



**STATE OF ALASKA**  
**TEACHERS' RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

Financial Statements  
and Supplemental Schedules

June 30, 2010

(with summarized financial information for June 30, 2009)

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**TEACHERS' RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

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## **Independent Auditors' Report**

Division of Retirement and Benefits and  
Members of the Alaska Retirement Management Board

State of Alaska Teachers' Retirement System:

We have audited the accompanying statement of plan net assets of the State of Alaska Teachers' Retirement System (System), a Component Unit of the State of Alaska, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Schedules of Contributions from Employers and the State of Alaska are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented on pages 59-61 for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules are the responsibility of the management of the System. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 29, 2010

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Management's Discussion and Analysis

June 30, 2010 and 2009

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the years ended June 30, 2010 and 2009. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information and supplemental schedules to better understand the financial condition and performance of the System during the fiscal years ended June 30, 2010 and 2009. Information for fiscal year 2008 is presented for comparative purposes.

**Financial Highlights**

The System financial highlights as of June 30, 2010 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits increased by \$325.0 million during fiscal year 2010.
- The System's plan member and employer contributions increased by \$12.2 million during fiscal year 2010.
- The State of Alaska directly appropriated \$173.5 million during fiscal year 2010 as statutorily required.
- The System net investment income increased \$1,393.3 million to \$396.4 million during fiscal year 2010.
- The System's pension benefit expenditures totaled \$332.7 million during fiscal year 2010.
- The System's postemployment healthcare benefit expenditures totaled \$110.3 million in fiscal year 2010.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The System's financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

*Statement of Plan Net Assets* – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2010 and 2009.

*Statement of Changes in Plan Net Assets* – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal year ended June 30, 2010 and 2009. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2010 and 2009, and the sources and uses of those funds during fiscal years 2010 and 2009.

*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 System's financial statements.

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*Required Supplementary Information and Related Notes* – The required supplementary information consists of seven schedules and related notes concerning the funded status of the system Plan and actuarial assumptions and methods used in the actuarial valuation.

*Supplemental Schedules* – Supplemental schedules include detailed information on administrative and investment deductions incurred by the System and payments to consultants (other than investment advisors) for professional services.

**Condensed Financial Information**

Description	Plan Net Assets (In thousands)				
	2010	2009	Increase/(decrease)		2008
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 40,668	19,704	20,964	106.4%	\$ 14,972
Due from State of Alaska General Fund	4,852	9,046	(4,194)	(46.4)	19,473
Contributions receivable	4,778	5,591	(813)	(14.5)	5,380
Legal settlement	54,586	—	54,586	100.0	—
Other receivables	1,800	853	947	111.0	65,811
Due from postemployment healthcare	—	—	—	—	1,086,620
Due from PERS ARHCT Fund	101	102	(1)	(1.0)	—
Due from Retiree Health Fund	3,496	3,440	56	1.6	—
Investments, at fair value	4,004,505	3,727,139	277,366	7.4	4,721,128
Other assets	985	984	1	0.1	—
<b>Total assets</b>	<b>4,115,771</b>	<b>3,766,859</b>	<b>348,912</b>	<b>9.3</b>	<b>5,913,384</b>
Liabilities:					
Accrued expenses	3,724	3,913	(189)	(4.8)	3,517
Claims payable	13,551	—	13,551	100.0	1,086,620
Legal fees payable	10,592	—	10,592	100.0	—
<b>Total liabilities</b>	<b>27,867</b>	<b>3,913</b>	<b>23,954</b>	<b>612.2</b>	<b>1,090,137</b>
<b>Net assets</b>	<b>\$ 4,087,904</b>	<b>3,762,946</b>	<b>324,958</b>	<b>8.6%</b>	<b>\$ 4,823,247</b>

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**Changes in Plan Net Assets (In thousands)**

Description	2010	2009	Increase/(decrease)		2008
			Amount	Percentage	
Net assets, beginning of year	\$ 3,762,946	4,823,247	(1,060,301)	(22.0)%	\$ 4,900,185
Additions (reductions):					
Contributions	160,081	147,865	12,216	8.3	142,492
Appropriation – State of Alaska	173,462	206,300	(32,838)	(15.9)	269,992
Net investment income (loss)	396,417	(996,876)	1,393,293	139.8	(145,767)
Transfers	—	—	—	—	1,086,620
Legal settlement	54,585	—	54,585	100.0	—
Other additions	4,459	3,598	861	23.9	34
Total additions (reductions)	789,004	(639,113)	1,428,117	223.5	1,353,371
Deductions:					
Pension and postemployment healthcare benefits	443,003	408,719	34,284	8.4	336,183
Refund of contributions	4,402	4,067	335	8.2	3,963
Administrative	6,049	8,402	(2,353)	(28.0)	3,543
Legal settlement fees	10,592	—	10,592	100.0	—
Transfers	—	—	—	—	1,086,620
Total deductions	464,046	421,188	42,858	10.2	1,430,309
Increase (decrease) in net assets	324,958	(1,060,301)	1,385,259	130.6	(76,938)
Net assets, end of year	\$ 4,087,904	3,762,946	324,958	8.6%	\$ 4,823,247

**Financial Analysis of the System**

The statements of plan net assets as of June 30, 2010 and 2009 show net assets held in trust for pension and postemployment healthcare benefits of \$4,087,904,000 and \$3,762,946,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net assets held in trust for pension and postemployment healthcare benefits of \$324,958,000 or 8.6% from fiscal year 2009 to 2010 and a decrease of \$1,060,301,000 or 22.0% from fiscal years 2009 and 2008. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives.

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***Defined Benefit (DB) Plan Asset Allocation***

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DB Plan:

	<b>2010</b>			
	<b>Pension &amp; Healthcare Trust</b>			
	<b>Allocation</b>	<b>Range</b>		
Broad domestic equity	30.0%	± 6%		
Global equity ex-U.S.	22.0	± 4		
Private equity	7.0	± 5		
Fixed income	20.0	± 3		
Real assets	16.0	± 8		
Absolute return	5.0	± 4		
Cash	—	+ 6		
Total	<u>100.0%</u>			
Expected five-year median return	9.04%			
Standard deviation	12.85%			
	<b>2009</b>			
	<b>Pension</b>		<b>Healthcare Trust</b>	
	<b>Allocation</b>	<b>Range</b>	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	34.0%	± 6%	37.0%	± 6%
Global equity ex-U.S.	20.0	± 4	22.0	± 4
Private equity	7.0	± 5	3.0	± 3
Fixed income	18.0	± 3	20.0	± 3
Real assets	15.0	± 8	8.0	+5/-8
Absolute return	6.0	± 4	7.0	+4/-7
Cash	—	+ 3	3.0	+5/-3
Total	<u>100.0%</u>		<u>100.0%</u>	
Expected five-year median return	8.15%		7.90%	
Standard deviation	12.85%		12.11%	

For fiscal years 2010 and 2009, the DB Plan's investments generated an 11.58% and a (20.62%) rate of return, respectively. The DB Plan's annualized rate of return was (4.99%) over the last three years and 2.66% over the last five years, which is less than the actuarial assumed rate of return of 8.25%.



