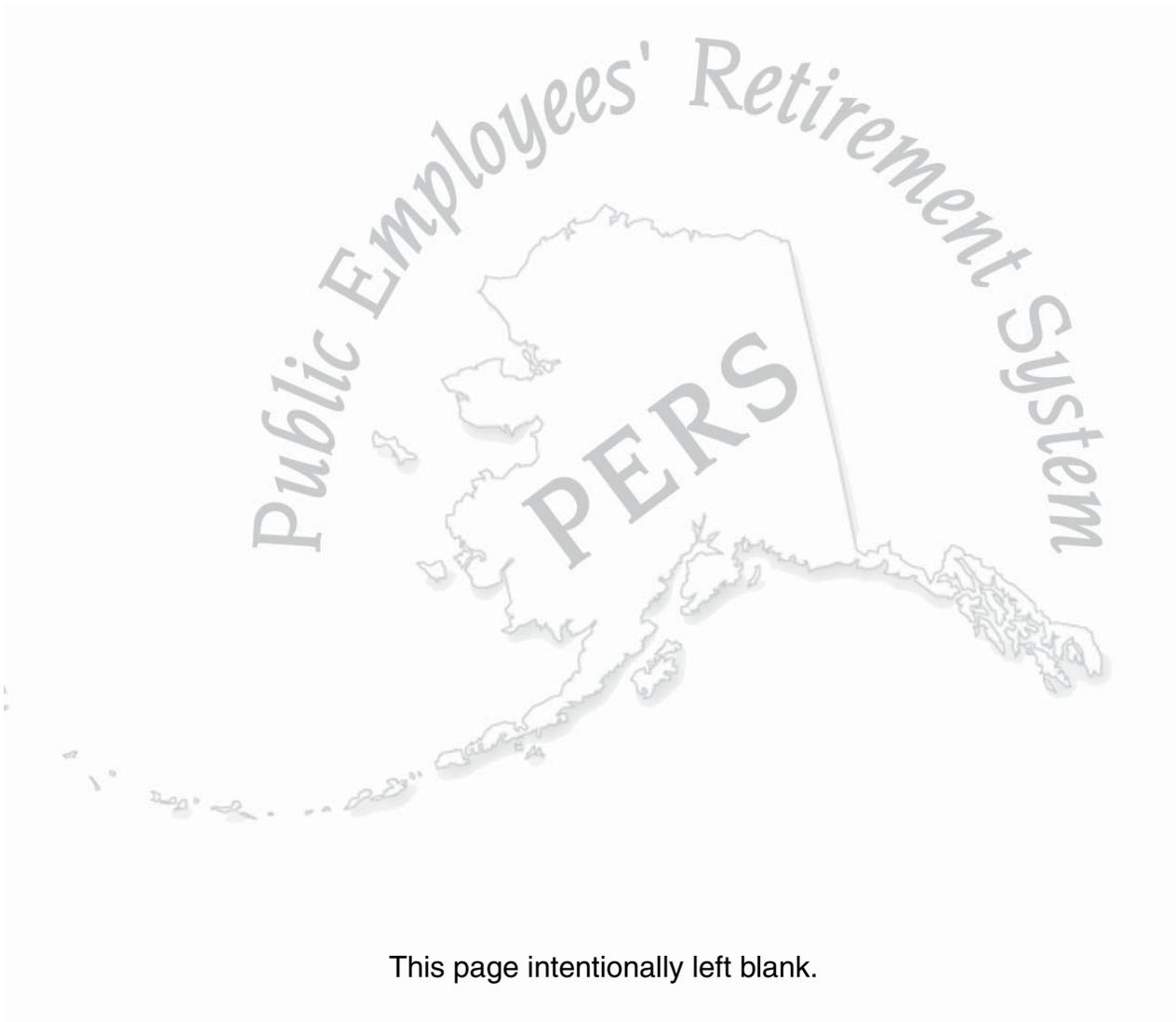




INTRODUCTORY SECTION



STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

PO BOX 110203
Juneau, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE: 1-800-821-2251

December 15, 2008

The Honorable Sarah Palin, Governor
Members of the Alaska State Legislature
Alaska Retirement Management Board
Employers and Plan Members

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 2008.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2008. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System uses Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 40, *Deposits and Investment Risk Disclosures*; GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*; GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*; and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements 25 and 27*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the notes to financial statements and in the required supplementary information following the notes to financial statements.

The CAFR is divided into five sections:

- **Introductory Section**, which contains the letter of transmittal, the administrative organization of the PERS, and a list of the members serving on the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditor's Report, management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;

- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

The MD&A provides an analytical overview of the financial statements. The Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located in the Financial Section of this report immediately following the Independent Auditor's Report.

