

# ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A component unit of the State of Alaska  
**Comprehensive Annual Financial Report**  
Fiscal Year Ended June 30, 2014  
Bill Walker, Governor



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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**A Component Unit of the State of Alaska**

*For the Fiscal Year Ended June 30, 2014*



**Bill Walker, Governor**

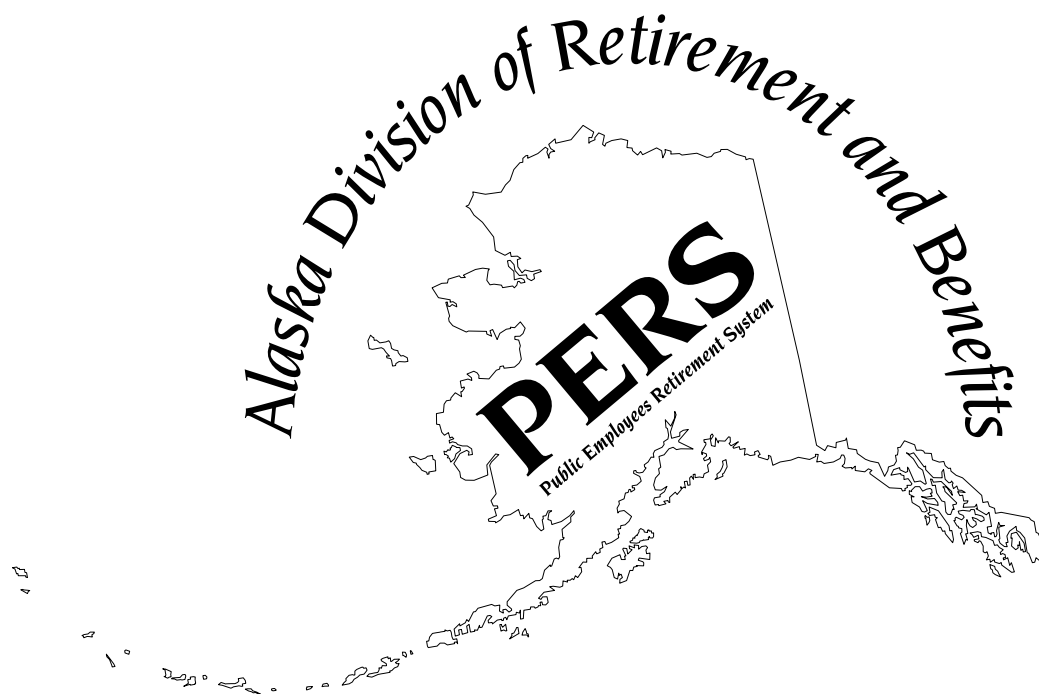
Prepared by

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# INTRODUCTORY SECTION

*Alaska Division of Retirement and Benefits*





THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Administration

### DIVISION OF RETIREMENT AND BENEFITS

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## LETTER OF TRANSMITTAL

December 15, 2014

The Honorable Bill Walker, 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, 2014. 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, 2014. 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 unmodified opinion on the System's basic financial statements for the year ended June 30, 2014. 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 organization chart of the Division, and a list of the members serving on the Alaska Retirement Management Board (the Board);
- **Financial Section**, which contains the Independent Auditor's Report, MD&A, basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;



# Introductory Section

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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 benefits for eligible state and local government employees. Post-employment health care benefits were added in July 1, 1975. Senate Bill 141, signed into law on July 27, 2005, closed the Defined Benefit (DB) Plan effective July 1, 2006, to new members and created a Defined Contribution (DC) 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 DC Plan. This report includes both plans. The DB Plan includes the defined benefit pension plan and the Alaska Retiree Health Care Trust (Tiers I, II, and III). The DC Plan includes the defined contribution retirement trust, occupational death and disability plan, retiree major medical plan, and the health reimbursement arrangement plan (Tier IV).

## 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 Plan Administrator of the Division of Retirement and Benefits (Division). The Plan Administrator is responsible for the daily operations of the System.

The Alaska Retirement Management Board (Board), 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 Board 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 Systems to the Governor, Legislature, and individual employers participating in the System.

## **Major Initiatives / Changes**

The System continues to make progress on several ongoing projects. Most of these efforts are focused on 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.

Effective January 1, 2014, the administration of the AlaskaCare health insurance plans for Public Employees', Teachers', Judicial, and certain state employees is administered by Aetna. The dental plan is administered by Moda Health / Delta Dental of Alaska. Additionally, beginning in 2014, the health insurance plans will be on a calendar benefit year, a switch from the July to June benefit year.

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 strives to provide the highest degree of customer service to all members. The Division continues to enhance and develop the central Member Services Section with the goals of improving phone service, providing faster processing of all customer requests, and improving member education services.

The System continues to offer a broad array of fairs and seminars directed toward both active members and employers, with the goal to assist employers with successful marketing of the plans, 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, 2013, actuarial valuation report to the Plan Administrator and the Board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report dated June 30, 2013, the PERS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for the DB pension and postemployment healthcare benefits) of 60.8%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$7.8 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 Board. Recently passed legislation appropriating \$1 billion to the System's defined benefit plan can be found in the Notes to Financial Statements of the Financial Section.

## **Investments**

On June 30, 2014, the DB Plan's investment portfolio was valued at \$14.2 billion and earned an 18.56% return for the fiscal year ended June 30, 2014. The DC Plan's investment portfolio was valued at \$679.5 million for the fiscal year ended June 30, 2014. Over the past five years ending June 30, 2014, the DB Plan's investments earned a 12.58% return. The Board has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the Board. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The Board reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

# Introductory Section

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## **Accounting System**

This CAFR has been prepared to conform to 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**

Division management is responsible for establishing and maintaining a system of internal controls to protect System 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, 2013. 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.

Additionally, the Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for Funding and Administration certificate for the fiscal year ended June 30, 2014.

The Public Pension Standards Award for Funding and Administration certificate is valid for a period of one year. The Division is confident the System will continue to meet the standards award requirements and will apply to the PPCC for consideration in 2015.

## **Acknowledgements**

The preparation of this report is made possible by the dedicated staff of the Department of Administration, Division of Retirement and Benefits, the Department of Law, and the Department of Revenue, Treasury Division. The report is intended to provide complete and reliable information for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the PERS financial resources.

The report is available on the web at <http://doa.alaska.gov/drb/pers/perscafr.html> and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope employers and plan members find this report informative.

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

Respectfully submitted,



Amy Erickson  
Acting Commissioner



Jim Puckett  
Chief Operations Officer



Kevin Worley  
Chief Financial Officer



Government Finance Officers Association

## 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, 2013**

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2014***

Presented to

***Alaska Public Employees' Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

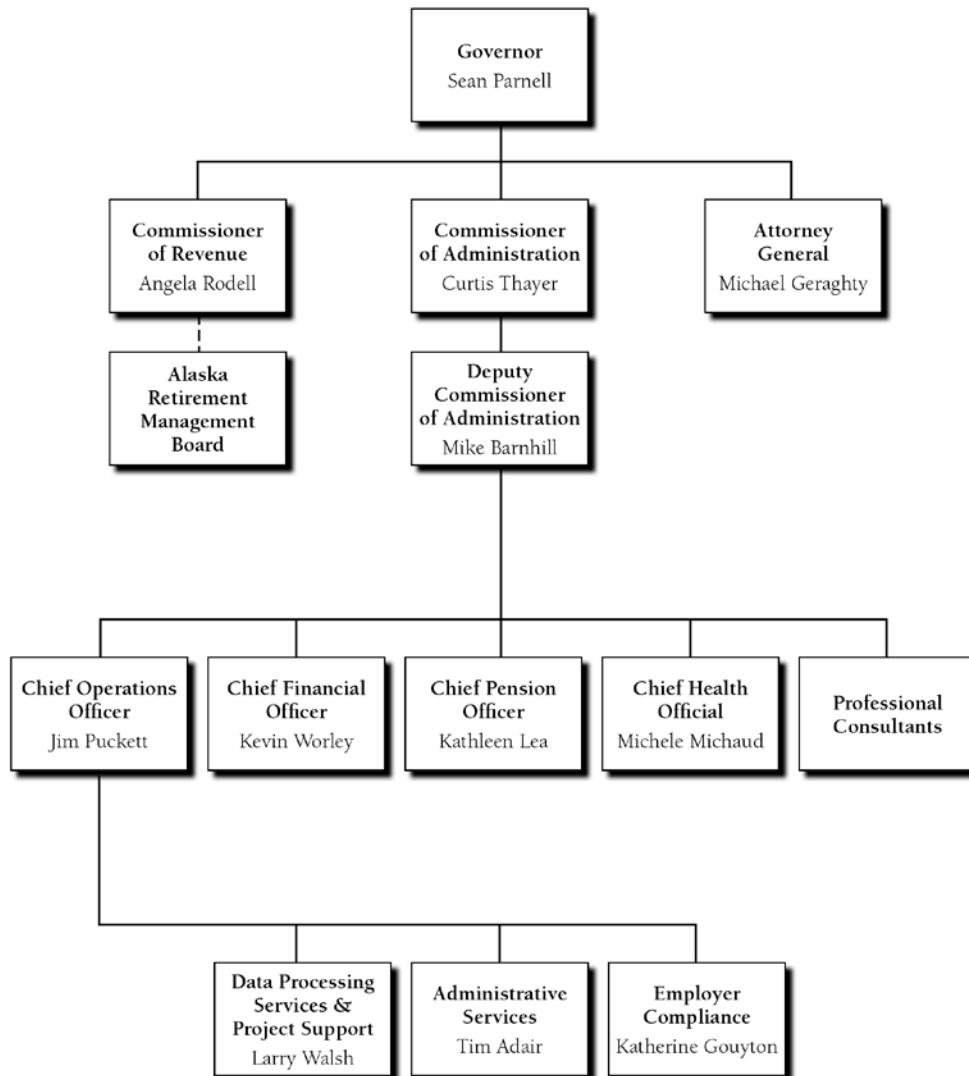
National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

## ORGANIZATION CHART

As of June 30, 2014



## Section Responsibilities

The **Member Services 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 Plan Administration 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 Project Support 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 Services Section** is responsible for budget preparation, fiscal management of appropriations, procuring professional services, supplies, and equipment. The section manages the System's record center containing the members' physical records and performs other administrative functions such as legislative tracking and personnel management.

<b>Professional Consultants</b>	
<p><b>Consulting Actuary</b> Buck Consultants <i>Denver, Colorado</i></p> <p><b>Independent Auditors</b> KPMG LLP <i>Anchorage, Alaska</i></p> <p><b>Benefits Consultants</b> Buck Consultants <i>Denver, Colorado</i></p> <p>Michael Silverman Professional Services <i>Juneau, Alaska</i></p> <p>Maximus Federal Services <i>Reston, Virginia</i></p> <p><b>Third-Party Healthcare Claim Administrator</b> Aetna Life Insurance Company <i>Lexington, Kentucky</i></p> <p>Moda Health / Delta Dental of Alaska <i>Portland, Oregon</i></p> <p>HealthSmart Benefit Solutions, Inc. <i>Charleston, West Virginia</i></p>	<p><b>IT Consultants</b> Computer Task Group Applied Microsystems, Inc. <i>Anchorage, Alaska</i></p> <p>Alaska IT Group <i>Juneau, Alaska</i></p> <p><b>Legal Counsel</b> Joan Wilkerson Jessica Srader Rebecca Polizzotto Toby Steinberger Assistant Attorney Generals <i>Juneau, Alaska</i></p> <p>Ice Miller LLP <i>Indianapolis, Indiana</i></p> <p><b>Consulting Physicians</b> Kim Smith, M.D. Ward Hurlburt, M.D. Alex Malter, M.D.</p>

A list of investment consultants can be found on pages 73-74 and on the Schedule of External Management Fees on pages 82-83.



# Introductory Section

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## Alaska Retirement Management Board

As of June 30, 2014

**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 master's 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 (NCTR) 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 of Science in mathematics from North Carolina State University, and a master's degree in teaching from the University of Alaska Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law and finance.

**Tom Brice** is the Business Representative for the Alaska District Council of Laborers administering the contracts in Southeast Alaska for Laborers Local 942 and Public Employees Local 71. He was elected to the position of Vice President of Laborers Local 942 in 2011, and has sat on the negotiating team for the state contract with Public Employees Local 71 for the past three contracts. Prior to this position, Mr. Brice was the Apprenticeship Outreach Coordinator for the Alaska Works Partnership. Here he developed and managed a statewide program focused on assisting qualified rural Alaskans to gain entrance to the various registered Alaskan Building Trade apprenticeships. Mr. Brice also served in the Alaska State House of Representatives between the 18th and 21st legislatures. He has a bachelor's degree from the University of Alaska Fairbanks.

**Angela Rodell** was appointed Commissioner of the Department of Revenue by Governor Sean Parnell in November, 2010. She joined the State of Alaska in September 2011. Prior to her current position, Ms. Rodell served as State Treasurer and Deputy Commissioner over the Department's Treasury, Permanent Fund Dividend, and Child Support Services divisions. Formerly, Ms. Rodell served as financial advisor to more than \$30 billion of transactions for state and state authorities in Alaska, Arkansas, California, Illinois, New Jersey, New York, North Carolina, Rhode Island, and Virginia. Prior to becoming a financial advisor, Ms. Rodell served as the finance officer for the Kentucky Housing Corporation. She has a Bachelor of Arts degree from Marquette University and a Master of Public Administration from the University of Kentucky.

# Introductory Section

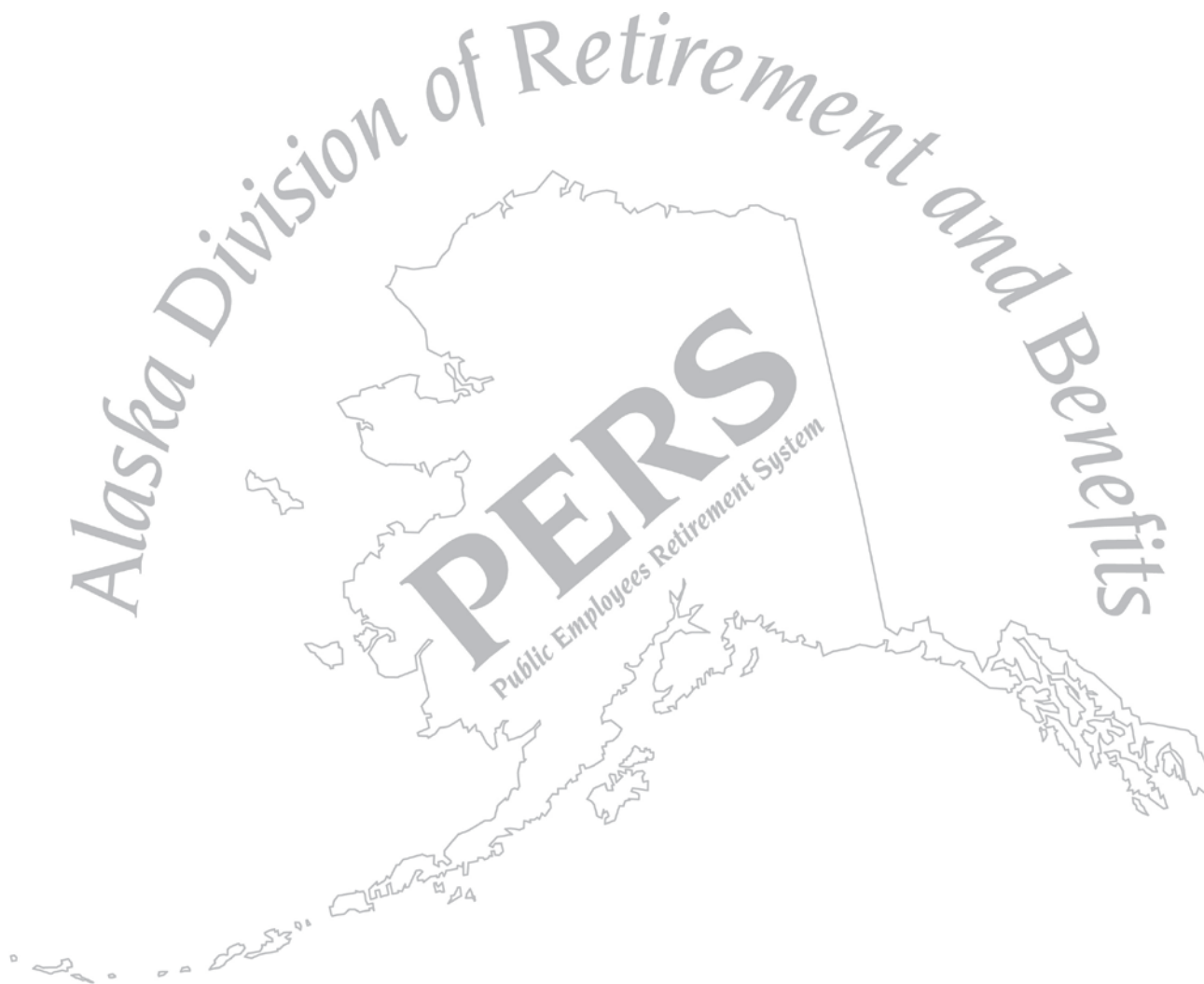
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**Kristin Erchinger** is currently finance director for the city of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director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

**Curtis Thayer** was appointed Commissioner of the Department of Administration by Governor Sean Parnell in January 2014. Prior to his current position, Mr. Thayer served as Deputy Commissioner of the Department of Administration since August 2012. Before joining the Department of Administration, he was Deputy Commissioner of the Department of Commerce, Community, and Economic Development since 2009. Mr. Thayer also serves as Chair of the Alaska Board of Marine Pilots and serves on the Board of Directors of Abused Women in Crisis. He is the past Chairman of the Anchorage Public Safety Advisory Commission, and has also served on the Board of Directors of Armed Services YMCA. Born in Anchorage, Mr. Thayer grew up in Alaska and graduated from the University of Alaska Fairbanks. He lives in Anchorage with his wife, Josie, and their son.

**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.

**Sandra Ryan** is a mathematics and tech prep instructor at West Valley High School in Fairbanks, and has been a teacher since 1988. Ms. Ryan teaches Advanced Placement computer science as well as Advanced Placement statistics and accounting. She has worked as a member of two accreditation teams: one for Lathrop High School, the other for West Valley High School. She has served on Professional Learning Teams at West Valley High School, been appointed to the Fairbanks North Star Borough School District Teacher Evaluation team, and was recently nominated as BP Teacher of Excellence. She is a member of the National Education Association Alaska Board of Directors, and a member of the Fairbanks Education Association, serving for the past five years as treasurer. She is also manager of a family trust. Ms. Ryan earned a Bachelor of Science in communication at the University of Texas, Austin, Texas; a Bachelor of Science in mathematics at St. Edward's University, Austin, Texas; and a master's degree in computer science engineering at the University of Alaska Fairbanks. She was appointed by Governor Parnell to a seat reserved for a Teachers' Retirement System representative.





# FINANCIAL SECTION

*Alaska Division of Retirement and Benefits*





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 combining statement of fiduciary net position of the State of Alaska Public Employees' Retirement System (the System) (a component unit of the State of Alaska) as of June 30, 2014, and the combining statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Public Employees' Retirement System as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

# Financial Section

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## *Emphasis of a Matter*

As discussed in Note 2 to the financial statements, in 2014, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Prior-Year Comparative Information*

We have previously audited the System's 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year then ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15-23, and the schedule of changes in employer net pension liability and related ratios, schedule of employer and nonemployer contributions, schedule of investment returns, schedule of funding progress, and schedule of contributions from employers and the state of Alaska on pages 51-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules on pages 68-70 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

December 9, 2014

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

## **Management's Discussion and Analysis (Unaudited)**

**June 30, 2014**

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, 2014. 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 year ended June 30, 2014. Information for fiscal years 2013 and 2012 is presented for comparative purposes.

### **Financial Highlights**

The System's financial highlights as of June 30, 2014 were as follows:

- The System's fiduciary net position restricted for pension benefits, postemployment healthcare benefits, and individuals increased by \$2,329.5 million during fiscal year 2014.
- The System's plan member and employer contributions increased by \$13.6 million during fiscal year 2014.
- The State of Alaska directly appropriated \$312.5 million during fiscal year 2014 as statutorily required.
- The System's net investment income increased \$956.7 million to \$2,402.1 million during fiscal year 2014.
- The System's pension benefit expenditures totaled \$640.5 million during fiscal year 2014.
- The System's postemployment healthcare benefit expenditures totaled \$355.6 million in fiscal year 2014.

### **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 composed of three components: (1) combining statement of fiduciary net position, (2) combining statement of changes in fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

*Combining Statements of Fiduciary Net Position* – This statement presents information regarding the System's assets, liabilities, and resulting net position restricted for pension benefits, postemployment healthcare benefits, and individuals. 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, 2014.

*Combining Statements of Changes in Fiduciary Net Position* – This statement presents how the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals changed during the fiscal years ended June 30, 2014 and 2013. This statement presents contributions and investment income during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2014, and the sources and uses of those funds during fiscal year 2014.



# Financial Section

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

*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 position				2012
	2014	2013	Increase (decrease)		
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 501,598	194,986	306,612	157.2%	\$ 192,789
Due from State of Alaska General Fund	11,340	13,162	(1,822)	(13.8)	12,901
Contributions receivable	29,188	28,860	328	1.1	25,680
Due from retiree health fund	—	3	(3)	(100.0)	13
Other receivables	8	4	4	100.0	7
Investments, at fair value	14,872,108	12,849,055	2,023,053	15.7	11,446,343
Other assets	4,365	3,401	964	28.3	3,401
Total assets	<u>15,418,607</u>	<u>13,089,471</u>	<u>2,329,136</u>	<u>17.8</u>	<u>11,681,134</u>
<b>Liabilities:</b>					
Accrued expenses	11,416	9,972	1,444	14.5	9,218
Claims payable	48,280	54,764	(6,484)	(11.8)	35,967
Forfeiture payable to employers	17,613	12,936	4,677	36.2	—
Total liabilities	<u>77,309</u>	<u>77,672</u>	<u>(363)</u>	<u>(0.5)</u>	<u>45,185</u>
Net position	<u>\$ 15,341,298</u>	<u>13,011,799</u>	<u>2,329,499</u>	<u>17.9%</u>	<u>\$ 11,635,949</u>

**State of Alaska**  
**Public Employees' Retirement System**  
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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

Description	Changes in System net position				
	2014	2013	Increase (decrease)		2012
			Amount	Percentage	
Net position, beginning of year	\$ 13,011,799	11,635,949	1,375,850	11.8%	\$ 11,646,740
Additions:					
Contributions	646,412	632,804	13,608	2.2	616,096
Appropriation – State of Alaska	312,473	307,302	5,171	1.7	242,610
Net investment income	2,402,053	1,445,315	956,738	66.2	35,096
Other additions	17,438	10,468	6,970	66.6	31,924
Total additions	<u>3,378,376</u>	<u>2,395,889</u>	<u>982,487</u>	<u>41.0</u>	<u>925,726</u>
Deductions:					
Pension and postemployment healthcare benefits	996,129	969,729	26,400	2.7	899,947
Refund of contributions	30,503	23,801	6,702	28.2	20,136
Administrative	22,245	17,343	4,902	28.3	16,434
Total deductions	<u>1,048,877</u>	<u>1,010,873</u>	<u>38,004</u>	<u>3.8</u>	<u>936,517</u>
Adjustment to beginning net assets for prior years' forfeitures	—	9,166	(9,166)	(100.0)	—
Increase (decrease) in net position	<u>2,329,499</u>	<u>1,375,850</u>	<u>953,649</u>	<u>69.3</u>	<u>(10,791)</u>
Net position, end of year	<u>\$ 15,341,298</u>	<u>13,011,799</u>	<u>2,329,499</u>	<u>17.9%</u>	<u>\$ 11,635,949</u>

### Financial Analysis of the System

The statements of fiduciary net position as of June 30, 2014 and 2013 show net position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$15,341,298,000 and \$13,011,799,000, respectively. The entire amount is available to cover the System's obligation 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 position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$2,329,499,000 or 17.9% from fiscal year 2013 to 2014 and an increase of \$1,375,850,000 or 11.8% from fiscal year 2012 to 2013. 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 (the 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.

# Financial Section

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

### *System Asset Allocation*

During fiscal years 2014 and 2013, the Board adopted the following asset allocation for the Defined Benefit Pension Plan (DB Plan) and Defined Contribution Pension Plan's (DC Plan) retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

	<b>2014</b>	
	<b>Pension and Healthcare Trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	26.0%	± 6%
Global equity ex-U.S.	25.0	± 4
Private equity	9.0	± 5
Real assets	17.0	± 8
Absolute return	5.0	± 4
Fixed composite	12.0	± 5
Alternative equity strategies	3.0	± 2
Cash equivalents	3.0	-3+1
Total	<u>100.0%</u>	
Expected return five-year geometric mean	7.16%	
Projected standard deviation	14.81	
	<b>2013</b>	
	<b>Pension and Healthcare Trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	27.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed composite	14.0	± 5
Short-term fixed income	6.0	-6+1
Total	<u>100.0%</u>	
Expected return five-year geometric mean	7.11%	
Projected standard deviation	14.20	

For fiscal years 2014 and 2013, the Defined Benefit Pension Plan's investments generated an 18.56% and 12.50% rate of return, respectively.

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

### 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, and other additions as follows:

	Additions (In thousands)				
	2014	2013	Increase		2012
			Amount	Percentage	
Employer contributions	\$ 477,133	467,510	9,623	2.1%	\$ 457,855
Plan member contributions	169,279	165,294	3,985	2.4	158,241
Nonemployer contributions – State of Alaska	312,473	307,302	5,171	1.7	242,610
Net investment income	2,402,053	1,445,315	956,738	66.2	35,096
Other additions	17,438	10,468	6,970	66.6	31,924
Total	<u>\$ 3,378,376</u>	<u>2,395,889</u>	<u>982,487</u>	<u>41.0%</u>	<u>\$ 925,726</u>

The System's employer contributions increased from \$467,510,000 in fiscal year 2013 to \$477,133,000 in fiscal year 2014, an increase of \$9,623,000 or 2.1%. The System's employer contributions increased from \$457,855,000 in fiscal year 2012 to \$467,510,000 in fiscal year 2013, an increase of \$9,655,000 or 2.1%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided \$312,473,000 for fiscal year 2014 and \$307,302,000 for fiscal year 2013 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 employer effective contribution rate of 22.00% is established in Alaska Statute 39.35.255(a).

The System's net investment income in fiscal year 2014 increased by \$956,738,000 or 66.2% from amounts recorded in fiscal year 2013. The System's net investment income in fiscal year 2013 increased by \$1,410,219,000 or 4,018.2% from amounts recorded in fiscal year 2012. Over the long term, investment income has been a major component of additions to System assets.

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

The System's investment rates of return at June 30 are as follows:

	Year ended		
	2014	2013	2012
System returns	18.46%	12.59%	0.51%
Domestic equities	25.45	21.24	1.83
International equities	23.41	15.03	(13.66)
Fixed income	5.14	0.57	4.82
Private equity	24.19	11.68	9.44
Absolute return	6.51	8.41	(2.05)
Real assets	12.71	10.65	10.45
Cash equivalents	0.26	0.25	0.42
Alternative equity	24.55	—	—

### 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 DC Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the System comprise the cost of operations as follows:

	Deductions (In thousands)				
	2014	2013	Increase (decrease)		2012
			Amount	Percentage	
Pension benefits	\$ 640,518	599,415	41,103	6.9%	\$ 560,024
Postemployment healthcare benefits	355,611	370,314	(14,703)	(4.0)	339,923
Refund of contributions	30,503	23,801	6,702	28.2	20,136
Administrative	22,245	17,343	4,902	28.3	16,434
Total	\$ 1,048,877	1,010,873	38,004	3.8%	\$ 936,517

The System's pension benefit payments in 2014 increased \$41,103,000 or 6.9% from fiscal year 2013 and increased \$39,391,000 or 7.0% from fiscal year 2012 to 2013. The increase in pension benefits in fiscal year 2014 is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2014 decreased \$14,703,000 or 4.0% from fiscal year 2013 and increased \$30,391,000 or 8.9% from fiscal year 2012 to 2013. The decrease in healthcare cost in fiscal year 2014 is attributable to the decrease in health claims cost.

The System's administrative deductions in 2014 increased \$4,902,000 or 28.3% from fiscal year 2013 and increased \$909,000 or 5.5% from fiscal year 2012 to 2013. The increase in administrative costs in fiscal year 2014 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

### Net Pension Liability

In June 2012, the GASB released a new statement amending existing pension accounting standards for pension plans – GASB 67. The changes related to this new statement for the DB Plan are reflected in this year's notes, schedules, and required supplementary information. The new statement focuses on plan financial reporting and changes the System's DB Plan financial statements by requiring additional disclosure in the notes to the financial statements, actuarial calculations, and schedules. It also requires a different methodology to measure the liability of the DB Plan's pension benefits. The DB Plan is now required to report new pension items called the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and Net Pension Liability (NPL).

The total pension liability (TPL) determines the total obligation for the DB Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The DB Plan's fiduciary net position (FNP) determines the assets available to pay the DB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the DB Plan. The difference between the TPL and FNP is the Net Pension Liability (NPL), or the unfunded portion of the TPL.

The components of the net pension liability of the participating employers at June 30, 2014, were as follows (in thousands):

Total pension liability	\$	12,395,578
Plan fiduciary net position		7,731,438
Employers' net pension liability	\$	4,664,140
Plan fiduciary net position as a percentage of the total pension liability		62.37%

### 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 considered for adoption by the Board annually. Alaska Statute 39.35.255(a) sets the employer effective contribution rate at 22.00%. The difference between the actuarially determined Board adopted 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 DC Plan.

**State of Alaska**  
**Public Employees' Retirement System**  
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**Management's Discussion and Analysis (Unaudited)**

**June 30, 2014**

- 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 are 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 2014, the Twenty-Eighth Alaska State Legislature enacted four laws that affect the System:

- Senate Bill 119 appropriates \$1 billion from the Constitutional Budget Reserve fund to the Department of Administration for deposit in the Defined Benefit Pension fund. Additionally, it is the intent of the legislature that the Board and the Department direct the System's actuary to eliminate the two-year rate-setting lag as well as to eliminate the asset value smoothing methodology in the System's annual actuarial valuation report.
- House Bill 385 specifically identifies that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years will be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the defined benefit plan. The bill also specifies that the Board shall, based on a level percent of pay methodology, reinitialize the amortization of the past service liability of the System's defined benefit plan for a term beginning July 1, 2014, and ending on June 30, 2039.
- Senate Bill 145 updates the definition of "veteran" for the System, as well as for the Teachers' and Judicial retirement systems, by defining additional time frames of military service between August 2, 1990, and January 2, 1992, beginning September 11, 2001, and ending on the day prescribed by Presidential proclamation or by law as the last date of Operation Iraqi Freedom, or during any time period listed in 5 U.S.C. 2108(1).
- House Bill 116 allows the use of additional credited military service by retired peace officers and firefighters to meet certain requirements for major medical insurance coverage.

For additional information on each item, please see the respective bill, Alaska statute, or plan document.

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

Fiscal year 2014 was a year of positive investment returns. Net investment income increased from \$1,445,315,000 in fiscal year 2013 to \$2,402,053,000 in fiscal year 2014, an increase of \$956,738,000 or 66.2%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceeded its actuarially assumed return of 8.00% (based on the June 30, 2010 actuarial report, which established the fiscal year 2014 rate) with a system rate of return of 18.56% at June 30, 2014.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 35.84% in fiscal year 2013 to 35.68% in fiscal year 2014. The Board adopted the actuarially determined contribution rate of 35.68% for fiscal year 2014, down 0.16% from the fiscal year 2013 Board adopted actuarially determined contribution rate of 35.84%. The statutory employer effective contribution rate remained at 22.00% for fiscal years 2013 and 2014.

