

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Alaska

For the Fiscal Year Ended June 30, 2011



Sean Parnell, Governor

Prepared by

Department of Administration
Division of Retirement and Benefits
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Public Employees' Retirement System

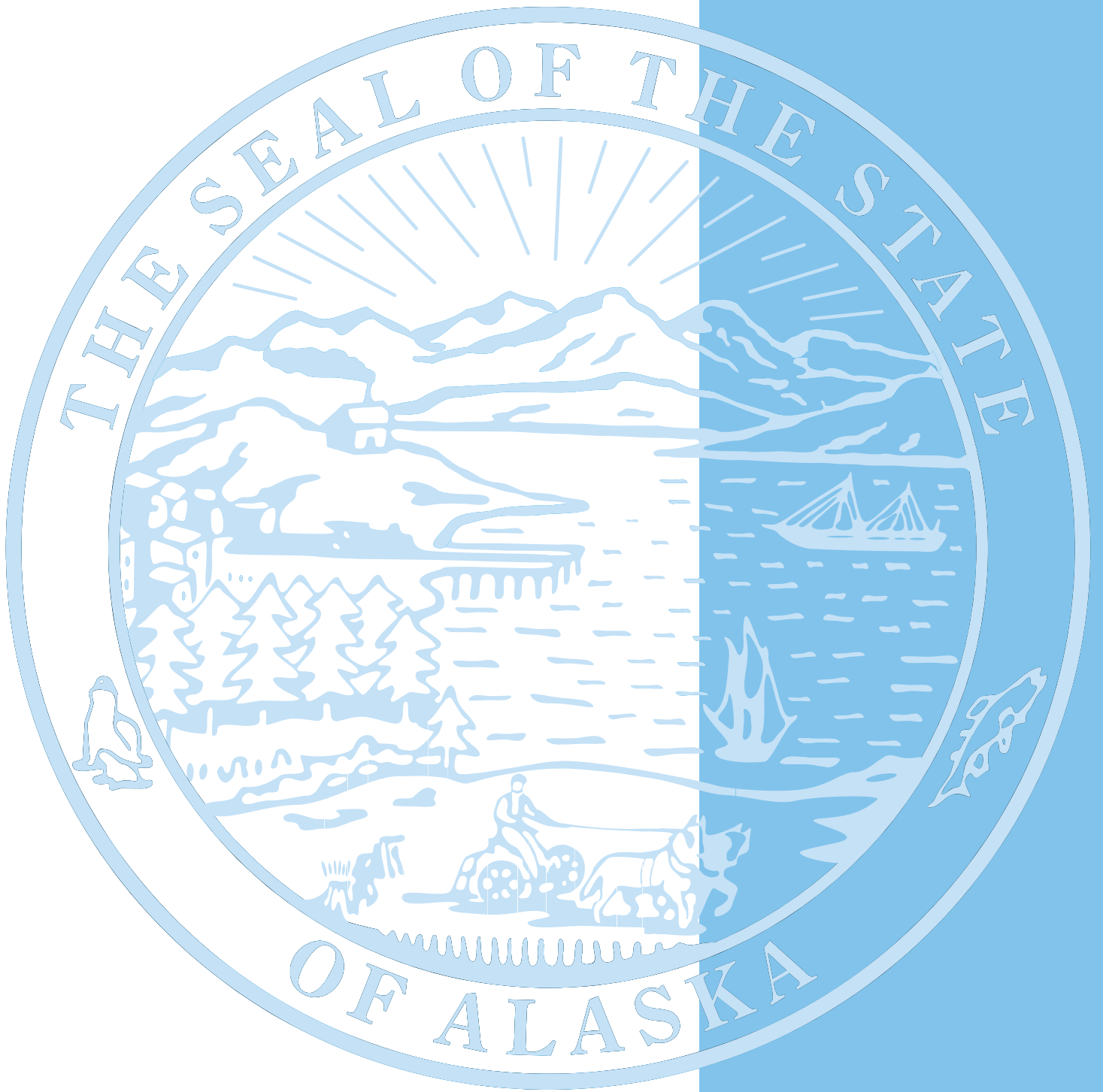
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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

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LETTER OF TRANSMITTAL

November 23, 2011

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, 2011. 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, 2011. 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, 2011. 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 (ARMB);
- **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;

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- **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. 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, retiree major medical plan, and the health reimbursement arrangement plan.

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 of Alaska 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 ARMB, constituted effective October 1, 2005, replaced the Public Employees' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (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 financial condition of the System to the Governor, Legislature, and individual employers participating in the System.

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Major Initiatives

The System continues to make progress on several ongoing projects. Most of these efforts are focused on the following improvements: improving customer service, 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 a central Retirement Customer Service Center 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 Division implemented the Virtual Call Center functionalities in February 2011.

The System activated a new redesigned website in early January 2011. The new website uses a modern navigation model, is compliant with the Americans with Disabilities Act, and uses 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, 2010, 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 61.5%. The DB Plan’s unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$7.0 billion. The unfunded liability continues to be 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.

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Investments

On June 30, 2011, the DB Plan's investment portfolio was valued at \$11.3 billion and earned a 21.22% return for the fiscal year ended June 30, 2011. The DCR Plan's investment portfolio was valued at \$246 million for the fiscal year ended June 30, 2011. Over the past five years ending June 30, 2011, the DB Plan's investments earned a 4.33% 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, 2010. 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

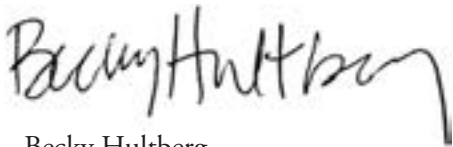
The preparation of this report is made possible by the dedicated services of the staff of the Department of Administration, Division of Retirement and Benefits, Department of Law, and the Department of Revenue, Treasury Division. It is intended to provide complete and reliable information as a basis 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.

INTRODUCTORY SECTION

The report is available on the web at 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.

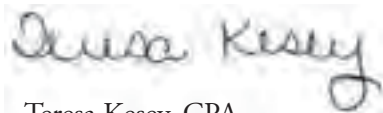
Respectfully submitted,



Becky Hultberg
Commissioner



Jim Puckett
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, 2010

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



Linda C. Davison

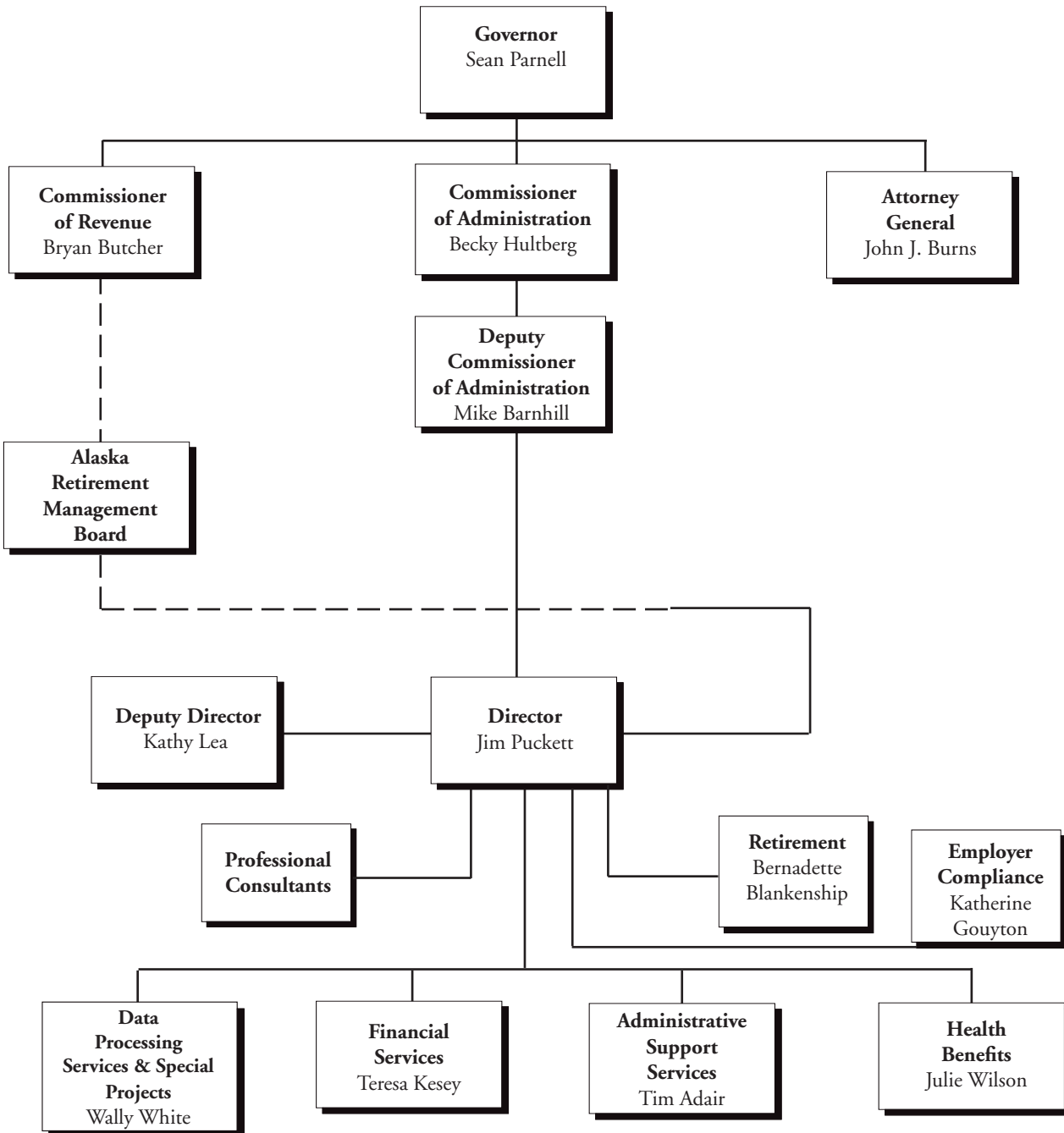
President

Jeffrey R. Erwin

Executive Director

INTRODUCTORY SECTION

ORGANIZATION CHART



INTRODUCTORY SECTION

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

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 84-85.

ALASKA RETIREMENT MANAGEMENT BOARD

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

Sam Trivette, Vice-Chair, is on the national executive board of the American Federation of Teachers Retirees and was formerly President of the Retired Public Employees of Alaska. Mr. Trivette retired from public service after more than 32 years serving as Chief Probation Officer, Director of Community Corrections, Executive Director of the Parole Board, and as a probation and correctional officer. He is President of Quality Corrections Services, and on the board of directors of the Alaska Public Employees Association. Mr. Trivette has also served as an officer in a number of national and statewide professional organizations as well as many not-for-profit organizations around Alaska. He has a 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, NCTR Education Committee, and the Alaska Teachers' Retirement Board. 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.

Bryan Butcher was appointed Commissioner of the Department of Revenue by Governor Sean Parnell in November, 2010. Prior to that, he worked at the Alaska Housing Finance Corporation (AHFC) as the director of governmental relations and public affairs and advised Governor Parnell on economic development issues. He also served as vice president of the Alaska Gasline Development Corporation. Before joining AHFC in 2003, Mr. Butcher worked as a finance aide for the state House and Senate finance committees for 12 years. Mr. Butcher holds a bachelor's degree in speech communications from the University of Oregon. He is a lifelong Alaskan, born and raised in Anchorage.

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

INTRODUCTORY SECTION

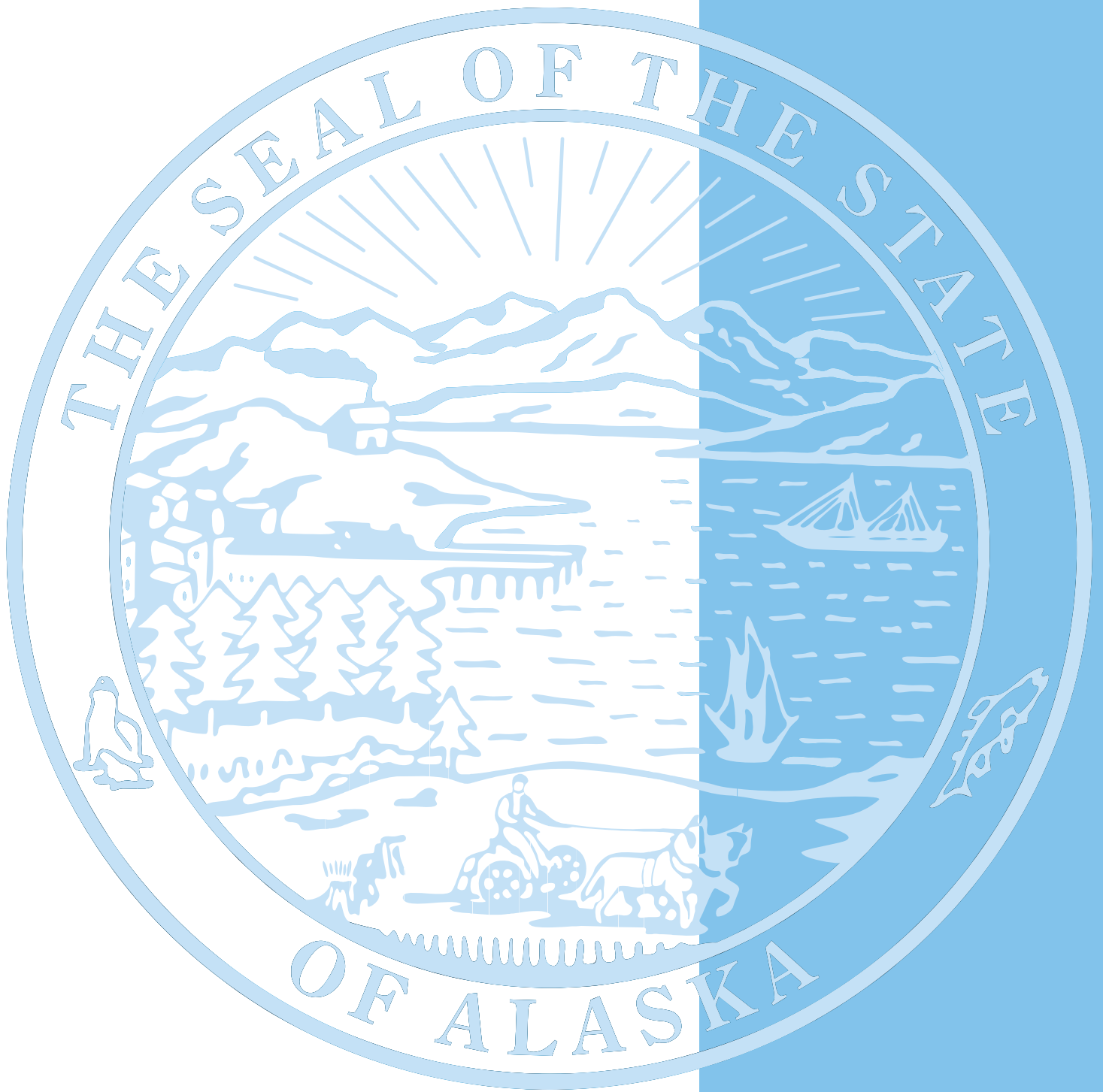
and literature, both from the University of Washington, and a master's degree in public administration from the University of Alaska Anchorage.

Becky Hultberg was appointed Commissioner of the Department of Administration by Governor Sean Parnell in December 2010. Most recently Ms. Hultberg served as the regional director of communications and marketing for Providence Health & Services Alaska, leading the organization's efforts around communications, marketing, physician relations and web development. Her past positions include serving as vice president of public relations and strategy for Bradley Reid & Associates and as press secretary in the office of former Governor Frank H. Murkowski. A lifelong Alaskan, Becky was born in Anchorage and raised in Kenai. She holds a bachelor's degree in history from Abilene Christian University, in Abilene, Texas, with minors in economics and public service. Ms. Hultberg lives in Juneau with her husband, Jeff, and children Sophie, Brandt and Dane.

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.

Tom Richards recently retired after serving 29 years as a mathematics, science and economics teacher in Fairbanks and North Pole. He currently works as Transition Coordinator at the Fairbanks Youth Facility. 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.

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.



FINANCIAL SECTION



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

Independent Auditors' Report

The 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 system net assets of the State of Alaska Public Employees' Retirement System (the System) (a Component Unit of the State of Alaska) as of June 30, 2011, and the related statement of changes in system net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 system net assets of the State of Alaska Public Employees' Retirement System as of June 30, 2011, and the changes in system 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, and Schedules of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) 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.

FINANCIAL SECTION



Our audit was 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 System. 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 20, 2011

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010. 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, 2011 and 2010. Information for fiscal year 2009 is presented for comparative purposes.

Financial Highlights

The System financial highlights as of June 30, 2011 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits increased by \$1,927.0 million during fiscal year 2011.
- The System's plan member and employer contributions increased by \$16.7 million during fiscal year 2011.
- The State of Alaska directly appropriated \$165.8 million during fiscal year 2011 as statutorily required.
- The System net investment income increased \$1,125.2 million to \$2,009.4 million during fiscal year 2011.
- The System's pension benefit expenditures totaled \$525.3 million during fiscal year 2011.
- The System's postemployment healthcare benefit expenditures totaled \$299.2 million in fiscal year 2011.

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 system net assets, (2) statement of changes in system net assets, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

Statement of System 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, 2011 and 2010.

Statement of Changes in System 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, 2011 and 2010. 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.

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

Management's Discussion and Analysis

June 30, 2011 and 2010

The above statements represent resources available for investment and payment of benefits as of June 30, 2011 and 2010, and the sources and uses of those funds during fiscal year 2011 and 2010.

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 (In thousands)

Description	System Net Assets				
	2011	2010	Increase/(decrease)		2009
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 95,856	103,558	(7,702)	(7.4)%	\$ 39,636
Due from State of Alaska					
General Fund	—	11,931	(11,931)	(100.0)	7,301
Contributions receivable	23,788	22,958	830	3.6	22,053
Due from retiree health fund	—	1,189	(1,189)	(100.0)	1,051
Other receivables	8,357	4,412	3,945	89.4	2,084
Legal settlement	—	445,415	(445,415)	(100.0)	—
Investments, at fair value	11,558,961	9,255,890	2,303,071	24.9	8,550,532
Other assets	<u>2,866</u>	<u>2,829</u>	<u>37</u>	<u>1.3</u>	<u>2,824</u>
Total assets	<u>11,689,828</u>	<u>9,848,182</u>	<u>1,841,646</u>	<u>18.7</u>	<u>8,625,481</u>
Liabilities:					
Accrued expenses	10,037	9,572	465	4.9	9,747
Claims payable	32,678	32,315	363	1.1	—
Legal fees payable	—	86,428	(86,428)	(100.0)	—
Due to State of Alaska General Fund	373	—	373	100.0	—
Due to other funds	<u>—</u>	<u>101</u>	<u>(101)</u>	<u>(100.0)</u>	<u>102</u>
Total liabilities	<u>43,088</u>	<u>128,416</u>	<u>(85,328)</u>	<u>(66.4)</u>	<u>9,849</u>
Net assets	<u>\$11,646,740</u>	<u>9,719,766</u>	<u>1,926,974</u>	<u>19.8%</u>	<u>\$8,615,632</u>

FINANCIAL SECTION

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Changes in System Net Assets

Description	2011	2010	Increase/(decrease)		2009
			Amount	Percentage	
Net assets, beginning of year	\$ 9,719,766	8,615,632	1,104,134	12.8%	\$10,765,304
Additions (reductions):					
Contributions	597,945	581,222	16,723	2.9	548,525
Appropriation – State of Alaska	165,841	107,953	57,888	53.6	241,600
Net investment income (loss)	2,009,351	884,126	1,125,225	127.3	(2,191,482)
Other additions	12,760	456,496	(443,736)	(97.2)	8,780
Total additions (reductions)	<u>2,785,897</u>	<u>2,029,797</u>	<u>756,100</u>	<u>37.3</u>	<u>(1,392,577)</u>
Deductions:					
Pension and postemployment healthcare benefits	824,513	808,916	15,597	1.9	722,493
Refund of contributions	18,196	15,393	2,803	18.2	13,884
Legal settlement fees	—	86,428	(86,428)	(100.0)	—
Administrative	16,214	14,926	1,288	8.6	20,718
Total deductions	<u>858,923</u>	<u>925,663</u>	<u>(66,740)</u>	<u>(7.2)</u>	<u>757,095</u>
Increase (decrease) in net assets	<u>1,926,974</u>	<u>1,104,134</u>	<u>822,840</u>	<u>74.5</u>	<u>(2,149,672)</u>
Net assets, end of year	<u>\$11,646,740</u>	<u>9,719,766</u>	<u>1,926,974</u>	<u>19.8%</u>	<u>\$ 8,615,632</u>

Financial Analysis of the System

The statement of system net assets as of June 30, 2011 and 2010 show net assets held in trust for pension and postemployment healthcare benefits of \$11,646,740,000 and \$9,719,766,000, 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 \$1,926,974,000 or 19.8% from fiscal year 2010 to 2011 and an increase of \$1,104,134,000 or 12.8% from fiscal years 2009 and 2010. Over the long term, plan member contributions, 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.

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System Asset Allocation

During fiscal years 2011 and 2010, the Board adopted the following asset allocation for the DB Plan and DCR Plan's retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

	2011	
	Pension & Healthcare Trust	
	<u>Allocation</u>	<u>Range</u>
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Fixed income	19.0	± 3
Real assets	16.0	± 8
Private equity	7.0	± 5
Absolute return	5.0	± 4
Cash equivalents	<u>1.0</u>	- 1/+ 5
Total	<u>100.0%</u>	
Expected five-year median return	8.07%	
Standard deviation	13.46	

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

For fiscal years 2011 and 2010, the DB Plan's investments generated a 21.22% and 11.39% rate of return, respectively. The DB Plan's annualized rate of return was 2.38% over the last three years and 4.33% over the last five years, which is less than the June 30, 2009 actuarial assumed rate of return of 8.25%.

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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. The ratio of assets to liabilities was 61.5%, at June 30, 2010 (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.

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 2011 (based on the June 30, 2008 actuarial valuation report) the consolidated normal cost rate decreased from 9.46% to 9.33%, the average past service rate increased from 18.19% to 18.63%, thus producing a total fiscal year 2011, actuarially determined contribution rate of 27.96%. The Board adopted the actuarially determined contribution rate of 27.96% for fiscal year 2011.

	Valuation Year	
	(In thousands)	
	<u>2010</u>	<u>2009</u>
Valuation assets	\$11,157,464	10,242,978
Accrued liabilities (total benefits)	18,132,492	16,579,371
Unfunded accrued liability	6,975,028	6,336,393
Funding ratio	61.5%	61.8%

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)				
	<u>2011</u>	<u>2010</u>	<u>Increase/(decrease)</u>		<u>2009</u>
			<u>Amount</u>	<u>Percentage</u>	
Plan members contributions	\$ 153,664	152,787	877	0.6%	\$ 141,073
Employer contributions	444,281	428,435	15,846	3.7	407,452
Appropriation – State of Alaska	165,841	107,953	57,888	53.6	241,600
Net investment income (loss)	2,009,351	884,126	1,125,225	127.3	(2,191,482)
Legal settlement	—	445,414	(445,414)	(100.0)	—
Other additions	12,760	11,082	1,678	15.1	8,780
Total	<u>\$2,785,897</u>	<u>2,029,797</u>	<u>756,100</u>	<u>37.3%</u>	<u>\$(1,392,577)</u>

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The System's employer contributions increased from \$428,435,000 in fiscal year 2010 to \$444,281,000 in fiscal year 2011, an increase of \$15,846,000 or 3.7%. 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%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided \$165,841,000 for fiscal year 2011 and \$107,953,000 for fiscal year 2010 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 increased from 27.65% in fiscal year 2010 to 27.96% in fiscal year 2011. The employer contribution rate of 22.00% is established in Alaska Statute 39.35.255(a).

The System's net investment income in fiscal year 2011 increased by \$1,125,225,000 or 127.3% from amounts recorded in fiscal year 2010. The System experienced net investment income of \$884,126,000 in fiscal year 2010 and net investment loss of \$2,191,482 in fiscal year 2009. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2011, the System continued to experience positive returns on investments.

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

	Year ended		
	2011	2010	2009
System returns	21.22%	11.39%	(20.49)%
Domestic equities	33.37	15.45	(26.72)
International equities	28.27	12.05	(29.11)
Fixed income	5.46	11.19	3.39
Private equity	20.14	18.86	(23.67)
Absolute return	5.98	6.59	(12.51)
Real assets	15.25	(0.28)	(21.02)
International fixed income	0.47	—	—

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.

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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 System comprise the costs of operations as follows:

	Deductions (In thousands)				
	2011	2010	Increase/(decrease)		2009
			Amount	Percentage	
Pension benefits	\$525,317	496,015	29,302	5.9%	\$466,085
Postemployment healthcare benefits	299,196	312,901	(13,705)	(4.4)	256,408
Refund of contributions	18,196	15,393	2,803	18.2	13,884
Administrative	16,214	14,926	1,288	8.6	20,718
Legal fees	—	86,428	(86,428)	(100.0)	—
Total	\$ 858,923	925,663	(66,740)	(7.2)%	\$757,095

The System's pension benefit payments in 2011 increased \$29,302,000 or 5.9% from fiscal year 2010 and increased \$29,930,000 or 6.4% from fiscal year 2009 to 2010. 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 2011 decreased \$13,705,000 or 4.4% from fiscal year 2010 and increased \$56,493,000 or 22.0% from fiscal year 2009 to 2010. The decrease in healthcare costs in fiscal year 2011 is attributable in part to greater discounts with our preferred providers of healthcare.

The System's administrative deductions in 2011 increased \$1,288,000 or 8.6% from fiscal year 2010 and decreased \$5,792,000 or 28.0% from fiscal year 2009. The increase in administrative costs in fiscal year 2011 is related to an increase in personal services and actuarial costs.

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.

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- 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 2011, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 108 appropriates \$242.6 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, 2012. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 22.00% and the actuarially determined contribution rate of 30.76% and ARMB adopted rate of 33.49% for fiscal year 2012.

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

Fiscal year 2011 was another strong recovery year in terms of investment returns. Net investment income reflected an increase of 127.3% between 2010 and 2011. 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% (based on the June 30, 2008 actuarial report, which established the fiscal year 2011 rate) with a system rate of return of 21.22% at June 30, 2011.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 27.65% in fiscal year 2010 to 27.96% in fiscal year 2011. The Board adopted the actuarially determined contribution rate of 27.96% for fiscal year 2011, up 0.31 points from the fiscal year 2010 Board adopted actuarially determined contribution rate of 27.65%. The statutory employer contribution rate remained at 22.00% for fiscal years 2010 and 2011.

The June 30, 2010 actuarial valuation for the DB Plan reported a funding ratio of 61.5% and an unfunded liability of \$6.98 billion.

For fiscal years 2011 and 2010, 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 0.55% and 0.83% for fiscal years 2011 and 2010, respectively. The DCR Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 1.18% and 1.33% for fiscal years 2011 and 2010, respectively. The DCR Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.31% and 0.30% for fiscal years 2011 and 2010, respectively.

