | Calendar 2010 Annual Contribution | Calendar 2010 Monthly Contribution | Calendar 2009 Monthly Contribution |
|---|---|---|---|
| Retiree Only | $ 8,628 | $ 719 | $ 631 |
| Retiree and Spouse | $ 17,268 | $ 1,439 | $ 1,262 |
| Retiree and Child(ren) | $ 12,192 | $ 1,016 | $ 891 |
| Retiree and Family | $ 20,832 | $ 1,736 | $ 1,523 |
| Composite | $ 12,816 | $ 1,068 | $ 937 |

23. Trend Rate for Retired Member Medical Contributions

The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 7.0% is applied to the FY10 retired member medical contributions to get the FY11 retired member medical contributions.

| | |
|---|---|
| FY10 | 7.0% |
| FY11 | 6.7% |
| FY12 | 6.3% |
| FY13 | 6.0% |
| FY14 | 5.7% |
| FY15 | 5.3% |
| FY16 | 5.0% |
| FY17 | 5.0% |
| FY 18 and later | 5.0% |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY09 retired member medical contributions are reflected in the valuation so trend on such contribution during FY09 is not applicable.

24. Healthcare Participation

100% of members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 1**
**Alaska PERS Others**
**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 |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 2**
**Alaska PERS**
**Total Turnover Assumptions**

**Peace Officer/Firefighter:**

**Select Rates of Turnover**
**During the First 5 Years of Employment**

| Year of Employment | Current Age 25 Male | Current Age 25 Female | Year of Employment | Current Age 40 Male | Current Age 40 Female |
|---|---|---|---|---|---|
| 1 | 11.24% | 12.47% | 1 | 11.15% | 12.37% |
| 2 | 9.34 | 10.37 | 2 | 9.24 | 10.26 |
| 3 | 7.43 | 8.26 | 3 | 7.32 | 8.14 |
| 4 | 6.48 | 7.21 | 4 | 6.35 | 7.07 |
| 5 | 5.52 | 6.15 | 5 | 5.38 | 6.00 |

**Ultimate Rates of Turnover**
**After the First 5 Years of Employment**

| Age | Male | Female |
|---|---|---|
| 20 | 4.57% | 5.76% |
| 25 | 4.54 | 5.75 |
| 30 | 4.49 | 5.71 |
| 35 | 4.46 | 5.66 |
| 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 |

Select rates vary slightly by age.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 2**
**Alaska PERS**
**Total Turnover Assumptions**

**Others:**

**Select Rates of Turnover**
**During the First 5 Years of Employment**

| | Current Age 25 | | Current Age 40 | | | Current Age 40 | | Current Age 50 | |
|---|---|---|---|---|---|---|---|---|---|
| | Age at Hire | | | | | Age at Hire | | | |
| Year of | 20-34 | | 35+ | | Year of | 20-34 | | 35+ | |
| Employment | Male | Female | Male | Female | Employment | Male | Female | Male | Female |
| 1 | 24.90% | 26.19% | 14.84% | 15.26% | 1 | 24.84% | 26.12% | 14.63% | 15.49% |
| 2 | 22.90 | 24.09 | 14.83 | 15.61 | 2 | 22.83 | 24.01 | 14.59 | 15.46 |
| 3 | 19.89 | 20.93 | 12.81 | 13.50 | 3 | 19.81 | 20.85 | 12.54 | 13.33 |
| 4 | 15.89 | 16.73 | 11.80 | 12.44 | 4 | 15.80 | 16.64 | 11.49 | 12.25 |
| 5 | 14.88 | 15.68 | 10.78 | 11.38 | 5 | 14.78 | 15.58 | 10.43 | 11.17 |

**Ultimate Rates of Turnover**
**After the First 5 Years of Employment**

| Age | Male | Female |
|---|---|---|
| 20 | 12.01% | 13.68% |
| 25 | 11.99 | 13.67 |
| 30 | 11.97 | 13.66 |
| 35 | 8.66 | 9.89 |
| 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 |

Select rates vary slightly by age.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 3**
**Alaska PERS**
**Disability Table**

| Age | Peace Officer/ Firefighter Rate | Other Member Rate Male | Other Member Rate 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 |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

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

| Age at Retirement | Retirement Rate | | | |
|---|---|---|---|---|
| | Reduced | | Unreduced | |
| | Male | Female | Male | Female |
| <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 |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 5**
**Alaska PERS Others**
**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 |

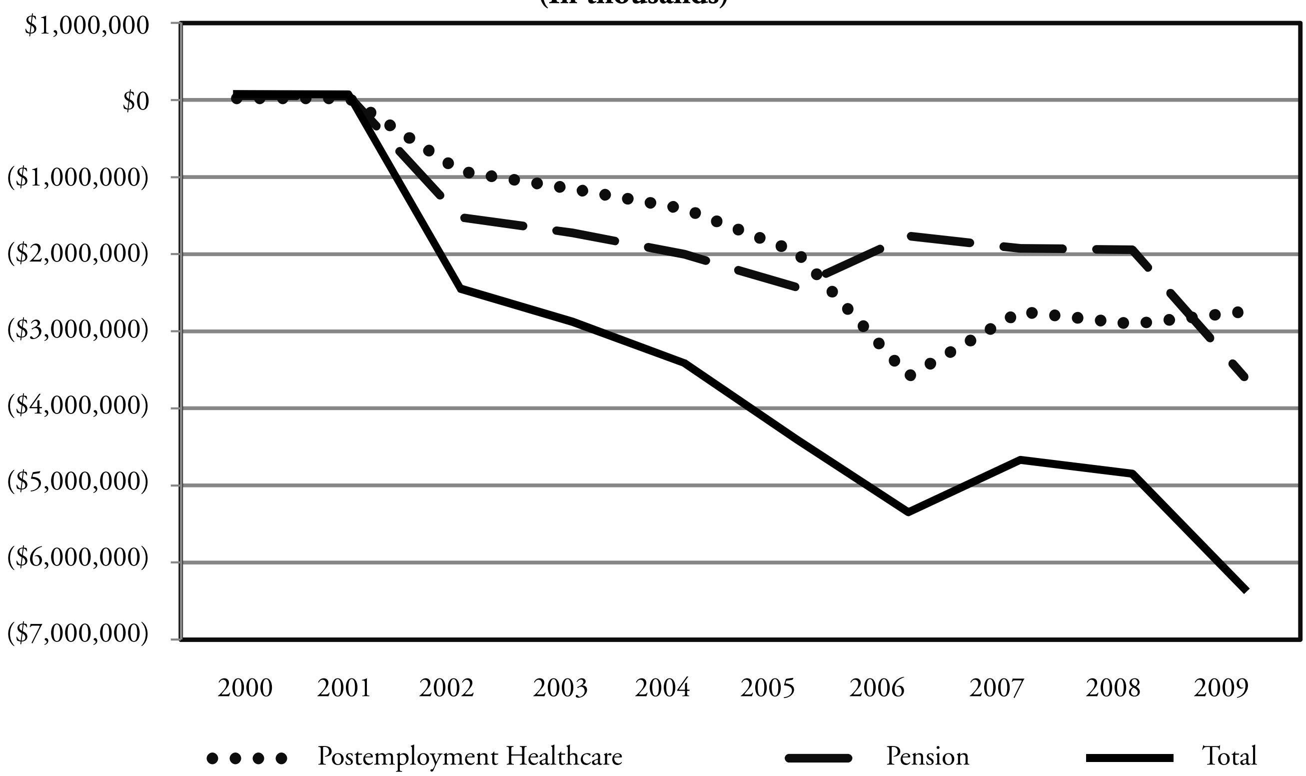
**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Changes in Actuarial Assumptions Since the Prior Valuation**

There were no changes in actuarial assumptions since the prior valuation.

| Public Employees' Retirement System<br>Funding Excess/(Unfunded Liability)<br>(In thousands) | | | | |
|---|---|---|---|---|
| Actuarial Valuation Year Ended June 30 | Postemployment Healthcare | Pension | Total Funding Excess/ (Unfunded Liability) | Funded Ratio |
| 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 |
| 2007 | (2,746,653) | (1,923,320) | (4,669,973) | 68.0 |
| 2008 | (2,904,525) | (1,943,510) | (4,848,035) | 69.5 |
| 2009 | (2,742,835) | (3,593,558) | (6,336,393) | 61.8 |

