



FINANCIAL SECTION



ALASKA DIVISION OF
**Retirement
and Benefits**



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

Independent Auditors' Report

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

We have audited the accompanying combining financial statements of the State of Alaska Public Employees' Retirement System (the System), a component unit of the State of Alaska, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Public Employees' Retirement System as of June 30, 2021, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

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Other Matters

Prior-Year Comparative Information

We have previously audited the System's 2020 combining financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15–25 and the schedules of changes in employer net pension and other postemployment benefits liabilities and related ratios, schedules of employer and nonemployer contributions, and schedules of investment returns on pages 50–73 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 Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules on pages 75–76 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 20, 2021

State of Alaska

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

Management's Discussion and Analysis (Unaudited)

June 30, 2021

This section presents management's discussion and analysis (MD&A) of the State of Alaska Public Employees' Retirement System's (the System) financial position and performance for the years ended June 30, 2021 and 2020. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the System during the fiscal years ended June 30, 2021 and 2020. Information for fiscal year 2019 is presented for comparative purposes.

Financial Highlights

The System's financial highlights for the year ended June 30, 2021 were as follows:

- The System's fiduciary net position restricted for pension benefits, postemployment healthcare benefits, and individuals increased by \$5.3 billion.
- The System's plan member and employer contributions increased by \$39.6 million when compared to fiscal year 2020.
- The State of Alaska (the State) directly appropriated \$203.6 million to the System.
- The System's net investment income increased \$5.0 billion when compared to fiscal year 2020, to \$5.7 billion.
- The System's pension benefit expenditures totaled \$921.9 million.
- The System's postemployment healthcare benefit expenditures totaled \$463.9 million.

Overview of the Financial Statements

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

Combining statement of fiduciary net position – This statement presents information regarding the System's assets, liabilities, and resulting net position restricted for pension benefits, postemployment healthcare benefits, and individuals. This statement reflects the System's investments at fair value, along with cash and cash equivalents, receivables, and other assets, less liabilities at June 30, 2021.

Combining statement of changes in fiduciary net position – This statement presents how the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals changed during the fiscal year ended June 30, 2021. 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, 2021, and the sources and uses of those funds during fiscal year 2021.

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 12 schedules and related notes concerning the funded status of the System and actuarial assumptions and methods used in the actuarial valuation.

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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

Description	System net position (In thousands)				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 251,009	193,689	57,320	29.6 %	\$ 370,358
Contributions receivable	12,363	12,148	215	1.8	13,241
Due from State of Alaska General Fund	18,175	16,722	1,453	8.7	32,285
Due from Retiree Health Fund	2	—	2	100.0	—
Other accounts receivable	5,363	137	5,226	3,814.6	3,773
Investments	24,437,912	19,195,879	5,242,033	27.3	18,734,141
Other assets	984	982	2	0.2	982
Total assets	<u>24,725,808</u>	<u>19,419,557</u>	<u>5,306,251</u>	<u>27.3</u>	<u>19,154,780</u>
Liabilities:					
Claims payable	39,972	35,336	4,636	13.1	44,369
Accrued expenses	7,148	2,977	4,171	140.1	11,455
Forfeiture payable to employers	151	653	(502)	(76.9)	2,164
Securities lending collateral payable	57,659	23,049	34,610	150.2	30,489
Total liabilities	<u>104,930</u>	<u>62,015</u>	<u>42,915</u>	<u>69.2</u>	<u>88,477</u>
Net position	<u>\$ 24,620,878</u>	<u>19,357,542</u>	<u>5,263,336</u>	<u>27.2 %</u>	<u>\$ 19,066,303</u>

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Condensed Financial Information (continued)

Changes in system net position (In thousands)

Description	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Net position, beginning of year	\$ 19,357,542	19,066,303	291,239	1.5 %	\$ 18,462,541
Additions:					
Contributions – employers and plan members	810,572	770,926	39,646	5.1	744,612
Contributions – nonemployer State of Alaska	101,383	79,487	21,896	27.5	67,857
Net investment income	5,748,837	777,393	4,971,444	639.5	1,095,977
Employer Group Waiver Plan	52,416	33,212	19,204	57.8	7,076
Medicare Retiree Drug Subsidy	189	—	189	100.0	20,490
Pharmacy rebates	37,936	48,035	(10,099)	(21.0)	36,940
Pharmacy Management Allowance	189	—	189	100.0	—
Other income	1,309	625	684	109.4	1,351
Total additions	<u>6,752,831</u>	<u>1,709,678</u>	<u>5,043,153</u>	<u>295.0</u>	<u>1,974,303</u>
Deductions:					
Pension and postemployment healthcare benefits	1,385,828	1,325,783	60,045	4.5	1,282,149
Refunds of contributions	69,986	59,891	10,095	16.9	60,610
Administrative	33,681	32,765	916	2.8	27,782
Total deductions	<u>1,489,495</u>	<u>1,418,439</u>	<u>71,056</u>	<u>5.0</u>	<u>1,370,541</u>
Increase in net position	<u>5,263,336</u>	<u>291,239</u>	<u>4,972,097</u>	<u>1,707.2</u>	<u>603,762</u>
Net position, end of year	<u>\$ 24,620,878</u>	<u>19,357,542</u>	<u>5,263,336</u>	<u>27.2 %</u>	<u>\$ 19,066,303</u>

Financial Analysis of the System

The statements of fiduciary net position as of June 30, 2021 and 2020 show net position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$24,620,878,000 and \$19,357,542,000, 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.

This represents an increase in the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$5,263,336,000 or 27.2% from fiscal year 2020 to 2021 and of \$291,239,000 or 1.5% from fiscal year 2019 to 2020. Over the long term, plan member, employer, and nonemployer contributions, as well as investment income earned, are anticipated to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

During the 31st Alaska State Legislature and as part of the State's Fiscal Year 2021 Operating Budget, House Bill 205 appropriated \$203,585,000 from the General Fund and the Budget Reserve Fund to the Department of Administration for deposit in the Defined

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Benefit Pension fund. The amount of the appropriation allocated to the State as an employer is included in Contributions – Employer. The remaining appropriation is reported as Contributions – Nonemployer State of Alaska.

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

System Asset Allocation

During fiscal years 2021 and 2020, the Board adopted the following asset allocation for the Defined Benefit Pension Plan (DB Plan), Alaska Retiree Healthcare Trust (ARHCT Plan), and Defined Contribution Retirement Pension Plan's (DCR Plan) retiree medical plan, health reimbursement arrangement fund, and occupational death and disability fund:

	2021		2020	
	Pension and Healthcare Trusts		Pension and Healthcare Trusts	
	Allocation	Range	Allocation	Range
Broad domestic equity	28.0%	± 6%	26.0%	± 6%
Global equity (ex-U.S.)	19.0	± 4	18.0	± 4
Fixed income	22.0	± 10	24.0	± 10
Opportunistic	6.0	± 4	8.0	± 4
Real assets	13.0	± 7	13.0	± 7
Private equity	12.0	± 6	11.0	± 6
Total	100.0%		100.0%	
Expected return 20-year geometric mean	7.13%		7.13%	
Projected standard deviation	13.55		13.80	

For fiscal years 2021 and 2020, the DB Pension Plan's investments generated a 27.62% and 3.83% rate of return, respectively. For fiscal years 2021 and 2020, the Alaska Retiree Healthcare Trust Plan's investments generated a 27.71% and 3.90% rate of return, respectively.

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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 appropriation, investment income, and other additions as follows:

	Additions (In thousands)				2019
	2021	2020	Increase (decrease)		
			Amount	Percentage	
Contributions – plan members	\$ 188,469	183,638	4,831	2.6%	\$ 179,604
Contributions – employers	622,103	587,288	34,815	5.9	565,008
Contributions – nonemployer					
State of Alaska	101,383	79,487	21,896	27.5	67,857
Net investment income	5,748,837	777,393	4,971,444	639.5	1,095,977
Employer group waiver plan	52,416	33,212	19,204	57.8	7,076
Medicare retiree drug subsidy	189	—	189	100.0	20,490
Pharmacy rebates	37,936	48,035	(10,099)	(21.0)	36,940
Pharmacy Management Allowance	189	—	189	100.0	—
Other income	1,309	625	684	109.4	1,351
Total	\$ 6,752,831	1,709,678	5,043,153	295.0%	\$ 1,974,303

The System's employer contributions increased from \$587,288,000 in fiscal year 2020 to \$622,103,000 in fiscal year 2021, an increase of \$34,815,000 or 5.9%. The System's employer contributions increased from \$565,008,000 in fiscal year 2019 to \$587,288,000 in fiscal year 2020, an increase of \$22,280,000 or 3.9%. The increase in employer contributions for both fiscal year 2021 and 2020 are attributed to increases in member salaries.

The State provided \$101,383,000 and \$79,487,000 for fiscal years 2021 and 2020, respectively, in nonemployer contributions per Alaska Statute (AS) 39.35.280. The employer on-behalf amount (or additional State contributions as defined in AS 39.35.280) is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The employer effective contribution rate of 22.00% is established in AS 39.35.255(a).

The System's net investment income in fiscal year 2021 increased by \$4,971,444,000 or 639.5% from amounts in fiscal year 2020. The System's net investment income in fiscal year 2020 decreased by \$318,584,000 or 29.1% from amounts in fiscal year 2019. The investment returns received in fiscal year 2021 were higher than the returns seen in fiscal year 2020, causing an increase in investment income in comparison between 2021 and 2020. Over the long term, investment earnings play a significant role in funding Plan benefits. The Board continues to look at investment classes and strategies best suited to meet the expected earnings returns to meet future benefit payments.

Effective January 1, 2019, the Division of Retirement and Benefits (the Division) implemented a group Medicare Part D prescription drug plan known as an enhanced Employer Group Waiver Plan (EGWP) for all Medicare-eligible members covered under the Plan. During fiscal year 2021, the Plan received \$52,416,000 in EGWP funds from the Center of Medicare and Medicaid Services (CMS) through the EGWP Plan Sponsor, OptumRx.

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Pharmacy rebates are reimbursed to the Plan by the third-party administrators. These rebates are recorded as revenue when received by the Plan. During fiscal year 2021, the Plan received \$37,936,000 in pharmacy rebates compared to \$48,035,000 from fiscal year 2020. The decrease is due to the timing of receipt of funds.

