FINANCIAL SECTION

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

Independent Auditors' Report

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

We have audited the accompanying statement of system net assets of the State of Alaska Public Employees' Retirement System (the System), (a component unit of the State of Alaska), as of June 30, 2013, and the related statement of changes in system net assets 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 opinions 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.

KPMG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the system net assets of the State of Alaska Public Employees' Retirement System as of June 30, 2013, and the changes in system net assets for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Schedules of Funding Progress, Schedules of Contributions from Employers and the State of Alaska and the Schedule of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) on pages 15-23 and 56-76 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 77-79 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

October 18, 2013

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

Management's Discussion and Analysis

June 30, 2013
(With summarized financial information for June 30, 2012 and 2011)

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (System) financial position and performance for the years ended June 30, 2013 and 2012. 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, 2013. Information for fiscal years 2012 and 2011 is presented for comparative purposes

Financial Highlights

The System financial highlights as of June 30, 2013 were as follows:

- The System's net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals increased by $1,375.9 million during fiscal year 2013.
- The System's plan member and employer contributions increased by $16.7 million during fiscal year 2013.
- The State of Alaska directly appropriated $307.3 million during fiscal year 2013 as statutorily required.
- The System net investment income increased $1,410.2 million to $1,445.3 million during fiscal year 2013.
- The System's pension benefit expenditures totaled $599.4 million during fiscal year 2013.
- The System's postemployment healthcare benefit expenditures totaled $370.3 million in fiscal year 2013.

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

Statements of System Net Assets – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust 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, 2013 and 2012.

Statements of Changes in System Net Assets – This statement presents how the System's net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals changed during the fiscal years ended June 30, 2013 and 2012. 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, 2013 and 2012, and the sources and uses of those funds during fiscal years 2013 and 2012.

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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)

System Net Assets

Description	2013	2012	Increase/(decrease) Amount	Increase/(decrease) Percentage	2011
Assets:					
Cash and cash equivalents	$ 194,986	192,789	2,197	1.1%	$ 95,856
Due from State of Alaska General Fund	13,162	12,901	261	2.0	—
Contributions receivable	28,860	25,680	3,180	12.4	23,788
Due from retiree health fund	3	13	(10)	(76.9)	—
Other receivables	4	7	(3)	(42.9)	8,357
Investments, at fair value	12,849,055	11,446,343	1,402,712	12.3	11,558,961
Other assets	3,401	3,401	—	—	2,866
Total assets	13,089,471	11,681,134	1,408,337	12.1	11,689,828
Liabilities:					
Accrued expenses	9,972	9,218	754	8.2	10,037
Claims payable	54,764	35,967	18,797	52.3	32,678
Forfeiture payable to employers	12,936	—	12,936	—	—
Due to State of Alaska General Fund	—	—	—	—	373
Total liabilities	77,672	45,185	32,487	71.9	43,088
Net assets	$13,011,799	11,635,949	1,375,850	11.8%	$11,646,740

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Changes in System Net Assets

Description	2013	2012	Increase/(decrease) Amount	Percentage	2011
Net assets, beginning of year	$11,635,949	11,646,740	(10,791)	(0.1)%	$9,719,766
Additions:					
Contributions	632,804	616,096	16,708	2.7	597,945
Appropriation – State of Alaska	307,302	242,610	64,692	26.7	165,841
Net investment income	1,445,315	35,096	1,410,219	4,018.2	2,009,351
Other additions	10,468	31,924	(21,456)	(67.2)	12,760
Total additions	2,395,889	925,726	1,470,163	158.8	2,785,897
Deductions:					
Pension and postemployment healthcare benefits	969,729	899,947	69,782	7.8	824,513
Refund of contributions	23,801	20,136	3,665	18.2	18,196
Administrative	17,343	16,434	909	5.5	16,214
Total deductions	1,010,873	936,517	74,356	7.9	858,923
Adjustment to beginning net assets	9,166	—	9,166	—	—
Increase (decrease) in net assets	1,375,850	(10,791)	1,386,641	12,850.0	1,926,974
Net assets, end of year	$13,011,799	11,635,949	1,375,850	11.8%	$11,646,740

Financial Analysis of the System

The statements of system net assets as of June 30, 2013 and 2012 show net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals of $13,011,799,000 and $11,635,949,000, 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 assets held in trust for pension benefits, postemployment healthcare benefits, and individuals of $1,375,850,000 or 11.8% from fiscal year 2012 to 2013 and a decrease of $10,794,000 or 0.1% from fiscal year 2011 to 2012. 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.

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

System Asset Allocation

During fiscal years 2013 and 2012, the Board adopted the following asset allocation for the Defined Benefit (DB) Plan and Defined Contribution Retirement (DCR) Plan's retiree major medical insurance fund, health reimbursement funds and occupational death and disability funds:

	2013	
	Pension & Healthcare Trust	
	Allocation	Range
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	100.0%	
Expected five-year geometric mean	7.11%	
Projected standard deviation	14.20	

	2012	
	Pension&HealthcareTrust	
	Allocation	Range
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 income	18.0	±3
Cash equivalents	2.0	- 2/+5
Total	100.0%	
Expected five-year median return	7.45%	
Standard deviation	13.82	

For fiscal years 2013 and 2012, the DB Plan's investments generated a 12.50% and 0.46% rate of return, respectively. The DB Plan's annualized rate of return was 11.05% over the last three years and 3.92% over the last five years, which is less than the June 30, 2010 (the valuation that set the fiscal year 2013 rate) actuarially assumed rate of return of 8.00%.

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Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary. The actuarially determined contribution rate is considered for adoption by the Board annually. The ratio of assets to liabilities based on valuation assets was 61.3%, at June 30, 2012 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

A summary of the actuarial assumptions and methods is presented in the notes to required supplementary information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

For fiscal year 2013 (based on the June 30, 2010 actuarial valuation report), the normal cost rate increased from 8.28% to 8.67%, the past service rate increased from 22.48% to 24.16%, thus producing a total actuarially determined contribution rate of 32.83% for fiscal year 2013. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DCR Plan, which was 3.01% for fiscal year 2013. This calculation provided a fiscal year 2013 actuarially determined employer contribution rate of 35.84%. The Board adopted the actuarially determined contribution rate of 35.84% for fiscal year 2013.

The Plan funding status as of June 30 is as follows (in thousands):

	Valuation Year	
	2012	**2011**
Valuation assets	$ 11,832,030	11,813,774
Accrued liabilities (total benefits)	19,292,361	18,740,550
Unfunded accrued liability	7,460,331	6,926,776
Funding ratio based on valuation assets	61.3%	63.0%
Fair value of assets	$ 11,290,109	11,388,620
Funding ratio based on fair assets	58.5%	60.8%

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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)

	2013	2012	Increase/(decrease) Amount	Increase/(decrease) Percentage	2011
Plan members contributions	$ 165,294	158,241	7,053	4.5%	$ 153,664
Employer contributions	467,510	457,855	9,655	2.1	444,281
Appropriation – State of Alaska	307,302	242,610	64,692	26.7	165,841
Net investment income	1,445,315	35,096	1,410,219	4,018.2	2,009,351
Other additions	10,468	31,924	(21,456)	(67.2)	12,760
Total	$2,395,889	925,726	1,470,163	158.8%	$2,785,897

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 System's employer contributions increased from $444,281,000 in fiscal year 2011 to $457,855,000 in fiscal year 2012, an increase of $13,574,000 or 3.1%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $307,302,000 for fiscal year 2013 and $242,610,000 for fiscal year 2012 in employer on-behalf payments as required by Alaska Statute 39.35.280. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate increased from 33.49% in fiscal year 2012 to 35.84% in fiscal year 2013. 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 2013 increased by $1,410,219,000 or 4,018.2% from amounts recorded in fiscal year 2012. The System's net investment income in fiscal year 2012 decreased by $1,974,255,000 or 98.3% from amounts recorded in fiscal year 2011. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2013, the System experienced positive returns on investments.

