FINANCIAL SECTION

Alaska Division of Retirement and Benefits

PERS

Public Employees Retirement System

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 Public Employees' Retirement System:

We have audited the accompanying statement of system net assets of the State of Alaska Public Employees' Retirement System (the System) (a Component Unit of the State of Alaska) as of June 30, 2012, and the related statement of changes in system net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Public Employees' Retirement System as of June 30, 2012, and the changes in system net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress, Schedules of Contributions from Employers and the State of Alaska, and Schedules of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 71 – 73 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules are the responsibility of the management of the System. This information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 22, 2012

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

Management's Discussion and Analysis

June 30, 2012
(With summarized financial information for June 30, 2011 and 2010)

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (System) financial position and performance for the years ended June 30, 2012 and 2011. 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 years ended June 30, 2012. Information for fiscal year 2011 and 2010 is presented for comparative purposes.

Financial Highlights

The System financial highlights as of June 30, 2012 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits decreased by $10.8 million during fiscal year 2012.
- The System's plan member and employer contributions increased by $18.2 million during fiscal year 2012.
- The State of Alaska directly appropriated $242.6 million during fiscal year 2012 as statutorily required.
- The System net investment income decreased $1,974.3 million to $35.1 million during fiscal year 2012.
- The System's pension benefit expenditures totaled $560.0 million during fiscal year 2012.
- The System's postemployment healthcare benefit expenditures totaled $339.9 million in fiscal year 2012.

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 comprised 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 and postemployment healthcare benefits. 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, 2012 and 2011.

Statements of Changes in System Net Assets – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2012 and 2011. This statement presents contributions earned and investment income (loss) 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, 2012 and 2011, and the sources and uses of those funds during fiscal years 2012 and 2011.

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)

System Net Assets

Description	2012	2011	Increase/(decrease) Amount	Increase/(decrease) Percentage	2010
Assets:					
Cash and cash equivalents	$ 192,789	95,856	96,933	101.1%	$ 103,558
Due from State of Alaska General Fund	12,901	—	12,901	100.0	11,931
Contributions receivable	25,680	23,788	1,892	8.0	22,958
Due from retiree health fund	13	—	13	100.0	1,189
Other receivables	7	8,357	(8,350)	(99.9)	4,412
Legal settlement	—	—	—	—	445,415
Investments, at fair value	11,446,343	11,558,961	(112,618)	(1.0)	9,255,890
Other assets	3,401	2,866	535	18.7	2,829
Total assets	11,681,134	11,689,828	(8,694)	(0.1)	9,848,182
Liabilities:					
Accrued expenses	9,218	10,037	(819)	(8.2)	9,572
Claims payable	35,967	32,678	3,289	10.1	32,315
Legal fees payable	—	—	—	—	86,428
Due to State of Alaska General Fund	—	373	(373)	(100.0)	—
Due to other funds	—	—	—	—	101
Total liabilities	45,185	43,088	2,097	4.9	128,416
Net assets	$11,635,949	11,646,740	(10,791)	(0.1)	$9,719,766

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Changes in System Net Assets

Description	2012	2011	Increase/(decrease) Amount	Increase/(decrease) Percentage	2010
Net assets, beginning of year	$11,646,740	9,719,766	1,926,974	19.8%	$ 8,615,632
Additions:					
Contributions	616,096	597,945	18,151	3.0	581,222
Appropriation – State of Alaska	242,610	165,841	76,769	46.3	107,953
Net investment income	35,096	2,009,351	(1,974,255)	(98.3)	884,126
Other additions	31,924	12,760	19,164	150.2	456,496
Total additions	925,726	2,785,897	(1,860,171)	(66.8)	2,029,797
Deductions:					
Pension and postemployment healthcare benefits	899,947	824,513	75,434	9.1	808,916
Refund of contributions	20,136	18,196	1,940	10.7	15,393
Legal settlement fees	—	—	—	—	86,428
Administrative	16,434	16,214	220	1.4	14,926
Total deductions	936,517	858,923	77,594	9.0	925,663
Increase (decrease) in net assets	(10,791)	1,926,974	(1,937,765)	(100.6)	1,104,134
Net assets, end of year	$11,635,949	11,646,740	(10,791)	(0.1)%	$ 9,719,766

Financial Analysis of the System

The statements of system net assets as of June 30, 2012 and 2011 show net assets held in trust for pension and postemployment healthcare benefits of $11,635,949,000 and $11,646,740,000, respectively. The entire amount is available to cover the System's obligation to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent a decrease in the System's net assets held in trust for pension and postemployment healthcare benefits of $10,791,000 or 0.1% from fiscal year 2011 to 2012 and an increase of $1,926,974,000 or 19.8% from fiscal year 2010 to 2011. 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 2012 and 2011, 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, and occupational death and disability fund:

	2012 Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	27.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Private equity	8.0	± 5
Real assets	16.0	± 8
Absolute return	6.0	± 4
Fixed income	18.0	± 3
Cash equivalents	2.0	- 2/+ 5
Total	100.0%	
Expected five-year median return	7.45%	
Standard deviation	13.82	

	2011 Pension & Healthcare Trust	
	Allocation	Range
Broad domestic equity	29.0%	± 6%
Global equity ex-U.S.	23.0	± 4
Private equity	7.0	± 5
Real assets	16.0	± 8
Absolute return	5.0	± 4
Fixed income	19.0	± 3
Cash equivalents	1.0	- 1/+ 5
Total	100.0%	
Expected five-year median return	8.07%	
Standard deviation	13.46	

For fiscal years 2012 and 2011, the DB Plan's investments generated a 0.46% and 21.22% rate of return, respectively. The DB Plan's annualized rate of return was 10.68% over the last three years and 0.86% over the last five years, which is less than the June 30, 2009 (the valuation that set the fiscal year 2012 rate) actuarial assumed rate of return of 8.25%.

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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 63.0%, at June 30, 2011 (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 2012, (based on the June 30, 2009 actuarial valuation report), the consolidated normal cost rate decreased from 9.33% to 8.28%, the average past service rate increased from 18.63% to 22.48%, thus producing a total actuarially determined contribution rate of 30.76% for fiscal year 2012. 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 2.73% for fiscal year 2012. This new calculation provided a fiscal year 2012 actuarially determined employer contribution rate of 33.49%. The Board adopted the actuarially determined contribution rate of 33.49% for fiscal year 2012.

