STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Judicial Retirement System:

We have audited the accompanying combining statements of fiduciary net position of the State of Alaska Judicial Retirement System (the Plan), a component unit of the State of Alaska, as of June 30, 2014 and 2013, and the combining statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan'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 audits. We conducted our audits 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 opinions.

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 Judicial Retirement System as of June 30, 2014 and 2013, 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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-10, 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 on pages 28-32 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, which 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 Plan's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 9, 2014

This section presents management’s discussion and analysis (MD&A) of the Judicial Retirement System’s (the Plan) financial condition and performance for the years ended June 30, 2014 and 2013. 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, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2014. Information for fiscal year 2013 and 2012 is presented for comparative purposes.

Financial Highlights

The plan financial highlights as of June 30, 2014 were as follows:

- The plan’s fiduciary net position restricted for pension and postemployment healthcare benefits increased by $24.7 million during fiscal year 2014.
- The plan member and employer contributions increased by $0.2 million during fiscal year 2014.
- State of Alaska directly appropriated totaled $4.5 million during fiscal year 2014.
- The plan net investment income increased $10.3 million to $26.0 million during fiscal year 2014.
- The Plan’s pension benefit expenditures totaled $10.6 million during fiscal year 2014.
- The Plan’s postemployment healthcare benefit expenditures totaled $1.2 million in fiscal year 2014.

Overview of the Financial Statements

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

Combining Statement of Fiduciary Net Position – This statement presents information regarding the Plan’s assets, liabilities, and resulting net position restricted for pension and postemployment healthcare benefits. This statement reflects the Plan’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 Statement of Changes in Fiduciary Net Position – This statement presents how the Plan’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, State of Alaska appropriations, 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 2013, and the sources and uses of those funds during fiscal years 2014 and 2013.

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 Plan’s financial statements.

Required Supplementary Information and Related Notes – The required supplementary information consists of five schedules and related notes concerning the funded status of the Plan 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 Plan and payments to consultants (other than investment advisers) for professional services.

Condensed Financial Information

Plan Net Position

Description	2014	2013	Increase (decrease) Amount	Increase (decrease) Percentage	2012
Assets:					
Cash and cash equivalents	$ 5,406,823	1,861,916	3,544,907	190.4%	2,214,543
Contributions receivable	256,106	256,591	(485)	(0.2)	186,208
Other receivables	2	7	(5)	(71.4)	—
Investments, at fair value	160,433,100	139,401,816	21,031,284	15.1	125,321,369
Other assets	12,971	9,895	3,076	31.1	9,895
Total assets	166,109,002	141,530,225	24,578,777	17.4	127,732,015
Liabilities:					
Accrued expenses	94,940	104,327	(9,387)	(9.0)	78,802
Claims payable	135,000	154,000	(19,000)	(12.3)	170,000
Due to State of Alaska General Fund	29,654	75,471	(45,817)	(60.7)	104,511
Total liabilities	259,594	333,798	(74,204)	(22.2)	353,313
Net position	$ 165,849,408	141,196,427	24,652,981	17.5%	127,378,702

Changes in Plan Net Position

Description	2014	2013	Increase Amount	Increase Percentage	2012
Net position, beginning of year	$ 141,196,427	127,378,702	13,817,725	10.8%	130,982,618
Additions:					
Contributions	6,063,027	5,864,330	198,697	3.4	4,395,727
Appropriation – State of Alaska	4,460,321	3,785,571	674,750	17.8	2,331,725
Net investment income	25,986,196	15,684,712	10,301,484	65.7	232,449
Other	67,453	31,960	35,493	111.1	98,998
Total additions	36,576,997	25,366,573	11,210,424	44.2	7,058,899
Deductions:					
Pension and postemployment healthcare benefits	11,817,759	11,443,119	374,640	3.3	10,592,878
Administrative	106,257	105,729	528	0.5	69,937
Total deductions	11,924,016	11,548,848	375,168	3.2	10,662,815
Increase (decrease) in net position	24,652,981	13,817,725	10,835,256	78.4	(3,603,916)
Net position, end of year	$ 165,849,408	141,196,427	24,652,981	17.5%	127,378,702

Financial Analysis of the Plan

The statements of plan net position as of June 30, 2014 and 2013 show net position restricted for pension and postemployment healthcare benefits of $165,849,408 and $141,196,427, respectively. The entire balance is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries. These amounts also represent an increase of $24,652,981 or 17.5% and an increase of $13,817.725 or 10.8% from fiscal years 2013 and 2012. Over the long term, plan members and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

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 Plan's constraints and objectives.

