FINANCIAL SECTION

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

Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of a Matter

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

Other Matters

Prior-Year Comparative Information

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15-23, and the schedule of changes in employer net pension liability and related ratios, schedule of employer and nonemployer contributions, schedule of investment returns, schedule of funding progress, and schedule of contributions from employers and the state of Alaska on pages 49-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules on pages 66-68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.s

KPMG LLP

December 9, 2014

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the year ended June 30, 2014. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the System during the fiscal year ended June 30, 2014.

Financial Highlights

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

- The System's fiduciary net position restricted for pension and postemployment healthcare benefits increased by $953.8 million during fiscal year 2014.
- The System's plan member and employer contributions decreased by $592,000 during fiscal year 2014.
- The State of Alaska directly appropriated $316.8 million during fiscal year 2014 as statutorily required.
- The System's net investment income increased $389.0 million to $997.3 million during fiscal year 2014.
- The System's pension benefit expenditures totaled $396.6 million during fiscal year 2014.
- The System's postemployment healthcare benefit expenditures totaled $116.8 million in fiscal year 2014.

Overview of the Financial Statements

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

Combining Statements of Fiduciary Net Position – This statement presents information regarding the System's assets, liabilities, and resulting net position restricted for pension benefits, postemployment healthcare benefits, and individuals. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2014 and 2013.

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

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

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.

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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 position

Description	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Assets:					
Cash and cash equivalents	$ 204,330	81,133	123,197	151.8%	$ 93,983
Due from State of Alaska General Fund	3,933	4,177	(244)	(5.8)	4,943
Contributions receivable	4,317	5,711	(1,394)	(24.4)	4,335
Other receivables	3	5	(2)	(40.0)	—
Due from Retiree Health Fund	—	1	(1)	(100.0)	3
Investments, at fair value	6,113,985	5,283,803	830,182	15.7	4,698,332
Other assets	1,497	1,179	318	27.0	1,179
Total assets	6,328,065	5,376,009	952,056	17.7	4,802,775
Liabilities:					
Accrued expenses	3,989	4,639	(650)	(14.0)	3,833
Claims payable	18,979	20,062	(1,083)	(5.4)	14,813
Forfeitures payable to employers	5,997	4,498	1,499	33.3	—
Due to State of Alaska General Fund	374	1,838	(1,464)	(79.7)	192
Total liabilities	29,339	31,037	(1,698)	(5.5)	18,838
Net position	$ 6,298,726	5,344,972	953,754	17.8%	$ 4,783,937

State of Alaska
Teachers' Retirement System
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Management's Discussion and Analysis (Unaudited)

June 30, 2014

Changes in system net position

Description	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Net position, beginning of year	$ 5,344,972	4,783,937	561,035	11.7%	$ 4,842,903
Additions:					
Contributions	162,959	163,551	(592)	(0.4)	164,007
Appropriation – State of Alaska	316,846	302,777	14,069	4.6	234,517
Net investment income	997,262	608,251	389,011	64.0	13,901
Other additions	6,254	4,173	2,081	49.9	12,552
Total additions	1,483,321	1,078,752	404,569	37.5	424,977
Deductions:					
Pension and postemployment healthcare benefits	513,395	501,120	12,275	2.4	471,834
Refund of contributions	7,739	6,405	1,334	20.8	5,428
Administrative	8,433	6,945	1,488	21.4	6,681
Total deductions	529,567	514,470	15,097	2.9	483,943
Less adjustment to beginning net position	—	3,247	(3,247)	(100.0)	—
Increase (decrease) in net position	953,754	561,035	392,719	70.0	(58,966)
Net position, end of year	$ 6,298,726	5,344,972	953,754	17.8	$ 4,783,937

Financial Analysis of the System

The statements of fiduciary net position as of June 30, 2014 and 2013 show net position restricted for pension benefits, postemployment healthcare benefits, and individuals of $6,298,726,000 and $5,344,972,000, 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 an increase in the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals of $953,754,000 or 17.8% from fiscal year 2013 to 2014 and $561,035,000 or 11.7% from fiscal year 2012 to 2013 and a decrease of $58,966,000 or 1.2% from fiscal year 2011 to 2012. 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 (the Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives.

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June 30, 2014

System Asset Allocation

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

	2014	
	Pension and Healthcare Trust	
	Allocation	Range
Broad domestic equity	26.0%	± 6%
Global equity ex-U.S.	25.0	± 4
Private equity	9.0	± 5
Real assets	17.0	± 8
Absolute return	5.0	± 4
Fixed composite	12.0	± 5
Alternative equity strategies	3.0	± 2
Cash equivalents	3.0	-3⁄+1
Total	100.0%	
Expected return five-year geometric mean	7.16%	
Projected standard deviation	14.81	

	2013	
	Pension and Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed composite	14.0	± 5
Short-term fixed income	6.0	-6⁄+1
Total	100.0%	
Expected return five-year geometric mean	7.11%	
Projected standard deviation	14.20	

For fiscal years 2014 and 2013, the DB Plan's investments generated an 18.46% and 12.59% rate of return, respectively.

