

ALASKA

TEACHERS' RETIREMENT SYSTEM



A component unit of the State of Alaska
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014
Bill Walker, Governor



TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Alaska

For the Fiscal Year Ended June 30, 2014



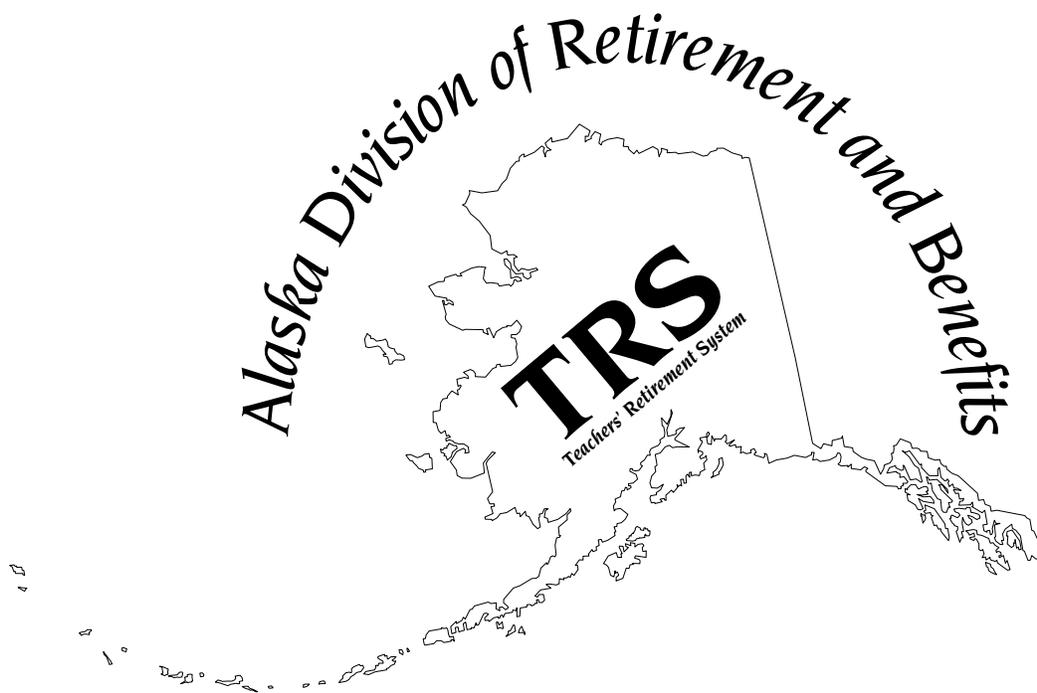
Bill Walker, Governor

Prepared by

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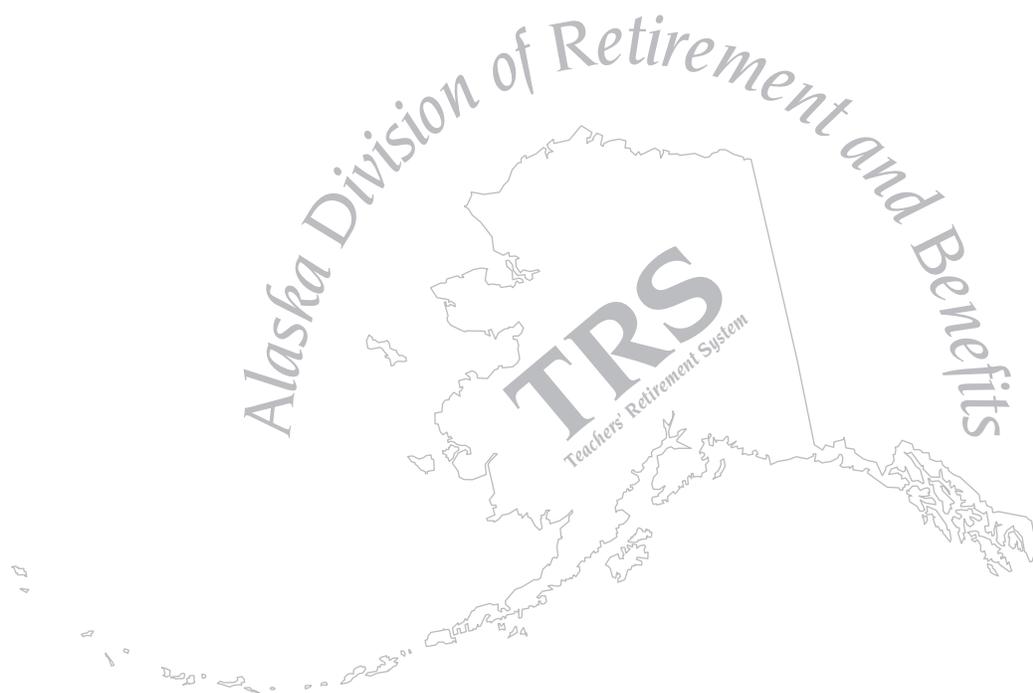
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INTRODUCTORY SECTION





THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Administration

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LETTER OF TRANSMITTAL

December 15, 2014

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2014. The CAFR is intended to fulfill the legal requirements of Alaska Statute (AS) 14.25.004(a)(8).

The CAFR provides comprehensive information on the financial operations of the System for the fiscal year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2014. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, have issued an unmodified opinion on the System's basic financial statements for the year ended June 30, 2014. The independent auditor's report is located at the front of the Financial Section of this report.

The management's discussion and analysis (MD&A) is also located in the Financial Section of this report. The MD&A provides an analytical overview of the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR is divided into five sections:

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

Introductory Section

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

Profile of the System

The System was established in 1955 to provide pension benefits to teachers and other eligible participants. Post-employment health care benefits were added in July 1, 1975. Senate Bill 141, signed into law on July 27, 2005, closed the Defined Benefits (DB) Plan effective July 1, 2006, to new members and created a Defined Contribution (DC) Plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of: (1) the DB Plan and (2) the DC Plan. This report includes both plans. The DB Plan includes the defined benefit pension plan and the Alaska Retiree Health Care Trust (Tiers I and II). The DC Plan includes the defined contribution retirement trust, occupational death and disability plan, retiree major medical plan, and the health reimbursement arrangement plan (Tier III).

Reporting Entity

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

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

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

The Board is responsible for:

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

Major Initiatives / Changes

The System continues to make progress on several ongoing projects. Most of these efforts are focused on improving customer service, technology, methods for employers to submit information, methods for members to obtain information, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB), as applicable.

Effective January 1, 2014, the administration of the AlaskaCare health insurance plans for Public Employees', Teachers', Judicial, and certain state employees is administered by Aetna. The dental plan is administered by Moda Health / Delta Dental of Alaska. Additionally, beginning in 2014, the health insurance plans will be on a calendar benefit year, a switch from the July to June benefit year.

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

The System also strives to provide the highest degree of customer service to all members. The Division continues to enhance and develop the central Member Services Section with the goals of improving phone service, providing faster processing of all customer requests, and improving member education services.

The System continues to offer a broad array of fairs and seminars directed toward both active members and employers, with the goal to assist employers with successful marketing of the plans, educating members about all benefits available from early career through to retirement, encouraging healthy living, and how to best use the health plan.

Funding Requirements

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2013, actuarial valuation report to the Plan Administrator and the Board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report dated June 30, 2013, the TRS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for DB pension and postemployment healthcare benefits) of 51.9%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately \$4.6 billion. The unfunded liability continues to be addressed at all levels of the State. The Governor's budget proposes to provide funding to TRS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the Board. Recently passed legislation appropriating \$2 billion to the System's defined pension benefit and Alaska Retiree Healthcare Trust can be found in the Notes to Financial Statements of the Financial Section.

Investments

On June 30, 2014, the DB Plan's investment portfolio was valued at \$5.8 billion and earned an 18.46% return for the fiscal year ended June 30, 2014. The DC Plan's investment portfolio was valued at \$274.8 million for the fiscal year ended June 30, 2014. Over the past five years ending June 30, 2014, the DB Plan's investments earned a 12.66% return. The Board has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the Board. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The Board reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Introductory Section

Accounting System

This CAFR has been prepared to conform to the principles of accounting and reporting established by the GASB. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report.

Internal Controls

Division management is responsible for establishing and maintaining a system of internal controls to protect System assets from loss, theft, or misuse and to ensure adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. The cost of internal control should not exceed anticipated benefits; the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

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

Additionally, the Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for Funding and Administration certificate for the fiscal year ended June 30, 2014.

The Public Pension Standards Award for Funding and Administration certificate is valid for a period of one year. The Division is confident the System will continue to meet the standard's award requirements and will apply to the PPCC for consideration in 2015.

Acknowledgements

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

The report is available on the web at <http://doa.alaska.gov/drb/trs/trscafr.html> and mailed to those who submit a formal request. This report forms the link between the System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope employers and plan members find this report informative.

Introductory Section

We are grateful to the Alaska Retirement Management Board, staff, advisors, and to the many people who have diligently worked to assure the successful operation of the System.

Respectfully submitted,



Amy Erickson
Acting Commissioner



Jim Puckett
Chief Operations Officer



Kevin Worley
Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Alaska Teachers'
Retirement System**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2014***

Presented to

Alaska Teachers' Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

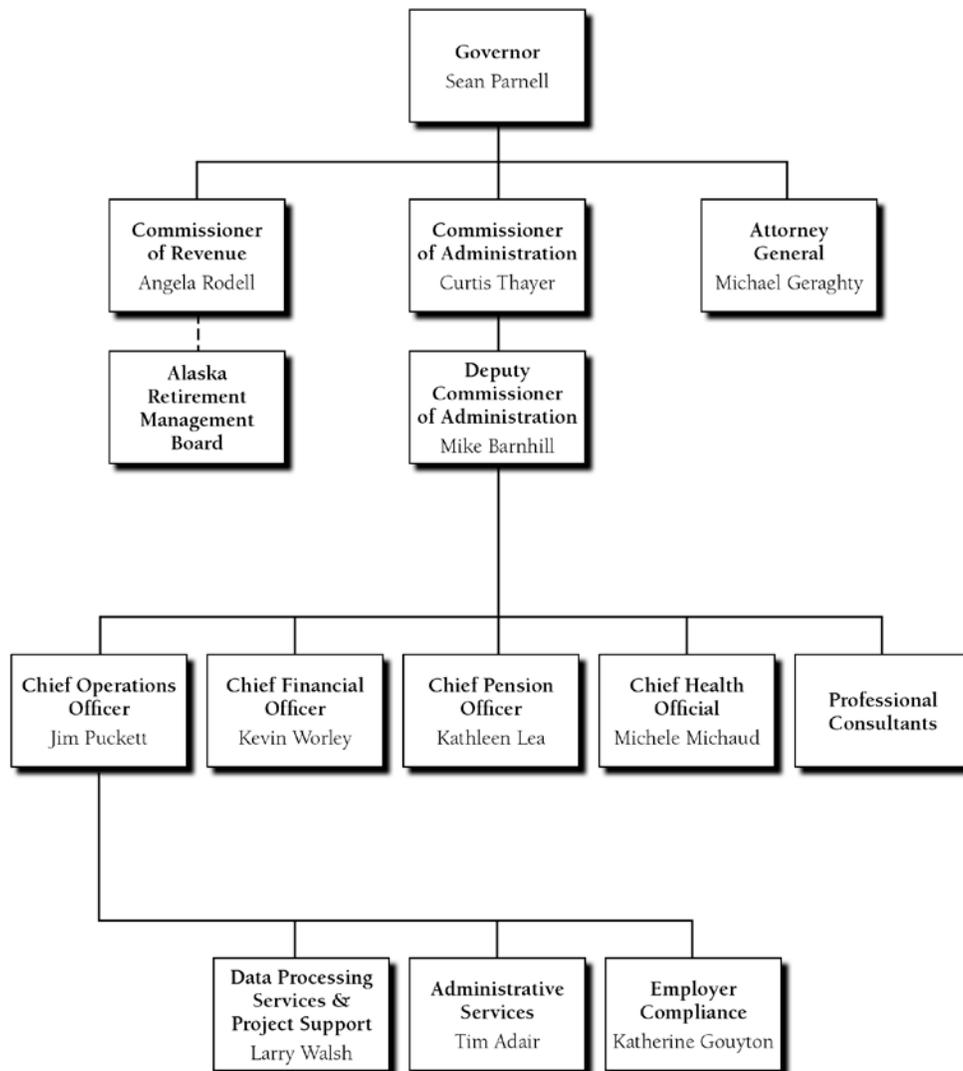
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

