**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Financial Statements
and Supplemental Schedules

June 30, 2008

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

June 30, 2008

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**KPMG LLP**
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## Independent Auditors' Report

Alaska Retirement Management Board and
Division of Retirement and Benefits
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statement of net assets of the State of Alaska Public Employees' Retirement System (System), a Component Unit of the State of Alaska, as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Public Employees' Retirement System, as of June 30, 2008, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 3 to 10 and schedules of funding progress and employer contributions on pages 51 to 58 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 59 and 60 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 15, 2008

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2008

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement Systems (System) financial position and performance for the year ended June 30, 2008. 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 and additional information to better understand the financial condition and performance of the System during the fiscal year ended June 30, 2008.

## Financial Highlights

The Plan's net assets held in trust for pension and post employment healthcare benefits as of June 30, 2008, is $10,765,304,000.

The System's net assets held in trust for pension and postemployment healthcare benefits as of June 30, 2008 decreased by ($177,020,000) or -1.6% from fiscal year 2007.

The System's contributions totaled $514,976,000 during fiscal year 2008; an increase of $46,315,000 or 9.9% from fiscal year 2007.

State of Alaska appropriations totaled $185,000,000 during fiscal year 2008; an increase of $166,418,000 or 895.6% from fiscal year 2007.

The System's net investment income was ($336,985,000) in 2008, reflecting in a decrease of ($2,068,838,000) or -119.5% from fiscal year 2007.

The System's pension benefit and postemployment healthcare payments totaled $516,197,000 during fiscal year 2008, reflecting a decrease of ($195,975,000) or -30.9% from fiscal year 2007.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The System's financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to financial statements. This report also contains required supplementary information and other supplementary schedules.

*Statement of Plan Net Assets* – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and post employment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less current liabilities at June 30, 2008.

*Statement* of *Changes in Plan Net Assets* – This statement presents how the System's net assets held in trust for pension and post employment healthcare benefits changed during the fiscal year ended June 30, 2008. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and post employment 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, 2008, and the sources and uses of those funds during fiscal year 2008.

*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 is essential to a full understanding of the System's financial statements.

*Required Supplementary Information* – The required supplementary information consists of three schedules and related notes concerning the funded status of the System and actuarial assumptions and methods used in the actuarial valuation.

*Other Supplementary Schedules* – Other schedules include detailed information on administrative and investment deductions incurred by the System and payments to consultants (other than investment advisors) for professional services.

**Condensed Financial Information**

| | **Net Assets** (In thousands) | | | |
|---|---|---|---|---|
| | | | **Increase/(decrease)** | |
| **Description** | **2008** | **2007** | **Amount** | **Percentage** |
| Assets: | | | | |
| Cash, cash equivalents and receivables | $ 3,572,742 | 47,966 | 3,524,776 | 7,348.5% |
| Securities lending collateral | — | 1,191,168 | (1,191,168) | n/a |
| Investments, at fair value | 10,779,493 | 10,901,724 | (122,231) | (1.1) |
| Other assets | 8 | 4 | 4 | 100.0 |
| Total assets | 14,352,243 | 12,140,862 | 2,211,381 | 18.2 |
| Liabilities: | | | | |
| Accrued expenses | 9,022 | 7,358 | 1,664 | 22.6% |
| Due to State of Alaska general fund | 16,861 | 12 | 16,849 | 140,408.3% |
| Due to retiree health medical fund | 5,485 | — | 5,485 | n/a |
| Due to Alaska retiree healthcare trust - TRS | 64,995 | — | 64,995 | n/a |
| Securities lending collateral payable | — | 1,191,168 | (1,191,168) | n/a |
| Other liabilities | 3,490,576 | — | 3,490,576 | n/a |
| Total liabilities | 3,586,939 | 1,198,538 | 2,388,401 | 199.3 |
| Net assets | $ 10,765,304 | 10,942,324 | (177,020) | (1.6)% |

**Changes in net assets** (In thousands)

| Description | 2008 | 2007 | Increase/(decrease) Amount | Increase/(decrease) Percentage |
|---|---|---|---|---|
| Net assets, beginning of year | $ 10,942,324 | 9,379,471 | 1,562,853 | 16.7% |
| Additions: | | | | |
| Contributions | 514,976 | 468,661 | 46,315 | 9.9 |
| State of Alaska appropriation | 185,000 | 18,582 | 166,418 | 895.6 |
| Net investment income (loss) | (336,985) | 1,731,853 | (2,068,838) | (119.5) |
| Transfer in | 3,490,576 | — | 3,490,576 | n/a |
| Other additions | 47 | 84 | (37) | (44.0) |
| Total additions | 3,853,614 | 2,219,180 | 1,634,434 | 73.7 |
| Deductions: | | | | |
| Pension and postemployment healthcare benefits | 516,197 | 635,098 | (118,901) | (18.7) |
| Refunds | 15,159 | 14,953 | 206 | 1.4 |
| Administrative | 8,702 | 6,276 | 2,426 | 38.7 |
| Transfer out | 3,490,576 | — | 3,490,576 | n/a |
| Total deductions | 4,030,634 | 656,327 | 3,374,307 | 514.1 |
| Increase (decrease) in net assets | (177,020) | 1,562,853 | (1,739,873) | (111.3) |
| Net assets, end of year | $ 10,765,304 | 10,942,324 | (177,020) | (1.6)% |

## Financial Analysis of the Plans

The Statements of Net Assets as of June 30, 2008 and 2007 showed total net assets held in trust for pension and post employment healthcare benefits of $10,765,304,000 and $10,942,324,000. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent a decrease in the System's net assets held in trust for pension and postemployment healthcare benefits of ($177,020,000) or -1.6% from Fiscal Year 2008 to 2007. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan. The decrease in net assets is due to the decrease in net investment income caused by a decline in investment returns.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) 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. During Fiscal Year 2008, the ARMB adopted an asset allocation that includes 37% in domestic equities, 14% in international equities, 2% in emerging market equity, 7% in private equity, 18% in retirement fixed income, 3% in high yield, 2% in international fixed income, 10% in real estate, 4% in absolute return, and 3% in other investments. The asset allocation is expected to provide a five year median return of 12.52%.

For Fiscal Years 2008 and 2007, the DB Plan's investments generated a -3.06% and +18.87% rate of return. The DB Plan's annualized rate of return was +8.81% over the last three years and +10.06% over the last five years.

**Actuarial Valuations and Funding Progress – DB Plan**

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 68.0%, at June 30, 2007 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving the funding objectives.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

For Fiscal Year 2008, the consolidated normal cost rate increased from 13.32% to 14.48%, the average past service rate increased from 14.87% to 18.03%, thus producing a total Fiscal Year 2008 average annual required contribution rate in the DB Plan of 32.51%. The ARMB adopted a contribution rate of 32.51% for Fiscal Year 2008.

| | Valuation Year (Dollars in thousands) | |
|---|---|---|
| | **2007** | **2006** |
| Valuation assets | $ 9,900,960 | 9,040,908 |
| Accrued liabilities (total benefits) | 14,963,119 | 14,388,413 |
| Funding ratio | 66.2% | 62.8% |

## Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, State of Alaska appropriation, investment income (loss), other additions, and a transfer.

| | **Additions** (In thousands) | | | |
|---|---|---|---|---|
| | | | **Increase/(decrease)** | |
| | **2008** | **2007** | **Amount** | **Percentage** |
| Plan member contributions | $ 134,151 | 126,278 | 7,873 | 6.2% |
| Employer contributions | 379,519 | 342,383 | 37,136 | 10.8 |
| State of Alaska Appropriation | 185,000 | 18,582 | 166,418 | 895.6 |
| Net investment income (loss) | (336,985) | 1,731,853 | (2,068,838) | (119.5) |
| Transfer from postemployment health fund | 3,490,576 | — | 3,490,576 | n/a |
| Other additions | (211) | 84 | (295) | (351.2) |
| Total | $ 3,852,050 | 2,219,180 | 1,632,870 | 73.6% |

The Plan's employer contributions increased from $342,383,000 in fiscal year 2007 to $379,519,000 in fiscal year 2008, an increase of $37,136,000 or 10.8%. The State of Alaska provided $185,000,000 in employer on-behalf payments for Fiscal Year 2008 in Senate Bill 53, Section 55 (e).

The DB Plan's actuarial determined employer contribution rate increased from 28.19% in Fiscal Year 2007 to 32.51% in Fiscal Year 2008. The employer effective contribution rate for Fiscal Year 2008 was established to be 22.00%, but not lower than 14.48%, in Senate Bill 53, Section 55 (f).

Increases in actuarial determined contribution rates in Fiscal Year 2008 are largely due to the contribution shortfall related to contributions made in Fiscal Year 2006 and 2007.

The Plan's net investment income in Fiscal Year 2008 decreased by ($2,068,838,000) or -119.5% from amounts recorded in Fiscal Year 2007. The Plan's total returns were -3.1%, +18.87%, and +11.74% for the years ending 2008, 2007 and 2006. Changes are due to the performance of the equity markets. All investments pools with the exception of the retirement fixed income pool, international fixed income pool, and other investments pool had lower returns in 2008 when compared to 2007. The domestic equity pool realized a return of -13.5% in 2008 compared to 20.1% in 2007. The retirement fixed income pool realized a return of +6.6% in 2008 compared to +6.2% in 2007. The international equity pool realized a return of -9.4% in 2008 compared to +17.0% in 2007. The real estate pool realized a return of +5.7% in 2008 compared to +20.7%. The international fixed income pool realized a return of +19.0% in 2008 compared to 2.0% in 2007. The private equity pool realized a return of +13.2% in 2008 compared to +28.7% in 2007. The emerging markets equity pool realized a return of +4.0% in 2008 compared to +48.0% in 2007. The high yield pool realized a return of -0.09% in 2008 compared to +10.9% in 2007. The Other Investments Pool realized a return of +19.1% in 2008 compared to +11.3% in 2007. More than ninety-five percent of invested assets were invested in these pools.

