



**STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM**

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

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

Independent Auditors' Report

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

We have audited the accompanying statement of plan net assets of the State of Alaska Judicial Retirement System (the Plan), a component unit of the State of Alaska, as of June 30, 2013 and 2012, and the related statements of changes in plan net assets for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Judicial Retirement System as of June 30, 2013 and 2012, and the changes in plan net assets for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Schedules of Funding Progress, and Schedules of Contributions from Employers on pages 3-10 and 36-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

October 18, 2013

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM
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Management's Discussion and Analysis

June 30, 2013 and 2012

This section presents management's discussion and analysis (MD&A) of the Judicial Retirement System's (the Plan) financial condition and performance for the years ended June 30, 2013 and 2012. 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, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2013. Information for fiscal year 2012 and 2011 is presented for comparative purposes.

Financial Highlights

The plan financial highlights as of June 30, 2013 were as follows:

- The plan's net assets held in trust for pension and postemployment healthcare benefits increased by \$13.8 million during fiscal year 2013.
- The plan member and employer contributions increased by \$1.5 million during fiscal year 2013.
- State of Alaska directly appropriated totaled \$3.8 million during fiscal year 2013.
- The plan net investment income increased \$15.5 million to \$15.7 million during fiscal year 2013.
- The Plan's pension benefit expenditures totaled \$10.3 million during fiscal year 2013.
- The Plan's postemployment healthcare benefit expenditures totaled \$1.1 million in fiscal year 2013.

Overview of the Financial Statements

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

Statements of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2013 and 2012.

Statements of Changes in Plan Net Assets – This statement presents how the Plan's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2013 and 2012. This statement presents contributions, State of Alaska appropriations, and investment income 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, 2013 and 2012, and the sources and uses of those funds during fiscal years 2013 and 2012.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the Plan's financial statements.

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June 30, 2013 and 2012

Required Supplementary Information and Related Notes – The required supplementary information consists of three schedules and related notes concerning the funded status of the 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 Plan and payments to consultants (other than investment advisers) for professional services.

Condensed Financial Information

Description	Plan Net Assets		Increase (decrease)		2011
	2013	2012	Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 1,861,916	2,214,543	(352,627)	(15.9)%	1,310,561
Contributions receivable	256,591	186,208	70,383	37.8	205,229
Other receivables	7	—	7	100.0	26,552
Investments, at fair value	139,401,816	125,321,369	14,080,447	11.2	129,664,136
Other assets	9,895	9,895	—	—	8,499
Total assets	<u>141,530,225</u>	<u>127,732,015</u>	<u>13,798,210</u>	<u>10.8</u>	<u>131,214,977</u>
Liabilities:					
Accrued expenses	104,327	78,802	25,525	32.4	79,909
Claims payable	154,000	170,000	(16,000)	(9.4)	133,000
Due to State of Alaska General Fund	75,471	104,511	(29,040)	(27.8)	19,450
Total liabilities	<u>333,798</u>	<u>353,313</u>	<u>(19,515)</u>	<u>(5.5)</u>	<u>232,359</u>
Net assets	<u>\$ 141,196,427</u>	<u>127,378,702</u>	<u>13,817,725</u>	<u>10.8%</u>	<u>130,982,618</u>

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Description	Changes in Plan Net Assets				
	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Net assets, beginning of year	\$ 127,378,702	130,982,618	(3,603,916)	(2.8)%	112,027,998
Additions:					
Contributions	5,864,330	4,395,727	1,468,603	33.4	5,079,345
Appropriation – State of Alaska	3,785,571	2,331,725	1,453,846	62.4	788,937
Net investment income	15,684,712	232,449	15,452,263	6,647.6	23,083,369
Other	31,960	98,998	(67,038)	(67.7)	41,189
Total additions	<u>25,366,573</u>	<u>7,058,899</u>	<u>18,307,674</u>	<u>259.4</u>	<u>28,992,840</u>
Deductions:					
Pension and postemployment healthcare benefits	11,443,119	10,592,878	850,241	8.0	9,928,400
Administrative	105,729	69,937	35,792	51.2	109,820
Total deductions	<u>11,548,848</u>	<u>10,662,815</u>	<u>886,033</u>	<u>8.3</u>	<u>10,038,220</u>
Increase (decrease) in net assets	<u>13,817,725</u>	<u>(3,603,916)</u>	<u>17,421,641</u>	<u>483.4</u>	<u>18,954,620</u>
Net assets, end of year	<u>\$ 141,196,427</u>	<u>127,378,702</u>	<u>13,817,725</u>	<u>10.8%</u>	<u>130,982,618</u>

Financial Analysis of the Plan

The statements of plan net assets as of June 30, 2013 and 2012 show net assets held in trust for pension and postemployment healthcare benefits of \$141,196,427 and \$127,378,702, respectively. The entire balance is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries. These amounts also represent an increase of \$13,817,725 or 10.8% and a decrease of \$3,603,916 or 2.8% from fiscal years 2012 and 2011. Over the long term, plan members and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

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 Plan's constraints and objectives.

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Plan Asset Allocation

During fiscal years 2013 and 2012, the Board adopted the following asset allocations:

	2013	
	Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6 %
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed composite	14.0	± 5
Short-term fixed income	6.0	-6/+1
Total	100.0%	
Expected return five-year geometric mean	7.11%	
Projected standard deviation	14.20	
	2012	
	Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6 %
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed income	18.0	± 3
Short-term fixed income	2.0	-2/+5
Total	100.0%	
Expected return five-year median return	7.45%	
Standard deviation	13.82	

For fiscal years 2013 and 2012, the Plan's investments generated a 12.46% and a 0.47% rate of return, respectively. The Plan's annualized rate of return was 11.05% over the last three years and 4.03% over the last five years, which is less than the June 30, 2010 (the valuation that set the fiscal year 2013 rate) actuarially assumed rate of return of 8.00%.

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Actuarial Valuations and Funding Progress

The overall objective of pension and postemployment healthcare funds is to accumulate sufficient funds to meet all expected future obligations to members. The funds are funded by employer, state, and participant contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the Plan is to pay required contributions that remain level as a percent of total plan payroll. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, plan expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll over a closed 25-year period. The compensation used to determine required contributions is the total compensation of all active members in the Plan. This objective is currently being met and is projected to continue to be met.

Barring legislative changes, the employer contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased from 70.10% to 67.20% from the actuarial valuation year ended June 30, 2012 to the actuarial rollforward for June 30, 2011. The actuarial valuation as of June 30, 2012 actuarial valuation reflects an unfunded liability of \$65,216,115.

