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STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2019

(With summarized financial information for June 30, 2018)

(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
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska 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, 2019, 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, 2019, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

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Other Matters

Prior-Year Comparative Information

We have previously audited the Plan's 2018 combining financial statements, and we expressed an unmodified opinion on those financial statements in our report dated November 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year then ended June 30, 2018 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 3–10, 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 23–28 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 35–36 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

October 30, 2019

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, 2019 and 2018. 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, 2019.

Financial Highlights

The Plan's financial highlights as of June 30, 2019 were as follows:

- The Plan's fiduciary net position restricted for pension and postemployment healthcare benefits increased by $9.4 million during fiscal year 2019.
- The plan member and employer contributions of $6.75 million increased by $156 thousand during fiscal year 2019 when compared to fiscal year 2018.
- The State of Alaska directly appropriated $4.9 million to the Plan during fiscal year 2019.
- The Plan realized a net investment income of $12.35 million during fiscal year 2019.
- The Plan's pension benefit expenditures totaled $13.6 million during fiscal year 2019.
- The Plan's postemployment healthcare benefit expenditures totaled $1.1 million in fiscal year 2019.

Overview of the Financial Statements

This discussion and analysis section 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, 2019.

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, 2019. 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, 2019 and the sources and uses of those funds during fiscal year 2019.

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.

(Continued)

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

Plan Fiduciary Net Position

Description	2019	2018	Increase (decrease) Amount	Increase (decrease) Percentage	2017
Assets:					
Cash and cash equivalents	$ 4,439,385	2,227,200	2,212,185	99.3 %	$ 5,052,323
Contributions receivable	—	261,990	(261,990)	(100.0)	257,970
Due from State of Alaska General Fund	711,665	237,439	474,226	199.7	966,011
Other receivables	23,928	2,454	21,474	875.1	14,715
Investments at fair value	213,029,011	206,499,443	6,529,568	3.2	189,160,329
Other assets	3,076	3,076	—	—	3,076
Total assets	218,207,065	209,231,602	8,975,463	4.3	195,454,424
Liabilities:					
Accrued expenses	20,172	25,494	(5,322)	(20.9)	26,931
Claims payable	98,000	167,000	(69,000)	(41.3)	105,000
Securities lending collateral payable	370,749	746,536	(375,787)	(50.3)	1,298,447
Total liabilities	488,921	939,030	(450,109)	(47.9)	1,430,378
Plan fiduciary net position	$ 217,718,144	208,292,572	9,425,572	4.5 %	$ 194,024,046

Changes in Plan Fiduciary Net Position

Description	2019	2018	Increase (decrease) Amount	Increase (decrease) Percentage	2017
Fiduciary net position, beginning of year	$ 208,292,572	194,024,046	14,268,526	7.4 %	$ 171,666,784
Additions:					
Contributions – employer and plan member	6,752,446	6,596,628	155,818	2.4	7,187,494
Nonemployer contribution	4,909,000	5,385,000	(476,000)	(8.8)	5,412,366
Net investment income (loss)	12,349,096	16,045,210	(3,696,114)	(23.0)	22,379,586
Employer group waiver plan	22,294	—	22,294	100.0	—
Medicare retiree drug subsidy	74,248	20,944	53,304	254.5	62,317
Pharmacy rebates	117,852	43,576	74,276	170.5	64,391
Other	2,291	244	2,047	838.9	749
Total additions	24,227,227	28,091,602	(3,864,375)	(13.8)	35,106,903
Deductions:					
Pension and postemployment healthcare benefits	14,687,051	13,716,405	970,646	7.1	12,619,660
Administrative	114,604	106,671	7,933	7.4	129,981
Total deductions	14,801,655	13,823,076	978,579	7.1	12,749,641
Increase in fiduciary net position	9,425,572	14,268,526	(4,842,954)	(33.9)	22,357,262
Fiduciary net position, end of year	$ 217,718,144	208,292,572	9,425,572	4.5 %	$ 194,024,046

Financial Analysis of the Plan

The statements of fiduciary net position as of June 30, 2019 and 2018 show net position restricted for pension and postemployment healthcare benefits of $217,718,144 and $208,292,572, 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 $9,425,572 or 4.5% and an increase of $14,268,526 or 7.4% from fiscal years 2018 and 2017, 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.

Plan Asset Allocation

During fiscal years 2019 and 2018, the Board adopted the following asset allocations:

	Pension and healthcare trust	
	Allocation	Range
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	100.0 %	
Expected return 10-year geometric mean	6.60 %	
Projected standard deviation	14.70	

For fiscal years 2019 and 2018, the Plan's investments generated a 6.40% and 9.60% rate of return, respectively.