Over the long term, investment income has been a major component of additions to plan assets. During Fiscal Year 2008, the System experienced a significant reduction in rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%. The actual rate of return did not exceed the actuarial rate of return for Fiscal Year 2008 as it had for the three prior consecutive years.

The Defined Contribution Retirement (DCR) Pension Trust employer effective rate for the DCR Pension Trust Fund's for Fiscal Year 2008 was set at no less than 14.48% and no more than 22%, based on their DB plan rate.

The DCR Pension Trust employer contribution rate for Fiscal Year 2008 was 5.00%. The DCR Retiree Medical Fund rate for Fiscal Year 2008 was 0.99%. The DCR Occupational Death and Disability rate for peace officers and firefighters for Fiscal Year 2008 was 1.33%. The DCR Occupational Death and Disability rate for all other employees for Fiscal Year 2008 was 0.58%. The Retiree Major Medical Insurance Fund was 0.99% per ARMB Resolution 2006-28, and the rate for the Health Reimbursement Arrangement Fund was set at 3% of the employer's average annual compensation per AS 39.30.370.

During Fiscal Year 2008, the Plan transferred the $3,490,576,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust (ARHCT) as a result of the creation of the ARHCT, which began on July 1, 2007.

**Benefits and Other Deductions**

The primary deduction of the DB Plan is the payment of pension benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, together with postemployment healthcare premiums paid, healthcare claims paid, lump sum refunds made to former plan members, and the cost of administering the plans comprise the costs of operations.

| | **Deductions** (In thousands) | | | |
|---|---|---|---|---|
| | | | **Increase/(decrease)** | |
| | **2008** | **2007** | **Amount** | **Percentage** |
| Pension and postemployment healthcare benefits | $ 516,197 | 635,098 | (118,901) | (18.7)% |
| Refunds of contributions | 15,159 | 14,953 | 206 | 1.4 |
| Administrative | 8,702 | 6,277 | 2,425 | 38.6 |
| Total | $ 540,058 | 656,328 | (116,270) | (17.7)% |

The Plan's pension and postemployment healthcare benefit payments in 2008 and 2007 decreased ($195,975,000) or -30.9% from Fiscal Year 2007.

The DB Plan Alaska Retiree Healthcare Trust (ARHCT) was established with Senate Bill 123 and become effective July 1, 2007. The ARHCT healthcare claims payments were $77,074,000 for Fiscal Year 2008. Prior to Fiscal Year 2008, the Plan was responsible for healthcare premium paid directly to the Retiree Health Fund (RHF) for each retired member / beneficiary participating in the Plan. Beginning July 1, 2007, the Plan began funding the ARHCT via employer contributions. The RHF continued to pay healthcare claims for the three participating plans until February 29, 2008. Beginning March 1, 2008, the ARHCT is responsible for payment of healthcare claims.

### Funding

Retirement benefits are financed by accumulations from employers, plan members, State of Alaska appropriations, and income earned on System investments.

- The employer contributions are determined by the DB Plan's consulting actuaries and approved by the ARMB annually. The DCR Plan's employer contribution rates were established by Alaska Statute and adopted by the ARMB, with the exception of the Healthcare Reimbursement Arrangement Plan amounts, which are calculated and approved by the Department.
- Plan member contributions are set by Alaska Statute 39.35.160. for the DB Plan and Alaska Statute 39.35.730 for the DCR Plan.
- Alaska Statute 39.25.280 requires that additional state contributions are required each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the Plan's past service liability at the contribution rate adopted by the ARMB for that fiscal year.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

### Legislation

During Fiscal Year 2008, the Twenty-Sixth Alaska State Legislature enacted three laws that affect the System:

- Senate Bill 125 created a cost-share plan for PERS and established an employer contribution rate of 22 percent for all PERS employers.
- House Bill 310 appropriated $241.6 million from the general fund to the Department of Administration for deposit in the Plan's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2009. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 22 percent and the actuarially required contribution of 35.22 percent for Fiscal Year 2009.
- House Bill 13 authorizes the State of Alaska to issue pension obligation bonds to help reduce the plans unfunded liability.

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

The financial market environment continues to challenge investors. With the threat of inflation, the failures of financial institutions and brokerage firms, and continued turmoil in the Middle East, many forces once again pose changes to Plan investments. The ARMB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The return on the DB Plan's investments failed to meet or exceed its' actuarially assumed return of 8.25%. Even with investment returns exceeding the actuarial rate of return, the System will continue to see an increase in actuarial determined contribution rates due to rising medical cost and past contribution shortfalls.

The consulting actuary recommended an increase from the average employer contribution rate of 28.19% in Fiscal Year 2007 to 32.51% in Fiscal Year 2008. The ARMB adopted an average employer contribution rate of 32.51% for Fiscal Year 2008, up 4.32 points from the Fiscal Year 2007 ARMB adopted employer contribution rate of 21.77%. The employer effective rate for Fiscal Year 2008 was set at no less than 14.48% and no more than 22%.

Regulation 2 AAC 35.900, which prohibited more than a five point change from year to year in employer contribution rates, was repealed effective July 20, 2006. This regulation had limited the ARMB's capacity to increase the employer contribution rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to those in 2001 and 2002, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs.

The June 30, 2007, actuarial valuation for the DB Plan reported a funding ratio of 68.0% and an unfunded liability of $4.7 billion.

For Fiscal Year 2008 and 2007, the DCR Plan's employer contribution rate was established at 5.00%. The DCR Plan retiree medical plan contribution rate was adopted by the ARMB to be 0.99% and 1.75% for Fiscal Years 2008 and 2007 respectively. The DCR Plan's occupational death and disability rate for peace officers and firefighters was adopted by the ARMB to be 1.33% and 0.40% for Fiscal Year 2008 and 2007. The DCR Plan's occupational death and disability rate for all other employees was adopted by the ARMB to be 0.58% and 0.30% for Fiscal Year 2008 and 2007.

### Requests for Information

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

Alaska Public Employees' Retirement System
Division of Retirement & Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Statement of Plan Net Assets

June 30, 2008

(In thousands)

| | Defined benefit plans | | | | Defined contribution pension trust plans | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Pension** | **Postemployment healthcare** | **Alaska retiree healthcare trust** | **Total** | **Participant directed** | **Occupational death and disability-All** | **Occupational death and disability-P/F** | **Retiree medical plan** | **Healthcare reimbursement arrangement** | **Total** | **SYSTEM TOTAL** |
| Assets: | | | | | | | | | | | |
| Cash and cash equivalents (notes 3 and 5): | | | | | | | | | | | |
| Short-term fixed income pool | $ 3,273 | 2,659 | 26,599 | 32,531 | 1,099 | 47 | 9 | 62 | 260 | 1,477 | 34,008 |
| Great West / participant directed deposit | — | — | — | — | 324 | — | — | — | — | 324 | 324 |
| Total cash and cash equivalents | 3,273 | 2,659 | 26,599 | 32,531 | 1,423 | 47 | 9 | 62 | 260 | 1,801 | 34,332 |
| Receivables: | | | | | | | | | | | |
| Contributions | 26,267 | — | 812 | 27,079 | 130 | 5 | 1 | 10 | 30 | 176 | 27,255 |
| Due from State of Alaska General Fund | — | — | 17,624 | 17,624 | 2,074 | 84 | 20 | 158 | 481 | 2,817 | 20,441 |
| Due from postemployment healthcare fund (note 6) | — | — | 3,490,576 | 3,490,576 | — | — | — | — | — | — | 3,490,576 |
| Other account receivable | — | — | 138 | 138 | — | — | — | — | — | — | 138 |
| Total receivables | 26,267 | — | 3,509,150 | 3,535,417 | 2,204 | 89 | 21 | 168 | 511 | 2,993 | 3,538,410 |
| Investments (notes 3, 4, 5, and 8): | | | | | | | | | | | |
| Domestic equity pool | 3,069,144 | 351,199 | — | 3,420,343 | — | — | — | — | — | — | 3,420,343 |
| Retirement fixed income pool | 906,295 | 736,276 | — | 1,642,571 | — | — | — | — | — | — | 1,642,571 |
| International equity pool | 857,743 | 696,833 | — | 1,554,576 | — | — | — | — | — | — | 1,554,576 |
| Real estate pool | 719,837 | 584,797 | — | 1,304,634 | — | — | — | — | — | — | 1,304,634 |
| International fixed income pool | 121,180 | 98,447 | — | 219,627 | — | — | — | — | — | — | 219,627 |
| Private equity pool | 490,444 | 398,438 | — | 888,882 | — | — | — | — | — | — | 888,882 |
| Emerging markets equity pool | 161,994 | 131,604 | — | 293,598 | — | — | — | — | — | — | 293,598 |
| Treasury inflation protection pool | 31,750 | 25,794 | — | 57,544 | — | 85 | 20 | 233 | 746 | 1,084 | 58,628 |
| Other investments pool | 188,001 | 152,732 | — | 340,733 | — | — | — | — | — | — | 340,733 |
| High yield pool | 143,650 | 116,701 | — | 260,351 | — | — | — | — | — | — | 260,351 |
| Absolute return pool | 240,147 | 195,096 | — | 435,243 | — | — | — | — | — | — | 435,243 |
| Collective investment funds, at fair value | | | | | | | | | | | |
| Great West participant directed | — | — | — | — | 23,724 | — | — | — | — | 23,724 | 23,724 |
| Common trust funds | — | — | 327,130 | 327,130 | — | — | — | — | — | — | 327,130 |
| ERISA commingled and mutual funds | — | — | — | — | — | 752 | 182 | 2,016 | 6,503 | 9,453 | 9,453 |
| Total investments | 6,930,185 | 3,487,917 | 327,130 | 10,745,232 | 23,724 | 837 | 202 | 2,249 | 7,249 | 34,261 | 10,779,493 |
| Other: | | | | | | | | | | | |
| Other | 8 | — | — | 8 | — | — | — | — | — | — | 8 |
| Total other | 8 | — | — | 8 | — | — | — | — | — | — | 8 |
| Total assets | 6,959,733 | 3,490,576 | 3,862,879 | 14,313,188 | 27,351 | 973 | 232 | 2,479 | 8,020 | 39,055 | 14,352,243 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses | 7,064 | — | 1,294 | 8,358 | 664 | — | — | — | — | 664 | 9,022 |
| Due to State of Alaska General Fund | 16,861 | — | — | 16,861 | — | — | — | — | — | — | 16,861 |
| Due to Retiree Health Medical Fund | — | — | 5,485 | 5,485 | — | — | — | — | — | — | 5,485 |
| Due to Alaska Retiree Healthcare Trust - TRS | — | — | 64,995 | 64,995 | — | — | — | — | — | — | 64,995 |
| Due to Alaska Retiree Healthcare Trust - PERS (note 6) | — | 3,490,576 | — | 3,490,576 | — | — | — | — | — | — | 3,490,576 |
| Total liabilities | 23,925 | 3,490,576 | 71,774 | 3,586,275 | 664 | — | — | — | — | 664 | 3,586,939 |
| Commitment and contingencies (note 8) | | | | | | | | | | | |
| Net assets held in trust for pension and postemployment healthcare benefits | $ 6,935,808 | — | 3,791,105 | 10,726,913 | 26,687 | 973 | 232 | 2,479 | 8,020 | 38,391 | 10,765,304 |

