



FINANCIAL SECTION

Alaska Division of Retirement and Benefits





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 Teachers' Retirement System:

We have audited the accompanying statement of system net assets of the State of Alaska Teachers' Retirement System (the System), (a component unit of the State of Alaska), as of June 30, 2013, and the related statement of changes in system net assets for the year then ended, and the related notes to the financial statements, which collectively comprise the System'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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the system net assets of the State of Alaska Teachers' Retirement System as of June 30, 2013, and the changes in system 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, Schedules of Contributions from Employers and the State of Alaska and the Schedule of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) on pages 15-23 and 54-74 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 System's basic financial statements. The supplemental schedules on pages 75-77 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
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Management's Discussion and Analysis
June 30, 2013
(With summarized financial information for June 30, 2012 and 2011)

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

Financial Highlights

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

- The System's net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals increased by \$561.0 million during fiscal year 2013.
- The System's plan member and employer contributions decreased by \$456 thousand during fiscal year 2013.
- The State of Alaska directly appropriated \$302.8 million during fiscal year 2013 as statutorily required.
- The System net investment income increased \$594.4 million to \$608.3 million during fiscal year 2013.
- The System's pension benefit expenditures totaled \$380.3 million during fiscal year 2013.
- The System's postemployment healthcare benefit expenditures totaled \$120.9 million in fiscal year 2013.

Overview of the Financial Statements

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

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

Statements of Changes in System Net Assets – This statement presents how the System's net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals changed during the fiscal years ended June 30, 2013 and 2012. This statement presents contributions and investment income during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

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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 System's financial statements.

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

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

Condensed Financial Information (In thousands)

Description	System Net Assets				
	2013	2012	Increase/(decrease)		2011
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 81,133	93,983	(12,850)	(13.7)%	\$ 27,345
Due from State of Alaska General Fund	4,177	4,943	(766)	(15.5)	10,736
Contributions receivable	5,711	4,335	1,376	31.7	4,404
Due from Retiree Health Fund	1	3	(2)	(66.7)	1
Other receivables	5	—	5	100.0	3,360
Investments, at fair value	5,283,803	4,698,332	585,471	12.5	4,813,883
Other assets	1,179	1,179	—	—	984
Total assets	<u>5,376,009</u>	<u>4,802,775</u>	<u>573,234</u>	<u>11.9</u>	<u>4,860,713</u>
Liabilities:					
Accrued expenses	4,639	3,833	806	21.0	4,268
Claims payable	20,062	14,813	5,249	35.4	13,542
Forfeitures payable to employers	4,498	—	4,498	100.0	—
Due to State of Alaska General Fund	1,838	192	1,646	857.3	—
Total liabilities	<u>31,037</u>	<u>18,838</u>	<u>12,199</u>	<u>64.8</u>	<u>17,810</u>
Net assets	<u>\$ 5,344,972</u>	<u>4,783,937</u>	<u>561,035</u>	<u>11.7%</u>	<u>\$ 4,842,903</u>

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Changes in System Net Assets

Description	2013	2012	Increase/(decrease)		2011
			Amount	Percentage	
Net assets, beginning of year	\$ 4,783,937	4,842,903	(58,966)	(1.2%)	\$ 4,087,904
Additions:					
Contributions	163,551	164,007	(456)	(0.28)	163,937
Appropriation – State of Alaska	302,777	234,517	68,260	29.1	190,850
Net investment income	608,251	13,901	594,350	4,275.6	852,859
Other additions	4,173	12,552	(8,379)	(66.8)	5,010
Total additions	<u>1,078,752</u>	<u>424,977</u>	<u>653,775</u>	<u>153.8</u>	<u>1,212,656</u>
Deductions:					
Pension and postemployment healthcare benefits	501,120	471,834	29,286	6.2	446,596
Refund of contributions	6,405	5,428	977	18.0	4,486
Administrative	6,945	6,681	264	4.0	6,575
Total deductions	<u>514,470</u>	<u>483,943</u>	<u>30,527</u>	<u>6.3</u>	<u>457,657</u>
Adjustment to beginning net assets	3,247	—	3,247	100.0	—
Increase (decrease) in net assets	<u>561,035</u>	<u>(58,966)</u>	<u>620,001</u>	<u>1,051.5</u>	<u>754,999</u>
Net assets, end of year	<u>\$ 5,344,972</u>	<u>4,783,937</u>	<u>561,035</u>	<u>11.7%</u>	<u>\$ 4,842,903</u>

Financial Analysis of the System

The statements of system net assets as of June 30, 2013 and 2012 show net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals of \$5,344,972,000 and \$4,783,937,000 respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals of \$561,035,000 or 11.7% from fiscal year 2012 to 2013 and a decrease of \$58,966,000 or 1.2% from fiscal year 2011 to 2012. Over the long term, plan member contributions, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

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

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System Asset Allocation

During fiscal years 2013 and 2012, the Board adopted the following asset allocation for the Defined Benefit (DB) Plan and Defined Contribution Retirement (DCR) Plan's retiree major medical insurance fund, health reimbursement fund, and occupational death and disability fund:

	2013	
	Pension & Healthcare Trust	
	<u>Allocation</u>	<u>Range</u>
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	<u>6.0</u>	- 6/+ 1
Total	<u>100.0%</u>	
Expected five-year geometric mean	7.11%	
Projected standard deviation	14.20	

	2012	
	Pension & Healthcare Trust	
	<u>Allocation</u>	<u>Range</u>
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
Cash equivalents	<u>2.0</u>	-2/5
Total	<u>100.0%</u>	
Expected five-year median return	7.45%	
Standard deviation	13.82	

For fiscal years 2013 and 2012, the DB Plan's investments generated a 12.59% and 0.51% rate of return, respectively. The DB Plan's annualized rate of return was 11.15% over the last three years and 3.98% over the last five years, which is less than the June 30, 2010 (the valuation that set the fiscal year 2013 rate) actuarial assumed rate of return of 8.00%.

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Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary. The actuarially determined contribution rate is considered for adoption by the Board annually. The ratio of assets to liabilities based on valuation assets was 52.1%, at June 30, 2012 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

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

For fiscal year 2013 (based on the June 30, 2010 actuarial valuation report), the normal cost rate increased from 6.57% to 7.47%, the past service rate increased from 36.04% to 42.09%, thus producing a total actuarially determined contribution rate of 49.56% for fiscal year 2013. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DCR Plan, which was 3.11% for fiscal year 2013. This calculation provided a fiscal year 2013 actuarially determined employer contribution rate of 52.67%. The Board adopted the actuarially determined contribution rate of 52.67% for fiscal year 2013.

The Plan funding status as of June 30 is as follows (in thousands):

	Valuation Year	
	2012	2011
Valuation assets	\$ 4,869,154	4,937,937
Accrued liabilities (total benefits)	9,346,444	9,128,795
Unfunded accrued liability	4,477,290	4,190,858
Funding ratio based on valuation assets	52.1%	54.1%
Fair value of assets	\$ 4,639,688	4,732,860
Funding ratio based on fair value of assets	49.6%	51.8%

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Contributions, Investment Income and Other Additions

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

	Additions (In thousands)				
	2013	2012	Increase/(decrease)		2011
			Amount	Percentage	
Plan members contributions	\$ 68,495	68,298	197	0.3%	\$ 69,150
Employer contributions	95,056	95,709	(653)	(0.7)	94,787
Appropriation – State of Alaska	302,777	234,517	68,260	29.1	190,850
Net investment income	608,251	13,901	594,350	4,275.6	852,859
Other additions	4,173	12,552	(8,379)	(66.8)	5,010
Total	<u>\$1,078,752</u>	<u>424,977</u>	<u>653,775</u>	<u>153.8%</u>	<u>\$1,212,656</u>

The System's employer contributions decreased from \$95,709,000 in fiscal year 2012 to \$95,056,000 in fiscal year 2013, a decrease of \$653,000 or 0.7%. The System's employer contributions increased from \$94,787,000 in fiscal year 2011 to \$95,709,000 in fiscal year 2012, an increase of \$922,000 or 1.0%. The decrease in employer contributions is attributable to a decrease in DB plan membership.