Plan Asset Allocation

During fiscal years 2014 and 2013, the Board adopted the following asset allocations:

	2014	
	Pension & 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
Short-term fixed income	3.0	-3⁄+1
Total	100.0%	
Expected return five-year geometric mean	7.16%	
Projected standard deviation	14.81	

	2013	
	Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6 %
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed 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 Plan's investments generated a 18.45% and a 12.46% rate of return, respectively.

Contributions, Investment Income, and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan members' contributions and investment income are as follows:

	Additions				
			Increase		
	2014	2013	Amount	Percentage	2012
Employer contributions	$ 5,282,973	5,143,159	139,814	2.7	3,685,503
Plan members contributions	780,054	721,171	58,883	8.2%	710,224
Nonemployer contributions – State of Alaska	4,460,321	3,785,571	674,750	17.8	2,331,725
Net investment income	25,986,196	15,684,712	10,301,484	65.7	232,449
Other income	67,453	31,960	35,493	111.1	98,998
Total	$ 31,294,024	20,223,414	11,070,610	54.7%	3,373,396

The Plan's employer contributions increased from $5,143,159 during fiscal year 2013 to $5,282,973 during fiscal year 2014, an increase of $139,814, or 2.7%. Employer contributions increased from $3,685,503 during fiscal year 2012 to $5,143,159 during fiscal year 2013, an increase of $1,457,656, or 39.6%. Beginning in fiscal year 2010, the Alaska Court System, sole employer of the JRS participants, paid only the normal cost portion of the JRS employer contribution rate and the State of Alaska funded the past service cost through a direct appropriation. The normal cost rate decreased from 40.30% in fiscal year 2013 to 40.10% in fiscal year 2014.

The Plan's net investment income in fiscal year 2014 increased by $10,301,484 or 65.7% from amounts recorded in fiscal year 2013 and net investment income increased by $15,452,263 or 6,647.6% from amounts recorded in fiscal year 2012. Over the long term, investment income is a major component of additions to plan assets.

The Plan's investment rate of returns at June 30 is as follows:

	Year ended		
	2014	2013	2012
System returns	18.45%	12.46%	0.47%
Domestic equities	25.45	21.23	1.68
International equities	23.42	15.02	(13.67)
Fixed income	5.14	0.56	4.86
Private equity	24.19	11.51	9.45
Absolute return	6.51	8.41	(2.05)
Real assets	12.71	10.25	10.39
Alternative equity	24.55	—	—
Cash equivalents	0.26	0.26	0.41

Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension and postemployment healthcare benefits. These benefit payments and the cost of administering the Plan comprise the costs of operation.

	Deductions				
			Increase		
	2014	2013	Amount	Percentage	2012
Pension	$ 10,578,414	10,343,220	235,194	2.3%	9,666,901
Postemployment healthcare	1,239,345	1,099,899	139,446	12.7	925,977
Administrative	106,257	105,729	528	0.5	69,937
Total	$ 11,924,016	11,548,848	375,168	3.2%	10,662,815

The Plan's pension benefit in 2014 and 2013 increased $235,194 and $676,319 or 2.3% and 7.0% from fiscal years 2014 and 2013, respectively. Pension benefits are directly tied to active JRS member's salary increases. Active JRS members received a salary increase in fiscal year 2013 and 2014; therefore, pension benefit expense increased as well.

The Plan's postemployment healthcare benefit in 2014 and 2013 increased $139,446 or 12.7% and increased $173,922 or 18.8% from fiscal years 2013 and 2012, respectively. The increase in healthcare costs in fiscal year 2014 is attributable to an increase in retirees participating in the Plan.

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 net pension liability of the participating employers for the Plan at June 30, 2014 were as follows:

Total pension liability	$	201,397,651
Plan fiduciary net position		(139,547,440)
Employers' net pension liability	$	61,850,211
Plan fiduciary net position as a percentage of the total pension liability		69.29%

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on plan investments.