ORGANIZATION CHART

As of June 30, 2014



Section Responsibilities

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

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

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

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

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

| Professional Consultants | |
|--|--|
| <p>Consulting Actuary Buck Consultants <i>Denver, Colorado</i></p> <p>Independent Auditors KPMG LLP <i>Anchorage, Alaska</i></p> <p>Benefits Consultants Buck Consultants <i>Denver, Colorado</i></p> <p>Michael Silverman Professional Services <i>Juneau, Alaska</i></p> <p>Maximus Federal Services <i>Reston, Virginia</i></p> <p>Third-Party Healthcare Claim Administrator Aetna Life Insurance Company <i>Lexington, Kentucky</i></p> <p>Moda Health / Delta Dental of Alaska <i>Portland, Oregon</i></p> <p>HealthSmart Benefit Solutions, Inc. <i>Charleston, West Virginia</i></p> | <p>IT Consultants Computer Task Group Applied Microsystems, Inc. <i>Anchorage, Alaska</i></p> <p>Alaska IT Group <i>Juneau, Alaska</i></p> <p>Legal Counsel Joan Wilkerson Jessica Srader Rebecca Polizzotto Toby Steinberger Assistant Attorney Generals <i>Juneau, Alaska</i></p> <p>Ice Miller LLP <i>Indianapolis, Indiana</i></p> <p>Consulting Physicians Kim Smith, M.D. Ward Hurlburt, M.D. Alex Malter, M.D. Deborah Lessmeier, M.D. Myanandi Than, M.D. <i>Juneau, Alaska</i></p> <p>Thomas Rodgers, M.D. <i>Ford, Washington</i></p> |

A list of investment consultants can be found on pages 71-72 and on the Schedule of External Management Fees on pages 80-81.

Introductory Section

Alaska Retirement Management Board

As of June 30, 2014

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

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

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

Tom Brice is the Business Representative for the Alaska District Council of Laborers administering the contracts in Southeast Alaska for Laborers Local 942 and Public Employees Local 71. He was elected to the position of Vice President of Laborers Local 942 in 2011, and has sat on the negotiating team for the state contract with Public Employees Local 71 for the past three contracts. Prior to this position, Mr. Brice was the Apprenticeship Outreach Coordinator for the Alaska Works Partnership. Here he developed and managed a statewide program focused on assisting qualified rural Alaskans to gain entrance to the various registered Alaskan Building Trade apprenticeships. Mr. Brice also served in the Alaska State House of Representatives between the 18th and 21st legislatures. He has a bachelor's degree from the University of Alaska Fairbanks.

Angela Rodell was appointed Commissioner of the Department of Revenue by Governor Sean Parnell in November, 2010. She joined the State of Alaska in September 2011. Prior to her current position, Ms. Rodell served as State Treasurer and Deputy Commissioner over the Department's Treasury, Permanent Fund Dividend, and Child Support Services divisions. Formerly, Ms. Rodell served as financial advisor to more than \$30 billion of transactions for state and state authorities in Alaska, Arkansas, California, Illinois, New Jersey, New York, North Carolina, Rhode Island, and Virginia. Prior to becoming a financial advisor, Ms. Rodell served as the finance officer for the Kentucky Housing Corporation. She has a Bachelor of Arts degree from Marquette University and a Master of Public Administration from the University of Kentucky.

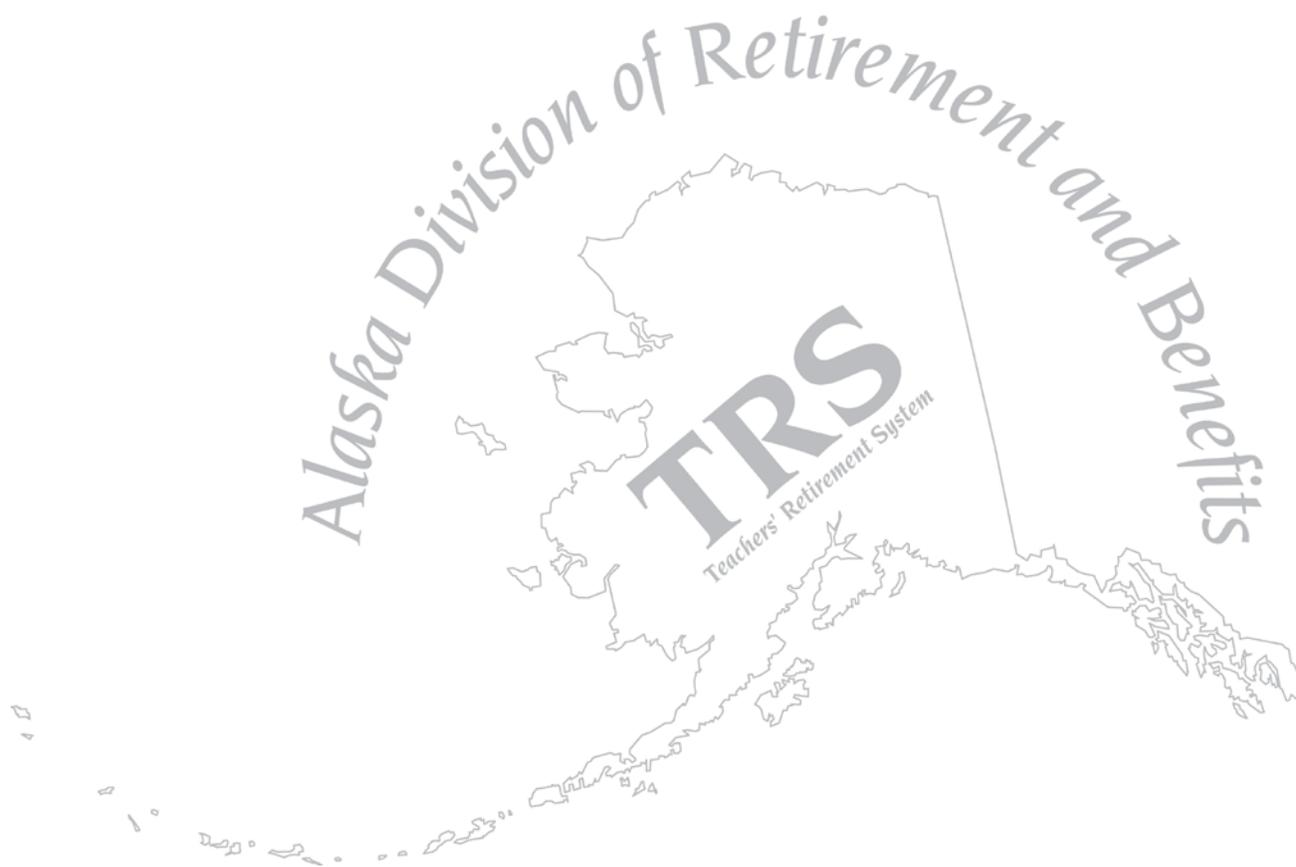
Introductory Section

Kristin Erchinger is currently finance director for the city of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director in 2000. Ms. Erchinger is past president of the Alaska Government Finance Officers Association and represents that organization in the Alaska Municipal League. She also served on the Providence Alaska Region Board, the Graduate Medical Education Committee, the Alaska Municipal League Board, and the Board of the American Society for Public Administration, Alaska Chapter. Ms. Erchinger earned bachelor's degrees in international studies and Japanese language and literature, both from the University of Washington, and a master's degree in public administration from the University of Alaska Anchorage.

Curtis Thayer was appointed Commissioner of the Department of Administration by Governor Sean Parnell in January 2014. Prior to his current position, Mr. Thayer served as Deputy Commissioner of the Department of Administration since August 2012. Before joining the Department of Administration, he was Deputy Commissioner of the Department of Commerce, Community, and Economic Development since 2009. Mr. Thayer also serves as Chair of the Alaska Board of Marine Pilots and serves on the Board of Directors of Abused Women in Crisis. He is the past Chairman of the Anchorage Public Safety Advisory Commission, and has also served on the Board of Directors of Armed Services YMCA. Born in Anchorage, Mr. Thayer grew up in Alaska and graduated from the University of Alaska Fairbanks. He lives in Anchorage with his wife, Josie, and their son.

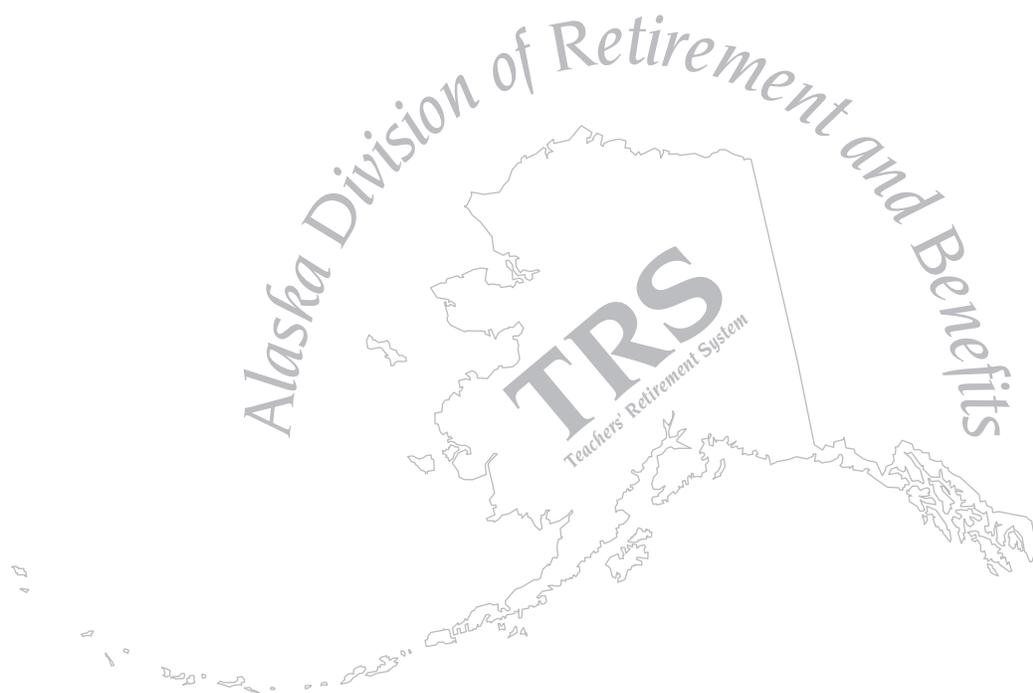
Martin Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska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

Sandra Ryan is a mathematics and tech prep instructor at West Valley High School in Fairbanks, and has been a teacher since 1988. Ms. Ryan teaches Advanced Placement computer science as well as Advanced Placement statistics and accounting. She has worked as a member of two accreditation teams: one for Lathrop High School, the other for West Valley High School. She has served on Professional Learning Teams at West Valley High School, been appointed to the Fairbanks North Star Borough School District Teacher Evaluation team, and was recently nominated as BP Teacher of Excellence. She is a member of the National Education Association Alaska Board of Directors, and a member of the Fairbanks Education Association, serving for the past five years as treasurer. She is also manager of a family trust. Ms. Ryan earned a Bachelor of Science in communication at the University of Texas, Austin, Texas; a Bachelor of Science in mathematics at St. Edward's University, Austin, Texas; and a master's degree in computer science engineering at the University of Alaska Fairbanks. She was appointed by Governor Parnell to a seat reserved for a Teachers' Retirement System representative.