The State of Alaska provided \$302,777,000 for fiscal year 2013 and \$234,517,000 for fiscal year 2012 in employer on-behalf payments as required by Alaska Statute 14.25.085. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate increased from 45.55% in fiscal year 2012 to 52.67% in fiscal year 2013. The employer effective contribution rate of 12.56% is established in Alaska Statute 14.25.070(a).

The System's net investment income in fiscal year 2013 increased by \$594,350,000 or 4,275.6% from amounts recorded in fiscal year 2012. The System net investment income in fiscal year 2012 decreased by \$838,958,000 or 98.4% from amounts recorded in fiscal year 2011. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2013, the System experienced positive returns on investments.

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The System's investment rates of return at June 30 are as follows:

	Year ended		
	2013	2012	2011
System returns	12.59%	0.51%	21.40%
Domestic equities	21.24	1.83	33.38
International equities	15.03	(13.66)	28.27
Fixed income	0.57	4.82	5.55
Private equity	11.68	9.44	20.12
Absolute return	8.41	(2.05)	5.99
Real assets	10.65	10.45	15.51
Cash equivalents	0.25	0.42	0.46

Benefits and Other Deductions

The primary deduction of the DB Plan is the payment of pension and postemployment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the System comprise the costs of operations as follows:

	Deductions (In thousands)				
	2013	2012	Increase		2011
			Amount	Percentage	
Pension benefits	\$ 380,265	361,202	19,063	5.3%	\$ 343,191
Postemployment healthcare benefits	120,855	110,632	10,223	9.2	103,405
Refund of contributions	6,405	5,428	977	18.0	4,486
Administrative	6,945	6,681	264	4.0	6,575
Total	<u>\$ 514,470</u>	<u>483,943</u>	<u>30,527</u>	<u>6.3%</u>	<u>\$ 457,657</u>

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The System's pension benefit payments in 2013 increased \$19,063,000 or 5.3% from fiscal year 2012 and increased \$18,011,000 or 5.2% from fiscal year 2011 to 2012. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2013 increased \$10,223,000 or 9.2% from fiscal year 2012 and increased \$7,227,000 or 7.0% from fiscal year 2011 to 2012. The increase in healthcare costs in fiscal year 2013 is attributable in part to an increase in both the number of retirees and the average claims per retiree.

The System's administrative deductions in 2013 increased \$264,000 or 4.0% from fiscal year 2012 and increased \$106,000 or 1.6% from fiscal year 2011 to 2012. The increase in administrative costs in fiscal year 2013 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

Funding

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

- The employer contribution rate is determined by the System's consulting actuary and considered for adoption by the Board annually. Alaska Statute 14.25.070(a) sets the employer effective contribution rate at 12.56%. The difference between actuarially determined Board adopted rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.
- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Plan.
- Alaska Statute 14.25.085 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions are sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- The Board works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2013, the Twenty-Eighth Alaska State Legislature enacted one law that affects the System:

- House Bill 65 appropriates \$316.8 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2014. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 12.56% and the Board adopted rate of 53.62% for fiscal year 2014.

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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 \$13,901,000 in fiscal year 2012 to \$608,251,000 in fiscal year 2013, an increase of \$594,350,000 or 4,275.6%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceeded the actuarially assumed return of 8.0% (based on the June 30, 2010 actuarial report, which established the fiscal year 2013 rate) with a system rate of return of 12.59% at June 30, 2013.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 45.55% in fiscal year 2012 to 52.67% in fiscal year 2013. The Board adopted the actuarially determined contribution rate of 52.67% for fiscal year 2013, up 7.12% from the fiscal year 2012 Board adopted actuarially determined contribution rate of 45.55%. The statutory employer effective contribution rate remained at 12.56% for fiscal years 2012 and 2013.

The June 30, 2012 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 52.1% and an unfunded liability of \$4.5 billion.

For fiscal years 2013 and 2012, the DCR Plan's employer contribution rate was established at 12.56%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.49% and 0.58% for fiscal years 2013 and 2012, respectively. The DCR Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.00% for fiscal years 2013 and 2012, respectively.

Requests for Information

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

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

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**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Statement of System Net Assets
June 30, 2013
(With summarized financial information for June 30, 2012)
(In thousands)**

	Defined benefit plan			Defined contribution retirement plan					System total June 30, 2013	System total June 30, 2012
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical	Healthcare reimbursement arrangement	Total		
Assets:										
Cash and cash equivalents (notes 3 and 4):										
Short-term fixed income pool	\$ 40,498	33,864	74,362	2,508	46	306	1,607	4,467	78,829	93,120
Great West account	—	—	—	2,304	—	—	—	2,304	2,304	863
Total cash and cash equivalents	40,498	33,864	74,362	4,812	46	306	1,607	6,771	81,133	93,983
Receivables:										
Contributions	5,151	250	5,401	267	—	9	34	310	5,711	4,335
Due from State of Alaska										
General Fund	—	1,601	1,601	2,216	—	59	301	2,576	4,177	4,943
Due from retiree health fund	1	—	1	—	—	—	—	—	1	3
Other account receivable	4	1	5	—	—	—	—	—	5	—
Total receivables	5,156	1,852	7,008	2,483	—	68	335	2,886	9,894	9,281
Investments (notes 3, 4 and 5), at fair value:										
Fixed income securities										
Retirement fixed income pool	—	—	—	—	—	—	—	—	—	5,654
U.S. Treasury fixed income pool	249,343	142,341	391,684	—	196	647	2,529	3,372	395,056	488,069
High yield fixed income pool	92,322	52,703	145,025	—	72	240	937	1,249	146,274	127,158
International fixed income pool	64,562	36,855	101,417	—	51	167	655	873	102,290	107,916
Emerging markets debt pool	27,481	15,688	43,169	—	22	71	279	372	43,541	35,583
Total fixed income securities	433,708	247,587	681,295	—	341	1,125	4,400	5,866	687,161	764,380
Broad domestic equity	1,069,604	610,627	1,680,231	—	841	2,774	10,849	14,464	1,694,695	1,385,147
Broad international equity:										
International equity pool	636,937	363,615	1,000,552	—	501	1,652	6,461	8,614	1,009,166	764,955
Emerging markets equity pool	96,276	54,961	151,237	—	76	250	977	1,303	152,540	247,943
Total broad international equity	733,213	418,576	1,151,789	—	577	1,902	7,438	9,917	1,161,706	1,012,898
Private equity pool	293,629	167,622	461,251	—	231	762	2,979	3,972	465,223	463,580
Absolute return pool	144,616	82,556	227,172	—	114	375	1,467	1,956	229,128	198,336
Real assets:										
Real estate pool	249,597	143,202	392,799	—	197	651	2,545	3,393	396,192	374,341
Real estate investment trust pool	49,375	28,187	77,562	—	39	128	501	668	78,230	53,784
Master limited partnership pool	66,121	37,747	103,868	—	52	172	671	895	104,763	—
Energy pool	19,635	11,209	30,844	—	16	51	199	266	31,110	33,462
Farmland pool	112,615	74,469	187,084	—	103	338	1,323	1,764	188,848	169,617
Farmland water pool	17,794	—	17,794	—	—	—	—	—	17,794	14,648
Timber pool	47,583	27,164	74,747	—	37	123	483	643	75,390	65,992
Treasury inflation protected securities pool	1,518	867	2,385	—	1	4	16	21	2,406	56,844
Total real assets	564,238	322,845	887,083	—	445	1,467	5,738	7,650	894,733	768,688
Other investment funds, at fair value:										
Pooled investment funds	—	—	—	66,826	—	—	—	66,826	66,826	38,667
Collective investment funds	—	—	—	84,331	—	—	—	84,331	84,331	66,636
Total other investment funds	—	—	—	151,157	—	—	—	151,157	151,157	105,303
Total investments	3,239,008	1,849,813	5,088,821	151,157	2,549	8,405	32,871	194,982	5,283,803	4,698,332
Other assets	—	1,179	1,179	—	—	—	—	—	1,179	1,179
Total assets	3,284,662	1,886,708	5,171,370	158,452	2,595	8,779	34,813	204,639	5,376,009	4,802,775
Liabilities:										
Accrued expenses	3,694	225	3,919	720	—	—	—	720	4,639	3,833
Claims payable (note 6)	—	20,062	20,062	4,498	—	—	—	—	20,062	14,813
Forfeitures payable to employers	—	—	—	—	—	—	—	4,498	4,498	—
Due to State of Alaska General Fund	1,838	—	1,838	—	—	—	—	—	1,838	192
Total liabilities	5,532	20,287	25,819	5,218	—	—	—	5,218	31,037	18,838
Net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals										
	\$ 3,279,130	1,866,421	5,145,551	153,234	2,595	8,779	34,813	199,421	5,344,972	4,783,937

