



**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Schedule of Employer Allocations and
Schedule of OPEB Amounts by Employer

June 30, 2018

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

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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 schedule of employer allocations of the State of Alaska Teachers' Retirement System Retiree Medical Plan (the Plan) as of and for the year ended June 30, 2018, and the related notes. We have also audited the total for all entities of the columns titled net OPEB asset, total deferred outflows of resources, total deferred inflows of resources, and total employer OPEB expense (specified column totals) included in the accompanying schedule of OPEB amounts by employer of the Plan as of and for the year ended June 30, 2018, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer, 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 schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer.

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



Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and the net OPEB asset, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating entities for the Plan as of and for the year ended June 30, 2018, in accordance with U.S. generally accepted accounting principles.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Alaska Teachers' Retirement System, which includes the Retiree Medical Plan, as of and for the year ended June 30, 2018, and our report thereon, dated November 21, 2018, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the State of Alaska Teachers' Retirement System management, the members of the Alaska Retirement Management Board, State of Alaska Teachers' Retirement System Retiree Medical Plan employers, and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Anchorage, Alaska
April 26, 2019

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Schedule of Employer Allocations

As of and for the year ended June 30, 2018

| Employer | Employer number | Employer contributions | Allocation percentage |
|--|--------------------|---------------------------|--------------------------|
| Anchorage School District | 701 | \$ 1,012,203 | 30.94562 % |
| Cordova City School District | 704 | 6,541 | 0.19997 |
| Craig City School District | 705 | 9,009 | 0.27543 |
| Fairbanks North Star Borough School District | 706 | 283,341 | 8.66245 |
| Haines Borough School District | 707 | 8,512 | 0.26023 |
| Hoonah City School District | 708 | 5,716 | 0.17475 |
| Hydaburg City School District | 709 | 2,307 | 0.07053 |
| Juneau Borough School District | 710 | 104,798 | 3.20394 |
| Kake City School District | 712 | 6,378 | 0.19499 |
| Ketchikan Gateway Borough School District | 714 | 55,042 | 1.68277 |
| Klawock City School District | 717 | 4,207 | 0.12862 |
| Kodiak Island Borough School District | 718 | 78,014 | 2.38509 |
| Nenana City School District | 719 | 8,156 | 0.24935 |
| Nome City School District | 720 | 23,903 | 0.73078 |
| Matanuska-Susitna Borough School District | 722 | 358,542 | 10.96154 |
| Pelican City School District | 723 | 580 | 0.01773 |
| Petersburg City School District | 724 | 11,220 | 0.34302 |
| Sitka Borough School District | 727 | 34,610 | 1.05812 |
| Skagway City School District | 728 | 5,847 | 0.17876 |
| Unalaska City School District | 729 | 13,596 | 0.41566 |
| Valdez City School District | 730 | 12,723 | 0.38897 |
| Wrangell Public School District | 731 | 8,082 | 0.24709 |
| Yakutat School District | 732 | 2,554 | 0.07808 |
| University of Alaska | 733 | 74,591 | 2.28044 |
| Galena City School District | 735 | 22,074 | 0.67486 |
| North Slope Borough School District | 736 | 109,512 | 3.34806 |
| State of Alaska | 737 | 13,081 | 0.39992 |
| Bristol Bay Borough School District | 742 | 5,512 | 0.16852 |
| Southeast Regional Resource Center | 743 | 2,899 | 0.08863 |
| Dillingham City School District | 744 | 20,987 | 0.64163 |
| Kenai Peninsula Borough School District | 746 | 215,820 | 6.59817 |
| Saint Mary's School District | 748 | 4,131 | 0.12630 |
| Northwest Arctic Borough School District | 751 | 108,628 | 3.32103 |
| Bering Strait School District | 752 | 116,341 | 3.55684 |
| Lower Yukon School District | 753 | 77,748 | 2.37695 |
| Lower Kuskokwim School District | 754 | 156,389 | 4.78121 |
| Kuspuk School District | 755 | 17,835 | 0.54526 |
| Southwest Region School District | 756 | 36,134 | 1.10471 |
| Lake And Peninsula Borough School District | 757 | 26,693 | 0.81607 |
| Aleutian Region School District | 758 | 2,763 | 0.08447 |
| Pribilof School District | 759 | 3,457 | 0.10569 |
| Iditarod Area School District | 761 | 10,360 | 0.31673 |
| Yukon / Koyukuk School District | 762 | 27,797 | 0.84982 |
| Yukon Flats School District | 763 | 12,520 | 0.38277 |
| Denali Borough School District | 764 | 10,794 | 0.33000 |
| Delta/Greely School District | 765 | 16,606 | 0.50769 |
| Alaska Gateway School District | 766 | 14,956 | 0.45724 |
| Copper River School District | 767 | 10,832 | 0.33116 |
| Chatham School District | 768 | 7,733 | 0.23642 |
| Southeast Island School District | 769 | 11,015 | 0.33676 |
| Annette Island School District | 770 | 16,687 | 0.51016 |
| Chugach School District | 771 | 3,435 | 0.10502 |
| Tanana School District | 775 | 2,024 | 0.06188 |
| Kashunamiut School District | 777 | 13,224 | 0.40429 |
| Yupit School District | 778 | 23,623 | 0.72222 |
| Special Education Service Agency | 779 | 6,073 | 0.18567 |
| Aleutians East Borough School District | 780 | 12,754 | 0.38992 |
| Total contributions | | \$ <u>3,270,909</u> | <u>100.00000 %</u> |