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

	Year ended		
	2013	2012	2011
System returns	12.50%	0.46	21.22
Domestic equities	21.23	1.80	33.37
International equities	15.01	(13.67)	28.27
Fixed income	0.57	4.90	5.46
Private equity	11.61	9.44	20.14
Absolute return	8.41	(2.05)	5.98
Real assets	10.47	10.46	15.25
International fixed income	—	—	0.47
Cash equivalents	0.25	0.44	—

Benefits and Other Deductions

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

	Deductions (In thousands)				
			Increase		
	2013	2012	Amount	Percentage	2011
Pension benefits	$ 599,415	560,024	39,391	7.0%	$ 525,317
Postemployment healthcare benefits	370,314	339,923	30,391	8.9	299,196
Refund of contributions	23,801	20,136	3,665	18.2	18,196
Administrative	17,343	16,434	909	5.5	16,214
Total	$ 1,010,873	936,517	74,356	7.9%	$ 858,923

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The System's pension benefit payments in 2013 increased $39,391,000 or 7.0% from fiscal year 2012 and increased $34,707,000 or 6.6% from fiscal year 2011 to 2012. The increase in pension benefits in fiscal year 2013 is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2013 increased $30,391,000 or 8.9% from fiscal year 2012 and increased $40,727,000 or 13.6% from fiscal year 2011 to 2012. The increase in healthcare costs in fiscal year 2013 is attributable in part to an increase in both the number of retirees and the average claims per retiree.

The System's administrative deductions in 2013 increased $909,000 or 5.5% from fiscal year 2012 and increased $220,000 or 1.4% from fiscal year 2011 to 2012. The increase in administrative costs in fiscal year 2013 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

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 22.0%. 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 DCR Plan.

- Alaska Statute 39.35.280 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions 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 2013, the Twenty-Eighth Alaska State Legislature enacted one law that affects the System:

- House Bill 65 appropriates $312.5 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2014. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 22.00% and the Board adopted rate of 35.68% for fiscal year 2014

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

Fiscal year 2013 was a year of positive investment returns. Net investment income increased from $35,096,000 in fiscal year 2012 to $1,445,315,000 in fiscal year 2013, an increase of $1,410,219,000 or 4,018.2%. 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 2013 rate) with a system rate of return of 12.50% at June 30, 2013.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 33.49% in fiscal year 2012 to 35.84% in fiscal year 2013. The Board adopted the actuarially determined contribution rate of 35.84% for fiscal year 2013, up 2.35% from the fiscal year 2012 Board adopted actuarially determined contribution rate of 33.49%. The statutory employer effective contribution rate remained at 22.00% for fiscal years 2012 and 2013.

The June 30, 2012 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 61.3% and an unfunded liability of $7.46 billion.

For fiscal years 2013 and 2012, the DCR 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% and 0.51% for fiscal years 2013 and 2012, respectively. The DCR Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 0.99% and 0.97% for fiscal years 2013 and 2012, respectively. The DCR Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.14% and 0.11% for fiscal years 2013 and 2012, 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, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statement of System Net Assets
June 30, 2013

(With summarized financial information for June 30, 2012)
(In thousands)

	Defined benefit plan			Defined contribution plan							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ firefighter	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2013	System total June 30, 2012
Assets:											
Cash and cash equivalents (notes 3 & 4):											
Short-term fixed income pool	$ 79,519	97,597	177,116	6,376	176	90	503	2,897	10,042	187,158	189,498
Great West Account	—	—	—	7,828	—	—	—	—	7,828	7,828	3,291
Total cash and cash equivalents	79,519	97,597	177,116	14,204	176	90	503	2,897	17,870	194,986	192,789
Receivables:											
Contributions	26,110	2,037	28,147	542	5	6	20	140	713	28,860	25,680
Due from State of Alaska General Fund	—	10,518	10,518	6,118	59	44	225	1,520	7,966	18,484	17,051
Due from retiree health fund	3	—	3	—	—	—	—	—	—	3	13
Other account receivable	1	3	4	—	—	—	—	—	—	4	7
Total receivables	26,114	12,558	38,672	6,660	64	50	245	1,660	8,679	47,351	42,751
Investments (notes 3, 4 and 5), at fair value:											
Fixed income securities											
Retirement fixed income pool	—	—	—	—	—	—	—	—	—	—	13,781
U.S. Treasury fixed income pool	508,306	444,101	952,407	—	605	262	1,541	8,055	10,463	962,870	1,211,702
High yield fixed income pool	188,206	164,434	352,640	—	224	97	571	2,982	3,874	356,514	309,904
International fixed income pool	131,613	114,986	246,599	—	156	68	399	2,086	2,709	249,308	262,999
Emerging markets debt pool	56,023	48,947	104,970	—	67	29	170	888	1,154	106,124	86,722
Total fixed income securities	884,148	772,468	1,656,616	—	1,052	456	2,681	14,011	18,200	1,674,816	1,885,108
Broad domestic equity	2,180,511	1,905,166	4,085,677	—	2,594	1,124	6,611	34,552	44,881	4,130,558	3,375,713
Global equity EX-U.S.:											
International equity pool	1,298,463	1,134,483	2,432,946	—	1,545	670	3,937	20,575	26,727	2,459,673	1,864,244
Emerging markets equity pool	196,267	171,477	367,744	—	233	101	595	3,110	4,039	371,783	604,259
Total broad international equity	1,494,730	1,305,960	2,800,690	—	1,778	771	4,532	23,685	30,766	2,831,456	2,468,503
Private equity pool	598,588	522,982	1,121,570	—	712	309	1,815	9,485	12,321	1,133,891	1,129,837
Absolute return pool	294,813	257,575	552,388	—	351	152	894	4,672	6,069	558,457	483,379
Real assets:											
Real estate pool	508,826	446,790	955,616	—	608	264	1,550	8,104	10,526	966,142	912,358
Real estate investment trust pool	100,656	87,944	188,600	—	120	52	305	1,595	2,072	190,672	131,073
Master limited partnership pool	134,794	117,772	252,566	—	160	69	409	2,136	2,774	255,340	—
Energy pool	40,028	34,972	75,000	—	48	21	121	634	824	75,824	81,549
Farmland pool	248,098	232,343	480,441	—	317	137	806	4,214	5,474	485,915	434,561
Farmland water pool	17,794	—	17,794	—	—	—	—	—	—	17,794	14,648
Timber pool	97,002	84,750	181,752	—	115	50	294	1,537	1,996	183,748	160,835
Treasury inflation protected securities pool	3,095	2,704	5,799	—	3	2	10	49	64	5,863	138,533
Total real assets	1,150,293	1,007,275	2,157,568	—	1,371	595	3,495	18,269	23,730	2,181,298	1,873,557
Other investment funds, at fair value:											
Pooled investment funds	—	—	—	137,565	—	—	—	—	137,565	137,565	74,296
Collective investment funds	—	—	—	201,014	—	—	—	—	201,014	201,014	155,950
Total other investment funds	—	—	—	338,579	—	—	—	—	338,579	338,579	230,246
Total investments	6,603,083	5,771,426	12,374,509	338,579	7,858	3,407	20,028	104,674	474,546	12,849,055	11,446,343
Other assets	23	3,378	3,401	—	—	—	—	—	—	3,401	3,401
Total assets	6,708,739	5,884,959	12,593,698	359,443	8,098	3,547	20,776	109,231	501,095	13,094,793	11,685,284
Liabilities:											
Accrued expenses	8,935	624	9,559	389	24	—	—	—	413	9,972	9,218
Forfeiture payable to employers	—	—	—	12,936	—	—	—	—	12,936	12,936	—
Claims payable (note 6)	—	54,764	54,764	—	—	—	—	—	—	54,764	35,967
Due to State of Alaska General Fund	5,322	—	5,322	—	—	—	—	—	—	5,322	4,150
Total liabilities	14,257	55,388	69,645	13,325	24	—	—	—	13,349	82,994	49,335
Net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals	$ 6,694,482	5,829,571	12,524,053	346,118	8,074	3,547	20,776	109,231	487,746	13,011,799	11,635,949

See accompanying notes to financial statements.

