



State of Alaska Judicial Retirement System

Actuarial Valuation Report
As of June 30, 2010

buckconsultants®

Submitted By:
Buck Consultants
1200 Seventeenth Street, Suite 1200
Denver, CO 80202

September 30, 2011

State of Alaska
The Alaska Retirement Management Board
The Department of Revenue, Treasury Division
The Department of Administration, Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Judicial Retirement System has been prepared as of June 30, 2010 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the System as of June 30, 2010;
- (2) a review of experience under the System for the year ended June 30, 2010;
- (3) a determination of the appropriate contribution rate which will be applied for the fiscal year ending June 30, 2013; and
- (4) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

- (1) Summary of actuarial assumptions and methods (Section 2.3)
- (2) Schedule of active member valuation data (Section 3.2, 3.3 and 3.4)

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to The Alaska Retirement Board (Board) in September 2010 and adopted by the Board in December 2010. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed during the experience study.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY11 and a fixed 25-year amortization as a level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses and other changes. The amortization period is set by the Alaska Retirement Management Board (Board). Contribution rates are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities decreased from 95.0% to 72.9% during the year. This report provides an analysis of the factors that led to the decrease.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

The funding objective of the plan, as adopted by the ARM Board, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period as a level percentage of payroll. The funding objective for the plan, as adopted by the ARM Board, is currently being met.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska, and are available to answer questions regarding this report.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 43.

The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
September 30, 2011
Page 3

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



David H. Sliskinsky, FCA, ASA, EA, MAAA
Principal, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

Contents

Report Highlights	1
Analysis of the Valuation.....	2
<i>Section 1: Valuation Results.....</i>	<i>4</i>
1.1(a) Statement of Changes in Net Assets as of June 30, 2009	5
1.1(b) Statement of Net Assets as of June 30, 2009	6
1.1(c) Statement of Changes in Net Assets as of June 30, 2010	7
1.1(d) Statement of Net Assets as of June 30, 2010	8
1.1(e) Actuarial Value of Assets	9
1.2 Breakdown of Accrued Liability and Normal Cost	11
1.3 Development of Actuarial Gain/(Loss) for FY10	12
1.4 Calculation of Total Contribution Rate.....	13
1.5 Calculation Schedule of Past Service Cost Amortizations	14
<i>Section 2: Information Required by GASB Nos. 25 and 43</i>	<i>17</i>
2.1 Schedule of Employer Contributions	18
2.2 Schedule of Funding Progress	19
2.3 Schedule of the Actuarial Assumptions, Methods and Additional Information Under GASB.....	20
<i>Section 3: Basis of the Valuation</i>	<i>21</i>
3.1 Summary of Plan Provisions.....	22
3.2 Changes in System Participation from June 30, 2008 to June 30, 2010	25
3.3 Member Census Information	26
3.4 Distributions of Active Members.....	27
3.5 Actuarial Basis.....	28

Report Highlights

This report has been prepared by Buck Consultants, an ACS Company, to:

- Present the results of a valuation of the State of Alaska Judicial Retirement System as of June 30, 2010;
- Review experience under the System for the period July 1, 2008 to June 30, 2010;
- Determine the contribution rate for the System for Fiscal Year 2013;
- Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

This report is divided into three sections. Section 1 contains the results of the valuation. It includes the experience of the System during the 2008/2009 and 2010 plan years, the current annual costs, and reporting and disclosure information.

Section 2 provides reporting and disclosure information for financial statements, governmental agencies and other interested parties.

Section 3 describes the basis of the valuation. It summarizes the System provisions, provides information relating to the System members, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principal results are as follows:

Funding Status as of June 30	2008	2010
(a) Valuation assets	\$ 141,235,655	\$ 134,694,195
(b) Pension accrued liability	130,596,048	164,523,775
(c) Healthcare accrued liability	18,141,832	20,304,331
(d) Accrued liability, (b)+(c)	\$ 148,737,880	\$ 184,828,106
(e) Funding Ratio, (a)/(d)	95.0%	72.9%

Recommended Contribution Rates for Pension:	FY11	FY13
(a) Employer Normal Cost Rate	25.97%	34.82%
(b) Past Service Cost Rate	<u>5.77%</u>	<u>28.14%</u>
(c) Total Employer Contribution Rate, (a)+(b)	31.74%	62.96%

Recommended Contribution Rates for Healthcare:	FY11	FY13
(a) Employer Normal Cost Rate	3.97%	5.48%
(b) Past Service Cost Rate	<u>0.49%</u>	<u>1.04%</u>
(c) Total Employer Contribution Rate, (a)+(b)	4.46%	6.52%

Recommended Contribution Rates:	FY11	FY13
(a) Employer Normal Cost Rate	29.94%	40.30%
(b) Past Service Cost Rate	<u>6.26%</u>	<u>29.18%</u>
(c) Total Employer Contribution Rate, (a)+(b)	36.20%	69.48%

For the June 30, 2009 valuation results, we performed a roll forward of liabilities and determined the FY12 contribution rates using actual assets. The contribution rates that were calculated for FY12 were 42.80% for Pension, 4.78% for Healthcare, and 47.58% in Total.

Analysis of Valuation

(1) Actuarial Methods and Assumptions

The actuarial cost method is Entry Age Normal. The actuarial value of assets is the 5-year smoothing method.

(2) Salary Increases

Salaries for active judges changed between June 30, 2008 and June 30, 2010. The following table presents the annual base salaries for the different court appointments:

	June 30, 2008	June 30, 2010
District Court	\$ 140,748	\$ 147,876
Superior Court	165,996	174,396
Appellate Court	169,608	178,188
Supreme Court	179,520	188,604
Administrative Director	165,996	174,396
Chief Justice	180,048	189,156

(3) Investment Experience

The approximate FY09 investment return based on market values was (20.6)% and the approximate FY10 investment return based on market values was 10.6% compared to the expected investment return of 8.25%. This resulted in a loss of approximately \$38 million for FY09 and a gain of approximately \$2 million for FY10 from investment experience. The asset valuation method recognizes 20 percent of the FY10 gain this year and an additional 20 percent in each of the next 4 years. In addition, 20 percent of the FY07 gain, 20 percent of the FY08 loss and 20 percent of the FY09 loss were recognized this year. The approximate FY10 investment return based on actuarial value was 8.7% compared to the expected investment return of 8.25%. The net result was an investment gain of approximately \$1 million to the System on the actuarial value of assets.

(4) Demographic Experience

The number of active members decreased from 73 to 72 for the two year period. There were 10 new entrants to the plan with an average entry age significantly higher than the continuing members. The average age of active members increased by 0.94 years, the average past service decreased by 1.00 years, and the average entry age increased by 1.94 years. Due to the increase in average entry age, the normal cost rate increased 3%. There were small changes in the inactive statistics as well. The membership statistics are found in Sections 3.2 through 3.4 of this report. There were large losses in retirement over the last two years that increased the unfunded liability and past service cost rate. The overall demographic experience produced an actuarial loss.

(5) Changes in Methods from the Prior Valuation

There were no changes in asset or valuation methods from the prior valuation.

