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

Financial Statements and Supplemental Schedules

June 30, 2015
(With summarized financial information for June 30, 2014)

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Anchorage, AK 99501

Independent Auditors' Report

The 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 combining statement of fiduciary net position of the State of Alaska Public Employees' Retirement System (the System) (a component unit of the State of Alaska) as of June 30, 2015, and the combining statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Public Employees' Retirement System as of June 30, 2015, and the changes in fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior-Year Comparative Information

We have previously audited the System's 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated December 9, 2014. In our opinion, the summarized comparative information presented herein as of and for the year then ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-11, and the schedule of changes in employer net pension liability and related ratios, schedule of employer and nonemployer contributions, schedule of investment returns, schedule of funding progress, and schedule of contributions from employers and the state of Alaska on pages 33–49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules on pages 50-51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 4, 2015

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, 2015. 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 year ended June 30, 2015. Information for fiscal years 2014 and 2013 is presented for comparative purposes.

Financial Highlights

The System's financial highlights as of June 30, 2015 were as follows:

- The System's fiduciary net position restricted for pension benefits, postemployment healthcare benefits, and individuals increased by $1.074 billion during fiscal year 2015.
- The System's plan member and employer contributions increased by $8.6 million during fiscal year 2015.
- The State of Alaska directly appropriated $1 billion during fiscal year 2015.
- The System's net investment income decreased $1.922 billion to $479.6 million during fiscal year 2015.
- The System's pension benefit expenditures totaled $686.5 million during fiscal year 2015.
- The System's postemployment healthcare benefit expenditures totaled $362.3 million in fiscal year 2015.

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 composed of three components: (1) combining statement of fiduciary net position, (2) combining statement of changes in fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

Combining Statement of Fiduciary Net Position – This statement presents information regarding the System's assets, liabilities, and resulting net position restricted for pension benefits, postemployment healthcare benefits, and individuals. 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, 2015.

Combining Statement of Changes in Fiduciary Net Position – This statement presents how the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals changed during the fiscal year ended June 30, 2015. This statement presents contributions and investment income 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, 2015 and the sources and uses of those funds during fiscal year 2015.

Notes to the 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 five 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 (in thousands)

System net position

Description	2015	2014	Increase (decrease) Amount	Increase (decrease) Percentage	2013
Assets:					
Cash and cash equivalents	$ 344,298	501,598	(157,300)	(31.4)%	$ 194,986
Due from State of Alaska General Fund	17,210	16,981	229	1.3	18,484
Contributions receivable	29,744	29,188	556	1.9	28,860
Due from retiree health fund	2	—	2	—	3
Other receivables	219	8	211	2,637.5	4
Investments, at fair value	16,115,456	14,872,108	1,243,348	8.4	12,849,055
Other assets	2,110	4,365	(2,255)	(51.7)	3,401
Total assets	16,509,039	15,424,248	1,084,791	7.0	13,094,793
Liabilities:					
Accrued expenses	13,150	11,416	1,734	15.2	9,972
Claims payable	46,147	48,280	(2,133)	(4.4)	54,764
Forfeiture payable to employers	22,545	17,613	4,932	28.0	12,936
Due to State of Alaska General Fund	11,854	5,641	6,213	110.1	5,322
Total liabilities	93,696	82,950	10,746	13.0	82,994
Net position	$ 16,415,343	15,341,298	1,074,045	7.0%	$ 13,011,799

Changes in system net position

Description	2015	2014	Increase (decrease) Amount	Increase (decrease) Percentage	2013
Net position, beginning of year	$ 15,341,298	13,011,799	2,329,499	17.9%	$ 11,635,949
Additions:					
Contributions - Employers and members	655,049	646,412	8,637	1.3	632,804
Nonemployer Contribution – State of Alaska	1,000,000	312,473	687,527	220.0	307,302
Net investment income	479,616	2,402,053	(1,922,437)	(80.0)	1,445,315
Other additions	47,020	17,438	29,582	169.6	10,468
Total additions	2,181,685	3,378,376	(1,196,691)	(35.4)	2,395,889
Deductions:					
Pension and postemployment healthcare benefits	1,048,786	996,129	52,657	5.3	969,729
Refund of contributions	34,116	30,503	3,613	11.8	23,801
Administrative	24,738	22,245	2,493	11.2	17,343
Total deductions	1,107,640	1,048,877	58,763	5.6	1,010,873
Adjustment to beginning net assets for prior years' forfeitures	—	—	—	—	9,166
Increase (decrease) in net position	1,074,045	2,329,499	(1,255,454)	(53.9)	1,375,850
Net position, end of year	$ 16,415,343	15,341,298	1,074,045	7.0%	$ 13,011,799

Financial Analysis of the System

The statements of fiduciary net position as of June 30, 2015 and 2014 show net position restricted for pension benefits, postemployment healthcare benefits, and individuals of $16,415,343,000 and $15,341,298,000, respectively. The entire amount is available to cover the System's obligation to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

During the Twenty-Eighth Alaska State Legislature and as part of the State's Fiscal Year 2015 Capital Budget, Senate Bill 119 appropriated $1 billion from the Constitutional Budget Reserve Fund to the Department of Administration for deposit in the Defined Benefit Pension and the Alaska Retiree Healthcare Trust funds. In addition, House Bill 385 specified that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years would be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the PERS DB Plan.

These amounts represent an increase in the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals of $1,074,045,000 or 7% from fiscal year 2014 to 2015 and an increase of $2,329,499,000 or 17.9% from fiscal year 2013 to 2014. Over the long term, plan member, employer and nonemployer 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 (the 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.

System Asset Allocation

During fiscal years 2015 and 2014, the Board adopted the following asset allocation for the Defined Benefit Pension Plan (DB Plan) and Defined Contribution Pension Plan's (DC Plan) retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

	2015	
	Pension and Healthcare Trust	
	Allocation	**Range**
Broad domestic equity	26.0%	± 6%
Global equity ex-U.S.	25.0	± 4
Private equity	9.0	± 5
Real assets	17.0	± 8
Absolute return	5.0	± 4
Fixed composite	12.0	± 8
Alternative equity	3.0	-2⁄+4
Cash equivalents	3.0	-3⁄+8
Total	100.0%	
Expected return five-year geometric mean	8.09%	
Projected standard deviation	15.01	

	2014	
	Pension and Healthcare Trust	
	Allocation	**Range**
Broad domestic equity	26.0%	± 6%
Global equity ex-U.S.	25.0	± 4
Private equity	9.0	± 5
Real assets	17.0	± 8
Absolute return	5.0	± 4
Fixed composite	12.0	± 5
Alternative equity	3.0	± 2
Cash equivalents	3.0	-3⁄+1
Total	100.0%	
Expected return five-year geometric mean	7.16%	
Projected standard deviation	14.81	

For fiscal years 2015 and 2014, the DB Plan's investments generated a 3.29% and 18.56% rate of return, respectively.

