



**STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2021

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA
NATIONAL GUARD AND
NAVAL MILITIA 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 National Guard and Naval Militia Retirement System:

We have audited the accompanying statement of fiduciary net position of the State of Alaska National Guard and Naval Militia Retirement System (the Plan), a component unit of the State of Alaska, as of June 30, 2021, and the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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.

Basis for Qualified Opinion

Plan membership for active and terminated plan members entitled to future benefits is reported in note 1 to the financial statements. The Plan's total pension liability associated with active and terminated plan members entitled to future benefits is \$21,852,245 as of June 30, 2021, and is reported within the Plan's net pension asset in note 4 to the financial statements. We were unable to obtain sufficient appropriate audit evidence about the accuracy of the active and terminated plan members entitled to future benefits included in the census data used to calculate the total pension liability because certain personnel and retirement records were not available and we were unable to satisfy ourselves using other means. Consequently, we were unable to determine whether any adjustments to the plan membership, total pension liability, and net pension asset were necessary.



Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska National Guard and Naval Militia Retirement System as of June 30, 2021 and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9, the schedules of changes in employer net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns on pages 17-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental 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 23 and 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the possible effects on the accompanying information of the qualified opinion on the basic financial statements as described above, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

June 1, 2022

**STATE OF ALASKA
NATIONAL GUARD AND
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Management's Discussion and Analysis (Unaudited)

June 30, 2021

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (the Plan) financial position and performance for the year ended June 30, 2021. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal year ended June 30, 2021. Information for fiscal years 2020 and 2019 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights for the year ended June 30, 2021 were as follows:

- The Plan's fiduciary net position restricted for pension benefits increased by \$7,717,328.
- The State of Alaska, Department of Military and Veterans' Affairs did not appropriate funds to the Plan for fiscal year 2021, whereas in fiscal year 2020 they appropriated \$860,686 to the Plan.
- The Plan's net investment income increased \$7,332,298 when compared to 2020, to \$9,474,407.
- Plan pension benefit expenditures totaled \$1,454,330.

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

Statement of fiduciary net position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2021.

Statement of changes in fiduciary net position – This statement presents how the Plan's net position restricted for pension benefits changed during the fiscal year ended June 30, 2021. This statement presents contributions and investment income during the period. Deductions for pension benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2021, and the sources and uses of those funds during fiscal year 2021.

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 three schedules and related notes concerning the funded status of the Plan, as well as 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	Fiduciary net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 1,385,305	73,584	1,311,721	1,782.6%	\$ 349,952
Accounts receivable	319	309	10	3.2	2,001
Investments at fair value	48,659,557	42,119,032	6,540,525	15.5	40,708,948
Total assets	50,045,181	42,192,925	7,852,256	18.6	41,060,901
Liabilities:					
Accrued expenses	29,429	22,473	6,956	31.0	18,765
Due to State of Alaska General Fund	88,798	12,097	76,701	634.0	12,442
Securities lending collateral payable	113,918	62,647	51,271	81.8	64,697
Total liabilities	232,145	97,217	134,928	138.8	95,904
Net position	\$ 49,813,036	42,095,708	7,717,328	18.3%	\$ 40,964,997

Description	Changes in fiduciary net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Net position, beginning of year	\$ 42,095,708	40,964,997	1,130,711	2.8%	\$ 39,418,117
Additions:					
Contributions – Alaska DMVA	—	860,686	(860,686)	(100.0)	851,686
Net investment income	9,474,407	2,142,109	7,332,298	342.3	2,321,285
Miscellaneous income	1,690	—	1,690	100.0	—
Total additions	9,476,097	3,002,795	6,473,302	215.6	3,172,971
Deductions:					
Pension benefits	1,454,330	1,641,475	(187,145)	(11.4)	1,343,753
Administrative	304,439	230,609	73,830	32.0	282,338
Total deductions	1,758,769	1,872,084	(113,315)	(6.1)	1,626,091
Increase in net position	7,717,328	1,130,711	6,586,617	582.5	1,546,880
Net position, end of year	\$ 49,813,036	42,095,708	7,717,328	18.3%	\$ 40,964,997

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Financial Analysis of the Plan

The statements of fiduciary net position as of June 30, 2021 shows net position restricted for pension benefits of \$49,813,036. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries, as well as administrative costs.