See accompanying notes to schedule of employer allocations and schedule of OPEB amounts by employer.

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**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Schedule of OPEB Amounts by Employer

As of and for the year ended June 30, 2018

| Employer | Employer number | Net OPEB asset | Changes of assumptions | Deferred outflows of resources | |
|--|-----------------|----------------|------------------------|--|--------------------------------------|
| | | | | Changes in proportion and difference between employer contributions and proportionate share of contributions | Total deferred outflows of resources |
| Employer: | | | | | |
| Anchorage School District | 701 | \$ 990,642 | 609,593 | 5,465 | 615,058 |
| Cordova City School District | 704 | 6,395 | 3,939 | 1,168 | 5,107 |
| Craig City School District | 705 | 8,809 | 5,426 | 516 | 5,942 |
| Fairbanks North Star Borough School District | 706 | 277,026 | 170,640 | — | 170,640 |
| Haines Borough School District | 707 | 8,322 | 5,126 | 3,266 | 8,392 |
| Hoonah City School District | 708 | 5,588 | 3,442 | — | 3,442 |
| Hydaburg City School District | 709 | 2,255 | 1,389 | 1,487 | 2,876 |
| Juneau Borough School District | 710 | 102,463 | 63,114 | 1,138 | 64,252 |
| Kake City School District | 712 | 6,236 | 3,841 | 325 | 4,166 |
| Ketchikan Gateway Borough School District | 714 | 53,816 | 33,149 | 1,173 | 34,322 |
| Klawock City School District | 717 | 4,113 | 2,533 | 609 | 3,142 |
| Kodiak Island Borough School District | 718 | 76,275 | 46,984 | 11,482 | 58,466 |
| Nenana City School District | 719 | 7,974 | 4,912 | 1,524 | 6,436 |
| Nome City School District | 720 | 23,370 | 14,396 | 1,331 | 15,727 |
| Matanuska-Susitna Borough School District | 722 | 350,550 | 215,930 | 2,173 | 218,103 |
| Pelican City School District | 723 | 567 | 349 | 7 | 356 |
| Petersburg City School District | 724 | 10,970 | 6,757 | 880 | 7,637 |
| Sitka Borough School District | 727 | 33,839 | 20,844 | 510 | 21,354 |
| Skagway City School District | 728 | 5,716 | 3,521 | — | 3,521 |
| Unalaska City School District | 729 | 13,293 | 8,188 | 1,345 | 9,533 |
| Valdez City School District | 730 | 12,440 | 7,663 | 1,695 | 9,358 |
| Wrangell Public School District | 731 | 7,902 | 4,867 | 656 | 5,523 |
| Yakutat School District | 732 | 2,497 | 1,538 | — | 1,538 |
| University of Alaska | 733 | 72,929 | 44,922 | 545 | 45,467 |
| Galena City School District | 735 | 21,582 | 13,294 | — | 13,294 |
| North Slope Borough School District | 736 | 107,071 | 65,953 | 2,632 | 68,585 |
| State of Alaska | 737 | 12,789 | 7,878 | 674 | 8,552 |
| Bristol Bay Borough School District | 742 | 5,389 | 3,320 | 996 | 4,316 |
| Southeast Regional Resource Center | 743 | 2,834 | 1,746 | 1,858 | 3,604 |
| Dillingham City School District | 744 | 20,520 | 12,640 | 2,906 | 15,546 |
| Kenai Peninsula Borough School District | 746 | 211,009 | 129,976 | — | 129,976 |
| Saint Mary's School District | 748 | 4,039 | 2,488 | 1,752 | 4,240 |
| Northwest Arctic Borough School District | 751 | 106,206 | 65,420 | 1,210 | 66,630 |
| Bering Strait School District | 752 | 113,748 | 70,066 | 5,166 | 75,232 |
| Lower Yukon School District | 753 | 76,015 | 46,823 | 12,869 | 59,692 |
| Lower Kuskokwim School District | 754 | 152,903 | 94,184 | 7,864 | 102,048 |
| Kuspuk School District | 755 | 17,437 | 10,741 | 1,176 | 11,917 |
| Southwest Region School District | 756 | 35,328 | 21,761 | 419 | 22,180 |
| Lake And Peninsula Borough School District | 757 | 26,098 | 16,076 | 1,925 | 18,001 |
| Aleutian Region School District | 758 | 2,701 | 1,664 | 190 | 1,854 |
| Pribilof School District | 759 | 3,380 | 2,082 | 1,139 | 3,221 |
| Iditarod Area School District | 761 | 10,129 | 6,239 | 2,591 | 8,830 |
| Yukon / Koyukuk School District | 762 | 27,177 | 16,740 | 1,709 | 18,449 |
| Yukon Flats School District | 763 | 12,241 | 7,540 | 3,449 | 10,989 |
| Denali Borough School District | 764 | 10,553 | 6,500 | 554 | 7,054 |
| Delta/Greely School District | 765 | 16,236 | 10,001 | 491 | 10,492 |
| Alaska Gateway School District | 766 | 14,623 | 9,007 | — | 9,007 |
| Copper River School District | 767 | 10,590 | 6,523 | 258 | 6,781 |
| Chatham School District | 768 | 7,561 | 4,657 | 464 | 5,121 |
| Southeast Island School District | 769 | 10,770 | 6,634 | 914 | 7,548 |
| Annette Island School District | 770 | 16,315 | 10,049 | — | 10,049 |
| Chugach School District | 771 | 3,358 | 2,068 | 95 | 2,163 |
| Tanana School District | 775 | 1,979 | 1,219 | 865 | 2,084 |
| Kashunamiut School District | 777 | 12,929 | 7,964 | 1,368 | 9,332 |
| Yupitit School District | 778 | 23,096 | 14,227 | 3,006 | 17,233 |
| Special Education Service Agency | 779 | 5,938 | 3,658 | — | 3,658 |
| Aleutians East Borough School District | 780 | 12,469 | 7,681 | 1,859 | 9,540 |
| Total attributable to employer contributions | | \$ 3,199,000 | 1,969,882 | 97,694 | 2,067,576 |

See accompanying notes to schedule of employer allocations and schedule of OPEB amounts by employer.