(Continued)

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, and other additions as follows:

	Additions (in thousands)				
			Increase (decrease)		
	2015	**2014**	**Amount**	**Percentage**	**2013**
Employer contributions	$ 483,881	477,133	6,748	1.4%	$ 467,510
Plan member contributions	171,168	169,279	1,889	1.1	165,294
Nonemployer contributions – State of Alaska	1,000,000	312,473	687,527	220.0	307,302
Net investment income	479,616	2,402,053	(1,922,437)	(80.0)	1,445,315
Other additions	47,020	17,438	29,582	169.6	10,468
Total	$ 2,181,685	3,378,376	(1,196,691)	(35.4)%	$ 2,395,889

The System's employer contributions increased from $477,133,000 in fiscal year 2014 to $483,881,000 in fiscal year 2015, an increase of $6,748,000 or 1.4%. The System's employer contributions increased from $467,510,000 in fiscal year 2013 to $477,133,000 in fiscal year 2014, an increase of $9,623,000 or 2.1%. The increase in employer contributions is attributable to increase contributions from the defined benefit unfunded liability portion of DC Plan salaries and salary floor payments.

The State of Alaska provided $1 billion for fiscal year 2015 and $312,473,000 for fiscal year 2014 in nonemployer contributions as required by Alaska Statute (AS) 39.35.280. The employer on-behalf amount (or additional state contributions as defined in AS 39.35.280) is 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 employer effective contribution rate of 22.00% is established in AS 39.35.255(a). In fiscal year 2015, in an effort to bolster the funding levels of both pension plans, the Alaska legislature appropriated an amount in excess of the actuarially determined contribution rate, in anticipation that this additional funding would decrease future nonemployer contributions.

The System's net investment income in fiscal year 2015 decreased by $1,922,437,000 or 80.0% from amounts recorded in fiscal year 2014. The System's net investment income in fiscal year 2014 increased by $956,738,000 or 66.2% from amounts recorded in fiscal year 2013. Over the long term, investment income has been a major component of additions to System assets.

(Continued)

The System's investment rates of return at June 30 are as follows:

	Year ended		
	2015	**2014**	**2013**
System returns	3.29%	18.46%	12.59%
Domestic equities	7.84	25.45	21.24
International equities	(3.32)	23.41	15.03
Fixed income	(0.74)	5.14	0.57
Private equity	13.77	24.19	11.68
Absolute return	9.24	6.51	8.41
Real assets	3.70	12.71	10.65
Cash equivalents	0.28	0.26	0.25
Alternative equity	(0.89)	24.55	—
Actuarial rate of return	8.00	8.00	8.00

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 DC Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the System comprise the cost of operations as follows:

	Deductions (in thousands)				
			Increase (decrease)		
	2015	**2014**	**Amount**	**Percentage**	**2013**
Pension benefits	$ 686,493	640,518	45,975	7.2%	$ 599,415
Postemployment healthcare benefits	362,293	355,611	6,682	1.9	370,314
Refund of contributions	34,116	30,503	3,613	11.8	23,801
Administrative	24,738	22,245	2,493	11.2	17,343
Total	$ 1,107,640	1,048,877	58,763	5.6%	$ 1,010,873

The System's pension benefit payments in 2015 increased $45,975,000 or 7.2% from fiscal year 2014 and increased $41,103,000 or 6.9% from fiscal year 2013 to 2014. The increase in pension benefits in fiscal year 2014 is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2015 increased $6,682,000 or 1.9% from fiscal year 2014 and decreased $14,703,000 or 4.0% from fiscal year 2013 to 2014. The Division contracted with two new TPAs in January 2014, both of whom use networks to help reduce healthcare benefit costs. Currently, the System's DB healthcare trust is benefiting through the use of the networks provided by the TPAs by seeing lower costs from the prior TPA, as well as reduced annual cost increases percentagewise.

The System's refund of contributions increased $3,613,000 or 11.8% from fiscal year 2014 to 2015 and increased $6,702,000 or 28.2% from fiscal year 2013 to 2014. The increase in refunds is primarily in the DC Plan, where refunds increased $6,232,000 between fiscal year 2014 to 2015, and increased $3,642,000 from fiscal year 2012 to 2013. The System continues to look at ways to retain member contributions by emphasizing the low investment costs to members to maintain funds within the DC Plan, with a number of investment options available.

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The System's administrative deductions in 2015 increased $2,493,000 or 11.2% from fiscal year 2014 and increased $4,902,000 or 28.3% from fiscal year 2013 to 2014. The increase in administrative costs in fiscal year 2014 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

Net Pension Liability

GASB Statement No. 67, implemented in 2014, requires the DB Plan to report the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and the Net Pension Liability (NPL). The TPL determines the total obligation for the DB Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The DB Plan's FNP determines the assets available to pay the DB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the DB Plan. The difference between the TPL and FNP is the NPL, or the unfunded portion of the TPL.

The components of the net pension liability of the participating employers were as follows (in thousands):

		2015	2014
Total pension liability	$	13,456,876	12,395,578
Plan fiduciary net position		(8,606,862)	(7,731,438)
Employers' net pension liability	$	4,850,014	4,664,140
Plan fiduciary net position as a percentage of the total pension liability		63.96%	62.37%

Funding

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

- The employer contribution rate is determined by the System's consulting actuary and considered for adoption by the Board annually. Alaska Statute 39.35.255(a) sets the employer effective contribution rate at 22.00%. The difference between the actuarially determined contribution rate adopted by the Board and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation per AS 39.35.280.
- AS 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 are sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- 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.
- The Board works with an external consultant to determine the proper asset allocation strategy.

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Legislation

During fiscal year 2015, the Twenty-Ninth Alaska State Legislature enacted one law that affects the System:

- House Bill 2001 appropriates $126.5 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and the retiree healthcare trust as partial payment of the participating employers' contribution for fiscal year ending June 30, 2016. This appropriation is to fund the difference between the statutory required contribution of 22% paid by participating employers for both defined benefit and defined contribution members, and the actuarially determined contribution rate adopted by the Board for that fiscal year, and is specified in Alaska Statute 14.25.085 – Additional State Contributions.

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

Fiscal year 2015 was another year of positive, but significantly lower investment returns than fiscal year 2014. Net investment income decreased from $2,402,053,000 in fiscal year 2014 to $479,616,000 in fiscal year 2015, a decrease of $1,922,437,000 or 80.0%. The return on the System's investments was less than one-half the actuarially assumed return of 8.00% with the System's rate of return of 3.29% at June 30, 2015. In fiscal year 2014, the System's investments returned 18.46%, more than twice the actuarially assumed rate of 8.00%. The Board continues to work with its investment counsel and the Alaska Department of Revenue, Treasury Division, to diversify the portfolio of the System to maintain an optimal risk/return ratio.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 35.68% in fiscal year 2014 to 44.03% in fiscal year 2015. The Board adopted the fiscal year 2015 actuarially determined contribution rate of 44.03%, which represented an increase of 8.35%. The statutory employer effective contribution rate remained at 22.00% for fiscal years 2015 and 2014.

The June 30, 2014 and 2013 actuarial valuation reports for the DB Plan reported funding ratios based on valuation assets of 70.1% and 60.8%, respectively, as well as unfunded liabilities of $6.3 and $7.8 billion, respectively.

The System expects a decline in the DB Plan's recommended actuarially determined contribution rate and a corresponding increase in the pension and healthcare funding ratios as of the June 30, 2015 actuarial valuation report with the infusion of the $1 billion appropriated from the Constitutional Budget Reserve Fund during fiscal year 2015. Additionally, due to statutory changes implemented by the Alaska Legislature in conjunction with the $1billion infusion to the PERS DB pension plan, the statute (1) established the level percentage of pay approach as a replacement to the level dollar approach and (2) reset the 25-year amortization period beginning July 1, 2014, actuarial projections reflect that the required additional state contribution would be significantly reduced for a period of time.