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

FINANCIAL SECTION

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

**Statements of Plan Net Assets
June 30, 2011**

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

	Defined benefit plans			Defined contribution pension trust fund						System total June 30, 2011	System total June 30, 2010
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability			Total			
					All others	Peace officer/ firefighter	Retiree medical plan		Healthcare reimbursement arrangement		
Assets:											
Cash and cash equivalents (notes 2 and 4):											
Short-term fixed income pool	\$ 46,603	39,348	85,951	7,591	97	42	212	1,066	9,008	94,959	99,603
Great West/participant directed deposit	—	—	—	897	—	—	—	—	897	897	3,955
Total cash and cash equivalents	<u>46,603</u>	<u>39,348</u>	<u>85,951</u>	<u>8,488</u>	<u>97</u>	<u>42</u>	<u>212</u>	<u>1,066</u>	<u>9,905</u>	<u>95,856</u>	<u>103,558</u>
Receivables:											
Contributions	23,228	422	23,650	96	2	—	4	36	138	23,788	22,958
Legal settlement	—	—	—	—	—	—	—	—	—	—	445,415
Due from State of Alaska General Fund (note 2)	—	8,138	8,138	2,874	62	31	121	723	3,811	11,949	18,113
Due from retiree health fund	—	—	—	—	—	—	—	—	—	—	11,724
Other account receivable	2	8,355	8,357	—	—	—	—	—	—	8,357	4,412
Total receivables	<u>23,230</u>	<u>16,915</u>	<u>40,145</u>	<u>2,970</u>	<u>64</u>	<u>31</u>	<u>125</u>	<u>759</u>	<u>3,949</u>	<u>44,094</u>	<u>502,622</u>
Investments (notes 2, 3, 4 and 5) at fair value:											
Fixed income securities											
Retirement fixed income pool	15,133	12,331	27,464	—	—	—	—	—	—	27,464	911,685
U.S. Treasury fixed income pool	671,024	575,421	1,246,445	—	668	242	1,556	6,806	9,272	1,255,717	453,435
High yield fixed income pool	155,952	127,063	283,015	—	102	37	238	1,043	1,420	284,435	227,594
International fixed income pool	144,490	117,723	262,213	—	105	38	243	1,063	1,449	263,662	138,243
Emerging markets debt pool	48,796	39,757	88,553	—	103	37	239	1,047	1,426	89,979	70,827
Total fixed income securities	<u>1,035,395</u>	<u>872,295</u>	<u>1,907,690</u>	<u>—</u>	<u>978</u>	<u>354</u>	<u>2,276</u>	<u>9,959</u>	<u>13,567</u>	<u>1,921,257</u>	<u>1,801,784</u>
Broad domestic equity	<u>1,872,013</u>	<u>1,525,039</u>	<u>3,397,052</u>	<u>—</u>	<u>1,536</u>	<u>555</u>	<u>3,577</u>	<u>15,647</u>	<u>21,315</u>	<u>3,418,367</u>	<u>2,669,225</u>
Global equity Ex-U.S.:											
International equity pool	1,125,179	916,645	2,041,824	—	966	349	2,249	9,839	13,403	2,055,227	1,406,031
Emerging markets equity pool	376,345	306,632	682,977	—	253	92	591	2,584	3,520	686,497	540,183
Total global equity Ex-U.S.	<u>1,501,524</u>	<u>1,223,277</u>	<u>2,724,801</u>	<u>—</u>	<u>1,219</u>	<u>441</u>	<u>2,840</u>	<u>12,423</u>	<u>16,923</u>	<u>2,741,724</u>	<u>1,946,214</u>
Private equity pool	<u>576,318</u>	<u>469,540</u>	<u>1,045,858</u>	<u>—</u>	<u>362</u>	<u>131</u>	<u>844</u>	<u>3,691</u>	<u>5,028</u>	<u>1,050,886</u>	<u>892,470</u>
Absolute return pool	<u>275,814</u>	<u>224,717</u>	<u>500,531</u>	<u>—</u>	<u>258</u>	<u>93</u>	<u>600</u>	<u>2,624</u>	<u>3,575</u>	<u>504,106</u>	<u>463,864</u>
Real assets:											
Real estate pool	500,940	408,364	909,304	—	508	183	1,182	5,173	7,046	916,350	779,193
Real estate investment trust pool	63,757	51,942	115,699	—	16	6	37	161	220	115,919	36,034
Energy pool	35,175	28,659	63,834	—	16	6	36	158	216	64,050	58,273
Farmland pool	196,398	171,422	367,820	—	82	30	192	837	1,141	368,961	330,167
Farmland water pool	13,877	—	13,877	—	—	—	—	—	—	13,877	11,315
Timber pool	73,259	59,691	132,950	—	51	18	119	520	708	133,658	114,817
Treasury inflation protected securities pool	73,480	59,869	133,349	—	164	60	383	1,676	2,283	135,632	55,549
Total real assets	<u>956,886</u>	<u>779,947</u>	<u>1,736,833</u>	<u>—</u>	<u>837</u>	<u>303</u>	<u>1,949</u>	<u>8,525</u>	<u>11,614</u>	<u>1,748,447</u>	<u>1,385,348</u>
Other investment funds, at fair value:											
Pooled investment funds	—	—	—	49,064	—	—	—	—	49,064	49,064	19,200
Collective investment funds	—	—	—	125,110	—	—	—	—	125,110	125,110	77,785
Total other investment funds	<u>—</u>	<u>—</u>	<u>—</u>	<u>174,174</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>174,174</u>	<u>174,174</u>	<u>96,985</u>
Total investments	<u>6,217,950</u>	<u>5,094,815</u>	<u>11,312,765</u>	<u>174,174</u>	<u>5,190</u>	<u>1,877</u>	<u>12,086</u>	<u>52,869</u>	<u>246,196</u>	<u>11,558,961</u>	<u>9,255,890</u>
Other assets	51	2,815	2,866	—	—	—	—	—	—	2,866	2,829
Total assets	<u>6,287,834</u>	<u>5,153,893</u>	<u>11,441,727</u>	<u>185,632</u>	<u>5,351</u>	<u>1,950</u>	<u>12,423</u>	<u>54,694</u>	<u>260,050</u>	<u>11,701,777</u>	<u>9,864,899</u>
Liabilities:											
Accrued expenses	7,587	520	8,107	1,930	—	—	—	—	1,930	10,037	9,572
Claims payable (note 6)	—	32,678	32,678	—	—	—	—	—	—	32,678	32,315
Legal fees payable	—	—	—	—	—	—	—	—	—	—	86,428
Due to State of Alaska General Fund	12,322	—	12,322	—	—	—	—	—	—	12,322	6,182
Due to Retiree Health Medical	—	—	—	—	—	—	—	—	—	—	10,535
Due to Alaska Retiree Healthcare Trust – TRS	—	—	—	—	—	—	—	—	—	—	101
Total liabilities	<u>19,909</u>	<u>33,198</u>	<u>53,107</u>	<u>1,930</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,930</u>	<u>55,037</u>	<u>145,133</u>
Commitment and contingencies (note 9)											
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$6,267,925</u>	<u>5,120,695</u>	<u>11,388,620</u>	<u>183,702</u>	<u>5,351</u>	<u>1,950</u>	<u>12,423</u>	<u>54,694</u>	<u>258,120</u>	<u>11,646,740</u>	<u>9,719,766</u>

See accompanying notes to financial statements.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Statements of Changes in Plan Net Assets
June 30, 2011
(With summarized financial information from June 30, 2010)
(In thousands)

	Defined benefit plans			Defined contribution pension trust plans						System total June 30, 2011	System total June 30, 2010
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ firefighter	Retiree medical plan	Healthcare reimbursement arrangement	Total		
Additions:											
Contributions:											
Employers	\$ 139,075	261,534	400,609	22,976	1,275	577	2,527	16,317	43,672	444,281	428,435
Plan members	116,270	557	116,827	36,831	—	6	—	—	36,837	153,664	152,787
State of Alaska	65,187	100,654	165,841	—	—	—	—	—	—	165,841	107,953
Total contributions	<u>320,532</u>	<u>362,745</u>	<u>683,277</u>	<u>59,807</u>	<u>1,275</u>	<u>583</u>	<u>2,527</u>	<u>16,317</u>	<u>80,509</u>	<u>763,786</u>	<u>689,175</u>
Investment income:											
Net appreciation in fair value (note 2)	986,899	765,529	1,752,428	28,235	664	234	1,591	6,373	37,097	1,789,525	734,900
Interest	33,532	27,403	60,935	29	29	11	69	285	423	61,358	74,879
Dividends	101,938	78,304	180,242	—	66	23	158	650	897	181,139	91,838
Total investment income	<u>1,122,369</u>	<u>871,236</u>	<u>1,993,605</u>	<u>28,264</u>	<u>759</u>	<u>268</u>	<u>1,818</u>	<u>7,308</u>	<u>38,417</u>	<u>2,032,022</u>	<u>901,617</u>
Less investment expense	22,656	15	22,671	—	—	—	—	—	—	22,671	17,491
Net investment income	<u>1,099,713</u>	<u>871,221</u>	<u>1,970,934</u>	<u>28,264</u>	<u>759</u>	<u>268</u>	<u>1,818</u>	<u>7,308</u>	<u>38,417</u>	<u>2,009,351</u>	<u>884,126</u>
Other:											
Legal settlement	—	—	—	—	—	—	—	—	—	—	445,414
Other	97	12,650	12,747	13	—	—	—	—	13	12,760	11,082
Total additions	<u>1,420,342</u>	<u>1,246,616</u>	<u>2,666,958</u>	<u>88,084</u>	<u>2,034</u>	<u>851</u>	<u>4,345</u>	<u>23,625</u>	<u>118,939</u>	<u>2,785,897</u>	<u>2,029,797</u>
Deductions:											
Pension and postemployment benefits	525,277	299,196	824,473	—	—	40	—	—	40	824,513	808,916
Refunds of contributions	11,923	—	11,923	6,273	—	—	—	—	6,273	18,196	15,393
Legal settlement fees	—	—	—	—	—	—	—	—	—	—	86,428
Administrative	6,744	7,806	14,550	1,664	—	—	—	—	1,664	16,214	14,926
Total deductions	<u>543,944</u>	<u>307,002</u>	<u>850,946</u>	<u>7,937</u>	<u>—</u>	<u>40</u>	<u>—</u>	<u>—</u>	<u>7,977</u>	<u>858,923</u>	<u>925,663</u>
Net increase	876,398	939,614	1,816,012	80,147	2,034	811	4,345	23,625	110,962	1,926,974	1,104,134
Net assets held in trust for pension and postemployment healthcare benefits:											
Balance, beginning of year	<u>5,391,527</u>	<u>4,181,081</u>	<u>9,572,608</u>	<u>103,555</u>	<u>3,317</u>	<u>1,139</u>	<u>8,078</u>	<u>31,069</u>	<u>147,158</u>	<u>9,719,766</u>	<u>8,615,632</u>
Balance, end of year	<u>\$6,267,925</u>	<u>5,120,695</u>	<u>11,388,620</u>	<u>183,702</u>	<u>5,351</u>	<u>1,950</u>	<u>12,423</u>	<u>54,694</u>	<u>258,120</u>	<u>11,646,740</u>	<u>9,719,766</u>

See accompanying notes to financial statements.

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(1) Description

The following is a brief description of the State of Alaska Public Employees' Retirement System (PERS or the System) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (the DB Plan) and Defined Contribution Retirement Trust Fund (the DCR Plan). PERS is a Component Unit of the State of Alaska (the State). The DB Plan is a plan within the System, which includes the Defined Benefit Retirement Pension Trust Fund and Alaska Retiree Healthcare 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, 2011 and 2010, the number of participating local government employers and public organizations including the State was as follows:

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

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 the System 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

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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 passage of Senate Bill (SB) 141, the PERS DB Plan is closed to all new members effective July 1, 2006.

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

	<u>Valuation as of June 30</u>	
	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries currently receiving benefits	26,237	25,015
Terminated plan members entitled to future benefits	<u>6,253</u>	<u>6,566</u>
Total current and future benefits	<u>32,490</u>	<u>31,581</u>
Active plan members:		
General	24,054	25,089
Peace officer and firefighter	<u>2,388</u>	<u>2,476</u>
Total active plan members	<u>26,442</u>	<u>27,565</u>
Total members	<u>58,932</u>	<u>59,146</u>
Active plan members:		
Vested:		
General	19,375	18,654
Peace officer and firefighter	2,102	2,017
Nonvested:		
General	4,679	6,435
Peace officer and firefighter	<u>286</u>	<u>459</u>
Total active plan members	<u>26,442</u>	<u>27,565</u>

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, 55, or early retirement age, 50. For members first hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. Members with 30 or more years of credited service (20 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 10 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 10 years of service subsequent to June 30, 1986 is equal to 2-1/4% of the member's average monthly compensation

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for the second 10 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 10 years is equal to 2% of the member's average monthly compensation and 2 ½% for all remaining years of service.

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 105%. 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 5 years of credited service (or 10 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 60 (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 60 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 System. The System 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 child(ren) may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB 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

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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 4.50% 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 cost method of funding. 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.

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 Alaska Retirement Board (the Board) for that fiscal year.

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Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 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 reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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 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.

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At June 30, 2011 and 2010, the DCR Pension Trust Fund membership consisted of the following:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	357	233
50% Vested	158	61
75% Vested	35	3
100% Vested	<u>4</u>	<u>7</u>
Total terminated plan members entitled to future benefits	<u>554</u>	<u>304</u>
Total current and future benefits	<u>554</u>	<u>304</u>
Active plan members:		
General	10,409	8,760
Peace officer and firefighter	<u>773</u>	<u>652</u>
Total active plan members	<u>11,182</u>	<u>9,412</u>
Total members	<u>11,736</u>	<u>9,716</u>
Active plan members:		
Vested General:		
25% Vested	1,965	1,873
50% Vested	1,528	1,227
75% Vested	1,002	180
100% Vested	<u>144</u>	<u>10</u>
Total vested general	<u>4,639</u>	<u>3,290</u>
Vested peace officer and firefighter		
25% Vested	164	203
50% Vested	175	168
75% Vested	157	24
100% Vested	<u>19</u>	<u>—</u>
Total vested peace officer and firefighter	<u>515</u>	<u>395</u>
Nonvested:		
General	5,770	5,470
Peace officer and firefighter	<u>258</u>	<u>257</u>
Total nonvested general and peace officer and firefighter	<u>6,028</u>	<u>5,727</u>
Total members	<u>11,736</u>	<u>9,716</u>

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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 accessible 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.

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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 DCR 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.

Record-keeping/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.

Record-keeping/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.

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(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, No. 43 and No. 50

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 and DCR Plan follow the provisions of GASB Statement No. 50, *Pension Disclosures*. GASB 50 amended certain disclosure provisions of GASB 25 and expanded the required disclosures regarding pensions.

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 or 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.

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Pooled Investments

With the exception of the Short-term Fixed Income Pool, ownership in the various pools is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

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.

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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.

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 comprise 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.

Defined Contribution Participant Directed Investments

The Alaska Retirement Management Board (Board) contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate 13 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 DCR 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 comprise 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.

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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 DCR 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 comprise commingled investment funds, alongside other investors, through ownership of equity shares.

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 Board is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest assets under 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.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the DCR Participant Directed Pension Plans under the Board's fiduciary responsibility.

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 Fixed Income Pool, International Fixed Income Pool,

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Emerging Markets Debt Pool, Board Domestic Equity 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 Participant Directed 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.

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

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(4) Deposit and Investment Risk

At June 30, 2011, the System's investments included the following:

	Fair value (in thousands)								
	Fixed income pools								
	Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS	Other	Total
Bridge loans	\$ —	—	—	413	—	—	—	—	413
Commercial paper	15,904	—	—	—	—	—	—	—	15,904
Convertible bonds	—	—	—	3,413	—	—	—	—	3,413
Corporate bonds	70,351	—	38,101	244,605	—	—	—	—	353,057
Deposits	—	—	—	—	1,199	—	—	—	1,199
Foreign corporate bonds	—	—	—	—	55,704	—	—	—	55,704
Foreign government bonds	—	—	—	—	193,045	—	—	—	193,045
Mortgage-backed	3,266	14,385	57,651	—	—	—	—	—	75,302
Mutual funds	—	—	—	—	—	—	—	140,307	140,307
Other asset-backed	70,583	—	239	—	—	—	—	—	70,822
Overnight sweep account (Imcs)	1,898	—	—	13,340	—	224	—	—	15,462
Short-term investment fund	—	—	—	—	2,310	—	—	14,424	16,734
U.S. government agency	3,925	—	10,005	—	—	—	—	—	13,930
U.S. government agency discount notes	5,816	—	—	—	—	—	—	—	5,816
Treasury bills	33,252	—	—	—	—	—	—	—	33,252
Treasury bonds	—	—	85,944	—	—	—	—	—	85,944
Treasury notes	—	—	1,029,681	—	7,486	—	—	—	1,037,167
Treasury TIP bonds	—	—	—	—	—	46,437	—	—	46,437
Treasury TIP notes	—	—	—	—	—	87,936	—	—	87,936
Yankees:									
Corporate	1,389	—	18,296	19,022	—	—	—	—	38,707
Government	—	—	1,069	—	—	—	—	—	1,069
Fixed income pools:									
Equity	—	—	—	326	—	—	—	—	326
Warrants	—	—	—	24	—	—	—	—	24
Emerging markets debt pool	—	—	—	—	—	—	—	89,979	89,979
Broad domestic equity pool:									
Convertible bonds	—	—	—	—	—	57,469	—	—	57,469
Deposits	—	—	—	—	—	—	17,092	—	17,092
Equity	—	—	—	—	—	7,333	3,002,121	—	3,009,454
Limited partnership	—	—	—	—	—	—	227,931	—	227,931
Mutual fund	—	—	—	—	—	—	42,249	—	42,249
Options	—	—	—	—	—	—	(20,488)	—	(20,488)
Treasury bills	—	—	—	—	—	—	3,211	—	3,211
International equity pool:									
Deposits	—	—	—	—	—	—	24,186	—	24,186
Equity	—	—	—	—	—	—	1,870,444	—	1,870,444
Rights	—	—	—	—	—	—	132	—	132
Emerging markets equity pool	—	—	—	—	—	—	686,497	—	686,497
Private equity pool:									
Limited partnerships	—	—	—	—	—	—	1,049,381	—	1,049,381
Absolute return pool:									
Limited partnerships	—	—	—	—	—	—	504,106	—	504,106
Real estate pool:									
Commingled funds	—	—	—	—	—	—	176,704	—	176,704
Limited partnerships	—	—	—	—	—	—	254,004	—	254,004
Real estate	—	—	—	—	—	—	485,642	—	485,642
Real estate investment trust pool:									
Equity	—	—	—	—	—	—	115,492	—	115,492
Energy pool:									
Limited partnerships	—	—	—	—	—	—	64,050	—	64,050
Farmland pool:									
Agricultural holdings	—	—	—	—	—	—	368,961	—	368,961
Farmland water pool:									
Agricultural holdings	—	—	—	—	—	—	13,877	—	13,877
Timber pool:									
Timber holdings	—	—	—	—	—	—	133,658	—	133,658
Participant directed:									
Collective investment funds	—	—	—	—	—	—	124,357	—	124,357
Pooled investment funds	—	—	—	—	—	—	48,161	—	48,161
Net other assets (liabilities)	95	118	(2,276)	3,292	3,918	356	914	7,328	13,745
Other pool ownership	(111,520)	12,961	17,007	—	—	—	345	81,207	—
Unallocated deposit in transit	—	—	—	—	—	—	1,656	—	1,656
Total invested assets	\$ 94,959	27,464	1,255,717	284,435	263,662	65,382	135,632	9,526,669	11,653,920

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Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 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 12 month prepay speeds for other securities. At June 30, 2011, the expected average life of individual fixed rate securities ranged from 1 day to 1 year and the expected average life of floating rate securities ranged from 8 days to 14 years.

Other Defined Benefit 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 $\pm 20\%$ of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2011, was 5.19 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 $\pm 20\%$ of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2011 was 3.94 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 Fixed Income portfolio to $\pm 20\%$ 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, 2011 was 4.52 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 $\pm 25\%$ of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2011 was 6.97 years.

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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 $\pm 20\%$ 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, 2011 was 5.31 years.

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

At June 30, 2011, 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	—	4.18	4.66	—	—
Convertible bonds	—	—	0.30	—	—
Equity	—	—	7.49	—	—
Foreign corporate bonds	—	—	—	1.30	—
Foreign government bonds	—	—	—	3.98	—
Mortgage-backed	2.72	2.32	—	—	—
Other asset-backed	—	1.98	—	—	—
U.S. Treasury bonds	—	7.61	—	—	9.49
U.S. Treasury notes	—	3.67	—	5.86	2.92
U.S. government agency	—	7.71	—	—	—
Yankees:					
Corporate	—	3.27	4.42	—	—
Government	—	(4.69)	—	—	—
Portfolio effective duration	1.43	3.86	4.37	3.40	5.18

Defined Contribution 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 13 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:

Under normal conditions, for government debt, corporate debt and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2011, the duration of the government corporate debt and mortgage-backed securities was 5.12 years and the duration of the Barclays Capital Aggregate Bond Index was 5.19 years.

Under normal conditions, the DCR Plan will invest in cash equivalent instruments with maturities of less than one year.

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Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2011, 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: 6.76 years, SSgA Long U.S. Treasury Bond Index: 14.46 years, SSgA TIPS Index: 4.69 years, Barclays Gov/Corp Bond Fund: 7.73 years, and the Barclays Intermediate Bond Fund: 3.98 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 non-agency 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 non-agency 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 non-agency 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 non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

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.

U.S. Treasury Fixed Income

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, United States Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

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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.

High Yield Fixed Income

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

Non-rated 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. Non-rated 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.

TIPS

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

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

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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 non-agency 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 non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Broad Domestic Equity, International Equity, Emerging Markets Debt and Collective Investment

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 Emerging Markets Debt Pool or the Collective Investment Funds.

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At June 30, 2011, 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):

Investment type	Rating	Fixed income pools						
		Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS
		—%	—%	—%	0.15%	—%	—%	—%
Bridge loans	Not rated	—	—	—	—	—	—	—
Commercial paper	A-1	6.95	—	—	—	—	—	—
Commercial paper	Not rated	0.75	—	—	—	—	—	—
Convertible bonds	AA	—	—	—	—	—	0.93	—
Convertible bonds	A	—	—	—	—	—	9.89	—
Convertible bonds	BBB	—	—	—	—	—	14.79	—
Convertible bonds	BB	—	—	—	—	—	19.72	—
Convertible bonds	B	—	—	—	0.76	—	13.80	—
Convertible bonds	CCC	—	—	—	—	—	5.73	—
Convertible bonds	Not rated	—	—	—	0.44	—	23.03	—
Corporate bonds	AAA	23.65	—	—	—	—	—	—
Corporate bonds	AA	1.45	—	0.70	—	—	—	—
Corporate bonds	A	3.20	—	1.39	—	—	—	—
Corporate bonds	BBB	—	—	0.95	3.51	—	—	—
Corporate bonds	BB	—	—	—	33.36	—	—	—
Corporate bonds	B	—	—	—	39.72	—	—	—
Corporate bonds	CCC	—	—	—	5.74	—	—	—
Corporate bonds	CC	—	—	—	0.17	—	—	—
Corporate bonds	Not rated	5.78	—	—	3.51	—	—	—
Equity	A	—	—	—	—	—	1.94	—
Equity	BBB	—	—	—	0.11	—	—	—
Equity	BB	—	—	—	—	—	6.16	—
Equity	CCC	—	—	—	—	—	3.11	—
Foreign corporate bonds	AAA	—	—	—	—	17.87	—	—
Foreign corporate bonds	A	—	—	—	—	2.52	—	—
Foreign corporate bonds	BBB	—	—	—	—	0.74	—	—
Foreign government bonds	AA	—	—	—	—	4.12	—	—
Foreign government bonds	A	—	—	—	—	18.74	—	—
Foreign government bonds	BBB	—	—	—	—	5.85	—	—
Foreign government bonds	Not rated	—	—	—	—	44.51	—	—
Mortgage-backed	AAA	1.58	37.74	3.56	—	—	—	—
Mortgage-backed	AA	—	1.41	0.08	—	—	—	—
Mortgage-backed	A	—	4.42	0.10	—	—	—	—
Mortgage-backed	CCC	—	5.26	—	—	—	—	—
Mortgage-backed	Not rated	—	3.55	0.85	—	—	—	—
Other asset-backed	AAA	30.49	—	—	—	—	—	—
Other asset-backed	A	0.07	—	—	—	—	—	—
Other asset-backed	Not rated	3.62	—	0.02	—	—	—	—
Short-term investment	Not rated	—	—	—	4.69	0.88	0.34	—
U.S. Treasury bills	AAA	16.10	—	—	—	—	—	—
U.S. Treasury bonds	AAA	—	—	6.84	—	—	—	34.24
U.S. Treasury notes	AAA	—	—	82.00	—	2.84	—	64.83
U.S. government agency	AAA	1.90	—	—	—	—	—	—
U.S. government agency	Not rated	—	—	0.80	—	—	—	—
U.S. government agency	discount notes	2.82	—	—	—	—	—	—
Yankees:								
Government	Not rated	—	—	0.09	—	—	—	—
Corporate	AA	0.49	—	0.56	—	—	—	—
Corporate	A	0.11	—	0.50	—	—	—	—
Corporate	BBB	—	—	0.23	0.36	—	—	—
Corporate	BB	—	—	—	2.60	—	—	—
Corporate	B	—	—	—	3.22	—	—	—
Corporate	Not rated	0.07	—	0.16	0.50	—	—	—
No credit exposure		0.97	47.62	1.17	1.16	1.93	0.56	0.93
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, any uninvested U.S. cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured depository institutions thereby limiting custodial credit risk.

At June 30, 2011, the System Invested Assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u> (In thousands)
Broad international equity pool	\$ 24,146
International fixed income pool	1,199

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 these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. 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:

<u>Fixed income</u>	<u>Global equity ex-U.S.</u>	<u>Private equity pool</u>
22%	27%	12%

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

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At June 30, 2011, the System had exposure to foreign currency risk with the following deposits:

Currency	Amount (In thousands)	
	International fixed income pool	Broad international equity pool
Australian dollar	\$ —	310
Brazilian real	—	3
Canadian dollar	—	183
Danish krone	—	189
Euro currency	32	18,280
Hong Kong dollar	—	358
Hungarian forint	189	—
Israeli shekel	—	11
Japanese yen	151	3,213
Mexican peso	647	—
New Taiwan dollar	—	644
New Zealand dollar	—	9
Norwegian krone	—	53
Pound sterling	—	537
Singapore dollar	—	32
South African rand	155	—
Swedish krona	—	192
Swiss franc	—	132
Thailand baht	25	—
	\$ 1,199	24,146

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At June 30, 2011, the System had exposure to foreign currency risk with the following investments:

Currency	Amount (In thousands)			
	International fixed income pool		Broad international equity Pool	Private equity pool Limited partnerships
	Foreign government	Corporate	Equity	
Australian dollar	\$ —	—	55,507	—
Brazilian real	11,652	—	6,051	—
Canadian dollar	—	—	63,762	—
Chilean peso	1,462	—	—	—
Colombian peso	5,295	—	—	—
Czech koruna	1,502	—	811	—
Danish krone	—	—	14,177	—
Euro currency	64,402	8,596	562,503	120,813
Hong Kong dollar	—	—	64,531	—
Hungarian forint	6,356	—	—	—
Indian rupee	—	—	3,175	—
Indonesian rupiah	—	—	1,472	—
Israeli shekel	—	—	1,795	—
Japanese yen	27,701	47,108	382,961	—
Malaysian ringgit	5,262	—	3,158	—
Mexican peso	17,010	—	469	—
New Taiwan dollar	—	—	6,374	—
New Zealand dollar	—	—	8,955	—
Norwegian krone	—	—	14,080	—
Peruvian Nouveau sol	3,776	—	—	—
Polish zloty	21,051	—	5,423	—
Pound sterling	12,727	—	356,690	19,510
Singapore dollar	—	—	19,846	—
South African rand	7,162	—	3,227	—
South Korean won	—	—	32,798	—
Swedish krona	—	—	34,683	—
Swiss franc	—	—	116,039	—
Thailand baht	2,038	—	3,469	—
Turkish lira	5,649	—	—	—
	<u>\$ 193,045</u>	<u>55,704</u>	<u>1,761,956</u>	<u>140,323</u>

At June 30, 2011, the System 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.

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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.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, 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 Emerging Debt or TIPS Pools.

At June 30, 2011, 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 System 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, 2011 the System had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Equity options written	Investment revenue	\$ 1,621	Options	\$ (20,439)	(3,488)
FX forwards	Investment revenue	(1,238)	Long term instruments	(52)	9,896
Index futures long	Investment revenue	10,029	Futures	—	44
Index options written	Investment revenue	212	Options	(18)	(4)
Rights	Investment revenue	349	Common stock	16	75
Warrants	Investment revenue	(18)	Common stock	24	27
Grand totals		<u>\$10,955</u>		<u>\$ (20,469)</u>	

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.

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At June 30, 2011, the System had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

<u>Counterparty name</u>	<u>Percentage of net exposure</u>	<u>S&P rating</u>	<u>Fitch rating</u>	<u>Moody's rating</u>
UBS AG	—	A+	A+	Aa3

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, 2011

Effect of collateral reducing maximum exposure

Liabilities subject to netting arrangements reducing exposure

Resulting net exposure

\$ 25

—

—

\$ 25

(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 DB 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 (in thousands):

	<u>2011</u>	<u>2010</u>
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	32,315	32,315
Total, beginning of year	<u>32,315</u>	<u>32,315</u>
Benefit deductions	299,196	312,901
Benefits paid	(266,518)	(280,586)
Total, end of year	<u>\$ 32,678</u>	<u>32,315</u>
End of year:		
Due to State of Alaska General Fund for outstanding warrants	—	—
Incurred but not reported	32,678	32,315
Total, end of year	<u>\$ 32,678</u>	<u>32,315</u>

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(7) Funded Status and Funding Progress

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

	<u>Actuarial valuation date</u>	<u>Actuarial aggregate accrued liability (AAL) – entry age</u>	<u>Actuarial valuation assets</u>	<u>Assets as a percent of accrued liability (funded ratio)</u>	<u>Unfunded actuarial accrued liability (UAAL)</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
Pension	June 30, 2010	\$10,371,672	6,469,832	62.4%	\$3,901,840	1,586,697	245.9%
Post employment healthcare	June 30, 2010	9,304,504	4,687,632	50.4	4,616,872	1,586,697	291.0

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

	<u>Actuarial valuation date</u>	<u>Actuarial accrued liability (AAL) – entry age</u>	<u>Actuarial valuation assets</u>	<u>Funded ratio</u>	<u>Unfunded actuarial accrued liability (UAAL)</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
Death and disability plan	June 30, 2010	\$ 853	4,801	562.8%	\$ (3,948)	421,187	(0.9)%
Retiree medical	June 30, 2010	8,370	8,767	104.7	(397)	421,187	(0.1)

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 multiyear 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 (unaudited) from employers present 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 ongoing 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 30 years.

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

June 30, 2010

Valuation date	Defined benefit	Defined contribution ODD and retiree medical
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	Level dollar, closed with bases established annually
Equivalent single amortization period	19 years	24 years
Asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.00% for pension, 7.23% for healthcare (includes inflation at 3.12%)	8.00% (includes inflation at 3.12%)
Projected salary increases	Peace Officer/Firefighter: merit – 2.75% per year for the first 4 years of employment, grading down to 0.5% at 7 years and thereafter. Productivity – 0.5% per year. Others: merit – 6.00% per year grading down to 2.00% after 5 years; for more than 6 years of service, 1.50% grading down to 0.0%. Productivity – 0.5% per year.	Peace Officer/Firefighter: merit – 2.74% per year for the first 4 years of employment, grading down to 0.5% at 4 years and thereafter. Productivity – 0.5% per year. Others: merit – 5.98% per year grading down to 1.99% after 5 years; for more than 6 years of service, 1.49% grading down to 0.0%. Productivity – 0.5% per year.
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

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

<u>Fiscal year</u>	<u>Medical</u>	<u>Prescription drugs</u>
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
2017	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.

The State of Alaska Public Employees' Retirement System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of the ARC actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 7.48% as of June 30, 2008, to be used for fiscal 2011 disclosure.

(8) 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, 2011, the System's share of the unfunded commitment totaled \$54,668,382. This commitment can be withdrawn annually in December with 90 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, 2011, the System's share of these unfunded commitments totaled \$636,963,487 to be paid through the year 2020.

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The Board entered into agreements through external investment managers to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2011, the System's share of these unfunded commitments totaled \$50,019,649 to be paid through the year 2019.

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, 2011, the System's share of these unfunded commitments totaled \$96,137,211. These commitments are estimated to be paid through 2018.

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.

(9) 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 28% 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 2006. The RDS for the six-month period ended June 30, 2011 cannot be reasonably estimated and, therefore, is not recorded in the financial statements for the period ended June 30, 2011.

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

June 30, 2011
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2005	\$ 7,087,191	4,658,413	65.7%	\$2,428,778	1,404,043	173.0%
2006	8,094,043	6,331,065	78.2	1,762,978	1,590,693	110.8
2007	8,662,324	6,739,004	77.8	1,923,320	1,605,819	119.8
2008	9,154,282	7,210,772	78.8	1,943,510	1,577,846	123.2
2009	9,702,086	6,108,528	63.0	3,593,558	1,585,490	226.7
2010	10,371,672	6,469,832	62.4	3,901,840	1,586,697	245.9

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

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Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Defined Benefit Retirement Postemployment Healthcare Benefits
June 30, 2011
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2005	\$ 5,757,650	3,784,506	65.7%	\$1,973,144	1,404,043	140.5%
2006	11,455,015	2,709,843	23.7	8,745,172	1,590,693	549.8
2007	11,108,553	3,161,956	28.5	7,946,597	1,605,819	494.9
2008	13,013,450	3,829,334	29.4	9,184,116	1,577,846	582.1
2009	12,770,990	4,134,450	32.4	8,636,540	1,585,490	544.7
2010	9,304,504	4,687,632	50.4	4,616,872	1,586,697	291.0

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

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

June 30, 2011
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 48	188	391.7%	\$ (140)	105,611	(0.1)%
2008	242	1,288	532.2	(1,046)	203,955	(0.5)
2009	403	3,138	778.7	(2,735)	314,118	(0.9)
2010	853	4,801	562.8	(3,948)	421,187	(0.9)

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

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

June 30, 2011
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 803	1,067	132.9%	\$ (264)	105,611	(0.2)%
2008	2,123	2,719	128.1	(596)	203,955	(0.3)
2009	4,594	5,475	119.2	(881)	314,118	(0.3)
2010	8,370	8,767	104.7	(397)	421,187	(0.1)

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

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Required Supplementary Information (Unaudited)
Schedule of Contributions from Employers and the State of Alaska
Defined Benefit Retirement Pension and Postemployment Healthcare Benefits
June 30, 2011
(In thousands)

Year ended June 30	Actuarial valuation date as of June 30 ⁽¹⁾	Annual required contribution			Pension percentage contributed			Postemployment healthcare percentage contributed		
		Pension	Postem- ployment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (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%	—%	47.3%
2006	2003	249,488	166,749	416,237	61.0	4.4	65.4	61.0	4.4	65.4
2007	2004	268,742	189,495	458,237	73.2	4.1	77.3	73.2	4.1	77.3
2008	2005	140,729	370,456	511,185	71.2	36.2	107.4	71.2	36.2	107.4
2009	2006	166,016	391,321	557,337	68.1	48.0	116.1	68.1	41.4	109.5
2010 ⁽²⁾⁽³⁾	2007	217,080	790,793	1,007,873	65.5	20.5	86.0	31.6	54.8	86.4

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

⁽²⁾ In the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed includes the Mercer legal settlement net of legal fees.

