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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

(A Component Unit of the State of Alaska)

Financial Statements
and Supplemental Schedules

June 30, 2010

(with summarized financial information for June 30, 2009)

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying statement of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan'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 plan net assets of the State of Alaska Public Employees' Retirement System as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Schedules of Contributions from Employers and the State of Alaska are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 61-63 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules are the responsibility of the management of the Plan. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 29, 2010

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (System) financial position and performance for the year ended June 30, 2010 and 2009. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information and supplemental schedules to better understand the financial condition and performance of the System during the fiscal years ended June 30, 2010 and 2009. Information for fiscal year 2008 is presented for comparative purposes.

Financial Highlights

The System financial highlights as of June 30, 2010 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits increased by $1,104.1 million during fiscal year 2010.
- The System's plan member and employer contributions increased by $32.7 million during fiscal year 2010.
- The State of Alaska directly appropriated $108.0 million during fiscal year 2010 as statutorily required.
- The System net investment income increased $3,075.6 million to $884.1 million during fiscal year 2010.
- The System's pension benefit expenditures totaled $496.0 million during fiscal year 2010.
- The System's postemployment healthcare benefit expenditures totaled $312.9 million in fiscal year 2010.

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 supplemental 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 postemployment 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 liabilities at June 30, 2010 and 2009.

Statement of Changes in Plan Net Assets – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal year ended June 30, 2010 and 2009. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2010 and 2009, and the sources and uses of those funds during fiscal year 2010 and 2009.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the System's financial statements.

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

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

Condensed Financial Information

Plan Net Assets (In thousands)

Description	2010	2009	Increase/(decrease) Amount	Increase/(decrease) Percentage	2008
Assets:					
Cash and cash equivalents	$ 103,558	39,636	63,922	161.3%	34,332
Due from State of Alaska General Fund	11,931	7,301	4,630	63.4	3,580
Contributions receivable	22,958	22,053	905	4.1	27,255
Due from retiree health fund	1,189	1,051	138	13.1	—
Other receivables	4,412	2,084	2,328	111.7	138
Legal settlement	445,415	—	445,415	100.0	—
Due from postemployment healthcare	—	—	—	—	3,490,576
Investments, at fair value	9,255,890	8,550,532	705,358	8.2	10,779,493
Other assets	2,829	2,824	5	0.2	8
Total assets	9,848,182	8,625,481	1,222,701	14.2	14,335,382
Liabilities:					
Accrued expenses	9,572	9,747	(175)	(1.8)	9,022
Claims payable	32,315	—	32,315	100.0	—
Legal fees payable	86,428	—	86,428	100.0	—
Due to Alaska Retiree Health Care Trust	—	—	—	—	3,490,576
Due to other funds	101	102	(1)	(1.0)	70,480
Total liabilities	128,416	9,849	118,567	1,203.8	3,570,078
Net assets	$ 9,719,766	8,615,632	1,104,134	12.8	10,765,304

Changes in Plan Net Assets (In thousands)

Description		2010	2009	Increase/(decrease) Amount	Increase/(decrease) Percentage	2008
Net assets, beginning of year	$	8,615,632	10,765,304	(2,149,672)	(20.0)%	10,942,324
Additions (reductions):						
Contributions		581,222	548,525	32,697	6.0	514,976
Appropriation – State of Alaska		107,953	241,600	(133,647)	(55.3)	185,000
Net investment income (loss)		884,126	(2,191,482)	3,075,608	(140.3)	(336,985)
Transfers		—	—	—	—	3,490,576
Other additions		456,496	8,780	447,716	5,099.3	47
Total additions (reductions)		2,029,797	(1,392,577)	3,422,374	(245.8)	3,853,614
Deductions:						
Pension and postemployment healthcare benefits		808,916	722,493	86,423	12.0	516,197
Refund of contributions		15,393	13,884	1,509	10.9	15,159
Legal settlement fees		86,428	—	86,428	100.0	—
Administrative		14,926	20,718	(5,792)	(28.0)	8,702
Transfers		—	—	—	—	3,490,576
Total deductions		925,663	757,095	168,568	22.3	4,030,634
Increase (decrease) in net assets		1,104,134	(2,149,672)	3,253,806	(151.4)	(177,020)
Net assets, end of year	$	9,719,766	8,615,632	1,104,134	12.8%	10,765,304

Financial Analysis of the Plans

The statement of plan net assets as of June 30, 2010 and 2009 show net assets held in trust for pension and postemployment healthcare benefits of $9,719,766,000 and $8,615,632,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net assets held in trust for pension and postemployment healthcare benefits of $1,104,134,000 or 12.8% from fiscal year 2009 to 2010 and a decrease of $2,149,672,000 or 20.0% from fiscal years 2009 and 2008. 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 System.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives.

Defined Benefit (DB) Plan Asset Allocation

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DB Plan:

	2010	
	Pension & Healthcare Trust	
	Allocation	**Range**
Broad domestic equity	30.0%	± 6%
Global equity ex-U.S.	22.0	± 4
Private equity	7.0	± 5
Fixed income	20.0	± 3
Real assets	16.0	± 8
Absolute return	5.0	± 4
Cash	—	+6
Total	100.0%	
Expected five-year median return	9.04%	
Standard deviation	12.85	

	2009			
	Pension		**Healthcare Trust**	
	Allocation	**Range**	**Allocation**	**Range**
Broad domestic equity	34.0%	± 6%	37.0%	± 6%
Global equity ex-U.S.	20.0	± 4	22.0	± 4
Private equity	7.0	± 5	3.0	± 3
Fixed income	18.0	± 3	20.0	± 3
Real assets	15.0	± 8	8.0	+5/-8
Absolute return	6.0	± 4	7.0	+4/-7
Cash	—	+3	3.0	+5/-3
Total	100.0%		100.0%	
Expected five-year median return	8.15%		7.90%	
Standard deviation	12.85		12.11	

For fiscal years 2010 and 2009, the DB Plan's investments generated an 11.39% and (20.49%) rate of return, respectively. The DB Plan's annualized rate of return was (5.00%) over the last three years and 2.65% over the last five years, which is less than the actuarial assumed rate of return of 8.25%.

(Continued)

Defined Contribution Retirement (DCR) Plan Asset Allocation

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DCR Plan's retiree major medical insurance fund, health reimbursement arrangement fund, and occupational death and disability fund:

	2010	
	Allocation	**Range**
Broad domestic equity	30.0%	± 6%
Global equity ex-U.S.	22.0	± 4
Private equity	7.0	± 5
Fixed income	20.0	± 3
Real assets	16.0	± 8
Absolute return	5.0	± 4
Cash	—	+ 6
Total	100.0%	
Expected return	9.04%	
Standard deviation	12.85	

	2009	
	Allocation	**Range**
Broad domestic equity	34.0%	±6%
Global equity ex-U.S.	20.0	±4
Private equity	7.0	+5/-7
Fixed income	18.0	±3
Real assets	15.0	+5/-15
Absolute return	6.0	+4/-6
Cash	—	+3
Total	100.0%	
Expected return	8.15%	
Standard deviation	12.85	

Actuarial Valuations and Funding Progress

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 Board. Employer contribution rates are recommended by the actuary and the actuarially determined contribution rate is considered for adoption by the Board annually. Decreases in investment results, increasing healthcare costs, and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 61.8%, at June 30,

(Continued)

2009 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

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 2010, (based on the June 30, 2007 actuarial valuation report) the consolidated normal cost rate decreased from 13.72% to 9.46%, the average past service rate decreased from 21.50% to 18.19%, thus producing a total fiscal year 2010, actuarially determined contribution rate of 27.65%. The Board adopted the actuarially determined contribution rate of 27.65% for fiscal year 2010.