For fiscal years 2015 and 2014, the DC Plan's employer contribution rate was established by Alaska statute at 22.00%. The DC Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 1.06% and 1.14% for peace officers/firefighters, and 0.22% and 0.20% for all other public employees. The DC Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 1.66% and 0.48%, 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 information should be addressed to:

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

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

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

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

Combining Statement of Fiduciary Net Position

June 30, 2015

(With summarized financial information for June 30, 2014)

(In thousands)

			Other Postemployment Benefit Plans					
	Defined Benefit Pension	**Defined Contribution Pension**	**Alaska Retiree Healthcare Trust**	**Occupational Death and Disability**	**Retiree medical**	**Healthcare reimbursement arrangement**	**System total June 30, 2015**	**System total June 30, 2014**
Assets:								
Cash and cash equivalents (notes 3 and 4):								
Short-term fixed income pool	$ 152,381	18,083	160,559	502	1,455	5,353	338,333	488,169
Empower money market fund - nonparticipant directed	—	5,965	—	—	—	—	5,965	13,429
Total cash and cash equivalents	152,381	24,048	160,559	502	1,455	5,353	344,298	501,598
Receivables:								
Contributions	27,517	628	1,341	19	80	159	29,744	29,188
Due from State of Alaska General Fund	5,330	5,162	4,552	126	676	1,364	17,210	16,981
Due from Retiree Health Fund	2	—	—	—	—	—	2	—
Other accounts receivable	213	6	—	—	—	—	219	8
Total receivables	33,062	5,796	5,893	145	756	1,523	47,175	46,177
Investments (notes 3, 4, and 5), at fair value:								
Fixed income securities:								
U.S. Treasury fixed income pool	474,205	—	385,311	1,042	2,371	10,496	873,425	865,965
Taxable municipal bonds	81,663	—	66,355	179	408	1,808	150,413	156,151
Tactical fixed income pool	43,868	—	35,645	97	219	971	80,800	—
High yield pool	223,734	—	181,793	493	1,119	4,952	412,091	396,460
International fixed income pool	138,100	—	112,212	303	690	3,057	254,362	265,498
Emerging debt pool	58,536	—	47,563	129	293	1,296	107,817	107,752
Total fixed income securities	1,020,106	—	828,879	2,243	5,100	22,580	1,878,908	1,791,826
Broad domestic equity:								
Large cap pool	1,917,610	—	1,558,137	4,217	9,587	42,444	3,531,995	3,303,110
Small cap pool	414,888	—	337,114	912	2,074	9,183	764,171	730,968
Total broad domestic equity	2,332,498	—	1,895,251	5,129	11,661	51,627	4,296,166	4,034,078
Broad international equity:								
International equity pool	1,787,370	—	1,452,311	3,931	8,936	39,561	3,292,109	2,895,724
International equity small cap pool	116,878	—	94,968	257	584	2,587	215,274	229,131
Frontier market pool	1,958	—	1,591	4	10	43	3,606	69,297
Emerging markets equity pool	226,889	—	184,357	499	1,134	5,022	417,901	436,035
Total broad international equity	2,133,095	—	1,733,227	4,691	10,664	47,213	3,928,890	3,630,187
Alternative equity:								
Alternative equity	248,198	—	201,671	545	1,241	5,493	457,148	496,208
Convertible bond pool	71,229	—	57,876	157	356	1,577	131,195	137,669
Total alternative equity	319,427	—	259,547	702	1,597	7,070	588,343	633,877
Private equity pool	660,680	—	536,829	1,453	3,303	14,623	1,216,888	1,215,158
Absolute return pool	488,352	—	396,806	1,074	2,441	10,809	899,482	577,421
Real assets:								
Real estate pool	476,474	—	385,733	1,044	2,373	10,507	876,131	936,067
Real estate investment trust pool	117,787	—	95,707	259	589	2,607	216,949	255,488
Infrastructure private pool	103,834	—	84,370	228	519	2,298	191,249	—
Infrastructure public pool	90,618	—	73,631	199	453	2,006	166,907	115,890
Master limited partnership pool	189,752	—	154,181	417	949	4,200	349,499	343,517
Energy pool	36,760	—	29,869	81	184	814	67,708	75,218
Farmland pool	278,016	—	225,899	612	1,390	6,154	512,071	499,436
Timber pool	138,586	—	112,607	305	693	3,067	255,258	253,058
Treasury inflation protected securities pool	48,124	—	39,103	106	241	1,065	88,639	24,596
Total real assets	1,479,951	—	1,201,100	3,251	7,391	32,718	2,724,411	2,503,270
Other investment funds, at fair value:								
Pooled investment funds	—	301,188	—	—	—	—	301,188	233,614
Collective investment funds	—	281,180	—	—	—	—	281,180	252,677
Total other investment funds	—	582,368	—	—	—	—	582,368	486,291
Total investments	8,434,109	582,368	6,851,639	18,543	42,157	186,640	16,115,456	14,872,108
Other assets	17	—	2,093	—	—	—	2,110	4,365
Total assets	8,619,569	612,212	7,020,184	19,190	44,368	193,516	16,509,039	15,424,248
Liabilities:								
Accrued expenses	10,608	205	2,321	16	—	—	13,150	11,416
Forfeitures payable	—	22,545	—	—	—	—	22,545	17,613
Claims payable (note 8)	—	—	46,147	—	—	—	46,147	48,280
Due to State of Alaska General Fund	2,099	—	9,753	2	—	—	11,854	5,641
Total liabilities	12,707	22,750	58,221	18	—	—	93,696	82,950
Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals	$ 8,606,862	589,462	6,961,963	19,172	44,368	193,516	16,415,343	15,341,298

See accompanying notes to financial statements.

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

Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2015

(With summarized financial information for June 30, 2014)

(In thousands)

			Other Postemployment Benefit Plans					
	Defined Benefit Pension	**Defined Contribution Pension**	**Alaska Retiree Healthcare Trust**	**Occupational Death and Disability**	**Retiree medical**	**Healthcare reimbursement arrangement**	**System total June 30, 2015**	**System total June 30, 2014**
Additions:								
Contributions:								
Employers	$ 226,136	38,949	171,028	2,790	14,552	30,426	483,881	477,133
Plan members	100,036	70,462	656	14	—	—	171,168	169,279
Nonemployer State of Alaska	1,000,000	—	—	—	—	—	1,000,000	312,473
Total contributions	1,326,172	109,411	171,684	2,804	14,552	30,426	1,655,049	958,885
Investment income:								
Net appreciation in fair value (note 2)	121,302	12,998	96,106	266	626	2,696	233,994	2,181,128
Interest	31,908	43	26,768	67	135	661	59,582	54,954
Dividends	118,826	—	100,083	252	512	2,490	222,163	198,020
Total investment income	272,036	13,041	222,957	585	1,273	5,847	515,739	2,434,102
Less investment expense	18,725	1,110	16,244	4	6	34	36,123	32,049
Net investment income	253,311	11,931	206,713	581	1,267	5,813	479,616	2,402,053
Other:								
Other	36	1	46,983	—	—	—	47,020	17,438
Total additions	1,579,519	121,343	425,380	3,385	15,819	36,239	2,181,685	3,378,376
Deductions:								
Pension and postemployment benefits	686,493	—	361,930	363	—	—	1,048,786	996,129
Refunds of contributions	10,049	24,067	—	—	—	—	34,116	30,503
Administrative	7,553	2,487	14,647	32	19	—	24,738	22,245
Total deductions	704,095	26,554	376,577	395	19	—	1,107,640	1,048,877
Net increase	875,424	94,789	48,803	2,990	15,800	36,239	1,074,045	2,329,499
Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals:								
Balance, beginning of year	7,731,438	494,673	6,913,160	16,182	28,568	157,277	15,341,298	13,011,799
Balance, end of year	$ 8,606,862	589,462	6,961,963	19,172	44,368	193,516	16,415,343	15,341,298

See accompanying notes to the financial statements.