See accompanying notes to financial statements.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Statement of Changes in Plan Net Assets

June 30, 2008

(In thousands)

| | Defined benefit plans | | | | Defined contribution pension trust plans | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Pension** | **Postemployment healthcare** | **Alaska retiree healthcare trust** | **Total** | **Participant directed** | **Occupational death and disability-All** | **Occupational death and disability-P/F** | **Retiree medical plan** | **Healthcare reimbursement arrangement** | **Total** | **SYSTEM TOTAL** |
| Additions: | | | | | | | | | | | |
| Contributions: | | | | | | | | | | | |
| Employers | $ 100,323 | — | 263,755 | 364,078 | 8,221 | 847 | 216 | 1,561 | 5,902 | 16,747 | 380,825 |
| Plan members | 120,506 | — | 474 | 120,980 | 13,171 | — | — | — | — | 13,171 | 134,151 |
| State of Alaska | 50,875 | — | 134,125 | 185,000 | — | — | — | — | — | — | 185,000 |
| Total contributions | 271,704 | — | 398,354 | 670,058 | 21,392 | 847 | 216 | 1,561 | 5,902 | 29,918 | 699,976 |
| Investment income: | | | | | | | | | | | |
| Net appreciation (depreciation) in fair value (note 3) | (707,662) | — | (30,267) | (737,929) | — | (47) | (5) | (154) | (469) | (675) | (738,604) |
| Interest | 130,125 | — | 7,631 | 137,756 | (2,294) | 4 | 2 | 11 | 35 | (2,242) | 135,514 |
| Dividends | 281,043 | — | 3,833 | 284,876 | — | 2 | — | 5 | 16 | 23 | 284,899 |
| Total investment income (loss) | (296,494) | — | (18,803) | (315,297) | (2,294) | (41) | (3) | (138) | (418) | (2,894) | (318,191) |
| Less investment expense | 23,089 | — | — | 23,089 | — | — | — | — | — | — | 23,089 |
| Net investment income (loss) before security lending activities | (319,583) | — | (18,803) | (338,386) | (2,294) | (41) | (3) | (138) | (418) | (2,894) | (341,280) |
| Securities lending income (note 5) | 39,635 | — | — | 39,635 | — | 1 | — | 2 | 4 | 7 | 39,642 |
| Less securities lending expenses (note 5) | 35,342 | — | — | 35,342 | — | — | — | 1 | 4 | 5 | 35,347 |
| Net income from securities lending activities | 4,293 | — | — | 4,293 | — | 1 | — | 1 | — | 2 | 4,295 |
| Net investment income (loss) | (315,290) | — | (18,803) | (334,093) | (2,294) | (40) | (3) | (137) | (418) | (2,892) | (336,985) |
| Transfer from postemployment healthcare fund (note 6) | — | — | 3,490,576 | 3,490,576 | — | — | — | — | — | — | 3,490,576 |
| Other: | | | | | | | | | | | |
| Other | 47 | — | — | 47 | — | — | — | — | — | — | 47 |
| Total additions | (43,539) | — | 3,870,127 | 3,826,588 | 19,098 | 807 | 213 | 1,424 | 5,484 | 27,026 | 3,853,614 |
| Deductions: | | | | | | | | | | | |
| Pension and postemployment benefits | 439,123 | — | 77,074 | 516,197 | — | — | — | — | — | — | 516,197 |
| Refunds of contributions | 14,333 | — | — | 14,333 | 826 | — | — | — | — | 826 | 15,159 |
| Administrative | 6,585 | — | 1,948 | 8,533 | 169 | — | — | — | — | 169 | 8,702 |
| Total deductions | 460,041 | — | 79,022 | 539,063 | 995 | — | — | — | — | 995 | 540,058 |
| Transfer to Alaska retiree healthcare trust (note 6) | — | 3,490,576 | — | 3,490,576 | — | — | — | — | — | — | 3,490,576 |
| Net increase (decrease) | (503,580) | (3,490,576) | 3,791,105 | (203,051) | 18,103 | 807 | 213 | 1,424 | 5,484 | 26,031 | (177,020) |
| Net assets held in trust for pension and postemployment healthcare benefits: | | | | | | | | | | | |
| Balance, beginning of year | 7,439,388 | 3,490,576 | — | 10,929,964 | 8,584 | 166 | 19 | 1,055 | 2,536 | 12,360 | 10,942,324 |
| Balance, end of year | $ 6,935,808 | — | 3,791,105 | 10,726,913 | 26,687 | 973 | 232 | 2,479 | 8,020 | 38,391 | 10,765,304 |

See accompanying notes to financial statements.

## (1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (System), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

At June 30, the number of participating local government employers and public organizations including the State was:

| | 2008 | 2007 |
|---|---|---|
| State of Alaska | 1 | 1 |
| Municipalities | 76 | 77 |
| School districts | 53 | 53 |
| Other | 29 | 29 |
| Total employers | 159 | 160 |

Inclusion in the Defined Benefit (DB) Plan and Defined Contribution Retirement (DCR) Plan is a condition of employment for eligible State employees, except as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and peace officer and firefighter employees covered by the Plans.

### Defined Benefit Retirement Plan

#### *(a) General*

The DB Plan is a defined benefit, agent, multiple employer plan within the System established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DB Plan is a plan within PERS. PERS is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. The State employees who administer the DB Plan and DCR Plan participate in both. With the passing of SB141, the PERS DB Plan is closed to all new members effective July 1, 2006.

At June 30, DB Plan's membership consisted of:

| | **2008** | **2007** |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 24,063 | 22,992 |
| Terminated plan members entitled to future benefits | 6,358 | 6,277 |
| Total current and future benefits | 30,421 | 29,269 |
| Active plan members: | | |
| General | 26,868 | 29,300 |
| Peace officer and firefighter | 2,563 | 2,709 |
| Total active plan membership | 29,431 | 32,009 |
| | 59,852 | 61,278 |
| Active plan members: | | |
| Vested: | | |
| General | 18,271 | 17,860 |
| Peace officer and firefighter | 1,937 | 1,898 |
| Nonvested: | | |
| General | 8,597 | 11,440 |
| Peace officer and firefighter | 626 | 811 |
| Total active plan membership | 29,431 | 32,009 |

***(b) Pension Benefits***

Members hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For members first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Members with thirty or more years of credited service (twenty years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the members' five highest, consecutive years' salaries.

The benefit related to all years of service prior to July 1, 1986, and for years of service through a total of ten years for general members is equal to 2% of the member's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986, is equal to 2-1/4% of the member's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For peace officer and firefighters, the benefit for years of service through a total of ten years is equal to 2% of the member's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for members eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouse consents to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The DB Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's Administrator if the funding ratio of the DB Plan meets or exceeds one-hundred and five percent. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

### *(c) Postemployment Healthcare Benefits*

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Peace officers and firefighters with 25 years of membership service also receive benefits at no premium cost.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the DB Plan. Retirees of three other State administered retirement plans also participate in the RHF. The DB Plan, along with the other participating plans, retains the risk of loss of allowable claims. The RHF issues a publicly available financial report, which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the RHF.

***(d) Death Benefits***

If an active general DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the DB Plan's member's salary. If an active peace officer or firefighter DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the DB Plan's member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. When death is due to occupational causes and there is no surviving spouse, the DB Plan's member's dependent children may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump sum death benefit is payable to the named beneficiary (ies). The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the DB Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average monthly compensation at the time of death. If the DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary (ies).

***(e) Disability Benefits***

Active DB Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age, or when the service requirement for normal retirement is met. Although there are no minimum service requirements for Plan members to be eligible for occupational disability, DB Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the DB Plan's member's salary at the time of the disability. The nonoccupational disability benefit is based on the DB Plan member's service and salary at the time of disability. At normal retirement age, a disabled general DB Plan member receives normal retirement benefits. A peace officer or firefighter Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

***(f) Defined Benefit Plan Member Contributions***

The DB Plan's member contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The DB Plan's member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the DB Plan. The DB Plan's member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

***(g) Employer Contributions***

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial funding method. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

***(h) Contributions from the State of Alaska***

Senate Bill 53, passed by the twenty-fifty Alaska State Legislature, appropriated $185 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the public employee's retirement plan as partial payment of the participating public employee's retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to set the effective employer contribution rate of all public employee's retirement plan employers for the fiscal year ending June 30, 2008, at the lower of the level percentage of pay rate approved by the ARMB or 22.00% but not lower than 14.48%.

