



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

Financial Statements and Supplemental Schedules

June 30, 2018

(With summarized financial information for June 30, 2017)

(With Independent Auditors' Report Thereon)

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

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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 financial statements of the State of Alaska Judicial Retirement System (the Plan), a component unit of the State of Alaska, as of and for the year ended June 30, 2018, and the related notes to 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Judicial Retirement System as of June 30, 2018, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.



## **Other Matters**

### *Prior-Year Comparative Information*

We have previously audited the Plan's 2017 combining financial statements, and we expressed an unmodified opinion on those financial statements in our report dated December 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year then ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–11, the schedules of changes in plan net pension and other post-employment benefits liability and related ratios, schedules of employer and nonemployer contributions, and schedules of investment returns on pages 24–29 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Schedules*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules on pages 34 and 35 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

November 21, 2018

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
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Management's Discussion and Analysis (Unaudited)  
June 30, 2018

This section presents management's discussion and analysis (MD&A) of the Judicial Retirement System's (the Plan) financial position and performance for the years ended June 30, 2018 and 2017. 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 year ended June 30, 2018.

**Financial Highlights**

The Plan's financial highlights as of June 30, 2018 were as follows:

- The Plan's fiduciary net position restricted for pension and postemployment healthcare benefits increased by \$14.3 million during fiscal year 2018.
- The plan member and employer contributions of \$6.6 million decreased by \$591 thousand during fiscal year 2018 when compared to fiscal year 2017.
- The State of Alaska directly appropriated \$5.4 million to the Plan during fiscal year 2018.
- The Plan realized a net investment income of \$16.0 million during fiscal year 2018.
- The Plan's pension benefit expenditures totaled \$12.1 million during fiscal year 2018.
- The Plan's postemployment healthcare benefit expenditures totaled \$1.6 million in fiscal year 2018.

**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 plan fiduciary net position, (2) combining statement of changes in plan fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

*Combining Statement of Plan 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 value, along with cash and short-term investments, receivables, and other assets, less liabilities at June 30, 2018.

*Combining Statement of Changes in Plan Fiduciary Net Position* – This statement presents how the Plan's net position restricted for pension and postemployment healthcare benefits changed during the fiscal year ended June 30, 2018. This statement presents contributions, State of Alaska (State) appropriations, and investment income during the reporting 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, 2018 and the sources and uses of those funds during fiscal year 2018.

*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.

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*Required Supplementary Information and Related Notes* – The required supplementary information consists of six 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 advisors) for professional services.

**Condensed Financial Information**

Description	Plan Fiduciary Net Position				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 2,227,200	5,052,323	(2,825,123)	(55.9)%	\$ 1,528,108
Contributions receivable	261,990	257,970	4,020	1.6	243,309
Due from State of Alaska General Fund	237,439	966,011	(728,572)	(75.4)	945,660
Other receivables	2,454	14,715	(12,261)	(83.3)	2,357
Investments at fair value	206,499,443	189,160,329	17,339,114	9.2	169,112,939
Other assets	3,076	3,076	—	—	6,374
<b>Total assets</b>	<b>209,231,602</b>	<b>195,454,424</b>	<b>13,777,178</b>	<b>7.0</b>	<b>171,838,747</b>
<b>Liabilities:</b>					
Accrued expenses	25,494	26,931	(1,437)	(5.3)	92,598
Claims payable	167,000	105,000	62,000	59.0	77,000
Securities lending collateral payable	746,536	1,298,447	(551,911)	(42.5)	—
Due to State of Alaska General Fund	—	—	—	—	2,365
<b>Total liabilities</b>	<b>939,030</b>	<b>1,430,378</b>	<b>(491,348)</b>	<b>(34.4)</b>	<b>171,963</b>
<b>Plan fiduciary net position</b>	<b>\$ 208,292,572</b>	<b>194,024,046</b>	<b>14,268,526</b>	<b>7.4 %</b>	<b>\$ 171,666,784</b>

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<b>Changes in Plan Fiduciary Net Position</b>					
<b>Description</b>	<b>2018</b>	<b>2017</b>	<b>Increase (decrease)</b>		<b>2016</b>
			<b>Amount</b>	<b>Percentage</b>	
Fiduciary net position, beginning of year	\$ 194,024,046	171,666,784	22,357,262	13.0 %	\$ 171,302,405
Additions:					
Contributions – employer and plan member	6,596,628	7,187,494	(590,866)	(8.2)	7,129,836
Nonemployer contribution	5,385,000	5,412,366	(27,366)	(0.5)	5,890,788
Net investment income (loss)	16,045,210	22,379,586	(6,334,376)	(28.3)	(698,012)
Other	64,764	127,457	(62,693)	(49.2)	95,127
Total additions	<u>28,091,602</u>	<u>35,106,903</u>	<u>(7,015,301)</u>	<u>(20.0)</u>	<u>12,417,739</u>
Deductions:					
Pension and postemployment healthcare benefits	13,716,405	12,619,660	1,096,745	8.7	11,932,140
Administrative	106,671	129,981	(23,310)	(17.9)	121,220
Total deductions	<u>13,823,076</u>	<u>12,749,641</u>	<u>1,073,435</u>	<u>8.4</u>	<u>12,053,360</u>
Increase in fiduciary net position	<u>14,268,526</u>	<u>22,357,262</u>	<u>(8,088,736)</u>	<u>(36.2)</u>	<u>364,379</u>
Fiduciary net position, end of year	<u>\$ 208,292,572</u>	<u>194,024,046</u>	<u>14,268,526</u>	<u>7.4 %</u>	<u>\$ 171,666,784</u>

**Financial Analysis of the Plan**

The statements of fiduciary net position as of June 30, 2018 and 2017 show net position restricted for pension and postemployment healthcare benefits of \$208,292,572 and \$194,024,046, 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 represent an increase of \$14,268,526 or 7.4% and an increase of \$22,357,262 or 13.0% from fiscal years 2017 and 2016, respectively. Over the long term, plan members and employer contributions, as well as investment income earned, are anticipated 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.