**10-YEAR TREND OF UNFUNDED LIABILITY**
**(In thousands)**



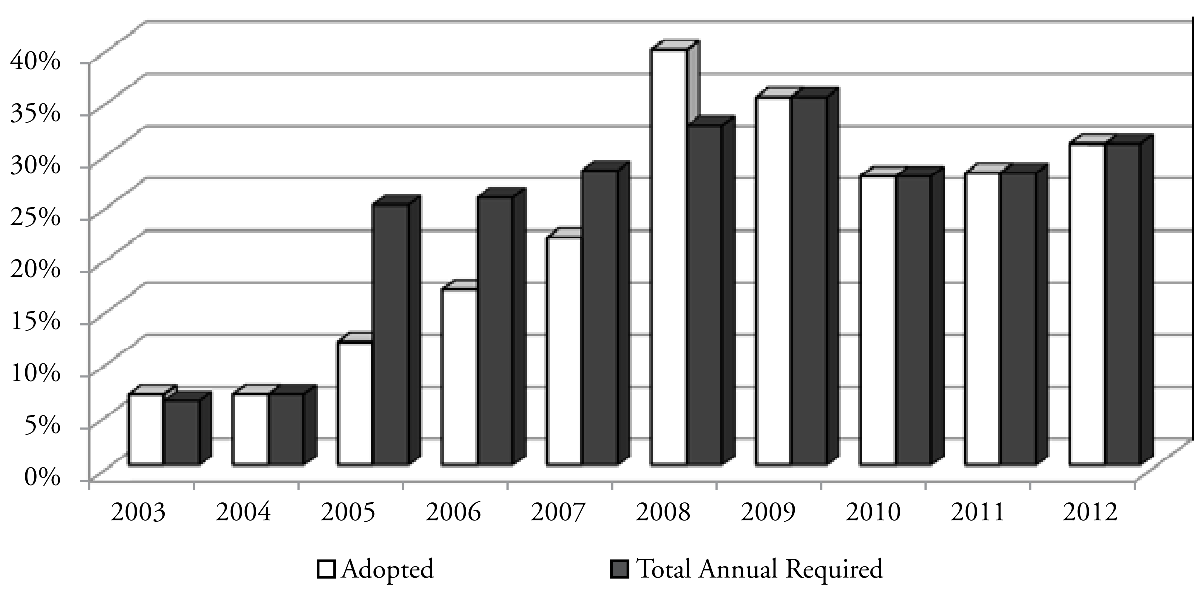
| Public Employees' Retirement System Employer Contribution Rates | | | | | |
|---|---|---|---|---|---|
| | Actuarially Determined | | | | |
| Year Ended June 30 | Valuation Year Ended June 30 | Normal Cost[1] | Past Service | Total Annual Required | Adopted |
| 2003 | 2000 | 5.43 | 0.69% | 6.12% | 6.75% |
| 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 |
| 2010 | 2007 | 9.46 | 18.19 | 27.65 | 27.65 |
| 2011 | 2008 | 9.33 | 18.63 | 27.96 | 27.96 |
| 2012 | 2009 | 8.28 | 22.48 | 30.76 | 30.76 |

[1] Also referred to as the consolidated rate.
[2] The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

Effective June 30, 2008 the Defined Benefits Plan became a defined benefit, cost sharing, multiple employer plan. Prior to 2008 rates were calculated by employer and only the average employer contribution rate is reflected on this schedule for 2007 and earlier.

Valuations are used to set contribution rates in future years.

## 10-YEAR COMPARISON OF AVERAGE EMPLOYER CONTRIBUTION RATES



| Public Employees' Retirement System<br>Schedule of Active Member Valuation Data | | | | | |
|---|---|---|---|---|---|
| Valuation Date | Number | Annual Earnings (In thousands)[1] | Annual Average Earnings | Percent Increase/ (Decrease) in Average Earnings | Number of Participating Employers |
| **All Others** | | | | | |
| June 30, 2009 | 25,089 | $1,390,971 | $55,441 | 5.1% | 160 |
| June 30, 2008 | 26,301 | 1,387,117 | 52,740 | 6.9 | 159 |
| June 30, 2007 | 28,675 | 1,414,145 | 49,316 | 9.5 | 160 |
| June 30, 2006 | 31,286 | 1,408,863 | 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 |
| **Peace Officer / Firefighter** | | | | | |
| June 30, 2009 | 2,476 | $194,519 | $78,562 | 5.0% | 160 |
| June 30, 2008 | 2,549 | 190,729 | 74,825 | 4.9 | 159 |
| June 30, 2007 | 2,687 | 191,674 | 71,334 | 9.3 | 160 |
| June 30, 2006 | 2,785 | 181,830 | 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 |

[1]Prior 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 No.[1] | Added to Rolls Annual Pension Benefits[1] | Removed from Rolls No.[1] | Removed from Rolls Annual Pension Benefits[1] | Rolls - End of Year No. | Rolls - End of Year Annual Pension Benefits | Percent Increase in Annual Pension Benefits | Average Annual Pension Benefits |
|---|---|---|---|---|---|---|---|---|
| **All Others** | | | | | | | | |
| June 30, 2009 | 1,340 | $25,402,811 | 476 | $ 28,773 | 22,410 | $399,663,749 | 6.8% | $17,834 |
| June 30, 2008 | 1,454 | 28,498,471 | 466 | 5,349,935 | 21,546 | 374,289,711 | 6.6 | 17,372 |
| June 30, 2007 | 1,479 | 28,985,748 | 454 | (14,280,390) | 20,558 | 351,141,175 | 14.1 | 17,081 |
| 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 | 14,885 |
| June 30, 1999 | 1,053 | 19,402,623 | 124 | 2,284,829 | 12,707 | 179,714,326 | 10.5 | 14,143 |
| **Peace Officer/Firefighter** | | | | | | | | |
| June 30, 2009 | 108 | $2,759,299 | 39 | $ (518,134) | 2,605 | $83,663,212 | 4.1% | $32,116 |
| June 30, 2008 | 125 | 3,556,519 | 28 | 191,073 | 2,536 | 80,385,779 | 4.4 | 31,698 |
| June 30, 2007 | 138 | 3,930,564 | 67 | (2,546,491) | 2,439 | 77,020,333 | 9.2 | 31,579 |
| 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 | 29,968 |
| June 30, 1999 | 163 | 4,761,117 | 8 | 233,673 | 1,478 | 42,127,224 | 12.0 | 28,503 |

[1] Numbers are estimated, and include other internal transfers.

## Public Employees' Retirement System
## Solvency Test

| Valuation Date | Aggregate Accrued Liability For: (1) Active Member Contributions (In thousands) | (2) Inactive Members (In thousands) | (3) Active Members (Employer-Financed Portion) (In thousands) | Valuation Assets (In thousands) | Portion of Accrued Liabilities Covered by Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| June 30, 2009 | $1,315,924 | $10,147,353 | $5,116,094 | $10,242,978 | 100.0% | 88.0% | 0.0% |
| June 30, 2008(2) | 1,242,288 | 9,772,672 | 4,873,181 | 11,040,106 | 100.0 | 100.0 | 0.5 |
| June 30, 2007 | 1,203,007 | 8,967,038 | 4,400,888 | 9,900,960 | 100.0 | 97.0 | 0.0 |
| June 30, 2006(2)(3) | 1,157,755 | 8,923,811 | 4,306,847 | 9,040,908 | 100.0 | 88.3 | 0.0 |
| June 30, 2005 | 1,104,821 | 8,667,058 | 3,072,962 | 8,442,919 | 100.0 | 84.7 | 0.0 |
| June 30, 2004(2) | 1,070,268 | 7,650,156 | 2,723,492 | 8,030,414 | 100.0 | 91.0 | 0.0 |
| June 30, 2003 | 1,026,730 | 6,860,834 | 2,674,089 | 7,687,281 | 100.0 | 97.1 | 0.0 |
| June 30, 2002(1)(2)(3) | 967,045 | 6,301,095 | 2,591,451 | 7,412,833 | 100.0 | 100.0 | 5.6 |
| June 30, 2001 | 920,702 | 5,059,386 | 1,888,486 | 7,941,756 | 100.0 | 100.0 | 100.0 |
| June 30, 2000(2)(3) | 892,949 | 4,588,201 | 1,895,762 | 7,454,758 | 100.0 | 100.0 | 100.0 |

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

**Public Employees' Retirement System**
**Analysis of Financial Experience**

**Change in Employer/State 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 Employer/State Contribution Rate During Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| Health Experience | (2.21)% | (0.97)% | (5.64)% | (4.06)% | 1.49% |
| Salary Experience | 0.23 | 0.54 | 0.23 | 0.02 | (0.32) |
| Investment Experience | 5.31 | (0.59) | (1.03) | (0.29) | (0.02) |
| Demographic Experience | (0.29) | (0.60) | (0.17) | 1.05 | 0.01 |
| Contribution Shortfall | (0.24) | (0.11) | 0.94 | 1.01 | 0.98 |
| (Gain) or Loss During Year From Experience | 2.80 | (1.73) | (5.67) | (2.27) | 2.14 |
| **Non-recurring changes** | | | | | |
| Asset Valuation Method | - | - | - | - | - |
| Past Service Amortization Change | - | - | - | - | - |
| Assumption and Method Changes | - | 2.04 | (1.90) | 4.98 | - |
| System Benefit Changes | - | - | - | - | - |
| Change Due to Revaluation of Plan Liability as of June 30, 2004 | - | - | - | - | 2.18 |
| Composite (Gain) Loss During Year | 2.80% | 0.31% | (7.57)% | 2.71% | 4.32% |
| Beginning Employer/State Contribution Rate | 27.96 | 27.65 | 35.22 | 32.51 | 28.19 |
| Ending Employer/State Contribution Rate | 30.76% | 27.96% | 27.65% | 35.22% | 32.51% |
| Board Adopted Contribution Rate | 30.76% | 27.96% | 27.65% | 35.22% | 22.00% |
| Fiscal Year in Which Above Rate is Applied | FY12 | FY11 | FY10 | FY09 | FY08 |

