



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

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the State of Alaska Retiree Health Fund (the Plan), a pension trust fund of the State of Alaska, as of and for the years ended June 30, 2016 and 2015, and the related notes to financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Retiree Health Fund as of June 30, 2016 and 2015, and the changes in fiduciary net position for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

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

April 6, 2017

STATE OF ALASKA
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Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

This section presents management's discussion and analysis (MD&A) of the Retiree Health Fund's (the Plan) financial condition and performance for the years ended June 30, 2016 and 2015. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2016 and 2015. Information for fiscal year 2014 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights as of June 30, 2016 were as follows:

- The Plan's net position restricted for postemployment healthcare benefits increased by \$27.6 million during fiscal year 2016.
- The Plan's health premiums totaled \$71.4 million during fiscal year 2016, an increase of \$3.3 million from fiscal year 2015.
- The Plan's net investment income increased \$4.4 million during fiscal year 2016 from fiscal year 2015.
- The Plan's benefit expenses totaled \$55.8 million during fiscal year 2016, an increase of \$1.6 million over fiscal year 2015.

Overview of the Financial Statements

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

Statements of Fiduciary Net Position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for postemployment healthcare benefits. This statement reflects the Plan's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2016 and 2015.

Statements of Changes in Fiduciary Net Position – This statement presents how the Plan's net position restricted for postemployment healthcare benefits changed during the fiscal years ended June 30, 2016 and 2015. This statement presents health premiums earned and net investment income 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 2016 and 2015.

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

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Condensed Financial Information

Fiduciary net position					
Description	2016	2015	Increase (decrease)		2014
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 37,915,566	39,150,862	(1,235,296)	(3.2)%	\$ 103,670,413
Investments, at fair value	415,163,905	386,508,447	28,655,458	7.4	293,897,212
Other	2,610,776	1,654,968	955,808	57.8	1,661,931
Total assets	455,690,247	427,314,277	28,375,970	6.6	399,229,556
Liabilities:					
Claims payable	32,047,000	30,615,600	1,431,400	4.7	25,082,000
Accrued expenses	659,299	299,395	359,904	120.2	664,186
Due to other funds	69,517	1,099,048	(1,029,531)	(93.7)	131,203
Total liabilities	32,775,816	32,014,043	761,773	2.4	25,877,389
Total net position	\$ 422,914,431	395,300,234	27,614,197	7.0%	\$ 373,352,167

Changes in fiduciary net position					
Description	2016	2015	Increase (decrease)		2014
			Amount	Percentage	
Net position, beginning of year	\$ 395,300,234	373,352,167	21,948,067	5.9%	\$ 321,464,202
Additions:					
Healthcare insurance premiums	71,355,285	68,053,063	3,302,222	4.9	69,066,044
Medicare retiree drug subsidy	106,196	219,253	(113,057)	(51.6)	49,179
Other income	135,044	145,297	(10,253)	(7.1)	72,326
Net investment income	14,704,790	10,321,878	4,382,912	42.5	36,271,014
Total additions	86,301,315	78,739,491	7,561,824	9.6	105,458,563
Deductions:					
Healthcare benefits	55,780,519	54,199,457	1,581,062	2.9	51,669,553
Administrative	2,906,599	2,591,967	314,632	12.1	1,901,045
Total deductions	58,687,118	56,791,424	1,895,694	3.3	53,570,598
Increase in net position	27,614,197	21,948,067	5,666,130	25.8	51,887,965
Net position, end of year	\$ 422,914,431	395,300,234	27,614,197	7.0%	\$ 373,352,167

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Financial Analysis of the Plan

The statements of fiduciary net position as of June 30, 2016 and 2015 show net position restricted for postemployment healthcare benefits of \$422,914,431 and \$395,300,234, 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 position restricted for postemployment healthcare benefits of \$27,614,197 or 7.0% over fiscal year 2015 and \$21,948,067 or 5.9% over fiscal year 2014.