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**Plan Asset Allocation**

During fiscal years 2018 and 2017, the Board adopted the following asset allocations:

	<b>2018</b>	
	<b>Pension and healthcare trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	24.0 %	± 6%
Global equity ex-U.S.	22.0	± 4
Fixed income	10.0	± 5
Opportunistic	10.0	± 5
Real assets	17.0	± 8
Absolute return	7.0	± 4
Private equity	9.0	± 5
Cash equivalents	1.0	- 1/+ 3
Total	<u>100.0 %</u>	
Expected return 10-year geometric mean	6.60 %	
Projected standard deviation	14.70	

  

	<b>2017</b>	
	<b>Pension and healthcare trust</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	26.0 %	± 6%
Global equity ex-U.S.	22.0	± 4
Private equity	9.0	± 5
Real assets	17.0	± 8
Absolute return	7.0	± 4
Fixed income composite	13.0	± 5
Alternative equity strategies	5.0	± 2
Cash equivalents	1.0	- 1/+ 3
Total	<u>100.0 %</u>	
Expected return 5-year geometric mean	7.10 %	
Projected standard deviation	15.00	

For fiscal years 2018 and 2017, the Plan's investments generated a 9.60% and 13.34% rate of return, respectively.



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**Contributions, Investment Income, and Transfer**

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

	2018	2017	Additions		2016
			Increase (decrease) Amount	Percentage	
Employer contributions	\$ 5,763,910	6,301,332	(537,422)	(8.5)%	\$ 6,327,912
Plan members contributions	832,718	886,162	(53,444)	(6.0)	801,924
Nonemployer contributions – State of Alaska	5,385,000	5,412,366	(27,366)	(0.5)	5,890,788
Net investment income (loss)	16,045,210	22,379,586	(6,334,376)	(28.3)	(698,012)
Other income	64,764	127,457	(62,693)	(49.2)	95,127
Total	\$ <u>28,091,602</u>	<u>35,106,903</u>	<u>(7,015,301)</u>	<u>(20.0)%</u>	\$ <u>12,417,739</u>

The Plan's employer contributions decreased from \$6,301,332 during fiscal year 2017 to \$5,763,910 during fiscal year 2018, a decrease of \$537,422, or 8.50%. This decrease was caused by a combination of a decrease in the employer contributions paid through the payroll process and a decrease in additional funding from the employer. Employer contributions decreased from \$6,327,912 during fiscal year 2016 to \$6,301,332 during fiscal year 2017, a decrease of \$26,580, or 0.40%. This decrease was caused by a decrease in the additional funding from the employer.

Beginning in fiscal year 2010, the Alaska Court System, sole employer of the Plan's participants, began paying only the normal cost portion of the plan employer contribution rate and the State funded the past service cost through a direct appropriation. The normal cost rate decreased from 41.48% in fiscal year 2017 to 41.33% in fiscal year 2018. Additionally, the Alaska Court System has contributed additional employer contributions in fiscal year 2018 to aid in the funded level of the pension plan.

The Plan's net investment income in fiscal year 2018 decreased by \$6,334,376 or 28.30% from amounts recorded in fiscal year 2017, and net investment income increased by \$23,077,598 or 3,306.20% from amounts recorded in fiscal year 2016. Fiscal year 2018 saw rates of returns above the assumed rate of return. The investment returns received in fiscal year 2018 were lower than the returns seen in fiscal year 2017, causing a decrease in returns in comparison between 2018 and 2017. Over the long term, investment income is a major component of additions to plan assets.

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The Plan's investment rate of returns at June 30, 2018, 2017, and 2016 were as follows:

	Year ended		
	2018	2017	2016
System returns	9.60 %	13.34 %	(0.36)%
Domestic equities	15.21	18.53	0.58
International equities	7.95	20.41	(9.15)
Fixed income	(0.71)	2.91	5.14
Private equity	26.65	17.04	4.71
Absolute return	4.78	8.46	(3.09)
Real assets	7.53	5.98	4.80
Alternative equity	—	11.38	3.41
Opportunistic	5.63	—	—
Cash equivalents	1.55	(0.04)	0.55
Actuarially assumed rate of return	8.00	8.00	8.00

**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				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
Pension benefits	\$ 12,125,563	11,588,512	537,051	4.6 %	\$ 11,228,221
Postemployment healthcare benefits	1,590,842	1,031,148	559,694	54.3	703,919
Administrative	106,671	129,981	(23,310)	(17.9)	121,220
Total	<u>\$ 13,823,076</u>	<u>12,749,641</u>	<u>1,073,435</u>	<u>8.4 %</u>	<u>\$ 12,053,360</u>

The Plan's pension benefit payments in 2018 and 2017 increased \$537,051 and \$360,291, or 4.6% and 3.2%, from fiscal years 2017 and 2016, respectively. Pension benefits are directly tied to active plan member salary increases. Active plan members received a slight salary increase in fiscal years 2018 and 2017; therefore, pension benefit expense increased as well.

The Plan's postemployment healthcare benefit payments in fiscal years 2018 and 2017 increased \$559,694, or 54.3%, and increased \$327,229, or 46.5%, from fiscal years 2017 and 2016, respectively. The fiscal year 2018 and 2017 increases in healthcare costs are due partially to higher claims in these two years in a very small plan.