**Public Employees' Retirement System**
**Analysis of Financial Experience**

**Change in Employer/State Contribution Rate**
**Due to (Gains) and Losses in Accrued Liabilities**
**During the Last Three Fiscal Years Resulting From**
**Differences Between Assumed Experience and Actual Experience**

| Type of (Gain) or Loss | Change in Employer/State Contribution Rate During Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | Pension | | | Healthcare | | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Health Experience | -% | -% | -% | (2.21)% | (0.97)% | (5.64)% |
| Salary Experience | 0.23 | 0.54 | 0.23 | - | - | - |
| Investment Experience | 4.72 | (0.35) | (0.11) | 0.59 | (0.24) | (0.92) |
| Demographic Experience | (0.29) | (0.60) | (0.17) | - | - | - |
| Contribution Shortfall | 0.01 | 0.14 | 0.11 | (0.25) | (0.25) | 0.83 |
| (Gain) or Loss During Year From Experience | 4.67 | (0.27) | 0.06 | (1.87) | (1.46) | (5.73) |
| **Non-recurring changes** | | | | | | |
| Asset Valuation Method | - | - | - | - | - | - |
| Past Service Amortization Change | - | - | - | - | - | - |
| Assumption and Method Changes | - | - | (0.72) | - | 2.04 | (1.18)* |
| System Benefit Changes | - | - | - | - | - | - |
| Composite (Gain) Loss During Year | 4.67% | (0.27)% | (0.66)% | (1.87)% | 0.58% | (6.91)% |
| Beginning Employer/State Contribution Rate | 9.98 | 10.25 | 10.91 | 17.98 | 17.40 | 24.31 |
| Ending Employer/State Contribution Rate | 14.65% | 9.98% | 10.25% | 16.11% | 17.98% | 17.40% |
| Fiscal Year Above Rate is Applied | FY12 | FY11 | FY10 | FY12 | FY11 | FY10 |

* Includes change in rate by using total payroll.

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

## Summary of Plan Provisions

**(1) Effective Date**

January 1, 1961, with amendments through June 30, 2008. 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 (Tier 1) are eligible for different benefits than members hired after June 30, 1986 (Tier 2). Chapter 4, 1996 Session Laws of Alaska created a third tier for members who were first hired after June 30, 1996 (Tier 3). Chapter 9, 2005 Session Laws of Alaska, closed the plan to new members hired after June 30, 2006.

**(2) Administration of Plan**

The Commissioner of Administration or the Commissioner's designee is the administrator of the system. The Attorney General of the state is the legal counsel for the system and shall advise the administrator and represent 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. Survivors who are receiving occupational death benefits

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

**Summary of Plan Provisions**

continue to earn PERS service credit while occupational survivor benefits are being paid.

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 Teachers' Retirement System (TRS) simultaneously;
- leave without pay service after June 13, 1987, while receiving Workers' Compensation;
- Village Public Safety Officer service; and
- service as a temporary employee of the legislature before July 1, 1979, but this service must 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 State of Alaska Teachers' Retirement System (TRS).

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

**(6) Employer Contributions**

PERS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

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

**Summary of Plan Provisions**

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

The past service rate is a uniform rate for all participating employers to amortize the 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 normal cost rate.

Pursuant to AS 39.35.255 effective July 1, 2008, each PERS employer will pay a simple uniform contribution rate of 22% of member payroll.

**(7) Additional State Contributions**

Pursuant to AS 39.35.280 effective July 1, 2008, the State shall contribute an amount (in addition to the State contribution as an employer) that when combined with the employer contribution will be sufficient to pay the total contribution rate adopted by the Alaska Retirement Management Board.

**(8) Member Contributions**

Mandatory Contributions: Peace Officer/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 Teachers' Retirement System rules contribute 9.76% of their compensation. Members' contributions are deducted from gross wages before federal income taxes are withheld.

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

Voluntary Contributions: Members may voluntarily contribute up to 5% of their salary 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

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

**Summary of Plan Provisions**

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.

**(9) Retirement Benefits**

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 55 or early retirement at age 50 if they were hired before July 1, 1986 (Tier 1), and 60 or early retirement at age 55 if they were hired after July 1, 1986 (Tiers 2 & 3). Additionally, they must 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 the 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 the 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.

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.

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

**Summary of Plan Provisions**

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. Indebtedness balances may also be created when a member purchases qualified claimed service.

**(10) 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, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

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

(b) owe the PERS 150% of the benefits that they received for state and political subdivision members, and 110% for school district employees, under the 1996-2000 RIP, which may include costs for health insurance, excluding amounts that they paid to participate for the 1986 and 1989 RIPs. Under prior RIPs, the penalty is 110% of the benefits received; and

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

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.

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

**Summary of Plan Provisions**

**(11) Postemployment Healthcare Benefits**

Major medical benefits are provided to retirees and their surviving spouses by the PERS for all employees hired before July 1, 1986 (Tier 1) and disabled retirees. Employees hired after June 30, 1986 (Tier 2) and their surviving spouses with five years of credited service (or ten years of credited service for those first hired after June 30, 1996 (Tier 3)) 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 and their surviving spouses with twenty-five years of Peace Officer membership service and Other employees and their surviving spouses with thirty years of membership service receive benefits paid by the PERS, regardless of their age or date of hire. Peace Officers/Firefighters who are disabled between 20 and 25 years must pay the full monthly premium.

**(12) 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.

**(13) 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 Officer/Firefighter members receive the greater of 50% of the member's gross monthly compensation on the date of death or disability, or 75% of the member's monthly normal retirement benefit (including service projected to Normal Retirement). If the member is unmarried with no children, a refund of contributions is payable to the estate.

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

**Summary of Plan Provisions**

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 or is vested, 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.

**(14) Post Retirement Pension Adjustments**

Postretirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) for urban wage earners and clerical workers for Anchorage increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, excluding the Alaska COLA, 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 (Tier 1) 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.

**(15) 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 (Tier 1) and their survivors;

(b) members who first entered the PERS after June 30, 1986 (Tiers 2 & 3) and their survivors if they are at least age 65; and

(c) all disabled members.

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

## Summary of Plan Provisions

**Changes in Benefit Provisions Since the Prior Valuation**

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

buckconsultants A Xerox Company

July 12, 2010

State of Alaska
The Alaska Retirement Management Board
The Department of Revenue, Treasury Division
The Department of Administration, Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

**Actuarial Certification**

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System Defined Contribution Retirement (DCR) Plan has been prepared as of June 30, 2009 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the Plan as of June 30, 2009;
(2) a review of experience under the Plan for the year ended June 30, 2009;
(3) a determination of the appropriate contribution rate which will be applied for the fiscal year ending June 30, 2012; 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 this report:

(1) Summary of actuarial assumptions and methods
(2) Schedule of active member valuation data
(3) Solvency test
(4) Summary of GASB No. 25 and 43 disclosure information

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the Plan liability. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data.

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
July 12, 2010
Page 2

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY10 and a fixed 25-year amortization as a level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Alaska Retirement Management Board (Board). Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities increased from 198.56% to 199.56% during the year. This report provides an analysis of the factors that led to the increase.

A summary of the actuarial assumptions and methods is presented in this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

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, are fully qualified to provide actuarial services to the State of Alaska, and are available to answer questions regarding this report.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 43.

buckconsultants

The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
July 12, 2010
Page 3

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

Sincerely,

| | |
|---|---|
| David H. Slishinsky, ASA, EA, MAAA | Michelle Reding DeLange, FSA, EA, MAAA |
| Principal, Consulting Actuary | 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 Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

buckconsultants

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

**Defined Contribution Retirement**
**Occupational Death and Disability and Retiree Medical Plan**

**Summary of Actuarial Assumptions, Methods and Procedures**

The demographic and economic assumptions used in the June 30, 2009 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 for the DB Plan 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 percentage of expected payroll. Payroll is assumed to increase by the payroll growth assumption per year for this purpose. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for death & disability benefits (constant dollar amount for retiree medical benefits), from the assumed entry age to the last age with a future benefit 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 DCR Plan 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 beneficiaries and disability members currently receiving benefits (if any) 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 actuarialaccrued 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.

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

**Defined Contribution Retirement**
**Occupational Death and Disability and Retiree Medical Plan**

**Summary of Actuarial Assumptions, Methods and Procedures**

**B. Valuation of Assets**

Effective June 30, 2006, 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 five years. Market Value of Assets were $0 as of June 30, 2006. 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 Retiree Medical Benefits**

The methodology used for the valuation of the retiree medical benefits is described in Section 2.3(c) of the State of Alaska Public Employees' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2009.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2009 for PERS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, FY09 claims costs were reduced 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

No implicit subsidies are assumed. Employees projected to retire with 30 years of service prior to Medicare (25 years for Peace Officer/Firefighter) are valued with commencement deferred to Medicare eligibility, as such participants will be required to pay the full plan premium. Explicit subsidies for disabled and normal retirements are determined using the plan-defined percentages of total projected plan costs, again with no implicit subsidy assumed.

