



STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

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

Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Supplemental Benefits System:

We have audited the accompanying financial statements of the State of Alaska Supplemental Benefits System (the Plan), a component unit 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 Plan's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Supplemental Benefits System as of June 30, 2021 and 2020, and the changes in fiduciary net position 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 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 19–20 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

October 20, 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 Supplemental Benefits System's (the Plan) financial position and performance for the fiscal 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 Plan. Information for fiscal year 2019 is presented for comparative purposes.

Financial Highlights

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

- The Plan's net position restricted for benefits increased by \$841.4 million during fiscal year 2021.
- The Plan's participant and employer contributions and transfers into the Plan increased by \$5.4 million during fiscal year 2021 compared to fiscal year 2020.
- The Plan earned net investment income of \$939.7 million during fiscal year 2021, an increase of \$744.3 million compared to fiscal year 2020.
- The Plan's benefits paid increased by \$18.8 million during fiscal year 2021 compared to fiscal year 2020.

Overview of the Financial Statements

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

Statements of fiduciary net position – Annuity and cafeteria plans – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for participants and operations. This statement reflects the Plan's investments, at fair value and contract value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2021 and 2020. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

Statements of changes in fiduciary net position – Annuity and cafeteria plans – This statement presents how the Plan's net position restricted for participants and operations changed during the years ended June 30, 2021 and 2020. This statement presents contributions and net investment income during the period. Deductions for benefits and refunds of contributions, and administrative expenses, are also presented. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

The above statements represent resources available for investment and payment of benefits and expenses as of June 30, 2021 and 2020 and the sources and uses of those funds during the years ended June 30, 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 Plan's financial statements.

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June 30, 2021 and 2020

Condensed Financial Information (In thousands)

Description	Fiduciary net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 9,109	6,343	2,766	43.6%	\$ 4,933
Receivables	742	783	(41)	(5.2)	814
Due from State of Alaska General Fund	5,552	5,667	(115)	(2.0)	12,523
Investments	5,064,378	4,226,475	837,903	19.8	4,117,577
Investment loss trust fund (ILTF) at fair value	2,089	2,085	4	0.2	2,049
Total assets	5,081,870	4,241,353	840,517	19.8	4,137,896
Liabilities:					
ILTF plan participant payable	2,089	2,085	4	0.2	2,049
Payable to plan participants	128	70	58	82.9	86
Accrued expenses	382	1,279	(897)	(70.1)	8,327
Total liabilities	2,599	3,434	(835)	(24.3)	10,462
Fiduciary net position	\$ 5,079,271	4,237,919	841,352	19.9%	\$ 4,127,434

Description	Changes in fiduciary net position				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Fiduciary net position, beginning of year	\$ 4,237,919	4,127,434	110,485	2.7%	\$ 3,920,625
Additions:					
Contributions	176,383	170,998	5,385	3.1	173,604
Net investment income	939,692	195,428	744,264	380.8	255,307
Other income	1,587	178	1,409	791.6	149
Total additions	1,117,662	366,604	751,058	204.9	429,060
Deductions:					
Benefits and refunds of contributions	270,451	251,642	18,809	7.5	218,096
Administrative	5,859	4,477	1,382	30.9	4,155
Total deductions	276,310	256,119	20,191	7.9	222,251
Increase in net position	841,352	110,485	730,867	661.5	206,809
Fiduciary net position, end of year	\$ 5,079,271	4,237,919	841,352	19.9%	\$ 4,127,434

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Financial Analysis of the Plans

The statement of fiduciary net position – Annuity and cafeteria plans as of June 30, 2021 and 2020 show fiduciary net position of \$5,079,271,000 and \$4,237,919,000, respectively. The entire amount is available to pay benefits to participants and their beneficiaries as well as administrative costs. These amounts represent an increase in plan net position restricted for participants and operations of \$841,352,000 or 19.9% from fiscal year 2020 to fiscal year 2021, and an increase of \$110,485,000 or 2.7% from fiscal year 2019 to fiscal year 2020.