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Contributions, Investment Income, and Other Additions

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

Additions (In thousands)

			Increase (decrease)		
	2014	**2013**	**Amount**	**Percentage**	**2012**
Plan member contributions	$ 68,313	68,495	(182)	(0.3)%	68,298
Employer contributions	94,646	95,056	(410)	(0.4)	95,709
Nonemployer contributions - State of Alaska	316,846	302,777	14,069	4.6	234,517
Net investment income	997,262	608,251	389,011	64.0	13,901
Other additions	6,254	4,173	2,081	49.9	12,552
Total	$ 1,483,321	1,078,752	404,569	37.5%	424,977

The System's employer contributions decreased from $95,056,000 in fiscal year 2013 to $94,646,000 in fiscal year 2014, a decrease of $410,000 or 0.4%. The System's employer contributions decreased from $95,709,000 in fiscal year 2012 to $95,056,000 in fiscal year 2013, a decrease of $653,000 or 0.7%. The decrease in employer contributions is attributable to a decrease in the DB plan membership.

The State of Alaska provided $316,846,000 for fiscal year 2014 and $302,777,000 for fiscal year 2013 in nonemployer contributions 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 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 2014 increased by $389,011,000 or 64.0% from amounts recorded in fiscal year 2013. The System's net investment income in fiscal year 2013 increased by $594,350,000 or 4,275.6% from amounts recorded in fiscal year 2012. Over the long term, investment income has been a major component of additions to System assets.

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

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

Benefits and Other Deductions

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

Deductions (In thousands)

	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Pension benefits	$ 396,614	380,265	16,349	4.3%	$ 361,202
Postemployment healthcare benefits	116,781	120,855	(4,074)	(3.4)	110,632
Refund of contributions	7,739	6,405	1,334	20.8	5,428
Administrative	8,433	6,945	1,488	21.4	6,681
Total	$ 529,567	514,470	15,097	2.9%	$ 483,943

The System's pension benefit payments in 2014 increased $16,349,000 or 4.3% from fiscal year 2013 and increased $19,063,000 or 5.3% from fiscal year 2012. The increase in pension benefits in fiscal year 2014 is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2014 decreased $4,074,000 or 3.4% from fiscal year 2013 and increased $10,223,000 or 9.2% from fiscal year 2012. The decrease in healthcare cost in fiscal year 2014 is attributable to the decrease in health claims cost.

The System's administrative deductions in 2014 increased $1,488,000 or 21.4% from fiscal year 2013 and increased $264,000 or 4.0% from fiscal year 2012. The increase in administrative costs in fiscal year 2014 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

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Net Pension Liability

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

The total pension liability (TPL) determines the total obligation for the DB Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The DB Plan's fiduciary net position (FNP) determines the assets available to pay the DB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the DB Plan. The difference between the TPL and FNP is the Net Pension Liability (NPL), or the unfunded portion of the TPL. The components of the NPL of the participating employers as of June 30, 2014, were as follows (in thousands):

Total pension liability	$	6,770,201
Plan fiduciary net position		(3,771,139)
Employers' net pension liability	$	2,999,062
Plan fiduciary net position as a percentage of the total pension liability		55.70%

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 DC 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.

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

Legislation

During fiscal year 2014, the Twenty-Eighth Alaska State Legislature enacted three laws that affect the System:

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

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

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

Fiscal year 2014 was a year of positive investment returns. Net investment income increased from $608,251,000 in fiscal year 2013 to $997,262,000 in fiscal year 2014, an increase of $389,011,000 or 64.0%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceeded the actuarially assumed return of 8.00% (based on the June 30, 2011 actuarial report, which established the fiscal year 2014 rate) with a system rate of return of 18.46% at June 30, 2014.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 49.56% in fiscal year 2013 to 50.10% in fiscal year 2014. The Board adopted the actuarially determined contribution rate of 53.62% for fiscal year 2014, up 0.95% from fiscal year 2013 Board adopted actuarially determined contribution rate of 52.67%. The statutory employer effective contribution rate remained at 12.56% for fiscal years 2013 and 2014.

The June 30, 2013 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 51.9% and an unfunded liability of $4.6 billion.

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For fiscal years 2014 and 2013, the DC Plan's employer contribution rate was established at 12.56%. The DC Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.47% and 0.49% for fiscal years 2014 and 2013, respectively. The DC Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.00% for fiscal years 2014 and 2013.