FINANCIAL SECTION





KPMG LLP
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Anchorage, AK 99501

Independent Auditors' Report

We have audited the accompanying combining statement of fiduciary net position of the State of Alaska Teachers' Retirement System (the System) (a component unit of the State of Alaska) as of June 30, 2014, and the combining statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Alaska Teachers' Retirement System as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Financial Section

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in 2014, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

We have previously audited the System's 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year then ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15-23, and the schedule of changes in employer net pension liability and related ratios, schedule of employer and nonemployer contributions, schedule of investment returns, schedule of funding progress, and schedule of contributions from employers and the state of Alaska on pages 49-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules on pages 66-68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 9, 2014

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the year ended June 30, 2014. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the System during the fiscal year ended June 30, 2014.

Financial Highlights

The System's financial highlights as of June 30, 2014 were as follows:

- The System's fiduciary net position restricted for pension and postemployment healthcare benefits increased by \$953.8 million during fiscal year 2014.
- The System's plan member and employer contributions decreased by \$592,000 during fiscal year 2014.
- The State of Alaska directly appropriated \$316.8 million during fiscal year 2014 as statutorily required.
- The System's net investment income increased \$389.0 million to \$997.3 million during fiscal year 2014.
- The System's pension benefit expenditures totaled \$396.6 million during fiscal year 2014.
- The System's postemployment healthcare benefit expenditures totaled \$116.8 million in fiscal year 2014.

Overview of the Financial Statements

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

Combining Statements of Fiduciary Net Position – This statement presents information regarding the System's assets, liabilities, and resulting net position restricted for pension benefits, postemployment healthcare benefits, and individuals. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2014 and 2013.

Combining Statements of Changes in Fiduciary Net Position – This statement presents how the System's net position restricted for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2014 and 2013. This statement presents contributions and investment income during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2014 and the sources and uses of those funds during fiscal year 2014.

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.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

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

Condensed Financial Information (In thousands)

| Description | System net position | | | | |
|-------------------------------------|---------------------|------------------|---------------------|--------------|---------------------|
| | 2014 | 2013 | Increase (decrease) | | 2012 |
| | | | Amount | Percentage | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 204,330 | 81,133 | 123,197 | 151.8% | \$ 93,983 |
| Due from State of Alaska | | | | | |
| General Fund | 3,933 | 4,177 | (244) | (5.8) | 4,943 |
| Contributions receivable | 4,317 | 5,711 | (1,394) | (24.4) | 4,335 |
| Other receivables | 3 | 5 | (2) | (40.0) | — |
| Due from Retiree Health Fund | — | 1 | (1) | (100.0) | 3 |
| Investments, at fair value | 6,113,985 | 5,283,803 | 830,182 | 15.7 | 4,698,332 |
| Other assets | 1,497 | 1,179 | 318 | 27.0 | 1,179 |
| Total assets | <u>6,328,065</u> | <u>5,376,009</u> | <u>952,056</u> | <u>17.7</u> | <u>4,802,775</u> |
| Liabilities: | | | | | |
| Accrued expenses | 3,989 | 4,639 | (650) | (14.0) | 3,833 |
| Claims payable | 18,979 | 20,062 | (1,083) | (5.4) | 14,813 |
| Forfeitures payable to employers | 5,997 | 4,498 | 1,499 | 33.3 | — |
| Due to State of Alaska General Fund | 374 | 1,838 | (1,464) | (79.7) | 192 |
| Total liabilities | <u>29,339</u> | <u>31,037</u> | <u>(1,698)</u> | <u>(5.5)</u> | <u>18,838</u> |
| Net position | <u>\$ 6,298,726</u> | <u>5,344,972</u> | <u>953,754</u> | <u>17.8%</u> | <u>\$ 4,783,937</u> |

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Changes in system net position

| Description | 2014 | 2013 | Increase (decrease) | | 2012 |
|---|--------------|-----------|---------------------|------------|--------------|
| | | | Amount | Percentage | |
| Net position, beginning of year | \$ 5,344,972 | 4,783,937 | 561,035 | 11.7% | \$ 4,842,903 |
| Additions: | | | | | |
| Contributions | 162,959 | 163,551 | (592) | (0.4) | 164,007 |
| Appropriation – State of Alaska | 316,846 | 302,777 | 14,069 | 4.6 | 234,517 |
| Net investment income | 997,262 | 608,251 | 389,011 | 64.0 | 13,901 |
| Other additions | 6,254 | 4,173 | 2,081 | 49.9 | 12,552 |
| Total additions | 1,483,321 | 1,078,752 | 404,569 | 37.5 | 424,977 |
| Deductions: | | | | | |
| Pension and postemployment healthcare benefits | 513,395 | 501,120 | 12,275 | 2.4 | 471,834 |
| Refund of contributions | 7,739 | 6,405 | 1,334 | 20.8 | 5,428 |
| Administrative | 8,433 | 6,945 | 1,488 | 21.4 | 6,681 |
| Total deductions | 529,567 | 514,470 | 15,097 | 2.9 | 483,943 |
| Less adjustment to beginning net position | — | 3,247 | (3,247) | (100.0) | — |
| Increase (decrease) in net position | 953,754 | 561,035 | 392,719 | 70.0 | (58,966) |
| Net position, end of year | \$ 6,298,726 | 5,344,972 | 953,754 | 17.8 | \$ 4,783,937 |

Financial Analysis of the System

The statements of fiduciary net position as of June 30, 2014 and 2013 show net position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$6,298,726,000 and \$5,344,972,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net position restricted for pension benefits, postemployment healthcare benefits, and individuals of \$953,754,000 or 17.8% from fiscal year 2013 to 2014 and \$561,035,000 or 11.7% from fiscal year 2012 to 2013 and a decrease of \$58,966,000 or 1.2% from fiscal year 2011 to 2012. Over the long term, plan member, 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 (the 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.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

System Asset Allocation

During fiscal years 2014 and 2013, the Board adopted the following asset allocation for the Defined Benefit Pension Plan (DB Plan) and Defined Contribution Pension Plan's (DC Plan) retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

| | 2014 | |
|--|------------------------------|-------|
| | Pension and Healthcare Trust | |
| | Allocation | Range |
| Broad domestic equity | 26.0% | ± 6% |
| Global equity ex-U.S. | 25.0 | ± 4 |
| Private equity | 9.0 | ± 5 |
| Real assets | 17.0 | ± 8 |
| Absolute return | 5.0 | ± 4 |
| Fixed composite | 12.0 | ± 5 |
| Alternative equity strategies | 3.0 | ± 2 |
| Cash equivalents | 3.0 | -3/+1 |
| Total | <u>100.0%</u> | |
| Expected return five-year geometric mean | 7.16% | |
| Projected standard deviation | 14.81 | |

| | 2013 | |
|--|------------------------------|-------|
| | Pension and Healthcare Trust | |
| | Allocation | Range |
| Broad domestic equity | 27.0% | ± 6% |
| Global equity ex-U.S. | 23.0 | ± 4 |
| Private equity | 8.0 | ± 5 |
| Real assets | 16.0 | ± 8 |
| Absolute return | 6.0 | ± 4 |
| Fixed composite | 14.0 | ± 5 |
| Short-term fixed income | 6.0 | -6/+1 |
| Total | <u>100.0%</u> | |
| Expected return five-year geometric mean | 7.11% | |
| Projected standard deviation | 14.20 | |

For fiscal years 2014 and 2013, the DB Plan's investments generated an 18.46% and 12.59% rate of return, respectively.

State of Alaska
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Management's Discussion and Analysis (Unaudited)

June 30, 2014

Contributions, Investment Income, and Other Additions

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

| | Additions (In thousands) | | | | |
|---|--------------------------|-----------|---------------------|------------|---------|
| | 2014 | 2013 | Increase (decrease) | | 2012 |
| | | | Amount | Percentage | |
| Plan member contributions | \$ 68,313 | 68,495 | (182) | (0.3)% | 68,298 |
| Employer contributions | 94,646 | 95,056 | (410) | (0.4) | 95,709 |
| Nonemployer contributions - State of Alaska | 316,846 | 302,777 | 14,069 | 4.6 | 234,517 |
| Net investment income | 997,262 | 608,251 | 389,011 | 64.0 | 13,901 |
| Other additions | 6,254 | 4,173 | 2,081 | 49.9 | 12,552 |
| Total | \$ 1,483,321 | 1,078,752 | 404,569 | 37.5% | 424,977 |

The System's employer contributions decreased from \$95,056,000 in fiscal year 2013 to \$94,646,000 in fiscal year 2014, a decrease of \$410,000 or 0.4%. The System's employer contributions decreased from \$95,709,000 in fiscal year 2012 to \$95,056,000 in fiscal year 2013, a decrease of \$653,000 or 0.7%. The decrease in employer contributions is attributable to a decrease in the DB plan membership.

The State of Alaska provided \$316,846,000 for fiscal year 2014 and \$302,777,000 for fiscal year 2013 in nonemployer contributions as required by Alaska Statute 14.25.085. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The employer effective contribution rate of 12.56% is established in Alaska Statute 14.25.070(a).

The System's net investment income in fiscal year 2014 increased by \$389,011,000 or 64.0% from amounts recorded in fiscal year 2013. The System's net investment income in fiscal year 2013 increased by \$594,350,000 or 4,275.6% from amounts recorded in fiscal year 2012. Over the long term, investment income has been a major component of additions to System assets.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

| | Year ended | | |
|------------------------|------------|--------|---------|
| | 2014 | 2013 | 2012 |
| System returns | 18.46% | 12.59% | 0.51% |
| Domestic equities | 25.45 | 21.24 | 1.83 |
| International equities | 23.41 | 15.03 | (13.66) |
| Fixed income | 5.14 | 0.57 | 4.82 |
| Private equity | 24.19 | 11.68 | 9.44 |
| Absolute return | 6.51 | 8.41 | (2.05) |
| Real assets | 12.71 | 10.65 | 10.45 |
| Cash equivalents | 0.26 | 0.25 | 0.42 |
| Alternative equity | 24.55 | — | — |

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 DC Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the System comprise the cost of operations as follows:

| | Deductions (In thousands) | | | | |
|------------------------------------|---------------------------|---------|---------------------|------------|------------|
| | 2014 | 2013 | Increase (decrease) | | 2012 |
| | | | Amount | Percentage | |
| Pension benefits | \$ 396,614 | 380,265 | 16,349 | 4.3% | \$ 361,202 |
| Postemployment healthcare benefits | 116,781 | 120,855 | (4,074) | (3.4) | 110,632 |
| Refund of contributions | 7,739 | 6,405 | 1,334 | 20.8 | 5,428 |
| Administrative | 8,433 | 6,945 | 1,488 | 21.4 | 6,681 |
| Total | \$ 529,567 | 514,470 | 15,097 | 2.9% | \$ 483,943 |

The System's pension benefit payments in 2014 increased \$16,349,000 or 4.3% from fiscal year 2013 and increased \$19,063,000 or 5.3% from fiscal year 2012. The increase in pension benefits in fiscal year 2014 is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2014 decreased \$4,074,000 or 3.4% from fiscal year 2013 and increased \$10,223,000 or 9.2% from fiscal year 2012. The decrease in healthcare cost in fiscal year 2014 is attributable to the decrease in health claims cost.