Contributions, Investment Income, and Other Additions

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:

	Additions				
			Increase (decrease)		
	2019	2018	Amount	Percentage	2017
Employer contributions	$ 5,939,072	5,763,910	175,162	3.0 %	$ 6,301,332
Plan members contributions	813,374	832,718	(19,344)	(2.3)	886,162
Nonemployer contributions – State of Alaska	4,909,000	5,385,000	(476,000)	(8.8)	5,412,366
Net investment income	12,349,096	16,045,210	(3,696,114)	(23.0)	22,379,586
Employer group waiver plan	22,294	—	22,294	100.0	—
Medicare retiree drug subsidy	74,248	20,944	53,304	254.5	62,317
Pharmacy rebates	117,852	43,576	74,276	170.5	64,391
Other income	2,291	244	2,047	838.9	749
Total	$ 24,227,227	28,091,602	(3,864,375)	(13.8)%	$ 35,106,903

The Plan's employer contributions increased from $5,763,910 during fiscal year 2018 to $5,939,072 during fiscal year 2019, an increase of $175,162, or 3.0%. This increase was caused by a combination of an increase in the employer contributions paid through the payroll process and an increase in additional funding from the employer. 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.

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 increased from 41.33% in fiscal year 2018 to 42.61% in fiscal year 2019. Additionally, the Alaska Court System has contributed additional employer contributions in fiscal year 2019 to aid in the funded level of the pension plan.

The Plan's net investment income in fiscal year 2019 decreased by $3,696,114 or 23.0% from amounts recorded in fiscal year 2018, and net investment income decreased by $6,334,376 or 28.30% from amounts recorded in fiscal year 2017. Fiscal year 2019 saw rates of returns below the assumed rate of return. The investment returns received in fiscal year 2019 were lower than the returns seen in fiscal year 2018, causing a decrease in returns in comparison between 2019 and 2018. 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, 2019, 2018, and 2017 were as follows:

	Year ended		
	2019	**2018**	**2017**
System returns	6.40 %	9.60 %	13.34 %
Domestic equities	8.41	15.21	18.53
International equities	(0.08)	7.95	20.41
Fixed income	6.34	(0.71)	2.91
Private equity	17.66	26.65	17.04
Absolute return	4.08	4.78	8.46
Real assets	—	7.53	5.98
Alternative equity	—	—	11.38
Opportunistic	7.21	5.63	—
Cash equivalents	2.50	1.55	(0.04)
Actuarially assumed rate of return	7.38	8.00	8.00

Effective January 1, 2019, the Division implemented a group Medicare Part D prescription drug plan known as an enhanced Employer Group Waiver Plan (EGWP) for all Medicare-eligible members covered under the Plan. For the period January 1 to June 30, 2019, the Plan received $22,294 in EGWP funds from the Center of Medicare and Medicaid Services (CMS) through the EGWP Plan Sponsor, OptumRx.

The Plan also participates in the Medicare Part D retiree drug subsidy (RDS) program. A provision of Medicare Part D provides sponsors of postemployment healthcare funds the opportunity to receive an RDS payment if the sponsor's fund 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

(Continued)

eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's fund. The Plan received an additional $53,304 in fiscal year 2019 over fiscal year 2018 due to the timing of filing for and receipt of the RDS.

Pharmacy rebates are reimbursed to the Plan by the third-party administrators. These rebates are recorded as revenue when received by the Plan. During fiscal year 2019, the Plan received $117,852 compared to $43,576 from fiscal year 2018 due to the timing of receipt of funds.

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 (decrease)		
	2019	2018	Amount	Percentage	2017
Pension benefits	$ 13,627,946	12,125,563	1,502,383	12.4 %	$ 11,588,512
Postemployment healthcare benefits	1,059,105	1,590,842	(531,737)	(33.4)	1,031,148
Administrative	114,604	106,671	7,933	7.4	129,981
Total	$ 14,801,655	13,823,076	978,579	7.1 %	$ 12,749,641

The Plan's pension benefit payments in 2019 and 2018 increased $1,502,383 and $537,051, or 12.4% and 4.6%, from fiscal years 2018 and 2017, respectively. Pension benefits increased due to an increase in the number of retirees receiving benefits. Retiree counts increased from 122 to 141.

The Plan's postemployment healthcare benefit payments in fiscal years 2019 and 2018 decreased $531,737, or 33.4%, and increased $559,694, or 54.3%, from fiscal years 2018 and 2017, respectively. The fiscal year 2019 decrease in healthcare costs were due to lower claims incurred in a very small plan, and is considered an anomaly to the overall trend of generally increasing healthcare claims costs.

Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, requires the defined benefit (DB) pension 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:

		2019	2018
Total pension liability	$	235,935,179	228,333,500
Plan fiduciary net position		(184,625,818)	(176,794,968)
Employer's net pension liability	$	51,309,361	51,538,532
Plan fiduciary net position as a percentage of the total pension liability		78.25 %	77.43 %

Net OPEB Asset

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Penson Plans*, 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.