See accompanying notes to the financial statements.

FINANCIAL SECTION

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)
Statement of Changes in System Net Assets
June 30, 2013
(With summarized financial information for June 30, 2012)
(In thousands)

	Defined benefit plan			Defined contribution retirement plan				System total June 30, 2013	System total June 30, 2012	
	Pension	Alaska retiree healthcare trust	Total	Participant directed	Occupational death and disability	Retiree medical	Healthcare reimbursement arrangement			Total
Additions:										
Contributions:										
Employers	\$ 37,372	35,293	72,665	14,474	—	1,101	6,816	22,391	95,056	95,709
Plan members	50,201	250	50,451	18,044	—	—	—	18,044	68,495	68,298
Employer Legislative Relief	196,945	105,832	302,777	—	—	—	—	—	302,777	234,517
Total contributions	284,518	141,375	425,893	32,518	—	1,101	6,816	40,435	466,328	398,524
Investment income:										
Net appreciation (depreciation) in fair value (note 2)	325,741	178,764	504,505	18,033	240	731	2,743	21,747	526,252	(94,162)
Interest	15,013	8,470	23,483	7	11	35	131	184	23,667	26,305
Dividends	44,100	24,704	68,804	—	33	103	389	525	69,329	91,682
Total investment income	384,854	211,938	596,792	18,040	284	869	3,263	22,456	619,248	23,825
Less investment expense	10,986	11	10,997	—	—	—	—	—	10,997	9,924
Net investment income	373,868	211,927	585,795	18,040	284	869	3,263	22,456	608,251	13,901
Other:										
Other	19	4,152	4,171	2	—	—	—	2	4,173	12,552
Total additions	658,405	357,454	1,015,859	50,560	284	1,970	10,079	62,893	1,078,752	424,977
Deductions:										
Pension and postemployment benefits	380,265	120,855	501,120	—	—	—	—	—	501,120	471,834
Refunds of contributions	2,668	—	2,668	3,737	—	—	—	3,737	6,405	5,428
Administrative	2,989	3,219	6,208	731	—	3	3	737	6,945	6,681
Total deductions	385,922	124,074	509,996	4,468	—	3	3	4,474	514,470	483,943
Adjustment to beginning net assets for prior year forfeitures payable	—	—	—	3,247	—	—	—	3,247	3,247	—
Net increase (decrease)	272,483	233,380	505,863	42,845	284	1,967	10,076	55,172	561,035	(58,966)
Net assets held in trust for pension benefits, postemployment healthcare benefits, and individuals										
Balance, beginning of year	3,006,647	1,633,041	4,639,688	110,389	2,311	6,812	24,737	144,249	4,783,937	4,842,903
Balance, end of year	\$ 3,279,130	1,866,421	5,145,551	153,234	2,595	8,779	34,813	199,421	5,344,972	4,783,937

See accompanying notes to the financial statements.

FINANCIAL SECTION

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

Notes to Financial Statements

June 30, 2013

(With summarized financial information for June 30, 2012)

(1) Description

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

At June 30, 2013 and 2012, the number of participating local government employers and public organizations including the State was as follows:

State of Alaska	1
School districts	53
Other	<u>4</u>
Total employers	<u>58</u>

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

Defined Benefit Retirement Plan

General

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

STATE OF ALASKA
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(With summarized financial information for June 30, 2012)

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

	Valuation as of June 30	
	2012	2011
Retirees and beneficiaries currently receiving benefits	11,301	11,016
Terminated plan members entitled to future benefits	868	852
Total current and future benefits	12,169	11,868
Active plan members:		
Vested	5,918	5,911
Nonvested	927	1,392
Total active plan members	6,845	7,303
Total members	19,014	19,171

Pension Benefits

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, 55, or early retirement age, 50. For members hired after June 30, 1990, the normal and early retirement ages are 60 and 55, respectively. Members may also retire at any age and receive a normal benefit when they accumulate the required credited service.

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

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of 20 years is equal to 2% of the employee's average base salary. The benefit for each year over 20 years of service subsequent to June 30, 1990 is equal to 2.5% of the employee's base salary.

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

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

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

FINANCIAL SECTION

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

Notes to Financial Statements

June 30, 2013

(With summarized financial information for June 30, 2012)

Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age 60 or older, regardless of their initial hire dates. Members first hired after June 30, 1990 may receive major medical benefits prior to age 60 by paying premiums.

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

Death Benefits

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

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

Disability Benefits

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

STATE OF ALASKA
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Notes to Financial Statements

June 30, 2013

(With summarized financial information for June 30, 2012)

Contributions

DB Plan Member Contributions

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1.11% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.50% per annum, compounded annually.

Employer Contributions

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial cost method of funding. The DB Plan uses the level percentage of pay, normal cost basis for pension and level dollar, normal cost basis for healthcare. The unfunded liability is amortized over a 25-year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the adopted actuarially determined contribution rate for the fiscal year.

Contributions from the State of Alaska

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

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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Defined Contribution Retirement Plan

General

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

The DCR Pension Trust Fund is a hybrid plan containing traditional defined contribution (DC) components as well as defined benefit (DB) components. Within the DCR Pension Trust Fund, the funds that are DC components of the plan include the Participant Directed Fund and the Healthcare Reimbursement Arrangement. The DB components of the DCR Pension Trust Fund are the Retirement Medical Plan and the Occupation Death and Disability Plan.

