



STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)
Financial Statements and Supplemental Schedules
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise 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
State of Alaska Department of Administration
State of Alaska Retiree Health Fund:

We have audited the accompanying financial statements of the State of Alaska Retiree Health Fund (the Fund), an enterprise fund of the State of Alaska, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Fund'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 controls 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 net position of the State of Alaska Retiree Health Fund as of June 30, 2020 and 2019, and the changes in its net position and cash flows 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 3–9, 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 an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The supplemental schedules on pages 19–24 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

October 30, 2020

**STATE OF ALASKA
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Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

This section presents management's discussion and analysis (MD&A) of the State of Alaska Retiree Health Fund's (the Fund) financial condition and performance for the year ended June 30, 2020 and 2019. 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 Fund during the fiscal year ended June 30, 2020 and 2019. Information for fiscal year 2018 is presented for comparative purposes.

Financial Highlights

The Fund's financial highlights for the year ended June 30, 2020 were as follows:

- The Fund's unrestricted net position increased by \$53.2 million.
- The Fund's health premiums totaled \$85.1 million, an increase of \$4.6 million from fiscal year 2019.
- The Fund's net investment income increased \$3.5 million when compared to fiscal year 2019.
- The Fund's benefit expenses totaled \$72.3 million, an increase of \$11.4 million from fiscal year 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Fund's financial statements are composed of four components: (1) statement of net position; (2) statement of revenue, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to financial statements.

Statement of net position – This statement presents information regarding the Fund's assets, liabilities, and resulting net position. This statement reflects the Fund's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2020 and 2019.

Statement of revenues, expenses, and changes in net position – This statement presents how the Fund's net position changed during the fiscal years ended June 30, 2020 and 2019. This statement presents health premiums and net investment income during the period. Expenses for postemployment healthcare benefits and operations are also presented.

Statement of cash flows – This statement presents the Fund's cash flows from operations and investing activities. The Fund presents its cash flows statement using the direct method for reporting cash received and disbursed during the fiscal year.

The above statements represent resources available for investment and payment of benefits as of June 30, 2020 and 2019, and the sources and uses of those funds during fiscal year 2020 and 2019.

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 Fund's financial statements.

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Condensed Financial Information

Description	Net position				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 44,731,781	39,956,554	4,775,227	12.0%	\$ 46,584,984
Investments at fair value	626,179,698	562,302,220	63,877,478	11.4	497,098,884
Receivables	10,548	56,927	(46,379)	(81.5)	44,527
Due from State of Alaska General Fund	98,395	327,602	(229,207)	(70.0)	225,440
Other	2,335,018	2,335,018	—	—	2,335,018
Total assets	673,355,440	604,978,321	68,377,119	11.3	546,288,853
Liabilities:					
Current liabilities:					
Claims payable	21,502,540	16,407,702	5,094,838	31.1	14,290,000
Accrued expenses	379,124	812,807	(433,683)	(53.4)	877,786
Due to State of Alaska General Fund	48,619	100,131	(51,512)	(51.4)	126,110
Due to Retirement System - PERS	—	—	—	—	462
Total current liabilities	21,930,283	17,320,640	4,609,643	26.6	15,294,358
Noncurrent liabilities:					
Claims payable	33,684,291	23,160,851	10,523,440	45.4	23,672,000
Total liabilities	55,614,574	40,481,491	15,133,083	37.4	38,966,358
Net position - Unrestricted	\$ 617,740,866	564,496,830	53,244,036	9.4%	\$ 507,322,495

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Description	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Unrestricted net position, beginning of year	\$ 564,496,830	507,322,495	57,174,335	11.3%	\$ 469,925,736
Operating revenue:					
Health insurance premiums	85,110,031	80,469,287	4,640,744	5.8	78,410,108
Employer group waiver plan	100,046	24,594	75,452	306.8	—
Medicare retiree drug subsidy	888	52,950	(52,062)	(98.3)	8,894
Pharmacy rebates	145,006	90,361	54,645	60.5	51,367
Other income	21,734	7,971	13,763	172.7	888
Total operating revenue	<u>85,377,705</u>	<u>80,645,163</u>	<u>4,732,542</u>	<u>5.9</u>	<u>78,471,257</u>
Operating expenses:					
Healthcare benefits	72,294,955	60,886,721	11,408,234	18.7	59,602,991
Administrative	3,700,811	2,921,218	779,593	26.7	3,084,293
Total operating expenses	<u>75,995,766</u>	<u>63,807,939</u>	<u>12,187,827</u>	<u>19.1</u>	<u>62,687,284</u>
Operating income	9,381,939	16,837,224	(7,455,285)	(44.3)	15,783,973
Nonoperating revenue:					
Net investment income	43,862,097	40,337,111	3,524,986	8.7	21,612,786
Change in net position	<u>53,244,036</u>	<u>57,174,335</u>	<u>(3,930,299)</u>	<u>(6.9)</u>	<u>37,396,759</u>
Unrestricted net position, end of year	\$ <u><u>617,740,866</u></u>	<u><u>564,496,830</u></u>	<u><u>53,244,036</u></u>	<u><u>9.4%</u></u>	\$ <u><u>507,322,495</u></u>