This represents an increase of \$7,717,328 or 18.3% in plan net position restricted for pension benefits from fiscal year 2020 to 2021, and an increase of \$1,130,711 or 2.8% from fiscal year 2019 to 2020. Over the long term, employer contributions and investment income are projected to sufficiently fund the Plan's pension and administrative costs.

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 2021 and 2020, the Board adopted the following asset allocations:

	2021		2020	
	Allocation	Range	Allocation	Range
Broad domestic equity	20.0%	± 6%	26.0%	± 6%
Global equity ex-U.S.	13.0	± 4	21.0	± 4
Fixed income	46.0	± 10	45.0	± 10
Opportunistic	6.0	± 4	8.0	± 5
Real assets	7.0	± 4	—	
Private equity	8.0	± 4	—	
Cash equivalents	—	—	—	+ 3
Total	<u>100.0%</u>		<u>100.0%</u>	
Expected return - 20 year geometric mean	6.10%		6.10%	
Projected standard deviation	9.33		9.50	

For fiscal years 2021 and 2020, the Plan's investments generated a 21.56% and 5.41% rate of return, respectively.

Contributions and Investment Income

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

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			Additions		2019
	2021	2020	Increase (decrease)		
			Amount	Percentage	
Contributions – DMVA	\$ —	860,686	(860,686)	(100.0)%	851,686
Net investment income	9,474,407	2,142,109	7,332,298	342.3	2,321,285
Other	1,690	—	1,690	100.0%	—
Total	\$ 9,476,097	3,002,795	6,473,302	215.6%	3,172,971

The Plan's employer contributions from the Department of Military and Veterans Affairs (DMVA) decreased from \$860,686 during fiscal year 2020 to \$0 during fiscal year 2021, a decrease of \$860,686 or 100%. These amounts were the actuarial determined contribution as calculated by the Plan's consulting actuary. No actuarial determined contribution amount was required for fiscal 2021 as a result of the actuarial valuation. A full actuarial valuation is completed for the Plan biennially with roll-forward actuarial valuations being completed in the interim years.

The Plan's net investment income in fiscal year 2021 increased by \$7,332,298 or 342.3% from amounts in fiscal year 2020. The Plan's net investment income in fiscal year 2020 decreased by \$179,176 or 7.7% from amounts in fiscal year 2019. The investment returns received in fiscal year 2021 were higher than the returns seen in fiscal year 2020, causing an increase in investment income in comparison between 2021 and 2020. Over the long term, investment earnings play a significant role in funding plan benefits. The Board continues to look at investment classes and strategies best suited to meet the expected earnings returns to meet future benefit payments.

The Plan's investment rates of return for the year ended June 30 were as follows:

	Year ended		
	2021	2020	2019
System returns	21.56 %	5.41 %	5.97 %
Domestic equities	42.84	2.71	8.48
Fixed income	2.31	8.87	6.74
Opportunistic	23.94	(0.18)	7.40
Real assets	10.22	—	—
International equities	38.73	(3.40)	0.04
Private equity	68.52	—	—
Cash equivalents	0.19	1.93	—
Actuarially assumed rate of return	7.00	7.00	7.00

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Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension benefits. These benefit payments and the cost of administering the Plan comprise the cost of operations as follows:

	Deductions				2019
	2021	2020	Increase (decrease)		
			Amount	Percentage	
Pension benefits	\$ 1,454,330	1,641,475	(187,145)	(11.4)%	\$ 1,343,753
Administrative	304,439	230,609	73,830	32.0	282,338
Total	<u>\$ 1,758,769</u>	<u>1,872,084</u>	<u>(113,315)</u>	<u>(6.1)%</u>	<u>\$ 1,626,091</u>

The fiscal year 2021 decrease in pension benefits is due to a lower average monthly benefit amount and a decrease in lump sum payments recipients and amounts. The fiscal year 2020 increase in pension benefits is due to a higher average lump sum payment amount. Administrative expenditures for fiscal year 2021 increased primarily due to a capital project for a retirement system replacement. Administrative expenditures for fiscal year 2020 decreased primarily due to reduced work performed by the Plan's consulting actuary.

