



STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 8
Statements of Fiduciary Net Assets	9
Statements of Changes in Fiduciary Net Assets	10
Notes to Financial Statements	11 – 23



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Retiree Health Fund:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Retiree Health Fund (the Plan), a pension trust fund of the State of Alaska, as of June 30, 2013 and 2012, and the related statement of changes in fiduciary net assets for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Retiree Health Fund as of June 30, 2013 and 2012, and the changes in fiduciary net assets for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, on pages 3-8 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.

KPMG LLP

November 7, 2013

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

This section presents management's discussion and analysis (MD&A) of the Retiree Health Fund's (Plan) financial condition and performance for the years ended June 30, 2013 and 2012. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to the financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2013 and 2012. Information for fiscal year 2011 is presented for comparative purposes.

Financial Highlights

The Plan financial highlights as of June 30, 2013 were as follows:

- The Plan's net assets held in trust for postemployment healthcare benefits increased by \$34.9 million during fiscal year 2013.
- The Plan's health premiums increased by \$5.2 million during fiscal year 2013.
- The Plan's net investment income increased \$6.6 million to \$17.0 million during fiscal year 2013.
- The Plan's benefit expenses totaled \$46.1 million during fiscal year 2013.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are composed of three components: (1) statement of fiduciary net assets, (2) statement of changes in fiduciary net assets, and (3) notes to financial statements.

Statements of Fiduciary Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for postemployment healthcare benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2013 and 2012.

Statements of Changes in Fiduciary Net Assets – This statement presents how the Plan's net assets held in trust for postemployment healthcare benefits changed during the fiscal years ended June 30, 2013 and 2012. This statement presents health premiums earned and net investment income (loss) during the period. Deductions for postemployment healthcare benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of the fiscal year-end and the sources and uses of those funds during fiscal year 2013 and 2012.

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

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

Condensed Financial Information

Fiduciary Net Assets					
Description	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Assets:					
Cash and receivables	\$ 90,148,884	91,160,270	(1,011,386)	(1.1)%	\$ 59,527,980
Investments, at fair value	251,648,723	212,486,694	39,162,029	18.4	214,860,984
Other	627,712	776,948	(149,236)	(19.2)	351,455
Total assets	<u>342,425,319</u>	<u>304,423,912</u>	<u>38,001,407</u>	<u>12.5</u>	<u>274,740,419</u>
Liabilities:					
Claims payable	20,468,000	17,178,000	3,290,000	19.2	22,687,000
Accrued expenses	140,361	133,574	6,787	5.1	118,967
Due to other funds	352,756	545,692	(192,936)	(35.4)	349,238
Total liabilities	<u>20,961,117</u>	<u>17,857,266</u>	<u>3,103,851</u>	<u>17.4</u>	<u>23,155,205</u>
Total net assets	<u>\$ 321,464,202</u>	<u>286,566,646</u>	<u>34,897,556</u>	<u>12.2%</u>	<u>\$ 251,585,214</u>

Changes in Fiduciary Net Assets					
Description	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Net assets, beginning of year	\$ 286,566,646	251,585,214	34,981,432	13.9%	\$ 195,565,020
Additions:					
Healthcare insurance premiums	65,369,592	60,142,982	5,226,610	8.7	54,148,964
Medicare retiree drug subsidy	63,629	81,361	(17,732)	(21.8)	97,449
Early retiree reinsurance program	—	159,646	(159,646)	100.0	—
Other income	1,974	4,932	(2,958)	(60.0)	1,172
Net investment income	17,046,187	10,404,104	6,642,083	63.8	42,360,329
Total additions	<u>82,481,382</u>	<u>70,793,025</u>	<u>11,688,357</u>	<u>16.5</u>	<u>96,607,914</u>
Deductions:					
Benefits	46,105,103	34,389,584	11,715,519	34.1	39,307,350
Administrative	1,478,723	1,422,009	56,714	4.0	1,280,370
Total deductions	<u>47,583,826</u>	<u>35,811,593</u>	<u>11,772,233</u>	<u>32.9</u>	<u>40,587,720</u>
Increase in net assets	<u>34,897,556</u>	<u>34,981,432</u>	<u>(83,876)</u>	<u>(0.2)</u>	<u>56,020,194</u>
Net assets, end of year	<u>\$ 321,464,202</u>	<u>286,566,646</u>	<u>34,897,556</u>	<u>12.2%</u>	<u>\$ 251,585,214</u>

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

Financial Analysis of the Plan

The statements of fiduciary net assets as of June 30, 2013 and 2012 show net assets held in trust for postemployment healthcare benefits of \$321,464,202 and \$286,566,646, respectively. The entire amount is available to cover the Plan's obligations to pay postemployment healthcare benefits for its members and their beneficiaries.