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***Defined Contribution Retirement (DCR) Plan Asset Allocation***

During fiscal year 2010 and 2009, the Board adopted the following asset allocation for the DCR Plan's retiree major medical insurance fund, health reimbursement arrangement fund, and occupational death and disability fund:

	<b>2010</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	30.0%	± 6%
Global equity ex-U.S.	22.0	± 4
Private equity	7.0	± 5
Fixed income	20.0	± 3
Real assets	16.0	± 8
Absolute return	5.0	± 4
Cash	—	+ 6
Total	<u>100.0%</u>	
Expected five-year median return	9.04%	
Standard deviation	12.85%	
	<b>2009</b>	
	<b>Allocation</b>	<b>Range</b>
Broad domestic equity	34.0%	± 6%
Global equity ex-U.S.	20.0	± 4
Private equity	7.0	+ 5/-7
Fixed income	18.0	± 3
Real assets	15.0	+ 5/-15
Absolute return	6.0	+ 4/-6
Cash	—	+ 3
Total	<u>100.0%</u>	
Expected five-year median return	8.15%	
Standard deviation	12.85%	

**Actuarial Valuations and Funding Progress**

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary and the actuarially determined contribution rate is considered

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for adoption by the Board annually. Decreases in investment results, increasing healthcare costs, and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 57.0%, at June 30, 2009 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

For fiscal year 2010, (based on the June 30, 2007 actuarial valuation report) the normal cost rate decreased from 9.37% to 7.59%, the past service rate decreased from 34.80% to 31.94%, thus producing a total fiscal year 2010 actuarially determined annual contribution rate of 39.53%. The Board adopted the actuarially determined contribution rate of 39.53% for fiscal year 2010:

	<b>Valuation year</b>	
	(In thousands)	
	<u>2009</u>	<u>2008</u>
Valuation assets	\$ 4,472,958	4,936,976
Accrued liabilities (total benefits)	7,847,514	7,619,178
Unfunded accrued liability	3,374,556	2,682,202
Funding ratio	57.0%	64.8%

**Contributions, Investment Income and Other Additions**

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, State of Alaska appropriation, investment income (loss), and other additions as follows:

	<b>Additions (Reductions) (In thousands)</b>				
	<u>2010</u>	<u>2009</u>	<u>Increase/(decrease)</u>		<u>2008</u>
			<u>Amount</u>	<u>Percentage</u>	
Plan members contributions	\$ 67,722	61,737	5,985	9.7%	\$ 59,579
Employer contributions	92,359	86,128	6,231	7.2	82,913
Appropriation – State of Alaska	173,462	206,300	(32,838)	(15.9)	269,992
Net investment income (loss)	396,417	(996,876)	1,393,293	139.8	(145,767)
Transfer from postemployment health fund	—	—	—	—	1,086,620
Legal settlement	54,585	—	54,585	100.0	—
Other additions	4,459	3,598	861	23.9	34
Total	<u>\$ 789,004</u>	<u>(639,113)</u>	<u>1,428,117</u>	<u>223.5%</u>	<u>\$ 1,353,371</u>

The System's employer contributions increased from \$86,128,000 in fiscal year 2009 to \$92,359,000 in fiscal year 2010, an increase of \$6,231,000 or 7.2%. There was an increase from \$82,913,000 in fiscal year 2008 to

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\$86,128,000 in fiscal year 2009, an increase of \$3,215,000 or 3.9%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided \$173,462,000 for fiscal year 2010 and \$206,300,000 for fiscal year 2009 in employer on-behalf payments as required by Alaska Statute 14.25.085. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate decreased from 44.17% in fiscal year 2009 to 39.53% in fiscal year 2010. The employer contribution rate of 12.56% is established in Alaska Statute 14.25.070(a).

The System's net investment income in fiscal year 2010 increased by \$1,393,293,000 or 139.8% from amounts recorded in fiscal year 2009 and net investment loss increased in fiscal year 2009 by \$851,109,000 or a change of (583.9%) compared to amounts recorded in fiscal year 2008. In fiscal year 2010 investments have started recovering from the economic downturn in fiscal year 2009 where investment results were heavily negative. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2010, the System experienced some recovery from the prior year's significant reduction in rates of return on investments. The assumed rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%.

The System's investment rate of returns at June 30, are as follows:

	Year ended		
	2010	2009	2008
System returns	11.58%	(20.62)%	(3.05)%
Domestic equities	15.47	(26.80)	(13.53)
International equities	12.03	(29.12)	(7.48)
Fixed income	11.35	3.36	6.50
Private equity	18.87	(23.67)	—
Absolute return	6.60	(12.52)	—
Real assets	0.06	(21.20)	5.71
International fixed income	—	—	18.95

During fiscal year 2010 the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to \$500 million in exchange for dismissal of the lawsuit. The amount allocated to the Teachers' Retirement System was \$44 million after legal fees were deducted.

**Benefits and Other Deductions**

The primary deduction of the DB Plan is the payment of pension and postemployment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments,

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healthcare claims paid, refunds of contributions, and the cost of administering the plans comprise the costs of operation as follows:

	Deductions (In thousands)				
	2010	2009	Increase/(decrease)		2008
			Amount	Percentage	
Pension	\$ 332,690	319,148	13,542	4.2%	\$ 306,689
Postemployment healthcare	110,313	89,571	20,742	23.2	29,494
Refund of contributions	4,402	4,067	335	8.2	3,963
Administrative	6,049	8,402	(2,353)	(28.0)	3,543
Legal fees	10,592	—	10,592	100.0	—
Total	<u>\$ 464,046</u>	<u>421,188</u>	<u>42,858</u>	<u>10.2%</u>	<u>\$ 343,689</u>

The System's pension benefit payments in 2010 increased \$13,542,000 or 4.2% from fiscal year 2009 and increased \$12,459,000 or 4.1% from fiscal year 2008 to 2009. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2010 increased \$20,742,000 or 23.2% from fiscal year 2009 and postemployment healthcare benefit payments increased \$60,077,000 or 203.7% from fiscal year 2008 to 2009. Healthcare costs continued to rise in fiscal year 2010. However, the increase between fiscal year 2008 and 2009 is largely the result of the establishment of the Alaska Retiree Healthcare Trust (ARHCT) and the transition from paying claims out of the Retiree Health Fund to paying healthcare claims out of the ARHCT.

The System's administrative deductions in 2010 decreased \$2,353,000 or 28.0% from fiscal year 2009 and increased \$4,859,000 or 137.1% from fiscal year 2009 and 2008, respectively. The fiscal year 2010 reduction in administrative expenses is due to a decrease in management and consulting fees.

During fiscal year 2010, the system incurred legal fees of \$10,592,000 associated with the legal settlement paid to the State of Alaska by Mercer.

**Funding**

Retirement benefits are financed by accumulations from employers, plan members, State of Alaska appropriations, and income earned on System investments.

- The employer contribution rate is determined by the System's consulting actuary and adopted by the Board annually. Alaska Statute 14.25.070(a) sets the employer contribution rate at 12.56%. The difference between the actuarially determined rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.
- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Plan.

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- Alaska Statute 14.25.085 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- The Board works with an external consultant to determine the proper asset allocation strategy.

**Legislation**

During fiscal year 2010, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 300 appropriates \$190.9 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2011. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 12.56% and the actuarially determined contribution rate of 39.53% for fiscal year 2011.

**Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability**

The financial market environment continues to challenge investors, although fiscal year 2010 was a positive period for most investment categories. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceed its' actuarially assumed return of 8.25% with a system rate of return of 11.58% at June 30, 2010. Even with investment returns exceeding the actuarial rate of return, the System will continue to see an increase in employer actuarial determined contribution rates due to rising medical costs and past contribution shortfalls.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 44.17% in fiscal year 2009 to 39.53% in fiscal year 2010. The Board adopted the actuarially determined contribution rate of 39.53% for fiscal year 2010, down 4.64 points from the fiscal year 2009 Board adopted actuarially determined contribution rate of 44.17%. The statutory employer contribution rate remained at 12.56% for fiscal years 2009 and 2010.

The June 30, 2009, actuarial valuation for the DB Plan reported a funding ratio of 57.0% and an unfunded liability of \$3.4 billion.

For fiscal year 2010 and 2009, the DCR Plan's employer contribution rate was established at 12.56%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 1.03% and 0.99% for fiscal year 2010 and 2009, respectively. The DCR Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.32% and 0.62% for fiscal year 2010 and 2009, respectively.