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**June 30, 2014**

The June 30, 2013 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 54.5% and an unfunded liability of \$5.4 billion.

For fiscal years 2014 and 2013, the DC Plan's employer contribution rate was established at 22.00%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.48% for fiscal years 2014 and 2013. The DC Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 1.14% and 0.99% for fiscal years 2014 and 2013, respectively. The DC Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.20% and 0.14% for fiscal years 2014 and 2013, respectively.

### **Requests for Information**

This financial report is designed to provide a general overview of the finances for all those with interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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



# Financial Section

**State of Alaska**  
**Public Employees' Retirement System**  
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## Combining Statement of Fiduciary Net Position

June 30, 2014

(With summarized financial information for June 30, 2013)

(In thousands)

	Defined Benefit Pension	Defined Contribution Pension	Other Postemployment Benefit Plans				System total June 30, 2014	System total June 30, 2013
			Occupational Death and Disability	Alaska Retiree Healthcare Trust	Retiree medical	Healthcare reimbursement arrangement		
<b>Assets:</b>								
Cash and cash equivalents (note 4):								
Short-term fixed income pool	\$ 252,123	5,503	524	224,003	926	5,090	488,169	187,158
Great West/participant directed deposit	—	13,429	—	—	—	—	13,429	7,828
Total cash and cash equivalents	252,123	18,932	524	224,003	926	5,090	501,598	194,986
<b>Receivables:</b>								
Contributions	26,667	615	16	1,723	22	145	29,188	28,860
Due from State of Alaska General Fund	—	6,823	150	8,056	252	1,700	16,981	18,484
Due from Retiree Health Fund	—	—	—	—	—	—	—	3
Other account receivable	7	—	—	1	—	—	8	4
Total receivables	26,674	7,438	166	9,780	274	1,845	46,177	47,351
<b>Investments (notes 3, 4, and 5), at fair value:</b>								
<b>Fixed income securities:</b>								
U.S. Treasury fixed income pool	449,549	—	933	404,786	1,647	9,050	865,965	962,870
Taxable municipal bonds	81,063	—	168	72,991	297	1,632	156,151	—
High yield fixed income pool	205,815	—	427	185,321	754	4,143	396,460	356,514
International fixed income pool	137,828	—	286	124,104	505	2,775	265,498	249,308
Emerging markets debt pool	55,938	—	115	50,368	205	1,126	107,752	106,124
Total fixed income securities	930,193	—	1,929	837,570	3,408	18,726	1,791,826	1,674,816
Broad domestic equity	2,423,279	—	5,027	2,181,984	8,881	48,784	4,667,955	4,130,558
<b>Broad international equity:</b>								
International equity pool	1,622,209	—	3,365	1,460,679	5,945	32,657	3,124,855	2,459,673
Frontier market pool	35,974	—	75	32,392	132	724	69,297	—
Emerging markets equity pool	226,359	—	470	203,820	829	4,557	436,035	371,783
Total broad international equity	1,884,542	—	3,910	1,696,891	6,906	37,938	3,630,187	2,831,456
Private equity pool	630,826	—	1,309	568,012	2,312	12,699	1,215,158	1,133,891
Absolute return pool	299,756	—	622	269,909	1,099	6,035	577,421	558,457
<b>Real assets:</b>								
Real estate pool	486,038	—	1,008	437,459	1,781	9,781	936,067	966,142
Real estate investment trust pool	132,632	—	275	119,425	486	2,670	255,488	190,672
Master limited partnership pool	178,330	—	370	160,573	654	3,590	343,517	255,340
Energy pool	39,048	—	81	35,160	143	786	75,218	75,824
Farmland pool	259,273	—	537	233,456	950	5,220	499,436	485,915
Farmland water pool	—	—	—	—	—	—	—	17,794
Infra public pool	60,163	—	124	54,172	220	1,211	115,890	—
Timber pool	131,370	—	273	118,289	481	2,645	253,058	183,748
Treasury inflation protected securities pool	12,768	—	27	11,497	47	257	24,596	5,863
Total real assets	1,299,622	—	2,695	1,170,031	4,762	26,160	2,503,270	2,181,298
<b>Other investment funds, at fair value:</b>								
Pooled investment funds	—	233,614	—	—	—	—	233,614	137,565
Collective investment funds	—	252,677	—	—	—	—	252,677	201,014
Total other investment funds	—	486,291	—	—	—	—	486,291	338,579
Total investments	7,468,218	486,291	15,492	6,724,397	27,368	150,342	14,872,108	12,849,055
<b>Other assets</b>								
Total assets	7,747,035	512,661	16,182	6,962,525	28,568	157,277	15,424,248	13,094,793
<b>Liabilities:</b>								
Accrued expenses	9,956	375	—	1,085	—	—	11,416	9,972
Forfeiture payable to employers	—	17,613	—	—	—	—	17,613	12,936
Claims payable (note 8)	—	—	—	48,280	—	—	48,280	54,764
Due to State of Alaska General Fund	5,641	—	—	—	—	—	5,641	5,322
Total liabilities	15,597	17,988	—	49,365	—	—	82,950	82,994
Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals	\$ 7,731,438	494,673	16,182	6,913,160	28,568	157,277	15,341,298	13,011,799

See accompanying notes to financial statements.

**State of Alaska**  
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**Combining Statement of Changes in Fiduciary Net Position**

**Year Ended June 30, 2014**  
**(With summarized financial information for June 30, 2013)**

**(In thousands)**

	Defined Benefit Pension	Defined Contribution Pension	Other Postemployment Benefit Plans				System total June 30, 2014	System total June 30, 2013
			Occupational Death and Disability	Alaska Retiree Healthcare Trust	Retiree medical	Healthcare reimbursement arrangement		
<b>Additions:</b>								
<b>Contributions:</b>								
Employers	\$ 206,204	33,942	2,372	204,779	3,708	26,128	477,133	467,510
Plan members	106,565	61,989	8	717	—	—	169,279	165,294
Nonemployer State of Alaska	176,794	—	—	135,679	—	—	312,473	307,302
Total contributions	489,563	95,931	2,380	341,175	3,708	26,128	958,885	940,106
<b>Investment income:</b>								
Net appreciation in fair value	1,106,071	75,137	2,055	974,673	3,650	19,542	2,181,128	1,248,361
Interest	28,788	17	54	25,486	96	513	54,954	56,777
Dividends	103,516	—	196	92,088	348	1,872	198,020	166,462
Total investment income	1,238,375	75,154	2,305	1,092,247	4,094	21,927	2,434,102	1,471,600
Less investment expense	30,891	1,123	—	35	—	—	32,049	26,285
Net investment income	1,207,484	74,031	2,305	1,092,212	4,094	21,927	2,402,053	1,445,315
<b>Other:</b>								
Other	49	21	—	17,368	—	—	17,438	10,468
Total additions	1,697,096	169,983	4,685	1,450,755	7,802	48,055	3,378,376	2,395,889
<b>Deductions:</b>								
Pension and postemployment benefits	640,518	—	124	355,487	—	—	996,129	969,729
Refunds of contributions	11,399	19,104	—	—	—	—	30,503	23,801
Administrative	8,223	2,324	—	11,679	10	9	22,245	17,343
Total deductions	660,140	21,428	124	367,166	10	9	1,048,877	1,010,873
Adjustment to beginning net assets for prior years forfeitures payable	—	—	—	—	—	—	—	9,166
Net increase	1,036,956	148,555	4,561	1,083,589	7,792	48,046	2,329,499	1,375,850
<b>Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals:</b>								
Balance, beginning of year	6,694,482	346,118	11,621	5,829,571	20,776	109,231	13,011,799	11,635,949
Balance, end of year	\$ 7,731,438	494,673	16,182	6,913,160	28,568	157,277	15,341,298	13,011,799

See accompanying notes to financial statements.

# Financial Section

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

## Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

**(1) Description**

The State of Alaska Public Employees' Retirement System (PERS or the System) is a component unit of the State of Alaska (the State). The System is governed by the Alaska Retirement Management Board (the Board), which consists of nine trustees, as follows: Two members, consisting of the commissioner of administration and the commissioner of revenue; two trustees who are members of the general public; one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

PERS acts as the common investment and administrative agency for the following multiple-employer plans:

Plan name	Type of plan
Defined Benefit Pension Plan	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefit OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefit OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefit OPEB
Defined Contribution Other Postemployment Benefits	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

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

	2014		
	Defined Benefit Pension	Defined Contribution Pension	OPEB Plans
State of Alaska	1	1	1
Municipalities	75	77	77
School districts	53	53	53
Other	27	27	27
Total employers	156	158	158

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

**Notes to Financial Statements**

**June 30, 2014**  
**(With summarized financial information for June 30, 2013)**

(1) **Description (cont.)**

	2013		
	Defined Benefit Pension	Defined Contribution Pension	OPEB Plans
State of Alaska	1	1	1
Municipalities	76	78	78
School districts	53	53	53
Other	27	27	27
Total employers	157	159	159

Inclusion in the plans 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 Pension Plan**

*General*

The Defined Benefit Pension Plan (DB Plan) provides pension 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. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

The DB Plan's membership consisted of the following at June 30, 2014:

Inactive plan members or beneficiaries currently receiving benefits	30,376
Inactive plan members entitled to but not yet receiving benefits	18,500
Active plan members	19,474
	68,350

*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.

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

**(1) Description (cont.)**

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 officers and firefighters, 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 2.25% of the member's average monthly compensation for the second 10 years and 2.5% for all remaining years of service. For peace officers 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 2.5% 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.

### ***Contributions***

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plans members' 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. Employer effective contribution rates are 22.00% of annual payroll. Alaska Statute 39.35.280 requires that the State of Alaska, as a nonemployer contributing entity, contributes each July 1, or as soon after July 1 for the ensuing fiscal year, an amount that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

State of Alaska  
Public Employees' Retirement System  
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## Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) **Description (cont.)**

(A) the amount calculated for the statutory employer contribution rate of 22.00% on eligible salary less

(B) the total of the employer contributions for

- (1) the defined contribution employer matching amount
- (2) major medical,
- (3) occupational death & disability, and
- (4) health reimbursement arrangement

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

### *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 Pension Plan**

#### *General*

The Defined Contribution Pension Plan (DC Plan) provides pension benefits for eligible employees hired after July 1, 2006. Additionally, certain active members of the DB plan were eligible to transfer to the DC Plan if that member had not vested in the DB Plan. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

At June 30, 2014, membership in the DC Plan consisted of 1,328 Peace Officer and Firefighter members and 14,882 other members.

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**Public Employees' Retirement System**  
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## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

**(1) Description (cont.)**

***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.

***Contributions***

Alaska statutes require an 8.0% contribution rate for DC Plan members. Employers are required to contribute 5.0% of the member's compensation.

***Refunds***

A member is eligible to elect distribution of their account 60 days after termination of employment.

***Participant Accounts***

Participant accounts under the DC 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.

**Defined Benefit Other Postemployment Benefit Plans**

***Occupational Death and Disability Plan***

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System. Members in the Death and Disability Plan consisted of the following at June 30, 2014:

Active plan members	16,012
Participating employers	158
Open claims	5

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## Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

**(1) Description (cont.)**

**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.

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

The monthly survivor's pension section for survivors of DC Plan 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.



# Financial Section

**State of Alaska**  
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**Notes to Financial Statements**

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) **Description (cont.)**

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

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

**Contributions**

An employer shall contribute to each member's account based on the member's compensation. For fiscal year 2014, the rates are 5.0% for Occupational Death and Disability for peace officer and firefighters, and 5.0% for Occupational Death and Disability non-peace officer and firefighters.

***Alaska Retiree Healthcare Trust Plan***

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (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).

Membership in the plan was as follows as of June 30, 2014:

Inactive plan members or beneficiaries currently receiving benefits	30,376
Inactive plan members entitled to but not yet receiving benefits	18,500
Active plan members	19,474
	<hr/>
	68,350
	<hr/>

State of Alaska  
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## Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) **Description (cont.)**

**OPEB 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.

**Contributions**

Employer contribution rates are actuarially determined and adopted by the Board. The 2014 employer effective contribution rate is 22.00% of member's compensation.

**Defined Contribution Other Postemployment Benefit Plan**

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. For each member of the plan, an employer shall contribute an amount equal to 3.0% of the average annual compensation of all employees of all employers in the System. As of June 30, 2014 there were 23,704 members and 158 participating employers.

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

***Basis of Accounting***

The accompanying financial statements have been prepared using the economic resources measurement focus and on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). Contributions are due to the System when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

***Use of Estimates***

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

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## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

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

***Defined Benefit Pension and OPEB Investments***

The System owns shares in various investment pools that are administered by the State of Alaska Department of Revenue, Division of Treasury (Treasury). The System's investment in the pools, except for the Short-Term Fixed Income Pool, is reported at fair value based on the net asset value reported by the Treasury. 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.

***Defined Contribution Participant Directed Investments***

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate 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 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 but are not limited to commercial paper, asset-backed securities, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised 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.

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## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

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

***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 System on behalf of others and amounts paid by others on behalf of the System.

***Federal Income Tax Status***

The DB Plan and DC Plan are qualified plans under Sections 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

***New Accounting Pronouncements***

The System implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), during the year ended June 30, 2014. GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. GASB 67 requires the disclosures of the total pension liability, fiduciary net position, and net pension liability for single-employer and cost-sharing multiple-employer defined benefit pension plans. GASB 67 also requires certain additional note disclosures for defined benefit pension plans including the annual money-weighted rate of return on plan investments. GASB 67 revised the reporting requirements for required supplementary information to include schedules which provide trend information related to 1) changes in the net pension liability 2) the actuarially and contractually determined contributions of employer contributing entities, and 3) the annual money-weighted rate of return on plan investments.

**(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 the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

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

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. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies Pool, Real Estate

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## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

**(3) Investments (cont.)**

Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

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

***Rate of Return***

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2014 for the defined benefit pension plan is 18.43%.

**(4) Deposit and Investment Risk**

**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. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of individual fixed rate securities ranged from 1 day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 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 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, 2014 was 3.63 years.

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**Notes to Financial Statements**

**June 30, 2014**  
**(With summarized financial information for June 30, 2013)**

**(4) Deposit and Investment Risk (cont.)**

Through the Board's investment policy, Treasury managed the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Taxable Municipal Bond portfolios to  $\pm 20\%$  of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 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 Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2014 was 4.21 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 blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2014 was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87, for a blended duration of 6.74 at June 30, 2014.

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. TIPS Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

At June 30, 2014, the effective duration of the DB Plan's fixed income pools was as follows (in years):

U.S. Treasury	3.50
Municipal bonds	10.81
High yield	3.75
International	5.82
TIPS	6.62

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## **Notes to Financial Statements**

**June 30, 2014**

**(With summarized financial information for June 30, 2013)**

**(4) Deposit and Investment Risk (cont.)**

*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, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to  $\pm 0.2$  years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index.

10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed  $\pm 0.4$  years relative to the index.

At June 30, 2014, the duration of the government corporate debt, and mortgage-backed securities was 3.93 years and the duration of the blended Barclays Bond Index was 3.98 years.

*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, 2014, the modified duration of collective investment funds that consisted solely of debt securities were as follows SSgA Money Market Trust: 45 days, SSgA World Government Bond Ex-U.S. Index: 7.68 years, SSgA Long U.S. Treasury Bond Index: 16.68 years, SSgA TIPS Index: 7.28 years, Barclays Government Credit Bond Fund: 8.18 years, and the Barclays Intermediate Government Bond Fund: 3.82 years.

### **Credit Risk**

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

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

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

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**(With summarized financial information for June 30, 2013)**

**(4) Deposit and Investment Risk (cont.)**

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

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

No more than 30% of the portfolio's assets may be invested in securities that are not nominal, U.S. Treasury obligations, or the internally managed short-term or substantially similar portfolio at the time of purchase.

Corporate, asset backed, and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard and 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.

**Taxable Municipal Bond Pool**

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

At the time of purchase, short-term securities must be rated at least A-2 or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or by the Contractor, if unrated. At the time of purchase, long-term securities must be rated investment grade by an NRSRO or by the Contractor, if unrated. Only one rating is necessary, and the median rating will apply for securities rated by more than one NRSRO.

No more than 20% of the portfolio's assets may be invested in securities that are not rated by an NRSRO.

**High Yield Fixed Income**

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher by any rating agency (including government instruments). Cash held in the portfolio will be included in this limitation.

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

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

The lower of any Standard and 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. Only one rating is necessary.

**International Fixed Income**

Corporate debt and asset backed obligations must be rated investment grade or better by a recognized credit rating agency. In the event of a split rating, the lower of the ratings shall apply for evaluating credit quality.

Commercial paper and Euro commercial paper must be rated A-1 by Standard and Poor's or P-1 by Moody's or the equivalent of a comparable rating agency. In the event a split rating exists, the lower of the ratings shall apply for evaluating credit quality.



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**(4) Deposit and Investment Risk (cont.)**

**Convertible Bond**

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. Non-rated securities to which the Manager assigns a non-investment grade rating are subject to the below investment grade limitation.

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

The Manager shall not purchase any security with a credit rating at or below CCC- by Standard and Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

**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.

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

Non-U.S. Treasury-issued securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard and 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.

Domestic Equity (Large Cap and Small Cap) and Broad International Equity:

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

Commercial paper must bear the highest rating assigned by Moody's, Standard and 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.

The System's ownership held in the investment pools are not separately rated. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for credit ratings of investments within the pools.

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**(4) Deposit and Investment Risk (cont.)**

**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, Treasury investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation, which FDIC provides \$250,000 of coverage. In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

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

<b>Fixed income</b>	<b>Global equity ex-U.S.</b>	<b>Private equity pool</b>
17%	29%	14%

At June 30, 2014, the System had exposure to foreign currency risk within its ownership of the pools. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for more detail of foreign currency risk within the pools.

At June 30, 2014, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool and the Emerging Markets Debt Pool. These pools consist of investments in commingled funds; therefore, no disclosure of specific currencies is made.

**Concentration of Credit Risk**

Treasury's policy with regard to concentration of credit risk for the Short-Term Fixed Income Pool is to prohibit the purchase of more than 5% 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 U.S. 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 5% of the portfolio's assets in corporate bonds of any one company or affiliated

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**(4) Deposit and Investment Risk (cont.)**

group. The Board does not have a policy with regard to concentration of credit for the Emerging Markets Debt, Taxable Municipal Bond Pool, or TIPS Pools.

At June 30, 2014, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

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

The investment pools for which the System is a part, are exposed to credit risk on underlying investment derivative instruments that are in asset positions. 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. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. For additional information on foreign exchange, derivatives and counterparty credit risk see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

**(6) Net Pension Liability – Defined Benefit Pension Plan**

The components of the net pension liability of the participating employers at June 30, 2014, were as follows (in thousands):

Total pension liability	\$ 12,395,578
Plan fiduciary net position	<u>7,731,438</u>
Employers' net pension liability	<u>\$ 4,664,140</u>
Plan fiduciary net position as a percentage of the total pension liability	62.37%

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**(6) Net Pension Liability – Defined Benefit Pension Plan (cont.)**

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014:

Inflation	3.12%
Salary increases	Graded by service, from 6.36% to 4.12% for Peace Officer/Firefighter  Graded by age and service, from 9.60% to 3.62% for All Others
Investment rate of return	8.00 %, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Mortality rates were based on the 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 for pre-termination mortality for Peace Officer/Firefighter, 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 for pre-termination mortality for All Others and the 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 for post-termination mortality.

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

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(6) Net Pension Liability – Defined Benefit Pension Plan (cont.)

Asset class	Long-term expected real rate of return
Equities:	
Broad domestic equity	5.40%
Large cap	5.25
Small/mid cap	5.60
International equity	5.25
Emerging markets equity	5.65
Global ex-U.S. equity	5.55
Fixed income:	
Domestic fixed	0.75
TIPS	0.75
Other:	
Real estate	3.95
Private equity	6.40
Hedge funds	2.85
Cash equivalents	(0.25)

***Discount Rate***

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the System calculated using the discount rate of 8%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate (in thousands):

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability	\$ 6,115,582	4,664,140	3,441,889

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**(7) Defined Benefit OPEB Funding Status**

The funded status of the occupational death and disability, retiree healthcare trust, and retiree medical benefits is as follows (in thousands):

	Actuarial valuation date	Actuarial accrued liability (AAL) entry age	Actuarial valuation assets	Funded ratio	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2013	\$ 3,603	11,373	315.7%	\$ (7,770)	590,380	(1.3)%
Healthcare trust	June 30, 2013	12,281,372	5,651,877	46.0	6,629,495	1,534,665	432.0
Retiree medical	June 30, 2013	69,144	20,336	29.4	48,808	590,380	8.3

The funding ratio as of June 30, 2013 has decreased. The decrease in funding ratio is primarily due to the asset smoothing method, which recognizes 20% of gains/losses over a five-year period. The asset return based on actuarial values was 3.7%, well below the expected return of 8%. This decrease was combined with a positive experiences in demographic experience and retiree medical costs, which when factored in with other factors resulted in the slight decrease.

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.

Projections of benefits for financial reporting 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 the 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 is as follows:

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## Notes to Financial Statements

June 30, 2014

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**(7) Defined Benefit OPEB Funding Status (cont.)**

June 30, 2013	
	Defined Benefit
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare
Amortization method	Level dollar, closed
Equivalent single amortization period	17 years
Asset valuation method	5-year smoothed fair value
Actuarial assumptions:	
Investment rate of return	8.00% for pension, 5.41% for healthcare; includes price inflation at 3.12%
Projected salary increases	Peace officer/firefighter: merit – 2.75% per 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.
Cost-of-living adjustment	Postretirement pension adjustment
June 30, 2013	
	ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for occupational death and disability; level dollar normal cost basis for retiree medical
Amortization method	Level percent of pay, closed with bases established annually
Equivalent single amortization period	25 years
Asset valuation method	5-year smoothed market 80%/120% of fair value corridor
Actuarial assumptions:	
Investment rate of return	8.00%; includes inflation at 3.12%
Projected salary increases	Peace officer/firefighter: merit – 2.74% per year for the first 4 years of employment, grading down 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.

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**(7) Defined Benefit OPEB Funding Status (cont.)**

Health cost trend for occupational death and disability and retiree medical plans is as follows:

<u>Fiscal year</u>	<u>Medical pre-65</u>	<u>Medical post-65</u>	<u>Prescription drugs</u>
2014	8.7%	6.4%	6.3%
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2020	6.4	6.1	5.8
2025	6.0	6.0	5.7
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

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 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 has utilized the second methodology to develop a discount rate of 5.41% as of June 30, 2011, to be used for fiscal 2014 disclosure.

The System's retiree medical benefits are fully funded. Therefore, the 8.00% discount rate used for GASB 25 reporting is also applied herein for GASB 43 reporting.

Based on GASB accounting rules, the retiree drug subsidy (RDS) the State receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Disregarding future Medicare Part D payments, the fiscal 2016 employer ARC for accounting purposes is 1.95% of pay for retiree medical benefits and 2.25% of pay for retiree medical and death and disability benefits combined.



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### (8) 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 Alaska Retiree Healthcare Trust and Retiree Medical 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 are as follows (in thousands):

	2014	2013
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	54,764	35,967
Total, beginning of year	54,764	35,967
Benefit deductions	355,487	370,314
Benefits paid	(361,971)	(351,517)
Total, end of year	\$ 48,280	54,764
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	48,280	54,764
Total, end of year	\$ 48,280	54,764

### (9) Commitments and Contingencies

#### *Commitments*

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2014, the Board's unfunded commitments were as follows (in thousands):

Portfolio	Unfunded commitment	Estimated to be paid through
Domestic equity	\$ 10,048	May be canceled annually in December with 90 day's notice Fiscal year 2022 Fiscal year 2023 Fiscal year 2024
Private equity	694,103	
Energy	72,039	
Real estate	310,920	
	\$ 1,087,110	

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## **Notes to Financial Statements**

**June 30, 2014**

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**(9) Commitments and Contingencies (cont.)**

*Contingencies*

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

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

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a 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 Alaska Retiree Healthcare Trust was approved for participation in the Medicare Part D program beginning calendar year 2006.

**(11) Early Retiree Reinsurance Program**

The Early Retiree Reinsurance Program (ERRP) was a temporary program that provided reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the plan is up to 80% of claims cost for health benefits between \$15,000 and \$90,000. The program was authorized by the Affordable Care Act as part of the U.S. government health reform package. The plan started participation in the ERRP program beginning calendar year 2011. The program ended on January 1, 2014.

**(12) Subsequent Events**

In 2014 as part of the State's Fiscal Year 2015 Capital Budget, Senate Bill 119 appropriates \$1 billion from the Constitutional Budget Reserve Fund to the Department of Administration for deposit in the Defined Benefit Pension fund. In addition, House Bill 385 specifies that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years will be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the Defined Benefit Pension plan.

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **(Unaudited)**

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**Required Supplementary Information (Unaudited)**

**Schedule of Changes in Employer Net Pension Liability and Related Ratios – Defined Benefit Pension Plan**

**June 30, 2014**  
**(In thousands)**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total pension liability:			
Service cost	\$ 160,828	167,203	172,968
Interest	940,786	927,692	887,361
Changes of benefit terms	—	—	—
Differences between expected and actual experience	—	56,229	42,847
Changes of assumptions	—	—	—
Benefit payments, including refunds of member contributions	(651,917)	(634,187)	(593,279)
Net change in total pension liability	449,697	516,937	509,897
Total pension liability – beginning	11,945,881	11,428,944	10,919,047
Total pension liability – ending (a)	12,395,578	11,945,881	11,428,944
Plan fiduciary net position:			
Contributions – employer	206,204	179,976	182,695
Contributions – member	106,565	110,808	112,703
Contributions – nonemployer entity (State)	176,794	164,087	130,912
Total net investment income	1,207,484	738,656	1,650
Other miscellaneous income	49	28	35
Benefit payments, including refunds of member contributions	(651,917)	(610,247)	(570,883)
Administrative expenses	(8,223)	(7,120)	(6,743)
Net change in plan fiduciary net position	1,036,956	576,188	(149,631)
Plan fiduciary net position – beginning	6,694,482	6,118,294	6,267,925
Plan fiduciary net position – ending (b)	7,731,438	6,694,482	6,118,294
Plan's net pension liability (a) - (b)	\$ 4,664,140	5,251,399	5,310,650
Plan fiduciary net position as a percentage of the total pension liability	62.37%	56.04%	53.53%
Covered-employee payroll	\$ 1,405,198	1,534,665	1,522,399
Net pension liability as a percentage of covered-employee payroll	331.92%	342.19%	348.83%

See accompanying independent auditors' report.

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

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**Required Supplementary Information (Unaudited)**  
**Schedule of Employer and Nonemployer Contributions**  
**Defined Benefit Pension Plan**  
**Last 10 Fiscal Years**  
**June 30, 2014**  
 (In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 358,718	382,889	351,674	220,419
Contributions in relation to the actuarially determined contribution	<u>382,998</u>	<u>344,063</u>	<u>313,607</u>	<u>204,262</u>
Contribution excess	<u>\$ (24,280)</u>	<u>38,826</u>	<u>38,067</u>	<u>16,157</u>
Covered-employee payroll	\$ 1,405,198	1,534,665	1,522,399	1,559,938
Contributions as a percentage of covered-employee payroll	27.26%	22.42%	20.60%	13.09%

See accompanying independent auditors' report.

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**Schedule of Employer and Nonemployer Contributions**  
**Defined Benefit Pension Plan**  
**Last 10 Fiscal Years**  
**June 30, 2014**  
 (In thousands)

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
217,080	166,016	140,729	268,742	249,488	234,361
<u>186,617</u>	<u>192,740</u>	<u>151,198</u>	<u>207,539</u>	<u>163,243</u>	<u>110,853</u>
<u>30,463</u>	<u>(26,724)</u>	<u>(10,469)</u>	<u>61,203</u>	<u>86,245</u>	<u>123,508</u>
1,586,697	1,585,490	1,577,846	1,605,819	1,590,693	1,513,117
11.76%	12.16%	9.58%	12.92%	10.26%	7.33%

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**Required Supplementary Information (Unaudited)**  
**Schedule of Investment Returns**  
**June 30, 2014**

2014

Annual money-weighted rate of return, net of  
investment expense

18.43%

See accompanying independent auditors' report

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**  
**Required Supplementary Information (Unaudited)**  
**Schedules of Funding Progress**  
**Defined Benefit OPEB Plans**  
**June 30, 2014**  
**(In thousands)**

**Occupational Death and Disability Benefits Plan**

Actuarial valuation year ended 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
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)
2011	1,949	7,049	361.7	(5,100)	459,521	(1.1)
2012	2,412	9,142	379.0	(6,730)	558,760	(1.2)
2013	3,603	11,373	315.7	(7,770)	590,380	(1.3)

**Alaska Retiree Healthcare Trust Plan**

Actuarial valuation year ended 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
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
2011	9,091,034	5,051,625	55.6	4,039,409	1,559,938	258.9
2012	9,812,274	5,301,609	54.0	4,510,665	1,522,399	296.3
2013	12,281,372	5,651,877	46.0	6,629,495	1,534,665	432.0

**Retiree Medical Benefits Plan**

Actuarial valuation year ended 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
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)
2011	13,142	12,009	91.4	1,133	459,521	0.2
2012	51,798	15,773	30.5	36,025	558,760	6.4
2013	69,144	20,336	29.4	48,808	590,380	8.3

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



# Financial Section

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

**Required Supplementary Information (Unaudited)**  
**Schedules of Contributions from Employers and the State of Alaska**  
**Defined Benefit OPEB Plans**

**June 30, 2014**  
**(In thousands)**

**Occupational Death and Disability Benefits Plan**

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	\$ 1,063	100.0%
2009	1,787	100.0
2010	1,495	100.0
2011	1,852	100.0
2012	1,085	146.0
2013	1,328	116.0

**Alaska Retiree Healthcare Trust Plan**

Year ended June 30	Actuarial valuation year ended June 30 <sup>(1)</sup>	Annual required contribution			Percentage contributed		
		Pension	Postemployment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2008	2005	\$ 140,729	370,456	511,185	71.2%	36.2%	107.4%
2009	2006	166,016	391,321	557,337	68.1	41.4	109.5
2010 <sup>(2)</sup>	2007	217,080	790,793	1,007,873	31.6	54.8	86.4
2011	2008	220,419	525,075	745,494	49.8	21.6	71.4
2012	2009	351,674	498,433	850,107	44.8	28.8	73.6
2013	2010	382,889	612,792	995,681	37.5	25.1	62.6

<sup>(1)</sup> Actuarial valuation related to annual required contribution for fiscal year.

<sup>(2)</sup> In the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed included the Mercer legal settlement, net of legal fees, as well as the Medicare Part D subsidy contributed by the State to the healthcare fund.

**Retiree Medical Benefits Plan**

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	\$ 1,845	85.0%
2009	3,152	85.0
2010	3,469	87.0
2011	3,229	78.0
2012	3,464	82.0
2013	3,365	95.0

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

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**  
**Notes to Required Supplementary Information (Unaudited)**  
**June 30, 2014**

**(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 Alaska Retiree Healthcare Trust valuation as of June 30, 2013 is 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 dollar amount. The initial unfunded accrued liability was established on June 30, 2002 and amortized over a closed 25-year period. Any changes in the unfunded accrued liability established after June 30, 2002 due to changes in plan provisions, actuarial methods or assumptions, or actuarial experience are amortized over a 25-year period from the date established. 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.
- (b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.
- (c) Valuation of medical 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. 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.