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**Net Pension Liability**

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, implemented in 2014, requires the Defined Benefit Pension (DB) Plan to report the Total Pension Liability, Fiduciary Net Position, and Net Pension Liability. The Total Pension Liability represents the total obligation for the 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 Plan's Fiduciary Net Position represents the assets available to pay the 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 Plan. The difference between the Total Pension Liability and Fiduciary Net Position is the Net Pension Liability, or the unfunded portion of the Total Pension Liability.

The components of the net pension liability of the participating employers for the Plan were as follows:

	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 228,333,500	216,634,510
Plan fiduciary net position	(176,794,968)	(164,032,759)
Employers' net pension liability	\$ 51,538,532	52,601,751
Plan fiduciary net position as a percentage of the total pension liability	77.43 %	75.72 %

**Net OPEB Asset**

GASB Statement No. 74, implemented in 2017, requires the Other Postemployment Benefit (OPEB) Plan to report the Total OPEB Liability, Fiduciary Net Position, and Net OPEB Asset. The Total OPEB Liability represents the total obligation for the Plan's postemployment healthcare 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 Plan's Fiduciary Net Position represents the assets available to pay the 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 Plan. The difference between the Total OPEB Liability and Fiduciary Net Position is the Net OPEB Asset, or the overfunded portion of the Total OPEB Liability.

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The components of the net OPEB asset of the participating employer for the Plan were as follows:

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 18,573,443	17,476,244
Plan fiduciary net position	<u>(31,497,604)</u>	<u>(29,991,287)</u>
Employer's net OPEB asset	<u>\$ (12,924,161)</u>	<u>(12,515,043)</u>
Plan fiduciary net position as a percentage of the total OPEB asset	169.58 %	171.61 %

**Funding**

Retirement benefits are financed by accumulations from employer, nonemployer, 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 2018, the 30th Alaska State Legislature enacted one law that affects the Plan. Conference Committee Substitute House Bill (CCS HB) 286, Section 25(d) appropriates \$4,909,000 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 employer's contributions for the fiscal year ending June 30, 2019.

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

Net investment income decreased from income of \$22,379,586 in fiscal year 2017 to income of \$16,045,210 in fiscal year 2018, a decrease of \$6,334,376, or 28.3%. The Board continues to keep the Plan's portfolio diversified to maintain an optimal risk/return ratio. All things being equal, actual investment returns lower than the assumed investment return will have a negative impact on both the annual actuarially determined contribution rate increasing and the Plan's funded level decreasing, while actual investment returns higher than the assumed investment return will have a positive impact on both the annual actuarially determined contribution rate decreasing and the Plan's funded level increasing.

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The roll forward actuarial valuation as of June 30, 2017 reported a funding ratio of 84.10% and an unfunded liability of \$37.2 million. The actuarial valuation for June 30, 2016 reported a funding ratio of 82.00% and an unfunded liability of \$39.9 million. The decrease in the unfunded liability is attributable to additional employer contributions to the pension plan over the last three fiscal years. Additionally, the Plan benefited from updated healthcare cost trend assumptions. The impacts of these, combined with negligible losses in other categories, also decreased the total actuarially determined contribution rate (normal and past service costs) for fiscal year 2019 to 70.24% from 74.21% for fiscal year 2018.

**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

Questions concerning any of the investment information provided in this report or requests for additional investment information should be addressed to:

State of Alaska  
Department of Revenue, Treasury Division  
P.O. Box 110405  
Juneau, Alaska 99811-0405

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Combining Statement of Fiduciary Net Position

June 30, 2018

(With summarized financial information for June 30, 2017)