Analysis of Valuation *(continued)*

(6) Changes in Assumptions from the Prior Valuation

Effective for the June 30, 2010 valuation, the Board adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed on the population experience from July 1, 2005 through June 30, 2009. The changes in assumptions were adopted by the Board during the December 2010 Board meeting. Also, the assumed Medicare Part B Only proportion of all Medicare retirees decreased from 4% to 0.6%. Wells Fargo now provides census information which indicates the Medicare Part B Only enrollment.

(7) Changes in Benefit Provisions Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation.

(8) Summary

The overall effect of system experience during the two-year period resulted in a decrease in the funding ratio from 95.0% to 72.9%. The total contribution rate increased from 36.20% to 69.48%.

	<u>Pension</u>	<u>Healthcare</u>	<u>Total</u>
1. Total employer contribution rate from June 30, 2008 valuation	31.74%	4.46%	36.20%
2. Change during FY09	<u>11.06%</u>	<u>0.32%</u>	<u>11.38%</u>
3. Total employer contribution rate from June 30, 2009 roll-forward valuation	42.80%	4.78%	47.58%
4. Change due to:			
a. Change in assumptions	14.51%	2.17%	16.68%
b. Investment experience	(0.83%)	0.10%	(0.73%)
c. State of Alaska appropriation	(0.60%)	(0.21%)	(0.81%)
d. Demographic experience, medical experience and new entrants ¹	<u>7.08%</u>	<u>(0.32%)</u>	<u>6.76%</u>
e. Total	20.16%	1.74%	21.90%
5. Total employer contribution rate this year [3 + 4e]	62.96%	6.52%	69.48%

¹ Includes changes in healthcare assumptions.

Section 1

This section sets forth the results of the actuarial valuation.

- Section 1.1 Shows the asset information for FY09 and FY10.
- Section 1.2 Shows the actuarial present values as of June 30, 2010.
- Section 1.3 Calculates the actuarial gain or loss for FY10.
- Section 1.4 Develops the total contribution rate.
- Section 1.5 Schedule of past service cost amortizations.

Section 1 (continued)**1.1(a) Statement of Changes in Net Assets as of June 30, 2009**

Fiscal Year 2009	Pension	Healthcare	Total Market Value
(1) Net Assets, June 30, 2008 (market value)	\$ 116,209,622	\$ 17,602,098	\$ 133,811,720
(2) Additions:			
(a) Member Contributions	\$ 594,674	\$ 15,138 ¹	\$ 609,812
(b) Employer Contributions	4,937,406	1,411,259	6,348,665
(c) State of Alaska Appropriation	727,183	61,754	788,937
(d) Interest and Dividend Income	3,576,220	346,157	3,922,377
(e) Net Appreciation (Depreciation) in Fair Value of Investments	(27,851,745)	(3,250,718)	(31,102,463)
(f) Medicare Part D Subsidy	0	28,166	28,166
(g) Other	0	0	0
(h) Total Additions	\$ (18,016,262)	\$ (1,388,244)	\$ (19,404,506)
(3) Deductions:			
(a) Medical Benefits	\$ 0	\$ 762,460	\$ 762,460
(b) Retirement Benefits	7,375,193	0	7,375,193
(c) Investment Expenses	172,261	56	172,317
(d) Administrative Expenses	70,057	49,173	119,230
(e) Total Deductions	\$ 7,617,511	\$ 811,689	\$ 8,429,200
(4) Net Assets, June 30, 2009 (market value)	\$ 90,575,849	\$ 15,402,165	\$ 105,978,014

Approximate Market Value Investment Return Rate

During FY09 Net of All Expenses

(20.6)%

Allocation of assets between pension and postemployment healthcare was reported to us by the Division of Retirement and Benefits.

¹ These contributions are premiums paid by retirees who are not eligible for system-paid medical benefits.

Section 1 (continued)

1.1(b) Statement of Net Assets as of June 30, 2009

As of June 30, 2009	Pension	Healthcare	Total Market Value
Cash and Cash Equivalents	\$ 558,447	\$ 393,743	\$ 952,190
Domestic Equity Pool	28,479,813	5,139,627	33,619,440
Domestic Fixed Income Pool	0	0	0
International Equity Pool	17,354,592	2,834,507	20,189,099
Real Estate Pool	12,755,729	974,052	13,729,781
International Fixed Income Pool	1,391,941	271,947	1,663,888
Private Equity Pool	6,113,583	575,716	6,689,299
Treasury Inflation Protection Pool	731,714	259,692	991,406
Retirement Fixed Income Pool	11,609,383	2,459,423	14,068,806
Emerging Markets Equity Pool	2,889,737	606,575	3,496,312
High Yield Pool	2,030,825	388,415	2,419,240
Absolute Return Pool	3,857,812	986,634	4,844,446
Emerging Debt Pool	701,835	137,263	839,098
Other Investments Pool	1,198,946	285,626	1,484,572
Total Cash and Investments	\$ 89,674,357	\$ 15,313,220	\$ 104,987,577
Net Receivables	174,309	18,692	193,001
Receivable Contribution	727,183	61,754	788,937
Other Assets	0	8,499	8,499
Total Assets	\$ 90,575,849	\$ 15,402,165	\$ 105,978,014

Section 1 (continued)

1.1(c) Statement of Changes in Net Assets as of June 30, 2010

Fiscal Year 2010	Pension	Healthcare	Total Market Value
(1) Net Assets, June 30, 2009 (market value)	\$ 90,575,849	\$ 15,402,165	\$ 105,978,014
(2) Additions:			
(a) Member Contributions	\$ 636,381	\$ 16,200 ¹	\$ 652,581
(b) Employer Contributions	2,509,628	467,159	2,976,787
(c) State of Alaska Appropriation	1,144,424	405,576	1,550,000
(d) Interest and Dividend Income	1,748,159	306,203	2,054,362
(e) Net Appreciation (Depreciation) in Fair Value of Investments	7,798,530	1,406,350	9,204,880
(f) Medicare Part D Subsidy	0	35,544	35,544
(g) Other	<u>2</u>	<u>0</u>	<u>2</u>
(h) Total Additions	\$ 13,837,124	\$ 2,637,032	\$ 16,474,156
(3) Deductions:			
(a) Medical Benefits	\$ 0	\$ 1,031,333	\$ 1,031,333
(b) Retirement Benefits	8,314,505	0	8,314,505
(c) Investment Expenses	217,821	51	217,872
(d) Administrative Expenses	<u>47,125</u>	<u>24,400</u>	<u>71,525</u>
(e) Total Deductions	\$ 8,579,451	\$ 1,055,784	\$ 9,635,235
(4) Net Assets, June 30, 2010 (market value)	\$ 95,833,522	\$ 16,983,413	\$ 112,816,935

Approximate Market Value Investment Return Rate
During FY10 Net of All Expenses

10.6%

Allocation of assets between pension and postemployment healthcare was reported to us by the Division of Retirement and Benefits.

¹ These contributions are premiums paid by retirees who are not eligible for system-paid medical benefits.