Financial Analysis of the Fund

The statements of net position as of June 30, 2020 and 2019 show a net position of \$617,740,866 and \$564,496,830, respectively. The entire amount is available to cover the Fund's obligations to pay postemployment healthcare benefits for its members and their beneficiaries.

These amounts also represent an increase in total net position of \$53,244,036 or 9.4% over fiscal year 2019 to 2020, and an increase of \$57,174,335 or 11.3% over fiscal year 2018 to 2019. These increases are attributed to the long-term care (LTC) plan with an increase in premiums collected and an increase in interest and dividend income as it continues to increase fund balance to pay future healthcare claims costs.

Premiums are collected monthly from retirees to cover retired members, dependents, and beneficiaries. Over the long term, healthcare premiums collected for the major medical; dental, vision, and audio (DVA); and LTC funds are expected to cover all claims costs. It is anticipated that there will continue to be increases in future healthcare costs, and these funds must continue to accumulate assets to meet current and future claims costs.

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

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During fiscal years 2020 and 2019, 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 LTC fund was as follows:

	<u>2020</u>		<u>2019</u>	
	<u>LTC</u>		<u>LTC</u>	
	<u>Allocation</u>	<u>Range</u>	<u>Allocation</u>	<u>Range</u>
Broad marked fixed income pool	69.0%	± 5	56.0%	± 5
Domestic equity pool	19.0	± 5	25.0	± 5
International equity pool	12.0	± 5	16.0	± 5
Real estate investment trust pool	—		3.0	- 3 / + 5
Short-term fixed income pool	—	+ 2	—	+ 2
Total	<u>100.0%</u>		<u>100.0%</u>	

Insurance Premium Calculations

The overall objective of the Fund 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 advisory board's recommendation and the administrator's approval. Insurance premiums are based on a Fund's benefit year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to recommend premiums for the next benefit year.

Health Insurance Premiums and Investment Income

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

			<u>Revenues</u>			
	<u>2020</u>	<u>2019</u>	<u>Increase (decrease)</u>			<u>2018</u>
			<u>Amount</u>	<u>Percentage</u>		
Employer health insurance premiums	\$ 1,657,991	1,786,803	(128,812)	(7.2)%	\$ 1,750,816	
Member health insurance premiums	83,452,040	78,682,484	4,769,556	6.1	76,659,292	
Employer group waiver plan	100,046	24,594	75,452	306.8	—	
Medicare retiree drug subsidy	888	52,950	(52,062)	(98.3)	8,894	
Pharmacy rebates	145,006	90,361	54,645	60.5	51,367	
Other income	21,734	7,971	13,763	172.7	888	
Net investment income	43,862,097	40,337,111	3,524,986	8.7	21,612,786	
Total	<u>\$ 129,239,802</u>	<u>120,982,274</u>	<u>8,257,528</u>	<u>6.8%</u>	<u>\$ 100,084,043</u>	

Employer-paid medical premiums were \$1,101 per month per eligible retiree for calendar year 2020, and employer-paid medical premiums were \$1,223 for calendar years 2019 and 2018.

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Member health insurance premiums received increased as a result of a higher member participation counts within the DVA and LTC plans.

Effective January 1, 2019, the Fund implemented a group Medicare Part D prescription drug plan known as an enhanced Employer Group Waiver Plan (EGWP) for all Medicare-eligible members covered under the RHF – Major Medical Fund. For fiscal year 2020, the Fund received \$100,046 compared to \$24,594 for the period January 1, to June 30, 2019, in EGWP funds from the Center for Medicare and Medicaid Services.