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

		2019	2018
Total OPEB liability	$	17,962,347	18,573,443
Plan fiduciary net position		(33,092,326)	(31,497,604)
Employer's net OPEB asset	$	(15,129,979)	(12,924,161)
Plan fiduciary net position as a percentage of the total OPEB asset		184.23 %	169.58 %

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 roll-forward process.

Plan member contributions are set by Alaska Statute 22.25.011.

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

Legislation

During fiscal year 2019, the 31st Alaska State Legislature enacted one law that affects the Plan. Conference Committee Substitute House Bill (CCS HB) 39, Section 35(c), appropriates $5,010,000 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, 2020.

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

Net investment income decreased from income of $16,045,210 in fiscal year 2018 to income of $12,349,096 in fiscal year 2019, a decrease of $3,696,114, or 23.0%. 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.

The actuarial valuation as of June 30, 2018 reported a funding ratio of 86.4% and an unfunded liability of $33.1 million. The roll-forward actuarial valuation for June 30, 2017 reported a funding ratio of 84.10% and an unfunded liability of $37.2 million. The decrease in the unfunded liability is attributable to additional employer contributions to the pension plan over the last several 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 2020 to 74.42% from 75.06% for fiscal year 2019.

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

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

Combining Statement of Fiduciary Net Position

June 30, 2019
(With summarized financial information for June 30, 2018)

	Pension	Alaska Retiree Healthcare Trust	Plan total June 30, 2019	Plan total June 30, 2018
Assets:				
Cash and cash equivalents (note 3):				
Short-term fixed income pool	$ 3,447,563	621,073	4,068,636	1,480,663
Securities lending collateral	314,271	56,478	370,749	746,537
Total cash and cash equivalents	3,761,834	677,551	4,439,385	2,227,200
Receivables:				
Contributions	—	—	—	261,990
Due from State of Alaska General Fund	692,567	19,098	711,665	237,439
Other receivables	2,976	20,952	23,928	2,454
Total receivables	695,543	40,050	735,593	501,883
Investments (note 3) at fair value:				
U.S. Treasury fixed income pool	19,308,988	3,480,576	22,789,564	18,839,854
Broad domestic equity pool:				
Large cap pool	37,330,591	6,729,091	44,059,682	40,888,259
Small cap pool	5,199,019	937,158	6,136,177	7,742,468
Total broad domestic equity	42,529,610	7,666,249	50,195,859	48,630,727
Global equity ex-U.S.:				
International equity pool	31,130,244	5,611,437	36,741,681	35,337,695
International equity small cap pool	2,608,509	470,201	3,078,710	3,221,238
Emerging markets equity pool	6,639,847	1,196,877	7,836,724	6,023,597
Total global equity ex-U.S.	40,378,600	7,278,515	47,657,115	44,582,530
Opportunistic:				
Alternative equity strategies pool	9,124,199	1,644,699	10,768,898	10,517,270
Opportunistic fixed income pool	4,993,107	900,041	5,893,148	6,982,444
Other opportunities pool	824,657	148,650	973,307	2,680,369
Tactical allocation strategies pool	2,955,074	532,672	3,487,746	2,438
Total opportunistic	17,897,037	3,226,062	21,123,099	20,182,521
Private equity pool	19,377,941	3,493,005	22,870,946	19,185,661
Absolute return pool	10,604,859	1,911,598	12,516,457	15,404,831
Real assets:				
Real estate pools	10,402,078	1,875,415	12,277,493	13,116,430
Real estate investment trust pool	2,066,794	372,554	2,439,348	1,604,538
Infrastructure private pool	3,931,315	708,646	4,639,961	4,060,134
Infrastructure public pool	1,173,354	211,505	1,384,859	2,037,025
Master limited partnership pool	3,781,846	681,703	4,463,549	8,014,279
Energy pool	620,534	111,856	732,390	790,667
Farmland pool	5,904,512	1,064,328	6,968,840	6,659,224
Timber pool	2,516,004	453,527	2,969,531	2,941,724
Treasury inflation-protected securities pool	—	—	—	449,298
Total real assets	30,396,437	5,479,534	35,875,971	39,673,319
Total investments	180,493,472	32,535,539	213,029,011	206,499,443
Other assets	—	3,076	3,076	3,076
Total assets	184,950,849	33,256,216	218,207,065	209,231,602
Liabilities:				
Claims payable (note 6)	—	98,000	98,000	167,000
Accrued expenses	10,760	9,412	20,172	25,494
Securities lending collateral payable (note 3)	314,271	56,478	370,749	746,536
Total liabilities	325,031	163,890	488,921	939,030
Net position restricted for pension and postemployment healthcare benefits	$ 184,625,818	33,092,326	217,718,144	208,292,572

See accompanying notes to financial statements.