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

	Valuation Year	
	2011	**2010**
Valuation assets	$11,813,774	11,157,464
Accrued liabilities (total benefits)	18,740,550	18,132,492
Unfunded accrued liability	6,926,776	6,975,028
Funding ratio based on valuation assets	63.0%	61.5%
Fair value of assets	$11,388,620	9,572,608
Funding ratio based on fair assets	60.8%	52.8%

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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 (reductions) (In thousands)				
			Increase/(decrease)		
	2012	**2011**	**Amount**	**Percentage**	**2010**
Plan members contributions	$ 158,241	153,664	4,577	3.0%	$ 152,787
Employer contributions	457,855	444,281	13,574	3.1	428,435
Appropriation – State of Alaska	242,610	165,841	76,769	46.3	107,953
Net investment income	35,096	2,009,351	(1,974,255)	(98.3)	884,126
Legal settlement	—	—	—	—	445,414
Other additions	31,924	12,760	19,164	150.2	11,082
Total	$ 925,726	2,785,897	(1,860,171)	(66.8)%	$2,029,797

The System's employer contributions increased from $444,281,000 in fiscal year 2011 to $457,855,000 in fiscal year 2012, an increase of $13,574,000 or 3.1%. The System's employer contributions increased from $428,435,000 in fiscal year 2010 to $444,281,000 in fiscal year 2011, an increase of $15,846,000 or 3.7%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $242,610,000 for fiscal year 2012 and $165,841,000 for fiscal year 2011 in employer on-behalf payments as required by Alaska Statute 39.35.280. 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 27.96% in fiscal year 2011 to 33.49% in fiscal year 2012. The employer effective contribution rate of 22.00% is established in Alaska Statute 39.35.255(a).

The System's net investment income in fiscal year 2012 decreased by $1,974,255,000 or 98.3% from amounts recorded in fiscal year 2011. The System experienced investment income of $2,009,351,000 in fiscal year 2011 and net investment income of $884,126,000 in fiscal year 2010. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2012, the System experienced mixed returns on investments.

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The System's investment rate of returns at June 30 are as follows:

	Year ended		
	2012	**2011**	**2010**
System returns	0.46%	21.22%	11.39%
Domestic equities	1.80	33.37	15.45
International equities	(13.67)	28.27	12.05
Fixed income	4.90	5.46	11.19
Private equity	9.44	20.14	18.86
Absolute return	(2.05)	5.98	6.59
Real assets	10.46	15.25	(0.28)
International fixed income	—	0.47	—
Cash equivalents	0.44	—	—

During fiscal year 2010, the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract, and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to $500 million in exchange for dismissal of the lawsuit. The amount allocated to the Public Employees' Retirement System was $359.0 million after legal fees were deducted.

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)				
			Increase		
	2012	**2011**	**Amount**	**Percentage**	**2010**
Pension benefits	$ 560,024	525,317	34,707	6.6%	$ 496,015
Postemployment healthcare benefits	339,923	299,196	40,727	13.6	312,901
Refund of contributions	20,136	18,196	1,940	10.7	15,393
Legal fees	—	—	—	—	86,428
Administrative	16,434	16,214	220	1.4	14,926
Total	$ 936,517	858,923	77,594	9.0%	$ 925,663

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The System's pension benefit payments in 2012 increased $34,707,000 or 6.6% from fiscal year 2011 and increased $29,302,000 or 5.9% from fiscal year 2010 to 2011. 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 2012 increased $40,727,000 or 13.6% from fiscal year 2011 and decreased $13,705,000 or 4.4% from fiscal year 2010 to 2011. The increase in healthcare costs in fiscal year 2012 is attributable in part to an increase in both the total number of claims and the average size of each claim.

The System's administrative deductions in 2012 increased $220,000 or 1.4% from fiscal year 2011 and increased $1,288,000 or 8.6% from fiscal year 2010. The increase in administrative costs in fiscal year 2012 is related to an increase in personnel and actuarial services.

During fiscal year 2010, the System incurred legal fees of $86,428,000 associated with the legal settlement paid to the State of Alaska by Mercer.

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 39.35.255(a) sets the employer effective contribution rate at 22.0%. The difference between the actuarially determined Board adopted and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.

- Plan member contributions are set by Alaska Statute 39.35.160 for the DB Plan and Alaska Statute 39.35.730 for the DCR Plan.

- Alaska Statute 39.35.280 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 2011, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 284 appropriates $307.3 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, 2013. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 22.00% and the Board adopted rate of 35.84% for fiscal year 2013.

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

Fiscal year 2012 was a year of mixed investment returns. Net investment income decreased from $2,009,351,000 in fiscal year 2011 to $35,096,000 in fiscal year 2012, a decrease of $1,974,255,000 or 98.3%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments fell short of its actuarially assumed return of 8.25% (based on the June 30, 2009 actuarial report, which established the fiscal year 2012 rate) with a system rate of return of 0.46% at June 30, 2012.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 27.96% in fiscal year 2011 to 30.76% in fiscal year 2012. The Board adopted the actuarially determined contribution rate of 33.49% for fiscal year 2012, up 5.53% from the fiscal year 2011 Board adopted actuarially determined contribution rate of 27.96%. The statutory employer effective contribution rate remained at 22.00% for fiscal years 2011 and 2012.

The June 30, 2011 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 63.0% and an unfunded liability of $6.93 billion.

For fiscal years 2012 and 2011, the DCR Plan's employer contribution rate was established at 22.00%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.51% and 0.55% for fiscal years 2012 and 2011, respectively. The DCR Plan's actuarially determined occupational death and disability rate for peace officers and firefighters was adopted by the Board to be 0.97% and 1.18% for fiscal years 2012 and 2011, respectively. The DCR Plan's actuarially determined occupational death and disability rate for all other employees was adopted by the Board to be 0.20% and 0.31% for fiscal years 2012 and 2011, 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 financial information should be addressed to:

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

STATE OF ALASKA
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Statement of System Net Assets
June 30, 2012

(With summarized financial information for June 30, 2011)
(In thousands)