These amounts also represent an increase in total net assets held in trust for postemployment healthcare benefits of \$34,897,556 or 12.2% and an increase of \$34,981,432 or 13.9% over fiscal years 2012 and 2011, respectively. Beginning on July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT) replaced the major medical fund of the Plan for retired members and beneficiaries covered under Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial Retirement System (JRS). Previously, these Systems had paid a monthly health insurance premium to the Plan. With the creation of the ARHCT, participating PERS, TRS, and JRS employer contributions were deposited directly to the ARHCT replacing the monthly health insurance premiums. Healthcare coverage is still accounted for some retired members, dependents, and beneficiaries in the major medical fund via monthly health insurance premiums. Over the long term, healthcare premiums collected for the Dental, Visual, and Audio (DVA) and Long-Term Care (LTC) funds are expected to cover all claims costs. With continued increases in healthcare costs, the Plan must continue to accumulate assets to meet current and future claims costs.

The investment of plan assets is a long-term undertaking. On an annual basis, the Commissioner of Revenue reviews the asset allocation policies related to plan assets and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives.

During fiscal years 2013 and 2012, the asset allocation for the major medical fund was 100% Short-Term Fixed Income Fund and the asset allocation for the DVA fund was 100% General Fund and Other Non-segregated Investments (GeFONSI). The asset allocation for the Long-Term Care fund was as follows:

	2013	
	Long-Term Care	
	Allocation	Range
Short-term fixed income pool	18%	18% ± 1%
Broad market fixed income pool	48	50% ± 10%
International equity	12	11% ± 4%
Nonretirement domestic equity pool	22	21% ± 10%
Total	<u>100%</u>	

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

	2012	
	Long-Term Care	
	Allocation	Range
Short-term fixed income pool	22%	21% - 23%
Broad market fixed income pool	52	42% - 62%
International equity	9	5% - 13%
Nonretirement domestic equity pool	17	7% - 27%
Total	100%	

Premium Calculations

The overall objective of the Plan is to have sufficient funds to meet claim costs. The premiums are recommended each year by the Division of Retirement and Benefits' (Division) benefit consultant with the governing body's concurrence and the Administrator's approval. Premiums are based on a calendar year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop recommended premiums for the next calendar year.

Healthcare Premiums and Investment Income

The additions required to fund postemployment healthcare benefits are accumulated through a combination of health premiums, prescription drug rebates, and net investment income.

	Additions				
	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Employer health insurance premiums	\$ 1,561,825	1,517,260	44,565	2.9%	\$ 1,479,396
Member health insurance premiums	63,807,767	58,625,722	5,182,045	8.8	52,669,568
Medicare retiree drug subsidy	63,629	81,361	(17,732)	(21.8)	97,449
Early retiree reinsurance program	—	159,646	(159,646)	(100.0)	—
Other	1,974	4,932	(2,958)	(60.0)	1,172
Net investment income	17,046,187	10,404,104	6,642,083	63.8	42,360,329
Total	\$ 82,481,382	70,793,025	11,688,357	16.5%	\$ 96,607,914

System paid medical premiums were \$1,223 per month per eligible retiree for calendar year 2013 and was \$1,200 per month per eligible retiree for calendar year 2012 and was \$1,075 per month per eligible retiree for calendar year 2011.

Other income primarily comprises reimbursements for retiree prescription medication. The Plan was approved for participation in the Medicare Part D retiree drug subsidy (RDS) program starting in calendar year 2006. One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a payment, the retiree drug subsidy (RDS), 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.

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

The System's net investment income in fiscal year 2013 increased by \$6,642,083 or 63.8% from amounts recorded in fiscal year 2012 and net investment income in fiscal year 2012 decreased by \$31,956,225 or 75.4% from amounts recorded in fiscal year 2011. During fiscal years 2013 and 2012, the System experienced positive returns on investments.