Net Pension Asset

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, requires the Plan to report the total pension liability, fiduciary net position, and the 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 the participating employer and nonemployer contributions, if any, as well as investment earnings, less benefit payments during the year and the related costs to administer the Plan. When the fiduciary net position exceeds the total pension liability, the Plan reports a net pension asset.

The components of the net pension asset at June 30 were as follows:

	2021	2020
Total pension liability	\$ 22,654,730	22,651,698
Plan fiduciary net position	<u>(49,813,036)</u>	<u>(42,095,708)</u>
Plan's net pension asset	<u>\$ (27,158,306)</u>	<u>(19,444,010)</u>
Plan fiduciary net position as a percentage of the total pension liability	219.88 %	185.84 %

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Funding

Retirement benefits are financed by accumulations from DMVA contributions, periodic State of Alaska appropriations, and income earned on Plan investments.

The actuarially determined employer contribution amounts are calculated by the Plan's consulting actuary and approved by the Board. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation roll-forward process.

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

Legislation

During fiscal year 2021, the 32nd Alaska State Legislature did not appropriate contribution funding from the General Fund to the Department of Military and Veterans' Affairs for deposit in the Plan's defined benefit pension fund as retirement funding for fiscal year ending June 30, 2022, due to the significant overfunding of the Plan.

Economic Conditions, Future Contribution Amounts, and Funding Status

Fiscal year 2021 had positive investment returns, with an overall return rate of 21.56%, much higher than the 7.00% assumed rate of return. Net investment income increased from \$2,142,109 in fiscal year 2020 to \$9,474,407 in fiscal year 2021, an increase of \$7,333,988 or 342.4%. The Board continues to work with its investment counsel and the Alaska Department of Revenue, Treasury Division, to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The consulting actuary recommended a decrease from the Plan's actuarially determined contribution amount of \$860,686 in fiscal year 2020 to \$0 in fiscal year 2021. For fiscal year 2022, the actuary recommended that a contribution to the Plan was not necessary. With the Plan's 191.9% funding ratio as of the June 30, 2020 actuarial valuation report, the Alaska legislature chose not to appropriate funds for fiscal year 2021. The reason is that the Board has a fiduciary responsibility to properly fund the Plan based on Alaska Statutes, and that would require a contribution to be not less than the normal cost plus the expense load. There is no past service liability as determined by the actuarial valuation, and thus, no contribution amount for liquidating past service liability as appropriate under AS 37.10.220(a)(8)(B). Had the Board been able to offset the normal cost plus expense load by the negative past service contribution amount, the recommended employer contribution to the Plan in fiscal year 2022 would have been \$0. Based on the Plan's overfunded status and the State of Alaska's budget situation, the Alaska Legislature determined that no contribution was necessary for fiscal year 2022 and will continue to evaluate future contributions.

The actuarial valuation report for fiscal year 2020 reports a funding ratio of 191.9%, which is higher than 185.6% from the actuarial valuation roll forward of June 30, 2019. Both the actuarial valuation of June 30, 2020 and the roll-forward of June 30, 2019 are posted to the Plan's web page. The actuarial valuation reports for the Plan are conducted biennially, and the June 30, 2020 report was completed and presented to the Board in July 2021. The next full actuarial valuation report will be completed for the period ending June 30, 2022.