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Schedule of OPEB Amounts by Employer

As of and for the year ended June 30, 2018

| Net difference between projected and actual investment earnings on OPEB plan investments | Deferred inflows of resources | | | | OPEB expense | | |
|--|---|------------------------|--|-------------------------------------|--|---|-----------------------------|
| | Difference between expected and actual experience | Changes of assumptions | Changes in proportion and difference between employer contributions and proportionate share of contributions | Total deferred inflows of resources | Proportionate share of allocable plan OPEB expense | Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | Total employer OPEB expense |
| 217,857 | 109,079 | — | 2,613 | 329,549 | 910,109 | 352 | 910,461 |
| 1,408 | 705 | — | 865 | 2,978 | 5,881 | 26 | 5,907 |
| 1,939 | 971 | — | — | 2,910 | 8,101 | 57 | 8,158 |
| 60,984 | 30,534 | — | 6,604 | 98,122 | 254,762 | (750) | 254,012 |
| 1,832 | 917 | — | — | 2,749 | 7,654 | 363 | 8,017 |
| 1,230 | 616 | — | 1,338 | 3,184 | 5,139 | (152) | 4,987 |
| 497 | 249 | — | — | 746 | 2,074 | 172 | 2,246 |
| 22,556 | 11,294 | — | 3,410 | 37,260 | 94,228 | (238) | 93,990 |
| 1,373 | 687 | — | 294 | 2,354 | 5,735 | 6 | 5,741 |
| 11,847 | 5,932 | — | 3,431 | 21,210 | 49,491 | (236) | 49,255 |
| 905 | 453 | — | 626 | 1,984 | 3,782 | (7) | 3,775 |
| 16,791 | 8,407 | — | 3,904 | 29,102 | 70,145 | 794 | 70,939 |
| 1,755 | 879 | — | 690 | 3,324 | 7,333 | 86 | 7,419 |
| 5,145 | 2,576 | — | 2,504 | 10,225 | 21,492 | (117) | 21,375 |
| 77,169 | 38,638 | — | 9,215 | 125,022 | 322,378 | (835) | 321,543 |
| 125 | 63 | — | 29 | 217 | 522 | (3) | 519 |
| 2,415 | 1,209 | — | 3,723 | 7,347 | 10,089 | (302) | 9,787 |
| 7,449 | 3,730 | — | 440 | 11,619 | 31,119 | 4 | 31,123 |
| 1,259 | 630 | — | 1,720 | 3,609 | 5,257 | (194) | 5,063 |
| 2,926 | 1,465 | — | 2,480 | 6,871 | 12,225 | (113) | 12,112 |
| 2,738 | 1,371 | — | 2,759 | 6,868 | 11,440 | (137) | 11,303 |
| 1,739 | 871 | — | 332 | 2,942 | 7,267 | 33 | 7,300 |
| 550 | 275 | — | 1,125 | 1,950 | 2,296 | (128) | 2,168 |