Senate Bill 53, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $185 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2008.

Senate Bill 231, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.6 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2007.

***(i) Refunds***

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re-establish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not re-established an employee relationship with a participating DB Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan' membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

***(j) Administrative Costs***

Administrative costs are financed through investment earnings.

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

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

**Defined Contribution Retirement Pension Trust Fund**

***(l) General***

The DCR Plan is a defined contribution, agent, multiple employer public employee retirement plan established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Plan was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

At June 30, 2008 DCR Plan membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | — |
| Terminated plan members entitled to future benefits: | |
| 25% Vested | 1 |
| 50% Vested | 2 |
| 75% Vested | 4 |
| 100% Vested | 5 |
| Total terminated plan members entitled to future benefits | 12 |
| Total current and future benefits | 12 |
| Active plan members: | |
| General | 4,735 |
| Peace officer and firefighter | 390 |
| Total active members | 5,125 |
| Total members | 5,137 |
| Active plan members: | |
| Vested General: | |
| 25% Vested | 13 |
| 50% Vested | 2 |
| 75% Vested | 4 |
| 100% Vested | 6 |
| Total vested general | 25 |
| Vested peace officer and firefighter | |
| 25% Vested | — |
| 50% Vested | — |
| 75% Vested | — |
| 100% Vested | — |
| Total vested peace officer and firefighter | — |
| Nonvested: | |
| General | 4,710 |
| Peace officer and firefighter | 390 |
| Total nonvested general and peace officer and firefighter | 5,100 |
| Total members | 5,137 |

### *(m) Pension Benefits*

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

***(n) Postemployment Healthcare Benefits***

Major medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

***(o) Death Benefits***

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

***(p) Disability Benefits***

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

***(q) Plan Member Contributions***

Contribution rates are 8.0% for DCR Plan members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

***(r) Employer Contributions***

An employer shall contribute to each member's individual account an amount equal to 5.0% of the member's compensation.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds. Investment options are disclosed in note 3.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

### *(s) Refunds*

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment. Distributions that are being paid to a member may not be affected by the member's subsequent reemployment with the employer. Upon reemployment, a new individual account shall be established for the member to whom any future contributions shall be allocated.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds 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) GASB Statements No. 25 and No. 43*

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

During the fiscal year, the DB Plan adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting or Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

***(d) Investments***

Investments are carried at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the ex-dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the Plan's investment operations.

**Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Contributions, benefits paid and all expenses are recorded on a cash basis.

**Valuation**

<u>Defined Benefit Pension and Postemployment Healthcare Investments</u>

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and ARMB staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investments in the other investments pool are valued quarterly by the general partners. The agricultural investments are valued quarterly by the investment managers based on market conditions. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions. Separate account real estate investments are appraised annually by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Defined Benefit Alaska Retiree Healthcare Trust Investments

With the exception of the SSgA emerging markets strategy which is valued bi-monthly following the third Wednesday and last business day of each month, common trust funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or close for certain markets on their principal exchange on the valuation date. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at the fair value as determined in good faith by the Trustee.

Defined Contribution Pension Participant Direct Investments

Pooled investment funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Occupational Death and Disability, Retiree Medical and Health Reimbursement Arrangement Investments

ERISA commingled and mutual funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or official close for certain markets on their principal exchange on valuation date. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at the fair value determined in good faith by the Trustee.

**Income Allocation**

Income in the fixed income and domestic and international equity pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments, and real estate pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Income for the common trust funds is credited and allocated in accordance with the participants pro rata share of the fund when received.

Income for the pooled investment and collective investment funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Income for the ERISA commingled and mutual funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

***(e) Contributions Receivable***

Contributions from the DB Plan and DCR Plan members and employers 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.

***(f) Federal Income Tax Status***

The DB Plan and DCR Plan are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

## (3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the DB Plan and DCR Plan investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Additionally, Treasury manages a mix of common trust funds, pooled investment funds, collective investment funds, ERISA commingled funds, and mutual funds for the Alaska Retiree Healthcare Trust, and the following Defined Contribution Plans: Participant Direct Pension Plan, Occupational Death and Disability Plan, Retiree Medical Plan, and Health Reimbursement Arrangement Plan.

Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, international fixed income pool, high yield pool, domestic equity pool, international equity pool, emerging markets equity pool, private equity pool, absolute return pool, other investments pool real estate pool investments (with the exception of real estate investment trust holdings), common trust funds, pooled investment funds, collective investment funds, ERISA commingled funds, and mutual funds are manage by external management companies. Treasury manages the retirement fixed income pool, enhanced cash pool, treasury inflation protected securities pool, and real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manage for all externally managed investments.

The short-term fixed income pool is a State pool managed by the State's Department of Revenue, Treasury Division that holds investments on behalf of the Plan as well as other pension and state funds.

Both Defined Benefit and Defined Contribution Pension Trust Plan invested assets participate in two internally managed fixed income pools.

***(a) Short-Term Fixed Income Pool***

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a startup and maintained share price of $1. Treasury staff determine the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2008, the Plan had a 0.79% direct ownership in the short-term fixed income pool which included interest receivable of $84,664. The Plan had a 2.98% indirect ownership through ownership by other investment pools which invest in the short-term fixed income pool at June 30, 2008.

***(b) Treasury Inflation Protected Securities (TIPS) Pool***

The Plan participates in the ARMB's internally managed TIPS pool which was established on May 24, 2006 with a startup price of $1,000. The share price at June 30, 2008 was $1,177. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan's invested assets included a 65.58% ownership in the TIPS Pool.

**Defined Benefit Investment – Pension Plan Investments**

***(c) Retirement Fixed Income Pool***

The Plan participates in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a startup share price of $1,000. The share price at June 30, 2008, was $2,083. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan's invested assets included a 69.15% ownership in the retirement fixed income pool.

**Enhanced Cash Fixed Income Pool**

The Plan participates in the ARMB's internally managed enhanced cash fixed income pool which had only on investor, the retirement fixed income pool. The enhanced cash fixed income pool was established on June 27, 2007 with a startup price of $1,000. The share price at June 30, 2008 was $1,009. Treasury staff determine the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net assets value per share is determined by dividing the total fair value of net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transactions. At June 30, 2008 the Plan's invested assets included a 69.15% indirect ownership in the enhanced cash fixed income pool.

***(d) International Fixed Income Pool***

The Plan participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a startup share price of $1,000. The share price at June 30, 2008, was $2,172. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.58% ownership in the international fixed income pool.

***(e) High Yield Pool***

The Plan participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a startup share price of $1,000. The share price at June 30, 2008, was $1,179. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.45% ownership in the high yield pool.

***(f) Domestic Equity Pool***

The domestic equity pool is comprised of an external large cap domestic equity pool and external small cap domestic equity pool.

**Large Cap Domestic Equity Pool**

The Plan participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,182. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.40% ownership in the large cap domestic equity pool.

**Small Cap Domestic Equity Pool**

The Plan participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,194. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.13% ownership in the small cap domestic equity pool.

***(g) International Equity Pool***

The Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a startup share price of $1,000. The share price at June 30, 2008, was $3,899. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.52% ownership in the international equity pool.

***(h) Emerging Markets Equity Pool***

The Plan participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a startup share price of $1,000. The share price at June 30, 2008, was $4,023. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.75% ownership in the emerging markets equity pool.

***(i) Private Equity Pool***

The Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a startup share price of $1,000. The share price at June 30, 2008, was $2,507. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 69.11% ownership in the private equity pool.

***(j) Absolute Return Pool***

The Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,267. Underlying assets in the pool are comprised of hedge fund investments through limited partnership agreements. Each fund administrator independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.57% ownership in the absolute return pool.

***(k) Other Investments Pool***

The Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,532. Underlying assets in the pool are comprised investments through of a limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 69.12% ownership in the other investments pool.

***(l) Real Estate Pool***

The Plan participates in the ARMB's real estate pool which was established June 27, 1997, with a startup share price of $1,000. The share price at June 30, 2008, was $3,273. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, managers independently determine permissible investments. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2008 the Plan had a 68.72% ownership in the real estate pool.

**Alaska Retiree Health Care Trust Investments**

The Board Contracts with an external manager who manages a mix of Common Trust Funds.

***(m) Domestic Equity***

The Health Care Trust Investments in Domestic Equity are comprised of two externally managed Common Trust Funds.

**SSgA Domestic Large Cap**

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

**SSgA Domestic Small Cap**

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

***(n) SSgA International Equity***

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own Index securities in market-weighted proportion.

***(o) SSgA Emerging Markets***

The purpose of this fund is to closely match the returns of the capitalization-weighted MSCI Emerging Markets Index.

***(p) SSgA Domestic Fixed Income***

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based on criteria generated by SSgA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

***(q) SSgA International Fixed Income***

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and sector of the Index.

***(r) SSgA High Yield Bond Index***

The purpose of this fund is to deliver a risk-controlled, higher quality, liquid exposure to the broad U.S. high yield market with low tracking error. The strategy uses stratified sampling to create a portfolio of liquid issuers that target the Lehman High Yield $200 Million Very Liquid Index (HYVLI) in such characteristics as duration, issuer market weight, credit quality and industry.

***(s) SSgA TIPS***

The purpose of the U.S. Treasury Inflation Protected Securities Index Strategy is to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

**Defined Contribution Pension Trust Fund Participant Directed Investments**

**Pooled Investment Funds**

The ARMB contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate four participant–directed funds.

***(t) T. Rowe Alaska Target 2025 Trust***

On July 1, 2006 the DCR Plan began participation in the Target 2025 Trust. The purpose of this fund is to provide a diverse mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. Underlying investments are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, and money market instruments. At June 30, 2008 the DCR Plan invested assets included a 0.19% ownership in the Alaska Target 2025 Trust.

