Teachers' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Alaska

For the Fiscal Year Ended June 30, 2012

Sean Parnell, Governor

Prepared by

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

Becky Hultberg, Commissioner
Jim Puckett, Director

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

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

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INTRODUCTORY SECTION

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

THE STATE of ALASKA

GOVERNOR SEAN PARNELL

Department of Administration

DIVISION OF RETIREMENT AND BENEFITS

6th Floor State Office Building
333 Willoughby Avenue
P.O. Box 110203
Juneau, AK 99811-0203
FAX: (907) 465-3086
Phone: (907) 465-4460
Toll-Free: (800) 821-2251

LETTER OF TRANSMITTAL

November 26, 2012

The Honorable Sean Parnell, Governor
Members of the Alaska State Legislature
Alaska Retirement Management Board
Employers and Plan Members

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2012. The CAFR is intended to fulfill the legal requirements of Alaska Statute (AS) 14.25.004(a)(8).

The CAFR provides comprehensive information on the financial operations of the System for the fiscal year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2012. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, have issued an unqualified opinion on the Systems' basic financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the Financial Section of this report.

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

The CAFR is divided into five sections:

- **Introductory Section**, which contains the letter of transmittal, the administrative organization of the TRS, and a list of the members serving on the Alaska Retirement Management Board (ARMB);
- **Financial Section**, which contains the Independent Auditor's Report, MD&A, basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;

- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and

- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

Profile of the System

The System was established in 1955 to provide pension benefits to teachers and other eligible participants. Post-employment health care benefits were added in July 1, 1975. Senate Bill 141, signed into law on July 27, 2005, closed the DB Plan effective July 1, 2006, to new members and created a Defined Contribution Retirement (DCR) Plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of: (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan and the Alaska Retiree Health Care Trust. The DCR Plan includes the DCR trust, occupational death and disability plan, retiree major medical plan, and the health reimbursement arrangement plan.

Reporting Entity

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

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

The ARMB, constituted effective October 1, 2005, replaced the Teachers' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (effective October 1, 2005).

The ARMB is responsible for:

- adopting investment policies and developing investment objectives;

- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;

- establishing crediting rates for members' individual contribution accounts, when applicable;

- assisting in prescribing policies for the proper operation of the System;

- coordinating with the System Administrator to have actuarial valuations performed;

- reviewing actuarial assumptions and conducting experience analyses;

- contracting for an independent audit of actuarial valuations and external performance calculations; and

- reporting the financial condition of the System's to the Governor, Legislature, and individual employers participating in the System.

Major Initiatives

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

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

The System also endeavors to provide the highest degree of customer service to all its members. The Division continues to enhance and develop the central Retirement Customer Service Center with the goal of improving phone service and provide faster processing of all customer requests.

The System is a participant in a multi-agency project procuring and implementing Virtual Call Center functionalities for the phone system. These features will enable the Customer Service Representatives to provide faster and higher quality service to our members. The Division is working towards first call resolution with this project.

The System offers a broad array of fairs and seminars directed toward both active members and employers. The goals of all seminars are to: assist employers with successfully marketing of the plans; educating members about all benefits available from early career through to retirement; encouraging healthy living; and, how to best use the health plan.

Funding Requirements

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2011, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the TRS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 54.1%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately $4.2 billion. The unfunded liability continues to be addressed at all levels of the State. The Governor's budget proposes to provide funding to TRS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the ARMB.

Investments

On June 30, 2012, the DB Plan's investment portfolio was valued at $4.6 billion and earned a 0.51% return for the fiscal year ended June 30, 2012. The DCR Plan's investment portfolio was valued at $137 million for the fiscal year ended June 30, 2012. Over the past five years ending June 30, 2012, the DB Plan's investments earned a 0.90% return. The ARMB has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Accounting System

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

Internal Controls

System management is responsible for establishing and maintaining a system of internal controls to protect TRS assets from loss, theft, or misuse and to ensure adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. The cost of internal control should not exceed anticipated benefits; the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We are confident our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA for consideration.

Acknowledgements

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

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

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

Respectfully submitted,

Becky Hultberg
Commissioner

Jim Puckett
Director

Christina Maiquis
Interim Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

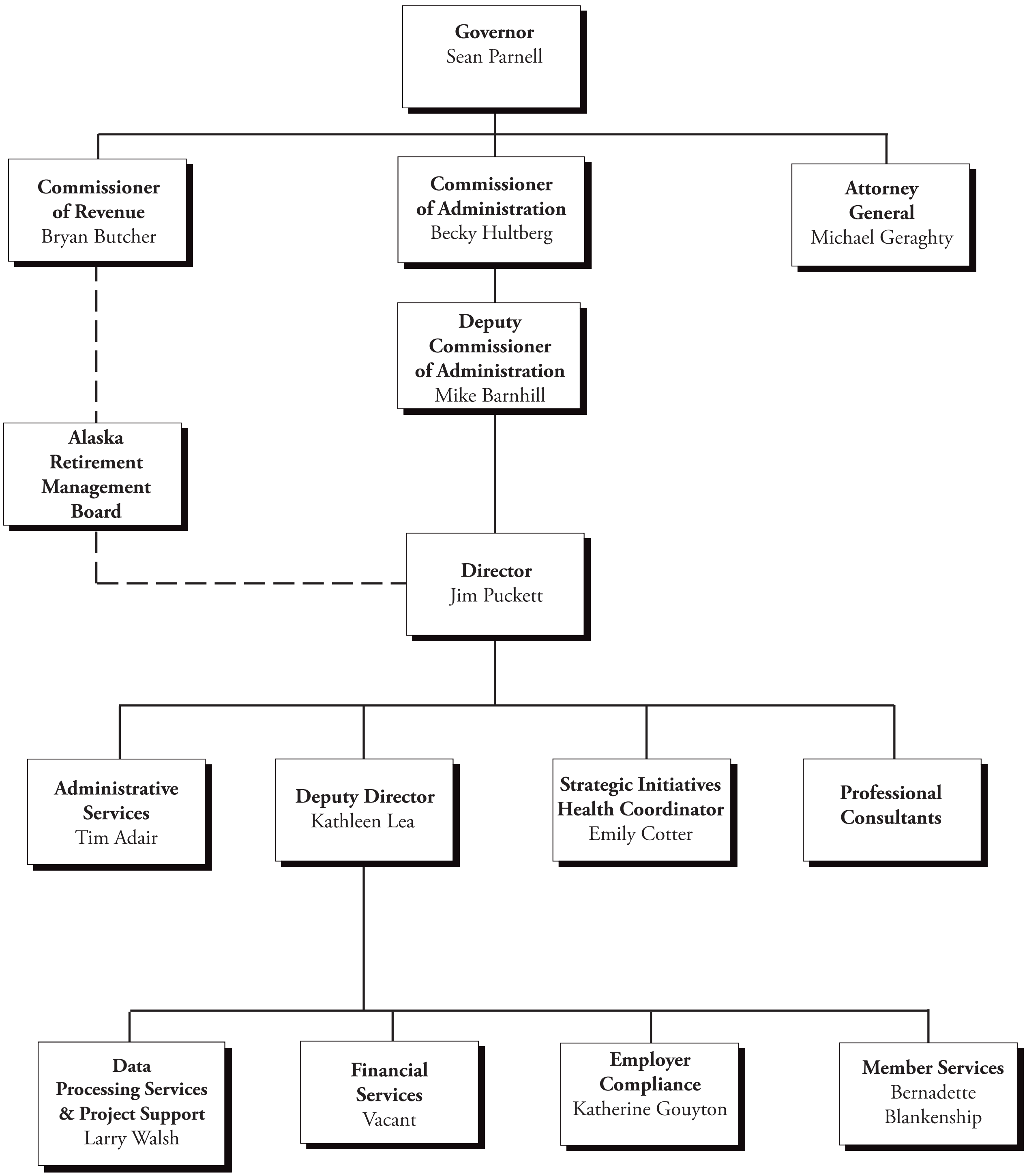
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

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

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Member Services Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. This section appoints members to retirement and maintains benefit payment information.

The **Strategic Initiatives Health Coordinator** is responsible for the administration of health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Financial Services Section** is responsible for maintaining the employee and employer records and accounts in each of the plans administered by the Division, producing financial statements and reports, and assuring compliance with Internal Revenue Service requirements.

The **Data Processing Services and Project Support Section** supports the information systems the System uses. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

PROFESSIONAL CONSULTANTS

Consulting Actuary
Buck Consultants
Denver, Colorado

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Buck Consultants
Denver, Colorado

Third-Party Healthcare Claim Administrator
HealthSmart Benefit Solutions, Inc.
Charleston, West Virginia

IT Consultant
Computer Task Group
Anchorage, Alaska

Legal Counsel
Joan Wilkerson
Jessica Srader
Rebecca Polizzotto
Toby Steinberger
Assistant Attorney Generals
Juneau, Alaska

Ice Miller LLP
Indianapolis, Indiana

Consulting Physicians
Kim Smith, M.D.
Melissa Hynes, M.D.
William Cole, M.D.
Juneau, Alaska

Thomas Rodgers, M.D.
Ford, Washington

A list of investment consultants can be found on pages 75-76 and on the Schedule of External Management Fees on pages 84-85.

ALASKA RETIREMENT MANAGEMENT BOARD

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

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

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Ms. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, NCTR Education Committee, and the Alaska Teachers' Retirement Board. She is also a co-manager of a family trust. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a Bachelor's of Science in Mathematics from North Carolina State University, and a Masters in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law and finance.

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

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

Kristin Erchinger is currently finance director for the City of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director in 2000. Ms. Erchinger is past president of the Alaska Government Finance Officer's Association and represents that organization in the Alaska Municipal League. She also served on the Providence Alaska Region Board, the Graduate Medical Education Committee, the Alaska Municipal League Board, and the Board of the American Society for Public Administration, Alaska Chapter. Ms. Erchinger earned Bachelor's Degrees in International Studies and Japanese Language and Literature, both from the University of Washington, and a Master's Degree in Public Administration from the University of Alaska Anchorage.

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

Martin Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a Bachelor's Degree in Accounting from the University of Washington and has been a CPA since 1958.

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

FINANCIAL SECTION

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

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 Teachers' Retirement System:

We have audited the accompanying statement of system net assets of the State of Alaska Teachers' Retirement System (the System), (a Component Unit of the State of Alaska), as of June 30, 2012, and the related statement of changes in system net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the system net asset of the State of Alaska Teachers' Retirement System as of June 30, 2012, and the changes in system net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Schedules of Contributions from Employers and the State of Alaska and Schedule of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

KPMG

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as whole. The supplemental schedules presented on pages 69 – 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules are the responsibility of the management of the System. This information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 22, 2012

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

Management's Discussion and Analysis

June 30, 2012
(With summarized financial information for June 30, 2011 and 2010)

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the years ended June 30, 2012 and 2011. 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, 2012. Information for fiscal year 2011 and 2010 is presented for comparative purposes.

Financial Highlights

The System financial highlights as of June 30, 2012 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits decreased by $59.0 million during fiscal year 2012.
- The System's plan member and employer contributions increased by $70 thousand during fiscal year 2012.
- The State of Alaska directly appropriated $234.5 million during fiscal year 2012 as statutorily required.
- The System net investment income decreased $839.0 million to $13.9 million during fiscal year 2012.
- The System's pension benefit expenditures totaled $361.2 million during fiscal year 2012.
- The System's postemployment healthcare benefit expenditures totaled $110.6 million in fiscal year 2012.

Overview of the Financial Statements

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

Statements of System Net Assets – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2012 and 2011.

Statements of Changes in System Net Assets – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2012 and 2011. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Management's Discussion and Analysis
June 30, 2012
(With summarized financial information for June 30, 2011 and 2010)

The above statements represent resources available for investment and payment of benefits as of June 30, 2012 and 2011, and the sources and uses of those funds during fiscal years 2012 and 2011.

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

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

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

Condensed Financial Information (In thousands)

System Net Assets

Description	2012	2011	Increase/(decrease) Amount	Increase/(decrease) Percentage	2010
Assets:					
Cash and cash equivalents	$ 93,983	27,345	66,638	243.7%	$ 40,668
Due from State of Alaska General Fund	4,943	10,736	(5,793)	(54.0)	4,852
Contributions receivable	4,335	4,404	(69)	(1.6)	4,778
Legal settlement	—	—	—	—	54,586
Other receivables	—	3,360	(3,360)	(100.0)	1,800
Due from PERS ARHCT Fund	—	—	—	—	101
Due from Retiree Health Fund	3	1	2	200.0	3,496
Investments, at fair value	4,698,332	4,813,883	(115,551)	(2.4)	4,004,505
Other assets	1,179	984	195	19.8	985
Total assets	4,802,775	4,860,713	(57,938)	(1.2)	4,115,771
Liabilities:					
Accrued expenses	3,833	4,268	(435)	(10.2)	3,724
Claims payable	14,813	13,542	1,271	9.4	13,551
Legal fees payable	—	—	—	—	10,592
Due to State of Alaska General Fund	192	—	192	100.0	—
Total liabilities	18,838	17,810	1,028	5.8	27,867
Net assets	$ 4, 783,937	4,842,903	(58,966)	(1.2)%	$ 4,087,904

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

Management's Discussion and Analysis

June 30, 2012
(With summarized financial information for June 30, 2011 and 2010)

Changes in System Net Assets

Description	2012	2011	Increase/(decrease) Amount	Increase/(decrease) Percentage	2010
Net assets, beginning of year	$ 4,842,903	4,087,904	754,999	18.5%	$ 3,762,946
Additions:					
Contributions	164,007	163,937	70	0.04	160,081
Appropriation – State of Alaska	234,517	190,850	43,667	22.9	173,462
Net investment income	13,901	852,859	(838,958)	(98.4)	396,417
Legal settlement	—	—	—	—	54,585
Other additions	12,552	5,010	7,542	150.5	4,459
Total additions	424,977	1,212,656	(787,679)	65.0	789,004
Deductions:					
Pension and postemployment healthcare benefits	471,834	446,596	25,238	5.7	443,003
Refund of contributions	5,428	4,486	942	21.0	4,402
Legal settlement fees	—	—	—	—	10,592
Administrative	6,681	6,575	106	1.6	6,049
Total deductions	483,943	457,657	26,286	5.7	464,046
Increase (decrease) in net assets	(58,966)	754,999	(813,965)	(107.8)	324,958
Net assets, end of year	$ 4,783,937	4,842,903	(58,966)	(1.2)%	$ 4,087,904

Financial Analysis of the System

The statements of system net assets as of June 30, 2012 and 2011 show net assets held in trust for pension and postemployment healthcare benefits of $4,783,937,000 and $4,842,903,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent a decrease in the System's net assets held in trust for pension and postemployment healthcare benefits of $58,966,000 or 1.2% from fiscal year 2011 to 2012 and an increase of $754,999,000 or 18.5% from fiscal year 2010 to 2011. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

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

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

Management's Discussion and Analysis

June 30, 2012
(With summarized financial information for June 30, 2011 and 2010)

System Asset Allocation

During fiscal years 2012 and 2011, the Board adopted the following asset allocation for the Defined Benefit (DB) Plan and Defined Contribution Retirement (DCR) Plan's retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

	2012 Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed income	18.0	± 3
Cash equivalents	2.0	- 2/+ 5
Total	100.0%	
Expected five-year median return	7.45%	
Standard deviation	13.82	

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

For fiscal years 2012 and 2011, the DB Plan's investments generated a 0.51% and 21.40% rate of return, respectively. The DB Plan's annualized rate of return was 10.82% over the last three years and 0.90% over the last five years, which is less than the June 30, 2009 (the valuation that set the fiscal year 2012 rate) actuarial assumed rate of return of 8.25%.

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

Management's Discussion and Analysis

June 30, 2012
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Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary. The actuarially determined contribution rate is considered for adoption by the Board annually. The ratio of assets to liabilities based on valuation assets was 54.1%, at June 30, 2011 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

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

For fiscal year 2012, (based on the June 30, 2009 actuarial valuation report), the normal cost rate decreased from 7.56% to 6.57%, the past service rate increased from 31.00% to 36.04%, thus producing a total actuarially determined annual contribution rate of 42.61% for fiscal year 2012. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DCR Plan, which was 2.94% for fiscal year 2012. This new calculation provided a fiscal year 2012 actuarially determined employer contribution rate of 45.55%. The Board adopted the actuarially determined contribution rate of 45.55% for fiscal year 2012.

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

	Valuation Year	
	2011	**2010**
Valuation assets	$4,937,937	4,739,128
Accrued liabilities (total benefits)	9,128,795	8,847,788
Unfunded accrued liability	4,190,858	4,108,660
Funding ratio based on valuation assets	54.1%	53.6%
Fair value of assets	$4,732,860	4,024,193
Funding ratio based on fair value of assets	51.8%	45.5%

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Contributions, Investment Income and Other Additions

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

Additions (reductions) (In thousands)

	2012	2011	Increase/(decrease) Amount	Increase/(decrease) Percentage	2010
Plan members contributions	$ 68,298	69,150	(852)	(1.2)%	$ 67,722
Employer contributions	95,709	94,787	922	1.0	92,359
Appropriation – State of Alaska	234,517	190,850	43,667	22.9	173,462
Net investment income	13,901	852,859	(838,958)	(98.4)	396,417
Legal settlement	—	—	—	—	54,585
Other additions	12,552	5,010	7,542	150.5	4,459
Total	$ 424,977	1,212,656	(787,679)	(65.0)%	$ 789,004

The System's employer contributions increased from $94,787,000 in fiscal year 2011 to $95,709,000 in fiscal year 2012, an increase of $922,000 or 1.0%. The System's employer contributions increased from $92,359,000 in fiscal year 2010 to $94,787,000 in fiscal year 2011, an increase of $2,428,000 or 2.6%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $234,517,000 for fiscal year 2012 and $190,850,000 for fiscal year 2011 in employer on-behalf payments as required by Alaska Statute 14.25.085. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate decreased from 38.56% in fiscal year 2011 to 45.55% in fiscal year 2012. The employer effective contribution rate of 12.56% is established in Alaska Statute 14.25.070(a).

The System's net investment income in fiscal year 2012 decreased by $838,958,000 or 98.4% from amounts recorded in fiscal year 2011. The System experienced net investment income of $852,859,000 in fiscal year 2011 and net investment income of $396,417,000 in fiscal year 2010. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2012, the System experienced mixed returns on investments.

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

	Year ended		
	2012	2011	2010
System returns	0.51%	21.40%	11.58%
Domestic equities	1.83	33.38	15.47
International equities	(13.66)	28.27	12.03
Fixed income	4.82	5.55	11.35
Private equity	9.44	20.12	18.87
Absolute return	(2.05)	5.99	6.60
Real assets	10.45	15.51	0.06
Cash equivalents	0.42	0.46	—

During fiscal year 2010, the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract, and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to $500 million in exchange for dismissal of the lawsuit. The amount allocated to the Teachers' Retirement System was $44 million after legal fees were deducted.

Benefits and Other Deductions

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

	Deductions (In thousands)				
			Increase		
	2012	2011	Amount	Percentage	2010
Pension benefits	$ 361,202	343,191	18,011	5.2%	$332,690
Postemployment healthcare benefits	110,632	103,405	7,227	7.0	110,313
Refund of contributions	5,428	4,486	942	21.0	4,402
Legal fees	—	—	—	—	10,592
Administrative	6,681	6,575	106	1.6	6,049
Total	$ 483,943	457,657	26,286	5.7%	$464,046

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The System's pension benefit payments in 2012 increased $18,011,000 or 5.2% from fiscal year 2011 and increased $10,501,000 or 3.2% from fiscal year 2010 to 2011. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2012 increased $7,227,000 or 7.0% from fiscal year 2011 and decreased $6,908,000 or 6.3% from fiscal year 2010 to 2011. The increase in healthcare costs in fiscal year 2012 is attributable in part to an increase in both the total number of claims and the average size of each claim.

The System's administrative deductions in 2012 increased $106,000 or 1.6% from fiscal year 2011 and increased $526,000 or 8.7% from fiscal year 2010. The increase in administrative costs in fiscal year 2012 is related to an increase in personnel and actuarial services.

During fiscal year 2010, the System incurred legal fees of $10,592,000 associated with the legal settlement paid to the State of Alaska by Mercer.

Funding

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

- The employer contribution rate is determined by the System's consulting actuary and considered for adoption by the Board annually. Alaska Statute 14.25.070(a) sets the employer effective contribution rate at 12.56%. The difference between actuarially determined Board adopted rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.

- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Plan.

- Alaska Statute 14.25.085 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions are sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.

- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2012, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 284 appropriates $302.8 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2013. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 12.56% and the Board adopted rate of 52.67% for fiscal year 2013.

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

Fiscal year 2012 was a year of mixed investment returns. Net investment income decreased from $838,958,000 in fiscal year 2011 to $13,901,000 in fiscal year 2012, a decrease of $838,958,000 or 98.4%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments fell short of the actuarially assumed return of 8.25% (based on the June 30, 2009 actuarial report, which established the fiscal year 2012 rate) with a system rate of return of 0.51% at June 30, 2012.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 38.56% in fiscal year 2011 to 42.61% in fiscal year 2012. The Board adopted the actuarially determined contribution rate of 45.55% for fiscal year 2012, up 6.99% from the fiscal year 2011 Board-adopted actuarially determined contribution rate of 38.56%. The statutory employer effective contribution rate remained at 12.56% for fiscal years 2011 and 2012.

The June 30, 2011 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 54.1% and an unfunded liability of $4.2 billion.

For fiscal years 2012 and 2011, the DCR Plan's employer contribution rate was established at 12.56%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.58% and 0.68% for fiscal years 2012 and 2011, respectively. The DCR Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.00% and 0.28% for fiscal years 2012 and 2011, respectively.

Requests for Information

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

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

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Statement of System Net Assets
June 30, 2012

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

	Defined benefit plans			Defined contribution pension trust fund						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2012	System total June 30, 2011
Assets:										
Cash and cash equivalents (notes 3 and 4):										
Short-term fixed income pool	$ 60,640	27,908	88,548	2,746	37	320	1,469	4,572	93,120	27,164
Great West account	—	—	—	863	—	—	—	863	863	181
Total cash and cash equivalents	60,640	27,908	88,548	3,609	37	320	1,469	5,435	93,983	27,345
Receivables:										
Contributions	4,014	202	4,216	107	—	4	8	119	4,335	4,404
Due from State of Alaska General Fund	—	2,432	2,432	2,151	—	63	297	2,511	4,943	10,736
Due from retiree health fund	3	—	3	—	—	—	—	—	3	1
Other account receivable	—	—	—	—	—	—	—	—	—	3,360
Total receivables	4,017	2,634	6,651	2,258	—	67	305	2,630	9,281	18,501
Investments (notes 3, 4 and 5), at fair value:										
Fixed income securities										
Retirement fixed income pool	3,636	1,979	5,615	—	3	8	28	39	5,654	11,447
U.S. Treasury fixed income pool	305,057	179,497	484,554	—	252	713	2,550	3,515	488,069	511,040
High yield fixed income pool	81,775	44,511	126,286	—	63	177	632	872	127,158	118,450
International fixed income pool	69,402	37,774	107,176	—	53	150	537	740	107,916	109,778
Emerging markets debt pool	22,883	12,456	35,339	—	17	50	177	244	35,583	37,389
Total fixed income securities	482,753	276,217	758,970	—	388	1,098	3,924	5,410	764,380	788,104
Broad domestic equity	890,798	484,853	1,375,651	—	682	1,927	6,887	9,496	1,385,147	1,423,475
Broad international equity:										
International equity pool	491,950	267,762	759,712	—	376	1,064	3,803	5,243	764,955	855,557
Emerging markets equity pool	159,454	86,789	246,243	—	122	345	1,233	1,700	247,943	285,858
Total broad international equity	651,404	354,551	1,005,955	—	498	1,409	5,036	6,943	1,012,898	1,141,415
Private equity pool	298,124	162,277	460,401	—	228	645	2,306	3,179	463,580	436,657
Absolute return pool	127,549	69,427	196,976	—	98	276	986	1,360	198,336	209,830
Real assets:										
Real estate pool	240,716	131,058	371,774	—	184	521	1,862	2,567	374,341	379,135
Real estate investment trust pool	34,589	18,826	53,415	—	27	75	267	369	53,784	48,287
Energy pool	21,518	11,713	33,231	—	17	47	167	231	33,462	22,655
Farmland pool	103,823	64,530	168,353	—	91	256	917	1,264	169,617	158,531
Farmland water pool	14,648	—	14,648	—	—	—	—	—	14,648	13,877
Timber pool	42,439	23,100	65,539	—	33	92	328	453	65,992	55,658
Treasury inflation protected securities pool	36,556	19,898	56,454	—	28	79	283	390	56,844	56,053
Total real assets	494,289	269,125	763,414	—	380	1,070	3,824	5,274	768,688	734,196
Other investment funds, at fair value:										
Pooled investment funds	—	—	—	38,667	—	—	—	38,667	38,667	26,079
Collective investment funds	—	—	—	66,636	—	—	—	66,636	66,636	54,127
Total other investment funds	—	—	—	105,303	—	—	—	105,303	105,303	80,206
Total investments	2,944,917	1,616,450	4,561,367	105,303	2,274	6,425	22,963	136,965	4,698,332	4,813,883
Other assets	—	1,179	1,179	—	—	—	—	—	1,179	984
Total assets	3,009,574	1,648,171	4,657,745	111,170	2,311	6,812	24,737	145,030	4,802,775	4,860,713
Liabilities:										
Accrued expenses	2,735	317	3,052	781	—	—	—	781	3,833	4,268
Claims payable (note 6)	—	14,813	14,813	—	—	—	—	—	14,813	13,542
Due to State of Alaska General Fund	192	—	192	—	—	—	—	—	192	—
Total liabilities	2,927	15,130	18,057	781	—	—	—	781	18,838	17,810
Commitment and contingencies (note 8)	—	—	—	—	—	—	—	—	—	—
Net assets held in trust for pension and postemployment healthcare benefits	$3,006,647	1,633,041	4,639,688	110,389	2,311	6,812	24,737	144,249	4,783,937	4,842,903

See accompanying notes to the financial statements.

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Statement of Changes in System Net Assets
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(With summarized financial information for June 30, 2011)
(In thousands)

	Defined benefit plans			Defined contribution pension trust fund						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2012	System total June 30, 2011
Additions:										
Contributions:										
Employers	$ 38,189	36,281	74,470	14,003	(1)	1,160	6,077	21,239	95,709	94,787
Plan members	52,020	183	52,203	16,095	—	—	—	16,095	68,298	69,150
Employer legislative relief	157,387	77,130	234,517	—	—	—	—	—	234,517	190,850
Total contributions	247,596	113,594	361,190	30,098	(1)	1,160	6,077	37,334	398,524	354,787
Investment income (loss):										
Net appreciation (depreciation) in fair value (note 2)	(64,832)	(28,879)	(93,711)	(320)	(22)	(36)	(73)	(451)	(94,162)	759,877
Interest	16,916	9,218	26,134	13	12	33	113	171	26,305	25,637
Dividends	60,024	31,132	91,156	—	42	110	374	526	91,682	77,243
Total investment income (loss)	12,108	11,471	23,579	(307)	32	107	414	246	23,825	862,757
Less investment expense	9,918	6	9,924	—	—	—	—	—	9,924	9,898
Net investment income (loss)	2,190	11,465	13,655	(307)	32	107	414	246	13,901	852,859
Other:										
Other	17	12,535	12,552	—	—	—	—	—	12,552	5,010
Total additions	249,803	137,594	387,397	29,791	31	1,267	6,491	37,580	424,977	1,212,656
Deductions:										
Pension and postemployment benefits	361,202	110,632	471,834	—	—	—	—	—	471,834	446,596
Refunds of contributions	2,637	—	2,637	2,791	—	—	—	2,791	5,428	4,486
Administrative	2,847	3,251	6,098	583	—	—	—	583	6,681	6,575
Total deductions	366,686	113,883	480,569	3,374	—	—	—	3,374	483,943	457,657
Net increase (decrease)	(116,883)	23,711	(93,172)	26,417	31	1,267	6,491	34,206	(58,966)	754,999
Net assets held in trust for pension and postemployment healthcare benefits:										
Balance, beginning of year	3,123,530	1,609,330	4,732,860	83,972	2,280	5,545	18,246	110,043	4,842,903	4,087,904
Balance, end of year	$3,006,647	1,633,041	4,639,688	110,389	2,311	6,812	24,737	144,249	4,783,937	4,842,903

See accompanying notes to the financial statements.