⁽³⁾ Beginning in the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed includes the Medicare Part D subsidy.

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

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Required Supplementary Information (Unaudited)
Schedule of Contributions

Defined Contribution Retirement Occupational Death and Disability Benefits

June 30, 2011

(In thousands)

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage of ARC contributed</u>
2007	\$ 181	100.0%
2008	1,063	100.0
2009	1,787	100.0
2010	1,495	100.0

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

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Required Supplementary Information (Unaudited)
Schedule of Contributions
Defined Contribution Retirement Retiree Medical Benefits
 June 30, 2011
 (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
2010	3,469	87.0

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

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Notes to Required Supplemental Information (Unaudited)

June 30, 2011

(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, 2010 are as follows:

- (a) Actuarial cost method – 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. However, for Governmental Accounting Standards Board (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.
- (b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years and 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 and prescription drug benefits – 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 nonprescription 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 claim data is not available by individual, nor is this status incorporated into historical claim data.
- (d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – Inflation 3.12% per year, and productivity 0.50% per year.
- (f) Payroll growth – 3.62% per year (inflation + productivity).

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June 30, 2011

- (g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (h) Mortality (pretermination) – Peace Officer/Firefighter: Based upon the 2005 – 2009 actual mortality experience. 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females. Others: Based upon the 2005-2009 actual mortality experience. 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for others. Mortality assumptions were conservatively set compared to actual experience to allow for expected future mortality improvement.
- (i) Mortality (posttermination) – 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a one-year set-forward for females. Mortality assumptions were conservatively set compared to actual experience to allow for expected future mortality improvement.
- (j) Total turnover –Based upon the 2005-2009 actual withdrawal experience.
- (k) Disability – Incidence rates based upon the 2005-2009 actual experience. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.
- (l) Retirement – Retirement rates based on the 2005-2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others. For Peace Officer/Firefighter, Tier 1 deferred vested members are assumed to retire at age 53 and Tiers 2 and 3 deferred vested members are assumed to retire at age 57.
- (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, 70% are assumed to remain in Alaska and receive the COLA.
- (q) Postretirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.56% and 2.34%, respectively, is valued for the annual automatic PRPA as specified in the statute.
- (r) Expenses – All expenses are net of investment return assumption.

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Notes to Required Supplemental Information (Unaudited)

June 30, 2011

- (s) Part-time status – Part-time members are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years of credited service per year for Other members.
- (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 adjusted to age 65 for FY11 medical benefits and prescription are shown below:

	<u>Medical</u>	<u>Prescription drugs</u>
Pre-Medicare	\$ 8,606	2,600
Medicare Part A and B	1,563	2,600
Medicare Part B Only	6,654	2,600
Medicare Part D	N/A	515

- (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, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims cost.

<u>Fiscal year</u>	<u>Medical</u>	<u>Prescription drugs</u>
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
2017	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2008 valuations 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.

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Notes to Required Supplemental Information (Unaudited)

June 30, 2011

(x) Aging factors:

<u>Age</u>	<u>Medical</u>	<u>Prescription drugs</u>
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 74	4.0	1.5
75 – 84	1.5	0.5
85 – 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 FY11 contributions based on monthly rates shown below for calendar 2010 and 2011 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:

<u>Coverage category</u>	<u>Calendar 2011</u>		<u>Calendar 2010</u>
	<u>Annual contribution</u>	<u>Monthly contribution</u>	<u>Monthly contribution</u>
Retiree only	\$ 9,492	791	719
Retiree and spouse	18,996	1,583	1,439
Retiree and child(ren)	13,416	1,118	1,016
Retiree and family	22,920	1,910	1,736
Composite	14,112	1,176	1,068

(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, 6.7% is applied to the FY11 retired member medical contributions to get the FY12 retired member medical contributions.

Fiscal year:	
2011	6.7%
2012	6.3
2013	6.0
2014	5.7
2015	5.3
2016	5.0
2017	5.0
2018	5.0
2019 and later	5.0

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY10 retired member medical contributions are reflected in the valuation so trend on such contribution during FY10 is not applicable.

- (aa) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect 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, 2010 are as follows:

- (a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.
- (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 was \$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 market value of assets.
- (c) Valuation of retiree medical benefits – 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, 2010 for PERS 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, FY10 claim costs 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 closer to the ultimate trend rate.
- (d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.
- (f) Payroll growth – 3.62% per year (inflation + productivity).
- (g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (h) Mortality (pretermination) – Peace Officer/Firefighter: Based upon the 2005-2009 actual mortality experience of the PERS DB Plan. 80% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 60% for females. Others: Based upon the 2005-2009 actual mortality experience of the PERS DB Plan. 75% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 55% for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.
- (i) Mortality (posttermination) – 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with one-year set-forward for females.

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

- (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 2005-2009 actual experience of the PERS DB Plan. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.
- (l) Retirement – Retirement rates were estimated in accordance with the following table:

<u>Age</u>	<u>Rate</u>
< 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) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years of credited service per year for Other members.
- (o) Expenses – All expenses are net of the investment return assumption.
- (p) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY11 medical benefits are shown below:

	<u>Medical</u>	<u>Prescription drugs</u>
Pre-Medicare	\$ 8,606	2,600
Medicare Part A and B	1,563	2,600
Medicare Part B Only	6,654	2,600
Medicare Part D	N/A	515

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

FINANCIAL SECTION

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

- (s) 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, 6.9% is applied to the FY11 medical rate claims cost to get the FY12 medical claims costs.

<u>Fiscal year</u>	<u>Medical</u>	<u>Prescription drugs</u>
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
2017	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.

- (t) Aging factors:

<u>Age</u>	<u>Medical</u>	<u>Prescription drugs</u>
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-74	4.0	1.5
75-84	1.5	0.5
85-94	0.5	-
95+	-	-

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

(u) Retiree medical participation:

<u>Years of service</u>	<u>Percent participation</u>
10 – 14	75.0%
15 – 19	80.0
20 – 24	85.0
25 – 29	95.0
30+	100.0

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.

Changes in Assumptions Since the Last Valuation

Effective June 30, 2010, there was no change in methods from the prior valuation. The significant changes in actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2010 are as follows:

- (a) Investment return assumption has changed from 8.25% per year (geometric), compounded annually, net of expenses to 8.00% per year (geometric), compounded annually, net of expenses.
- (b) Salary scale assumption has changed from based on actual experience from 2001 to 2005 to Others: based on actual experience from 2005 to 2009, increased most rates, Peace Officer/Firefighter: rates are increased for the first 4 years, decreased at year 5, based on actual experience 2005 to 2009.
- (c) Payroll growth assumption has changed from 4.00% per year and 3.62% per year.
- (d) Total inflation assumption has changed from 3.50% to 3.12%.
- (e) Pretermination mortality assumption has changed from Peace Officer/Firefighter: 1994 GAM Table, 1994 Base Year and Other: 42% of 1994 GAM Table, 1994 Base Year to Peace Officer/Firefighter: based upon the 2005-2009 actual mortality experience and 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females; Others: based upon the 2005-2009 actual mortality experience, 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA 75% of the male table for males and 55% of the female table for females.
- (f) Posttermination mortality assumption has changed from 1994 GAM Table, 1994 Base Year to 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a one-year set-forward for females.

FINANCIAL SECTION

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

- (g) Disability mortality assumption has changed from 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits to RP-2000 Disabled Retiree Mortality Table.
- (h) Turnover assumption has changed from based on actual experience from 2001 to 2005 to rates adjusted based on actual experience from 2005 to 2009.
- (i) Disability assumption has changed from based on actual experience from 2001 to 2005 to Peace Officer/Firefighter: no change except to stop rates at earliest retirement age and Others: male/female rates decreased based on actual experience from 2005 to 2009 and stop rate at earliest retirement age.
- (j) Retirement assumption has changed from based on actual experience from 2001 to 2005 to rates were adjusted based on actual experience from 2005 to 2009.
- (k) Deferred vested commencement date assumption has changed from earliest reduced age to Peace Officer/Firefighter: Tier 1 – age 53, Tiers 2 and 3 – age 57; Others: Earliest unreduced age.
- (l) COLA assumption has changed from of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA to of those benefit recipients who are eligible for the COLA, 70% are assumed to remain in Alaska and receive the COLA.
- (m) Occupational death and disability assumption has changed from Others: 50% and Peace Officer/Firefighter: 75% to Others: 55% and Peace Officer/Firefighter: 75%.
- (n) Healthcare participation assumption has changed from 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible to 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible and 10% of nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions changes used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2010 are as follows:

- (a) Investment return assumption has changed from 8.25% per year (geometric), compounded annually, net of expenses to 8.00% per year (geometric), compounded annually, net of expenses.
- (b) Salary scale assumption has changed from based on actual PERS DB Plan experience from 2001 to 2005 to based on actual experience from 2005 to 2009, Peace Officer/Firefighter: Rates are increased for the first 4 years, decreased at year 5; Others: based on actual experience from 2005 to 2009, increased most rates.
- (c) Payroll growth assumption has changed from 4.00% per year and 3.62% per year.
- (d) Inflation assumption has changed from 3.50% to 3.12%.

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2011

- (e) Pretermination mortality assumption has changed from Peace Officer/Firefighter: 1994 GAM Table, 1994 Base Year; Others: 42% of GAM Table, 1994 Base Year to Peace Officer/Firefighter: 80% of the male and 60% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA and; Other: 75% of the male and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA.
- (f) Posttermination mortality assumption has changed from 1994 GAM Table, 1994 Base Year to 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and one-year set-forward for females.
- (g) Disability mortality assumption has changed from 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits to RP-2000 Disabled Retiree Mortality Table.
- (h) Turnover assumption has changed from based on actual PERS DB Plan experience from 2001 to 2005; Ultimate rates are equal to DB Plan rates loaded by 10% to rates adjusted based on actual PERS DB Plan experience from 2005 to 2009; Ultimate rates are equal to DB Plan rates loaded by 10%.
- (i) Disability assumption has changed from based on actual PERS DB Plan experience from 2001 to 2005 to Peace Officer/Firefighter: No change; Others: male/female rates decreased based on actual PERS DB Plan experience from 2005 to 2009.
- (j) Occupational death and disability assumption has changed from Others: 50% and Peace Officer/Firefighter: 75% to Others: 55% and Peace Officer/Firefighter: 75%.
- (k) Healthcare participation assumption has changed from 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible to 75% for years of service 10 – 14, 80% for years of service 15 – 19, 85% for years of service 20 – 24, 95% for years of service 25 – 29, and 100% for years of service 30+.

(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 Board for the fiscal year. The actuarially determined required contribution adopted by the Board for fiscal year 2011 was 27.96%.

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

Schedule of Administrative and Investment Deductions
Defined Benefit Plan

Year ended June 30, 2011
(With summarized financial information for June 30, 2010)
(In thousands)

	Administrative	Investment	Totals	
			2011	2010
Personal services:				
Wages	\$ 3,231	1,169	4,400	4,261
Benefits	1,851	519	2,370	2,207
Total personal services	5,082	1,688	6,770	6,468
Travel:				
Transportation	59	117	176	159
Per diem	13	18	31	28
Honorarium	—	—	—	3
Total travel	72	135	207	190
Contractual services:				
Management and consulting	6,589	19,391	25,980	107,988
Accounting and auditing	37	719	756	692
Data processing	1,120	433	1,553	1,321
Communications	233	35	268	247
Advertising and printing	113	5	118	134
Rentals/leases	252	54	306	323
Legal	292	93	385	407
Medical specialists	84	—	84	10
Repairs and maintenance	12	13	25	60
Transportation	1	2	3	5
Other services	345	51	396	358
Total contractual services	9,078	20,796	29,874	111,545
Other:				
Equipment	173	17	190	213
Supplies	145	35	180	94
Total other	318	52	370	307
Total administrative and investment deductions	\$ 14,550	22,671	37,221	118,510

See accompanying independent auditors' report.

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

Schedule of Administrative Deductions
Defined Contribution Retirement Trust Plan

Year ended June 30, 2011
 (With summarized financial information for June 30, 2010)
 (In thousands)

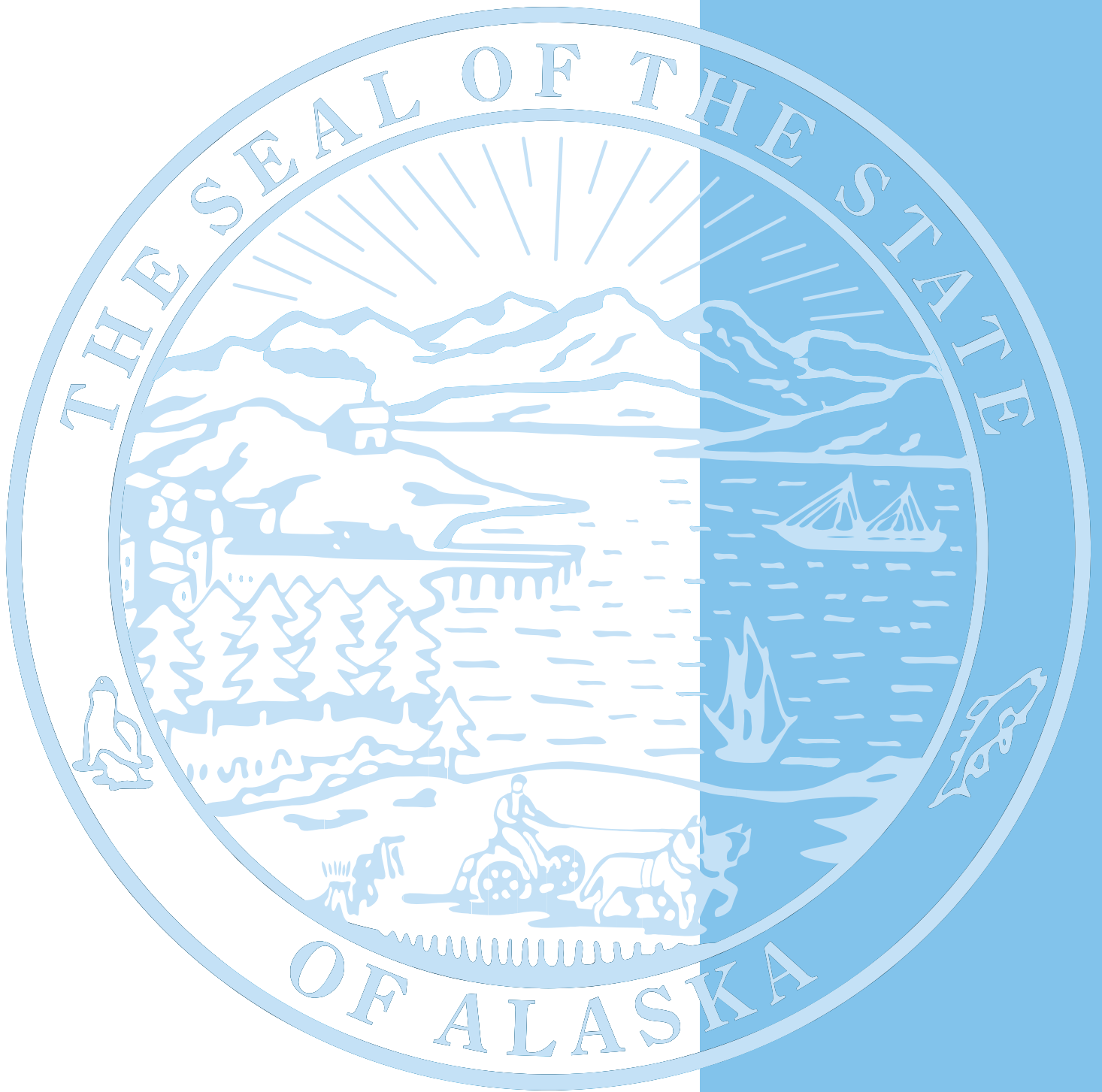
	2011	2010
Personal services:		
Wages	\$ 146	94
Benefits	91	9
Total personal services	240	103
Travel:		
Transportation	10	3
Per Diem	1	1
Total travel	11	4
Contractual services:		
Management and consulting	1,318	191
Accounting and auditing	17	—
Data processing	35	12
Communications	5	3
Advertising and printing	1	—
Rentals/leases	11	7
Legal	9	8
Repairs and maintenance	—	2
Other services	4	2
Total contractual services	1,400	225
Other:		
Equipment	7	1
Supplies	6	—
Total other	13	1
Total administrative deductions	\$ 1,664	335

See accompanying independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 (A Component Unit of the State of Alaska)
Schedule of Payments to Consultants
Other than Investment Advisors
 Year ended June 30, 2011
 (With summarized financial information for June 30, 2010)
 (In thousands)

Firm	Services	2011	2010
State Street Bank and Trust Corporation	Custodian banking services	\$ 729	648
Computer Task Group Inc.	Data processing consultants	606	508
Buck Consultant LLP	Actuarial services	535	412
State of Alaska, Department of Law	Legal services	269	267
World Wide Technology Holding Co	IT Consultants	148	—
Six Degrees Consulting	Data processing consultants	102	33
KPMG LLP	Auditing services	51	33
Wostmann & Associates	Data processing consultants	40	101
Wells Fargo Banks	Banking services	11	—
Paul, Weiss, Rifkind, Wharton & Garrison, LLP	Legal services	—	86,428
		<u>\$ 2,491</u>	<u>88,430</u>

See accompanying independent auditors' report.





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CALLAN ASSOCIATES^{INC}



September 15, 2011

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

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

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2011.

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 ARMB's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made using methodology similar to 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 2011 was a positive period for all major investment categories. The Russell 3000 Index, a measure of the broad U.S. equity market gained 32.37% for the fiscal year despite a small decline in the June quarter when the index fell 0.03%. International stocks, as measured by the MSCI-ACWI ex-U.S. Index, increased 30.27%. In fiscal year 2011, the Barclays Capital Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, achieved an overall return of 3.90%. Absolute Return Strategies such as hedge fund-of-funds also posted positive, although modest, returns during the fiscal year. For example, the Callan Absolute Return Hedge Fund-of-Funds Style median return was a positive 6.32%. Private real estate investments rebounded strongly particularly in the recent quarters. The NCREIF Property Index posted a very attractive 16.73% return for the fiscal year. Publicly traded real estate, as measured by the NAREIT Index, increased 34.09%.

INVESTMENT SECTION

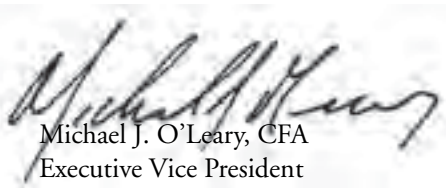
For the fiscal year, the Public Employees Retirement System (PERS) had a time-weighted total return of 21.18% and the Teachers Retirement System (TRS) had a time-weighted total return of 21.36%. Both Systems almost matched their strategic policy benchmark target return of 21.62% and the 21.59% median return for Callan's Public Fund database.

The greatest sources of performance differences from the policy target components for TRS were: strong relative returns in domestic public equities (+33.38% versus a target index return of +32.37%), real assets (+15.25% versus a target of +12.66%) and fixed income (5.55% versus a target return of 5.06%). Private equity underperformed public equity in the strong public equity market (20.12% versus a public equity benchmark of 32.93%). This difference in performance from public markets is, in our opinion, very typical and attributable to the timing differences in the valuation metrics employed. The comparatively low allocation to fixed income was a positive factor each of the past two years. Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 2-year annualized return was 16.18% versus the policy benchmark's 16.25% while TRS's return was slightly higher at 16.36%. Over the longest period for which Callan has detailed data (19 3/4 years), PERS and TRS have achieved annualized total returns of 7.72% and 7.77%, respectively, while the policy benchmark return for the same span was 7.73%.

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 2011 was another strong recovery year for all investors particularly those with significant equity exposure.

Sincerely,



Michael J. O'Leary, CFA
Executive Vice President

INVESTMENT SECTION

Department of Revenue Treasury Division Staff

Commissioner

Bryan Butcher

Chief Investment Officer

Gary Bader

Investment Officers

Bob G. Mitchell

Stephen R. Sikes

Zachary Hanna

Steve Verschoor

Elizabeth Walton

Sean Howard

Paul Hackenmueller

Casey Colton

Nicholas Orr

Victor Djajalie

Joy Wilkinson

Shane Carson

Alyson Campbell

Deputy Commissioner

Jerry Burnett

Comptroller

Pamela Leary, CPA

Cash Management

Michelle M. Prebula, MBA, CPA, CCM

ARMB Liaison Officer

Judy Hall

External Money Managers and Consultants

Investment Consultants

Callan Associates, Inc.

Denver, CO

The Townsend Group

San Francisco, CA

Relational Investors LLC

San Diego, CA

Quantitative Management Associates

Newark, NJ

Investment Advisory Council

William Jennings

Colorado Springs, CO

Jerrold Mitchell

Wayland, MA

George Wilson

Boston, MA

Domestic Equity Small Capitalization

Jennison Associates LLC

New York, NY

Lord Abbett & Co.

Jersey City, NJ

Luther King Capital Management

Fort Worth, TX

Barrow, Hanley, Mewhinney & Strauss

Dallas, TX

Absolute Return

Crestline Investors, Inc.

Fort Worth, TX

Global Assets Management Inc.

Los Angeles, CA

Prisma Capital Partners

New York, NY

Mariner Investment Group, Inc.

Harrison, NY

Domestic Equity MicroCap

DePrince, Race & Zollo, Inc.

Winter Park, FL

Lord Abbett & Co.

Jersey City, NJ

Domestic Equity Index Fund

State Street Global Advisors

San Francisco, CA

Domestic Equity Large Capitalization

Analytic Investors LLC

Los Angeles, CA

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

Emerging Markets

Capital Guardian Trust Co.

Los Angeles, CA

Eaton Vance Management

Boston, MA

Global Equity

Lazard Freres Asset Management

New York, NY

INVESTMENT SECTION

External Money Managers and Consultants (cont.)

High Yield

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

International Equity – EAFE

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

International Small Cap

Mondrian Investment Partners
London, England
Schroders Investment Management NA
New York, NY

International Fixed Income

Mondrian 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
ING Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Silverpeake Real Estate Partners
New York, NY

Low 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

Real Estate – Timber

Hancock Timber Resource Group
Charlotte, NC
Timberland Investment Resources LLC
Brookline, MA

Supplemental Benefits System and Deferred Compensation Plan

BlackRock
San Francisco, CA
RCM
San Francisco, CA
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD
Brandes Investment Partners
San Diego, CA

Global Master Custodian

State Street Bank & Trust Co.
Boston, MA

Independent Auditors

KPMG Peat Marwick, LLP
Anchorage, AK

Legal Counsel

Robert Johnson
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 2011 fiscal year, ARMB's target asset allocation was 29% domestic equities, 23% global equities ex-U.S., 19% fixed income, 16% real assets, 7% private equity, 5% absolute return, and 1% cash equivalents. The target asset allocation was expected to generate a return of 8.07% with a standard deviation of returns of 13.46%.

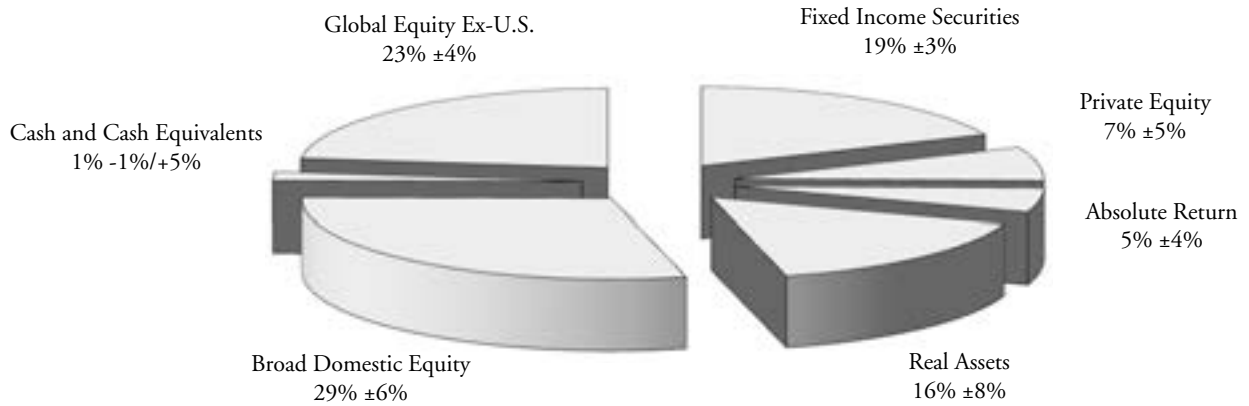
INVESTMENT SECTION

Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
	2007	2008	2009	2010	2011	Annualized	
						3 Year	5 Year
Total Fund							
PERS	18.88%	(3.06%)	(20.49%)	11.39%	21.22%	2.38%	4.33%
<i>Actuarial Earnings Rate</i>	8.25	8.25	8.25	8.25	8.00	8.00	8.00
U.S. Common Stock Returns							
PERS Domestic Equities	20.10	(13.53)	(26.72)	15.45	33.37	4.11	3.22
<i>Custom Composite Index</i>	-	-	(26.56)	15.72	32.37	4.00	3.09
<i>S&P 500/Russell 2000 Composite</i>	20.59	(13.68)	-	-	-	-	-
International Stock Returns							
PERS International Equities	30.00	(7.58)	(29.11)	12.05	28.27	0.62	4.16
<i>Morgan Stanley Capital International ACWI ex-US</i>	-	-	(30.54)	10.87	30.27	0.11	3.43
<i>Morgan Stanley Capital International EAFE</i>	27.00	(10.61)	-	-	-	-	-
Fixed-Income							
PERS	-	-	3.39	11.19	5.46	6.63	6.53
<i>Custom Composite Index</i>	-	-	5.41	10.16	5.06	6.85	6.80
Private Equity							
PERS	-	-	(23.67)	18.86	20.14	2.91	9.69
<i>Custom Composite Index</i>	-	-	(27.19)	13.87	32.93	3.29	3.00
Absolute Return							
PERS	-	-	(12.51)	6.59	5.98	(0.39)	1.99
<i>3-month Treasury Bill +5%</i>	-	-	5.95	5.16	5.16	5.42	6.81
Real Assets							
PERS	-	-	(21.02)	(0.28)	15.25	(3.30)	2.87
<i>Custom Composite Index</i>	-	-	(10.82)	1.17	12.66	0.55	4.88
Domestic Fixed Income							
PERS	6.20	6.58	-	-	-	-	-
<i>Lehman Brothers Aggregate Index</i>	6.12	7.12	-	-	-	-	-
International Fixed Income							
PERS	1.97	18.96	-	-	-	-	-
<i>Salomon Non-U.S. Government</i>	2.20	18.72	-	-	-	-	-
Real Estates Equity							
PERS	20.75	5.71	-	-	-	-	-
<i>NCREIF</i>	17.24	6.82	-	-	-	-	-
Cash Equivalents							
PERS	-	-	-	-	0.47	-	-
<i>3-month Treasury Bill</i>	-	-	-	-	0.16	-	-
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-weighted rate of return based on the market rate of return.							