For fiscal years 2013 and 2012, the Retiree Health Fund Medical Plan investments generated 0.24% and 0.41%, respectively, rate of return. The Retiree Health Fund Medical Plan annualized rate of return was 0.38% over the last three years and 0.70% over the last five years. For fiscal years 2013 and 2012, the Retiree Health Fund LTC Plan investments generated 6.14% and 3.97% rate of return, respectively. The Retiree Health Fund LTC Plan annualized rate of return was 10.35% over the last three years and 5.18% over the last five years. The Retiree Health Fund DVA Plan is invested in the GeFONSI. The GeFONSI is an investment pool managed by the State of Alaska Treasury Division in the Department of Revenue. For fiscal years 2013 and 2012, the GeFONSI investments generated 0.31% and 1.52% rate of return, respectively. The GeFONSI annualized rate or return was 1.18% over the last three years and 2.23% over the last five years.

Benefits and Deductions

The primary deduction of the Plan is the payment of postemployment healthcare benefits. These benefit costs and the cost of administering the Plan comprises the costs of operation.

	Deductions				
	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Healthcare benefits	\$ 46,105,103	34,389,584	11,715,519	34.1%	\$ 39,307,350
Administrative	1,478,723	1,422,009	56,714	4.0	1,280,370
Total	<u>\$ 47,583,826</u>	<u>35,811,593</u>	<u>11,772,233</u>	<u>32.9%</u>	<u>\$ 40,587,720</u>

Benefit expense increased by \$11,715,519 or 34.1% and decreased by \$4,917,766 or 12.5% from fiscal years 2012 and 2011, respectively. The Plan's benefit consultants continue to identify and develop premiums necessary to cover claims costs.

Funding

Postemployment healthcare benefits are funded by premiums received from the remaining participating retirement systems and plan members as well as from income earned on plan investments. Healthcare premiums are recommended each year by the Division's consultant with the governing body's concurrence and the Administrator's approval.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2013 and 2012

Economic Conditions, Market Environment, and Results

The overall objective of the Plan is to have sufficient funds to meet current and future claim costs. The premiums for the major medical and DVA plans are calculated each year based on the anticipated claims and administrative costs for the following year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop premiums. The amount of reserves is considered when setting the premiums. The premiums for the LTC plan have been developed to provide future benefits for the retirees, much like an annuity. The LTC plan will accumulate large reserves to pay future benefits.

Requests for Information

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

State of Alaska Retiree Health Fund
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Statements of Fiduciary Net Assets

June 30, 2013 and 2012

	2013				2012			
	Major medical	Dental, visual and audio	Long-term care	Total	Major medical	Dental, visual and audio	Long-term care	Total
Assets:								
Cash and cash equivalents (note 3):								
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	21,582,640	—	21,582,640	—	18,433,457	—	18,433,457
Short-term fixed income pool	13,727,143	—	54,839,101	68,566,244	12,532,851	—	60,193,962	72,726,813
Total cash and cash equivalents	<u>13,727,143</u>	<u>21,582,640</u>	<u>54,839,101</u>	<u>90,148,884</u>	<u>12,532,851</u>	<u>18,433,457</u>	<u>60,193,962</u>	<u>91,160,270</u>
Investments (notes 3 and 4):								
Broad market fixed income pool	—	—	146,573,253	146,573,253	—	—	145,141,415	145,141,415
Domestic equity pool	—	—	69,491,682	69,491,682	—	—	47,056,911	47,056,911
International equity pool	—	—	16,262,048	16,262,048	—	—	6,574,886	6,574,886
International equity pool-SOA	—	—	19,321,740	19,321,740	—	—	13,713,482	13,713,482
Total investments	<u>—</u>	<u>—</u>	<u>251,648,723</u>	<u>251,648,723</u>	<u>—</u>	<u>—</u>	<u>212,486,694</u>	<u>212,486,694</u>
Other:								
Premiums receivable	87,083	44,539	67,699	199,321	93,808	41,620	62,397	197,825
Interest and dividends receivable	—	—	—	—	4,845	—	22,855	27,700
Other receivables	9,025	—	—	9,025	132,058	—	—	132,058
Other assets	33,879	338,570	46,917	419,366	33,879	338,569	46,917	419,365
Total other	<u>129,987</u>	<u>383,109</u>	<u>114,616</u>	<u>627,712</u>	<u>264,590</u>	<u>380,189</u>	<u>132,169</u>	<u>776,948</u>
Total assets	<u>13,857,130</u>	<u>21,965,749</u>	<u>306,602,440</u>	<u>342,425,319</u>	<u>12,797,441</u>	<u>18,813,646</u>	<u>272,812,825</u>	<u>304,423,912</u>
Liabilities:								
Claims payable (note 5)	218,000	3,428,000	16,822,000	20,468,000	165,000	2,976,000	14,037,000	17,178,000
Accrued expenses	10,690	91,577	38,094	140,361	18,981	87,254	27,339	133,574
Due to State of Alaska Other Funds	—	307,179	45,577	352,756	—	536,012	9,680	545,692
Total liabilities	<u>228,690</u>	<u>3,826,756</u>	<u>16,905,671</u>	<u>20,961,117</u>	<u>183,981</u>	<u>3,599,266</u>	<u>14,074,019</u>	<u>17,857,266</u>
Net assets held in trust for postemployment healthcare benefits	<u>\$ 13,628,440</u>	<u>18,138,993</u>	<u>289,696,769</u>	<u>321,464,202</u>	<u>12,613,460</u>	<u>15,214,380</u>	<u>258,738,806</u>	<u>286,566,646</u>