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(1) Description

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

At June 30, 2012 and 2011, the number of participating local government employers was as follows:

State of Alaska	1
School districts	53
Other	4
Total employers	58

Inclusion in the DB Plan and DCR Plan is a condition of employment for permanent school district, University of Alaska, and State Department of Education employees who meet the eligibility requirements for participation.

Defined Benefit Retirement Plan

General

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

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

	Valuation as of June 30	
	2011	**2010**
Retirees and beneficiaries currently receiving benefits	11,016	10,598
Terminated plan members entitled to future benefits	852	840
Total current and future benefits	11,868	11,438
Active plan members:		
Vested	5,911	5,959
Nonvested	1,392	1,873
Total active plan members	7,303	7,832
Total members	19,171	19,270

Pension Benefits

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, 55, or early retirement age, 50. For members hired after June 30, 1990, the normal and early retirement ages are 60 and 55, respectively. Members may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and average base salary. The average base salary is based upon the members' three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of 20 years is equal to 2% of the employee's average base salary. The benefit for each year over 20 years of service subsequent to June 30, 1990 is equal to 2.5% of the employee's base salary.

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 benefits are payable under the 1% supplemental contributions provision.

The DB Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's administrator, if the cost of living in the previous calendar year rises and the financial condition of the DB Plan's permits. 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.

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Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age 60 or older, regardless of their initial hire dates. Members first hired after June 30, 1990 may receive major medical benefits prior to age 60 by paying premiums.

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

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the DB Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the DB Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the DB Plan member's base salary. DB Plan members first hired after June 30, 1982 are not eligible to participate in this provision.

If an active DB Plan member dies from occupational causes, the spouse may receive a monthly pension from the DB Plan. When death is due to occupational causes and there is no surviving spouse, the DB Plan member's dependent child(ren) may receive a monthly pension until the child(ren) is/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 is 40% of the member's base salary at the time of death. 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 base salary at the time of death and the credited service that would have accrued had the DB Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. 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 base salary at the time of death. If the DB Plan member is not married or vested, a lump-sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

If a DB Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits, and becomes permanently disabled, the DB Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled System member receives normal retirement benefits.

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Contributions

DB Plan Member Contributions

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1.11% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.50% per annum, compounded annually.

Employer Contributions

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

Contributions from the State of Alaska

Alaska Statute 14.25.085 requires that additional state contributions made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Alaska Retirement Management Board (the Board) for that fiscal year.

Refunds

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

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Defined Contribution Retirement Plan

General

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

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

At June 30, 2012 and 2011, the DCR Pension Trust Fund membership consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	326	285
50% Vested	165	123
75% Vested	82	70
100% Vested	61	24
Total terminated plan members entitled to future benefits	634	502
Total current and future benefits	634	502
Active plan members:		
25% Vested	618	653
50% Vested	552	544
75% Vested	499	441
100% Vested	646	259
Nonvested	813	841
Total active plan members	3,128	2,738
Total members	3,762	3,240

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Pension Benefits

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

Postemployment Healthcare Benefits

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

Death Benefits

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

The monthly survivor's pension section for survivors of employees is 40% of the employee's monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

Disability Benefits

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

Contributions

Defined Contribution Member Contributions

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

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Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 7.0% of the member's compensation.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds. Investment options are disclosed in note 3.

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

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment.

Participant Accounts

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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Use of Estimates

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

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

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

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

Investments

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

Pooled Investments

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

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The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

Valuation and Income Allocation

Fixed Income Pools and Treasury Inflation Protected Securities (TIPS)

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

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

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

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

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

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

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

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

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

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

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

Defined Contribution Participant Directed Investments

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

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the DCR Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets comprise domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better, as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the DCR Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets comprise commingled investment funds, alongside other investors, through ownership of equity shares.

Contributions Receivable

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

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Administrative Costs

Administrative costs are paid from investment earnings.

Due From (to) State of Alaska General Fund

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

Federal Income Tax Status

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

(3) Investments

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

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

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

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

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

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(4) Deposit and Investment Risk

At June 30, 2012, the System investments included the following (in thousands):

	Fair Value								
	Fixed income pools								
	Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS	Other	Total
Bridge loans	$ —	—	—	1,078	—	—	—	—	1,078
Commercial paper	5,955	—	—	—	—	—	—	—	5,955
Convertible bonds	—	—	—	1,176	—	29,472	—	—	30,648
Corporate bonds	15,931	—	25,827	108,384	—	—	—	—	150,142
Deposits	699	—	—	6,450	479	441	—	—	8,069
Foreign corporate bonds	—	—	—	211	2,452	—	—	—	2,663
Foreign government bonds	—	—	—	—	102,958	—	—	—	102,958
Mortgage-backed	1,485	3,368	15,835	—	—	—	—	—	20,688
Municipal bonds	—	—	565	—	—	—	—	—	565
Other asset-backed	61,672	—	724	—	—	—	—	—	62,396
Short-term investment fund	—	—	—	—	803	—	—	5,609	6,412
U.S. government agency	2,097	—	2,582	—	—	—	—	—	4,679
Treasury bills	92,480	—	—	—	—	—	—	—	92,480
Treasury bonds	—	—	35,124	—	—	—	—	—	35,124
Treasury notes	—	—	390,374	—	—	—	—	—	390,374
U.S. Treasury TIP bonds	—	—	—	—	—	—	21,719	—	21,719
U.S. Treasury TIP notes	—	—	—	—	—	—	34,635	—	34,635
Yankees:									
Corporate	3,665	—	3,698	8,469	—	—	—	—	15,832
Government	—	—	1,864	—	—	—	—	—	1,864
Fixed income pools:									
Warrants	—	—	—	4	—	2,654	—	—	2,658
Emerging markets debt pool	—	—	—	—	—	—	—	35,583	35,583
Broad domestic equity pool:									
Deposit	—	—	—	—	—	—	—	13,537	13,537
Equity	—	—	—	—	—	—	—	1,229,645	1,229,645
Futures	—	—	—	—	—	—	—	455	455
Limited partnership	—	—	—	—	—	—	—	69,615	69,615
Mutual fund	—	—	—	—	—	—	—	11,743	11,743
Options	—	—	—	—	—	—	—	(5,793)	(5,793)
Treasury bills	—	—	—	—	—	—	—	655	655
Broad international equity pool:									
Deposits	—	—	—	—	—	—	—	14,394	14,394
Equity	—	—	—	—	—	—	—	685,514	685,514
Mutual funds	—	—	—	—	—	—	—	57,831	57,831
Rights	—	—	—	—	—	—	—	12	12
Emerging markets equity pool	—	—	—	—	—	—	—	247,943	247,943
Private equity pool:									
Limited partnerships	—	—	—	—	—	—	—	463,580	463,580
Absolute return pool:									
Limited partnerships	—	—	—	—	—	—	—	198,336	198,336
Real estate pool:									
Commingled funds	—	—	—	—	—	—	—	85,387	85,387
Limited partnerships	—	—	—	—	—	—	—	99,511	99,511
Real estate	—	—	—	—	—	—	—	189,443	189,443
Real estate investment trust pool:									
Equity	—	—	—	—	—	—	—	53,523	53,523
Energy pool:									
Limited partnerships	—	—	—	—	—	—	—	33,461	33,461
Farmland pool:									
Agricultural holdings	—	—	—	—	—	—	—	169,618	169,618
Farmland water pool:									
Agricultural holdings	—	—	—	—	—	—	—	14,648	14,648
Timber pool:									
Timber holdings	—	—	—	—	—	—	—	65,992	65,992
Participant directed:									
Collective investment funds	—	—	—	—	—	—	—	66,501	66,501
Pooled investment funds	—	—	—	—	—	—	—	38,589	38,589
Net other assets (liabilities)	(4,962)	31	(41,740)	1,386	1,224	199	309	4,130	(39,423)
Other pool ownership	(85,902)	2,255	53,216	—	—	—	181	30,250	—
Unallocated deposit in transit	—	—	—	—	—	—	—	213	213
Total invested assets	$ 93,120	5,654	488,069	127,158	107,916	32,766	56,844	3,879,925	4,791,452

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Interest Rate Risk

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

Short–Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2012, the expected average life of individual fixed rate securities ranged from two days to twenty five years and the expected average life of floating rate securities ranged from twelve days to nine years.

Other Defined Benefit Fixed Income Pools

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

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2012, was 5.07 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2012 was 3.86 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2012 was 4.21 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ± 25% of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversification Index. The effective duration for Citigroup Non-USD Word Government Bond Index at June 30, 2012, was 7.26 years and the effective duration of JP Morgan Global Bond Index at June 30, 2012 was 4.75, for a blended duration of 6.50 at June 30, 2012.

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Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20% of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2012 was 9.27 years.

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

At June 30, 2012, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows (in years):

	Effective duration				
	Retirement	**U.S. Treasury**	**High yield**	**International**	**TIPS**
Cash equivalent	0.26	0.26	—	—	0.26
Convertible bonds	—	—	0.12	—	—
Corporate	—	3.83	3.82	—	—
Foreign corporate bonds	—	—	—	3.27	—
Foreign government bonds	—	—	4.81	5.48	—
Mortgage backed	—	2.49	—	—	—
Other asset backed	—	0.83	—	—	—
U.S. government agency	—	7.27	—	—	—
U.S. Treasury bonds	—	6.83	—	—	9.91
U.S. Treasury notes	—	3.48	—	—	2.22
Yankees:					
Corporate	—	2.14	3.74	—	—
Government	—	1.23	—	—	—
Portfolio effective duration	**1.66**	**3.36**	**3.57**	**5.34**	**5.16**

Defined Contribution Pooled Investment Funds

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

> Under normal conditions, for government debt, corporate debt and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.
>
> At June 30, 2012, the duration of the government corporate debt and mortgage-backed securities was 5.06 years and the duration of the Barclays Capital Aggregate Bond Index was 5.07 years.
>
> Under normal conditions, the DCR Plan will invest in cash equivalent instruments with maturities of less than one year.

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Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2012, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 49 days, SSgA World Government Bond Ex-U.S. Index: 7.40 years, SSgA Long U.S. Treasury Bond Index: 16.63 years, SSgA TIPS Index: 5.12 years, Barclays Gov/Corp Bond Fund: 5.67 years, and the Barclays Intermediate Bond Fund: 3.64 years.

Credit Risk

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

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

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

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

Retirement Fixed Income

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

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

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

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

U.S. Treasury Fixed Income

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

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

High Yield Fixed Income

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

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

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

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

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher. Only one rating is necessary.

International Fixed Income

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

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

Convertible Bonds

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

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

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

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

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TIPS

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

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

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

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

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

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

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

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

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At June 30, 2012, the System's Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed income pools						
Investment type	**Rating**	**Short-term**	**Retirement**	**U.S. Treasury**	**High yield**	**International**	**Convertible**	**TIPS**
Bank loans	BB	—%	—%	—%	0.36%	—%	—%	—%
Bank loans	Not rated	—	—	—	0.49	—	—	—
Commercial paper	Not rated	3.33	—	—	—	—	—	—
Convertible bonds	AAA	—	—	—	—	—	1.56	—
Convertible bonds	A	—	—	—	0.25	—	8.26	—
Convertible bonds	BBB	—	—	—	0.37	—	17.19	—
Convertible bonds	BB	—	—	—	—	—	19.40	—
Convertible bonds	B	—	—	—	0.07	—	13.72	—
Convertible bonds	CCC	—	—	—	—	—	0.58	—
Convertible bonds	Not rated	—	—	—	0.49	—	29.24	—
Corporate bonds	AA	4.94	—	0.94	—	—	—	—
Corporate bonds	A	3.60	—	2.72	—	—	—	—
Corporate bonds	BBB	—	—	1.17	3.22	—	—	—
Corporate bonds	BB	—	—	—	33.38	—	—	—
Corporate bonds	B	—	—	—	39.68	—	—	—
Corporate bonds	CCC	—	—	—	6.25	—	—	—
Corporate bonds	Not rated	0.35	—	0.57	2.44	—	—	—
Equity	BBB	—	—	—	—	—	2.15	—
Equity	BB	—	—	—	—	—	3.00	—
Equity	B	—	—	—	—	—	1.33	—
Equity	CCC	—	—	—	—	—	0.35	—
Equity	Not rated	—	—	—	—	—	1.27	—
Foreign corporate bonds	AA	—	—	—	—	0.67	—	—
Foreign corporate bonds	A	—	—	—	—	3.07	—	—
Foreign government bonds	AA	—	—	—	—	1.56	—	—
Foreign government bonds	A	—	—	—	—	21.37	—	—
Foreign government bonds	BBB	—	—	—	0.17	2.24	—	—
Foreign government bonds	BB	—	—	—	—	4.49	—	—
Foreign government bonds	Not rated	—	—	—	—	65.42	—	—
Government agency	AA	1.17	—	0.53	—	—	—	—
Mortgage backed	AAA	0.46	7.96	0.47	—	—	—	—
Mortgage backed	AA	—	31.67	1.82	—	—	—	—
Mortgage backed	CCC	—	10.53	—	—	—	—	—
Mortgage backed	Not rated	0.37	9.40	0.95	—	—	—	—
Other asset backed	AAA	26.15	—	—	—	—	—	—
Other asset backed	AA	1.90	—	—	—	—	—	—
Other asset backed	A	0.08	—	0.13	—	—	—	—
Other asset backed	Not rated	6.30	—	0.02	—	—	—	—
Other pool ownership	Not rated	—	39.90	10.90	—	—	—	0.32
Short-term investment	Not rated	—	—	—	—	0.74	—	—
U.S. Treasury bills	AA	51.67	—	—	—	—	—	—
U.S. Treasury bonds	AA	—	—	7.20	—	—	—	38.21
U.S. Treasury notes	AA	—	—	79.99	—	—	—	60.93
Yankees:								
Corporate	AA	1.42	—	—	—	—	—	—
Corporate	A	0.62	—	0.44	—	—	—	—
Corporate	BBB	—	—	0.32	—	—	—	—
Corporate	BB	—	—	—	2.76	—	—	—
Corporate	B	—	—	—	3.44	—	—	—
Corporate	Not rated	—	—	—	0.47	—	—	—
Government	AA	—	—	0.29	—	—	—	—
Government	Not rated	—	—	0.09	—	—	—	—
No credit exposure		(2.36)	0.54	(8.55)	6.16	0.44	1.95	0.54
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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Custodial Credit Risk – Deposits

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

At June 30, 2012, the System's Invested Assets had the following uncollateralized and uninsured deposits (in thousands):

	Amount
Board international equity pool	$ 14,393
International fixed income pool	479

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

Fixed income	Global equity ex-U.S.	Private equity pool
21%	27%	13%

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

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At June 30, 2012, the System had exposure to foreign currency risk with the following deposits (in thousands):

	Amount	
Currency	International fixed income pool	Broad international equity pool
Australian dollar	$ —	99
Brazilian real	—	14
Canadian dollar	—	74
Danish krone	—	36
Euro currency	—	12,428
Hong Kong dollar	—	46
Hungarian fornit	78	—
Israeli shekel	—	10
Japanese yen	76	1,173
Mexican peso	305	—
New Zealand dollar	—	8
Norwegian krone	—	23
Pound sterling	—	280
Singapore dollar	—	30
South African rand	20	—
Swedish krona	—	19
Swiss franc	—	153
	$ 479	14,393

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At June 30, 2012, the System had exposure to foreign currency risk with the following investments (in thousands):

	Amount			
	International fixed income pool		Broad international equity pool	Private equity pool
Currency	Foreign government	Corporate	Equity	Limited partnerships
Australian dollar	$ —	—	26,627	11
Brazilian real	6,146	—	2,477	—
Canadian dollar	—	—	25,079	—
Chilean peso	972	—	—	—
Colombian peso	1,019	—	—	—
Czech koruna	—	—	236	—
Danish krone	—	—	5,940	—
Euro currency	17,548	1,029	181,375	43,908
Hong Kong dollar	—	—	22,555	—
Hungarian forint	4,866	—	—	—
Indian rupee	—	—	2,108	—
Indonesian rupah	954	—	1,535	—
Israeli shekel	1,928	—	284	—
Japanese yen	37,886	731	135,533	—
Malaysian ringgit	1,647	—	—	—
Mexican peso	7,956	692	258	—
New Taiwan dollar	—	—	543	—
New Zealand dollar	—	—	2,141	—
Norwegian krone	—	—	3,034	—
Peruvian Nouveau sol	356	—	—	—
Polish zloty	11,496	—	218	—
Pound sterling	5,850	—	143,164	7,195
Singapore dollar	—	—	8,790	—
South African rand	3,288	—	1,074	—
South Korean won	—	—	13,236	—
Swedish krona	—	—	15,445	—
Swiss franc	—	—	40,566	—
Thailand baht	—	—	3,338	—
Turkish lira	1,046	—	—	—
	$ 102,958	2,452	635,556	51,114

At June 30, 2012, the System also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled funds; therefore, no disclosure of specific currencies is made.

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Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the United States government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income and Convertible Bond Pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the Emerging Debt or TIPS Pools.

At June 30, 2012, the System did not have exposure to any one issuer greater than 5% of total invested assets.

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

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

On June 30, 2012, the System had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value as of June 30, 2012	
	Classification	Amount	Amount	Notional
Equity options bought	Investment revenue	$ 290	$ —	—
Equity options written	Investment revenue	7,238	(5,773)	(1,067)
FX forwards	Investment revenue	242	20	6,707
Index futures long	Investment revenue	651	—	15
Index options bought	Investment revenue	5	—	—
Index options written	Investment revenue	118	(22)	(2)
Rights	Investment revenue	29	12	30
Warrants	Investment revenue	3	4	2
Grand totals		$ 8,576	$ (5,759)	

The above derivatives are classified within the Statement of System Net Assets within the various investment pools to which they relate.

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

At June 30, 2012, the System had the following Foreign Currency risk related to forward contracts (in thousands):

	Currency Forward Contracts			
Currency name	Options	Net receivables	Net payables	Total exposure
Australian dollar	—	5,933	933	6,866
Canadian dollar	2,713	—	—	2,713
Euro currency	9,727	2,944	(19,368)	(6,697)
Japanese yen	—	—	24,632	24,632
New Zealand dollar	—	—	5,429	5,429
	12,440	8,877	11,626	32,943

At June 30, 2012, the System had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

Counterparty name	Percentage of net exposure	S&P rating	Fitch rating	Moody's rating
Credit Suisse - London (GFX)	54.0%	A+	A	A1
State Street Bank London	31.0	A+	A+	A1
Mellon Bank N.A.	8.0	A+	AA-	Aa3
Bank of America N.A.	7.0	A	A	A3
Maximum amount of loss Alaska ARMB (TRS) would face in case of default of all counterparties i.e., aggregated (positive) fair value of OTC positions as of June 30, 2012				$ 39,870
Effect of collateral reducing maximum exposure				—
Liabilities subject to netting arrangements reducing exposure				—
Resulting net exposure				$ 39,870

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(6) Claims Payable

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

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

	2012	2011
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	$ —	—
Incurred but not reported	13,542	13,551
Total, beginning of year	13,542	13,551
Benefit deductions	110,632	103,405
Benefits paid	(109,361)	(103,414)
Total, end of year	14,813	13,542
End of year:		
Due to State of Alaska General Fund for outstanding warrants	—	—
Incurred but not reported	14,813	13,542
Total, end of year	$ 14,813	13,542

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(7) Funded Status and Funding Progress

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

	Actuarial valuation date	Actuarial aggregate accrued liability (AAL) - entry age	Actuarial valuation assets	Assets as a percent of accrued liability (funded ratio)	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Pension	June 30, 2011	$ 6,196,104	3,345,949	54.0%	$ 2,850,155	584,068	488.0%
Post employment healthcare	June 30, 2011	3,635,492	1,591,988	43.8	2,043,504	584,068	349.9

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

	Actuarial valuation date	Actuarial accrued liability (AAL) - entry age	Actuarial valuation assets	Funded ratio	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2011	$ 57	2,193	3,847.4%	$ (2,136)	170,606	(1.3)%
Retiree medical	June 30, 2011	4,386	5,373	122.5	(987)	170,606	(0.6)

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

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

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

June 30, 2011

Valuation Date	Defined Benefit	Defined Contribution ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical
Amortization method	Level dollar, closed	Level percent of pay, closed with bases established annually
Equivalent single amortization period	18 years	23 years
Asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.00% for pension, 8.00% for healthcare (includes inflation at 3.12%)	8.00% (includes inflation at 3.12%)
Projected salary increases	6.11% for first 5 years of service grading down to 3.2% after 20 years	6.11% for first 5 years of service grading down to 3.62% after 20 years
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

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

Fiscal year	Medical	Prescription drugs
2012	6.4%	7.1%
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2018	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

The State of Alaska Teachers Retirement System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of the ARC actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 7.08% as of June 30, 2009, to be used for fiscal 2012 disclosure.

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

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

Disregarding future Medicare Part D payments, the fiscal 2014 employer ARC for accounting purposes is 0.58% of pay for retiree medical benefits and 0.58% of pay for retiree medical and death and disability benefits combined.

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(8) Commitments and Contingencies

Commitments

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2012, the System's share of the unfunded commitment totaled $5,971,105. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $248,078,806. These commitments are estimated to be paid through 2022.

The Board entered into agreements through external investment managers to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $11,507,268 to be paid through the year 2019.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $27,798,655 to be paid through the year 2014.

Contingencies

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

(9) Medicare Part D Retiree Drug Subsidy

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a RDS payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The DB Plan was approved for participation in the Medicare Part D program beginning calendar year 2006.

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(10) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) a temporary program that provides reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the plan is up to 80% of claims cost for health benefits between $15,000 and $90,000. The program was authorized by the Affordable Care Act as part of the U.S. Government Health Reform package. The plan started participation in the ERRP program beginning calendar year 2012. The program ends on January 1, 2014.

(11) Recently Issued Accounting Standards

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

The GASB also issued GASBS 68, *Accounting and Financial Reporting for Pensions* an amendment of GASB Statement No. 27. This Statement requires that an employer recognize its obligation for pensions net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation as well as additional notes to the financial statements regarding the obligation. The new standard is effective for fiscal periods beginning after June 15, 2014. The Plan will implement the provisions for the year ended June 30, 2015.

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

June 30, 2012
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2006	$ 4,859,336	3,296,934	67.8%	$1,562,402	574,409	272.0%
2007	5,043,448	3,441,867	68.2	1,601,581	554,245	289.0
2008	5,231,654	3,670,086	70.2	1,561,568	549,148	284.4
2009	5,463,987	3,115,719	57.0	2,348,268	557,026	421.6
2010	6,006,981	3,259,868	54.3	2,747,113	564,887	486.3
2011	6,196,104	3,345,949	54.0	2,850,155	584,068	488.0

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

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

June 30, 2012
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2006	$ 4,288,707	844,766	19.7%	$ 3,443,941	574,409	599.6%
2007	4,059,573	982,532	24.2	3,077,041	554,245	555.2
2008	4,648,055	1,266,890	27.3	3,381,165	549,148	615.7
2009	4,604,820	1,357,239	29.5	3,247,581	557,026	583.0
2010	3,076,388	1,479,260	48.1	1,597,128	564,887	282.7
2011	3,635,492	1,591,988	43.8	2,043,504	584,068	349.9

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

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

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

June 30, 2012
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	$ 16	—	—%	$ 16	28,410	0.1%
2008	44	420	954.5	(376)	56,369	(0.7)
2009	14	1,071	7,650.0	(1,057)	89,708	(1.2)
2010	18	1,577	8,761.1	(1,559)	118,813	(1.3)
2011	57	2,193	3,847.4	(2,136)	170,606	(1.3)

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

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

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

June 30, 2012
(In thousands)

Actuarial valuation date as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	$ 403	597	148.1%	$ (194)	$ 28,410	(0.7)%
2008	899	1,308	145.5	(409)	56,369	(0.7)
2009	1,690	2,353	139.2	(663)	89,708	(0.7)
2010	2,809	3,895	138.7	(1,086)	118,813	(0.9)
2011	4,386	5,373	122.5	(987)	170,606	(0.6)

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

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

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

June 30, 2012
(In thousands)

		Annual required contribution			Pension percentage contributed			Postemployment healthcare percentage contributed		
Year ended June 30	Actuarial valuation date as of June 30 [1]	Pension	Post-employment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2006	2003	$170,019	66,719	236,738	54.1%	— %	54.1%	54.1%	— %	54.1%
2007	2004	169,974	76,879	246,853	62.2	—	62.2	62.2	—	62.2
2008	2005	134,544	185,271	319,815	23.3	82.7	106.0	23.6	85.7	109.3
2009	2006	94,388	164,171	258,559	28.7	110.6	139.3	28.7	62.1	90.8
2010[2]	2007	170,788	312,922	483,710	19.8	58.8	78.6	13.6	38.8	52.4
2011	2008	167,978	167,686	335,664	19.5	65.1	84.6	25.8	51.5	77.3

[1] Actuarial valuation related to annual required contribution for fiscal year.

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

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

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

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

June 30, 2012
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 72	— %
2008	408	100.0
2009	623	100.0
2010	442	100.0
2011	474	100.0

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

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

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

June 30, 2012
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 575	100.0%
2008	763	85.0
2009	1,162	85.0
2010	1,628	87.0
2011	1,422	81.0

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(1) Description of Schedule of Funding Progress

Each time a new benefit is added, which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the System require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2011 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of pay. However, for Governmental Accounting Standards Board (GASB) disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

(b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years and phased in over the next five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

(c) Valuation of medical benefits – Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects 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. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – inflation 3.12% per year, and productivity 0.50% per year.

(f) Payroll growth – 3.62% per year (inflation + productivity).

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

STATE OF ALASKA
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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(h) Mortality (pre-termination) – Based upon the 2005 – 2009 actual experience study, adopted in 2010. 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from non-occupational causes 85% of the time. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

(i) Mortality (post-termination) – Based upon the 2005 – 2009 actual experience study, adopted in 2010. The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a three-year setback for females and four-year setback for males. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

(j) Turnover – Select and ultimate rates based upon the 2005 – 2009 actual withdrawal experience.

(k) Disability – Incidence rates based upon the 2005 – 2009 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.

(l) Retirement – Retirement rates based on the 2005 – 2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date.

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

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

(o) Contribution refunds – 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.

(p) Cost of living allowance (COLA) – Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

(q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates or dies.

(r) Post-retirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic PRPA as specified in the statute.

(s) Expenses – All expenses are net of investment return assumption.

(t) Part-time status – Part-time members are assumed to earn 0.60 years of credited service per year.

(u) Re-employment option – The actuary assumes all re-employed retirees return to work under the Standard Option.

STATE OF ALASKA
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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(v) Service – Total credited service is provided by the State of Alaska (State). The actuary assumes that this service is 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.

(w) 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.

(x) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY12 medical benefits and prescription are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,497	2,799
Medicare Parts A and B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

(y) Third-party administrator fees – $162.47 per person per year; assumed trend rate of 5% per year.

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

(aa) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.4% is applied to the FY12 medical claims costs to get the FY13 medical claims cost.

Fiscal year	Medical	Prescription drugs
2012	6.4%	7.1%
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2018	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

For the June 30, 2009 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amount beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

(bb) Aging factors:

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

(cc) Retired member contributions for medical benefits – Currently, contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY12 contributions based on monthly rates shown below for calendar 2011 and 2012 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 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

	Calendar 2012		Calendar 2011
Coverage category	Annual contribution	Monthly contribution	Monthly contribution
Retiree only	$ 9,684	807	791
Retiree and spouse	19,380	1,615	1,583
Retiree and child(ren)	13,680	1,140	1,118
Retiree and family	23,376	1,948	1,910
Composite	14,400	1,200	1,176

(dd) Trend rate for retired member contributions – The table below shows the rate used to project the retired member

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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

medical contributions from the shown fiscal year to the next fiscal year. For example, 6.3% is applied to the FY12 retired member medical contributions to get the FY13 retired member medical contributions.