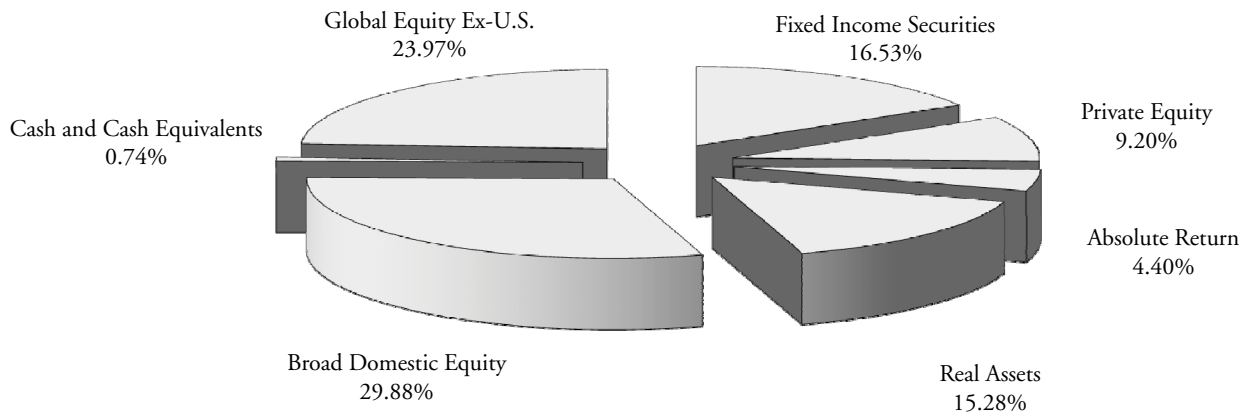
INVESTMENT SECTION

Public Employees' Retirement System Asset Allocation June 30, 2011

Policy



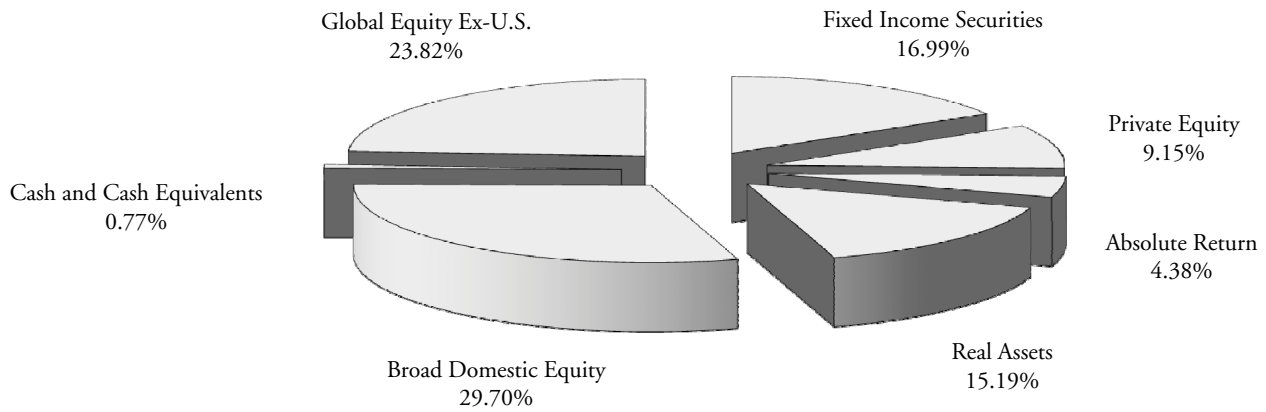
Actual — Defined Benefit Pension



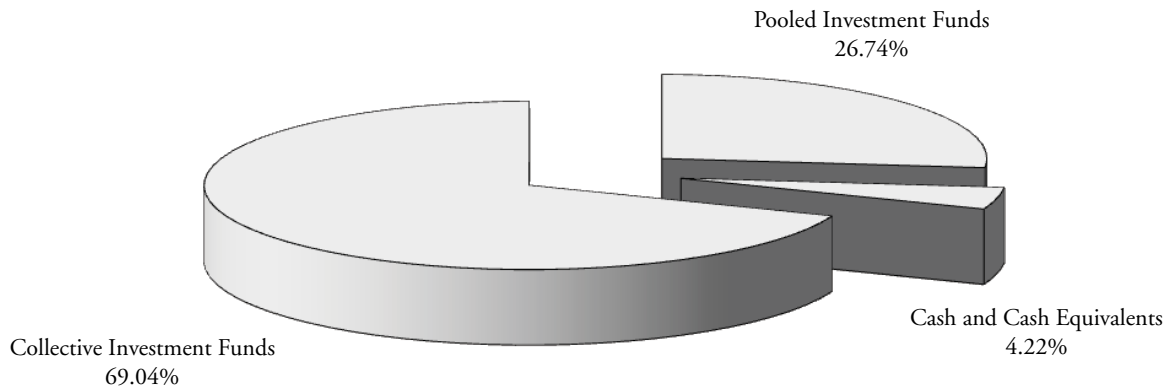
INVESTMENT SECTION

Public Employees' Retirement System Asset Allocation June 30, 2011

Actual — Defined Benefit Alaska Retiree Healthcare Trust



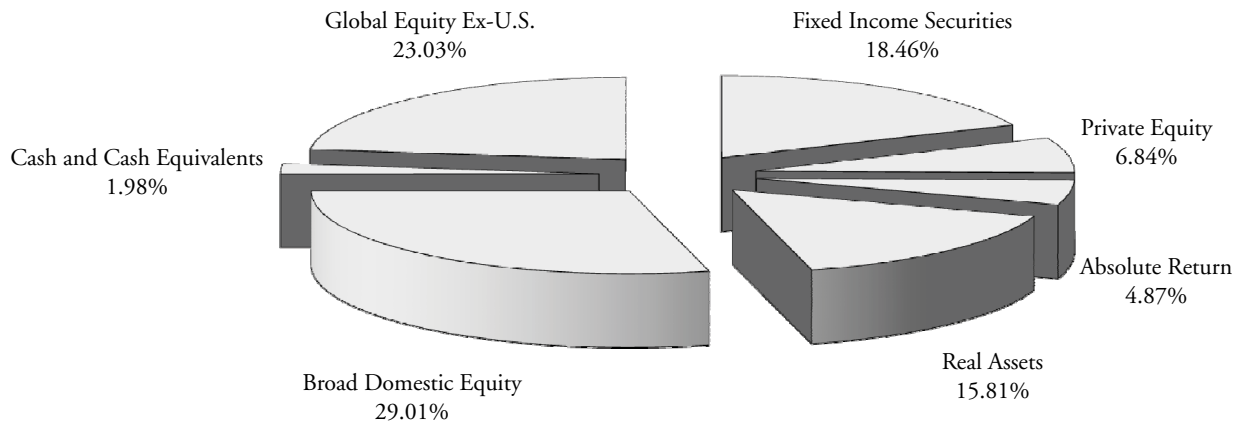
Actual — Defined Contribution Participant Directed



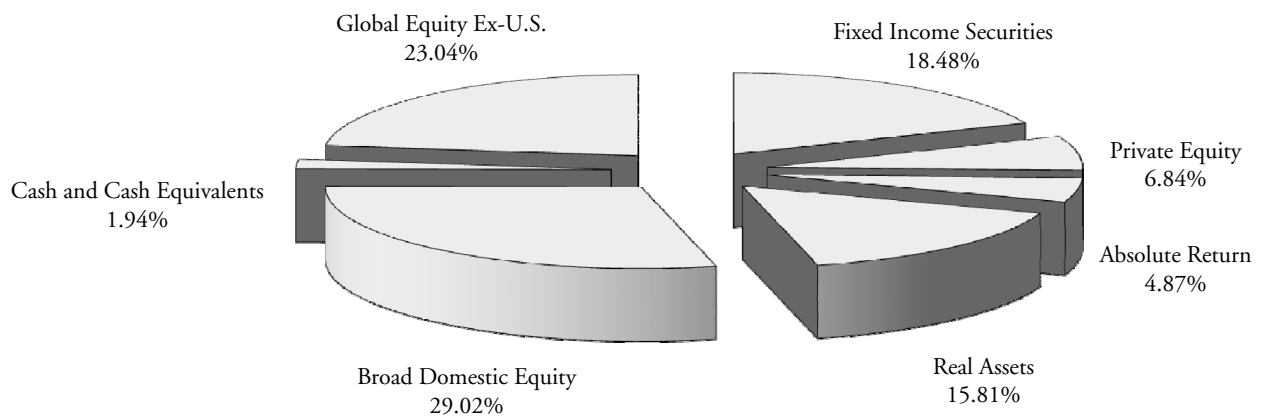
INVESTMENT SECTION

Public Employees' Retirement System Asset Allocation June 30, 2011

Actual — Defined Contribution Health Reimbursement Arrangement



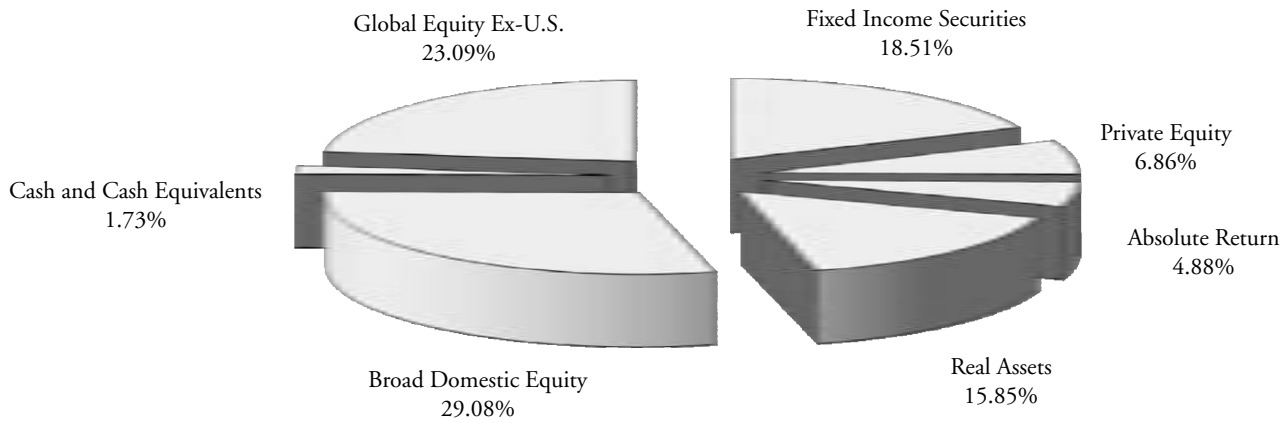
Actual — Defined Contribution Occupational Death & Disability



INVESTMENT SECTION

**Public Employees' Retirement System
Asset Allocation
June 30, 2011**

Actual — Defined Contribution Retiree Medical Plan



INVESTMENT SECTION

Alaska Retirement Management Board Top Ten Holdings by Asset Type June 30, 2011

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

<u>Rank</u>	<u>Security</u>	<u>Market Value</u>	<u>Par Value</u>
1	US Treasury 1.5% 06/30/2016	\$324,956,298	\$328,966,399
2	US Treasury 0.75% 06/15/2014	143,893,407	144,067,732
3	US Treasury 1.75% 08/15/2012	105,907,450	104,165,900
4	US Treasury 3.625% 02/15/2020	85,790,305	81,095,600
5	US Treasury 4.875% 02/15/2012	58,969,933	57,284,953
6	US Treasury 1.75% 05/31/2016	52,405,065	52,323,440
7	US Treasury 2.375% 09/30/2014	50,703,449	48,447,630
8	US Treasury 2.0% 01/31/2016	49,675,162	48,727,270
9	US Treasury 2.0% 11/30/2013	31,635,329	30,616,385
10	US Treasury 2.625% 08/15/2020	30,210,236	31,209,921

Equities

<u>Rank</u>	<u>Largest Domestic Equity Holdings</u>	<u>Market Value</u>
1	Apple Inc	\$63,794,030
2	Exxon Mobil Corp	51,680,472
3	Chevron Corp	42,422,818
4	JPMorgan Chase & Co	42,212,648
5	Pfizer Inc	40,765,015
6	International Business Machines Corp	37,217,438
7	Wells Fargo & Co	34,017,802
8	Oracle Corp	33,551,524
9	General Electric Co	30,608,028
10	AT&T Inc	29,644,757

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

INVESTMENT SECTION

Public Employees' Retirement System Schedule of External Investment Management Fees Year Ended June 30, 2011

Investment Management Fees	Fair Value	Fees
International Fixed Income		
* Mondrian Investment Partners	\$ 263,662,011	\$ 531,939
High Yield Pool		
* Mackay Shields, LLC	284,435,801	1,062,104
* ING Investments	-	130,904
Total High Yield	<u>284,435,801</u>	<u>1,193,008</u>
Domestic Equity Pools		
** Relational Investors	222,857,171	1,330,028
* Advent Capital	65,382,328	384,625
* Barrow, Hanley, Mewhinney & Strauss, INC	171,633,042	460,760
* Jennison Associates LLC	115,407,022	747,384
* Lazard Asset Management	244,528,089	564,486
* Lord Abbett & Co.	182,454,773	895,249
* Luther King Cap. Management	93,978,219	423,160
* McKinley Capital	275,787,888	1,188,114
* Quantitative Management Associates	97,352,406	336,599
* SSgA Russell 1000 Growth	427,777,177	63,460
* SSgA Russell 1000 Value	659,533,541	109,495
* SSgA Russell 2000 Growth	41,803,827	22,580
* SSgA Russell 2000 Value	64,377,738	96,397
* SSgA Russell 200	257,629,178	27,768
* SSgA Futures Large Cap	5,685,428	12,025
* SSgA Future Small Cap	4,503,564	6,199
* DePrince, Race & Zollo Inc.-Micro Cap	50,682,156	148,793
* Analytic Buy Write Account	72,028,730	134,323
* RCM Buy Write Account	71,241,482	929,325
* RCM	<u>293,722,636</u>	<u>109,385</u>
Total Domestic Equities	<u>3,418,366,395</u>	<u>7,990,155</u>
Private Equity Pool		
** BlumCapital Partners-Strategic	17,351,541	231,775
** Warburg Pincus X	16,395,801	279,352
** Angelo Gordon & Co.	22,459,837	282,307
** Onex Partners	4,299,338	117,855
** Lexington Partners	15,662,657	235,465
* Pathway Capital Management	489,914,294	1,507,695
* Abbott Capital Management	482,412,946	1,249,578
** Merit Capital Partners	<u>2,388,719</u>	<u>168,856</u>
Total Private Equities	<u>1,050,885,133</u>	<u>4,072,883</u>
International Equity Pools		
* SSgA	274,664,817	135,967
* Brandes Investment Partners	586,364,011	2,213,881
* Capital Guardian Trust Co.	450,223,247	1,452,216
* McKinley Capital Mgmt.	248,347,882	858,792
* Lazard Freres	324,799,171	399,345
* Mondrian Investment Partners	84,261,388	461,113
* Schroder Investment Management	<u>86,566,974</u>	<u>527,939</u>
Total International Equities	<u>2,055,227,490</u>	<u>6,049,253</u>
Absolute Return Pool		
** Mariner Investment Group	141,241,615	1,359,531
** Cadogan Management LLC	427,614	-
** Crestline Investors Inc.	155,809,109	1,407,589
** Global Asset Management	100,660,618	697,790
** Prisma Capital Partners	<u>105,966,160</u>	<u>664,983</u>
Total Absolute Return	<u>504,105,116</u>	<u>4,129,893</u>

(continued)

INVESTMENT SECTION

Public Employees' Retirement System
Schedule of External Investment Management Fees (cont.)
Year Ended June 30, 2011

	<u>Fair Value</u>	<u>Fees</u>
Emerging Markets Equity Pool		
** The Capital Group Inc.	\$ 314,538,389	\$ 1,819,177
** Lazard Freres Asset Managers	213,506,079	-
** Eaton Vance	<u>158,452,087</u>	<u>-</u>
Total Emerging Markets	<u>686,496,555</u>	<u>1,819,177</u>
Real Estate Pool		
** JPM Strategic	112,119,979	839,845
** UBS Consolidated	48,831,132	397,628
** Cornerstone	114,988,529	858,535
** Lasalle	135,412,257	966,673
** Sentinel, SA	69,643,190	439,740
** UBS Separate	165,597,619	1,267,973
** Lowe Hospitality	2,511,077	154,779
** ING Clarion	18,203,166	253,626
** Silverpeak Legacy Pension Partners	72,286,247	1,034,562
** Rothschild Five Arrows	41,266,546	479,730
** Tishman Speyer	46,703,250	841,495
** BlackRock Diamond	15,753,337	177,205
** Colony Investors VIII, L.P.	21,368,105	544,617
** LaSalle Medical Office Fund II	15,191,545	196,710
** Cornerstone Apartment Venture III	21,564,818	236,699
** Coventry	<u>14,909,363</u>	<u>-</u>
Total Real Estate	<u>916,350,160</u>	<u>8,689,817</u>
Timber Pool		
** Timberland INVT Resources	81,659,382	657,222
** Hancock Natural Resource Group	<u>51,999,025</u>	<u>332,580</u>
Total Timber Pool	<u>133,658,407</u>	<u>989,802</u>
Farmland Pool		
** Hancock Agriculture Investment Group	143,141,185	1,044,813
** UBS Agrivest	<u>225,819,517</u>	<u>1,790,477</u>
Total Farmland	<u>368,960,702</u>	<u>2,835,290</u>
Farmland Water Pool		
** Hancock Farmland & Water	4,207,831	30,555
** UBS Agrivest	<u>9,669,019</u>	<u>65,823</u>
Total Farmland Water Pool	<u>13,876,850</u>	<u>96,378</u>
Energy Pool		
** EIG Energy Fund XV	2,005,103	110,704
** EIG Energy Fund XD	11,806,108	188,839
** EIG Energy Fund XIV-A	<u>50,238,373</u>	<u>750,666</u>
Total Energy Pool	<u>\$ 64,049,584</u>	<u>1,050,209</u>
Custodian		
* State Street Bank		<u>663,379</u>
Investment Advisory		
* Townsend Group		69,771
* Callan Associates		71,153
* Investment Advisory Council		<u>20,597</u>
Total Investment Advisory		<u>161,521</u>
Investment Performance		
* Callan Associates		<u>177,881</u>
Total External Management Fees		<u>\$ 40,450,585</u>

*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.

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Defined Benefit - Pension				
Investments (at Fair Value)	Asset Allocation Policy	Range	Fair Market Value	% of Total Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool			\$ 46,602,940	
Total Cash and Cash Equivalents	1.00%	0-6%	<u>46,602,940</u>	0.74%
Fixed Income Securities				
Retirement Fixed Income Pool			15,133,634	
U.S. Treasury Fixed Income Pool			671,023,878	
High Yield Pool			155,951,524	
International Fixed Income Pool			144,490,454	
Emerging Debt Pool			<u>48,795,902</u>	
Total Fixed Income Securities	19.00%	16-22%	<u>1,035,395,392</u>	16.53%
Broad Domestic Equity				
Large Cap Pool			1,495,052,255	
Small Cap Pool			342,041,615	
Convertible Bond Pool			<u>34,918,635</u>	
Total Broad Domestic Equity	29.00%	23-35%	<u>1,872,012,505</u>	29.88%
Global Equity Ex-U.S.				
International Equity Pool			1,031,856,322	
International Equity Small Cap Pool			93,322,494	
Emerging Markets Equity Pool			<u>376,345,189</u>	
Total Global Equity Ex-U.S.	23.00%	19-27%	<u>1,501,524,005</u>	23.97%
Private Equity				
Private Equity Pool			<u>576,318,239</u>	
Total Private Equity	7.00%	2-12%	<u>576,318,239</u>	9.20%
Absolute Return				
Absolute Return Pool			<u>275,813,405</u>	
Total Absolute Return	5.00%	1-9%	<u>275,813,405</u>	4.40%
Real Assets				
Real Estate Pool			500,940,396	
Real Estate Investment Trust Pool			63,757,277	
Energy Pool			35,174,917	
Farmland Pool			196,398,054	
Farmland Water Pool			13,876,850	
Timber Pool			73,259,030	
Treasury Inflation Protected Securities Pool			<u>73,479,676</u>	
Total Real Assets	<u>16.00%</u>	8-24%	<u>956,886,200</u>	<u>15.28%</u>
Total Invested Assets	<u>100.00%</u>		<u>\$6,264,552,686</u>	<u>100.00%</u>

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Defined Benefit - Alaska Retiree Healthcare Trust

<u>Investments (at Fair Value)</u>	<u>Asset Allocation Policy</u>	<u>Range</u>	<u>Fair Market Value</u>	<u>% of Total Assets</u>
Cash and Cash Equivalents				
Short-term Fixed Income Pool			\$ 39,348,255	
Total Cash and Cash Equivalents	1.00%	0-6%	<u>39,348,255</u>	0.77%
Fixed Income Securities				
Retirement Fixed Income Pool			12,330,568	
U.S. Treasury Fixed Income Pool			575,421,297	
High Yield Pool			127,063,366	
International Fixed Income Pool			117,722,691	
Emerging Debt Pool			<u>39,757,075</u>	
Total Fixed Income Securities	19.00%	16-22%	<u>872,294,997</u>	16.99%
Broad Domestic Equity				
Large Cap Pool			1,216,188,947	
Small Cap Pool			278,657,448	
Convertible Bond Pool			<u>30,192,821</u>	
Total Broad Domestic Equity	29.00%	23-35%	<u>1,525,039,216</u>	29.70%
Global Equity Ex-U.S.				
International Equity Pool			840,624,046	
International Equity Small Cap Pool			76,021,196	
Emerging Markets Equity Pool			<u>306,631,549</u>	
Total Global Equity Ex-U.S.	23.00%	19-27%	<u>1,223,276,791</u>	23.82%
Private Equity				
Private Equity Pool			<u>469,539,750</u>	
Total Private Equity	7.00%	2-12%	<u>469,539,750</u>	9.15%
Absolute Return				
Absolute Return Pool			<u>224,717,254</u>	
Total Absolute Return	5.00%	1-9%	<u>224,717,254</u>	4.38%
Real Assets				
Real Estate Pool			408,363,805	
Real Estate Investment Trust Pool			51,942,240	
Energy Pool			28,659,168	
Farmland Pool			171,422,004	
Farmland Water Pool			-	
Timber Pool			59,690,759	
Treasury Inflation Protected Securities Pool			<u>59,868,564</u>	
Total Real Assets	<u>16.00%</u>	8-24%	<u>779,946,540</u>	<u>15.19%</u>
Total Invested Assets	<u><u>100.00%</u></u>		<u><u>\$ 5,134,162,803</u></u>	<u><u>100.00%</u></u>

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Investments (at Fair Value)	Defined Contribution - Participant Directed		Fair Market Value	% of Total Assets
	Asset Allocation Policy	Range		
Cash and Cash Equivalents				
Short-term Fixed Income Pool	100%	0%	\$ 7,591,694	
Total Cash and Cash Equivalents			<u>7,591,694</u>	4.22%
Pooled Investment Fund (1)				
T. Rowe Price				
Target 2010 Trust			320,855	
Target 2015 Trust			1,316,956	
Target 2020 Trust			2,351,237	
Target 2025 Trust			3,095,629	
Target 2030 Trust			3,236,734	
Target 2035 Trust			3,378,046	
Target 2040 Trust			5,330,721	
Target 2045 Trust			5,223,023	
Target 2050 Trust			6,023,475	
Target 2055 Trust			1,719,235	
Alaska Balanced Fund			331,567	
Long-Term Balanced Fund			11,910,847	
Alaska Money Market			<u>3,922,731</u>	
Total Pooled Investment Funds			<u>48,161,056</u>	26.74%
Collective Investment Funds (1)				
State Street Global Advisors				
Money Market Fund			316,496	
S&P Stock Index Fund			32,611,071	
Russell 3000 Index			282,644	
Real Estate Investment Trust Index			456,794	
World Equity Ex-U.S. Index			302,079	
Long U.S. Treasury Bond Index			148,066	
Treasury Inflation Protected Securities Index			237,298	
World Government Bond Ex-U.S. Index			164,156	
Global Balanced Fund			2,595,071	
Barclays				
Daily Government/Corporate Bond Fund			9,371,117	
Intermediate Bond Fund			232,523	
Brandes Institutional				
International Equity Fund			43,725,828	
RCM				
Socially Responsible Fund			2,213,299	
T. Rowe Price				
Small-Cap Fund			<u>31,700,252</u>	
Total Collective Investment Funds			<u>124,356,694</u>	69.04%
Total Invested Assets			<u>\$180,109,444</u>	<u>100.00%</u>

(1) Pooled Investment Funds and Collective Investment Funds are participant directed and therefore are not subject to an asset allocation

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Defined Contribution - Health Reimbursement Arrangement

Investments (at Fair Value)	Asset Allocation		Fair Market Value	% of Total Assets
	Policy	Range		
Cash and Cash Equivalents				
Short-term Fixed Income Pool			\$ 1,065,571	
Total Cash and Cash Equivalents	1.00%	0-6%	<u>1,065,571</u>	1.98%
Fixed Income Securities				
Retirement Fixed Income Pool			-	
U.S. Treasury Fixed Income Pool			6,805,969	
High Yield Pool			1,043,109	
International Fixed Income Pool			1,063,615	
Emerging Debt Pool			<u>1,046,705</u>	
Total Fixed Income Securities	19.00%	16-22%	<u>9,959,398</u>	18.46%
Broad Domestic Equity				
Large Cap Pool			13,829,080	
Small Cap Pool			1,627,189	
Convertible Bond Pool			<u>191,153</u>	
Total Broad Domestic Equity	29.00%	23-35%	<u>15,647,422</u>	29.01%
Global Equity Ex-U.S.				
International Equity Pool			8,748,951	
International Equity Small Cap Pool			1,089,753	
Emerging Markets Equity Pool			<u>2,583,946</u>	
Total Global Equity Ex-U.S.	23.00%	19-27%	<u>12,422,650</u>	23.03%
Private Equity				
Private Equity Pool			<u>3,690,545</u>	
Total Private Equity	7.00%	2-12%	<u>3,690,545</u>	6.84%
Absolute Return				
Absolute Return Pool			<u>2,624,018</u>	
Total Absolute Return	5.00%	1-9%	<u>2,624,018</u>	4.87%
Real Assets				
Real Estate Pool			5,172,579	
Real Estate Investment Trust Pool			161,522	
Energy Pool			158,201	
Farmland Pool			837,370	
Farmland Water Pool			-	
Timber Pool			520,222	
Treasury Inflation Protected Securities Pool			<u>1,676,039</u>	
Total Real Assets	<u>16.00%</u>	8-24%	<u>8,525,933</u>	<u>15.81%</u>
Total Invested Assets	<u>100.00%</u>		<u>\$ 53,935,537</u>	<u>100.00%</u>

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Defined Contribution - Occupational Death & Disability

<u>Investments (at Fair Value)</u>	<u>Asset Allocation Policy</u>	<u>Range</u>	<u>Fair Market Value</u>	<u>% of Total Assets</u>
Cash and Cash Equivalents				
Short-term Fixed Income Pool			\$ 139,621	
Total Cash and Cash Equivalents	1.00%	0-6%	<u>139,621</u>	1.94%
Fixed Income Securities				
Retirement Fixed Income Pool			-	
U.S. Treasury Fixed Income Pool			910,117	
High Yield Pool			139,378	
International Fixed Income Pool			142,124	
Emerging Debt Pool			<u>139,857</u>	
Total Fixed Income Securities	19.00%	16-22%	<u>1,331,476</u>	18.48%
Broad Domestic Equity				
Large Cap Pool			1,843,796	
Small Cap Pool			217,464	
Convertible Bond Pool			<u>29,019</u>	
Total Broad Domestic Equity	29.00%	23-35%	<u>2,090,279</u>	29.02%
Global Equity Ex-U.S.				
International Equity Pool			1,169,293	
International Equity Small Cap Pool			145,671	
Emerging Markets Equity Pool			<u>345,258</u>	
Total Global Equity Ex-U.S.	23.00%	19-27%	<u>1,660,222</u>	23.04%
Private Equity				
Private Equity Pool			<u>493,095</u>	
Total Private Equity	7.00%	2-12%	<u>493,095</u>	6.84%
Absolute Return				
Absolute Return Pool			<u>350,619</u>	
Total Absolute Return	5.00%	1-9%	<u>350,619</u>	4.87%
Real Assets				
Real Estate Pool			691,129	
Real Estate Investment Trust Pool			21,587	
Energy Pool			21,138	
Farmland Pool			111,883	
Farmland Water Pool			-	
Timber Pool			69,504	
Treasury Inflation Protected Securities Pool			<u>223,944</u>	
Total Real Assets	<u>16.00%</u>	8-24%	<u>1,139,185</u>	<u>15.81%</u>
Total Invested Assets	<u>100.00%</u>		<u>\$ 7,204,497</u>	<u>100.00%</u>

INVESTMENT SECTION

Public Employees' Retirement System Investment Summary Schedule

June 30, 2011

Defined Contribution - Retiree Medical Plan

<u>Investments (at Fair Value)</u>	<u>Asset Allocation</u> <u>Policy</u>	<u>Range</u>	<u>Fair</u> <u>Market Value</u>	<u>% of</u> <u>Total</u> <u>Assets</u>
Cash and Cash Equivalents				
Short-term Fixed Income Pool			\$ 212,415	
Total Cash and Cash Equivalents	1.00%	0-6%	<u>212,415</u>	1.73%
Fixed Income Securities				
Retirement Fixed Income Pool			-	
U.S. Treasury Fixed Income Pool			1,555,610	
High Yield Pool			238,425	
International Fixed Income Pool			243,128	
Emerging Debt Pool			<u>239,246</u>	
Total Fixed Income Securities	19.00%	16-22%	<u>2,276,409</u>	18.51%
Broad Domestic Equity				
Large Cap Pool			3,154,224	
Small Cap Pool			372,047	
Convertible Bond Pool			<u>50,701</u>	
Total Broad Domestic Equity	29.00%	23-35%	<u>3,576,972</u>	29.08%
Global Equity Ex-U.S.				
International Equity Pool			2,000,517	
International Equity Small Cap Pool			249,248	
Emerging Markets Equity Pool			<u>590,613</u>	
Total Global Equity Ex-U.S.	23.00%	19-27%	<u>2,840,378</u>	23.09%
Private Equity				
Private Equity Pool			<u>843,503</u>	
Total Private Equity	7.00%	2-12%	<u>843,503</u>	6.86%
Absolute Return				
Absolute Return Pool			<u>599,820</u>	
Total Absolute Return	5.00%	1-9%	<u>599,820</u>	4.88%
Real Assets				
Real Estate Pool			1,182,251	
Real Estate Investment Trust Pool			36,931	
Energy Pool			36,160	
Farmland Pool			191,391	
Farmland Water Pool			-	
Timber Pool			118,892	
Treasury Inflation Protected Securities Pool			<u>383,089</u>	
Total Real Assets	<u>16.00%</u>	8-24%	<u>1,948,714</u>	<u>15.85%</u>
Total Invested Assets	<u>100.00%</u>		<u>\$12,298,211</u>	<u>100.00%</u>

INVESTMENT SECTION

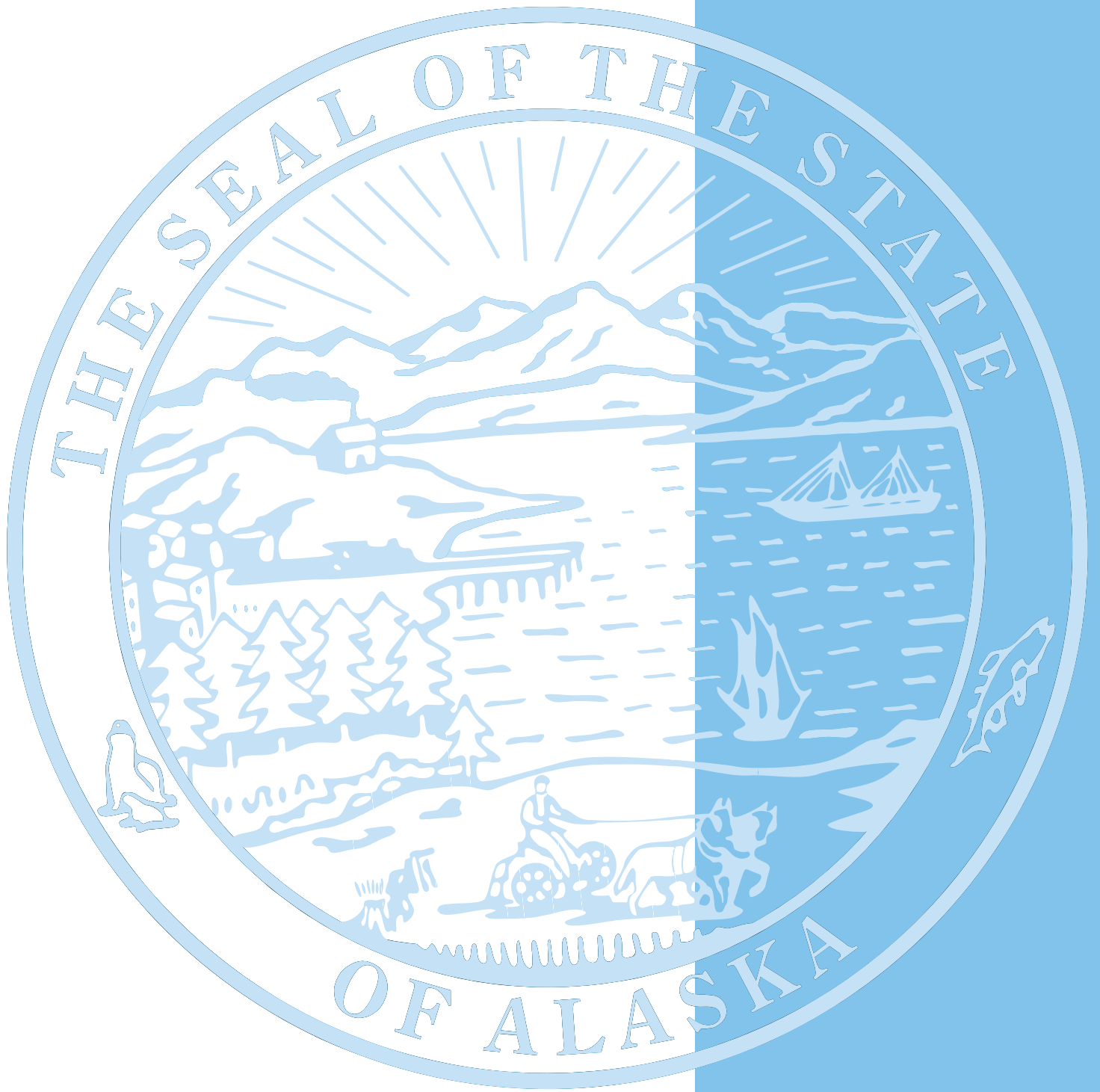
**Public Employees' Retirement System
Recaptured Commission Fees
Year Ended June 30, 2011**

Fund	Domestic Equity	International Equity	Total
Defined Benefit - Pension	\$ 147,951	\$ 56,610	\$ 204,561
Defined Benefit - Retiree Healthcare Trust	116,489	44,097	160,586
Defined Contribution - Health Reimbursement Arrangement	1,130	382	1,512
Defined Contribution - Occupational Death & Disability - Police/Firefighter	41	14	55
Defined Contribution - Occupational Death & Disability - All Others	116	39	155
Defined Contribution - Retiree Medical Plan	<u>279</u>	<u>94</u>	<u>373</u>
Total Recaptured Commission Fees	<u>\$ 266,006</u>	<u>\$ 101,236</u>	<u>\$ 367,242</u>

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 (SSGM) is: 90% of the commissions received in excess of executing the brokers' execution-only rates; 100% of commissions in excess of its execution-only rates for all trading directed through SSGM.