Profile of the System

The System was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the Plan's age and service requirements. During the fiscal year 2005 legislative session, a law was enacted that closed the Defined Benefit (DB) Plan. Senate Bill 141, signed into law on July 27, 2005, closed the DB Plan effective July 1, 2006, to new members and created a Defined Contribution Retirement (DCR) plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of : (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan, the postemployment healthcare plan, and the new Alaska Retiree Health Care Trust that replaces the postemployment healthcare plan. The DCR Plan includes the DCR trust, occupational death and disability plan (OD&D), retiree major medical plan (RMP), and the health reimbursement arrangement plan (HRA).

	Years Ended June 30		
	2008	2007	2006
Net Assets (millions)	\$10,765.3	10,942.3	9,379.5
Participating Employers	159	160	160

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a fiduciary fund.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Alaska Retirement Management Board (ARMB) constituted effective October 1, 2005, replaced the Public Employees' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (ASPIB) (effective October 1, 2005).

The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their funds among those options, when applicable;
- establishing credit rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting the System's financial condition to the governor, legislature, and those individual employers participating in the System.

Major Initiatives

The Public Employees' Retirement Board (governing board prior to July 1, 2005) examined ways to reduce costs to the employers and address the unfunded status of the PERS while balancing the need of providing adequate benefits for effective recruitment and retention of new members. Senate Bill 141 passed during the 2005 legislative session created Tier IV in the PERS. This new tier, a hybrid plan referred to as the defined contribution retirement plan (DCR Plan) became effective for members entering the PERS on or after July 1, 2006. The PERS administrator continues to work with legal counsel to obtain plan qualification and various private ruling letters related to the new tier.

The System continues to make progress on several on-going projects. Most of these efforts focused on the following improvements: technology, methods for employers to submit information, methods for members to obtain information, and continued compliance with accounting requirements of the GASB and the Financial Accounting Standards Board (FASB), as applicable.

The System continues to assess and retool its communication efforts, which include printed handbooks, newsletters, and website content. The System strives to ensure that all communication material is clear, accurate, and user-friendly.

The System also endeavors to provide the highest degree of customer service to all our members. Whether working with our pre-retirement or retirement services, health benefits, accounting, administrative sections, or attending our counseling and investment services, the System continues to analyze and improve ways to make interactions with us as pleasant and informative as possible.

Funding Requirements

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2007, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the PERS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 68.0%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$4.7 billion. The unfunded liability is being addressed at all levels of the State. The Governor's budget proposes to provide funding to PERS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the ARMB.

Independent Audit

The System's annual audit was conducted by the independent certified public accounting firm of KPMG LLP. The audit of the System was conducted in accordance with generally accepted auditing standards (GAAS). The independent auditors' report on the financial statements is the first item in the Financial Section of this report and precedes the MD&A and financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the System for the fiscal year ended June 30, 2008, are free of material misstatement. The audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and evaluating the overall financial statement presentation.

Investments

At June 30, 2008, the DB Plan's investment portfolio was valued at \$10.9 billion and earned a -3.06% return for the fiscal year ended June 30, 2008. The DCR Plan's investment portfolio was valued at \$34.2 million for the fiscal year ended June 30, 2008. Over the past five years ending June 30, 2008, the DB Plan's investments earned a +10.06% return. The ARMB has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Internal Controls

System management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Actuarial Valuation

The System's consulting actuarial firm, Buck Consultants, completed the actuarial review and valuation as of June 30, 2007, and served as technical advisor to the PERS. The actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the PERS for its CAFR for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We are confident our current CAFR continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

Acknowledgements

The preparation of this report is made possible by the dedicated services of the staff of the Department of Administration, Division of Retirement and Benefits, Department of Law, and the Department of Revenue, Treasury Division. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the System financial resources.

The report is available on the web at www.state.ak.us/drb/pers/perscafr.shtml and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

We would like to take this opportunity to express our gratitude to the Alaska Retirement Management Board, the staff, the advisors, and to the many people who have diligently worked to assure the successful operation of the System.