A summary of the actuarial assumptions and methods is presented in the notes to the required supplementary information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

	Valuation or rollforward year	
	2012	2011
Valuation assets	\$ 133,706,032	136,546,204
Accrued liabilities	198,922,147	194,831,317
Unfunded liability	65,216,115	58,285,113
Funding ratio	67.20%	70.10%

Contributions, Investment Income, and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan members' contributions and investment income are as follows:

	Additions				
	2013	2012	Increase (decrease)		2011
			Amount	Percentage	
Plan members contributions	\$ 721,171	710,224	10,947	1.5%	703,662
Employer contributions	5,143,159	3,685,503	1,457,656	39.6	4,375,683
Net investment income	15,684,712	232,449	15,452,263	6,647.6	23,083,369
Appropriation – State of Alaska	3,785,571	2,331,725	1,453,846	62.4	788,937
Other income	31,960	98,998	(67,038)	(67.7)	41,189
Total	\$ 25,366,573	7,058,899	18,307,674	259.4%	28,992,840

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The Plan's employer contributions increased from \$3,685,503 during fiscal year 2012 to \$5,143,159 during fiscal year 2013, an increase of \$1,457,656, or 39.6%. Employer contributions decreased from \$4,375,683 during fiscal year 2011 to \$3,685,503 during fiscal year 2012, a decrease of \$690,180, or 15.8%. The fiscal year 2013 increase was due to a change in how the Judicial Retirement System (JRS) was funded. Beginning in fiscal year 2010 the Alaska Court System, sole employer of the JRS participants, paid only the normal cost portion of the JRS employer contribution rate and the State of Alaska funded the past service cost through a direct appropriation. The normal cost rate increased from 29.79 in fiscal year 2012 to 40.30 in fiscal year 2013.

The actuarially determined contribution rate increased from 47.58% in fiscal year 2012 to 69.48% in fiscal year 2013, an increase of 21.90% of eligible compensation.

The Plan's net investment income in fiscal year 2013 increased by \$15,452,263 or 6,647.6% from amounts recorded in fiscal year 2012 and net investment income decreased by \$22,850,920 or 99.0% from amounts recorded in fiscal year 2011. Over the long term, investment income is a major component of additions to plan assets. During fiscal year 2013, the Plan experienced positive returns on investments.

The Plan's investment rate of returns at June 30 is as follows:

	Year ended		
	2013	2012	2011
System returns	12.46%	0.47%	21.25%
Domestic equities	21.23	1.68	33.34
International equities	15.02	(13.67)	28.25
Fixed income	0.56	4.86	5.56
Private equity	11.51	9.45	20.18
Absolute return	8.41	(2.05)	5.70
Real assets	10.25	10.39	14.80
Cash equivalents	0.26	0.41	0.47

Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension and postemployment healthcare benefits. These benefit payments and the cost of administering the Plan comprise the costs of operation.

	Deductions				
	2013	2012	Increase		2011
			Amount	Percentage	
Pension	\$ 10,343,220	9,666,901	676,319	7.0%	9,177,235
Postemployment healthcare	1,099,899	925,977	173,922	18.8	751,165
Administrative	105,729	69,937	35,792	51.2	109,820
Total	\$ 11,548,848	10,662,815	886,033	8.3%	10,038,220

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The Plan's pension benefit in 2013 and 2012 increased \$676,319 and \$489,666 or 7.0% and 5.3% from fiscal years 2012 and 2011, respectively. Pension benefits are directly tied to active JRS member's salary increases. Active JRS members received a salary increase in fiscal year 2012 and 2013, therefore, pension benefit expense increased as well.

The Plan's postemployment healthcare benefit in 2013 and 2012 increased \$173,922 or 18.8% and increased \$174,812 or 23.3% from fiscal years 2012 and 2011, respectively. The increase in healthcare costs in fiscal year 2013 is attributable to an increase in retiree participating in the Plan.

The increase in administrative deductions is related to an increase in actuarial expenses.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on plan investments.

- The actuarially determined contribution rate is calculated by the Plan's consulting actuary and approved by the administrator. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation rollforward process.
- Plan member contributions are set by Alaska Statute 22.25.011.

The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2013, the Twenty-Eighth Alaska State Legislature, the Governor line item vetoed the funding House Bill 65 that was set aside for the Plan.

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

Fiscal year 2013 was a year of positive investment returns. Net investment income increased from \$232,449 in fiscal year 2012 to \$15,684,712 in fiscal year 2013, an increase of \$15,452,263 or 6,647.6%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Actual investment returns greater than the assumed investment return will have a positive impact on both the annual actuarially determined contribution amount and the Plan's funded level.

The actuarial valuation as of June 30, 2012 reported a funding ratio of 67.20% and an unfunded liability of \$65.2 million. The actuarial rollforward for June 30, 2011 reports a funding ratio of 70.10% and an unfunded liability of \$58.3 million. The increase in the unfunded liability is attributable to an increase in JRS member's salaries, which directly impacts future pension benefit expense.

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June 30, 2013 and 2012

Requests for Information

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

State of Alaska Judicial Retirement System
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-02