	Defined benefit plans			Defined contribution pension trust fund							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ firefighter	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2012	System total June 30, 2011
Assets:											
Cash and cash equivalents (note 4):											
Short-term fixed income pool	$ 102,741	76,944	179,685	7,115	151	63	383	2,101	9,813	189,498	94,959
Great West/participant directed deposit	—	—	—	3,291	—	—	—	—	3,291	3,291	897
Total cash and cash equivalents	102,741	76,944	179,685	10,406	151	63	383	2,101	13,104	192,789	95,856
Receivables:											
Contributions	24,186	1,182	25,368	248	4	1	10	49	312	25,680	23,788
Due from State of Alaska General Fund	—	10,148	10,148	5,347	71	39	203	1,243	6,903	17,051	11,949
Due from retiree health fund	13	—	13	—	—	—	—	—	—	13	—
Other account receivable	7	—	7	—	—	—	—	—	—	7	8,357
Total receivables	24,206	11,330	35,536	5,595	75	40	213	1,292	7,215	42,751	44,094
Investments (notes 3, 4 and 5), at fair value:											
Fixed income securities											
Retirement fixed income pool	7,397	6,266	13,663	—	8	3	18	89	118	13,781	27,464
U.S. Treasury fixed income pool	632,842	568,206	1,201,048	—	692	270	1,661	8,031	10,654	1,211,702	1,255,717
High yield fixed income pool	166,358	140,903	307,261	—	172	67	412	1,992	2,643	309,904	284,435
International fixed income pool	141,181	119,575	260,756	—	146	57	350	1,690	2,243	262,999	263,662
Emerging markets debt pool	46,553	39,430	85,983	—	48	19	115	557	739	86,722	89,979
Total fixed income securities	994,331	874,380	1,868,711	—	1,066	416	2,556	12,359	16,397	1,885,108	1,921,257
Broad domestic equity	1,812,126	1,534,811	3,346,937	—	1,870	731	4,485	21,690	28,776	3,375,713	3,418,367
Broad international equity:											
International equity pool	1,000,753	847,600	1,848,353	—	1,033	403	2,477	11,978	15,891	1,864,244	2,055,227
Emerging markets equity pool	324,374	274,734	599,108	—	335	131	803	3,882	5,151	604,259	686,497
Total broad international equity	1,325,127	1,122,334	2,447,461	—	1,368	534	3,280	15,860	21,042	2,468,503	2,741,724
Private equity pool	606,498	513,703	1,120,201	—	626	245	1,502	7,263	9,636	1,129,837	1,050,886
Absolute return pool	259,480	219,777	479,257	—	268	105	642	3,107	4,122	483,379	504,106
Real assets:											
Real estate pool	489,703	414,873	904,576	—	506	198	1,213	5,865	7,782	912,358	916,350
Real estate investment trust pool	70,363	59,594	129,957	—	72	28	174	842	1,116	131,073	115,919
Energy pool	43,776	37,078	80,854	—	45	18	108	524	695	81,549	64,050
Farmland pool	226,451	204,278	430,729	—	249	97	597	2,889	3,832	434,561	368,961
Farmland water pool	14,648	—	14,648	—	—	—	—	—	—	14,648	13,877
Timber pool	86,337	73,126	159,463	—	89	35	214	1,034	1,372	160,835	133,658
Treasury inflation protected securities pool	74,366	62,986	137,352	—	77	30	184	890	1,181	138,533	135,632
Total real assets	1,005,644	851,935	1,857,579	—	1,038	406	2,490	12,044	15,978	1,873,557	1,748,447
Other investment funds, at fair value:											
Pooled investment funds	—	—	—	74,296	—	—	—	—	74,296	74,296	49,064
Collective investment funds	—	—	—	155,950	—	—	—	—	155,950	155,950	125,110
Total other investment funds	—	—	—	230,246	—	—	—	—	230,246	230,246	174,174
Total investments	6,003,206	5,116,940	11,120,146	230,246	6,236	2,437	14,955	72,323	326,197	11,446,343	11,558,961
Other assets	23	3,378	3,401	—	—	—	—	—	—	3,401	2,866
Total assets	6,130,176	5,208,592	11,338,768	246,247	6,462	2,540	15,551	75,716	346,516	11,685,284	11,701,777
Liabilities:											
Accrued expenses	7,732	810	8,542	676	—	—	—	—	676	9,218	10,037
Claims payable (note 6)	—	35,967	35,967	—	—	—	—	—	—	35,967	32,678
Due to State of Alaska General Fund	4,150	—	4,150	—	—	—	—	—	—	4,150	12,322
Total liabilities	11,882	36,777	48,659	676	—	—	—	—	676	49,335	55,037
Commitment and contingencies (note 8)	—	—	—	—	—	—	—	—	—	—	—
Net assets held in trust for pension and postemployment healthcare benefits	$6,118,294	5,171,815	11,290,109	245,571	6,462	2,540	15,551	75,716	345,840	11,635,949	11,646,740

See accompanying notes to financial statements.

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

Statement of Changes in System Net Assets
June 30, 2012

(With summarized financial information for June 30, 2011)
(In thousands)

	Defined benefit plans			Defined contribution pension trust plans							
					Occupational death and disability						
	Pension	Alaska retiree healthcare trust	Total	Participant directed	All others	Peace officer/ firefighter	Retiree medical	Healthcare reimbursement arrangement	Total	System total June 30, 2012	System total June 30, 2011
Additions:											
Contributions:											
Employers	$ 182,695	223,243	405,938	27,938	1,000	582	2,850	19,547	51,917	457,855	444,281
Plan members	112,703	627	113,330	44,903	—	8	—	—	44,911	158,241	153,664
State of Alaska	130,912	111,698	242,610	—	—	—	—	—	—	242,610	165,841
Total contributions	426,310	335,568	761,878	72,841	1,000	590	2,850	19,547	96,828	858,706	763,786
Investment income:											
Net appreciation (depreciation) in fair value	(127,845)	(94,730)	(222,575)	(317)	(27)	(5)	(51)	(43)	(443)	(223,018)	1,789,525
Interest	34,161	29,082	63,243	37	31	13	76	349	506	63,749	61,358
Dividends	118,652	97,481	216,133	—	107	39	253	1,169	1,568	217,701	181,139
Total investment income (loss)	24,968	31,833	56,801	(280)	111	47	278	1,475	1,631	58,432	2,032,022
Less investment expense	23,318	18	23,336	—	—	—	—	—	—	23,336	22,671
Net investment income (loss)	1,650	31,815	33,465	(280)	111	47	278	1,475	1,631	35,096	2,009,351
Other:											
Other	35	31,889	31,924	—	—	—	—	—	—	31,924	12,760
Total additions	427,995	399,272	827,267	72,561	1,111	637	3,128	21,022	98,459	925,726	2,785,897
Deductions:											
Pension and postemployment benefits	559,977	339,923	899,900	—	—	47	—	—	47	899,947	824,513
Refunds of contributions	10,906	—	10,906	9,230	—	—	—	—	9,230	20,136	18,196
Administrative	6,743	8,229	14,972	1,462	—	—	—	—	1,462	16,434	16,214
Total deductions	577,626	348,152	925,778	10,692	—	47	—	—	10,739	936,517	858,923
Net increase (decrease)	(149,631)	51,120	(98,511)	61,869	1,111	590	3,128	21,022	87,720	(10,791)	1,926,974
Net assets held in trust for pension and postemployment healthcare benefits:											
Balance, beginning of year	6,267,925	5,120,695	11,388,620	183,702	5,351	1,950	12,423	54,694	258,120	11,646,740	9,719,766
Balance, end of year	$6,118,294	5,171,815	11,290,109	245,571	6,462	2,540	15,551	75,716	345,840	11,635,949	11,646,740

See accompanying notes to financial statements.

STATE OF ALASKA
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June 30, 2012

(With summarized financial information for June 30, 2011)

(1) Description

The following is a brief description of the State of Alaska Public Employees' Retirement System (PERS or the System), Defined Benefit Retirement Pension and Postemployment Healthcare Plan (the DB Plan), and Defined Contribution Retirement Trust Fund (the DCR Plan). PERS 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, 2012 and 2011, the number of participating local government employers and public organizations including the State was as follows:

State of Alaska	1
Municipalities	77
School districts	53
Other	29
Total employers	160

Inclusion in the DB Plan and DCR Plan is a condition of employment for eligible State employees, except as otherwise provided for judges, elected officers, and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and peace officer and firefighter employees covered by the System.

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 eligible State and local government employees. 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 pension trust fund. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

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

	Valuation as of June 30	
	2011	**2010**
Retirees and beneficiaries currently receiving benefits	27,359	26,237
Terminated plan members entitled to future benefits	6,414	6,253
Total current and future benefits	33,773	32,490
Active plan members:		
General	22,118	24,054
Peace officer and firefighter	2,275	2,388
Total active plan members	24,393	26,442
Total members	58,166	58,932
Active plan members:		
Vested:		
General	19,457	19,375
Peace officer and firefighter	2,183	2,102
Nonvested:		
General	2,661	4,679
Peace officer and firefighter	92	286
Total active plan members	24,393	26,442

Pension Benefits

Members hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, 55, or early retirement age, 50. For members first hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. Members with 30 or more years of credited service (20 years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the members' five highest, consecutive years' salaries.