	<u>Pension</u>	<u>Alaska Retiree Healthcare Trust</u>	<u>Plan total June 30, 2018</u>	<u>Plan total June 30, 2017</u>
<b>Assets:</b>				
Cash and cash equivalents (note 3):				
Short-term fixed income pool	\$ 1,283,019	197,644	1,480,663	3,753,876
Securities lending collateral	633,195	113,342	746,537	1,298,447
Total cash and cash equivalents	<u>1,916,214</u>	<u>310,986</u>	<u>2,227,200</u>	<u>5,052,323</u>
Receivables:				
Contributions	237,254	24,736	261,990	257,970
Due from State of Alaska General Fund	216,170	21,269	237,439	966,011
Other receivables	2,358	96	2,454	14,715
Total receivables	<u>455,782</u>	<u>46,101</u>	<u>501,883</u>	<u>1,238,696</u>
Investments (note 3) at fair value:				
Fixed income securities:				
U.S. Treasury fixed income pool	15,972,902	2,866,952	18,839,854	14,704,166
International fixed income pool	—	—	—	1,407,754
Emerging debt pool	—	—	—	1,272,713
Total fixed income securities	<u>15,972,902</u>	<u>2,866,952</u>	<u>18,839,854</u>	<u>17,384,633</u>
Broad domestic equity pool:				
Large cap pool	34,666,095	6,222,164	40,888,259	40,917,396
Small cap pool	6,564,259	1,178,209	7,742,468	8,385,019
Total broad domestic equity	<u>41,230,354</u>	<u>7,400,373</u>	<u>48,630,727</u>	<u>49,302,415</u>
Global equity ex-U.S.:				
International equity pool	29,960,187	5,377,508	35,337,695	36,857,152
International equity small cap pool	2,731,047	490,191	3,221,238	2,763,459
Emerging markets equity pool	5,106,957	916,640	6,023,597	6,005,593
Total global equity ex-U.S.	<u>37,798,191</u>	<u>6,784,339</u>	<u>44,582,530</u>	<u>45,626,204</u>
Opportunistic:				
Alternative equity strategies pool	8,916,806	1,600,464	10,517,270	5,937,550
Opportunistic fixed income pool	5,919,892	1,062,552	6,982,444	1,610,619
Other opportunities pool	2,272,484	407,885	2,680,369	1,712,959
Tactical allocation strategies pool	2,067	371	2,438	4,940,293
Convertible bond pool	—	—	—	1,462,689
Total opportunistic	<u>17,111,249</u>	<u>3,071,272</u>	<u>20,182,521</u>	<u>15,664,110</u>
Private equity pool	16,266,086	2,919,575	19,185,661	16,255,932
Absolute return pool	13,060,603	2,344,228	15,404,831	12,224,906
Real assets:				
Real estate pools	11,120,290	1,996,140	13,116,430	11,024,234
Real estate investment trust pool	1,360,368	244,170	1,604,538	2,701,635
Infrastructure private pool	3,442,284	617,850	4,060,134	3,028,442
Infrastructure public pool	1,727,041	309,984	2,037,025	1,886,231
Master limited partnership pool	6,794,707	1,219,572	8,014,279	3,844,535
Energy pool	670,347	120,320	790,667	707,170
Farmland pool	5,645,858	1,013,366	6,659,224	6,399,278
Timber pool	2,494,068	447,656	2,941,724	2,686,076
Treasury inflation protected securities pool	380,926	68,372	449,298	424,528
Total real assets	<u>33,635,889</u>	<u>6,037,430</u>	<u>39,673,319</u>	<u>32,702,129</u>
Total investments	<u>175,075,274</u>	<u>31,424,169</u>	<u>206,499,443</u>	<u>189,160,329</u>
Other assets	—	3,076	3,076	3,076
Total assets	<u>177,447,270</u>	<u>31,784,332</u>	<u>209,231,602</u>	<u>195,454,424</u>
Liabilities:				
Accrued expenses	19,107	6,387	25,494	26,931
Claims payable (note 6)	—	167,000	167,000	105,000
Securities lending collateral payable (note 3)	633,195	113,341	746,536	1,298,447
Total liabilities	<u>652,302</u>	<u>286,728</u>	<u>939,030</u>	<u>1,430,378</u>
Net position restricted for pension and postemployment healthcare benefits	<u>\$ 176,794,968</u>	<u>31,497,604</u>	<u>208,292,572</u>	<u>194,024,046</u>

See accompanying notes to financial statements.

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**JUDICIAL RETIREMENT SYSTEM**  
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Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2018

(With summarized financial information for June 30, 2017)

	<u>Pension</u>	<u>Alaska Retiree Healthcare Trust</u>	<u>Plan total June 30, 2018</u>	<u>Plan total June 30, 2017</u>
Additions:				
Contributions:				
Employer	\$ 5,142,959	620,951	5,763,910	6,301,332
Plan members	832,718	—	832,718	886,162
Nonemployer contribution – State of Alaska	5,385,000	—	5,385,000	5,412,366
Total contributions	<u>11,360,677</u>	<u>620,951</u>	<u>11,981,628</u>	<u>12,599,860</u>
Investment income:				
Net appreciation in fair value (note 3)	10,735,884	1,941,614	12,677,498	19,298,121
Interest	606,208	108,649	714,857	676,805
Dividends	2,314,022	417,436	2,731,458	2,490,918
Total investment income	<u>13,656,114</u>	<u>2,467,699</u>	<u>16,123,813</u>	<u>22,465,844</u>
Less investment expense	<u>86,532</u>	<u>16,180</u>	<u>102,712</u>	<u>94,424</u>
Net investment income before securities lending activities	<u>13,569,582</u>	<u>2,451,519</u>	<u>16,021,101</u>	<u>22,371,420</u>
Securities lending income (note 3)	25,029	4,484	29,513	10,208
Less securities lending expense (note 3)	<u>4,583</u>	<u>821</u>	<u>5,404</u>	<u>2,042</u>
Net income from securities lending activities	<u>20,446</u>	<u>3,663</u>	<u>24,109</u>	<u>8,166</u>
Net investment income	<u>13,590,028</u>	<u>2,455,182</u>	<u>16,045,210</u>	<u>22,379,586</u>
Other income	<u>—</u>	<u>64,764</u>	<u>64,764</u>	<u>127,457</u>
Total additions	<u>24,950,705</u>	<u>3,140,897</u>	<u>28,091,602</u>	<u>35,106,903</u>
Deductions:				
Pension and postemployment healthcare benefits	12,125,563	1,590,842	13,716,405	12,619,660
Administrative	<u>62,933</u>	<u>43,738</u>	<u>106,671</u>	<u>129,981</u>
Total deductions	<u>12,188,496</u>	<u>1,634,580</u>	<u>13,823,076</u>	<u>12,749,641</u>
Net increase	<u>12,762,209</u>	<u>1,506,317</u>	<u>14,268,526</u>	<u>22,357,262</u>
Net position restricted for pension and postemployment healthcare benefits:				
Balance, beginning of year	<u>164,032,759</u>	<u>29,991,287</u>	<u>194,024,046</u>	<u>171,666,784</u>
Balance, end of year	<u>\$ 176,794,968</u>	<u>31,497,604</u>	<u>208,292,572</u>	<u>194,024,046</u>

See accompanying notes to financial statements.

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**(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 the States law and may be amended only by the States legislature. The Alaska Retirement Management Board (the Board), is responsible for overseeing the management and investment of the system. The Board 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.

**(a) Defined Benefit Pension Plan**

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, 2018, the plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	122
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	70
	196

**(b) Pension Benefits**

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement at age 60 or early retirement at 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 base 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.