- The actuarially determined contribution rate is calculated by the Plan's consulting actuary and approved by the administrator. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation rollforward process.
- Plan member contributions are set by Alaska Statute 22.25.011.

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 one law that affects the Plan:

- House Bill 266 appropriates $5,241,619 from the general fund to the Department of Administration for deposit in the Plan's defined benefit pension fund as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2015.

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 $15,684,712 in fiscal year 2013 to $25,986,196 in fiscal year 2014, an increase of $10,301,484 or 65.7%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Actual investment returns greater than the assumed investment return will have a positive impact on both the annual actuarially determined contribution amount and the Plan's funded level.

The actuarial roll-forward as of June 30, 2013 reported a funding ratio of 65.40% and an unfunded liability of $72.3 million. The actuarial valuation for June 30, 2012 reports a funding ratio of 67.20% and an unfunded liability of $65.2 million. The increase in the unfunded liability is attributable to an increase in JRS member's salaries, which directly impacts future pension benefit expense.

(Continued)

Requests for Information

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

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

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

Statements of Plan Fiduciary Net Position

June 30, 2014 and 2013

	2014			2013		
	Pension	**Alaska retiree healthcare trust**	**Total**	**Pension**	**Alaska retiree healthcare trust**	**Total**
Assets:						
Cash and cash equivalents (notes 2, 3, and 4):						
Short-term fixed income pool	$ 4,554,097	852,726	5,406,823	1,465,268	396,648	1,861,916
Receivables:						
Contributions	226,769	29,337	256,106	226,098	30,493	256,591
Other receivables	—	2	2	—	7	7
Total receivables	226,769	29,339	256,108	226,098	30,500	256,598
Investments (notes 2, 3, 4, and 5) at fair value:						
Fixed income securities:						
U.S. Treasury fixed pool	8,119,131	1,538,184	9,657,315	9,016,556	1,713,973	10,730,529
Taxable municipal bond pool	1,464,049	277,367	1,741,416	—	—	—
High yield fixed income pool	3,717,143	704,219	4,421,362	3,338,463	634,619	3,973,082
International fixed income pool	2,489,249	471,593	2,960,842	2,334,646	443,785	2,778,431
Emerging markets debt pool	1,010,277	191,398	1,201,675	993,762	188,906	1,182,668
Total fixed income securities	16,799,849	3,182,761	19,982,610	15,683,427	2,981,283	18,664,710
Broad domestic equity pool	43,765,849	8,291,527	52,057,376	38,677,928	7,352,646	46,030,574
Broad international equity						
International equity pool	29,298,043	5,550,572	34,848,615	23,032,348	4,378,372	27,410,720
Frontier market pool	649,716	123,091	772,807	—	—	—
Emerging markets equity pool	4,088,173	774,513	4,862,686	3,481,448	661,799	4,143,247
Total broad international equity	34,035,932	6,448,176	40,484,108	26,513,796	5,040,171	31,553,967
Private equity pool	11,393,082	2,158,442	13,551,524	10,618,009	2,018,401	12,636,410
Absolute return pool	5,413,778	1,025,650	6,439,428	5,229,520	994,090	6,223,610
Real assets:						
Real estate pool	8,778,121	1,662,340	10,440,461	9,025,772	1,724,348	10,750,120
Real estate investment trust pool	2,395,405	453,815	2,849,220	1,785,468	339,409	2,124,877
Infrastructure Public Pool	1,086,580	205,854	1,292,434	—	—	—
Master limited partnership pool	3,220,754	610,178	3,830,932	2,390,987	454,521	2,845,508
Energy pool	705,235	133,609	838,844	710,032	134,971	845,003
Farmland pool	4,682,624	887,132	5,569,756	4,717,236	896,708	5,613,944
Timber pool	2,372,622	449,497	2,822,119	1,720,666	327,085	2,047,751
Treasury inflation protected securities pool	230,601	43,687	274,288	54,905	10,437	65,342
Total real assets	23,471,942	4,446,112	27,918,054	20,405,066	3,887,479	24,292,545
Total investments	134,880,432	25,552,668	160,433,100	117,127,746	22,274,070	139,401,816
Other assets	—	12,971	12,971	—	9,895	9,895
Total assets	139,661,298	26,447,704	166,109,002	118,819,112	22,711,113	141,530,225
Liabilities:						
Accrued expenses	91,752	3,188	94,940	102,890	1,437	104,327
Claims payable (note 6)	—	135,000	135,000	—	154,000	154,000
Due to State of Alaska General Fund (note 2)	22,106	7,548	29,654	11,598	63,873	75,471
Total liabilities	113,858	145,736	259,594	114,488	219,310	333,798
Net position restricted for pension and postemployment healthcare benefits	$ 139,547,440	26,301,968	165,849,408	118,704,624	22,491,803	141,196,427