***(u) T. Rowe Alaska Balanced Trust***

On July 1, 2006 the DCR Plan began participation in the Alaska Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2008 the DCR Plan invested assets included a 0.01% ownership in the Alaska Balanced Trust.

***(v) T. Rowe Long-Term Balanced Trust***

On July 1, 2006 the DCR Plan began participation in the Long-Term Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money market instruments for investors with an average risk tolerance. At June 30, 2008 the DCR Plan invested assets included a 0.20% ownership in the Long-Term Balanced Trust.

***(w) T. Rowe Alaska Money Market Trust***

On July 1, 2006 the DCR Plan began participation in the Alaska Money Market Trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments. The goal is to maintain a $1.00 unit price for investors of trust with a low risk tolerance. At June 30, 2008 the DCR Plan invested assets included an 86.30% ownership in the Alaska Money Market Trust.

**Collective Investment Funds**

The ARMB contracts with external investment managers who maintain collective investment funds. Mangers selected are subject to the provision of the collective investment funds the ARMB has selected.

***(x) SSgA S&P 500 Stock Index Fund***

The purpose of this fund is to provide income and capital appreciation that matches total return of the Standards & Poor's Composite Stock Price Index.

***(y) SSgA Government/Corporate Bond Fund***

The purpose of this fund was to match or exceed the return of the Lehman Brothers Government/Credit Bond Index. This fund was liquidated in September 2007 and replaced by the Barclays government/corporate bond fund.

***(z) Barclays Government/Corporate Bond Fund***

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

***(aa) Capital Guardian Global Balanced Fund***

The purpose of this fund is to invest in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

***(bb) Brandes Institutional International Equity Fund***

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such stocks.

***(cc) Citizens Core Growth Fund***

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner. This fund was liquidated in April 2008 and replaced by the sentinel sustainable opportunities fund.

***(dd) Sentinel Sustainable Opportunities Fund***

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner.

***(ee) T. Rowe Small Cap Stock Fund***

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

**Defined Contribution Health and Occupational Death and Disability Investments**

**ERISA Commingled and Mutual Funds**

The ARMB Contracts with external managers who manage a mix of ERISA and Mutual Funds.

***(ff) Domestic Equity***

The Health Care Trust Investments in domestic equity are comprised of two externally managed ERISA Funds.

**SSgA Domestic Large Cap**

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

**SSgA Domestic Small Cap**

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

***(gg) SSgA International Equity***

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own Index securities in market-weighted proportion.

***(hh) SSgA Domestic Fixed Income***

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based on criteria generated by SSgA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

***(ii) SSgA International Fixed Income***

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and sector of the Index.

***(jj) SSgA Real Estate***

The purpose of this strategy is to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. To accomplish this, SSgA's strategy is to buy and hold securities, trading only when there is a change in the composition of the Index or when cash flow activity occurs in the Strategy.

***(kk) Lazard Emerging Markets Mutual Fund***

The purpose of this fund is to meet or exceed the MSCI Emerging Markets Index by 3% per annum over a rolling five-year period. Underlying investments are comprised of domestic and global equities as well as alternative assets

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2008

At June 30, 2008, the DB Plan and DCR Plan's investments included the following:

| | Fair Value (in thousands) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fixed income pools | | | | | | | | |
| | Short-term | Retirement | Enhanced cash | International | High Yield | TIPS | Pooled investments funds | Other | Total |
| Deposits | $ - | - | - | 806 | - | - | 1 | 5,154 | 5,961 |
| Overnight sweep account (lmcs) | - | - | - | - | 10,244 | - | - | - | 10,244 |
| Short-term investment fund | - | - | - | 1,377 | - | - | 15 | 30,126 | 31,518 |
| Commercial paper | 11,061 | - | - | - | - | - | 201 | - | 11,262 |
| Domestic equity | - | - | - | - | 53 | - | 291 | - | 344 |
| International equity | - | - | - | - | - | - | 18 | - | 18 |
| Bridge loans | - | - | - | - | 3,862 | - | - | - | 3,862 |
| U.S. treasury notes | - | 162,532 | - | - | - | 42,575 | - | - | 205,107 |
| U.S. treasury bonds | - | 65,679 | - | - | - | 15,481 | 20 | - | 81,180 |
| U.S. treasury - TIPS | - | - | - | - | - | - | 40 | - | 40 |
| U.S. government agency | | | | | | | | | |
| Discount notes | - | - | - | - | - | - | 2 | - | 2 |
| U.S. government agency | 71,585 | 29,436 | | - | - | - | 31 | - | 101,052 |
| Municipal bonds | | 599 | | - | - | - | 22 | - | 621 |
| Foreign government bonds | - | - | - | 121,986 | - | - | - | - | 121,986 |
| Mortgage-backed | 5,751 | 871,097 | 10,258 | - | - | - | 70 | - | 887,176 |
| Other asset-backed | 33,347 | 87,678 | 12,662 | - | 502 | - | - | - | 134,189 |
| Corporate bonds | 31,565 | 327,159 | 5,088 | 93,182 | 158,771 | - | 73 | - | 615,838 |
| Convertible bonds | - | - | - | - | 654 | - | 4 | - | 658 |
| Yankees: | | | | | | | | | |
| Government | - | 7,652 | - | - | - | - | 5 | - | 7,657 |
| Corporate | 9,464 | 42,236 | 2,873 | - | 15,952 | - | 9 | - | 70,534 |
| Domestic equity pool: | | | | | | | | | |
| Limited partnership | - | - | - | - | - | - | - | 154,961 | 154,961 |
| Convertible bonds | - | - | - | - | - | - | - | 489 | 489 |
| Treasury bills | - | - | - | - | - | - | - | 1,136 | 1,136 |
| Equity | - | - | - | - | - | - | - | 3,218,807 | 3,218,807 |
| International equity pool: | | | | | | | | | |
| Convertible bonds | - | - | - | - | - | - | - | 787 | 787 |
| Equity | - | - | - | - | - | - | - | 1,511,285 | 1,511,285 |
| Emerging markets equity pool | - | - | - | - | - | - | - | 293,598 | 293,598 |
| Private equity pool: | | | | | | | | | |
| Limited partnership | - | - | - | - | - | - | - | 888,882 | 888,882 |
| Absolute return pool: | | | | | | | | | |
| Limited partnership | - | - | - | - | - | - | - | 435,243 | 435,243 |
| Other investments pool: | | | | | | | | | |
| Limited partnership | - | - | - | - | - | - | - | 53,327 | 53,327 |
| Agricultural holdings | - | - | - | - | - | - | - | 287,405 | 287,405 |
| Real estate pool: | | | | | | | | | |
| Real estate | - | - | - | - | - | - | - | 633,386 | 633,386 |
| Commingled funds | - | - | - | - | - | - | - | 239,888 | 239,888 |
| Limited partnership | - | - | - | - | - | - | - | 377,851 | 377,851 |
| Real estate investment trusts | - | - | - | - | - | - | - | 52,708 | 52,708 |
| Mutual funds | - | - | - | - | 70,081 | - | - | 359,443 | 429,524 |
| Net other assets (liabilities) | (4) | (51,162) | (2,572) | 2,276 | 232 | 501 | (3) | (4,358) | (55,090) |
| Other pool ownership | (128,761) | 99,665 | (28,309) | - | - | 71 | - | 57,334 | - |
| Unallocated deposit in transit | - | - | - | - | - | - | - | 65 | 65 |
| Total invested assets | $ 34,008 | 1,642,571 | - | 219,627 | 260,351 | 58,628 | 799 | 8,597,517 | 10,813,501 |

***(ll) Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

***(mm) Short–Term Fixed Income Pool***

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve–month prepay speeds for other securities. At June 30, 2008, the expected average life of individual fixed income securities ranged from eight days to less than three months.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows to calculate effective duration.

***(nn) Other Defined Benefit Fixed Income Pools***

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the retirement fixed income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2008, was 4.68 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the enhanced cash fixed income portfolio to one year.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ± 25% of the Salomon Non–U.S. World Government Bond Index. The effective duration for the Salomon Non–U.S. World Government Bond Index at June 30, 2008, was 6.24 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2008, was 4.49 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to a band which may not exceed ± 20% around the duration of the Lehman Brothers Global Inflation-Linked U.S. TIPS Index, or a reasonable proxy thereof. The duration of the proxy index at June 30, 2008, was 6.19 years.

At June 30, 2008, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

| | **Effective duration** (in years) | | | | |
|---|---|---|---|---|---|
| | **Retirement** | **Enhanced cash** | **International** | **High yield** | **TIPS** |
| U.S. treasury notes | 7.24 | - | - | - | 3.52 |
| U.S. treasury bonds | 13.48 | - | - | - | 12.66 |
| U.S. government agency | 4.85 | - | - | - | - |
| Municipal bonds | 10.96 | - | - | - | - |
| Mortgage-backed | 4.37 | 0.73 | - | - | - |
| Other asset-backed | 2.58 | 0.18 | - | 3.25 | - |
| Corporate bonds | 4.91 | (0.02) | - | 4.46 | - |
| Convertible bonds | - | - | - | 5.91 | - |
| Yankees | | | | | |
| Government | 11.93 | - | 6.65 | - | - |
| Corporate | 5.48 | (0.76) | 4.09 | 4.04 | - |
| **Portfolio effective duration** | **4.57** | **0.20** | **5.49** | **2.99** | **5.95** |

**Defined Benefit Common Trust Funds**

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the common trust investment funds that consists solely of debt securities, domestic fixed income, high yield, international fixed income, and TIPS were 4.69, 4.45, 6.31, and 7.83 years at June 30, 2008, respectively.

**Defined Contribution Pension Trust Pooled Investment Funds**

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

> For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At June 30, 2008, the duration of the government and corporate debt securities was 5.32 years and the duration of the Lehman Brothers Government Credit Index was 5.30 years.