JUDICIAL RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2019
(With summarized financial information for June 30, 2018)

	Pension	Alaska Retiree Healthcare Trust	Plan total June 30, 2019	Plan total June 30, 2018
Additions:				
Contributions:				
Employer	$ 5,347,675	591,397	5,939,072	5,763,910
Plan members	813,374	—	813,374	832,718
Nonemployer contribution – State of Alaska	4,909,000	—	4,909,000	5,385,000
Total contributions	11,070,049	591,397	11,661,446	11,981,628
Investment income:				
Net appreciation in fair value (note 3)	7,216,459	1,324,956	8,541,415	12,677,498
Interest	515,402	91,296	606,698	714,857
Dividends	2,777,076	495,888	3,272,964	2,731,458
Total investment income	10,508,937	1,912,140	12,421,077	16,123,813
Less investment expense	73,807	13,137	86,944	102,712
Net investment income before securities lending activities	10,435,130	1,899,003	12,334,133	16,021,101
Securities lending income (note 3)	15,482	2,744	18,226	29,513
Less securities lending expense (note 3)	2,771	492	3,263	5,404
Net income from securities lending activities	12,711	2,252	14,963	24,109
Net investment income	10,447,841	1,901,255	12,349,096	16,045,210
Other income:				
Employer group waiver plan	—	22,294	22,294	—
Medicare retiree drug subsidy	—	74,248	74,248	20,943
Pharmacy rebates	—	117,852	117,852	43,577
Miscellaneous income	—	2,291	2,291	244
Total other income	—	216,685	216,685	64,764
Total additions	21,517,890	2,709,337	24,227,227	28,091,602
Deductions:				
Pension and postemployment healthcare benefits	13,627,946	1,059,105	14,687,051	13,716,405
Administrative	59,094	55,510	114,604	106,671
Total deductions	13,687,040	1,114,615	14,801,655	13,823,076
Net increase	7,830,850	1,594,722	9,425,572	14,268,526
Net position restricted for pension and postemployment healthcare benefits:				
Balance, beginning of year	176,794,968	31,497,604	208,292,572	194,024,046
Balance, end of year	$ 184,625,818	33,092,326	217,718,144	208,292,572

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 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 trustees 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 PERS members, and two trustees who are TRS members.

(a) Defined Benefit Pension Plan

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, 2019, the plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	141
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	68
	212

(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.

(Continued)

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 2019 and 2018, employer contribution rates are 75.06% and 74.21% of eligible compensation, respectively, of which only the employer normal cost rates of 42.61% and 41.33%, 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

(Continued)

self-insured. The ARHCT is closed to all new members effective July 1, 2006. As of June 30, 2019, membership in the plan was as follows:

Inactive plan members or beneficiaries currently receiving benefits	141
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	68
	212

(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.

(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) Other Income

Other income consists of Medicare Part D Retiree Drug Subsidy (RDS) rebates, Employer Group Waiver Plan (EGWP) rebates, pharmacy rebates, and other miscellaneous items. The RDS rebates are provided to the plan sponsor. The State has elected to voluntarily put the RDS back into the trust and they are treated as a contribution for purposes of calculating the net OPEB liability. The EGWP and pharmacy rebates are provided to the plan through the third party administrators and are treated as a reduction to the benefit payments for purposes of calculating the net OPEB liability. RDS, EGWP, and pharmacy rebates are recognized on a cash basis.

(h) Due from State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the Plan.

(i) 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, 2019 for the defined benefit pension plan is 5.89% and for the Alaska Retiree Healthcare Trust is 6.08%.

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.

(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, 2019 were as follows:

Total pension liability	$	235,935,179
Plan fiduciary net position		(184,625,818)
Employers' net pension liability	$	51,309,361
Plan fiduciary net position as a percentage of the total pension liability		78.25 %

(a) Actuarial Assumptions

The total pension liability was determined by the June 30, 2018 valuation, using the following actuarial assumptions, applied to all periods in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.50% per year
Salary increases	3.62% per year
Investment rate of return	7.38%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Mortality	Pre-termination mortality rates were based on 100% of the RP-2014 white-collar employee table with MP-2017 generational improvement. Post-termination mortality rates were based on 93% of male and 90% of female rates of the RP-2014 white-collar healthy annuitant table with MP-2017 generational improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation 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, excluding the inflation component of 2.90%, for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset class	Long-term Expected real rate of return
Domestic equity	8.16 %
Global quity (non-U.S.)	7.51
Intermediate treasuries	1.58
Opportunistic	3.96
Real assets	4.76
Private equity	11.39
Cash equivalents	0.83

(b) *Discount Rate*

The discount rate used to measure the total pension liability was 7.38%. 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 2.79% as of June 30, 2019.