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, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

State of Alaska

Teachers' Retirement System

(A Component Unit of the State of Alaska)

Combining Statement of Fiduciary Net Position

June 30, 2014

(With summarized financial information for June 30, 2013)

(in thousands)

	Defined Benefit Pension	Defined Contribution Pension	Other Postemployment Benefit Plans: Occupational death and disability	Other Postemployment Benefit Plans: Alaska retiree healthcare trust	Other Postemployment Benefit Plans: Retiree medical	Other Postemployment Benefit Plans: Health reimbursement arrangement	System total June 30, 2014	System total June 30, 2013
Assets:								
Cash and cash equivalents (notes 3 and 4):								
Short-term fixed income pool	$ 123,198	1,985	101	73,011	379	1,611	200,285	78,829
Great West participant directed deposit	—	4,045	—	—	—	—	4,045	2,304
Total cash and cash equivalents	123,198	6,030	101	73,011	379	1,611	204,330	81,133
Receivables:								
Contributions	4,140	67	—	78	3	29	4,317	5,711
Due from State of Alaska General Fund	—	2,245	—	1,279	69	340	3,933	4,177
Due from retiree health fund	—	—	—	—	—	—	—	1
Other account receivable	3	—	—	—	—	—	3	5
Total receivables	4,143	2,312	—	1,357	72	369	8,253	9,894
Investments (notes 3, 4, and 5), at fair value:								
Fixed income securities:								
Taxable municipal bond pool	39,594	—	32	23,789	121	516	64,052	—
U.S. Treasury fixed income pool	219,575	—	179	131,922	673	2,859	355,208	395,056
High yield fixed income pool	100,527	—	82	60,397	308	1,309	162,623	146,274
International fixed income pool	67,319	—	55	40,446	207	876	108,903	102,290
Emerging markets debt pool	27,322	—	22	16,415	84	356	44,199	43,541
Total fixed income securities	454,337	—	370	272,969	1,393	5,916	734,985	687,161
Broad domestic equity	1,183,608	—	965	711,121	3,630	15,411	1,914,735	1,694,695
Broad international equity								
International equity pool	792,339	—	646	476,044	2,430	10,316	1,281,775	1,009,166
Frontier market pool	17,571	—	15	10,557	54	229	28,426	—
Emerging markets equity pool	110,561	—	90	66,426	339	1,440	178,856	152,540
Total broad international equity	920,471	—	751	553,027	2,823	11,985	1,489,057	1,161,706
Private equity pool	308,116	—	251	185,118	945	4,012	498,442	465,223
Absolute return pool	146,411	—	119	87,965	449	1,906	236,850	229,128
Real assets:								
Real estate equity pool	237,397	—	193	142,570	728	3,090	383,978	396,192
Real estate investment trust pool	64,782	—	53	38,921	199	843	104,798	78,230
Master limited partnership pool	87,102	—	71	52,332	267	1,134	140,906	104,763
Energy pool	19,073	—	16	11,459	58	248	30,854	31,110
Farmland pool	126,637	—	104	76,085	388	1,649	204,863	188,848
Farmland water pool	—	—	—	—	—	—	—	17,794
INFRA public pool	29,386	—	24	17,655	90	382	47,537	—
Timberland pool	64,165	—	52	38,551	197	835	103,800	75,390
Treasury inflation protected securities pool	6,236	—	5	3,747	19	81	10,088	2,406
Total real assets	634,778	—	518	381,320	1,946	8,262	1,026,824	894,733
Other investment funds, at fair value:								
Pooled investment funds	—	107,675	—	—	—	—	107,675	66,826
Collective investment funds	—	105,417	—	—	—	—	105,417	84,331
Total other investment funds	—	213,092	—	—	—	—	213,092	151,157
Total investments	3,647,721	213,092	2,974	2,191,520	11,186	47,492	6,113,985	5,283,803
Other assets	—	—	—	1,497	—	—	1,497	1,179
Total assets	3,775,062	221,434	3,075	2,267,385	11,637	49,472	6,328,065	5,376,009
Liabilities:								
Accrued expenses	3,549	169	—	271	—	—	3,989	4,639
Claims payable (note 8)	—	—	—	18,979	—	—	18,979	20,062
Forfeitures payable to employers	—	5,997	—	—	—	—	5,997	4,498
Due to State of Alaska General Fund	374	—	—	—	—	—	374	1,838
Total liabilities	3,923	6,166	—	19,250	—	—	29,339	31,037
Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals	$ 3,771,139	215,268	3,075	2,248,135	11,637	49,472	6,298,726	5,344,972

See accompanying notes to financial statements.