For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2008, the duration of the mortgage-backed securities was 4.14 years and the duration of the Lehman GNMA Index was 4.25 years.

The weighted average maturity of the money market portfolio was forty-five days at June 30, 2008.

The ARMB does not have a policy with respect to these funds to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

**Defined Contribution Pension Trust Collective Investment Funds**

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the collective investment fund that consisted solely of debt securities, the government/corporate bond fund, was 5.18 years at June 30, 2008.

**Defined Contribution Pension Trust Occupational Death and Disability, Retiree Medical, and Health Reimbursement ERISA Commingled and Mutual Funds**

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA commingled investment funds that consists solely of debt securities, domestic fixed income and international fixed income, were 4.69 and 6.31 years at June 30, 2008, respectively.

***(oo) Credit Risk***

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

Short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by both Standard & Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The ARMB's investment policy has the following limitations with regard to credit risk:

**Retirement Fixed Income:**

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.
Corporate debt securities must be investment grade.
Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed

and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

**Enhanced Cash Fixed Income:**

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

The average portfolio credit quality shall be A3 or higher.

No more than 10% percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than 2% percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

**International Fixed Income:**

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

**High Yield:**

No more than 10% percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% percent of the portfolio's assets may be invested in unrated securities.

No more than 10% percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the ARMB does not consider this investment subject to the credit risk limitations above.

**TIPS:**

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

No more than 5% percent of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

**Domestic equity, international equity and emerging markets:**

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The ARMB does not have a policy to limit the concentration of credit risk for the common trust funds, defined contribution pooled investment funds, collective investment funds, ERISA commingled funds or mutual funds.

At June 30, 2008, the DB Plan and DCR Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

| | | Fixed income pools | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Rating | Short-term | Retirement | Enhanced cash | International | High yield | TIPS | Pooled investment funds |
| Commercial paper | Not rated | 6.80 % | - % | - % | - % | - % | - % | 3.86 % |
| Bridge loans | Not rated | - | - | - | - | 1.48 | - | - |
| Short term investment fund | Not rated | - | - | - | - | - | - | 2.45 |
| U.S. treasury notes | AAA | - | 9.89 | - | - | - | 72.62 | 9.29 |
| U.S. treasury bonds | AAA | - | 4.00 | - | - | - | 26.41 | 4.74 |
| U.S. government agency | | | | | | | | |
| Discount notes | AAA | - | - | - | - | - | - | 0.04 |
| U.S. government agency | AAA | 44.00 | 1.34 | - | - | - | - | 7.19 |
| U.S. government agency | Not rated | - | 0.46 | - | - | - | - | - |
| Municipal bonds | AA | - | 0.04 | - | - | - | - | - |
| Municipal bonds | A | - | - | - | - | - | - | 0.28 |
| Municipal bonds | Not rated | - | - | - | - | - | - | 0.14 |
| Mortgage-backed | AAA | 2.99 | 45.33 | 19.37 | - | - | - | 13.97 |
| Mortgage-backed | AA | 0.20 | - | - | - | - | - | - |
| Mortgage-backed | A | 0.12 | - | - | - | - | - | - |
| Mortgage-backed | BBB | - | - | 2.36 | - | - | - | - |
| Mortgage-backed | Not rated | 0.24 | 7.68 | 7.70 | - | - | - | 1.43 |
| Other asset-backed | AAA | 16.17 | 3.88 | 23.11 | - | - | - | - |
| Other asset-backed | AA | 0.63 | 0.22 | 0.43 | - | - | - | - |
| Other asset-backed | A | 2.53 | 0.24 | 0.13 | - | - | - | - |
| Other asset-backed | BBB | 0.24 | 0.47 | 11.75 | - | - | - | - |
| Other asset-backed | BB | 0.92 | 0.53 | 0.92 | - | 0.16 | - | - |
| Other asset-backed | Not rated | - | - | - | - | 0.03 | - | - |
| Corporate bonds | AAA | 2.01 | 1.23 | 1.50 | - | - | - | 0.81 |
| Corporate bonds | AA | 12.20 | 4.42 | 3.42 | - | - | - | 2.19 |
| Corporate bonds | A | 4.10 | 9.07 | 6.41 | - | - | - | 6.67 |
| Corporate bonds | BBB | - | 4.69 | 2.46 | - | 3.38 | - | 4.14 |
| Corporate bonds | BB | - | - | - | - | 20.92 | - | 0.05 |
| Corporate bonds | B | - | - | - | - | 29.01 | - | - |
| Corporate bonds | CCC | - | - | - | - | 4.42 | - | - |
| Corporate bonds | D | - | - | - | - | 0.07 | - | - |
| Corporate bonds | Not rated | 1.09 | 0.51 | 0.80 | - | 3.19 | - | 0.06 |
| Convertible bonds | AA | - | - | - | - | - | - | 0.07 |
| Convertible bonds | BBB | - | - | - | - | 0.10 | - | - |
| Convertible bonds | B | - | - | - | - | 0.15 | - | - |
| Yankees: | | | | | | | | |
| Government | AAA | - | - | - | 19.32 | - | - | 0.13 |
| Government | AA | - | - | - | 6.52 | - | - | 0.35 |
| Government | A | - | - | - | 21.96 | - | - | 0.37 |
| Government | BBB | - | 0.25 | - | - | - | - | 0.28 |
| Government | Not rated | - | 0.22 | - | 7.74 | - | - | - |
| Corporate | AAA | - | - | - | 28.78 | - | - | 0.61 |
| Corporate | AA | 3.81 | 0.62 | 2.92 | 13.00 | - | - | 0.27 |
| Corporate | A | 1.26 | 1.16 | 0.92 | - | - | - | 0.57 |
| Corporate | BBB | - | 0.58 | 0.93 | - | 0.15 | - | 0.72 |
| Corporate | BB | - | - | - | - | 2.50 | - | - |
| Corporate | B | - | - | - | - | 2.50 | - | - |
| Corporate | CCC | - | - | - | - | 0.29 | - | - |
| Corporate | D | - | - | - | - | 0.12 | - | - |
| Corporate | Not rated | 0.74 | 0.22 | 3.47 | 0.65 | 0.57 | - | - |
| No credit exposure | | (0.05) | 2.95 | 11.40 | 2.03 | 30.96 | 0.97 | 39.32 |
| | | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % |

### *(pp) Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2008, the System had the following uncollateralized and uninsured deposits:

| | | **Amount** (In thousands) |
|---|---|---|
| International fixed income pool | $ | 806 |
| International equity pool | | 5,164 |

### *(qq) Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ARMB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the ARMB's asset allocation policy permits the Plan to hold up to four percent of total investments in international fixed income.

The ARMB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to twenty-one percent of total investments in these two pools combined.

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to twelve percent of total investments in private equity.

The ARMB has no policy regarding foreign currency risk in the common trust funds, defined contribution pooled investment funds, collective investment funds, ERISA commingled and mutual funds.

At June 30, 2008, the Plan had exposure to foreign currency risk with the following investment pools:

| | Amount (in thousands) | |
|---|---|---|
| **Currency** | **International fixed income pool** | **International equity pool** |
| Australian Dollar | $ — | (19) |
| Brazilian Real | — | 23 |
| Canadian Dollar | — | 33 |
| Danish Krone | — | 353 |
| Euro Currency | 2 | 897 |
| Hong Kong Dollar | — | 333 |
| Japanese Yen | 427 | 3,111 |
| Mexican Peso | 377 | — |
| New Zealand Dollar | — | 42 |
| Norwegian Krone | — | 163 |
| Pound Sterling | — | 130 |
| Swedish Krona | — | 79 |
| Swiss Franc | — | (2) |
| | $ 806 | 5,143 |

At June 30, 2008, the Plan had exposure to foreign currency risk with the following investments:

| | Amount (in thousands) | | | | |
|---|---|---|---|---|---|
| | International fixed income pool | | International equity pool | Private equity pool | Pooled investment funds |
| Currency | Foreign government | Corporate | Equity | Limited partnerships | Equity |
| Australian Dollar | $ — | — | 34,272 | — | 1 |
| Brazilian Real | — | — | 6,673 | — | — |
| Canadian Dollar | — | — | 45,230 | — | — |
| Danish Krone | — | — | 12,119 | — | 1 |
| Euro Currency | 77,187 | 3,391 | 447,694 | 151,394 | 7 |
| Hong Kong Dollar | — | — | 35,497 | — | 1 |
| Indonesian Rupah | — | — | 4,404 | — | — |
| Japanese Yen | 20,765 | 89,791 | 329,394 | — | 3 |
| Mexican Peso | 24,033 | — | 652 | — | — |
| New Taiwan Dollar | — | — | 1,619 | — | — |
| New Zealand Dollar | — | — | 2,196 | — | — |
| Norwegian Krone | — | — | 11,548 | — | 1 |
| Polish Zloty | — | — | 255 | — | — |
| Pound Sterling | — | — | 283,922 | 9,794 | 2 |
| Singapore Dollar | — | — | 11,314 | — | — |
| South African Rand | — | — | 6,459 | — | — |
| South Korean Won | — | — | 9,442 | — | — |
| Swedish Krona | — | — | 20,837 | — | 1 |
| Swiss Franc | — | — | 125,253 | — | 1 |
| | $ 121,985 | 93,182 | 1,388,780 | 161,188 | 18 |

At June 30, 2008, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool consists of investments in commingled funds; therefore no disclosure of specific currencies is made.

### *(rr) Concentration of Credit Risk*

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ARMB's policy with regard to concentration of credit risk for the retirement fixed income, international fixed income and high yield pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The ARMB does not have a policy with regard to concentration of credit for the enhanced cash and TIPS pools.

At June 30, 2008 the Plan's invested assets did not have exposure to any one issue grater than 5% of total invested assets.

