



**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Financial Statements and Supplemental Schedules  
June 30, 2021 and 2020  
(With Independent Auditors' Report Thereon)

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

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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, 2021 and 2020, 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, 2021 and 2020, 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 18–23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

December 2, 2021

**STATE OF ALASKA**  
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Management's Discussion and Analysis (Unaudited)  
June 30, 2021 and 2020

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 years ended June 30, 2021 and 2020. 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 years ended June 30, 2021 and 2020. Information for fiscal year 2019 is presented for comparative purposes.

**Financial Highlights**

The Fund's financial highlights for the year ended June 30, 2021 were as follows:

- The Fund's unrestricted net position increased by \$126.7 million during fiscal year 2021.
- The Fund's health premiums totaled \$88.5 million, an increase of \$3.4 million from fiscal year 2020.
- The Fund's net investment income totaled \$106.7 million, an increase of \$62.8 million from fiscal year 2020.
- The Fund's benefit expenses totaled \$65.1 million, a decrease of \$7.2 million from fiscal year 2020.

**Overview of the Financial Statements**

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

*Statements of net position* – These statements present information regarding the Fund's assets, liabilities, and resulting net position. These statements reflect the Fund's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2021 and 2020.

*Statements of revenues, expenses, and changes in net position* – These statements present how the Fund's net position changed during the fiscal years ended June 30, 2021 and 2020 as a result of health premiums, net investment income, postemployment healthcare benefits, and operating expenses.

*Statements of cash flows* – These statements present 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, 2021 and 2020, and the sources and uses of those funds during fiscal years 2021 and 2020.

*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.

*Supplemental schedules* – Supplemental schedules include detailed information on the underlying individual funds that comprise the Fund and are composed of three components: (1) combining statement of net position;

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(2) combining statement of revenue, expenses, and changes in net position; and (3) combining statement of cash flows.

**Condensed Financial Information**

Description	Net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 49,339,074	44,731,781	4,607,293	10.3%	\$ 39,956,554
Investments at fair value	749,860,662	626,179,698	123,680,964	19.8	562,302,220
Receivables	29,363	108,943	(79,580)	(73.0)	56,927
Other	2,335,018	2,335,018	—	—	2,335,018
<b>Total assets</b>	<b>801,564,117</b>	<b>673,355,440</b>	<b>128,208,677</b>	<b>19.0</b>	<b>604,650,719</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Claims payable	21,840,000	21,502,540	337,460	1.6	16,407,702
Accrued expenses	594,316	379,124	215,192	56.8	812,807
Due to State of Alaska General Fund	64,910	48,619	16,291	33.5	100,131
Due to Retirement System - PERS	2,510	—	2,510	—	—
<b>Total current liabilities</b>	<b>22,501,736</b>	<b>21,930,283</b>	<b>571,453</b>	<b>2.6</b>	<b>17,320,640</b>
<b>Noncurrent liabilities:</b>					
Claims payable	34,575,000	33,684,291	890,709	2.6	23,160,851
<b>Total liabilities</b>	<b>57,076,736</b>	<b>55,614,574</b>	<b>1,462,162</b>	<b>2.6</b>	<b>40,481,491</b>
<b>Net position - Unrestricted</b>	<b>\$ 744,487,381</b>	<b>617,740,866</b>	<b>126,746,515</b>	<b>20.5%</b>	<b>\$ 564,169,228</b>

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**Condensed Financial Information (continued)**