(1) Description

The State of Alaska Public Employees' Retirement System (PERS or the System) is a component unit of the State of Alaska (the State). The System is governed by the Alaska Retirement Management Board (the Board), which consists of nine trustees, as follows: two members, consisting of the commissioner of administration and the commissioner of revenue; two trustees who are members of the general public; one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

PERS acts as the common investment and administrative agency for the following multiple-employer plans:

Plan name	Type of plan
Defined Benefit Pension Plan	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits	
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefit OPEB
Occupational Death and Disability Plan	Cost-sharing, Defined Benefit OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefit OPEB
Defined Contribution Other Postemployment Benefits	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

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

	2015		
	Defined Benefit Pension	Defined Contribution Pension	OPEB Plans
State of Alaska	1	1	1
Municipalities	76	78	78
School districts	53	53	53
Other	27	27	27
Total employers	157	159	159

	2014		
	Defined Benefit Pension	Defined Contribution Pension	OPEB Plans
State of Alaska	1	1	1
Municipalities	75	77	77
School districts	53	53	53
Other	27	27	27
Total employers	156	158	158

Inclusion in the plans 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 Pension Plan

General

The DB Plan provides pension 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. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

The DB Plan's membership consisted of the following at June 30, 2015:

Inactive plan members or beneficiaries currently receiving benefits	32,045
Inactive plan members entitled to but not yet receiving benefits	18,181
Active plan members	17,988
	68,214

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, 55, or early retirement age, 50. For members first hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. Members with 30 or more years of credited service (20 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 officers and firefighters, 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 10 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 10 years of service subsequent to June 30, 1986 is equal to 2.25% of the member's average monthly compensation for the second 10 years and 2.5% for all remaining years of service. For peace officers and firefighters, the benefit for years of service through a total of 10 years is equal to 2% of the member's average monthly compensation and 2.5% 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 105%. 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.

Contributions

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plans members' 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. Employer effective contribution rates are 22.00% of annual payroll. Alaska Statute 39.35.280 requires that the State of Alaska, as a nonemployer contributing entity, contributes each July 1, or as soon after July 1 for the ensuing fiscal year, an amount 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. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

(A) The amount calculated for the statutory employer contribution rate of 22.00% on eligible salary less

(B) The total of the employer contributions for:

(1) The defined contribution employer matching amount

(2) Major medical

(3) Occupational death and disability

(4) Health reimbursement arrangement

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 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 reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished 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 Pension Plan

General

DC Plan provides retirement benefits for eligible employees hired after July 1, 2006. Additionally, certain active members of the DB plan were eligible to transfer to the DC Plan if that member had not vested in the DB Plan. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

At June 30, 2015, membership in the DC Plan consisted of 1,445 Peace Officer and Firefighter members and 16,011 other members.

Retirement 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.

Contributions

Alaska statutes require an 8.0% contribution rate for DC Plan members. Employers are required to contribute 5.0% of the member's compensation.

Participant Distributions

A member is eligible to elect distribution of their account 60 days after termination of employment.

Participant Accounts

Participant accounts under the DC 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.

Record-keeping/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 and 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.

Defined Benefit Other Postemployment Benefit Plans

Alaska Retiree Healthcare Trust Plan

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System 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).

Membership in the plan was as follows as of June 30, 2015:

Inactive plan members or beneficiaries currently receiving benefits	32,045
Inactive plan members entitled to but not yet receiving benefits	18,181
Active plan members	17,988
	68,214

OPEB 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 5 years of credited service (or 10 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 60 (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 60 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.

Contributions

Employer contribution rates are actuarially determined and adopted by the Board. The 2015 employer effective contribution rate is 22.00% of member's compensation.

Occupational Death and Disability Plan

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System. Members in the Death and Disability Plan consisted of the following at June 30, 2015:

Active plan members	17,476
Participating employers	157
Open claims	10

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.

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 child(ren) may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB 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).

The monthly survivor's pension section for survivors of DC Plan 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 firefighters 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.

(Continued)

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 DB 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 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 DB Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

A DC Plan member is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the member'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.

Contributions

An employer shall contribute to each member's account based on the member's compensation. For fiscal year 2015, the rates are 5% for Occupational Death and Disability for peace officers and firefighters, and 5% for Occupational Death and Disability non-peace officers and firefighters.

Retiree Medical Plan

The retiree medical plan is established under AS 39.35.880 – Medical benefits. The Department of Administration, Division of Retirement & Benefits, who administers the System's health plans, is in the process of formalizing and finalizing the retiree medical plan. Members will be eligible for the DC Plan's health benefits plan beginning in June 2016. Currently, no members are eligible to use this plan until they have at least 10 years of service.

Defined Contribution Other Postemployment Benefit Plan

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. For each member of the plan, an employer shall contribute an amount equal to 3.0% of the average annual compensation of all employees of all employers in the System. As of June 30, 2015 there were 26,386 members and 158 participating employers.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Defined Benefit Pension and OPEB Investments

The System owns shares in various investment pools that are administered by the State of Alaska Department of Revenue, Division of Treasury (Treasury). The System's investment in the pools, except for the Short-Term Fixed Income Pool, is reported at fair value based on the net asset value reported by the Treasury. The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals.

Defined Contribution 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 13 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 comprise 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 but are not limited to commercial paper, asset-backed securities, 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 basis. Underlying assets are comprised 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 System on behalf of others and amounts paid by others on behalf of the System.

Federal Income Tax Status

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

GASB Statement No. 67

The Plan implementedthe provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, during the year ended June 30, 2014. GASB Statement No. 67 requires the disclosures of the total pension liability, fiduciary net position, and net pension liability for single-employer and cost-sharing multiple-employer defined benefit pension plans. GASB Statement No. 67 also requires certain additional note disclosures for defined benefit pension plans including the annual money-weighted rate of return on plan investments. GASB Statement No. 67 revised the reporting requirements for required supplementary information to include schedules which provide trend information related to (1) changes in the net pension liability (2) the actuarially and contractually determined contributions of employer contributing entities, and, (3) the annual money-weighted rate of return on plan investments.

(3) Investments

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

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

(Continued)

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the DCR Participant Directed Pension Plans under the Board's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

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

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2015 for the defined benefit pension plan is 3.12%.

(4) Deposit and Investment Risk

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 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. At June 30, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 years.

Other Defined Benefit 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.

At June 30, 2015, the effective duration of the DB Plan's fixed income pools was as follows (in years):

Bank loans	(0.05)
Certificate of deposit	0.14
Convertible bonds	0.07
Corporate bonds	4.32
Foreign government bonds	6.26
Mortgage backed	1.75
Municipal bonds	11.15
Other asset backed	0.69
U.S. government agency	7.89
U.S. Treasury bills, notes bonds, and TIPS	4.65
Yankee corporate	4.13
Yankee government	6.18
Total portfolio	4.97

Defined Contribution 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 13 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:

- Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.
- At June 30, 2015, the duration of the government corporate debt and mortgage-backed securities was 4.00 years and the duration of the blended Barclays Bond Index was 3.98 years.

Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds.

Credit Risk

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

The System's ownership held in the investment pools are not separately rated. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for credit ratings of investments within the pools.

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.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. 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
20%	29%	14%

Concentration of Credit Risk

At June 30, 2015, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

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

The investment pools for which the System is a part, are exposed to credit risk on underlying 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.

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. 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. For additional information on foreign exchange, derivatives, and counterparty credit risk, see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

(6) Net Pension Liability – Defined Benefit Pension Plan

The components of the net pension liability of the participating employers at June 30, 2015, were as follows (in thousands):

Total pension liability	$	13,456,876
Plan fiduciary net position		(8,606,862)
Employers' net pension liability	$	4,850,014
Plan fiduciary net position as a percentage of the total pension liability		63.96%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officer/Firefighter
	Graded by age and service, from 8.55% to 4.34% for All Others
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officer/Firefighters, 50% of the time for others. Post-termination mortality rates were based on 95% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset class	Long-term expected real rate of return
Domestic Equity	5.35%
Global Equity (non-U.S.)	5.55
Private Equity	6.25
Fixed Income Composite	0.80
Real Estate	3.65
Alternative Equity	4.70

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 8%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7%) or one-percentage point higher (9%) than the current rate (in thousands):

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability	$ 6,447,683	4,850,014	3,504,942

(7) Defined Benefit OPEB Funding Status

The funded status of the retiree healthcare trust, occupational death and disability, and retiree medical benefits is as follows (in thousands):

	Actuarial valuation date	Actuarial accrued liability (AAL) entry age	Actuarial valuation assets	Funded ratio	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Healthcare trust	June 30, 2014	$ 12,758,985	6,913,160	54.2%	5,845,825	1,491,583	391.9%
Occupational death and disability plan	June 30, 2014	3,627	14,995	413.4	(11,368)	678,840	(2.0)
Retiree medical	June 30, 2014	56,819	26,466	46.6	30,353	678,840	4.5

The funding ratio as of June 30, 2014 has increased. The increase in funding ratio is primarily due to the asset returns in fiscal year 2014 of 18.46%, well above the expected return of 8%. This increase was combined with positive experiences in demographic experience and retiree medical costs, which when factored in with other factors resulted in the slight decrease.

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 multiyear 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 (unaudited) from employers present 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 Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing 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 30 years.

Projections of benefits for financial reporting 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 the plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with

(Continued)

the long-term perspective of the calculations. Additional information as of the latest actuarial valuation is as follows:

June 30, 2014	Defined Benefit
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare
Amortization method	Level percentage of pay, closed
Equivalent single amortization period	25 years
Asset valuation method	5-year smoothed fair value; reintialized to fair value as of June 30, 2014
Actuarial assumptions:	
Investment rate of return	8.00% for pension, 4.90% for healthcare; includes price inflation at 3.12%
Projected salary increases	Peace officer/firefighter: merit – 2.75% per the first 4 years of employement, grading down to 0.5% at 7 years and thereafter. Productivity – 0.5% per year.
	Others: merit – 6.00% per year grading down to 2.00% after 5 years; for more than 6 years of service, 1.50% grading down to 0.0%. Productivity – 0.5% per year.
Cost-of-living adjustment	Postretirement pension adjustment

June 30, 2014	ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for occupational death and disability; level dollar normal cost basis for retiree medical
Amortization method	Level percent of pay, closed with bases established annually
Equivalent single amortization period	23 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%; includes price inflation at 3.12%.
Projected salary increases	Peace officer/firefighter: merit – 2.75% per year for the first 4 years of employment, grading down 0.5% at 7 years and thereafter. Productivity – 0.5% per year. Inflation 3.12%.
	Others: merit – 6.00% per year, grading down to 2.00% after 5 years; for more than 6 years of service, 1.50% grading down to 0.0%. Productivity – 0.5% per year. Inflation 3.12%.

Health cost trend for occupational death and disability and retiree medical plans is as follows:

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
2015	10.0%	6.0%	6.0%
2016	9.4	5.9	5.7
2017	8.8	5.8	5.4
2018	8.2	5.7	5.1
2019	7.6	5.6	4.8
2020	7.0	5.6	4.6
2021	6.5	5.6	4.4
2025	5.6	5.6	4.2
2050	4.4	4.0	4.0
2100	4.4	4.0	4.0

GASB Statement No. 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.

The System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on (1) the funded ratio and (2) the percentage of the ARC actually being contributed to the plan. The State has utilized the second methodology to develop a discount rate of 5.41% as of June 30, 2011, to be used for fiscal 2014 disclosure.

The System's retiree medical benefits are fully funded. Therefore, the 8.00% discount rate used for GASB Statement No. 25 reporting is also applied herein for GASB Statement No. 43 reporting.

Based on GASB accounting rules, the retiree drug subsidy (RDS) the State receives under Medicare Part D has not been recognized for GASB Statement No. 43 disclosure purposes.

Disregarding future Medicare Part D payments, the fiscal 2016 employer ARC for accounting purposes is 1.95% of pay for retiree medical benefits and 2.25% of pay for retiree medical and death and disability benefits combined.

(8) 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 Alaska Retiree Healthcare Trust and Retiree Medical 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

(Continued)

establishing loss reserves is subject to uncertainties that are normal, recurring, and inherent in the healthcare business.

Changes in the balances of claims liabilities are as follows (in thousands):

		2015	2014
Beginning of year:			
Due to State of Alaska General Fund for outstanding warrants	$	—	—
Incurred but not reported		48,280	54,764
Total, beginning of year		48,280	54,764
Benefit deductions		361,930	355,487
Benefits paid		(354,310)	(361,971)
Total, end of year	$	55,900	48,280
End of year:			
Due to State of Alaska General Fund for outstanding warrants	$	9,753	—
Incurred but not reported		46,147	48,280
Total, end of year	$	55,900	48,280

(9) Commitments and Contingencies

Commitments

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2015, the Board's unfunded commitments were as follows (in thousands):

Portfolio		Unfunded commitment	Estimated to be paid through
Domestic equity	$	—	May be canceled annually in December with 90 day's notice
Private equity		829,676	Fiscal year 2022
Energy		52,219	Fiscal year 2023
Real estate		141,204	Fiscal year 2024
	$	1,023,099	

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 RDS payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Alaska Retiree Healthcare Trust was approved for participation in the Medicare Part D program beginning calendar year 2006.