State of Alaska

Teachers' Retirement System

(A Component Unit of the State of Alaska)

Combining Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

(With summarized financial information for June 30, 2013)

(In thousands)

	Defined Benefit Pension	Defined Contribution Pension	Other Postemployment Benefit Plans: Occupational death and disability	Other Postemployment Benefit Plans: Alaska retiree healthcare trust	Other Postemployment Benefit Plans: Retiree medical	Other Postemployment Benefit Plans: Health reimbursement arrangement	System total June 30, 2014	System total June 30, 2013
Additions:								
Contributions:								
Employers	$ 37,571	16,098	—	31,980	1,181	7,816	94,646	95,056
Plan members	47,724	20,326	—	263	—	—	68,313	68,495
Nonemployer State of Alaska	208,890	—	—	107,956	—	—	316,846	302,777
Total contributions	294,185	36,424	—	140,199	1,181	7,816	479,805	466,328
Investment income:								
Net appreciation in fair value (note 2)	547,138	32,360	428	317,964	1,498	6,102	905,490	526,252
Interest	14,255	6	11	8,332	39	160	22,803	23,667
Dividends	51,247	—	41	30,126	143	584	82,141	69,329
Total investment income	612,640	32,366	480	356,422	1,680	6,846	1,010,434	619,248
Less investment expense	12,682	479	—	11	—	—	13,172	10,997
Net investment income	599,958	31,887	480	356,411	1,680	6,846	997,262	608,251
Other:								
Other	27	4	—	6,223	—	—	6,254	4,173
Total additions	894,170	68,315	480	502,833	2,861	14,662	1,483,321	1,078,752
Deductions:								
Pension and postemployment benefits	396,614	—	—	116,781	—	—	513,395	501,120
Refunds of contributions	2,387	5,352	—	—	—	—	7,739	6,405
Administrative	3,160	929	—	4,338	3	3	8,433	6,945
Total deductions	402,161	6,281	—	121,119	3	3	529,567	514,470
Adjustment to beginning net assets for prior year forfeitures payable	—	—	—	—	—	—	—	3,247
Net increase	492,009	62,034	480	381,714	2,858	14,659	953,754	561,035
Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals								
Balance, beginning of year	3,279,130	153,234	2,595	1,866,421	8,779	34,813	5,344,972	4,783,937
Balance, end of year	$ 3,771,139	215,268	3,075	2,248,135	11,637	49,472	6,298,726	5,344,972

See accompanying notes to financial statements.

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

Notes to Financial Statements

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

(1) Description

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

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

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

At June 30, 2014 and 2013, the number of participating local government employers and public organizations including the State was as follows:

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

Inclusion in the Defined Benefit Pension (DB Plan) and Defined Contribution Pension Plan (DC 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 Pension Plan

General

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

State of Alaska
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(1) Description (cont.)

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

Inactive plan members or beneficiaries currently receiving benefits	11,726
Inactive plan members entitled to but not yet receiving benefits	3162
Active plan members	5,995
	20,883

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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Notes to Financial Statements

June 30, 2014
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(1) Description (cont.)

Contributions

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan members contribute 8.65% of their base salary as required by statute. Employer effective contribution rates are 12.56% of annual payroll. 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 Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

(A) the amount calculated for the statutory employer contribution rate of 12.56% on eligible salary

less

(B) the total of the employer contributions for

(1) the defined contribution employer matching amount;

(2) major medical;

(3) occupational death & disability; and

(4) health reimbursement arrangement.

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

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the 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.

State of Alaska
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(1) Description (cont.)

Defined Contribution Retirement Plan

General

The Defined Contribution Pension Plan (DC Plan) provides benefits for eligible employees hired after July 1, 2006. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

At June 30, 2014, membership in the DC Plan consisted of 3,650 members.

Pension Benefits

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

Contributions

Alaska statutes require an 8.00% contribution rate for DC Plan members. Employers are required to contribute 7.00% of the member's compensation.

Refunds

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

Participant Accounts

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

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

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

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June 30, 2014
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(1) Description (cont.)

Defined Benefit Other Postemployment Benefit Plans

Occupational Death and Disability Plan

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

Active plan members	3,560
Participating employers	58
Open claims	—

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.

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).

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June 30, 2014
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(1) Description (cont.)

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

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.

A DC Plan member is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the 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

An employer shall contribute to each member's account based on the member's compensation. For fiscal year 2014, the rate is 0.47%.

Alaska Retiree Healthcare Trust

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

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

Inactive plan members entitled to but not yet receiving benefits	5,076
Active plan members	9,645
	26,447

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(1) Description (cont.)

OPEB 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.

Contributions

Employer contribution rates are actuarially determined and adopted by the Board. The 2014 employer effective contribution rate is 12.56% of member's compensation.