Description	Revenue, expenses, and changes in net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Unrestricted net position, beginning of year	\$ 617,740,866	564,496,830	53,244,036	9.4%	\$ 507,322,495
Operating revenue:					
Health insurance premiums	88,545,604	85,110,031	3,435,573	4.0	80,469,287
Employer group waiver plan	159,769	100,046	59,723	59.7	24,594
Medicare retiree drug subsidy	448	888	(440)	(49.5)	52,950
Pharmacy rebates	75,954	145,006	(69,052)	(47.6)	90,361
Pharmacy management allowance	856	—	856	100.0	—
Miscellaneous income	30,154	21,734	8,420	38.7	7,971
Total operating revenue	<u>88,812,785</u>	<u>85,377,705</u>	<u>3,435,080</u>	<u>4.0</u>	<u>80,645,163</u>
Operating expenses:					
Healthcare benefits	65,126,040	72,294,955	(7,168,915)	(9.9)	60,886,721
Administrative	3,604,054	3,700,811	(96,757)	(2.6)	2,921,218
Total operating expenses	<u>68,730,094</u>	<u>75,995,766</u>	<u>(7,265,672)</u>	<u>(9.6)</u>	<u>63,807,939</u>
Operating income	20,082,691	9,381,939	10,700,752	114.1	16,837,224
Nonoperating revenue:					
Net investment income	106,663,824	43,862,097	62,801,727	143.2	40,337,111
Change in net position	<u>126,746,515</u>	<u>53,244,036</u>	<u>73,502,479</u>	<u>138.0</u>	<u>57,174,335</u>
Unrestricted net position, end of year	<u>\$ 744,487,381</u>	<u>617,740,866</u>	<u>126,746,515</u>	<u>20.5%</u>	<u>\$ 564,496,830</u>

**Financial Analysis of the Fund**

The statements of net position as of June 30, 2021 and 2020 show a net position of \$744,487,381 and \$617,740,866, respectively. The entire amount is available to cover the Fund's obligation to pay postemployment healthcare benefits for its members and their beneficiaries.

This also represents an increase in total net position of \$126,746,515 or 20.5% from fiscal year 2020 to 2021, and an increase of \$53,244,036 or 9.4% from fiscal year 2019 to 2020. These increases are attributed to the long-term care (LTC) plan with an increase in premiums collected and an increase in interest and dividend.

Premiums are collected monthly from retirees to cover 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.

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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.

During fiscal years 2021 and 2020, 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:

	2021		2020	
	LTC		LTC	
	Allocation	Range	Allocation	Range
Broad marked fixed income pool	54.0%	± 5	69.0%	± 5
Domestic equity pool	27.0	± 5	19.0	± 5
International equity pool	18.0	± 5	12.0	± 5
Short-term fixed income pool	1.0	+ 2	—	+ 2
Total	100.0%		100.0%	

**Insurance Premium Calculations**

The overall objective of the Fund is to have sufficient funds to meet healthcare benefit costs. The insurance premiums are recommended each year by the Division of Retirement and Benefits' (the Division) benefit consultant with review by the advisory committee 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.



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**Health Insurance Premiums and Investment Income**

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

	2021	2020	Revenues		2019
			Increase (decrease)		
			Amount	Percentage	
Employer health insurance premiums	\$ 1,522,388	1,657,991	(135,603)	(8.2)%	\$ 1,786,803
Member health insurance premiums	87,023,216	83,452,040	3,571,176	4.3	78,682,484
Employer group waiver plan	159,769	100,046	59,723	59.7	24,594
Medicare retiree drug subsidy	448	888	(440)	(49.5)	52,950
Pharmacy rebates	75,954	145,006	(69,052)	(47.6)	90,361
Pharmacy management allowance	856	—	856	100.0	—
Miscellaneous income	30,154	21,734	8,420	38.7	7,971
Net investment income	106,663,824	43,862,097	62,801,727	143.2	40,337,111
<b>Total</b>	<b>\$ 195,476,609</b>	<b>129,239,802</b>	<b>66,236,807</b>	<b>51.3%</b>	<b>\$ 120,982,274</b>

Employer-paid medical premiums were \$1,046, \$1,101, and \$1,223 per month per eligible retiree for calendar year 2021, 2020, and 2019, respectively.

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 Retiree Health Fund (RHF) Major Medical Fund. For fiscal year 2021, the fund received \$159,769 in EGWP funds from the Center of Medicare and Medicaid Services (CMS) through the EGWP Plan Sponsor, OptumRx

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 2021, the Fund received \$75,954 in pharmacy rebates compared to \$145,006 received during fiscal year 2020. The decrease is due to the timing of receipt of funds.