**(c) 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 not less than 30% of the authorized salary. The benefits continue until the surviving spouse dies.



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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.

**(d) Disability Benefits**

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

**(e) Contributions**

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of both pension and postemployment healthcare benefits earned by plan members during the year. The plan members first appointed after July 1, 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 2018 and 2017, employer contribution rates are 74.21% and 76.49%, respectively, of which only the employer normal cost rates of 41.33% and 41.48%, respectively, were required from the Alaska Court System. The past service costs were paid for separately by the State via annual appropriations.

**(f) 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 or 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.

**(g) Other Postemployment Benefit Plan**

The Alaska Retiree Healthcare Trust Plan (ARHCT), a healthcare trust fund of the State, provides major medical coverage to retirees of the DB Plan. These major medical benefits, to cover medical expenses, are provided without cost to retired plan members. The ARHCT is self-funded and

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self-insured. The ARHCT is closed to all new members effective July 1, 2006. As of June 30, 2018, membership in the plan was as follows:

Inactive plan members or beneficiaries currently receiving benefits	122
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>70</u>
	<u><u>196</u></u>

**(2) Summary of Significant Accounting Policies**

**(a) 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.

**(b) 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.

**(c) Investments**

The Plan owns shares in various investment pools that are administered by the State of Alaska, Department of Revenue, Division of Treasury (the Treasury). The Plan'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.

**(d) 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.

**(e) Administrative Costs**

Administrative costs are paid from investment earnings.

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**(f) Cash and Cash Equivalents**

Cash and cash equivalents include the Plan's holdings within the Short-term fixed income pool and overnight investments associated with securities lending collateral. These holdings have the general characteristics of a demand deposit account.

**(g) Due from (to) State of Alaska General Fund**

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

**(h) 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).

**(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. The 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. Treasury manages the U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, and Treasury Inflation Protected Securities Pool, 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 the Treasury that holds investments on behalf of the Board as well as other state funds.

*Rate of Return*

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2018 for the defined benefit pension plan is 8.20% and for the Alaska Retiree Healthcare Trust is 8.33%.

For additional information on securities lending, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at

<http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

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**(4) Net Pension Liability – Defined Benefit Pension Plan**

The components of the net pension liability of the participating employer for the Plan at June 30, 2018 were as follows:

Total pension liability	\$	228,333,500
Plan fiduciary net position		<u>(176,794,968)</u>
Employers' net pension liability	\$	<u>51,538,532</u>
Plan fiduciary net position as a percentage of the total pension liability		77.43 %

**(a) Actuarial Assumptions**

The total pension liability was determined by the June 30, 2017 valuation, using the following actuarial assumptions, applied to all periods in the measurement, and rolled forward to the measurement date of June 30, 2018:

Inflation	3.12%
Salary increases	3.62% 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	Posttermination mortality rates were based on 94% of the male rates and 97% of the female rates of the RP-2000 Combined Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a three-year setback males and four-year setback for females. The rates for pretermination mortality were 68% of the male rates and 60% of the female rates of the posttermination mortality rates.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013.

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, 2018 (see the discussion of the pension plan's

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investment policy) are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset class</u>	<u>Long-term Expected real rate of return</u>	<u>Allocation</u>	<u>Range</u>
Domestic equity	8.90 %	24.0 %	+/- 6%
Global ex-U.S. equity	7.85	22.0	+/- 4
Fixed Income	1.25	10.0	+/- 5
Opportunistic	4.76	10.0	+/- 5
Real assets	6.20	17.0	+/- 8
Absolute return	4.76	7.0	+/- 4
Private equity	12.08	9.0	+/- 5
Cash equivalents	0.66	1.0	+1/-3

**(b) Discount Rate**

The discount rate used to measure the total pension liability was 8.00%. 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 in accordance with the method prescribed by GASB Statement No. 67, *Financial Reporting for Pension Plans*. In the event benefit payments are not covered by the plan's fiduciary net position, a municipal bond rate would be used to discount the benefit payments not covered by the plan's fiduciary net position. The S&P Municipal Bond 20-Year High Grade Index rate was 2.98% as of June 30, 2018.

**(c) Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of June 30, 2018, calculated using the discount rate of 8.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1.00% Decrease (7.00%)</u>	<u>Current discount rate (8.00%)</u>	<u>1.00% Increase (9.00%)</u>
Net pension liability	\$ 76,100,970	51,538,532	30,631,586

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**(5) Net OPEB Asset – Alaska Retiree Healthcare Trust**

The components of the net OPEB asset of the participating employer for the Plan at June 30, 2018 were as follows:

Total OPEB liability	\$	18,573,443
Plan fiduciary net position		<u>(31,497,604)</u>
Employers' net OPEB asset	\$	<u>(12,924,161)</u>
Plan fiduciary net position as a percentage of the total pension asset		169.58 %

**(a) Actuarial Assumptions**

The total OPEB (asset) liability was determined by the June 30, 2017 valuation, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018:

Inflation	3.12%
Salary increases	3.62% per year, compounded annually
Investment rate of return	8.00%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Trend rates	Pre-65 medical: 8.8% grading down to 4.4% Post-65 medical: 5.8% grading down to 4.0% Rx: 5.4% grading down to 4.0%
Mortality	Post-termination mortality rates were based on 94% of the male rates and 97% of the female rates of the RP-2000 Combined Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. The rates for pre-termination mortality were 68% of the male rates and 60% of the female rates of the post-termination mortality rate.
Participation	100% participation in the medical plan

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013.