(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, 2019, calculated using the discount rate of 7.38%, 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:

	1.00% decrease (6.38%)	Current discount rate (7.38%)	1.00% increase (8.38%)
Net pension liability	$ 77,503,845	51,309,361	29,172,878

(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, 2019 were as follows:

Total OPEB liability	$	17,962,347
Plan fiduciary net position		(33,092,326)
Employer's net OPEB asset	$	(15,129,979)
Plan fiduciary net position as a percentage of the total pension asset		184.23 %

(a) Actuarial Assumptions

The total OPEB (asset) liability was determined by the June 30, 2018 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.50% per year
Salary increases	3.62% per year
Investment rate of return	7.38%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Trend rates	Pre-65 medical: 7.5% grading down to 4.5% Post-65 medical: 5.5% grading down to 4.5% Rx EGWP: 8.5% grading down to 4.5%
Mortality	Pre-termination mortality rates were based on 100% of the RP-2014 white-collar employee table with MP-2017 generational improvement. Post-termination mortality rates were based on 93% of male and 90% of female rates of the RP-2014 white-collar healthy annuitant table with MP-2017 generational improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

In addition to the changes in assumptions resulting from the experience study, the following assumption changes have been made since the prior valuation:

1. An Employer Group Waiver Plan (EGWP) was implemented effective January 1, 2019. This arrangement replaced the Retiree Drug Subsidy under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage.

2. Based on recent experience, the healthcare cost trend assumptions were updated.
3. Per capita claims costs were updated to reflect recent experience.
4. Healthcare cost trends were updated to reflect a Cadillac Tax load.

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 percentage and by adding expected inflation. Best estimates of arithmetic real rates of return, excluding the inflation component of 2.90%, for each major asset class included in the postretirement healthcare plan's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset class	Long-term Expected real rate of return
Domestic equity	8.16 %
Global quity (non-U.S.)	7.51
Intermediate treasuries	1.58
Opportunistic	3.96
Real assets	4.76
Private equity	11.39
Cash equivalents	0.83

(b) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2019 was 7.38%. 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, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. In the event benefit payments are not covered by the plan's fiduciary net position, a municipal band 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 2.79% as of June 30, 2019.

(Continued)

(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, 2019, calculated using the discount rate of 7.38%, 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:

		1.00% decrease (6.38%)	Current discount rate (7.38%)	1.00% increase (8.38%)
Net OPEB asset	$	(13,001,297)	(15,129,979)	(16,910,452)

(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, 2019, of the Plan calculated using the healthcare cost trend rates as summarized in the 2018 actuarial valuation report, 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:

		1.00% decrease	Current healthcare cost trend rate	1.00% increase
Net OPEB asset	$	(17,213,520)	(15,129,979)	(12,619,485)

(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 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:

		2019	2018
Total, beginning of year	$	167,000	105,000
Healthcare benefits		1,059,104	1,590,842
Benefits paid		(1,128,104)	(1,528,842)
Total, end of year	$	98,000	167,000
End of year:			
Incurred but not reported	$	98,000	167,000

(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.

(8) Employer Group Waiver Program

Effective January 1, 2019, the Plan implemented a group Medicare Part D prescription drug plan known as an enhanced Employer Group Waiver Plan (EGWP) for all Medicare-eligible members covered under the Alaska Retiree Healthcare Trust plan. The enhanced EGWP leverages increased federal subsidies to the Alaska Retiree Healthcare Trust plan for prescription drugs covered by Medicare Part D while also providing coverage for medications not covered by Medicare Part D through a "wrap" of additional benefits. Moving to an enhanced EGWP has resulted in the Alaska Retiree Healthcare Trust plan receiving significantly higher subsidies, while simultaneously maintaining the prescription drug coverage retirees had prior to implementation of the enhanced EGWP. Currently, EGWP is the primary program used by the Division; however, there are still retirees that are covered by the RDS if they do not meet the requirements of EGWP.

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 Plan Net Pension Liability and Related Ratios – Defined Benefit Pension Plan

	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability:								
Service cost	$ 5,639,424	6,452,021	6,226,617	6,024,599	5,814,128	5,185,969	5,004,795	5,062,095
Interest	18,137,715	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	(13,087,119)	41,775	(10,826,335)	35,662	(11,187,236)	—	—	(451,843)
Changes of assumptions	10,539,605	—	—	—	4,219,851	—	—	—
Benefit payments, including refunds of member contributions	(13,627,946)	(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	7,601,679	11,698,990	260,416	11,248,909	3,727,534	9,892,536	9,237,591	8,843,040
Total pension liability – beginning	228,333,500	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)	235,935,179	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	5,347,675	5,142,959	5,673,683	5,819,499	4,980,772	4,578,693	4,443,785	3,212,901
Contributions – member	813,374	832,718	886,162	801,924	810,819	780,054	721,171	704,671
Contributions – nonemployer (State)	4,909,000	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	10,447,841	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	(13,627,946)	(12,125,563)	(11,588,512)	(11,228,221)	(10,683,962)	(10,578,414)	(10,343,220)	(9,666,901)
Administrative expenses	(59,094)	(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	7,830,850	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	176,794,968	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)	184,625,818	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)	$ 51,309,361	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	78.25 %	77.43 %	75.72 %	66.93 %	70.28 %	69.29 %	61.99 %	58.78 %
Covered payroll	$ 13,392,864	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 payroll	383.11 %	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 displayed as they become available.