**State of Alaska**  
**Public Employees' Retirement System**  
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**Notes to Required Supplementary Information (Unaudited)**  
**June 30, 2014**

**(2) Actuarial Assumptions and Methods (cont.)**

- (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 (pre termination) – Peace officer/firefighter: Based upon the 2005–2009 actual mortality experience study. 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. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 109%.
- (i) Mortality (post-termination) – 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with an one-year set-forward for females. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 109%.
- (j) Total turnover – Based upon the 2005–2009 actual withdrawal experience.
- (k) Disability – Incidence rates based upon the 2005–2009 actual experience. 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.
- (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 non-vested 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.

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

**Notes to Required Supplementary Information (Unaudited)**

**June 30, 2014**

**(2) Actuarial Assumptions and Methods (cont.)**

- (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.
- (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 amount 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 FY14 medical and prescription are shown below:

	<b>Medical</b>	<b>Prescription drugs</b>
Pre-Medicare	\$ 11,125	2,621
Medicare Parts A and B	1,726	2,621
Medicare Part B Only	6,676	2,621
Medicare Part D	N/A	502

- (v) Third-party administrator fees – \$177.57 per person per year; assumed trend rate of 5% per year.
- (w) Medicare Part B Only – For actives and retirees not yet Medicare-eligible, participation is set based on whether the member/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or rehire.
- (x) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims cost.

<b>Fiscal year</b>	<b>Medical pre-65</b>	<b>Medical post-65</b>	<b>Prescription drugs</b>
2014	8.7%	6.4%	6.3%
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2020	6.4	6.1	5.8
2025	6.0	6.0	5.7
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

# Financial Section

State of Alaska  
 Public Employees' Retirement System  
 (A Component Unit of the State of Alaska)  
**Notes to Required Supplementary Information (Unaudited)**  
 June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

For the June 30, 2012 valuations and later, the updated 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.

(y) Aging factors:

Age	Medical	Prescription drugs
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-73	4.0	1.5
74-83	1.5	0.5
84-93	0.5	—
94 +	—	—

(z) 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 FY14 contributions based on monthly rates shown below for calendar 2013 and 2014 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 Tier 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled.

Coverage category	Calendar 2014 annual contribution	Calendar 2014 monthly contribution	Calendar 2013 monthly contribution
Retiree only	\$ 9,876	823	807
Retiree and spouse	19,764	1,647	1,615
Retiree and child(ren)	13,956	1,163	1,140
Retiree and family	23,844	1,987	1,948
Composite	14,676	1,223	1,200

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

**Notes to Required Supplementary Information (Unaudited)**

**June 30, 2014**

**(2) Actuarial Assumptions and Methods (cont.)**

- (aa) 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, 8.2% is applied to the FY14 retired member medical contributions to get the FY15 retired member medical contributions.

<u>Fiscal year</u>	
2014	8.2%
2015	8.0
2016	7.6
2017	7.2
2018	6.7
2019	6.4
2025	5.9
2050	5.0
2100	4.5

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2012 valuation. Note that actual FY14 retired member medical contributions are reflected in the valuation, so trend on such contribution during FY14 is not applicable.

- (bb) Healthcare participation – 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.

The significant actuarial assumptions used in the occupational death and disability and retiree medical benefit plan valuation as of June 30, 2013 are as follows:

- (a) Actuarial cost method – Liabilities and contributions are computed using 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. 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.
- (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. Fair value of assets were \$0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of fair value of assets.

**State of Alaska**  
**Public Employees' Retirement System**  
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**Notes to Required Supplementary Information (Unaudited)**  
**June 30, 2014**

**(2) Actuarial Assumptions and Methods (cont.)**

- (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, 2013 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 network steerage, 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, FY13 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.
- (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. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 109%.
- (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. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 109%.
- (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.

**State of Alaska**  
**Public Employees' Retirement System**  
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**Notes to Required Supplementary Information (Unaudited)**  
**June 30, 2014**

(2) **Actuarial Assumptions and Methods (cont.)**

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

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

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.

(n) 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 FY14 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	\$ 11,125	2,621
Medicare Parts A and B	1,726	2,621
Medicare Part B Only	6,676	2,621
Medicare Part D	N/A	502

(q) Third-party administrator fees – \$177.57 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 cost adjustments were applied to the per capita claims cost rates: 0.881 for medical plan, 0.929 for the prescription drug plan, and 0.998 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 Supplementary Information (Unaudited)**  
 June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

- (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, 8.7% is applied to the FY14 pre-Medicare medical claims cost to get the FY15 medical claims costs:

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2014	8.7%	6.4%	6.3%
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2020	6.4	6.1	5.8
2025	6.0	6.0	5.7
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

As of the June 30, 2012 valuation and later, the updated 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.

- (t) Aging factors:

Age	Medical	Prescription drugs
0–44	2.0%	4.5%
45–54	2.5	3.5
55–64	3.5	3.0
65–73	4.0	1.5
74–83	1.5	0.5
84–93	0.5	—
94 +	—	—

State of Alaska  
 Public Employees' Retirement System  
 (A Component Unit of the State of Alaska)

## Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

(u) Retiree medical participation:

Decrement due to disability		Decrement due to retirement	
Age	Percentage participation	Age	Percentage participation
<56	73.00%	55	40.0%
56	77.50	56	50.0
57	79.75	57	55.0
58	82.00	58	60.0
59	84.25	59	65.0
60	86.50	60	70.0
61	88.75	61	75.0
62	91.00	62	80.0
63	93.25	63	85.0
64	95.50	64	90.0
65+	94.40	65+	<b>Years of service</b>
			<15
			15-19
			20-24
			25-29
			30+
			70.5%
			75.2
			79.9
			89.3
			94.0

Participation rates reflect the expected plan election rate that varies by reason for decrement, duration that a member may pay full cost prior to Medicare eligibility, and availability of alternative and/or lower cost options, particularly in the Medicare market.

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 Methods Since the Last Valuation***

There have been no changes in the asset or valuation methods since the prior valuation.

***Changes in Assumptions Since the Last Valuation***

There have been no changes in actuarial assumptions since the prior valuation.

**State of Alaska**  
**Public Employees' Retirement System**  
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**Notes to Required Supplementary Information (Unaudited)**  
**June 30, 2014**

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

Alaska Statute 39.35.280 states that the State 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 22.00%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution adopted by the Board for the fiscal year. For fiscal year 2014 (based on the June 30, 2011 actuarial valuation report), the normal cost rate decreased from 8.67% to 8.12%, the past service rate increased from 24.16% to 24.19%, thus producing a total actuarially determined contribution rate of 32.31% for fiscal year 2014. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DC Plan, which was 3.37% for fiscal year 2014. This calculation provided a fiscal year 2014 actuarially determined employer contribution rate of 35.68%. The Board adopted the actuarially determined contribution rate of 35.68% for fiscal year 2014.

**SUPPLEMENTAL SCHEDULES**

# Financial Section

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**

**Schedule of Administrative and Investment Deductions**  
**Defined Benefit Pension Plan**  
**Years ended June 30, 2014 and 2013**  
**(In thousands)**

	Administrative	Investment	Totals	
			2014	2013
Personal services:				
Wages	\$ 4,045	184	4,229	3,622
Benefits	2,454	75	2,529	2,168
Total personal services	6,499	259	6,758	5,790
Travel:				
Transportation	60	93	153	139
Per diem	12	47	59	59
Total travel	72	140	212	198
Contractual services:				
Management and consulting	9,338	29,739	39,077	31,915
Accounting and auditing	85	13	98	733
Data processing	80	12	92	1,635
Communications	2,140	508	2,648	153
Advertising and printing	133	28	161	65
Rentals/leases	342	46	388	358
Legal	637	56	693	365
Medical specialists	154	14	168	46
Repairs and maintenance	6	8	14	18
Transportation	94	32	126	99
Other professional services	176	1	177	157
Total contractual services	13,185	30,457	43,642	35,544
Other:				
Equipment	34	14	48	55
Supplies	112	56	168	143
Total other	146	70	216	198
Total administrative and investment deductions	\$ 19,902	30,926	50,828	41,730

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 Pension and OPEB Plans**  
**Years ended June 30, 2014 and 2013**  
**(In thousands)**

	Administrative	Investment	Totals	
			2014	2013
Personal services:				
Wages	\$ 317	—	317	307
Benefits	185	—	185	194
Total personal services	502	—	502	501
Travel:				
Transportation	8	—	8	9
Per diem	1	—	1	2
Total travel	9	—	9	11
Contractual services:				
Management and consulting	1,569	1,123	2,692	1,221
Accounting and auditing	28	—	28	26
Data processing	160	—	160	75
Communications	10	—	10	10
Advertising and printing	1	—	1	1
Rentals/leases	25	—	25	27
Legal	21	—	21	9
Repairs and maintenance	—	—	—	—
Other professional services	6	—	6	5
Total contractual services	1,820	1,123	2,943	1,374
Other:				
Equipment	3	—	3	4
Supplies	9	—	9	8
Total other	12	—	12	12
Total administrative and investment deductions	\$ 2,343	1,123	3,466	1,898

See accompanying independent auditors' report.

# Financial Section

**State of Alaska**  
**Public Employees' Retirement System**  
**(A Component Unit of the State of Alaska)**  
**Schedule of Payments to Consultants Other than Investment Advisors**  
**Years ended June 30, 2014 and 2013**  
**(In thousands)**

Firm	Services	2014	2013
Buck Consultants, an ACS Company	Actuarial services	\$ 612	\$ 554
KPMG LLP	Auditing services	106	42
State Street Bank Corporation	Custodian banking services	697	668
Applied Microsystems Inc.	Data processing consultants	332	81
Computer Task Group, Inc.	Data processing consultants	131	199
Mythics Inc.	Data processing consultants	9	77
Six Degrees Consulting	Data processing consultants	—	17
Wostmann Group LLC	Data processing consultants	243	48
State of Alaska, Department of Law	Legal services	644	312
Michael Silverman	Management consulting services	236	44
The Wilson Agency LLC	Management consulting services	2	28
State of Alaska, Department of Health and Social Services	Medical expertise and counseling	125	31
		\$ 3,137	\$ 2,101


See accompanying independent auditors' report.



# INVESTMENT SECTION



*Alaska Division of Retirement and Benefits*



**PERS**  
Public Employees Retirement System

## Callan

Callan Associates Inc  
1660 Wynkoop Street  
Suite 950  
Denver, CO 80202

Main 303.861.1900  
Fax 303.832.8230

[www.callan.com](http://www.callan.com)

September 3, 2014

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

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2014.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank & Trust Company. The performance calculations were made using a time-weighted return methodology based upon current 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 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 these objectives, 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 at an acceptable level of risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. The policy benchmark is a custom target comprising equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

Major equity markets enjoyed a strong fiscal year in 2014. The Russell 3000 Index, a measure of broad U.S. equity, surged 25.22% during fiscal year 2014. International stocks, as measured by the MSCI ACWI ex-U.S. Index, gained 22.28% for the same period. A broad measure of the total global equity market (MSCI All Country World Index) also boasted strong performance, returning 23.58%.

Falling bond yields during the period boosted fixed income performance. The Barclays Capital Aggregate Bond Index, a widely used gauge of the investment grade domestic fixed income market, gained 4.37%. Absolute return strategies, such as hedge fund-of-funds, posted respectable gains during the fiscal year. For example, the Callan Absolute Return Hedge Fund-of-Funds Style median return was 8.16% (net-of-fees). Private real estate investments, as measured by the

# Investment Section

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NCREIF Property Index, continued to advance, returning 11.21% during fiscal 2014. Publicly traded real estate, as measured by the NAREIT Equity Index, increased 13.02% during the same period.

ARMB's various asset group returns were all positive through June 30, 2014, as shown below.

Domestic stocks	25.8%
Int'l Stocks	23.4%
Private Equity	24.2%
Real Assets	13.3%
Absolute Return	6.5%
Fixed Income	5.1%

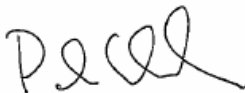
For fiscal year 2014, the Public Employees Retirement System (PERS) had a time-weighted total return of 18.56% and the Teachers Retirement System (TRS) also had a time-weighted total return of 18.56%. Both Systems outperformed their strategic policy benchmark target return of 17.20%. The two funds' returns were also above the 16.11% median return for Callan's Public Fund database.

Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 10-year annualized return through June 30, 2014 was 7.26% while TRS's return was slightly higher at 7.31%. These returns were in line with and slightly above their target return of 7.20%. Over the longest period for which Callan has detailed data (22.75 years) for PERS and TRS, they achieved annualized total returns of 8.05% and 8.10%, respectively, which is higher than the policy benchmark return of 8.02%.

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 4.5% or better.

In summary, fiscal 2014 was a good year for most major asset categories allowing diversified investment portfolios to perform well.

Sincerely,



Paul Erlendson  
Senior Vice President

## Department of Revenue Treasury Division Staff As of June 30, 2014

<b>Commissioner</b> Angela Rodell	<b>Chief Investment Officer</b> Gary Bader	<b>Investment Officers</b> Bob G. Mitchell Stephen R. Sikes Zachary Hanna Steve Verschoor Shane Carson Sean Howard Paul Hackenmueller	Casey Colton Nicholas Orr Victor Djajalie Joy Wilkinson Alyson Campbell Emily Peyton
<b>Deputy Commissioner</b> Michael Pawlowski	<b>Comptroller</b> Scott Jones, CPA		
<b>Director</b> Pamela Leary, CPA	<b>Cash Management</b> Michelle M. Prebula, MBA, CPA, CCM		
		<b>ARMB Liaison Officer</b> Judy Hall	

## External Money Managers and Consultants

### Investment Consultants

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

### Investment Advisory Council

William Jennings  
*Colorado Springs, CO*  
Jerrold Mitchell  
*Wayland, MA*  
Robert Shaw  
*San Francisco, CA*

### Absolute Return

Crestline Investors, Inc.  
*Fort Worth, TX*  
Global Assets Management Inc.  
*Los Angeles, CA*  
Prisma Capital Partners  
*New York, NY*

### Domestic Equity Large Capitalization

Analytic Investors LLC  
*Los Angeles, CA*  
Barrow, Hanley, Mewhinney & Strauss  
*Dallas, TX*  
Capital Guardian Trust Co.  
*Los Angeles, CA*  
Allianz Global Investors (formerly RCM)  
*San Francisco, CA*  
McKinley Capital Management, Inc.  
*Anchorage, AK*  
Relational Investors LLC  
*San Diego, CA*  
Quantitative Management Associates  
*Newark, NJ*

### Domestic Equity MicroCap

DePrince, Race & Zollo, Inc.  
*Winter Park, FL*  
Lord Abbett & Co.  
*Jersey City, NJ*

### Domestic Equity Small Capitalization

Jennison Associates LLC  
*New York, NY*  
Lord Abbett & Co.  
*Jersey City, NJ*  
Luther King Capital Management  
*Fort Worth, TX*  
Frontier Capital Management  
*Boston, MA*  
Victory Capital Management  
*St. Louis, MO*

### Domestic Equity Index Fund

State Street Global Advisors  
*San Francisco, CA*

### Emerging Markets

Eaton Vance Management  
*Boston, MA*  
Lazard Asset Management  
*New York, NY*

### Global Equity and Emerging Income

Lazard Freres Asset Management  
*New York, NY*

### High Yield/Convertible Bond

MacKay Shields LLC  
*New York, NY*  
Advent Capital Management  
*New York, NY*

### Taxable Municipal Bonds

Guggenheim Partners LLC  
*Santa Monica, CA*  
Western Asset Management Company  
*Pasadena, CA*

### International Equity – EAFE

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

## External Money Managers and Consultants (cont.)

### International Small Cap

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

### International Fixed Income

Mondrian Investment Partners  
*London, England*

### Master Limited Partnerships

FAMCO MLP  
*St. Louis, MO*  
 Tortoise Capital Advisors LLC  
*Leawood, KS*

### Private Equity

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

### Real Assets – Energy

EIG Global Energy Partners  
*Washington, DC*

### Real Assets – Farmland

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

### Real Assets – Timber

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

### Real Assets – 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 Assets – Commingled Real Estate Funds

Almanac Realty Investors  
*Alpharetta, GA*  
 BlackRock Realty  
*San Francisco, CA*  
 Colony Capital  
*Los Angeles, CA*  
 Cornerstone Real Estate Advisers, LLC  
*Hartford, CT*

### Real Assets – Commingled Real Estate Funds (cont'd)

Coventry Real Estate Fund II, LLC  
*New York, NY*  
 Clarion Partners  
*New York, NY*  
 J.P. Morgan Investment Management Inc.  
*New York, NY*  
 Silverpeake Real Estate Partners  
 New York, NY  
 Lowe Hospitality Investment Partners, LLC  
*Los Angeles, CA*  
 Sentinel Real Estate Corporation  
*New York, NY*  
 Tishman Speyer Properties  
*New York, NY*  
 UBS Realty Investors, LLC  
*Hartford, CT*

### Real Assets – Infrastructure

Brookfield Investment Management  
*Encinitas, CA*  
 Industry Funds Management  
*New York, NY*  
 JP Morgan Asset Management  
*San Francisco, CA*  
 Lazard Asset Management  
*New York, NY*

### Supplemental Benefits System, Deferred Compensation Plan and Defined Contribution Plan

BlackRock  
*San Francisco, CA*  
 Allianz Global Investors (formerly 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, LLP  
*Anchorage, AK*

### Legal Counsel

Robert Johnson  
*Anchorage, AK*

## Public Employees' Retirement System Investment Report

### INVESTMENTS

The investment goals of the State of Alaska Public Employees' Retirement System (PERS) are the long term return and sustainability of the pension funds under management. Annually, the Alaska Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an expected optimal risk/return level within the set constraints and objectives of the ARMB.

The ARMB categorizes its investments into eight asset classes: domestic equities, global equities ex-U.S., alternative equity strategies, private equity, real assets, fixed income, absolute return, and cash equivalents. 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 Equity	Russell 3000 Index
Global Equities Ex-U.S.	MSCI All Country World Ex-U.S. Index
Alternative Equities Strategies	50% S&P 500 Index 30% CBOE Buy Write Index 20% Bank of America Yield Alternative Index
Private Equity	1/3 S&P 500 Index 1/3 Russell 2000 Index 1/3 MSCI EAFE Index
Real Assets	50% NCREIF Property Index 15% Barclays TIPS Index 10% NCREIF Farmland Index 10% NCREIF Timberland Index 5% FTSE NAREIT All Equity REIT Index 10% S&P Global Infrastructure <sup>1</sup>
Fixed Income	80% Barclays Intermediate Treasury Index 10% Bank of America Merrill Lynch US High Yield Master II Constrained Index 7% Citigroup World Gov. Bond Ex-U.S. Index 3% JP Morgan Global Bond Index - Emerging Markets Global Diversified Index
Absolute Return	91 Day Treasury Bill + 5%
Cash Equivalents	91 Day Treasury Bill

The target asset allocation is determined by the ARMB, utilizing capital market assumptions provided by its independent general investment consultant, Callan Associates. During the 2014 fiscal year, the ARMB's target asset allocation was 26% domestic equities, 25% global equities ex-U.S., 3% alternative equity strategies, 9% private equity, 17% real assets, 12% fixed income, 5% absolute return, and 3% cash equivalents. The target asset allocation is expected to generate a return of 7.16% with a standard deviation of 14.81%.

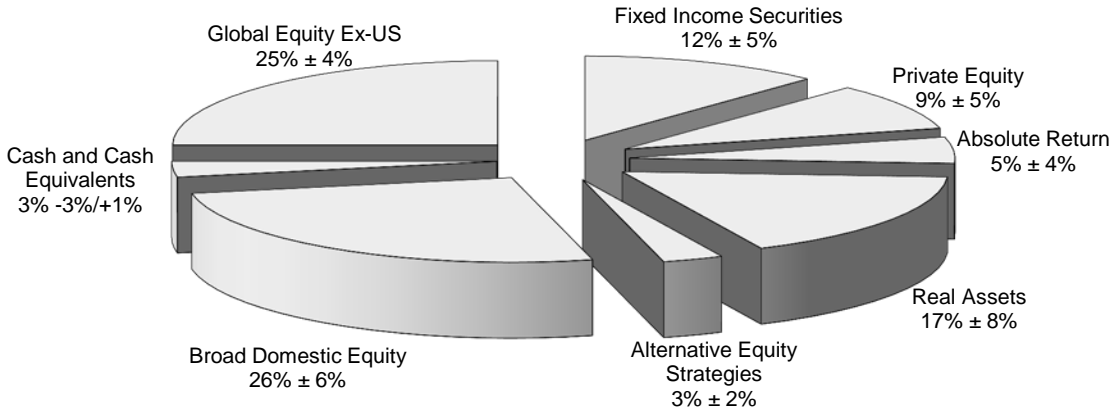
<sup>1</sup>Between July 1 and March 31, the benchmark for real assets was 55% NCREIF Property Index, 20% Barclays TIPS Index, 10% NCREIF Farmland Index, 10% NCREIF Timberland Index, 5% FTSE NAREIT All Equity REIT Index.

# Investment Section

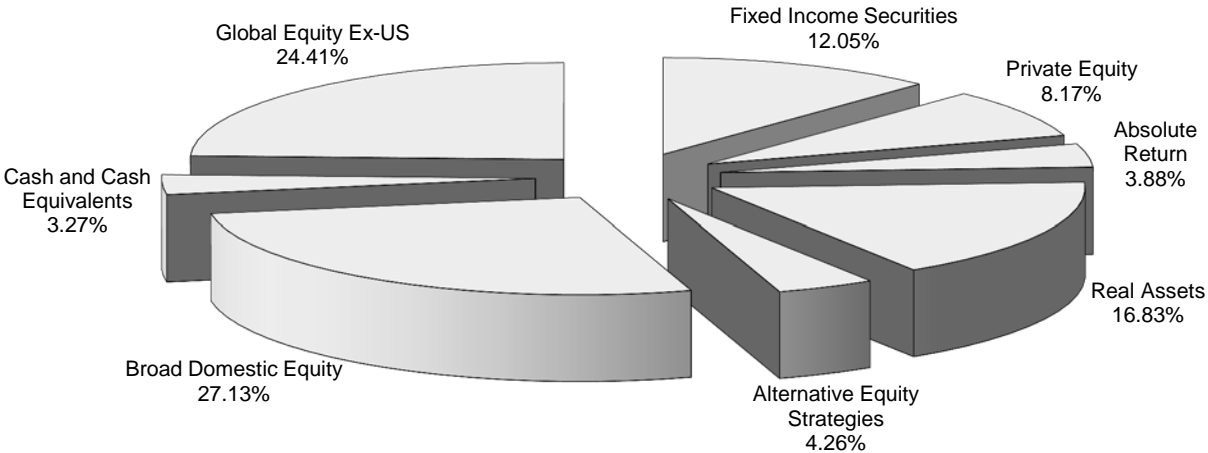
Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
	2010	2011	2012	2013	2014	Annualized	
						3 Year	5 Year
<b>Total Fund</b>							
PERS	11.39%	21.22%	0.46%	12.50%	18.56%	10.25%	12.58%
<i>Actuarial Earnings Rate</i>	8.25	8.00	8.00	8.00	8.00	8.00	8.00
<b>U.S. Common Stock Returns</b>							
PERS Domestic Equities	15.45	33.37	1.80	21.23	25.81	15.80	19.04
<i>Custom Composite Index</i>	15.72	32.37	3.84	21.46	25.22	16.46	19.33
<b>Fixed Income</b>							
PERS	11.19	5.46	4.90	0.57	5.14	3.51	5.40
<i>Custom Composite Index</i>	10.16	5.06	5.08	(0.04)	3.31	2.76	4.67
<b>Real Assets</b>							
PERS	(0.28)	15.25	10.46	10.47	13.28	11.40	9.65
<i>Custom Composite Index</i>	1.17	12.66	11.41	8.35	10.98	10.24	8.84
<b>International Stock Returns</b>							
PERS International Equities	12.05	28.27	(13.67)	15.01	23.43	7.01	11.99
<i>MSCI ACWI ex-US</i>	10.87	30.27	(14.15)	14.14	22.27	6.21	11.59
<b>Private Equity</b>							
PERS	18.86	20.14	9.44	11.61	24.19	14.90	16.72
<i>Custom Composite Index</i>	13.87	32.93	(3.61)	21.24	24.01	13.16	17.01
<b>Absolute Return</b>							
PERS	6.59	5.98	(2.05)	8.41	6.51	4.19	5.02
<i>3-month Treasury Bill +5%</i>	5.16	5.16	5.06	5.11	5.05	5.07	5.11
<b>Alternative Equity</b>							
PERS	—	—	—	—	22.36	—	—
<i>Custom Composite Index</i>	—	—	—	—	18.70	—	—
<b>Cash Equivalents</b>							
PERS	—	0.47	0.44	0.25	0.27	0.32	—
<i>3-month Treasury Bill</i>	—	0.16	0.06	0.11	0.05	0.07	—
<p>MSCI ACWI =Morgan Stanley Capital International All Country World Index  Returns for periods longer than one year are reported on an annualized basis.  Basis of calculation: Time-Weighed rate of return based on the market rate of return.</p>							

**Public Employees' Retirement System  
Asset Allocation  
June 30, 2014**

**Policy**



**Actual – Defined Benefit Pension**

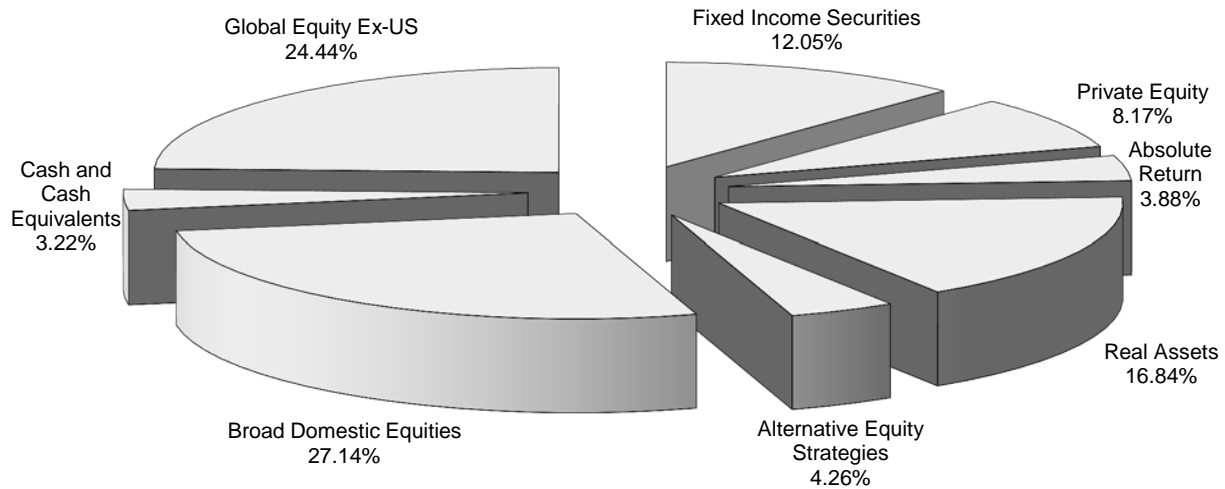




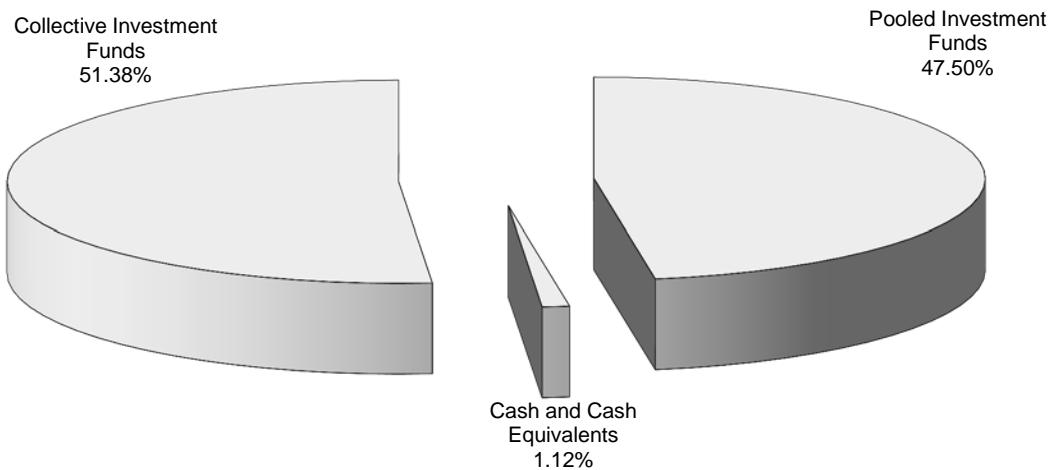
# Investment Section

## Public Employees' Retirement System Asset Allocation June 30, 2014

### Actual – Defined Benefit Alaska Retiree Healthcare Trust

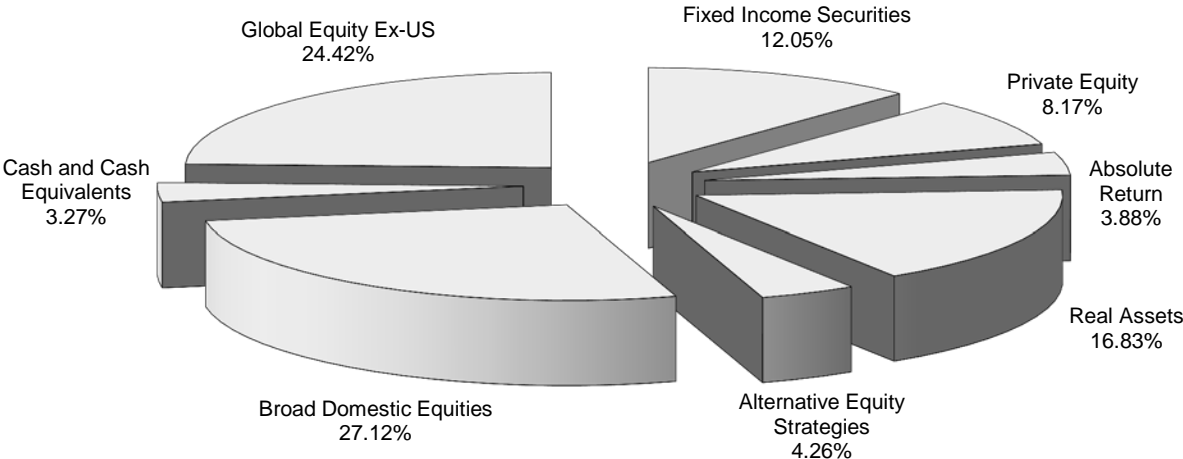


### Actual – Defined Contribution Participant Directed

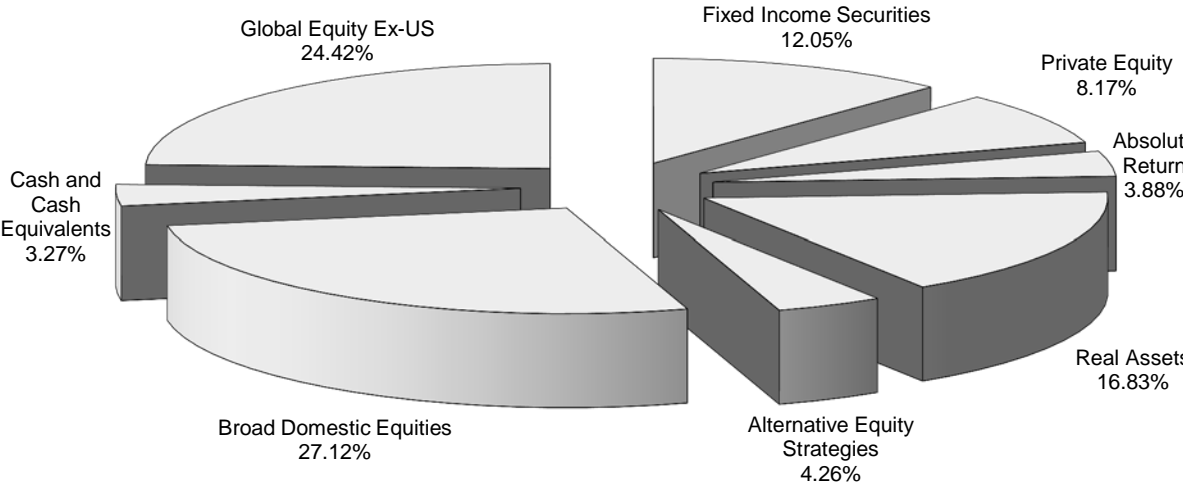


**Public Employees' Retirement System  
Asset Allocation  
June 30, 2014**

**Actual — Health Reimbursement Arrangement**



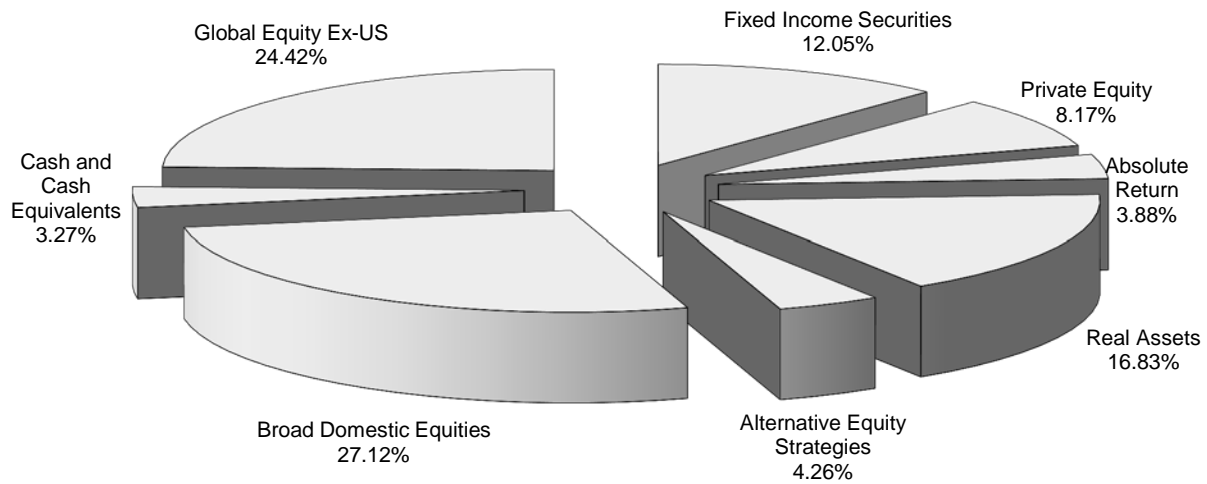
**Actual — Occupational Death & Disability**



# Investment Section

## Public Employees' Retirement System Asset Allocation June 30, 2014

### Actual — Retiree Medical Plan



**Alaska Retirement Management Board  
Top Ten Holding by Asset Type  
June 30, 2014**

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 twenty-six 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 fixed income and equity holdings.