Fiscal year:	
2012	6.3%
2013	6.0
2014	5.7
2015	5.3
2016	5.0
2017	5.0
2018	5.0
2019	5.0
2020 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY11 retired member medical contributions are reflected in the valuation so trend on such contribution during FY11 is not applicable.

(ee) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2011 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

(b) Valuation of assets – Recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. 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 fair value of assets.

STATE OF ALASKA
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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(c) Valuation of retiree medical benefits – Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2011 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles, and out-of-pocket limits, fiscal year 2011 claim costs were reduced to 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.

(f) Payroll growth – 3.62% per year (inflation+productivity).

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

(h) Mortality (pre-termination) – Based upon the 2005 – 2009 actual experience for the TRS DB Plan. 55% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and 45% for males. 15% of deaths are assumed to result from occupational causes. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

(i) Mortality (post-termination) – Based upon the 2005 – 2009 actual experience of the TRS DB Plan. Three-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and four-year setback for males. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

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

(k) Disability – Incidence rates based upon the 2005 – 2009 actual experience of the TRS DB Plan. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2012

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

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

(l) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

(m)Part-time status – Part-time employees are assumed to earn 0.60 years of credited service per year.

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

(o) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY12 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,497	2,799
Medicare Parts A and B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

(p) Third-party administrator fees – $162.47 per person per year; assumed trend rate of 5% per year.

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

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(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(r) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.4% is applied to the FY12 medical claims cost to get the FY13 medical claims costs:

Fiscal year	Medical	Prescription drugs
2012	6.4%	7.1%
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2018	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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

(s) Aging factors:

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

STATE OF ALASKA
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(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2012

(t) Retiree medical participation:

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

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

Changes in Assumptions since the Last Valuation

There was no change in assumptions since the prior valuation, except for the assumption regarding Medicare Part B only participation for pre-65 retirees and active members. The actuary now determines the Part B only status based on number of quarters worked since date of hire or rehire where applicable.

(3) Contributions – State of Alaska

Alaska Statute 14.25.085 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 12.56%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution adopted by the Board for the fiscal year. The actuarially determined required contribution adopted by the Board for fiscal year 2012 was 45.55%.

Schedule 1

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

Schedule of Administrative and Investment Deductions Defined Benefit Plan

Year ended June 30, 2012 and 2011
(In thousands)

	Administrative	Investment	Totals 2012	Totals 2011
Personal services:				
Wages	$ 1,337	13	1,350	1,876
Benefits	836	1	837	1,017
Total personal services	2,173	14	2,187	2,893
Travel:				
Transportation	16	40	56	73
Per diem	3	20	23	13
Moving	—	3	3	—
Total travel	19	63	82	86
Contractual services:				
Management and consulting	2,925	9,182	12,107	11,152
Accounting and auditing	29	340	369	342
Advertising and printing	33	2	35	43
Data processing	384	202	586	624
Communications	44	15	59	63
Rental/leases	124	21	145	129
Legal	54	22	76	93
Medical specialists	6	—	6	18
Repairs and maintenance	6	3	9	11
Other professional services	96	19	115	136
Transportation	41	1	42	43
Total contractual services	3,742	9,807	13,549	12,654
Other:				
Equipment	55	14	69	78
Supplies	109	26	135	73
Total other	164	40	204	151
Total administrative and investment deductions	$ 6,098	9,924	16,022	15,784

See accompanying independent auditors' report.

Schedule 2

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

Schedule of Administrative Deductions
Defined Contribution Retirement Trust Plan

Year ended June 30, 2012 and 2011
(In thousands)

	2012	2011
Personal services:		
Wages	$ 66	46
Benefits	50	21
Total personal services	116	67
Travel:		
Transportation	2	2
Per Diem	1	1
Total travel	3	3
Contractual services:		
Management and consulting	418	581
Accounting and auditing	18	17
Data processing	11	9
Communications	3	2
Rentals/leases	6	3
Legal	1	2
Other professional services	2	1
Total contractual services	459	615
Other:		
Equipment	1	2
Supplies	4	2
Total other	5	4
Total administrative and investment deductions	$ 583	689

See accompanying independent auditors' report.

Schedule 3

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

Schedule of Payments to Consultants Other than Investment Advisors

Year ended June 30, 2012 and 2011
(In thousands)

Firm	Services	2012	2011
Buck Consultants, an ACS Company	Auditing services	$ 319	264
KPMG LLP	Auditing services	45	43
State Street Bank Corporation	Custodian banking services	328	319
Alaska IT Group	Data processing consultants	11	16
Computer Task Group, Inc.	Data processing consultants	208	233
Six Degrees Consulting	Data processing consultants	50	42
State of Alaska, Department of Law	Legal services	55	65
		$ 1,016	982

See accompanying independent auditors' report.

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

INVESTMENT SECTION

Investment Section

Callan

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

Main 303.861.1900
Fax 303.832.8230

www.callan.com

August 31, 2012

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

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2012.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. ARMB's real estate consultant, the Townsend Group, calculates returns for the real estate segment of the portfolio. Callan incorporates that data into the total plan returns. Callan serves as ARMB's independent general investment consultant and evaluates the ARMB's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made using methodology similar to Global Investment Performance standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, the ARMB periodically evaluates liabilities, expected contributions, and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential and acceptable risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

Fiscal year 2012 was a mixed period for major investment categories. The Russell 3000 Index, a measure of the broad U.S. equity market, gained a modest 3.84% for the fiscal year. International stocks, as measured by the MSCI-ACWI ex-U.S. Index, fell 14.15%. A broad measure of the total global equity market (MSCI All Country World Index) declined 5.96%. In fiscal year 2012, the Barclays Capital Aggregate Bond Index, a widely used gauge of the investment grade domestic bond market, achieved an overall return of 7.47%. Absolute Return Strategies such as hedge fund-of-funds posted slightly negative returns during the fiscal year. For example, the Callan Absolute Return Hedge Fund-of-Funds Style median return had a negative return (net-of-fees) of 1.06%. Private real estate investments continued to advance but at a slower rate than in fiscal 2011. The NCREIF Property Index posted a very attractive 12.04% return for the fiscal 2012. Publicly traded real estate, as measured by the NAREIT Index, increased 12.48%.

For the fiscal year, the Public Employees Retirement System (PERS) had a slightly positive time-weighted total return of 0.46% and the Teachers Retirement System (TRS) had a time-weighted total return of 0.51%. Both Systems slightly trailed their strategic policy benchmark target return of 1.02% and the 1.16% median return for Callan's Public Fund database. Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 3-year annualized return was 10.68% while TRS's return was slightly higher at 10.82%. These returns were close to but slightly below their target of 10.93%. Over the longest period for which Callan has detailed data (20 ¾ years), PERS and TRS have achieved annualized total returns of 7.36% and 7.41%, respectively, while the policy benchmark return for the same span was 7.40%.

Despite the low returns across most asset categories, differences in performance within asset categories were significant. For example, Treasury bonds (as measured by the Barclays Intermediate Treasury Index) had a positive return of 5.40% while the Barclay Government Long Index had a huge 31.42% total return. Non-U.S. Government Bonds, as measured by the Non-U.S. World Gov't Bond Index, returned 0.44%. Similarly the spread in equity returns was wide. Small cap stocks, as measured by the Russell 2000 Stock Index declined 2.08% while the S&P 500 enjoyed a total return of 5.45%.

In terms of absolute returns, results for ARMB's various asset groupings were:

Real Assets	10.36%
Private Equity	9.44%
Fixed Income	4.91%
Domestic stocks	1.81%
Absolute Return	-1.28% * (adjusted to reflect Fiscal Year period)
Int'l Stocks	-13.67%

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a long-term "real" return of 4.5% or better. The current low level of interest rates combined with slow economic growth and uncertainty in the lengthy global deleveraging process, in our opinion, contribute to investor uncertainty that was apparent throughout the fiscal year.

In summary, fiscal 2012 was a volatile year for most major asset categories but one where there were only small returns for balanced investment portfolios.

Sincerely,

Michael J. O'Leary, CFA
Executive Vice President

Department of Revenue
Treasury Division
Staff

Commissioner
Bryan Butcher

Deputy Commissioner
Angela Rodell

Chief Investment Officer
Gary Bader

Comptroller
Pamela Leary, CPA

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

Investment Officers
Bob G. Mitchell
Stephen R. Sikes
Zachary Hanna
Steve Verschoor
Shane Carson
Sean Howard
Paul Hackenmueller
Casey Colton
Nicholas Orr
Victor Djajalie
Joy Wilkinson
Alyson Campbell
Emily Peyton

ARMB Liaison Officer
Judy Hall

External Money Managers and Consultants

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

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

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

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

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

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

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

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

Global Equity
Lazard Freres Asset Management
New York, NY

High Yield
MacKay Shields LLC
New York, NY
Advent Capital Management
New York, NY

External Money Managers and Consultants (cont.)

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

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

International Fixed Income
Mondrian Investment Partners
London, England

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

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

Real Assets – Commingled Funds
Almanac Realty Investors
Alpharetta, GA
BlackRock Realty
San Francisco, CA
Colony Capital
Los Angeles, CA
Cornerstone Real Estate Advisers, LLC
Hartford, CT
Coventry Real Estate Fund II, LLC
New York, NY
Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Silverpeake Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
Tishman Speyer Properties
New York NY
UBS Realty Investors, LLC
Hartford, CT

Real Assets – Core Separate Accounts
Cornerstone Real Estate Advisers, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

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

Supplemental Benefits System, Deferred Compensation Plan and Defined Contribution Plan
BlackRock
San Francisco, CA
RCM
San Francisco, CA
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD
Brandes Investment Partners
San Diego, CA

Global Master Custodian
State Street Bank & Trust Co.
Boston, MA

Independent Auditors
KPMG Peat Marwick, LLP
Anchorage, AK

Legal Counsel
Robert Johnson
Anchorage, AK

Teachers' Retirement System
Investment Report

INVESTMENTS

The investment goals of the State of Alaska Teachers' Retirement System (TRS) are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually, the Alaska Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the ARMB.

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

Asset Class	**Benchmark**
Domestic Equity	Russell 3000 Index
Global Equities Ex-U.S.	MSCI All Country World Ex-U.S. Index
Fixed Income	80% Barclays Intermediate Treasury Index, 10% Merrill Lynch High Yield II Constrained Index, 7% Citigroup World Gov. Bond Ex-U.S. Index, 3% JP Morgan Global Bond Index - Emerging Markets Broad Diversified Index
Real Assets	60% NCREIF Property Index, 20% Barclays TIPS Index, 10% NCREIF Farmland Index, 10% NCREIF Timberland Index
Private Equity	1/3 S&P 500 Index, 1/3 Russell 2000 Index, 1/3 MSCI EAFE Index
Absolute Return	91 Day Treasury Bill + 5%
Cash Equivalents	91 Day Treasury Bill

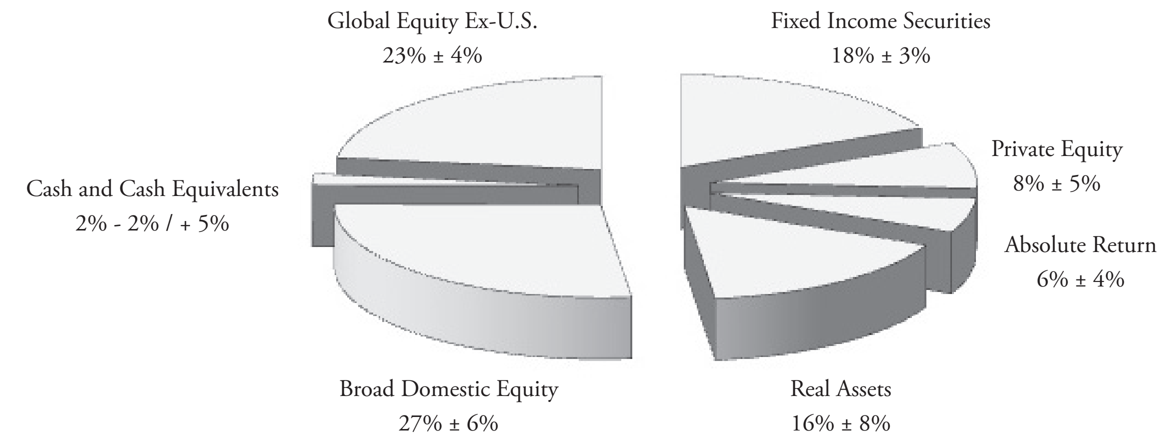
The target asset allocation is determined by the ARMB, utilizing capital market assumptions provided by its independent general investment consultant, Callan Associates. During the 2012 fiscal year, ARMB's target asset allocation was 27% domestic equities, 23% global equities ex-U.S., 18% fixed income, 16% real assets, 8% private equity, 6% absolute return, and 2% cash equivalents. The target asset allocation was expected to generate a return of 7.45% with a standard deviation of returns of 13.82%.

Teachers' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
						Annualized	
	2008	2009	2010	2011	2012	3 Year	5 Year
Total Fund							
TRS	(3.05%)	(20.62%)	11.58%	21.40%	0.51%	10.82%	0.90%
Actuarial Earnings Rate	8.25	8.25	8.25	8.00	8.00	8.00	8.00
U.S. Common Stock Returns							
TRS Domestic Equities	(13.53)	(26.80)	15.47	33.38	1.83	16.19	(0.15)
Custom Composite Index	-	(26.56)	15.72	32.37	3.84	16.73	0.16
S&P 500/Russell 2000 Composite	(13.68)	-	-	-	-	-	-
International Stock Returns							
TRS International Equities	(7.48)	(29.12)	12.03	28.27	(13.66)	7.46	(4.04)
Morgan Stanley Capital International ACWI ex-US	-	(30.54)	10.87	30.27	(14.15)	7.43	(4.70)
Morgan Stanley Capital International EAFE	(10.61)	-	-	-	-	-	-
Fixed Income							
TRS	-	3.36	11.35	5.55	4.82	7.20	6.28
Custom Composite Index	-	5.41	10.16	5.06	5.08	6.74	6.59
Private Equity							
TRS	-	(23.67)	18.87	20.12	9.44	16.05	6.19
Custom Composite Index	-	(27.19)	13.87	32.93	(3.61)	13.42	(1.63)
Absolute Return							
TRS	-	(12.52)	6.60	5.99	(2.05)	3.44	(0.34)
3-month Treasury Bill +5%	-	5.95	5.16	5.16	5.06	5.12	5.93
Real Assets							
TRS	-	(21.20)	0.06	15.51	10.45	8.40	1.00
Custom Composite Index	-	(10.82)	1.17	12.66	11.41	8.29	3.88
Domestic Fixed-Income							
TRS	6.50	-	-	-	-	-	-
Lehman Brothers Aggregate Index	7.12	-	-	-	-	-	-
International Fixed-Income							
TRS	18.95	-	-	-	-	-	-
Citigroup Non-U.S. Government	18.72	-	-	-	-	-	-
Real Estate Equity							
TRS	5.71	-	-	-	-	-	-
NCREIF	6.82	-	-	-	-	-	-
Cash Equivalents							
TRS	-	-	-	0.46	0.42	-	-
3-month Treasury Bill	-	-	-	0.16	0.06	-	-

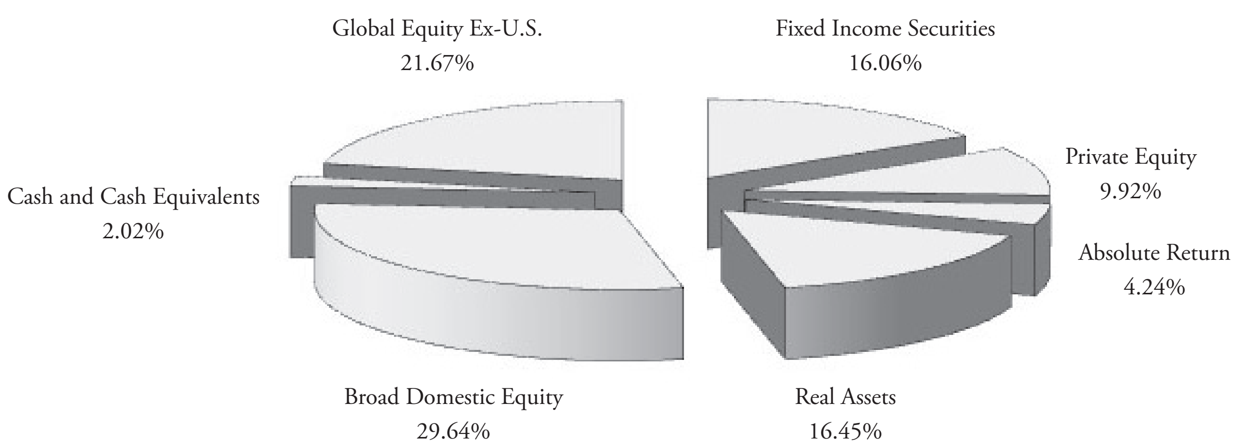
S&P 500 = Standard & Poor's Domestic Equity Stock Index
ACWI = Alll Country World Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index
Basis of calculation: Time-Weighed rate of return based on the market rate of return.

Teachers' Retirement System
Asset Allocation
June 30, 2012

Policy

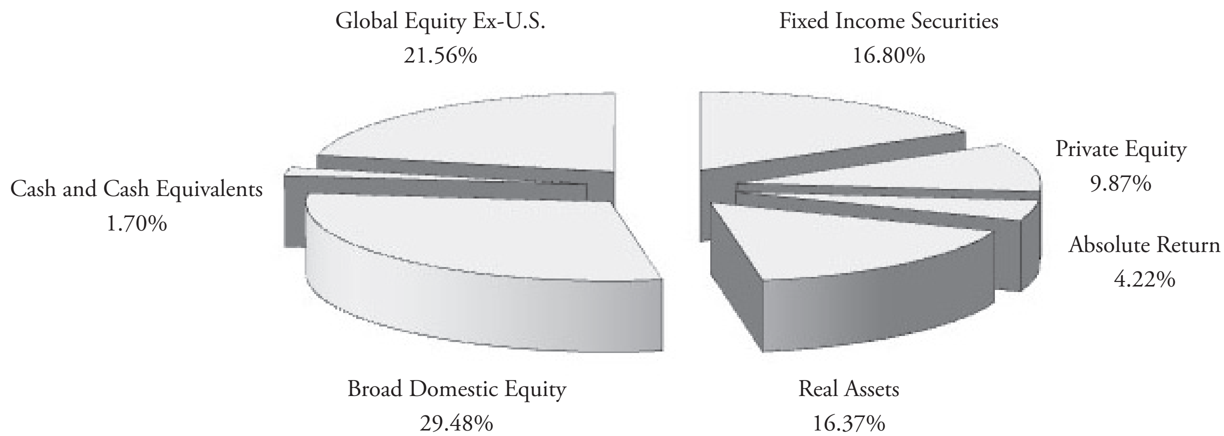


Actual — Defined Benefit Pension

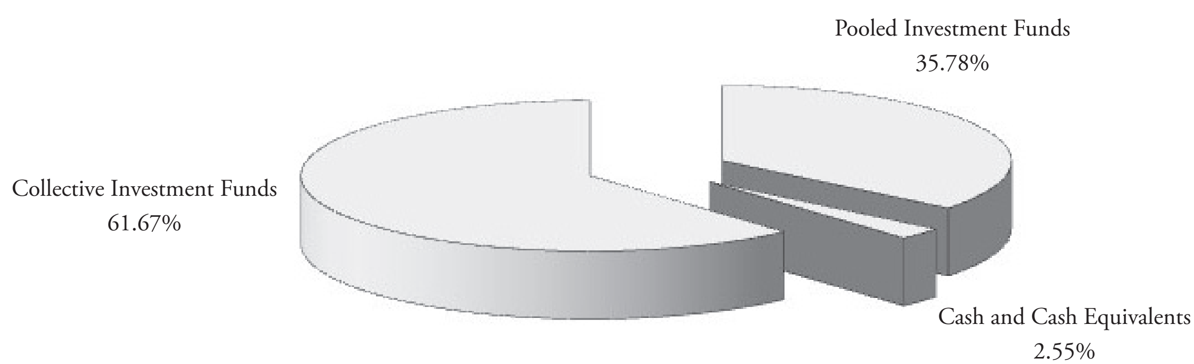


Teachers' Retirement System
Asset Allocation
June 30, 2012

Actual — Defined Benefit Alaska Retiree Healthcare Trust

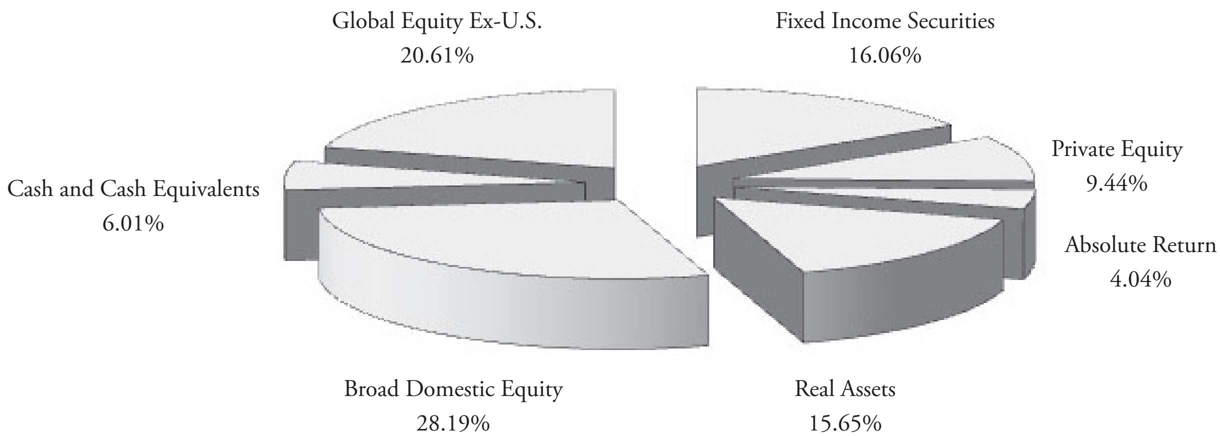


Actual — Defined Contribution Participant Directed

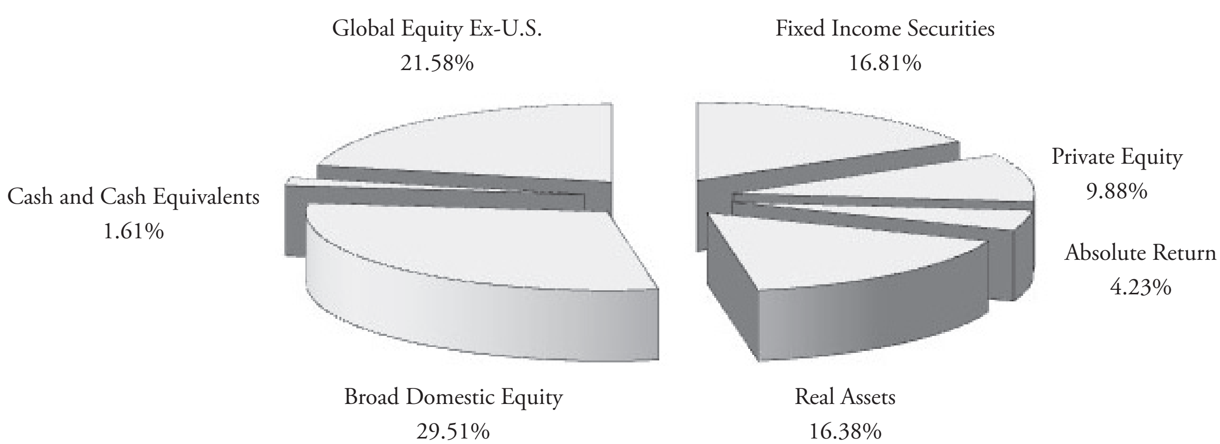


Teachers' Retirement System
Asset Allocation
June 30, 2012

Actual — Defined Contribution Health Reimbursement Arrangement

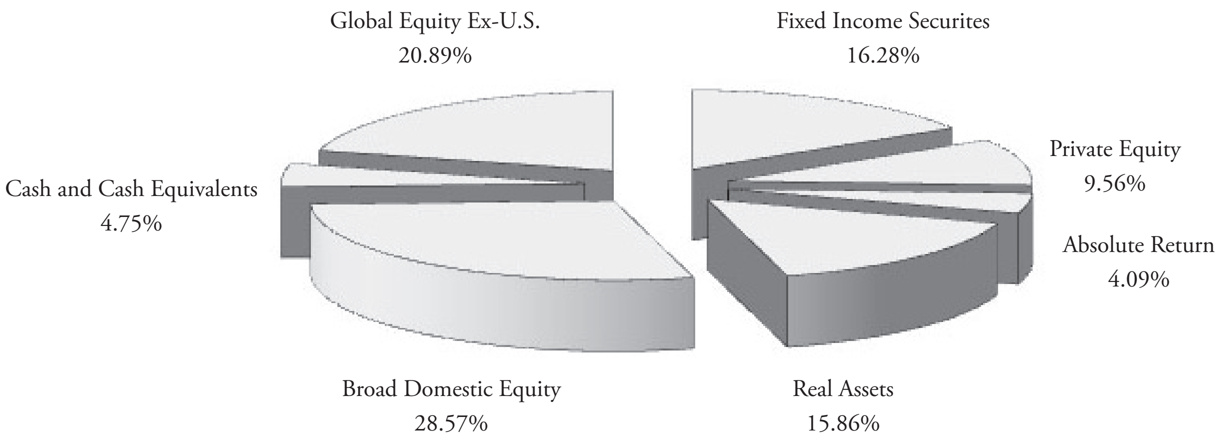


Actual — Defined Contribution Occupational Death & Disability



Teachers' Retirement System
Asset Allocation
June 30, 2012

Actual — Defined Contribution Retiree Medical Plan



Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2012

Invested assets under the fiduciary responsibility of the Alaska Retirement Management Board (ARMB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created twenty-two different mutual fund-like pools to accomplish the investment asset allocation policies of the ARMB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Second, pooling investments significantly reduces accounting, budgeting, and administrative costs. Finally, the ARMB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Below are the ten largest bond and equity holdings.