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A Xerox Company

October 4, 2011

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, 2010 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the System as of June 30, 2010;
- (2) a review of experience under the System for the year ended June 30, 2010;
- (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, 2013; 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) Schedule of Funding Progress, Schedule of Employer Contributions and trend data schedules.

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

ACTUARIAL SECTION

The Alaska Retirement Management Board, The Department of Revenue,
and The Department of Administration
October 4, 2011

Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System 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. The actuarial assumptions are based on the results of an experience study presented to The Alaska Retirement Management Board (Board) in September 2010 and adopted by the Board in December 2010. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed during the experience study.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY11 and a fixed 25-year amortization as a level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses and other changes. 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 rates are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities decreased from 61.8% to 61.5% 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.

The funding objective of the plan, as adopted by the ARM Board, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period as a level percentage of payroll. The funding objective for the plan, as adopted by the ARM Board, is currently being met.

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.

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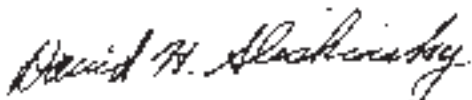
The Alaska Retirement Management Board, The Department of Revenue,
and The Department of Administration
October 4, 2011
Page 3

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.

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. Slisinsky, FCA, ASA, EA, MAAA
Principal, 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

ACTUARIAL SECTION

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

The demographic and economic assumptions used in the June 30, 2010 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed as of June 30, 2009. 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 annual experience rate update for the period July 1, 2010 to June 30, 2011.

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 claim data is not available by individual, nor is this status incorporated into historical claim data.

We analyzed WFIS and Premera management level reporting for fiscal 2007 through fiscal 2010, as well as WFIS and Premera claim level data for the same period 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 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 smaller 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**

Based on census data received from WFIS, 0.6% of the current retiree population was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire, date of birth, tier, etc.

All claims cost rates developed from management level reporting have been 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. 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 a weighted 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 2.4 months for medical claims and 0.15 months for prescription claims.
5. Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.

Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosure, Buck estimated the year in which the tax would potentially affect Alaska to be 2047, and with a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

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

June 30, 2010 Valuation – FY 2011 Claims Cost Rates

	Medical		
	Pre-Medicare	Medicare A&B	Medicare B Only
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 FY2011	1.512	1.512	1.512
FY 2011 Paid Cost Rate	\$5,866	\$1,688	\$4,984
Paid to Incurred Factor**	1.022	1.022	1.022
FY 2011 Incurred Cost Rate	\$5,995	\$1,725	\$5,094
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 FY2011	1.358	1.358	1.358
FY 2011 Paid Cost Rate	\$6,847	\$1,815	\$9,243
Paid to Incurred Factor**	1.022	1.022	1.022
FY 2011 Incurred Cost Rate	\$6,998	\$1,855	\$9,446
Fiscal 2009 Paid Claims	\$185,275,626	\$39,286,392	\$3,949,927
Membership	32,943	24,624	539
Paid Claims Cost Rate	\$5,624	\$1,595	\$7,327
Trend to FY2011	1.221	1.221	1.221
FY 2011 Paid Cost Rate	\$6,866	\$1,948	\$8,944
Paid to Incurred Factor**	1.022	1.022	1.022
FY 2011 Incurred Cost Rate	\$7,017	\$1,991	\$9,141
Fiscal 2010 Paid Claims	\$199,739,865	\$51,373,725	\$1,215,832
Membership	32,026	27,915	156
Paid Claims Cost Rate	\$6,237	\$1,840	\$7,794
Trend to FY2011	1.130	1.130	1.130
FY 2011 Paid Cost Rate	\$7,050	\$2,080	\$8,810
Paid to Incurred Factor**	1.022	1.022	1.022
FY 2011 Incurred Cost Rate	\$7,205	\$2,126	\$9,003
Weighted Average 7/1/2010 – 6/30/2011 Incurred Claims Cost Rates:			
At average age	\$6,967	\$1,978	\$8,756
At age 65*	\$8,606	\$1,563	\$6,654

* 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.

ACTUARIAL SECTION

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

June 30, 2010 Valuation – FY 2011 Claims Cost Rates (cont.)

	Prescription Drugs			Total
	Pre-Medicare	Medicare A&B	Medicare B Only	
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 FY2011	1.467	1.467	1.467	
FY 2011 Paid Cost Rate	\$2,026	\$3,059	\$3,282	\$6,734
Paid to Incurred Factor**	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$2,028	\$3,062	\$3,285	\$6,830
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 FY2011	1.316	1.316	1.316	
FY 2011 Paid Cost Rate	\$2,094	\$3,226	\$3,459	\$7,508
Paid to Incurred Factor**	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$2,096	\$3,229	\$3,462	\$7,618
Fiscal 2009 Paid Claims	\$61,062,842	\$60,195,838	\$1,412,907	\$351,183,532
Membership	32,943	24,624	539	58,106
Paid Claims Cost Rate	\$1,854	\$2,445	\$2,621	\$6,044
Trend to FY2011	1.184	1.184	1.184	
FY 2011 Paid Cost Rate	\$2,194	\$2,893	\$3,102	\$7,300
Paid to Incurred Factor**	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$2,196	\$2,896	\$3,105	\$7,407
Fiscal 2010 Paid Claims	\$62,310,224	\$73,005,066	\$414,101	\$388,058,813
Membership	32,026	27,915	156	60,097
Paid Claims Cost Rate	\$1,946	\$2,615	\$2,654	\$6,457
Trend to FY2011	1.096	1.096	1.096	
FY 2011 Paid Cost Rate	\$2,132	\$2,866	\$2,909	\$7,221
Paid to Incurred Factor**	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$2,134	\$2,869	\$2,912	\$7,327
Weighted Average 7/1/2010 – 6/30/2011 Incurred Claims Cost Rates:				
At average age	\$2,141	\$2,971	\$3,136	\$7,427
At age 65*	\$2,600	\$2,600	\$2,600	\$7,924

* 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.

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, 2010 through June 30, 2011**

<u>Age</u>	<u>Medical and Medicare Parts A & B</u>	<u>Medical and Medicare Part B Only</u>	<u>Prescription Drug</u>	<u>Medicare Retiree Drug Subsidy</u>
45	\$ 4,766	\$ 4,766	\$ 1,372	\$ -
50	5,392	5,392	1,629	-
55	6,101	6,101	1,935	-
60	7,246	7,246	2,243	-
65	1,563	6,654	2,600	515
70	1,902	8,096	2,801	555
75	2,258	9,613	2,988	592
80	2,433	10,356	3,063	607

D. Actuarial Assumptions

1. Investment Return/
Discount Rate 8.00% per year (geometric), compounded annually, net of expenses.

2. Salary Scale Inflation - 3.12% per year
 Productivity - 0.5% per year
 See Table 1 for salary scale rates

3. Payroll Growth 3.62% 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 3.12% annually.

5. Mortality (Pre-termination)* Peace Officers/Firefighter:
 Based upon the 2005-2009 actual mortality experience (see Table 2). 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females.

ACTUARIAL SECTION

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

Others:

Based upon the 2005-2009 actual mortality experience (see Table 3). 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females.

Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.

6. Mortality (Post-Termination)* 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females. (See Table 4.)
7. Total Turnover Based upon the 2005-2009 actual withdrawal experience. (See Table 5).
8. Disability Incidence rates based upon the 2005-2009 actual experience, in accordance with Table 6. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.
9. Retirement Retirement rates based upon the 2005-2009 actual experience in accordance with Tables 7 and 8. Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others. For Peace Officer/Firefighter, Tier 1 deferred vested members are assumed to retire at age 53 and Tiers 2 and 3 deferred vested members are assumed to retire at age 57.
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, 70% are assumed to remain in Alaska and receive the COLA.
14. Postretirement Pension Adjustment 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic Postretirement Pension Adjustment (PRPA) as specified in the statute.
15. Expenses All expenses are net of the investment return assumption.

*Mortality assumptions were conservatively set compared to actual experience to allow for expected future mortality improvement.

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

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.
18. Per Capita Claims Cost Sample claims cost rates adjusted to age 65 for FY11 medical and prescription are shown below:

	<u>Medical</u>	<u>Prescription Drugs</u>
Pre-Medicare	\$8,606	\$2,600
Medicare Parts A & B	1,563	2,600
Medicare Part B Only	6,654	2,600
Medicare Part D	N/A	515

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, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims costs.

	<u>Medical</u>	<u>Prescription Drugs</u>
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
FY17	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.

ACTUARIAL SECTION

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

21. Aging Factors

<u>Age</u>	<u>Medical</u>	<u>Prescriptions Drugs</u>
00-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-74	4.0	1.5
75-84	1.5	0.5
85-94	0.5	0.0
95+	0.0	0.0

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 FY11 contributions based on monthly rates shown below for calendar 2010 and 2011 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.

<u>Coverage Category</u>	<u>Calendar 2011 Annual Contribution</u>	<u>Calendar 2011 Monthly Contribution</u>	<u>Calendar 2010 Monthly Contribution</u>
Retiree Only	\$ 9,492	\$ 791	\$ 719
Retiree and Spouse	18,996	1,583	1,439
Retiree and Child(ren)	13,416	1,118	1,016
Retiree and Family	22,920	1,910	1,736
Composite	14,112	1,176	1,068

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, 6.7% is applied to the FY11 retired member medical contributions to get the FY12 retired member medical contributions.

FY11	6.7%
FY12	6.3
FY13	6.0
FY14	5.7
FY15	5.3
FY16	5.0
FY17	5.0
FY18	5.0
FY 19 and later	5.0

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

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY10 retired member medical contributions are reflected in the valuation so trend on such contribution during FY10 is not applicable.

24. Healthcare Participation

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

10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

ACTUARIAL SECTION

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

Table 1
Alaska PERS
Salary Scale

Peace Officer/Firefighter:

<u>Year of Employment</u>	<u>Percent Increase</u>
1-4	6.36%
5	6.11
6	5.61
7+	4.12

Others:

<u>Year of Employment</u>	<u>Percent Increase</u>
1	9.60%
2	7.60
3	6.61
4	6.11
5	5.61
6+	Age-based

Rates vary slightly by age after 5 years of employment.

<u>Age</u>	<u>Percent Increase</u>
25	5.11%
30	4.99
35	4.86
40	4.70
45	4.53
50	4.61
55	4.24
60+	3.62

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

**Table 2
Alaska PERS Peace Officer/Firefighter
Mortality Table (Pre-termination)**

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.0303%	0.0135%
21	0.0323	0.0133
22	0.0345	0.0135
23	0.0380	0.0138
24	0.0419	0.0141
25	0.0470	0.0144
26	0.0534	0.0151
27	0.0569	0.0155
28	0.0590	0.0161
29	0.0609	0.0170
30	0.0627	0.0187
31	0.0642	0.0207
32	0.0656	0.0220
33	0.0663	0.0229
34	0.0664	0.0239
35	0.0666	0.0250
36	0.0674	0.0262
37	0.0697	0.0277
38	0.0721	0.0295
39	0.0753	0.0316
40	0.0792	0.0344
41	0.0837	0.0372
42	0.0890	0.0400
43	0.0943	0.0425
44	0.0997	0.0447
45	0.1059	0.0462
46	0.1133	0.0481
47	0.1226	0.0508
48	0.1331	0.0551
49	0.1445	0.0598
50	0.1571	0.0665
51	0.1716	0.0745
52	0.1883	0.0856
53	0.2100	0.0978
54	0.2331	0.1111
55	0.2644	0.1270
56	0.3015	0.1474
57	0.3466	0.1712
58	0.3989	0.1970
59	0.4489	0.2266
60	0.5050	0.2604

ACTUARIAL SECTION

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

Table 3
Alaska PERS Others
Mortality Table (Pre-termination)

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.0284%	.0123%
21	.0303	.0122
22	.0324	.0123
23	.0356	.0127
24	.0392	.0129
25	.0441	.0132
26	.0501	.0138
27	.0533	.0142
28	.0553	.0148
29	.0571	.0156
30	.0588	.0171
31	.0602	.0189
32	.0615	.0202
33	.0622	.0210
34	.0623	.0219
35	.0624	.0229
36	.0632	.0240
37	.0653	.0254
38	.0676	.0271
39	.0706	.0289
40	.0742	.0315
41	.0785	.0341
42	.0834	.0366
43	.0884	.0389
44	.0935	.0409
45	.0993	.0423
46	.1063	.0441
47	.1149	.0466
48	.1248	.0505
49	.1354	.0548
50	.1473	.0610
51	.1609	.0683
52	.1765	.0784
53	.1969	.0897
54	.2186	.1018
55	.2479	.1164
56	.2827	.1352
57	.3249	.1570
58	.3739	.1806
59	.4208	.2077
60	.4734	.2387

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

**Table 4
Alaska PERS
Mortality Table (Post-termination)**

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	0.1964%	0.1241%
51	0.2145	0.1426
52	0.2354	0.1631
53	0.2625	0.1851
54	0.2914	0.2117
55	0.3305	0.2457
56	0.3769	0.2854
57	0.4333	0.3284
58	0.4986	0.3777
59	0.5611	0.4339
60	0.6312	0.4979
61	0.7251	0.5701
62	0.8188	0.6527
63	0.9436	0.7450
64	1.0644	0.8442
65	1.1956	0.9476
66	1.3618	1.0523
67	1.5123	1.1499
68	1.6336	1.2424
69	1.7873	1.3422
70	1.9147	1.4342
71	2.0940	1.5830
72	2.2981	1.7260
73	2.5175	1.9177
74	2.7475	2.0940
75	3.0609	2.3377
76	3.0609	2.6690
77	3.7879	2.9853
78	4.2924	3.3273
79	4.8681	3.7068
80	5.5102	4.1355
81	6.2135	4.6249
82	6.9722	5.1616
83	7.6164	5.7377
84	8.4319	6.4966
85	9.1495	7.3658

ACTUARIAL SECTION

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

Table 5
Alaska PERS
Total Turnover Assumptions

Peace Officer/Firefighter:

Select Rates of Turnover
During the First 5 Years of Employment

<u>Year of Employment</u>	<u>Unisex Rates</u>
1	15.00%
2	10.00
3	8.00
4	7.00
5	6.00

Ultimate Rates of Turnover
After the First 5 Years of Employment

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	4.11%	5.19%
25	4.08	5.17
30	4.04	5.14
35	4.02	5.09
40	3.95	5.00
45	3.78	4.85
50	3.49	4.58
55	2.91	4.06
60	1.57	2.64
65+	4.32	5.40

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

Table 5
Alaska PERS
Total Turnover Assumptions

Others:

Select Rates of Turnover
During the First 5 Years of Employment

<u>Year of Employment</u>	<u>Age at Hire</u>	
	<u>20-34</u>	<u>35+</u>
	<u>Unisex Rates</u>	<u>Unisex Rates</u>
1	29.00%	20.00%
2	25.00	17.00
3	20.00	14.00
4	16.00	11.00
5	13.00	10.00

Ultimate Rates of Turnover
After the First 5 Years of Employment

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	9.50%	13.68%
25	9.50	13.67
30	9.50	12.60
35	7.00	9.30
40	5.90	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

ACTUARIAL SECTION

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

**Table 6
Alaska PERS
Disability Table**

<u>Age</u>	<u>Peace Officer/ Firefighter Rate</u>	<u>Other Member Rate</u>	
		<u>Male</u>	<u>Female</u>
20	.088%	.031%	.024%
21	.089	.031	.024
22	.090	.032	.024
23	.091	.032	.024
24	.093	.033	.025
25	.094	.033	.025
26	.095	.033	.025
27	.098	.034	.026
28	.100	.035	.027
29	.103	.036	.028
30	.105	.037	.029
31	.108	.037	.029
32	.110	.038	.029
33	.113	.039	.030
34	.116	.041	.031
35	.120	.042	.032
36	.124	.044	.034
37	.129	.045	.035
38	.134	.047	.036
39	.139	.048	.037
40	.144	.050	.039
41	.150	.052	.040
42	.159	.056	.043
43	.170	.059	.045
44	.185	.065	.050
45	.203	.071	.055
46	.220	.077	.059
47	.239	.083	.064
48	.259	.091	.070
49	.279	.097	.075
50	.300	.105	.081
51	.325	.114	.087
52	.358	.125	.096
53	.398	.139	.107
54	.444	.155	.119
55	.500	.175	.134
56	.574	.201	.155
57	.668	.234	.180
58	.763	.267	.205
59	.900	.315	.242
60	1.054	.368	.283

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

**Table 7
Alaska PERS Peace Officer/Firefighter
Retirement Table**

<u>Age at Retirement</u>	<u>Retirement Rate</u>	
	<u>Reduced Unisex Rates</u>	<u>Unreduced Unisex Rates</u>
<50	N/A	11.00%
50	10.00%	18.50
51	10.00	18.50
52	10.00	18.50
53	10.00	18.50
54	11.00	18.50
55	10.00	25.00
56	10.00	25.00
57	10.00	25.00
58	10.00	25.00
59	11.00	25.00
60	N/A	30.00
61	N/A	25.00
62	N/A	30.00
63	N/A	25.00
64-74	N/A	50.00
75	N/A	100.00

ACTUARIAL SECTION

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

**Table 8
Alaska PERS Others
Retirement Table**

<u>Age at Retirement</u>	<u>Retirement Rate</u>	
	<u>Reduced Unisex Rates</u>	<u>Unreduced Unisex Rates</u>
<50	N/A	10.00%
50	8.00%	30.00
51	8.00	30.00
52	8.00	30.00
53	8.00	30.00
54	13.00	30.00
55	8.00	30.00
56	8.00	17.50
57	8.00	17.50
58	8.00	16.50
59	12.00	16.50
60	N/A	20.50
61	N/A	16.50
62	N/A	24.50
63	N/A	20.50
64	N/A	22.50
65	N/A	26.00
66	N/A	26.00
67	N/A	26.00
68	N/A	27.50
69	N/A	30.00
70-89	N/A	50.00
90		100.00

ACTUARIAL SECTION

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

Changes in Actuarial Assumptions Since the Prior Valuation

	June 30, 2009	June 30, 2010
Investment Return	8.25% per year (geometric), compounded annually, net of expenses	8.00% per year (geometric), compounded annually, net of expenses
Salary Scale	Based on actual experience from 2001 to 2005.	<u>Others</u> : Based on actual experience from 2005 to 2009. Increased most rates. <u>Peace Officer/Firefighter</u> : Rates are increased for the first 4 years. Decreased at year 5. Based on actual experience 2005 to 2009.
Payroll Growth	4.00% per year	3.62% per year
Inflation	3.50%	3.12%
Pre-termination Mortality	<u>Peace Officer/Firefighter</u> : 1994 GAM Table, 1994 Base Year. <u>Others</u> : 42% of 1994 GAM Table, 1994 Base Year.	<u>Peace Officer/Firefighter</u> : Based upon the 2005-2009 actual mortality experience. 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females. <u>Others</u> : Based upon the 2005-2009 actual mortality experience. 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females.
Post-termination Mortality	1994 GAM Table, 1994 Base Year.	1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females.
Disability Mortality	1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits.	RP-2000 Disabled Retiree Mortality Table.
Turnover	Based on actual experience from 2001 to 2005.	Rates adjusted based on actual experience from 2005 to 2009.

ACTUARIAL SECTION

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

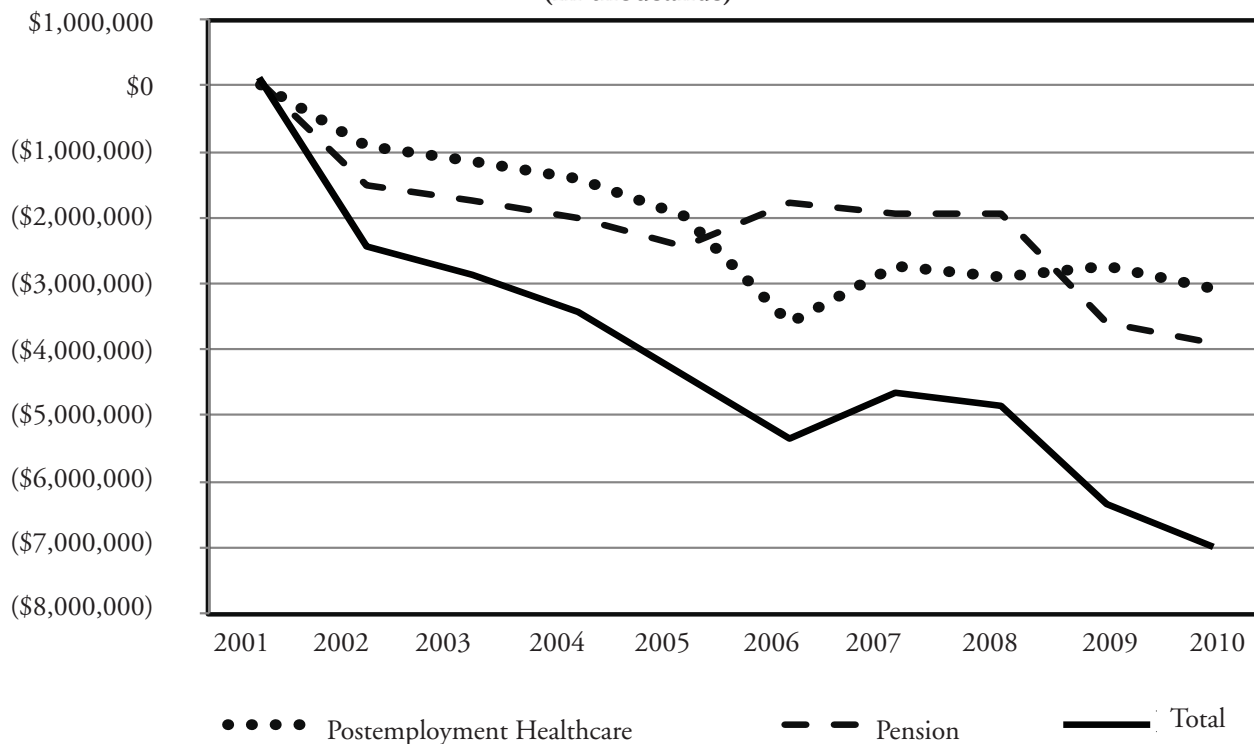
Changes in Actuarial Assumptions Since the Prior Valuation (cont.)

	June 30, 2009	June 30, 2010
Disability	Based on actual experience from 2001 to 2005.	<u>Peace Officer/Firefighter</u> : No change except to stop rates at earliest retirement age. <u>Others</u> : Male/Female rates decreased based on actual experience from 2005 to 2009 and stop rates at earliest retirement age.
Retirement	Based on actual experience from 2001 to 2005.	Rates were adjusted based on actual experience from 2005 to 2009.
Deferred Vested Commencement Date	Earliest reduced age.	<u>Peace Officer/Firefighter</u> : Tier 1 – age 53. Tiers 2 and 3 – age 57. <u>Others</u> : Earliest unreduced age.
COLA	Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.	Of those benefit recipients who are eligible for the COLA, 70% are assumed to remain in Alaska and receive the COLA.
Occupational Death and Disability	<u>Others</u> : 50% <u>Peace Officer/Firefighter</u> : 75%	<u>Others</u> : 55% <u>Peace Officer/Firefighter</u> : 75%
Healthcare Participation	100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.	100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

ACTUARIAL SECTION

Public Employees' Retirement System Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total Funding Excess/ (Unfunded Liability)	Funded Ratio
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
2010	(3,073,188)	(3,901,840)	(6,975,028)	61.5

10-YEAR TREND OF UNFUNDED LIABILITY
(In thousands)



ACTUARIAL SECTION

Public Employees' Retirement System Employer Contribution Rates					
Year Ended June 30	Actuarially Determined				Adopted
	Valuation Year Ended June 30	Normal Cost ¹	Past Service	Total Annual Required	
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	33.49
2013	2010	8.67	24.16	32.83	35.84

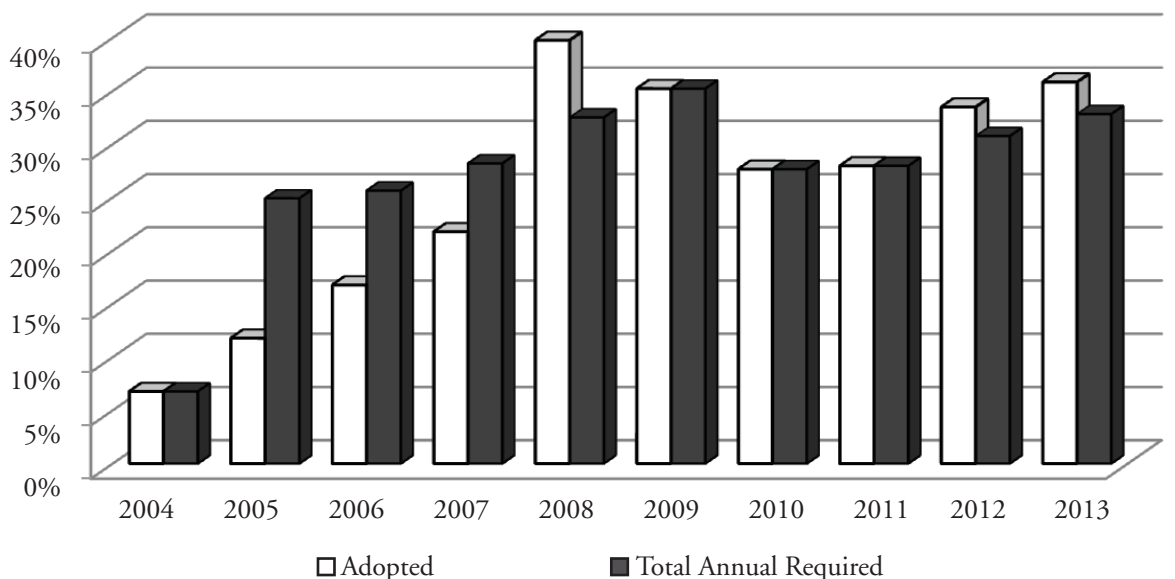
¹ Also referred to as the consolidated rate.

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



ACTUARIAL SECTION

Public Employees' Retirement System 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, 2010	24,054	\$1,393,803	\$57,945	4.5%	160
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
Peace Officer / Firefighter					
June 30, 2010	2,388	\$192,895	\$80,777	2.8%	160
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
¹ Prior to June 30, 2006, unannualized earnings were used. Starting June 30, 2006, annualized earnings are used.					

ACTUARIAL SECTION

Public Employees' Retirement System Schedule of Benefit Recipients Added to and Removed from Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Pension Benefits	Average Annual Pension Benefits
	No. ¹	Annual Pension Benefits ¹	No. ¹	Annual Pension Benefits ¹	No.	Annual Pension Benefits		
All Others								
June 30, 2010	1,667	\$35,089,579	517	\$ 8,712,630	23,560	\$426,040,698	6.6%	\$18,083
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
Peace Officer/Firefighter								
June 30, 2010	118	\$3,593,724	46	\$1,413,071	2,677	\$85,843,865	2.6%	\$32,067
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
¹ Numbers are estimated, and include other internal transfers.								

ACTUARIAL SECTION

Public Employees' Retirement System Solvency Test							
Valuation Date	Aggregate Accrued Liability For:			Valuation Assets (In thousands)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (In thousands)	(2) Inactive Members (In thousands)	(3) Active Members (Employer-Financed Portion) (In thousands)		(1)	(2)	(3)
June 30, 2010 ⁽²⁾	\$1,388,029	\$10,850,267	\$5,894,196	\$11,157,464	100.0%	90.0%	0.0%
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

Healthcare liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy).

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

ACTUARIAL SECTION

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				
	2010	2009	2008	2007	2006
Health Experience	0.24%	(2.21)%	(0.97)%	(5.64)%	(4.06)%
Salary Experience	0.06	0.23	0.54	0.23	0.02
Investment Experience	0.28	5.31	(0.59)	(1.03)	(0.29)
Demographic Experience	(0.30)	(0.29)	(0.60)	(0.17)	1.05
Contribution Shortfall	<u>(0.67)</u>	<u>(0.24)</u>	<u>(0.11)</u>	<u>0.94</u>	<u>1.01</u>
(Gain) or Loss During Year From Experience	(0.39)	2.80	(1.73)	(5.67)	(2.27)
Non-recurring changes					
Asset Valuation Method	-	-	-	-	-
Past Service Amortization Change	-	-	-	-	-
Assumption and Method Changes	2.46	-	2.04	(1.90)*	4.98
System Benefit Changes	—	—	—	—	—
Composite (Gain) Loss During Year	2.07	2.80	0.31	(7.57)	2.71
Beginning Employer/State Contribution Rate	<u>30.76</u>	<u>27.96</u>	<u>27.65</u>	<u>35.22</u>	<u>32.51</u>
Ending Employer/State Contribution Rate	<u>32.83%</u>	<u>30.76%</u>	<u>27.96%</u>	<u>27.65%</u>	<u>35.22%</u>
Fiscal Year Above Rate is Applied	FY13	FY12	FY11	FY10	FY09

*Includes change in rate by using total payroll.