**STATE OF ALASKA
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Statements of Plan Net Assets

June 30, 2013 and 2012

	2013			2012		
	Pension	Alaska retiree healthcare trust	Total	Pension	Alaska retiree healthcare trust	Total
Assets:						
Cash and cash equivalents (notes 2, 3, and 4):						
Short-term fixed income pool	\$ 1,465,268	396,648	1,861,916	1,881,554	332,989	2,214,543
Receivables:						
Contributions	226,098	30,493	256,591	166,080	20,128	186,208
Other receivables	—	7	7	—	—	—
Total receivables	226,098	30,500	256,598	166,080	20,128	186,208
Investments (notes 2, 3, 4, and 5) at fair value:						
Fixed income securities:						
Retirement fixed income pool	—	—	—	129,566	24,673	154,239
U.S. Treasury fixed pool	9,016,556	1,713,973	10,730,529	11,107,912	2,237,475	13,345,387
High yield fixed-income pool	3,338,463	634,619	3,973,082	2,913,772	554,846	3,468,618
International fixed income pool	2,334,646	443,785	2,778,431	2,472,820	470,866	2,943,686
Emerging markets debt pool	993,762	188,906	1,182,668	815,377	155,267	970,644
Total fixed income securities	15,683,427	2,981,283	18,664,710	17,439,447	3,443,127	20,882,574
Broad domestic equity pool	38,677,928	7,352,646	46,030,574	31,739,724	6,043,819	37,783,543
Global equity ex-U.S.						
International equity pool	23,032,348	4,378,372	27,410,720	17,528,398	3,337,715	20,866,113
Emerging markets equity pool	3,481,448	661,799	4,143,247	5,681,464	1,081,854	6,763,318
Total global equity ex-U.S.	26,513,796	5,040,171	31,553,967	23,209,862	4,419,569	27,629,431
Private equity pool	10,618,009	2,018,401	12,636,410	10,622,797	2,022,838	12,645,635
Absolute return pool	5,229,520	994,090	6,223,610	4,544,789	865,433	5,410,222
Real assets:						
Real estate pool	9,025,772	1,724,348	10,750,120	8,577,154	1,633,677	10,210,831
Real estate investment trust pool	1,785,468	339,409	2,124,877	1,232,418	234,672	1,467,090
Master limited partnership pool	2,390,987	454,521	2,845,508	—	—	—
Energy pool	710,032	134,971	845,003	766,736	146,004	912,740
Farmland pool	4,717,236	896,708	5,613,944	4,224,204	804,396	5,028,600
Timber pool	1,720,666	327,085	2,047,751	1,512,184	287,955	1,800,139
Treasury inflation protected securities pool	54,905	10,437	65,342	1,302,536	248,028	1,550,564
Total real assets	20,405,066	3,887,479	24,292,545	17,615,232	3,354,732	20,969,964
Total investments	117,127,746	22,274,070	139,401,816	105,171,851	20,149,518	125,321,369
Other assets	—	9,895	9,895	—	9,895	9,895
Total assets	118,819,112	22,711,113	141,530,225	107,219,485	20,512,530	127,732,015
Liabilities:						
Accrued expenses	102,890	1,437	104,327	76,362	2,440	78,802
Claims payable (note 6)	—	154,000	154,000	—	170,000	170,000
Due to State of Alaska General Fund (note 2)	11,598	63,873	75,471	8,868	95,643	104,511
Total liabilities	114,488	219,310	333,798	85,230	268,083	353,313
Commitments and contingencies (note 8)						
Net assets held in trust for pension and postemployment healthcare benefits	\$ 118,704,624	22,491,803	141,196,427	107,134,255	20,244,447	127,378,702

See accompanying notes to financial statements.

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JUDICIAL RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Statements of Changes in Plan Net Assets
Years ended June 30, 2013 and 2012

	2013			2012		
	Pension	Alaska retiree healthcare trust	Total	Pension	Alaska retiree healthcare trust	Total
Additions:						
Contributions:						
Employer	\$ 4,443,785	699,374	5,143,159	3,212,901	472,602	3,685,503
Plan members	721,171	—	721,171	704,671	5,553	710,224
Appropriation – State of Alaska	3,650,650	134,921	3,785,571	2,205,898	125,827	2,331,725
Total contributions	8,815,606	834,295	9,649,901	6,123,470	603,982	6,727,452
Other income	—	31,960	31,960	12	98,986	98,998
Investment income:						
Net appreciation (depreciation) in fair value (note 2)	11,388,922	2,110,417	13,499,339	(2,275,976)	(387,393)	(2,663,369)
Interest	531,207	100,597	631,804	602,680	114,687	717,367
Dividends	1,563,893	293,619	1,857,512	2,069,055	384,192	2,453,247
Total investment income	13,484,022	2,504,633	15,988,655	395,759	111,486	507,245
Less investment expense	303,808	135	303,943	274,717	79	274,796
Net investment income	13,180,214	2,504,498	15,684,712	121,042	111,407	232,449
Total additions	21,995,820	3,370,753	25,366,573	6,244,524	814,375	7,058,899
Deductions:						
Pension and postemployment healthcare benefits	10,343,220	1,099,899	11,443,119	9,666,901	925,977	10,592,878
Administrative	82,231	23,498	105,729	44,855	25,082	69,937
Total deductions	10,425,451	1,123,397	11,548,848	9,711,756	951,059	10,662,815
Net increase (decrease)	11,570,369	2,247,356	13,817,725	(3,467,232)	(136,684)	(3,603,916)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	107,134,255	20,244,447	127,378,702	110,601,487	20,381,131	130,982,618
Balance, end of year	\$ 118,704,624	22,491,803	141,196,427	107,134,255	20,244,447	127,378,702

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

(1) Description

The following is a brief description of the State of Alaska Judicial Retirement System, Defined Benefit Retirement Pension, and Postemployment Healthcare Plan (the Plan). The Plan is a component unit of the State of Alaska (the State). Participants should refer to the plan agreement for more complete information.

General

The Plan is a defined benefit, single-employer retirement system established and administered by the State to provide pension and postemployment healthcare benefits for eligible State justices and judges. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered 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.

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, plan membership consisted of the following:

	Valuation as of	
	2012	2010
Retirees and beneficiaries currently receiving benefits	108	99
Terminated plan members entitled to future benefits	5	4
Total current and future benefits	113	103
Active plan members:		
Vested	43	45
Nonvested	26	27
Total active plan members	69	72
Total members	182	175

Pension Benefits

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement age, sixty, or early retirement age, fifty-five. Members who are under age sixty and have twenty or more years of credited service may retire at any age and receive an actuarially reduced benefit.

The normal monthly pension benefit is based on the member's years of service and the current authorized salary for the position from which they retired. The pension benefit is equal to 5% for each year of service up to a maximum of 75% of the current salary for an active judge in the month the benefit is paid. In the event of salary increases for active judges, the monthly pension benefit for retired judges also increases.

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(1) Description (cont.)

Postemployment Healthcare Benefits

Major medical benefits are provided without cost to retired plan members.

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 Plan. The Plan 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.

Death Benefits

Upon the death of a member who has served for at least two years, the surviving spouse is entitled to receive monthly benefits equal to one-half of the monthly retirement pay the member would have been entitled to receive if retired at the time of death. If the member was not eligible to retire or would have been entitled to less than 60% of the monthly authorized salary, the spouse is entitled to monthly benefits equal to 30% of the authorized salary. The benefits continue until the surviving spouse dies.

If there is no eligible surviving spouse, the member's surviving dependent child(ren) are entitled to receive a benefit equal to 50% of the above survivor's benefit. Each child will receive an equal share of the benefit while they are dependent. If there is no surviving spouse or dependent child(ren), the member's beneficiary(ies) shall receive the difference between contributions made and interest accrued in the Plan less benefits paid by the Plan.