Defined Contribution Other Postemployment Benefit Plan

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. For each member of the plan, an employer shall contribute an amount equal to 3.0% of the average annual compensation of all employees of all employers in the System. As of June 30, 2014, there were 5,564 members.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Defined Benefit Pension and OPEB Investments

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

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

The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals.

Defined Contribution Participant Directed Investments

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate 13 participant-directed funds. Additionally, the Board contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets comprise domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include but are not limited to commercial paper, asset-backed securities, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury instruments.

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

Contributions Receivable

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

Administrative Costs

Administrative costs are paid from investment earnings.

Due from (to) State of Alaska General Fund

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

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

Federal Income Tax Status

The DB Plan and DC 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).

New Accounting Pronouncements

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

(3) Investments

The Board is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest 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 DC Participant Directed Pension Plans under the Board's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

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(3) Investments (cont.)

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

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2014 for the defined benefit pension plan is 18.41%.

(4) Deposit and Investment Risk

Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of individual fixed rate securities ranged from 1 day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 years.

Other Defined Benefit Fixed Income Pools

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

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the U.S. Treasury Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2014 was 3.63 years.

Through the Board's investment policy, Treasury managed the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Taxable Municipal Bond portfolios to ± 20% of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 years.

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(4) Deposit and Investment Risk (cont.)

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to ± 20% of the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2014 was 4.21 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ± 25% of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2014 was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87, for a blended duration of 6.74 at June 30, 2014.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20% of the Barclays Capital U.S. TIPS Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

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

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

Defined Contribution Pooled Investment Funds

The Board contracts with an external investment manager, who is given the authority to invest funds in a wholly owned pooled environment to accommodate 13 participant directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

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(4) Deposit and Investment Risk (cont.)

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

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

Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2014, the modified duration of collective investment funds that consisted solely of debt securities were as follows: SSgA Money Market Trust, 45 days; SSgA World Government Bond Ex-U.S. Index, 7.68 years; SSgA Long U.S. Treasury Bond Index, 16.68 years; SSgA TIPS Index, 7.28 years; Barclays Government Credit Bond Fund, 8.18 years; and the Barclays Intermediate Government Bond Fund, 3.82 years.

Credit Risk

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

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

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

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

U.S. Intermediate Treasury Fixed Income

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

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

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(4) Deposit and Investment Risk (cont.)

Taxable Municipal Bond Pool

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

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

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

High Yield Fixed Income

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

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

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

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

International Fixed Income

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

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

Convertible Bond

Non-rated convertible securities are permitted provided the Manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's, or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio. Non-rated securities to which the Manager assigns a non-investment grade rating are subject to the below investment grade limitation.

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

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(4) Deposit and Investment Risk (cont.)

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

TIPS

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

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

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

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

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

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

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

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

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, Treasury investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation, which provides $250,000 of coverage. In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

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(4) Deposit and Investment Risk (cont.)

Foreign Currency Risk

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

Fixed income	Global equity ex-U.S.	Private equity pool
17%	29%	14%

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

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

Concentration of Credit Risk

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

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

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

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

The investment pools for which the Plan is a part, are exposed to credit risk on underlying investment derivative instruments that are in asset positions. The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. For additional information on foreign exchange, derivatives and counterparty credit risk see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

(6) Net Pension Liability – Defined Benefit Pension Plan

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

Total pension liability	$	6,770,201
Plan fiduciary net position		(3,771,139)
Employers' net pension liability	$	2,999,062
Plan fiduciary net position as a percentage of the total pension liability		55.70%

Actuarial Assumptions

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

Inflation	3.12%
Salary increases	Graded by service, from 6.11% to 3.62%
Rate of return	8.00 %, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males for pre-termination mortality and the 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and a 4-year setback for males for post-termination mortality.

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

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

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

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

Discount Rate

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

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

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

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

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability	$ 3,776,983	2,999,062	2,346,163

(7) Defined Benefit OPEB Funding Status

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

	Actuarial valuation date	Actuarial accrued liability (AAL) entry age	Actuarial valuation assets	Funded ratio	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2013	$ 80	2,532	3,165.0%	(2,452)	206,771	(1.2)%
Healthcare trust	June 30, 2013	5,002,345	1,803,763	36.1	3,198,582	550,044	581.5
Retiree medical	June 30, 2013	25,152	8,614	34.2	16,538	206,771	8.0

The funding ratio as of June 30, 2013 has decreased. The decrease in funding ratio is primarily due to the asset smoothing method, which recognizes 20% of gains/losses over a 5-year period. The asset return based on actuarial values was 3.7%, well below the expected return of 8%. This decrease was combined with a positive experiences in demographic experience and retiree medical costs, which when factored in with other factors resulted in the slight decrease.