The DB Pension Plan's investment rates of return for the year ended June 30 were as follows:

	Year ended		
	2021	2020	2019
Plan returns	27.62 %	3.83 %	6.40 %
Broad domestic equity	42.69	2.62	8.41
Global equity (ex-U.S.)	38.54	(3.59)	(0.08)
Fixed income	2.20	7.31	6.34
Opportunistic	23.86	0.52	7.21
Real assets	9.86	2.06	6.08
Absolute return	—	—	4.08
Private equity	50.67	10.47	17.66
Cash equivalents	—	—	2.50
Actuarially assumed rate of return	7.38	7.38	7.38

The Alaska Retiree Healthcare Trust Plan's investment rates of return for the year ended June 30 were as follows:

	Year ended		
	2021	2020	2019
Plan returns	27.71 %	3.90 %	6.44 %
Broad domestic equity	42.69	2.62	8.41
Global equity (ex-U.S.)	38.57	(3.59)	(0.09)
Fixed income	2.20	7.37	6.34
Opportunistic	23.86	0.51	7.20
Real assets	10.00	2.36	6.20
Absolute return	—	—	4.08
Private equity	50.67	10.52	17.66
Cash equivalents	—	—	2.50
Actuarially assumed rate of return	7.38	7.38	7.38

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Benefits and Other Deductions

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

	Deductions (In thousands)				2019
	2021	2020	Increase (decrease)		
			Amount	Percentage	
Pension benefits	\$ 921,899	885,252	36,647	4.1%	\$ 837,381
Postemployment benefits	463,929	440,531	23,398	5.3	444,768
Refunds of contributions	69,986	59,891	10,095	16.9	60,610
Administrative	33,681	32,765	916	2.8	27,782
Total	\$ 1,489,495	1,418,439	71,056	5.0%	\$ 1,370,541

The System's DB pension benefit payments in 2021 increased \$36,647,000 or 4.1% from fiscal year 2020, which increased \$47,871,000 or 5.7% from fiscal year 2019. The increase in pension benefits in fiscal year 2021 is the result of a continued increase in the number of retirees and an increase in average pension benefits.

The System's postemployment healthcare benefit payments in fiscal year 2021 increased \$23,398,000 or 5.3% from fiscal year 2020, which decreased \$4,237,000 or 1.0% from fiscal year 2019. During fiscal year 2021, the System saw an increase in postemployment benefits as the number of retirees in the DB Plan continues to increase. The increase in retirees is offset by those retirees who transition over to Medicare due to age, and costs shift from the System to Medicare. The System continues to look at ways for cost containment while providing benefits applicable to the plan.

The System's refund of contributions increased \$10,095,000 or 16.9% from fiscal year 2020 to 2021 and decreased \$719,000 or 1.2% from fiscal year 2019 to 2020. The increase in refunds is entirely in the DCR Plan, where refunds increased \$12,259,000 between fiscal year 2020 to 2021 and decreased \$352,000 between fiscal year 2019 to 2020. Increases in refunds are attributed to the increase in the number of DCR Plan member accounts and higher member balances being refunded, as such refunds are the primary intended purpose of these balances. The System continues to look at ways to retain member contributions by emphasizing the low investment costs to members to maintain funds within the DCR Plan, with a number of investment options available.

The System's administrative costs in fiscal year 2021 increased \$916,000 or 2.8% from fiscal year 2020 and increased \$4,983,000 or 17.9% from fiscal year 2019 to 2020. The increased administrative cost in fiscal years 2021 and 2020 is primarily the management and consulting fees paid related to the retirement system modernization project, which is a total replacement of the existing legacy system.

Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, requires the DB Plan to report the total pension liability, fiduciary net position, and net pension liability. The total pension liability represents the total obligation for the Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The Plan's fiduciary net position

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represents the assets available to pay the Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the Plan. The difference between the total pension liability and fiduciary net position is the net pension liability, or the unfunded portion of the total pension liability.

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

	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 15,580,808	15,370,337
Plan fiduciary net position	(11,912,309)	(9,469,161)
Employers' net pension liability	<u>\$ 3,668,499</u>	<u>5,901,176</u>
Plan fiduciary net position as a percentage of the total pension liability	76.46 %	61.61 %

Net OPEB (Asset) Liability

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, requires the DB Other Postemployment Benefit (OPEB) Plans to report the total OPEB liability, fiduciary net position, and net OPEB liability for each plan. The total OPEB liability represents the total obligation for the Plan's postemployment healthcare benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The Plan's fiduciary net position represents the assets available to pay the OPEB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the Plans. The difference between the total OPEB liability and fiduciary net position is the net OPEB liability (asset), or the unfunded (overfunded) portion of the total OPEB liability.

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The components of the net OPEB asset of the participating employers of the Plans as of June 30, 2021 were as follows (in thousands):

	Alaska Retiree Healthcare Trust Plan (ARHCT Plan)	Occupational Death and Disability (ODD Plan)	Retiree Medical Plan (RMP)
Total OPEB liability	\$ 7,218,787	16,072	177,713
Plan fiduciary net position	(9,784,141)	(60,146)	(204,555)
Employers' net OPEB asset	<u>\$ (2,565,354)</u>	<u>(44,074)</u>	<u>(26,842)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	135.54 %	374.23 %	115.10 %

The components of the net OPEB liability (asset) of the participating employers of the Plans as of June 30, 2020 were as follows (in thousands):

	Alaska Retiree Healthcare Trust Plan (ARHCT Plan)	Occupational Death and Disability (ODD Plan)	Retiree Medical Plan (RMP)
Total OPEB liability	\$ 7,360,653	14,831	148,662
Plan fiduciary net position	(7,813,511)	(42,091)	(141,569)
Employers' net OPEB liability (asset)	<u>\$ (452,858)</u>	<u>(27,260)</u>	<u>7,093</u>
Plan fiduciary net position as a percentage of the total OPEB liability	106.15 %	283.80 %	95.23 %

Funding

Retirement benefits are financed by accumulations from employers, plan members, State nonemployer contributions, and income earned on System investments:

- The employer contribution rate is adopted and set by the Board annually based on actuarial determinations made by the System's consulting actuary as reviewed by the Board's contracted actuary. AS 39.35.255(a) sets the employer effective contribution rate at 22.00%. The difference between the actuarially determined contribution rate adopted by the Board and the statutory employer effective rate is paid by the State as a direct appropriation per AS 39.35.280.

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- AS 39.35.280 provides 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.
- Plan member contributions are set by AS 39.35.160 for the DB Plan and AS 39.35.730 for the DCR Plan.
- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2021, the 32nd Alaska State Legislature enacted one law that affects the System. Conference Committee Substitute First Special Session House Bill 69, Section 73(b), appropriates \$97.7 million from the General Fund to the Department of Administration for deposit in the System's defined benefit plan account as partial payment of the participating employers' contribution for fiscal year ending June 30, 2022.

This appropriation is to fund the difference between the statutory employer required contribution of 22% paid by participating employers for both defined benefit and defined contribution members and the actuarially determined contribution rate adopted by the Board for that fiscal year. This additional state contribution is specified in AS 39.35.280 – Additional State Contributions.

Senate Bill 55 (SB 55), an Act relating to employer contributions to the System, made changes to Alaska Statute (AS) 39.35.255 that indicated the State of Alaska, as a participating employer, shall contribute to the System every payroll period an amount sufficient to pay the full actuarially determined employer normal cost, all contributions required under AS 39.30.370 (HRA) and AS 39.35.750 (all DCR costs – employer match, ODD, RMP), and past service costs for members at the contribution rate adopted by the Board under AS 37.10.220 for the fiscal year for that payroll period. The State of Alaska, as an employer, will pay the full actuarial determined employer contribution rate adopted by the Board for each fiscal year effective July 1, 2021.

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

Fiscal year 2021 had positive investment returns. Net investment income increased from \$777,393,000 in fiscal year 2020, to \$5,748,837,000 in fiscal year 2021, an increase of \$4,971,444,000 or 639.5%. During fiscal year 2021, the System's actual rate of return on investments of 27.62% was above the 7.38% actuarially assumed rate of return. The Board continues to work with its investment counsel and the Alaska Department of Revenue, Treasury Division, to diversify the portfolio of the System to maintain an optimal risk/return ratio.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 30.85% in fiscal year 2021 to 30.11% in fiscal year 2022. The Board adopted the fiscal year 2022 actuarially determined contribution rate of 30.11%, which represented a decrease of 0.74%. The statutory employer effective contribution rate remains at 22% for fiscal years 2022 and 2021. With the passing of SB 55, the State of Alaska as an employer will begin paying the full actuarial rate beginning July 1, 2021, or 30.11%.

The June 30, 2020 and 2019 actuarial valuation reports for the DB Plan reported funding ratios based on valuation assets of 79.3% and 78.4%, respectively, as well as unfunded liabilities of \$4.6 billion and \$4.8 billion, respectively.

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For fiscal years 2022 and 2021, the DCR Plan's employer contribution rate was established by AS 39.35.255(a) at 22.00%, except for the State of Alaska as modified by SB 55. The DCR Plan's actuarially determined occupational death and disability rate was adopted by the Board for fiscal years 2022 and 2021 to be 0.68% and 0.70%, respectively, for peace officers/firefighters; and 0.31% for all others. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board for fiscal years 2022 and 2021 to be 1.07% and 1.27%, respectively.

Requests for Information

This financial report is designed to provide a general overview for those parties interested in the System's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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

Questions concerning any of the investment information provided in this report or requests for additional investment information should be addressed to:

State of Alaska
Department of Revenue, Treasury Division
P.O. Box 110405
Juneau, Alaska 99811-0405

Financial Section

State of Alaska

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

Combining Statement of Fiduciary Net Position

June 30, 2021

(With summarized financial information for June 30, 2020)

(In thousands)