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**Requests for Information**

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

State of Alaska Teachers' Retirement System  
Division of Retirement & Benefits, Accounting Section  
P.O. Box 110203  
Juneau, Alaska 99811-0203

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Statement of Plan Net Assets

June 30, 2010

(with summarized financial information for June 30, 2009)

(In thousands)

	Defined benefit plan			Defined contribution pension trust plan				System total June 30, 2010	System total June 30, 2009
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical plan	Health reimbursement arrangement		
<b>Assets:</b>									
Cash and cash equivalents (notes 2, 3 and 4):									
Short-term fixed income poo	\$ 27,073	11,763	38,836	207	20	63	153	443	19,154
Great West account	—	—	—	1,389	—	—	—	1,389	550
Total cash and cash equivalents	27,073	11,763	38,836	1,596	20	63	153	1,832	19,704
<b>Receivables:</b>									
Contributions	4,778	—	4,778	—	—	—	—	—	5,591
Due from State of Alaska General Fund (note 2)	226	2,850	3,076	1,398	30	96	252	1,776	9,046
Due from PERS Alaska Retiree Healthcare Trus	—	101	101	—	—	—	—	—	102
Due from Retiree Health Fund	—	3,496	3,496	—	—	—	—	—	3,440
Legal settlement	—	54,586	54,586	—	—	—	—	—	—
Other account receivable	—	1,801	1,801	(1)	—	—	—	(1)	853
Total receivables	5,004	62,834	67,838	1,397	30	96	252	1,775	19,032
<b>Investments (notes 2, 3, 4 and 5) at fair value:</b>									
<b>Fixed income securities</b>									
Retirement fixed income poo	237,705	140,629	378,334	—	170	408	1,216	1,794	416,972
US Treasury fixed income poo	141,291	57,144	198,435	—	40	96	284	420	198,855
High yield pool	67,474	30,272	97,746	—	30	72	213	315	82,475
International fixed income poo	41,311	18,406	59,717	—	30	72	213	315	60,032
Emerging debt pool	20,900	9,468	30,368	—	29	70	210	309	28,645
Total fixed income securities	508,681	255,919	764,600	—	299	718	2,136	3,153	584,902
<b>Broad domestic equity</b>									
Global equity ex-US:									
International equity pool	416,985	189,868	606,853	—	243	585	1,740	2,568	609,421
Emerging markets equity poo	156,220	75,819	232,039	—	66	159	475	700	159,663
Total global equity ex-US	573,205	265,687	838,892	—	309	744	2,215	3,268	735,116
Private equity pool	265,520	120,457	385,977	—	104	251	746	1,101	322,221
Absolute return pool	137,659	62,657	200,316	—	72	174	519	765	165,892
<b>Real assets:</b>									
Real estate pool	228,781	106,660	335,441	—	142	341	1,016	1,499	399,669
Real estate investment trust pool	11,147	4,585	15,732	—	4	10	30	44	10,360
Energy pool	17,671	7,668	25,339	—	4	11	32	47	23,593
Farmland pool	98,257	44,691	142,948	—	23	57	168	248	133,145
Farmland water pool	11,315	—	11,315	—	—	—	—	—	10,549
Timber pool	33,983	15,600	49,583	—	15	35	105	155	47,055
Treasury inflation protected securities poo	15,378	7,851	23,229	—	48	114	340	502	20,804
Mortgages	—	—	—	—	—	—	—	—	9
Total real assets	416,532	187,055	603,587	—	236	568	1,691	2,495	645,184
<b>Other investment funds, at fair value:</b>									
Pooled investment funds	—	—	—	11,078	—	—	—	11,078	1,557
Collective investment funds	—	—	—	34,324	—	—	—	34,324	23,399
Total other investment funds	—	—	—	45,402	—	—	—	45,402	24,956
Total investments	2,687,624	1,256,376	3,944,000	45,402	1,429	3,439	10,235	60,505	3,727,139
<b>Other assets</b>									
Total assets	1	984	985	—	—	—	—	—	984
Total assets	2,719,702	1,331,957	4,051,659	48,395	1,479	3,598	10,640	64,112	3,766,859
<b>Liabilities:</b>									
Accrued expenses	3,145	178	3,323	401	—	—	—	401	3,913
Claims payable (note 6)	—	13,551	13,551	—	—	—	—	—	—
Legal fees payable	—	10,592	10,592	—	—	—	—	—	—
Total liabilities	3,145	24,321	27,466	401	—	—	—	401	3,913
<b>Commitment and contingencies (note 9)</b>									
Net assets held in trust for pension and postemployment healthcare benefits	\$ 2,716,557	1,307,636	4,024,193	47,994	1,479	3,598	10,640	63,711	3,762,946

See accompanying notes to the financial statements.

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Statement of Changes in Plan Net Assets

Year ended June 30, 2010

(with summarized financial information for June 30, 2009)

(In thousands)

	Defined benefit plan			Defined contribution retirement plan					System total June 30, 2010	System total June 30, 2009
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical plan	Health reimbursement arrangement	Total		
Additions (reductions):										
Contributions:										
Employers	\$ 33,800	42,694	76,494	9,658	442	1,421	4,344	15,865	92,359	86,128
Plan members	56,554	117	56,671	11,051	—	—	—	11,051	67,722	61,737
Employer legislative relief	100,475	72,987	173,462	—	—	—	—	—	173,462	206,300
Total contributions	190,829	115,798	306,627	20,709	442	1,421	4,344	26,916	333,543	354,165
Investment income (loss):										
Net appreciation (depreciation) in fair value	225,483	103,351	328,834	1,641	63	118	330	2,152	330,986	(1,124,022)
Interest	22,033	10,565	32,598	9	10	23	68	110	32,708	40,117
Dividends	28,386	12,012	40,398	—	10	24	72	106	40,504	95,074
Total investment income (loss)	275,902	125,928	401,830	1,650	83	165	470	2,368	404,198	(988,831)
Less investment expense	7,756	25	7,781	—	—	—	—	—	7,781	8,045
Net investment income (loss)	268,146	125,903	394,049	1,650	83	165	470	2,368	396,417	(996,876)
Other:										
Legal settlement	—	54,585	54,585	—	—	—	—	—	54,585	—
Other	9	4,450	4,459	—	—	—	—	—	4,459	3,598
Total additions (reductions)	458,984	300,736	759,720	22,359	525	1,586	4,814	29,284	789,004	(639,113)
Deductions:										
Pension and postemployment benefits	332,690	110,313	443,003	—	—	—	—	—	443,003	408,719
Refunds of contributions	3,472	—	3,472	930	—	—	—	930	4,402	4,067
Legal settlement fees	—	10,592	10,592	—	—	—	—	—	10,592	—
Administrative	2,698	3,228	5,926	123	—	—	—	123	6,049	8,402
Total deductions	338,860	124,133	462,993	1,053	—	—	—	1,053	464,046	421,188
Net increase (decrease)	120,124	176,603	296,727	21,306	525	1,586	4,814	28,231	324,958	(1,060,301)
Net assets held in trust for pension and postemployment healthcare benefits:										
Balance, beginning of year	2,596,433	1,131,033	3,727,466	26,688	954	2,012	5,826	35,480	3,762,946	4,823,247
Balance, end of year	\$ 2,716,557	1,307,636	4,024,193	47,994	1,479	3,598	10,640	63,711	4,087,904	3,762,946

See accompanying notes to the financial statements.



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**(1) Description**

The following is a brief description of the State of Alaska Teachers' Retirement System (TRS or System) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (DB Plan) and Defined Contribution Retirement Trust Fund (DCR Plan). TRS is a Component Unit of the State of Alaska (State). The DB Plan is a plan within the System, which includes the Defined Benefit Retirement Pension Trust Fund and Alaska Retiree Healthcare Trust Fund. The DCR Plan consists of a Participant Directed Fund, Retiree Medical Fund, Health Reimbursement Arrangement Fund, and Occupational Death and Disability Fund. Participants should refer to the System agreement for more complete information.

At June 30, 2010 and 2009, the number of participating local government employers was:

State of Alaska	1
School districts	53
Other	4
	58
	58

Inclusion in the DB Plan and DCR Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation.

**Defined Benefit Retirement Plan**

*General*

The DB Plan is a defined benefit, cost-sharing, multiple employer plan within the System established and administered by the State to provide pension and postemployment healthcare benefits for teachers and other eligible members. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The System is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. With the passage of Senate Bill 141, the DB Plan is closed to all new members effective July 1, 2006.