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, Vision, and Audio (DVA) and Long-Term Care (LTC) funds are expected to cover all claims costs. It is anticipated that there will continue to be increases in future healthcare costs, and the Plans 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 2016 and 2015, 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 Nonsegregated Investments (GeFONSI). The asset allocation for the Long-Term Care fund was as follows:

	2016	
	Long-term Care	
	Allocation	Range
Broad market fixed income pool	62.00%	62 ± 10
Domestic equity pool	25.00	25 ± 10
International equity pool	13.00	13 ± 4
Short-term fixed income pool	—	0%/+ 2%
Total	<u>100.00%</u>	

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	2015	
	Long-term Care	
	Allocation	Range
Broad market fixed income pool	61.80%	62 ± 10
International equity	12.75	13 ± 4
Nonretirement domestic equity pool	24.85	25 ± 10
Short-term fixed income pool	0.60	0%/+ 2%
Total	100.00%	

Insurance Premium Calculations

The overall objective of the Plan is to have sufficient funds to meet claim costs. The insurance premiums are recommended each year by the Division of Retirement and Benefits' (the Division) benefit consultant with the governing body's concurrence and the administrator's approval. Insurance premiums are based on a benefit 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 benefit year.

Healthcare Insurance Premiums and Investment Income

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

			Additions			
	2016	2015	Increase (decrease)			2014
			Amount	Percentage		
Employer paid health insurance premiums	\$ 1,802,485	1,816,797	(14,312)	(0.8)%	\$ 1,786,683	
Member health insurance premiums	69,552,800	66,236,266	3,316,534	5.0	67,279,361	
Medicare retiree drug subsidy	106,196	219,253	(113,057)	(51.6)	49,179	
Other	135,044	145,297	(10,253)	(7.1)	72,326	
Net investment income	14,704,790	10,321,878	4,382,912	42.5	36,271,014	
Total	\$ 86,301,315	78,739,491	7,561,824	9.6%	\$ 105,458,563	

Employer paid medical premiums were \$1,223 per month per eligible retiree for calendar years 2016, 2015, and 2014.

Member health insurance premiums increased as a result of a higher member count within the dental, vision, and audio plan as well as the long-term care plan.

Other income primarily comprises of reimbursements for retiree prescription medication and prescription drug rebates paid through the third-party administrator (TPA). 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 RDS, if the sponsor's

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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 System's net investment income in fiscal year 2016 increased by \$4,382,912 or 42.5% from amounts recorded in fiscal year 2015, and net investment income in 2015 decreased \$25,949,136 from amounts recorded in fiscal year 2014. During fiscal years 2016 and 2015, the System experienced positive returns on investments, though most gains were primarily in the Retiree Health Fund LTC Plan, though returns were significantly below the expected 7.00%.

For fiscal years 2016 and 2015, the Retiree Health Fund Major Medical Plan investments generated 0.56% and 0.30% rate of return, respectively. The Retiree Health Fund Major Medical Plan annualized rate of return was 0.37% over the last three years and 0.36% 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 2016 and 2015, the GeFONSI investments generated 0.82% and 0.45% rate of return, respectively. The GeFONSI annualized rate of return was 0.61% over the last three years and 1.39% over the last five years. For fiscal years 2016 and 2015, the Retiree Health Fund LTC Plan investments generated 3.61% and 2.81% rate of return, respectively. The Retiree Health Fund LTC Plan annualized rate of return was 5.92% over the last three years and 5.57% 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 costs of administering the Plan comprise the costs of operation.

	Deductions				2014
	2016	2015	Increase (decrease)		
			Amount	Percentage	
Healthcare benefits	\$ 55,780,519	54,199,457	1,581,062	2.9%	\$ 51,669,553
Administrative	2,906,599	2,591,967	314,632	12.1	1,901,045
Total	<u>\$ 58,687,118</u>	<u>56,791,424</u>	<u>1,895,694</u>	<u>3.3%</u>	<u>\$ 53,570,598</u>

Benefit expense increased by \$1,581,062 or 2.9% and increased by \$2,529,904 or 4.9% from fiscal years 2015 and 2014, respectively. The Plan contracted with two new TPAs in January 2014, and a new LTC TPA in May 2016. The TPAs use networks to help reduce healthcare benefit costs. Currently, the Plan is benefiting through the use of networks provided by the TPAs.