		Valuation year (In thousands)	
		2009	**2008**
Valuation assets	$	10,242,978	11,040,106
Accrued liabilities (total benefits)		16,579,371	15,888,141
Unfunded accrued liability		6,336,393	4,848,035
Funding ratio		61.8%	69.5%

Contributions, Investment Income, and Other Additions

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), and other additions as follows:

		Additions (Reductions)(In thousands)				
				Increase/(decrease)		
		2010	**2009**	**Amount**	**Percentage**	**2008**
Plan members contributions	$	152,787	141,073	11,714	8.3%	134,151
Employer contributions		428,435	407,452	20,983	5.1	380,825
Appropriation – State of Alaska		107,953	241,600	(133,647)	(55.3)	185,000
Net investment income (loss)		884,126	(2,191,482)	3,075,608	140.3	(336,985)
Transfer from postemployment health fund		—	—	—	—	3,490,576
Legal settlement		445,414	—	445,414	100.0	—
Other additions		11,082	8,780	2,302	26.2	47
Total	$	2,029,797	(1,392,577)	3,422,374	245.8%	3,853,614

The System's employer contributions increased from $407,452,000 in fiscal year 2009 to $428,435,000 in fiscal year 2010, an increase of $20,983,000 or 5.1%. There was an increase from $380,825,000 during fiscal year 2008 to $407,452,000 during fiscal year 2009, an increase of $26,627,000 or 7.0%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $107,953,000 for fiscal year 2010 and $241,600,000 for fiscal year 2009 in employer on-behalf payments as required by Alaska Statute 39.35.280. The employer on-behalf amount is

(Continued)

calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate decreased from 35.22% in fiscal year 2009 to 27.65% in fiscal year 2010. The employer contribution rate of 22.00% is established in Alaska Statute 39.35.255(a).

The System's net investment income in fiscal year 2010 increased by $3,075,608,000 or 140.3% from amounts recorded in fiscal year 2009 and net investment loss increased in fiscal year 2009 by $1,854,497,000 or a change of (550.3)% compared to amounts recorded in fiscal year 2008. In fiscal year 2010 investments have started recovering from the economic downturn in fiscal year 2009 where investment results were heavily negative. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2010, the System experienced some recovery from the prior year's significant reduction in rates of return on investments. The assumed rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%.

The System's investment rate of returns at June 30, are as follows:

	Year ended		
	2010	**2009**	**2008**
System returns	11.39%	(20.49)%	(3.06)%
Domestic equities	15.45	(26.72)	(13.53)
International equities	12.05	(29.11)	(7.58)
Fixed income	11.19	3.39	6.58
Private equity	18.86	(23.67)	—
Absolute return	6.59	(12.51)	—
Real assets	(0.28)	(21.02)	5.71
International fixed income	—	—	18.96

During fiscal year 2010 the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to $500 million in exchange for dismissal of the lawsuit. The amount allocated to the Public Employees' Retirement System was $359.0 million after legal fees were deducted.

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Benefits and Other Deductions

The primary deduction of the DB Plan is the payment of pension and postemployment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the plans comprise the costs of operations as follows:

	Deductions (In thousands)				
			Increase/(decrease)		
	2010	**2009**	**Amount**	**Percentage**	**2008**
Pension	$ 496,015	466,085	29,930	6.4%	439,123
Postemployment healthcare	312,901	256,408	56,493	22.0	77,074
Refund of contributions	15,393	13,884	1,509	10.9	15,159
Administrative	14,926	20,718	(5,792)	(28.0)	8,702
Legal fees	86,428	—	86,428	100.0	—
Total	$ 925,663	757,095	168,568	22.3%	540,058

The System's pension benefit payments in 2010 increased $29,930,000 or 6.4% from fiscal year 2009 and increased $26,962,000 or 6.1% from fiscal year 2008 to 2009. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2010 increased $56,493,000 or 22.0% from fiscal year 2009 and increased $179,334,000 or 232.7% from fiscal year 2008 to 2009. Healthcare costs continued to rise in fiscal year 2010. However, the increase between fiscal year 2008 and 2009 is largely the result of the establishment of the Alaska Retiree Healthcare Trust (ARHCT) and the transition from paying claims out of the Retiree Health Fund to paying healthcare claims out of the ARHCT.

The System's administrative deductions in 2010 decreased $5,792,000 or 28.0% from fiscal year 2009 and increase $12,016,000 or 138.1% from fiscal year 2009 and 2008. The fiscal year 2010 reduction in administrative expenses is due to a decrease in management and consulting fees.

During fiscal year 2010, the system incurred legal fees of $86,428,000 associated with the legal settlement paid to the State of Alaska by Mercer.

Funding

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

- The employer contribution rate is determined by the System's consulting actuary and adopted by the Board annually. Alaska Statute 39.35.255(a) sets the employer contribution rate at 22.0%. The difference between the actuarially determined rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.

- 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 39.35.280 requires that additional state contributions are made 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 System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2010, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 300 appropriates $165.8 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2011. This appropriation is to fund the difference between the statutory required contribution rate established in Senate Bill 125 of 22% and the actuarially determined contribution rate of 27.96% for fiscal year 2011.

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

The financial market environment continues to challenge investors, although fiscal year 2010 was a positive period for most investment categories. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceed its' actuarially assumed return of 8.25% with a system rate of return of 11.39% at June 30, 2010. Even with investment returns exceeding the actuarial rate of return, the System will continue to see an increase in employer actuarial determined contribution rates due to rising medical costs and past contribution shortfalls.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 35.22% in fiscal year 2009 to 27.65% in fiscal year 2010. The Board adopted the actuarially determined contribution rate of 27.65% for fiscal year 2010, down 7.57 points from the fiscal year 2009 Board adopted actuarially determined contribution rate of 35.22%. The statutory employer contribution rate remained at 22.00% for fiscal years 2009 and 2010.

The June 30, 2009, actuarial valuation for the DB Plan reported a funding ratio of 61.8% and an unfunded liability of $6.34 billion.

For fiscal year 2010 and 2009, the DCR Plan's employer contribution rate was established at 22.00%. The DCR Plan retiree medical plan contribution rate was adopted by the Board to be 0.83% and 0.99% for fiscal year 2010 and 2009, respectively. The DCR Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 1.33% for fiscal year 2010 and 2009. The DCR Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.30% and 0.58% for fiscal year 2010 and 2009, respectively.