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**(1) Description (cont.)**

At June 30, DB Plan's membership consisted of:

	<b>Valuation as of June 30</b>	
	<b>2009</b>	<b>2008</b>
Retirees and beneficiaries currently receiving benefits	10,255	10,026
Terminated plan members entitled to future benefits	884	873
Total current and future benefits	11,139	10,899
Active plan members:		
Vested	5,799	5,612
Nonvested	2,427	2,919
Total active plan membership	8,226	8,531
Total members	19,365	19,430

***Pension Benefits***

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For members hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Members may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and average base salary. The average base salary is based upon the members' three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2 ½% of the employee's base salary.

Minimum benefits for members eligible for retirement are \$25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouse consents to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The DB Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's administrator, if the cost of living in the previous calendar year rises and the financial condition of the DB Plan's permits. If both an automatic and discretionary

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**(1) Description (cont.)**

PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

***Postemployment Healthcare Benefits***

When pension benefits begin, major medical benefits are provided without cost to (1) all members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age sixty or older, regardless of their initial hire dates. Members first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

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

***Death Benefits***

When benefits are payable under the 1% supplemental contribution provision, the DB Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the DB Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the DB Plan member's base salary. DB Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active DB Plan member dies from occupational causes, the spouse may receive a monthly pension from the DB Plan. When death is due to occupational causes and there is no surviving spouse, the DB Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension is 40% of the member's base salary at the time of death. The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB Plan member's average base salary at the time of death and the credited service that would have accrued had the DB Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average base salary at the time of death. If the DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

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**(1) Description (cont.)**

***Disability Benefits***

If a DB Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the DB Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled System member receives normal retirement benefits.

***Contributions***

**DB Plan Member Contributions**

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

**Employer Contributions**

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial cost method of funding. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

**Contributions from the State of Alaska**

Alaska Statute 14.25.085 requires that additional state contributions made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year.

***Refunds***

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to

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**(1) Description (cont.)**

involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re-establish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not re-established an employee relationship with a participating DB Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

**Defined Contribution Retirement Plan**

*General*

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within TRS established and administered by the State to provide pension and postemployment healthcare benefits for eligible employees. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund was created by State Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

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Notes to Financial Statements

June 30, 2010

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**(1) Description (cont.)**

At June 30, DCR Pension Trust Fund membership consisted of:

	<b>2010</b>	<b>2009</b>
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	247	151
50% Vested	106	34
75% Vested	37	2
100% Vested	4	4
Total terminated plan members entitled to future benefits	394	191
Total current and future benefits	394	191
Active plan members:		
25% Vested	622	582
50% Vested	472	319
75% Vested	286	—
100% Vested	3	4
Nonvested	886	901
Total active plan members	2,269	1,806
Total members	2,663	1,997

***Pension Benefits***

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

***Postemployment Healthcare Benefits***

Major medical benefits available to eligible persons are accessible to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

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**(1) Description (cont.)**

***Death Benefits***

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

***Disability Benefits***

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

***Contributions***

**DCR Plan Member Contributions**

Contribution rates are 8.0% for DCR Plan members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

**Employer Contributions**

An employer shall contribute to each member's individual account an amount equal to 7.0% of the member's compensation.

***Refunds***

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment.

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**(1) Description (cont.)**

***Participant Accounts***

Participant accounts under the DCR Plan are self-directed with respect to investment options. Investment options are disclosed in note 3.

Each participant designates how 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.

Recordkeeping/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 all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

**(2) Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Use of Estimates***

The preparation of financial statements in conformity with 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.

***GASB Statements No. 25 and No. 43***

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The DB Plan follows the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included



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

in GASB Statement No. 26, *Financial Reporting or Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

***Investments***

Investments are reported under the Department of Revenue, Division of Treasury (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

**Pooled Investments**

With the exception of the Short-term Fixed Income Pool, ownership in the various pools is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

The Short-Term Fixed Income Pool maintains a share price of \$1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

***Valuation and Income Allocation***

**Fixed income investment pools**

With the exception of the Emerging Markets Debt Pool, fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determines the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares which are valued on the last business day of each month by the investment manager.

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Notes to Financial Statements

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

**Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools**

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determines the allocation between permissible securities.

**Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water and Timber Pools**

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Emerging markets securities are valued on the last business day of each month by the investment managers. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

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

*DCR Plan Participant Directed Investments*

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate thirteen participant-directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value 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 fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value 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 fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

*Contributions Receivable*

Contributions from the System's members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

*Administrative Costs*

Administrative costs are paid from investment earnings.

*Due From (to) State of Alaska General Fund*

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

*Federal Income Tax Status*

The DB Plan and DCR Plan are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

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**(3) Investments**

The Alaska Retirement Management Board (Board) is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Division of Treasury (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of Board as well as other state funds.

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**(4) Deposit and Investment Risk**

At June 30, 2010, the System investments included the following (in thousands):

	Fair value								Total
	Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS	Other	
Bridge Loans	\$ —	—	—	159	—	—	—	—	159
Commercial Paper	5,148	—	146,047	—	—	—	—	—	151,195
Convertible Bonds	—	—	—	516	—	—	—	—	516
Corporate Bonds	48,223	75,044	3,040	92,031	—	—	—	—	218,338
Deposits	(194)	—	—	—	—	63	—	9,662	9,531
Foreign Corporate Bonds	—	—	—	—	21,538	—	—	—	21,538
Foreign Government Bonds	—	—	—	—	37,413	—	—	—	37,413
Mortgage-backed	812	109,800	—	—	—	—	—	—	110,612
Mortgage-backed TBA	—	36,008	—	—	—	—	—	—	36,008
Mutual Funds	—	—	—	—	—	—	—	29,449	29,449
Other Asset-backed	22,630	1,106	—	158	—	—	—	—	23,894
Overnight Sweep Account (Imcs)	—	—	—	3,355	—	196	—	—	3,551
Short-term Investment Fund	—	—	—	—	278	—	—	4,549	4,827
U.S. Government Agency	6,843	2,071	—	—	—	—	—	—	8,914
U.S. Treasury Bills	12,528	—	—	—	—	—	—	—	12,528
U.S. Treasury Bonds	—	21,081	17,187	—	—	—	—	—	38,268
U.S. Treasury Notes	—	59,824	—	—	—	—	—	—	59,824
U.S. Treasury Notes when-issued	—	64,746	26,591	—	—	—	—	—	91,337
U.S. Treasury Bills when-issued	1,927	—	—	—	—	—	—	—	1,927
U.S. Treasury TIP Bonds	—	—	—	—	—	—	8,044	—	8,044
U.S. Treasury TIP Notes	—	—	—	—	—	—	15,301	—	15,301
Yankees:									
Corporate	1,350	—	—	—	—	—	—	—	1,350
Government	—	410	—	—	—	—	—	—	410
Fixed Income Pools:									
Equity	—	—	—	127	—	—	—	—	127
Warrants	—	—	—	8	—	—	—	—	8
Emerging Markets Debt Pool	—	—	—	—	—	—	—	30,677	30,677
Domestic Equity Pool:									
Convertible Bonds	—	—	—	—	—	14,527	—	—	14,527
Equity	—	—	—	—	—	1,090	—	1,054,940	1,056,030
Limited Partnership	—	—	—	—	—	—	—	71,534	71,534
Treasury Bills	—	—	—	—	—	—	—	610	610
International Equity Pool:									
Convertible Bonds	—	—	—	—	—	—	—	462	462
Corporate Bonds	—	—	—	—	—	—	—	177	177
Equity	—	—	—	—	—	—	—	563,999	563,999
Rights	—	—	—	—	—	—	—	113	113
Emerging Markets Equity Pool	—	—	—	—	—	—	—	232,739	232,739
Private Equity Pool:									
Limited Partnerships	—	—	—	—	—	—	—	387,062	387,062
Absolute Return Pool:									
Limited Partnerships	—	—	—	—	—	—	—	201,081	201,081
Real Estate Pool:									
Commingled Funds	—	—	—	—	—	—	—	72,264	72,264
Limited Partnerships	—	—	—	—	—	—	—	71,668	71,668
Real Estate	—	—	—	—	—	—	—	193,008	193,008
Real Estate Investment									
Trust Pool:									
Equity	—	—	—	—	—	—	—	15,699	15,699
Energy Pool:									
Limited Partnerships	—	—	—	—	—	—	—	25,387	25,387
Farmland Pool:									
Agricultural Holdings	—	—	—	—	—	—	—	143,196	143,196
Farmland Water Pool:									
Agricultural Holdings	—	—	—	—	—	—	—	11,315	11,315
Timber Pool:									
Timber Holdings	—	—	—	—	—	—	—	49,738	49,738
Participant Directed:									
Collective Investment Funds	—	—	—	—	—	—	—	34,062	34,062
Pooled Investment Funds	—	—	—	—	—	—	—	11,078	11,078
Net Other Assets (Liabilities)	(167)	(29,085)	(1,880)	1,707	740	84	179	448	(27,974)
Other Pool Ownership	(59,821)	39,123	7,870	—	—	—	207	12,621	—
Unallocated Deposits in Transit	—	—	—	—	—	—	—	263	263
<b>Total invested assets</b>	<b>\$ 39,279</b>	<b>380,128</b>	<b>198,855</b>	<b>98,061</b>	<b>60,032</b>	<b>15,897</b>	<b>23,731</b>	<b>3,227,801</b>	<b>4,043,784</b>