The Fund participates in the Medicare Part D retiree drug subsidy (RDS) program. One of the provisions of Medicare Part D provides sponsors of postemployment healthcare funds the opportunity to receive an RDS payment if the sponsor's fund 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 fund. The Fund received \$888 in fiscal year 2020 compared to \$52,950 in fiscal year 2019.

Pharmacy rebates are reimbursed to the Fund by the third-party administrators. These rebates are recorded as revenue when received by the Fund. During fiscal year 2020, the Fund received \$145,006 compared to \$90,361 from fiscal year 2019.

Other income increased \$13,763 from 2019 to 2020 due to a payment from one of the third-party administrators related to contract performance guarantees.

The Fund's net investment income in fiscal year 2020 increased by \$3,524,986 or 8.7% and in 2019 increased by \$18,724,325 or 86.6% from amounts recorded in fiscal year 2018. During fiscal years 2020 and 2019, the Fund experienced positive returns on investments, primarily in the LTC Plan.

The major medical plan investments generated 1.77% rate of return for fiscal year 2020 and 2.50% rate of return for fiscal year 2019. The major medical plan's annualized rate of return was 1.93% over the last three years and 1.45% over the last five years. The DVA plan is invested in the GeFONSI, which is an investment pool managed by the State of Alaska, Treasury Division in the Department of Revenue. The GeFONSI investments generated a 2.15% rate of return for fiscal year 2020 and 3.08% rate of return for fiscal year 2019. The GeFONSI annualized rate of return was 2.08% over the last three years and 1.52% over the last five years. The LTC plan investments generated a 7.47% rate of return for fiscal year 2020 and 7.57% rate of return for fiscal year 2019. The LTC plan annualized rate of return was 6.52% over the last three years and 5.98% over the last five years.

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Benefits and Expenses

The primary expense of the Fund is the payment of postemployment healthcare benefits. These benefit costs and the costs of administering the Fund comprise the costs of operation.

	Expenses				2018
	2020	2019	Increase		
			Amount	Percentage	
Healthcare benefits	72,294,955	60,886,721	11,408,234	18.7%	59,602,991
Administrative	3,700,811	2,921,218	779,593	26.7	3,084,293
Total	\$ 75,995,766	63,807,939	12,187,827	19.1%	\$ 62,687,284

Healthcare benefit expense increased by \$11,408,234 or 18.7% from fiscal year 2019, and increased \$1,283,730 or 2.2% from fiscal year 2018. The fiscal year 2020 increase in benefit expense is due to an increase in major medical and LTC benefit cost. The fiscal year 2019 increase in benefit expense was caused by an increase in DVA benefit cost.

Administrative expenses increased by \$779,593 or 26.7% from fiscal year 2019, and decreased by \$163,075 or 5.3% from fiscal year 2018. The fiscal year 2020 increase is related to an increase in management and consulting fees, while the decrease in fiscal year 2019 is due to a decrease in legal fees. The Plan's benefit consultants and the Division continue to identify and develop premiums necessary to cover claims and administrative costs.

Funding

Postemployment healthcare benefits are funded by health insurance premiums received from participants in the retirement system as well as from income earned on fund 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 Fund 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.

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Requests for Information

This financial report is designed to provide a general overview of the Fund's financial condition for all those with interest in the Fund'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**
(An Enterprise Fund of the State of Alaska)

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Assets:		
Current assets:		
Cash and cash equivalents (note 3):		
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ 23,354,311	18,996,002
Short-term fixed income pool	21,377,470	20,960,552
Total cash and cash equivalents	44,731,781	39,956,554
Investments (note 3):		
Broad market fixed income pool	428,590,035	313,173,956
Domestic equity pool	120,135,505	141,373,145
International equity pool	77,454,158	91,430,095
Real estate investment trust pool	—	16,325,024
Total investments	626,179,698	562,302,220
Receivables:		
Accounts receivable	—	13,645
Interest and dividends receivable	10,548	43,282
Due from State of Alaska General Fund	98,395	327,602
Total receivables	108,943	384,529
Total current assets	671,020,422	602,643,303
Noncurrent assets:		
Other assets	2,335,018	2,335,018
Total assets	673,355,440	604,978,321
Liabilities:		
Current liabilities:		
Claims payable (note 4)	21,502,540	16,407,702
Accrued expenses	379,124	812,807
Due to State of Alaska General Fund	48,619	100,131
Total current liabilities	21,930,283	17,320,640
Noncurrent liabilities:		
Claims payable (note 4)	33,684,291	23,160,851
Total noncurrent liabilities	33,684,291	23,160,851
Total liabilities	55,614,574	40,481,491
Net position – unrestricted	\$ 617,740,866	564,496,830