ACTUARIAL SECTION

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		
	2010	2009	2008	2010	2009	2008
Health Experience	N/A	N/A	N/A	0.24%	(2.21)%	(0.97)%
Salary Experience	0.06%	0.23%	0.54%	N/A	N/A	N/A
Investment Experience	(0.19)	4.72	(0.35)	0.47	0.59	(0.24)
Demographic Experience	(0.30)	(0.29)	(0.60)	N/A	N/A	N/A
Contribution Shortfall	<u>0.36</u>	<u>0.01</u>	<u>0.14</u>	<u>(1.03)</u>	<u>(0.25)</u>	<u>(0.25)</u>
(Gain) or Loss During Year From Experience	(0.07)	4.67	(0.27)	(0.32)	(1.87)	(1.46)
Non-recurring changes						
Asset Valuation Method	-	-	-	-	-	-
Past Service Amortization Change	-	-	-	-	-	-
Assumption and Method Changes	0.87	-	-	1.59	-	2.04
System Benefit Changes	-	-	-	-	-	-
Composite (Gain) Loss During Year	<u>0.80</u>	<u>4.67</u>	<u>(0.27)</u>	<u>1.27</u>	<u>(1.87)</u>	<u>0.58</u>
Beginning Employer/State Contribution Rate	<u>14.65</u>	<u>9.98</u>	<u>10.25</u>	<u>16.11</u>	<u>17.98</u>	<u>17.40</u>
Ending Employer/State Contribution Rate	<u>15.45%</u>	<u>14.65%</u>	<u>9.98%</u>	<u>17.38</u>	<u>16.11%</u>	<u>17.98%</u>
Fiscal Year Above Rate is Applied	FY13	FY12	FY11	FY13	FY12	FY11
* 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.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(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 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.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(6) Employer Contributions

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

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 (22%) 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.

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Reinstatement of Contributions: Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS prior to July 1, 2010. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(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 Teachers' Retirement System; or
 - (v) two years of paid-up PERS service and a minimum three years of TRS service to qualify for a public service benefit.
- (b) Members may retire at any age when they have:
 - (i) 20 paid-up years of PERS 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.

(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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

the full monthly premium if they are under age sixty and will receive benefits paid by the PERS if they are over age sixty. Tier 3 Members with between five and ten years of credited service must pay the full monthly premium regardless of their age. Tier 2 and Tier 3 Members with less than five years of credited service are not eligible for postemployment healthcare benefits. 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.

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

STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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) Postretirement 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.

Changes in Benefit Provisions Since the Prior Valuation

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



A Xerox Company

September 23, 2011

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, 2010 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the Plan as of June 30, 2010;
- (2) a review of experience under the Plan for the year ended June 30, 2010;
- (3) a determination of the appropriate contribution rate which will be applied for the fiscal year ending June 30, 2013; 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) Schedule of Funding Progress, Schedule of Employer Contributions and trend data schedules

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. The actuarial assumptions are based on the results of an experience study presented to The Alaska Retirement Management Board (Board) in September 2010 and adopted by the Board in December 2010. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed during the experience study.

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

ACTUARIAL SECTION

The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
September 23, 2011
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The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY11 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 Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities decreased from 199.6% to 168.8% during the year. This report provides an analysis of the factors that led to the decrease.

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.

The funding objective of the plan, as adopted by the ARM Board, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period as a level percentage of payroll. The funding objective for the plan, as adopted by the ARM Board, is currently being met.

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

September 23, 2011

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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. Sliskinsky, ASA, EA, MAAA
Principal, 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, 2010 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed for the DB Plan as of June 30, 2009. 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 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.

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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, 2010.

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, 2010 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, FY10 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 PERS 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 retirement are determined using the plan-defined percentages of total projected plan costs, again with no implicit subsidy assumed.

Healthcare Reform

Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.

- Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.
- The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosures, Buck estimated the year in which the tax would potentially affect Alaska to be 2047, and with a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

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We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

Changes in Methods From the Prior Valuation

There were no changes in methods from the prior valuation.

D. Actuarial Assumptions

1. Investment Return/
Discount Rate 8.00% per year (geometric), compounded annually, net of expenses.
2. Salary Scale Inflation - 3.12% per year
Productivity – 0.5% per year.
See Table 1 for salary scale rates.
3. Payroll Growth 3.62% 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 3.12% annually.
5. Mortality (Pre-termination) Peace Officer/Firefighter:
Based upon the 2005-2009 actual mortality experience of the PERS DB Plan (see Table 2). 80% of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 60% for females.
Others:
Based upon the 2005-2009 actual mortality experience of the PERS DB Plan (see Table 3). 75% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 55% for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.
6. Mortality (Post-termination) 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with one-year set-forward for females. (See Table 4.)
7. Turnover Select rates were estimated and ultimate rates were set to the PERS DB Plan's rates loaded by 10%. (See Table 5.)

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- | 8. Disability | Incidence rates based upon the 2005-2009 actual experience of the PERS DB Plan, in accordance with Table 6. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others. | | | | | | | | | | | | | | | |
|------------------------------------|--|-------------------------------|----------------|-------------------------------|--------------|---------|---------|----------------------|-------|-------|----------------------|-------|-------|-----------------|-----|-----|
| 9. Retirement | Retirement rates were estimated in accordance with Table 7. | | | | | | | | | | | | | | | |
| 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. Part-time Status | Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years of credited service per year for Other members. | | | | | | | | | | | | | | | |
| 12. Expenses | All expenses are net of the investment return assumption. | | | | | | | | | | | | | | | |
| 13. Per Capita Claims Cost | <p>Sample claims cost rates adjusted to age 65 for FY11 medical benefits are shown below:</p> <table border="0" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border: none;"></th> <th style="border: none; text-align: center;"><u>Medical</u></th> <th style="border: none; text-align: center;"><u>Prescription
Drugs</u></th> </tr> </thead> <tbody> <tr> <td style="border: none;">Pre-Medicare</td> <td style="border: none; text-align: center;">\$8,606</td> <td style="border: none; text-align: center;">\$2,600</td> </tr> <tr> <td style="border: none;">Medicare Parts A & B</td> <td style="border: none; text-align: center;">1,563</td> <td style="border: none; text-align: center;">2,600</td> </tr> <tr> <td style="border: none;">Medicare Part B Only</td> <td style="border: none; text-align: center;">6,654</td> <td style="border: none; text-align: center;">2,600</td> </tr> <tr> <td style="border: none;">Medicare Part D</td> <td style="border: none; text-align: center;">N/A</td> <td style="border: none; text-align: center;">515</td> </tr> </tbody> </table> | | <u>Medical</u> | <u>Prescription
Drugs</u> | Pre-Medicare | \$8,606 | \$2,600 | Medicare Parts A & B | 1,563 | 2,600 | Medicare Part B Only | 6,654 | 2,600 | Medicare Part D | N/A | 515 |
| | <u>Medical</u> | <u>Prescription
Drugs</u> | | | | | | | | | | | | | | |
| Pre-Medicare | \$8,606 | \$2,600 | | | | | | | | | | | | | | |
| Medicare Parts A & B | 1,563 | 2,600 | | | | | | | | | | | | | | |
| Medicare Part B Only | 6,654 | 2,600 | | | | | | | | | | | | | | |
| Medicare Part D | N/A | 515 | | | | | | | | | | | | | | |
| 14. Third Party Administrator Fees | \$153.33 per person per year; assumed trend rate of 5% per year. | | | | | | | | | | | | | | | |
| 15. Base Claims Cost Adjustments | <p>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:</p> <ul style="list-style-type: none"> • 0.941 for the medical plan. • 0.993 for the prescription drug plan. • 0.952 for the annual indexing for member cost sharing. | | | | | | | | | | | | | | | |

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16. 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, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims costs.

	<u>Medical</u>	<u>Prescription Drugs</u>
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
FY17	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. The model has been populated with assumptions that are specific to the State of Alaska.

17. Aging Factors

<u>Age</u>	<u>Medical</u>	<u>Prescription Drugs</u>
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-74	4.0	1.5
75-84	1.5	0.5
85-94	0.5	0.0
95+	0.0	0.0

18. Retiree Medical Participation

<u>Years of Service</u>	<u>Percent Participation</u>
10-14	75%
15-19	80
20-24	85
25-29	95
30+	100

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Table 1
Alaska PERS DCR Plan
Salary Scale

Peace Officer/Firefighter:

<u>Year of Employment</u>	<u>Percent Increase</u>
1-4	6.36%
5	6.11
6	5.61
7+	4.12

Others:

<u>Year of Employment</u>	<u>Percent Increase</u>
1	9.60%
2	7.60
3	6.61
4	6.11
5	5.61
6+	Age-based

Rates vary slightly by age after 6 years of employment.

<u>Age</u>	<u>Percent Increase</u>
25	5.11%
30	4.99
35	4.86
40	4.70
45	4.53
50	4.61
55	4.24
60+	3.62

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Table 2
Alaska PERS Peace Officer/Firefighter DCR Plan
Mortality Table (Pre-termination)

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.0303%	.0135%
21	.0323	.0133
22	.0345	.0135
23	.0380	.0138
24	.0419	.0141
25	.0470	.0144
26	.0534	.0151
27	.0569	.0155
28	.0590	.0161
29	.0609	.0170
30	.0627	.0187
31	.0642	.0207
32	.0656	.0220
33	.0663	.0229
34	.0664	.0239
35	.0666	.0250
36	.0674	.0262
37	.0697	.0277
38	.0721	.0295
39	.0753	.0316
40	.0792	.0344
41	.0837	.0372
42	.0890	.0400
43	.0943	.0425
44	.0997	.0447
45	.1059	.0462
46	.1133	.0481
47	.1226	.0508
48	.1331	.0551
49	.1445	.0598
50	.1571	.0665
51	.1716	.0745
52	.1883	.0856
53	.2100	.0978
54	.2331	.1111
55	.2644	.1270
56	.3015	.1474
57	.3466	.1712
58	.3989	.1970
59	.4489	.2266
60	.5050	.2604

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**Table 3
Alaska PERS Others DCR Plan
Mortality Table (Pre-termination)**

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.0284%	.0123%
21	.0303	.0122
22	.0324	.0123
23	.0356	.0127
24	.0392	.0129
25	.0441	.0132
26	.0501	.0138
27	.0533	.0142
28	.0553	.0148
29	.0571	.0156
30	.0588	.0171
31	.0602	.0189
32	.0615	.0202
33	.0622	.0210
34	.0623	.0219
35	.0624	.0229
36	.0632	.0240
37	.0653	.0254
38	.0676	.0271
39	.0706	.0289
40	.0742	.0315
41	.0785	.0341
42	.0834	.0366
43	.0884	.0389
44	.0935	.0409
45	.0993	.0423
46	.1063	.0441
47	.1149	.0466
48	.1248	.0505
49	.1354	.0548
50	.1473	.0610
51	.1609	.0683
52	.1765	.0784
53	.1969	.0897
54	.2186	.1018
55	.2479	.1164
56	.2827	.1352
57	.3249	.1570
58	.3739	.1806
59	.4208	.2077
60	.4734	.2387

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Table 4
 Alaska PERS DCR Plan
 Mortality Table (Post-termination)

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	0.1964%	0.1241%
51	0.2145	0.1426
52	0.2354	0.1631
53	0.2625	0.1851
54	0.2914	0.2117
55	0.3305	0.2457
56	0.3769	0.2854
57	0.4333	0.3284
58	0.4986	0.3777
59	0.5611	0.4339
60	0.6312	0.4979
61	0.7251	0.5701
62	0.8188	0.6527
63	0.9436	0.7450
64	1.0644	0.8442
65	1.1956	0.9476
66	1.3618	1.0523
67	1.5123	1.1499
68	1.6336	1.2424
69	1.7873	1.3422
70	1.9147	1.4342
71	2.0940	1.5830
72	2.2981	1.7260
73	2.5175	1.9177
74	2.7475	2.0940
75	3.0609	2.3377
76	3.0609	2.6690
77	3.7879	2.9853
78	4.2924	3.3273
79	4.8681	3.7068
80	5.5102	4.1355
81	6.2135	4.6249
82	6.9722	5.1616
83	7.6164	5.7377
84	8.4319	6.4966
85	9.1495	7.3658

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Table 5
Alaska PERS DCR Plan
Total Turnover Assumptions

Peace Officer/Firefighter:

Select Rates of Turnover During the First 5 Years of Employment

<u>Year of Employment</u>	<u>Rate</u>
1	15%
2	12
3	10
4	9
5	8

Ultimate Rates of Turnover
After the First 5 Years of Employment

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
20	4.5263%	5.7054%	45	4.1616%	5.3309%
21	4.5208	5.7028	46	4.1102	5.2844
22	4.5147	5.7002	47	4.0500	5.2300
23	4.5076	5.6979	48	3.9838	5.1703
24	4.4983	5.6939	49	3.9139	5.1088
25	4.4904	5.6920	50	3.8376	5.0419
26	4.4829	5.6893	51	3.7480	4.9627
27	4.4729	5.6818	52	3.6377	4.8621
28	4.4651	5.6751	53	3.5111	4.7458
29	4.4561	5.6656	54	3.3711	4.6171
30	4.4492	5.6574	55	3.2063	4.4617
31	4.4410	5.6467	56	2.9998	4.2580
32	4.4349	5.6376	57	2.7433	3.9959
33	4.4286	5.6264	58	2.4705	3.7140
34	4.4237	5.6148	59	2.1189	3.3355
35	4.4169	5.6007	60	1.7240	2.9081
36	4.4088	5.5856	61	1.2905	2.4421
37	4.3959	5.5672	62	0.7855	1.9006
38	4.3798	5.5474	63	0.2146	1.2892
39	4.3615	5.5260	64	4.7520	0.6289
40	4.3413	5.5039	65+	4.7520	5.9400
41	4.3175	5.4794			
42	4.2869	5.4494			
43	4.2525	5.4167			
44	4.2106	5.3772			

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**Table 5
Alaska PERS DCR Plan
Turnover Assumptions**

Others:

Select Rates of Turnover During the First 5 Years of Employment

<u>Year of Employment</u>	<u>Rate</u>
1	29%
2	25
3	20
4	16
5	15

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

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
20	10.4500%	15.0446%	45	5.7664%	6.6418%
21	10.4500	15.0442	46	5.7411	6.6260
22	10.4500	15.0424	47	5.7110	6.6061
23	10.4500	15.0421	48	5.6759	6.5825
24	10.4500	15.0407	49	5.6397	6.5591
25	10.4500	15.0407	50	5.5982	6.5318
26	10.4500	15.0403	51	5.5505	6.5002
27	10.4500	15.0379	52	5.4941	6.4620
28	10.4500	15.0346	53	5.4300	6.4184
29	10.4500	15.0307	54	5.3605	6.3716
30	10.4500	13.8600	55	5.2807	6.3160
31	9.9000	13.0900	56	5.1834	6.2432
32	9.2400	12.2100	57	5.0650	6.1491
33	8.5030	11.5500	58	4.9352	6.0429
34	8.0850	10.8900	59	4.7792	5.9079
35	7.7000	10.2300	60	4.6045	5.7553
36	7.3700	9.5700	61	4.4089	5.5858
37	7.0950	9.1300	62	4.1829	5.3912
38	6.8750	8.6900	63	3.9259	5.1701
39	6.7100	8.3600	64	3.6453	4.9289
40	6.4900	8.0818	65+	6.0500	6.8750
41	6.3030	8.0705			
42	6.1050	8.0578			
43	5.9290	8.0461			
44	5.7966	8.0325			

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**Table 6
Alaska PERS DCR Plan
Disability Table**

<u>Age</u>	<u>Peace Officer/ Firefighter Rate</u>	<u>Other Member Rate</u>	
		<u>Male</u>	<u>Female</u>
20	.088%	.031%	.024%
21	.089	.031	.024
22	.090	.032	.024
23	.091	.032	.024
24	.093	.033	.025
25	.094	.033	.025
26	.095	.033	.025
27	.098	.034	.026
28	.100	.035	.027
29	.103	.036	.028
30	.105	.037	.029
31	.108	.037	.029
32	.110	.038	.029
33	.113	.039	.030
34	.116	.041	.031
35	.120	.042	.032
36	.124	.044	.034
37	.129	.045	.035
38	.134	.047	.036
39	.139	.048	.037
40	.144	.050	.039
41	.150	.052	.040
42	.159	.056	.043
43	.170	.059	.045
44	.185	.065	.050
45	.203	.071	.055
46	.220	.077	.059
47	.239	.083	.064
48	.259	.091	.070
49	.279	.097	.075
50	.300	.105	.081
51	.325	.114	.087
52	.358	.125	.096
53	.398	.139	.107
54	.444	.155	.119
55	.500	.175	.134
56	.574	.201	.155
57	.668	.234	.180
58	.763	.267	.205
59	.900	.315	.242
60	1.054	.368	.283

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Table 7
Alaska PERS DCR Plan
Retirement Table

<u>Age</u>	<u>Rate</u>
< 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

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Changes in Actuarial Assumptions Since the Prior Valuation

	June 30, 2009	June 30, 2010
Investment Return	8.25% per year (geometric), compounded annually, net of expenses	8.00% per year (geometric), compounded annually, net of expenses
Salary Scale	Based on actual experience from 2001 to 2005.	Based on actual experience 2005 to 2009. <u>Peace Officer/Firefighter</u> : Rates are increased for the first 4 years. Decreased at year 5. <u>Others</u> : Based on actual experience from 2005 to 2009. Increased most rates.
Payroll Growth	4.00% per year	3.62% per year
Inflation	3.50%	3.12%
Pre-termination Mortality	<u>Peace Officer/Firefighter</u> : 1994 GAM Table, 1994 Base Year. <u>Others</u> : 42% of 1994 GAM Table, 1994 Base Year.	<u>Peace Officer/Firefighter</u> : 80% of the male and 60% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA. <u>Others</u> : 75% of the male and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.
Post-termination Mortality	1994 GAM Table, 1994 Base Year.	1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females.
Disability Mortality	1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits.	RP-2000 Disabled Retiree Mortality Table.
Turnover	Based on actual PERS DB Plan experience from 2001 to 2005. Ultimate rates are equal to DB Plan rates loaded by 10%.	Rates adjusted based on actual PERS DB Plan experience from 2005 to 2009. Ultimate rates are equal to DB Plan rates loaded by 10%.

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Defined Contribution Retirement
Occupational Death and Disability and Retiree Medical Plan
Summary of Actuarial Assumptions, Methods and Procedures

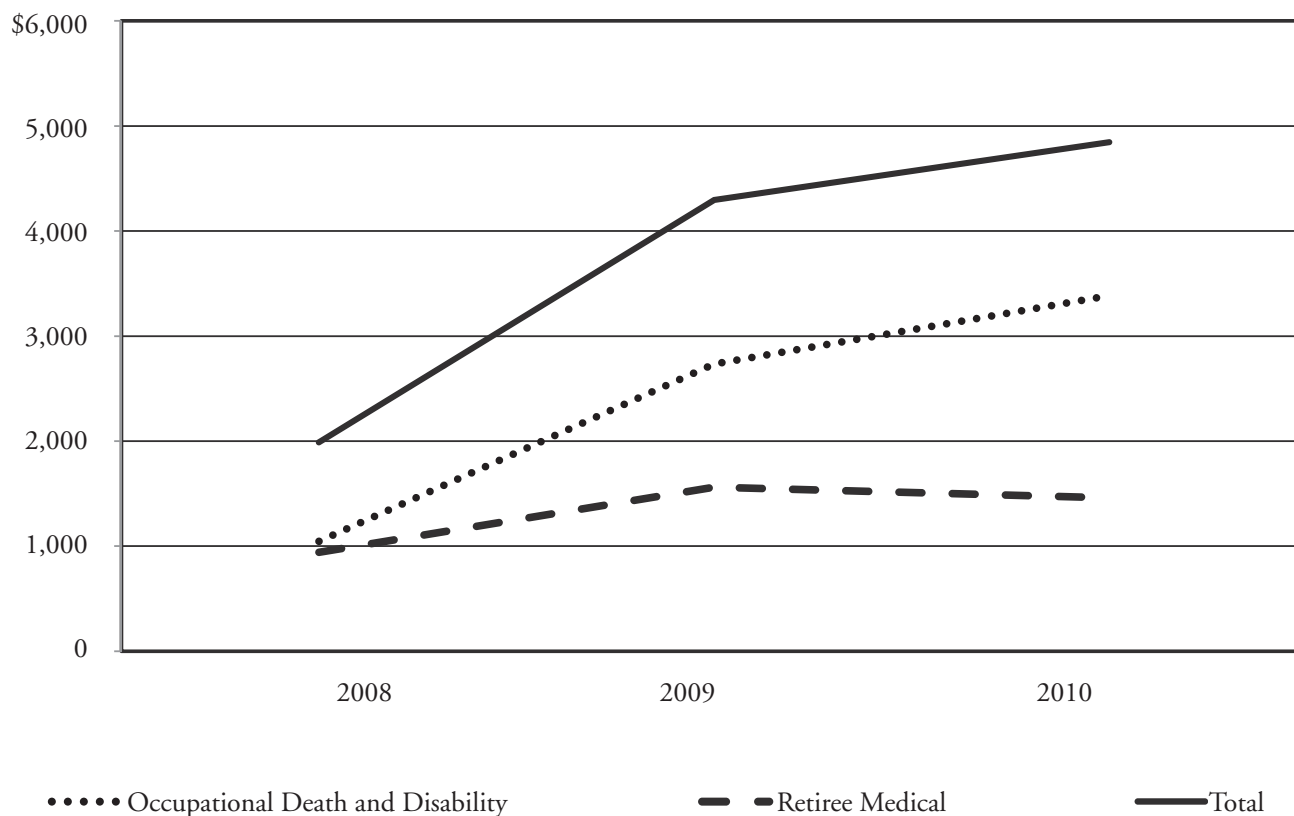
Changes in Actuarial Assumptions Since the Prior Valuation (cont.)

	June 30, 2009	June 30, 2010	
Disability	Based on actual PERS DB Plan experience from 2001 to 2005.	<u>Peace Officer/Firefighter</u> : No change. <u>Others</u> : Male/Female rates decreased based on actual PERS DB Plan experience from 2005 to 2009.	
Occupational Death and Disability	Others: 50% Peace Officer/Firefighter: 75%	Others: 55% Peace Officer/Firefighter: 75%	
Healthcare Participation	100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.	<u>Years of Service</u>	<u>Participation</u>
		10-14	75%
		15-19	80
		20-24	85
		25-29	95
		30+	100

ACTUARIAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability And Retiree Medical Benefits Funding Excess/(Unfunded liability) (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
2010	3,386	1,460	4,846	171.1

3-YEAR TREND OF FUNDING EXCESS
(in thousands)



ACTUARIAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability And Retiree Medical Benefits Employer Contribution Rates								
Fiscal Year	Actuarially Determined						Adopted	
	Actuarial Valuation Year Ended June 30	Occupational Death and disability		Retiree Medical	Total Annual Required			
		Peace Officer/ Firefighter	Others		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
2013	2010	0.99	0.14	0.48	1.47	0.62	1.47	0.62

Valuations are used to set contribution rates in future years.

**Public Employees' Retirement System
Defined Contribution Retirement Plan
For Occupational Death and Disability
And Retiree Medical Benefits
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, 2010	9,232	\$421,187	\$45,622	5.4%	160
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	-	-	-	-	-

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

ACTUARIAL SECTION

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:			Valuation Assets (In thousands)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (In thousands)	(2) Inactive Members (In thousands)	(3) Active Members (Employer-Financed Portion) (In thousands)		(1)	(2)	(3)
June 30, 2010 ¹	\$ -	\$ -	\$8,038	\$13,568	100%	100%	100%
June 30, 2009 ¹	-	-	4,316	8,613	100	100	100
June 30, 2008 ¹	-	-	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. funding 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, 2010.

(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.

ACTUARIAL SECTION

**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:

<u>Years of Service</u>	<u>Percent of Premium Paid by Member</u>
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.



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STATISTICAL SECTION

STATISTICAL SECTION

Statistical Section Overview

The statistical section of the Public Employees' Retirement System comprehensive annual financial report provides additional detail in the form of financial trends, operating statistics and demographic information. This data is provided to enhance the reader's understanding of the System.

Financial Trends **157 - 174**

These schedules contain financial trend information utilizing a multi-year presentation so the reader can better understand how the System's financial performance has changed over time. Financial information is presented on an accrual basis.

Operating Information **175 - 177**

These schedules contain detailed benefit payment information to provide the reader a better understanding of the pension benefits provided by the Division.

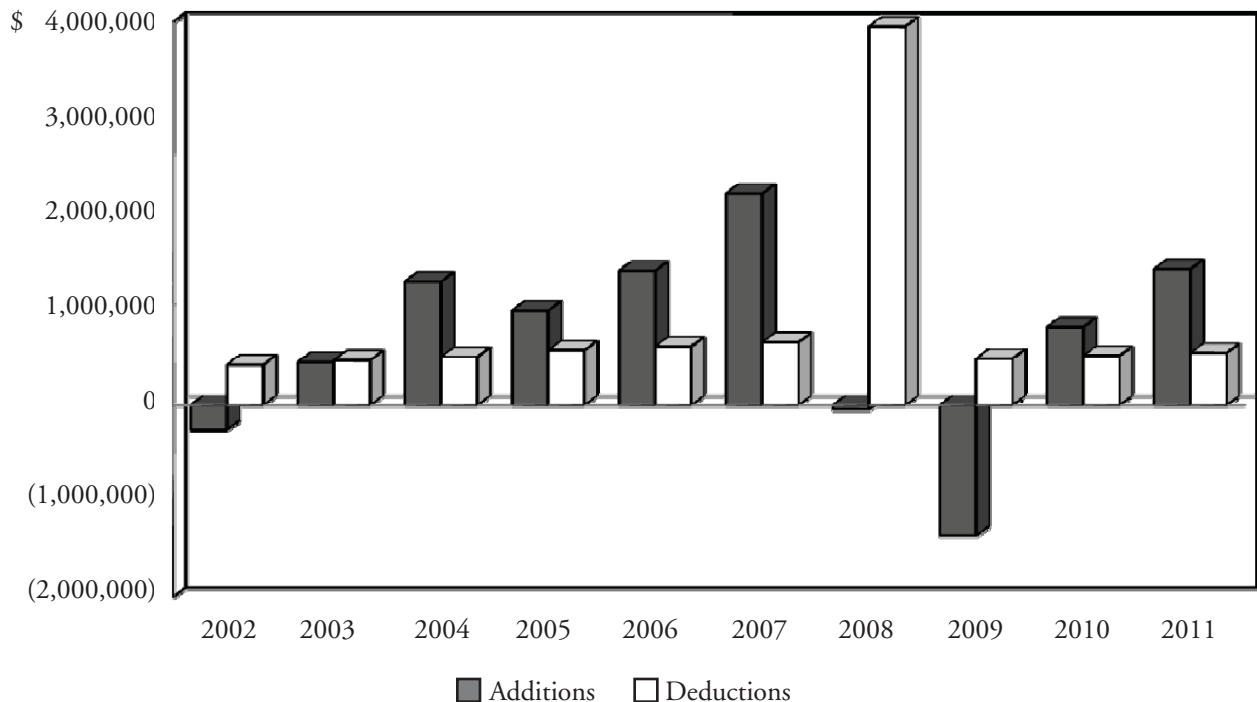
Demographic Information **178 - 182**

These schedules contain detailed demographic data to provide the reader a better understanding of the membership and employer participation in the System.