## Fixed Income

<u>Rank</u>	<u>Largest Fixed Income Holdings</u>	<u>Market Value</u>	<u>Par Value</u>
1	US Treasury 1.625% 7/31/2019	\$136,088,243	\$135,780,564
2	US Treasury 1.500% 2/28/2019	97,160,302	97,183,043
3	US Treasury 0.875% 12/31/2016	94,468,967	93,969,799
4	US Treasury 0.625% 4/30/2018	81,278,195	83,122,518
5	US Treasury 2.625% 5/15/2024	77,721,923	77,143,348
6	US Treasury 0.875% 7/31/2019	48,205,464	49,970,004
7	US Treasury 0.75% 1/15/2017	33,050,449	32,980,892
8	US Treasury 0.625% 5/31/2017	24,943,352	25,088,388
9	US Treasury 1.625% 4/30/2019	22,164,399	22,086,742
10	US Treasury 2.000% 7/31/2020	20,858,169	20,677,243

## Equities

<u>Rank</u>	<u>Largest Equity Holdings</u>	<u>Market Value</u>
1	Apple Inc.	\$110,087,630
2	Microsoft Corp.	77,744,092
3	Johnson & Johnson	48,291,298
4	Wells Fargo & Co.	43,920,917
5	Pfizer Inc.	42,286,260
6	Chevron Corp.	39,630,680
7	JPMorgan Chase & Co.	39,619,770
8	Intel Corp.	39,603,165
9	Citigroup Inc.	38,168,727
10	Verizon Communications Inc.	36,870,423

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 Investment Management Fees Year Ended June 30, 2014

	Total Fair Value	Fees
<b>Fixed Income</b>		
<b>Municipal Bond Pool</b>		
* Western Asset Management	\$ 78,838,210	\$ 135,029
* Guggenheim Partners	77,313,246	79,698
Total Municipal Bond Pool	156,151,456	214,727
<b>High Yield Pool</b>		
* Mackay Shields, LLC	396,460,620	1,699,286
<b>International Fixed Income</b>		
* Mondrian Investment Partners	265,496,639	981,828
<b>Broad Domestic Equity Pools</b>		
* Barrow, Hanley, Mewhinney & Strauss, INC	171,633,042	1,382,344
* Jennison Associates LLC	101,180,905	825,543
* Lazard Asset Management	266,722,858	593,273
* Lord Abbett & Co.	169,597,642	1,407,018
* Luther King Cap. Management	96,210,909	575,810
* Victory Capital Management	77,713,200	568,752
* Frontier Capital Management	75,808,524	953,185
* McKinley Capital	245,862,822	766,730
* Quantitative Management Associates	234,461,981	710,853
* SSgA Russell 1000 Growth	867,870,648	97,254
* SSgA Russell 1000 Value	819,948,649	97,793
* SSgA Russell 2000 Growth	12,431,941	5,849
* SSgA Russell 2000 Value	45,548,078	21,174
* SSgA Russell 200	377,738,314	42,908
* SSgA Futures Large Cap	9,382,307	8,639
* SSgA Future Small Cap	7,920,351	7,358
* DePrince, Race & Zollo Inc.-Micro Cap	69,552,596	726,585
* Allianz Global Investors	247,729,696	512,769
Total Domestic Equities	3,897,314,463	9,303,837
<b>Global Equity Ex-U.S.</b>		
* SSgA	473,696,119	262,879
* Brandes Investment Partners	781,863,701	2,694,555
* Capital Guardian Trust Co.	579,917,216	2,001,457
* McKinley Capital Mgmt.	277,531,867	1,255,587
* Lazard Freres	308,871,229	419,941
* Blackrock ACWI Ex-US IMI	473,844,432	259,255
* Mondrian Investment Partners	112,441,293	775,890
* Schroder Investment Management	116,689,295	842,190
Total International Equities	3,124,855,152	8,511,754
<b>Alternative Equity Strategies</b>		
<b>Alternative Equity Pool</b>		
* Analytic SSgA Account	167,658,728	148,186
* Analytic Buy Write Account	5,605,816	11,560
* Allianz Global Investors	-	216,322
Total Alternative Equity	173,264,544	376,068
<b>Convertible Bond Pool</b>		
* Advent Capital	137,669,209	685,902
<b>Private Equity Pool</b>		
** BlumCapital Partners-Strategic	7,710,004	161,365
** Warburg Pincus	28,233,368	378,732
** Angelo Gordon & Co.	5,948,016	142,620
** Onex Partners	17,051,312	230,948
** Lexington Partners	35,158,790	508,531
** Neuberger Berman Secondary Opportunities	3,523,488	586,301
* Pathway Capital Management	566,258,952	1,597,172
* Abbott Capital Management	541,007,512	1,356,548
** Merit Capital Partners	10,158,129	10,158,129
Total Private Equities	1,215,049,571	15,120,346

**Public Employees' Retirement System**  
**Schedule of Investment Management Fees (cont.)**  
**Year Ended June 30, 2014**

	<b>Total Fair Value</b>	<b>Fees</b>
<b>Absolute Return Pool</b>		
** Mariner Investment Group	\$ -	\$ 2,933
** Crestline Investors Inc.	127,489,205	1,222,104
** Global Asset Management	222,059,943	1,443,824
** Prisma Capital Partners	227,870,263	1,542,432
Total Absolute Return	577,419,411	4,211,293
<b>Real Assets</b>		
<b>Real Estate Pool</b>		
** JPM Strategic	137,548,216	1,127,215
** UBS Consolidated	59,333,002	619,830
** Cornerstone	87,317,182	475,455
** Lasalle	107,214,365	897,578
** Sentinel ,SA	110,498,029	606,848
** UBS Separate	217,359,049	1,212,286
** Lowe Hospitality	1,654,423	25,549
** KKR.	17,343,917	140,582
** ING Clarion	20,115,404	264,739
** Silverpeak Legacy Pension Partners	49,989,410	673,121
** Rothschild Five Arrows	28,301,362	420,922
** Tishman Speyer	42,298,551	590,810
** BlackRock Diamond	20,292,395	250,815
** Colony Investors VIII, L.P.	18,275,079	441,002
** LaSalle Medical Office Fund II	4,301,249	169,972
** Cornerstone Apartment Venture III	5,169,487	121,034
** Coventry	9,053,861	235,170
Total Real Estate	936,064,981	8,272,928
<b>Infrastructure Public Pool</b>		
* Brookfield Investment Management	58,713,840	118,142
* Lazard Asset Management	57,177,673	111,609
Total Infrastructure Public Pool	115,891,513	229,751
<b>Master Limited Partnerships Pool</b>		
* Tortoise MLP	180,028,282	914,558
* Advisory Research Inc	163,488,816	677,704
Total Master Limited Partnerships Pool	343,517,098	1,592,262
<b>Energy Pool</b>		
** EIG Energy Fund XV	27,531,842	343,544
** EIG Energy Fund XD	5,405,820	69,423
** EIG Energy Fund XIV-A	36,919,880	454,392
** EIG Energy Fund XVI	5,361,373	567,634
Total Energy Pool	75,218,915	1,434,993
<b>Farmland Pool</b>		
** Hancock Agriculture Investment Group	154,659,777	1,547,618
** UBS Agrivest	344,776,920	2,747,827
Total Farmland	499,436,697	4,295,445
<b>Timber Pool</b>		
** Timberland Investment Resources	184,081,775	1,062,582
** Hancock Natural Resource Group	68,975,693	475,351
Total Timber Pool	253,057,468	1,537,933
<b>Custodian</b>		
* State Street Bank		696,956
<b>Investment Advisory</b>		
* Townsend Group		74,571
* Callan Associates		111,862
* Investment Advisory Council		60,649
Total Investment Advisory		247,082
<b>Investment Performance</b>		
* Callan Associates		198,865
<b>Total External Management Fees</b>		<b>\$ 59,611,256</b>

\*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, 2014

Investments (at Fair Value)	Defined Benefit - Pension			% of Total Assets
	Policy	Range	Fair Market Value	
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	3.00%	-3%/+1%	\$ 252,124,261	
Total Cash and Cash Equivalents			252,124,261	3.27%
<b>Fixed Income Securities</b>				
U.S. Treasury Fixed Income Pool			449,549,295	
Taxable Municipal Bond Pool			81,063,028	
High Yield Pool			205,814,916	
International Fixed Income Pool			137,827,479	
Emerging Debt Pool			55,938,031	
Total Fixed Income Securities	12.00%	± 5%	930,192,749	12.05%
<b>Broad Domestic Equity</b>				
Large Cap Pool			1,714,745,886	
Small Cap Pool			379,467,708	
Total Broad Domestic Equity	26.00%	± 6%	2,094,213,594	27.13%
<b>Global Equity Ex-U.S.</b>				
International Equity Pool			1,503,259,799	
International Equity Small Cap Pool			118,948,747	
Frontier Markets Pool			35,974,419	
Emerging Markets Equity Pool			226,358,895	
Total Global Equity Ex-U.S.	25.00%	± 4%	1,884,541,860	24.41%
<b>Alternative Equity Strategies</b>				
Alternative Equity Strategies			257,596,868	
Convertible Bond Pool			71,468,328	
Total Alternative Equities	3.00%	± 2%	329,065,196	4.26%
<b>Private Equity</b>				
Private Equity Pool			630,825,586	
Total Private Equity	9.00%	± 5%	630,825,586	8.17%
<b>Absolute Return</b>				
Absolute Return Pool			299,756,197	
Total Absolute Return	5.00%	± 4%	299,756,197	3.88%
<b>Real Assets</b>				
Real Estate Pool			486,037,603	
Real Estate Investment Trust Pool			132,631,755	
Infrastructure Public Pool			60,162,852	
Master Limited Partnership Pool			178,330,304	
Energy Pool			39,048,456	
Farmland Pool			259,272,971	
Timber Pool			131,369,923	
Treasury Inflation Protected Securities Pool			12,768,001	
Total Real Assets	17.00%	± 8%	1,299,621,865	16.83%
<b>Total Invested Assets</b>	<b>100.00%</b>		<b>\$ 7,720,341,308</b>	<b>100.00%</b>

**Public Employees' Retirement System  
Investment Summary Schedule  
June 30, 2014**

<u>Investments (at Fair Value)</u>	<u>Defined Benefit - Alaska Retiree Health Care Trust</u>			<u>% of Total Assets</u>
	<u>Asset Allocation Policy</u>	<u>Range</u>	<u>Fair Market Value</u>	
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	3.00%	-3%/+1%	\$ 224,002,627	
Total Cash and Cash Equivalents			<u>224,002,627</u>	3.22%
<b>Fixed Income Securities</b>				
U.S. Treasury Fixed Income Pool			404,786,009	
Taxable Municipal Bond Pool			72,991,285	
High Yield Pool			185,321,165	
International Fixed Income Pool			124,103,490	
Emerging Debt Pool			50,368,077	
Total Fixed Income Securities	12.00%	± 5%	<u>837,570,026</u>	12.05%
<b>Broad Domestic Equity</b>				
Large Cap Pool			1,544,002,281	
Small Cap Pool			341,682,699	
Total Broad Domestic Equity	26.00%	± 6%	<u>1,885,684,980</u>	27.14%
<b>Global Equity Ex-U.S.</b>				
International Equity Pool			1,353,574,648	
International Equity Small Cap Pool			107,104,578	
Frontier Markets Pool			32,392,309	
Emerging Markets Equity Pool			203,819,499	
Total Global Equity Ex-U.S.	25.00%	± 4%	<u>1,696,891,034</u>	24.44%
<b>Alternative Equity Strategies</b>				
Alternative Equity Strategies			231,946,991	
Convertible Bond Pool			64,351,959	
Total Alternative Equities	3.00%	± 2%	<u>296,298,950</u>	4.26%
<b>Private Equity</b>				
Private Equity Pool			568,011,943	
Total Private Equity	9.00%	± 5%	<u>568,011,943</u>	8.17%
<b>Absolute Return</b>				
Absolute Return Pool			269,908,365	
Total Absolute Return	5.00%	± 4%	<u>269,908,365</u>	3.88%
<b>Real Assets</b>				
Real Estate Pool			437,458,575	
Real Estate Investment Trust Pool			119,425,117	
Infrastructure Public Pool			54,172,216	
Master Limited Partnership Pool			160,573,297	
Energy Pool			35,160,254	
Farmland Pool			233,456,199	
Timber Pool			118,288,936	
Treasury Inflation Protected Securities Pool			11,496,644	
Total Real Assets	17.00%	± 8%	<u>1,170,031,238</u>	16.84%
<b>Total Invested Assets</b>	<b><u>100.00%</u></b>		<b><u>\$ 6,948,399,163</u></b>	<b><u>100.00%</u></b>



# Investment Section

## Public Employees' Retirement System Investment Summary Schedule June 30, 2014

Investments (at Fair Value)	Asset Allocation		Fair Market Value	% of Total Assets
	Policy	Range		
<b>Defined Contribution - Participant Directed</b>				
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	100.00%	0%	\$ 5,502,760	
Total Cash and Cash Equivalents			5,502,760	1.12%
<b>Pooled Investment Funds (1)</b>				
T. Rowe Price				
Target 2010 Trust			1,609,922	
Target 2015 Trust			6,621,984	
Target 2020 Trust			13,672,422	
Target 2025 Trust			19,205,578	
Target 2030 Trust			19,570,678	
Target 2035 Trust			22,358,340	
Target 2040 Trust			28,615,065	
Target 2045 Trust			34,339,602	
Target 2050 Trust			39,967,857	
Target 2055 Trust			19,444,178	
Alaska Balanced Fund			1,710,207	
Long-Term Balanced Fund			22,496,078	
Alaska Money Market			3,919,094	
Total Pooled Investment Funds			233,531,005	47.50%
<b>Collective Investment Funds (1)</b>				
State Street Global Advisors				
Money Market Fund			1,125,663	
S&P Stock Index Fund			36,290,404	
Russell 3000 Index			33,495,477	
Real Estate Investment Trust Index			6,927,667	
World Equity Ex-U.S. Index			28,094,047	
Long U.S. Treasury Bond Index			537,613	
Treasury Inflation Protected Securities Index			3,042,196	
World Government Bond Ex-U.S. Index			5,653,910	
Global Balanced Fund			11,458,048	
Barclays				
Daily Government/Corporate Bond Fund			27,747,826	
Intermediate Bond Fund			403,389	
Brandes Institutional				
International Equity Fund			39,292,149	
RCM				
Socially Responsible Fund			4,883,304	
T. Rowe Price				
Small-Cap Fund			53,630,242	
Total Collective Investment Funds			252,581,935	51.38%
<b>Total Invested Assets</b>			<b>\$491,615,700</b>	<b>100.00%</b>

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

## Public Employees' Retirement System Investment Summary Schedule June 30, 2014

Investments (at Fair Value)	Health Reimbursement Arrangement			% of Total Assets
	Asset Allocation Policy	Range	Fair Market Value	
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	3.00%	-3%/+1%	\$ 5,090,216	
Total Cash and Cash Equivalents			5,090,216	3.27%
<b>Fixed Income Securities</b>				
U.S. Treasury Fixed Income Pool			9,050,096	
Taxable Municipal Bond Pool			1,631,919	
High Yield Pool			4,143,361	
International Fixed Income Pool			2,774,673	
Emerging Debt Pool			1,126,116	
Total Fixed Income Securities	12.00%	± 5%	18,726,165	12.05%
<b>Broad Domestic Equity</b>				
Large Cap Pool			34,520,387	
Small Cap Pool			7,639,250	
Total Broad Domestic Equity	26.00%	± 6%	42,159,637	27.12%
<b>Global Equity Ex-U.S.</b>				
International Equity Pool			30,262,857	
International Equity Small Cap Pool			2,394,615	
Frontier Markets Pool			724,218	
Emerging Markets Equity Pool			4,556,941	
Total Global Equity Ex-U.S.	25.00%	± 4%	37,938,631	24.42%
<b>Alternative Equity Strategies</b>				
Alternative Equity Strategies			5,185,809	
Convertible Bond Pool			1,438,763	
Total Alternative Equities	3.00%	± 2%	6,624,572	4.26%
<b>Private Equity</b>				
Private Equity Pool			12,699,458	
Total Private Equity	9.00%	± 5%	12,699,458	8.17%
<b>Absolute Return</b>				
Absolute Return Pool			6,034,539	
Total Absolute Return	5.00%	± 4%	6,034,539	3.88%
<b>Real Assets</b>				
Real Estate Pool			9,780,581	
Real Estate Investment Trust Pool			2,670,074	
Infrastructure Public Pool			1,211,168	
Master Limited Partnership Pool			3,590,054	
Energy Pool			786,103	
Farmland Pool			5,219,551	
Timber Pool			2,644,672	
Treasury Inflation Protected Securities Pool			257,039	
Total Real Assets	17.00%	± 8%	26,159,242	16.83%
<b>Total Invested Assets</b>	<b>100.00%</b>		<b>\$ 155,432,460</b>	<b>100.00%</b>

# Investment Section

## Public Employees' Retirement System Investment Summary Schedule June 30, 2014

Investments (at Fair Value)	Occupational Death and Disability		Fair Market Value	% of Total Assets
	Asset Allocation Policy	Range		
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	3.00%	-3%/+1%	\$ 524,046	
Total Cash and Cash Equivalents			524,046	3.27%
<b>Fixed Income Securities</b>				
U.S. Treasury Fixed Income Pool			932,512	
Taxable Municipal Bond Pool			168,152	
High Yield Pool			426,927	
International Fixed Income Pool			285,900	
Emerging Debt Pool			116,034	
Total Fixed Income Securities	12.00%	± 5%	1,929,525	12.05%
<b>Broad Domestic Equity</b>				
Large Cap Pool			3,556,944	
Small Cap Pool			787,141	
Total Broad Domestic Equity	26.00%	± 6%	4,344,085	27.12%
<b>Global Equity Ex-U.S.</b>				
International Equity Pool			3,118,253	
International Equity Small Cap Pool			246,738	
Frontier Markets Pool			74,623	
Emerging Markets Equity Pool			469,542	
Total Global Equity Ex-U.S.	25.00%	± 4%	3,909,156	24.42%
<b>Alternative Equity Strategies</b>				
Alternative Equity Strategies			534,340	
Convertible Bond Pool			148,248	
Total Alternative Equities	3.00%	± 2%	682,588	4.26%
<b>Private Equity</b>				
Private Equity Pool			1,308,538	
Total Private Equity	9.00%	± 5%	1,308,538	8.17%
<b>Absolute Return</b>				
Absolute Return Pool			621,792	
Total Absolute Return	5.00%	± 4%	621,792	3.88%
<b>Real Assets</b>				
Real Estate Pool			1,007,781	
Real Estate Investment Trust Pool			275,121	
Infrastructure Public Pool			124,797	
Master Limited Partnership Pool			369,915	
Energy Pool			81,000	
Farmland Pool			537,818	
Timber Pool			272,505	
Treasury Inflation Protected Securities Pool			26,485	
Total Real Assets	17.00%	± 8%	2,695,422	16.83%
<b>Total Invested Assets</b>	<b>100.00%</b>		<b>\$ 16,015,152</b>	<b>100.00%</b>

## Public Employees' Retirement System Investment Summary Schedule June 30, 2014

Investments (at Fair Value)	Retiree Medical Plan			% of Total Assets
	Policy	Range	Fair Market Value	
<b>Cash and Cash Equivalents</b>				
Short-term Fixed Income Pool	3.00%	-3%/+1%	\$ 925,899	
Total Cash and Cash Equivalents			925,899	3.27%
<b>Fixed Income Securities</b>				
U.S. Treasury Fixed Income Pool			1,647,466	
Taxable Municipal Bond Pool			297,073	
High Yield Pool			754,251	
International Fixed Income Pool			505,097	
Emerging Debt Pool			204,997	
Total Fixed Income Securities	12.00%	± 5%	3,408,884	12.05%
<b>Broad Domestic Equity</b>				
Large Cap Pool			6,284,039	
Small Cap Pool			1,390,638	
Total Broad Domestic Equity	26.00%	± 6%	7,674,677	27.12%
<b>Global Equity Ex-U.S.</b>				
International Equity Pool			5,509,005	
International Equity Small Cap Pool			435,912	
Frontier Markets Pool			131,835	
Emerging Markets Equity Pool			829,538	
Total Global Equity Ex-U.S.	25.00%	± 4%	6,906,290	24.42%
<b>Alternative Equity Strategies</b>				
Alternative Equity Strategies			944,017	
Convertible Bond Pool			261,911	
Total Alternative Equities	3.00%	± 2%	1,205,928	4.26%
<b>Private Equity</b>				
Private Equity Pool			2,311,790	
Total Private Equity	9.00%	± 5%	2,311,790	8.17%
<b>Absolute Return</b>				
Absolute Return Pool			1,098,518	
Total Absolute Return	5.00%	± 4%	1,098,518	3.88%
<b>Real Assets</b>				
Real Estate Pool			1,780,442	
Real Estate Investment Trust Pool			486,057	
Infrastructure Public Pool			220,479	
Master Limited Partnership Pool			653,528	
Energy Pool			143,101	
Farmland Pool			950,159	
Timber Pool			481,432	
Treasury Inflation Protected Securities Pool			46,791	
Total Real Assets	17.00%	± 8%	4,761,989	16.83%
<b>Total Invested Assets</b>	<b>100.00%</b>		<b>\$ 28,293,975</b>	<b>100.00%</b>

# Investment Section

## Public Employees' Retirement System Recaptured Commission Fees Year Ended June 30, 2014

<b>Fund</b>	<b>Domestic Equity Pool</b>	<b>International Equity Pool</b>	<b>Total</b>
Defined Benefit Plan - Pension	\$7,572	\$208	\$7,780
Postemployment Benefit - Alaska Retiree Healthcare Trust	6,735	185	6,920
Postemployment Benefit - Health Reimbursement Arrangement	145	4	149
Postemployment Benefit - Occupational Death & Disability	15	-	15
Postemployment Benefit - Retiree Medical Pan	27	1	28
<b>Total Recapture Commission Fees</b>	<b>\$14,494</b>	<b>\$398</b>	<b>\$14,892</b>

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.



# ACTUARIAL SECTION

*Alaska Division of Retirement and Benefits*





A Xerox Company

August 22, 2014

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

### *Certification of Actuarial Valuation*

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

This report summarizes the annual actuarial valuation results of the State of Alaska Public Employees' Retirement System (PERS) as of June 30, 2013 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2013. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Buck Consultants, LLC is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of the System.

The State of Alaska Public Employees' Retirement System is funded by Employer, State, and Member Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the State of Alaska Public Employees' Retirement System is to pay required contributions that remain level as a percent of total PERS Compensation. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, System expenses, and amortize the Unfunded Actuarial Accrued Liability as a level dollar amount over a closed 25-year period. The Board changed the amortization method used for funding from the level percentage of payroll method to the level dollar method in June 2012, effective June 30, 2012. The compensation used to determine required contributions is the total compensation of all active members in PERS, including those hired after July 1, 2006 who are members of the Defined Contribution Retirement (DCR) Plan. This objective is currently being met and is projected to continue to be met.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the System and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the System. The actuary performs an analysis of System experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last full experience analysis was performed in 2010. A review of the healthcare assumptions was performed for last year's actuarial valuation and changes were made to the healthcare cost trend rates and the per capita claim cost rates effective June 30, 2012 to better reflect expected future healthcare experience. Based on updated experience, these assumptions



# Actuarial Section

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are still reasonable. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in this report.

The assumptions and methods used to determine the Annual Required Contributions (ARC) of the Employers to the State of Alaska Public Employees' Retirement System as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Based on member data and asset information provided by the Division of Retirement and Benefits, we have prepared the Schedule of Funding Progress, Schedule of Employer Contributions, and trend data schedules under GASB Nos. 25 and 43 that are included in the Financial Section of the CAFR. We have also prepared the member data tables shown in Section 5 of this report for the Statistical Section of the CAFR, and the summary of actuarial assumptions, solvency test, and analysis of financial experience for the Actuarial Section of the CAFR.

The undersigned is an Enrolled Actuary, an Associate of the Society of Actuaries and Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

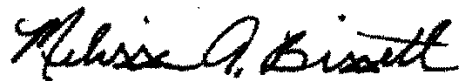
Respectfully submitted,

BUCK CONSULTANTS, LLC



David H. Sliskinsky, ASA, EA, MAAA, FCA  
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

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Description of Actuarial Methods and Valuation Procedures**

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.

## **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 dollar amount. The initial unfunded accrued liability was established on June 30, 2002 and amortized over a closed 25-year period. Any changes in the unfunded accrued liability established after June 30, 2002 due to changes in plan provisions, actuarial methods or assumptions, or actuarial experience are amortized over a 25-year period from the date established. 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.

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.

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Description of Actuarial Methods and Valuation 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 fair value of assets.

### **Changes in Methods since the Prior Valuation**

There were no changes in valuation methods since the prior valuation.

## **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, 2012 to June 30, 2013.

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 HealthSmart management level reporting for fiscal 2010 through 2013 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 for fiscal 2010 through 2012. Fiscal 2013 management level reporting includes the percentage of claims attributable to both groups but does not address enrollment by group. DB Tier retiree census supplied by the Division was split into under and over age 65 counts as a proxy for fiscal 2013 Medicare and non-Medicare enrollment. Historical claim level reporting and estimated impacts of Medicare coordination and plan design were used to augment cost data by Medicare status.

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Description of Actuarial Methods and Valuation Procedures**

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.

Based on census data received from HealthSmart, 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 and/or re-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 incurred 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 deemed incurred claim data from HealthSmart management reports to be complete for fiscal 2010, 2011 and 2012. Fiscal 2013 medical claim data was completed using a factor of 0.82; fiscal 2013 prescription claim data was completed using a factor of 0.90 – these factors were derived from historic completion patterns for AlaskaCare retiree claims. Incurred claim cost rates are projected forward to the valuation year using a blend of Alaska plan-specific trend and national trend rates over the same period, with Alaska experience receiving 75% weight, national trend 25%. These weighted trend factors for this purpose for the current valuation are as follows:

Experience Period	Alaska-Specific and National Average Weighted Trend from Experience Period to Valuation Year		Weighting Factors
	Medical	Prescription	
FY 2010 to FY 2011	13.0%	9.6%	10.0%
FY 2011 to FY 2012	8.1%	4.5%	20.0%
FY 2012 to FY 2013	8.3%	5.1%	40.0%
FY 2013 to FY 2014	8.9%	7.1%	30.0%

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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 other than noted fees 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 sufficiently far into the future to produce a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

Patient-centered outcomes research fees and transitional reinsurance fees are included in the administrative fees.

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.

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**June 30, 2013 Valuation – FY 2014 Claims Cost Rates**

	<b>Medical</b>		
	<b>Pre-Medicare</b>	<b>Medicare A&amp;B</b>	<b>Medicare B Only</b>
<b>Fiscal 2010 Incurred Claims</b>	<b>\$233,601,103</b>	<b>\$60,082,942</b>	<b>\$1,421,948</b>
Membership	32,026	27,915	156
Paid Claims Cost Rate	\$7,294	\$2,152	\$9,115
Trend to FY2014	1.441	1.441	1.441
FY2014 Paid Cost Rate	\$10,514	\$3,102	\$13,138
Improvided Provider Contracting Factor	0.970	0.970	0.970
<b>FY 2014 Incurred Cost Rate</b>	<b>\$10,200</b>	<b>\$3,010</b>	<b>\$12,747</b>
<b>Fiscal 2011 Incurred Claims</b>	<b>\$232,732,266</b>	<b>\$55,615,233</b>	<b>\$849,185</b>
Membership	31,362	29,997	138
Paid Claims Cost Rate	\$7,421	\$1,854	\$6,154
Trend to FY2014	1.275	1.275	1.275
FY2014 Paid Cost Rate	\$9,463	\$2,364	\$7,847
Improvided Provider Contracting Factor	0.970	0.970	0.970
<b>FY 2014 Incurred Cost Rate</b>	<b>\$9,181</b>	<b>\$2,294</b>	<b>\$7,613</b>
<b>Fiscal 2012 Incurred Claims</b>	<b>\$233,633,045</b>	<b>\$71,443,709</b>	<b>\$1,586,219</b>
Membership	29,500	33,631	208
Paid Claims Cost Rate	\$7,920	\$2,124	\$7,626
Trend to FY2014	1.180	1.180	1.180
FY2014 Paid Cost Rate	\$9,343	\$2,506	\$8,997
Improvided Provider Contracting Factor	0.970	0.970	0.970
<b>FY 2014 Incurred Cost Rate</b>	<b>\$9,065</b>	<b>\$2,431</b>	<b>\$8,728</b>
<b>Fiscal 2013 Incurred Claims</b>	<b>\$245,965,030</b>	<b>\$75,299,373</b>	<b>\$1,948,514</b>
Membership	27,036	37,912	217
Paid Claims Cost Rate	\$9,098	\$1,986	\$8,979
Trend to FY2014	1.089	1.089	1.089
FY2014 Paid Cost Rate	\$9,911	\$2,164	\$9,783
Improvided Provider Contracting Factor	0.970	0.970	0.970
<b>FY 2014 Incurred Cost Rate</b>	<b>\$9,616</b>	<b>\$2,099</b>	<b>\$9,491</b>
Weighted Average 7/1/2013-6/30/2014 Incurred Claims Cost Rates:			
At average age	\$9,367	\$2,362	\$9,136
At age 65	\$11,125	\$1,726	\$6,676

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June 30, 2013 Valuation – FY 2014 Claims Cost Rates (cont.)