The System's administrative deductions in 2014 increased \$1,488,000 or 21.4% from fiscal year 2013 and increased \$264,000 or 4.0% from fiscal year 2012. The increase in administrative costs in fiscal year 2014 is related to an increase in contractual services related to data processing and the health insurance third-party administrator transition project member fees.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Net Pension Liability

In June 2012, the GASB released a new statement amending existing pension accounting standards for pension plans – GASB 67. The changes related to this new statement for the DB Plan is reflected in this year's notes, schedules, and required supplementary information. The new statement focuses on plan financial reporting and changes the System's DB Plan financial statements by requiring additional disclosure in the notes to the financial statements, actuarial calculations, and schedules. It also requires a different methodology to measure the liability of the DB Plan's pension benefits. The DB Plan is now required to report new pension items called the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and Net Pension Liability (NPL).

The total pension liability (TPL) determines the total obligation for the DB Plan's pension benefits related to costs incurred as a result of years of service, changes in benefit terms, changes in actuarial assumptions, and any differences between the actuarial assumptions and actual experience. The DB Plan's fiduciary net position (FNP) determines the assets available to pay the DB Plan's future payment stream. The assets are derived from contributions received from participating employers, plan members, and nonemployer contributions, as well as investment earnings, less benefit payments during the year and the related costs to administer the DB Plan. The difference between the TPL and FNP is the Net Pension Liability (NPL), or the unfunded portion of the TPL. The components of the NPL of the participating employers as of June 30, 2014, were as follows (in thousands):

| | | |
|--|----|-------------|
| Total pension liability | \$ | 6,770,201 |
| Plan fiduciary net position | | (3,771,139) |
| | | _____ |
| Employers' net pension liability | \$ | 2,999,062 |
| | | _____ |
| Plan fiduciary net position as a percentage of the total pension liability | | 55.70% |

Funding

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

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

Financial Section

State of Alaska
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Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

Legislation

During fiscal year 2014, the Twenty-Eighth Alaska State Legislature enacted three laws that affect the System:

- Senate Bill 119 appropriates \$2 billion from the Constitutional Budget Reserve fund to the Department of Administration for deposit in the Defined Benefit Pension fund and the Alaska Retiree Healthcare Trust Funds. A majority of the funding will be directed to the System's defined benefit pension fund. Additionally, it is the intent of the legislature that the Board and the Department direct the System's actuary to eliminate the two-year rate-setting lag as well as to eliminate the asset value smoothing methodology in the System's annual actuarial valuation report.
- House Bill 385 specifically identifies that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years will be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the defined benefit plan. The bill also specifies that the Board shall, based on a level percent of pay methodology, reinitialize the amortization of the past service liability of the System's defined benefit plan for a term beginning July 1, 2014, and ending on June 30, 2039.
- Senate Bill 145 updates the definition of "veteran" for the System, as well as for the Public Employees' and Judicial retirement systems, by defining additional time frames of military service between August 2, 1990, and January 2, 1992, beginning September 11, 2001, and ending on the day prescribed by Presidential proclamation or by law as the last date of Operation Iraqi Freedom, or during any time period listed in 5 U.S.C. 2108(1).

For additional information on each item, please see the respective bill, Alaska statute, or plan document.

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

Fiscal year 2014 was a year of positive investment returns. Net investment income increased from \$608,251,000 in fiscal year 2013 to \$997,262,000 in fiscal year 2014, an increase of \$389,011,000 or 64.0%. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceeded the actuarially assumed return of 8.00% (based on the June 30, 2011 actuarial report, which established the fiscal year 2014 rate) with a system rate of return of 18.46% at June 30, 2014.

The consulting actuary recommended an increase from the System's actuarially determined contribution rate of 49.56% in fiscal year 2013 to 50.10% in fiscal year 2014. The Board adopted the actuarially determined contribution rate of 53.62% for fiscal year 2014, up 0.95% from fiscal year 2013 Board adopted actuarially determined contribution rate of 52.67%. The statutory employer effective contribution rate remained at 12.56% for fiscal years 2013 and 2014.

The June 30, 2013 actuarial valuation for the DB Plan reported a funding ratio based on valuation assets of 51.9% and an unfunded liability of \$4.6 billion.

State of Alaska
Teachers' Retirement System
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Management's Discussion and Analysis (Unaudited)

June 30, 2014

For fiscal years 2014 and 2013, the DC Plan's employer contribution rate was established at 12.56%. The DC Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.47% and 0.49% for fiscal years 2014 and 2013, respectively. The DC Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.00% for fiscal years 2014 and 2013.

Requests for Information

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

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

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)
Combining Statement of Fiduciary Net Position
June 30, 2014
(With summarized financial information for June 30, 2013)
(in thousands)

| | Defined Benefit Pension | Defined Contribution Pension | Other Postemployment Benefit Plans | | | | System total June 30, 2014 | System total June 30, 2013 |
|--|-------------------------|------------------------------|------------------------------------|---------------------------------|-----------------|----------------------------------|----------------------------|----------------------------|
| | | | Occupational death and disability | Alaska retiree healthcare trust | Retiree medical | Health reimbursement arrangement | | |
| Assets: | | | | | | | | |
| Cash and cash equivalents (notes 3 and 4): | | | | | | | | |
| Short-term fixed income pool | \$ 123,198 | 1,985 | 101 | 73,011 | 379 | 1,611 | 200,285 | 78,829 |
| Great West participant directed deposit | — | 4,045 | — | — | — | — | 4,045 | 2,304 |
| Total cash and cash equivalents | 123,198 | 6,030 | 101 | 73,011 | 379 | 1,611 | 204,330 | 81,133 |
| Receivables: | | | | | | | | |
| Contributions | 4,140 | 67 | — | 78 | 3 | 29 | 4,317 | 5,711 |
| Due from State of Alaska General Fund | — | 2,245 | — | 1,279 | 69 | 340 | 3,933 | 4,177 |
| Due from retiree health fund | — | — | — | — | — | — | — | 1 |
| Other account receivable | 3 | — | — | — | — | — | 3 | 5 |
| Total receivables | 4,143 | 2,312 | — | 1,357 | 72 | 369 | 8,253 | 9,894 |
| Investments (notes 3, 4, and 5), at fair value: | | | | | | | | |
| Fixed income securities: | | | | | | | | |
| Taxable municipal bond pool | 39,594 | — | 32 | 23,789 | 121 | 516 | 64,052 | — |
| U.S. Treasury fixed income pool | 219,575 | — | 179 | 131,922 | 673 | 2,859 | 355,208 | 395,056 |
| High yield fixed income pool | 100,527 | — | 82 | 60,397 | 308 | 1,309 | 162,623 | 146,274 |
| International fixed income pool | 67,319 | — | 55 | 40,446 | 207 | 876 | 108,903 | 102,290 |
| Emerging markets debt pool | 27,322 | — | 22 | 16,415 | 84 | 356 | 44,199 | 43,541 |
| Total fixed income securities | 454,337 | — | 370 | 272,969 | 1,393 | 5,916 | 734,985 | 687,161 |
| Broad domestic equity | 1,183,608 | — | 965 | 711,121 | 3,630 | 15,411 | 1,914,735 | 1,694,695 |
| Broad international equity | | | | | | | | |
| International equity pool | 792,339 | — | 646 | 476,044 | 2,430 | 10,316 | 1,281,775 | 1,009,166 |
| Frontier market pool | 17,571 | — | 15 | 10,557 | 54 | 229 | 28,426 | — |
| Emerging markets equity pool | 110,561 | — | 90 | 66,426 | 339 | 1,440 | 178,856 | 152,540 |
| Total broad international equity | 920,471 | — | 751 | 553,027 | 2,823 | 11,985 | 1,489,057 | 1,161,706 |
| Private equity pool | 308,116 | — | 251 | 185,118 | 945 | 4,012 | 498,442 | 465,223 |
| Absolute return pool | 146,411 | — | 119 | 87,965 | 449 | 1,906 | 236,850 | 229,128 |
| Real assets: | | | | | | | | |
| Real estate equity pool | 237,397 | — | 193 | 142,570 | 728 | 3,090 | 383,978 | 396,192 |
| Real estate investment trust pool | 64,782 | — | 53 | 38,921 | 199 | 843 | 104,798 | 78,230 |
| Master limited partnership pool | 87,102 | — | 71 | 52,332 | 267 | 1,134 | 140,906 | 104,763 |
| Energy pool | 19,073 | — | 16 | 11,459 | 58 | 248 | 30,854 | 31,110 |
| Farmland pool | 126,637 | — | 104 | 76,085 | 388 | 1,649 | 204,863 | 188,848 |
| Farmland water pool | — | — | — | — | — | — | — | 17,794 |
| INFRA public pool | 29,386 | — | 24 | 17,655 | 90 | 382 | 47,537 | — |
| Timberland pool | 64,165 | — | 52 | 38,551 | 197 | 835 | 103,800 | 75,390 |
| Treasury inflation protected securities pool | 6,236 | — | 5 | 3,747 | 19 | 81 | 10,088 | 2,406 |
| Total real assets | 634,778 | — | 518 | 381,320 | 1,946 | 8,262 | 1,026,824 | 894,733 |
| Other investment funds, at fair value: | | | | | | | | |
| Pooled investment funds | — | 107,675 | — | — | — | — | 107,675 | 66,826 |
| Collective investment funds | — | 105,417 | — | — | — | — | 105,417 | 84,331 |
| Total other investment funds | — | 213,092 | — | — | — | — | 213,092 | 151,157 |
| Total investments | 3,647,721 | 213,092 | 2,974 | 2,191,520 | 11,186 | 47,492 | 6,113,985 | 5,283,803 |
| Other assets | | | | | | | | |
| Total assets | 3,775,062 | 221,434 | 3,075 | 2,267,385 | 11,637 | 49,472 | 6,328,065 | 5,376,009 |
| Liabilities: | | | | | | | | |
| Accrued expenses | 3,549 | 169 | — | 271 | — | — | 3,989 | 4,639 |
| Claims payable (note 8) | — | — | — | 18,979 | — | — | 18,979 | 20,062 |
| Forfeitures payable to employers | — | 5,997 | — | — | — | — | 5,997 | 4,498 |
| Due to State of Alaska General Fund | 374 | — | — | — | — | — | 374 | 1,838 |
| Total liabilities | 3,923 | 6,166 | — | 19,250 | — | — | 29,339 | 31,037 |
| Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals | \$ 3,771,139 | 215,268 | 3,075 | 2,248,135 | 11,637 | 49,472 | 6,298,726 | 5,344,972 |

See accompanying notes to financial statements.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Combining Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014
(With summarized financial information for June 30, 2013)