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Requests for Information

This financial report is designed to provide a general overview for those parties interested 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 National Guard and Naval Militia 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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Statement of Fiduciary Net Position

June 30, 2021

	2021
Assets:	
Cash and cash equivalents:	
Short-term fixed income pool	\$ 1,271,387
Securities lending collateral	113,918
Total cash and cash equivalents	1,385,305
Accounts receivable	319
Investments at fair value:	
Fixed income securities:	
Alternative fixed income pool	2,568,765
Opportunistic fixed income pool	3,747,933
Barclays aggregate bond fund	14,968,776
Total fixed income securities	21,285,474
Broad domestic equity:	
Large cap pool	9,069,862
Small cap pool	768,526
Total broad domestic equity	9,838,388
Global equity ex-U.S.:	
International equity pool	5,193,795
Emerging markets equity pool	1,103,370
Total global equity ex-U.S.	6,297,165
Opportunistic:	
Alternative equity pool	579,272
Tactical allocation strategies pool	1,861,374
Alternative beta	462,616
Other opportunities pool	30,366
Total opportunistic	2,933,628
Private equity pool	4,979,637
Real assets:	
Real estate pools	1,229,387
Real estate investment trust pool	433,672
Infrastructure private pool	597,385
Energy pool	49,869
Farmland pool	721,042
Timber pool	293,910
Total real assets	3,325,265
Total investments	48,659,557
Total assets	50,045,181
Liabilities:	
Accrued expenses	29,429
Securities lending collateral payable	113,918
Due to State of Alaska General Fund	88,798
Total liabilities	232,145
Fiduciary net position restricted for pension benefits	\$ 49,813,036

See accompanying notes to financial statements.

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Statement of Changes in Fiduciary Net Position

Year ended June 30, 2021

	2021
Additions:	
Contributions – Alaska Department of Military & Veterans Affairs	\$ —
Investment income:	
Net appreciation in fair value	8,925,647
Interest	306,218
Dividends	338,584
Total investment income	9,570,449
Less investment expense	97,169
Net investment income before securities lending activities	9,473,280
Securities lending income	1,408
Less securities lending expense	281
Net income from securities lending activities	1,127
Net investment income	9,474,407
Other income	
Miscellaneous income	1,690
Total other income	1,690
Total additions	9,476,097
Deductions:	
Pension benefits	1,454,330
Administrative	304,439
Total deductions	1,758,769
Net increase	7,717,328
Fiduciary net position restricted for pension benefits:	
Balance, beginning of year	42,095,708
Balance, end of year	\$ 49,813,036

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Description

The State of Alaska National Guard and Naval Militia Retirement System (the Plan) is a component unit of the State of Alaska (the State). The Plan is administered by the Division of Retirement and Benefits (the Division) within the Department of Administration. 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 Plan. 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) Plan Membership

Plan membership as of the valuation year ended June 30 is as follows:

	2020
Retirees and beneficiaries currently receiving benefits	708
Terminated plan members entitled to future benefits	649
Total current and future benefits	1,357
Active plan members:	
Alaska Air National Guard	2,242
Alaska Army National Guard	1,639
Alaska Naval Militia	53
Total active plan members	3,934
Total members	5,291

(b) Pension Benefits

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia after at least five years of Alaska Guard service and a total of at least 20 years of U.S. military service or members who involuntarily leave the Alaska Guard service due to federal standards imposed on the Alaska Guard, regardless of length of service, are eligible for a retirement pension. The retirement pension is \$100 per month for each month of Alaska Guard service and may be paid to the member monthly or in a one-time lump sum.

(c) Death Benefits

Upon the death of an eligible member, as previously described, the member's designated beneficiary is entitled to a lump-sum benefit equal to the original pension amount less any payments already paid to the member.

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(d) Contributions

The Plan's funding policy provides for annual employer contributions by the State of Alaska, Department of Military and Veterans' Affairs (Department) at actuarially determined contribution amounts that are sufficient to accumulate assets to pay benefits when due. Some officials of the Department may be members of the Plan. Plan members make no contributions to the Plan.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 (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) Administrative Costs

Administrative costs are paid from investment earnings.