Disability Benefits

Members who are involuntarily retired for incapacity and have a minimum of two years of service at the time of retirement for incapacity are eligible for pension benefits.

Contributions

Plan Members Contributions

Plan members first appointed after June 30, 1978 contribute 7% of their compensation to the Plan. The plan member contributions are deducted before federal income tax is withheld. Contributions are not required after members have made contributions for 15 years. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually. Contributions are collected by the employer and remitted to the Plan. Members appointed before July 1, 1978 are not required to make contributions.

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(1) Description (cont.)

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages 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 Plan amortizes any funding surplus or unfunded accrued liability over a 25-year period as a level percentage of expected payroll. However, in keeping with Governmental Accounting Standards Board (GASB) requirements, the net amortization period will not exceed 30 years. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

Refunds

Plan member contributions may be voluntarily refunded to the justice or judge if office is vacated before the justice or judge is fully vested. A justice or judge shall have a vested right to accrued pay if the justice or judge has served five years or more. Plan member contributions may be involuntarily refunded to a garnishing agency. Members whose contributions have been refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they have returned to active service. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the involuntary refunded balance and accrued interest.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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

GASB Statements No. 25, No. 43 and No. 50

The Plan follows the provisions of 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. Additionally, the Plan follows the provisions of GASB Statement No. 50, *Pension Disclosure*. (GASB 50) amended certain disclosure provisions of GASB 25 and expanded disclosures regarding pensions.

The Plan's defined benefit postemployment healthcare plan also 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 in GASB Statement No. 26, *Financial Reporting for 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, Treasury Division (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.

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

Valuation and Income Allocation

Fixed Income Pools and Treasury Inflation Protected Securities (TIPS)

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.

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 midpoint of representative quoted bid and ask prices.

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.

Broad Domestic Equity, International Equity, Real Estate Investment Trust (REIT), and Master Limited Partnership (MLP) 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 comprise venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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

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 comprise 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 comprise 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 comprise separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

Contributions Receivable

Contributions from plan members and the employer 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 Plan on behalf of others and amounts paid by others on behalf of the Plan.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is 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 Plan'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.

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. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Large Cap Domestic Equity Pool, Small Cap Domestic Equity Pool, Convertible Bond Domestic Equity Pool, International Equity Large Cap Pool, International Equity Small Cap Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Master Limited Partnership Pool, Energy Pool, Farmland Pool, Farmland Water Pool, and Timber Pool are managed by external management companies. Treasury manages the Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) 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 the Board as well as other state funds.

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(4) Deposit and Investment Risk

At June 30, 2013, the Plan's investments included the following:

	Fair value							Total
	Fixed income pools					TIPS	Other	
	Short-term	U.S. Treasury	High yield	International	Convertible			
Commercial paper	\$ 145,352	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 145,352
Convertible bonds	—	—	14,351	—	878,599	—	—	892,950
Corporate bonds	178,173	434,243	3,405,992	—	—	—	—	4,018,408
Deposits	74,482	—	139,022	9,467	3,661	—	—	226,632
Foreign corporate bonds	—	—	—	213,154	—	—	—	213,154
Foreign government bonds	—	—	—	2,485,713	—	—	—	2,485,713
Mortgage backed	7,476	582,359	—	—	—	—	—	589,835
Municipal bonds	1,744	14,889	—	—	—	—	—	16,633
Other asset backed	1,487,323	329,735	13,809	—	—	—	—	1,830,867
Short-term investment fund	—	—	—	25,684	—	—	—	25,684
U.S. government agency	—	267,619	—	—	—	—	—	267,619
U.S. government agency discount notes	248	—	—	—	—	—	—	248
Treasury bills	1,468,017	—	—	—	—	—	—	1,468,017
Treasury bonds	—	—	—	—	—	26,999	—	26,999
Treasury notes	—	8,411,439	—	—	—	36,920	—	8,448,359
Treasury strips	—	15,522	—	—	—	—	—	15,522
Yankees: Corporate	46,681	59,846	371,141	—	—	—	—	477,668
Yankees: Government	—	221,863	—	—	—	—	—	221,863
Fixed income pool: Equity	—	—	—	—	109,574	—	—	109,574
Fixed income pool: Warrants	—	—	403	—	—	—	—	403
Emerging markets debt pool	—	—	—	—	—	—	1,182,668	1,182,668
Broad domestic equity pool:								
Deposits	—	—	—	—	—	—	267,039	267,039
Equity	—	—	—	—	—	—	41,613,153	41,613,153
Futures	—	—	—	—	—	—	(2,399)	(2,399)
Limited partnership	—	—	—	—	—	—	2,109,855	2,109,855
Options	—	—	—	—	—	—	(144,920)	(144,920)
Rights	—	—	—	—	—	—	1	1
Treasury bills	—	—	—	—	—	—	22,883	22,883
Warrants	—	—	—	—	—	—	10	10
Broad international equity pool:								
Deposits	—	—	—	—	—	—	485,524	485,524
Equity	—	—	—	—	—	—	23,553,479	23,553,479
Rights	—	—	—	—	—	—	169	169
Mutual fund	—	—	—	—	—	—	3,212,854	3,212,854
Short-term investment fund	—	—	—	—	—	—	88,150	88,150
Warrants	—	—	—	—	—	—	820	820
Emerging markets equity pool	—	—	—	—	—	—	4,143,248	4,143,248
Private equity pool: Limited partnerships	—	—	—	—	—	—	12,628,209	12,628,209
Private equity pool: Equity	—	—	—	—	—	—	8,203	8,203
Absolute return pool: Limited partnerships	—	—	—	—	—	—	6,223,610	6,223,610
Real estate pool: Commingled funds	—	—	—	—	—	—	2,987,054	2,987,054
Real estate pool: Limited partnerships	—	—	—	—	—	—	2,445,909	2,445,909
Real estate pool: Real estate	—	—	—	—	—	—	5,317,157	5,317,157
Real estate investment trust pool: Equity	—	—	—	—	—	—	2,114,913	2,114,913
Master limited partnership pool: Equity	—	—	—	—	—	—	2,810,621	2,810,621
Energy Pool: Limited partnerships	—	—	—	—	—	—	845,003	845,003
Farmland pool: Agricultural holdings	—	—	—	—	—	—	5,613,944	5,613,944
Timber pool: Timber holdings	—	—	—	—	—	—	2,047,751	2,047,751
Net other assets (liabilities)	(60,571)	44,523	28,364	44,413	10,098	348	140,150	207,325
Other pool ownership	(1,487,009)	348,491	—	—	—	1,075	1,137,443	—
Total invested assets	\$ 1,861,916	10,730,529	3,973,082	2,778,431	1,001,932	65,342	120,852,501	141,263,733

(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.