	Defined benefit pension	Defined contribution pension	Occupational/Other postemployment benefit plans				System total June 30, 2021	System total June 30, 2020
			Alaska Retiree Healthcare Trust	death and disability	Retiree medical	Health reimbursement arrangement		
Assets:								
Cash and cash equivalents:								
Short-term fixed-income pool	\$ 105,905	2,993	74,250	621	2,101	6,704	192,574	169,589
Empower money market fund – non-participant directed	—	776	—	—	—	—	776	1,051
Securities lending collateral	30,277	—	25,000	150	513	1,719	57,659	23,049
Total cash and cash equivalents	136,182	3,769	99,250	771	2,614	8,423	251,009	193,689
Receivables:								
Contributions	12,363	—	—	—	—	—	12,363	12,148
Due from State of Alaska General Fund	4,092	7,962	2,643	261	909	2,308	18,175	16,722
Due from Retiree Health Fund	2	—	—	—	—	—	2	—
Other accounts receivable	155	—	5,207	—	1	—	5,363	137
Total receivables	16,612	7,962	7,850	261	910	2,308	35,903	29,007
Investments, at fair value:								
Fixed-income securities:								
Alternative fixed income pool	291,246	—	240,729	1,463	4,978	16,671	555,087	552,288
Barclays aggregate bond fund	1,697,168	—	1,402,791	8,530	29,009	97,146	3,234,644	2,755,701
Opportunistic fixed income pool	424,939	—	351,232	2,136	7,263	24,323	809,893	584,618
Total fixed-income securities	2,413,353	—	1,994,752	12,129	41,250	138,140	4,599,624	3,892,607
Broad domestic equity:								
Large cap pool	3,010,244	—	2,488,112	15,129	51,452	172,307	5,737,244	4,505,145
Small cap pool	255,086	—	210,841	1,282	4,360	14,601	486,170	398,109
Total broad domestic equity	3,265,330	—	2,698,953	16,411	55,812	186,908	6,223,414	4,903,254
Global equity ex-U.S.:								
International equity pool	1,799,583	—	1,487,442	9,045	30,759	103,008	3,429,837	2,797,787
Emerging markets equity pool	382,294	—	315,985	1,921	6,534	21,883	728,617	585,051
Total global equity ex-U.S.	2,181,877	—	1,803,427	10,966	37,293	124,891	4,158,454	3,382,838
Opportunistic:								
Alternative beta pool	109,666	—	90,644	551	1,874	6,277	209,012	202,553
Alternative equity pool	137,333	—	113,512	691	2,347	7,861	261,744	192,966
Other opportunities pool	7,199	—	5,950	36	123	412	13,720	25,095
Tactical allocation strategies pool	441,276	—	364,736	2,218	7,542	25,259	841,031	555,370
Total opportunistic	695,474	—	574,842	3,496	11,886	39,809	1,325,507	975,984
Private equity pool	1,770,792	—	1,463,644	8,900	30,267	101,360	3,374,963	2,218,664
Real assets:								
Real estate pools	541,245	—	448,327	2,726	9,271	31,047	1,032,616	903,601
Real estate investment trust pool	190,926	—	157,810	960	3,263	10,929	363,888	201,843
Infrastructure private pool	263,006	—	217,387	1,322	4,495	15,055	501,265	446,079
Energy pool	21,942	—	18,136	110	375	1,256	41,819	44,641
Farmland pool	317,463	—	262,399	1,596	5,426	18,172	605,056	591,685
Timber pool	129,417	—	106,970	651	2,212	7,408	246,658	239,733
Total real assets	1,463,999	—	1,211,029	7,365	25,042	83,867	2,791,302	2,427,582
Other investment funds:								
Participant directed at fair value:								
Collective investment funds	—	621,217	—	—	—	—	621,217	493,292
Pooled investment funds	—	1,227,154	—	—	—	—	1,227,154	825,612
Participant directed at contract value:								
Synthetic investment contracts	—	116,277	—	—	—	—	116,277	76,046
Total other investment funds	—	1,964,648	—	—	—	—	1,964,648	1,394,950
Total investments	11,790,825	1,964,648	9,746,647	59,267	201,550	674,975	24,437,912	19,195,879
Other assets								
	17	—	967	—	—	—	984	982
Total assets	11,943,636	1,976,379	9,854,714	60,299	205,074	685,706	24,725,808	19,419,557
Liabilities:								
Claims payable	—	—	39,972	—	—	—	39,972	35,336
Accrued expenses	1,050	481	5,601	3	6	7	7,148	2,977
Forfeitures payable to employers	—	151	—	—	—	—	151	653
Securities lending collateral payable	30,277	—	25,000	150	513	1,719	57,659	23,049
Total liabilities	31,327	632	70,573	153	519	1,726	104,930	62,015
Net position restricted for pension benefits, postemployment healthcare benefits, and individuals								
	\$ 11,912,309	1,975,747	9,784,141	60,146	204,555	683,980	24,620,878	19,357,542

See accompanying notes to financial statements.

State of Alaska

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

Combining Statement of Fiduciary Net Position

Year ended June 30, 2021

(With summarized financial information for June 30, 2020)

(In thousands)

	Defined benefit pension	Defined contribution pension	Other postemployment benefit plans				System total June 30, 2021	System total June 30, 2020
			Alaska Retiree Healthcare Trust	Occupational death and disability	Retiree medical	Health reimbursement arrangement		
Additions:								
Contributions:								
Employers	\$ 414,741	67,389	68,191	5,334	18,559	47,889	622,103	587,288
Plan members	70,614	117,855	—	—	—	—	188,469	183,638
Nonemployer State of Alaska	101,383	—	—	—	—	—	101,383	79,487
Total contributions	586,738	185,244	68,191	5,334	18,559	47,889	911,955	850,413
Investment income:								
Net appreciation in fair value	2,688,309	454,492	2,206,394	12,678	42,913	145,188	5,549,974	557,449
Interest	34,448	3	28,254	161	544	1,844	65,254	82,065
Dividends	98,019	—	81,272	464	1,571	5,319	186,645	190,164
Total investment income	2,820,776	454,495	2,315,920	13,303	45,028	152,351	5,801,873	829,678
Less investment expense	26,954	2,922	21,768	123	414	1,405	53,586	52,860
Net investment income before securities lending activities	2,793,822	451,573	2,294,152	13,180	44,614	150,946	5,748,287	776,818
Securities lending income	363	—	298	2	6	19	688	719
Less securities lending expense	73	—	60	—	1	4	138	144
Net income from securities lending activities	290	—	238	2	5	15	550	575
Net investment income	2,794,112	451,573	2,294,390	13,182	44,619	150,961	5,748,837	777,393
Other income:								
Employer group waiver plan	—	—	52,356	—	60	—	52,416	33,212
Medicare retiree drug subsidy	—	—	189	—	—	—	189	—
Pharmacy rebates	—	—	37,901	—	35	—	37,936	48,035
Pharmacy management allowance	—	—	189	—	—	—	189	—
Miscellaneous income	536	148	597	2	7	19	1,309	625
Total other income	536	148	91,232	2	102	19	92,039	81,872
Total additions	3,381,386	636,965	2,453,813	18,518	63,280	198,869	6,752,831	1,709,678
Deductions:								
Pension and postemployment benefits	921,899	—	462,977	431	247	274	1,385,828	1,325,783
Refunds of contributions	8,107	61,879	—	—	—	—	69,986	59,891
Administrative	8,232	5,140	20,206	32	47	24	33,681	32,765
Total deductions	938,238	67,019	483,183	463	294	298	1,489,495	1,418,439
Net increase	2,443,148	569,946	1,970,630	18,055	62,986	198,571	5,263,336	291,239
Net position restricted for pension benefits, postemployment healthcare benefits, and individuals:								
Balance, beginning of year	9,469,161	1,405,801	7,813,511	42,091	141,569	485,409	19,357,542	19,066,303
Balance, end of year	\$ 11,912,309	1,975,747	9,784,141	60,146	204,555	683,980	24,620,878	19,357,542

See accompanying notes to financial statements.

Financial Section

State of Alaska

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

Notes to Financial Statements

June 30, 2021

(1) Description

The State of Alaska Public Employees' Retirement System (PERS or the System) is a component unit of the State of Alaska (the State). The System is administered by the Division of Retirement and Benefits within the Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Alaska Retirement Management Board (the Board) is responsible for overseeing the management and investment of the System. The Board consists of nine trustees as follows: two trustees consisting of the commissioner of administration and the commissioner of revenue, two trustees who are members of the general public, one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS), two trustees who are PERS members, and two trustees who are TRS members.

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

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

At June 30, 2021, the number of participating local government employers and public organizations, including the State, was as follows:

	Defined Benefit Pension	Defined Contribution Pension	OPEB plans
State of Alaska	1	1	1
Municipalities	72	73	73
School districts	52	52	52
Other	25	25	25
Total employers	150	151	151

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

State of Alaska

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

Notes to Financial Statements

June 30, 2021

Defined Benefit Pension Plan

(a) **General**

The Defined Benefit Pension (DB) Plan provides pension benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. With the passage of Senate Bill 141, the DB Plan is closed to all new members effective July 1, 2006.

The DB Plan's membership consisted of the following at June 30, 2021:

Inactive plan members or beneficiaries currently receiving benefits	36,704
Inactive plan members entitled to but not yet receiving benefits	5,112
Inactive plan members not entitled to benefits	10,366
Active plan members	10,066
	<hr/>
Total DB Plan membership	<u>62,248</u>

(b) **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 officers and firefighters, the average monthly compensation is based upon the members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the members' five highest, consecutive years' salaries.

The benefit related to all years of credited service prior to July 1, 1986, and for years of service through a total of 10 years for general members, is equal to 2.00% 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 2.50% for all remaining years of service. For peace officers and firefighters, the benefit for years of service through a total of 10 years is equal to 2.00% of the member's average monthly compensation and 2.50% 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

State of Alaska

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

Notes to Financial Statements

June 30, 2021

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.

(c) Contributions

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan's members' contribution rates are 7.50% for peace officers and firefighters, 9.60% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The statutory employer effective contribution rate is 22.00% of annual payroll, which for fiscal year 2021 is allocated 14.57% to the DB Pension Plan and 7.43% to the DB ARHCT Plan as determined by the actuary of the Plan. Alaska Statute (AS) 39.35.280 provides that the State, as a nonemployer contributing entity, contributes each July 1, or as soon after July 1 for the ensuing fiscal year, an amount that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the Defined Contribution Retirement Pension (DCR) Plan payroll. The DBUL amount is computed as the difference between:

- (A) The amount calculated for the statutory employer contribution rate of 22.00% on eligible salary less
- (B) The total of the employer contributions for:
 - (1) The defined contribution employer matching amount
 - (2) Major medical
 - (3) Occupational death and disability
 - (4) Health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds. For fiscal year 2021, the DBUL is allocated 100.00% to the DB Pension Plan and 0.00% to the DB ARHCT Plan.

(d) 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 have reestablished 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

State of Alaska

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

Notes to Financial Statements

June 30, 2021

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

Defined Contribution Retirement Pension Plan

(a) General

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

At June 30, 2021, membership in the DCR Plan consisted of 2,358 peace officer and firefighter members and 22,129 other members.

(b) Retirement 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.

(c) Contributions

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

(d) Participant Distributions and Refunds of Contributions

A member is eligible to request a refund of contributions from their account 60 days after termination of employment.

(e) Participant Accounts

Participant accounts under the DCR Plan are self-directed with respect to investment options.

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

Record-keeping/administrative fees consisting of a fixed amount, applied in a lump sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account and 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.

Financial Section

State of Alaska

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

Notes to Financial Statements

June 30, 2021

Defined Benefit Other Postemployment Benefit Plans

(a) **Alaska Retiree Healthcare Trust Plan**

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

Membership in the plan consisted of the following at June 30, 2021:

Inactive plan members or beneficiaries currently receiving benefits	36,704
Inactive plan members entitled to but not yet receiving benefits	5,112
Inactive plan members not entitled to benefits	10,366
Active plan members	<u>10,066</u>
Total DB Plan membership	<u><u>62,248</u></u>

(i) **OPEB Benefits**

Major medical benefits to cover medical expenses are provided to retirees and their surviving spouses at no premium cost for all members hired before July 1, 1986 (Tier 1), and disabled retirees. Members hired after June 30, 1986 (Tier 2), and their surviving spouses with 5 years of credited service (or 10 years of credited service for those first hired after June 30, 1996 [Tier 3]) must pay the full monthly premium if they are under age 60 and will receive benefits at no premium cost if they are over age 60. Tier 3 members with between 5 and 10 years of credited service must pay the full monthly premium regardless of their age. Tier 2 and Tier 3 members with less than 5 years of credited service are not eligible for postemployment healthcare benefits. Tier 2 members who are receiving a conditional benefit and are age eligible are eligible for postemployment healthcare benefits. In addition, peace officers and their surviving spouses with 25 years of peace officer membership service and all other members and their surviving spouses with 30 years of membership service receive benefits at no premium cost, regardless of their age or date of hire. Peace officers/firefighters who are disabled between 20 and 25 years must pay the full monthly premium.