The increase in administrative expenses is primarily due to the increase of members within the DVA and LTC plans based on a per member fee. Additionally, the Retiree Health Fund LTC Plan incurred a transition cost when the Plan contracted with a new TPA in May 2016. The Plan's benefit consultants and Division continue to identify and develop premiums necessary to cover claims costs.

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Funding

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

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

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Statements of Fiduciary Net Position

June 30, 2016 and 2015

	2016				2015			
	Major medical	Dental, vision, and audio	Long-term care	Total	Major medical	Dental, vision, and audio	Long-term care	Total
Assets:								
Cash and cash equivalents (notes 2 and 3):								
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	20,282,999	—	20,282,999	—	22,232,978	—	22,232,978
Short-term fixed income pool	15,342,734	—	2,289,833	17,632,567	14,596,592	—	2,321,292	16,917,884
Total cash and cash equivalents	15,342,734	20,282,999	2,289,833	37,915,566	14,596,592	22,232,978	2,321,292	39,150,862
Investments (notes 2 and 3):								
Broad market fixed income pool	—	—	258,699,015	258,699,015	—	—	240,324,449	240,324,449
Domestic equity pool	—	—	103,651,416	103,651,416	—	—	96,610,908	96,610,908
International equity pools	—	—	52,813,474	52,813,474	—	—	49,573,090	49,573,090
Total investments	—	—	415,163,905	415,163,905	—	—	386,508,447	386,508,447
Other:								
Interest and dividends receivable	11,767	—	7,064	18,831	3,386	—	267	3,653
Due from State of Alaska General Fund	117,138	—	—	117,138	137,403	176,828	62,277	376,508
Other assets	14,863	1,244,305	1,215,639	2,474,807	14,863	1,244,305	15,639	1,274,807
Total other	143,768	1,244,305	1,222,703	2,610,776	155,652	1,421,133	78,183	1,654,968
Total assets	15,486,502	21,527,304	418,676,441	455,690,247	14,752,244	23,654,111	388,907,922	427,314,277
Liabilities:								
Claims payable (note 4)	256,000	3,217,000	28,574,000	32,047,000	85,000	3,900,600	26,630,000	30,615,600
Accrued expenses	11,050	312,551	335,698	659,299	5,953	228,799	64,643	299,395
Due to State of Alaska General Fund	—	40,215	29,302	69,517	—	181,869	914,510	1,096,379
Due to retirement systems	—	—	—	—	—	1,566	1,103	2,669
Total liabilities	267,050	3,569,766	28,939,000	32,775,816	90,953	4,312,834	27,610,256	32,014,043
Net position restricted for postemployment healthcare benefits	\$ 15,219,452	17,957,538	389,737,441	422,914,431	14,661,291	19,341,277	361,297,666	395,300,234

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position
Years ended June 30, 2016 and 2015

	2016				2015			
	Major medical	Dental, vision, and audio	Long-term care	Total	Major medical	Dental, vision, and audio	Long-term care	Total
Additions:								
Contributions:								
Employer health insurance premiums	\$ 1,802,485	—	—	1,802,485	1,816,797	—	—	1,816,797
Member health insurance premiums	996,813	39,353,392	29,202,595	69,552,800	933,547	37,834,216	27,468,503	66,236,266
Total contributions	2,799,298	39,353,392	29,202,595	71,355,285	2,750,344	37,834,216	27,468,503	68,053,063
Medicare retiree drug subsidy (note 5)	106,196	—	—	106,196	219,253	—	—	219,253
Investment income:								
Net appreciation in fair value	83,669	—	6,926,541	7,010,210	41,688	—	3,548,447	3,590,135
Interest	—	173,400	7,121,810	7,295,210	—	101,090	6,233,462	6,334,552
Dividends	—	—	523,478	523,478	—	—	489,594	489,594
Total investment income	83,669	173,400	14,571,829	14,828,898	41,688	101,090	10,271,503	10,414,281
Less investment expense	3,000	—	121,108	124,108	2,451	—	89,952	92,403
Net investment income	80,669	173,400	14,450,721	14,704,790	39,237	101,090	10,181,551	10,321,878
Other income	130,630	4,414	—	135,044	136,302	4,234	4,761	145,297
Total additions	3,116,793	39,531,206	43,653,316	86,301,315	3,145,136	37,939,540	37,654,815	78,739,491
Deductions:								
Healthcare benefits (note 4)	2,444,746	38,770,264	14,565,509	55,780,519	2,599,979	37,195,096	14,404,382	54,199,457
Administrative	113,886	2,144,681	648,032	2,906,599	124,766	2,057,782	409,419	2,591,967
Total deductions	2,558,632	40,914,945	15,213,541	58,687,118	2,724,745	39,252,878	14,813,801	56,791,424
Net change in fiduciary net position	558,161	(1,383,739)	28,439,775	27,614,197	420,391	(1,313,338)	22,841,014	21,948,067
Net position restricted for postemployment healthcare benefits:								
Net position, beginning of year	14,661,291	19,341,277	361,297,666	395,300,234	14,240,900	20,654,615	338,456,652	373,352,167
Net position, end of year	\$ 15,219,452	17,957,538	389,737,441	422,914,431	14,661,291	19,341,277	361,297,666	395,300,234