**Changes in Methods From the Prior Valuation**

There were no changes in methods from the prior valuation.

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### 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<br>Peace Officer/Firefighter:<br>Merit – 2.5% per year for the first 6 years of employment, 0.5% thereafter.<br>Productivity – 0.5% per year.<br>Others:<br>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%.<br>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 (Preretirement) | Peace Officer/Firefighter:<br>1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.<br>Others:<br>Based upon the 2001-2005 actual mortality experience of the PERS DB Plan (see Table 1). 42% of the 1994 Group Annuity Table, 1994 Base Year without margin for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 50% of the time for Others. |
| 6. | Mortality (Postretirement) | 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin. |
| 7. | Turnover | Select rates were estimated and ultimate rates were set to the PERS DB Plan rate loaded by 10%. (See Table 2). |
| 8. | Disability | Incidence rates based upon the 2001-2005 actual experience of the PERS DB Plan, in accordance with Table 3. Post-disability mortality in accordance with the 1979 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 Officer/Firefighter, 50% of the time for Others. |

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

**Defined Contribution Retirement**
**Occupational Death and Disability and Retiree Medical Plan**

**Summary of Actuarial Assumptions, Methods and Procedures**

9. Retirement — Retirement rates were estimated in accordance with Table 4.

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. Expenses — All expenses are net of the investment return assumption.

12. Per Capita Claims Cost — Sample claims cost rates for FY10 medical benefits are shown below:

| | Medical | Prescription Drugs |
|---|---|---|
| Pre-Medicare | $7,503 | $2,419 |
| Medicare Parts A & B | $1,336 | $2,419 |
| Medicare Part B Only | $4,754 | $2,419 |
| Medicare Part D | N/A | $ 477 |

13. Third Party Administrator Fees — $153.33 per person per year; assumed trend rate of 5% per year.

14. Base Claims Cost Adjustments — Due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following adjustments were made:

- 0.941 for the medical plan.
- 0.993 for the prescription drug plan.
- 0.952 for the annual indexing for member cost sharing.

15. Health Cost Trend — The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY10 rate claims costs to get the FY11 claims costs.

| | Medical | Prescription Drugs |
|---|---|---|
| FY10 | 7.5% | 9.6% |
| FY11 | 6.9% | 8.3% |
| FY12 | 6.4% | 7.1% |
| FY13 | 5.9% | 5.9% |
| FY14 | 5.9% | 5.9% |
| FY15 | 5.9% | 5.9% |
| FY16 | 5.9% | 5.9% |
| FY25 | 5.8% | 5.8% |
| FY50 | 5.7% | 5.7% |
| FY100 | 5.1% | 5.1% |

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

16. Aging Factors

| Age | Medical | Prescription Drugs |
|---|---|---|
| 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% |
| 85-94 | 0.5% | 0.0% |
| 95+ | 0.0% | 0.0% |

17. Retiree Medical Participation

100% of members and their spouses are assumed to elect retiree medical benefits as soon as they are eligible.

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

**Table 1**
**Alaska PERS Others DCR Plan**
**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 |

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

**Table 2**
**Alaska PERS DCR Plan**
**Turnover Assumptions**

**Peace Officer/Firefighter:**

**Select Rates of Turnover During the First 5 Years of Employment**

| Year of Employment | Rate |
|---|---|
| 1 | 14% |
| 2 | 12% |
| 3 | 10% |
| 4 | 9% |
| 5 | 8% |

**Ultimate Rates of Turnover**
**After the First 5 Years of Employment**

| Age | Male | Female | Age | Male | Female |
|---|---|---|---|---|---|
| 20 | 5.0292% | 6.3393% | 45 | 4.6241% | 5.9233% |
| 21 | 5.0230 | 6.3364 | 46 | 4.5669 | 5.8716 |
| 22 | 5.0163 | 6.3336 | 47 | 4.5000 | 5.8111 |
| 23 | 5.0084 | 6.3309 | 48 | 4.4264 | 5.7449 |
| 24 | 4.9982 | 6.3265 | 49 | 4.3487 | 5.6764 |
| 25 | 4.9894 | 6.3243 | 50 | 4.2639 | 5.6021 |
| 26 | 4.9810 | 6.3215 | 51 | 4.1645 | 5.5141 |
| 27 | 4.9699 | 6.3131 | 52 | 4.0418 | 5.4023 |
| 28 | 4.9612 | 6.3056 | 53 | 3.9013 | 5.2732 |
| 29 | 4.9512 | 6.2951 | 54 | 3.7456 | 5.1302 |
| 30 | 4.9435 | 6.2861 | 55 | 3.5626 | 4.9575 |
| 31 | 4.9345 | 6.2742 | 56 | 3.3331 | 4.7311 |
| 32 | 4.9277 | 6.2641 | 57 | 3.0481 | 4.4398 |
| 33 | 4.9206 | 6.2515 | 58 | 2.7449 | 4.1268 |
| 34 | 4.9151 | 6.2388 | 59 | 2.3543 | 3.7061 |
| 35 | 4.9078 | 6.2229 | 60 | 1.9155 | 3.2311 |
| 36 | 4.8986 | 6.2062 | 61 | 1.4339 | 2.7135 |
| 37 | 4.8843 | 6.1857 | 62 | 0.8727 | 2.1118 |
| 38 | 4.8664 | 6.1637 | 63 | 0.2385 | 1.4324 |
| 39 | 4.8462 | 6.1400 | 64 | 5.2800 | 0.6987 |
| 40 | 4.8236 | 6.1153 | 65+ | 5.2800 | 6.6000 |
| 41 | 4.7972 | 6.0883 | | | |
| 42 | 4.7632 | 6.0548 | | | |
| 43 | 4.7249 | 6.0185 | | | |
| 44 | 4.6784 | 5.9748 | | | |

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

**Table 2**
**Alaska PERS DCR Plan**
**Turnover Assumptions**

**Others:**

**Select Rates of Turnover During the First 5 Years of Employment**

| Year of Employment | Rate |
|---|---|
| 1 | 25% |
| 2 | 23% |
| 3 | 20% |
| 4 | 16% |
| 5 | 15% |

**Ultimate Rates of Turnover After the First 5 Years of Employment**

| Age | Male | Female | Age | Male | Female |
|---|---|---|---|---|---|
| 20 | 13.2102% | 15.0446% | 45 | 5.7660% | 6.6418% |
| 21 | 13.2072 | 15.0442 | 46 | 5.7412 | 6.6260 |
| 22 | 13.2025 | 15.0424 | 47 | 5.7110 | 6.6061 |
| 23 | 13.1984 | 15.0421 | 48 | 5.6761 | 6.5825 |
| 24 | 13.1925 | 15.0407 | 49 | 5.6397 | 6.5591 |
| 25 | 13.1877 | 15.0407 | 50 | 5.5983 | 6.5318 |
| 26 | 13.1831 | 15.0403 | 51 | 5.5505 | 6.5002 |
| 27 | 13.1779 | 15.0379 | 52 | 5.4941 | 6.4620 |
| 28 | 13.1732 | 15.0346 | 53 | 5.4300 | 6.4184 |
| 29 | 13.1687 | 15.0307 | 54 | 5.3605 | 6.3716 |
| 30 | 13.1646 | 15.0264 | 55 | 5.2807 | 6.3160 |
| 31 | 13.1621 | 15.0231 | 56 | 5.1834 | 6.2432 |
| 32 | 13.1585 | 15.0182 | 57 | 5.0650 | 6.1491 |
| 33 | 13.1561 | 15.0131 | 58 | 4.9352 | 6.0429 |
| 34 | 13.1548 | 15.0079 | 59 | 4.7792 | 5.9079 |
| 35 | 9.5234 | 10.8771 | 60 | 4.6045 | 5.7553 |
| 36 | 9.5194 | 10.8694 | 61 | 4.4089 | 5.5858 |
| 37 | 9.5145 | 10.8621 | 62 | 4.1829 | 5.3912 |
| 38 | 9.5058 | 10.8525 | 63 | 3.9259 | 5.1701 |
| 39 | 9.4967 | 10.8431 | 64 | 3.6453 | 4.9289 |
| 40 | 7.0649 | 8.0818 | 65+ | 6.0500 | 6.8750 |
| 41 | 7.0516 | 8.0705 | | | |
| 42 | 7.0354 | 8.0578 | | | |
| 43 | 7.0188 | 8.0461 | | | |
| 44 | 6.9989 | 8.0325 | | | |

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

**Table 3**
**Alaska PERS DCR Plan**
**Disability Table**

| Age | Peace Officer/ Firefighter Rate | Other Member Rate Male | Other Member Rate 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 |

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Actuarial Assumptions, Methods and Procedures