Section 1 (continued)

1.1(d) Statement of Net Assets as of June 30, 2010

As of June 30, 2010	Pension	Healthcare	Total Market Value
Cash and Cash Equivalents	\$ 1,310,564	\$ 170,462	\$ 1,481,026
Domestic Equity Pool	27,456,308	4,877,662	32,333,970
Domestic Fixed Income Pool	4,935,321	764,518	5,699,839
International Equity Pool	14,565,437	2,540,157	17,105,594
Real Estate Pool	8,381,097	1,488,333	9,869,430
International Fixed Income Pool	1,442,991	246,269	1,689,260
Private Equity Pool	9,274,772	1,611,587	10,886,359
Treasury Inflation Protection Pool	537,129	105,067	642,196
Retirement Fixed Income Pool	8,565,503	1,881,408	10,446,911
Emerging Markets Equity Pool	5,456,905	1,014,379	6,471,284
High Yield Pool	2,356,885	405,054	2,761,939
Absolute Return Pool	4,808,496	838,267	5,646,763
Emerging Debt Pool	730,086	126,705	856,791
Other Investments Pool	<u>5,236,527</u>	<u>909,253</u>	<u>6,145,780</u>
Total Cash and Investments	\$ 95,058,021	\$ 16,979,121	\$ 112,037,142
Net Receivables	48,304	(65,961)	(17,657)
Receivable Contribution	727,183	61,754	788,937
Other Assets	<u>14</u>	<u>8,499</u>	<u>8,513</u>
Total Assets	\$ 95,833,522	\$ 16,983,413	\$ 112,816,935

Section 1 (continued)

1.1(e) Actuarial Value of Assets

The actuarial value of assets was set equal to the market value at June 30, 2002. Future investment gains and losses will be recognized 20% per year over 5 years. In no event may valuation assets be less than 80% or more than 120% of market value as of the current valuation date.

In Thousands	Pension	Healthcare	Total
(1) Deferral of Investment Return for FY10			
(a) Market Value, June 30, 2009 ¹	\$ 90,575,849	\$ 15,402,165	\$ 105,978,014
(b) Contributions for FY10	4,290,433	888,935	5,179,368
(c) Medicare Part D Subsidy	0	35,544	35,544
(d) Benefit Payments for FY10	8,314,505	1,031,333	9,345,838
(e) Actual Investment Return (<i>net of expenses</i>)	9,281,745	1,688,102	10,969,847
(f) Expected Return Rate (<i>net of expenses</i>)	8.25%	8.25%	8.25%
(g) Expected Return - Weighted for Timing ²	7,249,811	1,261,264	8,511,075
(h) Investment Gain/(Loss) for the Year (<i>e. - g.</i>)	2,031,934	426,838	2,458,772
(i) Deferred Investment Return	(22,863,850)	(2,710,556)	(25,574,406)
(2) Actuarial Value, June 30, 2010			
(a) Market Value, June 30, 2010	\$ 95,833,522	\$ 16,983,413	\$ 112,816,935
(b) 2010 Deferred Investment Return/(Loss)	(22,863,850)	(2,710,556)	(25,574,406)
(c) Preliminary Actuarial Value, June 30, 2010 (<i>a. - b.</i>)	118,697,372	19,693,969	138,391,341
(d) Upper Limit: 120% of Market Value, June 30, 2010	115,000,226	20,380,095	N/A
(e) Lower Limit: 80% of Market Value, June 30, 2010	76,666,818	13,586,731	N/A
(f) Actuarial Value, June 30, 2010 (<i>c. limited by d. and e.</i>)	\$ 115,000,226	\$ 19,693,969	\$ 134,694,195
(g) Ratio of Actuarial Value of Assets to Market Value of Assets	120.0%	116.0%	119.4%
(h) Approximate Actuarial Value Investment Return Rate During FY10 Net of All Expenses	9.0%	6.8%	8.7%

¹ Includes State of Alaska appropriation of \$788,937 as a receivable as of June 30, 2009.

² State of Alaska appropriation of \$788,937 is excluded from expected return.

1.1(e) Actuarial Value of Assets (continued)

The tables below show the development of gain/(loss) to be recognized in the current year.

Plan Year Ended	Asset Gain/(Loss)	Pension		
		Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2007 ¹	\$ 7,344,765	\$ 4,406,859	\$ 1,468,953	\$ 1,468,953
6/30/2008	(13,849,954)	(5,539,982)	(2,769,991)	(5,539,981)
6/30/2009	(34,030,615)	(6,806,123)	(6,806,123)	(20,418,369)
6/30/2010	2,031,934	0	406,387	1,625,547
Total	\$ (38,503,870)	\$ (7,939,246)	\$ (7,700,774)	\$ (22,863,850)

Plan Year Ended	Asset Gain/(Loss)	Healthcare		
		Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2007 ¹	\$ 338,252	\$ 202,950	\$ 67,651	\$ 67,651
6/30/2008	(1,192,229)	(476,892)	(238,446)	(476,891)
6/30/2009	(4,404,642)	(880,928)	(880,928)	(2,642,786)
6/30/2010	426,838	0	85,368	341,470
Total	\$ (4,831,781)	\$ (1,154,870)	\$ (966,355)	\$ (2,710,556)

Plan Year Ended	Asset Gain/(Loss)	Total		
		Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2007	\$ 7,683,017	\$ 4,609,809	\$ 1,536,604	\$ 1,536,604
6/30/2008	(15,042,183)	(6,016,874)	(3,008,437)	(6,016,872)
6/30/2009	(38,435,257)	(7,687,051)	(7,687,051)	(23,061,155)
6/30/2010	2,458,772	0	491,755	1,967,017
Total	\$ (43,335,651)	\$ (9,094,116)	\$ (8,667,129)	\$ (25,574,406)

¹ The pension and healthcare assets bases were allocated using a ratio of market value of assets as of June 30, 2007.

Section 1 (continued)

1.2 Breakdown of Accrued Liability and Normal Cost

At June 30, 2010	Normal Cost	Accrued Liability	Present Value of Benefits
Active Members			
Retirement Benefits	\$ 4,442,128	\$ 45,117,015	\$ 76,932,154
Disability Benefits	14,661	(29,823)	82,917
Death Benefits	102,870	558,352	1,273,391
Termination Benefits ¹	325,590	(965,498)	1,506,503
Medical and Prescription Drug Benefits	724,703	6,243,388	10,750,354
Medicare Part D Subsidy	<u>(63,112)</u>	<u>(569,881)</u>	<u>(955,980)</u>
Subtotal	\$ 5,546,840	\$ 50,353,553	\$ 89,589,339
Benefit Recipients			
Retiree Benefits		\$ 104,261,214	\$ 104,261,214
Survivor Benefits		10,388,905	10,388,905
Disability Benefits		0	0
Medical and Prescription Drug Benefits		15,175,978	15,175,978
Medicare Part D Subsidy		<u>(1,412,354)</u>	<u>(1,412,354)</u>
Subtotal		\$ 128,413,743	\$ 128,413,743
Vested Terminations			
Deferred Retirement Benefits		\$ 5,193,610	\$ 5,193,610
Medical and Prescription Drug Benefits		927,029	927,029
Medicare Part D Subsidy		<u>(59,829)</u>	<u>(59,829)</u>
Subtotal		\$ 6,060,810	\$ 6,060,810
Non-Vested Terminations			
		\$ 0	\$ 0
Total	\$ 5,546,840	\$ 184,828,106	\$ 224,063,892
Total Pension	\$ 4,885,249	\$ 164,523,775	\$ 199,638,694
Total Healthcare, Net of Part D Subsidy	\$ 661,591	\$ 20,304,331	\$ 24,425,198

¹ Includes return of contributions.