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The benefit related to all years of service prior to July 1, 1986 and for years of service through a total of 10 years for general members is equal to 2% of the member's average monthly compensation for each year of service. The benefit for each year over 10 years of service subsequent to June 30, 1986 is equal to 2.25% of the member's average monthly compensation for the second 10 years and 2.5% for all remaining years of service. For peace officer and firefighters, the benefit for years of service through a total of 10 years is equal to 2% of the member's average monthly compensation and 2.5% for all remaining years of service.

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 another person is eligible for benefits under a qualified domestic relations order.

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 funding ratio of the DB Plan meets or exceeds 105%. 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.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired on or after July 1, 1986 with 5 years of credited service (or 10 years of credited service for those first hired on or after July 1, 1996) may pay the full monthly premium if they are under age 60 (or over age 60 with less than 10 years of service for those first hired on or after July 1, 1996), and receive benefits at no premium cost if they are over age 60 or are receiving disability benefits. Peace officers and firefighters with 25 years of membership service and all other members with 30 years of membership service also receive benefits at no premium cost.

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

If an active general DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the DB Plan's member's salary. If an active peace officer or firefighter DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the DB Plan's member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. When death is due to occupational causes and there is no surviving spouse, the DB Plan's member's dependent child(ren) may receive the monthly pension until they 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 changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had

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lived. The new benefit is based on the DB Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the DB Plan member had lived and continued to work until normal retirement. 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 monthly compensation 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

Active DB Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age, or when the service requirement for normal retirement is met. Although there are no minimum service requirements for DB Plan members to be eligible for occupational disability, DB Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the DB Plan's member's salary at the time of the disability. The nonoccupational disability benefit is based on the DB Plan member's service and salary at the time of disability. At normal retirement age, a disabled general DB Plan member receives normal retirement benefits. A peace officer or firefighter DB Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

Contributions

DB Plan Member Contributions

The DB Plan's member contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The DB Plan's member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the DB Plan. The DB Plan's member contributions earn interest at the rate of 4.50% per annum, compounded semiannually.

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 method to amortize the unfunded liability over a twenty-five 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 39.35.280 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 is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Alaska Retirement Board (the Board) for that fiscal year.

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Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member 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.

Defined Contribution Retirement Plan

General

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within PERS 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.

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At June 30, 2012 and 2011, the DCR Pension Trust Fund membership consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving benefits	—	—
Terminated plan members entitled to future benefits:		
25% Vested	443	357
50% Vested	227	158
75% Vested	72	35
100% Vested	36	4
Total terminated plan members entitled to future benefits	778	554
Total current and future benefits	778	554
Active plan members:		
General	11,952	10,409
Peace officer and firefighter	913	773
Total active plan members	12,865	11,182
Total members	13,643	11,736
Active plan members:		
Vested General:		
25% Vested	1,967	1,965
50% Vested	1,612	1,528
75% Vested	1,342	1,002
100% Vested	1,027	144
Total vested general	5,948	4,639
Vested peace officer and firefighter		
25% Vested	107	164
50% Vested	151	175
75% Vested	163	157
100% Vested	166	19
Total vested peace officer and firefighter	587	515
Nonvested:		
General	6,004	5,770
Peace officer and firefighter	326	258
Total nonvested general and peace officer and firefighter	6,330	6,028
Total members	13,643	11,736

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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 who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the 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.

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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.

Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 5.0% of the member's compensation.

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. Investment options are disclosed in note 3.

Recordkeeping/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.

Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 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.

Recordkeeping/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.

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(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.

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 or 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.

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Pooled Investments

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

The Short-Term Fixed Income Pool maintains a share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid.

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 mid-point of representative quoted bid and ask prices.

Valuation and Income Allocation

Fixed Income Investment 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.

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, and Real Estate Investment Trust (REIT) Pools

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

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

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

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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 comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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 comprised 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 comprise a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, farmland water, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool are comprised 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 DCR 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 comprise 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 commercial paper, 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.

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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 DCR 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 comprise 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.

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 DB Plan on behalf of others and amounts paid by others on behalf of the DB Plan.

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 assets under 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.

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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, 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 Board as well as other state funds.

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(4) Deposit and Investment Risk

At June 30, 2012, the System's investments included the following (in thousands):

	Fair value								
	Fixed income pools								
	Short-term	Retirement	U.S. Treasury	High yield	International	Convertible	TIPS	Other	Total
Bridge loans	$ —	—	—	2,626	—	—	—	—	2,626
Commercial paper	13,349	—	—	—	—	—	—	—	13,349
Convertible bonds	—	—	—	2,867	—	71,826	—	—	74,693
Corporate bonds	35,708	—	64,118	264,147	—	—	—	—	363,973
Deposits	1,568	—	—	15,720	1,168	1,076	—	—	19,532
Foreign corporate bonds	—	—	—	515	5,976	—	—	—	6,491
Foreign government bonds	—	—	—	—	250,915	—	—	—	250,915
Municipal bonds	—	—	1,403	—	—	—	—	—	1,403
Mortgage-backed	3,327	8,209	39,313	—	—	—	—	—	50,849
Other asset-backed	138,237	—	1,797	—	—	—	—	—	140,034
Short-term investment fund	—	—	—	—	1,957	—	—	13,671	15,628
U.S. government agency	4,700	—	6,409	—	—	—	—	—	11,109
Treasury bills	207,290	—	—	—	—	—	—	—	207,290
Treasury bonds	—	—	87,200	—	—	—	—	—	87,200
Treasury notes	—	—	969,162	—	—	—	—	—	969,162
Treasury TIP bonds	—	—	—	—	—	—	52,931	—	52,931
Treasury TIP notes	—	—	—	—	—	—	84,409	—	84,409
Yankees:									
Corporate	8,216	—	9,182	20,639	—	—	—	—	38,037
Government	—	—	4,628	—	—	—	—	—	4,628
Fixed income pools:									
Equity	—	—	—	—	—	6,468	—	—	6,468
Warrants	—	—	—	11	—	—	—	—	11
Emerging markets debt pool	—	—	—	—	—	—	—	86,723	86,723
Broad domestic equity pool:									
Deposits	—	—	—	—	—	—	—	32,991	32,991
Equity	—	—	—	—	—	—	—	2,996,741	2,996,741
Futures	—	—	—	—	—	—	—	1,110	1,110
Limited partnership	—	—	—	—	—	—	—	169,656	169,656
Mutual fund	—	—	—	—	—	—	—	28,618	28,618
Options	—	—	—	—	—	—	—	(14,118)	(14,118)
Treasury bills	—	—	—	—	—	—	—	1,597	1,597
Broad international equity pool:									
Deposits	—	—	—	—	—	—	—	35,078	35,078
Equity	—	—	—	—	—	—	—	1,670,642	1,670,642
Rights	—	—	—	—	—	—	—	30	30
Mutual funds								140,938	140,938
Emerging markets equity pool	—	—	—	—	—	—	—	604,259	604,259
Private equity pool:									
Limited partnerships	—	—	—	—	—	—	—	1,129,837	1,129,837
Absolute return pool:									
Limited partnerships	—	—	—	—	—	—	—	483,379	483,379
Real estate pool:									
Commingled funds	—	—	—	—	—	—	—	186,973	186,973
Limited partnerships	—	—	—	—	—	—	—	249,812	249,812
Real estate	—	—	—	—	—	—	—	475,573	475,573
Real estate investment trust pool:									
Equity	—	—	—	—	—	—	—	130,438	130,438
Energy pool:									
Limited partnerships	—	—	—	—	—	—	—	81,549	81,549
Farmland pool:									
Agricultural holdings	—	—	—	—	—	—	—	434,561	434,561
Farmland water pool:									
Agricultural holdings	—	—	—	—	—	—	—	14,648	14,648
Timber pool:									
Timber holdings	—	—	—	—	—	—	—	160,834	160,834
Participant directed:									
Collective investment funds	—	—	—	—	—	—	—	155,682	155,682
Pooled investment funds	—	—	—	—	—	—	—	74,168	74,168
Net other assets (liabilities)	(11,121)	74	(103,626)	3,379	2,983	485	752	10,064	(97,010)
Other pool ownership	(211,776)	5,498	132,116	—	—	—	441	73,721	—
Unallocated deposit in transit	—	—	—	—	—	—	—	394	394
Total invested assets	$ 189,498	13,781	1,211,702	309,904	262,999	79,855	138,533	9,429,569	1,635,841