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)
Statements of Changes in Fiduciary Net Assets
Years ended June 30, 2013 and 2012

	2013				2012			
	Major medical	Dental, visual and audio	Long-term care	Total	Major medical	Dental, visual and audio	Long-term care	Total
Additions:								
Contributions:								
Employer health insurance premiums	\$ 1,561,825	—	—	1,561,825	1,517,260	—	—	1,517,260
Member health insurance premiums	1,438,564	38,415,467	23,953,736	63,807,767	1,216,213	35,115,892	22,293,617	58,625,722
Total contributions	3,000,389	38,415,467	23,953,736	65,369,592	2,733,473	35,115,892	22,293,617	60,142,982
Medicare retiree drug subsidy (note 6)	63,629	—	—	63,629	81,361	—	—	81,361
Early retiree reinsurance program (note 7)	—	—	—	—	159,646	—	—	159,646
Investment income:								
Net appreciation in fair value	30,978	—	12,788,289	12,819,267	—	—	4,830,185	4,830,185
Interest	—	56,556	3,726,076	3,782,632	50,092	238,913	4,336,897	4,625,902
Dividends	—	—	515,080	515,080	—	—	1,006,890	1,006,890
Total investment income	30,978	56,556	17,029,445	17,116,979	50,092	238,913	10,173,972	10,462,977
Less investment expense	3,041	—	67,751	70,792	3,623	—	55,250	58,873
Net investment income	27,937	56,556	16,961,694	17,046,187	46,469	238,913	10,118,722	10,404,104
Other income	44	1,710	220	1,974	164	4,655	113	4,932
Total additions	3,091,999	38,473,733	40,915,650	82,481,382	3,021,113	35,359,460	32,412,452	70,793,025
Deductions:								
Benefits (note 5)	1,937,423	34,495,343	9,672,337	46,105,103	1,884,809	31,380,348	1,124,427	34,389,584
Administrative	139,596	1,053,777	285,350	1,478,723	176,435	1,014,239	231,335	1,422,009
Total deductions	2,077,019	35,549,120	9,957,687	47,583,826	2,061,244	32,394,587	1,355,762	35,811,593
Net change in fiduciary net assets	1,014,980	2,924,613	30,957,963	34,897,556	959,869	2,964,873	31,056,690	34,981,432
Net assets held in trust for postemployment healthcare benefits:								
Net assets, beginning of year	12,613,460	15,214,380	258,738,806	286,566,646	11,653,591	12,249,507	227,682,116	251,585,214
Net assets, end of year	\$ 13,628,440	18,138,993	289,696,769	321,464,202	12,613,460	15,214,380	258,738,806	286,566,646

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(1) Description

The following brief description of the State of Alaska Retiree Health Fund (the Plan), a pension trust fund of the State of Alaska (the State), is provided for general information purposes only. Participants should refer to the Retiree Group Insurance Information Booklet for more complete information.

General

The Plan was established to provide self-insured healthcare benefits to retirees of the Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System, and Elected Public Officers Retirement System (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Plan is a pension trust fund of the State financial reporting entity and is included as such in the State's comprehensive annual financial report. As of June 30, 2013 and 2012, there were 38,320 and 36,401 retirees, respectively, excluding dependents, covered by the Plan.