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

Statement of Changes in System Net Assets
June 30, 2013

(With summarized financial information for June 30, 2012)
(In thousands)

	Defined benefit plan			Defined contribution plan							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ firefighter	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2013	System total June 30, 2012
Additions:											
Contributions:											
Employers	$ 179,976	229,990	409,966	29,519	834	707	3,195	23,289	57,544	467,510	457,855
Plan members	110,808	635	111,443	53,843	—	8	—	—	53,851	165,294	158,241
State of Alaska	164,087	143,215	307,302	—	—	—	—	—	—	307,302	242,610
Total contributions	454,871	373,840	828,711	83,362	834	715	3,195	23,289	111,395	940,106	858,706
Investment income:											
Net appreciation (depreciation) in fair value (note 2)	646,379	549,624	1,196,003	41,078	697	285	1,713	8,585	52,358	1,248,361	(223,018)
Interest	30,058	26,154	56,212	20	33	14	83	415	565	56,777	63,749
Dividends	88,470	76,374	164,844	—	98	41	244	1,235	1,618	166,462	217,701
Total investment income	764,907	652,152	1,417,059	41,098	828	340	2,040	10,235	54,541	1,471,600	58,432
Less investment expense	26,251	34	26,285	—	—	—	—	—	—	26,285	23,336
Net investment income	738,656	652,118	1,390,774	41,098	828	340	2,040	10,235	54,541	1,445,315	35,096
Other:											
Other	28	10,436	10,464	4	—	—	—	—	4	10,468	31,924
Total additions	1,193,555	1,036,394	2,229,949	124,464	1,662	1,055	5,235	33,524	165,940	2,395,889	925,726
Deductions:											
Pension and postemployment benefits	599,318	370,314	969,632	—	50	47	—	—	97	969,729	899,947
Refunds of contributions	10,929	—	10,929	12,872	—	—	—	—	12,872	23,801	20,136
Administrative	7,120	8,325	15,445	1,879	—	—	10	9	1,898	17,343	16,434
Total deductions	617,367	378,639	996,006	14,751	50	47	10	9	14,867	1,010,873	936,517
Adjustment to beginning net assets for prior year's forfeitures payable	—	—	—	9,166	—	—	—	—	9,166	9,166	—
Net increase (decrease)	576,188	657,755	1,233,943	100,547	1,612	1,008	5,225	33,515	141,907	1,375,850	(10,791)
Net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals											
Balance, beginning of year	6,118,294	5,171,816	11,290,110	245,571	6,462	2,539	15,551	75,716	345,839	11,635,949	11,646,740
Balance, end of year	$ 6,694,482	5,829,571	12,524,053	346,118	8,074	3,547	20,776	109,231	487,746	13,011,799	11,635,949

See accompanying notes to financial statements.

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(With summarized financial information for June 30, 2012)

1. Description

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

At June 30, 2013 and 2012, the number of participating local government employers and public organizations including the State was as follows:

State of Alaska	1
Municipalities	77
School districts	53
Other	28
Total employers	159

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

Defined Benefit Retirement Plan

General

The DB Plan is a defined benefit, cost-sharing, multiple employer plan within the System established and administered by the State to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The System is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report as pension and other employee benefits trust funds. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

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

	Valuation as of June 30	
	2012	**2011**
Retirees and beneficiaries currently receiving benefits	28,540	27,359
Terminated plan members entitled to future benefits	6,294	6,414
Total current and future benefits	34,834	33,773
Active plan members:		
General	20,566	22,118
Peace officer and firefighter	2,164	2,275
Total active plan members	22,730	24,393
Total members	57,564	58,166
Active plan members:		
Vested:		
General	18,744	19,457
Peace officer and firefighter	2,098	2,183
Nonvested:		
General	1,822	2,661
Peace officer and firefighter	66	92
Total active plan members	22,730	24,393

Pension Benefits

Members hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, 55, or early retirement age, 50. For members first hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. Members with 30 or more years of credited service (20 years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the member's five highest consecutive years' salaries.

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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 officer and firefighters, the benefit for years of service through a total of 10 years is equal to 2% of the member's average monthly compensation and 2.5% 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.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired on or after July 1, 1986 with 5 years of credited service (or 10 years of credited service for those first hired on or after July 1, 1996) may pay the full monthly premium if they are under age 60 (or over age 60 with less than 10 years of service for those first hired on or after July 1, 1996), and receive benefits at no premium cost if they are over age 60 or are receiving disability benefits. Peace officers and firefighters with 25 years of membership service and all other members with 30 years of membership service also receive benefits at no premium cost.

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

Death Benefits

If an active general DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the DB Plan 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 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 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

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

Disability Benefits

Active DB Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age, or when the service requirement for normal retirement is met. Although there are no minimum service requirements for DB Plan members to be eligible for occupational disability, DB Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the DB Plan's member's salary at the time of the disability. The nonoccupational disability benefit is based on the DB Plan member's service and salary at the time of disability. At normal retirement age, a disabled general DB Plan member receives normal retirement benefits. A peace officer or firefighter DB Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

Contributions

DB Plan Member Contributions

The DB Plan's member contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The DB Plan's member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the DB Plan. The DB Plan's member contributions earn interest at the rate of 4.50% per annum, compounded semiannually.

Employer Contributions

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial cost method of funding. The DB Plan uses the level percentage of pay, normal cost basis for pension and level dollar, normal cost basis for healthcare. The unfunded liability is amortized over a 25-year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the adopted actuarially determined contribution rate for the fiscal year.

Contributions from the State of Alaska

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

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Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Defined Contribution Retirement Plan

General

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within PERS established and administered by the State to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

The DCR Pension Trust Fund is a hybrid plan containing traditional defined contribution (DC) components as well as defined benefit (DB) components. Within the DCR Pension Trust Fund, the funds that are DC components of the plan include the Participant Directed Fund and the Healthcare Reimbursement Arrangement. The DB components of the DCR Pension Trust Fund are the Retirement Medical Plan and the Occupation Death and Disability Plan.