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Employer health insurance premiums	\$ 1,657,991	1,786,803
Member health insurance premiums	83,452,040	78,682,484
Total health insurance premiums	85,110,031	80,469,287
Other income:		
Employer group waiver plan (note 6)	100,046	24,594
Medicare retiree drug subsidy (note 5)	888	52,950
Pharmacy rebates	145,006	90,361
Miscellaneous income	21,734	7,971
Total other income	267,674	175,876
Total operating revenues	85,377,705	80,645,163
Operating expenses:		
Healthcare benefits (note 4)	72,294,955	60,886,721
Administrative	3,700,811	2,921,218
Total operating expenses	75,995,766	63,807,939
Operating income	9,381,939	16,837,224
Nonoperating revenue:		
Investment income:		
Net appreciation in fair value	32,310,657	29,329,328
Interest	11,566,759	9,812,302
Dividends	118,765	1,318,411
Total investment income	43,996,181	40,460,041
Less investment expense	134,084	122,930
Net investment income	43,862,097	40,337,111
Change in unrestricted net position	53,244,036	57,174,335
Net position – unrestricted, beginning of year	564,496,830	507,322,495
Net position – unrestricted, end of year	\$ 617,740,866	564,496,830

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received for premiums from the State of Alaska	\$ 1,887,198	1,684,641
Cash received for premiums from others	83,468,763	78,671,555
Cash received from third-party administrator	264,595	172,910
Cash payments for benefits to third-party administrator	(56,731,399)	(59,240,171)
Cash payments to employees	(4,100)	(6,810)
Cash payments to suppliers	(4,127,183)	(3,045,363)
	24,757,874	18,236,762
Cash flows from investing activities:		
Purchase of investments	(328,756,725)	(183,683,879)
Proceeds from sale and maturities of investments	257,055,646	138,480,737
Investment income received	51,718,432	20,337,950
	(19,982,647)	(24,865,192)
Net increase (decrease) in cash and cash equivalents	4,775,227	(6,628,430)
Cash and cash equivalents, beginning of year	39,956,554	46,584,984
Cash and cash equivalents, end of year	\$ 44,731,781	39,956,554
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,381,939	16,837,224
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in assets:		
Accounts receivable	13,645	(13,433)
Due from State of Alaska General Fund	229,207	(102,162)
Increase (decrease) in liabilities:		
Claims payable	15,618,278	1,606,553
Accrued expenses	(433,684)	(64,978)
Due to State of Alaska General Fund	(51,511)	(25,980)
Due to Retirement System – PERS	—	(462)
	24,757,874	18,236,762

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Description

The following brief description of the State of Alaska Retiree Health Fund (the Fund), an enterprise 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.

(a) General

The Fund was established to provide low-cost health insurance options to retirees of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System, and Elected Public Officers Retirement System (EPORS) (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Fund is an enterprise fund of the State financial reporting entity and is included as such in the State's Comprehensive Annual Financial Report (CAFR).

(b) Premiums and Participants

The Fund's major medical health insurance premiums are funded by the applicable Retirement Systems as well as contributions from the Alaska Department of Transportation and Public Facilities for retired members of the Marine Engineers Beneficial Association and the NorthWest Marine Trust. The Fund's health plan options are funded by monthly premiums paid by members and eligible recipients. A member may extend coverage to dependents for an additional monthly premium based on the coverage requested.

(c) Benefits

The Fund offers major medical; voluntary dental, vision, and audio (DVA); and voluntary long-term care (LTC) insurance options to eligible recipients of the Retirement Systems and their dependents.

(d) Medical

The Fund provides medical benefits to qualified benefit recipients of the Retirement Systems. The State pays the medical premiums for benefit recipients of the EPORS, 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).

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(e) Voluntary DVA and LTC

Individuals receiving benefits from one of the Retirement Systems, excluding alternate payees under a QDRO, may elect insurance 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

(a) Basis of Accounting

The Fund'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.

(b) Financial Statement Presentation

The Fund distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Fund's principal ongoing operations. The principal operating revenue of the Fund is employer and member health insurance premiums. Operating expenses for the Fund include postemployment healthcare benefits and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(c) 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.

(d) 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. 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, Domestic Equity Pool, International Equity Pool, and Real Estate Investment Trust 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.