Prior to July 1, 1997, healthcare benefits for retirees were fully insured through the payment of premiums to an insurance company.

Benefits

The Plan offers major medical, voluntary dental, visual, and audio (DVA) and voluntary long-term care (LTC) benefits to eligible benefit recipients of the Retirement Systems and their dependents.

Medical

The Plan provides medical benefits to qualified benefit recipients of the Retirement Systems. The State pays the medical premiums for benefit recipients of the Elected Public Officers Retirement System, for benefit recipients of the Marine Engineers Beneficial Association who retired from the State after July 1, 1986 and for benefit recipients of the NorthWest Marine Trust who retired from the State before July 1, 1984. The following benefit recipients must elect coverage and pay a premium:

- Benefit recipients of the Public Employees' Retirement System (PERS) first hired under the PERS on or after July 1, 1986, who are under age 60, are not receiving a disability benefit, and had less than 25 years of peace officer/firefighter service or less than 30 years of other service.
- Benefit recipients of the Teachers' Retirement System (TRS) first hired under the TRS on or after July 1, 1990, who are under age 60, are not receiving a disability benefit, and had less than 25 years of service.
- Benefit recipients of the PERS first hired under the PERS on or after July 1, 1996, who are age 60 or older and do not have at least 10 years of credited service.
- Alternate payees under a Qualified Domestic Relations Order (QDRO).

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(1) Description (cont.)

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

Voluntary DVA and LTC

Individuals receiving benefits from one of the Retirement Systems, excluding alternate payees under a QDRO, may elect coverage for themselves and their eligible dependents. If coverage is elected, the premiums are paid by deductions from retirement checks.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Premiums are recognized in the period in which they are due. Benefits are recognized when due and payable.

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.

Investments

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The Fund invests in the State's internally managed General Fund and Other Non-segregated Investments (GeFONSI), Short-term Fixed Income Pools and Broad Market Fixed Income Pools. GeFONSI consists of investments in the Short-Term Fixed Income Pool, the Short-Term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

Valuation and Income Allocation

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

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

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-Term, Short-Term Liquidity, Intermediate-Term, and Broad Market Fixed Income Pools as well as the International Equity Pool is allocated to pool participants daily on a pro rata basis. Domestic Equity income is credited and allocated in accordance with the participants pro rata share of the fund when received.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and exempt from federal income taxes under Section 501(a).

Administration

The Plan is administered by the State's Division of Retirement and Benefits (DRB). DRB utilizes the services of a claims administrator, Health Smart, to process all medical, dental, and prescription drug claims.

Funding

The Plan is self-insured for all benefits. The Plan's funding policy provides for the collection of premiums from the retirement systems administered by the Division of Retirement and Benefits as well as from benefit recipients, as applicable. Premium amounts are actuarially determined on an annual basis and adjusted as necessary. The retirement systems retain the risk of loss of allowable claims.

Due to State of Alaska General Fund

Due to the State of Alaska General Fund represents reimbursements to be made by the Plan to other funds for net payments made by other funds on behalf of the Plan.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk

At June 30, 2013, the fund's share of pool investments was as follows:

Investment type	Fair value					Total
	Fixed income pools					
	Short-term fixed	Short-term liquidity	Intermediate-term fixed	Broad market	Other	
Deposits	\$ 1,895,225	—	—	(1,264)	—	1,893,961
Commercial paper	3,698,521	—	—	—	—	3,698,521
Corporate bonds	4,533,657	—	789,443	30,396,781	—	35,719,881
Mortgage backed	190,230	—	207,942	48,645,406	—	49,043,578
Municipal bonds	44,379	—	2,131	—	—	46,510
Other asset backed	37,845,332	—	261,454	5,068,220	—	43,175,006
Discount notes	6,310	—	—	—	—	6,310
U.S. government agency	—	—	312,255	4,380,996	—	4,693,251
U.S. Treasury bills	37,354,105	2,120,620	658,960	—	—	40,133,685
U.S. Treasury bonds	—	—	—	3,136,791	—	3,136,791
U.S. Treasury notes	—	—	6,984,330	44,034,385	—	51,018,715
U.S. Treasury strip	—	—	57,445	655,490	—	712,935
Yankees:						
Corporate	1,187,821	—	140,828	6,539,518	—	7,868,167
Government	—	—	37,695	1,455,171	—	1,492,866
Domestic equity	—	—	—	—	69,491,682	69,491,682
International equity	—	—	—	—	35,533,911	35,533,911
Total invested assets	86,755,580	2,120,620	9,452,483	144,311,494	105,025,593	347,665,770
Pool related net assets (liabilities)	(1,586,005)	(1)	(87,304)	(4,244,730)	49,877	(5,868,163)
Other pool ownership	(6,506,489)	—	—	6,506,489	—	—
Net invested assets	\$ 78,663,086	2,120,619	9,365,179	146,573,253	105,075,470	341,797,607

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk (cont.)