**Table 4**
**Alaska PERS DCR Plan**
**Retirement Table**

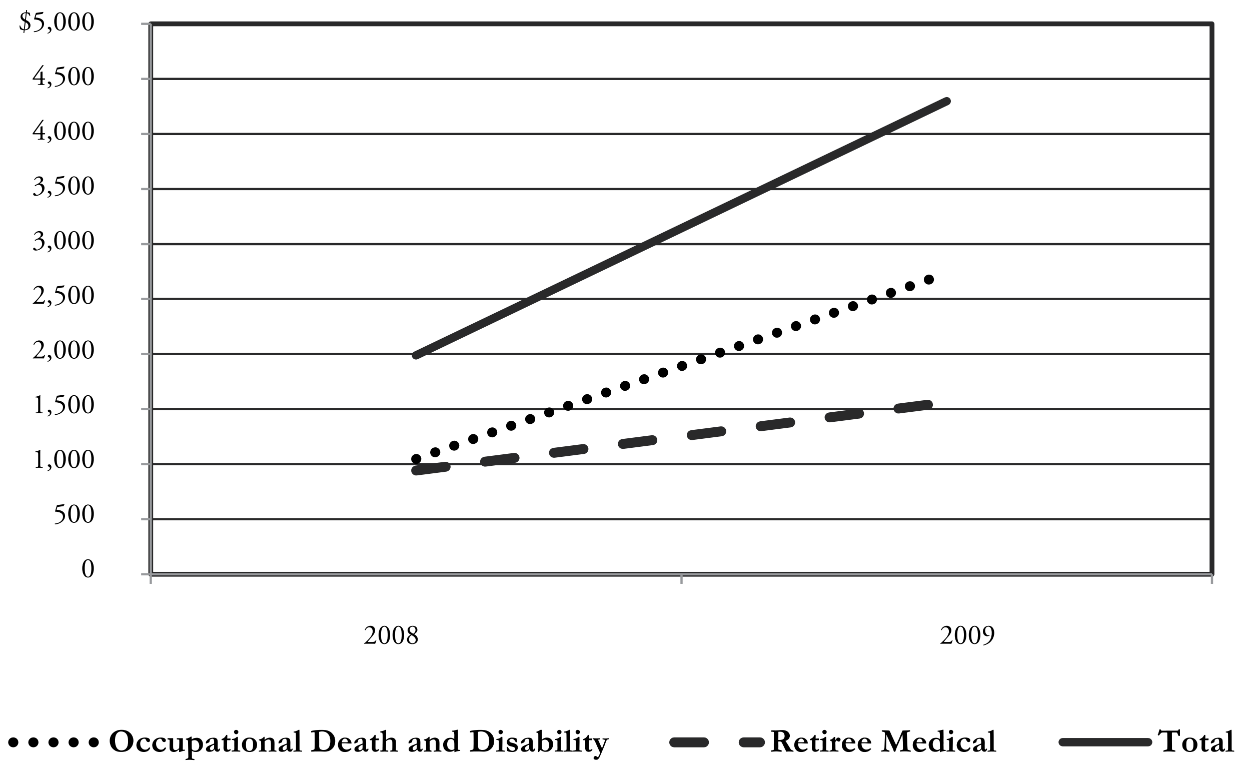
| Age | Rate |
|---|---|
| <55 | 2% |
| 55-59 | 3% |
| 60 | 5% |
| 61 | 5% |
| 62 | 10% |
| 63 | 5% |
| 64 | 5% |
| 65 | 25% |
| 66 | 25% |
| 67 | 25% |
| 68 | 20% |
| 69 | 20% |
| 70 | 100% |

**Changes in Actuarial Assumptions Since the Prior Valuation**

| | June 30, 2008 | June 30, 2009 |
|---|---|---|
| Occupational Factor | 100% for all deaths and disabilities | 75% for Peace Officer/Firefighter deaths & disabilities, 50% for Others deaths & disabilities. |

| Public Employees' Retirement System<br>Defined Contribution Retirement Plan<br>For Occupational Death and Disability<br>And Retiree Medical Benefits<br>Funding Excess/(Unfunded liability)<br>(In Thousands) | | | | |
|---|---|---|---|---|
| Actuarial Valuation Year Ended June 30 | Occupational Death and Disability | Retiree Medical | Total Funding Excess/ (Unfunded Liability) | Funded Ratio |
| 2008 | $ 1,046 | $ 943 | $ 1,989 | 198.6 % |
| 2009 | 2,735 | 1,562 | 4,297 | 199.6 |

## 2-YEAR TREND OF FUNDING EXCESS
(in thousands)



| Public Employees' Retirement System<br>Defined Contribution Retirement Plan<br>For Occupational Death and Disability<br>And Retiree Medical Benefits<br>Employer Contribution Rates | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Actuarially Determined | | | | | | | |
| | Actuarial Valuation | Occupational Death and disability | | | Total Annual Required | | Adopted | |
| Fiscal Year | Year Ended June 30 | Peace Officer/ Firefighter | Others | Retiree Medical | Peace Officer/ Firefighter | Others | Peace Officer/ Firefighter | Others |
| 2007 | N/A | 0.40% | 0.30% | 1.75% | 2.15% | 2.05% | 2.15% | 2.05% |
| 2008 | N/A | 1.33 | 0.58 | 0.99 | 2.32 | 1.57 | 2.32 | 1.57 |
| 2009 | N/A | 1.33 | 0.58 | 0.99 | 2.32 | 1.57 | 2.32 | 1.57 |
| 2010 | 2007 | 1.33 | 0.30 | 0.83 | 2.16 | 1.13 | 2.16 | 1.13 |
| 2011 | 2008 | 1.18 | 0.31 | 0.55 | 1.73 | 0.86 | 1.73 | 0.86 |
| 2012 | 2009 | 0.97 | 0.11 | 0.51 | 1.48 | 0.62 | 1.48 | 0.62 |

Valuations are used to set contribution rates in future years.

| Public Employees' Retirement System<br>Defined Contribution Retirement Plan<br>For Occupational Death and Disability<br>And Retiree Medical Benefits<br>Schedule of Active Member Valuation Data | | | | | |
|---|---|---|---|---|---|
| Valuation Date | Number | Annual Earnings (In thousands)[1] | Annual Average Earnings | Percent Increase/ (Decrease) in Average Earnings | Number of Participating Employers |
| June 30, 2009 | 7,256 | $ 314,118 | $43,291 | 7.2% | 160 |
| June 30, 2008 | 5,052 | 203,955 | 40,371 | 8.1 | 159 |
| June 30, 2007 | 2,827 | 105,611 | 37,358 | — | 160 |
| June 30, 2006 | — | — | — | — | 160 |

[1] Annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

## Public Employees' Retirement System
## Defined Contribution Retirement Plan
## For Occupational Death and Disability
## And Retiree Medical Benefits
## Solvency Test

| Valuation Date | Aggregate Accrued Liability For: (1) Active Member Contributions (In thousands) | (2) Inactive Members (In thousands) | (3) Active Members (Employer-Financed Portion) (In thousands) | Valuation Assets (In thousands) | Portion of Accrued Liabilities Covered by Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| June 30, 2009[1] | $ — | $ — | $4,316 | $8,613 | 100% | 100% | 100% |
| June 30, 2008 | — | — | 2,018 | 4,007 | 100 | 100 | 100 |
| June 30, 2007 | — | — | 759 | 1,255 | 100 | 100 | 100 |
| June 30, 2006 | — | — | — | — | N/A | N/A | N/A |

Retiree medical liabilities are calculated using the funding assumptions (i.e. 8.25% investment return and net of Medicare Part D Subsidy).

[1] Change in Assumptions.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Defined Contribution Retirement**
**Occupational Death and Disability and Retiree Medical Plan**
**Summary of Plan Provisions**

**(1) Effective Date**

July 1, 2006, with amendments through June 30, 2009.

**(2) Administration of Plan**

The Commissioner of Administration or the Commissioner's designee is the administrator of the Plan. The Attorney General of the state is the legal counsel for the Plan and shall advise the administrator and represent the Plan in legal proceedings.

The Alaska Retirement Management Board prescribes policies, adopts regulations, invests the funds, and performs other activities necessary to carry out the provisions of the Plan.

**(3) Employers Included**

Currently there are 160 employers participating in the PERS DCR Plan, including the State of Alaska, and 159 political subdivisions and public organizations.

**(4) Membership**

An employee of a participating employer who first enters service on or after July 1, 2006, or a member of the defined benefit plan who works for an employer who began participation on or after July 1, 2006, and meets the following criteria is a participant in the Plan:

- Permanent full-time or part-time employees of the State of Alaska, participating political subdivisions or public organizations. An employee must be regularly scheduled to work 30 or more hours per week to be considered full-time by the PERS. An employee must be regularly scheduled to work 15 or more hours per week but less than 30 hours to be considered a part-time employee for PERS purposes.
- Elected state officials.
- Elected municipal officials who are compensated and receive at least $2,001.00 per month.

Members can convert to the DCR Plan if they are an eligible nonvested member of the PERS defined benefit plan whose employer consents to transfers to the defined contribution plan and they elect to transfer his or her account balance to the PERS DCR Plan.

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM
### Defined Contribution Retirement
### Occupational Death and Disability and Retiree Medical Plan
### Summary of Plan Provisions

**(5) Member Contributions**

There are no member contributions for the occupational death & disability and retiree medical benefits.