	Prescription Drugs			Total
	Pre-Medicare	Medicare A&B	Medicare B Only	
<b>Fiscal 2010 Incurred Claims</b>	<b>\$59,287,225</b>	<b>\$69,463,204</b>	<b>\$394,011</b>	<b>\$424,250,433</b>
Membership	32,026	27,915	156	60,097
Paid Claims Cost Rate	\$1,851	\$2,488	\$2,526	\$7,059
Trend to FY2014	1.289	1.289	1.289	
FY2014 Paid Cost Rate	\$2,387	\$3,208	\$3,256	\$9,848
Improved Provider Contracting Factor	0.993	0.993	0.993	
<b>FY2014 Incurred Cost Rate</b>	<b>\$2,370</b>	<b>\$3,186</b>	<b>\$3,233</b>	<b>\$9,618</b>
<b>Fiscal 2011 Incurred Claims</b>	<b>\$48,403,436</b>	<b>\$85,633,319</b>	<b>\$393,948</b>	<b>\$423,627,387</b>
Membership	31,362	29,997	138	61,497
Paid Claims Cost Rate	\$1,543	\$2,855	\$2,855	\$6,889
Trend to FY2014	1.176	1.176	1.176	
FY2014 Paid Cost Rate	\$1,816	\$3,358	\$3,358	\$8,568
Improved Provider Contracting Factor	0.993	0.993	0.993	
<b>FY2014 Incurred Cost Rate</b>	<b>\$1,803</b>	<b>\$3,335</b>	<b>\$3,335</b>	<b>\$8,372</b>
<b>Fiscal 2012 Incurred Claims</b>	<b>\$50,486,235</b>	<b>\$95,369,339</b>	<b>\$589,833</b>	<b>\$453,108,380</b>
Membership	29,500	33,631	208	63,339
Paid Claims Cost Rate	\$1,711	\$2,836	\$2,836	\$7,154
Trend to FY2014	1.126	1.126	1.126	
FY2014 Paid Cost Rate	\$1,927	\$3,193	\$3,193	\$8,315
Improved Provider Contracting Factor	0.993	0.993	0.993	
<b>FY2014 Incurred Cost Rate</b>	<b>\$1,913</b>	<b>\$3,170</b>	<b>\$3,170</b>	<b>\$8,126</b>
<b>Fiscal 2013 Incurred Claims</b>	<b>\$57,036,466</b>	<b>\$107,792,216</b>	<b>\$616,977</b>	<b>\$488,658,576</b>
Membership	27,036	37,912	217	65,165
Paid Claims Cost Rate	\$2,110	\$2,843	\$2,843	\$7,499
Trend to FY2014	1.071	1.071	1.071	
FY2014 Paid Cost Rate	\$2,259	\$3,045	\$3,045	\$8,123
Improved Provider Contracting Factor	0.993	0.993	0.993	
<b>FY2014 Incurred Cost Rate</b>	<b>\$2,244</b>	<b>\$3,024</b>	<b>\$3,024</b>	<b>\$7,943</b>
Weighted Average 7/1/2013-6/30/2014 Incurred Claims Cost Rates:				
At average age	\$2,036	\$3,161	\$3,166	\$8,362
At age 65	\$2,621	\$2,621	\$2,621	\$8,208

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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, 2013 through June 30, 2014**

<b>Age</b>	<b>Medical and Medicare Parts A &amp; B</b>	<b>Medical and Medicare Part B Only</b>	<b>Prescription Drug</b>	<b>Medicare Retiree Drug Subsidy</b>
45	\$6,161	\$6,161	\$1,383	\$ —
50	6,971	6,971	1,642	—
55	7,887	7,887	1,950	—
60	9,367	9,367	2,261	—
65	1,726	6,676	2,621	502
70	2,100	8,122	2,824	541
75	2,493	9,645	3,012	577
80	2,686	10,390	3,088	591



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The demographic and economic assumptions used in the June 30, 2013 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.

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 (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% for the female table for females.

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% for 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.

\*The mortality assumptions include an improvement. The mortality table used was set in 2010 with an Actual allowance for expected future mortality Deaths to Expected Deaths ratio of 109%

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- | 9. Retirement                          | Retirement rates based upon the 2005-2009 actual experience, in accordance with Table 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 Tier 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. Post-Retirement Pension Adjustment | 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.   |    |                       |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| 15. Expenses                           | All expenses are net of the investment return assumption.  |    |                       |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| 16. Part-Time Status                   | Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years for 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             | <p>Sample claims cost rates adjusted to age 65 for FY14 medical and prescription are shown below:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border: none;"></th> <th style="border: none; text-align: center; border-bottom: 1px solid black;">Medical</th> <th style="border: none;"></th> <th style="border: none; text-align: center; border-bottom: 1px solid black;">Prescription<br/>drugs</th> </tr> </thead> <tbody> <tr> <td style="border: none;">Pre-Medicare</td> <td style="border: none; text-align: right;">\$ 11,125</td> <td style="border: none;">\$</td> <td style="border: none; text-align: right;">2,621</td> </tr> <tr> <td style="border: none;">Medicare Parts A &amp; B</td> <td style="border: none; text-align: right;">1,726</td> <td style="border: none;"></td> <td style="border: none; text-align: right;">2,621</td> </tr> <tr> <td style="border: none;">Medicare Part B Only</td> <td style="border: none; text-align: right;">6,676</td> <td style="border: none;"></td> <td style="border: none; text-align: right;">2,621</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;"></td> <td style="border: none; text-align: right;">502</td> </tr> </tbody> </table> |    | Medical               |  | Prescription<br>drugs | Pre-Medicare | \$ 11,125 | \$ | 2,621 | Medicare Parts A & B | 1,726 |  | 2,621 | Medicare Part B Only | 6,676 |  | 2,621 | Medicare Part D | N/A |  | 502 |
|  | Medical  |    | Prescription<br>drugs |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| Pre-Medicare                           | \$ 11,125  | \$ | 2,621                 |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| Medicare Parts A & B                   | 1,726  |    | 2,621                 |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| Medicare Part B Only                   | 6,676  |    | 2,621                 |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| Medicare Part D                        | N/A  |    | 502                   |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |
| 19. Third Party Administrator Fees     | \$177.57 per person per year; assumed trend rate of 5% per year.   |    |                       |  |                       |              |           |    |       |                      |       |  |       |                      |       |  |       |                 |     |  |     |

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20. Medicare Part B Only                      For actives and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or re-hire.

21. Health Cost Trend                         The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims costs.

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
2014	8.7%	6.4%	6.3%
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2020	6.4	6.1	5.8
2025	6.0	6.0	5.7
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

For the June 30, 2012 valuations and later, the updated 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 adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

Age	Medical	Prescription drugs
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-73	4.0	1.5
74-83	1.5	0.5
84-93	0.5	—
94 +	—	—

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23. 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 FY14 contributions based on monthly rates shown below for calendar 2013 and 2014 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled:

Coverage category	Calendar 2014		Calendar 2013
	Annual contribution	Monthly contribution	Monthly contribution
	Retiree only	\$ 9,876	823
Retiree and spouse	19,764	1,647	1,615
Retiree and child(ren)	13,956	1,163	1,140
Retiree and family	23,844	1,987	1,948
Composite	14,676	1,223	1,200

24. Trend Rate for Retired Member Medical Contribution

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, 8.2% is applied to the FY14 retired member medical contributions to get the FY15 retired member medical contributions.

Fiscal year:	
2014	8.2%
2015	8.0
2016	7.6
2017	7.2
2018	6.7
2019	6.4
2025	5.9
2050	5.0
2100	4.5

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2012 valuation. Note that actual FY14 retired member medical contributions are reflected in the valuation so trend on such contribution during FY14 is not applicable.

25. Healthcare Participation

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.

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**Table 1**  
**Alaska PERS**  
**Salary Scale**

**Peace Officer/Firefighter:**

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

**Others:**

Year of Employment	Percent Increase
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.

Age	Percent Increase
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**  
**Mortality Table (Pre-termination)**

Age	Male	Female
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

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

<b>Age</b>	<b>Male</b>	<b>Female</b>
20	0.0284%	0.0123%
21	0.0303	0.0122
22	0.0324	0.0123
23	0.0356	0.0127
24	0.0392	0.0129
25	0.0441	0.0132
26	0.0501	0.0138
27	0.0533	0.0142
28	0.0553	0.0148
29	0.0571	0.0156
30	0.0588	0.0171
31	0.0602	0.0189
32	0.0615	0.0202
33	0.0622	0.0210
34	0.0623	0.0219
35	0.0624	0.0229
36	0.0632	0.0240
37	0.0653	0.0254
38	0.0676	0.0271
39	0.0706	0.0289
40	0.0742	0.0315
41	0.0785	0.0341
42	0.0834	0.0366
43	0.0884	0.0389
44	0.0935	0.0409
45	0.0993	0.0423
46	0.1063	0.0441
47	0.1149	0.0466
48	0.1248	0.0505
49	0.1354	0.0548
50	0.1473	0.0610
51	0.1609	0.0683
52	0.1765	0.0784
53	0.1969	0.0897
54	0.2186	0.1018
55	0.2479	0.1164
56	0.2827	0.1352
57	0.3249	0.1570
58	0.3739	0.1806
59	0.4208	0.2077
60	0.4734	0.2387

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

Age	Male	Female
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



**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**Table 5**  
**Alaska PERS**  
**Total Turnover Assumptions**

**Peace Officer/Firefighter:**

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

Year of Employment	Unisex Rate
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**

Age	Male	Female
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**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**Table 5**  
**Alaska PERS**  
**Total Turnover Assumptions**

Others:

Year of Employment	Age at Hire	
	20-34	35+
	Unisex Rates	Unisex Rates
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**

Age	Male	Female
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

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

Table 6  
 Alaska PERS  
 Disability Table

Age	Peace Officer/ Firefighter Rate	Other Member Rate	
		Male	Female
20	0.088%	0.031%	0.024%
21	0.089	0.031	0.024
22	0.090	0.032	0.024
23	0.091	0.032	0.024
24	0.093	0.033	0.025
25	0.094	0.033	0.025
26	0.095	0.033	0.025
27	0.098	0.034	0.026
28	0.100	0.035	0.027
29	0.103	0.036	0.028
30	0.105	0.037	0.029
31	0.108	0.037	0.029
32	0.110	0.038	0.029
33	0.113	0.039	0.030
34	0.116	0.041	0.031
35	0.120	0.042	0.032
36	0.124	0.044	0.034
37	0.129	0.045	0.035
38	0.134	0.047	0.036
39	0.139	0.048	0.037
40	0.144	0.050	0.039
41	0.150	0.052	0.040
42	0.159	0.056	0.043
43	0.170	0.059	0.045
44	0.185	0.065	0.050
45	0.203	0.071	0.055
46	0.220	0.077	0.059
47	0.239	0.083	0.064
48	0.259	0.091	0.070
49	0.279	0.097	0.075
50	0.300	0.105	0.081
51	0.325	0.114	0.087
52	0.358	0.125	0.096
53	0.398	0.139	0.107
54	0.444	0.155	0.119
55	0.500	0.175	0.134
56	0.574	0.201	0.155
57	0.668	0.234	0.180
58	0.763	0.267	0.205
59	0.900	0.315	0.242
60	1.054	0.368	0.283

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

<b>Age at Retirement</b>	<b>Retirement Rate</b>	
	<b>Reduced Unisex Rates</b>	<b>Unreduced Unisex Rates</b>
<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**  
**Defined Benefit Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**Table 8**  
**Alaska PERS Other**  
**Retirement Table**

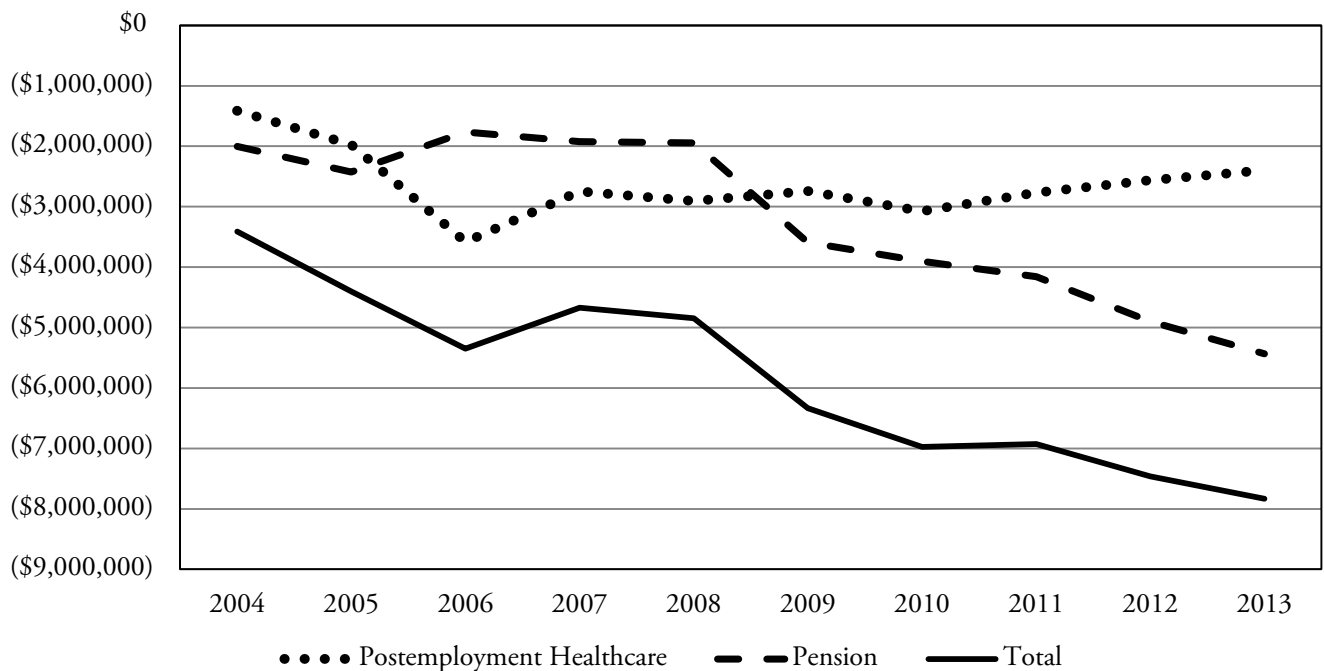
Age at Retirement	Retirement Rate	
	Reduced Unisex Rates	Unreduced Unisex Rates
<50	N/A	10.00%
50	8.00%	30.00
51	8.00	30.00
52	8.00	30.00
53	6.00	30.00
54	13.00	30.00
55	8.00	30.00
56	8.00	17.50
57	8.00	17.50
58	8.00	16.50
59	12.00	16.50
60	N/A	20.50
61	N/A	16.50
62	N/A	24.50
63	N/A	20.50
64	N/A	22.50
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	N/A	100.00

### Changes in Actuarial Assumptions since the Prior Valuation

There have been no changes in actuarial assumptions since the prior valuation.

Public Employees' Retirement System Defined Benefit Retirement Plan Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total Funding Excess/ (Unfunded Liability)	Funded Ratio
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
2011	(2,769,878)	(4,156,898)	(6,926,776)	63.0
2012	(2,561,808)	(4,898,523)	(7,460,331)	61.3
2013	(2,395,001)	(5,435,132)	(7,830,133)	60.8

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



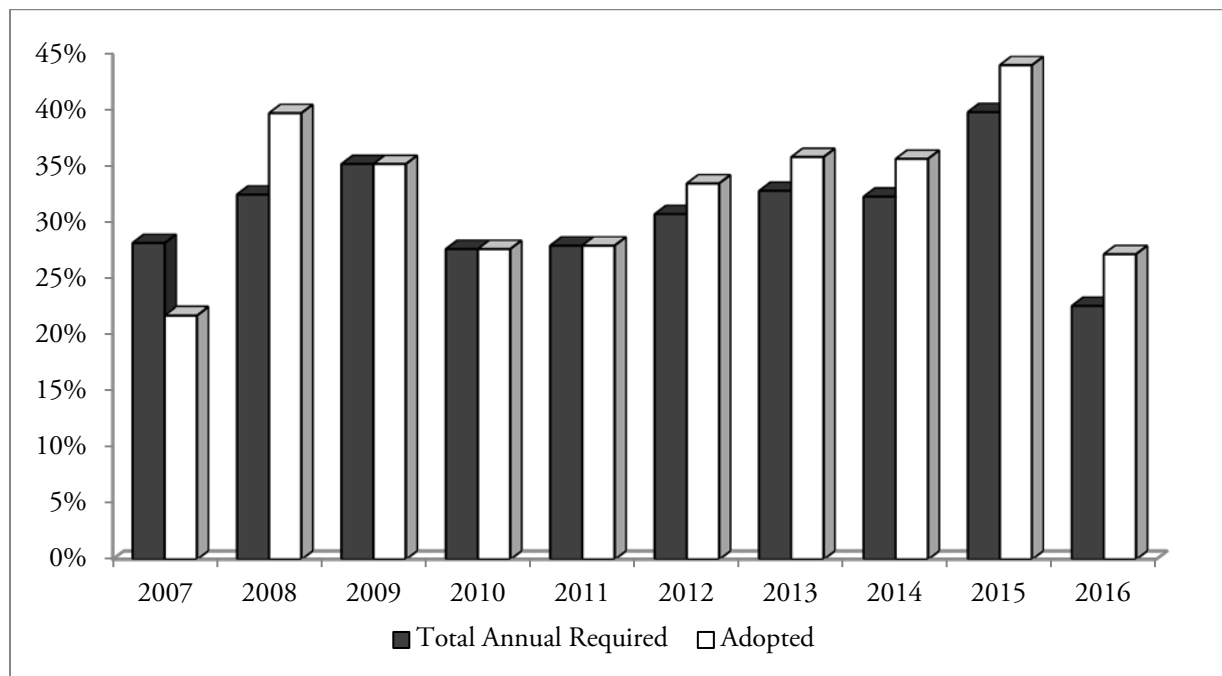
# Actuarial Section

Public Employees' Retirement System Defined Benefit Retirement Plan Employer Contribution Rates					
Year Ended June 30	Actuarially Determined				Adopted
	Actuarial Valuation Year Ended June 30	Normal Cost <sup>1</sup>	Past Service	Total Annual Required	
2007	2004	13.32%	14.87%	28.19%	21.77%
2008	2005	14.48	18.03	32.51	39.76 <sup>2</sup>
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
2014	2011	8.12	24.19	32.31	35.68
2015	2012	6.82	33.03	39.85	44.03
2016	2013	6.05	16.53	22.58	27.19

<sup>1</sup> Also referred to as the consolidated rate.

<sup>2</sup> The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth. Effective June 30, 2008 the Defined Benefits Plan became a defined benefit, cost sharing, multiple employer plan. Prior to 2008 rates were calculated by employer and only the average employer contribution rate is reflected on this schedule for 2007 and earlier. Valuations are used to set contribution rates in future years.

## 10-YEAR COMPARISON OF AVERAGE EMPLOYER CONTRIBUTION RATES



Public Employees' Retirement System Defined Benefit Retirement Plan Schedule of Active Member Valuation Data					
Valuation Date	Number	Annual Earnings (In thousands) <sup>1</sup>	Annual Average Earnings	Percent Increase in Average Earnings	Number of Participating Employers
<b>All Others</b>					
June 30, 2013	18,890	\$ 1,252,786	\$ 66,320	4.5%	159
June 30, 2012	20,566	1,305,337	63,471	4.6	160
June 30, 2011	22,118	1,342,122	60,680	4.7	160
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
<b>Peace Officer / Firefighter</b>					
June 30, 2013	2,065	\$ 197,534	\$ 95,658	4.8%	159
June 30, 2012	2,164	197,544	91,286	4.1	160
June 30, 2011	2,275	199,537	87,709	8.6	160
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
<sup>1</sup> Prior to June 30, 2006, unannualized earnings were used. Starting June 30, 2006, annualized earnings are used.					



# Actuarial Section

Public Employees' Retirement System Defined Benefit Retirement Plan 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. <sup>1</sup>	Annual Pension Benefits <sup>1</sup>	No. <sup>1</sup>	Annual Pension Benefits <sup>1</sup>	No.	Annual Pension Benefits		
<b>All Others</b>								
June 30, 2013	1,808	\$43,247,667	554	\$ 4,861,626	26,898	\$ 527,140,068	7.9%	\$ 19,598
June 30, 2012	1,679	37,855,250	636	5,344,239	25,644	488,754,027	7.1	19,059
June 30, 2011	1,595	37,100,217	554	6,897,899	24,601	456,243,016	7.1	18,546
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
<b>Peace Officer / Firefighter</b>								
June 30, 2013	113	\$ 4,162,920	42	\$ 240,775	2,967	\$ 98,846,479	4.1%	\$ 33,315
June 30, 2012	179	5,246,271	41	(177,568)	2,896	94,924,334	6.1	32,778
June 30, 2011	114	3,772,720	33	116,090	2,758	89,500,495	4.3	32,451
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

<sup>1</sup> Numbers are estimated, and include other internal transfers.

Public Employees' Retirement System Defined Benefit Retirement Plan Pension Solvency Test (In thousands)							
Valuation Date	Pension Aggregate Accrued Liability For:			Pension Valuation Assets	Portion of Accrued Liabilities Covered by Assets:		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
June 30, 2013	\$ 1,479,538	\$ 7,514,255	\$2,952,088	\$ 6,510,749	100.0%	67.0%	—%
June 30, 2012	1,459,943	7,057,967	2,911,034	6,530,421	100.0	71.8	—
June 30, 2011	1,421,967	6,657,517	2,839,563	6,762,149	100.0	80.2	—
June 30, 2010 <sup>1</sup>	1,388,029	6,268,461	2,715,182	6,469,832	100.0	81.1	—
June 30, 2009	1,315,924	5,914,959	2,471,203	6,108,528	100.0	81.0	—
June 30, 2008	1,242,288	5,606,402	2,305,592	7,210,772	100.0	100.0	15.7
June 30, 2007	1,203,007	5,282,132	2,177,185	6,739,004	100.0	100.0	11.7
June 30, 2006 <sup>1 2</sup>	1,157,755	4,933,609	2,002,679	6,331,065	100.0	100.0	12.0
June 30, 2005	1,104,821	4,627,467	1,354,903	6,016,713 <sup>3</sup>	100.0	100.0	21.0

<sup>1</sup> Change in Assumptions  
<sup>2</sup> Change in Methods  
<sup>3</sup> The pension and postemployment healthcare valuation assets were allocated using a ration of fair value of assets as of June 30, 2005

# Actuarial Section

Public Employees' Retirement System Defined Benefit Retirement Plan Postemployment Healthcare Solvency Test (In thousands)							
Valuation Date	Postemployment Healthcare Aggregate Accrued Liability For:			Post-Employment Healthcare Valuation Assets	Portion of Accrued Liabilities Covered by Assets:		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
June 30, 2013 <sup>1</sup>	\$ —	\$ 5,298,380	\$ 2,748,498	\$ 5,651,877	100.0%	100.0%	12.9%
June 30, 2012 <sup>1</sup>	—	5,026,080	2,837,337	5,301,609	100.0	100.0	9.7
June 30, 2011	—	4,812,845	3,008,658	5,051,625	100.0	100.0	7.9
June 30, 2010 <sup>1</sup>	—	4,581,806	3,179,014	4,687,632	100.0	100.0	3.3
June 30, 2009	—	4,232,394	2,644,891	4,134,450	100.0	97.7	—
June 30, 2008 <sup>1</sup>	—	4,166,270	2,567,589	3,829,334	100.0	91.9	—
June 30, 2007	—	3,684,906	2,223,703	3,161,956	100.0	85.8	—
June 30, 2006 <sup>1 2</sup>	—	3,990,202	2,304,168	2,709,843	100.0	67.9	—
June 30, 2005	—	4,039,591	1,718,059	2,426,206 <sup>3</sup>	100.0	60.1	—

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

<sup>1</sup> Change in Assumptions  
<sup>2</sup> Change in Methods  
<sup>3</sup> The pension and postemployment healthcare valuation assets were allocated using a ration of fair value of assets as of June 30, 2005

Public Employees' Retirement System Defined Benefit Retirement Plan 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				
	2013	2012	2011	2010	2009
Health Experience	(1.51)%	(2.97)%	(1.82)%	0.24%	(2.21)%
Salary Experience	0.23	0.23	0.31	0.06	0.23
Investment Experience	1.76	3.11	0.26	0.28	5.31
Demographic Experience	(0.84)	(1.00)	0.29	(0.30)	(0.29)
Contribution Shortfall	0.79	0.21	0.44	(0.67)	(0.24)
(Gain) or Loss During Year From Experience	0.43	(0.42)	(0.52)	(0.39)	2.80
<b>Non-recurring changes</b>					
Asset Valuation Method	—	—	—	—	—
Past Service Amortization Change	—	7.21	—	—	—
Assumption and Method Changes	—	0.75	—	2.46	—
System Benefit Changes	—	—	—	—	—
Composite (Gain) or Loss During Year	0.43	7.54	(0.52)	2.07	2.80
Beginning Employer/State Contribution Rate	39.85	32.31	32.83	30.76	27.96
Ending Employer/State Contribution Rate	<u>40.28%</u>	<u>39.85%</u>	<u>32.31%</u>	<u>32.83%</u>	<u>30.76%</u>
Fiscal Year Above Rate is Applied	FY16	FY15	FY14	FY13	FY12

NOTE: In the second session of the 28<sup>th</sup> Alaska legislature, the legislature changed the actuarial methodology from level dollar amortization to level percent of pay. The June 30, 2013 PERS actuarial valuation report was not updated for this change, but specific revisions for the amortization change were presented to reflect the change in amortization. The change in the amortization resulted in an adjusted FY 16 employer/state contribution rate of 22.58%.

# Actuarial Section

Public Employees' Retirement System Defined Benefit Retirement Plan 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		
	2013	2012	2011	2013	2012	2011
Health Experience	N/A	N/A	N/A	(1.51)%	(2.97)%	(1.82)%
Salary Experience	0.23%	0.23%	0.31%	N/A	N/A	N/A
Investment Experience	1.43	2.40	—	0.33	0.71	0.26
Demographic Experience	(0.84)	(1.00)	0.29	N/A	N/A	N/A
Contribution Shortfall	0.78	0.25	0.42	0.01	(0.04)	0.02
(Gain) or Loss During Year From Experience	1.60	1.88	1.02	(1.17)	(2.30)	(1.54)
<b>Non-recurring changes</b>						
Asset Valuation Method	—	—	—	—	—	—
Past Service Amortization Change	—	4.89	—	—	2.32	—
Assumption and Method Changes	—	—	—	—	0.75	—
System Benefit Changes	—	—	—	—	0.00	—
Composite (Gain) or Loss During Year	1.60	6.77	1.02	(1.17)	0.77	(1.54)
Beginning Employer/State Contribution Rate	23.24	16.47	15.45	16.61	15.84	17.38
Ending Employer/State Contribution Rate	<u>24.84%</u>	<u>23.24%</u>	<u>16.47%</u>	<u>15.44%</u>	<u>16.61%</u>	<u>15.84%</u>
Fiscal Year Above Rate is Applied	FY16	FY15	FY14	FY16	FY15	FY14

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Benefit Retirement Plan**  
**Summary of Plan Provisions and Changes in 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 159 employers participating in the PERS, including the State of Alaska and 158 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.

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## 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.

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## 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% of total DB and DCR payroll, less employer contributions to DCR) will be sufficient to pay the total contribution rate adopted by The Alaska Retirement Management Board.

## 8. Member Contributions

**Mandatory Contributions:** Peace Officer/Firefighter members are required to contribute 7.5% of their compensation; all Others contribute 6.75%. Those all Others who have elected to have their service calculated under the Teachers' Retirement System rules contribute 9.76% of their compensation. Members' contributions are deducted from gross wages before federal income taxes are withheld.

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

**Voluntary Contributions:** Members may voluntarily contribute up to 5% of their salary on an after-tax basis. Voluntary contributions are recorded in a separate account and are payable to the:

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

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

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

**Reinstatement of Contributions:** Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS prior to July 1, 2010. Interest accrues on refunds until paid in full or members retire.



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## 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 by the legislature 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 by the legislature 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 Teachers' Retirement System 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, 1996 may also select a 66-2/3 last survivor option and a level income option. Under these options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

**Benefit Calculations:** Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Peace Officer/Firefighter members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

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

The percentage multipliers for all Others are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

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**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.

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## 11. Postemployment Healthcare Benefits

Major medical benefits are provided to retirees and their surviving spouses by the PERS for all employees hired before July 1, 1986 (Tier 1) and disabled retirees. Employees hired after June 30, 1986 (Tier 2) and their surviving spouses with five years of credited service (or ten years of credited service for those first hired after June 30, 1996 (Tier 3)) must pay the full monthly premium if they are under age sixty and will receive benefits paid by the PERS if they are over age sixty. 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. Tier 2 Members who are receiving a conditional benefit and are age eligible are 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.

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

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

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

**Death After Retirement:** When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check. If the member selected a survivor option at retirement, the eligible spouse receives continuing, lifetime monthly benefits.

#### 14. 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.

August 22, 2014

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

### ***Certification of Actuarial Valuation***

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

This report summarizes the annual actuarial valuation results of the State of Alaska Public Employees' Retirement System Defined Contribution Retirement (PERS DCR) Plan as of June 30, 2013 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2013. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Buck Consultants, LLC is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of the Plan.

The State of Alaska Public Employees' Retirement System DCR Plan is funded by Employer Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the State of Alaska Public Employees' Retirement System DCR Plan is to pay required contributions that remain level as a percent of PERS DCR Compensation. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of PERS DCR Compensation over a closed 25-year period. This objective is currently being met and is projected to continue to be met.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the Plan. The actuary performs an analysis of Plan experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last experience analysis was performed in 2010. A review of the healthcare assumptions was performed for this actuarial valuation and changes were made to the healthcare cost trend rates and the per capita claims cost rates effective June 30, 2012 to better reflect expected future healthcare experience. Changes were also made to expected healthcare benefit participation, lower initial relative values of DCR healthcare, and increased employer sharing of medical cost trend as a result of recent plan decision discussions. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in this report.

The assumptions and methods used to determine the Annual Required Contributions (ARC) of the Employers to the State of Alaska Public Employees' Retirement System DCR Plan as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Based on member data and asset information provided by the Division of Retirement and Benefits, we have prepared the Schedule of Funding Progress, Schedule of Employer Contributions, and trend data schedules under GASB Nos. 25 and 43 that are included in the Financial Section of the CAFR. We have also prepared the member data tables shown in this report for the Statistical Section of the CAFR, and the summary of actuarial assumptions and solvency test for the Actuarial Section of the CAFR.

The undersigned are Enrolled Actuaries, a Fellow and an Associate of the Society of Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.