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:

State of 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

Statements of Plan Net Assets

June 30, 2010

(with summarized financial information for June 30, 2009)

(In thousands)

	Defined benefit plans			Defined contribution pension trust plans							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ Firefighter	Retiree medical plan	Healthcare reimbursement arrangement	Total	System total June 30, 2010	System total June 30, 2009
Assets:											
Cash and cash equivalents (notes 2 and 3):											
Short-term fixed income pool	$ 63,836	34,990	98,826	500	15	15	50	197	777	99,603	38,051
Great West/participant directed deposit	—	—	—	3,955	—	—	—	—	3,955	3,955	1,585
Total cash and cash equivalents	63,836	34,990	98,826	4,455	15	15	50	197	4,732	103,558	39,636
Receivables:											
Contributions	22,952	5	22,957	1	—	—	—	—	1	22,958	22,053
Legal Settlement	—	445,415	445,415	—	—	—	—	—	—	445,415	—
Due from State of Alaska General Fund	—	13,374	13,374	3,488	74	30	223	924	4,739	18,113	13,145
Due from retiree health fund	—	11,724	11,724	—	—	—	—	—	—	11,724	1,051
Other account receivable	—	4,412	4,412	—	—	—	—	—	—	4,412	2,084
Total receivables	22,952	474,930	497,882	3,489	74	30	223	924	4,740	502,622	38,333
Investments (notes 2, 3, 4 and 5) at fair value:											
Fixed income securities											
Retirement fixed income pool	481,750	424,936	906,686	—	384	130	927	3,558	4,999	911,685	1,001,786
US Treasury fixed income pool	279,587	172,679	452,266	—	90	30	217	832	1,169	453,435	—
High yield pool	133,514	93,202	226,716	—	67	23	163	625	878	227,594	189,551
International fixed income pool	81,747	55,618	137,365	—	67	23	163	625	878	138,243	130,607
Emerging markets debt pool	41,357	28,608	69,965	—	66	22	160	614	862	70,827	65,839
Total fixed income securities	1,017,955	775,043	1,792,998	—	674	228	1,630	6,254	8,786	1,801,784	1,387,783
Broad domestic equity	1,555,438	1,101,756	2,657,194	—	923	313	2,231	8,564	12,031	2,669,225	2,847,537
Global equity Ex-US:											
International equity pool	825,142	573,735	1,398,877	—	549	186	1,327	5,092	7,154	1,406,031	1,311,011
Emerging markets equity pool	309,129	229,103	538,232	—	150	51	362	1,388	1,951	540,183	361,504
Total global equity Ex-US	1,134,271	802,838	1,937,109	—	699	237	1,689	6,480	9,105	1,946,214	1,672,515
Private equity pool	525,415	363,988	889,403	—	235	80	569	2,183	3,067	892,470	734,968
Absolute return pool	272,399	189,332	461,731	—	164	55	396	1,518	2,133	463,864	377,688
Real assets:											
Real estate pool	452,717	322,297	775,014	—	321	109	775	2,974	4,179	779,193	912,386
Real estate investment trust pool	22,057	13,855	35,912	—	9	2	23	88	122	36,034	23,626
Energy pool	34,968	23,173	58,141	—	10	4	25	93	132	58,273	53,783
Farmland pool	194,433	135,043	329,476	—	53	18	128	492	691	330,167	317,513
Farmland water pool	11,315	—	11,315	—	—	—	—	—	—	11,315	10,549
Timber pool	67,245	47,141	114,386	—	33	11	80	307	431	114,817	107,288
Treasury inflation protected securities pool	30,430	23,721	54,151	—	107	37	259	995	1,398	55,549	52,773
Total real assets	813,165	565,230	1,378,395	—	533	181	1,290	4,949	6,953	1,385,348	1,477,918
Other investment funds, at fair value:											
Pooled investment funds	—	—	—	19,200	—	—	—	—	19,200	19,200	2,568
Collective investment funds	—	—	—	77,785	—	—	—	—	77,785	77,785	49,555
Total other investment funds	—	—	—	96,985	—	—	—	—	96,985	96,985	52,123
Total investments	5,318,643	3,798,187	9,116,830	96,985	3,228	1,094	7,805	29,948	139,060	9,255,890	8,550,532
Other	14	2,815	2,829	—	—	—	—	—	—	2,829	2,824
Total assets	5,405,445	4,310,922	9,716,367	104,929	3,317	1,139	8,078	31,069	148,532	9,864,899	8,631,325
Liabilities:											
Accrued expenses	7,736	462	8,198	1,374	—	—	—	—	1,374	9,572	9,747
Claims payable (note 6)	—	32,315	32,315	—	—	—	—	—	—	32,315	—
Legal fees	—	86,428	86,428	—	—	—	—	—	—	86,428	5,844
Due to State of Alaska General Fund	6,182	—	6,182	—	—	—	—	—	—	6,182	—
Due to Retiree Health Medical	—	10,535	10,535	—	—	—	—	—	—	10,535	—
Due to Alaska Retiree Healthcare Trust – TRS	—	101	101	—	—	—	—	—	—	101	102
Total liabilities	13,918	129,841	143,759	1,374	—	—	—	—	1,374	145,133	15,693
Commitment and contingencies (note 9)											
Net assets held in trust for pension and postemployment healthcare benefits	$ 5,391,527	4,181,081	9,572,608	103,555	3,317	1,139	8,078	31,069	147,158	9,719,766	8,615,632

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Assets

June 30, 2010

(with summarized financial information for June 30, 2009)

(In thousands)

	Defined benefit plans			Defined contribution pension trust plans							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All Others	Peace officer/ Firefighter	Retiree medical plan	Healthcare reimbursement arrangement	Total	System total June 30, 2010	System total June 30, 2009
Additions (reductions):											
Contributions:											
Employers	$ 142,157	250,190	392,347	18,258	980	515	3,031	13,304	36,088	428,435	407,452
Plan members	123,066	475	123,541	29,246	—	—	—	—	29,246	152,787	141,073
State of Alaska	44,460	63,493	107,953	—	—	—	—	—	—	107,953	241,600
Total contributions	309,683	314,158	623,841	47,504	980	515	3,031	13,304	65,334	689,175	790,125
Investment income (loss):											
Net appreciation (depreciation) in fair value (note 2)	424,662	305,482	730,144	3,380	144	32	287	913	4,756	734,900	(2,478,207)
Interest	43,499	31,066	74,565	24	24	7	55	204	314	74,879	91,358
Dividends	55,298	36,239	91,537	—	23	8	56	214	301	91,838	213,324
Net recognized loan recovery	—	—	—	—	—	—	—	—	—	—	13
Total investment income (loss)	523,459	372,787	896,246	3,404	191	47	398	1,331	5,371	901,617	(2,173,512)
Less investment expense	17,416	75	17,491	—	—	—	—	—	—	17,491	17,970
Net investment income (loss)	506,043	372,712	878,755	3,404	191	47	398	1,331	5,371	884,126	(2,191,482)
Other:											
Legal settlement	—	445,414	445,414	—	—	—	—	—	—	445,414	—
Other	105	10,977	11,082	—	—	—	—	—	—	11,082	8,780
Total additions (reductions)	815,831	1,143,261	1,959,092	50,908	1,171	562	3,429	14,635	70,705	2,029,797	(1,392,577)
Deductions:											
Pension and postemployment benefit	496,015	312,901	808,916	—	—	—	—	—	—	808,916	722,493
Refunds of contributions	12,364	—	12,364	3,029	—	—	—	—	3,029	15,393	13,884
Legal settlement fees	—	86,428	86,428	—	—	—	—	—	—	86,428	—
Administrative	6,365	8,226	14,591	335	—	—	—	—	335	14,926	20,718
Total deductions	514,744	407,555	922,299	3,364	—	—	—	—	3,364	925,663	757,095
Net increase (decrease)	301,087	735,706	1,036,793	47,544	1,171	562	3,429	14,635	67,341	1,104,134	(2,149,672)
Net assets held in trust for pension and postemployment healthcare benefits											
Balance, beginning of year	5,090,440	3,445,375	8,535,815	56,011	2,146	577	4,649	16,434	79,817	8,615,632	10,765,304
Balance, end of year	$ 5,391,527	4,181,081	9,572,608	103,555	3,317	1,139	8,078	31,069	147,158	9,719,766	8,615,632