Section 1 (continued)

1.3 Development of Actuarial Gain/(Loss) for FY10

Liability Gain/(Loss)	Pension	Healthcare	Total
(1) Accrued Liability, June 30, 2009	\$ 137,586,315	\$ 19,093,191	\$ 156,679,506
(2) Normal Cost for FY10	3,736,779	462,781	4,199,560
(3) Interest on (1) and (2) at 8.25%	11,659,155	1,613,368	13,272,523
(4) Benefit Payments for FY10	8,314,505	1,031,333	9,345,838
(5) Refund of Contributions for FY10	0	0	0
(6) Interest on (4) and (5) at 8.25% for one-half year	336,177	41,699	377,876
(7) Change in Assumptions	<u>13,976,981</u>	<u>2,006,196</u>	<u>15,983,177</u>
(8) Expected Accrued Liability, June 30, 2010 (1) + (2) + (3) - (4) - (5) - (6) + (7)	\$ 158,308,548	\$ 22,102,504	\$ 180,411,052
(9) Accrued Liability, June 30, 2010	<u>164,523,775</u>	<u>20,304,331</u>	<u>184,828,106</u>
(10) Liability Gain/(Loss) (8) - (9)	\$ (6,215,227)	\$ 1,798,173	\$ (4,417,054)
Asset Gain/(Loss)			
(11) Valuation Assets, June 30, 2009	\$ 108,691,018	\$ 18,482,598	\$ 127,173,616
(12) Interest on (11) at 8.25% ¹	8,907,016	1,519,720	10,426,736
(13) Member Contributions for FY10	636,381	16,200 ²	652,581
(14) Employer Contributions for FY10	2,509,628	467,159	2,976,787
(15) State of Alaska Appropriation Relief	1,144,424	405,576	1,550,000
(16) Medicare Part D Subsidy	0	35,544	35,544
(17) Interest on (13), (14), (15) and (16) at 8.25% for one-half year	173,473	37,379	210,852
(18) Benefit Payments for FY10	8,314,505	1,031,333	9,345,838
(19) Refund of Contributions for FY10	0	0	0
(20) Interest on (19) and (20) at 8.25% for one-half year	<u>336,177</u>	<u>41,699</u>	<u>377,876</u>
(21) Expected Valuation Assets, June 30, 2010 (11) + (12) + (13) + (14) + (15) + (16) + (17) - (18) - (19) - (20)	\$ 113,411,258	\$ 19,891,144	\$ 133,302,402
(22) Valuation Assets, June 30, 2010	<u>115,000,226</u>	<u>19,693,969</u>	<u>134,694,195</u>
(23) Asset Gain/(Loss) (22) - (21)	\$ 1,588,968	\$ (197,175)	\$ 1,391,793
Total Gain/(Loss)			
(24) Actuarial Gain/(Loss) (10) + (23)	\$ (4,626,259)	\$ 1,600,998	\$ (3,025,261)
(25) Effect of Delay on Contributions and State Appropriations	\$ (1,848,521)	\$ 329,658	\$ (1,518,863)
(26) Total Gain/(Loss) to be Amortized (24) + (25)	\$ (6,474,780)	\$ 1,930,656	\$ (4,544,124)

¹ State of Alaska appropriation of \$788,937 does not receive interest.

² These contributions are premiums paid by retirees who are not eligible for system paid medical benefits.

Section 1 (continued)

1.4 Calculation of Total Contribution Rate for FY13

Normal Cost	Pension	Healthcare	Total
(1) Total Normal Cost	\$ 4,885,249	\$ 661,591	\$ 5,546,840
(2) Total Base Salaries for Upcoming Fiscal Year	\$ 12,082,560	\$ 12,082,560	\$ 12,082,560
(3) Total Normal Cost Rate, (1) / (2)	40.43%	5.48%	45.91%
(4) Average Member Contribution Rate	<u>5.61%</u>	<u>0.00%</u>	<u>5.61%</u>
(5) Employer Normal Cost Rate, (3) - (4)	34.82%	5.48%	40.30%
Past Service Rate	Pension	Healthcare	Total
(1) Accrued Liability	\$164,523,775	\$ 20,304,331	\$ 184,828,106
(2) Valuation Assets	<u>115,000,226</u>	<u>19,693,969</u>	<u>134,694,195</u>
(3) Total Unfunded Liability, (1) - (2)	\$ 49,523,549	\$ 610,362	\$ 50,133,911
(4) Funded Ratio, (2) / (1)	69.9%	97.0%	72.9%
(5) Past Service Cost Amortization Payment (See Section 1.5)	\$ 3,399,999	\$ 125,745	\$ 3,525,744
(6) Total Base Salaries for Upcoming Fiscal Year	\$ 12,082,560	\$ 12,082,560	\$ 12,082,560
(7) Past Service Cost Rate, (5) / (6)	28.14%	1.04%	29.18%
Total Employer Contribution Rate	62.96%	6.52%	69.48%

Section 1 (continued)

1.5 Schedule of Past Service Cost Amortizations

Charge	Pension				
	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability ¹	06/30/2002	17	\$ 5,864,449	\$ 6,260,451	\$ 502,461
FY03/FY04 Loss ¹	06/30/2004	19	855,068	909,504	67,727
Loss due to revaluation of plan liabilities ¹	06/30/2005	20	9,115,451	9,638,310	694,188
FY05/FY06 Loss ¹	06/30/2006	21	18,186,558	19,070,357	1,331,616
FY07 Loss	06/30/2007	22	1,364,721	1,416,919	96,125
FY08 Gain	06/30/2008	23	(29,014,739)	(29,800,653)	(1,968,001)
FY09 Loss	06/30/2009	24	21,273,454	21,576,900	1,389,505
Change in Assumptions	06/30/2010	25	13,976,981	13,976,981	879,126
FY10 Loss	06/30/2010	25	6,474,780	6,474,780	407,252
Total				\$ 49,523,549	\$ 3,399,999

¹ The pension and healthcare split was done using a ratio of unfunded accrued liability as of June 30, 2006.

Section 1 (continued)

1.5 Schedule of Past Service Cost Amortizations

Charge	Healthcare		Balances		Beginning-of-Year Payment
	Amortization Period		Initial	Outstanding	
	Date Created	Years Left			
Initial Unfunded Liability ¹	06/30/2002	17	\$ 2,295,257	\$ 2,450,246	\$ 196,655
FY03/FY04 Loss ¹	06/30/2004	19	334,660	355,965	26,507
Loss due to revaluation of plan liabilities ¹	06/30/2005	20	3,567,649	3,772,287	271,695
FY05/FY06 Loss ¹	06/30/2006	21	7,117,943	7,463,847	521,174
FY07 Gain	06/30/2007	22	(810,073)	(841,056)	(57,058)
FY08 Change in Assumptions	06/30/2008	23	789,072	810,445	53,521
FY08 Gain	06/30/2008	23	(14,011,596)	(14,391,124)	(950,373)
FY09 Loss	06/30/2009	24	901,355	914,212	58,873
Change in Assumptions	06/30/2010	25	2,006,196	2,006,196	126,186
FY10 Gain	06/30/2010	25	(1,930,656)	(1,930,656)	(121,435)
Total				\$ 610,362	\$ 125,745

¹ The pension and healthcare split was done using a ratio of unfunded accrued liability as of June 30, 2006.