(ii) **Contributions**

Employer contribution rates are actuarially determined and adopted by the Board. The 2021 statutory employer effective contribution rate is 22.00% of member's compensation, with 7.43% specifically allocated to ARHCT Plan.

State of Alaska

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

Notes to Financial Statements

June 30, 2021

(b) Occupational Death and Disability Plan

The Occupational Death and Disability Plan (ODD) provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System. Members in the Death and Disability Plan consisted of the following at June 30, 2021:

Active plan members	24,481
Participating employers	151
Open claims	14

(i) 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, then a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

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

The monthly survivor's pension benefit for survivors of DCR Plan employees who were not peace officers or firefighters 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 firefighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the

State of Alaska

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

Notes to Financial Statements

June 30, 2021

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.

(ii) 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 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.

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

(iii) Contributions

An employer shall contribute to each member's account based on the member's compensation. For fiscal year 2021, the rates are 0.70% for occupational death and disability for peace officers and firefighters and 0.31% for occupational death and disability for all other members.

(c) Retiree Medical Plan

The RMP is established under AS 39.35.880 – Medical Benefits. The Department of Administration, Division of Retirement and Benefits, which administers the System's health plans, finalized the Retiree Medical Plan for members eligible for the DCR Plan's health benefits plan in July 2016. The RMP provides major medical coverage to retirees of the DCR Plan. The RMP is self-insured. Members are not eligible to use the plan until they have at least 10 years of service and are Medicare age eligible.

Membership in the RMP was as follows at June 30, 2021:

Inactive plan members or beneficiaries currently receiving benefits	67
Inactive plan members entitled to but not yet receiving benefits	2,082
Inactive plan members not entitled to benefits	16,249
Active plan members	24,481
Total RMP membership	<u>42,879</u>

State of Alaska

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

Notes to Financial Statements

June 30, 2021

(i) OPEB Benefits

The medical benefits available to eligible persons means that an eligible person may not be denied medical coverage except for failure to pay the required premium. Major medical coverage, to cover medical expenses, takes effect on the first day of the month following the date of the RMP administrator's approval of the election and stops when the person who elects coverage dies or fails to make the required premium payment. The coverage for persons 65 years of age or older is the same as that available for persons under 65 years of age. The benefits payable to those persons 65 years of age or older supplement any benefits provided under the federal old age, survivors, and disability insurance program. The medical and optional insurance premiums owed by the person who elects coverage may be deducted from the health reimbursement arrangement account until the account balance becomes insufficient to pay the premiums; at this time, the person who elects coverage shall pay the premiums directly.

The cost of premiums for retiree major medical coverage for an eligible member or surviving spouse who is:

- (1) Not eligible for Medicare is an amount equal to the full monthly group premium for retiree major medical insurance coverage,
- (2) Eligible for Medicare is the following percentage of the premium:
 - (a) 30% if the member had 10 or more, but less than 15, years of service
 - (b) 25% if the member had 15 or more, but less than 20, years of service
 - (c) 20% if the member had 20 or more, but less than 25, years of service
 - (d) 15% if the member had 25 or more, but less than 30, years of service
 - (e) 10% if the member had 30 or more years of service.

(ii) Contributions

Employer contribution rates are actuarially determined and adopted by the Board. The 2021 employer effective contribution rate is 1.27% of member's compensation.

Financial Section

State of Alaska

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

Notes to Financial Statements

June 30, 2021

Defined Contribution Other Postemployment Benefit Plan

(a) General

The Health Reimbursement Arrangement (HRA) Plan is established under AS 39.30.300. The Department of Administration, Division of Retirement and Benefits administers the System's health plans. The HRA Plan allows for medical care expenses to be reimbursed from individual savings accounts established for eligible persons. The HRA Plan became effective July 1, 2006, at which time contributions by employers began.

Membership in the plan was as follows as of June 30, 2021:

Inactive plan members or beneficiaries currently receiving benefits	113
Inactive plan members entitled to but not yet receiving benefits	2,082
Inactive plan members not entitled to benefits	16,249
Active plan members	24,481
Total HRA Plan membership	<u>42,925</u>

(b) OPEB Benefits

Persons who meet the eligibility requirements of AS 39.35.870 are eligible for reimbursements from the individual account established for a member under the HRA Plan but do not have to retire directly from the System.

The Plan Administrator may deduct the cost of monthly premiums from the HRA individual account for the RMP insurance on behalf of an eligible person who elected the retiree major medical insurance under AS 39.35.880. Upon application of an eligible person, the HRA Plan administrator shall reimburse the costs for medical care expenses defined in 26 USC 213(d). Reimbursement is limited to the medical expenses of (1) an eligible member, the spouse of an eligible member, and the dependent children of an eligible member; or (2) a surviving spouse and the dependent children of an eligible member dependent on the surviving spouse. When the member's individual account balance is exhausted, any deductions from the HRA individual account end. If all eligible persons die before exhausting the member's individual account, the account balance reverts to the HRA Plan.

(c) Contributions

An employer shall contribute to the HRA Plan trust fund an amount equal to 3.00% of the average annual compensation of all employees in the TRS and PERS. The administrator maintains a record of each member to account for employer contributions on behalf of that member. The 2021 contribution amount was an annual contribution not to exceed \$2,159.04 and was required for every pay period in which the employee was enrolled in the DCR Plan, regardless of the compensation paid during the year. An amount less than \$2,159.04 would be deposited to a member's account if that member worked less than a full year.

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(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

(c) Defined Benefit Pension and OPEB Investments

The System owns shares in various investment pools that are administered by the State of Alaska, Department of Revenue, Division of Treasury (Treasury). The System's investment in the pools, except for the short-term fixed-income pool, is reported at fair value based on the net asset value reported by the Treasury. The short-term fixed-income pool maintains a share price of \$1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals.

(d) Defined Contribution Participant-Directed Investments

The Board contracts with an external investment manager, through the Treasury, who is given the authority to invest in a wholly owned pooled environment to accommodate 14 participant-directed funds. Additionally, the Board contracts with external managers who manage a mix of collective investment funds and synthetic investment contracts. 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.

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

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

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comprise domestic and international stocks, investment-grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include but are not limited to commercial paper, asset-backed securities, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury instruments.

Synthetic Investment Contracts (SICs) are included in the Plan's statements at contract value. The Board's investment manager entered into the investment contracts, on behalf of the Board, with four financial institutions who provide wrap contracts that cover separately managed SIC portfolios. The accounts are credited with earnings and investment deposits, less administrative expenses charged by the financial institutions and investment withdrawals. They are fully benefit-responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The crediting interest rate is based on the approximate rate of interest that will amortize differences between contract and market value over the portfolio's average duration.

(e) Contributions Receivable

Contributions from the System's members and employers applicable to payrolls received through July 15 for wages paid 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.

(f) Due from State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the System.

(g) Other Income

Other income consists of Medicare Part D Retiree Drug Subsidy (RDS) rebates, Employer Group Waiver Plan (EGWP) rebates, pharmacy rebates, and other miscellaneous items. The RDS are rebates provided to the plan sponsor. The State has elected to voluntarily put the RDS back into the trust and treat it as a contribution for purposes of calculating the net OPEB liability. The EGWP and pharmacy rebates are provided to the Plan through the third-party administrators and are treated as a reduction to the benefit payments for purposes of calculating the net OPEB liability. RDS and pharmacy rebates are recognized on a cash basis.

(h) Administrative Costs

Administrative costs are paid from contributions. The Board has established a funding policy objective that the required contributions be sufficient to pay the plan administrative expenses, normal costs, and past service costs.

(i) Federal Income Tax Status

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

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(3) Investments

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

AS 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, collective investment funds and SICs for the DCR participant-directed pension plans under the Board's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed-Income Pool, Real Estate Investment Trust Pool, and Treasury Inflation-Protected Securities Pool, in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

The short-term fixed-income pool is a State pool managed by Treasury that holds investments on behalf of the Board as well as other State funds.

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Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2021 for the DB Pension Plan is 29.77%, the ARHCT Plan is 30.00%, the ODD Plan is 29.55%, and the RMP is 29.54%.

For additional information on securities lending, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at <http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

(4) Net Pension Liability – Defined Benefit Pension Plan

The components of the net pension liability of the participating employers at June 30, 2021 were as follows (in thousands):

Total pension liability	\$	15,580,808
Plan fiduciary net position		<u>(11,912,309)</u>
Employers' net pension liability	\$	<u>3,668,499</u>
Plan fiduciary net position as a percentage of the total pension liability		76.46%

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(a) Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

Inflation	2.50% per year
Salary increases	For Peace Officer/Firefighter, increases range from 7.75% to 2.75% based on service. For all others, increases range from 6.75% to 2.75% based on service.
Investment rate of return	7.38%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and a real return of 4.88%.
Mortality	Pre-commencement and post-commencement mortality rates were based upon the 2013-2017 actual mortality experience. Pre-commencement mortality rates were based on 100% of the RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. Post-commencement mortality rates were based on 91% of the male rates and 96% of the female rates of the RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. Deaths are assumed to be occupational 75% of the time for peace officer/firefighters, 40% of the time for all others.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017, resulting in changes in actuarial assumptions effective for the June 30, 2018 actuarial valuation adopted by the Board to better reflect expected experience. The actuarial assumptions used in the June 30, 2020 actuarial valuation are the same as those used in the June 30, 2019 actuarial valuation, except the amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from plan assets.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 are summarized in the following table (note that the rates shown below exclude an inflation component of 2.04%).

Asset class	Long-term expected real rate of return
Domestic equity	6.63%
Global equity (non-U.S.)	5.41
Aggregate bonds	0.76
Opportunistic	4.39
Real assets	3.16
Private equity	9.29
Cash equivalents	0.13

(b) Discount Rate

The discount rate used to measure the total pension liability was 7.38%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability in accordance with the method prescribed by GASB 67. In the event benefit payments are not covered by the plan's fiduciary net position, a municipal bond rate would be used to discount the benefit payments not covered by the plan's fiduciary net position. The S&P Municipal Bond 20-Year High Grade Index rate was 2.18% as of June 30, 2021.