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

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

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

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

June 30, 2013

	Defined Benefit
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare
Amortization method	Level dollar, closed
Equivalent single amortization period	17 years
Asset valuation method	5-year smoothed fair value
Actuarial assumptions:	
Investment rate of return	8.00% for pension, 5.08% for healthcare; includes price inflation at 3.12%
Projected salary increases	6.11% for first 5 years of service grading down to 3.62% after 20 years
Cost-of-living adjustment	Postretirement pension adjustment

June 30, 2013

	ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for occupational death and disability; level dollar normal cost basis for retiree medical
Amortization method	Level percent of pay, closed with bases established annually
Equivalent single amortization period	26 years
Asset valuation method	5-year smoothed market 80%/120% of fair value corridor
Actuarial assumptions:	
Investment rate of return	8.00%; includes inflation at 3.12%
Projected salary increases	6.11% for first 5 years of service grading down to 3.62% after 20 years; inflation at 3.12% per year

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

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

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

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

The System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on (1) the funded ratio and (2) the percentage of the ARC actually being contributed to the plan. The State has utilized the second methodology to develop a discount rate of 5.08% as of June 30, 2011, to be used for fiscal 2014 disclosure.

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

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

Disregarding future Medicare Part D payments, the fiscal 2016 employer ARC for accounting purposes is 2.36% of pay for retiree medical benefits and 2.36% of pay for retiree medical and death and disability benefits combined.

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(8) Claims Payable

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

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

		2014	2013
Beginning of year:			
Due to State of Alaska General Fund for outstanding warrants	$	—	—
Incurred but not reported		20,062	14,813
Total, beginning of year		20,062	14,813
Benefit deductions		116,781	120,855
Benefits paid		(117,864)	(115,606)
Total, end of year	$	18,979	20,062
End of year:			
Due to State of Alaska General Fund for outstanding warrants	$	—	—
Incurred but not reported		18,979	20,062
Total, end of year	$	18,979	20,062

(9) Commitments and Contingencies

Commitments

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

Portfolio		Unfunded commitment	Estimated to be paid through
Domestic equity	$	4,123	May be canceled annually in December with 90 day's notice
Private equity		284,783	Fiscal year 2022
Energy		29,557	Fiscal year 2023
Real estate		123,748	Fiscal year 2024
	$	442,211	

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(9) Commitments and Contingencies (cont.)

Contingencies

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

(10) Medicare Part D Retiree Drug Subsidy

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

(11) Early Retiree Reinsurance Program

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

(12) Subsequent Events

In 2014 as part of the State's Fiscal Year 2015 Capital Budget, Senate Bill 119 appropriates $2 billion from the Constitutional Budget Reserve Fund to the Department of Administration for deposit in the Defined Benefit Pension and the Alaska Retiree Healthcare Trust funds. In addition, House Bill 385 specifies that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years will be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the Defined Benefit Pension plan.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

State of Alaska
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Required Supplementary Information (Unaudited)

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

June 30, 2014
(In thousands)

		2014	2013	2012
Total pension liability:				
Service cost	$	64,324	69,113	69,548
Interest		515,325	517,511	501,252
Changes of benefit terms		—	—	—
Differences between expected and actual experience		—	1,108	10,986
Changes of assumptions		—	—	—
Benefit payments, including refunds of member contributions		(399,001)	(397,956)	(378,113)
Net change in total pension liability		180,648	189,776	203,673
Total pension liability – beginning		6,589,553	6,399,777	6,196,104
Total pension liability – ending (a)		6,770,201	6,589,553	6,399,777
Plan fiduciary net position:				
Contributions – employer		37,571	37,372	38,189
Contributions – member		47,724	50,201	52,020
Contributions – nonemployer entity (State)		208,890	196,945	157,387
Total net investment income		599,958	373,868	2,190
Other miscellaneous income		27	19	17
Benefit payments, including refunds of member contributions		(399,001)	(382,933)	(363,839)
Administrative expenses		(3,160)	(2,989)	(2,847)
Net change in plan fiduciary net position		492,009	272,483	(116,883)
Plan fiduciary net position – beginning		3,279,130	3,006,647	3,123,530
Plan fiduciary net position – ending (b)		3,771,139	3,279,130	3,006,647
Plan's net pension liability (a) - (b)	$	2,999,062	3,310,423	3,393,130
Plan fiduciary net position as a percentage of the total pension liability		55.70%	49.76%	46.98%
Covered-employee payroll	$	514,035	550,044	561,971
Net pension liability as a percentage of covered-employee payroll		583.44%	601.85%	603.79%

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

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)

Schedule of Employer and Nonemployer Contributions

Defined Benefit Pension Plan
Last 10 Fiscal Years

June 30, 2014
(In thousands)

		2014	2013	2012	2011
Actuarially determined contribution	$	240,366	259,786	229,509	167,978
Contributions in relation to the actuarially determined contribution		246,461	234,317	195,576	142,147
Contribution deficiency (excess)	$	(6,095)	25,469	33,933	25,831
Covered-employee payroll	$	514,035	550,044	561,971	584,068
Contributions as a percentage of covered-employee payroll		47.95%	42.60%	34.80%	24.34%

See accompanying independent auditors' report.