(e) Due to State of Alaska General Fund

Amounts due to the State of Alaska General Fund represent the amounts paid by the General Fund on behalf of the Plan.

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(f) 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 assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's invested assets is pursuant to Alaska Statutes 37.10.210–390.

Alaska Statute 37.10.071 provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed-Income Pool and Real Estate Investment Trust Pool, and cash holdings of certain external managers, in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

The short-term fixed income pool is a State pool managed by Treasury that holds investments on behalf of the Board as well as other State funds.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The Plan's annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2021 was 23.01%.

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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Notes to Financial Statements

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(4) Net Pension Asset

The components of the net pension asset at June 30, 2021 were as follows:

Total pension liability	\$	22,654,730
Plan fiduciary net position		<u>(49,813,036)</u>
Plan's net pension asset	\$	<u><u>(27,158,306)</u></u>
Plan fiduciary net position as a percentage of the total pension liability		219.88%

(a) Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods in the measurement, and rolled forward to the measurement date of June 30, 2021:

Inflation	2.50% per year
Salary increases	N/A
Investment rate of return	7.00%, net of pension plan investment expenses.
Mortality	Pre-commencement mortality rates were based on 100% of the RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement. The rates for post-commencement mortality were based on 91% of male rates and 96% of female rates of the RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017, resulting in changes in actuarial assumptions for the June 30, 2018 actuarial valuation adopted by the Board to better reflect expected future experience. The actuarial assumptions used in the June 30, 2020 actuarial valuation are the same as those used in the June 30, 2019 roll-forward valuation, except the amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from plan assets.

The long-term expected rate of return on 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 investment expense and inflation) are developed for each major asset class. These ranges are

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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 rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2021 are summarized in the following table (note that the rates shown below exclude an inflation component of 2.04%).

Asset class	Long-term expected real rate of return
Domestic equity	6.63%
Global equity (non-US)	5.41
Aggregate bonds	0.76
Opportunistic	4.39
Real assets	3.16
Private equity	9.29
Cash equivalents	0.13

(b) Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the 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 67. 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 2.18% as of June 30, 2021.

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

The following presents the Plan's net pension asset as of June 30, 2021, calculated using the discount rate of 7.00%, as well as what the Plan's net pension 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% decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension asset	\$ 25,139,678	27,158,306	28,900,541

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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Required Supplementary Information (Unaudited)