### *(ss) Collective Investment Funds*

The DCR Plan's investments include the following collective investment funds at June 30, 2008:

| | | Units owned | Unit value | | Balance (In thousands) |
|---|---|---|---|---|---|
| Global balanced fund | $ | 71,993 | 31.270 | | 2,251 |
| Government/credit bond fund | | 3,053 | 25.359 | | 77 |
| Alaska long-term balanced trust | | 30,402 | 13.537 | | 411 |
| Alaska balanced trust | | 3,959 | 33.794 | | 134 |
| Alaska target 2025 trust | | 1,667 | 11.229 | | 19 |
| Brandes INST international equity fund | | 343,542 | 19.770 | | 6,792 |
| T. Rowe Price small cap stock trust | | 92,007 | 38.110 | | 3,506 |
| S&P 500 stock index fund | | 186,289 | 24.597 | | 4,582 |
| Sentinel sustainable core opportunities | | 439,811 | 12.850 | | 5,652 |
| Money market fund | | 234,605 | 1 | | 235 |
| Unallocated deposit in transit | | | | | 65 |
| Total collective investment funds | | | | $ | 23,724 |

### (4) Foreign Exchange, Foreign Exchange Contracts and Off-Balance Sheet Risk

The international fixed income and international equity pool's investment income includes the following at June 30:

| | | 2008 (In thousands) |
|---|---|---|
| Net realized gain on foreign currency | $ | 97,772 |
| Net unrealized gain on foreign currency | | 25 |
| Net realized (loss) on foreign exchange contracts | | (87) |

The international fixed income and international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from two to one hundred and fifty-five days. The System had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

| | | **2008 (In thousands)** |
|---|---|---|
| Contract sales | $ | 42,308 |
| Less fair value | | 42,281 |
| Net unrealized gains on contracts | $ | 27 |

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

## (5) Securities Lending

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. In February of 2008, the ARMB voted to suspend securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the ARMB's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future. There were no outstanding securities on loan at June 30, 2008.

While the securities lending agreement was active, there was no limit to the amount that could be loaned and the ARMB was able to sell securities on loan. International equity security loans were collateralized at not less than 105% of their fair value. All other security loans were collateralized at not less than 102% of their fair value. Loaned securities and collateral were marked to market daily and collateral was received or delivered the following day to maintain collateral levels.

There is no cash collateral at June 30, 2008. Cash collateral in the amount of $1,191,167,776 at June 30, 2007 was invested in a registered 2(a)–7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Securities under loan, cash collateral and cash collateral payable were recorded on the financial statements at fair value in prior years. The Bank, the DB Plan received a fee from earnings on invested collateral. The Bank and the DB Plan shared a fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the ARMB was indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnified the ARMB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

## (6) Transfers

During fiscal year 2008, the Plan transferred the $3,490,576,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which began on July 1, 2007.

Under SB 123, enacted in 2007, the State of Alaska sought to enhance compliance of the states' pension systems with the Internal Revenue Code by creating a new defined benefit retiree healthcare trust into which OPEB contributions would be deposited, and from which OPEB benefits would be paid. Historically, all such contributions had been deposited and benefits paid from the pension trust fund account. With the creation of the new healthcare trust fund account, the systems then sought approval from the Internal Revenue Service through the Voluntary Compliance Program to post the amount allocated to healthcare in the 2007 CAFR to the new healthcare trust fund. On October 10, 2008, the Internal Revenue Service (IRS) orally advised tax counsel for the states' pension systems that the request to transfer the 2007 CAFR amount in the new healthcare trust had been approved. The systems are awaiting the formal VCP decision of the IRS.

## (7) Funded Status and Funding Progress – DB Pension and Post employment Healthcare Benefit Plan

The funded status of the defined benefit pension and post employment healthcare benefit plan is as follows:

| Actuarial valuation date | Actuarial value of assets | Actuarial accrued liability (AAL) - entry age | Unfunded actuarial accrued liability (UAAL) | Funded ratio | Covered payroll | FE/(UAAL) as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| **Pension** | | | | | | |
| June 30, 2007 | $ 6,739,004 | 8,662,324 | 1,923,320 | 77.8% | $ 1,605,819 | 119.8% |
| **Post employment healthcare** | | | | | | |
| June 30, 2007 | $ 3,161,956 | 6,300,795 | 3,138,839 | 50.2% | $ 1,605,819 | 494.9% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Entry age normal level percentage of pay for pension; level dollar for healthcare |
| Amortization method | Level dollar, closed |
| Equivalent single amortization period | 21 years |
| Asset valuation method | 5 year smoothing market |
| Actuarial Assumptions: | |
| Investment rate of return | 8.25% for pension, 4.50% for healthcare. |
| Projected salary increases | Peace Officer/Firefighter: merit – 2.5% per year for the first 6 years of employment, 0.5% thereafter.<br>Productivity - .05% per year.<br>Others: merit – 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0.0%.<br>Productivity – 0.5% per year.<br>(Includes inflation at 3.5%) |
| Cost-of-living adjustment | Postretirement pension adjustment |

Health cost trend:

| | Medical | Prescription drugs |
|---|---|---|
| FY08 | 8.5% | 12.0% |
| FY09 | 8.0 | 11.0 |
| FY10 | 7.5 | 10.0 |
| FY11 | 7.0 | 9.0 |
| FY12 | 6.5 | 8.0 |
| FY13 | 6.0 | 7.0 |
| FY14 | 5.5 | 6.0 |
| FY15 | 5.0 | 5.0 |
| FY16 and later | 5.0 | 5.0 |

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

PERS' retiree healthcare benefits are partially funded. GASB 43 outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of annual required contribution actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 4.50% as of June 30, 2007 to be used for Fiscal Year 2008 disclosure.

## (8) Commitments and Contingencies

### *(a) Commitments*

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2008, the DB Plan's share of the unfunded commitment totaled $58,589,397. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2008, the DB Plan's share of these unfunded commitments totaled $493,056,100. These commitments are estimated to be paid through 2019.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2008, the DB Plan's share of this unfunded commitment totaled $58,080,852 to be paid through the year 2018.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2008, the DB Plan's share of these unfunded commitments totaled $200,592,634 to be paid through the year 2018.

***(b) Contingencies***

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the Fiscal Year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT is funded through contributions from employers, premiums paid by retirees, and net investment income.

The Department of Administration has received a favorable tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009, concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). In addition, the Department of Administration engages counsel to submit a voluntary compliance program filing with respect to the retiree health program administered by the System. The voluntary compliance program filing provided, among other things, that the Department of Administration would transfer sufficient funds from pension assets to properly fund assets available to pay postemployment healthcare benefits. Verbal approval from the Internal Revenue Service has been received, and the Department of Administration believes that it is unlikely that the Internal Revenue Service will reverse its verbal approval. Pursuant to the filing, the accompanying financial statements reflect a transfer in the amount of $3,490,576 which will be made subsequent to year end.

Approximately 50 Plan members had filed administrative challenges to the DB Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cash-in payments included. The DB Plan's prior board, which heard appeals from decisions of the Plan administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the State's favor. Subsequently, retirees who had worked under pre-1977 collective bargaining agreements filed appeals with the Office of Administrative Hearings (OAH). Some members litigated before the OAH and the Division prevailed in these cases. Since then, other retirees eventually dismissed their cases and pending claims.

An IRS assessment may eventually result from the statutory provision and the Plan's practice under which retiree medical benefits were paid to some survivors' spouses and dependents who were not eligible dependents under the IRC, or from the manner in which retiree health benefits were funded before June 6, 2007. However, management believes that any such assessment would be paid from the State's general fund, not from the Plan's assets. Furthermore, the Plan's statutes under which payment of medical benefits was made for ineligible dependents was corrected by SB 141, effective January 1, 2006, and the funding of retiree medical benefits was clarified and corrected by SB 123, which was effective June 6, 2007. Finally, although there were press reports of possible legal action regarding amendments to the PERS and TRS statutes by HB 161 (rehired retiree legislation), no litigation has been served on the Plan challenging provisions of that legislation. Management is not aware of any other specific unasserted claims or assessments against the Plan.

**(9) Subsequent Event**

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the System, which could impact the value of investments after the date of these financial statements. Estimated losses through November 30, 2008 are $2.3 billion, which could ultimately affect the funded status of the System. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual actuarial valuation report for the year ended June 30, 2010 is performed.

The Alaska Legislature passed and signed into law Chapter 13, SLA 2008 (SB 125) which converted the Public Employees' Retirement System to a cost-sharing plan and provided for an integrated system of accounting for all employers. Under the integrated system, the Public Employees' Retirement System defined benefit plan's unfunded liability will be shared among all employers. This bill became effective July 1, 2008.