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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 fourteen months to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2012, the expected average life of individual fixed rate securities ranged from two days to twenty five years and the expected average life of floating rate securities ranged from twelve days to nine 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 ± 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, 2012, was 5.07 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 Intermediate U.S. Treasury Fixed Income portfolio to ± 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, 2012 was 3.86 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 ± 20% of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2012 was 4.21 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 ± 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 Word Government Bond Index at June 30, 2012, was 7.26 years and the effective duration of JP Morgan Global Bond Index at June 30, 2012 was 4.75, for a blended duration of 6.50 at June 30, 2012.

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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 ± 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, 2012 was 9.27 years.

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

At June 30, 2012, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows (in years):

	Effective duration				
	Retirement	**U.S. Treasury**	**High yield**	**International**	**TIPS**
Cash equivalent	0.26	0.26	—	—	0.26
Convertible bonds	—	—	0.12	—	—
Corporate	—	3.83	3.82	—	—
Foreign corporate bonds	—	—	—	3.27	—
Foreign government bonds	—	—	4.81	5.48	—
Mortgage backed	—	2.49	—	—	—
Other asset backed	—	0.83	—	—	—
U.S. government agency	—	7.27	—	—	—
U.S. Treasury bonds	—	6.83	—	—	9.91
U.S. Treasury notes	—	3.48	—	—	2.22
Yankees:					
Corporate	—	2.14	3.74	—	—
Government	—	1.23	—	—	—
Portfolio effective duration	**1.66**	**3.36**	**3.57**	**5.34**	**5.16**

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, 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 portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.
>
> At June 30, 2012, the duration of the government corporate debt and mortgage-backed securities was 5.06 years and the duration of the Barclays Capital Aggregate Bond Index was 5.07 years.
>
> Under normal conditions, the DCR Plan will invest in cash equivalent instruments with maturities of less than one year.

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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, 2012, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 49 days, SSgA World Government Bond Ex-U.S. Index: 7.40 years, SSgA Long U.S. Treasury Bond Index: 16.63 years, SSgA TIPS Index: 5.12 years, Barclays Gov/Corp Bond Fund: 5.67 years, and the Barclays Intermediate Bond Fund: 3.64 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 and 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 and Poor's Corporation or the equivalent by Moody's or Fitch.

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U.S. Treasury Fixed Income

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

Corporate, asset-backed, and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's and Fitch. Asset-backed and 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.

High Yield Fixed Income

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

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.

No more than 10% of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

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

Corporate and 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.

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 and Poor's, Moody's, or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio.

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

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and C3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and C3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

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TIPS

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

No more than 5% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

Non-U.S. Treasury-issued securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, Moody's and Fitch. Asset-backed and 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, 2012, 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):

		Fixed income pools						
Investment type	**Rating**	**Short-term**	**Retirement**	**U.S. Treasury**	**High yield**	**International**	**Convertible**	**TIPS**
Bank loans	BB	—%	—%	—%	0.36%	—%	—%	—%
Bank loans	Not rated	—	—	—	0.49	—	—	—
Commercial paper	Not rated	3.33	—	—	—	—	—	—
Convertible bonds	AAA	—	—	—	—	—	1.56	—
Convertible bonds	A	—	—	—	0.25	—	8.26	—
Convertible bonds	BBB	—	—	—	0.37	—	17.19	—
Convertible bonds	BB	—	—	—	—	—	19.40	—
Convertible bonds	B	—	—	—	0.07	—	13.72	—
Convertible bonds	CCC	—	—	—	—	—	0.58	—
Convertible bonds	Not rated	—	—	—	0.49	—	29.24	—
Corporate bonds	AA	4.94	—	0.94	—	—	—	—
Corporate bonds	A	3.60	—	2.72	—	—	—	—
Corporate bonds	BBB	—	—	1.17	3.22	—	—	—
Corporate bonds	BB	—	—	—	33.38	—	—	—
Corporate bonds	B	—	—	—	39.68	—	—	—
Corporate bonds	CCC	—	—	—	6.25	—	—	—
Corporate bonds	Not rated	0.35	—	0.57	2.44	—	—	—
Equity	BBB	—	—	—	—	—	2.15	—
Equity	BB	—	—	—	—	—	3.00	—
Equity	B	—	—	—	—	—	1.33	—
Equity	CCC	—	—	—	—	—	0.35	—
Equity	Not rated	—	—	—	—	—	1.27	—
Foreign corporate bonds	AA	—	—	—	—	0.67	—	—
Foreign corporate bonds	A	—	—	—	—	3.07	—	—
Foreign government bonds	AA	—	—	—	—	1.56	—	—
Foreign government bonds	A	—	—	—	—	21.37	—	—
Foreign government bonds	BBB	—	—	—	0.17	2.24	—	—
Foreign government bonds	BB	—	—	—	—	4.49	—	—
Foreign government bonds	Not rated	—	—	—	—	65.42	—	—
Government agency	AA	1.17	—	0.53	—	—	—	—
Mortgage backed	AAA	0.46	7.96	0.47	—	—	—	—
Mortgage backed	AA	—	31.67	1.82	—	—	—	—
Mortgage backed	CCC	—	10.53	—	—	—	—	—
Mortgage backed	Not rated	0.37	9.40	0.95	—	—	—	—
Other asset backed	AAA	26.15	—	—	—	—	—	—
Other asset backed	AA	1.90	—	—	—	—	—	—
Other asset backed	A	0.08	—	0.13	—	—	—	—
Other asset backed	Not rated	6.30	—	0.02	—	—	—	—
Other pool ownership	Not rated	—	39.90	10.90	—	—	—	0.32
Short-term investment	Not rated	—	—	—	—	0.74	—	—
U.S. Treasury bills	AA	51.67	—	—	—	—	—	—
U.S. Treasury bonds	AA	—	—	7.20	—	—	—	38.21
U.S. Treasury notes	AA	—	—	79.99	—	—	—	60.93
Yankees:								
Corporate	AA	1.42	—	—	—	—	—	—
Corporate	A	0.62	—	0.44	—	—	—	—
Corporate	BBB	—	—	0.32	—	—	—	—
Corporate	BB	—	—	—	2.76	—	—	—
Corporate	B	—	—	—	3.44	—	—	—
Corporate	Not rated	—	—	—	0.47	—	—	—
Government	AA	—	—	0.29	—	—	—	—
Government	Not rated	—	—	0.09	—	—	—	—
No credit exposure		(2.36)	0.54	(8.55)	6.16	0.44	1.95	0.54
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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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 uninvested U.S. cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured depository institutions thereby limiting custodial credit risk.