**(6) Retiree Medical**

- Member must retire directly from the plan to be eligible for retiree medical coverage. Normal retirement eligibility is the earlier of a) 30 years of service for Others members and 25 years of service for Peace Officer/Firefighter members, or b) Medicare eligible and 10 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.
- Members who are receiving disability benefits or survivors who are receiving monthly survivor benefits are not eligible until the member meets, or would have met if he/she had lived, the normal retirement eligibility requirements.
- The plan's coverage is supplemental to Medicare.
- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

| Years of Service | Percent of Premium Paid by Member |
|---|---|
| Less than 15 years | 30% |
| 15 – 19 | 25% |
| 20 – 24 | 20% |
| 25 – 29 | 15% |
| 30 years or more | 10% |

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**Defined Contribution Retirement**
**Occupational Death and Disability and Retiree Medical Plan**
**Summary of Plan Provisions**

**(7) Occupational Disability Benefits**

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or at any age with 30 years of service for Others members of 25 years of service for Peace Officer/Firefighter members.
- Peace Officer/Firefighter members may select the defined contribution account or the monthly benefit payable as if they were retiring under Tier 3 (service continues during disability, final average salary is as of date of disability).
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

**(8) Occupational Death Benefits**

- Benefit is 40% of salary for Others members and 50% of salary for Peace Officer/Firefighter members.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- The period during which the survivor is receiving benefits is counted as service credit toward retiree medical benefits.
- No retiree medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

**Changes Since the Prior Valuation**

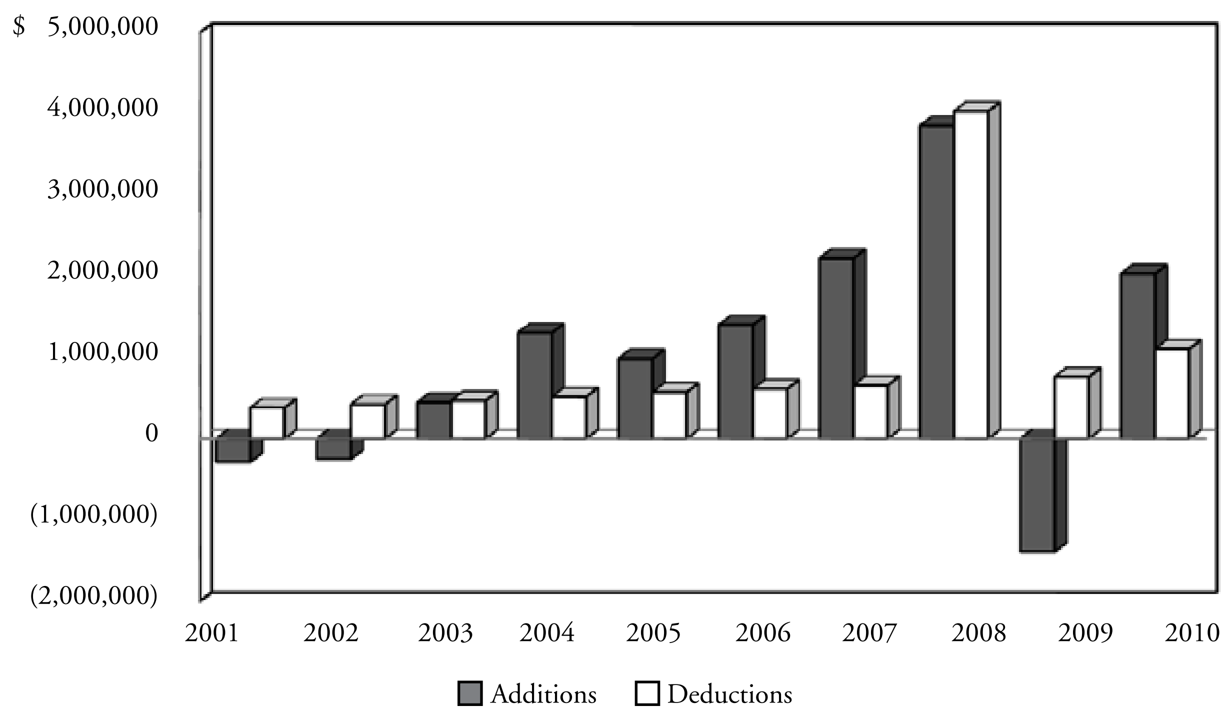
There have been no changes in benefit provisions since the prior valuation.


# STATISTICAL SECTION

This page intentionally left blank.

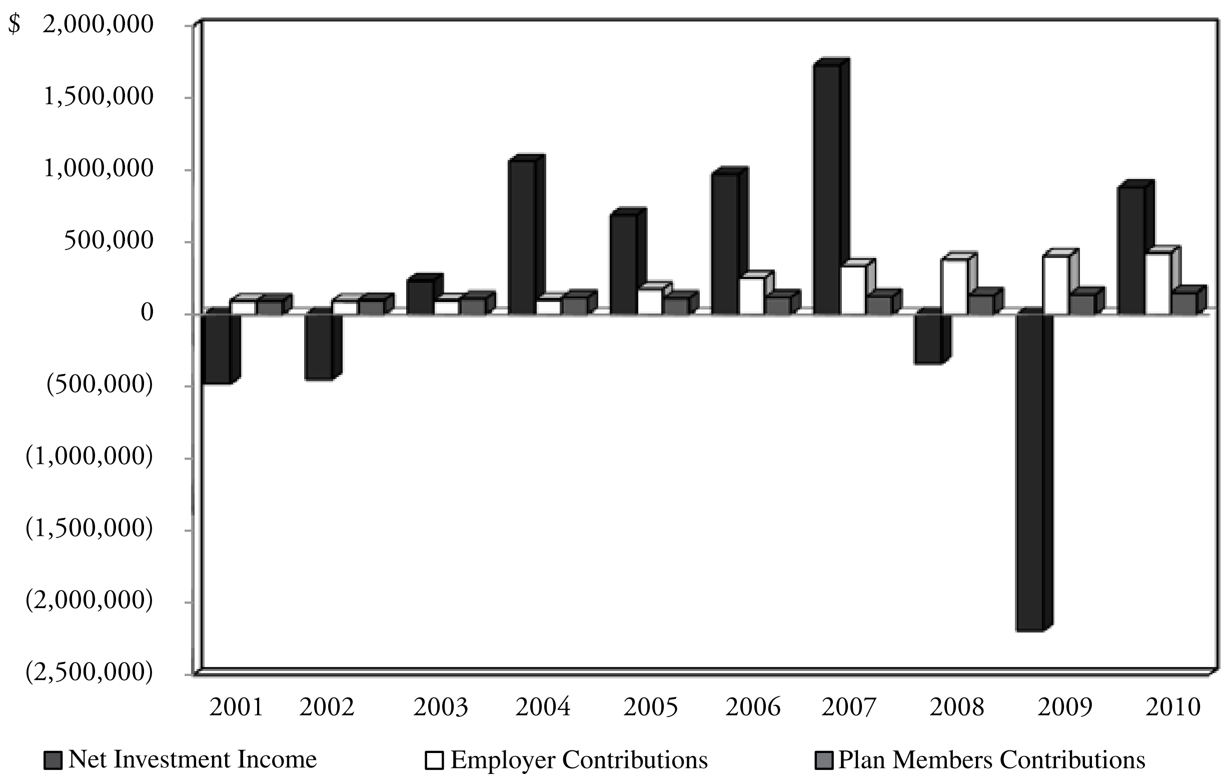
| Public Employees' Retirement System<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2001 | $ 8,756,580 | $ (286,775) | $ 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 | 2,219,181 | 656,328 | 1,562,853 | 10,942,324 |
| 2008 | 10,942,324 | 3,853,614 | 4,030,634 | (177,020) | 10,765,304 |
| 2009 | 10,765,304 | (1,392,577) | 757,095 | (2,149,672) | 8,615,632 |
| 2010 | 8,615,632 | 2,029,797 | 925,663 | 1,104,134 | 9,719,766 |