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Position

Years ended June 30, 2014 and 2013

	2014			2013		
	Pension	**Alaska retiree healthcare trust**	**Total**	**Pension**	**Alaska retiree healthcare trust**	**Total**
Additions:						
Contributions:						
Employer	$ 4,578,693	704,280	5,282,973	4,443,785	699,374	5,143,159
Plan members	780,054	—	780,054	721,171	—	721,171
Nonemployer contributions – State of Alaska	4,282,876	177,445	4,460,321	3,650,650	134,921	3,785,571
Total contributions	9,641,623	881,725	10,523,348	8,815,606	834,295	9,649,901
Other income	12	67,441	67,453	—	31,960	31,960
Investment income:						
Net appreciation in fair value (note 2)	19,814,917	3,696,277	23,511,194	11,388,922	2,110,417	13,499,339
Interest	516,396	96,483	612,879	531,207	100,597	631,804
Dividends	1,858,369	348,258	2,206,627	1,563,893	293,619	1,857,512
Total investment income	22,189,682	4,141,018	26,330,700	13,484,022	2,504,633	15,988,655
Less investment expense	344,371	133	344,504	303,808	135	303,943
Net investment income	21,845,311	4,140,885	25,986,196	13,180,214	2,504,498	15,684,712
Total additions	31,486,946	5,090,051	36,576,997	21,995,820	3,370,753	25,366,573
Deductions:						
Pension and postemployment healthcare benefits	10,578,414	1,239,345	11,817,759	10,343,220	1,099,899	11,443,119
Administrative	65,716	40,541	106,257	82,231	23,498	105,729
Total deductions	10,644,130	1,279,886	11,924,016	10,425,451	1,123,397	11,548,848
Net increase	20,842,816	3,810,165	24,652,981	11,570,369	2,247,356	13,817,725
Net position restricted for pension and postemployment healthcare benefits:						
Balance, beginning of year	118,704,624	22,491,803	141,196,427	107,134,255	20,244,447	127,378,702
Balance, end of year	$ 139,547,440	26,301,968	165,849,408	118,704,624	22,491,803	141,196,427

See accompanying notes to financial statements.

(1) Description

The State of Alaska Judicial Retirement System (the Plan) is a component unit of the State of Alaska (the State). The Plan consists of a single employer defined benefit pension plan and a defined benefit other postemployment healthcare plan and is administered by the State to provide pension and postemployment healthcare benefits for eligible State justices and judges. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The System is governed by the Alaska Retirement Management Board (the 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 Teachers' Retirement System (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

Defined Benefit Pension Plan

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, the plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	108
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	75
	186

Pension Benefits

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement age, 60, or early retirement age, 55. Members who are under age 60 and have 20 or more years of credited service may retire at any age and receive an actuarially reduced benefit.

The normal monthly pension benefit is based on the member's years of service and the current authorized salary for the position from which they retired. The pension benefit is equal to 5% for each year of service up to a maximum of 75% of the current salary for an active judge in the month the benefit is paid. In the event of salary increases for active judges, the monthly pension benefit for retired judges also increases.

Death Benefits

Upon the death of a member who has served for at least two years, the surviving spouse is entitled to receive monthly benefits equal to one-half of the monthly retirement pay the member would have been entitled to receive if retired at the time of death. If the member was not eligible to retire or would have been entitled to less than 60% of the monthly authorized salary, the spouse is entitled to monthly benefits equal to 30% of the authorized salary. The benefits continue until the surviving spouse dies.

(1) Description (cont.)