GeFONSI investment income is distributed to pool participants if prescribed by statute or if appropriated by state legislature.

**STATE OF ALASKA
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(e) 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 investment income. GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term Fixed Income Pool, Broad Market Fixed Income Pool, Domestic Equity Pool, International Equity Pool, and Real Estate Investment Trust Pool is allocated to the pool participants daily on a pro rata basis.

(f) Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the Fund's investment in the GeFONSI and the Short-term Fixed Income Pool. This investment pool has the general characteristics of a demand deposit account.

(g) Administration

The Fund is administered by the State's Division of Retirement and Benefits (the Division). The Division utilizes the services of claims administrators, Aetna, Moda Health, PayFlex, and CHCS Services Inc. to process all medical, prescription drug, DVA, and LTC claims and pays monthly administrative fees to these claims administrators. Other administrative expenses are related to employees of the Division and related office expenses.

(h) Funding

The Fund is self-insured for all benefits. The Fund's funding policy provides for the collection of insurance premiums from the Retirement Systems administered by the Division 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.

(i) Due from (to) State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the System. Amounts due to the State of Alaska General Fund represent the amounts paid by others on behalf of the System.

(j) Other Income

Other income consists of Medicare Part D Retiree Drug Subsidy (RDS) rebates, Employer Group Waiver Plan (EGWP) rebates, pharmacy rebates, and other miscellaneous items. This other income is recognized on a cash basis.

**STATE OF ALASKA
RETIREE HEALTH FUND**
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2020 and 2019

(3) Investments

At June 30, 2020, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>
Cash and cash equivalents:		
Short-term fixed income pool	\$ 18,882,400	2,495,070
Domestic fixed income:		
Broad market fixed income pool	—	428,590,035
Equity:		
Domestic equity pool	—	120,135,505
International equity pool	—	77,454,158
Total	<u>\$ 18,882,400</u>	<u>628,674,768</u>

	<u>DVA</u>
GeFONSI balance	\$ 23,354,311

At June 30, 2019, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>
Cash and cash equivalents:		
Short-term fixed income pool	\$ 18,368,442	2,592,110
Domestic fixed income:		
Broad market fixed income pool	—	313,173,956
Equity:		
Domestic equity pool	—	141,373,145
International equity pool	—	91,430,095
Real estate investment trust pool	—	16,325,024
Total	<u>\$ 18,368,442</u>	<u>564,894,330</u>

	<u>DVA</u>
GeFONSI balance	\$ 18,996,002

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 Under the Investment Authority of the Commissioner of Revenue" (Audited) at <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>.

**STATE OF ALASKA
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Notes to Financial Statements

June 30, 2020 and 2019

(4) Claims Payable

The liability for claims represents the estimated amounts necessary to settle all outstanding claims, including claims incurred but not reported (IBNR) and the present value of amounts not yet due (PVANYD) for LTC as of the balance sheet date. The Fund's reserve estimates for IBNR are based primarily on historical development patterns adjusted for current trends that would modify past experience. The Fund's reserve estimates for PVANYD is based on an actuarial valuation that considers expected future benefits, expense, and premium revenue discounted to the current valuation date. Claims are re-evaluated 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 during the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Total, beginning of year	\$ 39,668,684	38,088,110
Healthcare benefits	72,294,955	60,886,721
Benefits paid	<u>(56,728,189)</u>	<u>(59,306,147)</u>
Total, end of year	<u>\$ 55,235,450</u>	<u>39,668,684</u>
End of year:		
Current liabilities:		
Claims payable and IBNR	\$ 7,225,755	6,591,182
PVANYD	<u>14,276,785</u>	<u>9,816,520</u>
	21,502,540	16,407,702
Noncurrent liabilities:		
Claims payable and IBNR	3,346,121	2,300,746
PVANYD	<u>30,338,170</u>	<u>20,860,105</u>
Total, end of year	<u>\$ 55,186,831</u>	<u>39,568,553</u>

(5) Medicare Part D Retiree Drug Subsidy

A provision of Medicare Part D provides sponsors of postemployment healthcare funds the opportunity to receive an RDS payment if the sponsor's fund 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 Fund. The Fund was approved for participation in the Medicare Part D program beginning calendar year 2006.

STATE OF ALASKA
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(6) Employer Group Waiver Program

Effective January 1, 2019, the Fund implemented a group Medicare Part D prescription drug plan known as an enhanced EGWP for all Medicare-eligible members covered under the RHF – Major Medical Fund. The enhanced EGWP leverages increased federal subsidies to the RHF – Major Medical Fund for prescription drugs covered by Medicare Part D, while also providing coverage for medications not covered by Medicare Part D through a “wrap” of additional benefits.

