FINANCIAL SECTION

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

Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska 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.

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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.

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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
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(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

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(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.

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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%.

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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)

			Increase/(decrease)		
	2012	**2011**	**Amount**	**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

STATE OF ALASKA
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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
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
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.

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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.

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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.

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

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.

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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.

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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.

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Notes to Required Supplementary Information (Unaudited)

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(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.

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(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.

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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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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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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.

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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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(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 +	—	—

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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
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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
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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
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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