| 16,054 | 8,038 | — | 459 | 24,551 | 67,068 | 6 | 67,074 |
| 4,751 | 2,379 | — | 1,755 | 8,885 | 19,848 | (197) | 19,651 |
| 23,571 | 11,801 | — | 10,697 | 46,069 | 98,467 | (857) | 97,610 |
| 2,815 | 1,410 | — | 1,332 | 5,557 | 11,761 | (66) | 11,695 |
| 1,186 | 594 | — | 1,961 | 3,741 | 4,956 | (97) | 4,859 |
| 624 | 312 | — | — | 936 | 2,606 | 202 | 2,808 |
| 4,517 | 2,262 | — | 2,039 | 8,818 | 18,870 | 116 | 18,986 |
| 46,451 | 23,258 | — | 2,101 | 71,810 | 194,051 | (237) | 193,814 |
| 889 | 445 | — | — | 1,334 | 3,714 | 194 | 3,908 |
| 23,380 | 11,706 | — | 6,910 | 41,996 | 97,671 | (610) | 97,061 |
| 25,040 | 12,537 | — | — | 37,577 | 104,607 | 585 | 105,192 |
| 16,734 | 8,378 | — | — | 25,112 | 69,906 | 1,438 | 71,344 |
| 33,660 | 16,853 | — | 2,394 | 52,907 | 140,615 | 576 | 141,191 |
| 3,839 | 1,922 | — | 225 | 5,986 | 16,036 | 102 | 16,138 |
| 7,777 | 3,894 | — | 1,631 | 13,302 | 32,489 | (144) | 32,345 |
| 5,745 | 2,877 | — | 1,782 | 10,404 | 24,001 | 30 | 24,031 |
| 595 | 298 | — | — | 893 | 2,484 | 22 | 2,506 |
| 744 | 373 | — | — | 1,117 | 3,108 | 126 | 3,234 |
| 2,230 | 1,116 | — | 2,756 | 6,102 | 9,315 | (39) | 9,276 |
| 5,983 | 2,996 | — | 1,287 | 10,266 | 24,993 | 59 | 25,052 |
| 2,695 | 1,349 | — | — | 4,044 | 11,258 | 378 | 11,636 |
| 2,323 | 1,163 | — | 1,257 | 4,743 | 9,705 | (86) | 9,619 |
| 3,574 | 1,789 | — | 185 | 5,548 | 14,931 | 37 | 14,968 |
| 3,219 | 1,612 | — | 2,054 | 6,885 | 13,448 | (233) | 13,215 |
| 2,331 | 1,167 | — | 3,762 | 7,260 | 9,739 | (379) | 9,360 |
| 1,664 | 833 | — | 546 | 3,043 | 6,953 | (13) | 6,940 |
| 2,371 | 1,187 | — | — | 3,558 | 9,904 | 100 | 10,004 |
| 3,592 | 1,798 | — | 1,035 | 6,425 | 15,003 | (118) | 14,885 |
| 739 | 370 | — | 102 | 1,211 | 3,088 | — | 3,088 |
| 436 | 218 | — | 771 | 1,425 | 1,820 | 17 | 1,837 |
| 2,846 | 1,425 | — | 1,343 | 5,614 | 11,890 | 13 | 11,903 |
| 5,084 | 2,546 | — | — | 7,630 | 21,240 | 329 | 21,569 |
| 1,307 | 654 | — | 575 | 2,536 | 5,461 | (63) | 5,398 |
| 2,745 | 1,374 | — | 633 | 4,752 | 11,467 | 128 | 11,595 |
| 704,000 | 352,485 | — | 97,694 | 1,154,179 | 2,940,992 | — | 2,940,992 |