Schedule of Changes in Employer Net Pension (Asset) Liability and Related Ratios

Last 10 Fiscal Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability:										
Service cost	\$ 517,376	507,899	578,431	610,686	610,686	603,495	603,495	654,797	631,921	605,097
Interest	1,567,548	1,532,008	2,370,401	2,265,875	2,170,196	2,659,657	2,553,940	2,359,276	2,277,228	2,235,069
Differences between expected and actual experience	(627,562)	—	(13,086,972)	4,338	(8,663,535)	4,565	1,258,332	—	—	(13,687)
Changes of assumptions	—	—	(265,847)	—	—	—	145,422	—	—	—
Benefit payments	(1,454,330)	(1,641,475)	(1,343,753)	(1,359,467)	(1,485,669)	(1,728,729)	(1,563,816)	(1,610,506)	(1,772,198)	(1,379,919)
Net change in total pension liability	3,032	398,432	(11,747,740)	1,521,432	(7,368,322)	1,538,988	2,997,373	1,403,567	1,136,951	1,446,560
Total pension liability – beginning	22,651,698	22,253,266	34,001,006	32,479,574	39,847,896	38,308,908	35,311,535	33,907,968	32,771,017	31,324,457
Total pension liability – ending (a)	22,654,730	22,651,698	22,253,266	34,001,006	32,479,574	39,847,896	38,308,908	35,311,535	33,907,968	32,771,017
Plan fiduciary net position:										
Contributions – employer	—	860,686	851,686	907,231	866,905	734,500	627,300	740,100	739,100	895,611
Total net investment income	9,474,407	2,142,109	2,321,285	1,964,832	3,181,993	181,711	589,856	4,527,672	2,593,463	287,726
Benefit payments	(1,454,330)	(1,641,475)	(1,343,753)	(1,359,467)	(1,485,669)	(1,728,729)	(1,563,816)	(1,610,506)	(1,772,198)	(1,334,018)
Administrative expenses	(304,439)	(230,609)	(282,338)	(226,466)	(257,396)	(241,750)	(240,750)	(223,334)	(165,651)	(123,725)
Other income	1,690	—	—	—	—	582	145	21	4	25
Net change in plan fiduciary net position	7,717,328	1,130,711	1,546,880	1,286,130	2,305,833	(1,053,686)	(587,265)	3,433,953	1,394,718	(274,381)
Plan fiduciary net position – beginning	42,095,708	40,964,997	39,418,117	38,131,987	35,826,154	36,879,840	37,467,105	34,033,152	32,638,434	32,912,815
Plan fiduciary net position – ending (b)	49,813,036	42,095,708	40,964,997	39,418,117	38,131,987	35,826,154	36,879,840	37,467,105	34,033,152	32,638,434
Plan's net pension (asset) liability (a)–(b)	\$ (27,158,306)	(19,444,010)	(18,711,731)	(5,417,111)	(5,652,413)	4,021,742	1,429,068	(2,155,570)	(125,184)	132,583
Plan fiduciary net position as a percentage of the total pension liability	219.88%	185.84%	184.09%	115.93%	117.40%	89.91%	96.27%	106.10%	100.37%	99.60%
Covered payroll	\$ N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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Schedule of Employer Contributions

Last 10 Fiscal Years

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a percentage of covered payroll</u>
2021	\$ —	—	—	N/A	N/A
2020	—	860,686	(860,686)	N/A	N/A
2019	—	851,686	(851,686)	N/A	N/A
2018	907,231	907,231	—	N/A	N/A
2017	866,900	866,905	(5)	N/A	N/A
2016	734,560	734,500	60	N/A	N/A
2015	627,327	627,300	27	N/A	N/A
2014	474,791	740,100	(265,309)	N/A	N/A
2013	431,367	739,100	(307,733)	N/A	N/A
2012	895,565	895,611	(46)	N/A	N/A

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

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Schedule of Investment Returns

Fiscal Year	Annual money- weighted rate of return, net of investment expense
2021	23.01 %
2020	5.28 %
2019	5.95 %
2018	5.17 %
2017	8.99 %
2016	(0.16)%
2015	1.63 %
2014	13.53 %

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.

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June 30, 2021

(1) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck. The significant actuarial methods and assumptions used in the defined benefit pension benefit Plan valuation as of June 30, 2020 were as follows:

- (a) Actuarial cost method – Liabilities and contributions in the report are computed using the Entry Age Normal Actuarial Cost Method (level dollar basis), any funding surpluses or UAAL amortized over 20 years less the average total military service of active members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of system assets measured on the valuation date.

Under this method, experience gains or losses, i.e. decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

- (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 was 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) Investment return – 7.00% per year, net of investment expenses
- (d) Mortality (pre-commencement) – RP-2014 employee table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement
- (e) Mortality (post-commencement) – 91% of male and 96% of female rates of RP-2014 healthy annuitant table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement
- (f) Disability mortality – RP-2014 disabled table, benefit-weighted, rolled back to 2006, and projected with MP-2017 generational improvement

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- (g) Administrative expenses – The expense load is equal to the average of the prior two years' actual administrative expenses rounded to the nearest \$1,000 as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 282,338
2020	<u>230,609</u>
Total	\$ 512,947
	<u>÷ 2</u>
Expense load (rounded)	<u>\$ 256,000</u>

- (h) Turnover – Ultimate rates of turnover based upon the 2013-2017 actual experience. Sample rates are shown below.