At June 30, 2013 and 2012, the DCR Pension Trust Fund membership consisted of the following:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	380	326
50% Vested	210	165
75% Vested	115	82
100% Vested	<u>124</u>	<u>61</u>
Total terminated plan members entitled to future benefits	<u>829</u>	<u>634</u>
Total current and future benefits	<u>829</u>	<u>634</u>
Active plan members:		
25% Vested	562	618
50% Vested	530	552
75% Vested	485	499
100% Vested	1,034	646
Nonvested	<u>765</u>	<u>813</u>
Total active plan members	<u>3,376</u>	<u>3,128</u>
Total members	<u><u>4,205</u></u>	<u><u>3,762</u></u>

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Pension Benefits

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

Postemployment Healthcare Benefits

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

Death Benefits

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

The monthly survivor's pension section for survivors of employees is 40% of the employee's monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

Disability Benefits

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

Contributions

DCR Plan Member Contributions

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

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Employer Contributions

An employer shall contribute to each DCR member's account bases on the member's compensation. For fiscal year 2013, the rates are 7.0% for the individual account, 0.49% for Retiree Medical Plan, 0.00% for Occupational Death and Disability. The employer is required to make a Health Reimbursement Arrangement (HRA) contribution to each member's account. The HRA amount is based on the pay cycle and if the employee is a salaried or hourly employee. The fiscal year 2013 HRA contribution amount are:

<u>Annual</u>	<u>Quarterly</u>	<u>Semi-monthly</u>	<u>Bi-weekly</u>	<u>Monthly</u>	<u>Hourly</u>
\$ 1,848.43	462.11	77.02	71.09	154.04	1.18

Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll, which is equal to the employer effective rate minus the DCR Plan total employer contributions. The employer effective rate is statutorily set at 12.56%. The contributions for the DBUL are posted to the DB Pension and Postemployment Healthcare plans.

Refunds

A member is eligible to elect distribution of their account 60 days after termination of employment.

Participant Accounts

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

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

STATE OF ALASKA
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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. The DB Plan and DCR Plan follow the provisions of GASB Statement No. 50, *Pension Disclosures* (GASB 50). GASB 50 amended certain disclosure provisions of GASB 25 and expanded the required disclosures regarding pensions.

The DB Plan follows the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included 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, Division of Treasury (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid, and all expenses are recorded on a cash basis.

Pooled Investments

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

FINANCIAL SECTION

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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.

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

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

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

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

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are composed of 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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Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are composed of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy-related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are 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, farmland water, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are composed of separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

Defined Contribution Participant Directed Investments

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

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are composed of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year, which include but are not limited to commercial paper, asset-backed securities, banker acceptances, certificates of deposit with ratings of A1/P1 or better, as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are composed of commingled investment funds, alongside other investors, through ownership of equity shares.

Contributions Receivable

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

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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 System on behalf of others and amounts paid by others on behalf of the System.

Federal Income Tax Status

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

(3) Investments

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

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

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the DCR Participant Directed Pension Plans under the Board's fiduciary responsibility.

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, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Investment Funds 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 System investments included the following (in thousands):

	Fair value						Total	
	Fixed income pools							
	Short-term	U.S. Treasury	High yield	International	Convertible	TIPS	Other	
Commercial paper	\$ 5,798	—	—	—	—	—	—	\$ 5,798
Convertible bonds	—	—	528	—	32,346	—	—	32,874
Corporate bonds	7,107	15,987	125,396	—	—	—	—	148,490
Deposits	2,971	1	5,118	349	135	—	—	8,574
Foreign corporate bonds	—	—	—	7,847	—	—	—	7,847
Foreign government bonds	—	—	—	91,513	—	—	—	91,513
Mortgage-backed	298	21,440	—	—	—	—	—	21,738
Municipal bonds	69	548	—	—	—	—	—	617
Other asset-backed	59,328	12,140	509	—	—	—	—	71,977
Short-term investment fund	—	—	—	946	—	—	—	946
U.S. government agency	—	9,853	—	—	—	—	—	9,853
U.S. government agency discount note	10	—	—	—	—	—	—	10
Treasury bills	58,558	—	—	—	—	—	—	58,558
Treasury bonds	—	—	—	—	—	994	—	994
Treasury notes	—	309,676	—	—	—	1,359	—	311,035
Treasury strips	—	571	—	—	—	—	—	571
Yankees:								
Corporate	1,862	2,203	13,664	—	—	—	—	17,729
Government	—	8,168	—	—	—	—	—	8,168
Fixed income pools:								
Equity	—	—	—	—	4,034	—	—	4,034
Warrants	—	—	15	—	—	—	—	15
Emerging markets debt pool	—	—	—	—	—	—	43,541	43,541
Broad domestic equity pool								
Deposit	—	—	—	—	—	—	9,832	9,832
Equity	—	—	—	—	—	—	1,532,062	1,532,062
Futures	—	—	—	—	—	—	(88)	(88)
Limited partnership	—	—	—	—	—	—	77,678	77,678
Options	—	—	—	—	—	—	(5,335)	(5,335)
Treasury bills	—	—	—	—	—	—	842	842
Broad international equity pool:								
Deposits	—	—	—	—	—	—	17,875	17,875
Equity	—	—	—	—	—	—	867,157	867,157
Mutual funds	—	—	—	—	—	—	118,286	118,286
Rights	—	—	—	—	—	—	6	6
Short-term investment fund	—	—	—	—	—	—	3,245	3,245
Warrants	—	—	—	—	—	—	30	30
Emerging markets equity pool	—	—	—	—	—	—	152,538	152,538
Private equity pool:								
Limited partnerships	—	—	—	—	—	—	464,921	464,921
Equity	—	—	—	—	—	—	302	302
Absolute return pool:								
Limited partnerships	—	—	—	—	—	—	229,129	229,129
Real estate pool								
Commingled funds	—	—	—	—	—	—	91,331	91,331
Limited partnerships	—	—	—	—	—	—	96,053	96,053
Real estate	—	—	—	—	—	—	208,809	208,809
Real estate investment trust pool:								
Equity	—	—	—	—	—	—	77,863	77,863
Master limited partnership pool:								
Equity	—	—	—	—	—	—	103,477	103,477
Energy pool:								
Limited partnerships	—	—	—	—	—	—	31,110	31,110
Farmland pool:								
Agricultural holdings	—	—	—	—	—	—	188,848	188,848
Farmland water pool:								
Agricultural holdings	—	—	—	—	—	—	17,794	17,794
Timber pool:								
Timber holdings	—	—	—	—	—	—	75,390	75,390
Participant directed:								
Collective investment funds	—	—	—	—	—	—	84,157	84,157
Pooled investment funds	—	—	—	—	—	—	66,694	66,694
Net other assets (liabilities)	(2,425)	1,639	1,044	1,635	372	13	5,160	7,438
Other pool ownership	(54,747)	12,830	—	—	—	40	41,877	—
Unallocated deposit in transit	—	—	—	—	—	—	306	306
Total invested assets	\$ 78,829	395,056	146,274	102,290	36,887	2,406	4,600,890	\$ 5,362,632

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Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months 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 Defined Benefit 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 Fixed Income 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.

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 Diversification Index. The effective duration for Citigroup Non-USD World Government Bond Index at June 30, 2013, was 7.25 years and the effective duration of JP Morgan Global Bond Index at June 30, 2013 was 4.89 years, for a blended duration of 6.54 years at June 30, 2013.