STATISTICAL SECTION

Public Employees' Retirement System Defined Benefit Pension Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
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	1,288,896	503,045	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	2,206,458	655,965	1,550,493	10,929,964
2008	10,929,964	(43,539)	3,950,617	(3,994,156)	6,935,808
2009	6,935,808	(1,360,217)	485,151	(1,845,368)	5,090,440
2010	5,090,440	815,831	514,744	301,087	5,391,527
2011	5,391,527	1,420,342	543,944	876,398	6,267,925

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

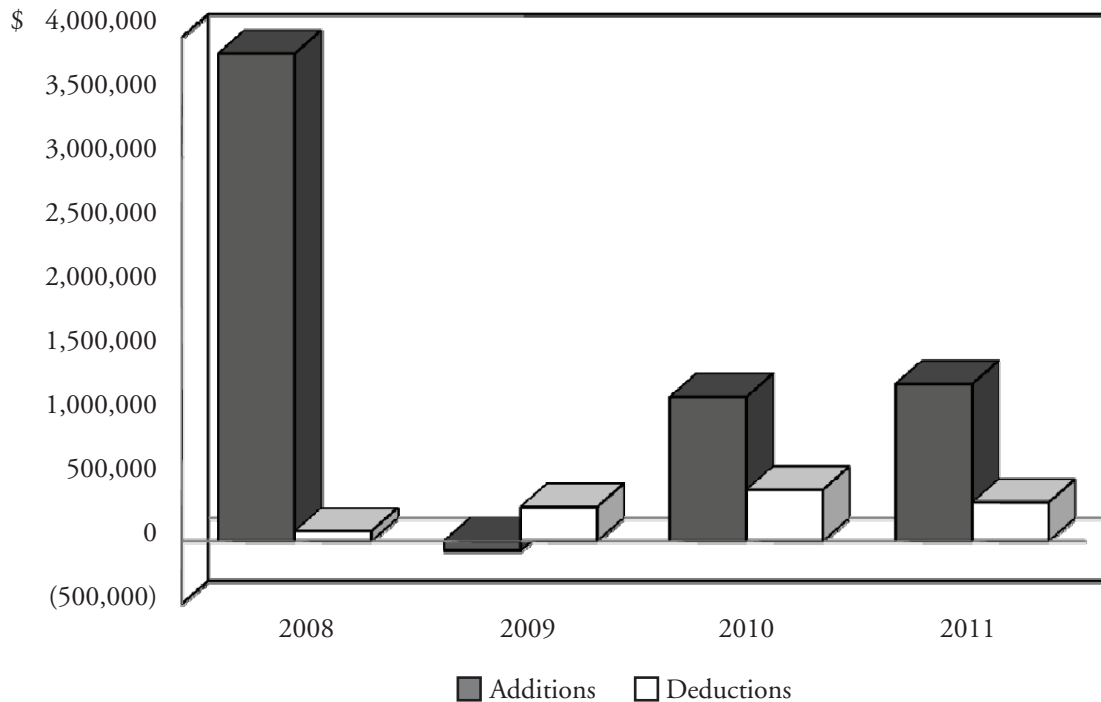


STATISTICAL SECTION

**Public Employees' Retirement System
Defined Benefit Alaska Retiree Healthcare Trust
Changes in Net Assets
(In thousands)**

Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2008	\$ -	\$ 3,870,127	\$ 79,022	\$ 3,791,105	\$ 3,791,105
2009	3,791,105	(75,318)	270,412	(345,730)	3,445,375
2010	3,445,375	1,143,261	407,555	735,706	4,181,081
2011	4,181,081	1,246,616	307,002	939,614	5,120,695

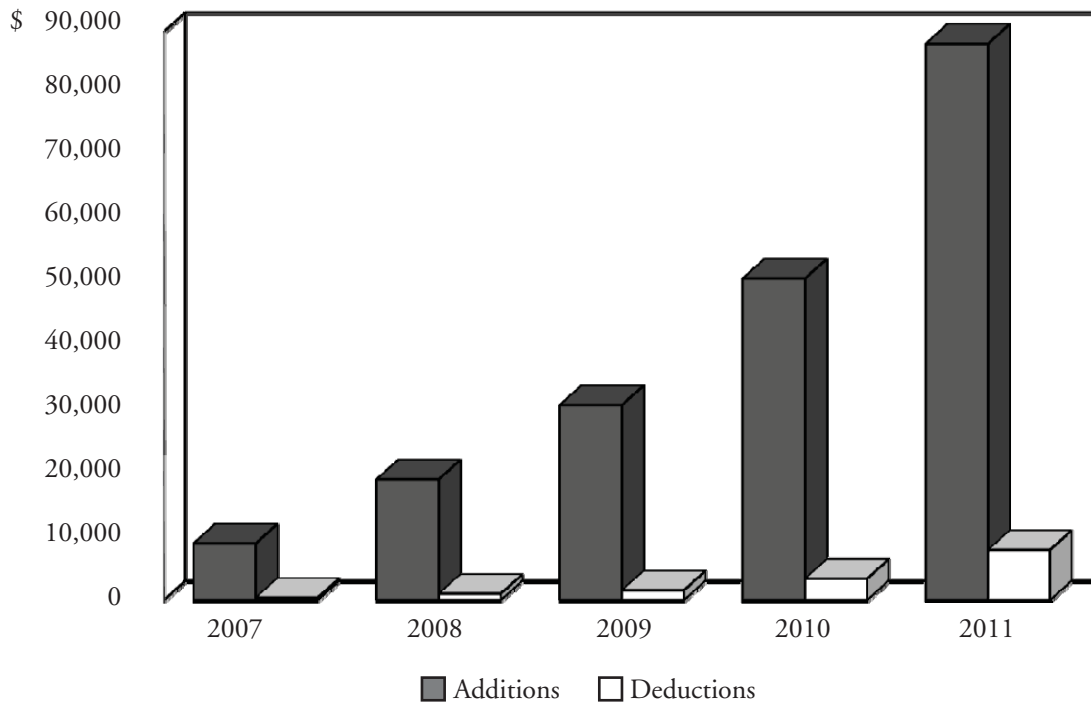
**4-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



STATISTICAL SECTION

Public Employees' Retirement System Deferred Contribution Retirement Participant Directed Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ -	\$ 8,947	\$ 363	\$ 8,584	\$ 8,584
2008	8,584	19,098	995	18,103	26,687
2009	26,687	30,856	1,532	29,324	56,011
2010	56,011	50,908	3,364	47,544	103,555
2011	103,555	88,084	7,937	80,147	183,702

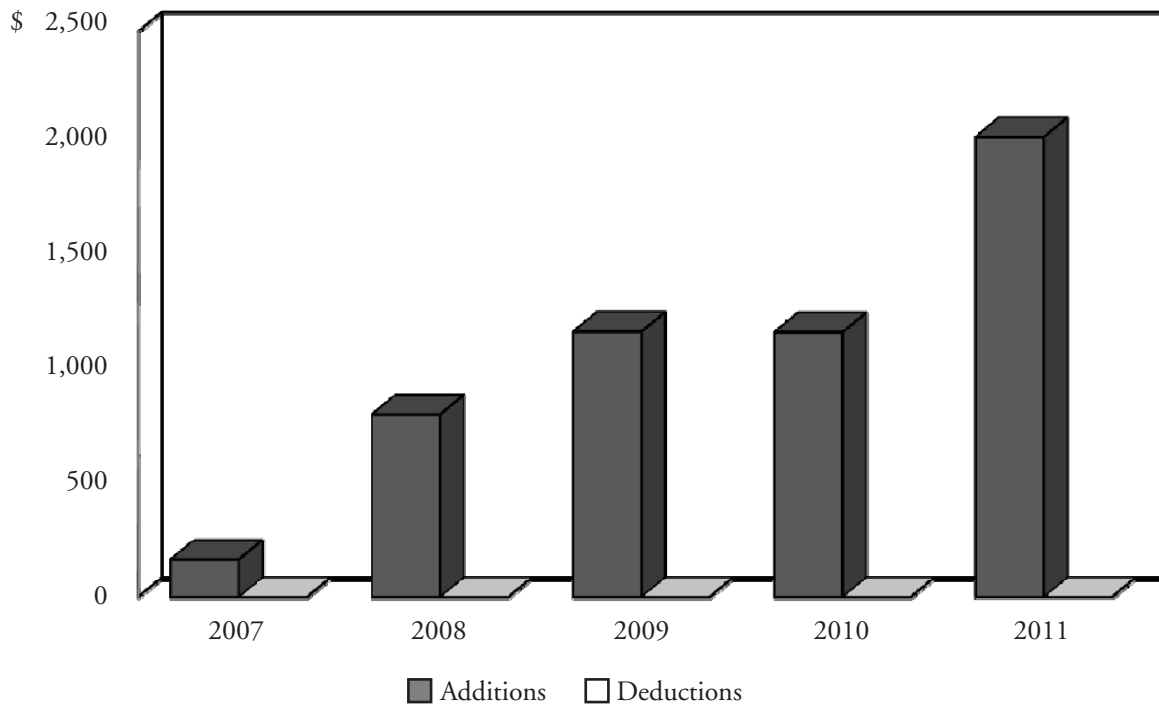
5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System					
Defined Contribution Retirement Occupational Death & Disability All Other					
Changes in Net Assets					
(In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ -	\$ 166	\$ -	\$ 166	\$ 166
2008	166	807	-	807	973
2009	973	1,173	-	1,173	2,146
2010	2,146	1,171	-	1,171	3,317
2011	3,317	2,034	-	2,034	5,351

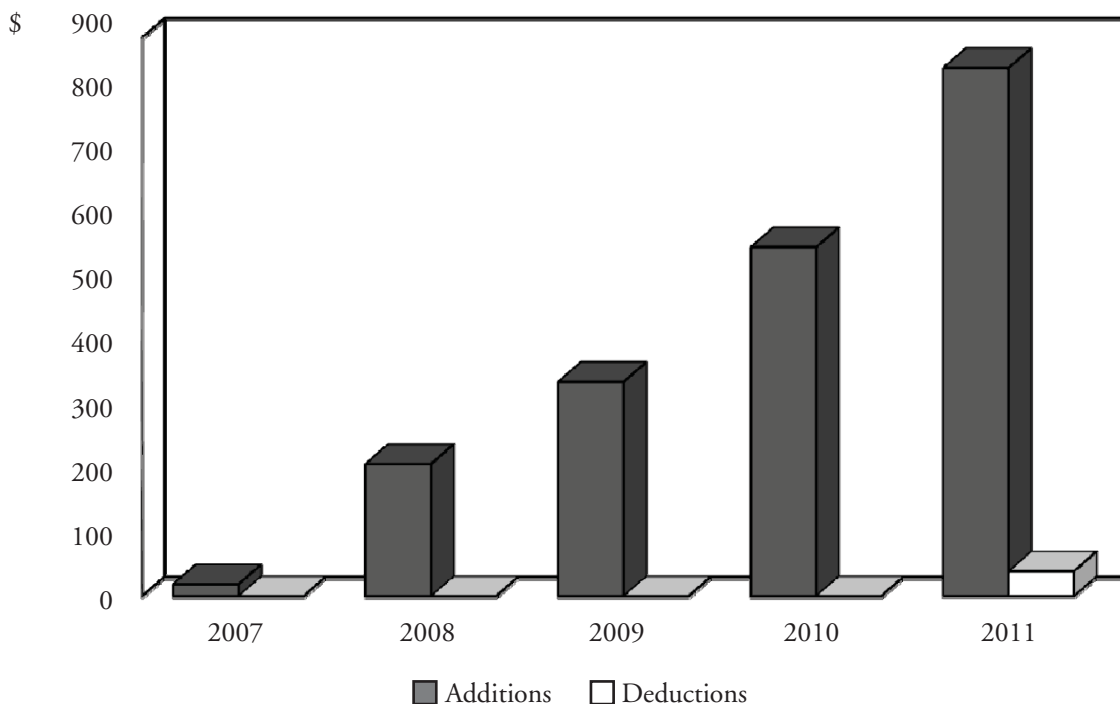
5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability Peace Officers & Firefighters Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ -	\$ 19	\$ -	\$ 19	\$ 19
2008	19	213	-	213	232
2009	232	345	-	345	577
2010	577	562	-	562	1,139
2011	1,139	851	40	811	1,950

5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)

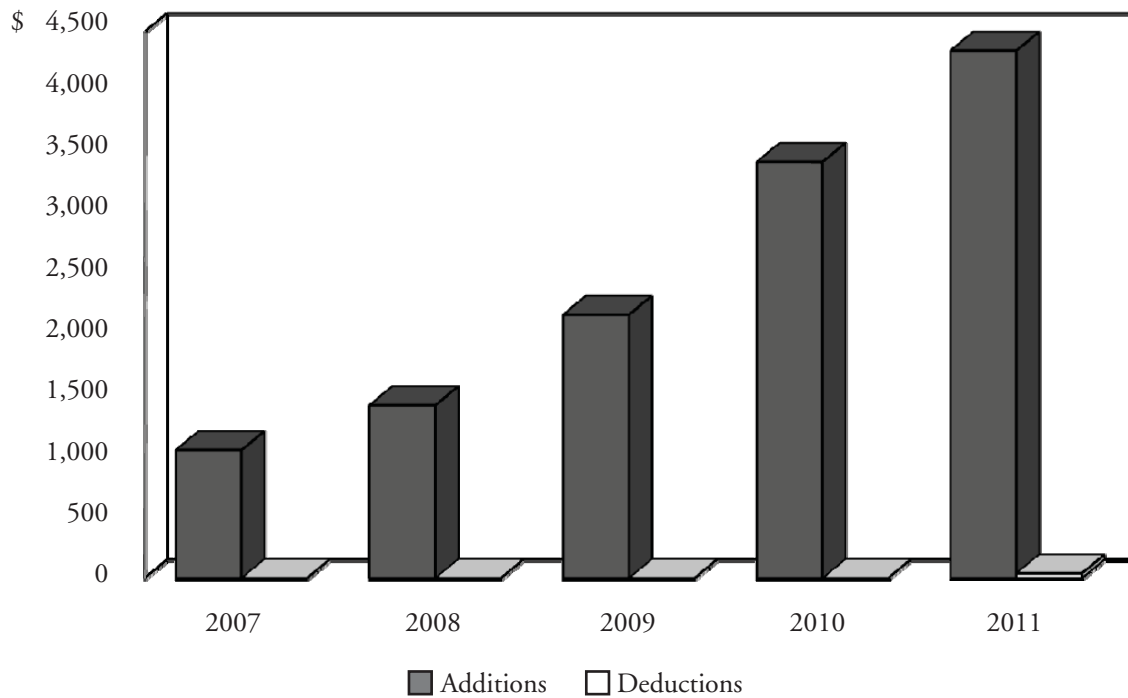


STATISTICAL SECTION

**Public Employees' Retirement System
Defined Contribution Retirement Retiree Medical Plan
Changes in Net Assets
(In thousands)**

Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ -	\$ 1,055	\$ -	\$ 1,055	\$ 1,055
2008	1,055	1,424	-	1,424	2,479
2009	2,479	2,170	-	2,170	4,649
2010	4,649	3,429	-	3,429	8,078
2011	8,078	4,345	-	4,345	12,423

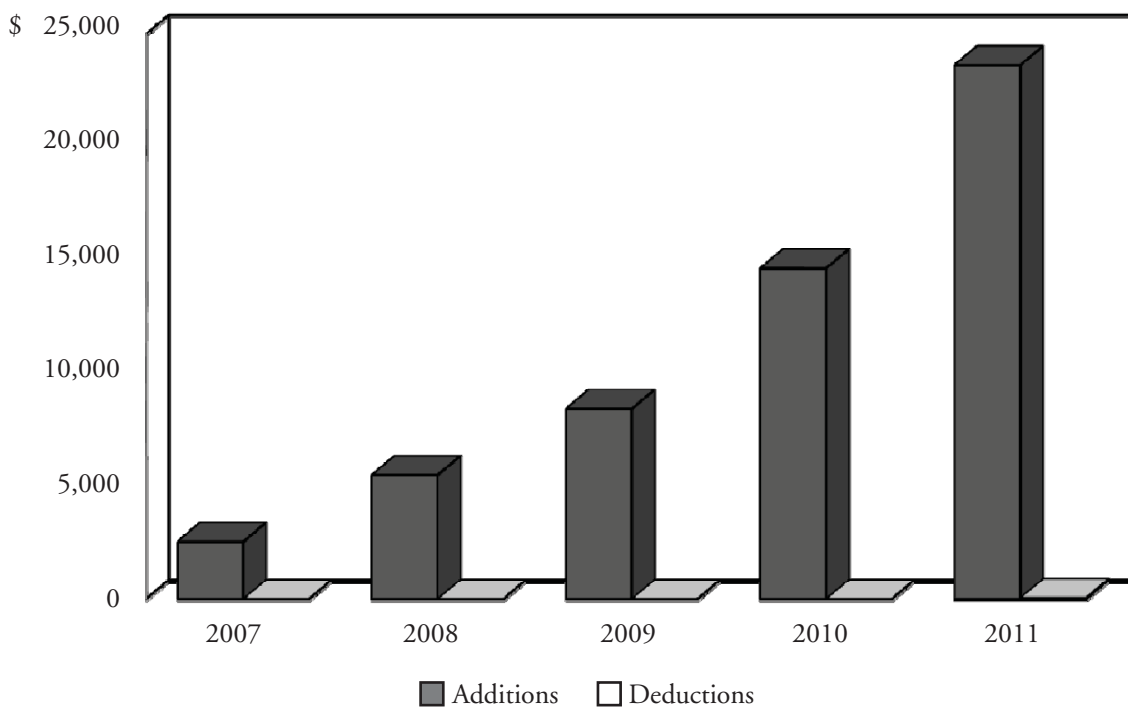
**5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ -	\$ 2,536	\$ -	\$ 2,536	\$ 2,536
2008	2,536	5,484	-	5,484	8,020
2009	8,020	8,414	-	8,414	16,434
2010	16,434	14,635	-	14,635	31,069
2011	31,069	23,625	-	23,625	54,694

5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)

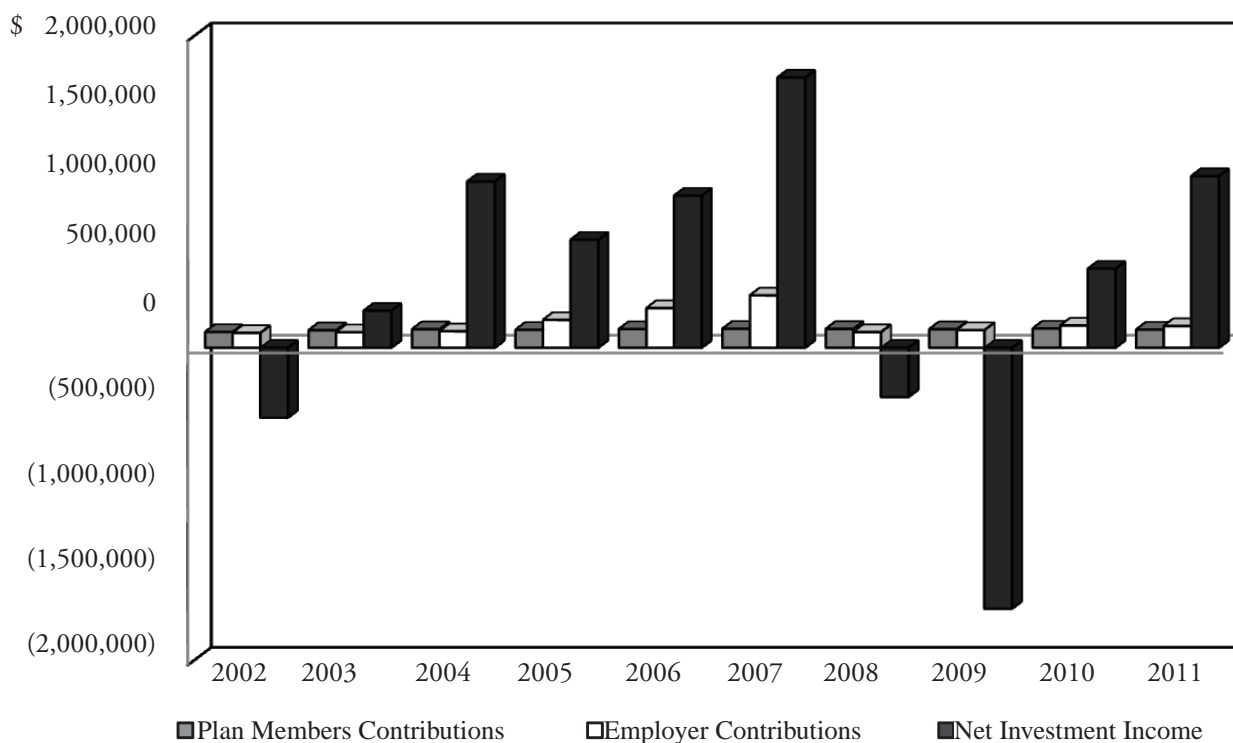


STATISTICAL SECTION

Public Employees' Retirement System Defined Benefit Pension Additions by Source (In thousands)

Year Ended June 30	Plan Member Contributions	Employer Contributions	State of Alaska	Net Investment Income (Loss)	Other	Total
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	152	1,288,896
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	121,103	335,296	18,582	1,731,393	84	2,206,458
2008	120,506	100,323	50,875	(315,290)	47	(43,539)
2009	118,815	113,059	79,681	(1,671,794)	22	(1,360,217)
2010	123,066	142,157	44,460	506,043	105	815,831
2011	116,270	139,075	65,187	1,099,713	97	1,420,342

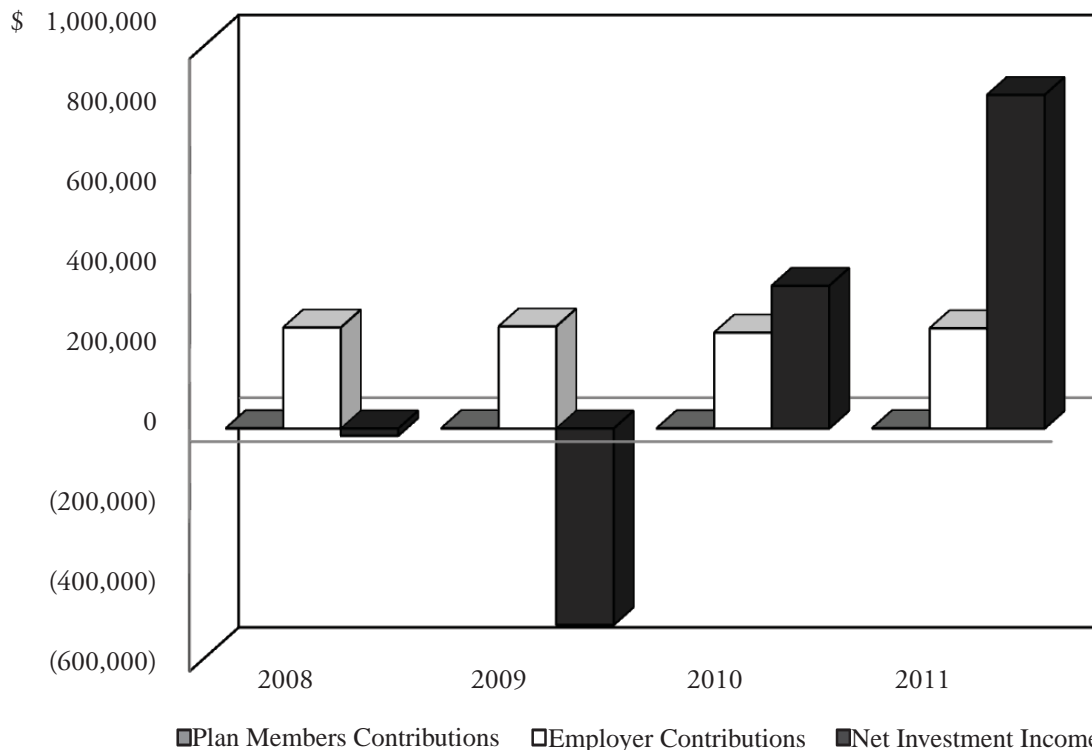
10-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Additions by Source (In thousands)							
Year Ended June 30	Plan Member Contributions	Employer Contributions	State of Alaska	Net Investment Income (Loss)	Transfer	Other	Total
2008	\$ 474	\$ 263,755	\$ 134,125	\$ (18,803)	\$3,490,576	\$ -	\$ 3,870,127
2009	523	266,481	161,919	(512,999)	-	8,758	(75,318)
2010	475	250,190	63,493	372,712	-	456,391	1,143,261
2011	557	261,534	100,654	871,221	-	12,650	1,246,616

4-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)

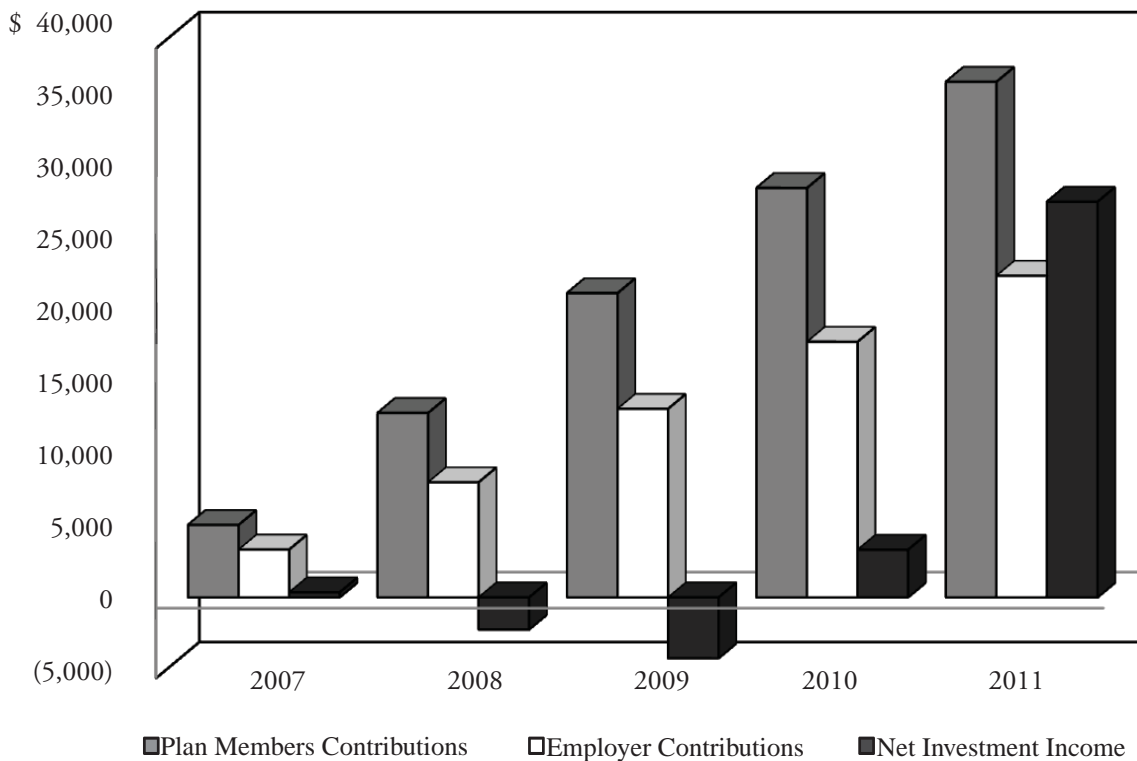


STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Participant Directed Additions by Source (In thousands)

Year Ended June 30	Plan Member Contributions	Employer Contributions	Net Investment Income (Loss)	Other	Total
2007	\$ 5,175	\$ 3,413	\$ 359	\$ -	\$ 8,947
2008	13,171	8,221	(2,294)	-	19,098
2009	21,735	13,470	(4,349)	-	30,856
2010	29,246	18,258	3,404	-	50,908
2011	36,831	22,976	28,264	13	88,084

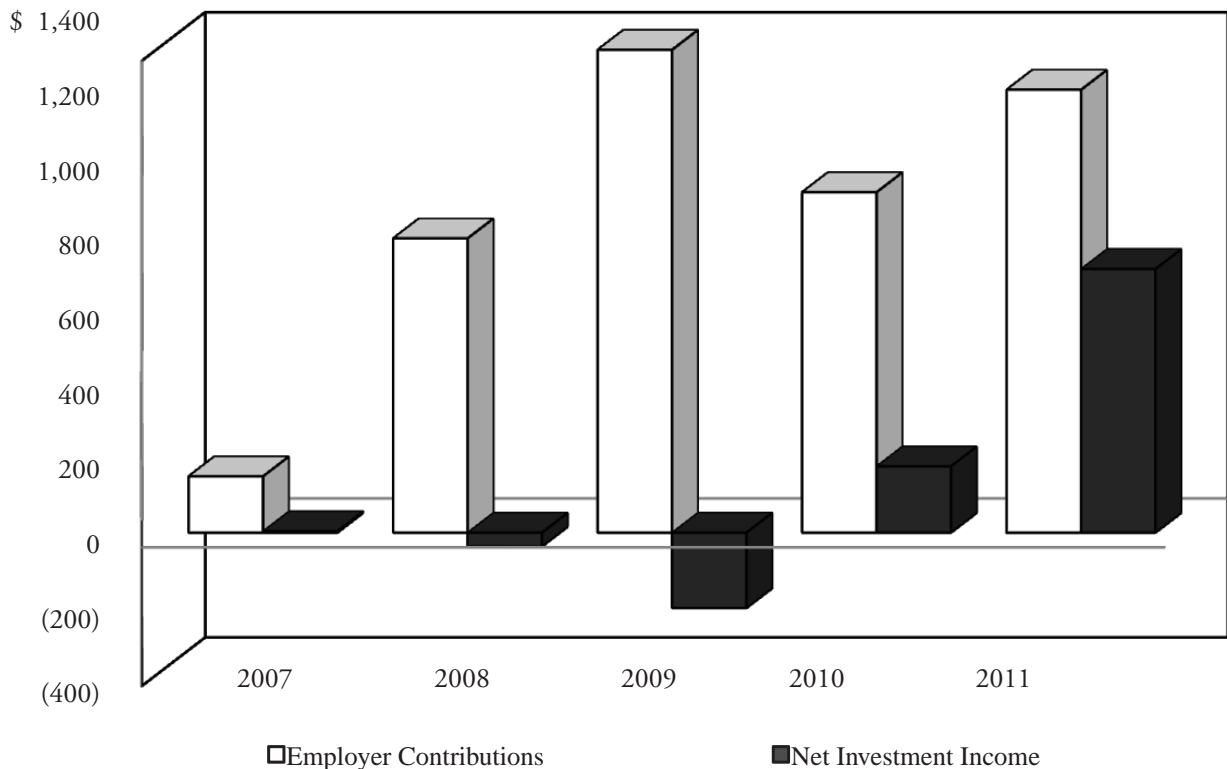
5-YEAR COMPARISON OF ADDITIONS BY SOURCE (In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability All Other Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ 162	\$ 4	\$ 166
2008	847	(40)	807
2009	1,390	(217)	1,173
2010	980	191	1,171
2011	1,275	759	2,034

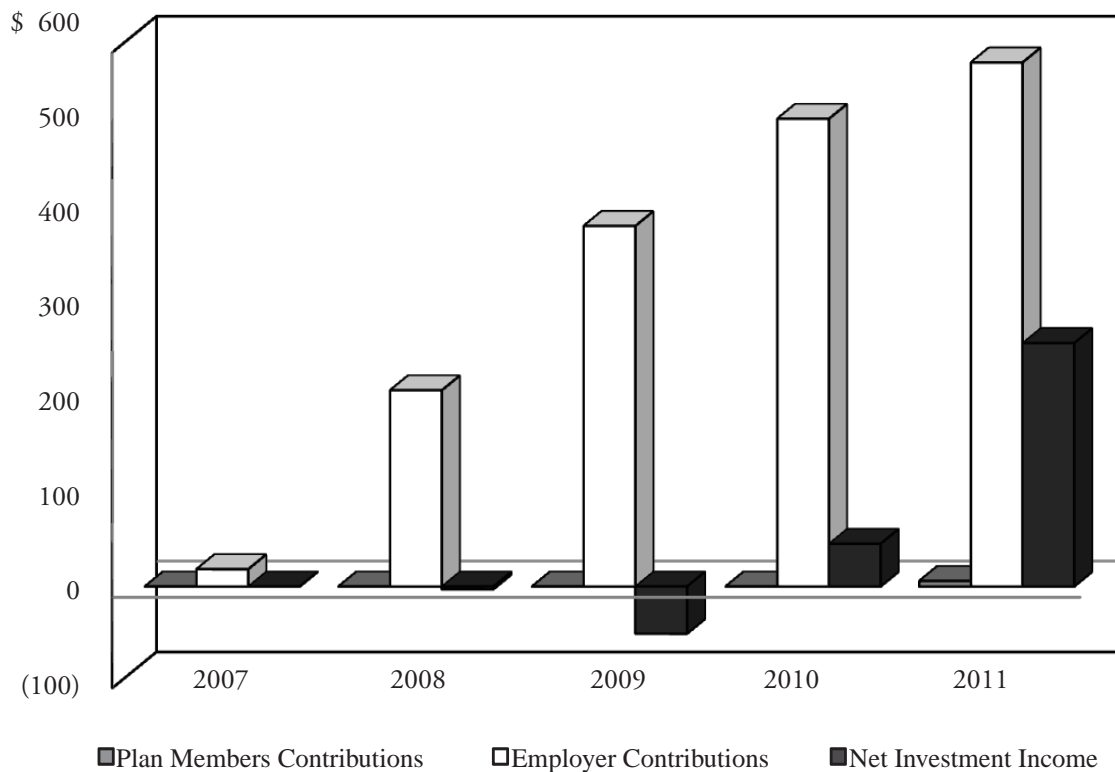
5-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability Peace Officers & Firefighters Additions by Source (In thousands)				
Plan Ended June 30	Plan Member Contributions	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ -	\$ 19	\$ -	\$ 19
2008	-	216	(3)	213
2009	-	397	(52)	345
2010	-	515	47	562
2011	6	577	268	851