See accompanying notes to financial statements.

(1) Description

The following is a brief description of the State of Alaska Public Employees' Retirement System (PERS or System) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (DB Plan) and Defined Contribution Retirement Trust Fund (DCR Plan). PERS is a Component Unit of the State of Alaska (State). The DB Plan is a plan within the System, which includes the DB Retirement Pension Trust Fund and Alaska Retiree Health Trust Fund. The DCR Plan consists of a Participant Directed Fund, Retiree Medical Fund, Health Reimbursement Arrangement Fund, and Occupational Death and Disability Fund. Participants should refer to the System agreement for more complete information.

At June 30, 2010 and 2009 the number of participating local government employers and public organizations including the State was:

State of Alaska	1
Municipalities	77
School districts	53
Other	29
Total employers	160

Inclusion in the DB Plan and 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 System.

Defined Benefit Retirement Plan

General

The DB Plan is a defined benefit, cost-sharing, multiple employer plan within PERS established and administered by the 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 system is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. With the passing of SB141, the PERS DB Plan is closed to all new members effective July 1, 2006.

(1) Description (cont.)

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

	Valuation as of June 30	
	2009	**2008**
Retirees and beneficiaries currently receiving benefits	25,015	24,082
Terminated plan members entitled to future benefits	6,566	6,627
Total current and future benefits	31,581	30,709
Active plan members:		
General	25,089	26,301
Peace officer and firefighter	2,476	2,549
Total active plan membership	27,565	28,850
Total members	59,146	59,559
Active plan members:		
Vested:		
General	18,654	18,130
Peace officer and firefighter	2,017	1,928
Nonvested:		
General	6,435	8,171
Peace officer and firefighter	459	621
Total active plan membership	27,565	28,850

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

(1) Description (cont.)

2-1/4% of the member's average monthly compensation for the second ten years and 2 ½% 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 ½% 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.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired on or after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired on or after July 1, 1996) may pay the full monthly premium if they are under age sixty (or over age 60 with less than 10 years of service for those first hired on or after July 1, 1996), 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 and all other members with 30 years of membership service also receive benefits at no premium cost.

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

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

(Continued)

(1) Description (cont.)

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).

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.

Contributions

DB 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.

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 adopted actuarially determined contribution rate for the fiscal year.

(1) Description (cont.)

Contributions from the State of Alaska

Alaska Statute 39.35.280 requires that additional state contributions are made 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 System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year.

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.

Defined Contribution Retirement Plan

General

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within PERS established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund 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.

(1) Description (cont.)

At June 30, 2010 and 2009, the DCR Pension Trust Fund membership consisted of:

	2010	2009
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	233	110
50% Vested	61	1
75% Vested	3	3
100% Vested	7	9
Total terminated plan members entitled to future benefits	304	123
Total current and future benefits	304	123
Active plan members:		
General	8,760	6,807
Peace officer and firefighter	652	586
Total active plan membership	9,412	7,393
Total members	9,716	7,516
Active plan members:		
Vested General:		
25% Vested	1,873	1,368
50% Vested	1,227	12
75% Vested	180	2
100% Vested	10	8
Total vested general	3,290	1,390
Vested peace officer and firefighter		
25% Vested	203	152
50% Vested	168	—
75% Vested	24	—
100% Vested	—	—
Total vested peace officer and firefighter	395	152
Nonvested:		
General	5,470	5,417
Peace officer and firefighter	257	434
Total nonvested general and peace officer and firefighter	5,727	5,851
Total members	9,716	7,516

(Continued)

(1) Description (cont.)

Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings (losses). A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings (losses), 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.

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.

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.

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.

(Continued)

(1) Description (cont.)

Contributions

DCR 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.

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.

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment.

Participant Accounts

Participant accounts under the DCR Plan are self-directed with respect to investment options. Investment options are disclosed in note 3.

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.

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.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The System's 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.

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.

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.

The DB Plan follows the provisions of 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.

Investments

Investments are reported under the Department of Revenue, Division of Treasury (Treasury). Treasury 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. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

Pooled Investments

With the exception of the Short-term Fixed Income Pool, ownership in the various pools is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total

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

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.

The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. 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 ask prices.

Valuation and Income Allocation

Fixed Income Investment Pools

With the exception of the Emerging Markets Debt Pool, 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. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determines the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares which are valued on the last business day of each month by the investment manager.

Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determines the allocation between permissible securities.

Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water and Timber Pools

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

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

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

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

DCR Plan Participant Directed Investments

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. 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.

Pooled Participant Directed 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. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other 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 U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

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

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

basis. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

Contributions Receivable

Contributions from the System's 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.

Administrative Costs

Administrative costs are paid from investment earnings.

Due from (to) State of Alaska General Fund

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

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 (Board) is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

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

The Department of Revenue, Division of Treasury (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Pool, International Equity Pool, Emerging Markets Equity

(3) Investments (cont.)

Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

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

(4) Deposit and Investment Risk

At June 30, 2010, the System's investments included the following (in thousands):

	Fair value								
	Fixed income pools								
	Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS	Other	Total
Bridge loans	$ —	—	—	369	—	—	—	—	369
Commercial paper	12,521	—	—	—	—	—	—	—	12,521
Convertible bonds	—	—	—	1,197	—	—	—	—	1,197
Corporate bonds	117,286	179,982	6,932	213,598	—	—	—	—	517,798
Deposits	(472)	—	—	—	145	—	—	22,290	21,963
Foreign corporate bonds	—	—	—	—	49,597	—	—	—	49,597
Foreign government bonds	—	—	—	—	86,155	—	—	—	86,155
Mortgage-backed	1,976	263,340	—	—	—	—	—	—	265,316
Mortgage-backed TBA	—	86,360	—	—	—	—	—	—	86,360
Mutual funds	—	—	—	—	—	—	—	67,944	67,944
Other asset-backed	55,040	2,652	—	367	—	—	—	—	58,059
Overnight sweep account (Imcs)	—	—	—	7,787	—	445	—	—	8,232
Short-term investment fund	—	—	—	—	640	—	—	10,496	11,136
U.S. government agency	16,644	4,967	—	—	—	—	—	—	21,611
Treasury bills	30,470	—	—	—	—	—	—	—	30,470
Treasury bonds	—	50,560	39,189	—	—	—	—	—	89,749
Treasury notes	—	143,479	333,022	—	—	—	—	—	476,501
Treasury notes when-issued	—	155,284	60,634	—	—	—	—	—	215,918
Treasury bills when-issued	4,688	—	—	—	—	—	—	—	4,688
Treasury TIP bonds	—	—	—	—	—	—	18,829	—	18,829
Treasury TIP notes	—	—	—	—	—	—	35,819	—	35,819
Yankees:									
Corporate	3,284	—	—	—	—	—	—	—	3,284
Government	—	983	—	—	—	—	—	—	983
Fixed income pools:									
Equity	—	—	—	295	—	—	—	—	295
Warrants	—	—	—	18	—	—	—	—	18
Emerging markets debt pool	—	—	—	—	—	—	—	70,827	70,827
Broad domestic equity pool:									
Convertible bonds	—	—	—	—	—	32,948	—	—	32,948
Equity	—	—	—	—	—	2,471	—	2,438,711	2,441,182
Limited partnership	—	—	—	—	—	—	—	165,384	165,384
Treasury bills	—	—	—	—	—	—	—	1,409	1,409
International equity pool:									
Convertible bonds	—	—	—	—	—	—	—	1,066	1,066
Corporate bonds	—	—	—	—	—	—	—	408	408
Equity	—	—	—	—	—	—	—	1,301,235	1,301,235
Rights	—	—	—	—	—	—	—	262	262
Warrants	—	—	—	—	—	—	—	1	1
Emerging markets equity pool	—	—	—	—	—	—	—	540,183	540,183
Private equity pool:									
Limited partnerships	—	—	—	—	—	—	—	892,434	892,434
Absolute return pool:									
Limited partnerships	—	—	—	—	—	—	—	463,864	463,864
Real estate pool:									
Commingled funds	—	—	—	—	—	—	—	151,945	151,945
Limited partnerships	—	—	—	—	—	—	—	169,844	169,844
Real estate	—	—	—	—	—	—	—	457,402	457,402
Real estate investment trust pool:									
Equity	—	—	—	—	—	—	—	35,860	35,860
Energy pool:									
Limited partnerships	—	—	—	—	—	—	—	58,272	58,272
Farmland pool:									
Agricultural holdings	—	—	—	—	—	—	—	330,167	330,167
Farmland water pool:									
Agricultural holdings	—	—	—	—	—	—	—	11,315	11,315
Timber pool:									
Timber holdings	—	—	—	—	—	—	—	114,818	114,818
Participant directed:									
Collective investment funds	—	—	—	—	—	—	—	76,474	76,474
Pooled investment funds	—	—	—	—	—	—	—	19,200	19,200
Net other assets (liabilities)	(398)	(69,753)	(4,287)	3,962	1,706	190	417	1,030	(67,133)
Other pool ownership	(141,436)	93,831	17,945	—	—	—	484	29,176	—
Unallocated deposit in transit	—	—	—	1	—	—	—	1,313	1,314
Total invested assets	$ 99,603	911,685	453,435	227,594	138,243	36,054	55,549	7,433,330	9,355,493

(4) Deposit and Investment Risk (cont.)

Interest Rate Risk

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

Short–term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

Other DB Plan Fixed Income Pools

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

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ±20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2010, was 4.30 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to ±20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2010, was 4.01 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield portfolio to ±20% of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2010, was 4.40 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to ±25% of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2010, was 6.76 years.

(4) Deposit and Investment Risk (cont.)

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ±20% of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2010 was 8.99 years.

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

At June 30, 2010, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (In years)				
	Retirement	**U.S. Treasury**	**High yield**	**International**	**TIPS**
Corporate bonds	6.19	4.13	4.24	—	—
Convertible bonds	—	—	3.32	—	—
Foreign corporate bonds	—	—	—	6.80	—
Foreign government bonds	—	—	—	6.01	—
Mortgage-backed	2.73	—	—	—	—
Mortgage-backed TBA	2.97	—	—	—	—
Other asset-backed	3.57	—	2.92	—	—
U.S. government agency	6.73	—	—	—	—
U.S. Treasury bonds	10.77	7.98	—	—	7.05
U.S. Treasury notes	4.40	3.53	—	—	2.78
U.S. Treasury notes when-issued	3.52	4.83	—	—	—
Warrants	—	—	3.95	—	—
Yankees:					
Government	6.95	—	—	—	—
Portfolio effective duration	**4.25**	**4.83**	**4.08**	**6.26**	**4.21**

DCR Plan Pooled Investment Funds

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

> For government, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. At June 30, 2010, the duration of the government corporate debt, and mortgage-backed securities was 4.18 years and the duration of the Barclays Capital Aggregate Bond Index was 4.30 years.

The Board does not have a policy with respect to money market or other pooled investment funds to limit interest rate risk. The weighted average maturity of the money market portfolio was 0.15 years at June 30, 2010.

(4) Deposit and Investment Risk (cont.)

DCR Plan Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2010 the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-U.S. Index: 6.95 years, SSgA Long U.S. Treasury Bond Index: 13.75 years, SSgA TIPS Index: 8.06 years, Barclays Gov/Corp Bond Fund: 5.18 years, and the Barclays Intermediate Bond Fund: 3.62 years.

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 nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

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

Intermediate U.S. Treasury Fixed Income:

No more than 5% of the portfolio's assets may be invested in securities that are not full faith and credit obligations of the U.S. government at the time of purchase.
No more than 10% of the portfolio's assets may be invested in securities that are not nominal, coupon-paying United States Treasury obligations at the time of purchase.
Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and nonagency

(4) Deposit and Investment Risk (cont.)

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.

High Yield:

No more than 10% 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% of the portfolio's assets may be invested in unrated securities.
No more than 10% 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.

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.

Convertible Bonds:

Nonrated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's or Fitch. Nonrated securities are limited to 35% of the total market value of the portfolio.
The weighted-average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.
Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.
In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

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% of the portfolio's assets may be invested in investment grade corporate debt.
No more than 5% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.
Corporate, asset-backed and nonagency 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 nonagency mortgage securities may be

(Continued)

(4) Deposit and Investment Risk (cont.)

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 Separate Accounts:

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 Board does not have a policy to limit the concentration of credit risk for the Collective Investment Funds.

(4) Deposit and Investment Risk (cont.)