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Notes to Schedule of Employer Allocations and
Schedule of OPEB Amounts by Employer

June 30, 2018

(1) Plan Description

The State of Alaska Teachers' Retirement System (System) Retiree Medical Plan (Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefits (OPEB) plan that provides health benefits for teachers and other eligible members.

The Plan is established under Alaska Statute 14.25, which defines the benefit and contribution provisions and may be amended only by the State of Alaska (State) legislature. The self-insured Plan provides major medical coverage to eligible employees who participate in the System's Defined Contribution Retirement (DCR) Plan. Members are not eligible to use this Plan until they have at least 10 years of service, and are Medicare age eligible.

The medical benefits available to eligible persons means that an eligible person may not be denied medical coverage except for failure to pay the required premium. Major medical insurance coverage takes effect on the first day of the month following the date of the Plan administrator's approval of the election and stops when the person who elects coverage dies or fails to make the required premium payment. The coverage for persons 65 years of age or older is the same as that available for persons under 65 years of age. The benefits payable to those persons 65 years of age or older supplement any benefits provided under the federal old age, survivors and disability insurance program. The medical and optional insurance premiums owed by the person who elects coverage may be deducted from the health reimbursement arrangement until the balance becomes insufficient to pay the premiums, at which point the person who elects coverage shall pay the premiums directly.