The long-term expected rate of return on postretirement healthcare 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 postretirement healthcare 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

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percentage and adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the postretirement healthcare plan's target asset allocation as of June 30, 2018 (see the discussion of the postretirement healthcare plan's investment policy) are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset class</u>	<u>Long-term Expected real rate of return</u>	<u>Allocation</u>	<u>Range</u>
Domestic equity	8.90 %	24.0 %	+/- 6%
Global ex-U.S. equity	7.85	22.0	+/- 4
Fixed income	1.25	10.0	+/- 5

<u>Asset class</u>	<u>Long-term Expected real rate of return</u>	<u>Allocation</u>	<u>Range</u>
Opportunistic	4.76 %	10.0 %	+/- 5
Real assets	6.20	17.0	+/- 8
Absolute return	4.76	7.0	+/- 4
Private equity	12.08	9.0	+/- 5
Cash equivalents	0.66	1.0	+1/-3

**(b) Discount Rate**

The discount rate used to measure the total OPEB liability was 8.00%. 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 postretirement healthcare 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 postretirement healthcare plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability in accordance with the method prescribed by GASB Statement No. 74. In the event benefit payments are not covered by the plan's fiduciary net position, a municipal bond rate would be used to discount the benefit payments not covered by the plan's fiduciary net position. The S&P Municipal Bond 20-Year High Grade Index rate was 2.98% as of June 30, 2018.

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**(c) Sensitivity of the Net OPEB Asset to Changes in the Discount Rate**

The following presents the net OPEB asset of the Plan as of June 30, 2018, calculated using the discount rate of 8.00%, as well as what the Plan's net OPEB asset would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<b>1.00% Decrease (7.00%)</b>	<b>Current discount rate (8.00%)</b>	<b>1.00% Increase (9.00%)</b>
Net OPEB liability (asset)	\$ (10,928,063)	(12,924,161)	(14,611,767)

**(d) Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB asset as of June 30, 2018, of the Plan calculated using the healthcare cost trend rates used for measurement, as well as what the Plan's net OPEB asset would be if it were calculated using trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	<b>1.00% Decrease</b>	<b>Current healthcare cost trend rate</b>	<b>1.00% Increase</b>
Net OPEB liability (asset)	\$ (15,092,603)	(12,924,161)	(10,333,241)

**(6) Claims Payable**

The liability for claims payable and claims incurred but not reported represent 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.



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Changes in the balances of claims liabilities follow:

	<b>2018</b>	<b>2017</b>
Total, beginning of year	\$ 105,000	79,365
Benefit deductions	1,590,842	1,031,148
Benefits paid	(1,528,842)	(1,005,513)
Total, end of year	\$ 167,000	105,000
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	167,000	105,000
Total, end of year	\$ 167,000	105,000

**(7) 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 Retiree Drug Subsidy (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.

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

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Required Supplementary Information (Unaudited)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total pension liability:							
Service cost	\$ 6,452,021	6,226,617	6,024,599	5,814,128	5,185,969	5,004,795	5,062,095
Interest	17,330,757	16,448,646	16,416,869	15,564,753	15,284,981	14,576,016	14,278,926
Differences between expected and actual experience	41,775	(10,826,335)	35,662	(11,187,236)	—	—	(451,843)
Changes of assumptions	—	—	—	4,219,851	—	—	—
Benefit payments, including refunds of member contributions	(12,125,563)	(11,588,512)	(11,228,221)	(10,683,962)	(10,578,414)	(10,343,220)	(10,046,138)
Net change in total pension liability	11,698,990	260,416	11,248,909	3,727,534	9,892,536	9,237,591	8,843,040
Total pension liability – beginning	216,634,510	216,374,094	205,125,185	201,397,651	191,505,115	182,267,524	173,424,484
Total pension liability – ending (a)	228,333,500	216,634,510	216,374,094	205,125,185	201,397,651	191,505,115	182,267,524
Plan fiduciary net position:							
Contributions – employers	5,142,959	5,673,683	5,819,499	4,980,772	4,578,693	4,443,785	3,212,901
Contributions – member	832,718	886,162	801,924	810,819	780,054	721,171	704,671
Contributions – nonemployer (State)	5,385,000	5,412,366	5,890,788	5,241,619	4,282,876	3,650,650	2,205,898
Total net investment income	13,590,028	18,909,380	(567,149)	4,349,487	21,845,311	13,180,214	121,042
Benefit payments, including refunds of member contributions	(12,125,563)	(11,588,512)	(11,228,221)	(10,683,962)	(10,578,414)	(10,343,220)	(9,666,901)
Administrative expenses	(62,933)	(79,219)	(60,330)	(86,243)	(65,716)	(82,231)	(44,855)
Other income	—	—	2,364	92	12	—	12
Net change in plan fiduciary net position	12,762,209	19,213,860	658,875	4,612,584	20,842,816	11,570,369	(3,467,232)
Plan fiduciary net position – beginning	164,032,759	144,818,899	144,160,024	139,547,440	118,704,624	107,134,255	110,601,487
Plan fiduciary net position – ending (b)	176,794,968	164,032,759	144,818,899	144,160,024	139,547,440	118,704,624	107,134,255
Plan's net pension liability (a) – (b)	\$ 51,538,532	52,601,751	71,555,195	60,965,161	61,850,211	72,800,491	75,133,269
Plan fiduciary net position as a percentage of the total pension liability	77.43 %	75.72 %	66.93 %	70.28 %	69.29 %	61.99 %	58.78 %
Covered-employee payroll	\$ 14,598,647	14,088,638	13,995,937	13,506,984	13,730,948	13,289,096	11,845,548
Net pension liability as a percentage of covered-employee payroll	353.04 %	373.36 %	511.26 %	451.36 %	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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 10,632,195	10,470,676	11,182,754	10,328,791	9,155,796	8,366,815	5,051,754
Contributions in relation to the actuarially determined contribution	<u>10,527,959</u>	<u>11,086,049</u>	<u>11,710,287</u>	<u>10,222,391</u>	<u>8,861,569</u>	<u>8,094,435</u>	<u>5,418,799</u>
Contribution deficiency (excess)	<u>\$ 104,236</u>	<u>(615,373)</u>	<u>(527,533)</u>	<u>106,400</u>	<u>294,227</u>	<u>272,380</u>	<u>(367,045)</u>
Covered-employee payroll	\$ 14,598,647	14,088,638	13,995,937	13,506,984	13,730,948	13,289,096	11,803,164
Contributions as a percentage of covered-employee payroll	72.12 %	78.69 %	83.67 %	75.68 %	64.54 %	60.91 %	45.91 %