Contributions, Investment Income, and Other Additions

Additions to the Plan are accumulated through a combination of employer and plan participant contributions, investment income, and other additions as follows:

	Additions (In thousands)				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Plan participant mandatory contributions \$	84,988	81,836	3,152	3.9%	\$ 81,769
Employer mandatory contributions	84,993	81,846	3,147	3.8	81,767
Plan participant voluntary contributions	—	1,893	(1,893)	(100.0)	3,818
Transfer-in contributions	6,402	5,423	979	18.1	6,250
Total plan member and employer contributions	176,383	170,998	5,385	3.1	173,604
Net investment income	939,692	195,428	744,264	380.8	255,307
Other income	1,587	178	1,409	791.6	149
Total	\$ 1,117,662	366,604	751,058	204.9%	\$ 429,060

Plan member and employer contributions increased from \$170,998,000 for fiscal year 2020 to \$176,383,000 for fiscal year 2021, an increase of \$5,385,000 or 3.1% primarily due to an increase in the underlying participant earnings and an increase in transfer-in contributions, partially offset by a decrease in plan participant voluntary contributions. The decrease in plan participant voluntary contributions is attributed to a change in voluntary supplemental benefit premium collection, which shifted to the cafeteria plan third-party administrator (TPA). The TPA collects voluntary supplemental benefit premiums directly from participating employers and processes all claims. Plan member and employer contributions decreased from \$173,604,000 for fiscal year 2019 to \$170,998,000 for fiscal year 2020, a decrease of \$2,606,000 or 1.5% primarily due to the transfer of administration of the cafeteria plan to a TPA.

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The Plan's net investment income increased from \$195,428,000 in fiscal year 2020 to \$939,692,000 in fiscal year 2021, an increase of \$744,264,000 or 380.8% from amounts recorded in fiscal year 2020. The increase relates to significant positive rates of return in the overall investment environment in fiscal year 2021. Net investment income decreased during fiscal year 2020 by \$59,879,000 or 23.5% from amounts recorded during fiscal year 2019. The Plan's investment rates of return at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Alaska Balanced Trust	13.37 %	6.18 %
Alaska Long-Term Balanced Trust	23.55	5.16
Alaska Target Date Retirement 2010 Trust	15.17	5.01
Alaska Target Date Retirement 2015 Trust	17.74	5.12
Alaska Target Date Retirement 2020 Trust	21.44	4.93
Alaska Target Date Retirement 2025 Trust	25.28	4.78
Alaska Target Date Retirement 2030 Trust	28.72	4.46
Alaska Target Date Retirement 2035 Trust	31.81	4.33
Alaska Target Date Retirement 2040 Trust	34.46	4.09
Alaska Target Date Retirement 2045 Trust	36.74	3.76
Alaska Target Date Retirement 2050 Trust	36.78	3.75
Alaska Target Date Retirement 2055 Trust	36.82	3.77
Alaska Target Date Retirement 2060 Trust	36.71	3.62
Alaska Target Date Retirement 2065 Trust	36.58	N/A
BlackRock Strategic Completion Fund	24.97	(4.91)
Environmental, Social, and Governance Fund	40.93	9.16
International Equity Fund	42.43	0.14
Passive U.S. Bond Index Fund	(0.36)	8.69
Russell 3000 Index Fund	44.07	6.48
S&P 500 Index Fund	40.78	7.48
Stable Value Fund	2.18	2.57
State Street Institutional Treasury Money Market Fund	0.02	1.33
T. Rowe Price U.S. Small-Cap Trust	54.51	(0.03)
World Equity Ex-U.S. Index Fund	35.55	(4.41)

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Benefits and Other Deductions

The primary deductions of the Plan are the payment of benefits and refunds of contributions. Benefit payments and administrative costs were as follows:

	Deductions (In thousands)				
	2021	2020	Increase (decrease)		2019
			Amount	Percentage	
Benefits and refunds of contributions	\$ 270,451	251,642	18,809	7.5%	\$ 218,096
Administrative	5,859	4,477	1,382	30.9	4,155
Total	\$ 276,310	256,119	20,191	7.9%	\$ 222,251

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts for fiscal year 2021 increased \$18,809,000 or 7.5% from fiscal year 2020, and increased \$33,546,000 or 15.4% from fiscal year 2019 to fiscal year 2020. The increase in refunds of contributions in fiscal year 2021 is primarily related to CARES Act distributions that active and terminated members could receive as described below. Due to the uncertainty of the world economy related to coronavirus, members opted to withdraw funds to be financially prepared in case of unemployment or loss of other funds they may have had previously. The increase in refunds of contributions in fiscal year 2020 is related to an increase in the number of members requesting disbursements from the Plan.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into U.S. law on March 27, 2020. Section 2202 of the CARES Act provided expanded distribution options for up to \$100,000 of coronavirus-related distributions from eligible retirements plans. The Department of Administration, Division of Retirement and Benefits, in coordination with Empower Retirement, allowed for coronavirus-related distributions for members effective June 3, 2020.

Qualified active members of the Plan could request an in-service distribution of 25% of their account balance or \$25,000 maximum, whichever is less, between both the Plan and the State of Alaska Deferred Compensation Plan (DCP). Qualified terminated members could request up to an amount not to exceed \$100,000 from their account. Coronavirus-related withdrawals were required to be processed before December 31, 2020. The CARES Act had an option for the recipient to re-contribute any portion or all of the coronavirus-related withdrawal within three years of receipt. Through June 30, 2021, the Plan had \$28,010,000 in CARES Act distributions.

The Plan had administrative expenses of \$5,859,000 for fiscal year 2021 compared to \$4,477,000 for fiscal year 2020, an increase of \$1,382,000 or 30.9%. The increase in administrative expenses in fiscal year 2021 is primarily due to an increase in modernization project expenses. The Plan had administrative expenses of \$4,477,000 for fiscal year 2020 compared to \$4,155,000 for fiscal year 2019, an increase of \$322,000 or 7.7% primarily due to an increase in record keeping fees.

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Fiduciary Responsibilities

The Alaska Retirement Management Board and the Commissioner of Administration are co-fiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries, and alternate payees.

Request for Information

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

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

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Statements of Fiduciary Net Position – Annuity and Cafeteria Plans

June 30, 2021 and 2020

(In thousands)

	2021			2020		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Assets:						
Cash and cash equivalents:						
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 3,330	926	4,256	579	926	1,505
Money market fund – nonparticipant-directed	4,853	—	4,853	4,838	—	4,838
Total cash and cash equivalents	<u>8,183</u>	<u>926</u>	<u>9,109</u>	<u>5,417</u>	<u>926</u>	<u>6,343</u>
Receivables:						
Mandatory and voluntary contributions	742	—	742	783	—	783
Due from State of Alaska General Fund	5,552	—	5,552	5,667	—	5,667
Total receivables	<u>6,294</u>	<u>—</u>	<u>6,294</u>	<u>6,450</u>	<u>—</u>	<u>6,450</u>
Investments:						
Participant directed at fair value:						
Collective investment funds	1,620,200	—	1,620,200	1,276,341	—	1,276,341
Pooled investment funds	2,952,310	—	2,952,310	2,490,581	—	2,490,581
Participant directed at contract value:						
Synthetic investment contracts	491,868	—	491,868	459,553	—	459,553
Total investments	<u>5,064,378</u>	<u>—</u>	<u>5,064,378</u>	<u>4,226,475</u>	<u>—</u>	<u>4,226,475</u>
Investment loss trust fund at fair value	2,089	—	2,089	2,085	—	2,085
Total assets	<u>5,080,944</u>	<u>926</u>	<u>5,081,870</u>	<u>4,240,427</u>	<u>926</u>	<u>4,241,353</u>
Liabilities:						
Accrued expenses	382	—	382	353	926	1,279
Payable to plan participants	128	—	128	70	—	70
Investment loss trust fund plan participant payable	2,089	—	2,089	2,085	—	2,085
Total liabilities	<u>2,599</u>	<u>—</u>	<u>2,599</u>	<u>2,508</u>	<u>926</u>	<u>3,434</u>
Fiduciary net position	<u>\$ 5,078,345</u>	<u>926</u>	<u>5,079,271</u>	<u>4,237,919</u>	<u>—</u>	<u>4,237,919</u>