The Fund's net investment income in fiscal year 2021 increased by \$62,801,727 or 143.2% from 2020, and in 2020 increased by \$3,524,986 or 8.7% from amounts recorded in fiscal year 2019. The investment returns in received by LTC in fiscal year 2021 were higher than the returns seen in fiscal year 2020, causing an increase in investment income in comparison between 2021 and 2020.

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The plans rate of returns for the year ended June 30 and annualized were as follows:

	<u>Year ended</u>		<u>Annualized</u>	
	<u>2021</u>	<u>2020</u>	<u>3 years</u>	<u>5 years</u>
Major Medical	0.19 %	1.77 %	1.48 %	1.48 %
DVA	0.09	2.15	1.77	1.38
LTC	16.78	7.47	10.52	8.55

**Benefits and Expenses**

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

	<u>Expenses</u>				<u>2019</u>
	<u>2021</u>	<u>2020</u>	<u>Decrease</u>		
			<u>Amount</u>	<u>Percentage</u>	
Healthcare benefits	65,126,040	72,294,955	(7,168,915)	(9.9)%	60,886,721
Administrative	3,604,054	3,700,811	(96,757)	(2.6)	2,921,218
Total	<u>\$ 68,730,094</u>	<u>75,995,766</u>	<u>(7,265,672)</u>	<u>(9.6)%</u>	<u>\$ 63,807,939</u>

Healthcare benefit expense decreased by \$7,168,915 or 9.9% from fiscal year 2020 and increased by \$11,408,234 or 18.7% from fiscal year 2019. The fiscal year 2021 decrease in healthcare benefits is due to reduced total claims in major medical and LTC claims. The fiscal year 2020 increase in benefit expense was caused by an increase in medical and LTC benefit cost.

Administrative expenses decreased by \$96,757 or 2.6% from fiscal year 2020 and increased by \$779,593 or 26.7% from fiscal year 2019. The decrease in administrative expenses during fiscal year 2021 is related to a decrease in advertising and printing, legal, and transportation fees. The fiscal year 2020 increase is related to an increase in management and consulting fees. The Fund's benefit consultants and the Division continue to identify and develop premiums necessary to cover claims and administrative cost.

**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.

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**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.

**Requests for Information**

This financial report is designed to provide a general overview for those parties interested 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

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Statements of Net Position

June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents:		
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ 24,179,716	23,354,311
Short-term fixed income pool	25,159,358	21,377,470
Total cash and cash equivalents	49,339,074	44,731,781
<b>Investments:</b>		
Broad market fixed income pool	408,228,854	428,590,035
Domestic equity pool	207,375,675	120,135,505
International equity pool	134,256,133	77,454,158
Total investments	749,860,662	626,179,698
<b>Receivables:</b>		
Accounts receivable	19,345	—
Interest and dividends receivable	—	10,548
Due from State of Alaska General Fund	10,018	98,395
Total receivables	29,363	108,943
Total current assets	799,229,099	671,020,422
<b>Noncurrent assets:</b>		
Other assets	2,335,018	2,335,018
Total assets	801,564,117	673,355,440
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Claims payable	21,840,000	21,502,540
Accrued expenses	594,316	379,124
Due to State of Alaska General Fund	64,910	48,619
Due to Retirement System – PERS	2,510	—
Total current liabilities	22,501,736	21,930,283
<b>Noncurrent liabilities:</b>		
Claims payable	34,575,000	33,684,291
Total noncurrent liabilities	34,575,000	33,684,291
Total liabilities	57,076,736	55,614,574
Net position – unrestricted	\$ 744,487,381	617,740,866

See accompanying notes to financial statements.