Fixed Income

Rank	Largest Fixed Income Holdings	Market Value	Par Value
1	US Treasury 2.625% 02/29/2016	$ 81,824,157	$ 76,032,602
2	US Treasury .875% 12/31/2016	38,786,259	38,440,906
3	US Treasury .75% 09/15/2013	35,214,088	35,015,759
4	US Treasury 1.00% 06/30/2019	35,123,892	35,383,750
5	US Treasury 4.00% 02/15/2015	30,122,692	27,542,711
6	US Treasury .375% 06/15/2015	23,183,024	23,202,965
7	US Treasury 1.75% 05/15/2022	22,715,448	22,532,372
8	US Treasury .375% 07/31/2013	21,498,561	21,472,558
9	US Treasury 1.875% 02/28/2014	18,871,756	18,399,550
10	US Treasury 2.625% 08/15/2020	15,511,170	14,094,055

Equities

Rank	Largest Equity Holdings	Market Value
1	Apple Inc.	$ 44,424,387
2	Exxon Mobil Corp.	28,036,659
3	Microsoft Corp.	19,041,419
4	Chevron Corp.	17,783,521
5	Pfizer Inc.	16,509,889
6	General Electric Co.	15,313,885
7	International Business Machines Corp.	13,955,132
8	Google Inc.	13,946,160
9	AT&T Inc.	12,841,385
10	Wells Fargo & Co.	12,718,426

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

Teachers' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 2012

	Total Fair Value	Fees
International Fixed Income		
* Mondrian Investment Partners	$ 107,916,046	$ 421,420
High Yield Pool		
* Mackay Shields, LLC	127,158,247	560,968
Total High Yield	127,158,247	560,968
Domestic Equity Pools		
** Relational Investors	69,614,551	709,270
* Advent Capital	32,765,895	193,196
* Barrow, Hanley, Mewhinney & Strauss, INC	71,472,911	364,184
* Jennison Associates LLC	36,419,186	291,010
* Lazard Asset Management	85,937,005	266,516
* Lord Abbett & Co.	58,586,902	485,343
* Luther King Cap. Management	37,287,919	195,690
* Victory Capital Management	20,866,767	25,011
* Frontier Capital Management	32,650,149	177,125
* McKinley Capital	94,069,379	339,678
* Quantitative Management Associates	41,159,239	151,416
* SSgA Russell 1000 Growth	221,138,807	31,687
* SSgA Russell 1000 Value	273,354,698	39,288
* SSgA Russell 2000 Growth	3,295,026	4,525
* SSgA Russell 2000 Value	3,490,498	8,226
* SSgA Russell 200	113,634,081	15,976
* SSgA Futures Large Cap	2,571,355	4,307
* SSgA Future Small Cap	1,828,437	3,235
* DePrince, Race & Zollo Inc.-Micro Cap	21,047,370	239,686
* Analytic Buy Write Account	32,404,109	53,323
* RCM Buy Write Account	28,644,824	146,065
* RCM	100,428,739	317,124
Total Domestic Equities	1,382,667,847	4,061,881
Private Equity Pool		
** BlumCapital Partners-Strategic	4,567,476	89,626
** Warburg Pincus X	8,400,699	129,323
** Angelo Gordon & Co.	7,264,947	125,216
** Onex Partners	3,186,175	117,215
** Lexington Partners	10,211,846	234,909
* Pathway Capital Management	215,293,168	766,773
* Abbott Capital Management	212,428,216	695,787
** Merit Capital Partners	2,227,786	97,069
Total Private Equities	463,580,313	2,255,918
International Equity Pools		
* SSgA	138,670,472	79,912
* Brandes Investment Partners	210,388,914	833,107
* Capital Guardian Trust Co.	162,711,250	590,938
* McKinley Capital Mgmt.	86,245,799	449,228
* Lazard Freres	104,711,253	154,852
* Mondrian Investment Partners	32,124,829	243,448
* Schroder Investment Management	30,102,503	259,126
Total International Equities	764,955,020	2,610,611
Absolute Return Pool		
** Mariner Investment Group	41,037,443	466,893
** Cadogan Management LLC	27,050	-
** Crestline Investors Inc.	73,325,306	571,892
** Global Asset Management	41,702,448	350,949
** Prisma Capital Partners	42,243,504	358,444
Total Absolute Return	198,335,751	1,748,178

(continued)

Teachers' Retirement System
Schedule of Investment Management Fees (cont.)
Year Ended June 30, 2012

	Fair Value	Fees
Emerging Markets Equity Pool		
** The Capital Group Inc.	$ 101,365,438	$ 686,915
** Lazard Freres Asset Managers	90,617,874	-
** Eaton Vance	55,960,148	-
Total Emerging Markets	247,943,460	686,915
Real Estate Pool		
** JPM Strategic	57,519,660	361,804
** UBS Consolidated	21,157,880	104,289
** Cornerstone	26,115,408	271,534
** Lasalle	58,695,029	419,088
** Sentinel, SA	31,418,783	180,013
** UBS Separate	73,213,545	438,344
** Lowe Hospitality	1,519,475	23,035
** ING Clarion	6,503,959	170,629
** Silverpeak Legacy Pension Partners	23,544,894	338,251
** Almanac Realty Securities	18,268,575	166,607
** Tishman Speyer	24,312,800	307,734
** BlackRock Diamond	6,709,320	16,195
** Colony Investors VIII, L.P.	5,531,472	180,734
** LaSalle Medical Office Fund II	6,233,819	97,311
** Cornerstone Apartment Venture III	8,652,712	105,037
** Coventry	4,943,789	-
Total Real Estate	374,341,120	3,180,605
Timber Pool		
** Timberland INVT Resources	42,813,247	292,081
** Hancock Natural Resource Group	23,178,841	190,609
Total Timber Pool	65,992,088	482,690
Farmland Pool		
** Hancock Agriculture Investment Group	65,272,645	496,512
** UBS Agrivest	104,345,120	756,784
Total Farmland	169,617,765	1,253,296
Farmland Water Pool		
** Hancock Farmland & Water	4,436,188	35,610
** UBS Agrivest	10,211,401	81,082
Total Farmland Water Pool	14,647,589	116,692
Energy Pool		
** EIG Energy Fund XV	7,748,704	128,767
** EIG Energy Fund XD	2,859,017	40,728
** EIG Energy Fund XIV-A	22,852,878	296,789
Total Energy Pool	33,460,599	466,284
Custodian		
* State Street Bank		285,840
Investment Advisory		
* Townsend Group		28,596
* Callan Associates		30,830
* Investment Advisory Council		8,833
Total Investment Advisory		68,259
Investment Performance		
* Callan Associates		77,073
Total External Management Fees		**$ 18,276,630**

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

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

	Defined Benefit - Pension			
	Asset Allocation		Fair Market	% of Total
Investments (at Fair Value)	Policy	Range	Value	Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool			$ 60,640,155	
Total Cash and Cash Equivalents	2.00%	0-7%	60,640,155	2.02%
Fixed Income Securities				
Retirement Fixed Income Pool			3,636,271	
U.S. Treasury Fixed Income Pool			305,056,250	
High Yield Pool			81,775,236	
International Fixed Income Pool			69,401,860	
Emerging Debt Pool			22,883,401	
Total Fixed Income Securities	18.00%	15-21%	482,753,018	16.06%
Broad Domestic Equity				
Large Cap Pool			710,644,227	
Small Cap Pool			159,081,923	
Convertible Bond Pool			21,071,702	
Total Broad Domestic Equity	27.00%	21-33%	890,797,852	29.64%
Global Equity Ex-U.S.				
International Equity Pool			451,931,163	
International Equity Small Cap Pool			40,018,509	
Emerging Markets Equity Pool			159,454,064	
Total Global Equity Ex-U.S.	23.00%	19-27%	651,403,736	21.67%
Private Equity				
Private Equity Pool			298,124,470	
Total Private Equity	8.00%	3-13%	298,124,470	9.92%
Absolute Return				
Absolute Return Pool			127,548,546	
Total Absolute Return	6.00%	2-10%	127,548,546	4.24%
Real Assets				
Real Estate Pool			240,716,214	
Real Estate Investment Trust Pool			34,589,087	
Energy Pool			21,518,313	
Farmland Pool			103,823,140	
Farmland Water Pool			14,647,589	
Timber Pool			42,439,121	
Treasury Inflation Protected Securities Pool			36,556,196	
Total Real Assets	16.00%	8-24%	494,289,660	16.45%
Total Invested Assets	**100.00%**		**$3,005,557,437**	**100.00%**

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

Investments (at Fair Value)	Defined Benefit - Alaska Retiree Healthcare Trust			
	Asset Allocation Policy	Range	Fair Market Value	% of Total Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool			$ 27,907,856	
Total Cash and Cash Equivalents	2.00%	0-7%	27,907,856	1.70%
Fixed Income Securities				
Retirement Fixed Income Pool			1,979,284	
U.S. Treasury Fixed Income Pool			179,496,545	
High Yield Pool			44,511,087	
International Fixed Income Pool			37,774,418	
Emerging Debt Pool			12,455,862	
Total Fixed Income Securities	18.00%	15-21%	276,217,196	16.80%
Broad Domestic Equity				
Large Cap Pool			386,795,680	
Small Cap Pool			86,587,881	
Convertible Bond Pool			11,469,520	
Total Broad Domestic Equity	27.00%	21-33%	484,853,081	29.48%
Global Equity Ex-U.S.				
International Equity Pool			245,979,351	
International Equity Small Cap Pool			21,782,170	
Emerging Markets Equity Pool			86,789,611	
Total Global Equity Ex-U.S.	23.00%	19-27%	354,551,132	21.56%
Private Equity				
Private Equity Pool			162,276,531	
Total Private Equity	8.00%	3-13%	162,276,531	9.87%
Absolute Return				
Absolute Return Pool			69,427,079	
Total Absolute Return	6.00%	2-10%	69,427,079	4.22%
Real Assets				
Real Estate Pool			131,057,419	
Real Estate Investment Trust Pool			18,826,186	
Energy Pool			11,712,823	
Farmland Pool			64,530,272	
Timber Pool			23,100,414	
Treasury Inflation Protected Securities Pool			19,897,510	
Total Real Assets	16.00%	8-24%	269,124,624	16.37%
Total Invested Assets	**100.00%**		**$1,644,357,499**	**100.00%**

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

	Defined Contribution - Participant Directed			
	Asset Allocation		Fair Market	% of Total
Investments (at Fair Value)	Policy	Range	Value	Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool	100.00%	0%	$ 2,745,875	
Total Cash and Cash Equivalents			2,745,875	2.55%
Pooled Investment Funds (1)				
T. Rowe Price				
Target 2010 Trust			378,992	
Target 2015 Trust			984,235	
Target 2020 Trust			1,914,932	
Target 2025 Trust			2,387,941	
Target 2030 Trust			2,312,763	
Target 2035 Trust			3,829,687	
Target 2040 Trust			4,352,413	
Target 2045 Trust			7,771,704	
Target 2050 Trust			10,040,332	
Target 2055 Trust			747,068	
Alaska Balanced Fund			160,593	
Long-Term Balanced Fund			2,353,348	
Alaska Money Market			1,355,184	
Total Pooled Investment Funds			38,589,192	35.78%
Collective Investment Funds (1)				
State Street Global Advisors				
Money Market Fund			59,348	
S&P Stock Index Fund			11,869,485	
Russell 3000 Index			1,574,736	
Real Estate Investment Trust Index			1,599,551	
World Equity Ex-U.S. Index			3,504,150	
Long U.S. Treasury Bond Index			52,018	
Treasury Inflation Protected Securities Index			393,128	
World Government Bond Ex-U.S. Index			637,281	
Global Balanced Fund			3,386,319	
Barclays				
Daily Government/Corporate Bond Fund			4,562,676	
Intermediate Bond Fund			74,134	
Brandes Institutional				
International Equity Fund			18,070,583	
RCM				
Socially Responsible Fund			4,900,846	
T. Rowe Price				
Small-Cap Fund			15,817,123	
Total Collective Investment Funds			66,501,378	61.67%
Total Invested Assets			**$ 107,836,445**	**100.00%**

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

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

	Defined Contribution - Health Reimbursement Arrangement			
	Asset Allocation		Fair Market	% of Total
Investments (at Fair Value)	Policy	Range	Value	Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool			$ 1,468,592	
Total Cash and Cash Equivalents	2.00%	0-7%	1,468,592	6.01%
Fixed Income Securities				
Retirement Fixed Income Pool			28,122	
U.S. Treasury Fixed Income Pool			2,550,020	
High Yield Pool			632,388	
International Fixed Income Pool			536,520	
Emerging Debt Pool			176,984	
Total Fixed Income Securities	18.00%	15-21%	3,924,034	16.06%
Broad Domestic Equity				
Large Cap Pool			5,493,982	
Small Cap Pool			1,230,006	
Convertible Bond Pool			162,951	
Total Broad Domestic Equity	27.00%	21-33%	6,886,939	28.19%
Global Equity Ex-U.S.				
International Equity Pool			3,493,671	
International Equity Small Cap Pool			309,439	
Emerging Markets Equity Pool			1,232,790	
Total Global Equity Ex-U.S.	23.00%	19-27%	5,035,900	20.61%
Private Equity				
Private Equity Pool			2,305,936	
Total Private Equity	8.00%	3-13%	2,305,936	9.44%
Absolute Return				
Absolute Return Pool			986,483	
Total Absolute Return	6.00%	2-10%	986,483	4.04%
Real Assets				
Real Estate Pool			1,862,164	
Real Estate Investment Trust Pool			267,381	
Energy Pool			166,426	
Farmland Pool			917,035	
Timber Pool			328,231	
Treasury Inflation Protected Securities Pool			282,656	
Total Real Assets	16.00%	8-24%	3,823,893	15.65%
Total Invested Assets	**100.00%**		**$ 24,431,777**	**100.00%**

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

	Defined Contribution - Occupational Dealth & Disability			
	Asset Allocation		Fair Market	% of Total
Investments (at Fair Value)	**Policy**	**Range**	**Value**	**Assets**
Cash and Cash Equivalents				
Short-term Fixed Income Pool			$ 37,199	
Total Cash and Cash Equivalents	2.00%	0-7%	37,199	1.61%
Fixed Income Securities				
Retirement Fixed Income Pool			2,784	
U.S. Treasury Fixed Income Pool			252,481	
High Yield Pool			62,610	
International Fixed Income Pool			53,132	
Emerging Debt Pool			17,521	
Total Fixed Income Securities	18.00%	15-21%	388,528	16.81%
Broad Domestic Equity				
Large Cap Pool			544,064	
Small Cap Pool			121,794	
Convertible Bond Pool			16,133	
Total Broad Domestic Equity	27.00%	21-33%	681,991	29.51%
Global Equity Ex-U.S.				
International Equity Pool			345,988	
International Equity Small Cap Pool			30,639	
Emerging Markets Equity Pool			122,075	
Total Global Equity Ex-U.S.	23.00%	19-27%	498,702	21.58%
Private Equity				
Private Equity Pool			228,268	
Total Private Equity	8.00%	3-13%	228,268	9.88%
Absolute Return				
Absolute Return Pool			97,659	
Total Absolute Return	6.00%	2-10%	97,659	4.23%
Real Assets				
Real Estate Pool			184,350	
Real Estate Investment Trust Pool			26,480	
Energy Pool			16,475	
Farmland Pool			90,773	
Timber Pool			32,494	
Treasury Inflation Protected Securities Pool			27,987	
Total Real Assets	16.00%	8-24%	378,559	16.38%
Total Invested Assets	**100.00%**		**$ 2,310,906**	**100.00%**

Teachers' Retirement System
Investment Summary Schedule
June 30, 2012

	Defined Contribution - Retiree Medical Plan			
	Asset Allocation		Fair Market	% of Total
Investments (at Fair Value)	Policy	Range	Value	Assets
Cash and Cash Equivalents				
Short-term Fixed Income Pool			$ 320,130	
Total Cash and Cash Equivalents	2.00%	0-7%	320,130	4.75%
Fixed Income Securities				
Retirement Fixed Income Pool			7,868	
U.S. Treasury Fixed Income Pool			713,442	
High Yield Pool			176,926	
International Fixed Income Pool			150,116	
Emerging Debt Pool			49,514	
Total Fixed Income Securities	18.00%	15-21%	1,097,866	16.28%
Broad Domestic Equity				
Large Cap Pool			1,537,178	
Small Cap Pool			344,138	
Convertible Bond Pool			45,589	
Total Broad Domestic Equity	27.00%	21-33%	1,926,905	28.57%
Global Equity Ex-U.S.				
International Equity Pool			977,516	
International Equity Small Cap Pool			86,575	
Emerging Markets Equity Pool			344,921	
Total Global Equity Ex-U.S.	23.00%	19-27%	1,409,012	20.89%
Private Equity				
Private Equity Pool			645,108	
Total Private Equity	8.00%	3-13%	645,108	9.56%
Absolute Return				
Absolute Return Pool			275,984	
Total Absolute Return	6.00%	2-10%	275,984	4.09%
Real Assets				
Real Estate Pool			520,972	
Real Estate Investment Trust Pool			74,812	
Energy Pool			46,561	
Farmland Pool			256,545	
Timber Pool			91,828	
Treasury Inflation Protected Securities Pool			79,083	
Total Real Assets	16.00%	8-24%	1,069,801	15.86%
Total Invested Assets	**100.00%**		**$ 6,744,806**	**100.00%**

Teachers' Retirement System
Recaptured Commission Fees
Year Ended June 30, 2012

Fund	Domestic Equity Pool	International Equity Pool	Total
Defined Benefit Plan - Pension	$ 66,197	$ 39,251	$ 105,448
Defined Benefit Plan - Alaska Retiree Health Care Trust	35,189	20,736	55,925
Defined Contribution Retirement Plan - Health Reimbursement Arrangement	445	265	710
Defined Contribution Retirement Plan - Occupational Death & Disability	50	30	80
Defined Contribution Retirement Plan - Retiree Medical Pan	129	78	207
Total Recaptured Commission Fees	**$ 102,010**	**$ 60,360**	**$ 162,370**

The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund.

The program allows managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

The current rebate arrangement with State Street Global Markets (SSGM) is: 90% of the commissions received in excess of executing the brokers' execution-only rates; 100% of commissions in excess of its execution-only rates for all trading directed through SSGM.

ACTUARIAL SECTION

buckconsultants A Xerox Company

July 25, 2012

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

Certification of Actuarial Valuation

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

This report summarizes the annual actuarial valuation results of the State of Alaska Teachers' Retirement System (TRS) as of June 30, 2011 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2011. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

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

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

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the System and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the System. The actuary performs an analysis of System experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last experience analysis was performed in 2010. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in this report.

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

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

Respectfully submitted,

BUCK CONSULTANTS, LLC

David H. Slishinsky

Michael D. Mills

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

Michael D. Mills, FSA, EA, MAAA
Director, Consulting Actuary

The undersigned actuaries are responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms their qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.

Melissa A. Bissett

Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

buckconsultants

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

A. **Actuarial Method –** Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percent of pay amount. Payroll is assumed to increase by the payroll growth assumption per year for this purpose. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

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

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

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

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

B. **Valuation of Assets**

Effective June 30, 2002, the asset valuation method recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

Changes in Methods from the Prior Valuation

There have been no changes in methods since the prior valuation, except for any described in the healthcare sections below.

C. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Teachers' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our annual experience rate update for the period July 1, 2011 to June 30, 2012.

Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

We analyzed WFIS and Premera management level reporting for fiscal 2008 through fiscal 2011, as well as WFIS and Premera claim level data for the same period and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.

2. Available management level reporting does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups. Claim level reporting was used to augment cost data by Medicare status.

3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these "no-Part A" individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claim experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The smaller the no-Part A population, the more accrued liabilities will decrease.

   Based on census data received from WFIS, 0.5% of the current retiree population was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire and/or re-hire, date of birth, tier, etc.

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

4. The steps above result in separate paid claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four fiscal years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We converted paid claim data to incurred cost rates projected from each historical data period to the valuation year using a weighted average of national and Alaska-specific trend factors and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is approximately 2.0 months for medical claims and 0.04 months for prescription claims.

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

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

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

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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

June 30, 2011 Valuation – FY 2012 Claims Cost Rates

	Medical		
	Pre-Medicare	**Medicare A&B**	**Medicare B Only**
Fiscal 2008 Paid Claims*	**$ 169,598,064**	**$ 28,657,490**	**$ 6,079,463**
Membership*	33,630	21,434	893
Paid Claims Cost Rate	$ 5,043	$ 1,337	$ 6,807
Trend to FY2012	1.468	1.468	1.468
FY 2012 Paid Cost Rate	$ 7,401	$ 1,962	$ 9,991
Paid to Incurred Factor	1.013	1.013	1.013
FY 2012 Incurred Cost Rate	**$ 7,497**	**$ 1,988**	**$ 10,120**
Fiscal 2009 Paid Claims*	**$ 185,275,626**	**$ 39,286,392**	**$ 3,949,927**
Membership*	32,943	24,624	539
Paid Claims Cost Rate	$ 5,624	$ 1,595	$ 7,327
Trend to FY2012	1.320	1.320	1.320
FY 2012 Paid Cost Rate	$ 7,421	$ 2,105	$ 9,668
Paid to Incurred Factor	1.013	1.013	1.013
FY 2012 Incurred Cost Rate	**$ 7,517**	**$ 2,132**	**$ 9,793**
Fiscal 2010 Paid Claims*	**$ 199,739,865**	**$ 51,373,725**	**$ 1,215,832**
Membership*	32,026	27,915	156
Paid Claims Cost Rate	$ 6,237	$ 1,840	$ 7,794
Trend to FY2012	1.222	1.222	1.222
FY 2012 Paid Cost Rate	$ 7,620	$ 2,249	$ 9,522
Paid to Incurred Factor	1.013	1.013	1.013
FY 2012 Incurred Cost Rate	**$ 7,719**	**$ 2,278**	**$ 9,645**
Fiscal 2011 Paid Claims*	**$ 224,173,628**	**$ 53,570,005**	**$ 817,957**
Membership*	31,362	29,997	138
Paid Claims Cost Rate	$ 7,148	$ 1,786	$ 5,927
Trend to FY2012	1.081	1.081	1.081
FY 2012 Paid Cost Rate	$ 7,726	$ 1,930	$ 6,407
Paid to Incurred Factor	1.013	1.013	1.013
FY 2012 Incurred Cost Rate	**$ 7,826**	**$ 1,955**	**$ 6,490**
Weighted Average 7/1/2011-6/30/2012 Incurred Claims Cost Rates:			
At average age	$ 7,688	$ 2,123	$ 8,776
At age 65	$ 9,497	$ 1,551	$ 6,936

*Claims and membership information presented covers all AlaskaCare retiree systems.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

June 30, 2011 Valuation – FY 2012 Claims Cost Rates (cont.)

	Prescription Drugs			
	Pre-Medicare	Medicare A&B	Medicare B Only	Total
Fiscal 2008 Paid Claims*	**$ 53,506,123**	**$ 52,529,773**	**$ 2,346,512**	**$312,717,425**
Membership*	33,630	21,434	893	55,957
Paid Claims Cost Rate	$ 1,591	$ 2,451	$ 2,627	$ 5,589
Trend to FY2012	1.375	1.375	1.375	
FY 2012 Paid Cost Rate	$ 2,188	$ 3,371	$ 3,614	$ 8,023
Paid to Incurred Factor	1.000	1.000	1.000	
FY 2012 Incurred Cost Rate	**$ 2,189**	**$ 3,372**	**$ 3,615**	**$ 8,093**
Fiscal 2009 Paid Claims*	**$ 61,062,842**	**$ 60,195,838**	**$ 1,412,907**	**$351,183,532**
Membership*	32,943	24,624	539	58,106
Paid Claims Cost Rate	$ 1,854	$ 2,445	$ 2,621	$ 6,044
Trend to FY2012	1.237	1.237	1,237	
FY 2012 Paid Cost Rate	$ 2,292	$ 3,023	$ 3,241	$ 7,800
Paid to Incurred Factor	1.000	1.000	1.000	
FY 2012 Incurred Cost Rate	**$ 2,293**	**$ 3,024**	**$ 3,242**	**$ 7,868**
Fiscal 2010 Paid Claims*	**$ 62,310,224**	**$ 73,005,066**	**$ 414,101**	**$388,058,813**
Membership*	32,026	27,915	156	60,097
Paid Claims Cost Rate	$ 1,946	$ 2,615	$ 2,654	$ 6,457
Trend to FY2012	1.145	1.145	1.145	
FY 2012 Paid Cost Rate	$ 2,228	$ 2,995	$ 3,040	$ 7,716
Paid to Incurred Factor	1.000	1.000	1.000	
FY 2012 Incurred Cost Rate	**$ 2,228**	**$ 2,995**	**$ 3,040**	**$ 7,783**
Fiscal 2011 Paid Claims*	**$ 46,903,585**	**$ 86,509,883**	**$ 386,305**	**$412,361,363**
Membership*	31,362	29,997	138	61,497
Paid Claims Cost Rate	$ 1,496	$ 2,884	$ 2,799	$ 6,705
Trend to FY2012	1.045	1.045	1.045	
FY 2012 Paid Cost Rate	$ 1,563	$ 3,013	$ 2,925	$ 7,170
Paid to Incurred Factor	1.000	1.000	1.000	
FY 2012 Incurred Cost Rate	**$ 1,563**	**$ 3,014**	**$ 2,925**	**$ 7,233**
Weighted Average 7/1/2011-6/30/2012 Incurred Claims Cost Rates:				
At average age	$ 2,038	$ 3,044	$ 3,103	$ 7,666
At age 65	$ 2,799	$ 2,799	$ 2,799	$ 8,198

*Claims and membership information presented covers all AlaskaCare retiree systems.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Description of Actuarial Methods and Valuation Procedures

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.Below are the results of this analysis:

Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2011 through June 30, 2012

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug	Medicare Retiree Drug Subsidy
45	$ 5,259	$ 5,259	$ 1,476	$ —
50	5,951	5,951	1,754	—
55	6,733	6,733	2,083	—
60	7,996	7,996	2,414	—
65	1,551	6,936	2,799	534
70	1,887	8,439	3,015	575
75	2,241	10,020	3,216	614
80	2,414	10,795	3,298	629

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

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

1. Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses.
2. Salary Scale	Inflation – 3.12% per year. Productivity – 0.5% per year. See Table 1 for salary scale rates.
3. Payroll Growth	3.62% per year. (Inflation + Productivity).
4. Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
5. Mortality (Pre-termination)*	Based upon the 2005-2009 experience study, adopted in 2010. (See Table 2). 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from non-occupational causes 85% of the time.
6. Mortality (Post-termination)*	Based upon the 2005-2009 experience study, adopted in 2010. (See Table 3). The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and 4-year setback for males.
7. Turnover	Select and ultimate rates based upon the 2005-2009 actual withdrawal experience. (See Table 4).
8. Disability	Incidence rates based upon the 2005-2009 actual experience in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
9. Retirement	Retirement rates based upon the 2005-2009 actual experience, in accordance with Table 6. Deferred vested members are assumed to retire at their earliest unreduced retirement date.
10. Marriage and Age Difference	Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
11. Dependent Children	Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
12. Contribution Refunds	10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.
13. COLA	Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

14. Sick Leave	4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates or dies.
15. Post-Retirement Pension Adjustment	50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
16. Expenses	All expenses are net of the investment return assumption.
17. Part-time Status	Part-time employees are assumed to earn 0.60 years of credited service per year.
18. Re-Employment Option	We assume all re-employed retirees return to work under the Standard Option.
19. Service	Total credited service is provided by the State. We assume that this service is 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 as described in Section 2.1.
20. 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.
21. Per Capita Claims Cost	Sample claims cost rates adjusted to age 65 for FY12 medical benefits are shown below:

	Medical	**Prescription Drugs**
Pre-Medicare	$9,497	$2,799
Medicare Parts A & B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

22. Third Party Administrator Fees	$162.47 per person per year; assumed trend rate of 5% per year.
23. Medicare Part B Only	For actives and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or re-hire.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

24. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.4% is applied to the FY12 medical claims costs to get the FY13 medical claims costs.

	Medical	Prescription Drugs
FY12	6.4%	7.1%
FY13	5.9	5.9
FY14	5.9	5.9
FY15	5.9	5.9
FY16	5.9	5.9
FY17	5.9	5.9
FY18	5.9	5.9
FY25	5.8	5.8
FY50	5.7	5.7
FY100	5.1	5.1

For the June 30, 2009 valuations and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

25. Aging Factors

Age	Medical	Prescription Drugs
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-73	4.0	1.5
74-83	1.5	0.5
84-93	0.5	0.0
94+	0.0	0.0

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

26. Retired Member Contributions for Medical Benefits

Currently contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY12 contributions based on monthly rates shown below for calendar 2011 and 2012 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 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

Coverage Category	Calendar 2012 Annual Contribution	Calendar 2012 Monthly Contribution	Calendar 2011 Monthly Contribution
Retiree Only	$ 9,684	$ 807	$ 791
Retiree and Spouse	19,380	1,615	1,583
Retiree and Child(ren)	13,680	1,140	1,118
Retiree and Family	23,376	1,948	1,910
Composite	14,400	1,200	1,176

27. Trend Rate for Retired Member Medical Contribution

The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 6.3% is applied to the FY12 retired member medical contributions to get the FY13 retired member medical contributions.

FY12	6.3%
FY13	6.0
FY14	5.7
FY15	5.3
FY16	5.0
FY17	5.0
FY18	5.0
FY19	5.0
FY20 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY14 retired member medical contributions are reflected in the valuation so trend on such contribution during FY14 is not applicable.