At June 30, 2010, the System'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						
Investment type	**Rating**	**Short-term**	**Retirement**	**U.S. treasury**	**High yield**	**International**	**Convertible**	**TIPS**
Bridge loans	Not rated	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%	0.00%
Commercial paper	A-1	1.17	—	—	—	—	—	—
Commercial paper	Not rated	4.03	—	—	—	—	—	—
Convertible bonds	AAA	—	—	—	—	—	1.52	—
Convertible bonds	AA	—	—	—	—	—	2.22	—
Convertible bonds	A	—	—	—	—	—	8.61	—
Convertible bonds	BBB	—	—	—	—	—	14.31	—
Convertible bonds	BB	—	—	—	—	—	19.80	—
Convertible bonds	B	—	—	—	0.33	—	18.13	—
Convertible bonds	CCC	—	—	—	—	—	4.51	—
Convertible bonds	Not rated	—	—	—	0.20	—	22.29	—
Corporate bonds	AAA	41.70	0.10	0.77	—	—	—	—
Corporate bonds	AA	1.88	2.64	—	—	—	—	—
Corporate bonds	A	3.74	9.77	—	—	—	—	—
Corporate bonds	BBB	—	6.85	0.75	3.67	—	—	—
Corporate bonds	BB	—	—	—	33.72	—	—	—
Corporate bonds	B	—	—	—	42.61	—	—	—
Corporate bonds	CCC	—	—	—	9.69	—	—	—
Corporate bonds	D	—	—	—	0.12	—	—	—
Corporate bonds	Not rated	1.35	0.39	—	4.04	—	—	—
Foreign corporate bonds	AAA	—	—	—	—	26.91	—	—
Foreign corporate bonds	AA	—	—	—	—	2.89	—	—
Foreign corporate bonds	A	—	—	—	—	4.91	—	—
Foreign corporate bonds	BBB	—	—	—	—	1.16	—	—
Foreign government bonds	AAA	—	—	—	—	13.30	—	—
Foreign government bonds	AA	—	—	—	—	18.67	—	—
Foreign government bonds	A	—	—	—	—	16.02	—	—
Foreign government bonds	NA	—	—	—	—	14.34	—	—
Mortgage-backed	AAA	0.79	27.48	—	—	—	—	—
Mortgage-backed	AA	—	0.64	—	—	—	—	—
Mortgage-backed	A	—	0.18	—	—	—	—	—
Mortgage-backed	Not rated	0.03	0.58	—	—	—	—	—
Mortgage-backed TBA	Not rated	—	9.47	—	—	—	—	—
Other asset-backed	AAA	21.16	0.09	—	—	—	—	—
Other asset-backed	AA	—	0.09	—	—	—	—	—
Other asset-backed	BBB	—	0.11	—	—	—	—	—
Other asset-backed	BB	—	—	—	0.16	—	—	—
Other asset-backed	Not rated	1.68	—	—	—	—	—	—
Overnight sweep account (lmcs)	Not rated	—	—	—	3.42	—	1.23	—
Short-term investment fund	Not rated	—	—	—	—	0.46	—	—
U.S. government agency	AAA	1.07	0.54	—	—	—	—	—
U.S. government agency	Not rated	5.84	—	—	—	—	—	—
U.S. Treasury bills	AAA	12.65	—	—	—	—	—	—
U.S. Treasury bills when-issued	AAA	1.95	—	—	—	—	—	—
U.S. Treasury bonds	AAA	—	5.55	8.64	—	—	—	33.90
U.S. Treasury notes	AAA	—	15.74	73.46	—	—	—	64.48
U.S. Treasury notes when-issued	AAA	—	17.03	13.37	—	—	—	—
Yankees:								
Government	BBB	—	0.11	—	—	—	—	—
Corporate	AAA	0.58	—	—	—	—	—	—
Corporate	AA	0.20	—	—	—	—	—	—
Corporate	Not rated	0.58	—	—	—	—	—	—
No credit exposure		(0.40)	2.64	3.01	1.88	1.34	7.38	1.62
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(4) Deposit and Investment Risk (cont.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2010, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

		Amount (In thousands)
International Equity Pool	$	22,975
International Fixed Income Pool		145

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of countries represented in the Citigroup Non-USD World Government Bond Index and Mexico. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S. and private equity to the following:

Fixed-income	Global equity ex-U.S.	Private equity pool
23%	26%	12%

(4) Deposit and Investment Risk (cont.)

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. At June 30, 2010, the System had exposure to foreign currency risk with the following deposits:

Currency		Amount (In thousands) International fixed income pool	International equity pool
Australian Dollar	$	—	47
Canadian Dollar		—	91
Danish Krone		—	10
Euro Currency		101	20,021
Hong Kong Dollar		—	128
Israeli Shekel		—	22
Japanese Yen		44	2,415
New Taiwan Dollar		—	1
New Zealand Dollar		—	2
Norwegian Krone		—	13
Pound Sterling		—	100
Singapore Dollar		—	49
South Korean Won		—	—
Swedish Krona		—	28
Swiss Franc		—	48
	$	145	22,975

(4) Deposit and Investment Risk (cont.)

At June 30, 2010, the System had exposure to foreign currency risk with the following investments:

	Amount (In thousands)			
	International fixed income pool		**International equity pool**	**Private equity pool**
Currency	**Foreign government**	**Corporate**	**Equity**	**Limited partnerships**
Australian Dollar	$ 19,818	—	28,698	—
Brazilian Real	—	—	2,173	—
Canadian Dollar	—	—	40,156	—
Danish Krone	—	—	11,786	—
Euro Currency	27,141	8,402	404,822	87,876
Hong Kong Dollar	—	—	30,725	—
Indonesian Rupah	—	—	1,926	—
Israeli Shekel	—	—	471	—
Japanese Yen	15,713	41,195	309,353	—
Malaysian Ringgit	—	—	1,814	—
New Taiwan Dollar	—	—	5,122	—
New Zealand Dollar	—	—	1,205	—
Norwegian Krone	—	—	6,712	—
Polish Zloty	5,104	—	—	—
Pound Sterling	18,380	—	232,457	13,288
Singapore Dollar	—	—	7,144	—
South African Rand	—	—	724	—
South Korean Won	—	—	22,142	—
Swedish Krona	—	—	23,319	—
Swiss Franc	—	—	90,902	—
Turkish Lira	—	—	4,066	—
	$ 86,156	49,597	1,225,717	101,164

At June 30, 2010, the Board 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.

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. This provision does not apply to securities backed by the full faith and credit of the United States Government.

(Continued)

(4) Deposit and Investment Risk (cont.)

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, Intermediate U.S. Treasury Fixed Income, High Yield, International Fixed Income and Convertible Bond 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 Board does not have a policy with regard to concentration of credit for the TIPS Pools.

At June 30, 2010, the System did not have exposure to any one issuer greater than 5% of total invested assets.

(5) Foreign Exchange, Derivative, and Counterparty Credit Risk

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2010 the Board had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value at June 30, 2010		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Rights	Investment revenue	$ 419	Common stock	$ 262	8,234
Warrants	Investment revenue	(80)	Common stock	19	7
Index futures long	Investment revenue	3,165	Futures	(992)	19
FX forwards	Investment revenue	2,187	Long term instruments	419	—
TBA transactions long	Investment revenue	9,172	Long term instruments	1,033	82,096
Grand totals		$ 14,863		$ 741	

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. 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) Foreign Exchange, Derivative, and Counterparty Credit Risk (cont.)