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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 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from 3 days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 years.

Other 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, 2013 was 5.49 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 U.S. Intermediate 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, 2013 was 3.68 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 Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2013, was 4.46 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 International Fixed Income portfolio to $\pm 25\%$ of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2013 was 7.25 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2013, was 4.89, for a blended duration of 6.54 at June 30, 2013.

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, 2013 was 9.32 years.

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

At June 30, 2013, the effective duration of the Board's fixed income pools, by investment type, was as follows (in years):

	Effective Duration			
	U.S. Treasury	High yield	International	TIPS
Corporate bonds	2.83	4.29	—	—
Foreign corporate bonds	—	—	3.16	—
Foreign government bonds	—	—	5.74	—
Mortgage-backed	2.59	—	—	—
Municipal bonds	11.85	—	—	—
Other asset-backed	0.48	3.88	—	—
Treasury bonds	—	—	—	10.90
Treasury notes	3.64	—	—	3.40
Treasury strips	5.12	—	—	—
U.S. government agency	8.31	—	—	—
Yankees:				
Corporate	3.77	4.31	—	—
Government	6.00	—	—	—
Portfolio effective duration	3.52	4.13	5.46	6.46

Credit Risk

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

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(4) Deposit and Investment Risk (cont.)

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, 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.

U.S. Intermediate Treasury Fixed Income

No more than 30% of the portfolio's assets may be invested in securities that are not nominal, United States Treasury obligations, or the internally managed short-term or substantially similar portfolio 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 Fixed Income

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher by any rating agency (including government instruments) cash held in portfolio.

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.

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(4) Deposit and Investment Risk (cont.)

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. Only one rating is necessary.

International Fixed Income

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. In the event a split rating exists, the lower of ratings shall apply for evaluating credit quality.

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. Nonrated securities to which the Manager assigns a noninvestment grade rating are subject to the below investment grade limitation.

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

The Manager shall not purchase any security with a credit rating at or below CCC- by S&P and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

TIPS

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

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.

Non-U.S. Treasury-issued 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.

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(4) Deposit and Investment Risk (cont.)

Domestic Equity (Large Cap and Small Cap) and Broad International Equity

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 Emerging Markets Debt Pool or the Collective Investment Funds.

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(4) Deposit and Investment Risk (cont.)

At June 30, 2013, the Plan's invested assets 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	U.S. Treasury	High yield	International	Convertible	TIPS						
Deposits	Not rated	2.22	%	—	%	3.50	%	0.34	%	0.37	%	—	%
Commercial paper	Not rated	4.34		—		—		—		—		—	
Corporate bonds	AA	2.41		0.65		—		—		—		—	
Corporate bonds	A	2.91		2.50		0.11		—		—		—	
Corporate bonds	BBB	—		0.82		3.21		—		—		—	
Corporate bonds	BB	—		0.09		32.85		—		—		—	
Corporate bonds	B	—		—		41.86		—		—		—	
Corporate bonds	CCC	—		—		3.44		—		—		—	
Corporate bonds	CC	—		—		0.28		—		—		—	
Corporate bonds	D	—		—		0.47		—		—		—	
Corporate bonds	Not rated	—		—		3.55		—		—		—	
Convertible bonds	A	—		—		—		—		5.08		—	
Convertible bonds	BBB	—		—		0.33		—		17.94		—	
Convertible bonds	BB	—		—		—		—		15.86		—	
Convertible bonds	B	—		—		—		—		14.47		—	
Convertible bonds	CCC	—		—		—		—		2.73		—	
Convertible bonds	Not rated	—		—		0.03		—		31.60		—	
Equity	BBB	—		—		—		—		2.88		—	
Equity	BB	—		—		—		—		3.97		—	
Equity	B	—		—		—		—		2.08		—	
Equity	Not rated	—		—		—		—		2.01		—	
Foreign corporate bonds	A	—		—		—		1.27		—		—	
Foreign corporate bonds	BBB	—		—		—		0.56		—		—	
Foreign corporate bonds	Not rated	—		—		—		5.84		—		—	
Foreign corporate bonds	AAA	—		—		—		6.77		—		—	
Foreign corporate bonds	AA	—		—		—		1.68		—		—	
Foreign corporate bonds	A	—		—		—		22.90		—		—	
Foreign corporate bonds	BBB	—		—		—		3.58		—		—	
Foreign corporate bonds	BB	—		—		—		1.41		—		—	
Foreign corporate bonds	Not rated	—		—		—		53.11		—		—	
U.S. government agency	Not rated	0.01		2.48		—		—		—		—	
Mortgage-backed	AAA	0.07		1.35		—		—		—		—	
Mortgage-backed	AA	0.08		1.82		—		—		—		—	
Mortgage-backed	A	0.07		0.38		—		—		—		—	
Mortgage-backed	Not rated	—		1.88		—		—		—		—	
Municipal Bonds	AA	0.05		0.14		—		—		—		—	
Other asset-backed	AAA	39.98		1.71		—		—		—		—	
Other asset-backed	AA	0.72		—		—		—		—		—	
Other asset-backed	BB	—		—		0.10		—		—		—	
Other asset-backed	B	—		—		0.25		—		—		—	
Other asset-backed	Not rated	3.71		1.36		—		—		—		—	
Other pool Ownership	Not rated	—		3.25		—		—		—		1.65	
U.S. Treasury bills	AA	43.83		—		—		—		—		—	
U.S. Treasury bonds	AA	—		—		—		—		—		41.32	
U.S. Treasury notes	AA	—		78.40		—		—		—		56.50	
U.S. Treasury strips	AA	—		0.14		—		—		—		—	
Short-term investment fund	Not rated	—		—		—		0.92		—		—	
Warrants	Not rated	—		—		0.01		—		—		—	
Yankee Corporate	AAA	—		0.06		—		—		—		—	
Yankee Corporate	AA	0.55		0.28		—		—		—		—	
Yankee Corporate	A	0.84		0.07		—		—		—		—	
Yankee Corporate	BBB	—		0.14		—		—		—		—	
Yankee Corporate	BB	—		—		3.37		—		—		—	
Yankee Corporate	B	—		—		4.80		—		—		—	
Yankee Corporate	CCC	—		—		0.55		—		—		—	
Yankee Corporate	Not rated	—		—		0.58		—		—		—	
Yankee Government	AAA	—		0.33		—		—		—		—	
Yankee Government	AA	—		0.35		—		—		—		—	
Yankee Government	Not rated	—		1.38		—		—		—		—	
No credit risk		(1.79)		0.42		0.71		1.62		1.01		0.53	
		100.00	%	100.00	%	100.00	%	100.00	%	100.00	%	100.00	%

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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; however, Treasury investment policy requires the State’s depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (The FDIC provides \$250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

At June 30, 2013, the Plan’s invested assets had the following uncollateralized and uninsured deposits:

	<u>Amount</u>
Broad international equity pool	\$ 485,542
International fixed income pool	9,471

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 these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, and Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Romania, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. 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:

<u>Fixed income</u>	<u>Global equity ex-U.S.</u>	<u>Private equity pool</u>
19%	27%	13%

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(4) Deposit and Investment Risk (cont.)