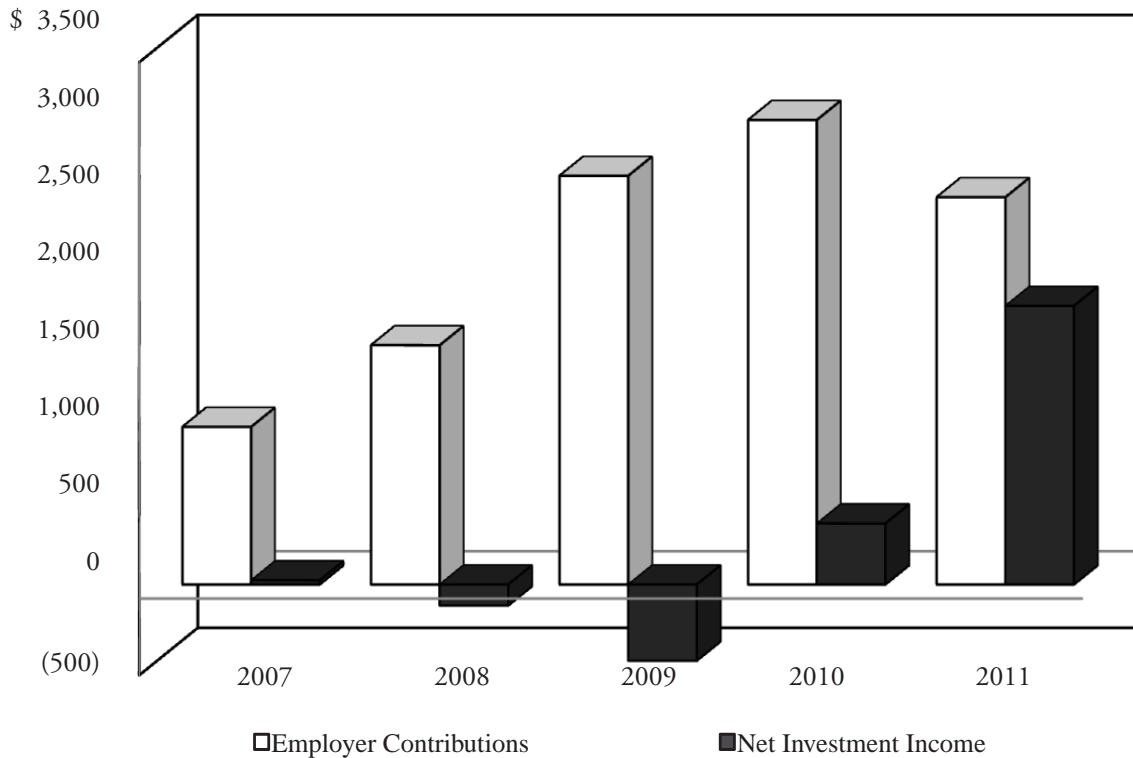
5-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Retiree Medical Plan Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ 1,028	\$ 27	\$ 1,055
2008	1,561	(137)	1,424
2009	2,667	(497)	2,170
2010	3,031	398	3,429
2011	2,527	1,818	4,345

5-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)

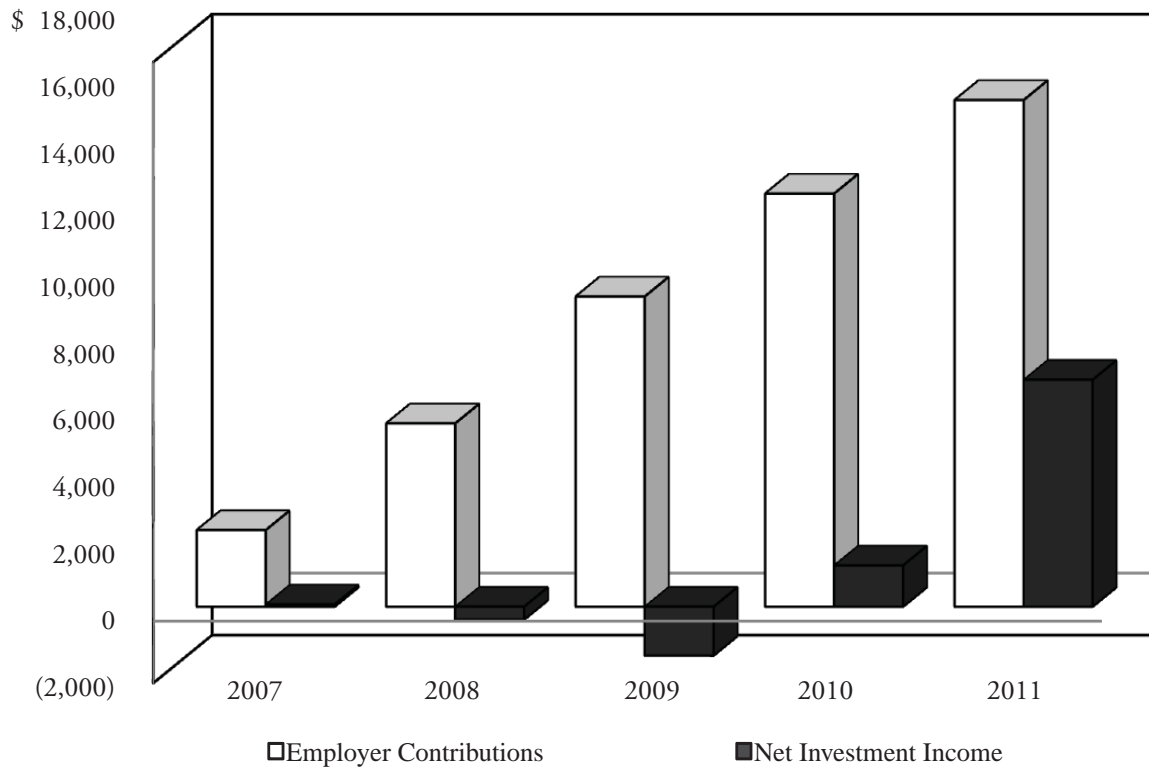


STATISTICAL SECTION

**Public Employees' Retirement System
Defined Contribution Retirement Health Reimbursement Arrangement
Additions by Source
(In thousands)**

Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ 2,465	\$ 71	\$ 2,536
2008	5,902	(418)	5,484
2009	9,988	(1,574)	8,414
2010	13,304	1,331	14,635
2011	16,317	7,308	23,625

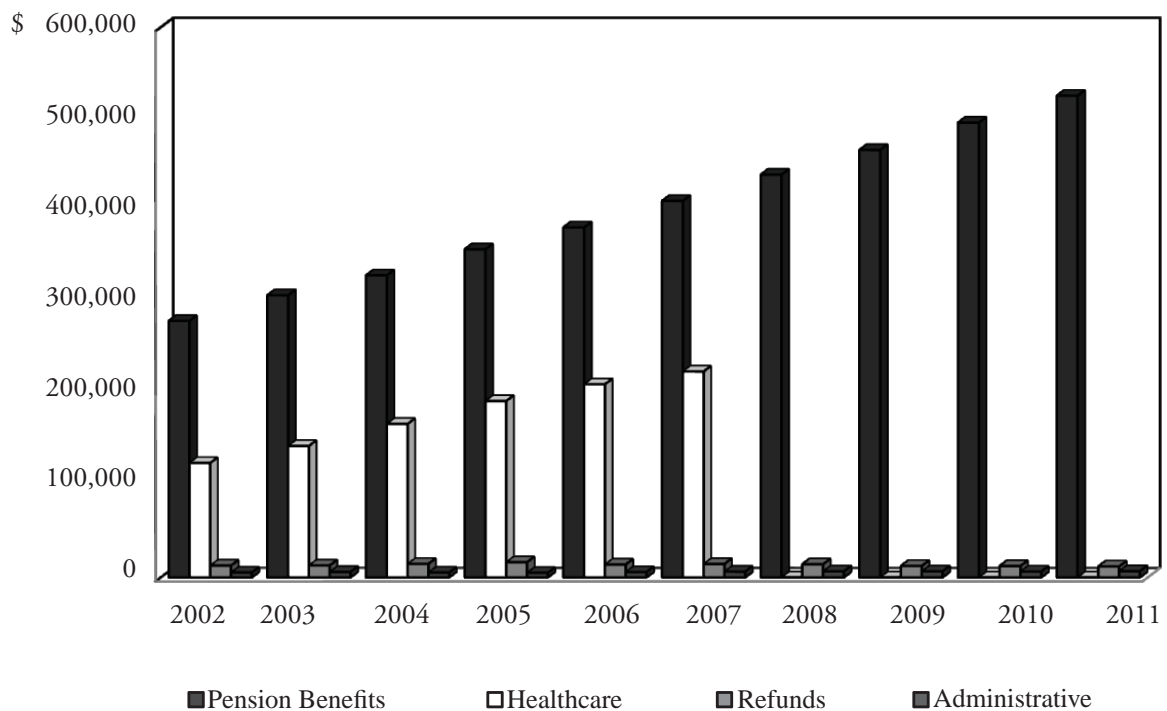
**5-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)**



STATISTICAL SECTION

Public Employees' Retirement System Defined Benefit Pension Deductions by Type (In thousands)						
Year Ended June 30	Pension Benefits	Healthcare	Refunds of Contributions	Administrative Deductions	Transfer	Total
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	(13,724)	503,045
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	14,621	6,246	-	655,965
2008	439,123	-	14,333	6,585	3,490,576	3,950,617
2009	466,085	-	12,498	6,568	-	485,151
2010	496,015	-	12,364	6,365	-	514,744
2011	525,277	-	11,923	6,744	-	543,944

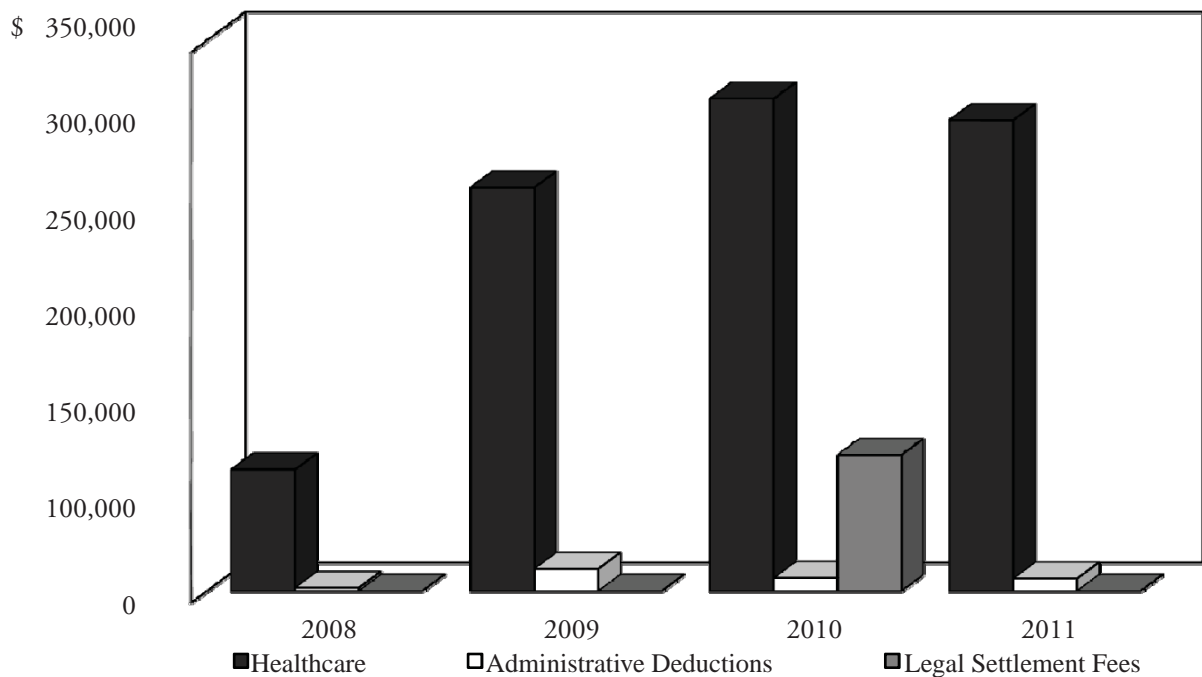
10-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Deductions by Type (In thousands)				
Plan Ended June 30	Healthcare	Administrative Deductions	Legal Settlement Fees	Total
2008	\$ 77,074	\$ 1,948	\$ -	\$ 79,022
2009	256,408	14,004	-	270,412
2010	312,901	8,226	86,428	407,555
2011	299,196	7,806	-	307,002

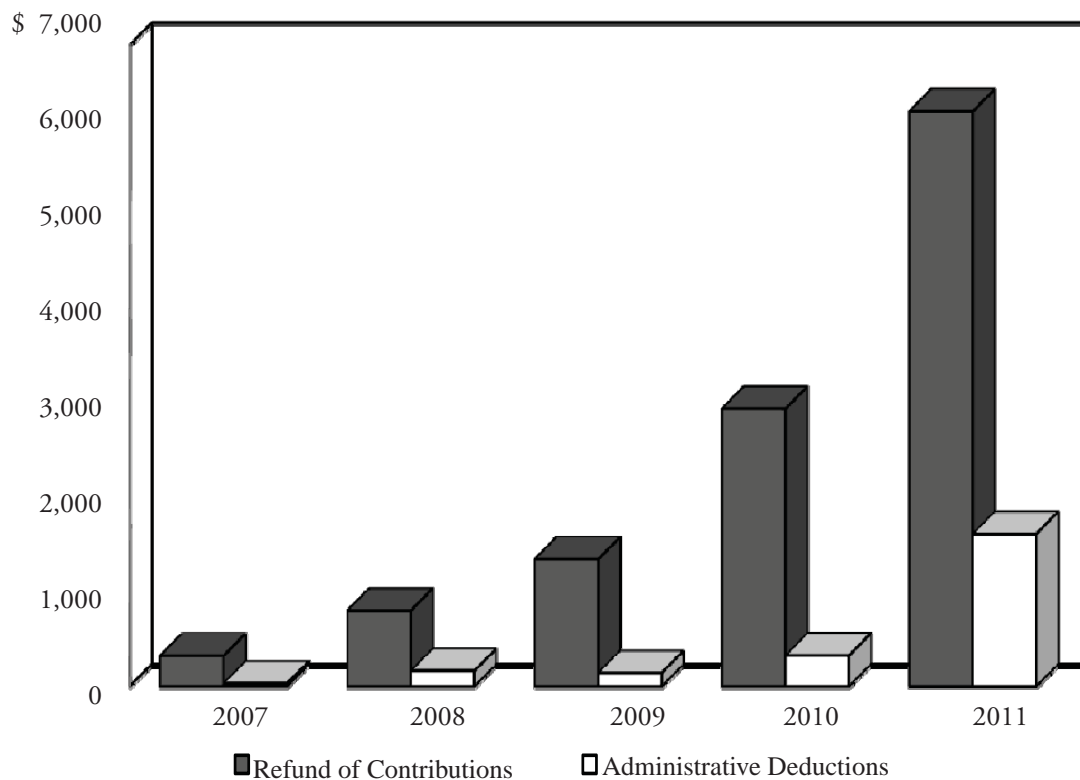
4-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Participant Directed Deductions by Type (In thousands)			
Plan Ended June 30	Refund of Contributions	Administrative Deductions	Total
2007	\$ 332	\$ 31	\$ 363
2008	826	169	995
2009	1,386	146	1,532
2010	3,029	335	3,364
2011	6,273	1,664	7,937

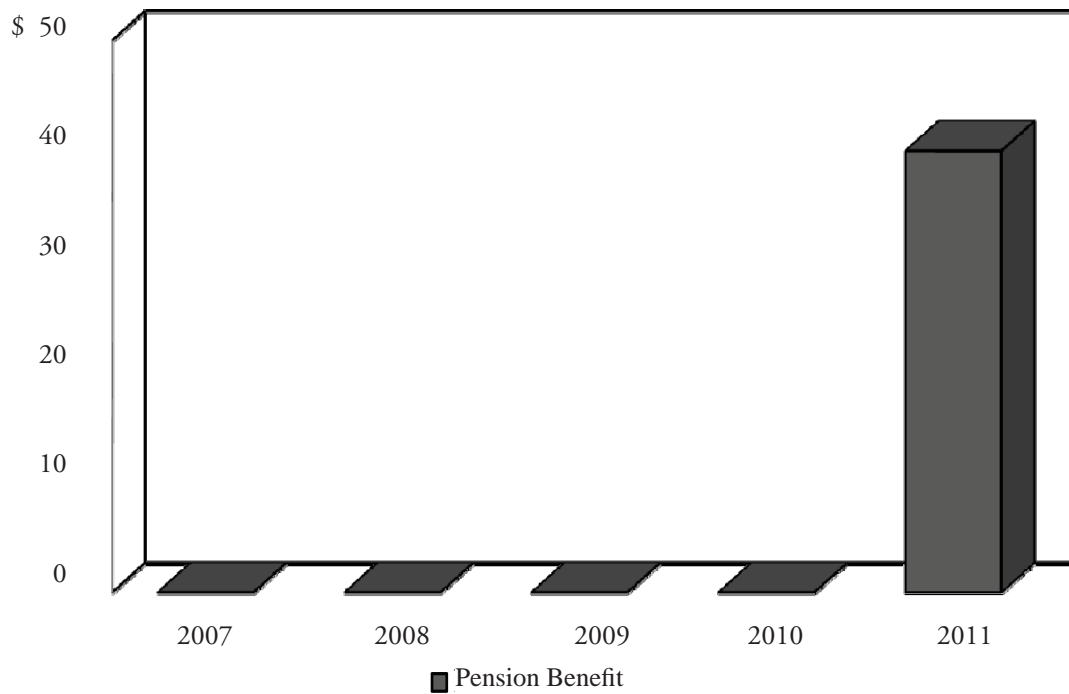
5-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



STATISTICAL SECTION

Public Employees' Retirement System Defined Contribution Retirement Deductions by Type (In thousands)		
Plan Ended June 30	Pension Benefits	Total
2007	\$ -	\$ -
2008	-	-
2009	-	-
2010	-	-
2011	40	40

5-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



STATISTICAL SECTION

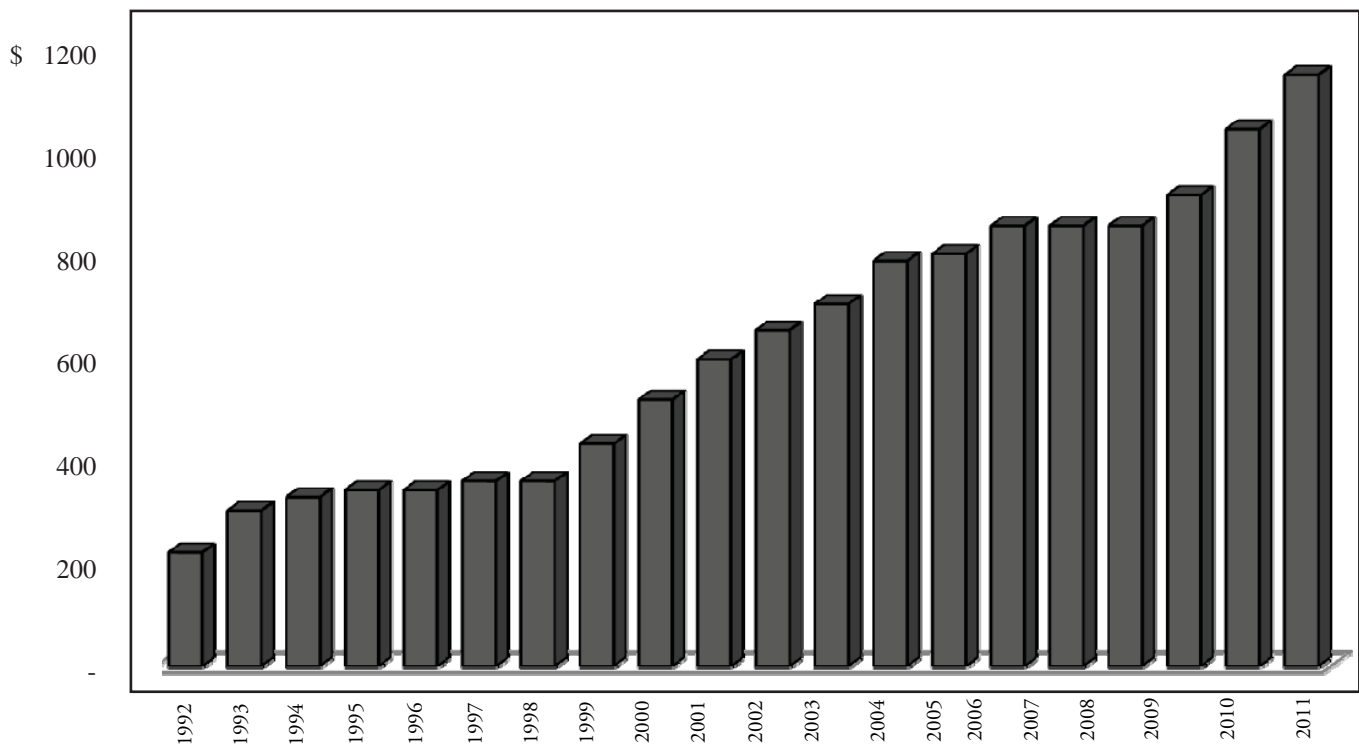
Public Employees' Retirement System Schedule of Average Benefit Payments New Benefit Recipients							
	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Other							
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	\$ 423	\$ 516	\$1,008	\$1,571	\$2,249	\$3,176	\$3,369
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
Period 7/1/09 - 6/30/10:							
Average Monthly Benefit	\$ 485	\$ 579	\$1,116	\$1,763	\$2,674	\$4,008	\$5,039
Number of Recipients	93	367	273	217	218	200	74
Peace Officer/Firefighter							
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
Period 7/1/09 - 6/30/10:							
Average Monthly Benefit	\$1,902	\$1,242	\$1,459	\$2,284	\$3,179	\$4,527	\$4,695
Number of Recipients	4	7	16	14	28	14	7

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

STATISTICAL SECTION

Public Employees' Retirement System Schedule of Pension and Healthcare Benefits Deductions by Type (In thousands)					
Year Ended June 30	Service	Disability	Survivor	Healthcare	Total
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	779,110
2011	492,808	5,821	26,648	323,843	849,120

20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS



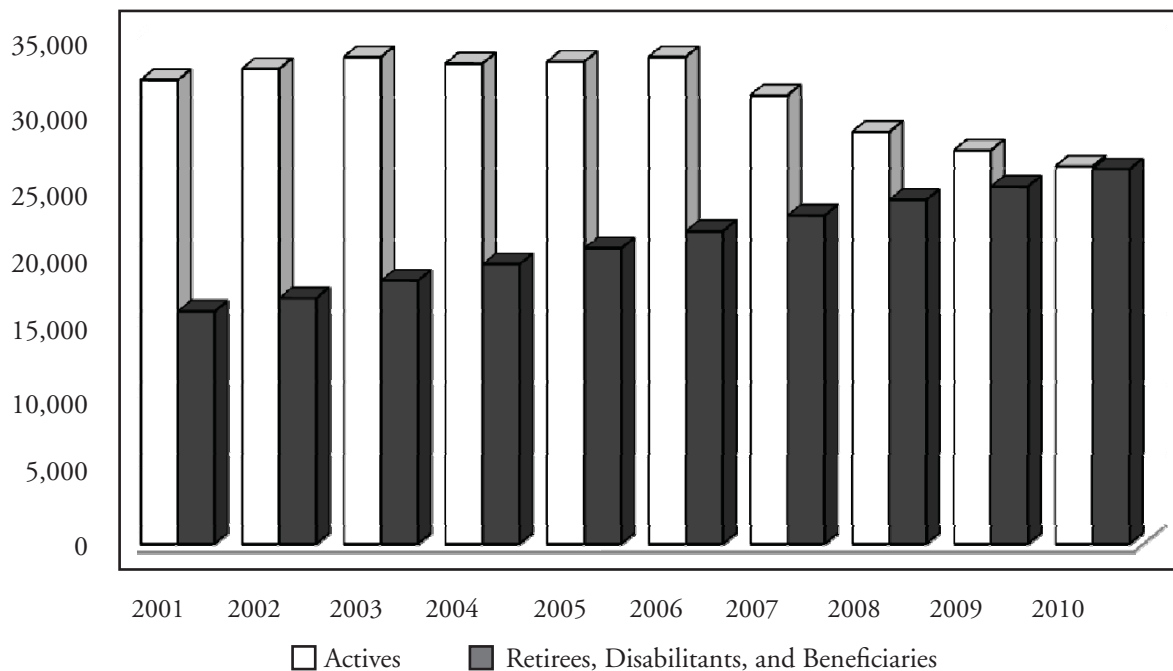
STATISTICAL SECTION

Public Employees' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Selected Valuation as of June 30, 2010									
Amount of Monthly Pension Benefit	Number of Recipients	Type of Pension Benefit			Option Selected				
		1	2	3	1	2	3	4	5
Other									
\$ 1 - 300	1,934	1,553	378	3	844	378	286	60	366
301 - 600	4,338	3,737	561	40	2,121	1,092	663	243	219
601 - 900	3,369	2,940	408	21	1,586	855	520	212	196
901 - 1,200	2,775	2,448	290	37	1,289	707	453	186	140
1,201 - 1,500	2,254	1,997	212	45	1,000	642	350	130	132
1,501 - 1,800	1,715	1,561	122	32	698	504	281	118	114
1,801 - 2,100	1,438	1,312	92	34	573	444	237	95	89
2,101 - 2,400	1,148	1,071	52	25	445	349	209	77	68
2,401 - 2,700	929	876	45	8	344	318	174	50	43
2,701 - 3,000	743	707	30	6	256	269	136	35	47
3,001 - 3,300	637	621	14	2	195	258	113	43	28
3,301 - 3,600	480	461	15	4	167	191	60	37	25
3,601 - 3,900	389	381	7	1	121	158	73	22	15
3,901 - 4,200	346	343	1	2	102	161	58	14	11
over 4,200	1,065	1,054	9	2	310	440	205	72	38
Totals	23,560	21,062	2,236	262	10,051	6,766	3,818	1,394	1,531
Peace Officer/Firefighter									
\$ 1 - 300	46	26	20	0	25	8	1	1	11
301 - 600	157	104	52	1	72	39	21	12	13
601 - 900	137	85	49	3	74	35	8	10	10
901 - 1,200	163	112	47	4	85	39	18	8	13
1,201 - 1,500	137	104	29	4	70	28	17	12	10
1,501 - 1,800	140	111	26	3	51	48	23	11	7
1,801 - 2,100	177	136	32	9	75	51	25	14	12
2,101 - 2,400	205	172	25	8	75	79	27	17	7
2,401 - 2,700	199	182	12	5	54	86	28	19	12
2,701 - 3,000	245	227	14	4	65	116	43	9	12
3,001 - 3,300	202	189	11	2	56	96	25	18	7
3,301 - 3,600	190	184	5	1	48	91	24	15	12
3,601 - 3,900	153	149	3	1	41	74	17	14	7
3,901 - 4,200	142	140	2	0	35	68	19	13	7
over 4,200	384	377	7	0	76	223	43	31	11
Totals	2,677	2,298	334	45	902	1,081	339	204	151
Type of Pension Benefit					Option Selected				
1 - Regular retirement					1 - Whole Life Annuity				
2 - Survivor payment					2 - 75% Joint and Survivor Annuity				
3 - Disability					3 - 50% Joint and Survivor Annuity				
					4 - 66-2/3% Joint and Survivor Annuity				
					5 - Level Income Option				

STATISTICAL SECTION

Public Employees' Retirement System System Membership by Status					
Year Ended June 30	Active	Retirees, Disabilitants & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
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
2010	26,442	26,237	6,253	14,543	73,475

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



STATISTICAL SECTION

Public Employees' Retirement System Principal Participating Employers June 30, 2011			
Employer	Non-retired Members	Rank	Percentage of of Total Non-retired Members
State of Alaska	25,559	1	41.8%
Anchorage School District	5,232	2	8.6
University of Alaska	<u>4,484</u>	3	<u>7.3</u>
Total	<u>35,275</u>		<u>57.7%</u>

STATISTICAL SECTION

Public Employees' Retirement System Participating Employers at June 30, 2011

Akutan, City of	Cordova City School District
Alaska, State of	Cordova Community Medical Center
Alaska Gateway School District	Craig, City of
Alaska Housing Finance Corporation	Craig City School District
Alaska Municipal League	
Alaska, University of	Delta-Greely School District
Aleutian Housing Authority	Delta Junction, City of
Aleutian Region School District	Denali Borough
Aleutians East Borough	Denali Borough School District
Aleutians East Borough School District	Dillingham, City of
Aleutians West Coastal Resource Service Area	Dillingham City School District
Allakaket, City of	
Anchorage, Municipality of	Eek, City of
Anchorage Community Development Authority	Egegik, City of
Anchorage School District	Elim, City of
Anderson, City of	
Aniak, City of	Fairbanks, City of
Annette Island School District	Fairbanks North Star Borough
Atka, City of	Fairbanks North Star Borough School District
	Fort Yukon, City of
Baranof Island Housing Authority	
Barrow, City of	Galena, City of
Bartlett Regional Hospital	Galena City School District
Bering Straits Coastal Resource Service Area	
Bering Straits Regional Housing Authority	Haines Borough
Bering Strait School District	Haines Borough School District
Bethel, City of	Homer, City of
Bristol Bay Borough	Hoonah, City of
Bristol Bay Borough School District	Hoonah City School District
Bristol Bay Housing Authority	Hooper Bay, City of
	Huslia, City of
Chatham School District	Hydaburg City School District
Chugach School District	
Cook Inlet Housing Authority	Iditarod Area School District
Copper River Basin Regional Housing Authority	Ilisagvik College
Copper River School District	Interior Regional Housing Authority
Cordova, City of	Inter-Island Ferry Authority

STATISTICAL SECTION

Public Employees' Retirement System Participating Employers at June 30, 2011 (continued)

Juneau School District, City and Borough	Nome Joint Utility System
Juneau, City and Borough of	Noorvik, City of
Kachemak, City of	North Pacific Fishery Management Council
Kake City School District	North Pacific Rim Housing Authority
Kaltag, City of	North Pole, City of
Kashunamiut School District	North Slope Borough
Kenai, City of	North Slope Borough School District
Kenai Peninsula Borough	Northwest Arctic Borough
Kenai Peninsula Borough School District	Northwest Arctic Borough School District
Ketchikan, City of	Northwest Inupiat Housing Authority
Ketchikan Gateway Borough	Nulato, City of
Ketchikan Gateway Borough School District	Palmer, City of
King Cove, City of	Pelican, City of
Kivalina, City of	Pelican City School District
Klawock, City of	Petersburg, City of
Klawock City School District	Petersburg City School District
Kodiak, City of	Petersburg Medical Center
Kodiak Island Borough	Pribilof School District
Kodiak Island Borough School District	Quinhagak, City of
Kotzebue, City of	Saint George, City of
Koyuk, City of	Saint Mary's School District
Kuspuk School District	Saint Paul, City of
Lake and Peninsula Borough	Sand Point, City of
Lake and Peninsula Borough School District	Saxman, City of
Lower Kuskokwim School District	Saxman Seaport
Lower Yukon School District	Selawik, City of
Matanuska-Susitna Borough	Seldovia, City of
Matanuska-Susitna Borough School District	Seward, City of
Mekoryuk, City of	Shaktoolik, City of
Nenana, City of	Sitka Borough School District
Nenana City School District	Sitka, City and Borough of
Nome, City of	Sitka Community Hospital
Nome City School District	Skagway Municipality

STATISTICAL SECTION

**Public Employees' Retirement System
Participating Employers
at June 30, 2011 (continued)**

Skagway City School District

Skagway Municipality

Soldotna, City of

Southeast Island School District

Southeast Regional Resource Center

Southwest Region School District

Special Education Service Agency

Tagiugmiullu Nunamiullu Housing Authority

Tanana, City of

Tanana School District

Thorne Bay, City of

Tlingit-Haida Regional Housing Authority

Toksook Bay, City of

Unalakleet, City of

Unalaska, City of

Unalaska City School District

Upper Kalskag, City of

Valdez, City of

Valdez City School District

Wasilla, City of

Whittier, City of

Wrangell, City and Borough of

Wrangell Public School District

Yakutat, City and Borough of

Yakutat School District

Yukon Flats School District

Yukon-Koyukuk School District

Yupiit School District



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