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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Operating revenues:		
Employer health insurance premiums	\$ 1,522,388	1,657,991
Member health insurance premiums	87,023,216	83,452,040
Total health insurance premiums	88,545,604	85,110,031
Other income:		
Employer group waiver plan	159,769	100,046
Medicare retiree drug subsidy	448	888
Pharmacy rebates	75,954	145,006
Pharmacy management allowance	856	—
Miscellaneous income	30,154	21,734
Total other income	267,181	267,674
Total operating revenues	88,812,785	85,377,705
Operating expenses:		
Healthcare benefits	65,126,040	72,294,955
Administrative	3,604,054	3,700,811
Total operating expenses	68,730,094	75,995,766
Operating income	20,082,691	9,381,939
Nonoperating revenue:		
Investment income:		
Net appreciation in fair value	98,579,494	32,310,657
Interest	8,246,041	11,566,759
Dividends	—	118,765
Total investment income	106,825,535	43,996,181
Less investment expense	161,711	134,084
Net investment income	106,663,824	43,862,097
Change in unrestricted net position	126,746,515	53,244,036
Net position – unrestricted, beginning of year	617,740,866	564,496,830
Net position – unrestricted, end of year	\$ 744,487,381	617,740,866

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Cash received for premiums from the State of Alaska	\$ 1,612,402	1,887,198
Cash received for premiums from others	87,050,721	83,468,763
Cash received from third-party administrator	221,205	264,595
Cash payments for benefits to third-party administrator	(63,875,373)	(56,731,399)
Cash payments to employees	(7,295)	(4,100)
Cash payments to suppliers	(3,387,774)	(4,127,183)
Net cash provided by operating activities	21,613,886	24,757,874
Cash flows from investing activities:		
Purchase of investments	(334,474,398)	(328,756,725)
Proceeds from sale and maturities of investments	253,315,025	257,055,646
Investment income received	64,152,780	51,718,432
Net cash used in investing activities	(17,006,593)	(19,982,647)
Net increase in cash and cash equivalents	4,607,293	4,775,227
Cash and cash equivalents, beginning of year	44,731,781	39,956,554
Cash and cash equivalents, end of year	\$ 49,339,074	44,731,781
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 20,082,691	9,381,939
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in assets:		
Accounts receivable	(19,345)	13,645
Due from State of Alaska General Fund	88,377	229,207
Increase (decrease) in liabilities:		
Claims payable	1,228,169	15,618,278
Accrued expenses	215,193	(433,684)
Due to State of Alaska General Fund	16,291	(51,511)
Due to Retirement System – PERS	2,510	—
Net cash provided by operating activities	\$ 21,613,886	24,757,874

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 on July 1, 1997 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). The Fund is an enterprise fund of the State financial reporting entity and is included as such in the State's Annual Comprehensive Financial Report (ACFR).

**(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. 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 and the Masters Mates and Piolets 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. Retiree COBRA continues must elect coverage and pay a premium.

**(e) Voluntary DVA and LTC**

Individuals receiving benefits from one of the Retirement Systems, including 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 in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). Insurance premiums are recognized in the period in which they are due. Benefits are recognized when due and

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payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when premiums are received, or payment is made.

**(b) Financial Statement Presentation**

The Fund distinguishes operating revenue and expenses from nonoperating revenue and expenses. 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. GAAP 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 Fund invests in the State's internally managed General Fund and Other Nonsegregated Investments Pool (GeFONSI). The complete financial activity of the funds is shown in the State's ACFR available from the Department of Administration, Division of Finance.

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, and International Equity Pool is allocated to the pool participants daily on a pro rata basis.

**(e) 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. These investment pools have the general characteristics of a demand deposit account.

**(f) 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, DVA, and LTC claims and utilizes the services of pharmacy benefit manager OptumRx to process prescription drug claims. Monthly administrative fees are paid to these claims



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administrators. Other administrative expenses are related to employees of the Division and related office expenses.

**(g) 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.

**(h) 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.

**(i) 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.

**(3) Investments**

At June 30, 2021, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>	<u>Total</u>
Cash and cash equivalents:			
Short-term fixed income pool	\$ 18,961,987	6,197,371	25,159,358
Domestic fixed income:			
Broad market fixed income pool	—	408,228,854	408,228,854
Equity:			
Domestic equity pool	—	207,375,675	207,375,675
International equity pool	—	134,256,133	134,256,133
Total	<u>\$ 18,961,987</u>	<u>756,058,033</u>	<u>775,020,020</u>
		<u>DVA</u>	
GeFONSI balance	\$	24,179,716	

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

<b>Investment pool</b>	<b>Major medical</b>	<b>LTC</b>	<b>Total</b>
Cash and cash equivalents:			
Short-term fixed income pool	\$ 18,882,400	2,495,070	21,377,470
Domestic fixed income:			
Broad market fixed income pool	—	428,590,035	428,590,035
Equity:			
Domestic equity pool	—	120,135,505	120,135,505
International equity pool	—	77,454,158	77,454,158
Total	\$ 18,882,400	628,674,768	647,557,168
		<b>DVA</b>	
GeFONSI balance		\$ 23,354,311	

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>.