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 Employer and Nonemployer Contributions – Defined Benefit Pension Plan

		2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$	9,454,023	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		10,256,675	10,527,959	11,086,049	11,710,287	10,222,391	8,861,569	8,094,435	5,418,799
Contribution deficiency (excess)	$	(802,652)	104,236	(615,373)	(527,533)	106,400	294,227	272,380	(367,045)
Covered payroll	$	13,392,864	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 payroll		76.58 %	72.12 %	78.69 %	83.67 %	75.68 %	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 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 Investment Returns – Defined Benefit Pension Plan

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	5.88 %	8.20 %	13.04 %	(0.43)%	3.09 %	18.40 %

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

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 Changes in Plan Net OPEB Liability and Related Ratios – Alaska Retiree Healthcare Trust Plan

	2019	2018	2017
Total OPEB liability:			
Service cost	$ 784,426	689,538	733,897
Interest	1,511,105	1,391,440	1,317,927
Differences between expected and actual experience	(735,641)	592,098	209,718
Changes of assumptions	(1,214,467)	—	—
Benefit payments, including refunds of member contributions	(978,813)	(1,575,877)	(1,031,148)
EGWP rebates	22,294	—	—
Net change in total OPEB liability	(611,096)	1,097,199	1,230,394
Total OPEB liability – beginning	18,573,443	17,476,244	16,245,850
Total OPEB liability – ending (a)	17,962,347	18,573,443	17,476,244
Plan fiduciary net position:			
Contributions – employer	591,397	620,951	627,649
Contributions – RDS	74,248	20,943	—
Total net investment income	1,901,255	2,455,182	3,470,206
Benefit payments	(1,059,105)	(1,590,842)	(1,031,148)
EGWP rebates	22,294	—	—
Pharmacy rebates	117,852	43,577	—
ASO fees	(37,560)	(28,611)	—
Net benefit payments	(956,519)	(1,575,876)	(1,031,148)
Administrative expenses, net of ASO fees	(17,950)	(15,127)	(50,762)
Other	2,291	244	127,457
Net change in plan fiduciary net position	1,594,722	1,506,317	3,143,402
Plan fiduciary net position – beginning	31,497,604	29,991,287	26,847,885
Plan fiduciary net position – ending (b)	33,092,326	31,497,604	29,991,287
Plan's net OPEB asset (a)–(b)	$ (15,129,979)	(12,924,161)	(12,515,043)
Plan fiduciary net position as a percentage of the total OPEB liability	184.23 %	169.58 %	171.61 %
Covered payroll	$ 13,392,864	14,598,647	14,088,638
Net OPEB asset as a percentage of covered payroll	(112.97)%	(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 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 Employer and Nonemployer Contributions – Alaska Retiree Healthcare Trust Plan

		2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$	598,661	632,121	631,171	500,945	312,548	1,094,357	722,960	1,432,721
Contributions in relation to the actuarially determined contribution		591,397	620,951	627,649	508,413	520,480	881,725	834,295	598,429
Contribution deficiency (excess)	$	7,264	11,170	3,522	(7,468)	(207,932)	212,632	(111,335)	834,292
Covered payroll	$	13,392,864	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 payroll		4.42 %	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 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 Investment Returns – Alaska Retiree Healthcare Trust Plan

	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	6.08 %	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 notes to required supplementary information (unaudited) and independent auditors’ report.

(1) Actuarial Methods and Assumptions

The actuarial valuation was prepared by Buck. The significant actuarial methods and assumptions used in the valuation as of June 30, 2018 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 – Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. Assets are initialized at market value as of June 30, 2006. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from 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 (i.e., medical claims, prescription drug claims, administrative costs, etc). Separate analysis is limited by the availability and historical 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) Investment return/discount rate – 7.38% per year, net of investment expenses

(e) Salary scale – 3.62% per year

(f) Total payroll growth – 2.75% per year

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 2.50% annually.

(h) Compensation and benefit limit increases – Compensation is limited to the IRC 401 (a)(17) amount, which was $275,000 for 2018. This limit is assumed to increase 2.50% each year thereafter.

Benefits are limited to the IRC 415 amount, which was $220,000 for 2018. This limit is assumed to increase 2.50% each year thereafter.

(i) Benefit payment increase – Benefits for retired members are assumed to increase 3.62% per year.

(j) Mortality (pre-termination) – Mortality rates based upon the 2013–2017 actual experience. RP-2014 white-collar employee table projected with MP-2017 generational improvement.