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**STATE OF ALASKA**  
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Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined Benefit Pension Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	8.20 %	13.04 %	(0.43)%	3.09 %	18.40 %

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See accompanying independent auditors' report.

**STATE OF ALASKA**  
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Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net OPEB Liability and Related Ratios – Alaska Retiree Healthcare Trust Plan  
Year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Total OPEB liability:		
Service cost	\$ 689,538	733,897
Interest	1,391,440	1,317,927
Differences between expected and actual experience	592,098	209,718
Benefit payments, including refunds of member contributions	<u>(1,575,877)</u>	<u>(1,031,148)</u>
Net change in total OPEB liability	1,097,199	1,230,394
Total OPEB liability – beginning	<u>17,476,244</u>	<u>16,245,850</u>
Total OPEB liability – ending (a)	<u>18,573,443</u>	<u>17,476,244</u>
Plan fiduciary net position:		
Contributions – employers	620,951	627,649
Contributions – RDS	20,943	—
Net investment income	2,455,182	3,470,206
Benefit payments, including refunds of member contributions	(1,575,876)	(1,031,148)
Administrative expenses	(15,127)	(50,762)
Other income	<u>244</u>	<u>127,457</u>
Net change in plan fiduciary net position	1,506,317	3,143,402
Plan fiduciary net position – beginning	<u>29,991,287</u>	<u>26,847,885</u>
Plan fiduciary net position – ending (b)	<u>31,497,604</u>	<u>29,991,287</u>
Plan's net OPEB asset (a) – (b)	<u>\$ (12,924,161)</u>	<u>(12,515,043)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	169.58 %	171.61 %
Covered-employee payroll	\$ 14,598,647	14,088,638
Net OPEB asset as a percentage of covered-employee payroll	(88.53)%	(88.83)%

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**  
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Required Supplementary Information (Unaudited)

Schedule of Employer and Nonemployer Contributions – Alaska Retiree Healthcare Trust Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 632,121	631,171	500,945	312,548	1,094,357	722,960	1,432,721
Contributions in relation to the actuarially determined contribution	<u>620,951</u>	<u>627,649</u>	<u>508,413</u>	<u>520,480</u>	<u>881,725</u>	<u>834,295</u>	<u>598,429</u>
Contribution deficiency (excess)	<u>\$ 11,170</u>	<u>3,522</u>	<u>(7,468)</u>	<u>(207,932)</u>	<u>212,632</u>	<u>(111,335)</u>	<u>834,292</u>
Covered-employee payroll	\$ 14,598,647	14,088,638	13,995,937	13,506,984	13,730,948	13,289,096	11,803,164
Contributions as a percentage of covered-employee payroll	4.25 %	4.46 %	3.63 %	3.85 %	6.42 %	6.28 %	5.07 %

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**  
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Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Alaska Retiree Healthcare Trust Plan

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	8.33 %	12.53 %

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

See accompanying independent auditors' report.



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Notes to Required Supplementary Information (Unaudited)

June 30, 2018

**(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 State of Alaska Judicial Retirement System (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 Methods and Assumptions**

The actuarial valuation was prepared by Conduent Human Resource Services. The significant actuarial methods and assumptions used in the valuation as of June 30, 2016 are as follows:

- (a) Actuarial cost method – Entry Age Normal Actuarial Cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of expected payroll.
- (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 statements. 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, that is, medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data. The methodology used to develop the initial per capita claims cost rates was updated for the period July 1, 2016 to June 30, 2017. Healthcare cost trend and retiree contribution increase assumptions for the period after June 30, 2017 remain unchanged from the June 30, 2014 valuation.
- (d) Investment return/discount rate – 8.00% per year, compounded annually, net of expenses.
- (e) Mortality (pretermination) – 68% of the male rates and 60% of the females rates of the Posttermination mortality rates. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2014 with an Actual Deaths to Expected Deaths ratio of 115%.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2018

- (f) Mortality (posttermination) – 94% of the males rates and 97% of the female rates of RP-2000 Combined Mortality Table, 2000 Base Year, projected to 2018 with Projection Scale BB, with a three-year setback for males and four-year setback for females. Posttermination disabled mortality is in accordance with RP-2000 Disabled Retiree Table, 2000 Base Year projected to 2018 with Projection Scale BB. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2014 with an Actual Deaths to Expected Deaths ratio of 115%.
- (g) Salary scale – 3.62% per year, compounded annually
- (h) Total payroll growth – 3.62% per year
- (i) 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.
- (j) Benefit payment increases – Benefits for retired members are assumed to increase 3.62% per year.
- (k) Compensation and benefits limits – Compensation is limited to the Section 401(a)(17) amounts – \$265,000 in 2016, and assumed to increase by 3.50% each year thereafter. Benefits are limited to the Section 415 amounts – \$210,000 in 2016, and assumed to increase by 3.50% each year thereafter.
- (l) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY17 medical and prescription drug benefits are shown below:

	<b>Medical</b>	<b>Prescription drugs</b>
Pre-Medicare	\$ 14,380	3,320
Medicare Parts A and B	1,707	3,320
Medicare Part B only	8,562	3,320
Medicare Part D	N/A	614

- (m) Third-party administrator fees – \$206.88 per person per year; assumed trend rate of 5% per year
- (n) Medicare Part B Only – For active employees and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment covered by Social Security after March 31, 1986, depending upon date of hire and/or rehire.