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position – Annuity and Cafeteria Plans

Years ended June 30, 2021 and 2020

(In thousands)

	2021			2020		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions:						
Contributions:						
Employers	\$ 84,988	—	84,988	81,846	—	81,846
Plan members	91,395	—	91,395	87,259	1,893	89,152
Total contributions	176,383	—	176,383	169,105	1,893	170,998
Investment income:						
Net appreciation in value of investments	946,843	—	946,843	197,494	—	197,494
Interest	15	—	15	712	—	712
Total investment income	946,858	—	946,858	198,206	—	198,206
Less investment expense	7,166	—	7,166	2,778	—	2,778
Net investment income	939,692	—	939,692	195,428	—	195,428
Other income	661	926	1,587	178	—	178
Total additions	1,116,736	926	1,117,662	364,711	1,893	366,604
Deductions:						
Benefits and refunds of contributions	270,451	—	270,451	249,749	1,893	251,642
Administrative	5,859	—	5,859	4,477	—	4,477
Total deductions	276,310	—	276,310	254,226	1,893	256,119
Net increase in fiduciary net position	840,426	926	841,352	110,485	—	110,485
Fiduciary net position, beginning of year	4,237,919	—	4,237,919	4,127,434	—	4,127,434
Fiduciary net position, end of year	\$ 5,078,345	926	5,079,271	4,237,919	—	4,237,919

See accompanying notes to financial statements.

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(1) Description

The following description of the State of Alaska Supplemental Benefits System (the Plan), which comprises the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan, is provided for general information purposes only. Participants should refer to the plan documents for more complete information.

(a) General

The Plan was created by State of Alaska (the State) statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State's Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska statute. There were 21 participating employers, including the State, as of June 30, 2021. There were 49,552 participants in the Plan as of June 30, 2021.

At June 30, 2021 and 2020, the number of participating local government employers and public organizations, including the State was as follows:

State of Alaska	1
State component units	1
Municipalities	9
School districts	5
Other	<u>5</u>
Total employers	<u><u>21</u></u>

The Division of Retirement and Benefits is responsible for plan administration and record keeping. The Alaska Retirement Management Board (the Board) is responsible for the specific investment of moneys in the Plan.

(b) Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined-contribution plan, and voluntary contributions to the Supplemental Benefits Cafeteria Plans. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf.

Supplemental Benefits Cafeteria Plan voluntary contributions are based on the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based on the benefit options selected. The benefit amounts are deducted from each employee's wages and

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remitted by the employer to the Plan's third-party administrator (TPA) on the employee's behalf. Effective January 1, 2020 the administration of the voluntary supplemental benefits was transferred to a TPA. This transition includes the collection of all premiums from participating employers.

(c) Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options. Each participant designates how their contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Record keeping/administrative fees, consisting of a fixed amount applied in a lump sum each calendar year and a variable amount applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for costs incurred by the contracted recordkeeper and by the State.