(c) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System, as of June 30, 2021, calculated using the discount rate of 7.38%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate (in thousands):

	1.00% decrease (6.38%)	Current discount rate (7.38%)	1.00% increase (8.38%)
Net pension liability	\$ 5,433,558	3,668,499	2,185,623

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(5) Net OPEB Asset

The components of the net OPEB asset of the participating employers for each Plan at June 30, 2021 were as follows (in thousands):

	ARHCT Plan	ODD Plan	RMP
Total OPEB liability	\$ 7,218,787	16,072	177,713
Plan fiduciary net position	(9,784,141)	(60,146)	(204,555)
Employers' net OPEB asset	\$ (2,565,354)	(44,074)	(26,842)
Plan fiduciary net position as a percentage of the total OPEB liability	135.54%	374.23%	115.10%

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(a) Actuarial Assumptions

The total OPEB liability for each plan was determined by actuarial valuations as of June 30, 2020, using the following actuarial assumptions, applied to all periods in the measurement, and rolled forward to the measurement date of June 30, 2021:

Inflation	2.50% per year
Salary increases	Graded by service, from 7.75% to 2.75% for peace officer/firefighter Graded by service, from 6.75% to 2.75% for all others
Investment rate of return	7.38%, net of postretirement healthcare plan investment expenses. This is based on an average inflation rate of 2.50% and a real return of 4.88%.
Healthcare cost trend rates (ARHCT Plan and RMP)	Pre-65 medical: 6.5% grading down to 4.5% Post-65 medical: 5.4% grading down to 4.5% Prescription drug: 7.5% grading down to 4.5% EGWP: 7.5% grading down to 4.5%
Mortality (ARHCT Plan, ODD Plan and RMP)	Pre-commencement and post-commencement mortality rates were based upon the 2013–2017 actual mortality experience. Post-commencement mortality rates were based on 91% of the male rates and 96% of the female rates of the RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. The rates for pre-commencement mortality were 100% of the RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.
(ODD Plan)	Deaths are assumed to be occupational 75% of the time for peace officers/firefighters, 40% of the time for all others. Disability mortality in accordance with the RP-2014 Disabled Table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017, resulting in changes in actuarial assumptions effective for the June 30, 2018 actuarial valuation adopted by the Board to better reflect expected experience. The assumptions used in the June 30, 2020 actuarial valuation are the same as those used in the June 30, 2019 valuation with the following exceptions:

1. Per capita claims costs were updated to reflect recent experience.
2. Retired member contributions were updated to reflect the 5% decrease from calendar year (CY) 20 to CY21.

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3. The amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from plan assets.

The long-term expected rate of return on postretirement healthcare plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the postretirement healthcare plan's target asset allocation as of June 30, 2021 are summarized in the following table (note that the rates shown below exclude an inflation component of 2.04%):

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Broad domestic equity	6.63%
Global equity (non-U.S.)	5.41
Aggregate bonds	0.76
Opportunistic	4.39
Real assets	3.16
Private equity	9.29
Cash equivalents	0.13

(b) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2021 was 7.38%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the postretirement healthcare plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on postretirement healthcare plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability in accordance with the method prescribed by GASB 74. In the event benefit payments are not covered by the Plan's fiduciary net position, a municipal bond rate would be used to discount the benefit payments not covered by the plan's fiduciary net position. The S&P Municipal Bond 20-Year High Grade Index rate was 2.18% as of June 30, 2021.

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(c) Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB asset as of June 30, 2021, calculated using the discount rate of 7.38%, as well as what the System's net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate (in thousands):

	1.00% decrease (6.38%)	Current discount rate (7.38%)	1.00% increase (8.38%)
ARHCT Plan	\$ (1,677,703)	(2,565,354)	(3,302,482)
ODD Plan	(42,202)	(44,074)	(45,563)
RMP	17,519	(26,842)	(60,348)

(d) Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB asset as of June 30, 2021, calculated using the healthcare cost trend rates as summarized in the 2020 actuarial valuation report, as well as what the System's net OPEB liability (asset) would be if it were calculated using trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates (in thousands):

	1.00% decrease	Current healthcare cost trend rate	1.00% increase
ARHCT Plan	\$ (3,388,772)	(2,565,354)	(1,571,703)
ODD Plan	N/A	N/A	N/A
RMP	(65,144)	(26,842)	25,347

(6) Claims Payable

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

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

	2021	2020
Total, beginning of year	\$ 35,336	44,369
Healthcare benefits	463,224	439,883
Benefits paid	(458,588)	(448,916)
Total, end of year	\$ 39,972	35,336

(7) Commitments and Contingencies

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

The System is a defendant in a class action lawsuit against the State alleging that the passage of Senate Bill (SB) 141 violated the Alaska Constitution by extinguishing a former member's ability to re-enter the PERS / TRS defined benefits plan. According to SB 141, a PERS / TRS defined benefit former member would have to re-employ into an eligible defined benefit position by June 30, 2010 or lose that former member's status (tier standing). If that former member re-entered the workforce in a valid PERS / TRS position but after June 30, 2010, that person would become a defined contribution retirement plan member, rather than reinstated into their prior defined benefit status (tier standing). The lawsuit challenged the effect of SB 141 as an unconstitutional diminishment of a promised defined benefit.

In April 2021, the Alaska Supreme Court found that a former member's ability to reinstate PERS / TRS status is an accrued benefit protected by Article XII, Section 7 of the Alaska Constitution. The Court held that not allowing former members to buy back into PERS / TRS defined benefit status resulted in an unconstitutional diminishment. This decision could lead to an increase in the number of employees previously believed to be ineligible for the defined benefit plan by operation of SB 141 for PERS / TRS. The case was returned to the Superior Court and the Department of Law filed a motion for final judgment. The class action group opposes the execution of final judgment and seeks to further litigate the specifics of the implementation of the Supreme Court's decision. The issue is currently under advisement by the Superior Court.

The Division is determining the impact of the Metcalfe decision on PERS and TRS. However, the Division has not implemented results from this decision as final judgment has not been entered. At this time, it is unclear exactly how many former members will seek to reinstate to the defined benefits plan or the precise impact the reintroduction of those former members to the defined benefits plan will cost.

(8) Employer Group Waiver Program

Effective January 1, 2019, the Division implemented a group Medicare Part D prescription drug plan known as an enhanced EGWP for all Medicare-eligible members covered under the ARHCT Plan and the RMP. The enhanced EGWP leverages

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increased federal subsidies to the ARHCT Plan and the RMP for prescription drugs covered by Medicare Part D while also providing coverage for medications not covered by Medicare Part D through a “wrap” of additional benefits. Moving to an enhanced EGWP has resulted in the ARHCT Plan and RMP receiving significantly higher subsidies, while simultaneously maintaining the prescription drug coverage retirees had prior to implementation of the enhanced EGWP. Currently, EGWP is the primary program used by the Division; however, there are still retirees that are covered by the RDS if they do not meet the requirements of EGWP.

(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 an 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 ARHCT Plan was approved for participation in the Medicare Part D program beginning calendar year 2006.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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Required Supplementary Information (Unaudited) Schedule of Changes in Employer Net Pension Liability and Related Ratios – Defined Benefit Pension Plan (In thousands)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability:										
Service cost	\$ 130,592	141,556	157,708	170,816	184,411	172,304	184,712	160,828	167,203	172,968
Interest	1,107,399	1,079,549	1,118,574	1,108,068	1,072,312	1,049,226	1,020,947	940,786	927,692	887,361
Differences between expected and actual experience	(97,514)	81,120	(243,120)	(302,874)	(184,252)	(118,947)	10,791	—	56,229	42,847
Changes of assumptions	—	—	502,790	—	—	—	541,390	—	—	—
Benefit payments, including refunds of member contributions	(930,006)	(895,523)	(848,019)	(812,877)	(777,187)	(742,174)	(696,542)	(651,917)	(634,187)	(593,279)
Net change in total pension liability	210,471	406,702	687,933	163,133	295,284	360,409	1,061,298	449,697	516,937	509,897
Total pension liability – beginning	15,370,337	14,963,635	14,275,702	14,112,569	13,817,285	13,456,876	12,395,578	11,945,881	11,428,944	10,919,047
Total pension liability – ending (a)	15,580,808	15,370,337	14,963,635	14,275,702	14,112,569	13,817,285	13,456,876	12,395,578	11,945,881	11,428,944
Plan fiduciary net position:										
Contributions – employer	414,741	350,028	350,601	299,665	263,597	235,360	226,136	206,204	179,976	182,695
Contributions – member	70,614	74,514	79,609	84,956	89,345	96,024	100,036	106,565	110,808	112,703
Contributions – nonemployer entity (State)	101,383	79,487	67,857	72,719	99,167	88,586	1,000,000	176,794	164,087	130,912
Total net investment income (loss)	2,794,112	378,119	540,088	725,310	1,048,006	(49,967)	253,311	1,207,484	738,656	1,650
Benefit payments, including refunds of member contributions	(930,006)	(895,523)	(848,019)	(812,877)	(777,187)	(742,175)	(696,542)	(651,917)	(610,247)	(570,883)
Administrative expenses	(8,232)	(7,017)	(7,429)	(6,250)	(7,526)	(7,243)	(7,553)	(8,223)	(7,120)	(6,743)
Other income	536	148	23	25	38	240	36	49	28	35
Net change in plan fiduciary net position	2,443,148	(20,244)	182,730	363,548	715,440	(379,175)	875,424	1,036,956	576,188	(149,631)
Plan fiduciary net position – beginning	9,469,161	9,489,405	9,306,675	8,943,127	8,227,687	8,606,862	7,731,438	6,694,482	6,118,294	6,267,925
Plan fiduciary net position – ending (b)	11,912,309	9,469,161	9,489,405	9,306,675	8,943,127	8,227,687	8,606,862	7,731,438	6,694,482	6,118,294
Plan's net pension liability as a percentage of the total pension liability	\$ 3,668,499	5,901,176	5,474,230	4,969,027	5,169,442	5,589,598	4,850,014	4,664,140	5,251,399	5,310,650
Covered payroll	76.46 %	61.61 %	63.42 %	65.19 %	63.37 %	59.55 %	63.96 %	62.37 %	56.04 %	53.53 %
Net pension liability as a percentage of covered payroll	\$ 893,910	956,120	1,033,526	1,096,605	1,166,107	1,251,066	1,328,384	1,405,197	1,470,540	1,515,868
	410.39 %	617.20 %	529.67 %	454.37 %	443.31 %	446.79 %	365.11 %	331.92 %	357.11 %	350.34 %

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

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Required Supplementary Information (Unaudited)
Schedule of Employer and Nonemployer Contributions –
Defined Benefit Pension Plan
Last 10 Fiscal Years
(In thousands)