28. Healthcare Participation

100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 1
Alaska TRS Salary Scale

Year of Employment	Unisex Rates
1-6	6.11%
7	5.94
8	5.78
9	5.61
10	5.44
11	5.28
12	5.11
13	4.94
14	4.78
15	4.61
16	4.45
17	4.28
18	4.11
19	3.95
20	3.78
21+	3.62

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 2
Alaska TRS Mortality Table (Pre-termination)

Age	Male	Female
20	.017%	.012%
21	.018	.012
22	.019	.012
23	.021	.013
24	.024	.013
25	.026	.013
26	.030	.014
27	.032	.014
28	.033	.015
29	.034	.016
30	.035	.017
31	.036	.019
32	.037	.020
33	.037	.021
34	.037	.022
35	.037	.023
36	.038	.024
37	.039	.025
38	.041	.027
39	.042	.029
40	.045	.032
41	.047	.034
42	.050	.037
43	.053	.039
44	.056	.041
45	.060	.042
46	.064	.044
47	.069	.047
48	.075	.051
49	.081	.055
50	.088	.061
51	.097	.068
52	.106	.078
53	.118	.090
54	.131	.102
55	.149	.116
56	.170	.135
57	.195	.157
58	.224	.181
59	.253	.208
60	.284	.239
61	.326	.274
62	.368	.314
63	.425	.359
64	.479	.410

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 3
Alaska TRS Mortality Table (Post-termination)

Age	Male	Female
50	.142%	.085%
51	.153	.092
52	.166	.100
53	.181	.111
54	.196	.124
55	.215	.143
56	.235	.163
57	.263	.185
58	.291	.212
59	.331	.246
60	.377	.285
61	.433	.328
62	.499	.378
63	.561	.434
64	.631	.498
65	.725	.570
66	.819	.653
67	.944	.745
68	1.064	.844
69	1.196	.948
70	1.362	1.052
71	1.512	1.150
72	1.634	1.242
73	1.787	1.342
74	1.915	1.434
75	2.094	1.583
76	2.298	1.726
77	2.518	1.918
78	2.748	2.094
79	3.061	2.338
80	3.361	2.669
81	3.788	2.985
82	4.292	3.327
83	4.868	3.707
84	5.510	4.136
85	6.214	4.625

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 4
Alaska TRS Turnover Assumptions

Select Rates of Turnover During the First 8 Years of Employment:

Year of Employment	Unisex Rate
1	17.00%
2	17.00
3	14.00
4	12.00
5	10.00
6	9.00
7	7.50
8	6.00

Ultimate Rates of Turnover
After the First 8 Years of Employment

Age	Male	Female	Age	Male	Female
15	4.4584%	4.3747%	40	4.3189%	4.2658%
16	4.4528	4.3714	41	4.3065	4.2559
17	4.4483	4.3692	42	4.2908	4.2460
18	4.4438	4.3681	43	4.2762	4.2372
19	4.4415	4.3670	44	4.2570	4.2262
20	4.4067	4.3351	45	4.2357	4.2130
21	4.4044	4.3351	46	4.2132	4.2009
22	4.3999	4.3340	47	4.1850	4.1844
23	4.3965	4.3340	48	4.1524	4.1657
24	4.3909	4.3329	49	4.1187	4.1470
25	4.3864	4.3329	50	4.0804	4.1250
26	4.3819	4.3318	51	4.0354	4.0997
27	4.3774	4.3307	52	3.9825	4.0700
28	4.3729	4.3274	53	3.9240	4.0348
29	4.3684	4.3241	54	3.8588	3.9974
30	4.3650	4.3208	55	3.7845	3.9523
31	4.3628	4.3186	56	3.6945	3.8940
32	4.3594	4.3142	57	3.5843	3.8192
33	4.3572	4.3109	58	3.4639	3.7345
34	4.3560	4.3065	59	3.3188	3.6267
35	4.3538	4.3021	60	3.1557	3.5046
36	4.3504	4.2955	61	2.9745	3.3682
37	4.3459	4.2900	62	2.7642	3.2131
38	4.3380	4.2823	63	2.5245	3.0360
39	4.3290	4.2746	64	2.2647	2.8435
			65+	4.5000	4.4000

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 5
Alaska TRS Disability Table

Age	Male	Female
20	.0224%	.0202%
21	.0224	.0202
22	.0232	.0209
23	.0232	.0209
24	.0240	.0216
25	.0240	.0216
26	.0240	.0216
27	.0248	.0223
28	.0256	.0230
29	.0264	.0238
30	.0272	.0245
31	.0272	.0245
32	.0280	.0252
33	.0288	.0259
34	.0296	.0266
35	.0304	.0274
36	.0320	.0288
37	.0328	.0295
38	.0344	.0310
39	.0352	.0317
40	.0368	.0331
41	.0384	.0346
42	.0408	.0367
43	.0432	.0389
44	.0472	.0425
45	.0520	.0468
46	.0560	.0504
47	.0608	.0547
48	.0664	.0598
49	.0712	.0641
50	.0768	.0691
51	.0832	.0749
52	.0912	.0821
53	.1016	.0914
54	.1136	.1022
55	.1280	.1152
56	.1472	.1325
57	.1712	.1541
58	.1952	.1757
59	.2304	.2074
60	.2696	.2426
61	.3120	.2808
62	.3616	.3254
63	.4176	.3758
64	.4768	.4291

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Actuarial Assumptions and Changes in Assumptions

Table 6
Alaska TRS Retirement Table

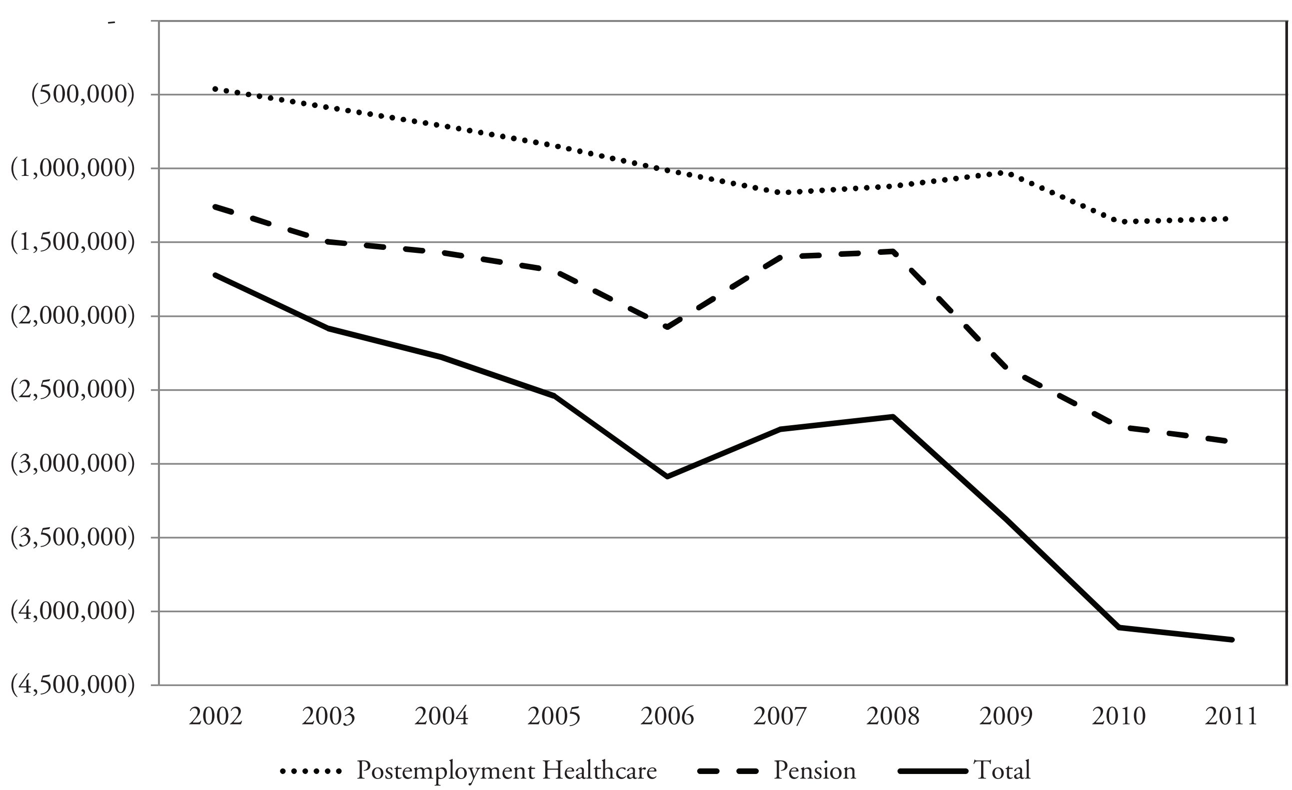
	Retirement Rate		
Age at Retirement	Reduced	Unreduced	
	Unisex Rates	Male	Female
<50	N/A	10.00%	10.00%
50	8.00%	13.00	13.00
51	8.00	12.00	12.00
52	8.00	12.00	12.00
53	6.00	13.00	13.00
54	12.00	16.00	16.00
55	8.00	18.00	20.00
56	8.00	17.00	15.00
57	8.00	13.00	17.50
58	8.00	17.50	18.00
59	12.00	15.00	17.50
60	N/A	17.50	20.00
61	N/A	17.50	20.00
62	N/A	11.00	25.00
63	N/A	20.00	25.00
64	N/A	25.00	20.00
65	N/A	30.00	20.00
66	N/A	25.00	20.00
67	N/A	25.00	20.00
68	N/A	25.00	20.00
69	N/A	25.00	20.00
70-84	N/A	50.00	50.00
85		100.00	100.00

Changes in Actuarial Assumptions Since the Prior Valuation

There have been no changes in assumptions since the prior valuation, except for the assumption regarding Medicare Part B only participation for pre-65 retirees and active members. We now determine the Part B only status based on number of quarters worked since date of hire or re-hire where applicable.

Teachers' Retirement System Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	**Postemployment Healthcare**	**Pension**	**Total Funding Excess/ (Unfunded Liability)**	**Funded Ratio**
2002	$ (462,093)	$ (1,260,513)	$ (1,722,606)	68.2%
2003	(587,139)	(1,496,185)	(2,083,324)	64.3
2004	(709,527)	(1,568,703)	(2,278,230)	62.8
2005	(845,674)	(1,693,934)	(2,539,608)	60.9
2006	(1,012,540)	(2,075,617)	(3,088,157)	57.3
2007	(1,163,423)	(1,601,581)	(2,765,004)	61.5
2008	(1,120,634)	(1,561,568)	(2,682,202)	64.8
2009	(1,026,288)	(2,348,268)	(3,374,556)	57.0
2010	(1,361,547)	(2,747,113)	(4,108,660)	53.6
2011	(1,340,703)	(2,850,155)	(4,190,858)	54.1

10-YEAR TREND OF UNFUNDED LIABILITY
(In thousands)



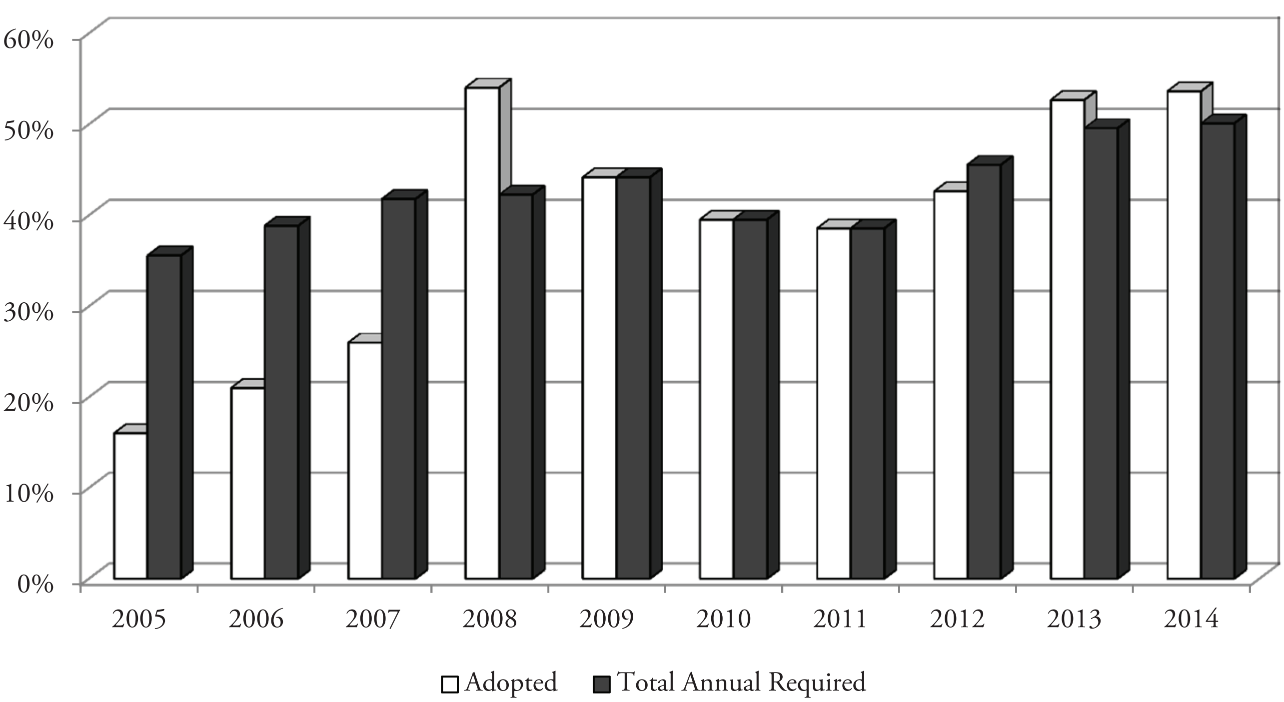
Teachers' Retirement System Employer Contribution Rates					
	Actuarially Determined				
Year Ended June 30	Actuarial Valuation Year Ended June 30	Normal Cost[1]	Past Service	Total Annual Required	Adopted
2005	2002	14.76%	20.81%	35.57%	16.00%
2006	2003	14.28	24.57	38.85	21.00
2007	2004	13.76	28.02	41.78	26.00
2008	2005	12.56	29.70	42.26	54.03[2]
2009	2006	9.37	34.80	44.17	44.17
2010	2007	7.59	31.94	39.53	39.53
2011	2008	7.56	31.00	38.56	38.56
2012	2009	6.57	36.04	42.61	45.55
2013	2010	7.47	42.09	49.56	52.67
2014	2011	6.59	43.51	50.10	53.62

[1] Also referred to as the consolidated rate.

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

Valuations are used to set contribution rates in future years.

10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



Teachers' Retirement System Schedule of Active Member Valuation Data					
Valuation Date	Number	Annual Earnings (In thousands)	Annual Average Earnings	Percent Increase/ (Decrease) In Average Earnings	Number of Participating Employers
June 30, 2011	7,303	$545,155	$74,648	3.5%	58
June 30, 2010	7,832	564,887	72,125	6.5	58
June 30, 2009	8,226	557,026	67,715	5.2	58
June 30, 2008	8,531	549,148	64,371	5.8	58
June 30, 2007	9,107	554,245	60,859	2.9	58
June 30, 2006	9,710	574,409	59,156	6.6	58
June 30, 2005	9,656	535,837	55,493	2.9	58
June 30, 2004	9,688	522,421	53,925	0.0	58
June 30, 2003	9,873	532,630	53,948	2.7	57
June 30, 2002	9,690	509,437	52,535	3.9	57

Teachers' Retirement System Schedule of Pension Benefit Recipients Added to and Removed from Rolls								
	Added to Rolls		Removed from Rolls		Rolls – End of Year		Percent Increase In Annual Pension Allowances	Average Annual Pension Allowances
Year Ended	No.*	Annual Pension Allowances*	No.*	Annual Pension Allowances*	No.	Annual Pension Allowances		
June 30, 2011	564	$19,546,369	146	$ 1,464,766	11,016	$360,702,611	5.28%	$32,744
June 30, 2010	533	16,980,817	190	5,495,399	10,598	342,621,008	3.47	32,329
June 30, 2009	368	9,788,639	139	(2,857,118)	10,255	331,135,590	3.97	32,290
June 30, 2008	481	14,265,236	133	806,945	10,026	318,489,833	4.41	31,766
June 30, 2007	432	12,388,703	140	(14,114,559)	9,678	305,031,542	9.52	31,518
June 30, 2006	487	12,731,292	121	(50,838)	9,386	278,528,280	4.81	29,675
June 30, 2005	446	11,243,448	121	13,053,612	9,020	265,746,150	(0.68)	29,462
June 30, 2004	491	17,867,366	96	5,503,666	8,707	267,556,314	4.84	30,729
June 30, 2003	599	21,475,421	91	3,377,352	8,312	255,192,614	7.63	30,702
June 30, 2002	589	24,789,896	118	4,966,397	7,804	237,094,545	9.12	30,381

*Numbers are estimated, and include other internal transfers.

Teachers' Retirement System Pension Solvency Test (In thousands)							
	Pension Aggregate Accrued Liability For:				Portion of Accrued Liabilities Covered by Assets:		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)	Pension Valuation Assets	(1)	(2)	(3)
June 30, 2011	$ 717,819	$ 4,352,035	$ 1,126,250	$ 3,345,949	100.0%	60.4%	— %
June 30, 2010[1]	716,675	4,153,119	1,137,187	3,259,868	100.0	61.2	—
June 30, 2009	692,105	3,815,020	956,862	3,115,719	100.0	63.5	—
June 30, 2008	654,662	3,700,812	876,180	3,670,086	100.0	81.5	—
June 30, 2007	638,420	3,567,894	837,134	3,441,867	100.0	78.6	—
June 30, 2006[1 2]	615,207	3,432,703	811,426	3,296,934	100.0	78.1	—
June 30, 2005	589,169	3,200,339	545,077	3,184,976[3]	100.0	81.1	—

[1] Change in Assumptions

[2] Change in Methods

[3] The pension and postemployment healthcare valuation assets were allocated using a ratio of fair value of assets as of June 30, 2005

Teachers' Retirement System Postemployment Healthcare Solvency Test (In thousands)							
	Postemployment Healthcare Aggregate Accrued Liability For:				Portion of Accrued Liabilities Covered by Assets:		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)	Post-Employment Healthcare Valuation Assets	(1)	(2)	(3)
June 30, 2011	$ —	$ 1,879,564	$ 1,053,127	$ 1,591,988	100.0%	84.7%	— %
June 30, 2010[1]	—	1,755,961	1,084,846	1,479,260	100.0	84.2	—
June 30, 2009	—	1,477,788	905,739	1,357,239	100.0	91.8	—
June 30, 2008[1]	—	1,480,864	906,660	1,266,890	100.0	85.6	—
June 30, 2007	—	1,344,131	801,824	982,532	100.0	73.1	—
June 30, 2006[1 2]	—	1,493,219	877,296	844,766	100.0	56.6	—
June 30, 2005	—	1,493,837	670,134	773,9633[3]	100.0	51.8	—

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

[1] Change in Assumptions

[2] Change in Methods

[3] The pension and postemployment healthcare valuation assets were allocated using a ratio of fair value of assets as of June 30, 2005

Teachers' Retirement System Analysis of Financial Experience					
Change in Employer/State Contribution Rate Due to (Gains) and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of (Gain) or Loss	**Change in Employer/State Contribution Rate During Fiscal Year**				
	2011	**2010**	**2009**	**2008**	**2007**
Health Experience	(0.72)%	0.19%	(2.67)%	(1.22)%	(3.90)%
Salary Experience	(0.03)	0.59	0.29	0.43	(0.27)
Investment Experience	(0.46)	0.05	7.23	(0.85)	(1.37)
Demographic Experience	(0.03)	(0.75)	(0.54)	(0.33)	1.63
Contribution Shortfall	0.86	0.01	(0.26)	(0.98)	1.31
(Gain) or Loss During Year From Experience	0.54	0.09	4.05	(2.95)	(2.60)
Non-recurring changes					
Asset Valuation Method	–	–	–	–	–
Past Service Amortization Change	–	–	–	–	–
Assumption and Method Changes	–	6.86	–	1.98	(2.04)*
System Benefit Changes	–	–	–	–	–
Composite (Gain) or Loss During Year	0.54	6.95	4.05	(0.97)	(4.64)
Beginning Total Employer/State Contribution Rate	49.56	42.61	38.56	39.53	44.17
Ending Total Employer/State Contribution Rate	50.10	49.56	42.61	38.56	39.53
Board Adopted Contribution Rate	53.62%	52.67%	45.55%	38.56%	39.53%
Fiscal Year Above Rate is Applied	FY14	FY13	FY12	FY11	FY10

*Includes change in rate by using total payroll.

Teachers' Retirement System Analysis of Financial Experience						
Change in Employer/State Contribution Rate Due to (Gains) and Losses in Accrued Liabilities During the Last Three Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience						
Type of (Gain) or Loss	**Change in Employer/State Contribution Rate During Fiscal Year**					
	Pension			**Healthcare**		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Health Experience	N/A	N/A	N/A	(0.72)%	0.19%	(2.67)%
Salary Experience	(0.03)%	0.59%	0.29%	N/A	N/A	N/A
Investment Experience	0.18	(0.34)	6.53	0.28	0.39	0.70
Demographic Experience	(0.03)	(0.75)	(0.54)	N/A	N/A	N/A
Contribution Shortfall	0.75	0.46	(0.01)	(0.11)	(0.45)	(0.27)
(Gain) or Loss During Year From Experience	0.87	(0.04)	6.29	(0.33)	0.13	(2.24)
Non-recurring changes						
Asset Valuation Method	–	–	–	–	–	–
Past Service Amortization Change	–	–	–	–	–	–
Assumption and Method Changes	–	3.96	–	–	2.90	–
System Benefit Changes	–	–	–	–	–	–
Composite (Gain) or Loss During Year	0.87	3.92	6.29	(0.33)	3.03	(2.24)
Beginning Total Employer/State Contribution Rate	30.53	26.61	20.32	19.03	16.00	18.24
Ending Total Employer/State Contribution Rate	31.40%	30.53%	26.61%	18.70%	19.03%	16.00%
Fiscal Year Above Rate is Applied	FY14	FY13	FY12	FY14	FY13	FY12

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Plan Provisions and Changes in Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through June 30, 2011. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990 (Tier 1) are eligible for different benefits than members hired after June 30, 1990 (Tier 2). Chapter 9, 2005 Session Laws of Alaska, closed the plan to new members hired after June 30, 2006.

(2) Administration of Plan

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

Prior to June 30, 2005, the Teachers' Retirement Board prescribed policies and adopted regulations and performed other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division was responsible for investing TRS funds.

On July 27, 2005, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

(3) Employers Included

Currently, there are 58 employers participating in the TRS, including the State of Alaska, 53 school districts, and four other eligible organizations.

(4) Membership

Membership in the Alaska TRS is mandatory for the following employees hired before July 1, 2006:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development and the Department of Labor and Workforce Development;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for worker's compensation benefits due to an on-the-job assault and who, as a result of the physical injury, is placed on leave without pay.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Plan Provisions and Changes in Plan Provisions

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

Employees who work half-time in the TRS and Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

Senate Bill 141, signed into law on July 27, 2005, closes the plan effective July 1, 2006 to new members first hired on or after July 1, 2006.

(5) Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Part-time members who work at least 50% of full-time receive membership credit for each day in proportion to full-time service. Credit is granted for all Alaskan public school service.

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;
- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;
- Unused sick leave credit after members retire; and
- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

Survivors who are receiving occupational death benefits continue to earn TRS service credit while occupational survivor benefits are being paid.

(6) Employer Contributions

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

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TEACHERS' RETIREMENT SYSTEM
Summary of Plan Provisions and Changes in Plan Provisions

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

The past service rate is a uniform rate for all participating employers to amortize the unfunded past service liability with payments that are a level percentage of pay amount over fixed 25-year periods.

Employer rates cannot be less than the normal cost rate.

(7) Additional State Contribution

Pursuant to AS14.25.070 effective July 1, 2008, the State shall contribute an amount (in addition to the State contribution as an employer) that when combined with the employer contribution (12.56%) will be sufficient to pay the total contribution rate adopted by The State of Alaska Retirement Management Board.

(8) Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

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

1% Supplemental Contributions: Members who joined the system before July 1, 1982 and elected to participate in the supplemental contributions provision are required to contribute an additional 1% of their salaries. Supplemental contributions are deducted from gross salaries after federal income taxes are withheld. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies (see 13). Supplemental contributions are only refundable upon death (see 13).

Interest: Members' contributions earn 4.5% interest, compounded annually on June 30.

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

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

(9) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 55 or early retirement at age 50 if they were hired before July 1, 1990 (Tier 1) and age 60 or early retirement at age 55 if they were hired on or after July 1, 1990 (Tier 2). Additionally, they must have at least:

(i) eight years of paid-up membership service;

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Plan Provisions and Changes in Plan Provisions

(ii) 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;

(iii) five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;

(iv) 12 years of combined part-time and full-time paid-up membership service;

(v) two years of paid-up membership service if they are vested in the Public Employees' Retirement System (PERS); or

(vi) one year of paid-up membership service if they are retired from the PERS.

(b) Members may retire at any age when they have:

(i) 25 years of paid-up creditable service, the last five years of which are membership service;

(ii) 20 years of paid-up membership service;

(iii) 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or

(iv) 20 years of combined paid-up part-time and full-time membership service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may select joint and survivor options and a last survivor option. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990 is calculated at 2%.

Indebtedness: Members who terminate and refund their TRS contributions are not eligible to retire unless they return to TRS employment and pay back their refunds plus interest or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life. Indebtedness balances may also be created when a member purchases qualified claimed service.

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Summary of Plan Provisions and Changes in Plan Provisions

(10) Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement are eligible to return under the Standard Option.

Under the Standard Option, retirement and retiree healthcare benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

Members retired under the RIP who return to employment under the TRS, Public Employees' Retirement System (PERS), Judicial Retirement System (JRS) or the University of Alaska's Optional Retirement Plan will:

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

(b) owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and

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

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

(11) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990 (Tier 1) and their surviving spouses and (2) members and their surviving spouses who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 (Tier 2) and their surviving spouses may receive major medical benefits prior to age sixty by paying premiums.

(12) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

Members are appointed to normal retirement on the first of the month after they become eligible.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Summary of Plan Provisions and Changes in Plan Provisions

(13) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

Lump Sum Benefit: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service or is vested, the beneficiary also receives $1,000 and $100 for each year of TRS service, up to a maximum of $3,000. An additional $500 may be payable if the member is survived by dependent children.

Supplemental Contributions Provision: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

(a) **Survivor's Allowance:** If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.

(b) **Spouse's Pension:** The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or the unreduced retirement benefit that the deceased member would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.

STATE OF ALASKA
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Summary of Plan Provisions and Changes in Plan Provisions

Death After Retirement: If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check.

(14) Postretirement Pension Adjustments

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

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or

(b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990 (Tier 1) if the CPI increases and the funding ratio is at least 105%.

In a year where an Ad Hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

(15) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits. The following benefit recipients are eligible:

(a) members who were first hired under the TRS before July 1, 1990 (Tier 1) and their survivors;

(b) members who were first hired under the TRS after June 30, 1990 (Tier 2) and their survivors if they are at least age 65; and

(c) all disabled members.

Changes in Benefit Provisions Since the Prior Valuation

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

buckconsultants A Xerox Company

July 27, 2012

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

Certification of Actuarial Valuation

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

This report summarizes the annual actuarial valuation results of the State of Alaska Teachers' Retirement System Defined Contribution Retirement (TRS DCR) Plan as of June 30, 2011 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2011. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

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

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

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the Plan. The actuary performs an analysis of Plan experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last experience analysis was performed in 2010. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in this report.

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

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

Respectfully submitted,

BUCK CONSULTANTS, LLC

David H. Slishinsky

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

Michael D. Mills

Michael D. Mills, FSA, EA, MAAA
Director, Consulting Actuary

The undersigned actuaries are responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms their qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.