Valuation Results

Section 1 (continued)

1.5 Schedule of Past Service Cost Amortizations

Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	6/30/2002	17	\$ 8,159,706	\$ 8,710,697	\$ 699,116
FY03/FY04 Loss	6/30/2004	19	1,189,728	1,265,469	94,234
Loss due to revaluation of plan liabilities	06/30/2005	20	12,683,100	13,410,597	965,883
FY05/FY06 Loss	06/30/2006	21	25,304,501	26,534,204	1,852,790
FY07 Loss	06/30/2007	22	554,648	575,863	39,067
FY08 Change in Assumptions	06/30/2008	23	789,072	810,445	53,521
FY08 Gain	06/30/2008	23	(43,026,335)	(44,191,777)	(2,918,374)
FY09 Loss	06/30/2009	24	22,174,809	22,491,112	1,448,378
Change in Assumptions	06/30/2010	25	15,983,177	15,983,177	1,005,312
FY10 Loss	06/30/2010	25	4,544,124	4,544,124	285,817
Total				\$ 50,133,911	\$ 3,525,744

Section 2

Information Required by GASB Nos. 25 and 43

This section contains supplementary information on retirement benefits that is required to be disclosed in financial statements to comply with Statements No. 25 and 43 of the Governmental Accounting Standards Board (GASB Nos. 25 and 43). GASB No. 43 first applies for the June 30, 2006 disclosure.

- Section 2.1 Shows the Schedule of Employer Contributions.
- Section 2.2 Shows the Schedule of Funding Progress.
- Section 2.3 Shows the Actuarial Assumptions, Methods and Additional Information Under GASB

Section 2 (continued)**2.1 Schedule of Employer Contributions**

Prior to adoption of GASB Statement No. 25 and 26 in 1997, an ARC was not determined pursuant to the parameters of the statements. Therefore, history prior to 1997 has not been shown. The exhibit below shows the combined annual required contribution for fiscal years ending in 2004 and before.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 1998	\$ 2,204,026	100.0%
June 30, 2000	1,510,516	100.0%
June 30, 2002	1,005,968	100.0%
June 30, 2004	1,786,835	100.0%

The following shows pension disclosure under GASB No. 25 for fiscal year ending 2006 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2006	\$ 2,133,876	115.6%
June 30, 2007	\$ 3,168,943	100.0%
June 30, 2008	\$ 3,898,001	1,045.0%
June 30, 2009	\$ 4,937,406	100.0%
June 30, 2010	\$ 5,236,646	69.8%

The following shows healthcare disclosure without regard to Medicare Part D subsidy under GASB No. 43 for fiscal year ending 2006 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2006	\$ 262,631	115.6%
June 30, 2007	\$ 486,800	100.0%
June 30, 2008	\$ 567,415	2,489.4%
June 30, 2009	\$ 1,411,259	100.0%
June 30, 2010	\$ 1,432,721	60.9%

Section 2 (continued)

2.2 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1998	\$ 64,689,972	\$ 61,483,386	N/A	105.2%	\$ 5,716,092	N/A
June 30, 2000	72,660,197	73,483,475	823,278	98.9%	5,701,980	14.4%
June 30, 2002	63,683,909	71,843,615	8,159,706	88.6%	5,941,860	137.3%
June 30, 2004	70,455,634	80,052,559	9,596,925	88.0%	6,529,608	147.0%

Note: Prior to adoption of GASB Statements No. 25 and 26 in 1997, information which does not meet the parameters of GASB 25 was used to determine funding requirements. Therefore, the history prior to 1997 has not been shown.

The exhibit below shows the pension disclosure under GASB No. 25.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 77,310,716	\$ 111,819,972	\$ 34,509,256	69.1%	\$ 7,130,592	484.0%
June 30, 2008	\$ 122,882,726	\$ 130,596,048	\$ 7,713,322	94.1%	\$ 10,462,322	73.7%
June 30, 2010	\$ 115,000,226	\$ 164,523,775	\$ 49,523,549	69.9%	\$ 11,845,548	418.1%

The exhibit below shows the postemployment healthcare disclosure without regard to Medicare Part D under GASB No. 43.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 2,399,387	\$ 17,794,213	\$ 15,394,826	13.5%	\$ 7,130,592	215.9%
June 30, 2008	\$ 18,352,929	\$ 19,941,128	\$ 1,588,199	92.0%	\$ 10,462,322	15.2%
June 30, 2010	\$ 19,693,969	\$ 22,346,395	\$ 2,652,426	88.1%	\$ 11,845,548	22.4%

Section 2 (continued)**2.3 Actuarial Assumptions, Methods and Additional Information Under GASB**

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Level Percentage of Pay for Pension Level Dollar for Healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	21 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return*	8.00%
Projected salary increases	4.12%
*Includes inflation at	3.12%
Cost-of-living adjustment ¹	4.12%

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.

The State of Alaska Judicial Retirement System's retiree health care benefits are being fully funded. Therefore, the 8.00% discount rate used for GASB 25 reporting is also applied herein for GASB 43 reporting.

Based on GASB accounting rules, the retiree drug subsidy the State of Alaska receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Using the GASB 43 discount rate determined above and disregarding future Medicare Part D payments, the fiscal 2013 employer ARC for accounting purposes is 8.10% of pay for healthcare benefits and 71.06% of pay for healthcare and pension benefits combined.

¹ Retirement benefits are recalculated when the salary for the office held by the member at the time of retirement changes.

Section 3

Basis of the Valuation

In this section, the basis of the valuation is presented and described. This information – the provisions of the System and the census of members – is the foundation of the valuation, since these are the present facts upon which benefit payments will depend.

A summary of the System’s provisions is provided in Section 3.1 and member census information is shown in Section 3.2 to Section 3.4.

The valuation is based upon the premise that the System will continue in existence, so that future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the fund; the number of members who will retire, die or terminate their services; their ages at such termination and their expected benefits.

The actuarial assumptions and the actuarial cost method, or funding method, which have been adopted to guide the sponsor in funding the System in a reasonable and acceptable manner, are described in Section 3.5.

Section 3 (continued)

3.1 Summary of Plan Provisions

(1) *Effective Date*

May 4, 1963, with amendments through June 30, 2010.

(2) *Administration of Plan*

The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska Retirement Management Board is responsible for managing and investing the fund (Ch 5, SLA 2005).

(3) *Members Included*

JRS membership is mandatory for all Supreme Court justices and Superior, District and Appellate Court judges. The administrative director of the Court System may elect to participate in either the JRS or the Public Employees' Retirement System (PERS).

(4) *Credited Service*

Members receive credit for each day of JRS employment. Earlier service as a magistrate or deputy magistrate before July 1, 1967 is covered under the JRS. JRS members become vested in the plan after reaching 5 years of credited service.