At June 30, 2021 and 2020, participants had the following investment options:

(i) Collective Investment Funds

BlackRock Strategic Completion Fund – This fund allocates its investments across a strategic mix of U.S. Treasury Inflation Protected Securities, real estate investment trusts, and commodities asset classes, with the objective of complementing a diversified portfolio of more traditional asset classes. The asset classes in which the fund invests tend to have some "real return" characteristics and therefore may also provide a means to manage the effects of inflation on a diversified portfolio of more traditional asset classes. The fund shall be invested and reinvested in common stocks and other forms of equity securities, depositary receipts, investment company shares, fixed-income securities and other debt obligations, asset-backed securities, mortgage-backed securities, securities issued by publicly traded real estate companies, futures contracts, forward contracts, swaps, options, and other structured investments. The fund employs a proprietary investment model that analyzes securities market data, including risk, correlation and expected return statistics, to recommend the portfolio allocation among the asset classes.

Environmental, Social, and Governance Fund – This fund is managed to have returns, net of fees, over time, closely matching the MSCI UAS Environmental, Social, and Governance (ESG) Leaders Index. The fund invests in domestic large cap and mid-cap investments with high ESG rankings.

International Equity Fund – This fund is investing primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprising two investment managers of differing investment strategies, style, and long-term market correlation.

Passive U.S. Bond Index Fund – This fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the underlying index, Bloomberg Barclays U.S. Aggregate Bond Index.

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Russell 3000 Index Fund – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index. The fund measures the performance of the largest 3,000 U.S. companies representing approximately 98.0% of the investable U.S. equity market.

Standard & Poor's 500 Stock Index Fund – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Standard & Poor's (S&P) 500 Composite Stock Price Index.

State Street Institutional Treasury Money Market Fund – The Treasury Money Market Fund seeks a high level of current income consistent with preserving principal and liquidity and the maintenance of a stable \$1.00 per share net asset value ("NAV"). The money market investment is neither insured nor guaranteed by the U.S. Government.

T. Rowe Price U.S. Small-Cap Trust – This fund provides long-term capital appreciation by investing primarily in the common stocks of small companies that appear undervalued or offer the potential for superior earnings growth.

World Equity Ex-U.S. Index Fund – This fund provides income and capital appreciation and to replicate the returns of the MSCI Index and provide broad-based, low cost exposure to both the developed and emerging markets.

(ii) *Pooled Investment Funds*

The Board contracts with an external investment manager who is given authority to invest in a wholly owned pooled environment to accommodate 14 participant-directed funds.

Alaska Balanced Trust – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities. The fund seeks to provide a mixture of income and modest capital appreciation.

Alaska Long-Term Balanced Trust – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities.

Alaska Target Date Retirement 2010–2065 Trusts – The purpose of these funds is to provide a diverse mix of stocks, bonds, and money market securities for long-term investors with a higher tolerance for risk. The trusts are allocated among a broad range of underlying T. Rowe Price stock and bond portfolios. The allocations for the trusts with a stated retirement date will change over time; these trusts emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus on supporting an income stream over a long-term postretirement withdrawal horizon.

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(iii) Synthetic Investment Contracts

Stable Value Fund – This fund seeks to preserve principal and to offer a competitive rate of interest consistent with stability and safety of principal. The fund primarily holds cash reserves and synthetic investment contracts (SICs), issued by high quality banks and insurance companies that allow for participant-directed withdrawals and transfers to principal plus accrued interest. SICs are supported by fixed income portfolios made up of high-quality fixed income assets owned by the Plan. SICs credit a rate of interest based on a formula that intends to smooth the long-term performance of the fixed income portfolios supporting SICs. The supporting fixed income portfolios are benchmarked to the Bloomberg Barclays U.S. Intermediate Aggregate Bond Index.

(d) Payment of Benefits

Participants are eligible to withdraw from the Supplemental Annuity Plan 60 days after termination. Benefits are payable in the form of a lump sum or a periodic payment option, unless the participant elects to defer commencement of benefits. The Plan issues disbursements through its contracted recordkeeper. Various annuities can also be purchased from an insurance carrier, which are excluded from plan assets.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the Internal Revenue Code. Hardship withdrawals are disbursed as lump sums and must be approved by the plan administrator.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into U.S. law on March 27, 2020. Section 2202 of the CARES Act provided expanded distribution options for up to \$100,000 of coronavirus-related distributions from eligible retirements plans. The Department of Administration, Division of Retirement and Benefits, in coordination with Empower Retirement, allowed for coronavirus-related distributions for members effective June 3, 2020.