SUPPLEMENTAL SCHEDULES

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Net Position

June 30, 2020

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and cash equivalents:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	23,354,311	—	23,354,311
Short-term fixed income pool	18,882,400	—	2,495,070	21,377,470
Total cash and cash equivalents	18,882,400	23,354,311	2,495,070	44,731,781
Investments:				
Broad market fixed income pool	—	—	428,590,035	428,590,035
Domestic equity pool	—	—	120,135,505	120,135,505
International equity pool	—	—	77,454,158	77,454,158
Total investments	—	—	626,179,698	626,179,698
Receivables:				
Interest and dividends receivable	10,183	—	365	10,548
Due from State of Alaska General Fund	98,395	—	—	98,395
Total receivables	108,578	—	365	108,943
Total current assets	18,990,978	23,354,311	628,675,133	671,020,422
Other assets	3,570	1,131,448	1,200,000	2,335,018
Total assets	18,994,548	24,485,759	629,875,133	673,355,440
Liabilities:				
Current liabilities:				
Claims payable	242,000	3,332,000	17,928,540	21,502,540
Accrued expenses	78,430	225,159	75,535	379,124
Due to State of Alaska General Fund	—	16,296	32,323	48,619
Total current liabilities	320,430	3,573,455	18,036,398	21,930,283
Noncurrent liabilities:				
Claims payable	—	—	33,684,291	33,684,291
Total noncurrent liabilities	—	—	33,684,291	33,684,291
Total liabilities	320,430	3,573,455	51,720,689	55,614,574
Net position – unrestricted	\$ 18,674,118	20,912,304	578,154,444	617,740,866

See accompanying independent auditors' report.

**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2020

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,657,991	—	—	1,657,991
Member health insurance premiums	253,904	46,766,848	36,431,288	83,452,040
Total health insurance premiums	<u>1,911,895</u>	<u>46,766,848</u>	<u>36,431,288</u>	<u>85,110,031</u>
Other income:				
Employer group waiver plan	100,046	—	—	100,046
Medicare retiree drug subsidy	888	—	—	888
Pharmacy rebates	145,006	—	—	145,006
Miscellaneous income	18,655	—	3,079	21,734
Total other income	<u>264,595</u>	<u>—</u>	<u>3,079</u>	<u>267,674</u>
Total operating revenues	<u>2,176,490</u>	<u>46,766,848</u>	<u>36,434,367</u>	<u>85,377,705</u>
Operating expenses:				
Healthcare benefits	2,311,198	39,481,909	30,501,847	72,294,954
Administrative	132,384	2,714,833	853,595	3,700,812
Total operating expenses	<u>2,443,582</u>	<u>42,196,742</u>	<u>31,355,442</u>	<u>75,995,766</u>
Operating income (loss)	<u>(267,092)</u>	<u>4,570,106</u>	<u>5,078,925</u>	<u>9,381,939</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	327,940	—	31,982,717	32,310,657
Interest	—	409,021	11,157,738	11,566,759
Dividends	—	—	118,765	118,765
Total investment income	<u>327,940</u>	<u>409,021</u>	<u>43,259,220</u>	<u>43,996,181</u>
Less investment expense	<u>5,048</u>	<u>—</u>	<u>129,036</u>	<u>134,084</u>
Net investment income	<u>322,892</u>	<u>409,021</u>	<u>43,130,184</u>	<u>43,862,097</u>
Change in unrestricted net position	55,800	4,979,127	48,209,109	53,244,036
Net position – unrestricted, beginning of year	<u>18,618,318</u>	<u>15,933,177</u>	<u>529,945,335</u>	<u>564,496,830</u>
Net position – unrestricted, end of year	<u>\$ 18,674,118</u>	<u>20,912,304</u>	<u>578,154,444</u>	<u>617,740,866</u>

See accompanying independent auditors' report.