At June 30, 2012, the System's Invested Assets had the following uncollateralized and uninsured deposits (in thousands):

	Amount
Broad international equity pool	$ 35,078
International fixed income pool	1,167

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, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

Fixed income	Global equity ex-U.S.	Private equity pool
21%	27%	13%

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

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At June 30, 2012, the System had exposure to foreign currency risk with the following deposits (in thousands):

	Amount	
Currency	**International fixed income pool**	**Broad international equity pool**
Australian dollar	$ —	241
Brazilian real	—	35
Canadian dollar	—	180
Danish krone	—	88
Euro currency	—	30,289
Hong Kong dollar	—	111
Hungarian forint	190	—
Israeli shekel	—	25
Japanese yen	186	2,859
Mexican peso	742	—
New Zealand dollar	—	19
Norwegian krone	—	57
Pound sterling	—	682
Singapore dollar	—	72
South African rand	49	—
Swedish krona	—	47
Swiss franc	—	373
	$ 1,167	35,078

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At June 30, 2012, the System had exposure to foreign currency risk with the following investments (in thousands):

	Amount			
	International fixed income pool		Broad international equity pool	Private equity pool
Currency	Foreign government	Corporate	Equity	Limited partnerships
Australian dollar	$ —	—	64,891	26
Brazilian real	14,979	—	6,038	—
Canadian dollar	—	—	61,120	—
Chilean peso	2,368	—	—	—
Colombian peso	2,484	—	—	—
Czech koruna	—	—	574	—
Danish krone	—	—	14,476	—
Euro currency	42,764	2,509	442,024	107,013
Hong Kong dollar	—	—	54,968	—
Hungarian forint	11,857	—	—	—
Indian rupee	—	—	5,137	—
Indonesian rupah	2,325	—	3,740	—
Israeli shekel	4,698	—	691	—
Japanese yen	92,329	1,781	330,302	—
Malaysian ringgit	4,014	—	—	—
Mexican peso	19,389	1,686	629	—
New Taiwan dollar	—	—	1,323	—
New Zealand dollar	—	—	5,217	—
Norwegian krone	—	—	7,395	—
Peruvian Nouveau sol	871	—	—	—
Polish zloty	28,017	—	533	—
Pound sterling	14,258	—	348,900	17,536
Singapore dollar	—	—	21,421	—
South African rand	8,013	—	2,618	—
South Korean won	—	—	32,257	—
Swedish krona	—	—	37,641	—
Swiss franc	—	—	98,862	—
Thailand baht	—	—	8,134	—
Turkish lira	2,549	—	—	—
	$ 250,915	5,976	1,548,891	124,575

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At June 30, 2012, the System also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists 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 United States 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, 2012, the System did not have exposure to any one issuer greater than 5% of total invested assets.

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

The System 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, 2012, the System had the following derivative instruments outstanding (in thousands):

	Changes in fair value		Fair value as of June 30, 2012	
	Classification	Amount	Amount	Notion
Equity options bought	Investment revenue	$ 707	$ —	—
Equity options written	Investment revenue	17,640	(14,068)	(2,599)
FX forwards	Investment revenue	589	50	16,346
Index futures long	Investment revenue	1,587	—	36
Index options bought	Investment revenue	13	—	—
Index options written	Investment revenue	287	(53)	(5)
Rights	Investment revenue	70	30	73
Warrants	Investment revenue	6	11	7
Grand totals		$ 20,899	$ (14,030)	

The above derivatives are classified within the Statement of System Net Assets in the investment pools to which they relate.

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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, 2012, the System had the following Foreign Currency risk related to forward contracts (in thousands):

	Currency Forward Contracts			
Currency name	Options	Net receivables	Net payables	Total Exposure
Australian dollar	—	14,458	2,274	16,732
Canadian dollar	6,612	—	—	6,612
Euro currency	23,706	7,175	(47,202)	(16,321)
Japanese yen	—	—	60,029	60,029
New Zealand dollar	—	—	13,231	13,231
	30,318	21,633	28,332	80,283

At June 30, 2012, 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
Credit Suisse - London (GFX)	54.0%	A+	A	A1
State Street Bank London	31.0	A+	A+	A1
Mellon Bank N.A.	8.0	A+	AA-	Aa3
Bank of America N.A.	7.0	A	A	A3

Maximum amount of loss Alaska ARMB (PERS) would face in case of default of all counterparties i.e., aggregated (positive) fair value of OTC positions as of June 30, 2012	$ 97,168
Effect of collateral reducing maximum exposure	—
Liabilities subject to netting arrangements reducing exposure	—
Resulting net exposure	$ 97,168

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(6) Claims Payable

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported, as of the balance sheet date. The 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.

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

	2012	2011
Beginning of year:		
Due to State of Alaska General Fund for outstanding warrants	$ —	—
Incurred but not reported	32,678	32,315
Total, beginning of year	32,678	32,315
Benefit deductions	339,923	299,196
Benefits paid	(336,634)	(298,833)
Total, end of year	35,967	32,678
End of year:		
Due to State of Alaska General Fund for outstanding warrants	—	—
Incurred but not reported	35,967	32,678
Total, end of year	$ 35,967	32,678

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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, 2011	$ 10,919,047	6,762,149	61.9%	$4,156,898	1,559,938	266.5%
Postemployment healthcare	June 30, 2011	9,091,034	5,051,625	55.6	4,039,409	1,559,938	258.9

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 aggregate 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, 2011	$ 1,949	7,049	361.7%	$ (5,100)	459,521	(1.1)%
Retiree medical	June 30, 2011	13,142	12,009	91.4	1,133	459,521	0.2

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:

June 30, 2011

Valuation Date	Defined Benefit	Defined Contribution ODD and Retiree Medical
Actuarial cost method	Entry age normal; level percentage of pay for pension; level dollar for healthcare	Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical
Amortization method	Level dollar, closed	Level dollar, closed with bases established annually
Equivalent single amortization period	18 years	23 years
Asset valuation method	5 year smoothed fair value	5 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.00% for pension, 7.43% for health-care (includes inflation at 3.12%)	8.00% (includes inflation at 3.12%)
Projected salary increases	Peace Officer/Firefighter: merit – 2.75% per year for the first 4 years of employment, grading down to 0.5% at 7 years and thereafter.	Peace Officer/Firefighter: merit – 2.74% per year for the first 4 years of employment, grading down to 0.5% at 4 years and thereafter.
	Productivity – 0.5% per year.	Productivity – 0.5% per year.
	Others: merit – 6.00% per year grading down to 2.00% after 5 years; for more than 6 years of service, 1.50% grading down to 0.0%.	Others: merit – 5.98% per year grading down to 1.99% after 5 years; for more than 6 years of service, 1.49% grading down to 0.0%.
	Productivity – 0.5% per year.	Productivity – 0.5% per year.
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	Prescription drugs
2012	6.4%	7.1%
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2018	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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 Public Employees' 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 ARC actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 7.43% as of June 30, 2009, to be used for fiscal 2012 disclosure.