Qualified active members of the Plan could request an in-service distribution of 25% of their account balance or \$25,000 maximum, whichever is less, between both the Plan and the State of Alaska Deferred Compensation Plan (DCP). Qualified terminated members could request up to an amount not to exceed \$100,000 from their account. Coronavirus-related withdrawals were required to be processed before December 31, 2020. The CARES Act had an option for the recipient to re-contribute any portion or all of the coronavirus-related withdrawal within three years of receipt.

(e) Supplemental Benefits Cafeteria Plan

Benefits available under the Supplemental Benefits Cafeteria Plan include life, accidental death, disability, and critical illness insurance. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee's change in status. The Plan is funded entirely by employee contributions based on benefit selections. All supplemental benefits are provided through contractual arrangements and are currently administered through an external TPA.

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(f) Funding of the Annuity Plan

Supplemental annuity plan contributions from employers and participants were deposited with investment managers under contract with the Plan. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to contributions received during the period.

(g) Income Taxes

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

(h) Termination, Partial Termination, or Complete Discontinuance of Contributions

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may, in its sole and absolute discretion, terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and additions and deductions for the reporting periods. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2021 are composed of ownership of pooled investments and money market funds. The money market fund consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

(c) Contributions Receivable

Contributions applicable to wages earned through June 30 are accrued if received after June 30. These contributions are considered fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

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(d) Due from State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent State of Alaska contributions receivable, less administrative and investment expenses paid after June 30.

(e) Valuation of Collective Investment Funds

The Plan's investments in collective investment funds held in trust are stated at fair value based on the net asset value per unit, as reported by the TPA, multiplied by the number of units held by the Plan. The unit value is determined by the TPA based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(f) Valuation of Pooled Investment Funds

The Plan's ownership of pooled investment funds held in trust are stated at fair value based on the unit values, as reported by the trustees, multiplied by the number of units held by the Plan. The unit value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(g) Valuation of Synthetic Investment Contracts

The Plan's investment in fully benefit-responsive SICs are stated at contract value.

(3) Investments

The Plan is primarily participant directed, which means that the Plan's participants decide in which options to invest. Of total plan fiduciary net position of \$5,078,345,000 at June 30, 2021, 99.7% or \$5,064,378,000 were specifically allocated to individual participant accounts.

Each participant designates how their contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions, adjusted for the appreciation or depreciation in unit value for the investment funds, and reduced for administrative fees.

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The carrying values of participant-directed investments at June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Alaska Balanced Trust	\$ 1,217,645	1,099,551
Alaska Long-Term Balanced Trust	771,486	663,504
S&P 500 Stock Index Fund	525,484	416,744
Stable Value Fund	491,868	459,553
T. Rowe Price U.S. Small-Cap Trust	284,471	198,117
Passive U.S. Bond Index Fund	190,149	192,353
Environmental, Social, and Governance Fund	170,464	105,588
International Equity Fund	150,615	77,929
Russell 3000 Index Fund	136,280	122,429
Alaska Target Date Retirement 2055 Trust	126,305	84,655
Alaska Target Date Retirement 2050 Trust	124,902	86,960
Alaska Target Date Retirement 2025 Trust	115,257	94,072
Alaska Target Date Retirement 2045 Trust	111,642	77,616
Alaska Target Date Retirement 2035 Trust	97,531	66,798
Alaska Target Date Retirement 2030 Trust	96,586	69,241
Alaska Target Date Retirement 2040 Trust	94,296	68,743
Alaska Target Date Retirement 2020 Trust	93,312	87,633
Alaska Target Date Retirement 2015 Trust	83,149	77,454
State Street Institutional Treasury Money Market Fund	67,593	69,897
World Equity Ex-U.S. Index Fund	58,739	59,551
BlackRock Strategic Completion Fund	36,405	33,733
Alaska Target Date Retirement 2010 Trust	10,061	10,591
Alaska Target Date Retirement 2060 Trust	7,262	3,086
Alaska Target Date Retirement 2065 Trust	2,876	677
Total	<u>\$ 5,064,378</u>	<u>4,226,475</u>