Respectfully submitted,

BUCK CONSULTANTS, LLC



David H. Sliskinsky, ASA, EA, MAAA, FCA  
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

# Actuarial Section

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**Description of Actuarial Methods and Valuation Procedures**

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 implemented effective June 30, 2006.

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.

### **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. Fair Value of Assets were \$0 as of June 30, 2006. 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 fair value of assets

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## **C. Valuation of Retiree Medical Benefits**

The methodology used for the valuation of the retiree medical benefits is described in Section 6.2(c) of the State of Alaska Public Employees' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2013.

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, 2013 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 network steerage, 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, FY13 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.

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 members 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 due to the following provisions; however, only the Patient Centered Outcomes Research Institute fee impact has been included in the valuation results as part of administrative fee.

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 did look at 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 sufficiently far into the future to produce 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.

### **Changes in Methods Since the Prior Valuation**

There have been no changes in methods since the prior valuation.



# Actuarial Section

## State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan Summary of Actuarial Assumptions and Changes in Assumptions

The demographic and economic assumptions used in the June 30, 2013 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.

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 for 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 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 1-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.)
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.

\*The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 109%.

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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 for credited service per year for Other members.
12. Expenses                              All expenses are net of the investment return assumption.
13. Per Capita Claims Cost            Sample claims cost rates adjusted to age 65 for FY14 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	\$ 11,125	\$ 2,621
Medicare Parts A & B	1,726	2,621
Medicare Part B Only	6,676	2,621
Medicare Part D	N/A	502

14. Third Party Administrator Fees      \$177.57 per person per year; assumed trend rate of 5% per year
15. 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 cost adjustments are applied to the per capita claims cost rates above:
- 0.881 for the medical plan.
  - 0.929 for the prescription drug plan.
  - 0.998 for the annual indexing of member cost sharing.

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, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims costs.

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
2014	8.7%	6.4%	6.3%
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2020	6.4	6.1	5.8
2025	6.0	6.0	5.7
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

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As of the June 30, 2012 valuations and later, the updated 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 adopted by the Society of Actuaries, and 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
65-73	4.0	1.5
74-83	1.5	0.5
84-93	0.5	—
94 +	—	—

18. Retiree Medical Participation

<u>Decrement due to disability</u>		<u>Decrement due to retirement</u>	
<u>Age</u>	<u>Percent participation</u>	<u>Age</u>	<u>Percent participation</u>
<56	73.00%	55	40.00%
56	77.50	56	50.00
57	79.75	57	55.00
58	82.00	58	60.00
59	84.25	59	65.00
60	86.50	60	70.00
61	88.75	61	75.00
62	91.00	62	80.00
63	93.25	63	85.00
64	95.50	64	90.00
65+	94.00	65+	<u>Years of Service</u>
			<15
			15-19
			20-24
			25-29
			30+

\*Participation rates reflect the expected plan election rate that varies by reason for decrement, duration that a member may pay full cost prior to Medicare eligibility, and availability of alternative and/or lower cost options, particularly in the Medicare market.

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**Table 1**  
**Alaska PERS DCR Plan**  
**Salary Scale**

**Peace Officer/Firefighter:**

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

**Others:**

Year of Employment	Percent Increase
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.

Age	Percent Increase
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**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

Age	Male	Female
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

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

<b>Age</b>	<b>Male</b>	<b>Female</b>
20	0.0284%	0.0123%
21	0.0303	0.0122
22	0.0324	0.0123
23	0.0356	0.0127
24	0.0392	0.0129
25	0.0441	0.0132
26	0.0501	0.0138
27	0.0533	0.0142
28	0.0553	0.0148
29	0.0571	0.0156
30	0.0588	0.0171
31	0.0602	0.0189
32	0.0615	0.0202
33	0.0622	0.0210
34	0.0623	0.0219
35	0.0624	0.0229
36	0.0632	0.0240
37	0.0653	0.0254
38	0.0676	0.0271
39	0.0706	0.0289
40	0.0742	0.0315
41	0.0785	0.0341
42	0.0834	0.0366
43	0.0884	0.0389
44	0.0935	0.0409
45	0.0993	0.0423
46	0.1063	0.0441
47	0.1149	0.0466
48	0.1248	0.0505
49	0.1354	0.0548
50	0.1473	0.0610
51	0.1609	0.0683
52	0.1765	0.0784
53	0.1969	0.0897
54	0.2186	0.1018
55	0.2479	0.1164
56	0.2827	0.1352
57	0.3249	0.1570
58	0.3739	0.1806
59	0.4208	0.2077
60	0.4734	0.2387

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

<b>Age</b>	<b>Male</b>	<b>Female</b>
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

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**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	15.00%
2	12.00
3	10.00
4	9.00
5	8.00

**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			



**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

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

**Others:**

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

<u>Year of Employment</u>	<u>Rate</u>
1	29.00%
2	25.00
3	20.00
4	16.00
5	15.00

**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			

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

Table 6  
 Alaska PERS DCR Plan  
 Disability Table

Age	Peace Officer/ Firefighter Rate	Other Member Rate	
		Male	Female
20	0.088%	0.031%	0.024%
21	0.089	0.031	0.024
22	0.090	0.032	0.024
23	0.091	0.032	0.024
24	0.093	0.033	0.025
25	0.094	0.033	0.025
26	0.095	0.033	0.025
27	0.098	0.034	0.026
28	0.100	0.035	0.027
29	0.103	0.036	0.028
30	0.105	0.037	0.029
31	0.108	0.037	0.029
32	0.110	0.038	0.029
33	0.113	0.039	0.030
34	0.116	0.041	0.031
35	0.120	0.042	0.032
36	0.124	0.044	0.034
37	0.129	0.045	0.035
38	0.134	0.047	0.036
39	0.139	0.048	0.037
40	0.144	0.050	0.039
41	0.150	0.052	0.040
42	0.159	0.056	0.043
43	0.170	0.059	0.045
44	0.185	0.065	0.050
45	0.203	0.071	0.055
46	0.220	0.077	0.059
47	0.239	0.083	0.064
48	0.259	0.091	0.070
49	0.279	0.097	0.075
50	0.300	0.105	0.081
51	0.325	0.114	0.087
52	0.358	0.125	0.096
53	0.398	0.139	0.107
54	0.444	0.155	0.119
55	0.500	0.175	0.134
56	0.574	0.201	0.155
57	0.668	0.234	0.180
58	0.763	0.267	0.205
59	0.900	0.315	0.242
60	1.054	0.368	0.283

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Actuarial Assumptions and Changes in Assumptions**

**Table 7**  
**Alaska TRS DCR Plan**  
**Retirement Table**

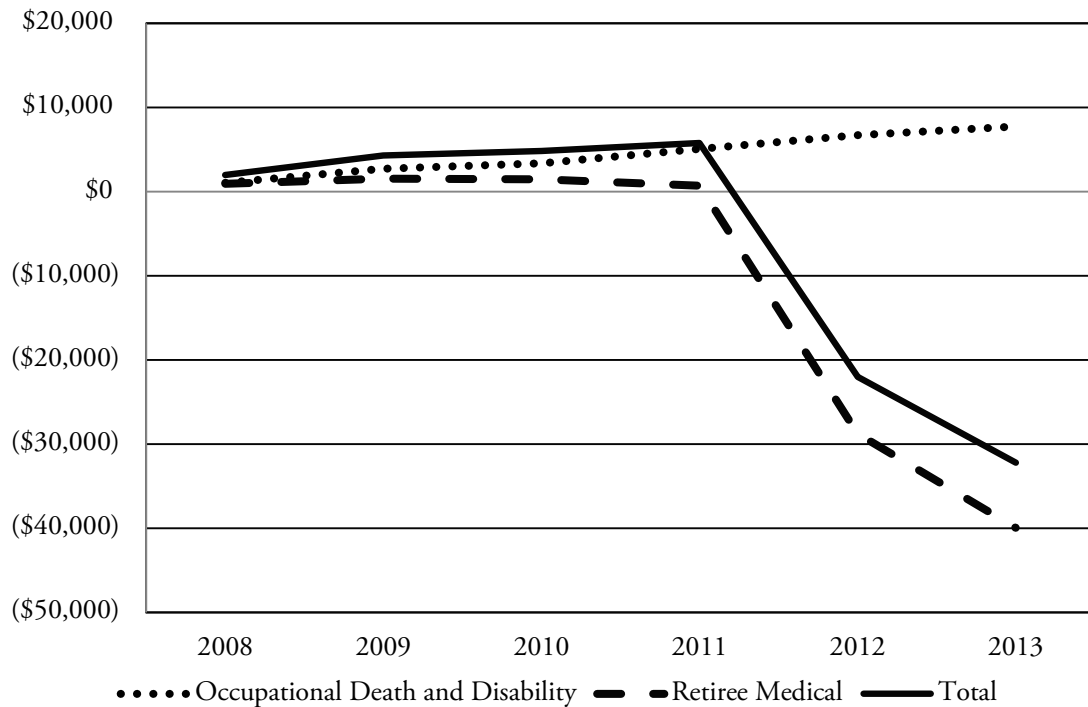
<b>Age</b>	<b>Rate</b>
<55	2.00%
55-59	3.00
60	5.00
61	5.00
62	10.00
63	5.00
64	5.00
65	25.00
66	25.00
67	25.00
68	20.00
69	20.00
70	100.00

### **Changes in Actuarial Assumptions since the Prior Valuation**

There have been no changes in actuarial assumptions since the prior valuation.

<b>Public Employees' Retirement System                      Defined Contribution Retirement Plan                      Occupational Death and Disability and Retiree Medical Benefits                      Funding Excess/(Unfunded Liability)                      (In thousands)</b>				
<b>Actuarial Valuation Year Ended June 30</b>	<b>Occupational Death and Disability</b>	<b>Retiree Medical</b>	<b>Total Funding Excess/ (Unfunded Liability)</b>	<b>Funded Ratio</b>
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
2011	5,100	707	5,807	143.8
2012	6,730	(28,736)	(22,006)	53.1
2013	7,770	(39,946)	(32,176)	49.6

**6-YEAR TREND OF FUNDING EXCESS  
(In thousands)**



# Actuarial Section

Public Employees' Retirement System Defined Contribution Retirement Plan Occupational Death and Disability and Retiree Medical Benefits Employer Contribution Rates								
	Actuarially Determined							
Fiscal Year	Actuarial Valuation Year Ended June 30	Occupational Death and Disability		Retiree Medical	Total Annual Required		Adopted	
		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
2014	2011	1.14	0.20	0.48	1.62	0.68	1.62	0.68
2015	2012	1.06	0.22	1.66	2.72	1.88	2.72	1.88
2016	2013	1.05	0.22	1.68	2.73	1.90	2.73	1.90

Valuations are used to set contribution rates in future years.

<b>Public Employees' Retirement System                      Defined Contribution Retirement Plan                      Occupational Death and Disability and Retiree Medical Benefits                      Schedule of Active Member Valuation Data</b>					
<b>Valuation Date</b>	<b>Number</b>	<b>Annual Earnings<sup>1</sup> (In thousands)</b>	<b>Annual Average Earnings</b>	<b>Percent Increase/ (Decrease) in Average Earnings</b>	<b>Number of Participating Employers</b>
June 30, 2013	14,316	\$ 748,658	\$ 52,295	4.7%	159
June 30, 2012	12,597	629,128	49,943	4.5	160
June 30, 2011	10,965	524,088	47,796	4.8	160
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	—	—	—	—	—

<sup>1</sup> Annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

# Actuarial Section

<b>Public Employees' Retirement System                      Defined Contribution Retirement Plan                      Occupational Death and Disability Solvency Test                      (In thousands)</b>							
Valuation Date	Occupational Death and Disability Aggregate Accrued Liability For:			Occupational Death and Disability Valuation Assets	Portion of Accrued Liabilities Covered by Assets:		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
June 30, 2013	\$ —	\$ —	\$ 3,603	\$ 11,373	100.0%	100.0%	100.0%
June 30, 2012	—	—	2,412	9,142	100.0	100.0	100.0
June 30, 2011	—	—	1,949	7,049	100.0	100.0	100.0
June 30, 2010 <sup>1</sup>	—	—	853	4,801	100.0	100.0	100.0
June 30, 2009 <sup>1</sup>	—	—	403	3,138	100.0	100.0	100.0
June 30, 2008	—	—	242	1,288	100.0	100.0	100.0
June 30, 2007	—	—	48	188	100.0	100.0	100.0
June 30, 2006	—	—	—	—	N/A	N/A	N/A
<sup>1</sup> Change in Assumptions							

Public Employees' Retirement System Defined Contribution Retirement Plan Retiree Medical Solvency Test (In thousands)							
Valuation Date	Retiree Medical Aggregate Accrued Liability For:			Retiree Medical Valuation Assets	Portion of Accrued Liabilities Covered by Assets:		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
June 30, 2013	\$ —	\$ —	\$ 60,282	\$ 20,336	100.0%	100.0%	33.7%
June 30, 2012 <sup>1</sup>	—	—	44,509	15,773	100.0	100.0	35.4
June 30, 2011	—	—	11,302	12,009	100.0	100.0	100.0
June 30, 2010 <sup>1</sup>	—	—	7,185	8,767	100.0	100.0	100.0
June 30, 2009 <sup>1</sup>	—	—	3,913	5,475	100.0	100.0	100.0
June 30, 2008 <sup>1</sup>	—	—	1,776	2,719	100.0	100.0	100.0
June 30, 2007	—	—	711	1,067	100.0	100.0	100.0
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).

<sup>1</sup> Change in Assumptions



**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Plan Provisions and Changes in Plan Provisions**

## 1. **Effective Date**

July 1, 2006, with amendments through June 30, 2013.

## 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 159 employers participating in the PERS DCR Plan, including the State of Alaska, and 158 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.

## 5. **Member Contributions**

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

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Plan Provisions and Changes in Plan Provisions**

**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	30.00%
15 – 19	25.00
20 – 24	20.00
25 – 29	15.00
30 years or more	10.00

**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 or 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.

**State of Alaska**  
**Public Employees' Retirement System**  
**Defined Contribution Retirement Plan**  
**Summary of Plan Provisions and Changes in Plan Provisions**

## **8. Occupational Death Benefits**

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

## **Changes Since the Prior Valuation**

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



# STATISTICAL SECTION

*Alaska Division of Retirement and Benefits*



**STATISTICAL SECTION OVERVIEW**

The statistical section of the Public Employees’ Retirement System (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 ..... 152-172**

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 ..... 173-175**

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

**Demographic Information ..... 176-181**

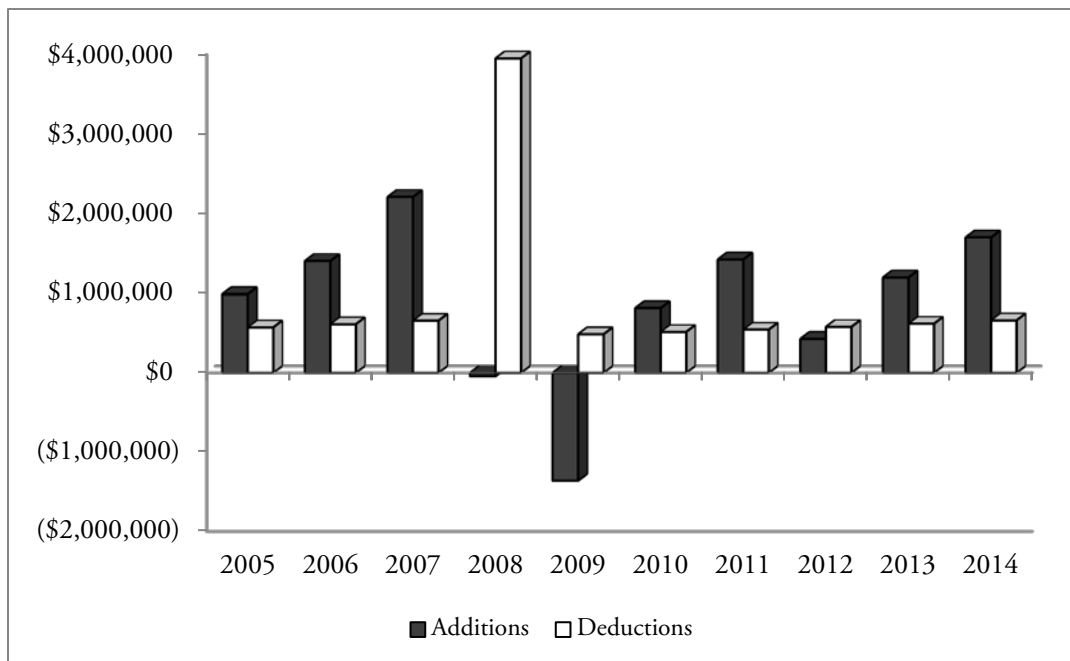
These schedules contain detailed demographic data to provide the reader a better understanding of the membership and employer participation in the System.

# Statistical Section

## Public Employees' Retirement System Defined Benefit Pension Changes in Fiduciary Net Position (In thousands)

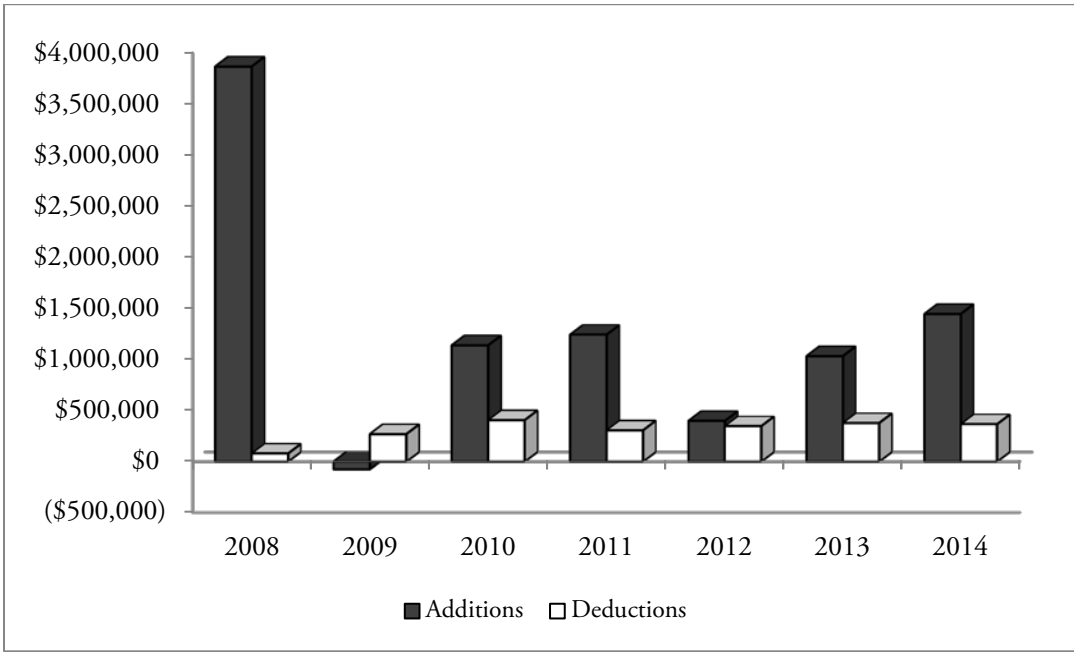
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, End of Year
2005	\$ 8,177,306	\$ 985,151	\$ 571,705	\$ 413,446	\$ 8,590,752
2006	8,590,752	1,400,868	612,149	788,719	9,379,471
2007	9,379,471	2,206,458	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
2012	6,267,925	427,995	577,626	(149,631)	6,118,294
2013	6,118,294	1,193,555	617,367	576,188	6,694,482
2014	6,694,482	1,697,096	660,140	1,036,956	7,731,438

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



<b>Public Employees' Retirement System                      Defined Benefit Alaska Retiree Healthcare Trust                      Changes in Fiduciary Net Position                      (In thousands)</b>					
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, 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
2012	5,120,695	399,273	348,152	51,120	5,171,816
2013	5,171,816	1,036,394	378,639	657,755	5,829,571
2014	5,829,571	1,450,755	367,166	1,083,589	6,913,160

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



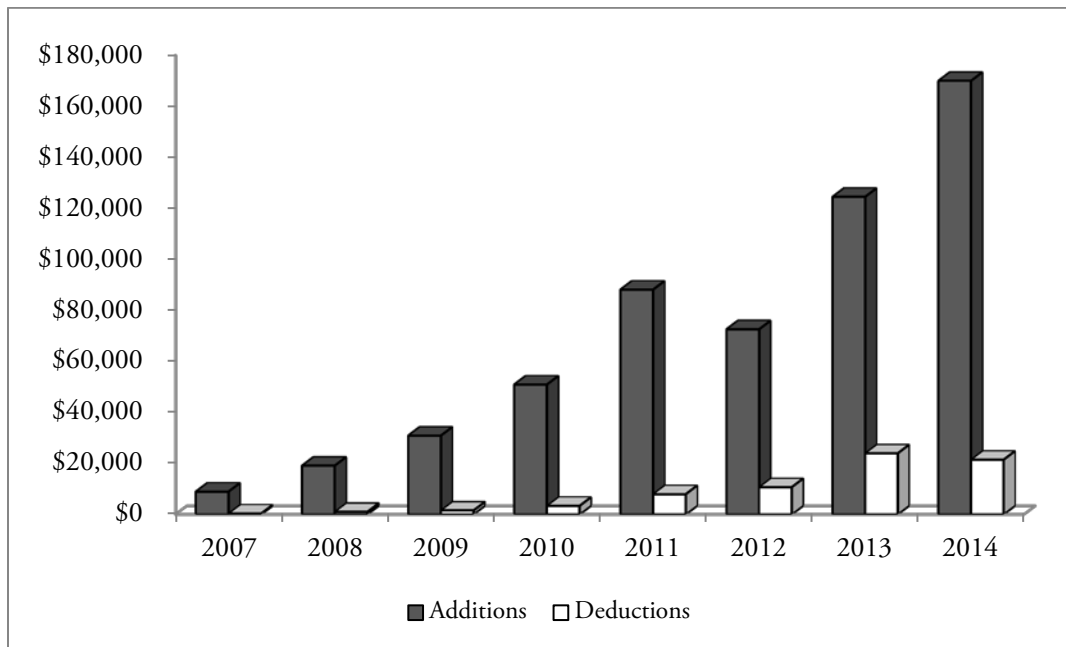


# Statistical Section

Public Employees' Retirement System Defined Contribution Retirement Participant Directed Changes in Fiduciary Net Position (In thousands)					
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, 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
2012	183,702	72,561	10,692	61,869	245,571
2013	245,571	124,464	23,917	100,547	346,118
2014	346,118	169,983	21,428	148,555	494,673

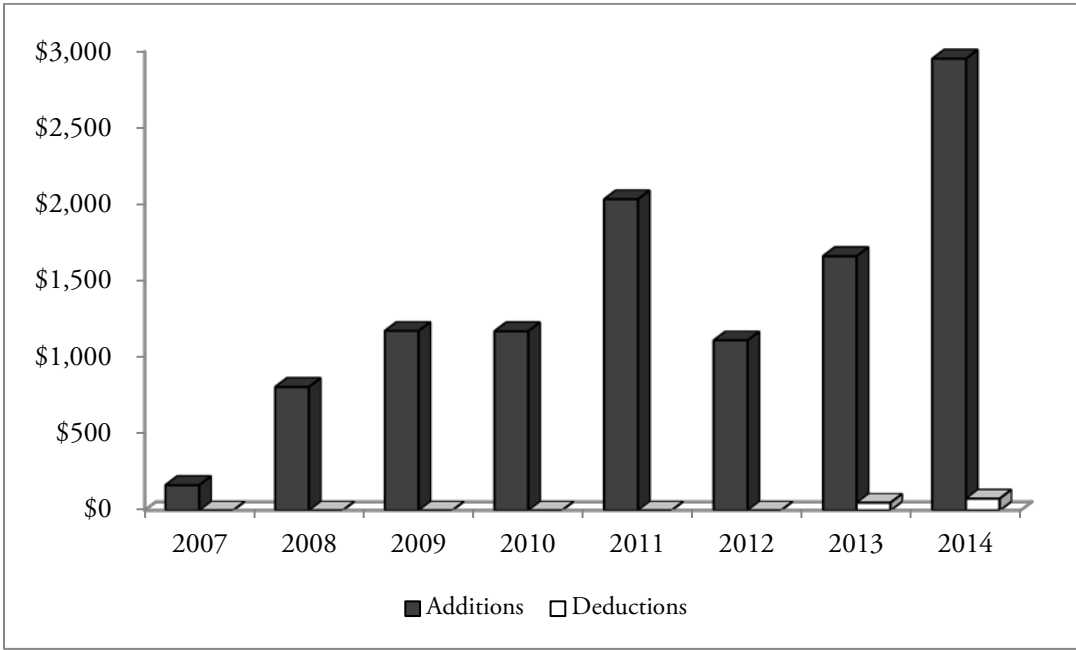
## 8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS

(In thousands)



<b>Public Employees' Retirement System</b> <b>Defined Contribution Retirement Occupational Death &amp; Disability - All Other</b> <b>Changes in Fiduciary Net Position</b> <b>(In thousands)</b>					
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, 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
2012	5,351	1,111	—	1,111	6,462
2013	6,462	1,662	50	1,612	8,074
2014	8,074	2,954	77	2,877	10,951

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

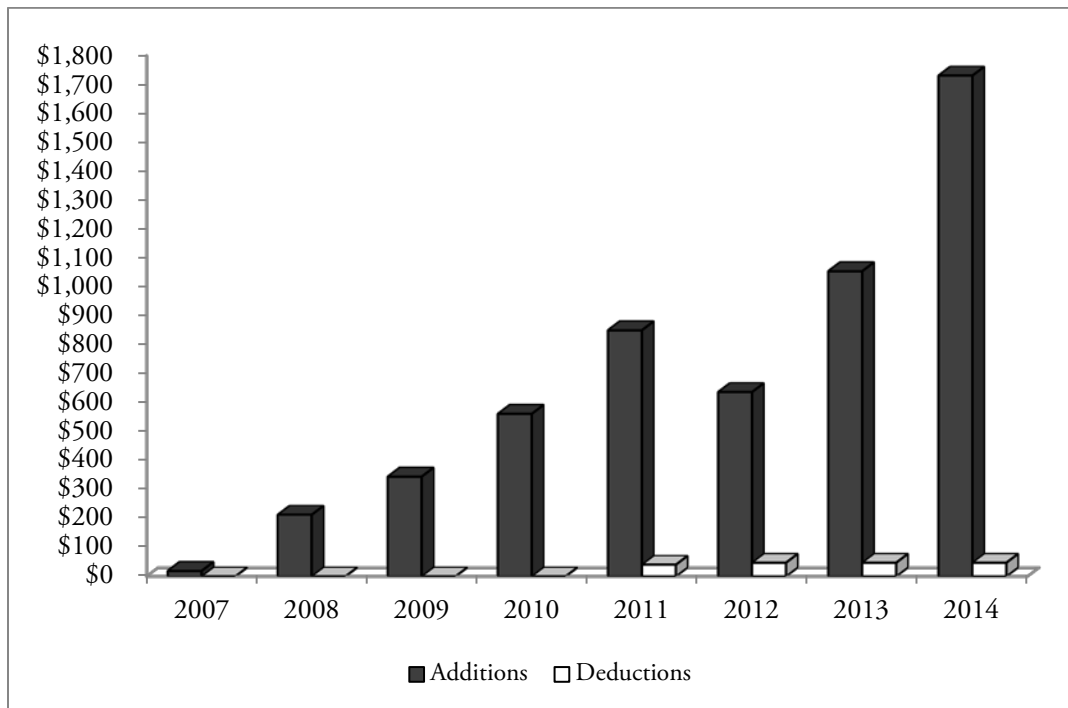


# Statistical Section

Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability - Peace Officers & Firefighters Changes in Fiduciary Net Position (In thousands)					
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, 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
2012	1,950	636	47	590	2,539
2013	2,539	1,055	47	1,008	3,547
2014	3,547	1,731	47	1,684	5,231

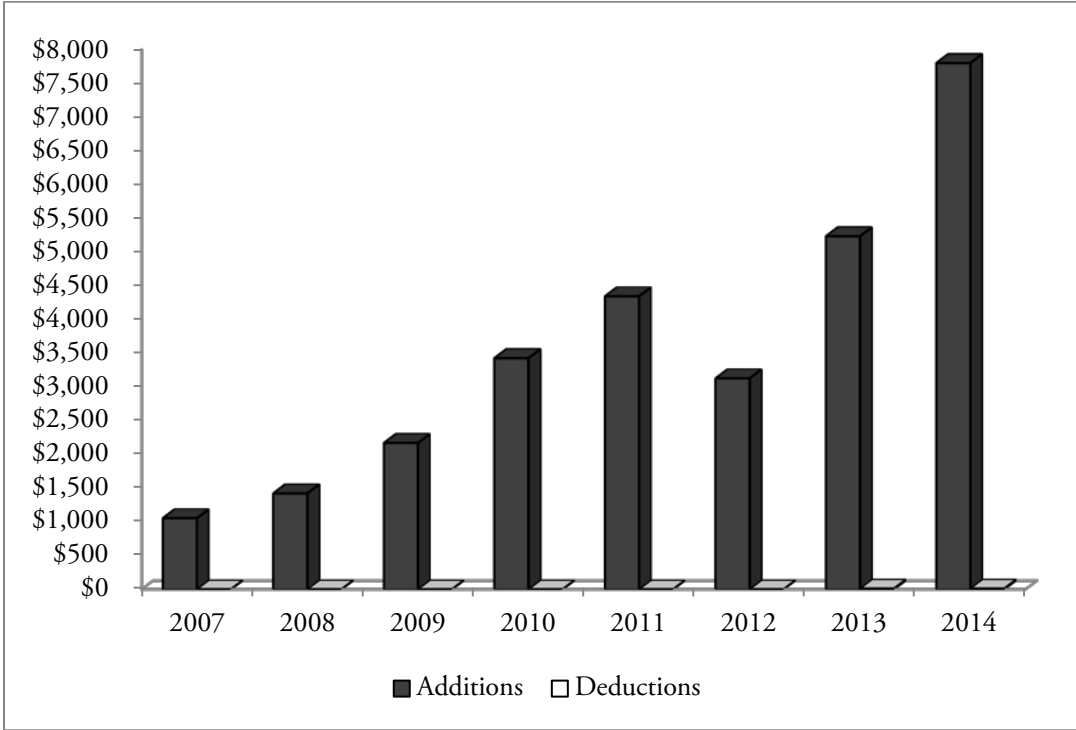
## 8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS

(In thousands)



<b>Public Employees' Retirement System                      Defined Contribution Retirement Retiree Medical Plan                      Changes in Fiduciary Net Position                      (In thousands)</b>					
<b>Year Ended June 30</b>	<b>Fiduciary Net Position, Beginning of Year</b>	<b>Additions</b>	<b>Deductions</b>	<b>Increase / (Decrease) in Fiduciary Net Position</b>	<b>Fiduciary Net Position, End of Year</b>
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
2012	12,423	3,128	—	3,128	15,551
2013	15,551	5,235	10	5,225	20,776
2014	20,776	7,802	10	7,792	28,568