(In thousands)

| | Defined Benefit Pension | Defined Contribution Pension | Other Postemployment Benefit Plans | | | | System total June 30, 2014 | System total June 30, 2013 |
|--|-------------------------|------------------------------|------------------------------------|---------------------------------|-----------------|----------------------------------|----------------------------|----------------------------|
| | | | Occupational death and disability | Alaska retiree healthcare trust | Retiree medical | Health reimbursement arrangement | | |
| Additions: | | | | | | | | |
| Contributions: | | | | | | | | |
| Employers | \$ 37,571 | 16,098 | — | 31,980 | 1,181 | 7,816 | 94,646 | 95,056 |
| Plan members | 47,724 | 20,326 | — | 263 | — | — | 68,313 | 68,495 |
| Nonemployer State of Alaska | 208,890 | — | — | 107,956 | — | — | 316,846 | 302,777 |
| Total contributions | 294,185 | 36,424 | — | 140,199 | 1,181 | 7,816 | 479,805 | 466,328 |
| Investment income: | | | | | | | | |
| Net appreciation in fair value (note 2) | 547,138 | 32,360 | 428 | 317,964 | 1,498 | 6,102 | 905,490 | 526,252 |
| Interest | 14,255 | 6 | 11 | 8,332 | 39 | 160 | 22,803 | 23,667 |
| Dividends | 51,247 | — | 41 | 30,126 | 143 | 584 | 82,141 | 69,329 |
| Total investment income | 612,640 | 32,366 | 480 | 356,422 | 1,680 | 6,846 | 1,010,434 | 619,248 |
| Less investment expense | 12,682 | 479 | — | 11 | — | — | 13,172 | 10,997 |
| Net investment income | 599,958 | 31,887 | 480 | 356,411 | 1,680 | 6,846 | 997,262 | 608,251 |
| Other: | | | | | | | | |
| Other | 27 | 4 | — | 6,223 | — | — | 6,254 | 4,173 |
| Total additions | 894,170 | 68,315 | 480 | 502,833 | 2,861 | 14,662 | 1,483,321 | 1,078,752 |
| Deductions: | | | | | | | | |
| Pension and postemployment benefits | 396,614 | — | — | 116,781 | — | — | 513,395 | 501,120 |
| Refunds of contributions | 2,387 | 5,352 | — | — | — | — | 7,739 | 6,405 |
| Administrative | 3,160 | 929 | — | 4,338 | 3 | 3 | 8,433 | 6,945 |
| Total deductions | 402,161 | 6,281 | — | 121,119 | 3 | 3 | 529,567 | 514,470 |
| Adjustment to beginning net assets for prior year forfeitures payable | | | | | | | | |
| | — | — | — | — | — | — | — | 3,247 |
| Net increase | 492,009 | 62,034 | 480 | 381,714 | 2,858 | 14,659 | 953,754 | 561,035 |
| Net position held in trust for pension benefits, postemployment healthcare benefits, and individuals | | | | | | | | |
| Balance, beginning of year | 3,279,130 | 153,234 | 2,595 | 1,866,421 | 8,779 | 34,813 | 5,344,972 | 4,783,937 |
| Balance, end of year | \$ 3,771,139 | 215,268 | 3,075 | 2,248,135 | 11,637 | 49,472 | 6,298,726 | 5,344,972 |

See accompanying notes to financial statements.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) Description

The State of Alaska Teachers' Retirement System (TRS or the System) is a component unit of the State of Alaska (the State). The System is governed by the Alaska Retirement Management Board (Board), which consists of nine trustees, as follows: Two members, consisting of the commissioner of administration and the commissioner of revenue; two trustees who are members of the general public; one trustee who is employed as a finance officer for a political subdivision participating in either the Public Employees' Retirement System (PERS) or TRS; two trustees who are members of PERS; and two trustees who are members of TRS.

TRS acts as the common investment and administrative agency for the following multiple-employer plans:

| Plan name | Type of plan |
|--|---------------------------------------|
| Defined Benefit Pension | Cost-sharing, Defined Benefit Pension |
| Defined Contribution Retirement Pension | Defined Contribution Pension |
| Defined Benefit Other Postemployment Benefits | |
| Occupational Death and Disability Plan | Cost-sharing, Defined Benefit OPEB |
| Alaska Retiree Healthcare Trust Plan | Cost-sharing, Defined Benefit OPEB |
| Retiree Medical Plan | Cost-sharing, Defined Benefit OPEB |
| Defined Contribution Other Postemployment Benefits | |
| Healthcare Reimbursement Arrangement Plan | Defined Contribution OPEB |

At June 30, 2014 and 2013, the number of participating local government employers and public organizations including the State was as follows:

| | |
|------------------|----|
| State of Alaska | 1 |
| School districts | 53 |
| Other | 4 |
| Total employers | 58 |

Inclusion in the Defined Benefit Pension (DB Plan) and Defined Contribution Pension Plan (DC Plan) is a condition of employment for permanent school district, University of Alaska, and State Department of Education employees who meet the eligibility requirements for participation.

Defined Benefit Pension Plan

General

The Defined Benefit Pension Plan (DB Plan) provides pension benefits for teachers and other eligible members. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2014
(With summarized financial information for June 30, 2013)

(1) Description (cont.)

The DB Plan's membership consisted of the following at June 30, 2014:

| | |
|---|--------|
| Inactive plan members or beneficiaries currently receiving benefits | 11,726 |
| Inactive plan members entitled to but not yet receiving benefits | 3162 |
| Active plan members | 5,995 |
| | 20,883 |

Pension Benefits

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

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

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

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

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

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

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) Description (cont.)

Contributions

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan members contribute 8.65% of their base salary as required by statute. Employer effective contribution rates are 12.56% of annual payroll. Alaska Statute 14.25.085 requires that additional state contributions made each July 1, or as soon after July 1, for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

- (A) the amount calculated for the statutory employer contribution rate of 12.56% on eligible salary
less
- (B) the total of the employer contributions for
 - (1) the defined contribution employer matching amount;
 - (2) major medical;
 - (3) occupational death & disability; and
 - (4) health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

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

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) Description (cont.)

Defined Contribution Retirement Plan

General

The Defined Contribution Pension Plan (DC Plan) provides benefits for eligible employees hired after July 1, 2006. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

At June 30, 2014, membership in the DC Plan consisted of 3,650 members.

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.

Contributions

Alaska statutes require an 8.00% contribution rate for DC Plan members. Employers are required to contribute 7.00% of the member's compensation.

Refunds

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

Participant Accounts

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

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

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

State of Alaska
Teachers' Retirement System
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Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) **Description (cont.)**

Defined Benefit Other Postemployment Benefit Plans

Occupational Death and Disability Plan

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members with the System. Members in the Death and Disability Plan consisted of the following at June 30, 2014:

| | |
|-------------------------|-------|
| Active plan members | 3,560 |
| Participating employers | 58 |
| Open claims | — |

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.

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

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

State of Alaska
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Notes to Financial Statements
 June 30, 2014
 (With summarized financial information for June 30, 2013)

(1) Description (cont.)

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

Disability Benefits

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

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

Contributions

An employer shall contribute to each member's account based on the member's compensation. For fiscal year 2014, the rate is 0.47%.

Alaska Retiree Healthcare Trust

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (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).

Membership in the plan was as follows as of June 30, 2014:

| | |
|--|--------|
| Inactive plan members entitled to but not yet receiving benefits | 5,076 |
| Active plan members | 9,645 |
| | 26,447 |

State of Alaska
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Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(1) Description (cont.)

OPEB Benefits

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

Contributions

Employer contribution rates are actuarially determined and adopted by the Board. The 2014 employer effective contribution rate is 12.56% of member's compensation.

Defined Contribution Other Postemployment Benefit Plan

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. For each member of the plan, an employer shall contribute an amount equal to 3.0% of the average annual compensation of all employees of all employers in the System. As of June 30, 2014, there were 5,564 members.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). Contributions are due to the System when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Defined Benefit Pension and OPEB Investments

The System owns shares in various investment pools that are administered by the State of Alaska Department of Revenue, Division of Treasury (Treasury). The System's investment in the pools, except for the Short-Term Fixed Income Pool is reported at fair value based on the net asset value reported by the Treasury.

State of Alaska
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Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

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

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.

Defined Contribution Participant Directed Investments

The Board contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate 13 participant-directed funds. Additionally, the Board contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets 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 but are not limited to commercial paper, asset-backed securities, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised 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 System on behalf of others and amounts paid by others on behalf of the System.

State of Alaska
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Notes to Financial Statements

June 30, 2014

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

Federal Income Tax Status

The DB Plan and DC 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).

New Accounting Pronouncements

The System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), during the year ended June 30, 2014. GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25), and GASB Statement No. 50, *Pension Disclosures*. GASB 67 requires the disclosures of the total pension liability, fiduciary net position, and net pension liability for single-employer and cost-sharing multiple-employer defined benefit pension plans. GASB 67 also requires certain additional note disclosures for defined benefit pension plans including the annual money-weighted rate of return on plan investments. GASB 67 revised the reporting requirements for required supplementary information to include schedules which provide trend information related to (1) changes in the net pension liability (2) the actuarially and contractually determined contributions of employer contributing entities, and (3) the annual money-weighted rate of return on plan investments.

(3) Investments

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

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

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

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed Income Pool, Dow Jones Dividend 100 Index Fund in the Alternative Equity Strategies 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. All other investments are managed by external management companies.

State of Alaska
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Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(3) Investments (cont.)

The Short-Term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of the Board as well as other state funds.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2014 for the defined benefit pension plan is 18.41%.

(4) Deposit and Investment Risk

Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of individual fixed rate securities ranged from 1 day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 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 U.S. Treasury Fixed Income portfolio to $\pm 20\%$ of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2014 was 3.63 years.

Through the Board's investment policy, Treasury managed the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Taxable Municipal Bond portfolios to $\pm 20\%$ of the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index. The effective duration for the Barclays Capital Aggregate Eligible Taxable Municipal Bond Index at June 30, 2014 was 11.74 years.

State of Alaska
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Notes to Financial Statements

June 30, 2014

(With summarized financial information for June 30, 2013)

(4) Deposit and Investment Risk (cont.)

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the High Yield Fixed Income portfolio to $\pm 20\%$ of the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2014 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 $\pm 25\%$ of the blended benchmark of 70% Citigroup Non-USD World Government Bond Index and 30% JP Morgan Global Bond Emerging Markets Broad Diversified Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2014 was 7.54 years and the effective duration of the JP Morgan Global Bond Index at June 30, 2014 was 4.87, for a blended duration of 6.74 at June 30, 2014.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to $\pm 20\%$ of the Barclays Capital U.S. TIPS Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2014 was 8.21 years.

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

At June 30, 2014, the effective duration of the DB Plan's fixed income pools was as follows (in years):

| | |
|-----------------|-------|
| U.S. Treasury | 3.50 |
| Municipal bonds | 10.81 |
| High yield | 3.75 |
| International | 5.82 |
| TIPS | 6.62 |

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 13 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:

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Notes to Financial Statements

June 30, 2014

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(4) Deposit and Investment Risk (cont.)

Under normal conditions, the Trust will invest in cash equivalent instruments with maturities of less than one year. Additionally, under normal conditions, for government debt, corporate debt, and mortgage-backed securities, duration is limited to ± 0.2 years of the blended benchmark of 70% Barclays U.S. Intermediate Aggregate Bond Index, 15% Barclays U.S. Floating Rate Note Index, 10% Barclays TIPS Index, and 5% Barclays Long U.S. Treasury Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

At June 30, 2014, the duration of the government corporate debt, and mortgage-backed securities was 3.93 years and the duration of the blended Barclays Bond Index was 3.98 years.

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, 2014, the modified duration of collective investment funds that consisted solely of debt securities were as follows: SSgA Money Market Trust, 45 days; SSgA World Government Bond Ex-U.S. Index, 7.68 years; SSgA Long U.S. Treasury Bond Index, 16.68 years; SSgA TIPS Index, 7.28 years; Barclays Government Credit Bond Fund, 8.18 years; and the Barclays Intermediate Government Bond Fund, 3.82 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 nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard and Poor's Corporation, Moody's, and Fitch. Asset-backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

U.S. Intermediate Treasury Fixed Income

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

Corporate, asset backed, and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard and Poor's, Moody's, and Fitch. Asset backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

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(4) Deposit and Investment Risk (cont.)

Taxable Municipal Bond Pool

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

At the time of purchase, short-term securities must be rated at least A-2 or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or by the Contractor, if unrated. At the time of purchase, long-term securities must be rated investment grade by an NRSRO or by the Contractor, if unrated. Only one rating is necessary, and the median rating will apply for securities rated by more than one NRSRO.

No more than 20% of the portfolio's assets may be invested in securities that are not rated by an NRSRO.

High Yield Fixed Income

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

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard and 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 debt and asset backed obligations must be rated investment grade or better by a recognized credit rating agency. In the event of a split rating, the lower of the ratings shall apply for evaluating credit quality.

Commercial paper and Euro commercial paper must be rated A-1 by Standard and Poor's or P-1 by Moody's or the equivalent of a comparable rating agency. In the event a split rating exists, the lower of the ratings shall apply for evaluating credit quality.