(5) *Member Contributions*

Members hired after July 1, 1978, are required to contribute 7% of their base annual salaries. Contributions are required for a maximum of 15 years. Members hired before July 1, 1978 are not required to contribute.

Interest Credited: 4.5% compounded semiannually on June 30 and December 31.

Refund of Contributions: Nonvested members may receive a refund of their contributions and interest earned if they terminate employment. Refunded contributions, plus 7% indebtedness interest, must be repaid before appointment to retirement.

JRS contributions for terminated members may be attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levies. Contributions that are attached to satisfy claims or tax levies may be reinstated at any time. The member is not required to return to JRS employment.

Section 3 (continued)

3.1 Summary of Plan Provisions

(6) Retirement Eligibility and Benefits

Normal Retirement: Members are eligible for normal retirement at age 60 if they have at least five years of JRS service. Terminated, vested members may defer retirement and begin receiving normal retirement benefits when they reach age 60. Vesting is completion of at least five years of JRS service.

Early Retirement: Members are eligible for early retirement at any age if they have at least 20 years of service. Terminated, vested members may defer retirement and begin receiving early retirement benefits when they reach age 55. Under early retirement, members receive reduced benefits equal to the actuarial equivalent of their normal retirement benefits. Early benefits are based on the member's service and early retirement date.

Type of Benefit: Lifetime monthly benefits are paid to the member. Upon the member's death, a survivor's benefit (below) may be payable if the member has an eligible spouse or dependent children.

Computation of Normal Retirement Benefit: 5% of authorized monthly base salary for each year of JRS service up to a maximum of 15 years. JRS retirement benefit payments are recalculated when the salary for the office held by the member at the time of retirement changes. The maximum JRS benefit payable to a member is 75% of the authorized salary.

(7) Survivor's Benefits

Survivor's benefits are payable to the spouse of a member if they have been married for at least one year immediately preceding the member's death and the member has at least two years of JRS service. The monthly survivor's benefit is equal to the greater of:

- (a) one-half of the monthly benefit that the member would have received if retired at the time of death; or
- (b) 30% of the authorized monthly base salary if the member was not eligible to retire, or was entitled to less than 60% of the authorized monthly base salary.

If there is no eligible surviving spouse, the member's dependent children receive, in equal shares, 50% of the benefit under (a) or (b) until age 19 or 23 and attending an accredited educational or technical institution on a full-time basis.

When there is both an eligible surviving spouse and dependent children residing in separate households, the spouse and children share equally the benefit under (a) or (b) while the children are under 19 or 23 and attending an accredited educational or technical institution on a full-time basis.

When there is no surviving spouse or dependent children, the members' contribution account balance, including interest earned, will be paid to the designated beneficiary.

Section 3 (continued)**3.1 Summary of Plan Provisions*****(8) Disability Benefits***

Members are eligible to receive monthly disability benefits at any age if they become incapacitated and they have at least two years of JRS service. Disability benefits are calculated the same as normal retirement benefits.

(9) Medical Benefits

Medical benefits are provided at no cost to JRS members, their spouses and dependents while monthly retirement, disability and survivor benefits are being paid.

Changes Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation.

Section 3 (continued)**3.2 Changes in System Participation from June 30, 2008 to June 30, 2010**

	Active Members	Vested Members	Nonvested Members	Benefit Recipients	Total
Total at June 30, 2008	73	5	1	90	169
New Entrants	10	0	0	0	10
Rehires	2	(1)	0	(1)	0
Nonvested Terminations	0	0	0	0	0
Refund of Contributions	0	0	(1)	0	(1)
Vested Terminations	(1)	1	0	0	0
Retirements	(12)	(1)	0	13	0
New Survivors	0	0	0	0	0
New QDROs	0	0	0	0	0
Deaths	0	0	0	(3)	(3)
Total at June 30, 2010	72	4	0	99	175

Section 3 (continued)**3.3 Member Census Information**

As of June 30	2002	2004	2006	2008	2010
Active Members					
1. Number	56	62	66	73	72
2. Average Age	52.88	54.19	54.70	55.64	56.58
3. Average Service	10.85	10.68	10.45	10.20	9.20
4. Average Entry Age	42.03	43.51	44.25	45.44	47.38
5. Average Annual Base Pay	\$ 106,105	\$ 105,316	\$ 146,458	\$ 159,617	\$ 167,813
6. Number Vested	N/A	44	41	46	45
Vested Terminated Members					
1. Number	11	11	7	5	4
2. Average Age	54.97	54.94	55.88	54.81	57.53
3. Average Service	9.65	10.08	12.22	7.67	10.99
4. Average Monthly Benefit	\$ 3,879	\$ 3,911	\$ 6,653	\$ 4,743	\$ 6,823
Non-Vested Terminated Members					
1. Number	0	0	0	1	0
2. Average Age	0	0	0	56.95	0
3. Average Service	0	0	0	1.5	0
4. Average Account Balance	\$ 0	\$ 0	\$ 0	\$ 12,191	\$ 0
Benefit Recipients					
1. Number	71	75	86	90	99
2. Average Age	69.91	70.35	70.16	70.92	71.42
3. Average Monthly Benefit	\$ 4,354	\$ 4,255	\$ 6,029	\$ 6,765	\$ 7,484

Section 3 (continued)

3.4 Distributions of Active Members

Annual Earnings By Age

Age Groups	Number	Total Earnings	Average Earnings
0-19	0	\$ 0	\$ 0
20-24	0	0	0
25-29	0	0	0
30-34	0	0	0
35-39	0	0	0
40-44	4	579,888	144,972
45-49	6	987,780	164,630
50-54	17	2,724,564	160,268
55-59	24	4,070,928	169,622
60-64	17	2,794,764	164,398
65-69	4	687,624	171,906
70-74	0	0	0
75-79	0	0	0
80 +	0	0	0

Annual Earnings By Service

Years of Service	Number	Total Earnings	Average Earnings
0	6	\$ 947,844	\$ 157,974
1	4	631,896	157,974
2	7	1,184,760	169,251
3	6	999,852	166,642
4	4	657,900	164,475
0-4	27	4,422,252	163,787
5-9	23	3,752,280	163,143
10-14	8	1,319,520	164,940
15-19	6	977,568	162,928
20-24	2	355,884	177,942
25-29	6	1,018,044	169,674
30-34	0	0	0
35-39	0	0	0
40 +	0	0	0

Total 72 \$11,845,548 \$ 164,522

Total 72 \$11,845,548 \$ 164,522

Years of Service By Age

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
0-19	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0
35-39	0	0	0	0	0	0	0	0	0	0
40-44	1	3	0	0	0	0	0	0	0	4
45-49	4	1	1	0	0	0	0	0	0	6
50-54	7	9	0	1	0	0	0	0	0	17
55-59	9	5	5	3	1	1	0	0	0	24
60-64	6	4	1	2	1	3	0	0	0	17
65-69	0	1	1	0	0	2	0	0	0	4
70-74	0	0	0	0	0	0	0	0	0	0
75+	0	0	0	0	0	0	0	0	0	0
	27	23	8	6	2	6	0	0	0	72

Total annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

Section 3 (continued)

3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods

Actuarial Method – Entry Age Actuarial Cost.