If there is no eligible surviving spouse, the member's surviving dependent child(ren) are entitled to receive a benefit equal to 50% of the above survivor's benefit. Each child will receive an equal share of the benefit while they are dependent. If there is no surviving spouse or dependent child(ren), the member's beneficiary(ies) shall receive the difference between contributions made and interest accrued in the Plan less benefits paid by the Plan.

Disability Benefits

Members who are involuntarily retired for incapacity and have a minimum of two years of service at the time of retirement for incapacity are eligible for pension benefits.

Contributions

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Alaska Retirement Management Board (the Board) as an amount that, when combined, is expected to finance the costs of both pension and potemployment healthcare benefits earned by plan members during the year. The Plan members first appointed after June 30, 1978 contribute 7.00% of their compensation as required by statute. Contributions are not required after members have made contributions for 15 years. Members appointed before July 1, 1978 are not required to make contributions. For fiscal years 2014 and 2013, employer contribution rates are 73.28% and 69.48%, of which only the employer normal cost rate of 40.10% and 40.30% were required from the Alaska Court System. The past service costs were paid for separately by the State of Alaska via annual appropriations.

Refunds

Plan member contributions may be voluntarily refunded to the justice or judge if office is vacated before the justice or judge is fully vested. A justice or judge shall have a vested right to accrued pay if the justice or judge has served five years of more. Plan member contributions may be involuntarily refunded to a garnishing agency. Members whose contributions have been refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they have returned to active service. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the involuntary refunded balance and accrued interest.

Other Postemployment Benefit Plan

Postemployment Healthcare Benefits

Major medical benefits are provided without cost to retired plan members.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan 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.

(1) Description (cont.)

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

Inactive plan members or beneficiaries currently receiving benefits	108
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	75
	186

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Investments

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

Contributions Receivable

Contributions from plan members and the employer 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 Plan on behalf of others and amounts paid by others on behalf of the Plan.

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

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

New Accounting Pronouncements

The System implemented the provisions of GASB Statement No. 67, Financial Reporting for Pension Plans (GASB 67), during the year ended June 30, 2014. GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, 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 Plan’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.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Treasury managers the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

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

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 18.40%.

(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 3 years to maturity or 3 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 one day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 years.

Other Plan 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 manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Taxable Municipal Bond portfolio 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.

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.

(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 TIPS portfolio to ± 20% of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

At June 30, 2014, the effective duration of the Board'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

Credit Risk

Credit risk is the risk that an issuer or other counterparty 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.

(Continued)

(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 portfolio.

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 rating 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 ratings shall apply for evaluating credit quality.

Convertible Bonds

Nonrated 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. Nonrated securities are limited to 35% of the total market value of the portfolio. Nonrated securities to which the manager assigns a noninvestment 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.

The manager shall not purchase any security with a credit rating at or below CCC- by S&P 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.

(4) Deposit and Investment Risk (cont.)

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.

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 (The FDIC provides $250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

(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, and 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. 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 Plan 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 Plan's invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

(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

The components of the net pension liability of the participating employers for the Plan at June 30, 2014, were as follows:

Total pension liability	$	201,397,651
Plan fiduciary net position		(139,547,440)
Employers' net pension liability	$	61,850,211
Plan fiduciary net position as a percentage of the total pension liability		69.29%

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of July 1, 2012, which was rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods in the measurement.

Inflation	3.12%
Salary increases	4.12% per year, compounded annually
Investment 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) Sex-distinct Table 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 1-year setback for females and 3-year setback for males for post-termination mortality.

(6) Net Pension Liability (cont.)

The actuarial assumptions used in the June 30, 2012 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board (and Department of Administration) 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
Domestic equity	6.77%
International equity	7.50%
Private equity	10.86%
Fixed income	2.05%
Real estate	3.63%
Absolute return	4.80%

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(6) Net Pension Liability (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 8.0%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current discount rate (8.0%)	1% Increase (9.0%)
Net pension liability	$ 84,067,949	61,850,211	43,000,097

(7) 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 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 follow:

	2014	2013
Beginnging of year:		
Due to State of Alaska General Fund for outstanding warrants	$ 63,873	95,643
Incurred but not reported	154,000	170,000
Total, beginning of year	217,873	265,643
Benefit deductions	1,239,345	1,099,899
Benefits paid	(1,314,670)	(1,147,669)
Total, end of year	$ 142,548	217,873
End of year:		
Due to State of Alaska General Fund for outstanding warrants	$ 7,548	63,873
Incurred but not reported	135,000	154,000
Total, end of year	$ 142,548	217,873