<u>Fiscal Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a percentage of covered payroll</u>
2021	\$ 495,499	516,123	(20,624)	930,061	55.49 %
2020	429,322	429,515	(193)	1,004,467	42.76 %
2019	414,243	418,458	(4,215)	1,049,152	39.89 %
2018	395,663	372,383	23,280	1,159,599	32.11 %
2017	368,766	362,764	6,002	1,247,884	29.07 %
2016	566,615	323,946	242,669	1,322,925	24.49 %
2015	529,264	1,226,136	(696,872)	1,412,237	86.82 %
2014	358,718	382,998	(24,280)	1,405,198	27.26 %
2013	382,889	344,063	38,826	1,534,665	22.42 %
2012	351,674	313,607	38,067	1,522,399	20.60 %

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

State of Alaska

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

**Required Supplementary Information (Unaudited)
Schedule of Investment Returns – Defined Benefit Pension Plan**

Fiscal Year	Annual money-weighted rate of return, net of investment expense
2021	29.77 %
2020	4.03 %
2019	5.88 %
2018	8.26 %
2017	12.99 %
2016	(0.36)%
2015	3.12 %
2014	18.43 %

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

State of Alaska

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

Required Supplementary Information (Unaudited) Schedule of Changes in Employer Net OPEB Liability and Related Ratios – Alaska Retiree Healthcare Trust Plan (In thousands)

	2021	2020	2019	2018	2017
Total OPEB liability:					
Service cost	\$ 82,428	95,615	119,782	110,333	114,109
Interest	535,241	577,711	684,429	647,310	623,599
Differences between expected and actual experience	(80,821)	(88,229)	(147,463)	(149,287)	(28,042)
Changes of assumptions	(290,836)	(766,624)	(965,602)	259,497	—
Benefit payments, including refunds of member contributions	(440,234)	(407,069)	(420,429)	(413,273)	(405,872)
EGWP rebates	52,356	33,177	7,066	—	—
Net change in total OPEB liability	(141,866)	(555,419)	(722,217)	454,580	303,794
Total OPEB liability – beginning	7,360,653	7,916,072	8,638,289	8,183,709	7,879,915
Total OPEB liability – ending (a)	7,218,787	7,360,653	7,916,072	8,638,289	8,183,709
Plan fiduciary net position:					
Contributions – employer	68,191	107,298	102,266	85,731	124,541
Contributions – RDS	189	—	20,481	5,965	—
Total net investment income	2,294,391	318,157	449,098	598,342	859,980
	2,362,770	425,455	571,845	690,038	984,521
Benefit payments	(462,977)	(439,785)	(444,143)	(422,378)	(405,872)
EGWP rebates	52,356	33,177	7,066	—	—
Pharmacy rebates	37,901	48,006	36,921	20,268	—
Pharmacy management allowance	189	—	—	—	—
ASO fees	(15,347)	(15,290)	(13,207)	(11,163)	—
Net benefit payments	(387,878)	(373,892)	(413,363)	(413,273)	(405,872)
Administrative expenses, net of ASO fees	(4,859)	(6,203)	(3,665)	(3,822)	(15,960)
Other	597	459	874	106	43,009
Net change in plan fiduciary net position	1,970,630	45,819	155,691	273,049	605,698
Plan fiduciary net position – beginning	7,813,511	7,767,692	7,612,001	7,338,952	6,733,254
Plan fiduciary net position – ending (b)	9,784,141	7,813,511	7,767,692	7,612,001	7,338,952
Plan's net OPEB (asset) liability (a)–(b)	\$ (2,565,354)	(452,858)	148,380	1,026,288	844,757
Plan fiduciary net position as a percentage of the total OPEB liability	135.54%	106.15%	98.13%	88.12%	89.68%
Covered payroll	\$ 893,910	956,120	1,033,526	1,093,605	1,166,107
Net OPEB (asset) liability as a percentage of covered payroll	(286.98%)	(47.36%)	14.36%	93.84%	72.44%

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

Financial Section

State of Alaska

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

Required Supplementary Information (Unaudited) Schedule of Employer and Nonemployer Contributions – Alaska Retiree Healthcare Trust Plan Last 10 Fiscal Years

(In thousands)

<u>Fiscal Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a percentage of covered payroll</u>
2021	\$ 101,330	68,191	33,139	930,061	7.33 %
2020	114,783	107,298	7,485	1,004,467	10.68 %
2019	99,083	102,266	(3,183)	1,049,152	9.75 %
2018	71,251	85,731	(14,480)	1,159,599	7.39 %
2017	133,845	124,541	9,304	1,247,884	9.98 %
2016	790,824	193,564	597,260	1,322,925	14.63 %
2015	782,258	171,028	611,230	1,412,237	12.11 %
2014	783,827	340,458	443,369	1,405,198	24.23 %
2013	612,792	373,205	239,587	1,534,665	24.32 %
2012	498,433	334,941	163,492	1,522,399	22.00 %

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

State of Alaska

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

Required Supplementary Information (Unaudited)
Schedule of Changes in Employer Net OPEB Liability and
Related Ratios – Occupational Death and Disability Plan
(In thousands)

<u>Fiscal Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2021	30.00 %
2020	4.16 %
2019	6.03 %
2018	8.35 %
2017	12.69 %

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

Financial Section

State of Alaska

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

Required Supplementary Information (Unaudited) Schedule of Changes in Employer Net OPEB Liability and Related Ratios – Occupational Death and Disability Plan (In thousands)

	2021	2020	2019	2018	2017
Total OPEB liability:					
Service cost	\$ 5,133	4,808	3,870	3,565	3,419
Interest	1,458	1,244	1,205	1,275	977
Differences between expected and actual experience	(4,919)	(3,022)	(3,252)	(5,625)	(470)
Changes in assumptions	—	—	(528)	—	—
Benefit payments, including refunds of member contributions	(431)	(479)	(398)	(392)	(313)
Net change in total OPEB liability	1,241	2,551	897	(1,177)	3,613
Total OPEB liability – beginning	14,831	12,280	11,383	12,560	8,947
Total OPEB liability – ending (a)	16,072	14,831	12,280	11,383	12,560
Plan fiduciary net position:					
Contributions – employer	5,334	4,387	4,083	2,215	2,196
Total net investment income	13,182	1,658	2,036	2,233	2,938
Benefit payments	(431)	(479)	(398)	(392)	(313)
Administrative expenses	(32)	—	(1)	—	(18)
Other	2	—	—	—	—
Net change in plan fiduciary net position	18,055	5,566	5,720	4,056	4,803
Plan fiduciary net position – beginning	42,091	36,525	30,805	26,749	21,946
Plan fiduciary net position – ending (b)	60,146	42,091	36,525	30,805	26,749
Plan's net OPEB asset (a)–(b)	\$ (44,074)	(27,260)	(24,245)	(19,422)	(14,189)
Plan fiduciary net position as a percentage of the total OPEB liability	374.23 %	283.80 %	297.43 %	270.62 %	212.97 %
Covered payroll	\$ 1,460,483	1,353,078	1,256,848	1,133,799	1,040,377
Net OPEB asset as a percentage of covered payroll	(3.02)%	(2.01)%	(1.93)%	(1.71)%	(1.36)%

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

State of Alaska

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

Required Supplementary Information (Unaudited)
Schedule of Employer and Nonemployer Contributions –
Occupational Death and Disability Plan

Last 10 Fiscal Years

(In thousands)

Fiscal Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered Payroll	Contribution as a percentage of covered payroll
2021	\$ 5,266	5,334	(68)	1,443,017	0.37 %
2020	4,321	4,387	(66)	1,342,839	0.33 %
2019	3,944	4,083	(139)	1,218,186	0.34 %
2018	2,190	2,215	(25)	1,131,441	0.20 %
2017	2,226	2,196	30	1,059,791	0.21 %
2016	2,601	3,104	(503)	867,000	0.36 %
2015	2,337	2,790	(453)	778,980	0.36 %
2014	2,080	2,372	(292)	678,840	0.35 %
2013	1,328	1,541	(213)	590,380	0.26 %
2012	1,085	1,582	(497)	558,760	0.28 %

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

State of Alaska

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

Required Supplementary Information (Unaudited)

**Schedule of Investment Returns –
Occupational Death and Disability Plan**

Fiscal Year	Annual money-weighted rate of return, net of investment expense
2021	29.55 %
2020	4.28 %
2019	6.22 %
2018	8.06 %
2017	11.97 %

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

State of Alaska

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

Required Supplementary Information (Unaudited)
Schedule of Changes in Employer Net OPEB Liability and
Related Ratios – Retiree Medical Plan

(In thousands)

	2021	2020	2019	2018	2017
Total OPEB liability:					
Service cost	\$ 15,100	15,726	13,465	12,269	10,394
Interest	12,079	11,651	10,093	7,916	6,425
Differences between expected and actual experience	2,233	42	(1,340)	(724)	(46)
Change of assumptions	(184)	(20,884)	7,303	6,623	—
Benefit payments	(237)	(69)	(109)	(41)	—
EGWP rebates	60	34	10	—	—
Net change in total OPEB liability	29,051	6,500	29,422	26,043	16,773
Total OPEB liability – beginning	148,662	142,162	112,740	86,697	69,924
Total OPEB liability – ending (a)	177,713	148,662	142,162	112,740	86,697
Plan fiduciary net position:					
Contributions – employer	18,559	17,846	11,736	11,657	12,280
Contributions – RDS	—	—	9	—	—
Total net investment income	44,619	5,546	6,591	6,919	8,506
	63,178	23,392	18,336	18,576	20,786
Benefit payments	(247)	(98)	(128)	(41)	—
EGWP rebates	60	35	10	—	—
Pharmacy rebates	35	29	19	—	—
ASO fees	(25)	—	—	—	—
Net benefit payments	(177)	(34)	(99)	(41)	—
Administrative expenses	(22)	(27)	(14)	(4)	(12)
Other	7	—	—	2	1
Net change in plan fiduciary net position	62,986	23,331	18,223	18,533	20,775
Plan fiduciary net position – beginning	141,569	118,238	100,015	81,482	60,707
Plan fiduciary net position – ending (b)	204,555	141,569	118,238	100,015	81,482
Plan's net OPEB	\$ (26,842)	7,093	23,924	12,725	5,215
Plan fiduciary net position as a percentage of the total OPEB liability	115.10 %	95.23 %	83.17 %	88.71 %	93.98 %
Covered payroll	\$ 1,460,483	1,353,078	1,256,848	1,133,799	1,040,377
Net OPEB (asset) liability as a percentage of covered payroll	(1.84)%	0.52 %	1.90 %	1.12 %	0.50 %

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

Financial Section

State of Alaska

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

Schedule of Employer and Nonemployer Contributions – Retiree Medical Plan

Last 10 Fiscal Years

(In thousands)

Fiscal Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered Payroll	Contribution as a percentage of covered payroll
2021	\$ 18,326	18,559	(233)	1,443,017	1.29 %
2020	17,725	17,846	(121)	1,342,839	1.33 %
2019	11,451	11,736	(285)	1,218,186	0.96 %
2018	11,654	11,657	(3)	1,131,441	1.03 %
2017	12,506	12,280	226	1,059,791	1.16 %
2016	16,907	16,184	723	867,000	1.87 %
2015	15,190	14,552	638	778,980	1.87 %
2014	3,937	3,708	229	678,840	0.55 %
2013	3,365	3,195	170	590,380	0.54 %
2012	3,464	2,850	614	558,760	0.51 %

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

State of Alaska

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

Required Supplementary Information (Unaudited)
Schedule of Investment Returns – Retiree Medical Plan

<u>Fiscal Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2021	29.54 %
2020	4.33 %
2019	6.21 %
2018	7.89 %
2017	11.93 %

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available. See accompanying notes to required supplementary information (unaudited) and independent auditors' report.