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**(4) Deposit and Investment Risk (cont.)**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**Short-term Fixed Income Pool**

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2010, the expected average life of individual fixed rate securities ranged from one day to twenty-nine years and the expected average life of floating rate securities ranged from one day to nine and three-quarters years.

**Other DB Plan Fixed Income Pools**

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows to calculate effective duration.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2010, was 4.30 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2010, was 4.01 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield portfolio to  $\pm 20\%$  of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2010, was 4.40 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the International Fixed Income portfolio to  $\pm 25\%$  of the Citigroup Non-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2010, was 6.76 years.

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**(4) Deposit and Investment Risk (cont.)**

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to  $\pm 20\%$  of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2010 was 8.99 years.

The Board does not have a policy to limit interest rate risk for the Convertible Bond portfolio.

At June 30, 2010, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (In years)				
	Retirement	U.S. Treasury	High yield	International	TIPS
Corporate bonds	6.19	4.13	4.24	—	—
Convertible bonds	—	—	3.32	—	—
Foreign corporate bonds	—	—	—	6.80	—
Foreign government bonds	—	—	—	6.01	—
Mortgage-backed	2.73	—	—	—	—
Mortgage-backed TBA	2.97	—	—	—	—
Other asset-backed	3.57	—	2.92	—	—
U.S. Government Agency	6.73	—	—	—	—
U.S. Treasury bonds	10.77	7.98	—	—	7.05
U.S. Treasury notes	4.40	3.53	—	—	2.78
U.S. Treasury notes when-issued	3.52	4.83	—	—	—
Warrants	—	—	3.95	—	—
Yankees:					
Government	6.95	—	—	—	—
<b>Portfolio effective duration</b>	<b>4.25</b>	<b>4.83</b>	<b>4.08</b>	<b>6.26</b>	<b>4.21</b>

**DCR Plan Pooled Investment Funds**

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate eleven participant directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government, corporate debt, and mortgage-backed securities, duration is limited to  $\pm 0.2$  years of the Barclays Capital U.S. Aggregate Bond Index. At June 30, 2010, the duration of the government corporate debt, and mortgage-backed securities was 4.18 years and the duration of the Barclays Capital Aggregate Bond Index was 4.30 years.

The Board does not have a policy with respect to money market or other pooled investment funds to limit interest rate risk. The weighted average maturity of the money market portfolio was 0.15 years at June 30, 2010.

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**(4) Deposit and Investment Risk (cont.)**

**DCR Plan Collective Investment Funds**

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2010 the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-U.S. Index: 6.95 years, SSgA Long US Treasury Bond Index: 13.75 years, SSgA TIPS Index: 8.06 years, Barclays Gov/Corp Bond Fund: 5.18 years, and the Barclays Intermediate Bond Fund: 3.62 years.

***Credit Risk***

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

**Retirement Fixed Income**

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

**Intermediate U.S. Treasury Fixed Income**

No more than 5% of the portfolio's assets may be invested in securities that are not full faith and credit obligations of the U.S. Government at the time of purchase.



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**(4) Deposit and Investment Risk (cont.)**

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, coupon-paying United States Treasury obligations at the time of purchase.

Corporate, asset-backed and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

**High Yield**

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% of the portfolio's assets may be invested in unrated securities.

No more than 10% of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

The lower of any Standard & Poor's, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

**International Fixed Income**

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

**Convertible Bonds**

Nonrated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's or Fitch. Nonrated securities are limited to 35% of the total market value of the portfolio.

The weighted average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

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**(4) Deposit and Investment Risk (cont.)**

**TIPS**

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

Corporate debt securities must be investment grade.

No more than 5% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Corporate, asset-backed and nonagency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, Moody's, and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

**Domestic Equity, International Equity and Emerging Markets Separate Accounts**

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The Board does not have a policy to limit the concentration of credit risk for the Collective Investment Funds.

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**(4) Deposit and Investment Risk (cont.)**

At June 30, 2010, the System's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

Investment type	Rating	Fixed Income Pools						
		Short-term	Retirement	U.S. treasury	High yield	International	Convertible	TIPS
Bridge loans	Not rated	—%	—%	—%	0.16%	—%	—%	—%
Commercial paper	A-1	1.17	—	—	—	—	—	—
Commercial paper	Not rated	4.03	—	—	—	—	—	—
Convertible bonds	AAA	—	—	—	—	—	1.52	—
Convertible bonds	AA	—	—	—	—	—	2.22	—
Convertible bonds	A	—	—	—	—	—	8.61	—
Convertible bonds	BBB	—	—	—	—	—	14.31	—
Convertible bonds	BB	—	—	—	—	—	19.80	—
Convertible bonds	B	—	—	—	0.33	—	18.13	—
Convertible bonds	CCC	—	—	—	—	—	4.51	—
Convertible bonds	Not rated	—	—	—	0.20	—	22.29	—
Corporate bonds	AAA	41.70	0.10	0.77	—	—	—	—
Corporate bonds	AA	1.88	2.64	—	—	—	—	—
Corporate bonds	A	3.74	9.77	—	—	—	—	—
Corporate bonds	BBB	—	6.85	0.75	3.67	—	—	—
Corporate bonds	BB	—	—	—	33.72	—	—	—
Corporate bonds	B	—	—	—	42.61	—	—	—
Corporate bonds	CCC	—	—	—	9.69	—	—	—
Corporate bonds	D	—	—	—	0.12	—	—	—
Corporate bonds	Not rated	1.35	0.39	—	4.04	—	—	—
Foreign corporate bonds	AAA	—	—	—	—	26.91	—	—
Foreign corporate bonds	AA	—	—	—	—	2.89	—	—
Foreign corporate bonds	A	—	—	—	—	4.91	—	—
Foreign corporate bonds	BBB	—	—	—	—	1.16	—	—
Foreign government bonds	AAA	—	—	—	—	13.30	—	—
Foreign government bonds	AA	—	—	—	—	18.67	—	—
Foreign government bonds	A	—	—	—	—	16.02	—	—
Foreign government bonds	NA	—	—	—	—	14.34	—	—
Mortgage-backed	AAA	0.79	27.48	—	—	—	—	—
Mortgage-backed	AA	—	0.64	—	—	—	—	—
Mortgage-backed	A	—	0.18	—	—	—	—	—
Mortgage-backed	Not rated	0.03	0.58	—	—	—	—	—
Mortgage-backed TBA	Not rated	—	9.47	—	—	—	—	—
Other asset-backed	AAA	21.16	0.09	—	—	—	—	—
Other asset-backed	AA	—	0.09	—	—	—	—	—
Other asset-backed	BBB	—	0.11	—	—	—	—	—
Other asset-backed	BB	—	—	—	0.16	—	—	—
Other asset-backed	Not rated	1.68	—	—	—	—	—	—
Overnight sweep account (Imcs)	Not rated	—	—	—	3.42	—	1.23	—
Short-term investment fund	Not rated	—	—	—	—	0.46	—	—
U.S. government agency	AAA	1.07	0.54	—	—	—	—	—
U.S. government agency	Not rated	5.84	—	—	—	—	—	—
U.S. Treasury bills	AAA	12.65	—	—	—	—	—	—
U.S. Treasury bills when-issued	AAA	1.95	—	—	—	—	—	—
U.S. Treasury bonds	AAA	—	5.55	8.64	—	—	—	33.90
U.S. Treasury notes	AAA	—	15.74	73.46	—	—	—	64.48
U.S. Treasury notes when-issued	AAA	—	17.03	13.37	—	—	—	—
Yankees:								
Government	BBB	—	0.11	—	—	—	—	—
Corporate	AAA	0.58	—	—	—	—	—	—
Corporate	AA	0.20	—	—	—	—	—	—
Corporate	Not rated	0.58	—	—	—	—	—	—
No credit exposure		(0.40)	2.64	3.01	1.88	1.34	7.38	1.62
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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**(4) Deposit and Investment Risk (cont.)**