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At June 30, 2013 and 2012, the DCR Pension Trust Fund membership consisted of the following:

	2013	2012
Retirees and beneficiaries currently receiving benefits	—	—
Occupational death	1	1
Occupational disability	3	—
Total retirees and beneficiaries currently receiving benefits	4	1
Terminated plan members entitled to future benefits:		
25% Vested	575	443
50% Vested	303	227
75% Vested	137	72
100% Vested	117	36
Total terminated plan members entitled to future benefits	1,132	778
Total current and future benefits	1,136	779
Active plan members:		
General	13,516	11,952
Peace officer and firefighter	1,121	913
Total active plan members	14,637	12,865
Total members	15,773	13,644
Active plan members:		
Vested General:		
25% Vested	2,192	1,967
50% Vested	1,597	1,612
75% Vested	1,344	1,342
100% Vested	2,097	1,027
Total vested general	7,230	5,948
Vested peace officer and firefighter		
25% Vested	156	107
50% Vested	93	151
75% Vested	134	163
100% Vested	304	166
Total vested peace officer and firefighter	687	587
Nonvested:		
General	6,286	6,004
Peace officer and firefighter	434	326
Total nonvested general and peace officer and firefighter	6,720	6,330
Total members	15,773	13,644

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Pension Benefits

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

Postemployment Healthcare Benefits

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

Death Benefits

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

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

Disability Benefits

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

Contributions

DCR Plan Member Contributions

Contribution rates are 8.0% for DCR Plan members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the DCR plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

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Employer Contributions

An employer shall contribute to each DCR member's account based on the member's compensation. For fiscal year 2013, the rates are 5.0% for the individual account, 0.48% for Retiree Medical Plan, 0.14% for Occupational Death and Disability for peace officer and firefighters, and 0.99% for Occupational Death and Disability non-peace officer and firefighters. The employer is required to make a Health Reimbursement Arrangement (HRA) contribution to each member's account. The HRA amount is based on the pay cycle and if the employee is a salaried or hourly employee. The fiscal year 2013 HRA contribution amounts are as follows:

Annual	Quarterly	Semi-monthly	Bi-weekly	Monthly	Hourly
$1,848.43	462.11	77.02	71.09	154.04	1.18

Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll, which is equal to the employer effective rate minus the DCR Plan total employer contributions. The employer effective rate is statutorily set at 22.00%. The contributions for the DBUL are posted to the DB Pension and Postemployment Healthcare plans.

Refunds

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

Participant Accounts

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

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

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

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2. Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

GASB Statements No. 25, No. 43 and No. 50

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. The DB Plan and DCR Plan follow the provisions of GASB Statement No. 50, *Pension Disclosures* (GASB 50). GASB 50 amended certain disclosure provisions of GASB 25 and expanded the required disclosures regarding pensions.

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

Investments

Investments are reported under the Department of Revenue, Division of Treasury (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid, and all expenses are recorded on a cash basis.

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Pooled Investments

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

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

Valuation and Income Allocation

Fixed Income Investment Pools and Treasury Inflation Protected Securities (TIPS)

With the exception of the Emerging Markets Debt Pool, fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determines the allocation between permissible securities.

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

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

Broad Domestic Equity, International Equity, Real Estate Investment Trust (REIT), and Master Limited Partnership (MLP) Pools

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

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

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

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

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

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are composed of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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

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

Defined Contribution Participant Directed Investments

The Alaska Retirement Management Board (Board) contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant directed funds. Additionally, the Board contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are composed of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include 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.

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

Contributions Receivable

Contributions from the System's members and employers for service through June 30 are accrued. These contributions are considered fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Administrative Costs

Administrative costs are paid from investment earnings.

Due from (to) State of Alaska General Fund

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

Federal Income Tax Status

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

3. Investments

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

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

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

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Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Master Limited Partnerships Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate 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.

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.

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4. Deposit and Investment Risk

At June 30, 2013, the System's investments included the following (in thousands):

	Fair value							
	Fixed income pools							
	Short-term	U.S. Treasury	High yield	International	Convertible	TIPS	Other	Total
Commercial paper	$ 13,915	—	—	—	—	—	—	$ 13,915
Convertible bonds	—	—	1,288	—	78,840	—	—	80,128
Corporate bonds	17,058	38,965	305,628	—	—	—	—	361,651
Deposits	7,131	—	12,475	850	328	—	—	20,784
Foreign corporate bonds	—	—	—	19,126	—	—	—	19,126
Foreign government bonds	—	—	—	223,042	—	—	—	223,042
Mortgage backed	716	52,256	—	—	—	—	—	52,972
Municipal bonds	167	1,336	—	—	—	—	—	1,503
Other asset backed	142,390	29,588	1,239	—	—	—	—	173,217
Short-term investment fund	—	—	—	2,305	—	—	—	2,305
U.S. government agency	—	24,014	—	—	—	—	—	24,014
U.S. government agency								
Discount notes	24	—	—	—	—	—	—	24
Treasury bills	140,542	—	—	—	—	—	—	140,542
Treasury bonds	—	—	—	—	—	2,423	—	2,423
Treasury notes	—	754,774	—	—	—	3,313	—	758,087
Treasury strips	—	1,393	—	—	—	—	—	1,393
Yankees:								
Corporate	4,470	5,370	33,303	—	—	—	—	43,143
Government	—	19,908	—	—	—	—	—	19,908
Fixed income pools:								
Equity	—	—	—	—	9,832	—	—	9,832
Warrants	—	—	36	—	—	—	—	36
Emerging markets debt pool	—	—	—	—	—	—	106,123	106,123
Broad domestic equity pool:								
Deposits	—	—	—	—	—	—	23,963	23,963
Equity	—	—	—	—	—	—	3,734,164	3,734,164
Futures	—	—	—	—	—	—	(215)	(215)
Limited partnership	—	—	—	—	—	—	189,328	189,328
Options	—	—	—	—	—	—	(13,004)	(13,004)
Treasury bills	—	—	—	—	—	—	2,053	2,053
Warrants	—	—	—	—	—	—	1	1
Broad international equity pool:								
Deposits	—	—	—	—	—	—	43,568	43,568
Equity	—	—	—	—	—	—	2,113,547	2,113,547
Rights	—	—	—	—	—	—	15	15
Mutual fund	—	—	—	—	—	—	288,302	288,302
Short-term investment fund	—	—	—	—	—	—	7,910	7,910
Warrants	—	—	—	—	—	—	74	74
Emerging markets equity pool	—	—	—	—	—	—	371,783	371,783
Private equity pool:								
Limited partnerships	—	—	—	—	—	—	1,133,155	1,133,155
Equity	—	—	—	—	—	—	736	736
Absolute return pool:								
Limited partnerships	—	—	—	—	—	—	558,457	558,457
Real estate pool:								
Commingled funds	—	—	—	—	—	—	200,170	200,170
Limited partnerships	—	—	—	—	—	—	241,335	241,335
Real estate	—	—	—	—	—	—	524,637	524,637
Real estate investment trust pool:								
Equity	—	—	—	—	—	—	189,778	189,778
Master limited partnership pool:								
Equity	—	—	—	—	—	—	252,209	252,209
Energy pool:								
Limited partnerships	—	—	—	—	—	—	75,823	75,823
Farmland pool:								
Agricultural holdings	—	—	—	—	—	—	485,915	485,915
Farmland water pool:								
Agricultural holdings	—	—	—	—	—	—	17,794	17,794
Timber pool:								
Timber holdings	—	—	—	—	—	—	183,748	183,748
Participant directed:								
Collective investment funds	—	—	—	—	—	—	200,871	200,871
Pooled investment funds	—	—	—	—	—	—	137,436	137,436
Net other assets (liabilities)	(5,819)	3,995	2,545	3,985	906	31	12,577	18,220
Other pool ownership	(133,436)	31,271	—	—	—	96	102,069	—
Unallocated deposits in transit	—	—	—	—	—	—	272	272
Total Invested Assets	$ 187,158	962,870	356,514	249,308	89,906	5,863	11,184,594	$ 13,036,213

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Interest Rate Risk

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

Short–Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from 3 days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 years.

Other Defined Benefit Fixed Income Pools

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

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ±20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2013 was 5.49 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 U.S. Intermediate Treasury Fixed Income portfolio to ±20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2013 was 3.68 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 ±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, 2013 was 4.46 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ±25% of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversification Index. The effective duration for Citigroup Non-USD World Government Bond Index at June 30, 2013 was 7.25 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2013 was 4.89 years, for a blended duration of 6.54 years at June 30, 2013.

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Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ±20% of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2013 was 9.32 years.