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2008

(Dollars in thousands)

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Funding excess (FE)/ (unfunded actuarial accrued liabilities) (UAAL) | Funded ratio | Covered payroll | FE/(UAAL) as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2002 | $ 4,611,170 | 6,133,182 | (1,522,012) | 75.2% | $ 1,245,054 | (122.2)% |
| 2003 | 4,607,673 | 6,330,541 | (1,722,868) | 72.8 | 1,300,041 | (132.5) |
| 2004 | 4,709,592 | 6,711,507 | (2,001,915) | 70.2 | 1,305,670 | (153.3) |
| 2005 | 4,658,413 | 7,087,191 | (2,428,778) | 65.7 | 1,404,043 | (173.0) |
| 2006 | 6,331,065 | 8,094,043 | (1,762,978) | 78.2 | 1,590,693 | (110.8) |
| 2007 | 6,739,004 | 8,662,324 | (1,923,320) | 77.8 | 1,605,819 | (119.8) |

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

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2008

(Dollars in thousands)

| Actuarial valuation date as of June 30 | Actuarial value of plan assets | Actuarial accrued liabilities (AAL) | Funding excess (FE)/ (unfunded actuarial accrued liabilities) (UAAL) | Funded ratio | Covered payroll | FE/(UAAL) as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2002 | $ 2,801,663 | 3,726,409 | (924,746) | 75.2% | $ 1,245,054 | (74.3)% |
| 2003 | 3,079,608 | 4,231,112 | (1,151,504) | 72.8 | 1,300,041 | (88.6) |
| 2004 | 3,320,822 | 4,732,409 | (1,411,587) | 70.2 | 1,305,670 | (108.1) |
| 2005 | 3,784,506 | 5,757,650 | (1,973,144) | 65.7 | 1,404,043 | (140.5) |
| 2006 | 2,709,843 | 6,294,370 | (3,584,527) | 43.1 | 1,590,693 | (549.8) |
| 2007 | 3,161,956 | 6,300,795 | (3,138,839) | 50.2 | 1,605,819 | (494.9) |

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

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers and the State of Alaska
Pension and Postemployment Healthcare Benefits

June 30, 2008

(Dollars in thousands)

| Year ended June 30 | Actuarial valuation date as of June 30 [1] | Annual required contribution: Pension | Annual required contribution: Postemployment healthcare | Annual required contribution: Total | Pension percentage contributed: By employer (note 3) | Pension percentage contributed: By State of Alaska (note 3) | Postemployment healthcare percentage contributed: By Employer (note 3) | Postemployment healthcare percentage contributed: By State of Alaska (note 3) | Total percentage contributed (note 3) |
|---|---|---|---|---|---|---|---|---|---|
| 2003 | 2000 | $ 63,283 | 26,651 | 89,934 | 110.3% | —% | 110.3% | —% | 110.3% |
| 2004 | 2001 | 74,178 | 31,407 | 105,585 | 100.0 | — | 100.0 | — | 100.0 |
| 2005 | 2002 | 234,361 | 142,393 | 376,754 | 47.3 | — | 47.3 | — | 47.3 |
| 2006 | 2003 | 249,488 | 166,749 | 416,237 | 61.0 | 4.4 | 61.0 | 4.4 | 65.4 |
| 2007 | 2005 | 268,742 | 189,495 | 458,237 | 73.2 | 4.1 | 73.2 | 4.1 | 77.3 |
| 2008 | 2005 | 140,729 | 370,456 | 511,185 | 71.2 | 36.2 | 71.2 | 36.2 | 107.4 |

[1] Actuarial valuation related to annual required contribution for fiscal year.

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

## (1) Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

## (2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuation as of June 30, 2007 are as follows:

(a) Actuarial cost method – entry age, unfunded actuarial accrued liability or funding excess amortized over a fixed 25-year period as a level percentage of expected payroll.

(b) Valuation of assets – recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. 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 cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility of free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes 5.0% of the current retiree population does not receive Part A coverage.

(d) Investment return/Discount Rate – 8.25% per year, compounded annually, net of expenses.

(e) Salary scale – inflation 3.5% per year. Peace Officer/Firefighter – Merit 2.5% per year for the first 6 years of employment, 0.5% thereafter. Productivity 0.5% per year. Others: Merit – 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%. Productivity – 0.5% per year.

(f) Payroll Growth – 4.0% 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 3.5% annually.

(h) Mortality (Pre-retirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Others: based upon the 2001-2005 actual experience. 42% of 1994 Group Annuity Table 1994 Base Year for males and females. Deaths are assumed to be occupation 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Post-retirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year.

(j) Turnover – based upon the 2001–2005 actual withdrawal experience.

(k) Disability – incidence rates based upon the 2001–2005 actual experience. Post–disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 75% of the time for Peace Officers/Firefighters, 50% of the time for Others.

(l) Retirement – retirement rates based on the 2001–2005 actual experience. Deferred vested members are assumed to retire at their earliest retirement date.

(m) Marriage and age difference – wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.

(n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.

(o) Contribution refunds – 15% of those terminating are assumed to have their contributions refunded.

(p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

(q) Post-Retirement Pension Adjustment (PRPA) – 50% and 75% of assumed inflation, of 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute. Disability benefits are loaded by 9% to account for the immediate COLA of 75% of assumed inflection or 2.625%.

(r) Expenses – all expenses are net of the investment return assumption.

(s) Part–time status – part–time members are assumed to earn 1.00 years of credited service per year for Peach Officer/Firefighters and 0.65 years for credited service per year for Other members.

(t) Per capita claims cost – sample claims cost rates for FY08 medical benefits are shown below:

| | Medical | Prescription drugs |
|---|---|---|
| Total | $ 7,196 | 2,173 |
| Medicare Part A & B | 1,151 | N/A |
| Medicare Part B Only | 2,805 | N/A |
| Medicare Part D | N/A | 465 |

(u) Third party administrator fees - $146.18 per person per year; assumed trend rate of 5% per year.

(v) Health cost trend:

| | Medical | Prescription |
|---|---|---|
| FY08 | 8.5% | 12.0% |
| FY09 | 8.0 | 11.0 |
| FY10 | 7.5 | 10.0 |
| FY11 | 7.0 | 9.0 |
| FY12 | 6.5 | 8.0 |
| FY13 | 6.0 | 7.0 |
| FY14 | 5.5 | 6.0 |
| FY15 | 5.0 | 5.0 |
| FY16 and later | 5.0 | 5.0 |

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as of the 2005 valuation.

(w) Aging Factors:

| Age | Medical | Prescription drugs |
|---|---|---|
| 0–44 | 2.0% | 4.5% |
| 45–54 | 2.5 | 3.5 |
| 55–64 | 3.5 | 3.0 |
| 65–74 | 4.0 | 1.5 |
| 75–84 | 1.5 | 0.5 |
| 85+ | 0.5 | 0.0 |

(x) Retired member contributions for medical Benefits – currently contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for Peace Officer/ Firefighter). Eligible Tier 1 members are exempt from contribution requirements. Annual FY08 contributions based on monthly rates shown below for calendar 2007 and 2008 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service:

| Coverage category | FY08 annual contribution | Calendar 2008 monthly contribution | Calendar 2007 monthly contribution |
|---|---|---|---|
| Retiree only | $ 7,080 | 590 | 590 |
| Retiree and spouse | 14,148 | 1,179 | 1,179 |
| Retiree and child(ren) | 9,996 | 883 | 883 |
| Retiree and family | 17,076 | 1,423 | 1,423 |
| Composite | 10,512 | 876 | 876 |

(y) Trend Rate for Retired Member Contributions:

| | |
|---|---|
| FY08 | 7.7% |
| FY09 | 7.3 |
| FY10 | 7.0 |
| FY11 | 6.7 |
| FY12 | 6.3 |
| FY13 | 6.0 |
| FY14 | 5.7 |
| FY15 | 5.3 |
| FY16 | 5.0 |
| FY17 and later | 5.0 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new rates above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

(z) Healthcare participation – 100% of members are assumed to elect 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.

Effective June 30, 2007, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The ARMB adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed of the population experience from June 30, 2001 through June 30, 2005. The changes in assumptions were adopted by the ARMB during the October 2006 ARMB meeting.

Changes in Assumptions since the Last Valuation

(a) Healthcare – 5.0% of current retirees are assumed to be covered by Part B only. Change assumed lag between medical claim incurred and paid dates from 2 months for medical and prescription combined to 2.3 months for medical and 0.6 months for prescription. Added explicit TPA fees based on current admin contract and assumed to increase at 5%. Partially reflected Alaska-specific trend rates to bring forward experience period claims to the base year.

## (3) Contributions – State of Alaska

Alaska Statute 39.35.280 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 22 percent, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Alaska Retirement Management Board (Board) for the fiscal year. During fiscal year 2008, the actuarially required contribution adopted by the Board was 32.51 percent. The additional state contribution is sufficient to contribute the 13.51 percent difference between the ARC and the employer contribution rate of 22 percent.

**Schedule 1**

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Deductions

Year ended June 30, 2008

(In thousands)

| | Administrative | Investment | Totals 2008 |
|---|---|---|---|
| Personal services: | | | |
| Wages | $ 2,472 | 1,305 | 3,777 |
| Benefits | 1,707 | 573 | 2,280 |
| Total personal services | 4,179 | 1,878 | 6,057 |
| Travel: | | | |
| Transportation | 39 | 129 | 168 |
| Per diem | 10 | 19 | 29 |
| Honorarium | — | — | — |
| Total travel | 49 | 148 | 197 |
| Contractual services: | | | |
| Management and consulting | 2,591 | 19,336 | 21,927 |
| Accounting and auditing | 38 | 934 | 972 |
| Data processing | 429 | 397 | 826 |
| Communications | 186 | 47 | 233 |
| Advertising and printing | 79 | 13 | 92 |
| Rentals/leases | 168 | 52 | 220 |
| Legal | 84 | 125 | 209 |
| Medical specialists | 22 | — | 22 |
| Repairs and maintenance | 29 | 14 | 43 |
| Transportation | 6 | 5 | 11 |
| Securities lending | — | 35,347 | 35,347 |
| Other services | 360 | 42 | 402 |
| Total contractual services | 3,992 | 56,312 | 60,304 |
| Other: | | | |
| Equipment | 390 | 15 | 405 |
| Supplies | 92 | 83 | 175 |
| Total other | 482 | 98 | 580 |
| Total administrative and investment deductions | $ 8,702 | 58,436 | 67,138 |

See accompanying independent auditors' report.

**Schedule 2**

**STATE OF ALASKA**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants
Other than Investment Advisors

Year ended June 30, 2008

(In thousands)

| Firm | Services | | 2008 |
|---|---|---|---|
| State Street Corporation | Custodian banking services | $ | 929 |
| Buck Consultant LLP | Actuarial services | | 258 |
| Computer Task Group Inc. | Data processing consultants | | 130 |
| Wostmann & Associates | Data processing consultants | | 103 |
| State of Alaska, Department of Law | Legal services | | 355 |
| First National Bank Alaska | Banking services | | 22 |
| KPMG LLP | Auditing services | | 33 |
| | | $ | 1,830 |

See accompanying independent auditors' report.