At June 30, 2013, the Plan had exposure to foreign currency risk with the following deposits and investments:

Currency	International fixed income			International equity				Private Equity
	Deposits	Foreign government bonds	Foreign corporate bonds	Deposits	Equity	Mutual funds	Rights	Limited partnerships
Australian Dollar	\$ 508	\$ 93,423	\$ —	5,467	528,545	—	12	2,294
Brazilian Real	—	172,852	—	316	96,920	—	—	—
Canadian Dollar	—	—	—	1,444	663,981	—	—	—
Chilean Peso	—	30,999	—	—	—	—	—	—
Colombian Peso	979	38,103	—	—	—	—	—	—
Czech Koruna	—	—	—	—	—	—	—	—
Danish Krone	—	—	—	814	220,648	—	—	—
Euro Currency	—	377,782	194,157	411,994	6,074,938	—	156	948,137
Hong Kong Dollar	—	—	—	5,647	807,853	—	1	—
Hungarian Forint	—	39,202	—	—	—	—	—	—
Indian Rupee	—	—	—	—	12,283	—	—	—
Indonesian Rupiah	—	—	—	1,516	94,153	—	—	—
Israeli Shekel	—	—	—	528	9,419	—	—	—
Japanese Yen	1,754	781,988	—	33,942	4,716,335	—	—	—
Malaysian Ringgit	2,248	137,202	—	—	48,996	—	—	—
Mexican Peso	3,297	165,829	18,997	92	14,176	—	—	—
New Russian Ruble	—	63,648	—	—	—	—	—	—
New Taiwan Dollar	—	—	—	436	107,510	—	—	—
New Zealand Dollar	—	—	—	18	71,294	—	—	—
Norwegian Krone	—	—	—	720	131,851	—	—	—
Peruvian Nouveau Sol	—	39,138	—	—	—	—	—	—
Philippine Peso	—	—	—	—	16,810	—	—	—
Polish Zloty	—	233,082	—	—	—	—	—	—
Pound Sterling	—	—	—	15,844	4,301,753	3,506	—	246,957
Republic of Chile	—	—	—	—	—	—	—	—
Singapore Dollar	—	—	—	1,554	309,333	—	—	—
South African Rand	—	72,286	—	—	—	—	—	—
South Korean Won	387	—	—	—	326,824	—	—	—
Swedish Krona	—	188,195	—	2,316	576,145	—	—	—
Swiss Franc	—	—	—	2,482	1,499,694	—	—	—
Thailand Baht	298	—	—	412	126,514	—	—	—
Turkish Lira	—	51,986	—	—	—	—	—	—
UAE Dirham	—	—	—	—	13,045	—	—	—
	\$ 9,471	2,485,715	213,154	485,542	20,769,020	3,506	169	1,197,388

At June 30, 2013, the Plan also had exposure to foreign currency risk in the Emerging Markets Equity Pool and the Emerging Markets Debt Pool. These pools consist of investments in commingled funds; therefore, no disclosure of specific currencies is made.

(4) Deposit and Investment Risk (cont.)

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 5% of the portfolio's assets in corporate bonds of any one company or

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affiliated group. This provision does not apply to securities backed by the full faith and credit of the U.S. government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income, and Convertible Bond Pools is to prohibit the purchase of more than 5% 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 Emerging Markets Debt or TIPS Pools.

At June 30, 2013, the Plan's invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

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

The Plan 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, 2013, the Plan had the following derivative instruments outstanding:

	Changes in fair value		Fair value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
Equity options bought	Investment revenue	—	Options	—	—
Equity options written	Investment revenue	\$ 2,149	Options	\$ (144,409)	(22,617)
FX forwards	Investment revenue	26,699	Long-term instruments	15,635	218,215
Index futures long	Investment revenue	106,829	Futures	—	438
Index options written	Investment revenue	5,742	Options	(518)	(30)
Rights	Investment revenue	(1,214)	Common stock	169	537
Warrants	Investment revenue	484	Common stock	1,234	2,637
Grand total		<u>\$ 140,689</u>		<u>\$ (127,889)</u>	

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

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, 2013, the Plan had the following foreign currency risk related to forward contracts:

Currency Forward Contracts				
<u>Currency name</u>	<u>Options</u>	<u>Net receivables</u>	<u>Net payables</u>	<u>Total exposure</u>
Australian Dollar	\$ 12	(961)	14,713	13,765
Euro Currency	156	—	22	177
Hong Kong Dollar	1	—	—	1
Japanese Yen	—	—	671	671
New Zealand Dollar	—	—	1,191	1,191
	<u>\$ 169</u>	<u>(961)</u>	<u>16,597</u>	<u>15,805</u>

At June 30, 2013, the Plan had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions:

<u>Counterparty name</u>	<u>Percentage of net exposure</u>	<u>S&P rating</u>	<u>Fitch rating</u>	<u>Moody's rating</u>
Bank of New York	4.04%	A+	A+	A1
State Street Bank London	95.83%	A+	AA-	Aa3
UBS AG	0.13%	A	A	A2

Maximum amount of loss Alaska ARMB (JRS) would face in case of default of all counterparties i.e., aggregated (positive) fair value of OTC positions as of June 30, 2013	\$ 16,597
Effect of collateral reducing maximum exposure	—
Liabilities subject to netting arrangements reducing exposure	—
Resulting net exposure	<u>\$ 16,597</u>

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(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 follow:

	2013	2012
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 95,643	16,834
Incurred but not reported	170,000	133,000
Total, beginning of year	265,643	149,834
Benefit deductions	1,099,899	925,977
Benefits paid	(1,147,669)	(810,168)
Total, end of year	\$ 217,873	265,643
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ 63,873	95,643
Incurred but not reported	154,000	170,000
Total, end of year	\$ 217,873	265,643

(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan

The funded status as of June 30, 2012 of the defined benefit pension and postemployment healthcare benefit plan is as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial Liability (AAL) – entry age	Unfunded Actuarial Liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
Pension	\$ 112,870,360	182,267,524	69,397,164	61.9%	\$ 11,803,164	588.0%
Postemployment healthcare	20,835,672	18,236,104	(2,599,568)	114.3	11,803,164	(22.0)

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(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan (cont.)