Respectfully submitted,



Annette Kreitzer
Commissioner



Rachael Petro
Deputy Commissioner



Pat Shier
Director



Kevin Worley
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



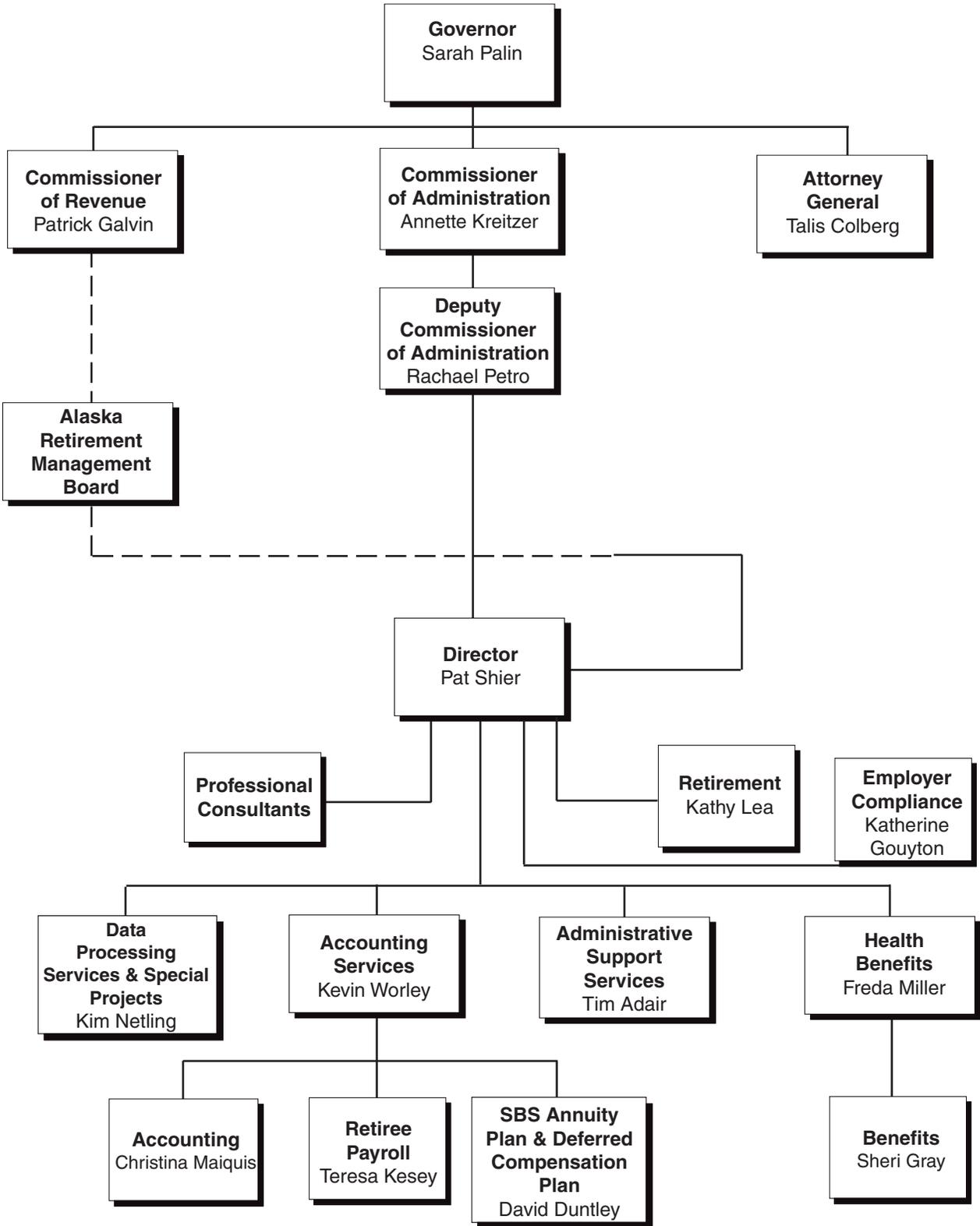
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. This section appoints members to retirement and maintains benefit payment information.

The **Health Benefits Section** is responsible for the administration of health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Accounting Services Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **SBS Annuity Plan and Deferred Compensation Plan Section** is responsible for accounting, plan operations, and financial activities related to the SBS Annuity and Deferred Compensation Plan administered by the Division.

The **Data Processing Services and Special Projects Section** supports the information systems the System uses. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

PROFESSIONAL CONSULTANTS	
<p>Consulting Actuary Buck Consultants <i>Denver, Colorado</i></p> <p>Independent Auditors KPMG LLP <i>Anchorage, Alaska</i></p> <p>Benefits Consultant Buck Consultants <i>Denver, Colorado</i></p> <p>Third-Party Healthcare Claim Administrator Premera Blue Cross Blue Shield of Alaska <i>Seattle, Washington</i></p>	<p>Legal Counsel Anne Johnson Toby Steinberger Assistant Attorney Generals <i>Juneau, Alaska</i> Ice Miller LLP <i>Indianapolis, Indiana</i></p> <p>Legal Counsel - Retirement Boards Wohlforth, Johnson, Brecht, Cartledge & Brooking <i>Anchorage, Alaska</i></p> <p>Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p>

A list of investment consultants can be found on pages 79-80 and on the Schedule of External Management Fees on pages 88-89.