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2016 and 2015

(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 (PERS), Teachers' Retirement System (TRS), Judicial Retirement System (JRS), 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 (CAFR). As of June 30, 2016 and 2015, there were 41,015 and 39,733 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, vision, 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 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 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).

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.

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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. Insurance 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 of Revenue (the Commissioner) has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The funds invest in the State's internally managed General Fund and Other Nonsegregated Investments Pool (GeFONSI), Short-term Fixed Income Pool, Broad Market Fixed Income Pool, SSgA Russell 3000 Pool, SSgA MSCI EAFE Index Pool, and the Lazard International Equity Pool. The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, and Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the State's CAFR available from the Department of Administration, Division of Finance.

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.

The accrual basis of accounting is used for the 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 Fixed Income, Broad Market Fixed Income Pool, and the Domestic and International Equity Pools is allocated to the pool participants daily on a pro-rata basis.

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Administration

The Plan is administered by the State’s Division of Retirement and Benefits (the Division). The Division utilizes the services of claims administrators, HealthSmart Benefit Solutions (HealthSmart), Aetna, Moda Health, Pay Flex, and Capgemini US to process all medical, dental, and prescription drug claims. Some of the managed-care vision benefits provided by the Plan are administered by Vision Service Plan.

Funding

The Plan is self-insured for all benefits. The Plan’s funding policy provides for the collection of insurance 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 from (to) State of Alaska General Fund

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

Due to Retirement Systems

Due to retirement systems represents amounts owed to the Public Employees’ Retirement System and Teachers’ Retirement System Defined Benefit Pension Retirement Systems.

Federal Income Tax Status

The Plan is a pension fund of the State financial reporting entity and is included as such in the State's comprehensive annual financial report. The Plan is not subject to federal income tax by virtue of the Plan's status as a governmental entity.

(3) Investments

At June 30, 2016, the Plan’s share of pool investments was as follows:

<u>Investment Pool</u>	<u>Major medical</u>	<u>Long-term care</u>
Cash and Cash Equivalents		
Short-Term Fixed Income Pool	\$ 15,342,734	2,289,833
Domestic Fixed Income		
Broad Market Fixed Income Pool	—	258,699,015
Equity		
SSgA Russell 3000 Pool	—	103,651,416
SSgA MSCI EAFE Index Pool	—	34,761,015
Lazard International Equity Pool	—	18,052,459
Total	<u>\$ 15,342,734</u>	<u>417,453,738</u>

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	Dental, vision, and audio
GeFONSI balance	\$ 20,282,999

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the Commissioner of Revenue at <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>.

(4) 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:

	2016	2015
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 1,096,379	131,203
Incurred but not reported	30,615,600	25,082,000
Total, beginning of year	31,711,979	25,213,203
Benefit deductions	55,780,519	54,199,457
Benefits paid	(55,375,981)	(47,700,681)
Total, end of year	\$ 32,116,517	31,711,979
End of year:		
Due to State of Alaska General Fund	\$ 69,517	1,096,379
Incurred but not reported	32,047,000	30,615,600
Total, end of year	\$ 32,116,517	31,711,979

(5) 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

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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.