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Cash Flows

Year ended June 30, 2020

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received for premiums from the State of Alaska	\$ 1,887,198	—	—	1,887,198
Cash received for premiums from others	267,549	46,766,848	36,434,366	83,468,763
Cash received from third-party administrator	264,595	—	—	264,595
Cash payments for benefits to third-party administrator	(2,195,198)	(39,576,909)	(14,959,292)	(56,731,399)
Cash payments to employees	(6,431)	(301)	2,632	(4,100)
Cash payments to suppliers	(58,013)	(3,240,350)	(828,820)	(4,127,183)
Net cash provided by operating activities	<u>159,700</u>	<u>3,949,288</u>	<u>20,648,886</u>	<u>24,757,874</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(328,756,725)	(328,756,725)
Proceeds from sale and maturities of investments	—	—	257,055,646	257,055,646
Investment income received	354,258	409,021	50,955,153	51,718,432
Net cash provided by (used in) investing activities	<u>354,258</u>	<u>409,021</u>	<u>(20,745,926)</u>	<u>(19,982,647)</u>
Net increase (decrease) in cash and cash equivalents	513,958	4,358,309	(97,040)	4,775,227
Cash and cash equivalents, beginning of year	<u>18,368,442</u>	<u>18,996,002</u>	<u>2,592,110</u>	<u>39,956,554</u>
Cash and cash equivalents, end of year	<u>\$ 18,882,400</u>	<u>23,354,311</u>	<u>2,495,070</u>	<u>44,731,781</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (267,092)	4,570,106	5,078,925	9,381,939
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
(Increase) decrease in assets:				
Accounts receivable	13,645	—	—	13,645
Due from State of Alaska General Fund	229,207	—	—	229,207
Increase (decrease) in liabilities:				
Claims payable	116,000	(95,000)	15,597,278	15,618,278
Accrued expenses	67,940	(529,030)	27,406	(433,684)
Due to State of Alaska General Fund	—	3,212	(54,723)	(51,511)
Net cash provided by operating activities	<u>\$ 159,700</u>	<u>3,949,288</u>	<u>20,648,886</u>	<u>24,757,874</u>

See accompanying independent auditors' report.

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Net Position

June 30, 2019

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and cash equivalents:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	18,996,002	—	18,996,002
Short-term fixed income pool	<u>18,368,442</u>	<u>—</u>	<u>2,592,110</u>	<u>20,960,552</u>
Total cash and cash equivalents	<u>18,368,442</u>	<u>18,996,002</u>	<u>2,592,110</u>	<u>39,956,554</u>
Investments:				
Broad market fixed income pool	—	—	313,173,956	313,173,956
Domestic equity pool	—	—	141,373,145	141,373,145
International equity pool	—	—	91,430,095	91,430,095
Real estate investment trust pool	<u>—</u>	<u>—</u>	<u>16,325,024</u>	<u>16,325,024</u>
Total investments	<u>—</u>	<u>—</u>	<u>562,302,220</u>	<u>562,302,220</u>
Receivables:				
Accounts receivable	13,645	—	—	13,645
Interest and dividends receivable	41,549	—	1,733	43,282
Due from State of Alaska General Fund	<u>327,602</u>	<u>—</u>	<u>—</u>	<u>327,602</u>
Total receivables	<u>382,796</u>	<u>—</u>	<u>1,733</u>	<u>384,529</u>
Total current assets	<u>18,751,238</u>	<u>18,996,002</u>	<u>564,896,063</u>	<u>602,643,303</u>
Other assets	<u>3,570</u>	<u>1,131,448</u>	<u>1,200,000</u>	<u>2,335,018</u>
Total assets	<u>18,754,808</u>	<u>20,127,450</u>	<u>566,096,063</u>	<u>604,978,321</u>
Liabilities:				
Current liabilities:				
Claims payable	126,000	3,427,000	12,854,702	16,407,702
Accrued expenses	10,490	754,189	48,128	812,807
Due to State of Alaska General Fund	<u>—</u>	<u>13,084</u>	<u>87,047</u>	<u>100,131</u>
Total current liabilities	<u>136,490</u>	<u>4,194,273</u>	<u>12,989,877</u>	<u>17,320,640</u>
Noncurrent liabilities:				
Claims payable	<u>—</u>	<u>—</u>	<u>23,160,851</u>	<u>23,160,851</u>
Total noncurrent liabilities	<u>—</u>	<u>—</u>	<u>23,160,851</u>	<u>23,160,851</u>
Total liabilities	<u>136,490</u>	<u>4,194,273</u>	<u>36,150,728</u>	<u>40,481,491</u>
Net position – unrestricted	<u>\$ 18,618,318</u>	<u>15,933,177</u>	<u>529,945,335</u>	<u>564,496,830</u>

See accompanying independent auditors' report.