Melissa A. Bissett

Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

buckconsultants

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM DEFINED CONTRIBUTION RETIREMENT PLAN Description of Actuarial Methods and Valuation Procedures

The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was implemented effective June 30, 2006.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

Valuation of Liabilities

A. Actuarial Method – Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. Payroll is assumed to increase by the payroll growth assumption per year for this purpose. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for death and disability benefits (constant dollar amount for retiree medical benefits), from the assumed entry age to the last age with a future benefit were applied to the projected benefits to determine the normal cost (the portion of the total cost of the Plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total DCR Plan payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the Plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for beneficiaries and disabled members currently receiving benefits (if any) was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

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

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

B. Valuation of Assets

Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. Fair Value of Assets were $0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Description of Actuarial Methods and Valuation Procedures

C. Valuation of Retiree Medical Benefits

The methodology used for the valuation of the retiree medical benefits is described in Section 6.2(c) of the State of Alaska Teachers' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2011.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2011 for TRS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, FY11 claims costs were reduced 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

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

Healthcare Reform

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

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

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

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

Changes in Methods From the Prior Valuation

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

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

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

1. Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses.
2. Salary Scale	Inflation – 3.12% per year. Productivity – 0.5% per year. See Table 1 for salary scale rates.
3. Payroll Growth	3.62% per year.
4. Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
5. Mortality (Pre-termination)*	Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 2). 55% of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 45% for males. 15% of deaths are assumed to result from occupational causes.
6. Mortality (Post-termination)*	Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 3). 3-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 4-year setback for males.
7. Turnover	Select rates were estimated and ultimate rates were set to the TRS DB Plan's rates loaded by 10%. (See Table 4).
8. Disability	Incidence rates based upon the 2005-2009 actual experience of the TRS DB Plan, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.
9. Retirement	Retirement rates were estimated in accordance with Table 6.
10. Marriage and Age Difference	Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
11. Part-time Status	Part-time employees are assumed to earn 0.60 years of credited service per year.

*The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

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

13. Per Capita Claims Cost — Sample claims cost rates adjusted to age 65 for FY12 medical benefits are shown below:

	Medical	Prescription Drugs
Pre-Medicare	$ 9,497	$ 2,799
Medicare Parts A & B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

14. Third Party Administrator Fees — $162.47 per person per year; assumed trend rate of 5% per year.

15. Base Claims Cost Adjustments — Due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following cost adjustments are applied to the per capita claims cost rates above:

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

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

16. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.4% is applied to the FY12 medical claims costs to get the FY13 medical claims costs.

	Medical	Prescription Drugs
FY12	6.4%	7.1%
FY13	5.9	5.9
FY14	5.9	5.9
FY15	5.9	5.9
FY16	5.9	5.9
FY17	5.9	5.9
FY18	5.9	5.9
FY25	5.8	5.8
FY50	5.7	5.7
FY100	5.1	5.1

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

17. Aging Factors

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

18. Retiree Medical Participation

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

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 1
Alaska TRS DCR Plan
Salary Scale

Year of Employment	Unisex Rates
1-6	6.11%
7	5.94
8	5.78
9	5.61
10	5.44
11	5.28
12	5.11
13	4.94
14	4.78
15	4.61
16	4.45
17	4.28
18	4.11
19	3.95
20	3.78
21+	3.62

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 2
Alaska TRS DCR Plan
Mortality Table (Pre-termination)

Age	Male	Female
20	.017%	.012%
21	.018	.012
22	.019	.012
23	.021	.013
24	.024	.013
25	.026	.013
26	.030	.014
27	.032	.014
28	.033	.015
29	.034	.016
30	.035	.017
31	.036	.019
32	.037	.020
33	.037	.021
34	.037	.022
35	.037	.023
36	.038	.024
37	.039	.025
38	.041	.027
39	.042	.029
40	.045	.032
41	.047	.034
42	.050	.037
43	.053	.039
44	.056	.041
45	.060	.042
46	.064	.044
47	.069	.047
48	.075	.051
49	.081	.055
50	.088	.061
51	.097	.068
52	.106	.078
53	.118	.090
54	.131	.102
55	.149	.116
56	.170	.135
57	.195	.157
58	.224	.181
59	.253	.208
60	.284	.239
61	.326	.274
62	.368	.314
63	.425	.359
64	.479	.410

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 3
Alaska TRS DCR Plan
Mortality Table (Post-termination)

Age	Male	Female
50	.142%	.085%
51	.153	.092
52	.166	.100
53	.181	.111
54	.196	.124
55	.215	.143
56	.235	.163
57	.263	.185
58	.291	.212
59	.331	.246
60	.377	.285
61	.433	.328
62	.499	.378
63	.561	.434
64	.631	.498
65	.725	.570
66	.819	.653
67	.944	.745
68	1.064	.844
69	1.196	.948
70	1.362	1.052
71	1.512	1.150
72	1.634	1.242
73	1.787	1.342
74	1.915	1.434
75	2.094	1.583
76	2.298	1.726
77	2.518	1.918
78	2.748	2.094
79	3.061	2.338
80	3.361	2.669
81	3.788	2.985
82	4.292	3.327
83	4.868	3.707
84	5.510	4.136
85	6.214	4.625

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 4
Alaska TRS DCR Plans
Turnover Assumptions

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

Year of Employment	Unisex Rate
0	18.00%
1	17.00
2	14.00
3	12.00
4	10.00

Ultimate Rates of Turnover
After the First 5 Years of Employment

Age	Male	Female	Age	Male	Female
15	4.9042%	4.8122%	40	4.7508%	4.6924%
16	4.8981	4.8085	41	4.7372	4.6815
17	4.8931	4.8061	42	4.7199	4.6706
18	4.8882	4.8049	43	4.7038	4.6609
19	4.8857	4.8037	44	4.6827	4.6488
20	4.8474	4.7686	45	4.6593	4.6343
21	4.8448	4.7686	46	4.6345	4.6210
22	4.8399	4.7674	47	4.6035	4.6028
23	4.8362	4.7674	48	4.5676	4.5823
24	4.8300	4.7662	49	4.5306	4.5617
25	4.8250	4.7662	50	4.4884	4.5375
26	4.8201	4.7650	51	4.4389	4.5097
27	4.8151	4.7638	52	4.3808	4.4770
28	4.8102	4.7601	53	4.3164	4.4383
29	4.8052	4.7565	54	4.2447	4.3971
30	4.8015	4.7529	55	4.1630	4.3475
31	4.7991	4.7505	56	4.0640	4.2834
32	4.7953	4.7456	57	3.9427	4.2011
33	4.7929	4.7420	58	3.8103	4.1080
34	4.7916	4.7372	59	3.6507	3.9894
35	4.7892	4.7323	60	3.4713	3.8551
36	4.7854	4.7251	61	3.2720	3.7050
37	4.7805	4.7190	62	3.0406	3.5344
38	4.7718	4.7105	63	2.7770	3.3396
39	4.7619	4.7021	64	2.4912	3.1279
			65+	4.9500	4.8400

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 5
Alaska TRS DCR
Plan Disability Table

Age	Male	Female
20	.022%	.020%
21	.022	.020
22	.023	.021
23	.023	.021
24	.024	.022
25	.024	.022
26	.024	.022
27	.025	.022
28	.026	.023
29	.026	.024
30	.027	.025
31	.027	.025
32	.028	.025
33	.029	.026
34	.030	.027
35	.030	.027
36	.032	.029
37	.033	.030
38	.034	.031
39	.035	.032
40	.037	.033
41	.038	.035
42	.041	.037
43	.043	.039
44	.047	.043
45	.052	.047
46	.056	.050
47	.061	.055
48	.066	.060
49	.071	.064
50	.077	.069
51	.083	.075
52	.091	.082
53	.102	.091
54	.114	.102
55	.128	.115
56	.147	.133
57	.171	.154
58	.195	.176
59	.230	.207
60	.270	.243
61	.312	.281
62	.362	.325
63	.418	.376
64	.477	.429

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Actuarial Assumptions and Changes in Assumptions

Table 6
Alaska TRS DCR Plan
Retirement Table

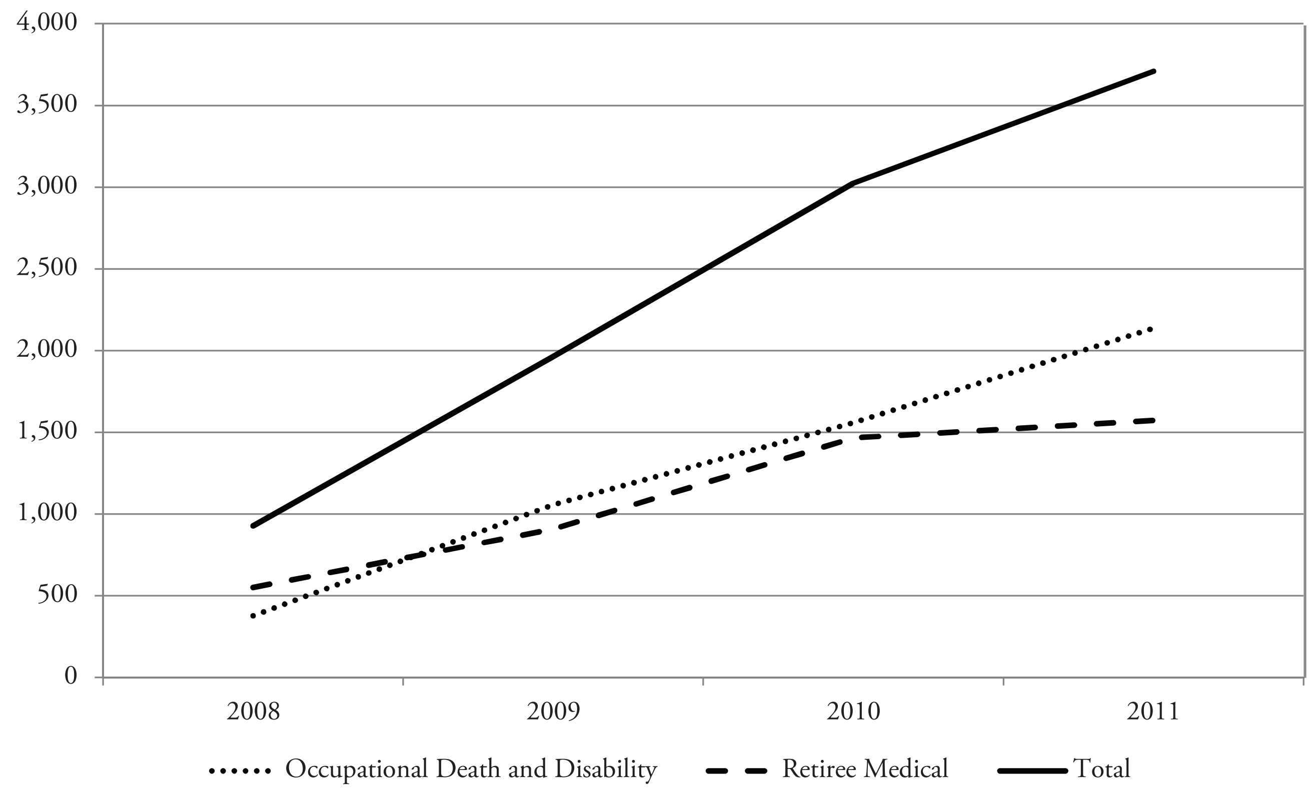
Age	Rate
<55	2%
55-59	3
60	5
61	5
62	10
63	5
64	5
65	25
66	25
67	25
68	20
69	20
70	100

Changes in Actuarial Assumptions Since the Prior Valuation

There have been no changes in assumptions since the prior valuation, except for the assumption regarding Medicare Part B only participation for pre-65 retirees and active members. We now determine the Part B only status based on number of quarters worked since date of hire or re-hire where applicable.

Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	**Occupational Death and Disability**	**Retiree Medical**	**Total Funding Excess/ (Unfunded Liability)**	**Funded Ratio**
2008	$ 376	$ 551	$ 927	215.73%
2009	1,057	907	1,964	234.5
2010	1,559	1,465	3,024	223.5
2011	2,136	1,572	3,708	196.1

4-YEAR TREND OF FUNDING EXCESS
(In thousands)



Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Employer Contribution Rates					
Fiscal Year	**Actuarial Valuation Year Ended June 30**	**Occupational Death and Disability**	**Retiree Medical**	**Total Annual Required**	**Adopted**
2007	N/A	N/A	1.75%	1.75%	1.75%
2008	N/A	0.56 %	0.99	1.55	1.55
2009	N/A	0.62	0.99	1.61	1.61
2010	2007	0.32	1.03	1.35	1.35
2011	2008	0.28	0.68	0.96	0.96
2012	2009	-	0.58	0.58	0.58
2013	2010	-	0.49	0.49	0.49
2014	2011	-	0.47	0.47	0.47

Valuations are used to set contribution rates in future years.

Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Schedule of Active Member Valuation Data					
Valuation Date	**Number**	**Annual Earnings[1] (In thousands)**	**Annual Average Earnings**	**Percent Increase/ (Decrease) in Average Earnings**	**Number of Participating Employers**
June 30, 2011	2,708	$151,269	$55,860	5.6%	58
June 30, 2010	2,246	118,813	52,900	5.7	58
June 30, 2009	1,792	89,708	50,061	6.4	58
June 30, 2008	1,198	56,369	47,053	6.2	58
June 30, 2007	641	28,410	44,322	—	58
June 30, 2006	—	—	—	—	58

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

Teachers' Retirement System Defined Contribution Retirement Plan Occupational Death and Disability Solvency Test (In thousands)							
	Occupational Death and Disability Aggregate Accrued Liability For:				Portion of Accrued Liabilities Covered by Assets:		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)	Occupational Death and Disability Valuation Assets	(1)	(2)	(3)
June 30, 2011	$ -	$ -	$ 57	$ 2,193	100.0%	100.0%	100.0%
June 30, 2010[1]	-	-	18	1,577	100.0	100.0	100.0
June 30, 2009[1]	-	-	14	1,071	100.0	100.0	100.0
June 30, 2008	-	-	44	420	100.0	100.0	100.0
June 30, 2007	-	-	16	-	100.0	100.0	0.0
June 30, 2006	-	-	-	-	N/A	N/A	N/A

[1] Change in Assumptions

Teachers' Retirement System Defined Contribution Retirement Plan Retiree Medical Solvency Test (In thousands)							
	Retiree Medical Aggregate Accrued Liability For:				Portion of Accrued Liabilities Covered by Assets:		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)	Retiree Medical Valuation Assets	(1)	(2)	(3)
June 30, 2011	$ -	$ -	$ 3,801	$ 5,373	100.0%	100.0%	100.0%
June 30, 2010[1]	-	-	2,430	3,895	100.0	100.0	100.0
June 30, 2009[1]	-	-	1,446	2,353	100.0	100.0	100.0
June 30, 2008[1]	-	-	757	1,308	100.0	100.0	100.0
June 30, 2007	-	-	358	597	100.0	100.0	100.0
June 30, 2006	-	-	-	-	N/A	N/A	N/A

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

[1] Change in Assumptions

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Plan Provisions and Changes in Plan Provisions

(1) Effective Date

July 1, 2006, with amendments through June 30, 2011.

(2) Administration of Plan

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

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

(3) Employers Included

Currently there are 58 employers participating in the TRS DCR Plan, including the State of Alaska, 53 school districts, and four other eligible organizations.

(4) Membership

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

- Permanent full-time or part-time elementary or secondary teachers, school nurses, or a person in a position requiring a teaching certificate as a condition of hire in a public school of the State of Alaska, the Department of Education and Early Development or in the Department of Labor and Workforce Development.

- Full-time or part-time teachers at the University of Alaska or persons occupying full-time administrative positions requiring academic standing who are not in the University's Optional Retirement Plan.

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

(5) Member Contributions

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

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Plan Provisions and Changes in Plan Provisions

(6) Retiree Medical

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

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

(7) Occupational Disability Benefits

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or at any age with 30 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
DEFINED CONTRIBUTION RETIREMENT PLAN
Summary of Plan Provisions and Changes in Plan Provisions

(8) Occupational Death Benefits

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

Changes Since the Prior Valuation

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

STATISTICAL SECTION

Statistical Section

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

Statistical Section Overview

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

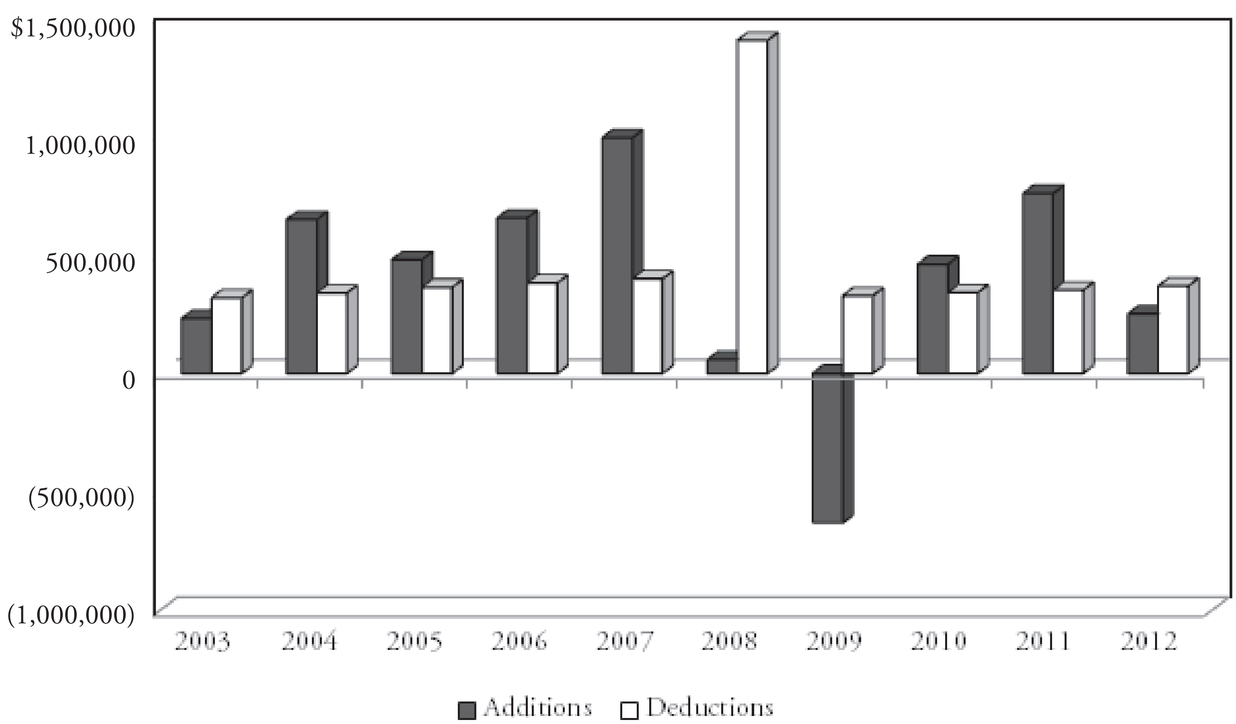
These schedules contain financial trend information utilizing a multi-year presentation so the reader can better understand how the System's financial performance has changed over time. Financial information is presented on an accrual basis.

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

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

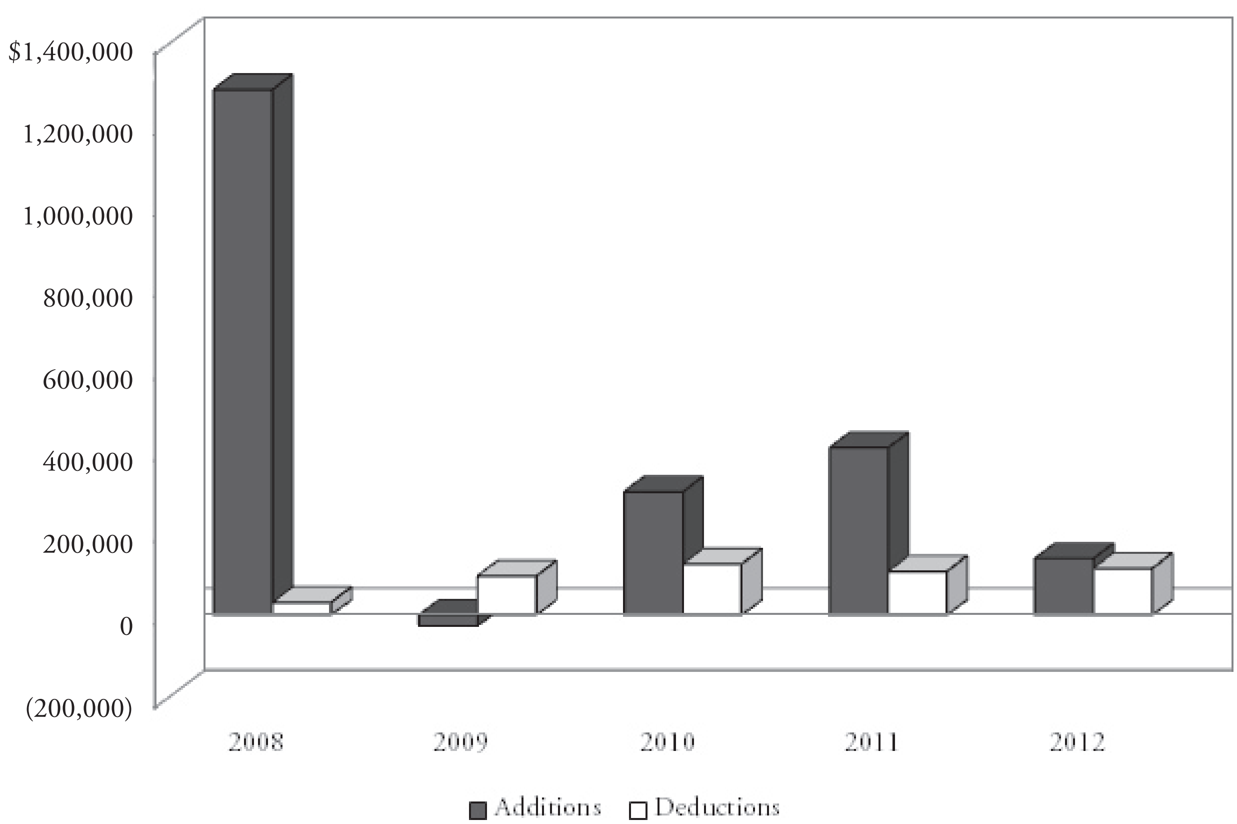
Teachers' Retirement System Defined Benefit Pension Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase/ (Decrease) in Net Assets	Net Assets, End of Year
2003	$ 3,689,036	$ 230,234	$ 316,651	$ (86,417)	$ 3,602,619
2004	3,602,619	646,298	337,402	308,896	3,911,515
2005	3,911,515	476,969	361,489	115,480	4,026,995
2006	4,026,995	652,648	379,672	272,976	4,299,971
2007	4,299,971	989,840	396,697	593,143	4,893,114
2008	4,893,114	57,423	1,399,739	(1,342,316)	3,550,798
2009	3,550,798	(629,058)	325,307	(954,365)	2,596,433
2010	2,596,433	458,984	338,860	120,124	2,716,557
2011	2,716,557	755,768	348,795	406,973	3,123,530
2012	3,123,530	249,803	366,686	(116,883)	3,006,647

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



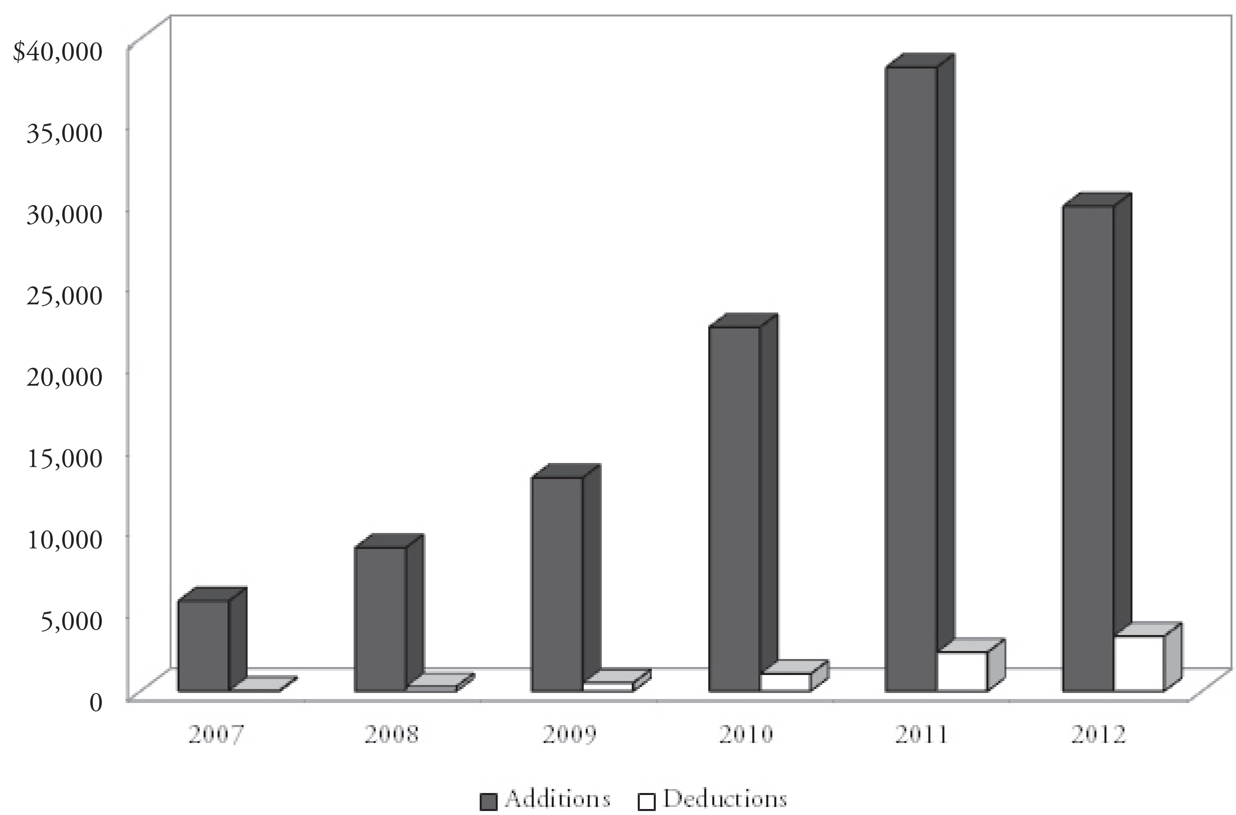
Teachers' Retirement System Defined Benefit Pension Alaska Retiree Healthcare Trust Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase/ (Decrease) in Net Assets	Net Assets, End of Year
2008	$ –	$1,283,865	$ 30,292	$1,253,573	$1,253,573
2009	1,253,573	(27,157)	95,383	(122,540)	1,131,033
2010	1,131,033	300,736	124,133	176,603	1,307,636
2011	1,307,636	408,179	106,485	301,694	1,609,330
2012	1,609,330	137,594	113,883	23,711	1,633,041