(6) Funded Status and Funding Progress

The funded status as of June 30, 2012 of the postemployment healthcare benefit plan is as follows:

Actuarial valuation date		Actuarial value of assets	Actuarial Accrued Liability (AAL) – entry age	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
Postemployment healthcare	$	20,835,672	18,236,104	(2,599,568)	114.3%	$	11,803,164	(22.0)%

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 schedule of funding progress, presented as required supplementary information following the notes to financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions (unaudited) presents 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 thirty 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 plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
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	20 years
Asset valuation method	5 year smoothed market, constrained to 80% / 120% of fair value corridor
Actuarial assumptions:	
Investment rate of return	8.00% (includes inflation at 3.12%)
Projected salary increases	4.12%
Cost-of-living adjustment	4.12%

(8) Funded Status and Funding Progress (cont.)

Health cost trend:

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2013	9.0%	6.5%	6.4%
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
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 actuarial 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 Plan's retiree healthcare benefits are being 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.

Using the GASB 43 discount rate determined above and disregarding future Medicare Part D payments, the fiscal year 2015 employer ARC for accounting purposes is 3.76% of pay for healthcare benefits and 80.23% of pay for healthcare and pension benefits combined.

(7) Commitments and Contingencies

The Board entered into agreements 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:

Portfolio		Unfunded commitment	Estimated to be paid through:
Domestic equity	$	111,976	May be canceled annually in December with 90 days notice
Private equity		7,735,285	Fiscal Year 2024
Energy		802,831	Fiscal Year 2023
Real estate		3,151,149	Fiscal Year 2024
	$	11,801,241	

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

(9) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP), a temporary program that provides reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the Plan is up to 80% of claims cost for health benefits between $15,000 and $90,000. The program was authorized by the Affordable Care Act as part of the U.S. Government Health Reform package. The Plan started participation in the ERRP program beginning calendar year 2013. The program ended on January 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Required Supplementary Information (Unaudited)

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

		2014	2013	2012
Total pension liability:				
Service cost	$	5,185,969	5,004,795	5,062,095
Interest		15,284,981	14,576,016	14,278,926
Changes of benefit terms		—	—	—
Differences between expected and actual experience		—	—	(451,843)
Changes of assumptions		—	—	—
Benefit payments, including refunds of member contributions		(10,578,414)	(10,343,220)	(10,046,138)
Net change in total pension liability		9,892,536	9,237,591	8,843,040
Total pension liability – beginning		191,505,115	182,267,524	173,424,484
Total pension liability – ending (a)		201,397,651	191,505,115	182,267,524
Plan fiduciary net position:				
Contributions – employers		4,578,693	4,443,785	3,212,901
Contributions – member		780,054	721,171	704,671
Contributions – nonemployer (State)		4,282,876	3,650,650	2,205,898
Total net investment income		21,845,311	13,180,214	121,042
Other miscellaneous income		12	—	12
Benefit payments, including refunds of member contributions		(10,578,414)	(10,343,220)	(9,666,901)
Administrative expenses		(65,716)	(82,231)	(44,855)
Net change in plan fiduciary net position		20,842,816	11,570,369	(3,467,232)
Plan fiduciary net position – beginning		118,704,624	107,134,255	110,601,487
Plan fiduciary net position – ending (b)		139,547,440	118,704,624	107,134,255
Plan's net pension liability (a) - (b)	$	61,850,211	72,800,491	75,133,269
Plan fiduciary net position as a percentage of the total pension liability		69.29%	61.99%	58.78%
Covered-employee payroll	$	13,730,948	13,289,096	11,845,548
Net pension liability as a percentage of covered-employee payroll		450.44%	547.82%	634.27%

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

See accompanying independent auditors' report.