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

At June 30, 2013, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows (in years):

	Effective duration (in years)			
	U.S. Treasury	**High yield**	**International**	**TIPS**
Corporate bonds	2.83	4.29	—	—
Foreign corporate bonds	—	—	3.16	—
Foreign government bonds	—	—	5.74	—
Mortgage backed	2.59	—	—	—
Municipal bonds	11.85	—	—	—
Other asset backed	0.48	3.88	—	—
Treasury bonds	—	—	—	10.90
Treasury notes	3.64	—	—	3.40
Treasury strips	5.12	—	—	—
U.S. government agency	8.31	—	—	—
Yankees:				
Corporate	3.77	4.31	—	—
Government	6.00	—	—	—
Portfolio effective duration	**3.52**	**4.13**	**5.46**	**6.46**

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 thirteen 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 ±0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ±0.4 years relative to the index.
>
> At June 30, 2013, the duration of the government corporate debt and mortgage-backed securities was 5.48 years and the duration of the Barclays Capital Aggregate Bond Index was 5.39 years.

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Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2013, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 46 days, SSgA World Government Bond Ex-U.S. Index: 7.35 years, SSgA Long U.S. Treasury Bond Index: 16.27 years, SSgA TIPS Index: 7.17 years, Barclays Government Credit Bond Fund: 5.38 years, and the Barclays Intermediate Government Bond Fund: 3.55 years.

Credit Risk

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

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

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

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

Retirement Fixed Income

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

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

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

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

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 & Poor's, Moody's and Fitch. Asset-backed and non agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

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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 & 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

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

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

Convertible Bonds

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard & 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 noninvestment grade rating are subject to the below investment grade limitation.

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

The manager shall not purchase any security with a credit rating at or below CCC- by Standard & Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard & Poor's & 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 & 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 & Poor's or the equivalents by Moody's or Fitch.

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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 & Poor's, Moody's and Fitch. Asset-backed and non agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

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 & Poor's or Fitch rating services.

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

The Board does not have a policy to limit the concentration of credit risk for the Emerging Markets Debt Pool or the Collective Investment Funds.

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At June 30, 2013, the System's Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed income pools					
Investment type	**Rating**	**Short-term**	**U.S. Treasury**	**High yield**	**International**	**Convertible**	**TIPS**
Deposit	Not rated	2.22%	—%	3.50%	0.34%	0.37%	—%
Commercial paper	Not rated	4.34	—	—	—	—	—
Corporate bonds	AA	2.41	0.65	—	—	—	—
Corporate bonds	A	2.91	2.50	0.11	—	—	—
Corporate bonds	BBB	—	0.82	3.21	—	—	—
Corporate bonds	BB	—	0.09	32.85	—	—	—
Corporate bonds	B	—	—	41.86	—	—	—
Corporate bonds	CCC	—	—	3.44	—	—	—
Corporate bonds	CC	—	—	0.28	—	—	—
Corporate bonds	D	—	—	0.47	—	—	—
Corporate bonds	Not rated	—	—	3.55	—	—	—
Convertible bonds	A	—	—	—	—	5.08	—
Convertible bonds	BBB	—	—	0.33	—	17.94	—
Convertible bonds	BB	—	—	—	—	15.86	—
Convertible bonds	B	—	—	—	—	14.47	—
Convertible bonds	CCC	—	—	—	—	2.73	—
Convertible bonds	Not rated	—	—	0.03	—	31.60	—
Equity	BBB	—	—	—	—	2.88	—
Equity	BB	—	—	—	—	3.97	—
Equity	B	—	—	—	—	2.08	—
Equity	Not rated	—	—	—	—	2.01	—
Foreign corporate bonds	A	—	—	—	1.27	—	—
Foreign corporate bonds	BBB	—	—	—	0.56	—	—
Foreign corporate bonds	Not rated	—	—	—	5.84	—	—
Foreign government bonds	AAA	—	—	—	6.77	—	—
Foreign government bonds	AA	—	—	—	1.68	—	—
Foreign government bonds	A	—	—	—	22.90	—	—
Foreign government bonds	BBB	—	—	—	3.58	—	—
Foreign government bonds	BB	—	—	—	1.41	—	—
Foreign government bonds	Not rated	—	—	—	53.11	—	—
U.S. government agency	Not rated	0.01	2.48	—	—	—	—
Mortgage backed	AAA	0.07	1.35	—	—	—	—
Mortgage backed	AA	0.08	1.82	—	—	—	—
Mortgage backed	A	0.07	0.38	—	—	—	—
Mortgage backed	Not rated	—	1.88	—	—	—	—
Municipal bonds	AA	0.05	0.14	—	—	—	—
Other asset backed	AAA	39.98	1.71	—	—	—	—
Other asset backed	AA	0.72	—	—	—	—	—
Other asset backed	BB	—	—	0.10	—	—	—
Other asset backed	B	—	—	0.25	—	—	—
Other asset backed	Not rated	3.71	1.36	—	—	—	—
Other pool ownership	Not rated	—	3.25	—	—	—	1.65
U.S. Treasury bills	AA	43.83	—	—	—	—	—
U.S. Treasury bonds	AA	—	—	—	—	—	41.32
U.S. Treasury notes	AA	—	78.40	—	—	—	56.50
Treasury strips	AA	—	0.14	—	—	—	—
Short-term investment	Not rated	—	—	—	0.92	—	—
Warrants	Not rated	—	—	0.01	—	—	—
Yankees:							
Corporate	AAA	—	0.06	—	—	—	—
Corporate	AA	0.55	0.28	—	—	—	—
Corporate	A	0.84	0.07	—	—	—	—
Corporate	BBB	—	0.14	—	—	—	—
Corporate	BB	—	—	3.37	—	—	—
Corporate	B	—	—	4.80	—	—	—
Corporate	CCC	—	—	0.55	—	—	—
Corporate	Not rated	—	—	0.58	—	—	—
Government	AAA	—	0.33	—	—	—	—
Government	AA	—	0.35	—	—	—	—
Government	Not rated	—	1.38	—	—	—	—
No credit risk		(1.79)	0.42	0.71	1.62	1.01	0.53
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, 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 (the FDIC provides $250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

At June 30, 2013, the System's invested assets had the following uncollateralized and uninsured deposits (in thousands):

	Amount
International equity pools	$ 43,569
International fixed income pool	850

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:

Fixed income	Global equity ex-U.S.	Private equity pool
19%	27%	13%

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At June 30, 2013, the System had exposure to foreign currency risk with the following deposits (in thousands):