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



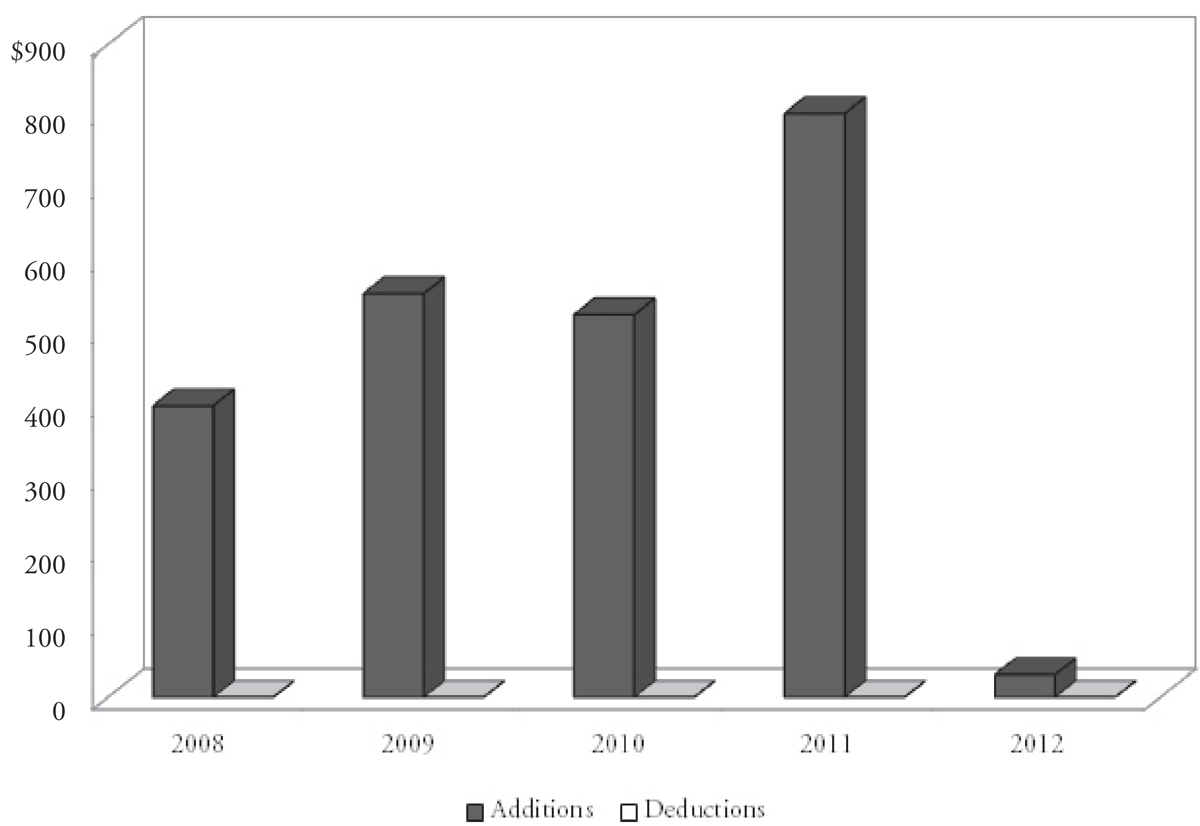
Teachers' Retirement System Deferred Contribution Retirement Participant Directed Changes in Net Assets (In thousands)					
Year Ended June 30	**Net Assets, Beginning of Year**	**Additions**	**Deductions**	**Increase/ (Decrease) in Net Assets**	**Net Assets, End of Year**
2007	$ –	$ 5,543	$ 36	$ 5,507	$ 5,507
2008	5,507	8,825	278	8,547	14,054
2009	14,054	13,132	498	12,634	26,688
2010	26,688	22,359	1,053	21,306	47,994
2011	47,994	38,355	2,377	35,978	83,972
2012	83,972	29,791	3,374	26,417	110,389

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



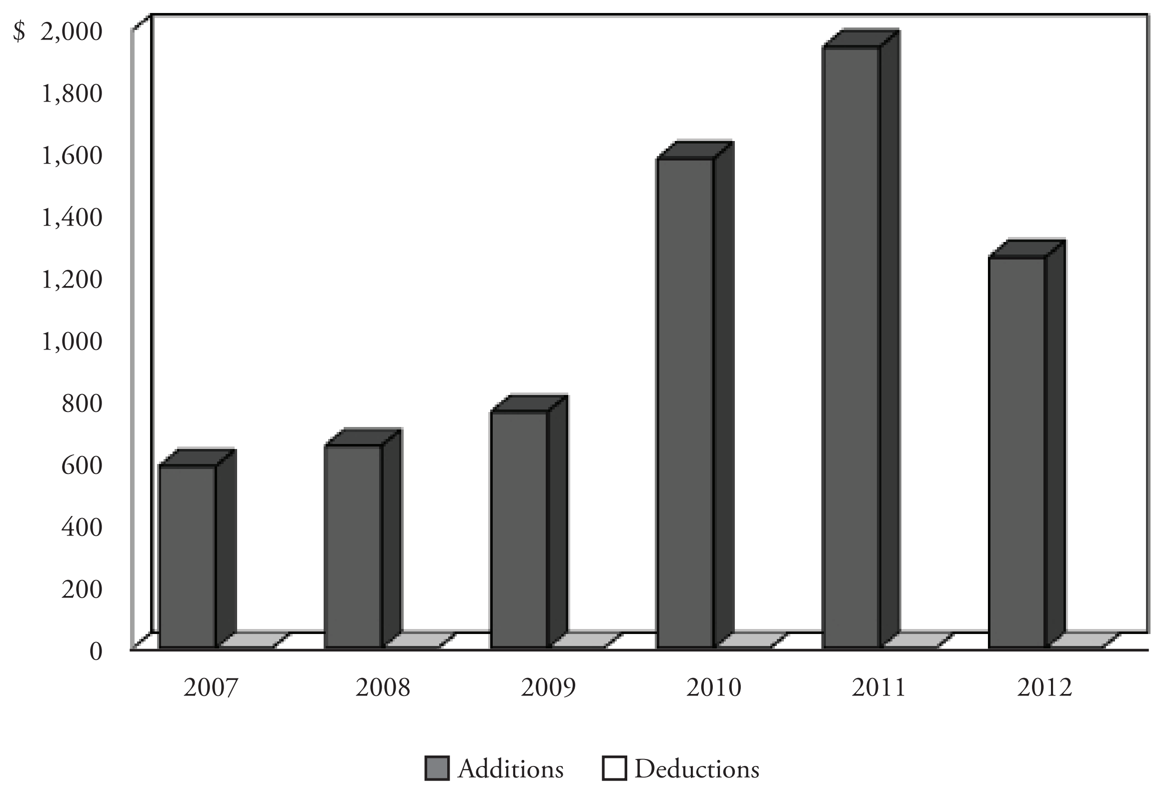
Teachers' Retirement System Defined Contribution Retirement Occupational Death & Disability Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase/ (Decrease) in Net Assets	Net Assets, End of Year
2008	$ –	$ 400	$ –	$ 400	$ 400
2009	400	554	–	554	954
2010	954	525	–	525	1,479
2011	1,479	801	–	801	2,280
2012	2,280	31	–	31	2,311

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



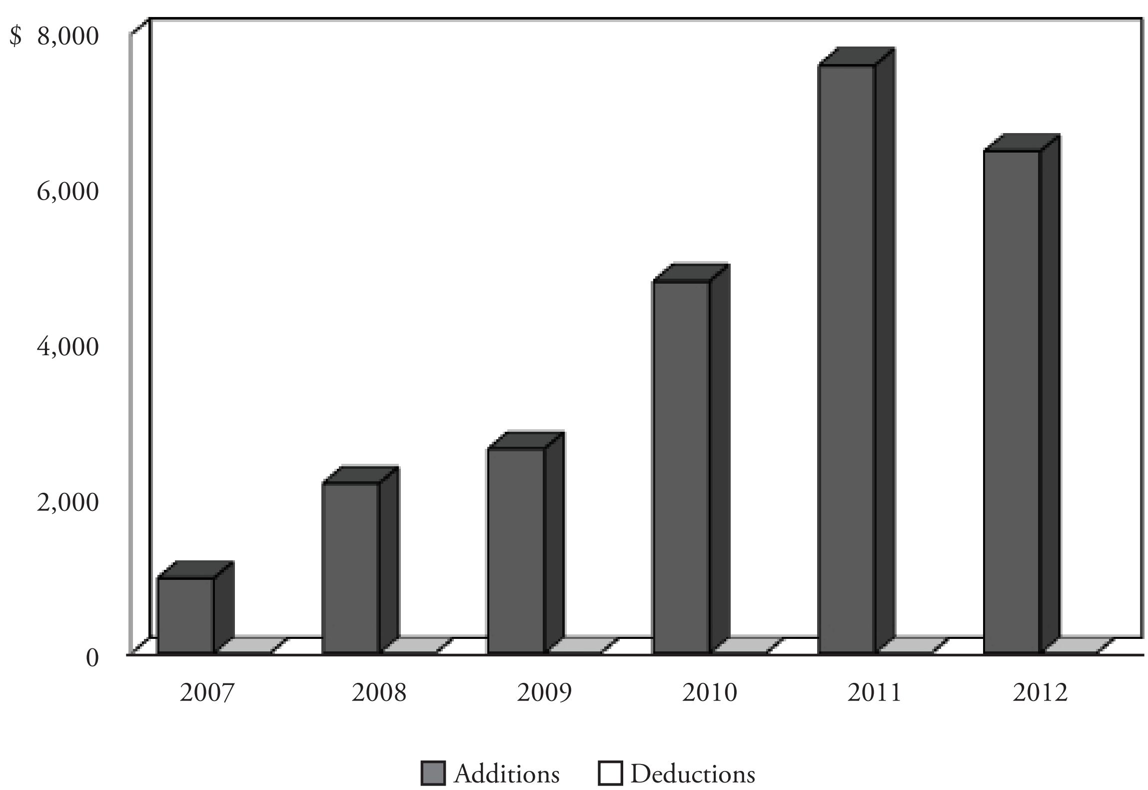
Teachers' Retirement System Defined Contribution Retirement Medical Plan Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase/ (Decrease) in Net Assets	Net Assets, End of Year
2007	$ –	$ 590	$ –	$ 590	$ 590
2008	590	656	–	656	1,246
2009	1,246	766	–	766	2,012
2010	2,012	1,586	–	1,586	3,598
2011	3,598	1,947	–	1,947	5,545
2012	5,545	1,267	–	1,267	6,812

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



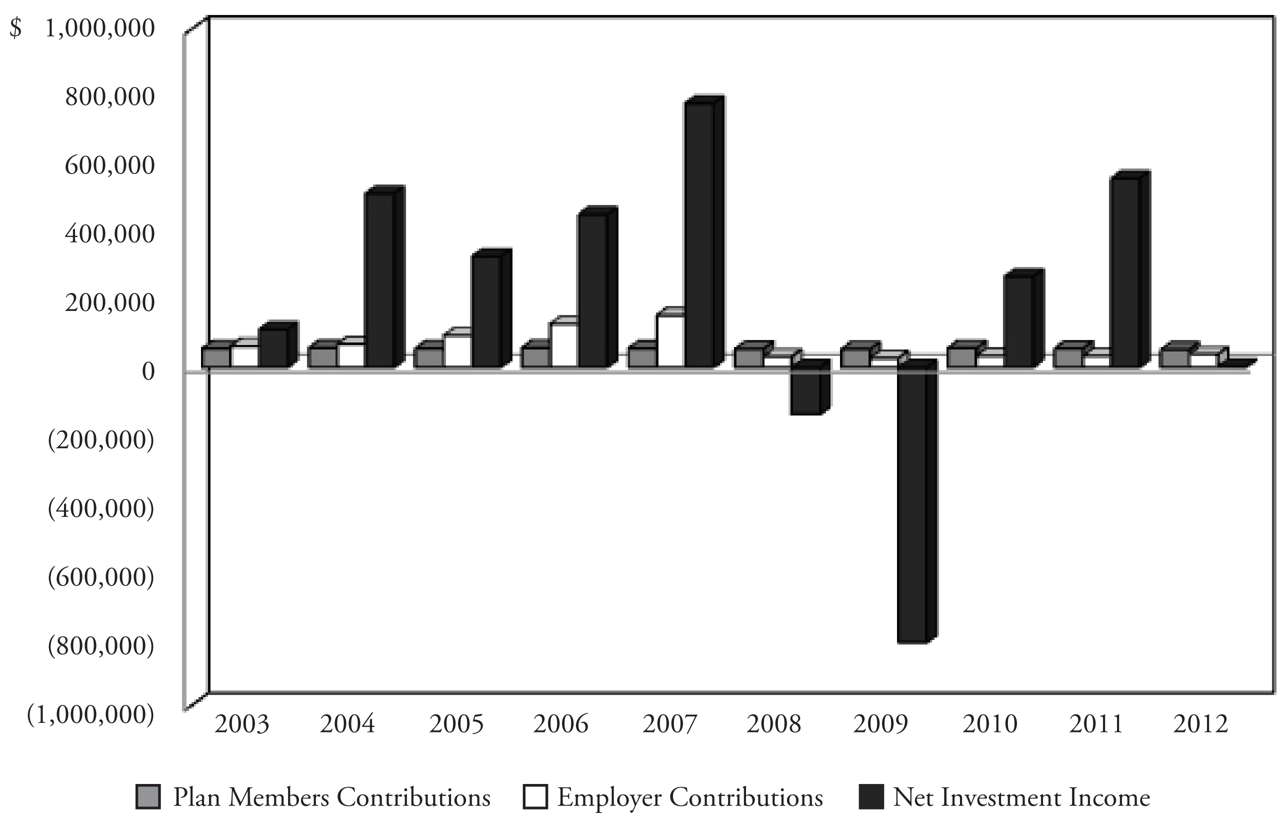
Teachers' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Changes in Net Assets (In thousands)					
Year Ended June 30	**Net Assets, Beginning of Year**	**Additions**	**Deductions**	**Increase/(Decrease) in Net Assets**	**Net Assets, End of Year**
2007	$ -	$ 974	$ -	$ 974	$ 974
2008	974	2,202	-	2,202	3,176
2009	3,176	2,650	-	2,650	5,826
2010	5,826	4,814	-	4,814	10,640
2011	10,640	7,606	-	7,606	18,246
2012	18,246	6,491	-	6,491	24,737

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



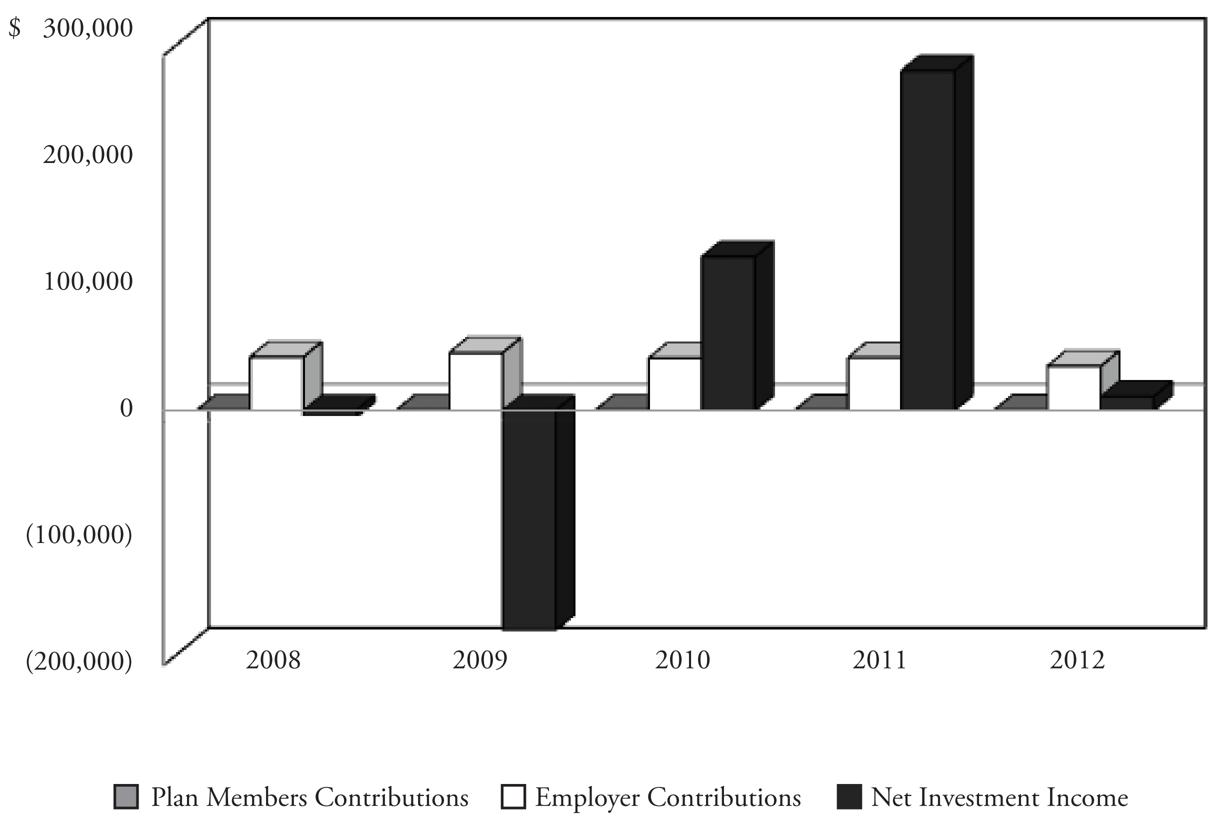
Teachers' Retirement System Defined Benefit Pension Additions by Source (In thousands)						
Year Ended June 30	Plan Member Contributions	Employer Contributions	State of Alaska	Net Investment Income (Loss)	Other	Total
2003	$ 55,789	$ 62,856	$ -	$ 111,575	$ 14	$ 230,234
2004	57,365	68,692	-	513,964	6,277	646,298
2005	55,993	93,540	-	327,426	10	476,969
2006	57,802	127,967	-	451,689	15,190	652,648
2007	55,689	153,618	-	780,512	21	989,840
2008	54,121	31,313	111,237	(139,282)	34	57,423
2009	53,544	27,110	104,423	(814,138)	3	(629,058)
2010	56,554	33,800	100,475	268,146	9	458,984
2011	55,347	32,804	109,343	558,220	54	755,768
2012	52,020	38,189	157,387	2,190	17	249,803

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



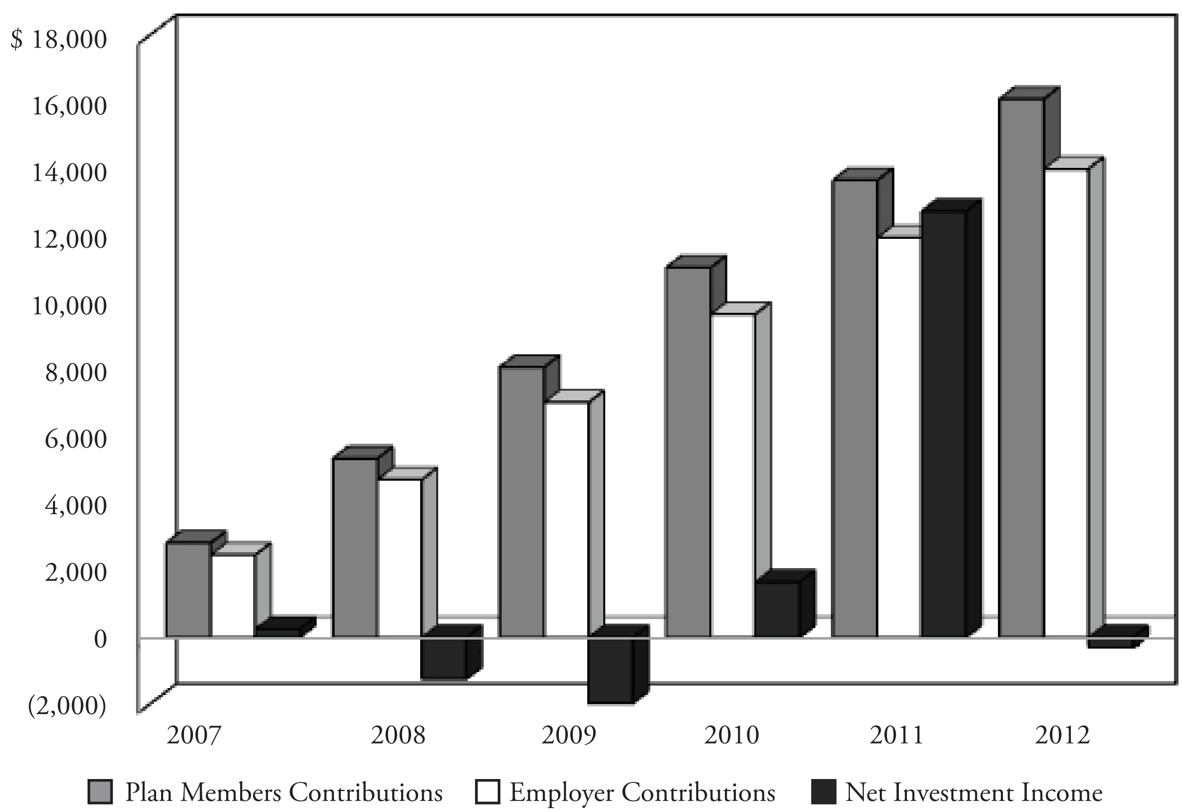
Teachers' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Additions by Source (In thousands)							
Year Ended June 30	**Plan Member Contributions**	**Employer Contributions**	**State of Alaska**	**Net Investment Income (Loss)**	**Transfer**	**Other**	**Total**
2008	$ 111	$ 43,697	$ 158,755	$ (5,318)	$1,086,620	$ -	$ 1,283,865
2009	116	47,174	101,877	(179,919)	-	3,595	(27,157)
2010	117	42,694	72,987	125,903	-	59,035	300,736
2011	138	43,217	81,507	278,366	-	4,951	408,179
2012	183	36,281	77,130	11,465	-	12,535	137,594

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



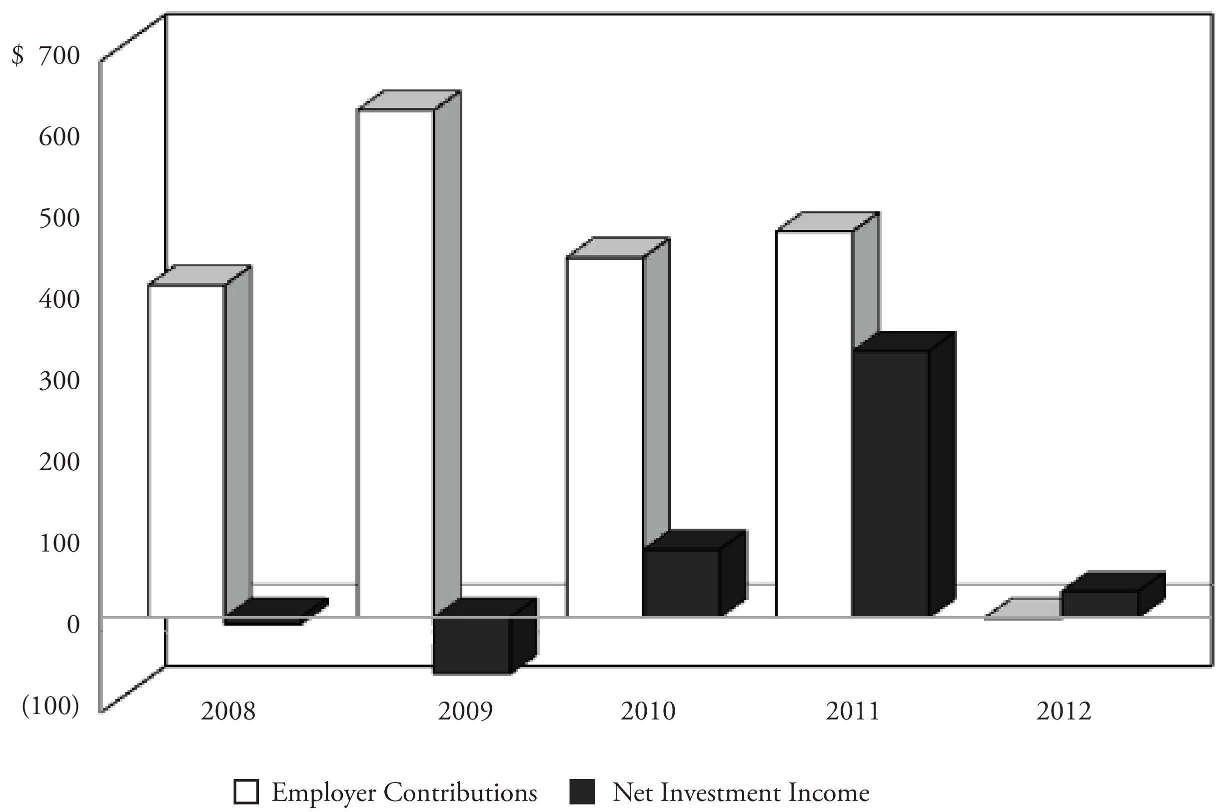
Teachers' Retirement System Defined Contribution Retirement Participant Directed Additions by Source (In thousands)					
Year Ended June 30	Plan Member Contributions	Employer Contributions	Income (Loss)	Net Investment Other	Total
2007	$ 2,827	$ 2,465	$ 251	$ -	$ 5,543
2008	5,347	4,717	(1,239)	-	8,825
2009	8,077	7,023	(1,968)	-	13,132
2010	11,051	9,658	1,650	-	22,359
2011	13,665	11,943	12,742	5	38,355
2012	16,095	14,003	(307)	-	29,791

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



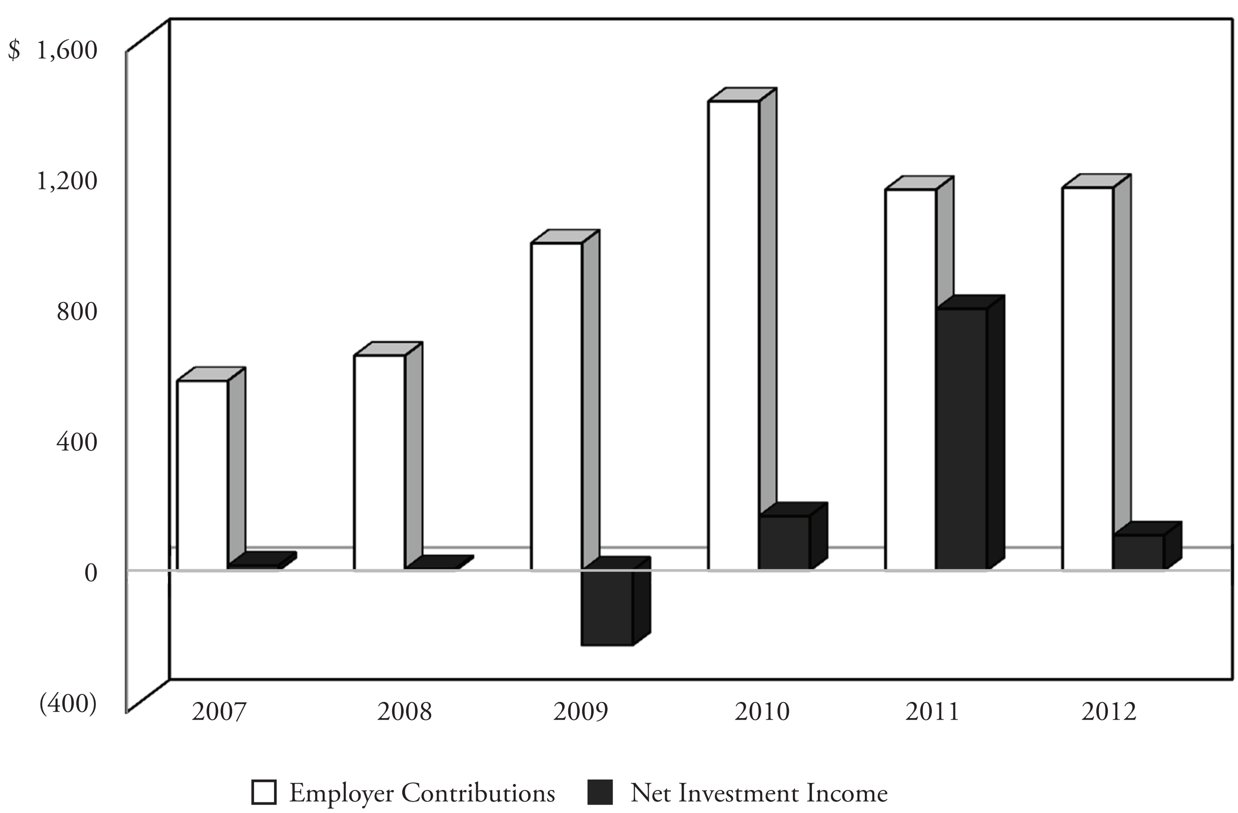
Teachers' Retirement System Defined Contribution Retirement Occupational Death & Disability Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2008	$ 408	$ (8)	$ 400
2009	623	(69)	554
2010	442	83	525
2011	474	327	801
2012	(1)	32	31