The State of Alaska Public Employees' 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 2014 employer ARC for accounting purposes is 0.58% of pay for retiree medical benefits and 0.87% 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 an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2012, the System's share of the unfunded commitment totaled $14,552,019. This commitment can be withdrawn annually in December with ninety days' notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $604,616,937. These commitments are estimated to be paid through 2022.

The Board entered into agreements through external investment managers to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $28,045,248 to be paid through the year 2019.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2012, the System's share of these unfunded commitments totaled $69,785,151 to be paid through the year 2014.

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 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 2012. 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. This Statement requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position as well as additional requirements to the notes of the financial statements. Other requirements include additional presentations of summary information about the pension liability of employers and nonemployer contributing entities to plan members for benefits provided through the pension plan (net pension liability) in notes to financial statements. The new standard is effective for fiscal periods beginning after June 15, 2013. The Plan will implement the provisions for the year ended June 30, 2014.

The GASB also issued GASBS 68, *Accounting and Financial Reporting for Pensions* an amendment of GASB Statement No. 27. This Statement 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 for the year ended June 30, 2015.

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Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Defined Benefit Retirement
Pension Benefits

June 30, 2012
(In thousands)

Actuarial valuation date as of 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
2006	$ 8,094,043	6,331,065	78.2%	$1,762,978	1,590,693	110.8%
2007	8,662,324	6,739,004	77.8	1,923,320	1,605,819	119.8
2008	9,154,282	7,210,772	78.8	1,943,510	1,577,846	123.2
2009	9,702,086	6,108,528	63.0	3,593,558	1,585,490	226.7
2010	10,371,672	6,469,832	62.4	3,901,840	1,586,697	245.9
2011	10,919,047	6,762,149	61.9	4,156,898	1,559,938	266.5

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 Benefit Retirement
Postemployment Healthcare Benefits

June 30, 2012
(In thousands)

Actuarial valuation date as of 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
2006	$ 11,455,015	2,709,843	23.7%	$8,745,172	1,590,693	549.8%
2007	11,108,553	3,161,956	28.5	7,946,597	1,605,819	494.9
2008	13,013,450	3,829,334	29.4	9,184,116	1,577,846	582.1
2009	12,770,990	4,134,450	32.4	8,636,540	1,585,490	544.7
2010	9,304,504	4,687,632	50.4	4,616,872	1,586,697	291.0
2011	9,091,034	5,051,625	55.6	4,039,409	1,559,938	258.9

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, 2012
(In thousands)

Actuarial valuation date as of 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	$ 48	188	391.7%	$ (140)	105,611	(0.1)%
2008	242	1,288	532.2	(1,046)	203,955	(0.5)
2009	403	3,138	778.7	(2,735)	314,118	(0.9)
2010	853	4,801	562.8	(3,948)	421,187	(0.9)
2011	1,949	7,049	361.7	(5,100)	459,521	(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, 2012
(In thousands)

Actuarial valuation date as of 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	$ 803	1,067	132.9%	$ (264)	105,611	(0.2)%
2008	2,123	2,719	128.1	(596)	203,955	(0.3)
2009	4,594	5,475	119.2	(881)	314,118	(0.3)
2010	8,370	8,767	104.7	(397)	421,187	(0.1)
2011	13,142	12,009	91.4	1,133	459,521	0.2

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

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Required Supplementary Information (Unaudited)
Schedule of Contributions from Employers and the State of Alaska
Defined Benefit Retirement
Pension and Postemployment Healthcare Benefit

June 30, 2012
(In thousands)

		Annual required contribution			Pension percentage contributed			Postemployment healthcare percentage contributed		
Year ended June 30	Actuarial valuation date as of June 30 [1]	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)
2006	2003	$ 249,488	166,749	416,237	61.0%	4.4%	65.4%	61.0%	4.4%	65.4%
2007	2004	268,742	189,495	458,237	73.2	4.1	77.3	73.2	4.1	77.3
2008	2005	140,729	370,456	511,185	71.2	36.2	107.4	71.2	36.2	107.4
2009	2006	166,016	391,321	557,337	68.1	48.0	116.1	68.1	41.4	109.5
2010[2]	2007	217,080	790,793	1,007,873	65.5	20.5	86.0	31.6	54.8	86.4
2011	2008	220,419	525,075	745,494	63.1	29.6	92.7	49.8	21.6	71.4

(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 legal 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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Required Supplementary Information (Unaudited)
Schedule of Contributions
Defined Contribution Retirement
Occupational Death and Disability Benefits

June 30, 2012
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 181	100.0%
2008	1,063	100.0
2009	1,787	100.0
2010	1,495	100.0
2011	1,852	100.0

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

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Required Supplementary Information (Unaudited)
Schedule of Contributions
Defined Contribution Retirement
Retiree Medical Benefits

June 30, 2012
(In thousands)

Year ended June 30	Annual required contribution	Percentage of ARC contributed
2007	$ 1,028	100.0%
2008	1,845	85.0
2009	3,152	85.0
2010	3,469	87.0
2011	3,229	78.0

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

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June 30, 2012

(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

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, 2011 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percent of pay. However, for Governmental Accounting Standards Board (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 and phased in over the next five 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.

(f) Payroll growth – 3.62% per year (inflation + productivity).

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Notes to Required Supplemental Information (Unaudited)

June 30, 2012

(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) – Peace Officer/Firefighter: Based upon the 2005-2009 experience study, adopted in 2010. 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 60% of the female table for females. Others: Based upon the 2005-2009 experience study, adopted in 2010. 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for others. 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 109%.

(i) Mortality (post-termination) – Based on the 2005-2009 experience study, adopted in 2010. 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with an one-year set-forward for females. 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 109%.

(j) Total turnover –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. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.

(l) Retirement – Retirement rates based on the 2005-2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others. For Peace Officer/Firefighter, Tier 1 deferred vested members are assumed to retire at age 53 and Tiers 2 and 3 deferred vested members are assumed to retire at age 57.

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 80% of male members and 70% 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 – 15% 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, 70% are assumed to remain in Alaska and receive the COLA.

(q) 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, 2012

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

(s) Part-time status – Part-time members are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years of credited service per year for Other members.

(t) 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.

(u) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY12 medical benefits and prescription are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,497	2,799
Medicare Part A and B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

(v) Third-party administrator fees – $162.47 per person per year; assumed trend rate of 5% per year.