For additional information on synthetic investment contracts, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at <http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

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(4) Investment Loss Trust Fund

The Investment Loss Trust Fund was established by the State of Alaska to hold harmless Plan participants who had invested in a guaranteed investment contract that suffered losses during the 1990s. The Investment Loss Trust Fund comprises cash and cash equivalents managed by the State Treasury. The associated participant payable represents amounts due to participants under a settlement agreement associated with the guaranteed investment contract.

The Insurance Commissioner of the State of California, on behalf of policyholders of Executive Life Insurance Company, had filed a complaint against certain parties in 1999 for fraud related to the purchase of Aurora National Life Assurance Company guaranteed insurance contracts. In 2005, the Insurance Commissioner received a portion of settlement proceeds related to this complaint, and the Plan received some settlement funds between 2006–2010. In 2015, the last remaining defendant settled in the 16-year lawsuit. The Plan received a final distribution related to the lawsuit in July 2020 totaling \$1,159,000.

(5) Risk and Uncertainty

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net position.

The Plan may invest in pooled separate accounts that include securities with contractual cash flows, which may include asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

SUPPLEMENTAL SCHEDULES

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2021 and 2020

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2021</u>	<u>2020</u>
Personal services:				
Wages	\$ 422	263	685	892
Benefits	270	121	391	475
Total personal services	<u>692</u>	<u>384</u>	<u>1,076</u>	<u>1,367</u>
Travel:				
Transportation	—	2	2	5
Per diem	—	—	—	1
Total travel	<u>—</u>	<u>2</u>	<u>2</u>	<u>6</u>
Contractual services:				
Management and consulting	4,163	62	4,225	3,579
Investment management and custodial fees	—	6,557	6,557	1,858
Accounting and auditing	37	—	37	46
Data processing	831	122	953	218
Communications	5	1	6	9
Advertising and printing	9	—	9	2
Rentals/leases	33	12	45	51
Legal	8	13	21	40
Repairs and maintenance	1	—	1	2
Transportation	27	—	27	14
Other professional services	43	7	50	48
Total contractual services	<u>5,157</u>	<u>6,774</u>	<u>11,931</u>	<u>5,867</u>
Other:				
Equipment	8	1	9	4
Supplies	2	5	7	11
Total other	<u>10</u>	<u>6</u>	<u>16</u>	<u>15</u>
Total administrative and investment deductions	<u>\$ 5,859</u>	<u>7,166</u>	<u>13,025</u>	<u>7,255</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other Than Investment Advisors

Years ended June 30, 2021 and 2020

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2021</u>	<u>2020</u>
KPMG LLP	Auditing services	\$ 31	35
State Street Bank and Trust	Custodial banking services	775	281
Alaska IT Group	Data processing services	7	20
Applied Microsystems Incorporated	Data processing services	3	9
DLT Solutions	Data processing services	58	2
Sagitec Solutions	Data processing services	736	—
International Business Machines	Data processing services	1	—
SHI International Corporation	Data processing services	3	5
State of Alaska, Department of Law	Legal services	15	37
Linea Solution Inc	Management consulting services	—	39
The Segal Company Incorporated	Management consulting services	1	3
		<u>\$ 1,630</u>	<u>431</u>

This schedule presents payments to consultants receiving greater than \$1,000.

See accompanying independent auditors' report.