At June 30, 2010 the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

Counterparty name	Amount of net exposure	S&P rating	Fitch rating	Moody's rating
Credit Suisse London Branch (GFX)	$ 116	A+	AA-	Aa1
Mellon Bank	757	AA-	AA-	Aa2

Maximum amount of loss Alaska ARMB (PERS) would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2010	$ 873
Effect of collateral reducing maximum exposure	—
Liabilities subject to netting arrangements reducing exposure	—
Resulting net exposure	$ 873

(6) Claims Payable

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported, as of the balance sheet date. The Plan's reserve estimates are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are reevaluated periodically to consider the effects of inflation, claims settlement trends and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the healthcare business.

(6) Claims Payable (cont.)

Changes in the balances of claims liabilities follows:

		2010 (In thousands)
Beginning of year	$	—
Benefit deductions		312,901
Benefits paid		(280,586)
Total, end of year	$	32,315
End of year:		
Due to State of Alaska General Fund for outstanding warrants	$	—
Outstanding claims received but not paid		—
Incurred but not reported		32,315
Total, end of year	$	32,315

(7) Transfers

During fiscal year 2009, the System transferred the $3,490,576,000 balance of the Postemployment Healthcare Fund as of June 30, 2008, to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which became effective 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 other postemployment benefits (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 (VCP) 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 received formal VCP decision from the IRS in May 2009.

(8) Funded Status and Funding Progress

The funded status of the defined benefit pension and postemployment healthcare benefit plan is as follows (dollars in thousands):

	Actuarial valuation date	Actuarial valuation assets	Actuarial aggregate accrued liability (AAL) – entry age	Unfunded actuarial accrued liability (UAAL)	Assets as a percent of accrued liability (funded ratio)	Covered payroll	UAAL as a percentage of covered payroll
Pension	June 30, 2009 $	6,108,528	9,702,086	3,593,558	63.0% $	1,585,490	226.7%
Post employment healthcare	June 30, 2009	4,134,450	12,770,990	8,636,540	32.4	1,585,490	544.7

The funded status of the defined contribution retirement plan occupational death and disability and retiree medical benefits is as follows (dollars in thousands):

	Actuarial valuation date	Actuarial valuation assets	Actuarial accrued liability (AAL) – entry age	Unfunded actuarial accrued liability (UAAL)	Funded ration	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2009 $	3,138	403	(2,735)	778.7% $	314,118	(0.9)%
Retiree medical	June 30, 2009	5,475	4,594	(881)	119.2	314,118	(0.3)

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 schedules 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 schedules of contributions from employers 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

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

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:

	Defined benefit	Defined contribution ODD and retiree medical
Valuation date	June 30, 2009	June 30, 2009
Actuarial cost method	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical
Amortization method	Level dollar, closed with bases established annually	Level dollar, closed with bases established annually
Equivalent single amortization period	20 years	24 years
Asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.25% for pension, 4.70% for healthcare (includes inflation at 3.5%)	8.25% (includes inflation at 3.5%)
Projected salary increases	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 0.0%. Productivity – 0.5% per year.	4.0%
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

(Continued)

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

Health cost trend for defined benefit, defined contribution occupation death and disability and retiree medical plans:

Fiscal year	Medical	Prescription drugs
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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.

(9) Commitments and Contingencies

Commitments

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2010, the System's share of the unfunded commitment totaled $25,217,850. This commitment can be withdrawn annually in December with ninety days notice.

The Board 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, 2010, the System's share of these unfunded commitments totaled $561,232,783. These commitments are estimated to be paid through 2020.

The Board entered into agreements through external investment managers to provide capital funding for a limited partnerships as it continues to build the energy investment portfolio. At June 30, 2010, the System's share of these unfunded commitments totaled $29,147,275. These commitments are estimated to be paid through 2017.

(9) Commitments and Contingencies (cont.)

The Board 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, 2010, the System's share of these unfunded commitments totaled $125,100,064. These commitments are estimated to be paid through 2019.

Contingencies

The Division of Retirement and Benefits (the Division) is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Division's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Division.

(10) Medicare Part D Retiree Drug Subsidy

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to twenty-eight percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2007. The RDS for the six month period ended June 30, 2010, cannot be reasonably estimated, and therefore is not recorded in the financial statements for the period ended June 30, 2010.

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Defined Benefit Retirement Pension Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	$ 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
2008	7,210,772	9,154,282	1,943,510	78.8	1,577,846	123.2
2009	6,108,528	9,702,086	3,593,558	63.0	1,585,490	226.7

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
Defined Benefit Retirement Postemployment Healthcare Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	$ 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	11,455,015	8,745,172	23.7	1,590,693	549.8
2007	3,161,956	11,108,553	7,946,597	28.5	1,605,819	494.9
2008	3,829,334	13,013,450	9,184,116	29.4	1,577,846	582.1
2009	4,134,450	12,770,990	8,636,540	32.4	1,585,490	544.7

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
Defined Contribution Retirement Occupational Death and Disability Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2007	$ 188	48	(140)	391.7%	105,611	(0.1)%
2008	1,288	242	(1,046)	532.2	203,955	(0.5)
2009	3,138	403	(2,735)	778.7	314,118	(0.9)

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 Funding Progress
Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2007	$ 1,067	803	(264)	132.9%	105,611	(0.2)%
2008	2,719	2,123	(596)	128.1	203,955	(0.3)
2009	5,475	4,594	(881)	119.2	314,118	(0.3)

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
Defined Benefit Retirement Pension and Postemployment Healthcare Benefit

June 30, 2010

(In thousands)

Year ended June 30	Actuarial valuation date as of June 30 [1]	Annual required contribution			Pension percentage contributed		Postemployment healthcare percentage contributed		Total percentage contributed (note 3)
		Pension	Postemployment healthcare	Total	By employer	By State of Alaska (note 3)	By employer	By State of Alaska (note 3)	
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	2004	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
2009	2006	166,016	391,321	557,337	68.1	48.0	68.1	41.4	111.4
2010	2007	162,177	275,306	437,483	87.7	27.4	90.9	23.1	114.4

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

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
Defined Contribution Retirement Occupational Death and Disability Benefits

June 30, 2010

(In thousands)

Year ended June 30		Annual required contribution	Percentage of ARC contributed
2007	$	181	100.0%
2008		1,063	100.0
2009		1,787	100.0

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
Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010

(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 1,028	100.0%
2008	1,845	85.0
2009	3,152	85.0

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 System 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 defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2009 are as follows:

(a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded actuarial accrued liability is amortized over 25 years as a level percentage of pay.

(b) Valuation of assets – recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at fair value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(c) Valuation of medical 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 that 3.5% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, the valuation assumes that 3.5% of the current Medicare retiree population does not receive Part A coverage.

(d) Investment return/discount rate – 8.25% per year (geometric), 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 (inflation + productivity).

(Continued)

(2) Actuarial Assumptions and Methods (cont.)

(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 (Preretirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin. Others: based upon the 2001-2005 actual experience. 42% of 1994 Group Annuity Table, 1994 Base Year without margin for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Postretirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.