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

June 30, 2014
(In thousands)

2010	2009	2008	2007	2006	2005
170,788	94,388	134,544	169,974	170,019	152,168
134,275	131,533	142,550	105,775	91,902	68,448
36,513	(37,145)	(8,006)	64,199	78,117	83,720
564,887	557,026	549,148	554,245	574,409	535,837
23.77%	23.61%	25.96%	19.08%	16.00%	12.77%

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Required Supplementary Information (Unaudited)

Schedule of Investment Returns

June 30, 2014

	2014
Annual money-weighted rate of return, net of investment expense	18.41%

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

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)

Schedules of Funding Progress

Defined Benefit OPEB Plans

June 30, 2014
(In thousands)

Occupational Death and Disability Benefits Plan

Actuarial valuation year ended June 30		Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio		Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$	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)
2012		63	2,348	3,727.0		(2,285)	200,043	(1.1)
2013		80	2,532	3,165.0		(2,452)	206,771	(1.2)

Alaska Retiree Healthcare Trust Plan

Actuarial valuation year ended June 30		Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio		Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$	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
2012		5,046,942	1,674,160	33.2		3,372,782	561,971	600.2
2013		5,002,345	1,803,763	36.1		3,198,582	550,044	581.5

Retiree Medical Benefits Plan

Actuarial valuation year ended June 30		Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio		Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$	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)
2012		19,427	6,937	35.7		12,490	200,043	6.2
2013		25,152	8,614	34.2		16,538	206,771	8.0

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

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Required Supplementary Information (Unaudited)

Schedules of Contributions from Employers and the State of Alaska

Defined Benefit OPEB Plans

June 30, 2014
(In thousands)

Occupational Death and Disability Benefits Plan

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	$ 408	100.0%
2009	623	100.0
2010	442	100.0
2011	474	100.0
2012	—	100.0
2013	—	100.0

Alaska Retiree Healthcare Trust Plan

		Annual required contribution			Percentage contributed		
Year ended June 30	Actuarial valuation year ended June 30[1]	Pension	Postemployment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2008	2005	$ 134,544	185,271	319,815	23.6%	85.7%	109.3%
2009	2006	94,388	164,171	258,559	28.7	62.1	90.8
2010[2]	2007	170,788	312,922	483,710	13.6	38.8	52.4
2011	2008	167,978	167,686	335,664	25.8	51.5	77.3
2012	2009	229,509	192,700	422,209	18.8	46.6	65.4
2013	2010	259,786	330,411	590,197	10.7	33.3	44.0

(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 included the Mercer legal settlement, net of fees, as well as the Medicare Part D subsidy contributed by the State to the healthcare fund.

Retiree Medical Benefits Plan

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	$ 763	85.0%
2009	1,162	85.0
2010	1,628	87.0
2011	1,422	81.0
2012	1,420	82.0
2013	1,241	89.0

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(1) Description of Schedule of Funding Progress

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

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

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2013 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 dollar amount. The initial unfunded accrued liability was established on June 30, 2002 and amortized over a closed 25-year period. Any changes in the unfunded accrued liability established after June 30, 2002 due to changes in plan provisions, actuarial methods or assumptions, or actuarial experience are amortized over a 25-year period from the date established. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years 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. This method was phased in over the next five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

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

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(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.

(h) Mortality (pretermination) – Based upon the 2005–2009 actual experience. 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 nonoccupational 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 (posttermination) – Based upon the 2005–2009 actual experience study. 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. Postdisability 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 nonvested 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.

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(2) Actuarial Assumptions and Methods (cont.)

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

(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) Reemployment option – The actuary assumes all reemployed retirees return to work under the Standard Option.

(v) Service – Total credited service is provided by the 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 FY14 medical benefits and prescription are shown below:

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

(y) Third-party administrator fees – $177.57 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.

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(2) Actuarial Assumptions and Methods (cont.)

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

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

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

(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
84–95	0.5	—
94 +	—	—

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(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 FY14 contributions based on monthly rates shown below for calendar 2013 and 2014 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

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

(dd) Trend rate for retired member contributions – The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 8.2% is applied to the FY14 retired member medical contributions to get the FY15 retired member medical contributions.

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

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

(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 nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

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

(a) Actuarial cost method – Liabilities and contributions are computed using entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. 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.