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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 DB Plan's fixed income pools, by investment type, was as follows (in years):

	Effective duration (in years)			
	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

Defined Contribution Pooled Investment Funds

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

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2013, the duration of the government corporate debt and mortgage-backed securities was 5.48 years and the duration of the Barclays Capital Aggregate Bond Index was 5.39 years.

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Defined Contribution Collective Investment Funds

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2013, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 46 days, SSgA World Government Bond Ex-U.S. Index: 7.35 years, SSgA Long U.S. Treasury Bond Index: 16.27 years, SSgA TIPS Index: 7.17 years, Barclays Government Credit Bond Fund: 5.38 years, and the Barclays Intermediate Government Bond Fund: 3.55 years.

Credit Risk

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Asset-backed and non agency 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 non-agency 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 & Poor's.

Corporate, asset-backed, and non-agency 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 non-agency 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 & 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, U.S. Treasury obligations or the internally managed short-term or substantially similar portfolio at the time of purchase.

Corporate, asset-backed, and non agency 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 non agency mortgage securities may be purchased

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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 the portfolio will be included in the limitation.

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.

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 the ratings shall apply for evaluating credit quality.

Convertible Bonds

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard & Poor's, Moody's or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio. Non-rated securities to which the manager assigns to non investment grade rating are subject to the below investment grade limitation.

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

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

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TIPS

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard & 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 non agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

Domestic Equity (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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At June 30, 2013, the System'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
Deposit	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 government bonds	AAA	—	—	—	6.77	—	—
Foreign government bonds	AA	—	—	—	1.68	—	—
Foreign government bonds	A	—	—	—	22.90	—	—
Foreign government bonds	BBB	—	—	—	3.58	—	—
Foreign government bonds	BB	—	—	—	1.41	—	—
Foreign government 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
Treasury strips	AA	—	0.14	—	—	—	—
Short-term investment	Not rated	—	—	—	0.92	—	—
Warrants	Not rated	—	—	0.01	—	—	—
Yankees							
Corporate	AAA	—	0.06	—	—	—	—
Corporate	AA	0.55	0.28	—	—	—	—
Corporate	A	0.84	0.07	—	—	—	—
Corporate	BBB	—	0.14	—	—	—	—
Corporate	BB	—	—	3.37	—	—	—
Corporate	B	—	—	4.80	—	—	—
Corporate	CCC	—	—	0.55	—	—	—
Corporate	Not rated	—	—	0.58	—	—	—
Government	AAA	—	0.33	—	—	—	—
Government	AA	—	0.35	—	—	—	—
Government	Not rated	—	1.38	—	—	—	—
No credit risk		(1.79)	0.42	0.71	1.62	1.01	0.53
		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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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, any 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 provided \$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 System's Invested Assets had the following uncollateralized and uninsured deposits (in thousands):

	<u>Amount</u>
International equity pools	\$ 17,876
International fixed income pool	349

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, 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. The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. 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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At June 30, 2013, the System had exposure to foreign currency risk with the following deposits (in thousands):

Currency	International fixed income			International equity			Private equity	
	Deposits	Foreign government bonds	Foreign corporate bonds	Deposits	Equity	Mutual funds	Rights	Limited partnerships
Australian Dollar	\$ 19	3,440	—	201	19,459	—	—	84
Brazilian Real	—	6,364	—	12	3,568	—	—	—
Canadian Dollar	—	—	—	53	24,445	—	—	—
Chilean Peso	—	1,141	—	—	—	—	—	—
Colombian Peso	36	1,403	—	—	—	—	—	—
Danish Krone	—	—	—	30	8,123	—	—	—
Euro currency	—	13,908	7,148	15,168	223,658	—	6	34,907
Hong Kong Dollar	—	—	—	208	29,742	—	—	—
Hungarian Forint	—	1,443	—	—	—	—	—	—
Indian Rupee	—	—	—	—	452	—	—	—
Indonesian Rupiah	—	—	—	56	3,466	—	—	—
Israeli Shekel	—	—	—	20	347	—	—	—
Japanese Yen	65	28,789	—	1,250	173,639	—	—	—
Malaysian Ringgit	83	5,051	—	—	1,804	—	—	—
Mexican Peso	121	6,105	699	3	522	—	—	—
New Russian Ruble	—	2,343	—	—	—	—	—	—
New Taiwan Dollar	—	—	—	16	3,958	—	—	—
New Zealand Dollar	—	—	—	1	2,625	—	—	—
Norwegian Krone	—	—	—	27	4,854	—	—	—
Peruvian Nouveau Sol	—	1,441	—	—	—	—	—	—
Philippine Peso	—	—	—	—	619	—	—	—
Polish Zloty	—	8,581	—	—	—	—	—	—
Pound Sterling	—	—	—	583	158,376	129	—	9,092
Singapore Dollar	—	—	—	57	11,389	—	—	—
South African Rand	—	2,661	—	—	—	—	—	—
South Korean Won	14	—	—	—	12,033	—	—	—
Swedish Krona	—	6,929	—	85	21,212	—	—	—
Swiss Franc	—	—	—	91	55,214	—	—	—
Thailand Baht	11	—	—	15	4,658	—	—	—
Turkish Lira	—	1,914	—	—	—	—	—	—
UAE Dirham	—	—	—	—	480	—	—	—
	<u>\$ 349</u>	<u>91,513</u>	<u>7,847</u>	<u>17,876</u>	<u>764,643</u>	<u>129</u>	<u>6</u>	<u>44,083</u>

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At June 30, 2013, the Board 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.

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 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 Debt or TIPS Pools.

At June 30, 2013, the Board Invest 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 Board is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2013, the System had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value		
	Classification	Amount	Classification	Amount	Notional
Equity options bought	Investment revenue	\$ —	Options	\$ —	\$ —
Equity options written	Investment revenue	79	Options	(5,317)	(833)
FX forwards	Investment revenue	983	Long-term instruments	576	8,034
Index futures long	Investment revenue	3,933	Futures	—	16
Index options written	Investment revenue	211	Options	(19)	(1)
Rights	Investment revenue	(45)	Common stock	6	20
Warrants	Investment revenue	18	Common stock	45	97

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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 non-performance 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 System had the following Foreign Currency risk related to forward contracts (in thousands):

Currency name	Currency forward contracts			Total exposure
	Options	Net receivables	Net payables	
Australian Dollar	—	(35)	542	507
Euro currency	—	—	—	6
Japanese Yen	6	—	25	25
New Zealand Dollar	—	—	44	44
	<u>6</u>	<u>(35)</u>	<u>611</u>	<u>582</u>

At June 30, 2013, the System had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

Counterparty name	Percentage of net exposure	S&P rating	Fitch rating	Moody's rating
Bank of New York	4.04%	A+	AA-	Aa3
State Street Bank London	95.68	A+	A+	A1
UBS AG	0.13	A	A	A2
Maximum amount of loss Alaska ARMB (TRS) would face in case of default of all counterparties, i.e., aggregated (positive) fair value of OTC positions as of June 30, 2013				\$ 611
Effect of collateral reducing maximum exposure				—
Liabilities subject to netting arrangements reducing exposure				—
Resulting net exposure				<u>\$ 611</u>

(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 DB 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.