**10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



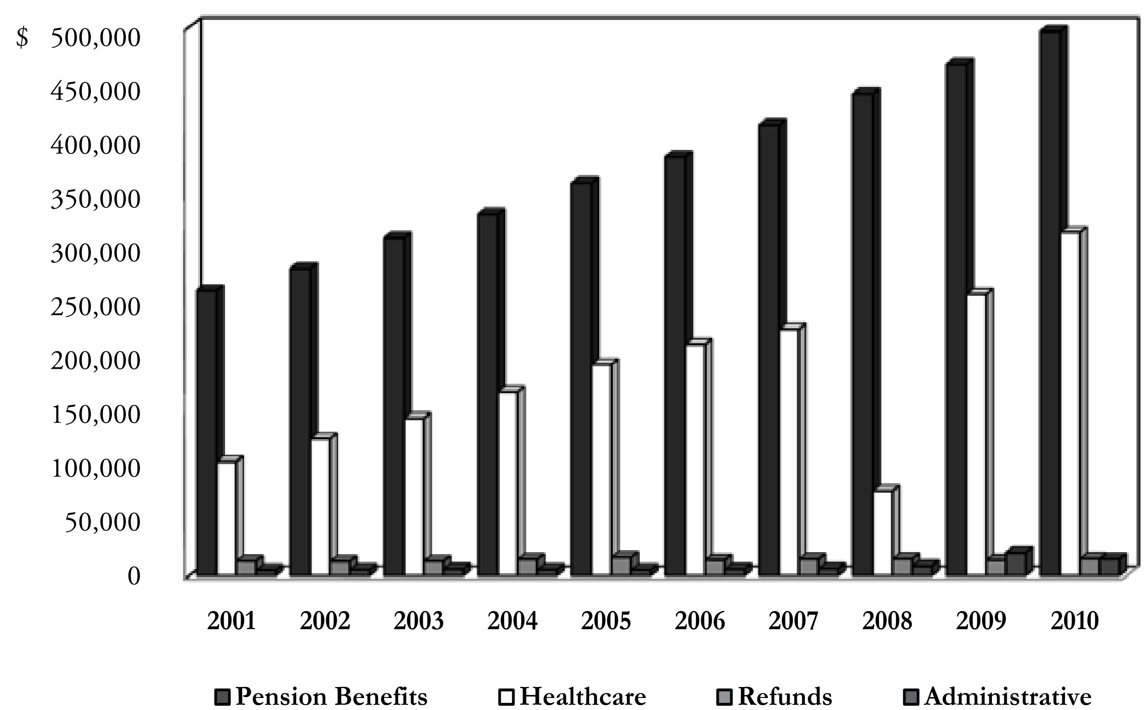
| Public Employees' Retirement System Additions by Source (In thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | State of Alaska | Net Investment Income (Loss) | Transfer | Other | Total |
| 2001 | $ 94,983 | $ 96,484 | $ - | $ (478,249) | $ - | $ 7 | $ (286,775) |
| 2002 | 100,639 | 94,769 | - | (448,279) | - | 10 | (252,861) |
| 2003 | 112,112 | 99,198 | - | 237,205 | - | 27 | 448,542 |
| 2004 | 118,554 | 105,585 | - | 1,064,605 | - | 13,876 | 1,302,620 |
| 2005 | 114,640 | 178,205 | - | 692,303 | - | 3 | 985,151 |
| 2006 | 119,566 | 253,922 | 18,427 | 974,006 | - | 34,947 | 1,400,868 |
| 2007 | 126,278 | 342,383 | 18,582 | 1,731,853 | - | 85 | 2,219,181 |
| 2008 | 134,151 | 380,825 | 185,000 | (336,985) | 3,490,576 | 47 | 3,853,614 |
| 2009 | 141,073 | 407,452 | 241,600 | (2,191,482) | - | 8,780 | (1,392,577) |
| 2010 | 152,787 | 428,435 | 107,953 | 884,126 | - | 456,496 | 2,029,797 |

**10-YEAR COMPARISON OF ADDITIONS BY SOURCE**
**(In thousands)**



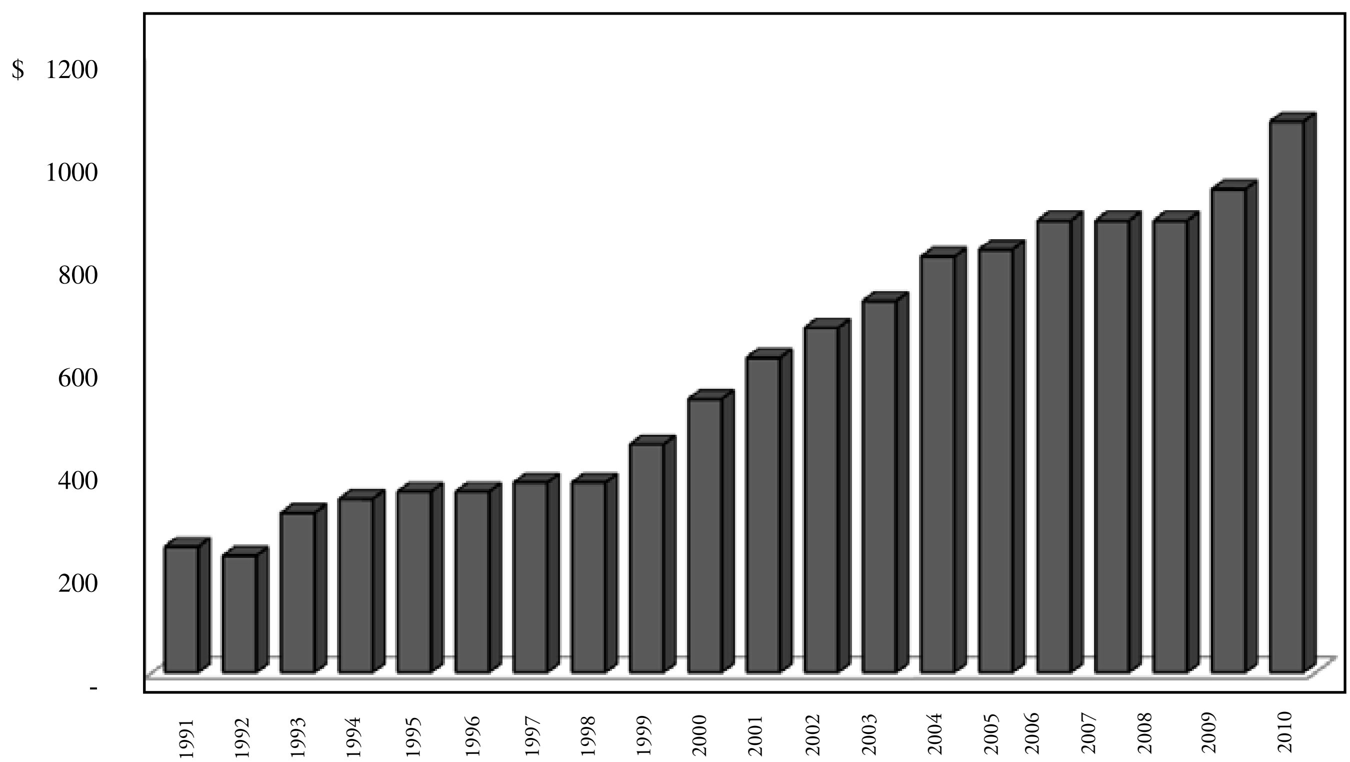
| Public Employees' Retirement System Deductions by Type (In thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year Ended June 30 | Pension Benefits | Healthcare | Refunds of Contributions | Administrative Deductions | Legal Settlement Fees | Transfer | Total |
| 2001 | $ 259,771 | $ 103,846 | $ 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 | 14,953 | 6,277 | - | - | 656,328 |
| 2008 | 439,123 | 77,074 | 15,159 | 8,702 | - | 3,490,576 | 4,030,634 |
| 2009 | 466,085 | 256,408 | 13,884 | 20,718 | - | - | 757,095 |
| 2010 | 496,015 | 312,901 | 15,393 | 14,926 | 86,428 | - | 925,663 |

## 10-YEAR COMPARISON OF DEDUCTIONS BY TYPE
**(In thousands)**



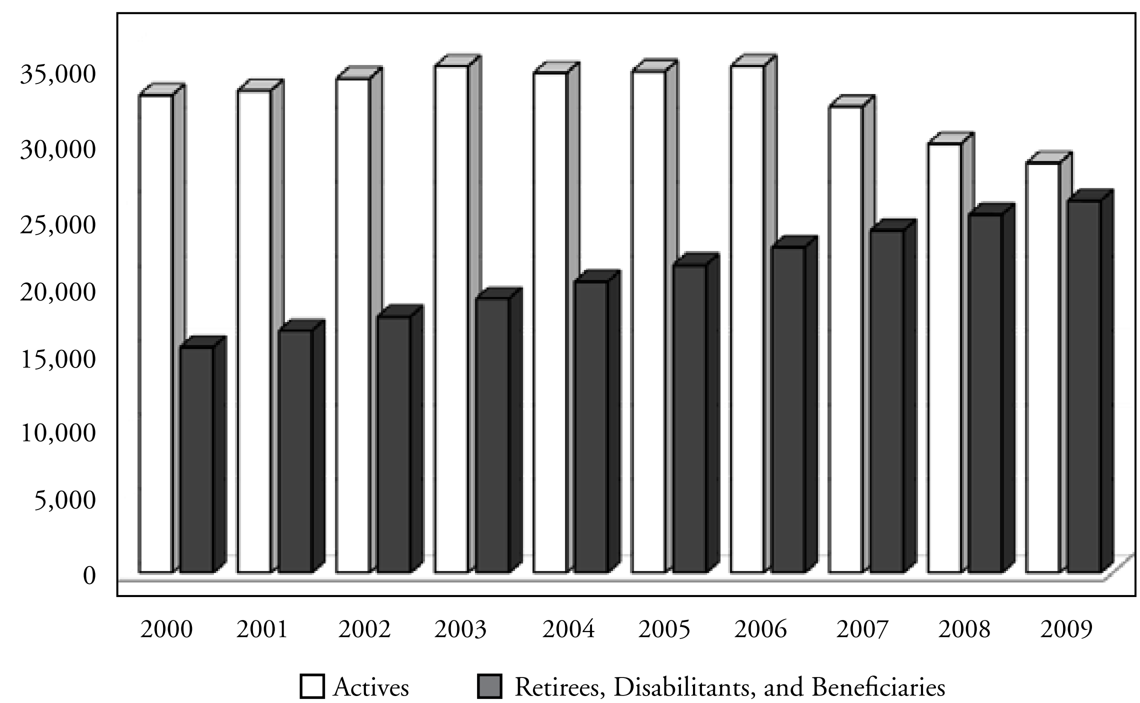
| Public Employees' Retirement System<br>Schedule of Benefit Deductions by Type<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Service | Disability | Survivor | Healthcare | Total |
| 2001 | $ 239,814 | $ 8,185 | $ 11,772 | $ 103,846 | $ 363,617 |
| 2002 | 258,189 | 8,379 | 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 |
| 2008 | 405,775 | 8,460 | 24,888 | 235,474 | 674,597 |
| 2009 | 436,656 | 6,644 | 22,785 | 245,328 | 711,413 |
| 2010 | 464,735 | 6,539 | 24,741 | 283,095 | 779,250 |