Select Rates of Turnover During the First 5 Years of Employment		Ultimate Rates of Turnover After the First 5 Years of Employment		
<u>Years of Employment</u>	<u>Unisex Rate</u>	<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
1	20.00%	30	11.09%	14.05%
2	10.00%	40	9.09%	11.52%
3	10.00%	50	4.89%	6.19%
4	10.00%			
5	10.00%			

- (i) Disability rate – Incidence rates based upon 2013–2017 actual experience of the State of Alaska Public Employees' Retirement System for Peace Officer/Firefighter group.
- (j) Retirement – Retirement rates based upon the 2013-2017 actual experience. Active members are assumed to retire beginning at the earliest eligible retirement age according to the following rates:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
<51	13%	58	45%
51	13	59	50
52	13	60	55
53	15	61	60
54	20	62	60
55	25	63	60
56	35	64	60
57	40	65+	100

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Vested terminated members are assumed to retire at the later of current age or age 50 when electing an annuity, and at current age when electing a lump sum.

- (k) Form of payment – 70% of members are assumed to elect a lump sum benefit. 30% of members are assumed to elect a monthly annuity with the number of payments equal to the number of months they were active in the Plan. A lump sum of the remaining payments is paid if the member should die while receiving payments. Lump sums are calculated based on a 7% discount rate annuity certain factor.
- (l) Imputed data – Data changes from the prior valuation which are deemed to have an immaterial impact on liabilities and contributions are assumed to be correct in the current year's client data. Active and terminated members with a date of termination after the last date of hire are assumed to be terminated with status based on their amount of vesting service.

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, 2018 to June 30, 2020

There were no changes in asset or valuation methods since the prior valuation.

Changes in Actuarial Assumptions Since the Prior Valuation – June 30, 2018 to June 30, 2020

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 were adopted by the Board during the January 2019 Board meeting. The effect of the new assumptions was an increase in the Actuarial Accrued Liability of approximately \$0.2 million.

Changes in Benefit Provisions Since the Prior Valuation – June 30, 2018 to June 30, 2020

There were no changes in benefit provisions since the prior valuation.

SUPPLEMENTAL SCHEDULES

**STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Year ended June 30, 2021

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>
Personal services:			
Wages	\$ 77,936	4,620	82,556
Benefits	47,480	2,131	49,611
Total personal services	<u>125,416</u>	<u>6,751</u>	<u>132,167</u>
Travel:			
Transportation	20	16	36
Per diem	4	2	6
Total travel	<u>24</u>	<u>18</u>	<u>42</u>
Contractual services:			
Management and consulting	25,559	587	26,146
Investment management and custodial fees	—	87,644	87,644
Accounting and auditing	49,134	28	49,162
Data processing	83,744	1,541	85,285
Communications	739	26	765
Advertising and printing	968	3	971
Rental/leases	6,121	192	6,313
Legal	33	123	156
Repairs & Maintenance	107	—	107
Transportation	3,545	2	3,547
Securities lending	—	281	281
Other services	7,853	87	7,940
Total contractual services	<u>177,803</u>	<u>90,514</u>	<u>268,317</u>
Other:			
Equipment	924	8	932
Supplies	272	159	431
Total other	<u>1,196</u>	<u>167</u>	<u>1,363</u>
Total administrative and investment deductions	<u>\$ 304,439</u>	<u>97,450</u>	<u>401,889</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other Than Investment Advisors

Year ended June 30, 2021

<u>Firm</u>	<u>Services</u>	<u>Amount</u>
Buck Global LLC	Actuarial services	\$ 21,212
KPMG LLP	Auditing services	47,975
State Street Bank and Trust	Custodial banking services	2,190
Alaska IT Group	Data processing services	1,376
Applied Microsystems Incorporated	Data processing services	297
DLT Solutions	Data processing services	6,434
Sagitec Solutions	Data processing services	70,852
		<u>\$ 150,336</u>

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

See accompanying independent auditors' report.