	International Fixed Income			International Equity				Private Equity
Currency	Deposits	Foreign government bonds	Foreign corporate bonds	Deposits	Equity	Mutual funds	Rights	Limited partnerships
Australian Dollar	$ 45	8,383	—	491	47,428	—	1	206
Brazilian Real	—	15,510	—	28	8,697	—	—	—
Canadian Dollar	—	—	—	130	59,582	—	—	—
Chilean Peso	—	2,781	—	—	—	—	—	—
Colombian Peso	88	3,419	—	—	—	—	—	—
Danish Krone	—	—	—	73	19,800	—	—	—
Euro currency	—	33,898	17,422	36,970	545,128	—	14	85,078
Hong Kong Dollar	—	—	—	507	72,492	—	—	—
Hungarian Forint	—	3,518	—	—	—	—	—	—
Indian Rupee	—	—	—	—	1,102	—	—	—
Indonesian Rupiah	—	—	—	136	8,449	—	—	—
Israeli Shekel	—	—	—	47	845	—	—	—
Japanese Yen	157	70,167	—	3,046	423,215	—	—	—
Malaysian Ringgit	202	12,311	—	—	4,397	—	—	—
Mexican Peso	296	14,880	1,704	8	1,272	—	—	—
New Russian Ruble	—	5,711	—	—	—	—	—	—
New Taiwan Dollar	—	—	—	39	9,647	—	—	—
New Zealand Dollar	—	—	—	1	6,397	—	—	—
Norwegian Krone	—	—	—	64	11,832	—	—	—
Peruvian Nouveau Sol	—	3,512	—	—	—	—	—	—
Philippine Peso	—	—	—	—	1,508	—	—	—
Polish Zloty	—	20,914	—	—	—	—	—	—
Pound Sterling	—	—	—	1,422	386,013	315	—	22,160
Singapore Dollar	—	—	—	139	27,758	—	—	—
South African Rand	—	6,486	—	—	—	—	—	—
South Korean Won	35	—	—	—	29,327	—	—	—
Swedish Krona	—	16,887	—	208	51,700	—	—	—
Swiss Franc	—	—	—	223	134,574	—	—	—
Thailand Baht	27	—	—	37	11,353	—	—	—
Turkish Lira	—	4,665	—	—	—	—	—	—
UAE Dirham	—	—	—	—	1,171	—	—	—
	$ 850	223,042	19,126	43,569	1,863,687	315	15	107,444

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At June 30, 2013, 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 group. The Board does not have a policy with regard to concentration of credit for the Emerging Debt or TIPS Pools.

At June 30, 2013, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

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5. Foreign Exchange, Derivative, and Counterparty Credit Risk

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

On June 30, 2013, the System had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value		
	Classification	Amount	Classification	Amount	Notional
Equity options bought	Investment revenue	$ —	Options	$ —	$ —
Equity options written	Investment revenue	193	Options	(12,959)	(2,030)
FX forwards	Investment revenue	2,396	Long-term instruments	1,403	19,581
Index futures long	Investment revenue	9,586	Futures	—	39
Index options written	Investment revenue	515	Options	(46)	(3)
Rights	Investment revenue	(109)	Common stock	15	48
Warrants	Investment revenue	43	Common stock	111	237

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

At June 30, 2013, the System had the following Foreign Currency risk related to forward contracts (in thousands):

	Currency Forward Contracts			
Currency name	Options	Net receivables	Net payables	Total exposure
Australian Dollar	1	(86)	1,320	1,235
Euro currency	14	—	2	16
Japanese Yen	—	—	60	60
New Zealand Dollar	—	—	107	107
	15	(86)	1,489	1,418

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At June 30, 2013, the System had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

Counterparty name	Percentage of net exposure	S&P rating	Fitch rating	Moody's rating
Bank of New York	4.04%	A+	AA-	Aa3
State Street Bank London	95.83	A+	A+	A1
UBS AG	0.13	A	A	A2
Maximum amount of loss Alaska ARMB (PERS) would face in case of default of all counterparties i.e., aggregated (positive) fair value of OTC positions as of June 30, 2013				$ 1,489
Effect of collateral reducing maximum exposure				—
Liabilities subject to netting arrangements reducing exposure				—
Resulting net exposure				$ 1,489

6. Claims Payable

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

Changes in the balances of claims liabilities are as follows (in thousands):

	2013	2012
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	$ —	—
Incurred but not reported	35,967	32,678
Total, beginning of year	35,967	32,678
Benefit deductions	370,314	339,923
Benefits paid	(351,517)	(336,634)
Total, end of year	$ 54,764	35,967
End of year:		
Due to State of Alaska General Fund for outstanding warrants	$ —	—
Incurred but not reported	54,764	35,967
Total, end of year	$ 54,764	35,967

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7. Funded Status and Funding Progress

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

	Actuarial valuation date	Actuarial aggregate accrued liability (AAL) – entry age	Actuarial valuation assets	Assets as a percent of accrued liability (funded ratio)	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Pension	June 30, 2012	$ 11,428,944	6,530,421	57.1 %	$4,898,523	1,522,399	321.8 %
Postemployment healthcare	June 30, 2012	9,812,274	5,301,609	54.0	4,510,665	1,522,399	296.3

The funded status of the defined contribution retirement plan occupational death and disability 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, 2012	$ 2,412	9,142	379.0%	$ (6,730)	558,760	(1.2)%
Retiree medical	June 30, 2012	51,798	15,773	30.5	36,025	558,760	6.4

The funding ratio as of June 30, 2012 has decreased. The decrease in the funding ratio is attributed to adjustments in the retiree medical cost and assumptions, investment experience, changes in census data assumptions, an increase in average age of active members, and an increase in average credited service.

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

The accompanying schedules of contributions (unaudited) from employers present trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and 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:

Valuation Date	June 30, 2012	June 30, 2012
	Defined Benefit	Defined Contribution ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare	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 dollar, closed	Level percent of pay, closed with bases established annually
Equivalent single amortization period	18 years	26 years
Asset valuation method	5-year smoothed fair value, 80% / 120% of fair value corridor	5-year smoothed market, constrained to 80% /120% of fair value corridor
Actuarial assumptions:		
Investment rate of return	8.00% for pension, 6.88% for healthcare (includes inflation at 3.12%)	8.0% (includes inflation at 3.12%)
Projected salary increases	Peace Officer/Firefighter: merit – 2.75% per year for the first 4 years of employment, grading down to 0.5% at 7 years and thereafter.	Peace Officer/Firefighter: merit – 2.74% per year for the first 4 years of employment, grading down 0.5% at 4 years and thereafter.
	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%.	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.	Productivity – 0.5% per year.
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

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

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2013	9.0%	6.5%	6.4%
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
2025	6.0	6.0	5.8
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 State of Alaska Public Employees' Retirement System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of the annual required contribution (ARC) actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 6.88% as of June 30, 2010 to be used for fiscal 2013 disclosure.

The State of Alaska Public Employees' Retirement System DCR Plan'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 of Alaska receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Disregarding future Medicare Part D payments, the fiscal 2015 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. 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, 2013, the Board's unfunded commitments were as follows (in thousands):

Portfolio	Unfunded commitment	Estimated to be paid through:
Domestic equity	$ 5,988	May be canceled annually in December with 90 days' notice
Private equity	550,291	Fiscal year 2023
Energy	80,140	Fiscal year 2022
Real estate	61,273	Fiscal year 2015
	$ 697,692	

Contingencies

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

9. Medicare Part D Retiree Drug Subsidy

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

10. Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) is a temporary program that provides 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 ends on January 1, 2014.

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11. Recently Issued Accounting Standards

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* (GASB 67). GASB 67 requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position as well as additional requirements to the notes of the financial statements. Other requirements include additional presentations of summary information about the pension liability of employers and nonemployer contributing entities to plan members for benefits provided through the pension plan (net pension liability) in notes to financial statements. The new standard is effective for fiscal periods beginning after June 15, 2013. The plan will implement the provisions for the year ended June 30, 2014.

The GASB also issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* (GASB 68). GASB 68 requires that an employer recognize its obligation for pensions net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation as well as additional notes to the financial statements regarding the obligation. The new standard is effective for fiscal periods beginning after June 15, 2014. The plan will implement the provisions to support employers with fiscal years ending after June 30, 2014.