Convertible Bond

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. Non-rated securities to which the Manager assigns a non-investment grade rating are subject to the below investment grade limitation.

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

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(4) Deposit and Investment Risk (cont.)

The Manager shall not purchase any security with a credit rating at or below 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.

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 and 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 and Poor's, Moody's, and Fitch. Asset backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

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 and Poor's, or Fitch rating services.

Commercial paper must bear the highest rating assigned by Moody's, Standard and 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.

The System's ownership held in the investment pools are not separately rated. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for credit ratings of investments within the pools.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits; however, Treasury investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation, which provides \$250,000 of coverage. In accordance with Treasury policy, they are required to retain collateral equal to 110% of uninsured deposits.

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(4) Deposit and Investment Risk (cont.)

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Romania, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

| <u>Fixed income</u> | <u>Global equity ex-U.S.</u> | <u>Private equity pool</u> |
|---------------------|------------------------------|----------------------------|
| 17% | 29% | 14% |

At June 30, 2014, the System had exposure to foreign currency risk within its ownership of the pools. See the separately issued report on the State of Alaska Retirement and Benefits Plan Invested Assets for more detail of foreign currency risk within the pools.

At June 30, 2014, the Board also had exposure to foreign currency risk in the Emerging Markets Equity Pool and the Emerging Markets Debt Pool. These pools consist of investments in commingled funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-Term Fixed Income Pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the U.S. government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income, and Convertible Bond Pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the Emerging Markets Debt, Taxable Municipal Bond Pool, or TIPS Pools.

At June 30, 2014, the Board's Invested Assets did not have exposure to any one issuer greater than 5% of total invested assets.

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

The investment pools for which the Plan is a part, are exposed to credit risk on underlying investment derivative instruments that are in asset positions. 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. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. For additional information on foreign exchange, derivatives and counterparty credit risk see the separately issued report on the State of Alaska Retirement and Benefits Invested Assets.

(6) Net Pension Liability – Defined Benefit Pension Plan

The components of the net pension liability of the participating employers at June 30, 2014, were as follows (in thousands):

| | | |
|--|----|--------------------|
| Total pension liability | \$ | 6,770,201 |
| Plan fiduciary net position | | <u>(3,771,139)</u> |
| Employers' net pension liability | \$ | <u>2,999,062</u> |
| Plan fiduciary net position as a percentage of the total pension liability | | 55.70% |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014:

| | |
|------------------|---|
| Inflation | 3.12% |
| Salary increases | Graded by service, from 6.11% to 3.62% |
| Rate of return | 8.00 %, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%. |

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males for pre-termination mortality and the 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and a 4-year setback for males for post-termination mortality.

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(6) Net Pension Liability – Defined Benefit Pension Plan (cont.)

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

| Asset class | Long-term expected real rate of return |
|-------------------------|--|
| Equities: | |
| Broad domestic equity | 5.40% |
| Large cap | 5.25 |
| Small/mid cap | 5.60 |
| International equity | 5.25 |
| Emerging markets equity | 5.65 |
| Global ex-U.S. equity | 5.55 |
| Fixed income: | |
| Domestic fixed | 0.75 |
| TIPS | 0.75 |
| Other: | |
| Real estate | 3.95 |
| Private equity | 6.40 |
| Hedge funds | 2.85 |
| Cash equivalents | (0.25) |

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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(6) Net Pension Liability – Defined Benefit Pension Plan (cont.)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 8%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

| | 1% Decrease (7%) | Current discount rate (8%) | 1% Increase (9%) |
|-----------------------|---------------------|----------------------------------|---------------------|
| Net pension liability | \$ 3,776,983 | 2,999,062 | 2,346,163 |

(7) Defined Benefit OPEB Funding Status

The funded status of the occupational death and disability plan, retiree healthcare trust, and retiree medical benefits is as follows (in thousands):

| | Actuarial valuation date | | Actuarial accrued liability (AAL) entry age | Actuarial valuation assets | Funded ratio | Unfunded actuarial accrued liability (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---------------------------|--------------------------------|----|---|----------------------------------|-----------------|---|--------------------|---|
| Death and disability plan | June 30, 2013 | \$ | 80 | 2,532 | 3,165.0% | (2,452) | 206,771 | (1.2)% |
| Healthcare trust | June 30, 2013 | | 5,002,345 | 1,803,763 | 36.1 | 3,198,582 | 550,044 | 581.5 |
| Retiree medical | June 30, 2013 | | 25,152 | 8,614 | 34.2 | 16,538 | 206,771 | 8.0 |

The funding ratio as of June 30, 2013 has decreased. The decrease in funding ratio is primarily due to the asset smoothing method, which recognizes 20% of gains/losses over a 5-year period. The asset return based on actuarial values was 3.7%, well below the expected return of 8%. This decrease was combined with a positive experiences in demographic experience and retiree medical costs, which when factored in with other factors resulted in the slight decrease.

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.

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(7) **Defined Benefit OPEB Funding Status (cont.)**

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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the 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 is as follows:

June 30, 2013

| | Defined Benefit |
|---------------------------------------|--|
| Actuarial cost method | Entry age normal; level percentage of pay normal cost basis for pension; level dollar normal cost basis for healthcare |
| Amortization method | Level dollar, closed |
| Equivalent single amortization period | 17 years |
| Asset valuation method | 5-year smoothed fair value |
| Actuarial assumptions: | |
| Investment rate of return | 8.00% for pension, 5.08% for healthcare; includes price inflation at 3.12% |
| Projected salary increases | 6.11% for first 5 years of service grading down to 3.62% after 20 years |
| Cost-of-living adjustment | Postretirement pension adjustment |

June 30, 2013

| | ODD and Retiree Medical |
|---------------------------------------|---|
| Actuarial cost method | Entry age normal; level percentage of pay normal cost basis for occupational death and disability; level dollar normal cost basis for retiree medical |
| Amortization method | Level percent of pay, closed with bases established annually |
| Equivalent single amortization period | 26 years |
| Asset valuation method | 5-year smoothed market 80%/120% of fair value corridor |
| Actuarial assumptions: | |
| Investment rate of return | 8.00%; includes inflation at 3.12% |
| Projected salary increases | 6.11% for first 5 years of service grading down to 3.62% after 20 years; inflation at 3.12% per year |

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(7) Defined Benefit OPEB Funding Status (cont.)

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

| Fiscal year | Medical pre-65 | Medical post-65 | Prescription drugs |
|-------------|-------------------|--------------------|-----------------------|
| 2014 | 8.7% | 6.4% | 6.3% |
| 2015 | 8.5 | 6.3 | 6.2 |
| 2016 | 8.0 | 6.3 | 6.2 |
| 2017 | 7.5 | 6.2 | 6.1 |
| 2018 | 7.0 | 6.1 | 6.0 |
| 2019 | 6.6 | 6.1 | 5.8 |
| 2020 | 6.4 | 6.0 | 5.8 |
| 2025 | 6.0 | 6.0 | 5.8 |
| 2050 | 5.0 | 5.0 | 5.0 |
| 2100 | 4.5 | 4.5 | 4.5 |

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets, or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

The 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 has utilized the second methodology to develop a discount rate of 5.08% as of June 30, 2011, to be used for fiscal 2014 disclosure.

The System'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 receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Disregarding future Medicare Part D payments, the fiscal 2016 employer ARC for accounting purposes is 2.36% of pay for retiree medical benefits and 2.36% of pay for retiree medical and death and disability benefits combined.

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(8) 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 ARHT and Retiree Medical 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):

| | 2014 | 2013 |
|--|-----------|-----------|
| Beginning of year: | | |
| Due to State of Alaska General Fund for outstanding warrants | \$ — | — |
| Incurred but not reported | 20,062 | 14,813 |
| Total, beginning of year | 20,062 | 14,813 |
| Benefit deductions | 116,781 | 120,855 |
| Benefits paid | (117,864) | (115,606) |
| Total, end of year | \$ 18,979 | 20,062 |
| End of year: | | |
| Due to State of Alaska General Fund for outstanding warrants | \$ — | — |
| Incurred but not reported | 18,979 | 20,062 |
| Total, end of year | \$ 18,979 | 20,062 |

(9) Commitments and Contingencies

Commitments

The Board entered into an agreement through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2014, the Board's unfunded commitments were as follows (in thousands):

| Portfolio | Unfunded commitment | Estimated to be paid through |
|-----------------|---------------------|---|
| Domestic equity | \$ 4,123 | May be canceled annually in December with 90 day's notice Fiscal year 2022 Fiscal year 2023 Fiscal year 2024 |
| Private equity | 284,783 | |
| Energy | 29,557 | |
| Real estate | 123,748 | |
| | \$ 442,211 | |

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(9) Commitments and Contingencies (cont.)

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.

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

(11) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) was a temporary program that provided 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 was up to 80% of claims cost for health benefits between \$15,000 and \$90,000. The program was authorized by the Affordable Care Act as part of the U.S. government health reform package. The plan started participation in the ERRP program beginning calendar year 2011. The program ended on January 1, 2014.

(12) Subsequent Events

In 2014 as part of the State's Fiscal Year 2015 Capital Budget, Senate Bill 119 appropriates \$2 billion from the Constitutional Budget Reserve Fund to the Department of Administration for deposit in the Defined Benefit Pension and the Alaska Retiree Healthcare Trust funds. In addition, House Bill 385 specifies that the level percent of pay methodology based on amortization of the past service liability for a closed term of 25 years will be used in the calculation of the appropriate contribution rate for liquidating the past service liability of the Defined Benefit Pension plan.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

State of Alaska
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Required Supplementary Information (Unaudited)
Schedule of Changes in Employer Net Pension Liability and Related Ratios - Defined Benefit Pension Plan

June 30, 2014
 (In thousands)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|---------------------|------------------|------------------|
| Total pension liability: | | | |
| Service cost | \$ 64,324 | 69,113 | 69,548 |
| Interest | 515,325 | 517,511 | 501,252 |
| Changes of benefit terms | — | — | — |
| Differences between expected and actual experience | — | 1,108 | 10,986 |
| Changes of assumptions | — | — | — |
| Benefit payments, including refunds of member contributions | (399,001) | (397,956) | (378,113) |
| Net change in total pension liability | 180,648 | 189,776 | 203,673 |
| Total pension liability – beginning | 6,589,553 | 6,399,777 | 6,196,104 |
| Total pension liability – ending (a) | <u>6,770,201</u> | <u>6,589,553</u> | <u>6,399,777</u> |
| Plan fiduciary net position: | | | |
| Contributions – employer | 37,571 | 37,372 | 38,189 |
| Contributions – member | 47,724 | 50,201 | 52,020 |
| Contributions – nonemployer entity (State) | 208,890 | 196,945 | 157,387 |
| Total net investment income | 599,958 | 373,868 | 2,190 |
| Other miscellaneous income | 27 | 19 | 17 |
| Benefit payments, including refunds of member contributions | (399,001) | (382,933) | (363,839) |
| Administrative expenses | (3,160) | (2,989) | (2,847) |
| Net change in plan fiduciary net position | 492,009 | 272,483 | (116,883) |
| Plan fiduciary net position – beginning | 3,279,130 | 3,006,647 | 3,123,530 |
| Plan fiduciary net position – ending (b) | <u>3,771,139</u> | <u>3,279,130</u> | <u>3,006,647</u> |
| Plan's net pension liability (a) - (b) | <u>\$ 2,999,062</u> | <u>3,310,423</u> | <u>3,393,130</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 55.70% | 49.76% | 46.98% |
| Covered-employee payroll | \$ 514,035 | 550,044 | 561,971 |
| Net pension liability as a percentage of covered-employee payroll | 583.44% | 601.85% | 603.79% |

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)
Schedule of Employer and Nonemployer Contributions
Defined Benefit Pension Plan
Last 10 Fiscal Years