ALASKA RETIREMENT MANAGEMENT BOARD

Gail (Anagick) Schubert, Chair, is the Executive Vice President and General Counsel for the Bering Straits Native Corporation, and President/CEO of several of its subsidiary entities. Mrs. Schubert is an attorney licensed to practice law in the states of Alaska and New York, and holds a Law Degree and Masters Degree in Business Administration from Cornell University. She received her undergraduate degree from Stanford University. Mrs. Schubert serves as Chair of the Alaska Native Heritage Center, Chair of Akeela Treatment Services, Chair of the Alaska Retirement Management Board, Vice Chair of the Alaska Native Justice Center, Vice Chair of Khoanic Broadcast Corporation, Treasurer of the Bering Straits Native Corporation, and a board member of the Alaska Federation of Natives, and the Alaska Native Arts Foundation. Mrs. Schubert is also a member of the Alaska Rural Justice and Law Enforcement Commission.

Sam Trivette, Vice-Chair, is currently President of the Retired Public Employees of Alaska, and is on the national executive board of the American Federation of Teachers retirees. Mr. Trivette retired from public service after more than 32 years serving as Chief Probation Officer, Director of Community Corrections, Executive Director of the Parole Board, and as a probation and correctional officer. He is President of Quality Corrections Services, and on the board of directors of the Alaska Public Employees Association. Mr. Trivette has also served as an officer in a number of national and statewide professional organizations as well as many not-for-profit organizations around Alaska. He has a Bachelor's degree in Psychology from the University of Alaska, Anchorage and has completed postgraduate work in public administration, law and psychological counseling.

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Ms. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, and the NCTR Education Committee. She is also a co-manager of a family trust. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a Bachelor's of Science in Mathematics from North Carolina State University, and a Masters in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law and finance.

Patrick Galvin was appointed Commissioner of the Department of Revenue by Governor Sarah Palin effective December 4, 2006. Before his appointment he served as a Petroleum Land Manager for the Alaska Department of Natural Resources (DNR), Division of Oil and Gas. His responsibilities included managing the oil and gas leasing and licensing programs, lease administration, and oil and gas permitting for the division. His education background includes a Bachelor's degree in Visual Arts and Quantitative Economics from the University of California, San Diego, a Law Degree from the University of San Diego, and a Master of Business Administration from San Diego State University. Prior to his position at DNR, Mr. Galvin served as Director of the Division of Governmental Coordination, overseeing the Alaska Coastal Management Program. Previously, Mr. Galvin was a private practice attorney focusing on municipal, corporate, and tribal law.

Annette Kreitzer was appointed Commissioner of the Department of Administration by Governor Sarah Palin in January 2007. Most recently Ms. Kreitzer served as Chief of Staff for former Lieutenant Governor Loren Leman. She also served as Committee Aide for the Senate Special Committee on Oil and Gas, then as Committee Aide for the Senate Labor & Commerce and Resources committees, and Senate Finance Subcommittee staff for the Departments of Revenue, Environmental Conservation, and Natural Resources. Ms. Kreitzer has served as the Governor's appointee to Rural CAP (2002 - 2007); represented the Alaska Senate on the National Conference of State Legislatures Chemical Weapons Study Group (1998-1999); and served on the Governor's Safety Advisory Council (1994-1997). Ms. Kreitzer has also worked as an Emergency Medical Services Squad Leader and EMT II, administrator for the Anna Livingston Memorial Clinic, a reporter and a freelance writer. Volunteer activities include service on the Bartlett Regional Hospital Board, the Aleutians East Borough Health Committee, teaching gun safety and assisting with Ducks Unlimited and National Rifle Association events. Ms. Kreitzer attended Wright State University with an emphasis on journalism and took additional courses through the University of Washington and University of Alaska Fairbanks.

Martin Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a Bachelor's degree in Accounting from the University of Washington and has been a CPA since 1958.

Michael R. Williams is currently a Revenue Auditor for the Alaska Department of Revenue, performing audits of large, multi-state and multi-national corporations since 1998. He is also a partner and principal owner of Williams & Payne, LLC, a tax preparation and consultation business in Anchorage. Mr. Williams has also worked as a tax consultant for Deloitte & Touche and as a tax auditor for the State of Utah. He has served as Secretary for ASEA/AFSCME Local 52, as trustee for the ASEA Health Benefits Trust, and is a member of the National Association of Enrolled Agents. Mr. Williams holds a Bachelor's degree in Accounting & German and a Master of Professional Accountancy from Weber State University.

Tom Richards is currently a mathematics and general education teacher at the Star of the North Charter School in Fairbanks. Mr. Richards previously taught mathematics, science and economics and was chair of the mathematics department at Lathrop High School. He also serves on the Alaska State Bond Reimbursement and Grant Review Committee. Mr. Richards received a bachelor of science from the University of Idaho in 1976 earning a major in zoology and a minor in chemistry, and obtained his State of Alaska teacher certification in 1978 with a secondary endorsement in biological science and mathematics. In 1999, he received a master of science in education from Western Oregon University with an emphasis in information technology.

Vacant

One trustee position is currently vacant. The term of the vacant trustee position expires March 1, 2011.