(c) Valuation of retiree medical benefits – Due to the lack of experience for the DC Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DC medical plan and the DB medical plan. These differences include network steerage, different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles, and out-of-pocket limits, fiscal year 2012 claim costs were reduced to 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.

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

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

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

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

(h) Mortality (pretermination) – 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%.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(i) Mortality (posttermination) – 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. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.

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

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

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

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

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(p) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY14 medical benefits are shown below:

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

(q) Third-party administrator fees – $177.57 per person per year; assumed trend rate of 5% per year.

(r) Base claims cost adjustments – Due to higher initial copays, deductibles, out-of-pocket limits, and member cost sharing compared to the DB medical plan, the following cost adjustments were applied to the per capita claims cost rates: 0.881 for medical plan, 0.929 for the prescription drug plan, and 0.998 for the annual indexing for member cost sharing.

(s) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.7% is applied to the FY14 pre-Medicare medical claims cost to get the FY15 medical claims costs:

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

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(t) Aging factors:

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

(u) Retiree medical participation:

Decrement due to disability		Decrement due to retirement		
Age	Percentage of participation	Age		Percentage of participation
<56	73.00%	55		40.0%
56	77.50	56		50.0
57	79.75	57		55.0
58	82.00	58		60.0
59	84.25	59		65.0
60	86.50	60		70.0
61	88.75	61		75.0
62	91.00	62		80.0
63	93.25	63		85.0
64	95.50	64		90.0
65+	94.00	65+	**Year of service**	
			<15	70.5%
			15–19	75.2
			20–24	79.9
			25–29	89.3
			30+	94.0

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

Changes in Methods Since the Last Valuation

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

Changes in Assumptions Since the Last Valuation

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

SUPPLEMENTAL SCHEDULES

State of Alaska
Teachers' Retirement System
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Schedule of Administrative and Investment Deductions
Defined Benefit Pension Plan

Years ended June 30, 2014 and 2013
(In thousands)

	Administrative	Investment	Totals 2014	Totals 2013
Personal services:				
Wages	$ 1,496	77	1,573	1,476
Benefits	871	31	902	868
Total personal services	2,367	108	2,475	2,344
Travel:				
Transportation	22	38	60	55
Per diem	4	19	23	24
Total travel	26	57	83	79
Contractual services:				
Management and consulting	3,700	12,201	15,901	13,225
Accounting and auditing	47	5	52	318
Advertising and printing	30	5	35	26
Data processing	824	200	1,024	667
Communications	49	21	70	61
Rental/leases	126	19	145	145
Legal	122	28	150	118
Medical specialists	49	—	49	14
Repairs and maintenance	2	4	6	7
Other professional services	43	16	59	80
Transportation	59	—	59	41
Total contractual services	5,051	12,499	17,550	14,702
Other:				
Equipment	13	6	19	22
Supplies	41	23	64	58
Total other	54	29	83	80
Total administrative and investment deductions	$ 7,498	12,693	20,191	17,205

See accompanying independent auditors' report.

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Schedule of Administrative Deductions
Defined Contribution Pension and OPEB Plans

Years ended June 30, 2014 and 2013
(In thousands)

	Administrative	Investment	Totals 2014	Totals 2013
Personal services:				
Wages	$ 89	—	89	90
Benefits	49	—	49	56
Total personal services	138	—	138	146
Travel:				
Transportation	2	—	2	2
Per diem	—	—	—	1
Total travel	2	—	2	3
Contractual services:				
Management and consulting	718	479	1,197	537
Accounting and auditing	14	—	14	13
Data processing	47	—	47	20
Communications	3	—	3	3
Rentals/leases	7	—	7	8
Legal	1	—	1	2
Other professional services	2	—	2	2
Total contractual services	792	479	1,271	585
Other:				
Equipment	1	—	1	1
Supplies	2	—	2	2
Total other	3	—	3	3
Total administrative and investment deductions	$ 935	479	1,414	737

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2014 and 2013
(In thousands)

Firm	Services	2014	2013
Buck Consultants, an ACS Company	Actuarial services	$ 355	286
KPMG LLP	Auditing services	51	34
State Street Bank Corporation	Custodian banking services	287	278
Applied Microsystems Inc.	Data processing consultants	359	38
Computer Task Group, Inc.	Data processing consultants	51	76
Mythics Inc.	Data processing consultants	4	31
Wostmann Group LLC	Data processing consultants	88	18
State of Alaska, Department of Law	Legal services	123	96
Michael Silverman	Management consulting services	93	18
The Wilson Agency LLC	Management consulting services	1	11
State of Alaska, Department of Health and Social Services	Medical expertise and counseling	44	12
		$ 1,456	898

See accompanying independent auditors' report.