At June 30, 2012, the Plan had the following investments:

Investment type	Fair value					Total
	Fixed income pools					
	Short-term fixed	Short-term liquidity	Intermediate-term fixed	Broad market	Other	
Commercial paper	\$ 3,285,656	—	4,785	186,474	—	3,476,915
Corporate bonds	8,789,236	—	1,222,505	28,759,649	—	38,771,390
Deposits	385,823	—	—	—	—	385,823
Mortgage backed	819,034	—	299,249	49,921,852	—	51,040,135
Other asset backed	34,025,878	—	32,880	3,827,462	—	37,886,220
U.S. government agency	1,156,947	—	391,337	5,706,159	—	7,254,443
U.S. Treasury bills	51,022,785	1,251,675	651,890	1,639,934	—	54,566,284
U.S. Treasury bonds	—	—	—	7,972,735	—	7,972,735
U.S. Treasury notes	—	—	5,396,186	30,859,415	—	36,255,601
U.S. Treasury strip	—	—	4,810	—	—	4,810
Yankees:						
Government	2,022,224	—	—	6,769,775	—	8,791,999
Corporate	—	—	49,184	3,032,438	—	3,081,622
Domestic equity	—	—	—	—	47,056,911	47,056,911
International equity	—	—	—	—	20,288,368	20,288,368
Total invested assets	101,507,583	1,251,675	8,052,826	138,675,893	67,345,279	316,833,256
Pool related net assets (liabilities)	(2,725,608)	205	(7,384)	(10,425,805)	—	(13,158,592)
Other pool ownership	(16,891,325)	—	—	16,891,325	—	—
Net invested assets	\$ 81,890,650	1,251,880	8,045,442	145,141,413	67,345,279	303,674,664

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. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed-rate securities ranged from three days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 years.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk (cont.)

Short-Term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed-rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of fixed-rate securities ranged from 46 to 67 days.

Intermediate and Broad Market Fixed Income Pools

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options, and other variable cash flows for purposes of the effective duration calculation.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting effective duration of its other fixed income pool portfolios to the following:

Intermediate-Term Fixed Income Pool – $\pm 20\%$ of the Barclays 1-3 year Government Bond Index. The effective duration for the Barclays 1-3 year Government Bond Index at June 30, 2013, was 1.87 years.

Broad Market Fixed Income Pool – $\pm 20\%$ of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2013, was 5.49 years.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(4) Deposit and Investment Risk (cont.)

At June 30, 2013, the effective duration by investment type was as follows (in years):

	Effective duration	
	Intermediate- term fixed income pool	Broad market fixed income pool
Corporate bonds	2.42	7.31
Mortgage backed	1.45	4.13
Municipal bonds	4.41	—
Other asset backed	0.59	1.37
U.S. government agency	1.70	8.23
U.S. Treasury bill	0.11	—
U.S. Treasury bonds	—	19.69
U.S. Treasury notes	2.04	5.10
U.S. Treasury strip	4.43	4.89
Yankees:		
Corporate	1.85	3.99
Government	2.06	5.17
Portfolio effective duration	1.77	5.23

Credit Risk

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's Corporation. Asset-backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard and Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State's internally managed Short-term Fixed Income Pool.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk (cont.)