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 schedule of funding progress, presented as required supplementary information following the notes to financial statements, present multiyear 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 schedule of employer contributions (unaudited) presents trend information about the amounts contributed to the Plan by employers in comparison to the actuarially required contribution (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 ongoing 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 reporting 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:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare
Amortization method	Level dollar, closed
Equivalent single amortization period	20 years
Asset valuation method	5 year smoothed market, constrained to 80% / 120% of fair value corridor
Actuarial assumptions:	
Investment rate of return	8.00% (includes inflation at 3.12%)
Projected salary increases	4.12%
Cost-of-living adjustment	4.12%

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(7) Funded Status and Funding Progress – Pension and Postemployment Healthcare Benefit Plan (cont.)

Health cost trend:

<u>Fiscal year</u>	<u>Medical</u>		<u>Prescription drugs</u>
	<u>Pre-65</u>	<u>Post-65</u>	
2013	9.0%	6.5%	6.4%
2014	8.7	6.4	6.3
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2025	6.0	6.0	5.8
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

GASB 43 requires that the discount rate used in the actuarial 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 Plan's retiree healthcare 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 (RDS) the State 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 year 2015 employer ARC for accounting purposes is 3.76% of pay for healthcare benefits and 80.23% of pay for healthcare and pension benefits combined.

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(8) Commitments and Contingencies

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity energy, and real estate portfolios. At June 30, 2013, the Board's unfunded commitments were as follows:

<u>Portfolio</u>	<u>Unfunded commitment</u>	<u>Estimated to be paid through:</u>
Domestic equity	66,726	May be canceled annually in December with 90 days notice Fiscal Year 2023 Fiscal Year 2022 Fiscal Year 2015
Private equity	6,132,606	
Energy	893,113	
Real estate	621,001	
	<u>7,713,446</u>	

(9) 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 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 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The Plan was approved for participation in the Medicare Part D program beginning calendar year 2006.

(10) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) a temporary program that provides reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the Plan is up to 80% of claims cost for health benefits between \$15,000 and \$90,000. The program was authorized by the Affordable Care Act as part of the U.S. Government Health Reform package. The Plan started participation in the ERRP program beginning calendar year 2013. The program ends on January 1, 2014.

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(11) Recently Issued Accounting Standards

In June 2012, the GASB issued GASBs 67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. This GASB 67 requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position as well as additional requirements to the notes of the financial statements. Other requirements include additional presentations of summary information about the pension liability of employers and nonemployer contributing entities to plan members for benefits provided through the pension plan (net pension liability) in notes to financial statements. The new standard is effective for fiscal periods beginning after June 15, 2013. The Plan will implement the provisions for the year ended June 30, 2014.

The GASB also issued GASBs 68, Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27. This GASB 68 requires that an employer recognize its obligation for pensions net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation as well as additional notes to the financial statements regarding the obligation. The new standard is effective for fiscal periods beginning after June 15, 2014. The Plan will implement the provisions to support employers with fiscal years ended after June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Pension Benefits

June 30, 2013 and 2012

Actuarial valuation year ended 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	\$ 53,600,707	69,505,123	15,904,416	77.1%	\$ 6,529,608	243.6%
2006	77,310,716	111,819,972	34,509,256	69.1	7,130,592	484.0
2008	122,882,726	130,596,048	7,713,322	94.1	10,462,322	73.7
2010	115,000,226	164,523,775	49,523,549	69.9	11,845,548	418.1
2012	112,870,360	182,267,524	69,397,164	61.9	11,803,164	588.0

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

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Postemployment Healthcare Benefits

June 30, 2013 and 2012

Actuarial valuation year ended 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	\$ 16,854,927	21,856,126	5,001,199	77.1%	\$ 6,529,608	76.6%
2006	2,399,387	17,794,213	15,394,826	13.5	7,130,592	215.9
2008	18,352,929	19,941,128	1,588,199	92.0	10,462,322	15.2
2010	19,693,969	22,346,395	2,652,426	88.1	11,845,548	22.4
2012	20,835,672	18,236,104	(2,599,568)	114.3	11,803,164	(22.0)

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

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Required Supplementary Information (Unaudited)

Schedule of Contributions from Employers and the State of Alaska

Pension and Postemployment Healthcare Benefits

June 30, 2013 and 2012

Year ended June 30	Actuarial valuation year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed	Postemployment healthcare percentage contributed
2007	2008	\$ 3,168,943	486,800	3,655,743	100.0%	100.0%
2008	2008	3,898,001	567,415	4,465,416	1,045.0	2,489.4
2009	2010	4,937,406	1,411,259	6,348,665	100.0	100.0
2010	2010	5,236,646	1,432,721	6,669,367	69.8	60.9
2011	2012	3,895,881	722,960	4,618,841	98.5	80.1
2012	2012	5,051,754	712,911	5,764,665	107.3	97.8

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2013

(1) Description of Schedule of Funding Progress

Each time a new benefit is added that applies to service already rendered, an “unfunded actuarial accrued liability” is created. Laws governing the Plan 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 valuation as of June 30, 2012 are as follows:

- (a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of expected payroll. However, in keeping with Governmental Accounting Standards Board (GASB) requirements, the net amortization period will not exceed 30 years.
- (b) Valuation of assets – Recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statement. 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 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 nonprescription 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.
- (d) Accounting impact of Medicare Part D – The State of Alaska’s prescription drug program is actuarially equivalent to the federal Medicare Part D program and that the State of Alaska qualifies for the Medicare Part D subsidy.
- (e) Investment return – 8.00% per year, compounded annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.

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Notes to Required Supplementary Information (Unaudited)

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(2) Actuarial Assumptions and Methods (cont.)

- (f) Pre-termination mortality – 45% of the male rates and 55% of the females rates in the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin project to 2013 with Projection Scale AA. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ration of 143%.
- (g) Post-termination mortality – 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA. Setback 1 year for females and 3 years for males. The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ration of 143%.
- (h) Salary scale – 4.12% per year, compounded annually.
- (i) Total payroll growth – 3.62% per year.
- (j) 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.
- (k) 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.
- (l) Per capita claims cost – Sample claims cost rates adjusted to age 65 for fiscal year 2013 medical and prescription costs are shown below:

	Medical	Prescription drugs
Pre-Medicare	\$ 9,856	2,736
Medicare Parts A and B	1,628	2,736
Medicare Part B only	6,219	2,736
Medicare Part D	N/A	535

- (m) Medicare Part B Only – For actives and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or rehire.