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

	<u>2013</u>	<u>2012</u>
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	<u>14,813</u>	<u>13,542</u>
Total, beginning of year	14,813	13,542
Benefit deductions	120,855	110,632
Benefits paid	<u>(115,606)</u>	<u>(109,361)</u>
Total, end of year	<u>\$ 20,062</u>	<u>14,813</u>
End of year:		
Due to State of Alaska General Fund for outstanding warrants	\$ —	—
Incurred but not reported	<u>20,062</u>	<u>14,813</u>
Total, end of year	<u>\$ 20,062</u>	<u>14,813</u>

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(7) Funded Status and Funding Progress

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

	Actuarial valuation date	Actuarial aggregate accrued liability (AAL) - entry age	Actuarial valuation assets	Assets as a percent of accrued liability (funded ratio)	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Pension	June 30, 2012	\$ 6,399,777	3,194,994	49.9%	\$ 3,204,783	561,971	570.3%
Postemployment healthcare	June 30, 2012	5,046,942	1,674,160	33.2	3,372,782	561,971	600.2

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

	Actuarial valuation date	Actuarial accrued liability (AAL) - entry age	Actuarial valuation assets	Funded ratio	Unfunded actuarial accrued liability (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
Death and disability plan	June 30, 2012	\$ 63	2,348	3,727.0%	\$ (2,285)	200,043	(1.1)%
Retiree medical	June 30, 2012	19,427	6,937	35.7	12,490	200,043	6.2

The funding ratio as of June 30, 2012 has decreased. The decrease in the funding ratio is attributed to adjustments in the medical cost and assumptions, investment experience, change in census data assumptions, and an increase in average credited service.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present 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 schedules of contributions (unaudited) from employers present 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 30 years.

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

Valuation Date	June 30, 2012	June 30, 2012
	Defined Benefit	Defined Contribution ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare	Entry age normal; level percentage of pay normal cost basis for occupational death and disability; level dollar normal cost for retiree medical
Amortization method	Level dollar, closed	Level percent of pay, closed with bases established annually
Equivalent single amortization period	18 years	27 years
Asset valuation method	5 year smoothed market, 80%/120% of fair value corridor	5 year smoothed market, 80%/120% of fair value corridor
Actuarial assumptions:		
Investment rate of return	8.00% for pension, 5.01% for healthcare (includes inflation at 3.12%)	8.00% (includes inflation at 3.12%)
Projected salary increases	6.11% for first 5 years of service grading down to 3.62% after 20 years	6.11% for first 5 years of service grading down to 3.62% after 20 years
Cost-of-living adjustment	Postretirement pension adjustment	Not applicable

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Health cost trend for defined benefit, defined contribution occupational death and disability, and retiree medical plans is as follows:

Fiscal year	Medical pre-65	Medical post-65	Prescription drugs
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 valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

The State of Alaska Teachers Retirement System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of the annual required contribution (ARC) actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 5.01% as of June 30, 2010, to be used for fiscal 2013 disclosure.

The State of Alaska Teachers' Retirement System DCR Plan's retiree medical benefits are 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 of Alaska receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Disregarding future Medicare Part D payments, the fiscal 2015 employer ARC for accounting purposes is 2.39% of pay for retiree medical benefits and 2.39% of pay for retiree medical and death and disability benefits combined.

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(8) Commitments and Contingencies

Commitments

The Board entered into an agreement through external manager to provide capital funding for limited partnership in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2013, the Board's unfunded commitments were as follows (in thousands):

<u>Portfolio</u>	<u>Unfunded commitment</u>	<u>Estimated to be paid through:</u>
Domestic equity	\$ 2,457	May be canceled annually in December with 90 days notice
Private equity	225,778	Fiscal year 2023
Energy	32,881	Fiscal year 2022
Real estate	<u>24,387</u>	Fiscal year 2015
	<u>\$ 285,503</u>	

Contingencies

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

(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 DB Plan was approved for participation in the Medicare Part D program beginning calendar year 2006.

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(10) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) is 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 2011. The program ends on January 1, 2014.

(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* (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 Pension Plans - an amendment of GASB Statement No. 27* (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.

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Schedule of Funding Progress
Defined Benefit Retirement
Pension Benefits
June 30, 2013
(In thousands)

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 5,043,448	3,441,867	68.2%	\$ 1,601,581	554,245	289.0%
2008	5,231,654	3,670,086	70.2	1,561,568	549,148	284.4
2009	5,463,987	3,115,719	57.0	2,348,268	557,026	421.6
2010	6,006,981	3,259,868	54.3	2,747,113	564,887	486.3
2011	6,196,104	3,345,949	54.0	2,850,155	584,068	488.0
2012	6,399,777	3,194,994	49.9	3,204,783	561,971	570.3

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Schedule of Funding Progress
Defined Benefit Retirement
Postemployment Healthcare Benefits
 June 30, 2013
 (In thousands)

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 4,059,573	982,532	24.2%	\$ 3,077,041	554,245	555.2%
2008	4,648,055	1,266,890	27.3	3,381,165	549,148	615.7
2009	4,604,820	1,357,239	29.5	3,247,581	557,026	583.0
2010	3,076,388	1,479,260	48.1	1,597,128	564,887	282.7
2011	3,635,492	1,591,988	43.8	2,043,504	584,068	349.9
2012	5,046,942	1,674,160	33.2	3,372,782	561,971	600.2

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Defined Contribution Retirement
Occupational Death and Disability Benefits
June 30, 2013
 (In thousands)

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 16	—	—%	\$ 16	28,410	0.1%
2008	44	420	954.5	(376)	56,369	(0.7)
2009	14	1,071	7,650.0	(1,057)	89,708	(1.2)
2010	18	1,577	8,761.1	(1,559)	118,813	(1.3)
2011	57	2,193	3,847.4	(2,136)	170,606	(1.3)
2012	63	2,348	3,727.0	(2,285)	200,043	(1.1)

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Defined Contribution Retirement
Retiree Medical Benefits
June 30, 2013
(In thousands)

Actuarial valuation year ended June 30	Actuarial accrued liabilities (AAL)	Actuarial value of plan assets	Funded ratio	Unfunded actuarial accrued liabilities (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 403	597	148.1%	\$ (194)	28,410	(0.7)%
2008	899	1,308	145.5	(409)	56,369	(0.7)
2009	1,690	2,353	139.2	(663)	89,708	(0.7)
2010	2,809	3,895	138.7	(1,086)	118,813	(0.9)
2011	4,386	5,373	122.5	(987)	170,606	(0.6)
2012	19,427	6,937	35.7	12,490	200,043	6.2

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

Note: The decrease in the funding ratio is attributed to adjustments in the retiree medical cost and assumptions, investment experience, changes in census data assumptions, and an increase in average credited service.

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Required Supplementary Information (Unaudited)
Schedule of Contributions from Employers and the State of Alaska
Defined Benefit Retirement
Pension and Postemployment Healthcare Benefits
June 30, 2013
(In thousands)

Year ended June 30	Actuarial valuation year ended June 30 (1)	Annual required contribution			Pension percentage contributed			Postemployment healthcare percentage contributed		
		Pension	Post-employment healthcare	Total	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)	By employer	By State of Alaska (note 3)	Total percentage contributed (note 3)
2007	2004	169,974	76,879	246,853	62.2%	—	62.2	62.2	—	62.2
2008	2005	134,544	185,271	319,815	23.3	82.7	106.0	23.6	85.7	109.3
2009	2006	94,388	164,171	258,559	28.7	110.6	139.3	28.7	62.1	90.8
2010 ⁽²⁾	2007	170,788	312,922	483,710	19.8	58.8	78.6	13.6	38.8	52.4
2011	2008	167,978	167,686	335,664	19.5	65.1	84.6	25.8	51.5	77.3
2012	2009	229,509	192,700	422,209	16.6	68.6	85.2	18.8	46.6	65.4

⁽¹⁾ Actuarial valuation related to annual required contribution for fiscal year.