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2010, the Board's Invested Assets had the following uncollateralized and uninsured deposits:

	<b>Amount</b> (In thousands)
International equity pool	\$ 9,958
International fixed income pool	63

***Foreign Currency Risk***

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of countries represented in the Citigroup Non-USD World Government Bond Index and Mexico. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S. and private equity to the following:

<b>Fixed-income</b>	<b>Global equity ex-U.S.</b>	<b>Private equity pool</b>
23%	26%	12%

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**(4) Deposit and Investment Risk (cont.)**

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. At June 30, 2010, the System had exposure to foreign currency risk with the following deposits:

Currency	Amount (In thousands)	
	International fixed income pool	International equity pool
Australian Dollar	\$ —	20
Canadian Dollar	—	39
Danish Krone	—	4
Euro Currency	44	8,678
Hong Kong Dollar	—	56
Israeli Shekel	—	9
Japanese Yen	19	1,047
New Taiwan Dollar	—	1
New Zealand Dollar	—	1
Norwegian Krone	—	6
Pound Sterling	—	43
Singapore Dollar	—	21
Swedish Krona	—	12
Swiss Franc	—	21
	\$ 63	9,958

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**(4) Deposit and Investment Risk (cont.)**

At June 30, 2010, the System had exposure to foreign currency risk with the following investments:

Currency	Amount (In thousands)			
	International fixed income pool		International equity pool	Private equity pool
	Foreign government	Corporate	Equity	Limited partnerships
Australian Dollar	\$ 8,606	—	12,439	—
Brazilian Real	—	—	942	—
Canadian Dollar	—	—	17,405	—
Danish Krone	—	—	5,109	—
Euro Currency	11,786	3,649	175,464	38,113
Hong Kong Dollar	—	—	13,317	—
Indonesian Rupiah	—	—	835	—
Israeli Shekel	—	—	204	—
Japanese Yen	6,823	17,889	134,084	—
Malaysian Ringgit	—	—	786	—
New Taiwan Dollar	—	—	2,220	—
New Zealand Dollar	—	—	522	—
Norwegian Krone	—	—	2,909	—
Polish Zloty	2,217	—	—	—
Pound Sterling	7,981	—	100,755	5,763
Singapore Dollar	—	—	3,096	—
South African Rand	—	—	314	—
South Korean Won	—	—	9,597	—
Swedish Krona	—	—	10,107	—
Swiss Franc	—	—	39,400	—
Turkish Lira	—	—	1,762	—
	\$ 37,413	21,538	531,267	43,876

At June 30, 2010, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled funds; therefore no disclosure of specific currencies is made.

***Concentration of Credit Risk***

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the United States Government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, Intermediate U.S. Treasury Fixed Income, High Yield, International Fixed Income and Convertible Bond

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**(4) Deposit and Investment Risk (cont.)**

Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the TIPS Pools.

At June 30, 2010, the System did not have exposure to any one issuer greater than 5% of total invested assets.

**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk**

The Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2010 the Board had the following derivative instruments outstanding (in thousands):

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Rights	Investment Revenue	\$ 182	Common Stock	\$ 113	3,569
Warrants	Investment Revenue	(34)	Common Stock	8	3
Index futures long	Investment Revenue	1,369	Futures	(429)	8
FX forwards	Investment Revenue	948	Long Term Instruments	182	—
TBA transactions long	Investment Revenue	3,824	Long Term Instruments	431	34,230
Grand totals		<u>\$ 6,289</u>		<u>\$ 305</u>	

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

At June 30, 2010 the Board had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

<u>Counterparty name</u>	<u>Amount of net exposure</u>	<u>S&amp;P rating</u>	<u>Fitch rating</u>	<u>Moody's rating</u>
Credit Suisse London				
Branch (GFX)	\$ 50	A+	AA-	Aa1
Mellon Bank	\$ 328	AA-	AA-	Aa2

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**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk (cont.)**

Maximum amount of loss Alaska ARMB (TRS) would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2010	\$	378
Effect of collateral reducing maximum exposure		—
Liabilities subject to netting arrangements reducing exposure		—
Resulting net exposure	\$	378

**(6) Claims Payable**

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

Changes in the balances of claims liabilities follows:

		<u>(In thousands)</u>
Benefit deductions	\$	110,313
Benefits paid		(96,762)
Total, end of year	\$	13,551
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$	—
Outstanding claims received but not paid		—
Incurred but not reported		13,551
Total, end of year	\$	13,551

**(7) Transfers**

During fiscal year 2009, the System transferred the amount due as of June 30, 2008, from the \$1,086,620,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which began on July 1, 2007.

Under SB 123, enacted in 2007, the State of Alaska sought to enhance compliance of the states' pension systems with the Internal Revenue Code by creating a new defined benefit retiree healthcare trust into which other postemployment benefits (OPEB) contributions would be deposited, and from which OPEB benefits would be paid. Historically, all such contributions had been deposited and benefits paid from the



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**(7) Transfers (cont.)**

pension trust fund account. With the creation of the new healthcare trust fund account, the systems then sought approval from the Internal Revenue Service through the Voluntary Compliance Program (VCP) to post the amount allocated to healthcare in the 2007 CAFR to the new healthcare trust fund. On October 10, 2008, the Internal Revenue Service (IRS) orally advised tax counsel for the states' pension systems that the request to transfer the 2007 CAFR amount in the new healthcare trust had been approved. The systems received formal VCP decision from the IRS in May 2009.

**(8) Funded Status and Funding Progress**

The funded status of the defined benefit pension and postemployment healthcare benefit plan is as follows (dollars in thousands):

	Actuarial valuation date	Actuarial valuation assets	Actuarial aggregate accrued liability (AAL) - entry age	Unfunded actuarial accrued liability (UAAL)	Assets as a percent of accrued liability (funded ratio)	Covered payroll	UAAL as a percentage of covered payroll
Pension	June 30, 2009	\$ 3,115,719	5,463,987	2,348,268	57.0%	\$ 557,026	421.6%
Post employment healthcare	June 30, 2009	1,357,239	4,604,820	3,247,581	29.5	557,026	583.0

The funded status of the defined contribution retirement plan occupational death and disability and retiree medical benefits is as follows (dollars in thousands):

	Actuarial valuation date	Actuarial valuation assets	Actuarial accrued liability (AAL) - entry age	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2009	\$ 1,071	14	(1,057)	7,650.0%	\$ 89,708	(1.2)%
Retiree medical	June 30, 2009	2,353	1,690	(663)	139.2	89,708	(0.7)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of contributions from employers presents trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution

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**(8) Funded Status and Funding Progress (cont.)**

(ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

<u>Valuation date</u>	<u>Defined Benefit</u> June 30, 2009	<u>Defined Contribution ODD and Retiree Medical</u> June 30, 2009
Actuarial cost method	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical
Amortization method	Level dollar, closed with bases established annually	Level dollar, closed with bases established annually
Equivalent single amortization period	19 years	25 years
Asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.25% for pension, 4.50% for healthcare (includes inflation at 3.5%)	8.25% (includes inflation at 3.5%)
Projected salary increases	6.0% for first 5 years of service grading down to 4.0% after 15 years	6.0% grading down to 4.0% based on service
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

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**(8) Funded Status and Funding Progress (cont.)**

Health cost trend for defined benefit, defined contribution occupation death and disability and retiree medical plans:

	<b>Medical</b>	<b>Prescription drugs</b>
Fiscal year:		
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

**(9) Commitments and Contingencies**

*Commitments*

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2010, the System's share of the unfunded commitment totaled \$10,906,200. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2010, the System's share of these unfunded commitments totaled \$243,449,733. These commitments are estimated to be paid through 2020.