(11) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) was a temporary program that provided reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare and their spouses and surviving spouses and dependents. The amount of the reimbursement to the plan is up to 80% of claims cost for health benefits between $15,000 and $90,000. The program was authorized by the Affordable Care Act as part of the U.S. government health reform package. The plan started participation in the ERRP beginning calendar year 2011. The program ended on January 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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

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

(In thousands)

	2015	2014	2013	2012
Total pension liability:				
Service cost	$ 184,712	160,828	167,203	172,968
Interest	1,020,947	940,786	927,692	887,361
Changes of benefit terms	—	—	—	—
Differences between expected and actual experience	10,791	—	56,229	42,847
Changes of assumptions	541,390	—	—	—
Benefit payments, including refunds of member contributions	(696,542)	(651,917)	(634,187)	(593,279)
Net change in total pension liability	1,061,298	449,697	516,937	509,897
Total pension liability – beginning	12,395,578	11,945,881	11,428,944	10,919,047
Total pension liability – ending (a)	13,456,876	12,395,578	11,945,881	11,428,944
Plan fiduciary net position:				
Contributions – employer	226,136	206,204	179,976	182,695
Contributions – member	100,036	106,565	110,808	112,703
Contributions – nonemployer entity (State)	1,000,000	176,794	164,087	130,912
Total net investment income	253,311	1,207,484	738,656	1,650
Other miscellaneous income	36	49	28	35
Benefit payments, including refunds of member contributions	(696,542)	(651,917)	(610,247)	(570,883)
Administrative expenses	(7,553)	(8,223)	(7,120)	(6,743)
Net change in plan fiduciary net position	875,424	1,036,956	576,188	(149,631)
Plan fiduciary net position – beginning	7,731,438	6,694,482	6,118,294	6,267,925
Plan fiduciary net position – ending (b)	8,606,862	7,731,438	6,694,482	6,118,294
Plan's net pension liability (a) - (b)	$ 4,850,014	4,664,140	5,251,399	5,310,650
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%	56.04%	53.53%
Covered-employee payroll	$ 1,412,237	1,405,198	1,534,665	1,522,399
Net pension liability as a percentage of covered-employee payroll	346.43%	331.92%	342.19%	348.83%

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

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

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

Required Supplementary Information (Unaudited)

Schedule of Employer and Nonemployer Contributions – Defined Benefit Pension Plan

Last 10 Fiscal Years

(In thousands)

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$	529,264	358,718	382,889	351,674	220,419	217,080	166,016	140,729	268,742	249,488
Contributions in relation to the actuarially determined contribution		1,226,136	382,998	344,063	313,607	204,262	186,617	192,740	151,198	207,539	163,243
Contribution deficiency (excess)	$	(696,872)	(24,280)	38,826	38,067	16,157	30,463	(26,724)	(10,469)	61,203	86,245
Covered-employee payroll	$	1,412,237	1,405,198	1,534,665	1,522,399	1,559,938	1,586,697	1,585,490	1,577,846	1,605,819	1,590,693
Contributions as a percentage of covered-employee payroll		86.82%	27.26%	22.42%	20.60%	13.09%	11.76%	12.16%	9.58%	12.92%	10.26%

See accompanying notes to required supplementary information (unaudited) 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 Investment Returns

	2015	**2014**
Annual money-weighted rate of return, net of investment expense	3.12%	18.43%

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

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

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

Required Supplementary Information (Unaudited)

Schedules of Funding Progress – Defined Benefit OPEB Plans

June 30, 2015

(In thousands)

Alaska Retiree Healthcare Trust Plan

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$ 13,013,450	3,829,334	29.4%	$ 9,184,116	1,577,846	582.1%
2009	12,770,990	4,134,450	32.4	8,636,540	1,585,490	544.7
2010	9,304,504	4,687,632	50.4	4,616,872	1,586,697	291.0
2011	9,091,034	5,051,625	55.6	4,039,409	1,559,938	258.9
2012	9,812,274	5,301,609	54.0	4,510,665	1,522,399	296.3
2013	12,281,372	5,651,877	46.0	6,629,495	1,534,665	432.0
2014	12,758,985	6,913,160	54.2	5,845,825	1,491,583	391.9

Occupational Death and Disability Benefits Plan

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$ 242	1,288	532.2%	$ (1,046)	203,955	(0.5)%
2009	403	3,138	778.7	(2,735)	314,118	(0.9)
2010	853	4,801	562.8	(3,948)	421,187	(0.9)
2011	1,949	7,049	361.7	(5,100)	459,521	(1.1)
2012	2,412	9,142	379.0	(6,730)	558,760	(1.2)
2013	3,603	11,373	315.7	(7,770)	590,380	(1.3)
2014	3,627	14,995	413.4	(11,368)	678,840	(1.7)

Retiree Medical Benefits Plan

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2008	$ 2,123	2,719	128.1%	$ (596)	203,955	(0.3)%
2009	4,594	5,475	119.2	(881)	314,118	(0.3)
2010	8,370	8,767	104.7	(397)	421,187	(0.1)
2011	13,142	12,009	91.4	1,133	459,521	0.2
2012	51,798	15,773	30.5	36,025	558,760	6.4
2013	69,144	20,336	29.4	48,808	590,380	8.3
2014	56,819	26,466	46.6	30,353	678,840	4.5

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

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

Required Supplementary Information (Unaudited)

Schedules of Contributions from Employers and the State of Alaska – Defined Benefit OPEB Plans

June 30, 2015

(In thousands)

Alaska Retiree Healthcare Trust Plan

Year ended June 30	Actuarial valuation year ended June 30 (1)	Annual required contribution Postemployment healthcare	Percentage contributed By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2008	2005	$ 370,456	71.2%	36.2%	107.4%
2009	2006	391,321	68.1	41.4	109.5
2010 (2)	2007	790,793	31.6	54.8	86.4
2011	2008	525,075	49.8	21.6	71.4
2012	2009	498,433	44.8	28.8	73.6
2013	2010	612,792	37.5	25.1	62.6
2014	2011	783,827	26.1	19.5	45.6

(1) Actuarial valuation related to annual required contribution for fiscal year.
(2) In the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed included the Mercer legal settlement, net of legal fees, as well as the Medicare Part D subsidy contributed by the State to the healthcare fund.

Occupational Death and Disability Benefits Plan

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	$ 1,063	100.0%
2009	1,787	100.0
2010	1,495	100.0
2011	1,852	100.0
2012	1,085	146.0
2013	1,328	116.0
2014	2,080	114.0

Retiree Medical Benefits Plan

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2008	$ 1,845	85.0%
2009	3,152	85.0
2010	3,469	87.0
2011	3,229	78.0
2012	3,464	82.0
2013	3,365	95.0
2014	3,937	94.0

See accompanying notes to required supplementary information (unaudited) 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, 2015 are as follows:

(a) Actuarial cost method – Entry Age Actuarial Cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of payroll amount. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit, and defined contribution member payroll combined.

(b) Valuation of assets – The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in 2015, the asset value method recognizes 20% of the gain or loss each year, for a period of up to five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements.

(c) Valuation of medical benefits – Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, such as, medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – Inflation 3.12% per year and productivity 0.50% per year.

(f) Payroll growth – 3.62% per year (inflation + productivity).

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

(h) Mortality (pretermination) – Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of posttermination mortality rates. Deaths are assumed to be occupational 70% of the peace officer/firefighters, 50% of the time for others. Includes an allowance for expected future mortality improvement. The mortality table used was set in 2014 with an actual deaths to expected deaths ratio of 109%.

(i) Mortality (posttermination) – 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB. Includes an allowance for expected future mortality improvement. The mortality table used was set in 2014 with an actual deaths to expected deaths ratio of 109%.

(j) Total turnover – Based upon the 2010–2013 actual withdrawal experience.

(k) Disability – Incidence rates based upon the 2010–2013 actual experience. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB. Disabilities are assumed to be occupational 70% of the time for peace officer/firefighter, 50% of the time for others.

(l) Retirement – Retirement rates based on the 2010–2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officer/firefighter, tier 1 deferred vested members are assumed to retire at age 55 and tiers 2 and 3 deferred vested members are assumed to retire at age 60.