The cost of premiums for retiree major medical insurance coverage for an eligible member or surviving spouse who is:

- (1) not eligible for Medicare is an amount equal to the full monthly group premium for retiree major medical insurance coverage,
- (2) eligible for Medicare is the following percentage of the premium amounts established for retirees who are eligible for Medicare:
 - (a) 30% if the member had 10 or more, but less than 15, years of service;
 - (b) 25% if the member had 15 or more, but less than 20, years of service;
 - (c) 20% if the member had 20 or more, but less than 25, years of service;
 - (d) 15% if the member had 25 or more, but less than 30, years of service; and
 - (e) 10% if the member had 30 or more years of service.

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Notes to Schedule of Employer Allocations and
Schedule of OPEB Amounts by Employer

June 30, 2018

(2) Basis of Presentation

The schedule of employer allocations and the schedule of OPEB amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of the Plan and its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Plan, its participating employers, or the State. The amounts presented in the Schedules are prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Plan to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(3) Allocation Methodology

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB asset, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of contributions made for each employer to total contributions made to the Plan during the year ended June 30, 2018. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

(4) Contributions

Employer contribution rates are actuarially determined and adopted by the Alaska Retirement Management Board (Board). The 2018 employer effective contribution rate is 0.91% of annual payroll.

(5) Collective Net OPEB Asset

Components of the Collective Net OPEB Asset

The components of the collective net OPEB asset of the Plan are as follows as of June 30, 2018:

| | |
|-----------------------------|------------------------------|
| Total OPEB liability | \$ 33,466,000 |
| Plan fiduciary net position | <u>(36,665,000)</u> |
| Net OPEB asset | <u><u>\$ (3,199,000)</u></u> |

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Notes to Schedule of Employer Allocations and
Schedule of OPEB Amounts by Employer

June 30, 2018

The total OPEB liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial valuations used the following actuarial assumptions as of June 30, 2018 measurement dates:

| | |
|---------------------------|---|
| Inflation | 3.12% |
| Salary increases | Graded by service, from 8.11% to 3.87% |
| Investment rate of return | 8.00%, net of retiree medical plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%. |
| Trend rates | Pre-65 medical: 8.0% grading down to 4.0% Post-65 medical: 5.5% grading down to 4.0% Prescription drugs: 9.0% grading down to 4.0% Retiree Drug Subsidy/Employer Group Waiver Program: 6.5% grading down to 4.0% |
| Mortality | Posttermination mortality rates were based on 94% of the male rates and 97% of the female rates of the RP-2000 Combined Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. The rates for pretermination mortality were 68% of the male rates and 60% of the female rates of the posttermination mortality rates. |

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. This assumption is based on observed trends in participation

**STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM
RETIREE MEDICAL PLAN**

Notes to Schedule of Employer Allocations and
Schedule of OPEB Amounts by Employer

June 30, 2018

from a range of other plans. The following participation rates were used to measure the collective net OPEB liability of the Plan as June 30, 2018:

| <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+ | 94.40 | 65+ | |
| | | | <u>Years of Service</u> |
| | | <15 | 70.5 % |
| | | 15–19 | 75.2 |
| | | 20–24 | 79.9 |
| | | 25–29 | 89.3 |
| | | 30+ | 94.0 |

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013. The assumptions used in the June 30, 2017 actuarial valuation are the same as those used in the June 30, 2016 valuation with the following exceptions:

1. The medical trend rate assumption was updated to reflect anticipated increases in costs based on recent survey data.
2. Per capita claims costs were updated reflecting recent experience.