(k) Mortality (post-termination) – Mortality rates based upon the 2013–2017 actual experience. 93% of males and 90% of female rates of RP-2014 white-collar healthy annuitant table projected with MP-2017 generational improvement.

(l) Turnover – 3% if service is less than 10 years, 1% otherwise

(m) Disability – Incidence rates in accordance disability rates. Post-disability mortality in accordance with the RP-2014 disabled table projected with MP-2017 generational improvement.

(n) Retirement – Retirement rates are based on the 2013–2017 experience. Deferred vested members are assumed to retire at age 60.

(o) 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.

(p) Refund of contributions – 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.

(q) Spouse age difference – Males are assumed to be four years older than their wives. Females are assumed to be four years younger than husbands.

(r) Percent married for pension – 90% of male members and 70% female members are assumed to be married at termination from active service.

(s) Dependent spouse medical coverage election – Applies to members who do not have dual medical coverage. 90% of male members and 70% female members are assumed to be married and cover a dependent spouse.

(t) 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).

(u) Imputed Data – Data changes from the prior year that are deemed to have an immaterial impact on liabilities and contribution rates are assumed to be correct in the current year's client data. Nonvested terminations with appropriate refund dates are assumed to have received a full refund of contributions. Active members with missing salary and service are assumed to be terminated with status based on their vesting percentage.

(v) Expenses – The investment return assumption is net of investment expenses. The normal cost as of June 30, 2018 was increased by the following amounts for administrative expenses: Pension: $71,050 and Healthcare: $19,250.

(w) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY19 medical and prescription drug benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 13,535	3,360
Medicare Parts A and B	1,468	3,764
Medicare Part B only	4,667	3,764
Medicare Part D – RDS	N/A	527
Medicare Part D – EGWP	N/A	1,039

Members are assumed to attain Medicare eligibility at age 65. The EGWP cost shown above is for calendar year 2019. All other costs are for the 2019 fiscal year (July 1, 2018–June 30, 2019).

The EGWP subsidy is assumed to increase in future years by the trend rates shown on the following pages. No future legislative changes or other events are anticipated to impact the EGWP subsidy. If any legislative or other changes occur in the future that impact the EGWP subsidy (which could either increase or decrease the Plan's actuarial accrued liability), those changes will be evaluated and quantified when they occur.

(x) Third-party administrator fees – $300 per person per year; assumed trend rate of 4.5% per year

(y) Medicare Part B Only – It's assumed that 5% of actives hired before April 1, 1986 and current retirees who are not yet Medicare eligible will not be eligible for Medicare Part A.

(z) Health cost trend – The table below shows the rates used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY19 pre-Medicare medical claims costs to get the FY20 medical claims costs:

	Medical		Prescription	
Fiscal year	**Pre-65**	**Post-65**	**drugs/EGWP**	**RDS**
2019	7.5 %	5.5 %	8.5 %	4.7 %
2020	7.0	5.4	8.0	4.7
2021	6.5	5.4	7.5	4.6
2022	6.3	5.4	7.1	4.6
2023	6.1	5.4	6.8	4.6
2024	5.9	5.4	6.4	4.6
2025	5.8	5.4	6.1	4.6
2026	5.6	5.4	5.7	4.6
2027–2040	5.4	5.4	5.4	4.5
2041	5.3	5.3	5.3	4.5
2042	5.2	5.2	5.2	4.5
2043	5.1	5.1	5.1	4.5
2044	5.1	5.1	5.1	4.5
2045	5.0	5.0	5.0	4.5
2046	4.9	4.9	4.9	4.5
2047	4.8	4.8	4.8	4.5
2048	4.7	4.7	4.7	4.5
2049	4.6	4.6	4.6	4.5
2050+	4.5	4.5	4.5	4.5

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 estimates trend amounts that are projected out for 80 years. The model has been populated with assumptions that are specific to the State of Alaska. The model was updated for the June 30, 2018 valuation to incorporate recent trend survey information.

The table below shows the amount each trend rate shown on the previous page was increased by to account for the Cadillac Tax:

