



# INTRODUCTORY SECTION



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Administration

### DIVISION OF RETIREMENT AND BENEFITS

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

## LETTER OF TRANSMITTAL

December 15, 2014

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2014. The CAFR is intended to fulfill the legal requirements of Alaska Statute (AS) 14.25.004(a)(8).

The CAFR provides comprehensive information on the financial operations of the System for the fiscal year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2014. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, have issued an unmodified opinion on the System's basic financial statements for the year ended June 30, 2014. The independent auditor's report is located at the front of the Financial Section of this report.

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

The CAFR is divided into five sections:

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

# Introductory Section

---

- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

## Profile of the System

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

## Reporting Entity

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

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

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

The Board is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting the financial condition of the Systems to the Governor, Legislature, and individual employers participating in the System.

## **Major Initiatives / Changes**

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

Effective January 1, 2014, the administration of the AlaskaCare health insurance plans for Public Employees', Teachers', Judicial, and certain state employees is administered by Aetna. The dental plan is administered by Moda Health / Delta Dental of Alaska. Additionally, beginning in 2014, the health insurance plans will be on a calendar benefit year, a switch from the July to June benefit year.

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

The System also strives to provide the highest degree of customer service to all members. The Division continues to enhance and develop the central Member Services Section with the goals of improving phone service, providing faster processing of all customer requests, and improving member education services.

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

## **Funding Requirements**

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2013, actuarial valuation report to the Plan Administrator and the Board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report dated June 30, 2013, the TRS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for DB pension and postemployment healthcare benefits) of 51.9%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$4.6 billion. The unfunded liability continues to be addressed at all levels of the State. The Governor's budget proposes to provide funding to TRS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the Board. Recently passed legislation appropriating \$2 billion to the System's defined pension benefit and Alaska Retiree Healthcare Trust can be found in the Notes to Financial Statements of the Financial Section.

## **Investments**

On June 30, 2014, the DB Plan's investment portfolio was valued at \$5.8 billion and earned an 18.46% return for the fiscal year ended June 30, 2014. The DC Plan's investment portfolio was valued at \$274.8 million for the fiscal year ended June 30, 2014. Over the past five years ending June 30, 2014, the DB Plan's investments earned a 12.66% return. The Board has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the Board. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The Board reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

# Introductory Section

---

## **Accounting System**

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

## **Internal Controls**

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

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

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

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

Additionally, the Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for Funding and Administration certificate for the fiscal year ended June 30, 2014.

The Public Pension Standards Award for Funding and Administration certificate is valid for a period of one year. The Division is confident the System will continue to meet the standard's award requirements and will apply to the PPCC for consideration in 2015.

## **Acknowledgements**

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

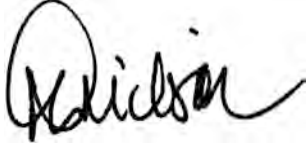
The report is available on the web at <http://doa.alaska.gov/drb/trs/trscafr.html> and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope employers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

# Introductory Section

---

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

Respectfully submitted,



Amy Erickson  
Acting Commissioner



Jim Puckett  
Chief Operations Officer



Kevin Worley  
Chief Financial Officer



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Alaska Teachers'  
Retirement System**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2014***

Presented to

***Alaska Teachers' Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

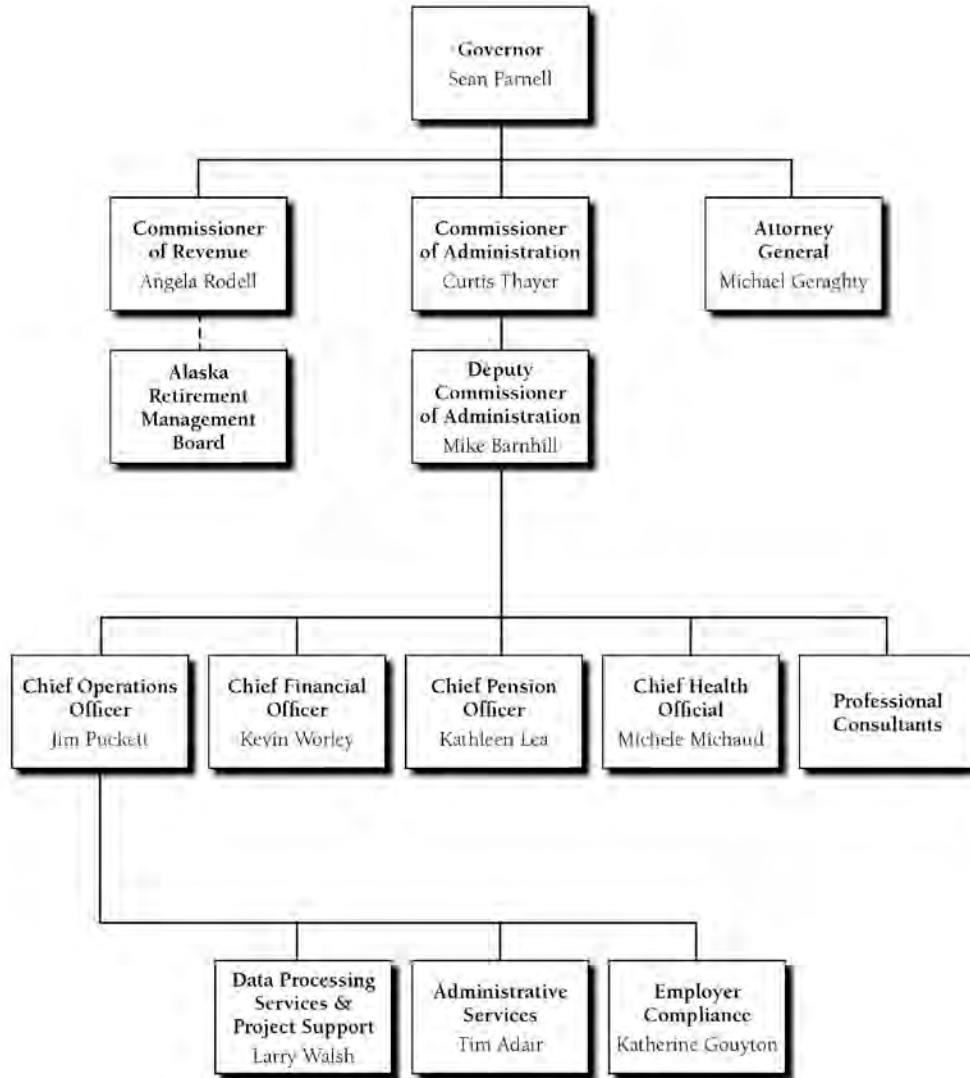
A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator



## ORGANIZATION CHART

As of June 30, 2014



## Section Responsibilities

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

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

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

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

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

<b>Professional Consultants</b>	
<p><b>Consulting Actuary</b> Buck Consultants <i>Denver, Colorado</i></p> <p><b>Independent Auditors</b> KPMG LLP <i>Anchorage, Alaska</i></p> <p><b>Benefits Consultants</b> Buck Consultants <i>Denver, Colorado</i></p> <p>Michael Silverman Professional Services <i>Juneau, Alaska</i></p> <p>Maximus Federal Services <i>Reston, Virginia</i></p> <p><b>Third-Party Healthcare Claim Administrator</b> Aetna Life Insurance Company <i>Lexington, Kentucky</i></p> <p>Moda Health / Delta Dental of Alaska <i>Portland, Oregon</i></p> <p>HealthSmart Benefit Solutions, Inc. <i>Charleston, West Virginia</i></p>	<p><b>IT Consultants</b> Computer Task Group Applied Microsystems, Inc. <i>Anchorage, Alaska</i></p> <p>Alaska IT Group <i>Juneau, Alaska</i></p> <p><b>Legal Counsel</b> Joan Wilkerson Jessica Srader Rebecca Polizzotto Toby Steinberger Assistant Attorney Generals <i>Juneau, Alaska</i></p> <p>Ice Miller LLP <i>Indianapolis, Indiana</i></p> <p><b>Consulting Physicians</b> Kim Smith, M.D. Ward Hurlburt, M.D. Alex Malter, M.D. Deborah Lessmeier, M.D. Myanandi Than, M.D. <i>Juneau, Alaska</i></p> <p>Thomas Rodgers, M.D. <i>Ford, Washington</i></p>

A list of investment consultants can be found on pages 71-72 and on the Schedule of External Management Fees on pages 80-81.

# Introductory Section

---

## Alaska Retirement Management Board

As of June 30, 2014

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

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

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

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

**Angela Rodell** was appointed Commissioner of the Department of Revenue by Governor Sean Parnell in November, 2010. She joined the State of Alaska in September 2011. Prior to her current position, Ms. Rodell served as State Treasurer and Deputy Commissioner over the Department's Treasury, Permanent Fund Dividend, and Child Support Services divisions. Formerly, Ms. Rodell served as financial advisor to more than \$30 billion of transactions for state and state authorities in Alaska, Arkansas, California, Illinois, New Jersey, New York, North Carolina, Rhode Island, and Virginia. Prior to becoming a financial advisor, Ms. Rodell served as the finance officer for the Kentucky Housing Corporation. She has a Bachelor of Arts degree from Marquette University and a Master of Public Administration from the University of Kentucky.

# Introductory Section

---

**Kristin Erchinger** is currently finance director for the city of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director in 2000. Ms. Erchinger is past president of the Alaska Government Finance Officers Association and represents that organization in the Alaska Municipal League. She also served on the Providence Alaska Region Board, the Graduate Medical Education Committee, the Alaska Municipal League Board, and the Board of the American Society for Public Administration, Alaska Chapter. Ms. Erchinger earned bachelor's degrees in international studies and Japanese language and literature, both from the University of Washington, and a master's degree in public administration from the University of Alaska Anchorage.

**Curtis Thayer** was appointed Commissioner of the Department of Administration by Governor Sean Parnell in January 2014. Prior to his current position, Mr. Thayer served as Deputy Commissioner of the Department of Administration since August 2012. Before joining the Department of Administration, he was Deputy Commissioner of the Department of Commerce, Community, and Economic Development since 2009. Mr. Thayer also serves as Chair of the Alaska Board of Marine Pilots and serves on the Board of Directors of Abused Women in Crisis. He is the past Chairman of the Anchorage Public Safety Advisory Commission, and has also served on the Board of Directors of Armed Services YMCA. Born in Anchorage, Mr. Thayer grew up in Alaska and graduated from the University of Alaska Fairbanks. He lives in Anchorage with his wife, Josie, and their son.

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

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