**(4) Claims Payable**

The liabilities for claims payable and claims incurred but not reported (IBNR) represent the estimated amounts necessary to settle all outstanding claims incurred 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 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.

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

	<u>2021</u>	<u>2020</u>
Total, beginning of year	\$ 55,235,450	39,668,684
Healthcare benefits	65,126,040	72,294,955
Benefits paid	<u>(63,881,580)</u>	<u>(56,728,189)</u>
Total, end of year	<u>\$ 56,479,910</u>	<u>55,235,450</u>
End of year:		
Current liabilities:		
Claims payable and IBNR	\$ 7,186,000	7,225,755
PVANYD	<u>14,654,000</u>	<u>14,276,785</u>
	21,840,000	21,502,540
Noncurrent liabilities:		
Claims payable and IBNR	3,435,000	3,346,121
PVANYD	<u>31,140,000</u>	<u>30,338,170</u>
Total, end of year	<u>\$ 56,415,000</u>	<u>55,186,831</u>

**(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. Moving to an enhanced EGWP has resulted in the Fund receiving significantly higher subsidies, while simultaneously maintaining the prescription drug coverage retirees had prior to implementation of the enhanced EGWP. Currently, EGWP is the primary program used by the Division; however, there are still retirees that are covered by the RDS if they do not meet the requirements of EGWP.

**(7) 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.

## **SUPPLEMENTAL SCHEDULES**

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Combining Statement of Net Position

June 30, 2021

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	24,179,716	—	24,179,716
Short-term fixed income pool	18,961,987	—	6,197,371	25,159,358
Total cash and cash equivalents	18,961,987	24,179,716	6,197,371	49,339,074
Investments:				
Broad market fixed income pool	—	—	408,228,854	408,228,854
Domestic equity pool	—	—	207,375,675	207,375,675
International equity pool	—	—	134,256,133	134,256,133
Total investments	—	—	749,860,662	749,860,662
Receivables:				
Accounts receivable	19,345	—	—	19,345
Due from State of Alaska General Fund	10,018	—	—	10,018
Total receivables	29,363	—	—	29,363
Total current assets	18,991,350	24,179,716	756,058,033	799,229,099
Other assets	3,570	1,131,448	1,200,000	2,335,018
Total assets	18,994,920	25,311,164	757,258,033	801,564,117
<b>Liabilities:</b>				
Current liabilities:				
Claims payable	164,000	3,853,000	17,823,000	21,840,000
Accrued expenses	11,026	355,919	227,371	594,316
Due to State of Alaska General Fund	—	10,089	54,821	64,910
Due to Retirement System – PERS	—	874	1,636	2,510
Total current liabilities	175,026	4,219,882	18,106,828	22,501,736
Noncurrent liabilities:				
Claims payable	—	—	34,575,000	34,575,000
Total noncurrent liabilities	—	—	34,575,000	34,575,000
Total liabilities	175,026	4,219,882	52,681,828	57,076,736
Net position – unrestricted	\$ 18,819,894	21,091,282	704,576,205	744,487,381

See accompanying independent auditors' report.