**STATE OF ALASKA
RETIREE HEALTH FUND**

(An Enterprise Fund of the State of Alaska)

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2019

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,786,803	—	—	1,786,803
Member health insurance premiums	232,771	43,940,413	34,509,300	78,682,484
Total health insurance premiums	<u>2,019,574</u>	<u>43,940,413</u>	<u>34,509,300</u>	<u>80,469,287</u>
Other income:				
Employer group waiver plan	24,594	—	—	24,594
Medicare retiree drug subsidy	52,950	—	—	52,950
Pharmacy rebates	90,361	—	—	90,361
Miscellaneous income	5,005	575	2,391	7,971
Total other income	<u>172,910</u>	<u>575</u>	<u>2,391</u>	<u>175,876</u>
Total operating revenues	<u>2,192,484</u>	<u>43,940,988</u>	<u>34,511,691</u>	<u>80,645,163</u>
Operating expenses:				
Healthcare benefits	1,464,942	43,769,455	15,652,324	60,886,721
Administrative	115,045	2,252,604	553,569	2,921,218
Total operating expenses	<u>1,579,987</u>	<u>46,022,059</u>	<u>16,205,893</u>	<u>63,807,939</u>
Operating income (loss)	<u>612,497</u>	<u>(2,081,071)</u>	<u>18,305,798</u>	<u>16,837,224</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	445,725	—	28,883,603	29,329,328
Interest	—	597,230	9,215,072	9,812,302
Dividends	—	—	1,318,411	1,318,411
Total investment income	445,725	597,230	39,417,086	40,460,041
Less investment expense	4,912	—	118,018	122,930
Net investment income	<u>440,813</u>	<u>597,230</u>	<u>39,299,068</u>	<u>40,337,111</u>
Change in unrestricted net position	1,053,310	(1,483,841)	57,604,866	57,174,335
Net position – unrestricted, beginning of year	17,565,008	17,417,018	472,340,469	507,322,495
Net position – unrestricted, end of year	<u>\$ 18,618,318</u>	<u>15,933,177</u>	<u>529,945,335</u>	<u>564,496,830</u>

See accompanying independent auditors' report.

STATE OF ALASKA
RETIREE HEALTH FUND
(An Enterprise Fund of the State of Alaska)

Combining Statement of Cash Flows

Year ended June 30, 2019

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received for premiums from the State of Alaska	\$ 1,684,641	—	—	1,684,641
Cash received for premiums from others	219,338	43,940,526	34,511,691	78,671,555
Cash received from third-party administrator	172,910	—	—	172,910
Cash payments for benefits to third-party administrator	(1,442,942)	(43,398,455)	(14,398,774)	(59,240,171)
Cash payments to employees	(4,398)	(2,004)	(408)	(6,810)
Cash payments to suppliers	(111,058)	(2,380,052)	(554,253)	(3,045,363)
Net cash provided by (used in) operating activities	<u>518,491</u>	<u>(1,839,985)</u>	<u>19,558,256</u>	<u>18,236,762</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(183,683,879)	(183,683,879)
Proceeds from sale and maturities of investments	—	—	138,480,737	138,480,737
Investment income received	429,865	597,230	19,310,855	20,337,950
Net cash provided by (used in) investing activities	<u>429,865</u>	<u>597,230</u>	<u>(25,892,287)</u>	<u>(24,865,192)</u>
Net increase (decrease) in cash and cash equivalents	948,356	(1,242,755)	(6,334,031)	(6,628,430)
Cash and cash equivalents, beginning of year	17,420,086	20,238,757	8,926,141	46,584,984
Cash and cash equivalents, end of year	<u>\$ 18,368,442</u>	<u>18,996,002</u>	<u>2,592,110</u>	<u>39,956,554</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 612,497	(2,081,071)	18,305,798	16,837,224
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Accounts receivable	(13,433)	—	—	(13,433)
Due from State of Alaska General Fund	(102,162)	—	—	(102,162)
Increase (decrease) in liabilities:				
Claims payable	22,000	371,000	1,213,553	1,606,553
Accrued expenses	(411)	(63,475)	(1,092)	(64,978)
Due to State of Alaska General Fund	—	(65,977)	39,997	(25,980)
Due to Retirement System – PERS	—	(462)	—	(462)
Net cash provided by (used in) operating activities	<u>\$ 518,491</u>	<u>(1,839,985)</u>	<u>19,558,256</u>	<u>18,236,762</u>

See accompanying independent auditors' report.