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June 30, 2018

- (o) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.8% is applied to the FY17 pre-Medicare medical claims costs to get the FY18 medical claims costs:

<u>Fiscal year</u>	<u>Medical</u>		<u>Prescription drugs</u>
	<u>Pre-65</u>	<u>Post-65</u>	
2017	8.8 %	5.8 %	5.4 %
2018	8.2	5.7	5.1
2019	7.6	5.6	4.8
2020	7.0	5.6	4.6
2021	6.5	5.6	4.4
2022	6.0	5.6	4.2
2023	5.6	5.6	4.0
2026	5.6	5.6	4.0
2051	4.4	4.0	4.0
2101	4.4	4.0	4.0

For the June 30, 2014 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 2014 and projects out to 2090. The model has been adopted by the Society of Actuaries and has been populated with assumptions that are specific to the state of Alaska.

- (p) Aging factors:

<u>Age</u>	<u>Medical</u>	<u>Prescription drugs</u>
0–44	2.0 %	4.5 %
45–54	2.5	3.5
55–64	3.5	3.0
65–74	4.0	1.5
75–84	1.5	0.5
85–95	0.5	—
96+	—	—

Note that pre-65, the factor represents the amount to increase from the ages noted to the next age. However post-65, the factor represents the adjustment to get to the ages noted up to age in the range. That is 2.5% is used to age from 54 to 55, but 1.5% is used to age from 83 to 84.

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

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June 30, 2018

- (r) Turnover – Turnover is 3% if service is less than 10 years and 1% if service is greater than 10 years.
- (s) Retirement – Retirement rates are based on the 2010–2013 actual experience – 3% if vested and age is less than 59, 10% if vested and age is greater than 59 (except 20% at age 60–61 and age 65–66), and 100% at age 70. Terminated vested members are expected to commence benefits at age 60.
- (t) Marriage and age difference – Wives are assumed to be four years younger than husbands; 90% of male members and 70% of female members are assumed to be married.
- (u) Disability – Based on past plan experience, the probability that an active member will become disabled
- (v) Maximum retirement age – Age 70
- (w) 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.
- (x) Dependent Children – Benefits for dependent children have been valued only for members currently covering their dependent children. These benefits are only valued through the dependent children’s age 23 (unless the child is disabled).
- (y) 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 Actuarial Methods since the Prior Valuation – June 30, 2014 to June 30, 2016*

There were no material changes in asset or valuation methods since the prior valuation. Enhanced health plan enrollment data resulted in some offsetting cost increases and enrollment decreases as part of the per capital cost development.

*Changes in Actuarial Assumptions since the Prior Valuation – June 30, 2014 to June 30, 2016*

There have been no changes in the assumptions since the prior valuation. Healthcare claim costs are updated annually.

*Changes in Benefit Provisions since the Prior Valuation – June 30, 2014 to June 30, 2016*

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

## **SUPPLEMENTAL SCHEDULES**

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2018 and 2017

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>	
			<u>2018</u>	<u>2017</u>
Personal services:				
Wages	\$ 15,769	3,466	19,235	16,409
Benefits	11,103	1,544	12,647	7,396
Total personal services	<u>26,872</u>	<u>5,010</u>	<u>31,882</u>	<u>23,805</u>
Travel:				
Transportation	71	1,034	1,105	871
Per diem	13	150	163	142
Total travel	<u>84</u>	<u>1,184</u>	<u>1,268</u>	<u>1,013</u>
Contractual services:				
Management and consulting	38,002	84,348	122,350	164,550
Accounting and auditing	16,478	201	16,679	13,175
Data processing	4,453	8,151	12,604	13,645
Communications	346	456	802	615
Advertising and printing	99	15	114	115
Rental/leases	1,244	877	2,121	1,813
Legal	17,830	742	18,572	3,352
Repairs and maintenance	43	87	130	11
Transportation	366	30	396	157
Securities lending expenses	—	5,404	5,404	2,042
Other services	608	337	945	947
Total contractual services	<u>79,469</u>	<u>100,648</u>	<u>180,117</u>	<u>200,422</u>
Other:				
Supplies	162	378	540	780
Equipment	84	896	980	427
Total other	<u>246</u>	<u>1,274</u>	<u>1,520</u>	<u>1,207</u>
Total administrative and investment deductions	<u>\$ 106,671</u>	<u>108,116</u>	<u>214,787</u>	<u>226,447</u>

See accompanying independent auditors' report.

**STATE OF ALASKA**  
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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2018 and 2017

<u>Firm</u>	<u>Services</u>	<u>2018</u>	<u>2017</u>
Conduent Human Resource Services	Actuarial services	\$ 7,207	51,462
KPMG LLP	Auditing services	16,427	12,555
State Street Bank and Trust	Custodial banking services	8,760	9,022
Alaska IT Group	Data processing services	1,144	2,323
Applied Microsystems Incorporated	Data processing services	1,135	1,157
SHI International Corporation	Data processing services	1,520	1,422
State of Alaska, Department of Law	Legal services	18,357	3,203
		<u>\$ 54,550</u>	<u>81,144</u>

This schedule presents payments to consultants who received greater than \$1,000.

See accompanying independent auditors' report.