State of Alaska

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2021

(1) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck. The significant actuarial methods and assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2020 were as follows:

- (a) Actuarial cost method – Liabilities and contributions in the report are computed using the Entry Age Normal Actuarial Cost Method, level percent of pay.

Effective June 30, 2018, the Board adopted a layered UAAL amortization method: Layer #1 equals the sum of (i) the UAAL at June 30, 2018 based on the 2017 valuation, plus (ii) the FY18 experience gain/loss. Layer #1 is amortized over the remainder of the 25-year closed period that was originally established in 2014. Layer #2 equals the change in UAAL at June 30, 2018 due to the experience study and EGWP implementation. Layer #2 is amortized over a separate closed 25-year period starting in 2018. Future layers will be created each year based on the difference between actual and expected UAAL occurring that year, and will be amortized over separate closed 25-year periods. The UAAL amortization continues to be on a level percent of pay basis. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined.

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

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

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

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

- (b) Valuation of assets – The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY15, the asset value method recognizes 20% of the gain or loss each year, for a period of five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements.

State of Alaska

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2021

- (c) Valuation of retiree medical and prescription drug benefits – Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods (i.e., medical claims, prescription drug claims, administrative costs, etc). Separate analysis is limited by the availability and historical credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.
- (d) Investment return – 7.38% per year, net of investment expenses
- (e) Salary scale – Rates based upon the 2013–2017 actual experience. Inflation 2.50% per year and productivity 0.25% per year.
- (f) Payroll growth – 2.75% 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 2.50% annually.
- (h) Mortality (pre-commencement) – Mortality rates based upon the 2013–2017 actual experience. RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. Deaths are assumed to result from occupational causes 75% of the time for Peace Officer/Firefighters, and 40% of the time for Others.
- (i) Mortality (post-commencement) – Mortality rates based upon the 2013–2017 actual experience. 91% of male and 96% of female rates of the RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.
- (j) Total turnover – Select and ultimate rates based upon the 2013–2017 actual experience
- (k) Disability – Incidence rates based on the 2013–2017 actual experience. Post-disability mortality in accordance with the RP-2014 disability table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighters, 40% of the time for others.
- (l) Retirement – Retirement rates based on the 2013–2017 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date. The modified cash refund annuity is valued as a three-year certain and life annuity.
- (m) Spouse age difference – Males are assumed to be three years older than their wives. Females are assumed to be two years younger than husbands.

State of Alaska

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2021

- (n) Percent married for pension – For others, 75% of male members and 70% female members are assumed to be married. For peace officer/firefighters, 85% of male members and 60% of female members are assumed to be married.
- (o) Dependent spouse medical coverage election – Applies to members who do not have double medical coverage. For others, 65% of male members and 60% female members are assumed to be married and cover a dependent spouse. For peace officer/firefighters, 75% of male members and 50% of female members are assumed to be married and cover a dependent spouse.
- (p) Dependent children – Pension: None. Healthcare: Benefits for dependent children have been valued only for members currently covering their dependent children. These benefits are only valued through the dependent children's age 23 (unless the child is disabled).
- (q) Contribution refunds – For others, 5% of terminating members with vested benefits are assumed to have their contributions refunded. For peace officers/firefighters, 10% 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.
- (r) Imputed data – Data changes from the prior year which are deemed to have an immaterial impact on liabilities and contribution rates are assumed to be correct in the current year's client data. Non-vested terminations with appropriate refund dates are assumed to have received a full refund of contributions. Active members with missing salary and service are assumed to be terminated with status based on their vesting percentage.
- (s) Active rehire assumption – The normal cost used for determining contribution rates and in the projections includes a rehire assumption to account for anticipated rehires. The normal cost includes the following assumptions (which were developed based on the five years of rehire loss experience through June 30, 2017). For projections, these assumptions were assumed to grade to zero uniformly over a 20-year period. Pension – 18.77% and Healthcare – 17.09%.
- (t) Re-employment option – All re-employed retirees are assumed to return to work under the standard option.
- (u) Active data adjustment – No adjustment was made to reflect participants who terminate employment before the valuation date and are subsequently rehired after the valuation date.
- (v) Alaska Cost of Living Allowance (COLA) – Of those benefit recipients who are eligible for the COLA, 70% of others and 65% of peace officer/firefighters are assumed to remain in Alaska and receive the COLA.
- (w) Postretirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.25% and 1.875%, respectively, is valued for the annual automatic PRPA as specified in the statute.
- (x) Expenses – The investment return assumption is net of investment expenses. The Normal Cost as of June 30, 2020 was increased by the following amounts for administrative expenses (for projections, the percentage increase was assumed to remain constant in future years): Pension – \$7,223,000 and Healthcare – \$4,934,000.
- (y) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for peace officer/firefighter and 0.75 years of credited service per year for other members.

State of Alaska

**Public Employees' Retirement System
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Notes to Required Supplementary Information (Unaudited)

June 30, 2021

- (z) Service – Total credited service is provided by the State. This service is assumed to be the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs service). Claimed service is used for vesting and eligibility purposes.
- (aa) 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.
- (bb) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY21 medical and prescription drug benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	\$ 15,360	3,393
Medicare Parts A and B	1,618	3,340
Medicare Part B only	5,340	3,340
Medicare Part D – EGWP	N/A	1,003

Members are assumed to attain Medicare eligibility at age 65. All costs are for the 2021 fiscal year (July 1, 2020–June 30, 2021).

The EGWP subsidy is assumed to increase in future years by the trend rates shown on the following page. No future legislative changes or other events are anticipated to impact the EGWP subsidy. If any legislative or other changes occur in the future that impact the EGWP subsidy (which could either increase or decrease the Plan's actuarial accrued liability), those changes will be evaluated and quantified when they occur.

- (cc) Third-party administrator fees – \$449 per person per year; assumed to increase at 4.5% per year.
- (dd) Medicare Part B Only – It's assumed that 5% of actives hired before April 1, 1986 and current retirees who are not yet Medicare eligible will not be eligible for Medicare Part A.

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State of Alaska

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2021

(ee) Healthcare cost trend – The table below shows the rates used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.5% is applied to the FY21 pre-Medicare medical claims cost to get the FY22 medical claims cost:

<u>Fiscal year</u>	<u>Medical Pre-65</u>	<u>Medical Post-65</u>	<u>Prescription drugs/EGWP</u>
2021	6.5%	5.4%	7.5%
2022	6.3	5.4	7.1
2023	6.1	5.4	6.8
2024	5.9	5.4	6.4
2025	5.8	5.4	6.1
2026	5.6	5.4	5.7
2027–2040	5.4	5.4	5.4
2041	5.3	5.3	5.3
2042	5.2	5.2	5.2
2043	5.1	5.1	5.1
2044	5.1	5.1	5.1
2045	5.0	5.0	5.0
2046	4.9	4.9	4.9
2047	4.8	4.8	4.8
2048	4.7	4.7	4.7
2049	4.6	4.6	4.6
2050+	4.5	4.5	4.5

For the June 30, 2014 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model estimates trend amounts that are projected out for 80 years. The model has been populated with assumptions that are specific to the State of Alaska.

State of Alaska
Public Employees' Retirement System
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Notes to Required Supplementary Information (Unaudited)
June 30, 2021

(ff) Aging factors:

Age	Medical	Prescription drugs
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	2.5	1.5
65-74	3.0	2.0
75-84	2.0	(0.5)
85-94	0.3	(2.5)
95+	—	—

(gg) Retired member contributions for medical benefits – Currently contributions are required for System members who are under age 60 and have less than 30 years of service (25 for peace officers/ firefighters). Eligible tier 1 members are exempt from contribution requirements. Annual FY21 contributions based on monthly rates shown below for calendar 2021 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled. For dependent children, the System values one-third of the annual retiree contribution is used to estimate the per-child rate based upon the assumed number of children in rates where children are covered.

Coverage category	Calendar 2021		Calendar 2020
	Annual contribution	Monthly contribution	Monthly contribution
Retiree only	\$ 8,448	704	741
Retiree and spouse	16,896	1,408	1,482
Retiree and child(ren)	11,940	995	1,047
Retiree and family	20,388	1,699	1,788
Composite	12,552	1,046	1,101

(hh) Trend rate for retired member medical contributions – The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 0.0% is applied to the FY21 retired member medical contributions to get the FY22 retired member medical contributions.

Fiscal year	Trend assumption
2021	—%
2022	—
2023 +	4.0

Graded trend rates for retired member medical contributions are consistent with the rates used for the June 30, 2019 valuation. Actual FY21 retired member medical contributions are reflected in the valuation.

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- (ii) Healthcare participation – 100% of System paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 20% of non-System paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial methods and assumptions used in the defined contribution occupational death and disability and retiree medical benefit plan valuation as of June 30, 2020 were as follows:

- (a) Actuarial cost method – Liabilities and contributions shown in the report are computed using the Entry Age Normal Actuarial Cost Method, level percent of pay. Each year's difference between actual and expected unfunded actuarial accrued liability is amortized over 25 years as a level percentage of expected payroll.
- (b) Valuation of assets – Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method was phased in over five years. Fair value of assets was \$0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.
- (c) Valuation of retiree medical and prescription drug benefits – Due to the lack of experience for the DCR retiree medical plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2020 for the Defined Benefit (DB) retiree medical plan covering TRS and PERS. The DB rates were used with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include network steerage, different coverage levels, different Medicare coordination for medical benefits, and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, projected FY21 claims costs were reduced 3.1% for medical claims, and 8.9% for prescription drugs. In addition, to account for the difference in Medicare coordination, projected FY21 medical claims costs for Medicare eligible retirees were further reduced 29.5%.

FY19 and FY20 experience were compared to assess the impact of COVID-19 and whether an adjustment to FY20 claims was indicated for use in the June 30, 2020 valuation. A material decrease in medical claims during March 2020 to June 2020 was experienced due to COVID-19. Therefore, an adjustment was made for those months to adjust for the decrease that is not expected to continue in future years. There was an observed spike in prescription drug claims in March 2020; however, the FY20 prescription drug experience appears reasonable to use without adjustment for COVID-19. To adjust for the decrease in medical claims due to COVID-19 during the last 4 months of FY20, the per capita cost during the first 8 months was used as the basis for estimating claims that would have occurred in the absence of COVID-19.