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officer/firefighters, 85% of male members and 60% 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 – For others, 10% of terminating members with vested benefits are assumed to have their contributions refunded. For peace officer/firefighter, 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, 70% of others and 65% of peace officer/firefighters are assumed to remain in Alaska and receive the COLA.

(q) Postretirement pension adjustment (PRPA) – 50% and 75% of assumed inflation or 1.56% and 2.34%, respectively, is valued for the annual automatic PRPA as specified in the statute.

(r) Expenses – All pension related expenses are net of investment return assumption.

(s) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for peace officer/firefighter and 0.65 years of credited service per year for other members.

(Continued)

(t) Final average earnings – Final average earnings amount 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 adjusted to age 65 for FY15 medical and prescription are shown below:

		Medical	Prescription drugs
Pre-Medicare	$	12,362	2,624
Medicare Parts A and B		1,657	2,624
Medicare Part B Only		7,920	2,624
Medicare Part D		N/A	507

(v) Third-party administrator fees – $193.98 per person per year; assumed trend rate of 5% per year.

(w) Medicare Part B Only – For actives and retirees not yet Medicare-eligible, participation is set based on whether the member/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or rehire.

(x) 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, 10.0% is applied to the FY15 pre-Medicare medical claims costs to get the FY16 medical claims cost.

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
2015	10.0%	6.0%	6.0%
2016	9.4	5.9	5.7
2017	8.8	5.8	5.4
2018	8.2	5.7	5.1
2019	7.6	5.6	4.8
2020	7.0	5.6	4.6
2021	6.5	5.6	4.4
2025	5.6	5.6	4.2
2050	4.4	4.0	4.0
2100	4.4	4.0	4.0

For the June 30, 2014 valuations and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2014 and projects out to 2090. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

(Continued)

(y) Aging factors:

Age	Medical	Prescription drugs
0–44	2.0%	4.5%
45–54	2.5	3.5
55–64	3.5	3.0
65–73	4.0	1.5
74–83	1.5	0.5
84–93	0.5	—
94 +	—	—

(z) 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 officers/firefighters). Eligible Tier 1 members are exempt from contribution requirements. Annual FY15 contributions based on monthly rates shown below for calendar 2014 and 2015 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 Tier 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled.

Coverage category	Calendar 2015 annual contribution	Calendar 2015 monthly contribution	Calendar 2014 monthly contribution
Retiree only	$ 9,876	823	823
Retiree and spouse	19,764	1,647	1,647
Retiree and child(ren)	13,956	1,163	1,163
Retiree and family	23,844	1,987	1,987
Composite	14,676	1,223	1,223

(aa) 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 FY15 retired member medical contributions to get the FY16 retired member medical contributions.

Fiscal year	
2015	7.0%
2016	6.6
2017	6.2
2018	5.8
2019	5.4
2020	5.0
2025	4.1
2050	4.0
2100	4.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2014 valuation. Note that actual FY15 retired member medical contributions are reflected in the valuation, so trend on such contribution during FY15 is not applicable.

(bb) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of nonsystem-paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution occupational death and disability and retiree medical benefit plan valuation as of June 30, 2014 are as follows:

(a) Actuarial cost method – Liabilities and contributions are computed using entry age actuarial cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. Payroll is assumed to increase by the payroll growth assumption per year for this purpose. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

(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. Fair value of assets were $0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of fair value of assets.

(c) Valuation of retiree medical benefits – Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2014 for PERS DB with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include network steerage, 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, FY14 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.

(f) Payroll growth – 3.62% per year (inflation + productivity).

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

(h) Mortality (pre-termination) – Based upon 2010–2013 actual mortality experience. 60% of male rates and 65% of female rates of the posttermination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officer/firefighters, 50% of the time for others. The mortality table used was set in 2014 with an actual deaths to expected deaths ratio of 109%.

(i) Mortality (post-termination) – Based upon 2010–2013 actual mortality experience. 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB. The mortality table used was set in 2014 with an actual deaths to expected deaths ratio of 109%.

(j) Total turnover – Rates based upon the 2010–2013 actual experience of the PERS DB Plan.

(k) Disability – Incidence rates based upon the 2010–2013 actual experience of the PERS DB Plan. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table, 2000 base year projected to 2018 with projection scale BB. Disabilities are assumed to be occupational 70% of the time for peace officer/firefighter, 50% of the time for others. For peace officer/firefighters, members are assumed to take the monthly annuity 100% of the time.

(Continued)

(l) Retirement – Retirement rates based upon the 2010–2013 actual experience.

Age	Rate
< 50	2.0%
51–54	2.0
55–59	3.0
60	5.0
61	5.0
62	10.0
63	5.0
64	5.0
65	25.0
66	25.0
67	25.0
68	20.0
69	20.0
>70	100.0

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officer/firefighters, 85% of male members and 60% of female members are assumed to be married.

(n) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for peace officer/firefighter and 0.65 years of credited service per year for other members.

(o) Peace officer/firefighter occupational disability retirement benefit commencement – The occupational disability retirement benefit is assumed to be first payable from the member's DC account and the retirement benefit payable from the occupational death and disability trust will commence five years later.

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

(q) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY15 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 12,362	2,624
Medicare Parts A and B	1,657	2,624
Medicare Part B Only	7,920	2,624
Medicare Part D	N/A	507

(r) Third-party administrator fees – $193.98 per person per year; assumed trend rate of 5% per year.

(s) 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 cost adjustments were applied to the per capita claims cost rates: 0.881 for medical plan, 0.929 for the prescription drug plan, and 0.998 for the annual indexing for member cost sharing.

(t) 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, 10.0% is applied to the FY15 pre-Medicare medical claims cost to get the FY16 medical claims costs:

Fiscal year	Medical Pre-65	Medical Post-65	Prescription drugs
2015	10.0%	6.0%	6.0%
2016	9.4	5.9	5.7
2017	8.8	5.8	5.4
2018	8.2	5.7	5.1
2019	7.6	5.6	4.8
2020	7.0	5.6	4.6
2021	6.5	5.6	4.4
2025	5.6	5.6	4.2
2050	4.4	4.0	4.0
2100	4.4	4.0	4.0

As of the June 30, 2014 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2014 and projects out to 2090. This model has been adopted by the Society of Actuaries and has been populated with assumptions that are specific to the State of Alaska.

(u) Aging factors:

Age	Medical	Prescription drugs
0–44	2.0%	4.5%
45–54	2.5	3.5
55–64	3.5	3.0
65–73	4.0	1.5
74–83	1.5	0.5
84–93	0.5	—
94 +	—	—

(Continued)

(v) Retiree medical participation:

Decrement due to disability		**Decrement due to retirement**		
Age	**Percentage of participation**	**Age**		**Percentage of participation**
<56	73.00%	55		40.0%
56	77.50	56		50.0
57	79.75	57		55.0
58	82.00	58		60.0
59	84.25	59		65.0
60	86.50	60		70.0
61	88.75	61		75.0
62	91.00	62		80.0
63	93.25	63		85.0
64	95.50	64		90.0
65+	94.40	65+	**Years of service**	
			<15	70.5%
			15–19	75.2
			20–24	79.9
			25–29	89.3
			30+	94.0

Participation rates reflect the expected plan election rate that varies by reason for decrement, duration that a member may pay full cost prior to Medicare eligibility, and availability of alternative and/or lower-cost options, particularly in the Medicare market.