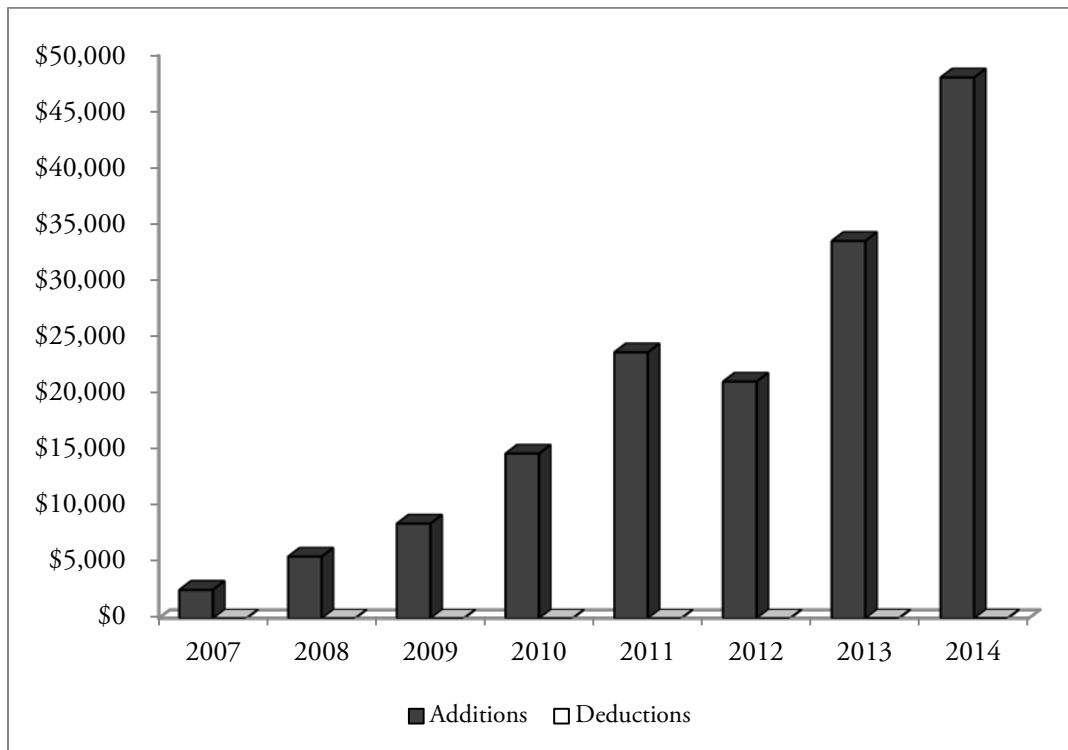
**8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**  
(In thousands)



# Statistical Section

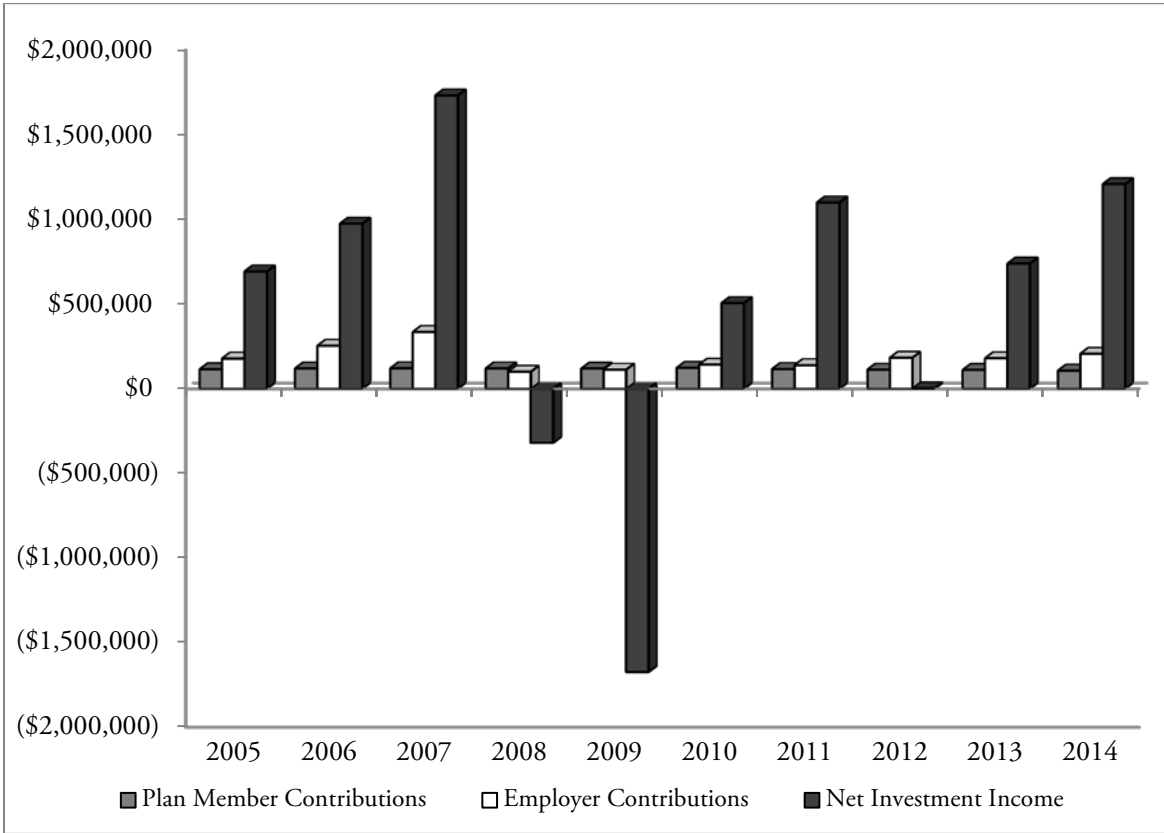
Public Employees' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Changes in Fiduciary Net Position (In thousands)					
Year Ended June 30	Fiduciary Net Position, Beginning of Year	Additions	Deductions	Increase / (Decrease) in Fiduciary Net Position	Fiduciary Net Position, 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
2012	54,694	21,022	—	21,022	75,716
2013	75,716	33,524	9	33,515	109,231
2014	109,231	48,055	9	48,046	157,277

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



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
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
2012	112,703	182,695	130,912	1,650	35	427,995
2013	110,808	179,976	164,087	738,656	28	1,193,555
2014	106,565	206,204	176,794	1,207,484	49	1,697,096

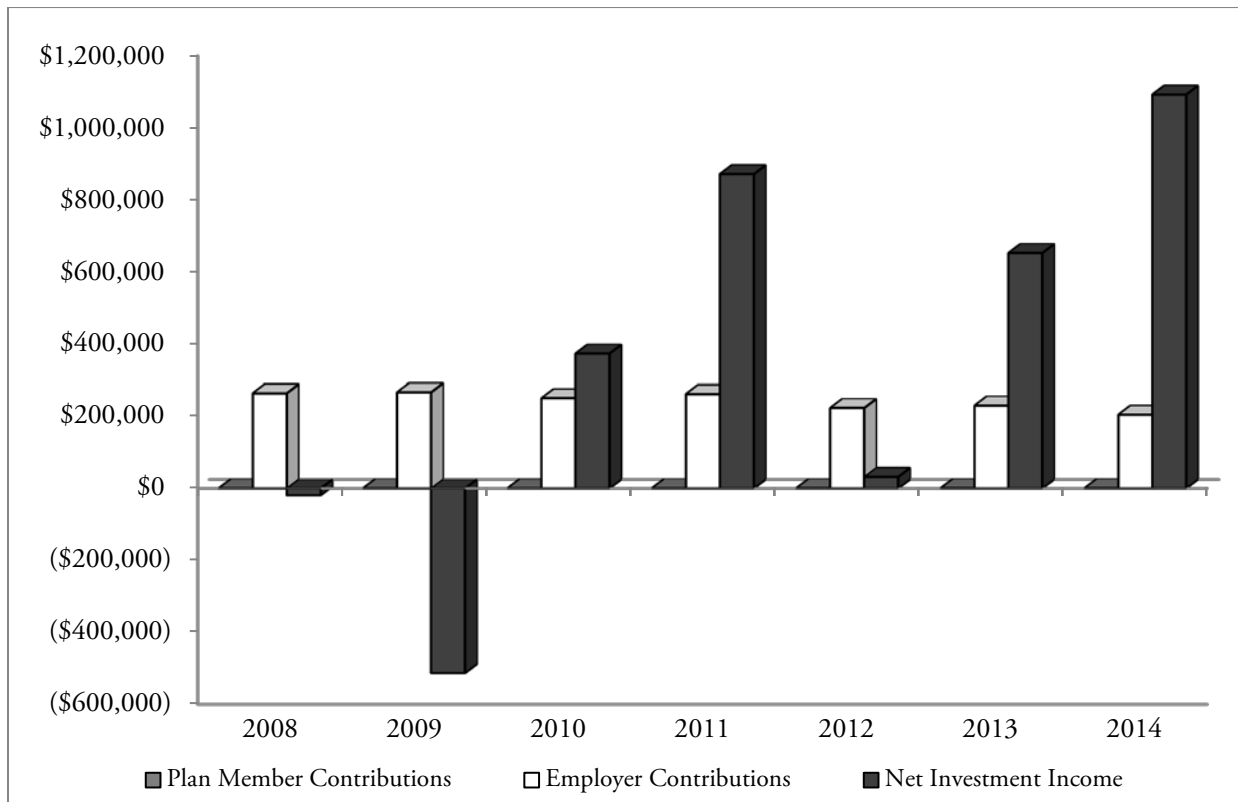
**10-YEAR COMPARISON OF ADDITIONS BY SOURCE**  
(In thousands)



# Statistical Section

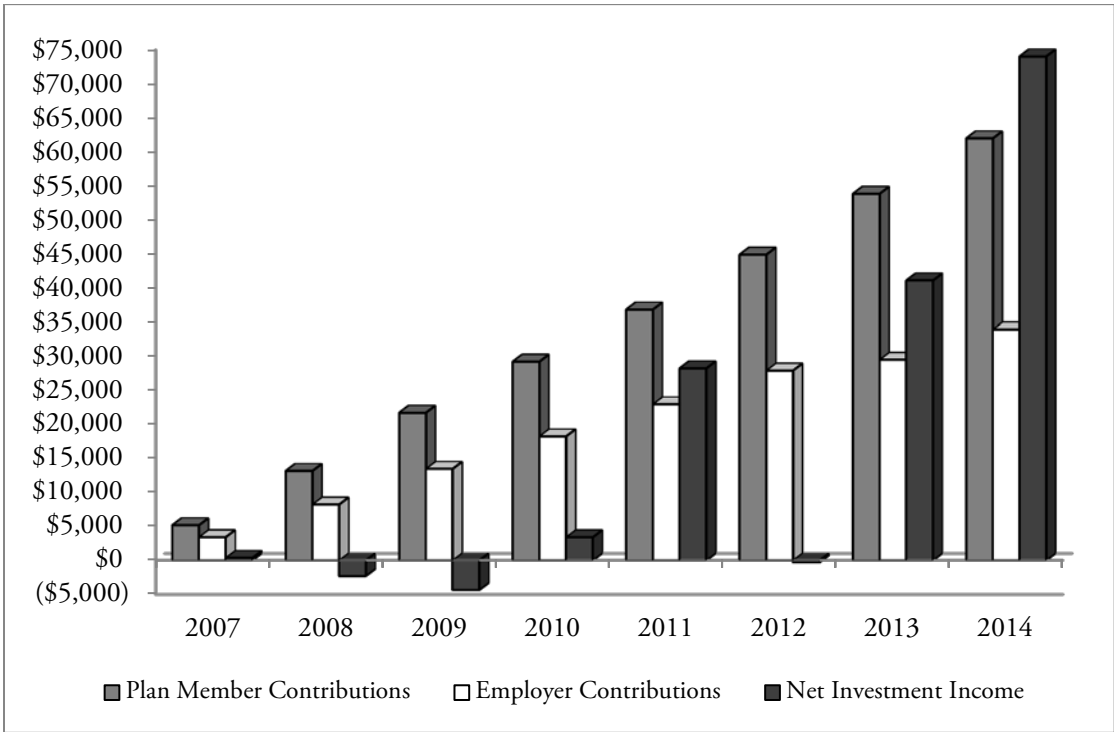
Public Employees' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Additions by Source (In thousands)							
Year Ended June 30	Plan Member Premiums	Employer Contributions	State of Alaska	Net Investment Income (Loss)	Net Transfer	Other	Total
2008	\$ 474	\$ 263,755	\$ 134,125	\$ (18,803)	\$ 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
2012	627	223,243	111,698	31,815	—	31,889	399,272
2013	635	229,990	143,215	652,118	—	10,436	1,036,394
2014	717	204,779	135,679	1,092,212	—	17,368	1,450,755

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



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
2012	44,903	27,938	(280)	—	72,561
2013	53,843	29,519	41,098	4	124,464
2014	61,989	33,942	74,031	21	169,983

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

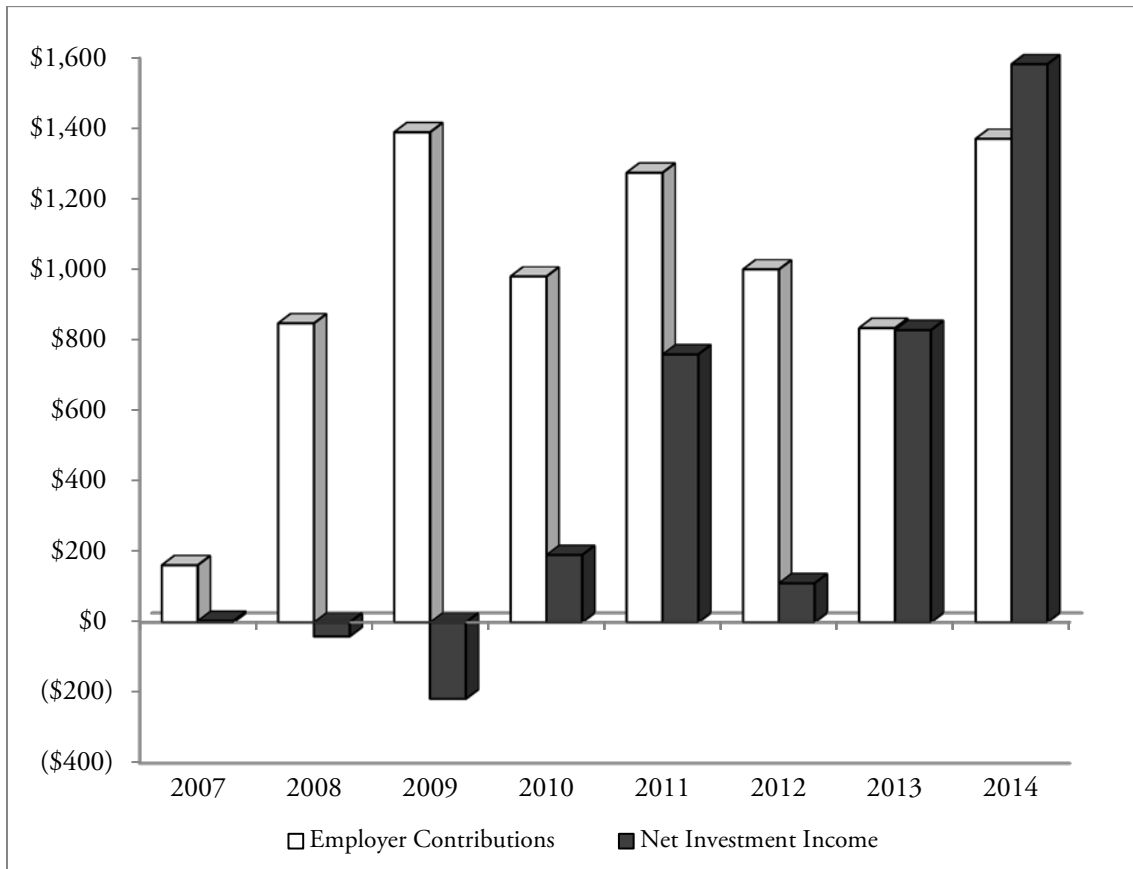




# Statistical Section

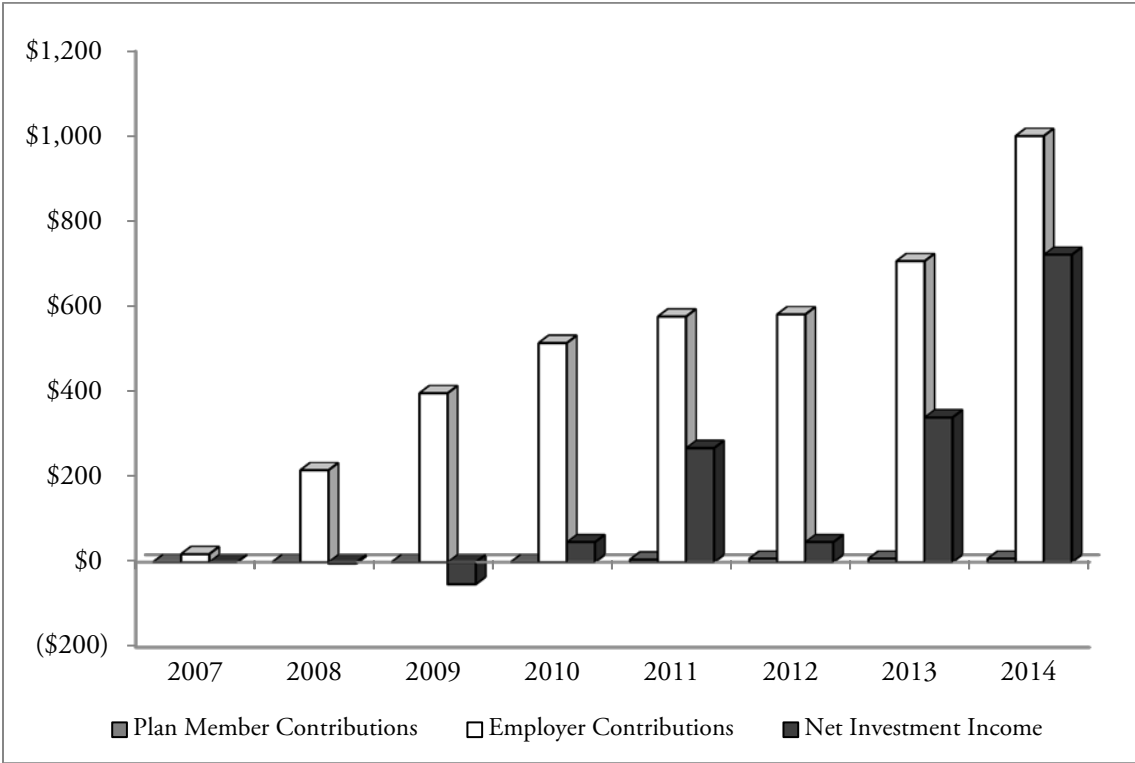
Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability - All Other Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ 162	\$ 4	\$ 166
2008	847	(40)	807
2009	1,390	(217)	1,173
2010	980	191	1,171
2011	1,275	759	2,034
2012	1,000	111	1,111
2013	834	828	1,662
2014	1,371	1,583	2,954

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



<b>Public Employees' Retirement System</b> <b>Defined Contribution Retirement Occupational Death &amp; Disability - Peace Officers &amp; Firefighters</b> <b>Additions by Source</b> <b>(In thousands)</b>				
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
2012	8	582	47	637
2013	8	707	340	1,055
2014	8	1,001	722	1,731

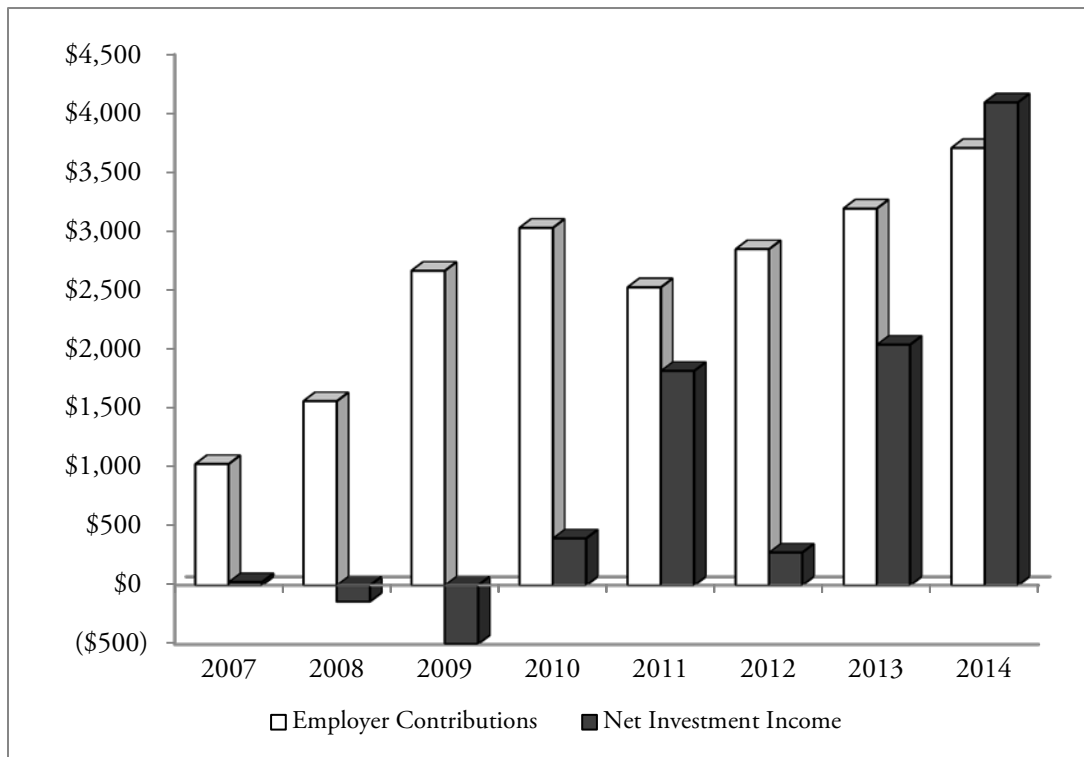
**8-YEAR COMPARISON OF ADDITIONS BY SOURCE**  
(In thousands)



# Statistical Section

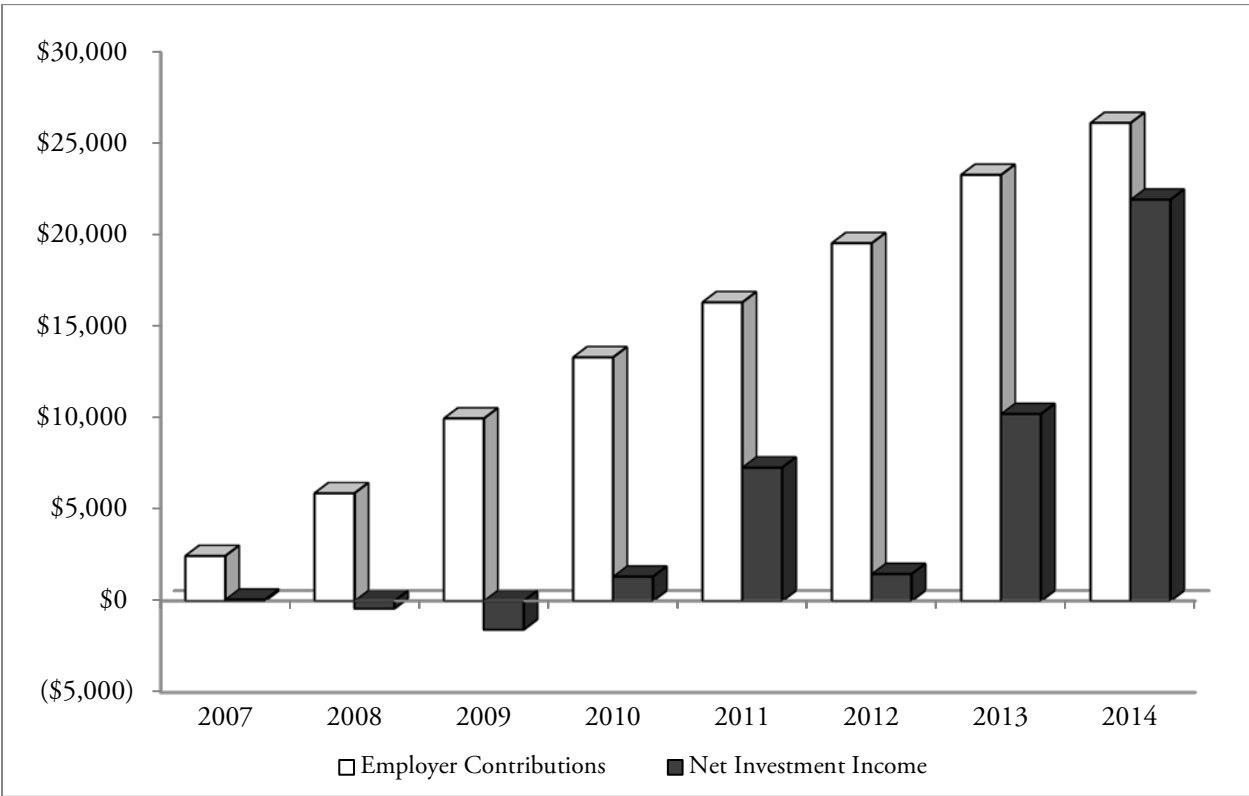
Public Employees' Retirement System Defined Contribution Retirement Retiree Medical Plan Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	\$ 1,028	\$ 27	\$ 1,055
2008	1,561	(137)	1,424
2009	2,667	(497)	2,170
2010	3,031	398	3,429
2011	2,527	1,818	4,345
2012	2,850	278	3,128
2013	3,195	2,040	5,235
2014	3,708	4,094	7,802

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



<b>Public Employees' Retirement System</b> <b>Defined Contribution Retirement Health Reimbursement Arrangement</b> <b>Additions by Source</b> <b>(In thousands)</b>			
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
2012	19,547	1,475	21,022
2013	23,289	10,235	33,524
2014	26,128	21,927	48,055

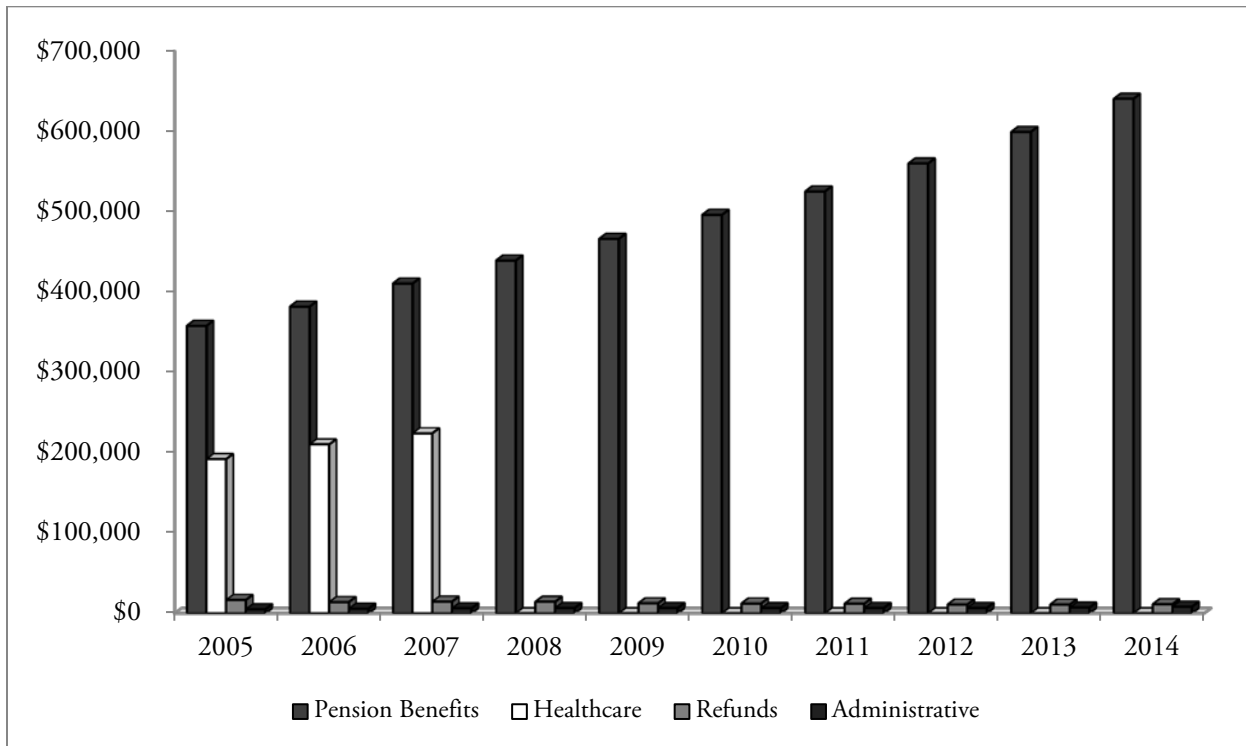
**8-YEAR COMPARISON OF ADDITIONS BY SOURCE**  
(In thousands)



# Statistical Section

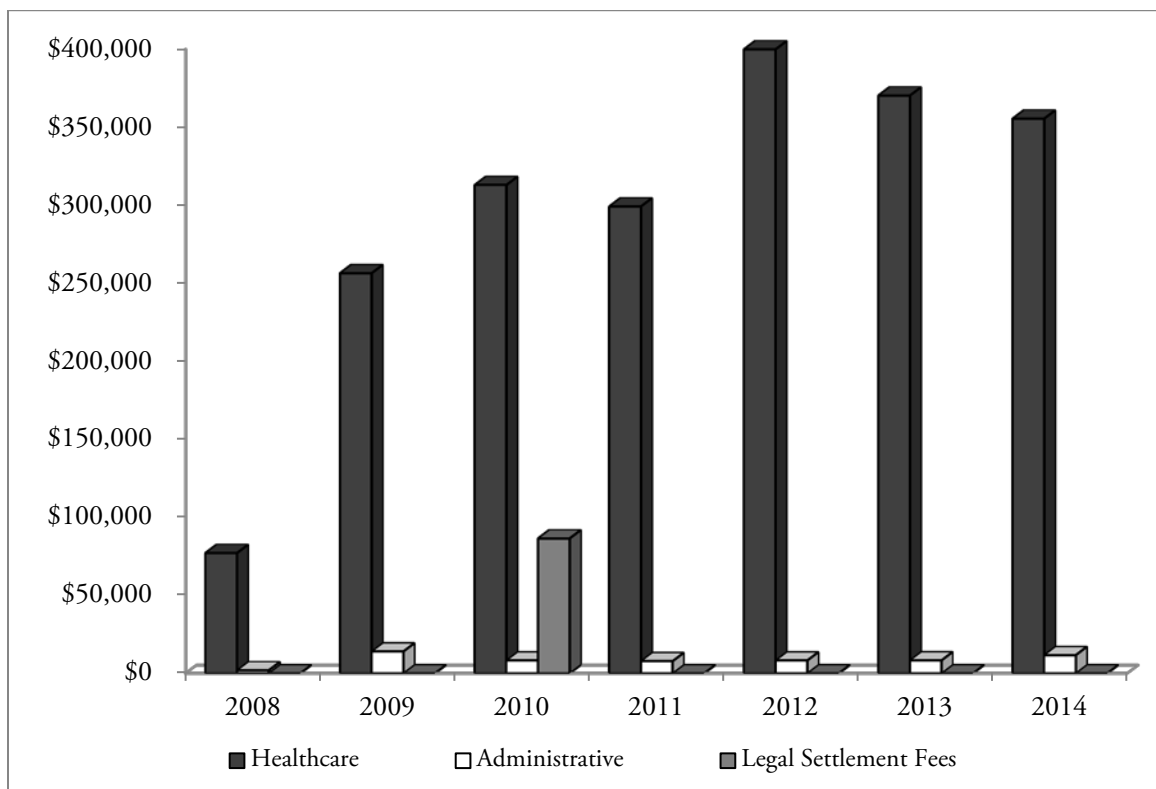
Public Employees' Retirement System Defined Benefit Pension Deductions by Type (In thousands)						
Year Ended June 30	Pension Benefits	Healthcare	Refunds of Contributions	Administrative	Transfer	Total
2005	\$ 357,763	\$ 192,349	\$ 16,587	\$ 5,006	\$ —	\$ 571,705
2006	381,672	210,613	14,063	5,801	—	612,149
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
2012	559,977	—	10,906	6,743	—	577,626
2013	599,318	—	10,929	7,120	—	617,367
2014	640,518	—	11,399	8,223	—	660,140