June 30, 2014
(In thousands)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 240,366 | 259,786 | 229,509 | 167,978 |
| Contributions in relation to the actuarially determined contribution | <u>246,461</u> | <u>234,317</u> | <u>195,576</u> | <u>142,147</u> |
| Contribution deficiency (excess) | <u>\$ (6,095)</u> | <u>25,469</u> | <u>33,933</u> | <u>25,831</u> |
| Covered-employee payroll | \$ 514,035 | 550,044 | 561,971 | 584,068 |
| Contributions as a percentage of covered-employee payroll | 47.95% | 42.60% | 34.80% | 24.34% |

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)
Schedule of Employer and Nonemployer Contributions
Defined Benefit Pension Plan
Last 10 Fiscal Years

June 30, 2014
 (In thousands)

| <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---------------|-----------------|----------------|---------------|---------------|---------------|
| 170,788 | 94,388 | 134,544 | 169,974 | 170,019 | 152,168 |
| 134,275 | 131,533 | 142,550 | 105,775 | 91,902 | 68,448 |
| <u>36,513</u> | <u>(37,145)</u> | <u>(8,006)</u> | <u>64,199</u> | <u>78,117</u> | <u>83,720</u> |
| 564,887 | 557,026 | 549,148 | 554,245 | 574,409 | 535,837 |
| 23.77% | 23.61% | 25.96% | 19.08% | 16.00% | 12.77% |

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Schedule of Investment Returns

June 30, 2014

2014

Annual money-weighted rate of return, net of
investment expense

18.41%

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

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Required Supplementary Information (Unaudited)
Schedules of Funding Progress
Defined Benefit OPEB Plans

June 30, 2014
(In thousands)

Occupational Death and Disability Benefits Plan

| Actuarial valuation year ended June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|--|-------------------------------------|--------------------------------|--------------|---|-----------------|---|
| 2008 | \$ 44 | 420 | 954.5% | \$ (376) | 56,369 | (0.7)% |
| 2009 | 14 | 1,071 | 7,650.0 | (1,057) | 89,708 | (1.2) |
| 2010 | 18 | 1,577 | 8,761.1 | (1,559) | 118,813 | (1.3) |
| 2011 | 57 | 2,193 | 3,847.4 | (2,136) | 170,606 | (1.3) |
| 2012 | 63 | 2,348 | 3,727.0 | (2,285) | 200,043 | (1.1) |
| 2013 | 80 | 2,532 | 3,165.0 | (2,452) | 206,771 | (1.2) |

Alaska Retiree Healthcare Trust Plan

| Actuarial valuation year ended June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|--|-------------------------------------|--------------------------------|--------------|---|-----------------|---|
| 2008 | \$ 4,648,055 | 1,266,890 | 27.3% | \$ 3,381,165 | 549,148 | 615.7% |
| 2009 | 4,604,820 | 1,357,239 | 29.5 | 3,247,581 | 557,026 | 583.0 |
| 2010 | 3,076,388 | 1,479,260 | 48.1 | 1,597,128 | 564,887 | 282.7 |
| 2011 | 3,635,492 | 1,591,988 | 43.8 | 2,043,504 | 584,068 | 349.9 |
| 2012 | 5,046,942 | 1,674,160 | 33.2 | 3,372,782 | 561,971 | 600.2 |
| 2013 | 5,002,345 | 1,803,763 | 36.1 | 3,198,582 | 550,044 | 581.5 |

Retiree Medical Benefits Plan

| Actuarial valuation year ended June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|--|-------------------------------------|--------------------------------|--------------|---|-----------------|---|
| 2008 | \$ 899 | 1,308 | 145.5% | \$ (409) | 56,369 | (0.7)% |
| 2009 | 1,690 | 2,353 | 139.2 | (663) | 89,708 | (0.7) |
| 2010 | 2,809 | 3,895 | 138.7 | (1,086) | 118,813 | (0.9) |
| 2011 | 4,386 | 5,373 | 122.5 | (987) | 170,606 | (0.6) |
| 2012 | 19,427 | 6,937 | 35.7 | 12,490 | 200,043 | 6.2 |
| 2013 | 25,152 | 8,614 | 34.2 | 16,538 | 206,771 | 8.0 |

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

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(A Component Unit of the State of Alaska)

Required Supplementary Information (Unaudited)
Schedules of Contributions from Employers and the State of Alaska
Defined Benefit OPEB Plans

June 30, 2014
(In thousands)

Occupational Death and Disability Benefits Plan

| Year ended June 30 | Annual required contribution | Percentage of ARC contributed |
|--------------------|------------------------------------|-------------------------------------|
| 2008 | \$ 408 | 100.0% |
| 2009 | 623 | 100.0 |
| 2010 | 442 | 100.0 |
| 2011 | 474 | 100.0 |
| 2012 | — | 100.0 |
| 2013 | — | 100.0 |

Alaska Retiree Healthcare Trust Plan

| Year ended June 30 | Actuarial valuation year ended June 30 ⁽¹⁾ | Annual required contribution | | | Percentage contributed | | |
|--------------------------|--|------------------------------|------------------------------|---------|------------------------|-----------------------------------|--|
| | | Pension | Postemployment healthcare | Total | By employer | By State of Alaska (note 3) | Total percentage contributed (note 3) |
| 2008 | 2005 | \$ 134,544 | 185,271 | 319,815 | 23.6% | 85.7% | 109.3% |
| 2009 | 2006 | 94,388 | 164,171 | 258,559 | 28.7 | 62.1 | 90.8 |
| 2010 ⁽²⁾ | 2007 | 170,788 | 312,922 | 483,710 | 13.6 | 38.8 | 52.4 |
| 2011 | 2008 | 167,978 | 167,686 | 335,664 | 25.8 | 51.5 | 77.3 |
| 2012 | 2009 | 229,509 | 192,700 | 422,209 | 18.8 | 46.6 | 65.4 |
| 2013 | 2010 | 259,786 | 330,411 | 590,197 | 10.7 | 33.3 | 44.0 |

⁽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 included the Mercer legal settlement, net of fees, as well as the Medicare Part D subsidy contributed by the State to the healthcare fund.

Retiree Medical Benefits Plan

| Year ended June 30 | Annual required contribution | Percentage of ARC contributed |
|--------------------|------------------------------------|-------------------------------------|
| 2008 | \$ 763 | 85.0% |
| 2009 | 1,162 | 85.0 |
| 2010 | 1,628 | 87.0 |
| 2011 | 1,422 | 81.0 |
| 2012 | 1,420 | 82.0 |
| 2013 | 1,241 | 89.0 |

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

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(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, 2013 are as follows:

- (a) Actuarial cost method – Entry Age Actuarial Cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level dollar amount. The initial unfunded accrued liability was established on June 30, 2002 and amortized over a closed 25-year period. Any changes in the unfunded accrued liability established after June 30, 2002 due to changes in plan provisions, actuarial methods or assumptions, or actuarial experience are amortized over a 25-year period from the date established. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.
- (b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was 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 nonprescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. 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.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

- (e) Salary scale – Inflation 3.12% per year and productivity 0.50% 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 (pretermination) – Based upon the 2005–2009 actual experience. 1994 Group Annuity Mortality (GAM) sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from nonoccupational causes 85% of the time. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 117%.
- (i) Mortality (posttermination) – Based upon the 2005–2009 actual experience study. The 1994 GAM sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a three-year setback for females and four-year setback for males. The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 117%.
- (j) Turnover – Select and ultimate rates based upon the 2005–2009 actual withdrawal experience.
- (k) Disability – Incidence rates based upon the 2005–2009 actual experience. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
- (l) Retirement – Retirement rates based on the 2005–2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date.
- (m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
- (n) Dependent children – Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
- (o) Contribution refunds – 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.
- (p) Cost of living allowance (COLA) – Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
- (q) Sick leave – 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates, or dies.

State of Alaska
 Teachers' Retirement System
 (A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

- (r) Postretirement 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.
- (s) Expenses – All expenses are net of investment return assumption.
- (t) Part-time status – Part-time members are assumed to earn 0.60 years of credited service per year.
- (u) Reemployment option – The actuary assumes all reemployed retirees return to work under the Standard Option.
- (v) Service – Total credited service is provided by the State. The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.
- (w) Final average earnings – Final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.
- (x) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY14 medical benefits and prescription are shown below:

| | Medical | Prescription drugs |
|------------------------|-----------|-----------------------|
| Pre-Medicare | \$ 11,125 | 2,621 |
| Medicare Parts A and B | 1,726 | 2,621 |
| Medicare Part B Only | 6,676 | 2,621 |
| Medicare Part D | N/A | 502 |

- (y) Third-party administrator fees – \$177.57 per person per year; assumed trend rate of 5% per year.
- (z) 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.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(aa) 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, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims cost.

| Fiscal year | Medical pre-65 | Medical post-65 | Prescription drugs |
|-------------|-------------------|--------------------|-----------------------|
| 2014 | 8.7% | 6.4% | 6.3% |
| 2015 | 8.5 | 6.3 | 6.2 |
| 2016 | 8.0 | 6.3 | 6.2 |
| 2017 | 7.5 | 6.2 | 6.1 |
| 2018 | 7.0 | 6.1 | 6.0 |
| 2019 | 6.6 | 6.1 | 5.8 |
| 2020 | 6.4 | 6.0 | 5.8 |
| 2025 | 6.0 | 6.0 | 5.8 |
| 2050 | 5.0 | 5.0 | 5.0 |
| 2100 | 4.5 | 4.5 | 4.5 |

For the June 30, 2012 valuations and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend 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.

(bb) 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 + | — | — |

State of Alaska
 Teachers' Retirement System
 (A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

(cc) Retired member contributions for medical benefits – Currently, contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY14 contributions based on monthly rates shown below for calendar 2013 and 2014 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 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

| <u>Coverage category</u> | <u>Calendar 2014</u> | | <u>Calendar 2013</u> |
|--------------------------|----------------------------|-----------------------------|-----------------------------|
| | <u>Annual contribution</u> | <u>Monthly contribution</u> | <u>Monthly contribution</u> |
| Retiree only | \$ 9,876 | 823 | 807 |
| Retiree and spouse | 19,764 | 1,647 | 1,615 |
| Retiree and child(ren) | 13,956 | 1,163 | 1,140 |
| Retiree and family | 23,844 | 1,987 | 1,948 |
| Composite | 14,676 | 1,223 | 1,200 |

(dd) Trend rate for retired member contributions – The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 8.2% is applied to the FY14 retired member medical contributions to get the FY15 retired member medical contributions.

| <u>Fiscal year</u> | |
|--------------------|------|
| 2014 | 8.2% |
| 2015 | 8.0 |
| 2016 | 7.6 |
| 2017 | 7.2 |
| 2018 | 6.7 |
| 2019 | 6.4 |
| 2025 | 5.9 |
| 2050 | 5.0 |
| 2100 | 4.5 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2012 valuation. Note that actual FY14 retired member medical contributions are reflected in the valuation, so trend on such contribution during FY14 is not applicable.

(ee) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

The significant actuarial assumptions used in the occupational death and disability and retiree medical benefit plan valuation as of June 30, 2012 are as follows:

- (a) Actuarial cost method – Liabilities and contributions are computed using entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.
- (b) Valuation of assets – Recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. Fair Value of Assets was \$0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of fair value of assets.
- (c) Valuation of retiree medical benefits – Due to the lack of experience for the DC Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DC medical plan and the DB medical plan. These differences include network steerage, different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles, and out-of-pocket limits, fiscal year 2012 claim costs were reduced to 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.
- (d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.
- (e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.
- (f) Payroll growth – 3.62% per year (inflation + productivity).
- (g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.
- (h) Mortality (pretermination) – Based upon the 2005–2009 actual experience for the TRS DB Plan. 55% of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and 45% for males. 15% of deaths are assumed to result from occupational causes. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 117%.