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

June 30, 2013
(In thousands)

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
2007	$ 8,662,324	6,739,004	77.8%	$ 1,923,320	1,605,819	119.8%
2008	9,154,282	7,210,772	78.8	1,943,510	1,577,846	123.2
2009	9,702,086	6,108,528	63.0	3,593,558	1,585,490	226.7
2010	10,371,672	6,469,832	62.4	3,901,840	1,586,697	245.9
2011	10,919,047	6,762,149	61.9	4,156,898	1,559,938	266.5
2012	11,428,944	6,530,421	57.1	4,898,523	1,522,399	321.8

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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

June 30, 2013
(In thousands)

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
2007	$11,108,553	3,161,956	28.5%	$ 7,946,597	1,605,819	494.9%
2008	13,013,450	3,829,334	29.4	9,184,116	1,577,846	582.1
2009	12,770,990	4,134,450	32.4	8,636,540	1,585,490	544.7
2010	9,304,504	4,687,632	50.4	4,616,872	1,586,697	291.0
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

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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

June 30, 2013
(In thousands)

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
2007	$ 48	188	391.7%	$ (140)	105,611	(0.1)%
2008	242	1,288	532.2	(1,046)	203,955	(0.5)
2009	403	3,138	778.7	(2,735)	314,118	(0.9)
2010	853	4,801	562.8	(3,948)	421,187	(0.9)
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)

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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

June 30, 2013
(In thousands)

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
2007	$ 803	1,067	132.9%	$ (264)	105,611	(0.2)%
2008	2,123	2,719	128.1	(596)	203,955	(0.3)
2009	4,594	5,475	119.2	(881)	314,118	(0.3)
2010	8,370	8,767	104.7	(397)	421,187	(0.1)
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

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

Note: The decrease in the funding ratio is attributed to adjustments in the retiree medical cost and assumptions, investment experience; changes in census data assumptions, an increase in average age of active members, and an increase in average credited service.

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

June 30, 2013
(In thousands)

		Annual required contribution			Pension percentage contributed			Postemployment healthcare percentage contributed		
Year ended June 30	Actuarial valuation year ended June 30[1]	Pension	Post-employment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2007	2004	$ 268,742	189,495	458,237	73.2%	4.1	77.3	73.2	4.1	77.3
2008	2005	140,729	370,456	511,185	71.2	36.2	107.4	71.2	36.2	107.4
2009	2006	166,016	391,321	557,337	68.1	48.0	116.1	68.1	41.4	109.5
2010[2]	2007	217,080	790,793	1,007,873	65.5	20.5	86.0	31.6	54.8	86.4
2011	2008	220,419	525,075	745,494	63.1	29.6	92.7	49.8	21.6	71.4
2012	2009	351,674	498,433	850,107	52.0	37.2	89.2	44.8	28.8	73.6

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

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

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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

June 30, 2013
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 181	100.0%
2008	1,063	100.0
2009	1,787	100.0
2010	1,495	100.0
2011	1,852	100.0
2012	1,085	146.0

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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

June 30, 2013
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 1,028	100.0%
2008	1,845	85.0
2009	3,152	85.0
2010	3,469	87.0
2011	3,229	78.0
2012	3,464	82.0

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Notes to Required Supplemental Information (Unaudited)

June 30, 2013

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

Defined Benefit Plan

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2012 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level dollar amount. This represents a change from the level percentage of payroll amortization method effective June 30, 2012. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

(b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four 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.

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June 30, 2013

(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 experience study, adopted in 2010. 1994 GAM Table, sex-distinct, 1994 Base Year without margin actual mortality experience. 1994 GMA 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. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.

(l) Retirement – Retirement rates based on the 2005-2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others. For Peace Officer/Firefighter, Tier 1 deferred vested members are assumed to retire at age 53 and Tiers 2 and 3 deferred vested members are assumed to retire at age 57.

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

(n) Dependent children – Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.

(o) Contribution refunds – 15% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with 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.

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(q) Post retirement 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 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) Modified cash refund – Benefits for active members are valued using a 3-year certain and life form of payment to account for modified cash refund. For deferred vested and retired members, the certain period equals their account balance divided by their pension benefit amount.

(v) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY13 medical and prescription are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,856	2,736
Medicare Part A and B	1,628	2,736
Medicare Part B Only	6,219	2,736
Medicare Part D	N/A	535

(w) Third-party administrator fees – $163.52 per person per year; assumed trend rate of 5% per year.

(x) 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.

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(y) 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, 9.0% is applied to the FY13 pre-Medicare medical claims costs to get the FY14 medical claims cost.

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2013	9.0%	6.5	6.4
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
2025	6.0	6.0	5.8
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. This model has been adopted by the Society of Actuaries and has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline cost for year 2015. Using this value as the base cost, the model projects per-person expenditures and growth rates through 2100 using a set of equations and assumptions developed by the author with the assistance of a State of Alaska working group. The user can then use the model input cells to specify alternative assumptions regarding responsiveness to external trends, income growth, and other factors to arrive at alternative projections. The model provisionally uses default short-term annual projected by CMS for years 2011 – 2015 (4% to 6%), but users may input their own estimates for these model years. In this model, cost controls can be simulated in two ways: by specifying a Share Restriction Point, a percentage of GDP represented by healthcare and above which the current trends will be reduced; or by specifying limit year which the rate of growth in healthcare costs will be reduced to match the rate of growth in per capita income (as both CMS and CBO assume). While this model is not directly applicable, it was used for a reference point in the ultimate pharmacy trend. The Actuary set pharmacy based upon recent plan and industry experience and grade down slowly in the select period (similar to post-65 medical trend) to an ultimate trend rate based upon what the Actuary is seeing for medical trend and consistent within the industry.

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The following table compares plan-specific inputs and the model's baseline assumptions for key assumptions as of June 30, 2012:

		Alaska-specific values	
Key assumption	**Base line value**	**Pre- medicare medical**	**Medicare medical**
HCCTR 2012-2013	4.6 %	9.0%	6.1%
HCCTR 2013-2014	7.4	8.0	5.8
HCCTR 2014-2015	5.0	7.0	5.5
2015 GDP % of healthcare	18.3	17.9	17.9
2015 PCCC	$10,000	$10,295	$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	1.7	1.5	1.5
Income Multiplier	1.40	1.30	1.30
Taste/Technology	1.1	1.1	1.1
Max GDP as % of healthcare	25.0	25.0	25.0
Year reached	2075	2075	2075

Future (2026+) assumptions for inflation (2.4% for 2026-3025 and 2.3% thereafter), real GDP (1.5%), income multiplier (1.05 for 2026-3025 and 1.00 thereafter), and technology (0.9% for 2026 – 3025 and 0.8% thereafter) were not changed from the baseline inputs.

(z) 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+	—	—

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(aa) 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 FY13 contributions based on monthly rates shown below for calendar 2012 and 2013 are assumed based on the coverage category for current retirees. The retiree only 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 and are projected to have single coverage. The retiree and spouse rate shown below is used for those projected to have a covered spouse:

	Calendar 2013		Calendar 2012
Coverage category	**Annual contribution**	**Monthly contribution**	**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

Contribution rates for all coverage tiers and weighted average are provided for reference purposes.

(bb) 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, 8.4% is applied to the FY13 retired member medical contributions to get the FY14 retired member medical contributions.

Fiscal year	Medical
2013	8.4%
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 FY13 retired member medical contributions are reflected in the valuation so trend on such contribution during FY13 is not applicable.

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(cc) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 100% of those who retired prior to age 60 and actually declined coverage, or who are assumed to decline nonsystem-paid coverage, are assumed to reenroll at age 60 (when all coverage is system-paid for retirees included in this report).

Defined Contribution Retirement Plan

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2012 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. 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 market 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.

(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, 2012 for defined benefit pension and postemployment healthcare benefit plan (PERS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include 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, FY12 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.

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(h) Mortality (pre termination) – Peace Officer/Firefighter: Based upon the 2005 – 2009 actual mortality experience of the PERS DB Plan. 80% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 60% for females. Others: Based upon the 2005-2009 actual mortality experience of the PERS DB Plan. 75% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 55% for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.

(i) Mortality (post termination) – 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with one-year set-forward for females. 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.