Fiscal year	Pre-65	Post-65	Fiscal year	Pre-65	Post-65
2018–2030	— %	— %	2070	0.21 %	0.46 %
2031	—	0.15	2071	0.21	0.45
2032	—	0.34	2072	0.20	0.44
2033	—	0.30	2073	0.20	0.43
2034	—	0.28	2074	0.20	0.42
2035	—	0.26	2075	0.19	0.41
2036	—	0.26	2076	0.19	0.40
2037	—	0.21	2077	0.18	0.39
2038	0.10	0.22	2078	0.18	0.38
2039	0.09	0.20	2079	0.17	0.37
2040	0.08	0.16	2080	0.17	0.36
2041	0.07	0.14	2081	0.17	0.35
2042	0.06	0.12	2082	0.16	0.34
2043	0.04	0.06	2083	0.16	0.33
2044	0.04	0.07	2084	0.15	0.32
2045	0.04	0.06	2085	0.15	0.31
2046	0.03	0.05	2086	0.15	0.31
2047	0.04	0.10	2087	0.14	0.30
2048	0.04	0.43	2088	0.14	0.29
2049	0.05	0.57	2089	0.14	0.29
2050	0.05	0.52	2090	0.13	0.28
2051	0.06	0.60	2091	0.13	0.27
2052	0.06	0.63	2092	0.13	0.27
2053	0.07	0.69	2093	0.13	0.26
2054	0.10	0.69	2094	0.12	0.25
2055	0.30	0.68	2095	0.12	0.25
2056	0.30	0.67	2096	0.12	0.24
2057	0.29	0.66	2097	0.11	0.24
2058	0.29	0.64	2098	0.11	0.23
2059	0.28	0.62	2099	0.11	0.22
2060	0.27	0.60	2100	0.11	0.22
2061	0.27	0.58	2101	0.10	0.21
2062	0.26	0.57	2102	0.10	0.21
2063	0.25	0.56	2103	0.10	0.20
2064	0.25	0.54	2104	0.10	0.20
2065	0.24	0.53	2105	0.10	0.19
2066	0.24	0.51	2106	0.09	0.19
2067	0.23	0.50	2107	0.09	0.19
2068	0.23	0.49	2108	0.09	0.18
2069	0.22	0.47	2109	0.09	0.18

(aa) Aging factors:

Age	Medical	Prescription drugs
0–44	2.0 %	4.5 %
45–54	2.5	3.5
55–64	2.5	1.5
65–74	3.0	2.0
75–84	2.0	(0.5)
85–94	0.3	(2.5)
95+	—	—

(bb) Health participation – 100% system paid of members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

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, 2016 to June 30, 2018

As part of the experience study, the actuarial cost method for the retiree healthcare plan was changed from the Entry Age Level Dollar method to the Entry Age Level Percent of Pay method. There were no other changes in actuarial methods since the prior valuation.

Changes in Actuarial Assumptions since the Prior Valuation – June 30, 2016 to June 30, 2018

Effective for the June 30, 2018 valuation, the Board adopted changes to the demographic and economic assumptions recommended by the actuary, based on the results of an experience analysis performed on the population experience from July 1, 2013 to June 30, 2017. The changes in assumptions/methods were adopted by the Board during the January 2019 Board meeting. The new assumptions/methods increased the Actuarial Accrued Liability as of June 30, 2018 by approximately $13.1 million. Healthcare claim costs are updated annually.

Changes in Benefit Provisions since the Prior Valuation – June 30, 2016 to June 30, 2018

There have been no changes in the JRS benefit provisions since the prior valuation. However, an Employer Group Waiver Plan (EGWP) became effective as of January 1, 2019. This arrangement replaced the Retiree Drug Subsidy under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage. This change decreased the Actuarial Accrued Liability as of June 30, 2018 by approximately $1.7 million

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, 2019 and 2018

		Administrative	Investment	Total 2019	Total 2018
Personal services:					
Wages	$	16,695	3,388	20,083	19,235
Benefits		9,354	1,429	10,783	12,647
Total personal services		26,049	4,817	30,866	31,882
Travel:					
Transportation		30	734	764	1,105
Per diem		5	131	136	163
Total travel		35	865	900	1,268
Contractual services:					
Management and consulting		63,518	68,531	132,049	122,350
Accounting and auditing		14,269	208	14,477	16,679
Data processing		6,886	8,463	15,349	12,604
Communications		250	280	530	802
Advertising and printing		80	19	99	114
Rental/leases		1,351	998	2,349	2,121
Legal		376	1,015	1,391	18,572
Repairs and maintenance		306	47	353	130
Transportation		337	32	369	396
Securities lending expenses		—	3,263	3,263	5,404
Other services		812	409	1,221	945
Total contractual services		88,185	83,265	171,450	180,117
Other:					
Supplies		263	221	484	540
Equipment		72	1,039	1,111	980
Total other		335	1,260	1,595	1,520
Total administrative and investment deductions	$	114,604	90,207	204,811	214,787

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 Advisors

Years ended June 30, 2019 and 2018

Firm	Services	2019	2018
Buck (formerly Conduent Human Resource Services)	Actuarial services	$ 24,585	7,207
KPMG LLP	Auditing services	14,216	16,427
State Street Bank and Trust	Custodial banking services	10,650	8,760
Alaska IT Group	Data processing services	915	1,144
Applied Microsystems Incorporated	Data processing services	2,920	1,135
SHI International Corporation	Data processing services	1,248	1,520
State of Alaska, Department of Law	Legal services	1,223	18,357
		$ 55,757	54,550

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

See accompanying independent auditors’ report.