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

Projected pension and preretirement spouse's death benefits were determined for all active members. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for pension benefits (constant dollar amount for healthcare benefits), from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Valuation of Assets

Effective June 30, 2006, the asset valuation method 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. Assets are initialized at market value as of June 30, 2006. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

Section 3 (continued)

3.5 Actuarial Basis

Valuation of Medical and Prescription Drug Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Judges' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our annual experience rate update for the period July 1, 2010 to June 30, 2011.

Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for 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, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

We analyzed Wells Fargo Insurance Services (WFIS) and Premera management level reporting for fiscal 2007 through fiscal 2010, as well as WFIS and Premera claim level data for the same period and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.
2. Available management level reporting does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups. Claim level reporting and the State's approved RDS listing from Medicare were used to augment cost data by Medicare status.
3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these "no-Part A" individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claim experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The larger the no-Part A population, the more accrued liabilities will decrease.

Based on census data received from WFIS, 0.6% of the current retiree population, for all plans, was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire, date of birth, tier, etc.

All claims cost rates developed from management level reporting have been compared to similar rates developed from claim level data.

Section 3 (continued)

3.5 Actuarial Basis

4. The steps above result in separate paid claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four fiscal years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We converted paid claim data to incurred cost rates projected from each historical data period to the valuation year using a weighted average of national and Alaska-specific trend factors and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is approximately 2.4 months for medical claims and 0.15 months for prescription claims.
5. Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.
 - Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.
 - The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosures, Buck estimated the year in which the tax would potentially affect Alaska to be 2047, and with a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

Section 3 (continued)
3.5 Actuarial Basis

June 30, 2010 Valuation – FY 2011 Claims Cost Rates

	Medical			Prescription Drugs			Total
	Pre-Medicare	Medicare A&B	Medicare B Only	Pre-Medicare	Medicare A&B	Medicare B Only	
Fiscal 2007 Paid Claims	\$ 129,762,975	\$ 22,677,328	\$ 3,524,812	\$ 46,176,199	\$ 42,348,638	\$ 2,391,089	\$ 246,881,041
Membership	33,446	20,315	1,069	33,446	20,315	1,069	54,830
Paid Claims Cost Rate	\$ 3,880	\$ 1,116	\$ 3,297	\$ 1,381	\$ 2,085	\$ 2,236	\$ 4,503
Trend to FY2011	1.512	1.512	1.512	1.467	1.467	1.467	
FY 2011 Paid Cost Rate	\$ 5,866	\$ 1,688	\$ 4,984	\$ 2,026	\$ 3,059	\$ 3,282	\$ 6,734
Paid to Incurred Factor*	1.022	1.022	1.022	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$ 5,995	\$ 1,725	\$ 5,094	\$ 2,028	\$ 3,062	\$ 3,285	\$ 6,830
Fiscal 2008 Paid Claims	\$ 169,598,064	\$ 28,657,490	\$ 6,079,463	\$ 53,506,123	\$ 52,529,773	\$ 2,346,512	\$ 312,717,425
Membership	33,630	21,434	893	33,630	21,434	893	55,957
Paid Claims Cost Rate	\$ 5,043	\$ 1,337	\$ 6,807	\$ 1,591	\$ 2,451	\$ 2,627	\$ 5,589
Trend to FY2011	1.358	1.358	1.358	1.316	1.316	1.316	
FY 2011 Paid Cost Rate	\$ 6,847	\$ 1,815	\$ 9,243	\$ 2,094	\$ 3,226	\$ 3,459	\$ 7,508
Paid to Incurred Factor*	1.022	1.022	1.022	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$ 6,998	\$ 1,855	\$ 9,446	\$ 2,096	\$ 3,229	\$ 3,462	\$ 7,618
Fiscal 2009 Paid Claims	\$ 185,275,626	\$ 39,286,392	\$ 3,949,927	\$ 61,062,842	\$ 60,195,838	\$ 1,412,907	\$ 351,183,532
Membership	32,943	24,624	539	32,943	24,624	539	58,106
Paid Claims Cost Rate	\$ 5,624	\$ 1,595	\$ 7,327	\$ 1,854	\$ 2,445	\$ 2,621	\$ 6,044
Trend to FY2011	1.221	1.221	1.221	1.184	1.184	1.184	
FY 2011 Paid Cost Rate	\$ 6,866	\$ 1,948	\$ 8,944	\$ 2,194	\$ 2,893	\$ 3,102	\$ 7,300
Paid to Incurred Factor*	1.022	1.022	1.022	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$ 7,017	\$ 1,991	\$ 9,141	\$ 2,196	\$ 2,896	\$ 3,105	\$ 7,407

* As data specific to Medicare and Pre-Medicare retirees is provided, lag factors specific to Medicare status will be reflected.

Section 3 (continued)
3.5 Actuarial Basis

June 30, 2010 Valuation – FY 2011 Claims Cost Rates

	Medical			Prescription Drugs			Total
	Pre-Medicare	Medicare A&B	Medicare B Only	Pre-Medicare	Medicare A&B	Medicare B Only	
Fiscal 2010 Paid Claims	\$ 199,739,865	\$ 51,373,725	\$ 1,215,832	\$ 62,310,224	\$ 73,005,066	\$ 414,101	\$ 388,058,813
Membership	32,026	27,915	156	32,026	27,915	156	60,097
Paid Claims Cost Rate	\$ 6,237	\$ 1,840	\$ 7,794	\$ 1,946	\$ 2,615	\$ 2,654	\$ 6,457
Trend to FY2011	1.130	1.130	1.130	1.096	1.096	1.096	
FY 2011 Paid Cost Rate	\$ 7,050	\$ 2,080	\$ 8,810	\$ 2,132	\$ 2,866	\$ 2,909	\$ 7,221
Paid to Incurred Factor*	1.022	1.022	1.022	1.001	1.001	1.001	
FY 2011 Incurred Cost Rate	\$ 7,205	\$ 2,126	\$ 9,003	\$ 2,134	\$ 2,869	\$ 2,912	\$ 7,327
Weighted Average 7/1/2010-6/30/2011 Incurred Claims Cost Rates:							
At average age	\$ 6,967	\$ 1,978	\$ 8,756	\$ 2,141	\$ 2,971	\$ 3,136	\$ 7,427
At age 65*	\$ 8,606	\$ 1,563	\$ 6,654	\$ 2,600	\$ 2,600	\$ 2,600	\$ 7,924

* As data specific to Medicare and Pre-Medicare retirees is provided, lag factors specific to Medicare status will be reflected.

Section 3 (continued)**3.5 Actuarial Basis**

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.

Below are the results of this analysis:

**Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2010 through June 30, 2011**

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug	Medicare Retiree Drug Subsidy
45	\$ 4,766	\$ 4,766	\$ 1,372	\$ 0
50	5,392	5,392	1,629	0
55	6,101	6,101	1,935	0
60	7,246	7,246	2,243	0
65	1,563	6,654	2,600	515
70	1,902	8,096	2,801	555
75	2,258	9,613	2,988	592
80	2,433	10,356	3,063	607

Changes in Methods Since the Prior Valuation

There were no changes in methods from the prior valuation, except for any described in the healthcare sections above.