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

Required Supplementary Information (unaudited)

Schedule of Employer and Nonemployer Contributions – Defined Benefit Pension Plan

		2014	2013	2012
Actuarially determined contribution	$	9,155,796	8,366,815	5,051,754
Contributions in relation to the actuarially determined contribution		8,861,569	8,094,435	5,418,799
Contribution deficiency (excess)	$	294,227	272,380	(367,045)
Covered-employee payroll	$	13,730,948	13,289,096	11,803,164
Contributions as a percentage of covered-employee payroll		64.54%	60.91%	45.91%

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

See accompanying independent auditors' report

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

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

	2014
Annual money-weighted rate of return, net of investment expense:	18.40%

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

See accompanying independent auditors' report.

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Postemployment Healthcare Benefits

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	$ 16,854,927	21,856,126	5,001,199	77.1%	$ 6,529,608	76.6%
2006	2,399,387	17,794,213	15,394,826	13.5	7,130,592	215.9
2008	18,352,929	19,941,128	1,588,199	92.0	10,462,322	15.2
2010	19,693,969	22,346,395	2,652,426	88.1	11,845,548	22.4
2012	20,835,672	18,236,104	(2,599,568)	114.3	11,803,164	(22.0)

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

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

Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers and the State of Alaska

Pension and Postemployment Healthcare Benefits

Year ended June 30	Actuarial valuation year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed	Postemployment healthcare percentage contributed
2008	2008	$ 3,898,001	567,415	4,465,416	1,045.0%	2,489.4%
2009	2010	4,937,406	1,411,259	6,348,665	100.0	100.0
2010	2010	5,236,646	1,432,721	6,669,367	69.8	60.9
2011	2012	3,895,881	722,960	4,618,841	98.5	80.1
2012	2012	5,051,754	712,911	5,764,665	107.3	97.8
2013	2013	5,185,969	466,382	5,652,351	79.9	2.6

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

(1) Description of Schedule of Funding Progress

Each time a new benefit is added that applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan 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 valuation as of June 30, 2012 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of expected payroll. However, in keeping with Governmental Accounting Standards Board (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 and phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statement. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

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

(d) Accounting impact of Medicare Part D – The State of Alaska's prescription drug program is actuarially equivalent to the federal Medicare Part D program and that the State of Alaska qualifies for the Medicare Part D subsidy.

(e) Investment return – 8.00% per year, compounded annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.

(2) Actuarial Assumptions and Methods (cont.)

(f) Pre termination mortality – 45% of the male rates and 55% of the females rates in the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin project to 2013 with Projection Scale AA. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ration of 143%.

(g) Post termination mortality – 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA. Setback 1 year for females and 3 years for males. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ration of 143%.

(h) Salary scale – 4.12% per year, compounded annually.

(i) Total payroll growth – 3.62% per year.

(j) 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.

(k) Cost-of-living adjustment – 4.12% per year. Retirement benefits are recalculated when the salary for the office held by the member at the time of retirement changes.

(l) Per capita claims cost – Sample claims cost rates adjusted to age 65 for fiscal year 2013 medical and prescription costs are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,856	2,736
Medicare Parts A and B	1,628	2,736
Medicare Part B only	6,219	2,736
Medicare Part D	N/A	535

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

(2) Actuarial Assumptions and Methods (cont.)

(n) 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, 9.0% is applied to the fiscal year 2013 pre-Medicare medical claims costs to get the fiscal year 2014 medical claims costs.

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2013	9.0%	6.5%	6.4%
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
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 costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline costs for year 2015. Using this value as the base cost, the model projects per-person expenditures and growth rates through 2100 using a set of equations and assumptions developed by the author with the assistance of an SOA working group. The user can then use the model input cells to specify alternative assumptions regarding responsiveness to external trends, income growth, and other factors to arrive at alternative projections. The model provisionally uses default short-term annual projected by CMS for years 2011-2015 (4% to 6%), but users may input their own estimates for these model years. In this model, cost controls can be simulated in two ways: by specifying a Share Restriction Point, a percentage of GDP represented by healthcare and above which the current trends will be reduced; or by specifying a limit year after which the rate of growth in healthcare costs will be reduced to match the rate of growth in per capita income (as both CMS and CBO assume). While this model is not directly applicable, it was used for a reference point in the ultimate pharmacy trend. We set pharmacy trend based upon recent plan and industry experience and grade down slowly in the select period (similar to post-65 medical trend) to an ultimate trend rate based upon what we are seeing for medical trend and consistent within the industry.

(2) Actuarial Assumptions and Methods (cont.)