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(2) Actuarial Assumptions and Methods (cont.)

- (n) 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, 9.0% is applied to the fiscal year 2013 pre-Medicare medical claims costs to get the fiscal year 2014 medical claims costs.

<u>Fiscal year</u>	<u>Medical</u>		<u>Prescription drugs</u>
	<u>Pre-65</u>	<u>Post-65</u>	
2013	9.0%	6.5%	6.4%
2014	8.7	6.4	6.3
2015	8.5	6.3	6.2
2016	8.0	6.3	6.2
2017	7.5	6.2	6.1
2018	7.0	6.1	6.0
2019	6.6	6.1	5.8
2025	6.0	6.0	5.8
2050	5.0	5.0	5.0
2100	4.5	4.5	4.5

For the June 30, 2012 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline costs for year 2015. Using this value as the base cost, the model projects per-person expenditures and growth rates through 2100 using a set of equations and assumptions developed by the author with the assistance of an SOA working group. The user can then use the model input cells to specify alternative assumptions regarding responsiveness to external trends, income growth, and other factors to arrive at alternative projections. The model provisionally uses default short-term annual projected by CMS for years 2011-2015 (4% to 6%), but users may input their own estimates for these model years. In this model, cost controls can be simulated in two ways: by specifying a Share Restriction Point, a percentage of GDP represented by healthcare and above which the current trends will be reduced; or by specifying a limit year after which the rate of growth in healthcare costs will be reduced to match the rate of growth in per capita income (as both CMS and CBO assume). While this model is not directly applicable, it was used for a reference point in the ultimate pharmacy trend. We set pharmacy trend based upon recent plan and industry experience and grade down slowly in the select period (similar to post-65 medical trend) to an ultimate trend rate based upon what we are seeing for medical trend and consistent within the industry.

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(2) Actuarial Assumptions and Methods (cont.)

The following table compares plan-specific inputs and the model's baseline assumptions for key assumptions as of June 30, 2012:

<u>Key assumptions</u>	<u>Base line value</u>	<u>Alaska-specific values</u>	
		<u>Pre-Medicare medical</u>	<u>Medicare medical</u>
HCCTR 2012-2013	4.6%	9.0%	6.1%
HCCTR 2013-2014	7.4%	8.0%	5.8%
HCCTR 2014-2015	5.0%	7.0%	5.5%
2015 GDP% of healthcare	18.3%	17.9%	17.9%
2015 PCCC	\$10,000	\$10,295	\$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	2.0%	1.5%	1.5%
Income multiplier	1.40	1.30	1.30
Taste/technology	1.1%	1.1%	1.1%
Max GDP as % of healthcare	25.0%	25.0%	25.0%
Year reached	2075	2075	2075

Future (2026+) assumptions for inflation (2.4% for 2026-3025 and 2.3% thereafter), real GDP (1.5%), income multiplier (1.05 for 2026-3025 and 1.00 thereafter), and technology (0.9% for 2026-3025 and 0.8% thereafter) were not changed from the baseline inputs.

(o) 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	0.1
84 – 93	0.5	—
94 +	—	—

(p) Medical participation – Because medical benefits are provided at no cost to the retiree, 100% participation in the medical plans is assumed.

(q) Turnover – Annual turnover is 3% if service is less than 10 years and 1% if service is greater than 10 years.

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(2) Actuarial Assumptions and Methods (cont.)

- (r) Retirement – 3% if vested and age is less than 59, 10% if vested and age is greater than 59, and 100% at age 70. Terminated vested members are expected to commence benefits at age 60.
- (s) Disability – Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
- (t) Maximum retirement age – Age 70.
- (u) 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.
- (v) 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.
- (w) Contribution refunds – 0% 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.

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

Changes in Methods since the Prior Valuation – June 30, 2010 to June 30, 2012

There were no changes in methods from the prior valuation, except for the changes in healthcare as previously stated.

Changes in Assumptions from the Last Actuarial Valuation – June 30, 2010 to June 30, 2012

There have been no changes in actuarial assumptions since the prior valuation, except for the assumption regarding healthcare cost trend rates. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend, and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend.

SUPPLEMENTAL SCHEDULES

STATE OF ALASKA
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Schedule of Administrative and Investment Deductions

Years ended June 30, 2013 and 2012

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>	
			<u>2013</u>	<u>2012</u>
Personal services:				
Wages	\$ 15,841	2,032	17,873	16,280
Benefits	9,541	843	10,384	9,343
Total personal services	<u>25,382</u>	<u>2,875</u>	<u>28,257</u>	<u>25,623</u>
Travel:				
Transportation	169	1,120	1,289	1,338
Per diem	33	585	618	600
Total travel	<u>202</u>	<u>1,705</u>	<u>1,907</u>	<u>1,938</u>
Contractual services:				
Management and consulting	61,920	282,634	344,554	282,566
Accounting and auditing	7,248	7,951	15,199	16,588
Data processing	7,527	5,773	13,300	9,342
Rental/leases	1,300	609	1,909	1,818
Legal	490	671	1,161	682
Other services	1,097	1,004	2,101	2,659
Total contractual services	<u>79,582</u>	<u>298,642</u>	<u>378,224</u>	<u>313,655</u>
Other:				
Supplies	370	545	915	2,525
Equipment	193	176	369	992
Total other	<u>563</u>	<u>721</u>	<u>1,284</u>	<u>3,517</u>
Total administrative and investment deductions	<u>\$ 105,729</u>	<u>303,943</u>	<u>409,672</u>	<u>344,733</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants
Other than Investment Advisers

Years ended June 30, 2013 and 2012

<u>Firm</u>	<u>Services</u>	<u>2013</u>	<u>2012</u>
Buck Consultants, an ACS Company	Actuarial services	\$ 41,295	9,491
KPMG LLP	Auditing services	7,232	7,037
State Street Corporation	Custodian banking services	5,437	9,214
Computer Task Group	Data processing consultants	197	1,161
State of Alaska, Department of Law	Legal services	292	76
Chicago Dell Marketing LP	Software maintenance	4,980	255
		<u>\$ 59,433</u>	<u>27,234</u>

See accompanying independent auditors' report.