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and nonagency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

**STATE OF ALASKA
RETIREE HEALTH FUND**
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk (cont.)

At June 30, 2013, the State's internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term fixed income pool</u>	%	<u>Short-term liquidity fixed income pool</u>	%	<u>Intermediate- term fixed income pool</u>	%	<u>Broad market fixed income pool</u>	%
Deposits	Not Rated	2.22	%	—	%	—	%	—	%
Commercial paper	Not Rated	4.34		—		—		—	
Corporate bond	AAA	—		—		0.40		0.61	
Corporate bond	AA	2.41		—		1.73		2.85	
Corporate bond	A	2.91		—		4.80		11.79	
Corporate bond	BBB	—		—		0.83		4.95	
Corporate bond	BB	—		—		0.16		0.41	
Corporate bonds	Not Rated	—		—		—		0.12	
U.S. government agency	AA	—		—		2.75		0.45	
U.S. government agency	BBB	—		—		—		0.09	
U.S. government agency	Not Rated	0.01		—		0.38		2.45	
Mortgage backed	AAA	0.07		—		0.80		2.88	
Mortgage backed	AA	0.08		—		0.76		27.88	
Mortgage backed	A	0.07		—		0.09		0.27	
Mortgage backed	BBB	—		—		—		0.05	
Mortgage backed	Not Rated	—		—		0.43		2.12	
Municipal bonds	AA	0.05		—		—		—	
Municipal bonds	A	—		—		0.02		—	
Other asset backed	AAA	39.98		—		1.86		2.33	
Other asset backed	AA	0.72		—		—		0.56	
Other asset backed	Not Rated	3.71		—		0.76		0.56	
Other pool ownership	Not Rated	—		0.07		5.92		4.44	
U.S. Treasury bill	AA	43.83		99.93		6.62		—	
U.S. Treasury bond	AA	—		—		—		2.14	
U.S. Treasury notes	AA	—		—		70.18		30.04	
U.S. Treasury strip	AA	—		—		0.58		0.45	
Yankees:									
Corporate	AAA	—		—		0.18		0.79	
Corporate	AA	0.55		—		0.69		1.14	
Corporate	A	0.84		—		0.42		1.40	
Corporate	BBB	—		—		0.13		1.13	
Government	AA	—		—		0.34		0.53	
Government	BBB	—		—		—		0.18	
Government	Not Rated	—		—		0.04		0.28	
No credit risk		(1.79)		—		(0.87)		(2.89)	
		<u>100.00</u>	%	<u>100.00</u>	%	<u>100.00</u>	%	<u>100.00</u>	%

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(3) Deposit and Investment Risk (cont.)

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for the Plan at the beginning of each fiscal year, which places policy limitations on the amount of international securities the Plan is allowed to hold. The following policy was in place during fiscal year 2013 and invested assets included the following holdings at June 30, 2013, for the Plan's investment in the International Equity Pool:

	Policy	Actual
Retiree Health Insurance Fund, Long-Term Care	11% ± 4%	11.61%

At June 30, 2013, the Plan had exposure to foreign currency risk as follows:

Currency	Fair value
Deposits:	
Euro Currency	\$ —
Japanese Yen	10,171
	10,171
Investments – international equity:	
Australian Dollar	378,639
Canadian Dollar	561,692
Danish Krone	155,427
Euro Currency	4,383,393
Japanese Yen	3,114,533
New Zealand Dollar	107,114
Norwegian Krone	175,789
Pound Sterling	3,936,604
Swedish Krona	888,657
Swiss Franc	978,341
	14,680,189
Total	\$ 14,690,360

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than 5% of a pool's holdings in corporate bonds of any one company or affiliated group.

At June 30, 2013, the Commissioner did not have exposure to any one issuer greater than 5% of invested assets.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

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

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy for contingencies. The International Equity Pool investment includes the following income from derivative investments at June 30, 2013:

	<u>Changes in fair value</u>		<u>Fair value at June 30, 2013</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Revenue	\$ 706	Long-Term Instruments	\$ —	—
Rights	Investment Revenue	1	Common Stock	—	—

Additionally, the International Equity Pool had the following income from foreign currency transactions:

Net realized gain on foreign currency	\$	3,050
---------------------------------------	----	-------

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2013, the International Equity Pool had no outstanding contracts.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(5) Claims Payable

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

	2013	2012
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 545,692	349,238
Incurred but not reported	17,178,000	22,687,000
Total, beginning of year	17,723,692	23,036,238
Benefit deductions	46,105,103	34,389,584
Benefits paid	(43,008,039)	(39,702,130)
Total, end of year	\$ 20,820,756	17,723,692
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 352,756	545,692
Incurred but not reported	20,468,000	17,178,000
Total, end of year	\$ 20,820,756	17,723,692

(6) Medicare Part D Retiree Drug Subsidy

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2006.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2013 and 2012

(7) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) a temporary program that provides 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 program beginning calendar year 2013. The program ends on January 1, 2014. The EERP amount for fiscal year 2013 was \$0.