## 20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS



| Public Employees' Retirement System<br>System Membership by Status | | | | | |
|---|---|---|---|---|---|
| **Year Ended June 30** | **Active** | **Retirees, Disabilitants & Beneficiaries** | **Vested Terminations** | **Nonvested Terminations w/Balance** | **Total** |
| 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 |
| 2007 | 31,362 | 22,997 | 6,398 | 14,902 | 75,659 |
| 2008 | 28,850 | 24,082 | 6,627 | 14,930 | 74,489 |
| 2009 | 27,565 | 25,015 | 6,566 | 14,626 | 73,772 |

**10-YEAR COMPARISON OF ACTIVE MEMBERS, RETIREES, DISABILITANTS AND BENEFICIARIES**



## Public Employees' Retirement System
## Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Selected
## Valuation as of June 30, 2009

| Amount of Monthly Pension Benefit | Number of Recipients | Type of Pension Benefit 1 | 2 | 3 | Option Selected 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|---|---|
| **Other** | | | | | | | | | |
| $ 1 - 300 | 1,830 | 1,472 | 354 | 4 | 797 | 365 | 267 | 59 | 342 |
| 301 - 600 | 4,124 | 3,548 | 531 | 45 | 2,004 | 1,040 | 627 | 231 | 222 |
| 601 - 900 | 3,230 | 2,820 | 386 | 24 | 1,514 | 819 | 495 | 204 | 198 |
| 901 - 1,200 | 2,692 | 2,384 | 270 | 38 | 1,243 | 688 | 429 | 181 | 151 |
| 1,201 - 1,500 | 2,176 | 1,940 | 195 | 41 | 961 | 613 | 337 | 135 | 130 |
| 1,501 - 1,800 | 1,641 | 1,499 | 110 | 32 | 646 | 487 | 275 | 116 | 117 |
| 1,801 - 2,100 | 1,397 | 1,272 | 88 | 37 | 562 | 412 | 229 | 100 | 94 |
| 2,101 - 2,400 | 1,091 | 1,019 | 46 | 26 | 406 | 348 | 194 | 70 | 73 |
| 2,401 - 2,700 | 854 | 806 | 40 | 8 | 311 | 296 | 155 | 50 | 42 |
| 2,701 - 3,000 | 704 | 672 | 24 | 8 | 241 | 252 | 129 | 38 | 44 |
| 3,001 - 3,300 | 609 | 589 | 16 | 4 | 190 | 235 | 115 | 40 | 29 |
| 3,301 - 3,600 | 453 | 432 | 17 | 4 | 147 | 183 | 61 | 36 | 26 |
| 3,601 - 3,900 | 355 | 349 | 5 | 1 | 107 | 145 | 67 | 19 | 17 |
| 3,901 - 4,200 | 316 | 314 | 1 | 1 | 89 | 149 | 53 | 15 | 10 |
| over 4,200 | 938 | 929 | 7 | 2 | 263 | 399 | 167 | 69 | 40 |
| Totals | 22,410 | 20,045 | 2,090 | 275 | 9,481 | 6,431 | 3,600 | 1,363 | 1,535 |
| **Peace Officer/Firefighter** | | | | | | | | | |
| $ 1 - 300 | 45 | 27 | 18 | 0 | 23 | 8 | 1 | 1 | 12 |
| 301 - 600 | 147 | 99 | 46 | 2 | 66 | 38 | 18 | 12 | 13 |
| 601 - 900 | 133 | 85 | 45 | 3 | 70 | 35 | 9 | 9 | 10 |
| 901 - 1,200 | 150 | 100 | 46 | 4 | 80 | 34 | 15 | 8 | 13 |
| 1,201 - 1,500 | 143 | 113 | 27 | 3 | 66 | 33 | 17 | 15 | 12 |
| 1,501 - 1,800 | 130 | 102 | 23 | 5 | 48 | 42 | 25 | 9 | 6 |
| 1,801 - 2,100 | 172 | 130 | 32 | 10 | 76 | 48 | 21 | 13 | 14 |
| 2,101 - 2,400 | 199 | 166 | 23 | 10 | 70 | 81 | 25 | 18 | 5 |
| 2,401 - 2,700 | 192 | 177 | 11 | 4 | 55 | 84 | 26 | 15 | 12 |
| 2,701 - 3,000 | 259 | 239 | 14 | 6 | 66 | 124 | 43 | 10 | 16 |
| 3,001 - 3,300 | 193 | 183 | 8 | 2 | 54 | 89 | 24 | 17 | 9 |
| 3,301 - 3,600 | 182 | 177 | 5 | 0 | 42 | 87 | 26 | 16 | 11 |
| 3,601 - 3,900 | 158 | 154 | 3 | 1 | 41 | 81 | 15 | 15 | 6 |
| 3,901 - 4,200 | 135 | 133 | 2 | 0 | 32 | 63 | 20 | 12 | 8 |
| over 4,200 | 367 | 361 | 6 | 0 | 68 | 221 | 38 | 28 | 12 |
| Totals | 2,605 | 2,246 | 309 | 50 | 857 | 1,068 | 323 | 198 | 159 |

**Type of Pension Benefit**
1 - Regular retirement
2 - Survivor payment
3 - Disability

**Option Selected**
1 - Whole Life Annuity
2 - 75% Joint and Contingent Annuity
3 - 50% Joint and Contingent Annuity
4 - 66-2/3% Joint and Survivor Annuity
5 - Level Income Option

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

| | Years of Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0 - 4 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ |
| **Other** | | | | | | | |
| 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 |
| Period 7/1/06 - 6/30/07: | | | | | | | |
| Average Monthly Benefit | $1,026 | $ 564 | $1,084 | $1,773 | $2,509 | $3,699 | $4,132 |
| Number of Recipients | 97 | 320 | 263 | 207 | 190 | 183 | 44 |
| Period 7/1/07 - 6/30/08: | | | | | | | |
| Average Monthly Benefit | $ 586 | $ 548 | $1,044 | $1,655 | $2,668 | $3,642 | $4,561 |
| Number of Recipients | 69 | 315 | 249 | 222 | 172 | 170 | 56 |
| Period 7/1/08 - 6/30/09: | | | | | | | |
| Average Monthly Benefit | $ 534 | $ 554 | $988 | $1,708 | $2,693 | $3,718 | $4,723 |
| Number of Recipients | 71 | 341 | 216 | 171 | 154 | 159 | 47 |
| **Peace Officer/Firefigher** | | | | | | | |
| 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 |
| Period 7/1/06 - 6/30/07: | | | | | | | |
| Average Monthly Benefit | $ 925 | $ 858 | $1,304 | $2,385 | $3,180 | $4,198 | $4,942 |
| Number of Recipients | 4 | 13 | 9 | 26 | 40 | 12 | 4 |
| Period 7/1/07 - 6/30/08: | | | | | | | |
| Average Monthly Benefit | $ 1,522 | $950 | $1,171 | $2,378 | $3,179 | $3,837 | $6,014 |
| Number of Recipients | 6 | 13 | 13 | 20 | 32 | 18 | 3 |
| Period 7/1/08 - 6/30/09: | | | | | | | |
| Average Monthly Benefit | $ 489 | $820 | $979 | $2,466 | $3,152 | $4,213 | $4,894 |
| Number of Recipients | 2 | 17 | 11 | 18 | 23 | 7 | 5 |

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

| Public Employees' Retirement System<br>Principal Participating Employers<br>June 30, 2010 | | | |
|---|---|---|---|
| Employer | Non-retired Members | Rank | Percentage of of Total Non-retired Members |
| State of Alaska | 25,480 | 1 | 41.9% |
| Anchorage School District | 5,185 | 2 | 8.5 |
| University of Alaska | 4,605 | 3 | 7.6 |
| **Total** | **35,270** | | **58.0%** |