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



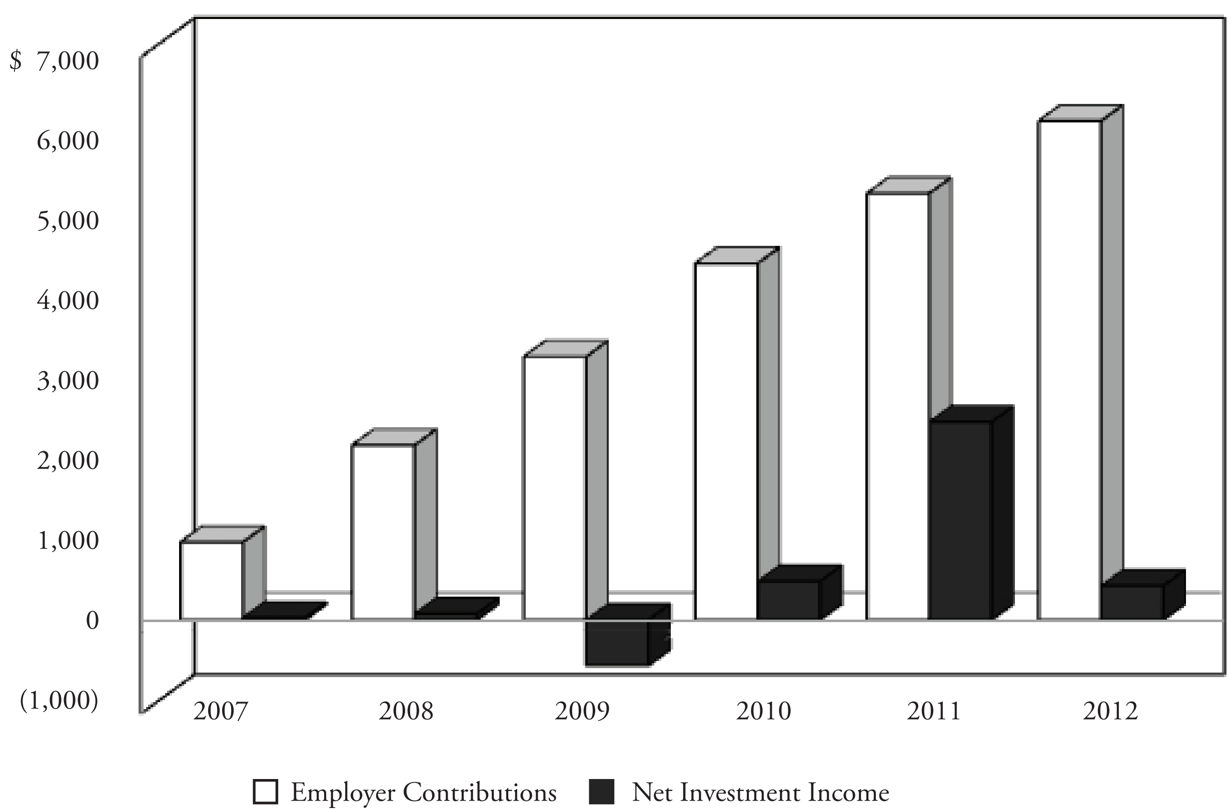
Teachers' Retirement System Defined Contribution Retirement Retiree Medical Plan Additions by Source (In thousands)			
Plan Ended June 30	**Employer Contributions**	**Net Investment Income (Loss)**	**Total**
2007	$ 575	$ 15	$ 590
2008	651	5	656
2009	992	(226)	766
2010	1,421	165	1,586
2011	1,154	793	1,947
2012	1,160	107	1,267

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



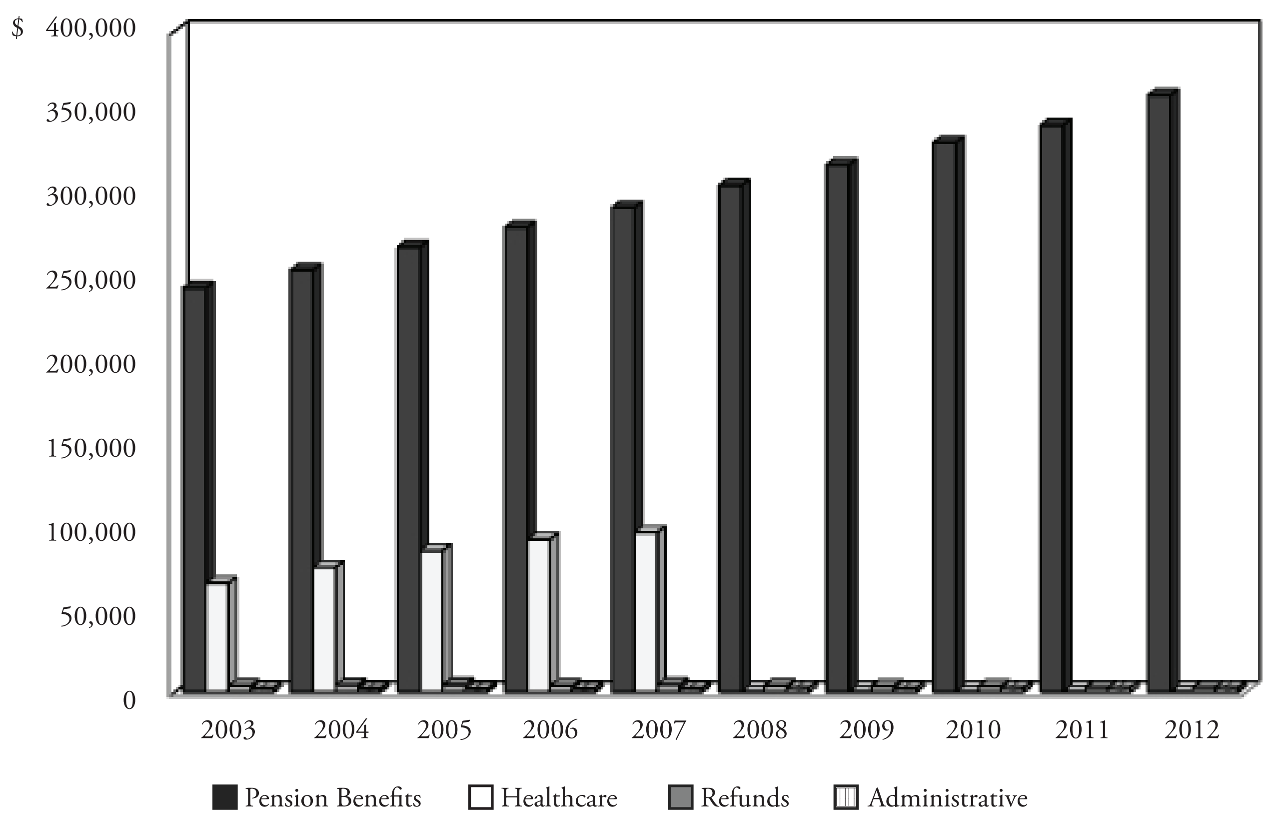
Teachers' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Additions by Source (In thousands)			
Plan Ended June 30	Employer Contributions	Net Investment Income (Loss)	Total
2007	$ 947	$ 27	$ 974
2008	2,127	75	2,202
2009	3,206	(556)	2,650
2010	4,344	470	4,814
2011	5,195	2,411	7,606
2012	6,077	414	6,491

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



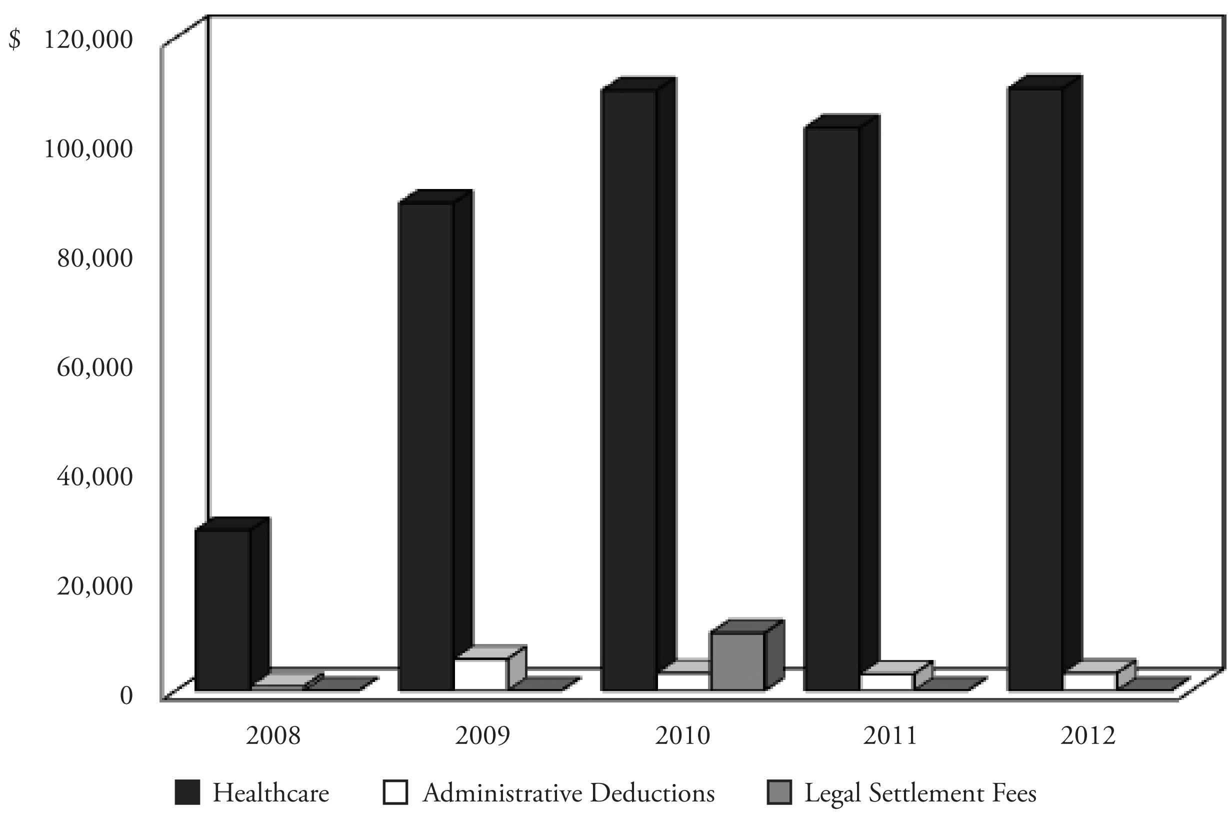
Teachers' Retirement System Defined Benefit Pension Deductions by Type (In thousands)							
Year Ended June 30	Pension Benefits	Healthcare	Refunds of Contributions	Administrative Deductions	Legal Fee Settlement	Transfer	Total
2003	$ 244,518	$ 65,898	$ 3,840	$ 2,395	$ —	$ —	$ 316,651
2004	255,409	75,601	4,189	2,203	—	—	337,402
2005	269,414	85,670	4,376	2,029	—	—	361,489
2006	281,205	92,462	3,832	2,173	—	—	379,672
2007	293,224	96,544	4,535	2,394	—	—	396,697
2008	306,689	—	3,761	2,669	—	1,086,620	1,399,739
2009	319,148	—	3,622	2,537	—	—	325,307
2010	332,690	—	3,472	2,698	—	—	338,860
2011	343,191	—	2,798	2,806	—	—	348,795
2012	361,202	—	2,637	2,847	—	—	366,686

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



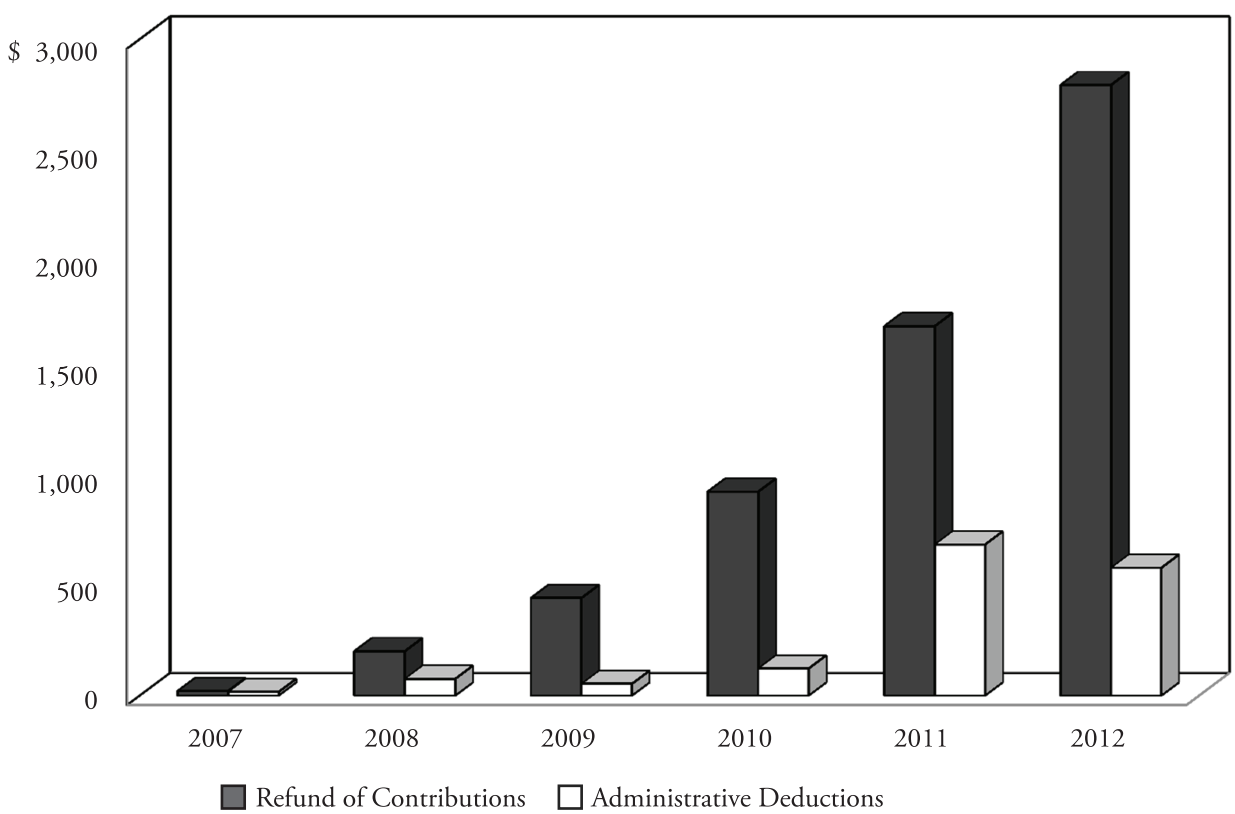
Teachers' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Deductions by Type (In thousands)				
Plan Ended June 30	**Healthcare**	**Administrative Deductions**	**Legal Settlement Fees**	**Total**
2008	$ 29,494	$ 798	$ —	$ 30,292
2009	89,571	5,812	—	95,383
2010	110,313	3,228	10,592	124,133
2011	103,405	3,080	—	106,485
2012	110,632	3,251	—	113,883

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



Teachers' Retirement System Defined Contribution Retirement Participant Directed Deductions by Type (In thousands)			
Plan Ended June 30	**Refund of Contributions**	**Administrative Deductions**	**Total**
2007	$ 20	$ 16	$ 36
2008	202	76	278
2009	445	53	498
2010	930	123	1,053
2011	1,688	689	2,377
2012	2,791	583	3,374

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



Teachers' Retirement System
Schedule of Average Pension Benefit Payments
New Benefit Recipients

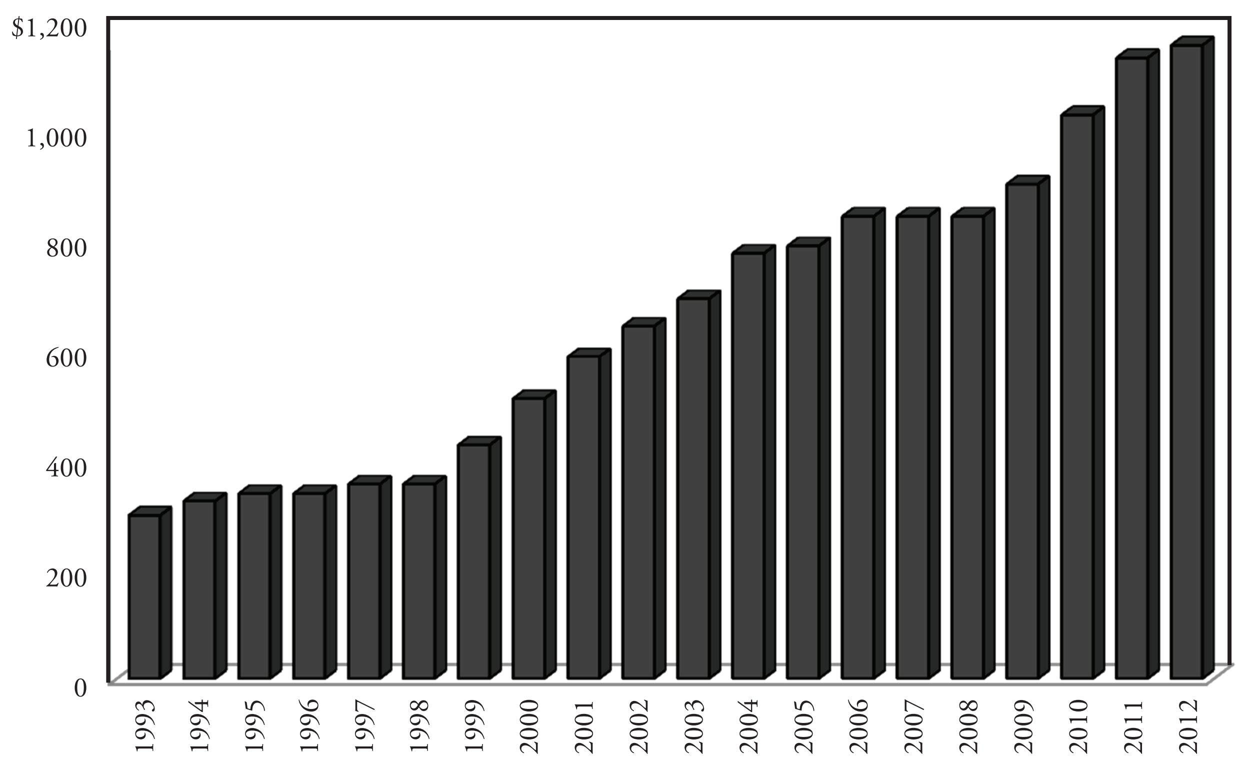
	Years of Credited Service						
	0 - 4	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
Period 7/1/05 - 6/30/06[1]:							
Average Monthly Benefit	$1,078	$ 960	$1,110	$1,982	$2,695	$3,388	$4,563
Number of Recipients	9	50	63	90	124	68	26
Period 7/1/06 - 6/30/07[1]:							
Average Monthly Benefit	$ 214	$ 798	$1,249	$2,250	$2,909	$3,709	$5,109
Number of Recipients	9	41	54	69	102	68	28
Period 7/1/07 - 6/30/08[1]:							
Average Monthly Benefit	$ 209	$ 945	$1,248	$2,226	$2,966	$3,832	$5,057
Number of Recipients	13	44	62	92	95	87	33
Period 7/1/08 - 6/30/09[1]:							
Average Monthly Benefit	$ 230	$ 950	$1,168	$2,239	$2,957	$3,897	$4,860
Number of Recipients	13	35	64	52	67	54	18
Period 7/1/09 - 6/30/10[1]:							
Average Monthly Benefit	$ 482	$1,020	$1,343	$2,263	$2,992	$4,120	$6,263
Number of Recipients	14	50	63	85	109	79	49
Period 7/1/10 - 6/30/11[1]:							
Average Monthly Benefit	$ 146	$ 902	$1,432	$2,328	$3,131	$4,283	$5,496
Number of Recipients	5	68	63	77	118	104	67

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

(1) Does not include beneficiaries

Teachers' Retirement System Schedule of Pension and Healthcare Benefits Deductions by Type (In thousands)						
Year Ended June 30	Service	Disability	Survivor	Dependent	Healthcare	Total
2003	$ 234,253	$ 2,872	$ 6,901	$ 492	$ 65,898	$ 310,416
2004	245,122	2,483	7,345	459	75,601	331,010
2005	258,998	2,400	7,695	321	85,670	355,084
2006	270,504	2,342	8,353	6	92,462	373,667
2007	281,879	2,193	9,146	6	96,544	389,768
2008	294,807	1,889	9,974	18	99,583	406,271
2009	306,748	1,692	10,688	20	103,093	422,241
2010	319,109	1,757	11,787	37	117,556	450,246
2011	329,308	1,337	12,499	47	133,152	476,343
2012	346,538	1,222	13,398	45	146,309	507,512

20-YEAR COMPARISON OF RETIREE MONTHLY COMPOSITE MEDICAL PREMIUMS

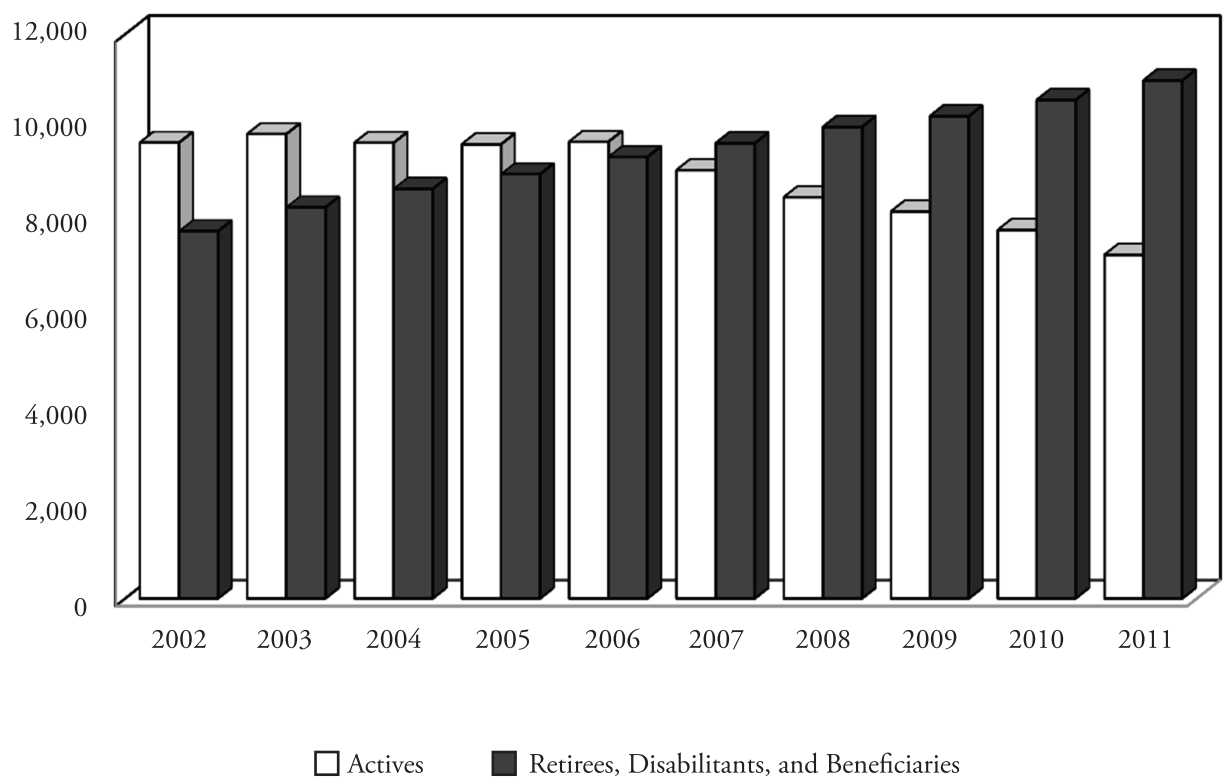


Teachers' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Elected Valuation as of June 30, 2011				
Amount of Monthly Pension Benefit	Number of Recipients	Type of Pension Benefit		
		Regular Retirement	Survivor Payments	Disability
$ 1 - 300	196	145	51	—
301 - 600	350	263	87	—
601 - 900	641	521	120	—
901 - 1,200	676	562	114	—
1,201 - 1,500	645	516	129	—
1,501 - 1,800	609	498	109	2
1,801 - 2,100	682	579	102	1
2,101 - 2,400	870	809	57	4
2,401 - 2,700	988	934	48	6
2,701 - 3,000	976	941	27	8
3,001 - 3,300	866	846	16	4
3,301 - 3,600	780	763	13	4
3,601 - 3,900	647	640	4	3
3,901 - 4,200	549	544	4	1
over 4,200	1,541	1,533	7	1
Totals	11,016	10,094	888	34

Teachers' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Elected Valuation as of June 30, 2011					
Amount of Monthly Pension Benefit	Number of Recipients	Option Selected			
		Whole Life Annuity	75% Joint and Contingent Annuity	50% Joint and Contingent Annuity	66 2/3% Joint and Contingent Annuity
$ 1 - 300	196	116	39	32	9
301 - 600	350	186	75	72	17
601 - 900	641	332	142	136	31
901 - 1,200	676	373	153	116	34
1,201 - 1,500	645	339	146	135	25
1,501 - 1,800	609	345	120	124	20
1,801 - 2,100	682	341	150	165	26
2,101 - 2,400	870	438	193	207	32
2,401 - 2,700	988	475	228	260	25
2,701 - 3,000	976	484	199	269	24
3,001 - 3,300	866	425	162	258	21
3,301 - 3,600	780	408	128	225	19
3,601 - 3,900	647	352	109	173	13
3,901 - 4,200	549	277	81	184	7
over 4,200	1,541	758	213	526	44
Totals	11,016	5,649	2,138	2,882	347

Teachers' Retirement System System Membership by Status					
Year Ended June 30	Active	Retirees Disabilitants & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
2002	9,690	7,804	783	2,447	20,724
2003	9,873	8,312	708	2,327	21,220
2004	9,688	8,707	724	2,746	21,865
2005	9,656	9,020	826	2,874	22,376
2006	9,710	9,386	795	3,085	22,976
2007	9,107	9,678	846	3,044	22,675
2008	8,531	10,026	873	2,971	22,401
2009	8,226	10,255	884	2,830	22,195
2010	7,832	10,598	840	2,789	22,059
2011	7,303	11,016	852	2,675	21,846

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



Teachers' Retirement System Principal Participating Employers June 30, 2012			
Employer	**Non-retired Members**	**Rank**	**Percentage of Total Non-retired Members**
Anchorage School District	4,844	1	32.66%
Matanuska-Susitna Borough School District	1,420	2	9.58
Fairbanks North Star Borough School District	1,317	3	8.88
Total	**7,581**		**51.12%**

Teachers' Retirement System
Participating Employers
at June 30, 2012

Alaska Department of Education
Alaska Gateway School District
Alaska, University of
Aleutian Region School District
Aleutians East Borough School District
Anchorage School District
Annette Island School District

Bering Strait School District
Bristol Bay Borough School District

Chatham School District
Chugach School District
Copper River School District
Cordova City School District
Craig City School District

Delta-Greely School District
Denali Borough School District
Dillingham City School District

Fairbanks North Star Borough School District

Galena City School District

Haines Borough School District
Hoonah City School District
Hydaburg City School District

Iditarod Area School District

Juneau School District, City and Borough of

Kake City School District
Kashunamiut School District
Kenai Peninsula Borough School District
Ketchikan Gateway Borough School District
Klawock City School District
Kodiak Island Borough School District
Kuspuk School District

Lake and Peninsula Borough School District
Lower Kuskokwim School District
Lower Yukon School District

Matanuska-Susitna Borough School District

Nenana City School District
Nome City School District
North Slope Borough School District
Northwest Arctic Borough School District

Pelican City School District
Petersburg City School District
Pribilof School District

Saint Mary's School District
Sitka Borough School District
Skagway City School District
Southeast Island School District
Southeast Regional Resource Center
Southwest Region School District
Special Education Service Agency

Tanana School District

Unalaska City School District

Valdez City School District

Wrangell Public School District

Yakutat School District
Yukon Flats School District
Yukon-Koyukuk School District
Yupiit School District