The Board entered into agreements through external investment managers to provide capital funding for a limited partnerships as it continues to build the energy investment portfolio. At June 30, 2010, the System's share of these unfunded commitments totaled \$12,699,703. These commitments are estimated to be paid through 2017.

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**(9) Commitments and Contingencies (cont.)**

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2010, the System's share of these unfunded commitments totaled \$52,786,956. These commitments are estimated to be paid through 2019.

***Contingencies***

The Division of Retirement and Benefits (the Division) is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Division's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Division.

**(10) Medicare Part D Retiree Drug Subsidy**

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to twenty-eight percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2006. The RDS for the six month period ended June 30, 2010, cannot be reasonably estimated, and therefore is not recorded in the financial statements for the period ended June 30, 2010.

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Defined Benefit Retirement Pension Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	\$ 2,647,777	4,216,480	1,568,703	62.8%	\$ 522,421	300.3%
2005	2,640,642	4,334,585	1,693,943	60.9	561,038	301.9
2006	3,296,934	4,859,336	1,562,402	67.8	574,409	272.0
2007	3,441,867	5,043,448	1,601,581	68.2	554,245	289.0
2008	3,670,086	5,231,654	1,561,568	70.2	549,148	284.4
2009	3,115,719	5,463,987	2,348,268	57.0	557,026	421.6

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress

Defined Benefit Retirement Postemployment Healthcare Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2004	\$ 1,197,593	1,907,120	709,527	62.8%	\$ 522,421	135.8%
2005	1,318,297	2,163,971	845,674	60.9	561,038	150.7
2006	844,766	4,288,707	3,443,941	19.7	574,409	599.6
2007	982,532	4,059,573	3,077,041	24.2	554,245	555.2
2008	1,266,890	4,648,055	3,381,165	27.3	549,148	615.7
2009	1,357,239	4,604,820	3,247,581	29.5	557,026	583.0

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress

Defined Contribution Retirement Occupational Death and Disability Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ —	16	16	—%	\$ 28,410	0.1%
2008	420	44	(376)	954.5	56,369	(0.7)
2009	1,071	14	(1,057)	7,650.0	89,708	(1.2)

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress

Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010

(In thousands)

Actuarial valuation date as of June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 597	403	(194)	148.1%	\$ 28,410	(0.7)%
2008	1,308	899	(409)	145.5	56,369	(0.7)
2009	2,353	1,690	(663)	139.2	89,708	(0.7)

See accompanying notes to required supplementary information and independent auditors' report.



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Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers and the State of Alaska

Defined Benefit Retirement Pension and Postemployment Healthcare Benefits

June 30, 2010

(In thousands)

Year ended June 30	Actuarial valuation date as of June 30 <sup>(1)</sup>	Annual required contribution			Pension percentage contributed		Postemployment healthcare percentage contributed		Total percentage contributed (note 3)
		Pension	Postemployment healthcare	Total	By employer	By State of Alaska (note 3)	By employer	By State of Alaska (note 3)	
2005	2002	\$ 152,168	55,783	207,951	45.0%	—%	45.0%	—%	45.0%
2006	2003	170,019	66,719	236,738	54.1	—	54.1	—	54.1
2007	2004	169,974	76,879	246,853	62.2	—	62.2	—	62.2
2008	2005	134,544	185,271	319,815	23.3	82.7	23.6	85.7	107.9
2009	2006	94,388	164,171	258,559	28.7	110.6	28.7	62.1	108.5
2010	2007	134,275	115,681	249,956	25.2	74.8	37.9	63.1	100.0

<sup>(1)</sup> Actuarial valuation related to annual required contribution for fiscal year.

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Contributions  
Defined Contribution Retirement Occupational Death and Disability Benefits

June 30, 2010

(In thousands)

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage of ARC contributed</u>
2007	\$ 72	—%
2008	408	100.0
2009	623	100.0

See accompanying notes to required supplementary information and independent auditors' report.

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Required Supplementary Information (Unaudited)

Schedule of Contributions  
Defined Contribution Retirement Retiree Medical Benefits

June 30, 2010

(In thousands)

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage of ARC contributed</u>
2007	\$ 575	100.0%
2008	763	85.0
2009	1,162	85.0

See accompanying notes to required supplementary information and independent auditors' report.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2010 and 2009

**(1) Description of Schedule of Funding Progress**

Each time a new benefit is added which applies to service already rendered, an “unfunded actuarial accrued liability” is created. Laws governing the System require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

**(2) Actuarial Assumptions and Methods**

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2009 are as follows:

- (a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded actuarial accrued liability is amortized over 25 years as a level percentage of pay amount.
- (b) Valuation of assets – recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years and phased in over the next five years. All assets are valued at fair value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.
- (c) Valuation of medical and prescription drug benefits – base claims cost rates are incurred healthcare cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility of free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes that 3.5% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, the valuation assumes that 3.5% of the current Medicare retiree population does not receive Part A coverage.
- (d) Investment return/discount rate – 8.25% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – inflation 3.5% per year, merit 2.0% per year for the first 5 years of employment grading down to 0% after 15 years, and productivity 0.5% per year.
- (f) Payroll growth – 4.0% per year (inflation + productivity).
- (g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2010 and 2009

**(2) Actuarial Assumptions and Methods (cont.)**

- (h) Mortality (Preretirement) – based upon the 2001-2005 actual experience. 60% of 1994 Group Annuity Table 1994 Base Year without margin for females and 55% for males. All deaths are assumed to result from nonoccupational causes.
- (i) Mortality (Postretirement) – based upon the 2001-2005 actual experience. 1-year setback of the 1994 Group Annuity Table 1994 Base Year without margin for females and 3-year setback for males.
- (j) Turnover – select and ultimate rates based upon the 2001-2005 actual withdrawal experience.
- (k) Disability – incidence rates based upon the 2001-2005 actual experience. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security.
- (l) Retirement – retirement rates based on the 2001-2005 actual experience. Deferred vested members are assumed to retire at their earliest retirement date.
- (m) Marriage and age difference – wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
- (n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
- (o) Contribution refunds – 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.
- (p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
- (q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates or dies.
- (r) Postretirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute.
- (s) Expenses – all expenses are net of investment return assumption.
- (t) Part-time status – part-time members are assumed to earn 0.55 years of credited service per year.
- (u) Re-employment option – the actuary assumes all re-employed retirees return to work under the Standard Option.
- (v) Service – total credited service is provided by the State. The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed

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June 30, 2010 and 2009

**(2) Actuarial Assumptions and Methods (cont.)**

service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.

(w) Final average earnings – final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.

(x) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

	<b>Medical</b>	<b>Prescription drugs</b>
Pre-Medicare	\$ 7,503	2,419
Medicare Parts A and B	1,336	2,419
Medicare Part B Only	4,754	2,419
Medicare Part D	N/A	477

(y) Third party administrator fees – \$153.33 per person per year; assumed trend rate of 5% per year.

(z) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY10 rate claims costs to get the FY11 claims cost.

	<b>Medical</b>	<b>Prescription drugs</b>
Fiscal year:		
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2009 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amount beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

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June 30, 2010 and 2009

**(2) Actuarial Assumptions and Methods (cont.)**

(aa) Aging Factors:

	<b>Medical</b>	<b>Prescription drugs</b>
Age:		
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 74	4.0	1.5
75 – 84	1.5	0.5
85 – 94	0.5	—
95 +	—	—

(bb) Retired member contributions for medical benefits – currently, contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY10 contributions based on monthly rates shown below for calendar 2009 and 2010 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

<b>Coverage category</b>	<b>Calendar 2010</b>		<b>Calendar 2009</b>
	<b>Annual contribution</b>	<b>Monthly contribution</b>	<b>Monthly contribution</b>
Retiree only	\$ 8,628	719	631
Retiree and spouse	17,268	1,439	1,262
Retiree and child(ren)	12,192	1,016	891
Retiree and family	20,832	1,736	1,523
Composite	12,816	1,068	937

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Notes to Required Supplementary Information (Unaudited)

June 30, 2010 and 2009

**(2) Actuarial Assumptions and Methods (cont.)**

- (cc) Trend rate for retired member contributions –the table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 7.0% is applied to the FY10 retired member medical contributions to get the FY11 retired member medical contributions.