Summary of Actuarial Assumptions and Methods

Investment Return	8.00% per year, compound annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.
Pre-termination Mortality	45% of the male rates and 55% of the female rates of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA. (See Table 1.)
Post-termination Mortality	1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA. Setback 1 year for females and 3 years for males. (See Table 2.)
Salary Scale	4.12% per year, compounded annually.
Total Payroll Growth	3.62% per year.

Section 3 (continued)
3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods (continued)

Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.		
Cost-of-Living Adjustment	4.12% per year. Retirement benefits are recalculated when the salary for the office held by the member at the time of retirement changes.		
401(a)(17) Maximum Compensation Increase	3.12% per year.		
415(b) Maximum Benefit Increase	3.12% per year.		
Per Capita Claims Cost	Sample claims cost rates adjusted to age 65 for FY11 medical and prescription are shown below:		
		Medical	Prescription Drugs
	Pre-Medicare	\$8,606	\$2,600
	Medicare Parts A & B	\$1,563	\$2,600
	Medicare Part B Only	\$6,654	\$2,600
	Medicare Part D	N/A	\$515

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, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims costs.

	Medical	Prescription Drugs
FY11	6.9%	8.3%
FY12	6.4%	7.1%
FY13	5.9%	5.9%
FY14	5.9%	5.9%
FY15	5.9%	5.9%
FY16	5.9%	5.9%
FY17	5.9%	5.9%
FY25	5.8%	5.8%
FY50	5.7%	5.7%
FY100	5.1%	5.1%

For the June 30, 2008 valuation, the Society of Actuaries' Healthcare Cost Trend Model was adopted. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

Section 3 (continued)
3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods (continued)

Aging Factors	<u>Age</u>	<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%
	65-73	4.0%	1.5%
	74-83	1.5%	0.5%
	84+	0.5%	0.0%
Medical Participation	Because medical benefits are provided at no cost to the retiree, we have assumed 100% participation in the medical plans.		
Turnover	a. 3% if service is less than 10 years. b. 1% if service is greater than 10 years.		
Retirement	a. 3% if vested and age is less than 59. b. 10% if vested and age is greater than 59. c. 100% at age 70. Terminated vested members are expected to commence benefits at age 60.		
Disability	In accordance with Table 3. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.		
Maximum Retirement Age	Age 70		
Marital Status	90% of male and 70% of female active and inactive members are assumed to be married. Husbands are assumed to be 4 years older than their wives.		
Form of Payment	Married members are assumed to choose the 50% Joint and Survivor benefit option. Single members are assumed to choose the Modified Cash Refund Annuity.		
Contribution Refunds	0% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with non-vested benefits are assumed to have their contributions refunded.		

Section 3 (continued)
3.5 Actuarial Basis

Changes in Assumptions Since the Last Valuation

	June 30, 2008	June 30, 2010
Investment Return	8.25% per year, compounded annually, net of expenses.	8.00% per year, compounded annually, net of expenses.
Pre-termination Mortality	55% of the male rates and 60% of the female rates of the 1994 GAM Table, 1994 Base Year without margin.	45% of the male rates and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.
Post-termination Mortality	1994 GAM Table, 1994 Base Year without margin, with a 3-year setback for males and a 1-year setback for females.	1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA, with a 3-year setback for males and a 1-year setback for females.
Salary Scale	4% per year, compounded annually.	4.12% per year, compounded annually.
Total Payroll Growth	4% per year.	3.62% per year.
Total Inflation	3.5% annually.	3.12% annually.
Turnover	3% if service is greater than 15 years.	3% if service is less than 10 years and 1% if service is greater than 10 years.
Retirement	6% if vested and age is less than 65 and 10% if vested and age is greater than 65, 100% at age 70.	3% if vested and age is less than 59 and 10% if vested and age is greater than 59, 100% at age 70.
Disability Mortality	Table ranging from 5.10% for males and 4.26% for females at age 20 to 8.13% for males and 4.73% for females at age 64.	RP-2000 Disabled Retiree Mortality Table.
Marital Status	90% of active and inactive members are assumed to be married.	90% of male and 70% of female active and inactive members are assumed to be married.

Section 3 (continued)
3.5 Actuarial Basis

Table 1
Pre-Termination Mortality Rates
Annual Rates Per 1,000 Members

Age	Rate		Age	Rate	
	Male	Female		Male	Female
20	.170	.123	45	.596	.423
21	.182	.122	46	.638	.441
22	.194	.123	47	.690	.466
23	.214	.127	48	.749	.505
24	.235	.129	49	.813	.548
25	.264	.132	50	.884	.610
26	.301	.138	51	.965	.683
27	.320	.142	52	1.059	.784
28	.332	.148	53	1.181	.897
29	.343	.156	54	1.311	1.018
30	.353	.171	55	1.487	1.164
31	.361	.189	56	1.696	1.352
32	.369	.202	57	1.950	1.570
33	.373	.210	58	2.244	1.806
34	.374	.219	59	2.525	2.077
35	.374	.229	60	2.841	2.387
36	.379	.240	61	3.263	2.738
37	.392	.254	62	3.684	3.136
38	.405	.271	63	4.246	3.590
39	.423	.289	64	4.790	4.097
40	.445	.315			
41	.471	.341			
42	.500	.366			
43	.530	.389			
44	.561	.409			

Section 3 (continued)**3.5 Actuarial Basis**

Table 2
Post-Termination Mortality Rates
Annual Rates Per 1,000 Members

Age	Rate		Age	Rate	
	Male	Female		Male	Female
50	1.532	0.997	70	15.123	12.424
51	1.663	1.109	71	16.336	13.422
52	1.806	1.241	72	17.873	14.342
53	1.964	1.426	73	19.147	15.830
54	2.145	1.631	74	20.940	17.260
55	2.354	1.851	75	22.981	19.177
56	2.625	2.117	76	25.175	20.940
57	2.914	2.457	77	27.475	23.377
58	3.305	2.854	78	30.609	26.690
59	3.769	3.284	79	33.609	29.853
60	4.333	3.777	80	37.879	33.273
61	4.986	4.339	81	42.924	37.068
62	5.611	4.979	82	48.681	41.355
63	6.312	5.701	83	55.102	46.249
64	7.251	6.527	84	62.135	51.616
65	8.188	7.450	85	69.722	57.377
66	9.436	8.442			
67	10.644	9.476			
68	11.956	10.523			
69	13.618	11.499			

Section 3 (continued)
3.5 Actuarial Basis

Table 3
Disability Rates
Annual Rates Per 1,000 Members

Age	Rate	Age	Rate
20	.17	45	.41
21	.17	46	.44
22	.18	47	.48
23	.18	48	.52
24	.18	49	.56
25	.19	50	.60
26	.19	51	.65
27	.19	52	.72
28	.20	53	.80
29	.20	54	.89
30	.21	55	1.00
31	.21	56	1.15
32	.22	57	1.34
33	.22	58	1.53
34	.23	59	1.80
35	.24		
36	.25		
37	.26		
38	.27		
39	.28		
40	.29		
41	.30		
42	.32		
43	.34		
44	.37		