No implicit subsidies are assumed. Employees projected to retire with 30 years of service (25 years of service for Peace/Fire) prior to Medicare are valued with commencement deferred to Medicare eligibility because those members will be required to pay the full plan premium prior to Medicare. Explicit subsidies for disabled and normal retirement are determined using the plan-defined percentages of age-related total projected plan costs, again with no implicit subsidy assumed.

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The State transitioned to an Employer Group Waiver Program (EGWP) for DCR participants effective January 1, 2019. The estimated 2021 reimbursements under EGWP were provided by Segal Consulting (who worked with the EGWP administrator, Optum, to develop those estimates).

- (d) Investment return – 7.38% per year, net of investment expenses.
- (e) Salary scale – Salary scale rates based upon the 2013–2017 actual experience. Inflation 2.50% per year. Productive 0.25% per year.
- (f) Payroll growth – 2.75% 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 2.50% annually.
- (h) Mortality (pre-commencement) – Mortality rates based upon the 2013–2017 actual experience, 100% of male and female of the RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. Deaths are assumed to result from occupational causes 75% of the time for peace officer/firefighters, and 40% of the time for others.
- (i) Mortality (post-commencement) – Mortality rates based upon the 2013–2017 actual experience, 91% of male and 96% of female rates of the RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.
- (j) Total turnover – Select and ultimate rates based upon the 2013–2017 actual experience
- (k) Disability – Incidence rates based upon the 2013–2017 actual experience. Disabilities are assumed to be occupational 75% of the time for peace officer/firefighters, and 40% of the time for others. For peace officer/firefighters, members are assumed to take the monthly annuity 100% of the time.

Post-disability mortality in accordance with the RP-2014 disabled table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.
- (l) Retirement – Retirement rates based upon the 2013–2017 actual experience.
- (m) Spouse age difference – Males are assumed to be three years older than their wives. Females are assumed to be two years younger than husbands.
- (n) Percent married for occupational death and disability – For others, 75% of male members and 70% female members are assumed to be married. For peace officer/firefighters, 85% of male members and 60% of female members are assumed to be married.
- (o) Dependent spouse medical coverage election – Applies to members who do not have double medical coverage. For others, 65% of male members and 60% female members are assumed to be married and cover a dependent spouse. For peace officer/firefighters, 75% of male members and 50% of female members are assumed to be married and cover a dependent spouse.

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- (p) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for peace officer/firefighters and 0.75 years of credited service per year for other members.
- (q) Peace officer/firefighter occupational disability retirement benefit commencement – The occupational disability retirement benefit is assumed to be first payable from the member's DC account and the retirement benefit payable from the occupational death and disability trust will commence five years later.
- (r) Per capita claims cost – Sample claims cost rates (before base claims cost adjustments described below) adjusted to age 65 for FY20 medical and prescription drug benefits are shown below:

	<u>Medical</u>	<u>Prescription drugs</u>
Pre-Medicare	\$ 15,360	3,393
Medicare Parts A and B	1,618	3,340
Medicare Part D - EGWP	N/A	1,003

Members are assumed to attain Medicare eligibility at age 65. All other costs are for the 2021 fiscal year (July 1, 2020–June 30, 2021).

The EGWP subsidy is assumed to increase in future years by the trend rates shown on the following pages. No future legislative changes or other events are anticipated to impact the EGWP subsidy. If any legislative or other changes occur in the future that impact the EGWP subsidy (which could either increase or decrease the Plan's actuarial accrued liability), those changes will be evaluated and quantified when they occur.

- (s) Third-party administrator fees – \$449 per person per year; assumed trend rate of 4.5% per year.
- (t) Base claims cost adjustments – Due to higher initial copays, deductibles, out of pocket limits, and member cost sharing compared to the DB medical plan, the following cost adjustments are applied to the per capita claims cost rates above: 0.969 for pre-Medicare medical; 0.674 for both Medicare medical and the Medicare coordination method (3.1% reduction for the medical plan and 29.5% reduction for the coordination method), and 0.911 for prescription drugs.
- (u) Administrative expenses – Beginning with the June 30, 2018 valuation, the normal cost is increased for administrative expenses expected to be paid from plan assets during the year. The amounts included in the June 30, 2020 normal cost, which are based on the average of actual administrative expenses during the last two fiscal years, are \$1,000 for occupational death and disability and \$20,000 for retiree medical.

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(v) Healthcare cost trend – The table below shows the rates used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.5% is applied to the FY21 pre-Medicare medical claims cost to get the FY22 medical claims

costs:

<u>Fiscal year</u>	<u>Medical Pre-65</u>	<u>Medical Post-65</u>	<u>Prescription drugs/EGWP</u>
2021	6.5%	5.4%	7.5%
2022	6.3	5.4	7.1
2023	6.1	5.4	6.8
2024	5.9	5.4	6.4
2025	5.8	5.4	6.1
2026	5.6	5.4	5.7
2027–2040	5.4	5.4	5.4
2041	5.3	5.3	5.3
2042	5.2	5.2	5.2
2043	5.1	5.1	5.1
2044	5.1	5.1	5.1
2045	5.0	5.0	5.0
2046	4.9	4.9	4.9
2047	4.8	4.8	4.8
2048	4.7	4.7	4.7
2049	4.6	4.6	4.6
2050+	4.5	4.5	4.5

For the June 30, 2014 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model estimates trend amounts that are projected out for 80 years. The model has been populated with assumptions that are specific to the State of Alaska.

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June 30, 2021

(w) Aging factors:

Age	Medical	Prescription drugs
<45	2.0%	4.5%
45-54	2.5	3.5
55-64	2.5	1.5
65-74	3.0	2.0
75-84	2.0	(0.5)
85-94	0.3	(2.5)
95+	—	—

(x) Retiree medical participation:

Decrement due to disability		Decrement due to retirement		
Age	Percent participation	Age	Percent participation	
<56	75.0%	55	50.0%	
56	77.5	56	55.0	
57	80.0	57	60.0	
58	82.5	58	65.0	
59	85.0	59	70.0	
60	87.5	60	75.0	
61	90.0	61	80.0	
62	92.5	62	85.0	
63	95.0	63	90.0	
64	97.5	64	95.0	
65+	100.0	65+		
			Years of service	
			<15	75.0%
			15-19	80.0
			20-24	85.0
			25-29	90.0
			30+	95.0

Participation assumption is a combination of (i) the service-based rates for retirement from employment at age 65+ and (ii) the age-based rates for retirement from employment before age 65. These 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. This assumption is based on observed trends in participation from a range of other plans.

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- (y) Imputed data – Data changes from the prior year that are deemed to have immaterial impact on liabilities and contribution rates are assumed to be correct in the current year's client data. Non-vested terminations with appropriate refund dates are assumed to have received a full refund of contributions. Active members with missing salary and service are assumed to be terminated with status based on their vesting percentage.

(2) Changes in Actuarial Assumptions, Methods, and Benefits Since the Prior Valuation

Defined Benefit Pension and Postemployment Healthcare Benefit Plan

(a) Changes in Methods Since the Prior Valuation – June 30, 2019 to June 30, 2020

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

(b) Changes in Assumptions Since the Prior Valuation – June 30, 2019 to June 30, 2020

Healthcare claim costs are updated annually. Retired member contributions were updated to reflect the 5% decrease from CY20 to CY21. The amounts included in the normal cost for administrative expenses were updated based on the last two years of actual administrative expenses paid from plan assets. There were no other changes in actuarial assumptions since the prior valuation.

(c) Changes in Benefit Provisions Since the Prior Valuation – June 30, 2019 to June 30, 2020

There were no changes in benefit provisions since the prior valuation.

Defined Contribution Occupational Death and Disability and Retiree Medical Benefits Plan

(a) Changes in Methods Since the Prior Valuation – June 30, 2019 to June 30, 2020

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

(b) Changes in Assumptions Since the Prior Valuation – June 30, 2019 to June 30, 2020

Healthcare claim costs are updated annually. The medical and prescription drug relative value factors were updated this year. In addition, the 0.2% annual trend rate adjustment factor between the DB and DCR plans was removed. The amounts included in normal cost for administrative expenses were updated based on the last two years of actual administrative expenses paid from plan assets. There were no other changes in actuarial assumptions since the prior valuation.

(c) Changes in Benefit Provisions Since the Prior Valuation – June 30, 2019 to June 30, 2020

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

SUPPLEMENTAL SCHEDULES

State of Alaska

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2021 and 2020

(In thousands)

	Administrative	Investment	Totals	
			2021	2020
Personal services:				
Wages	\$ 5,396	1,987	7,383	7,647
Benefits	3,398	917	4,315	4,240
Total personal services	8,794	2,904	11,698	11,887
Travel:				
Transportation	1	7	8	16
Per diem	—	1	1	4
Total travel	1	8	9	20
Contractual services:				
Management and consulting	19,402	507	19,909	20,330
Investment management and custodial fees	—	49,153	49,153	46,561
Accounting and auditing	131	13	144	196
Data processing	3,783	721	4,504	4,529
Communications	115	12	127	161
Advertising and printing	39	1	40	53
Rentals/leases	417	89	506	502
Legal	164	59	223	399
Medical specialists	25	—	25	31
Repairs and maintenance	7	—	7	10
Transportation	168	1	169	223
Securities lending expense	—	138	138	144
Other professional services	583	41	624	583
Total contractual services	24,834	50,735	75,569	73,722
Other:				
Equipment	34	4	38	28
Supplies	18	73	91	112
Total other	52	77	129	140
Total administrative and investment deductions	\$ 33,681	53,724	87,405	85,769

See accompanying independent auditors' report.

Financial Section

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Schedule of Payments to Consultants Other Than Investment Advisors

Years ended June 30, 2021 and 2020

(In thousands)

Firm	Services	2021	2020
Buck Global LLC	Actuarial services	\$ 322	503
KPMG LLP	Auditing services	52	104
Groundswell Communications	Communications services	61	83
State Street Bank and Trust	Custodial banking services	1,001	920
Alaska IT Group	Data processing services	292	214
Applied Microsystems Incorporated	Data processing services	392	386
DLT Solutions	Data processing services	182	17
International Business Machines	Data processing services	15	20
Sagitec Solutions	Data processing services	2,503	2,603
SHI International Corporation	Data processing services	38	63
Sungard Availability Services	Data processing services	27	27
Unicom Systems	Data processing services	14	13
State of Alaska, Department of Law	Legal services	359	387
Agnew Beck Consulting	Management consulting services	17	9
Linea Solutions Incorporated	Management consulting services	40	236
Symphony Performance Health	Management consulting services	29	35
The Segal Company Incorporated	Management consulting services	344	254
Federal Hearings and Appeals Services	Medical specialist and consulting	21	—
Managed Medical Review Origination	Medical specialist and consulting	—	27
		\$ 5,709	5,901

This schedule presents payments to consultants receiving greater than \$10,000.

See accompanying independent auditors' report.