Fiscal year:	
2010	7.0%
2011	6.7
2012	6.3
2013	6.0
2014	5.7
2015	5.3
2016	5.0
2017	5.0
2018	5.0
2019 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY09 retired member medical contributions are reflected in the valuation so trend on such contribution during FY09 is not applicable.

- (dd) Healthcare participation – 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2009 are as follows:

- (a) Actuarial cost method – entry age actuarial cost, funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll.
- (b) Valuation of assets – recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. Market Value of Assets were \$0 as of June 30, 2006. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of market value of assets.
- (c) Valuation of retiree medical benefits – due to lack of experience for the DCR Plan only, base claims cost are based on those described in the actuarial valuation as of June 30, 2009 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, fiscal year 2009 claims cost were reduced to 5.9% for medical and 0.7% for prescription



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Notes to Required Supplementary Information (Unaudited)

June 30, 2010 and 2009

**(2) Actuarial Assumptions and Methods (cont.)**

drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend cost to the ultimate trend rate.

- (d) Investment return/discount rate – 8.25% per year, compounded annually, net of expenses.
- (e) Salary scale – inflation 3.5% per year. Merit 2.0% per year for the first 5 years of employment grading down to 0% after 15 years. Productivity 0.5% per year.
- (f) Payroll growth – 4.0% per year.
- (g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.
- (h) Mortality (Preretirement) – based upon the 2001-2005 actual experience of the TRS DB Plan. 60% of the 1994 Group Annuity Table 1994 Base Year without margin for females and 55% for males. 15% of deaths are assumed to result from occupational causes.
- (i) Mortality (Postretirement) – based upon the 2001-2005 actual experience of the TRS DB Plan. 1-year setback of the 1994 Group Annuity Table 1994 Base Year without margin for females and 3-year setback for males.
- (j) Turnover – select rates were estimated and ultimate rates were set to the TRS DB Plan's rate loaded by 10%.
- (k) Disability – incidence rates based upon the 2001-2005 actual experience of the TRS DB Plan. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. 15% of disabilities are assumed to result from occupational causes.

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**(2) Actuarial Assumptions and Methods (cont.)**

- (l) Retirement – retirement rates were estimated in accordance with the following table:

	<b>Rate</b>
Age:	
< 55	2%
55-59	3
60	5
61	5
62	10
63	5
64	5
65	25
66	25
67	25
68	20
69	20
70	100

- (m) Marriage and age difference – wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
- (n) Expenses – all expenses are net of the investment return assumption.
- (o) Per capita claims cost – sample claims cost rates for FY10 medical benefits are shown below:

	<b>Medical</b>	<b>Prescription drugs</b>
Pre-Medicare	\$ 7,503	2,419
Medicare Parts A and B	1,336	2,419
Medicare Part B Only	4,754	2,419
Medicare Part D	N/A	477

- (p) Third party administrator fees – \$153.33 per person per year; assumed trend rate of 5% per year.
- (q) Base claims cost adjustments – due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following adjustments were made: 0.941 for medical plan, 0.993 for the prescription drug plan, and 0.952 for the annual indexing for member cost sharing.

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**(2) Actuarial Assumptions and Methods (cont.)**

- (r) Health cost trend – the table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 7.5% is applied to the FY10 rate claims cost to get the FY11 claims costs:

Fiscal year:	<u>Medical</u>	<u>Prescription drugs</u>
2010	7.5%	9.6%
2011	6.9	8.3
2012	6.4	7.1
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been populated with assumptions that are specific to the State of Alaska.

- (s) Aging Factors:

Age:	<u>Medical</u>	<u>Prescription drugs</u>
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 74	4.0	1.5
75 – 84	1.5	0.5
85 – 94	0.5	—
95 +	—	—

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**(2) Actuarial Assumptions and Methods (cont.)**

- (t) Retiree medical participation – 100% of members and their spouses are assumed to elect retiree medical benefits as soon as they are eligible.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System. The foregoing actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

*Changes in Assumptions Since the Last Valuation*

There were no changes in assumptions from the prior valuation for the defined benefit pension and postemployment healthcare benefit plan.

There was one change in assumptions for the defined contribution retirement plan occupational death and disability and retiree medical benefits from the prior valuation. The occupational factor was changed from 100% for all deaths and disabilities to 15% for all deaths and disabilities.

**(3) Contributions – State of Alaska**

Alaska Statute 14.25.085 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 12.56%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Board for the fiscal year. During fiscal year 2010, the actuarially determined contribution adopted by the Board for fiscal year 2010 was 42.61%.

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Schedule of Administrative and Investment Deductions

Defined Benefit Plan

Year ended June 30, 2010 and 2009

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>2010</u>	<u>2009</u>
Personal services:				
Wages	\$ 1,314	489	1,803	1,788
Benefits	733	209	942	948
Total personal services	<u>2,047</u>	<u>698</u>	<u>2,745</u>	<u>2,736</u>
Travel:				
Transportation	17	49	66	67
Per diem	4	8	12	12
Moving	1	—	1	—
Total travel	<u>22</u>	<u>57</u>	<u>79</u>	<u>79</u>
Contractual services:				
Management and consulting	3,016	6,373	9,389	11,938
Accounting and auditing	26	291	317	467
Advertising and printing	48	2	50	39
Data processing	329	210	539	493
Communications	50	16	66	65
Rental/leases	99	37	136	114
Legal	10,627	36	10,663	90
Medical specialists	3	6	9	11
Repairs and maintenance	16	10	26	32
Other professional services	108	23	131	112
Transportation	23	1	24	25
Total contractual services	<u>14,345</u>	<u>7,005</u>	<u>21,350</u>	<u>13,386</u>
Other:				
Equipment	83	5	88	104
Supplies	21	16	37	89
Total other	<u>104</u>	<u>21</u>	<u>125</u>	<u>193</u>
Total administrative and investment deductions	<u>\$ 16,518</u>	<u>7,781</u>	<u>24,299</u>	<u>16,394</u>

See accompanying independent auditors' report.

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Schedule of Administrative Deductions  
Defined Contribution Retirement Trust Plan  
Year ended June 30, 2010 and 2009  
(In thousands)

	<u>2010</u>	<u>2009</u>
Personal services:		
Wages	\$ 16	26
Benefits	14	—
Total personal services	<u>30</u>	<u>26</u>
Travel:		
Transportation	1	—
Total travel	<u>1</u>	<u>—</u>
Contractual services:		
Management and consulting	80	10
Accounting and auditing	—	9
Data processing	3	—
Communications	1	—
Rentals/leases	2	—
Legal	3	8
Repairs and maintenance	1	—
Other professional services	1	—
Total contractual services	<u>91</u>	<u>27</u>
Other:		
Equipment	1	—
Total other	<u>1</u>	<u>—</u>
Total administrative and investment deductions	<u>\$ 123</u>	<u>53</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants

Other than Investment Advisors

Year ended June 30, 2010 and 2009

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2010</u>	<u>2009</u>
Paul, Weiss, Rifkind, Wharton & Garrison, LLP	Legal services	\$ 10,592	—
State Street Bank and Trust Company	Custodian banking services	288	333
Buck Consultants	Actuarial services	246	249
Computer Task Group, Inc.	Data processing consultants	192	57
Wostmann & Associates, Inc.	Data processing consultants	41	32
KPMG LLP	Auditing services	25	39
State of Alaska, Department of Law	Legal services	22	69
Six Degrees Consulting	Data processing consultants	13	—
First National Bank of Alaska	Banking services	—	8
		<u>\$ 11,419</u>	<u>787</u>

See accompanying independent auditors' report.