Long-Term Expected Rate of Return

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of

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return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 are summarized in the following table (note that the rates shown below exclude the inflation component):

| Asset class | Long-term expected real rate of return |
|-----------------------|--|
| Domestic equity | 8.90 % |
| Global ex-U.S. equity | 7.85 |
| Opportunistic | 4.76 |
| Real assets | 6.20 |
| Absolute return | 4.76 |
| Private equity | 12.08 |
| Cash equivalents | 0.66 |
| Fixed income | 1.25 |

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018 was 8.0%. The projection of cash flows used to determine the discount rate assumed that employer contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability in accordance with the method prescribed by GASB Statement No. 74.

Sensitivity of the Collective Net OPEB Asset to Changes in the Discount Rate

The following presents the collective net OPEB (asset) of the Plan as of June 30, 2018, calculated using the discount rate of 8.0%, as well as what the Plan's collective net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | 1% Decrease (7%) | Current discount rate (8%) | 1% Increase (9%) |
|----|------------------------|----------------------------------|------------------------|
| \$ | 5,462,000 | (3,199,000) | (9,786,000) |

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Sensitivity of the Collective Net OPEB Asset to Changes in the Healthcare Cost Trend Rates

The following presents the collective net OPEB (asset) liability of the Plan as of June 30, 2018, calculated using the healthcare cost trend rates and using trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current healthcare cost trend rate | 1% Increase |
|----|------------------------|---|------------------------|
| \$ | (11,025,000) | (3,199,000) | 7,582,000 |

(6) Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the collective deferred outflows and inflows of resources (excluding employer specific amounts) for the year ending June 30, 2018:

| | Year of deferral | Amortization period | Beginning of year balance | Additions | Deductions | End of year balance |
|---|-----------------------------|--------------------------------|--------------------------------------|------------------|-------------------|--------------------------------|
| Deferred outflows of resources: | | | | | | |
| Change in assumptions | 2018 | 10.2 years | \$ — | 2,184,000 | 214,118 | 1,969,882 |
| Total deferred outflows of resources | | | \$ — | 2,184,000 | 214,118 | 1,969,882 |
| Deferred inflows of resources: | | | | | | |
| Difference between projected and actual earnings on OPEB plan investments | 2017 | 5 years | \$ 956,800 | — | 239,200 | 717,600 |
| | 2018 | 5 years | — | (17,000) | (3,400) | (13,600) |
| | | | 956,800 | (17,000) | 235,800 | 704,000 |
| Difference between expected and actual experience | 2017 | 10.6 years | 1,811 | — | 189 | 1,622 |
| | 2018 | 10.2 years | — | 389,000 | 38,137 | 350,863 |
| | | | 1,811 | 389,000 | 38,326 | 352,485 |
| Total deferred inflows of resources | | | \$ 958,611 | 372,000 | 274,126 | 1,056,485 |

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Amounts reported as deferred outflows and inflows of resources (excluding employer specific amounts) related to OPEB will be recognized in OPEB expense as follows:

| | | |
|----------------------|----|-----------------------|
| Year ending June 30: | | |
| 2019 | \$ | (60,008) |
| 2020 | | (60,008) |
| 2021 | | (60,008) |
| 2022 | | 179,192 |
| 2023 | | 175,792 |
| Thereafter | | <u>738,437</u> |
| Total | \$ | <u><u>913,397</u></u> |

(7) Collective OPEB Expense

The components of the collective OPEB expense (excluding employer specific amounts) for the year ending June 30, 2018 are as follows:

| | | |
|--|----|-------------------------|
| Service cost | \$ | 3,247,000 |
| Interest on total OPEB liability | | 2,347,000 |
| Administrative expense | | 3,000 |
| Expected investment return net of investment expenses | | (2,595,000) |
| Recognition (amortization) of deferred outflows/inflows of resources: | | |
| Difference between projected and actual investment earnings on OPEB plan investments | | (235,800) |
| Difference between expected and actual experience | | (38,326) |
| Change in assumptions | | 214,118 |
| Other | | <u>(1,000)</u> |
| Total OPEB expense | \$ | <u><u>2,940,992</u></u> |