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



Public Employees' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Deductions by Type (In thousands)				
Plan Ended June 30	Healthcare	Administrative	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
2012	399,923	8,229	—	348,152
2013	370,314	8,325	—	378,639
2014	355,487	11,679	—	367,166

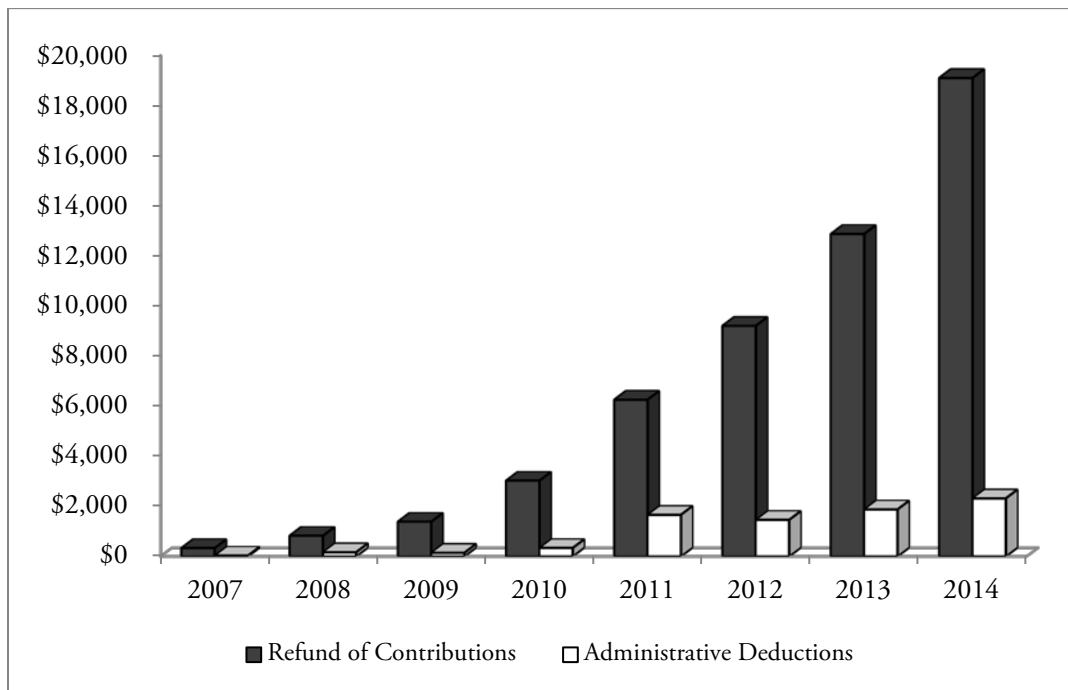
**7-YEAR COMPARISON OF DEDUCTIONS BY TYPE**  
(In thousands)



# Statistical Section

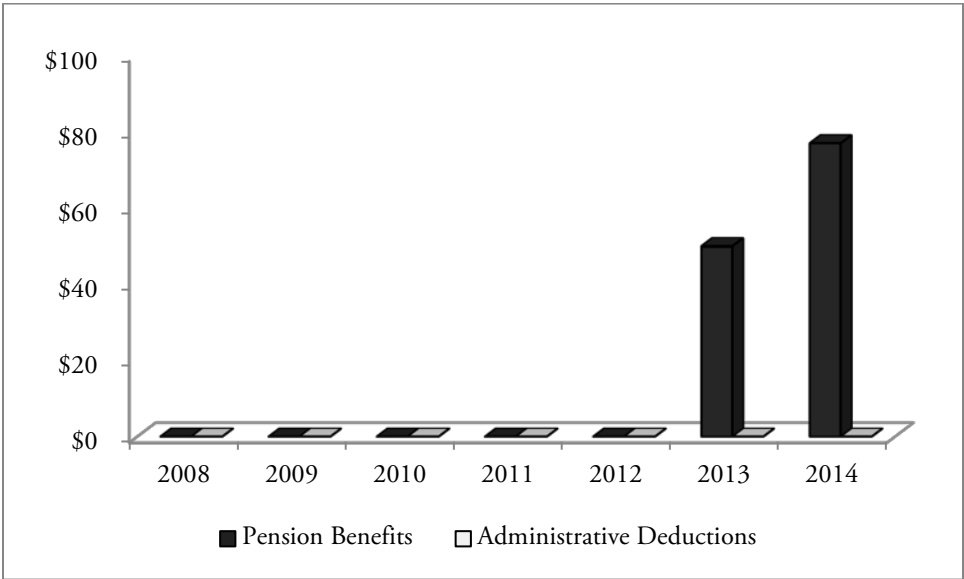
Public Employees' Retirement System Defined Contribution Retirement Participant Directed Deductions by Type (In thousands)				
Plan Ended June 30	Refund of Contributions	Administrative	Prior Year Forfeiture Payable Adjustment	Total
2007	\$ 332	\$ 31	\$ —	\$ 363
2008	826	169	—	995
2009	1,386	146	—	1,532
2010	3,029	335	—	3,364
2011	6,273	1,664	—	7,937
2012	9,230	1,462	—	10,692
2013	12,872	1,879	9,166	23,917
2014	19,104	2,324	—	21,428

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



<b>Public Employees' Retirement System                      Defined Contribution Retirement Occupational Death &amp; Disability – All Other                      Deductions by Type                      (In thousands)</b>			
Plan Ended June 30	Pension Benefits	Administrative	Total
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	—	—
2011	—	—	—
2012	—	—	—
2013	50	—	50
2014	77	—	77

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

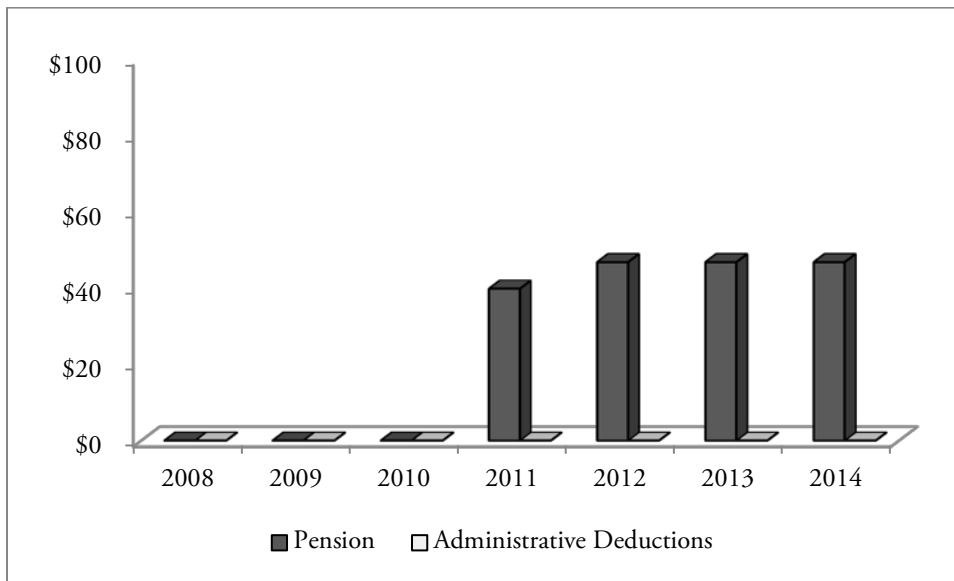




# Statistical Section

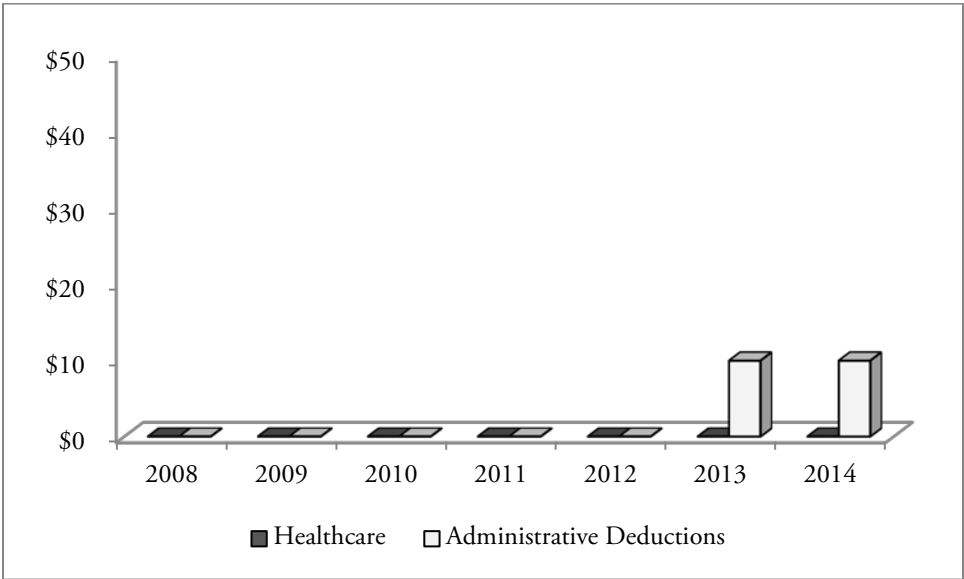
Public Employees' Retirement System Defined Contribution Retirement Occupational Death & Disability – Peace Officers & Firefighters Deductions by Type (In thousands)			
Plan Ended June 30	Pension	Administrative	Total
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	—	—
2011	40	—	40
2012	47	—	47
2013	47	—	47
2014	47	—	47

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



<b>Public Employees' Retirement System                      Defined Contribution Retirement Retiree Medical Plan                      Deductions by Type                      (In thousands)</b>			
Plan Ended June 30	Healthcare	Administrative	Total
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	—	—
2011	—	—	—
2012	—	—	—
2013	—	10	10
2014	—	10	10

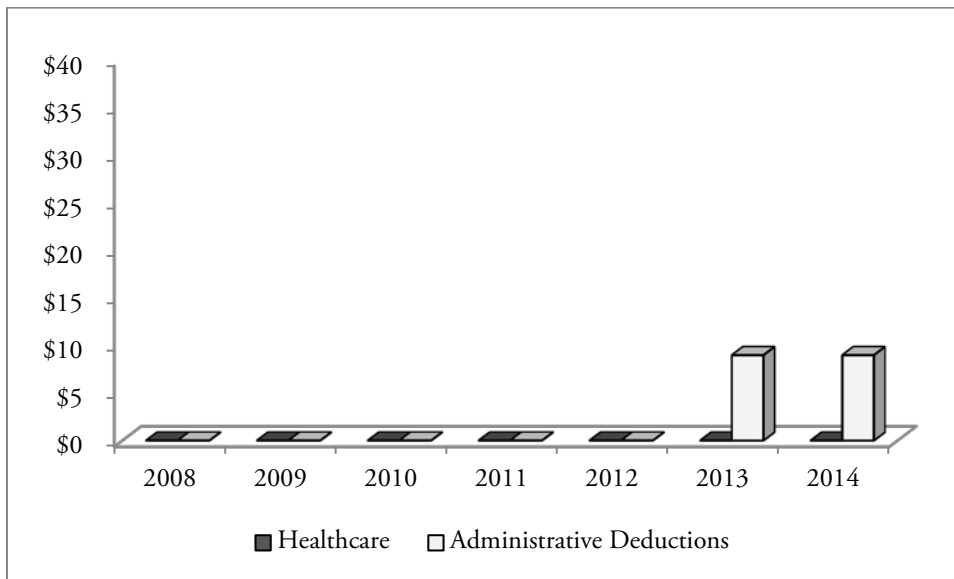
**7-YEAR COMPARISON OF DEDUCTIONS BY TYPE**  
 (In thousands)



# Statistical Section

Public Employees' Retirement System Defined Contribution Retirement Healthcare Reimbursement Arrangement Deductions by Type (In thousands)			
Plan Ended June 30	Healthcare	Administrative	Total
2008	\$ —	\$ —	\$ —
2009	—	—	—
2010	—	—	—
2011	—	—	—
2012	—	—	—
2013	—	9	9
2014	—	9	9

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



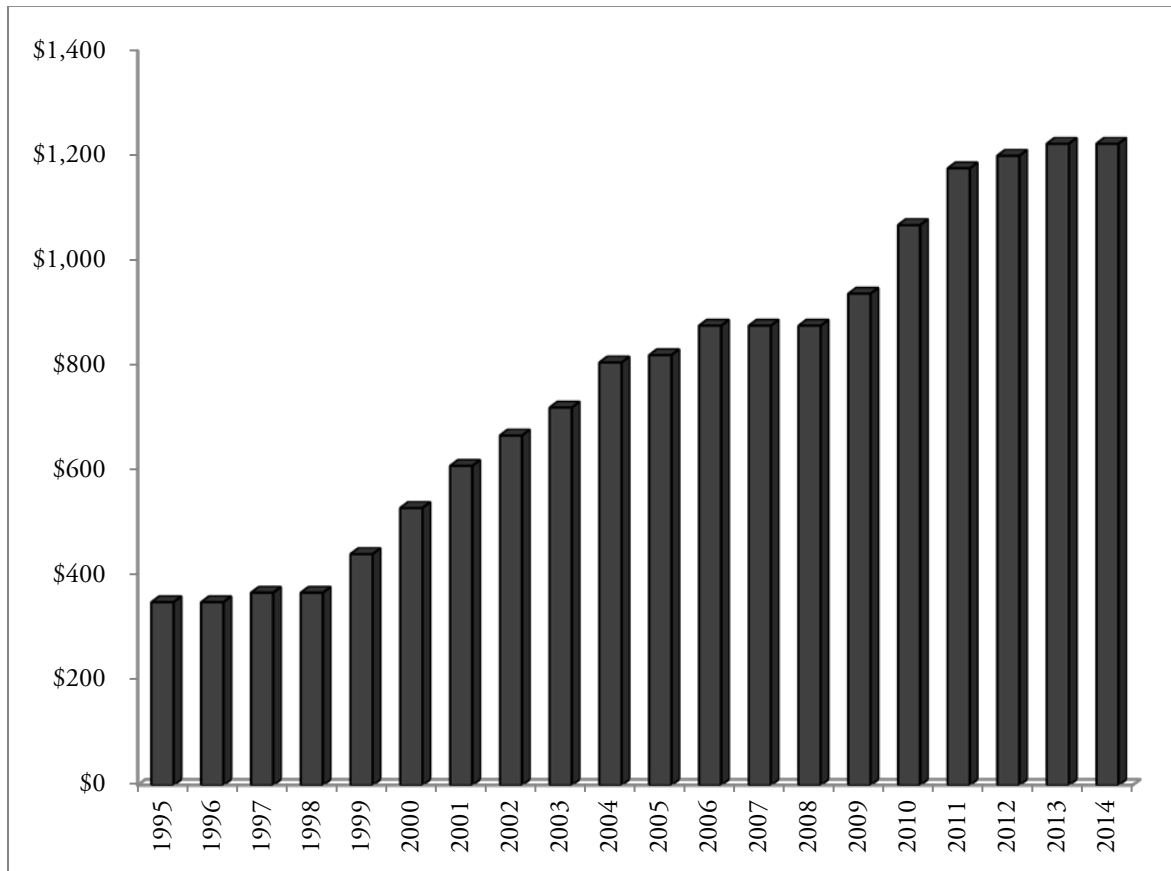
<b>Public Employees' Retirement System Schedule of Average Benefit Payments New Benefit Recipients</b>							
<b>Years of Credited Service</b>							
	<b>0 - 4</b>	<b>5 - 9</b>	<b>10 - 14</b>	<b>15 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30+</b>
<b>All Others</b>							
Period 7/1/07 - 6/30/08:							
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
Period 7/1/10 - 6/30/11:							
Average Monthly Benefit	\$ 409	\$ 633	\$1,150	\$1,876	\$2,690	\$4,294	\$5,226
Number of Recipients	73	352	270	227	172	205	105
Period 7/1/11 - 6/30/12:							
Average Monthly Benefit	\$ 407	\$ 610	\$1,147	\$1,931	\$2,805	\$4,214	\$5,076
Number of Recipients	67	351	314	204	208	188	106
Period 7/1/12 - 6/30/13:							
Average Monthly Benefit	\$ 414	\$ 650	\$1,179	\$1,925	\$2,879	\$4,356	\$5,208
Number of Recipients	59	349	365	257	206	209	132
<b>Peace Officer/Firefighter</b>							
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
Period 7/1/10 - 6/30/11:							
Average Monthly Benefit	\$ 525	\$ 880	\$1,469	\$2,666	\$3,743	\$4,806	\$5,661
Number of Recipients	1	8	18	10	24	16	8
Period 7/1/11 - 6/30/12:							
Average Monthly Benefit	\$ —	\$1,159	\$1,161	\$3,142	\$3,504	\$4,673	\$5,079
Number of Recipients	—	13	13	12	20	17	7
Period 7/1/12 - 6/30/13:							
Average Monthly Benefit	\$ —	\$ 865	\$1,779	\$2,762	\$3,793	\$4,983	\$4,911
Number of Recipients	—	9	8	19	31	18	4

“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
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
2012	543,789	5,528	28,651	339,923	917,891
2013	563,172	5,276	30,870	395,939	995,257
2014	601,705	5,630	33,183	415,926	1,056,444

## 20-YEAR COMPARISON OF RETIREE MONTHLY COMPOSITE MEDICAL PREMIUMS



Public Employees' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Selected Valuation as of June 30, 2013									
Amount of Monthly Pension Benefit	Number of Recipients	Type of Pension Benefit			Option Selected				
		1	2	3	1	2	3	4	5
<b>All Others</b>									
\$ 1 - 300	1,985	1,554	429	2	871	388	281	61	384
301 - 600	4,735	4,075	636	24	2,328	1,181	765	260	201
601 - 900	3,739	3,245	472	22	1,806	949	578	227	179
901 - 1,200	3,029	2,663	342	24	1,413	785	528	170	133
1,201 - 1,500	2,489	2,206	251	32	1,126	711	412	134	106
1,501 - 1,800	1,923	1,730	154	39	806	565	340	114	98
1,801 - 2,100	1,583	1,447	115	21	658	458	273	114	80
2,101 - 2,400	1,352	1,256	73	23	522	421	257	92	60
2,401 - 2,700	1,116	1,042	63	11	445	375	211	42	43
2,701 - 3,000	890	851	35	4	337	294	165	54	40
3,001 - 3,300	754	720	30	4	259	288	140	35	32
3,301 - 3,600	613	597	15	1	193	244	114	34	28
3,601 - 3,900	515	499	15	1	183	186	88	40	18
3,901 - 4,200	471	466	5	0	146	191	102	20	12
over \$4,200	1,704	1,681	17	6	505	700	350	101	48
<b>Totals</b>	<b>26,898</b>	<b>24,032</b>	<b>2,652</b>	<b>214</b>	<b>11,598</b>	<b>7,736</b>	<b>4,604</b>	<b>1,498</b>	<b>1,462</b>
<b>Peace Officer/Firefighter</b>									
\$ 1 - 300	53	30	23	—	28	11	1	3	10
301 - 600	171	110	60	1	84	40	25	9	13
601 - 900	156	89	64	3	89	39	8	12	8
901 - 1,200	170	115	54	1	89	38	19	13	11
1,201 - 1,500	172	124	46	2	93	39	21	7	12
1,501 - 1,800	135	108	26	1	55	41	20	12	7
1,801 - 2,100	168	129	35	4	67	51	30	13	7
2,101 - 2,400	196	153	35	8	83	67	24	14	8
2,401 - 2,700	218	197	18	3	69	88	33	18	10
2,701 - 3,000	250	230	18	2	69	110	44	16	11
3,001 - 3,300	215	196	14	5	60	97	31	15	12
3,301 - 3,600	202	189	11	2	55	104	25	14	4
3,601 - 3,900	192	187	3	2	54	89	24	16	9
3,901 - 4,200	158	155	2	1	40	80	21	13	4
over \$4,200	511	500	10	1	108	281	60	46	16
<b>Totals</b>	<b>2,967</b>	<b>2,512</b>	<b>419</b>	<b>36</b>	<b>1,043</b>	<b>1,175</b>	<b>386</b>	<b>221</b>	<b>142</b>

**Type of Pension Benefit**

- 1 - Regular retirement
- 2 - Survivor payment
- 3 - Disability

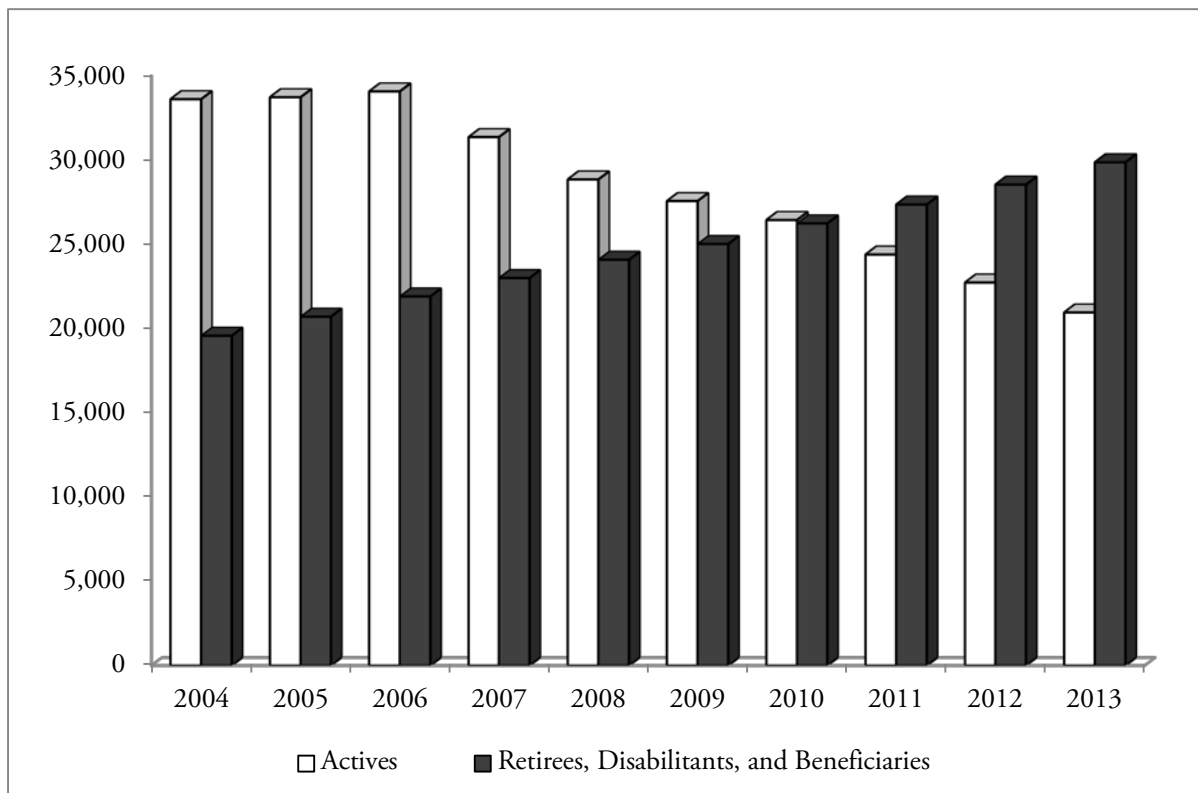
**Option Selected**

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

# 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
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
2011	24,393	27,359	6,414	14,028	72,194
2012	22,730	28,540	6,294	13,552	71,116
2013	20,955	29,865	6,230	13,162	70,212

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



<b>Public Employees' Retirement System Principal Participating Employers June 30, 2014</b>			
<b>Employer</b>	<b>Non-retired Members</b>	<b>Rank</b>	<b>Percentage of of Total Non-retired Members</b>
State of Alaska	26,543	1	42.6%
Anchorage School District	5,121	2	8.2
University of Alaska	<u>4,112</u>	3	<u>6.6</u>
<b>Total</b>	<b><u>35,776</u></b>		<b><u>57.4%</u></b>



# Statistical Section

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**Public Employees' Retirement System**  
**Participating Employers**  
at June 30, 2014

Akutan, City of	Chatham School District
Alaska, State of	Chugach School District
Alaska Gasline Development Corporation	Cook Inlet Housing Authority
Alaska Gateway School District	Copper River Basin Regional Housing Authority
Alaska Housing Finance Corporation	Copper River School District
Alaska Municipal League	Cordova, City of
Aleutian Housing Authority	Cordova City School District
Aleutian Region School District	Cordova Community Medical Center
Aleutians East Borough	Craig, City of
Aleutians East Borough School District	Craig City School District
Allakaket, City of	
Anchorage, Municipality of	Delta-Greely School District
Anchorage Community Development Authority	Delta Junction, City of
Anchorage School District	Denali Borough
Anderson, City of	Denali Borough School District
Aniak, City of	Dillingham, City of
Annette Island School District	Dillingham City School District
Atka, City of	
	Eek, City of
Baranof Island Housing Authority	Egegik, City of
Barrow, City of	Elim, City of
Bartlett Regional Hospital	
Bering Straits Regional Housing Authority	Fairbanks, City of
Bering Strait School District	Fairbanks North Star Borough
Bethel, City of	Fairbanks North Star Borough School District
Bristol Bay Borough	Fort Yukon, City of
Bristol Bay Borough School District	
Bristol Bay Regional Housing Authority	Galena, City of
	Galena City School District

**Public Employees' Retirement System**  
**Participating Employers**  
 at June 30, 2014 (continued)

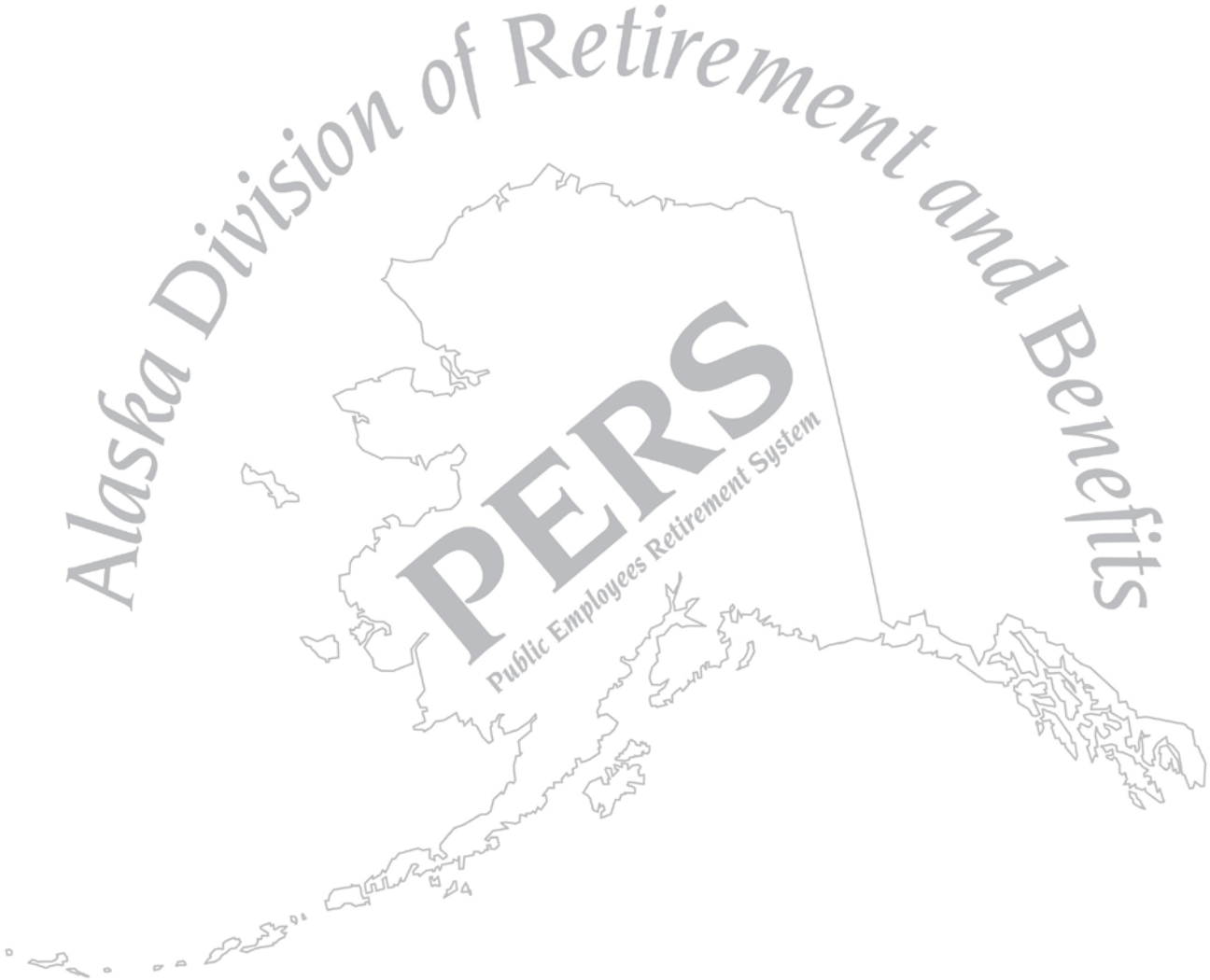
Haines Borough	Koyuk, City of
Haines Borough School District	Kuspuk School District
Homer, City of	Lake and Peninsula Borough
Hoonah, City of	Lake and Peninsula Borough School District
Hoonah City School District	Lower Kuskokwim School District
Hooper Bay, City of	Lower Yukon School District
Huslia, City of	
Hydaburg City School District	Matanuska-Susitna Borough
	Matanuska-Susitna Borough School District
Iditarod Area School District	Mekoryuk, City of
Ilisagvik College	
Interior Regional Housing Authority	Nenana, City of
Inter-Island Ferry Authority	Nenana City School District
	Nome, City of
Juneau School District, City and Borough of	Nome City School District
Juneau, City and Borough of	Nome Joint Utility System
	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	
King Cove, City of	Palmer, City of
Kivalina, City of	Pelican, City of
Klawock, City of	Pelican City School District
Klawock City School District	Petersburg Borough
Kodiak, City of	Petersburg City School District
Kodiak Island Borough	Petersburg Medical Center
Kodiak Island Borough School District	Pribilof School District
Kotzebue, City of	

# Statistical Section

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**Public Employees' Retirement System**  
**Participating Employers**  
at June 30, 2014 (continued)

Saint George, City of	Thorne Bay, City of
Saint Mary's School District	Tlingit-Haida Regional Housing Authority
Saint Paul, City of	Toksook Bay, City of
Sand Point, City of	
Saxman, City of	Unalakleet, City of
Saxman Seaport	Unalaska, City of
Selawik, City of	Unalaska City School District
Seldovia, City of	University of Alaska
Seward, City of	Upper Kalskag, City of
Shaktoolik, City of	
Sitka Borough School District	Valdez, City of
Sitka, City and Borough of	Valdez City School District
Sitka Community Hospital	
Skagway City School District	Wasilla, City of
Skagway, Municipality of	Whittier, City of
Soldotna, City of	Wrangell, City and Borough of
Southeast Island School District	Wrangell Public School District
Southeast Regional Resource Center	
Southwest Region School District	Yakutat, City and Borough of
Special Education Service Agency	Yakutat School District
	Yukon Flats School District
Tagiugmiullu Nunamiullu Housing Authority	Yukon-Koyukuk School District
Tanana, City of	Yupiit School District
Tanana School District	





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

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