(w) 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.

(x) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.4% is applied to the FY12 medical claims costs to get the FY13 medical claims cost.

Fiscal year	Medical	Prescription drugs
2012	6.4%	7.1%
2013	5.9	5.9
2014	5.9	5.9
2015	5.9	5.9
2016	5.9	5.9
2017	5.9	5.9
2018	5.9	5.9
2025	5.8	5.8
2050	5.7	5.7
2100	5.1	5.1

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

Notes to Required Supplemental Information (Unaudited)

June 30, 2012

For the June 30, 2008 valuations and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012, and projects out to 2100. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

(y) Aging factors:

Age	Medical	Prescription drugs
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 – 95	0.5	—
94+	—	—

(z) Retired member contributions for medical benefits – Currently, contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for Peace Officer/Firefighter). Eligible Tier 1 members are exempt from contribution requirements. Annual FY12 contributions based on monthly rates shown below for calendar 2011 and 2012 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 or 3 who are assumed to retire prior to age 60 with less than 30 years of service and who are not disabled:

	Calendar 2012		Calendar 2011
Coverage category	Annual contribution	Monthly contribution	Monthly contribution
Retiree only	$ 9,684	807	791
Retiree and spouse	19,380	1,615	1,583
Retiree and child(ren)	13,680	1,140	1,118
Retiree and family	23,376	1,948	1,910
Composite	14,400	1,200	1,176

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(aa) 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, 6.3% is applied to the FY12 retired member medical contributions to get the FY13 retired member medical contributions.

Fiscal year:	
2012	6.3%
2013	6.0
2014	5.7
2015	5.3
2016	5.0
2017	5.0
2018	5.0
2019	5.0
2020 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY11 retired member medical contributions are reflected in the valuation so trend on such contribution during FY11 is not applicable.

(bb) 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.

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, 2011 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 market 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, 2011 for defined benefit pension and postemployment healthcare benefit plan (PERS 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, FY11 claim costs were reduced to 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

(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) – Peace Officer/Firefighter: Based upon the 2005-2009 actual mortality experience of the PERS DB Plan. 80% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 60% for females. Others: Based upon the 2005-2009 actual mortality experience of the PERS DB Plan. 75% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and 55% for females. Deaths are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others. 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 109%.

(i) Mortality (post-termination) – 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with one-year set-forward for females. 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 109%.

(j) Turnover – Select rates were estimated and ultimate rates were set to the PERS DB Plan's rate loaded by 10%.

(k) Disability – Incidence rates based upon the 2005-2009 actual experience of the PERS DB Plan. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 75% of the time for Peace Officer/Firefighter, 55% of the time for Others.

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

Age	Rate
< 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. 80% of male members and 70% of female members are assumed to be married.

(n) Part-time status – Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighter and 0.65 years of credited service per year for Other members.

(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 FY12 medical benefits are shown below:

	Medical	Prescription drugs
Pre-Medicare	$ 9,497	2,799
Medicare Part A and B	1,551	2,799
Medicare Part B Only	6,936	2,799
Medicare Part D	N/A	534

(q) Third-party administrator fees – $162.47 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: 0.941 for medical plan, 0.993 for the prescription drug plan, and 0.952 for the annual indexing for member cost sharing.

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(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, 6.4% is applied to the FY12 medical rate claims cost to get the FY13 medical claims costs.

Fiscal year	Medical	Prescription drugs
2012	6.4%	7.1%
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2018	5.9	5.9
2025	5.8	5.8
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For the June 30, 2008 valuation and later, the 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. This model has been populated with assumptions that are specific to the State of Alaska.

(t) Aging factors:

Age	Medical	Prescription drugs
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 – 95	0.5	—
94+	—	—

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June 30, 2012

(u) Retiree medical participation:

Years of service	Percent participation
10 – 14	75.0%
15 – 19	80.0
20 – 24	85.0
25 – 29	95.0
30+	100.0

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 Assumptions since the Last Valuation

There have been no change in assumptions since the prior valuation, except for the assumption regarding Medicare Part B only participation for pre-65 retirees and active members. The actuary now determines the Part B only status based on number of quarters worked since date of hire or rehire where applicable.

(3) Contributions – State of Alaska

Alaska Statute 39.35.280 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 22%, 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 2012 was 33.49%.

Schedule 1

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Schedule of Administrative and Investment Deductions
Defined Benefit Plan

Year ended June 30, 2012 and 2011
(In thousands)

	Administrative	Investment	Totals 2012	Totals 2011
Personal services:				
Wages	$ 3,170	1,185	4,355	4,400
Benefits	1,978	563	2,541	2,370
Total personal services	5,148	1,748	6,896	6,770
Travel:				
Transportation	48	122	170	176
Per diem	11	17	28	31
Honorarium	—	6	6	—
Total travel	59	145	204	207
Contractual services:				
Management and consulting	7,139	19,910	27,049	25,980
Accounting and auditing	38	789	827	756
Data processing	959	468	1,427	1,553
Communications	222	35	257	268
Advertising and printing	88	5	93	118
Rentals/leases	297	48	345	306
Legal	251	50	301	385
Medical specialists	27	—	27	84
Repairs and maintenance	13	7	20	25
Transportation	2	2	4	3
Other services	333	36	369	396
Total contractual services	9,369	21,350	30,719	29,874
Other:				
Equipment	132	33	165	190
Supplies	264	60	324	180
Total other	396	93	489	370
Total administrative and investment deductions	$ 14,972	23,336	38,308	37,221

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Schedule of Administrative Deductions
Defined Contribution Retirement Trust Plan

Year ended June 30, 2012 and 2011
(In thousands)

	2012	2011
Personal services:		
Wages	$ 215	149
Benefits	138	91
Total personal services	353	240
Travel:		
Transportation	7	10
Per Diem	1	1
Total travel	8	11
Contractual services:		
Management and consulting	987	1,318
Accounting and auditing	18	17
Data processing	39	35
Communications	9	5
Advertising and printing	—	1
Rentals/leases	18	11
Legal	3	9
Repairs and maintenance	1	—
Other services	6	4
Total contractual services	1,081	1,400
Other:		
Equipment	6	7
Supplies	14	6
Total other	20	13
Total administrative deductions	$ 1,462	1,664

See accompanying independent auditors' report.

Schedule 3

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Schedule of Payments to Consultants Other than Investment Advisors

Year ended June 30, 2012 and 2011
(In thousands)

Firm	Services	2012	2011
Buck Consultant, an ACS Company	Actuarial services	$ 699	535
KPMG LLP	Auditing services	53	51
Wells Fargo Banks	Banking services	12	11
State Street Bank Corporation	Custodian banking services	758	729
Alaska IT Group	Data processing consultants	34	40
Computer Task Group Inc.	Data processing consultants	534	606
Six Degrees Consulting	Data processing consultants	122	102
World Wide Technology Holding Co	Data processing consultants	21	148
State of Alaska, Department of Law	Legal services	250	269
		$ 2,483	2,491

See accompanying independent auditors' report.

Alaska Division of Retirement and Benefits

PERS

Public Employees Retirement System