(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

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(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 FY13 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,856	2,736
Medicare Part A and B	1,628	2,736
Medicare Part B Only	6,219	2,736
Medicare Part D	N/A	535

(q) Third-party administrator fees – $163.52 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.

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(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, 9.0% is applied to the FY13 pre-Medicare medical claims cost to get the FY14 medical claims costs:

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
2013	9.0%	6.5	6.4
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
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2025	6.0	6.0	5.8
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

For the June 30, 2012 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012 and projects out to 2100. This model has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline costs for year 2015. Using this value as the base cost, the model projects per-person expenditures and growth rates through 2100 using a set of equations and assumptions developed by the author with the assistance of a State of Alaska working group. The user can then use the model input cells to specify alternative assumptions regarding responsiveness to external trends, income growth, and other factors to arrive at alternative projections. The model provisionally uses default short-term annual projected by CMS for years 2011 – 2015 (4% to 6%), but users may input their own estimates for these model years. In this model, cost controls can be simulated in two ways: by specifying a Share Restriction Point, a percentage of GDP represented by healthcare and above which the current trends will be reduced; or by specifying limit year which the rate of growth in healthcare costs will be reduced to match the rate of growth in per capita income (as both CMS and CBO assume). While this model is not directly applicable, it was used for a reference point in the ultimate pharmacy trend. The Actuary set pharmacy trend based upon recent plan and industry experience and grade down slowly in the select period (similar to post-65 medical trend) to an ultimate trend rate based upon what Actuary are seeing for medical trend and consistent within the industry.

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The following table compares plan-specific inputs and the model's baseline assumptions for key assumptions as of June 30, 2012:

		Alaska-Specific Values	
Key assumption	**Base line value**	**Pre- medicare medical**	**Medicare medical**
HCCTR 2012-2013	4.6%	9.0%	6.1%
HCCTR 2013-2014	7.4	8.0	5.8
HCCTR 2014-2015	5.0	7.0	5.5
2015 GDP % of healthcare	18.3	17.9	17.9
2015 PCCC	$10,000	$10,295	$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	1.7	1.5	1.5
Income Multiplier	1.40	1.30	1.30
Taste/Technology	1.1	1.1	1.1
Max GDP as % of healthcare	25.0	25.0	25.0
Year reached	2075	2075	2075

Future (2026+) assumptions for inflation (2.4% for 2026-3025 and 2.3% thereafter), real GDP (1.5%), income multiplier (1.05 for 2026 – 3025 and 1.00 thereafter), and technology (0.9% for 2026-3025 and 0.8% thereafter) were not changed from the baseline inputs.

(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+	—	—

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(u) Retiree medical participation:

Decrement due to disability		Decrement due to retirement		
Age	Percent participation	Age		Percent 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+	94.00	65+	Years of service	
			<15	70.5%
			15-19	75.2
			20-24	79.9
			25-29	89.3
			30+	94.0

Updated 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.

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Changes in Methods from the Last Valuation

Defined Benefit Plan

There was one change in actuarial valuation methods in the DB plan as well as the changes described in the DB healthcare sections. Amortization of any funding surpluses or unfunded accrued liability was changed from a level percent of pay amount to a level dollar amount.

Defined Contribution Retirement Plan

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

Changes in Assumptions since the Last Valuation

Defined Benefit Plan

There have been no changes in actuarial assumptions since the prior valuation, except for the assumption regarding healthcare cost trend rates. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend, and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend. The actuary also updated participant contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

Defined Contribution Retirement Plan

There have been changes in actuarial assumptions since the prior valuation regarding healthcare cost trend rates and the DCR retiree medical plan adjustments. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend, and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend. The actuary also updated member contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

To account for anticipated plan design features, FY12 claims costs adjustments were changed from 5.9% for medical and 0.7% for prescription drugs to 11.9% and 7.1%, respectively. Retiree out-of-pocket amounts were indexed 0.2% each year, compared to 4.8% last year. Participation rates were reduced to reflect the proportion of retirees expected to have access to alternative options in the Medicare market as well as the time from retirement to Medicare-eligibility where a member pays full cost.

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3. Contributions – State of Alaska

Alaska Statute 39.35.280 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 22.00%, 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 2013 (based on the June 30, 2010 actuarial valuation report), the normal cost rate increased from 8.28% to 8.67%, the past service rate increased from 22.48% to 24.16%, thus producing a total actuarially determined contribution rate of 32.83% for fiscal year 2013. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DCR Plan, which was 3.01% for fiscal year 2013. This calculation provided a fiscal year 2013 actuarially determined employer contribution rate of 35.84%. The Board adopted the actuarially determined contribution rate of 35.84% for fiscal year 2013.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions
Defined Benefit Plan

Year ended June 30, 2013 and 2012
(In thousands)

			Totals	
	Administrative	Investment	2013	2012
Personal services:				
Wages	$ 3,436	186	3,622	3,311
Benefits	2,094	74	2,168	2,034
Total personal services	5,530	260	5,790	5,345
Travel:				
Transportation	41	98	139	178
Per diem	8	51	59	27
Total travel	49	149	198	205
Contractual services:				
Management and consulting	7,498	24,417	31,915	28,599
Accounting and auditing	40	693	733	827
Data processing	1,130	505	1,635	1,427
Communications	116	37	153	146
Advertising and printing	57	8	65	93
Rentals/leases	305	53	358	345
Legal	307	58	365	300
Medical specialists	46	—	46	27
Repairs and maintenance	7	11	18	20
Transportation	98	1	99	115
Other services	126	31	157	369
Total contractual services	9,730	25,814	35,544	32,268
Other:				
Equipment	40	15	55	165
Supplies	96	47	143	325
Total other	136	62	198	490
Total administrative and investment deductions	$ 15,445	26,285	41,730	38,308

See Supplemental Information in *Independent Auditors' Report*.

Schedule 2

STATE OF ALASKA
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Schedule of Administrative Deductions
Defined Contribution Retirement Trust Plan

Year ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Personal services:		
Wages	$ 307	215
Benefits	194	138
Total personal services	501	353
Travel:		
Transportation	9	7
Per diem	2	1
Total travel	11	8
Contractual services:		
Management and consulting	1,221	987
Accounting and auditing	26	18
Data processing	75	39
Communications	10	9
Advertising and printing	1	—
Rentals/leases	27	18
Legal	9	3
Repairs and maintenance	—	1
Other services	5	6
Total contractual services	1,374	1,081
Other:		
Equipment	4	6
Supplies	8	14
Total other	12	20
Total administrative deductions	$ 1,898	1,462

See Supplemental Information in *Independent Auditors' Report*.

Schedule 3

STATE OF ALASKA
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Schedule of Payments to Consultants Other than Investment Advisors

Year ended June 30, 2013 and 2012
(In thousands)

Firm	Services	2013	2012
Buck Consultants, an ACS Company	Actuarial services	$ 554	$ 699
KPMG LLP	Auditing services	42	53
State Street Bank Corporation	Custodian banking services	668	758
Applied Microsystems Inc.	Data processing consultants	81	—
Computer Task Group Inc.	Data processing consultants	199	534
Mythics Inc.	Data processing consultants	77	—
Six Degrees Consulting	Data processing consultants	17	122
Wostmann Group LLC	Data processing consultants	48	34
State of Alaska, Department of Law	Legal services	312	250
Michael Silverman	Management consulting services	44	—
The Wilson Agency LLC	Management consulting services	28	—
World Wide Technology Holding Co.	Management consulting services	—	21
State of Alaska, Department of Health and Social Services	Medical expertise and counsel	31	—
		$ 2,101	$ 2,471

See Supplemental Information in *Independent Auditors' Report*.