Changes in Actuarial Methods Since the Prior Valuation

Defined benefit pension and postemployment healthcare benefit plan

In accordance with Senate Bill 119, signed into law May 28, 2014, and House Bill 385, signed into law on June 23, 2014, the following changes were effective for the June 30, 2014 actuarial valuation report:

(1) The amortization method used for funding changed from the level dollar amount to the level percentage of payroll method and the amortization period is reinitialized to a closed 25-year period from June 30, 2014.

(2) The additional state contribution for fiscal year ending June 30, 2015 is $1 billion.

(3) The two-year rate setting time lag is intended to be eliminated. The two-year lag in the setting of contribution rates is replaced by a two-year rollforward of liabilities and projected normal costs and a one-year rollforward of June 30, 2015 assets.

(4) The actuarial value of assets is reset to the fair value as of June 30, 2014. The five-year smoothing method with grow-in will be implemented over the next five years.

(5) The 20% corridor over/under the fair value of assets is eliminated in the calculation of the actuarial value of assets.

Defined contribution occupational death and disability and retiree medical benefits plan

There have been no changes in methods since the prior valuation.

(Continued)

Changes in Actuarial Assumptions Since the Prior Valuation

Defined benefit pension and postemployment healthcare benefit plan

	June 30, 2013	June 30, 2014
Salary scale	Based on actual experience from 2005 to 2009.	Rates adjusted on actual experience from 2010–2013. Increased most rates.
Pre-termination mortality	Peace officer/firefighter: 1994 GAM table, sex-distinct, 1994 base year without margin projected to 2013 using projection scale AA, 80% of the male table for males and 60% of the female table for females. Others: 1994 GAM table, sex-distinct, 1994 base year without margin projected to 2013 using projection scale AA, 75% of the male table for males and 55% of the female table for females.	Based upon 2010–2013 actual mortality experience. 60% of male rates and 65% of female rates of the posttermination mortality rates.
Post-termination mortality	1994 GAM table, sex-distinct, 1994 base year without margin projected to 2013 using projection scale AA for males with a one year set-forward for females.	96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.
Disability mortality	RP-2000 Disabled Retiree Mortality Table.	RP-2000 Disabled retiree table, 2000 base year projected to 2018 with projection scale BB.
Turnover	Rates adjusted based on actual experience from 2005-2009.	Based upon the 2010–2013 actual withdrawal experience.
Disability	Peace officer/firefighter: No change except to stop rates at earliest retirement age. Others: Male/female rates decreased based on actual experience from 2005–2009 and stop rates at earliest retirement age.	Incidence rates based on 2010–2013 actual experience. Peace officer/firefighter: Decreased rates by 5% Others: Decreased rates by 30%
Retirement	Rates were adjusted based on actual experience from 2005–2009.	Retirement rates based upon the actual 2010–2013 experience.
Deferred vested commencement date	Peace officer/firefighter: Tier 1 age 53 Tier 2 and 3 age 57 Others: Earliest unreduced age	Peace officer/firefighter: Tier 1 age 55 Tier 2 and 3 age 60 Others: Earliest unreduced age
COLA	Of those benefit recipients who are eligible for the COLA, 70% are assumed to remain in Alaska and receive the COLA.	Of those benefit recipients who are eligible for the COLA, 70% of others and 65% of peace officer/firefighters are assumed to remain in Alaska and receive the COLA.
Occupational Death and Disability	Others: 55% Peace officer/firefighter: 75%	Others: 50% Peace officer/firefighter: 70%

(Continued)

Defined contribution occupational death and disability and retiree medical benefits plan

	June 30, 2013	June 30, 2014
Salary Scale	Based on actual experience from 2005-2009. Peace officer/firefighter: rates are increased for the first four years. Decreased at year five. Others: Based on actual experience from 2005–2009. Increased most rates.	Inflation – 3.12% per year Productivity – 0.50% per year
Pre-termination Mortality	Peace officer/firefighters: 80% of the male and 60% of the female rates of the 1994 GAM table, 1994 base year without margin projected to 2013 using projection scale AA. Others: 75% of the male and 55% of the female rates of the 1994 GAM table, 1994 base year without margin projected to 2013 with projection scale AA.	Based upon 2010–2013 actual mortality experience. 60% of male rates and 65% of female rates of the posttermination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officer/firefighters, 50% of the time for others.
Post-termination Mortality	1994 GAM table, 1994 base year without margin projected to 2013 using projection scall AA for males and one year set-forward for females.	96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.
Disability	RP-2000 disabled retiree mortality table.	Incidence rates based on 2010–2013 actual experience. Posttermination disabled mortality in accordance with RP-2000 disabled retiree mortality table, 2000 base year projected to 2018 with projection scale BB. Disabilities are assumed to be occupational 70% of the time for peace officer/firefighters, 50% of the time for others.
Turnover	Rates adjusted based on actual PERS DB Plan experience from 2005–2009. Ultimate rates are equal to PERS DB Plan rates loaded by 10%	Based on actual experience from 2010 to 2013.
Occupational Death and Disability	Others: 55% Peace officer/firefighter: 75%	Others: 50% Peace officer/firefighter: 70%

SUPPLEMENTAL SCHEDULES

Schedule 1

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

Schedule of Administrative and Investment Deductions

Years ended June 30, 2015 and 2014

(In thousands)

	Administrative	Investment	Totals 2015	Totals 2014
Personal services:				
Wages	$ 4,674	218	4,892	4,546
Benefits	2,779	90	2,869	2,714
Total personal services	7,453	308	7,761	7,260
Travel:				
Transportation	51	122	173	161
Per diem	11	17	28	60
Total travel	62	139	201	221
Contractual services:				
Management and consulting	12,861	34,073	46,934	41,769
Accounting and auditing	148	774	922	126
Data processing	59	6	65	252
Communications	1,493	543	2,036	2,658
Advertising and printing	156	34	190	162
Rentals/leases	399	52	451	413
Legal	469	71	540	714
Medical specialists	43	—	43	168
Repairs and maintenance	1	—	1	14
Transportation	68	2	70	126
Other professional services	238	51	289	183
Total contractual services	15,935	35,606	51,541	46,585
Patient Protection and Affordable Care Act				
Transitional Reinsurance Program	1,081	—	1,081	—
PCORI Fees	—	—	—	12
Total Patient Protection and Affordable Care Act	1,081	—	1,081	12
Other:				
Equipment	48	15	63	48
Supplies	159	55	214	168
Total other	207	70	277	216
Total administrative and investment deductions	$ 24,738	36,123	60,861	54,294

See accompanying independent auditors' report.

Schedule 2

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

Schedule of Payments to Consultants
Other than Investment Advisors

Years ended June 30, 2015 and 2014

(In thousands)

Firm	Services	2015	2014
Buck Consultants, a Xerox Company	Actuarial services	$ 548	$ 612
KPMG LLP	Auditing services	141	106
State Street Bank Corporation	Custodian banking services	697	697
Applied Microsystems Inc.	Data processing consultants	507	332
Computer Task Group, Inc.	Data processing consultants	110	131
Mythics Inc.	Data processing consultants	—	9
Wostmann Group LLC	Data processing consultants	—	243
State of Alaska, Department of Law	Legal services	540	644
Michael Silverman	Management consulting services	1	236
The Wilson Agency LLC	Management consulting services	—	2
World Wide Technology Holding Co	Management consulting services	—	—
State of Alaska, Department of Health and Social Services	Medical expertise and counseling	41	125
		$ 2,585	$ 3,137

See accompanying independent auditors' report.