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

Year ended June 30, 2021

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenues:				
Employer health insurance premiums	\$ 1,522,388	—	—	1,522,388
Member health insurance premiums	249,141	48,960,124	37,813,951	87,023,216
Total health insurance premiums	<u>1,771,529</u>	<u>48,960,124</u>	<u>37,813,951</u>	<u>88,545,604</u>
Other income:				
Employer group waiver plan	159,769	—	—	159,769
Medicare retiree drug subsidy	448	—	—	448
Pharmacy rebates	75,954	—	—	75,954
Pharmacy management allowance	856	—	—	856
Miscellaneous income	3,523	25,875	756	30,154
Total other income	<u>240,550</u>	<u>25,875</u>	<u>756</u>	<u>267,181</u>
Total operating revenues	<u>2,012,079</u>	<u>48,985,999</u>	<u>37,814,707</u>	<u>88,812,785</u>
Operating expenses:				
Healthcare benefits	1,787,869	46,216,744	17,121,427	65,126,040
Administrative	108,868	2,607,775	887,411	3,604,054
Total operating expenses	<u>1,896,737</u>	<u>48,824,519</u>	<u>18,008,838</u>	<u>68,730,094</u>
Operating income	<u>115,342</u>	<u>161,480</u>	<u>19,805,869</u>	<u>20,082,691</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	36,041	—	98,543,453	98,579,494
Interest	—	17,498	8,228,543	8,246,041
Total investment income	36,041	17,498	106,771,996	106,825,535
Less investment expense	5,607	—	156,104	161,711
Net investment income	<u>30,434</u>	<u>17,498</u>	<u>106,615,892</u>	<u>106,663,824</u>
Change in unrestricted net position	145,776	178,978	126,421,761	126,746,515
Net position – unrestricted, beginning				
of year	<u>18,674,118</u>	<u>20,912,304</u>	<u>578,154,444</u>	<u>617,740,866</u>
Net position – unrestricted, end of year	<u>\$ 18,819,894</u>	<u>21,091,282</u>	<u>704,576,205</u>	<u>744,487,381</u>

See accompanying independent auditors' report.

**STATE OF ALASKA**  
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Combining Statement of Cash Flows

Year ended June 30, 2021

	<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	\$ 1,610,766	—	1,636	1,612,402
Cash received for premiums from others	249,141	48,986,873	37,814,707	87,050,721
Cash received from third-party administrator	221,205	—	—	221,205
Cash payments for benefits to third-party administrator	(1,865,869)	(45,695,744)	(16,313,760)	(63,875,373)
Cash payments to employees	(7,295)	—	—	(7,295)
Cash payments to suppliers	(168,978)	(2,483,221)	(735,575)	(3,387,774)
Net cash provided by operating activities	<u>38,970</u>	<u>807,908</u>	<u>20,767,008</u>	<u>21,613,886</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(334,474,398)	(334,474,398)
Proceeds from sale and maturities of investments	—	—	253,315,025	253,315,025
Investment income received	40,617	17,497	64,094,666	64,152,780
Net cash provided by (used in) investing activities	<u>40,617</u>	<u>17,497</u>	<u>(17,064,707)</u>	<u>(17,006,593)</u>
Net increase in cash and cash equivalents	79,587	825,405	3,702,301	4,607,293
Cash and cash equivalents, beginning of year	<u>18,882,400</u>	<u>23,354,311</u>	<u>2,495,070</u>	<u>44,731,781</u>
Cash and cash equivalents, end of year	<u>\$ 18,961,987</u>	<u>24,179,716</u>	<u>6,197,371</u>	<u>49,339,074</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 115,342	161,480	19,805,869	20,082,691
Adjustments to reconcile operating income to net cash provided by operating activities:				
(Increase) decrease in assets:				
Accounts receivable	(19,345)	—	—	(19,345)
Due from State of Alaska General Fund	88,377	—	—	88,377
Increase (decrease) in liabilities:				
Claims payable	(78,000)	521,000	785,169	1,228,169
Accrued expenses	(67,404)	130,761	151,836	215,193
Due to State of Alaska General Fund	—	(6,207)	22,498	16,291
Due to Retirement System – PERS	—	874	1,636	2,510
Net cash provided by operating activities	<u>\$ 38,970</u>	<u>807,908</u>	<u>20,767,008</u>	<u>21,613,886</u>

See accompanying independent auditors' report.

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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>
<b>Assets:</b>				
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
<b>Liabilities:</b>				
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**  
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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	30,501,848	72,294,955
Administrative	132,384	2,714,833	853,594	3,700,811
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**  
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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.