(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 terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.

(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, or 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute.

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

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

(2) Actuarial Assumptions and Methods (cont.)

(t) Final Average Earnings – final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.

(u) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 7,503	2,419
Medicare Part A and B	1,336	2,419
Medicare Part B Only	4,754	2,419
Medicare Part D	N/A	477

(v) Third party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(w) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.0% is applied to the FY09 rate claims cost to get the FY10 claims costs.

Fiscal year	Medical	Prescription drugs
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

(2) Actuarial Assumptions and Methods (cont.)

(x) 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 – 94	0.5	—
95+	—	—

(y) 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 FY10 contributions based on monthly rates shown below for calendar 2009 and 2010 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled:

	Calendar 2010		Calendar 2009
Coverage category	Annual contribution	Monthly contribution	Monthly contribution
Retiree only	$ 8,628	719	631
Retiree and spouse	17,268	1,439	1,262
Retiree and child(ren)	12,192	1,016	891
Retiree and family	20,832	1,736	1,523
Composite	12,816	1,068	937

(2) Actuarial Assumptions and Methods (cont.)

(z) Trend rate for retired member contributions – the table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 7.0% is applied to the FY10 retired member medical contributions to get the FY11 retired member medical contributions.

Fiscal year:	
2010	7.0%
2011	6.7
2012	6.3
2013	6.0
2014	5.7
2015	5.3
2016	5.0
2017	5.0
2018 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY09 retired member medical contributions are reflected in the valuation so trend on such contribution during FY09 is not applicable.

(aa) Healthcare participation – 100% of members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2009 are as follows:

(a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded accrued liability is amortized over 25 years 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. This method will be phased in over five years. Market Value of Assets were $0 as of June 30, 2006. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of market value of assets.

(c) Valuation of retiree medical benefits – due to lack of experience for the DCR Plan only, base claims cost are based on those described in the actuarial valuation as of June 30, 2009 for defined benefit pension and postemployment healthcare benefit plan (PERS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, fiscal year 2009 claims cost were reduced to 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend cost to the ultimate trend rate.

(2) Actuarial Assumptions and Methods (cont.)

(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 (Preretirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year without margin. Others: based upon the 2001-2005 actual mortality experience of the PERS DB Plan. 42% of the 1994 Group Annuity Table, 1994 Base Year without margin for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Postretirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year without margin.

(j) Turnover – select rates were estimated and ultimate rates were set to the PERS DB Plan's rate loaded by 10%.

(k) Disability – incidence rates based upon the 2001-2005 actual experience of the PERS DB Plan. 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.

(Continued)

(2) Actuarial Assumptions and Methods (cont.)

(l) Retirement – retirement rates were estimated in accordance with the following table:

Age	Rate
< 55	2%
55-59	3
60	5
61	5
62	10
63	5
64	5
65	25
66	25
67	25
68	20
69	20
70	100

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

(o) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 7,503	2,419
Medicare Part A and B	1,336	2,419
Medicare Part B Only	4,754	2,419
Medicare Part D	N/A	477

(p) Third party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(q) Base claims cost adjustments – due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following adjustments were made: 0.941 for medical plan, 0.993 for the prescription drug plan, and 0.952 for the annual indexing for member cost sharing.

(Continued)

(2) Actuarial Assumptions and Methods (cont.)

(r) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY10 rate claims cost to get the FY11 claims costs.

Fiscal year	Medical	Prescription drugs
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been populated with assumptions that are specific to the State of Alaska.

(s) 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 – 94	0.5	—
95+	—	—

(t) Retiree medical participation – 100% of member and their spouses are assumed to elect retiree medical benefits as soon as they are eligible.

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

(Continued)

(2) Actuarial Assumptions and Methods (cont.)

Changes in Assumptions Since the Last Valuation

There were no changes in assumptions from the prior valuation for the defined benefit pension and postemployment healthcare benefit plan.

There was one change in assumptions for the defined contribution retirement plan occupational death and disability and retiree medical benefits from the prior valuation. The occupational factor was changed from 100% for all deaths and disabilities to 75% for Peace Officers/Firefighters deaths and disabilities, 50% for others deaths and disabilities.

(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%, 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 2010, the actuarially required contribution adopted by the Board for fiscal year 2012 was 30.76%.

Schedule 1

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

Schedule of Administrative and Investment Deductions (Unaudited)

Defined Benefit Plan

Year ended June 30, 2010 and 2009

(In thousands)

			Totals	
	Administrative	**Investment**	**2010**	**2009**
Personal services:				
Wages	$ 3,160	1,101	4,261	4,348
Benefits	1,735	472	2,207	2,673
Total personal services	4,895	1,573	6,468	7,021
Travel:				
Transportation	46	113	159	156
Per diem	10	18	28	24
Honorarium	3	—	3	2
Total travel	59	131	190	182
Contractual services:				
Management and consulting	93,708	14,280	107,988	27,644
Accounting and auditing	36	656	692	812
Data processing	841	480	1,321	1,187
Communications	212	35	247	183
Advertising and printing	130	4	134	90
Rentals/leases	239	84	323	241
Legal	277	130	407	133
Medical specialists	10	—	10	36
Repairs and maintenance	39	21	60	75
Transportation	2	3	5	23
Other services	311	47	358	410
Total contractual services	95,805	15,740	111,545	30,834
Other:				
Equipment	203	10	213	301
Supplies	57	37	94	204
Total other	260	47	307	505
Total administrative and investment deductions	$ 101,019	17,491	118,510	38,542

See accompanying independent auditors' report.

Schedule 2

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

Schedule of Administrative Deductions (Unaudited)

Defined Contribution Retirement Trust Plan

Year ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Personal services:			
Wages	$	94	62
Benefits		9	—
Total personal services		103	62
Travel:			
Transportation		3	—
Per diem		1	—
Total travel		4	—
Contractual services:			
Management and consulting		191	46
Accounting and auditing		—	22
Data processing		12	1
Communications		3	—
Rentals/leases		7	—
Legal		8	15
Repairs and maintenance		2	—
Other services		2	—
Total contractual services		225	84
Other:			
Equipment		1	—
Supplies		2	—
Total other		3	—
Total administrative and investment deductions	$	335	146

See accompanying independent auditors' report.

Schedule 3

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

Schedule of Payments to Consultants
Other than Investment Advisors (Unaudited)

Year ended June 30, 2010 and 2009

(In thousands)

Firm	Services	2010	2009
Paul, Weiss, Rifkind, Wharton & Garrison, LLP	Legal services	$ 86,428	—
State Street Bank and Trust Corporation	Custodian banking services	648	794
Computer Task Group Inc.	Data processing consultants	508	153
Buck Consultant LLP	Actuarial services	412	426
State of Alaska, Department of Law	Legal services	267	379
Wostmann & Associates	Data processing consultants	101	89
Six Degrees Consulting	Data processing consultants	33	—
KPMG LLP	Auditing services	33	50
First National Bank Alaska	Banking services	—	19
		$ 88,430	1,910

See accompanying independent auditors' report.