The following table compares plan-specific inputs and the model's baseline assumptions for key assumptions as of June 30, 2012:

Key assumptions	Base line value	Alaska-specific values Pre-Medicare medical	Alaska-specific values Medicare medical
HCCTR 2012-2013	4.6%	9.0%	6.1%
HCCTR 2013-2014	7.4%	8.0%	5.8%
HCCTR 2014-2015	5.0%	7.0%	5.5%
2015 GDP% of healthcare	18.3%	17.9%	17.9%
2015 PCCC	$10,000	$10,295	$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	2.0%	1.5%	1.5%
Income multiplier	1.40	1.30	1.30
Taste/technology	1.1%	1.1%	1.1%
Max GDP as % of healthcare	25.0%	25.0%	25.0%
Year reached	2075	2075	2075

Future (2026+) assumptions for inflation (2.4% for 2026-3025 and 2.3% thereafter), real GDP (1.5%), income multiplier (1.05 for 2026-3025 and 1.00 thereafter), and technology (0.9% for 2026-3025 and 0.8% thereafter) were not changed from the baseline inputs.

(o) 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	0.1
84 – 93	0.5	—
94 +	—	—

(p) Medical participation – Because medical benefits are provided at no cost to the retiree, 100% participation in the medical plans is assumed.

(q) Turnover – Annual turnover is 3% if service is less than 10 years and 1% if service is greater than 10 years.

(2) Actuarial Assumptions and Methods (cont.)

(r) Retirement – 3% if vested and age is less than 59, 10% if vested and age is greater than 59, and 100% at age 70. Terminated vested members are expected to commence benefits at age 60.

(s) Disability – Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.

(t) Maximum retirement age – Age 70.

(u) Marital status – 90% of male and 70% of female active and inactive members are assumed to be married. Husbands are assumed to be 4 years older than their wives.

(v) Form of payment – Married members are assumed to choose the 50% Joint and Survivor benefit option. Single members are assumed to choose the Modified Cash Refund Annuity.

(w) Contribution refunds – 0% 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.

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

Changes in Methods since the Prior Valuation – June 30, 2010 to June 30, 2012

There were no changes in methods from the prior valuation, except for the changes in healthcare as previously stated.

Changes in Assumptions from the Last Actuarial Valuation – June 30, 2010 to June 30, 2012

There have been no changes in actuarial assumptions since the prior valuation, except for the assumption regarding healthcare cost trend rates. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend, and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend.

SUPPLEMENTAL SCHEDULES

Schedule 1

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

Schedule of Administrative and Investment Deductions

Years ended June 30, 2014 and 2013

	Administrative	Investment	Total 2014	Total 2013
Personal services:				
Wages	$ 18,496	2,032	20,528	17,873
Benefits	10,710	864	11,574	10,384
Total personal services	29,206	2,896	32,102	28,257
Travel:				
Transportation	253	1,046	1,299	1,289
Per diem	33	524	557	618
Total travel	286	1,570	1,856	1,907
Contractual services:				
Management and consulting	53,441	331,189	384,630	344,554
Accounting and auditing	7,541	151	7,692	15,199
Data processing	11,161	5,714	16,875	13,300
Rental/leases	1,309	516	1,825	1,909
Legal	1,115	777	1,892	1,161
Other services	1,682	908	2,590	2,101
Total contractual services	76,249	339,255	415,504	378,224
Other:				
Supplies	390	631	1,021	915
Equipment	126	152	278	369
Total other	516	783	1,299	1,284
Total administrative and investment deductions	$ 106,257	344,504	450,761	409,672

See accompanying independent auditors’ report.

Schedule 2

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

Schedule of Payments to Consultants
Other than Investment Advisers

Years ended June 30, 2014 and 2013

Firm	Services	2014	2013
Buck Consultants, an ACS Company	Actuarial services	$ 25,711	41,295
KPMG LLP	Auditing services	7,524	7,232
State Street Corporation	Custodian banking services	7,866	7,708
Alaska IT Group	Data processing consultants	866	238
State of Alaska, Department of Law	Legal services	615	292
Applied Microsystems, Inc.	Management consulting services	6,365	616
Chicago Dell Marketing LP	Software maintenance	2,402	4,980
		$ 51,349	62,361

See accompanying independent auditors' report.