⁽²⁾ In the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed includes the Mercer legal settlement, net of fees, as well as the Medicare Part D subsidy contributed by the State to the Healthcare fund.

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Schedule of Contributions
Defined Contribution Retirement
Occupational Death and Disability Benefits

June 30, 2013
 (In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	\$ 72	— %
2008	408	100.0
2009	623	100.0
2010	442	100.0
2011	474	100.0
2012	—	100.0

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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Schedule of Contributions
Defined Contribution Retirement
Retiree Medical Benefits
June 30, 2013
(In thousands)

<u>Year ended</u> <u>June 30</u>	<u>Annual</u> <u>required contribution</u>	<u>Percentage of ARC</u> <u>contributed</u>
2007	\$ 575	100.0%
2008	763	85.0
2009	1,162	85.0
2010	1,628	87.0
2011	1,422	81.0
2012	1,420	82.0

See accompanying notes to required supplementary information (unaudited) and *Independent Auditors' Report*.

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June 30, 2013

(1) Description of Schedule of Funding Progress

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

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

(2) Actuarial Assumptions and Methods

Defined Benefit Plan

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 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 dollar amount and represents a change from level percentage of payroll amortization method effective June 30, 2012. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.
- (b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.
- (c) Valuation of medical 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 non prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. 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) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – inflation 3.12% per year, and productivity 0.50% per year.

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- (f) Payroll growth – 3.62% per year (inflation + productivity).
- (g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (h) Mortality (pre-termination) – Based upon the 2005 – 2009 actual experience. 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from non-occupational causes 85% of the time. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.
- (i) Mortality (post-termination) – Based upon the 2005 – 2009 actual experience study. The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and 4-year setback for males. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.
- (j) Turnover – Select and ultimate rates based upon the 2005 – 2009 actual withdrawal experience.
- (k) Disability – Incidence rates based upon the 2005 – 2009 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
- (l) Retirement – Retirement rates based on the 2005 – 2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date.
- (m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
- (n) Dependent children – Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
- (o) Contribution refunds – 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with non vested benefits are assumed to have their contributions refunded.
- (p) Cost of living allowance (COLA) – Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
- (q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates or dies.
- (r) Post retirement pension adjustment (PRPA) – 50% and 75% of assumed inflation or 1.56% and 2.34% respectively, is valued for the annual automatic PRPA as specified in the statute.

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 June 30, 2013

- (s) Expenses – All expenses are net of investment return assumption.
- (t) Part-time status – Part-time members are assumed to earn 0.60 years of credited service per year.
- (u) Re-employment option – The actuary assumes all re-employed retirees return to work under the Standard Option.
- (v) Service – Total credited service is provided by the State of Alaska (State). The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.
- (w) Final average earnings – Final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.
- (x)) Modified Cash Refund – Benefits for active members are valued using a 3-year certain and lif form of payment to account for modified cash refund. For deferred vested and retired members, the certain period equals their account balance divided by their pension benefit amount.
- (y) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY13 medical and prescription 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

- (z) Third-party administrator fees – \$163.52 per person per year; assumed trend rate of 5% per year.
- (aa) Medicare Part B Only – For actives and retirees not yet Medicare-eligible, participation is set based on whether the member/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or rehire.

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(bb) 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 FY13 pre-Medicare medical claims costs to get the FY14 medical claims cost.

<u>Fiscal year</u>	<u>Medical pre-65</u>	<u>Medical post-65</u>	<u>Prescription drugs</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

STATE OF ALASKA
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For the June 30, 2012 valuations 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 amount beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline cost 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 a State of Alaska 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 limit year which the rate of growth in health care 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. The Actuary set pharmacy 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 the Actuary is seeing for medical trend and consistent within the industry.

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

<u>Key assumption</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	1.7	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.

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(cc) Aging factors:

<u>Age</u>	<u>Medical</u>	<u>Prescription drugs</u>
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-73	4.0	1.5
74-83	1.5	0.5
84-93	0.5	—
94+	—	—

(dd) Retired member contributions for medical benefits – Currently, contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY13 contributions based on monthly rates shown below for calendar 2012 and 2013 are assumed based on the coverage category for current retirees. The retiree only rate shown is used for current active and inactive members in Tier 2 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled and are projected to have single coverage. The retiree and spouse rate shown below is used for those projected to have a covered spouse:

<u>Coverage category</u>	<u>Calendar 2013</u>		<u>Calendar 2012</u>
	<u>Annual contribution</u>	<u>Monthly contribution</u>	<u>Monthly contribution</u>
Retiree only	\$ 9,876	823	807
Retiree and spouse	19,764	1,647	1,615
Retiree and child(ren)	13,956	1,163	1,140
Retiree and family	23,844	1,987	1,948
Composite	14,676	1,223	1,200

Contribution rates for all coverage tiers and weighted average are provided for reference purposes.

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- (ee) Trend rate for retired member contributions – The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 8.4% is applied to the FY12 retired member medical contributions to get the FY14 retired member medical contributions.

Fiscal year:

2013	8.4%
2014	8.2
2015	8.0
2016	7.6
2017	7.2
2018	6.7
2019	6.4
2025	5.9
2050	5.0
2100	4.5

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2012 valuation. Note that actual FY13 retired member medical contributions are reflected in the valuation so trend on such contribution during FY13 is not applicable.

- (ff) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 100% of those who are retired prior to age 60 and actually declined coverage, or who are assumed to decline non-system paid coverage, are assumed to re-enroll at age 60 (when all coverage is system-paid for retirees included in this report).

Defined Contribution Retirement Plan

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 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 percentage of expected payroll. However, in keeping with 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. This method will be phased in over five years. Fair Value of Assets was \$0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of fair value of assets.

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- (c) Valuation of retiree medical benefits – Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles, and out-of-pocket limits, fiscal year 2012 claim costs were reduced to 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.
- (d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.
- (f) Payroll growth – 3.62% per year (inflation+productivity).
- (g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (h) Mortality (pre termination) – Based upon the 2005 – 2009 actual experience for the TRS DB Plan. 55% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and 45% for males. 15% of deaths are assumed to result from occupational causes. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.
- (i) Mortality (post termination) – Based upon the 2005 – 2009 actual experience of the TRS DB Plan. 3-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and 4-year setback for males. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.
- (j) Turnover – Select rates were estimated and ultimate rates were set to the TRS DB Plan's rate loaded by 10%.
- (k) Disability – Incidence rates based upon the 2005 – 2009 actual experience of the TRS DB Plan. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.

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

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

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

(n) Part-time status – Part-time employees are assumed to earn 0.60 years of credited service per year.

(o) Expenses – All expenses are net of the investment return assumption.

(p) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY13 medical benefits are shown below:

	<u>Medical</u>	<u>Prescription drugs</u>
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

(q) Third-party administrator fees – \$163.52 per person per year; assumed trend rate of 5% per year.

(r) Base claims cost adjustments – Due to higher initial copays, deductibles, out-of-pocket limits, and member cost sharing compared to the DB medical plan, the following cost adjustments were applied to the per capita claims cost rates: 0.881 for medical plan, 0.929 for the prescription drug plan, and 0.998 for the annual indexing for member cost sharing.

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June 30, 2013

(s) 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 FY13 medical claims cost to get the FY14 medical claims costs:

<u>Fiscal year</u>	<u>Medical pre-65</u>	<u>Medical post-65</u>	<u>Prescription drugs</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 cost. This model effectively begins estimating trend amount beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska. 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 a State of Alaska 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 limit year which the rate of growth in health care 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. The Actuary 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 Actuary are seeing for medical trend and consistent within the industry.

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Notes to Required Supplementary Information (Unaudited)
June 30, 2013

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

<u>Key assumption</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
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2015 PCCC	\$10,000	\$10,295	\$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	1.7	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.

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Notes to Required Supplementary Information (Unaudited)

June 30, 2013

(t) Aging factors:

<u>Age</u>	<u>Medical</u>	<u>Prescription drugs</u>
0 – 44	2.0%	4.5%
45 – 54	2.5	3.5
55 – 64	3.5	3.0
65 – 73	4.0	1.5
74 – 83	1.5	0.5
84 – 93	0.5	—
94 +	—	—

(u) Retiree medical participation:

<u>Decrement due to disability</u>		<u>Decrement due to retirement</u>	
<u>Age</u>	<u>Percent participation</u>	<u>Age</u>	<u>Percent participation</u>
<56	73.00%	<55	40.0%
56	77.50	56	50.0
57	79.75	57	55.0
58	82.00	58	60.0
59	84.25	59	65.0
60	86.50	60	70.0
61	88.75	61	75.0
62	91.00	62	80.0
63	93.25	63	85.0
64	95.50	64	90.0
65+	94.00	65+	Years of <u>Service</u>
		<15	70.5%
		15-19	75.2
		20-24	79.9
		25-29	89.3
		30+	94.0

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June 30, 2013

Updated participation rates reflect the expected plan election rate that varies by reason for decrement, duration that a member may pay full cost prior to Medicare eligibility, and availability of alternative and/or lower cost options, particularly in the Medicare market.

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

Changes in Methods from the Last Valuation

Defined Benefit Plan

There was one change in actuarial valuation methods in the DB plan as well as the changes described in the DB healthcare sections. Amortization of any funding surpluses or unfunded accrued liability was changed from a level percent of pay amount to a level dollar amount.

Defined Contribution Retirement Plan

There have been no changes in methods since the prior valuation.

Changes in Assumptions since the Last Valuation

Defined Benefit Plan

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. We also updated participant contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

Defined Contribution Retirement Plan

There have been changes in actuarial assumptions since the prior valuation regarding healthcare cost trend rates and the DCR retiree medical plan adjustments. The updated healthcare cost trend assumption reflects differences in Medicare eligibility 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. The Actuary also updated member contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

To account for anticipated plan design features, FY 2012 claims cost adjustment were changed from 5.9% for medical and 0.7% for prescription drugs to 11.9% and 7.1% respectively. Retiree out-of-pocket amounts were indexed 0.2% each year, compared to 4.8% last year. Participation rates were reduced to reflect the proportion of retirees expected to have access to alternative options in the Medicare market as well as the time from retirement to Medicare-eligibility where a member pays full cost.

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(3) Contributions – State of Alaska

Alaska Statute 14.25.085 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 12.56%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution adopted by the Board for the fiscal year. The actuarially determined required contribution adopted by the Board for fiscal year. For fiscal year 2013, (based on the June 30, 2010 actuarial valuation report), the normal cost rate increased from 6.57% to 7.47%, the past service rate increased from 36.04% to 42.09%, thus producing a total actuarially determined contribution rate of 49.56% for fiscal year 2013. Starting in fiscal year 2012, the actuary presented an alternative method of calculating the employer rate to incorporate the normal cost of the DCR Plan, which was 3.11% for fiscal year 2013. This calculation provided a fiscal year 2013 actuarially determined employer contribution rate of 52.67%. The Board adopted the actuarially determined contribution rate of 52.67% for fiscal year 2013.

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Schedule of Administrative and Investment Deductions Defined Benefit Plan

Year ended June 30, 2013 and 2012
 (In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2013</u>	<u>2012</u>
Personal services:				
Wages	1,398	78	1,476	1,401
Benefits	<u>837</u>	<u>31</u>	<u>868</u>	<u>861</u>
Total personal services	<u>2,235</u>	<u>109</u>	<u>2,344</u>	<u>2,262</u>
Travel:				
Transportation	14	41	55	59
Per diem	<u>3</u>	<u>21</u>	<u>24</u>	<u>23</u>
Total travel	<u>17</u>	<u>62</u>	<u>79</u>	<u>82</u>
Contractual services:				
Management and consulting	3,007	10,218	13,225	12,032
Accounting and auditing	30	288	318	369
Advertising and printing	23	3	26	35
Data processing	458	209	667	586
Communications	46	15	61	59
Rental/leases	123	22	145	145
Legal	94	24	118	76
Medical specialists	14	—	14	6
Repairs and maintenance	2	5	7	9
Other professional services	64	16	80	115
Transportation	<u>41</u>	<u>—</u>	<u>41</u>	<u>42</u>
Total contractual services	<u>3,902</u>	<u>10,800</u>	<u>14,702</u>	<u>13,474</u>
Other:				
Equipment	16	6	22	69
Supplies	<u>38</u>	<u>20</u>	<u>58</u>	<u>135</u>
Total other	<u>54</u>	<u>26</u>	<u>80</u>	<u>204</u>
Total administrative and investment deductions	<u>\$ 6,208</u>	<u>10,997</u>	<u>17,205</u>	<u>16,022</u>

See supplemental information in *Independent Auditors' Report*.

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Schedule of Administrative Deductions
Defined Contribution Retirement Plan
Year ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Personal services:		
Wages	\$ 90	66
Benefits	<u>56</u>	<u>50</u>
Total personal services	<u>146</u>	<u>116</u>
Travel:		
Transportation	2	2
Per Diem	<u>1</u>	<u>1</u>
Total travel	<u>3</u>	<u>3</u>
Contractual services:		
Management and consulting	537	418
Accounting and auditing	13	18
Data processing	20	11
Communications	3	3
Rentals/leases	8	6
Legal	2	1
Other professional services	<u>2</u>	<u>2</u>
Total contractual services	<u>585</u>	<u>459</u>
Other:		
Equipment	1	1
Supplies	<u>2</u>	<u>4</u>
Total other	<u>3</u>	<u>5</u>
Total administrative and investment deductions	<u>\$ 737</u>	<u>583</u>

See Supplemental Information in *Independent Auditors' Report*.

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**Schedule of Payments to Consultants
 Other than Investment Advisors**
 Year ended June 30, 2013 and 2012
 (In thousands)

Firm	Services	2013	2012
Buck Consultants, an ACS Company	Actuarial services	\$ 286	319
KPMG LLP	Auditing services	34	45
State Street Bank Corporation	Custodian banking services	278	328
Applied Microsystems Inc.	Data processing consultants	38	22
Computer Task Group, Inc.	Data processing consultants	76	208
Mythics Inc.	Data processing consultants	31	—
The Wilson Agency LLC	Management consulting services	11	—
Wostmann Group LLC	Data processing consultants	18	11
Michael Silverman	Management consulting services	18	—
State of Alaska, Department of Health & Social Services	Medical expertise & counseling	12	—
State of Alaska, Department of Law	Legal Services	96	55
		<u>\$ 898</u>	<u>\$ 988</u>

See Supplemental Information in *Independent Auditors' Report*.