State of Alaska
 Teachers' Retirement System
 (A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

- (i) Mortality (posttermination) – Based upon the 2005–2009 actual experience of the TRS DB Plan. Three-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and four-year setback for males. The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an actual deaths to expected deaths ratio of 117%.
- (j) Turnover – Select rates were estimated and ultimate rates were set to the TRS DB Plan's rate loaded by 10%.
- (k) Disability – Incidence rates based upon the 2005–2009 actual experience of the TRS DB Plan. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.
- (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. 85% of male members and 75% of female members are assumed to be married.
- (n) Part-time status – Part-time employees are assumed to earn 0.60 years of credited service per year.
- (o) Expenses – All expenses are net of the investment return assumption.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(p) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY14 medical benefits are shown below:

| | Medical | Prescription drugs |
|------------------------|-----------|-----------------------|
| Pre-Medicare | \$ 11,125 | 2,621 |
| Medicare Parts A and B | 1,726 | 2,621 |
| Medicare Part B Only | 6,676 | 2,621 |
| Medicare Part D | N/A | 502 |

(q) Third-party administrator fees – \$177.57 per person per year; assumed trend rate of 5% per year.

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

(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, 8.7% is applied to the FY14 pre-Medicare medical claims cost to get the FY15 medical claims costs:

| Fiscal year | Medical Pre-65 | Medical Post-65 | Prescription drugs |
|-------------|-------------------|--------------------|-----------------------|
| 2014 | 8.7% | 6.4% | 6.3% |
| 2015 | 8.5 | 6.3 | 6.2 |
| 2016 | 8.0 | 6.3 | 6.2 |
| 2017 | 7.5 | 6.2 | 6.1 |
| 2018 | 7.0 | 6.1 | 6.0 |
| 2019 | 6.6 | 6.1 | 5.8 |
| 2020 | 6.4 | 6.0 | 5.8 |
| 2025 | 6.0 | 6.0 | 5.8 |
| 2050 | 5.0 | 5.0 | 5.0 |
| 2100 | 4.5 | 4.5 | 4.5 |

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

State of Alaska
 Teachers' Retirement System
 (A Component Unit of the State of Alaska)

Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) Actuarial Assumptions and Methods (cont.)

(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 |
| 84-93 | 0.5 | — |
| 94 + | — | — |

(u) Retiree medical participation:

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

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

State of Alaska
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Notes to Required Supplementary Information (Unaudited)

June 30, 2014

(2) **Actuarial Assumptions and Methods (cont.)**

Changes in Methods Since the Last Valuation

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

Changes in Assumptions Since the Last Valuation

There have been no changes in actuarial assumptions since the prior valuation.

SUPPLEMENTAL SCHEDULES

Financial Section

State of Alaska
Teachers' Retirement System
 (A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Deductions
Defined Benefit Pension Plan
 Years ended June 30, 2014 and 2013
 (In thousands)

| | Administrative | Investment | Totals | |
|--|----------------|------------|--------|--------|
| | | | 2014 | 2013 |
| Personal services: | | | | |
| Wages | \$ 1,496 | 77 | 1,573 | 1,476 |
| Benefits | 871 | 31 | 902 | 868 |
| Total personal services | 2,367 | 108 | 2,475 | 2,344 |
| Travel: | | | | |
| Transportation | 22 | 38 | 60 | 55 |
| Per diem | 4 | 19 | 23 | 24 |
| Total travel | 26 | 57 | 83 | 79 |
| Contractual services: | | | | |
| Management and consulting | 3,700 | 12,201 | 15,901 | 13,225 |
| Accounting and auditing | 47 | 5 | 52 | 318 |
| Advertising and printing | 30 | 5 | 35 | 26 |
| Data processing | 824 | 200 | 1,024 | 667 |
| Communications | 49 | 21 | 70 | 61 |
| Rental/leases | 126 | 19 | 145 | 145 |
| Legal | 122 | 28 | 150 | 118 |
| Medical specialists | 49 | — | 49 | 14 |
| Repairs and maintenance | 2 | 4 | 6 | 7 |
| Other professional services | 43 | 16 | 59 | 80 |
| Transportation | 59 | — | 59 | 41 |
| Total contractual services | 5,051 | 12,499 | 17,550 | 14,702 |
| Other: | | | | |
| Equipment | 13 | 6 | 19 | 22 |
| Supplies | 41 | 23 | 64 | 58 |
| Total other | 54 | 29 | 83 | 80 |
| Total administrative and investment deductions | \$ 7,498 | 12,693 | 20,191 | 17,205 |

See accompanying independent auditors' report.

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)
Schedule of Administrative Deductions
Defined Contribution Pension and OPEB Plans
Years ended June 30, 2014 and 2013
(In thousands)

| | Administrative | Investment | Totals | |
|--|----------------|------------|--------|------|
| | | | 2014 | 2013 |
| Personal services: | | | | |
| Wages | \$ 89 | — | 89 | 90 |
| Benefits | 49 | — | 49 | 56 |
| Total personal services | 138 | — | 138 | 146 |
| Travel: | | | | |
| Transportation | 2 | — | 2 | 2 |
| Per diem | — | — | — | 1 |
| Total travel | 2 | — | 2 | 3 |
| Contractual services: | | | | |
| Management and consulting | 718 | 479 | 1,197 | 537 |
| Accounting and auditing | 14 | — | 14 | 13 |
| Data processing | 47 | — | 47 | 20 |
| Communications | 3 | — | 3 | 3 |
| Rentals/leases | 7 | — | 7 | 8 |
| Legal | 1 | — | 1 | 2 |
| Other professional services | 2 | — | 2 | 2 |
| Total contractual services | 792 | 479 | 1,271 | 585 |
| Other: | | | | |
| Equipment | 1 | — | 1 | 1 |
| Supplies | 2 | — | 2 | 2 |
| Total other | 3 | — | 3 | 3 |
| Total administrative and investment deductions | \$ 935 | 479 | 1,414 | 737 |

See accompanying independent auditors' report.

Financial Section

State of Alaska
Teachers' Retirement System
(A Component Unit of the State of Alaska)

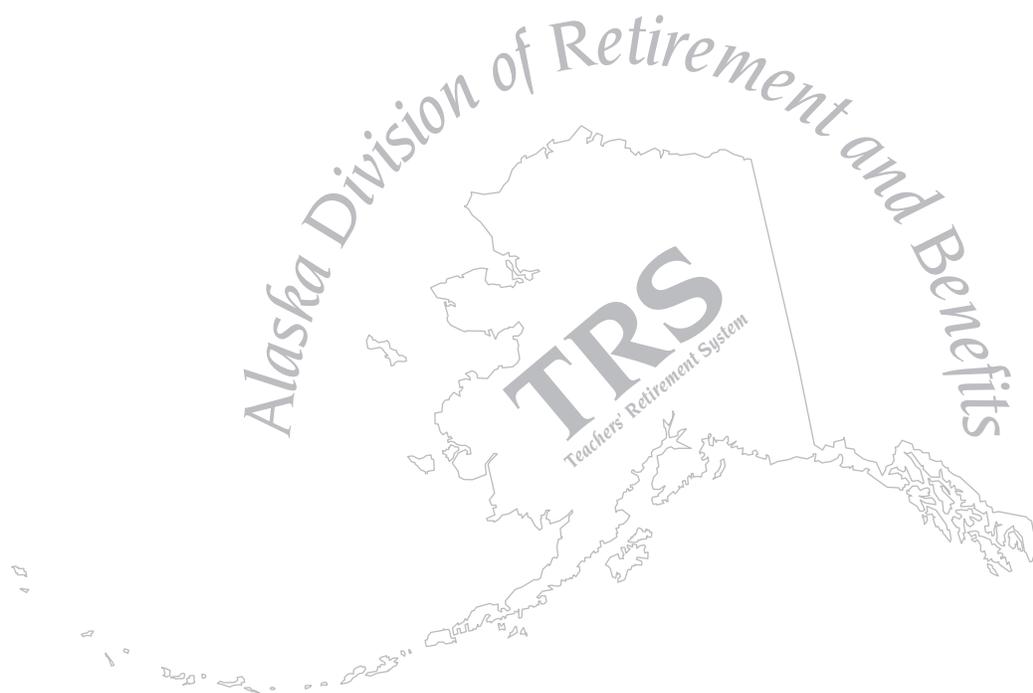
Schedule of Payments to Consultants Other than Investment Advisors
Years ended June 30, 2014 and 2013
(In thousands)

| Firm | Services | 2014 | 2013 |
|---|----------------------------------|----------|------|
| Buck Consultants, an ACS Company | Actuarial services | \$ 355 | 286 |
| KPMG LLP | Auditing services | 51 | 34 |
| State Street Bank Corporation | Custodian banking services | 287 | 278 |
| Applied Microsystems Inc. | Data processing consultants | 359 | 38 |
| Computer Task Group, Inc. | Data processing consultants | 51 | 76 |
| Mythics Inc. | Data processing consultants | 4 | 31 |
| Wostmann Group LLC | Data processing consultants | 88 | 18 |
| State of Alaska, Department of Law | Legal services | 123 | 96 |
| Michael Silverman | Management consulting services | 93 | 18 |
| The Wilson Agency LLC | Management consulting services | 1 | 11 |
| State of Alaska, Department of Health and Social Services | Medical expertise and counseling | 44 | 12 |
| | | \$ 1,456 | 898 |

See accompanying independent auditors' report.



INVESTMENT SECTION



Callan

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September 3, 2014

Alaska Retirement Management Board
State of Alaska, Department of Revenue
Treasury Division
333 Willoughby Avenue, 11th Floor
Juneau, Alaska 99801

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2014.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank & Trust Company. The performance calculations were made using a time-weighted return methodology based upon current market values. ARMB's real estate consultant, the Townsend Group, calculates returns for the real estate segment of the portfolio. Callan incorporates that data into the Total Plan returns.

Callan serves as ARMB's independent general investment consultant and evaluates ARMB's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made using methodology similar to Global Investment Performance Standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of these objectives, ARMB periodically evaluates liabilities, expected contributions and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential at an acceptable level of risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. The policy benchmark is a custom target comprising equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

Major equity markets enjoyed a strong fiscal year in 2014. The Russell 3000 Index, a measure of broad U.S. equity, surged 25.22% during fiscal year 2014. International stocks, as measured by the MSCI ACWI ex-U.S. Index, gained 22.28% for the same period. A broad measure of the total global equity market (MSCI All Country World Index) also boasted strong performance, returning 23.58%.

Falling bond yields during the period boosted fixed income performance. The Barclays Capital Aggregate Bond Index, a widely used gauge of the investment grade domestic fixed income market, gained 4.37%. Absolute return strategies, such as hedge fund-of-funds, posted respectable gains during the fiscal year. For example, the Callan Absolute Return Hedge Fund-of-Funds Style median return was 8.16% (net-of-fees). Private real estate investments, as measured by the

Investment Section

NCREIF Property Index, continued to advance, returning 11.21% during fiscal 2014. Publicly traded real estate, as measured by the NAREIT Equity Index, increased 13.02% during the same period.

ARMB's various asset group returns were all positive through June 30, 2014, as shown below.

| | |
|-----------------|-------|
| Domestic stocks | 25.8% |
| Int'l Stocks | 23.4% |
| Private Equity | 24.2% |
| Real Assets | 13.3% |
| Absolute Return | 6.5% |
| Fixed Income | 5.1% |

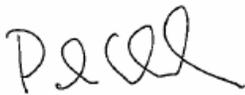
For fiscal year 2014, the Public Employees Retirement System (PERS) had a time-weighted total return of 18.56% and the Teachers Retirement System (TRS) also had a time-weighted total return of 18.56%. Both Systems outperformed their strategic policy benchmark target return of 17.20%. The two funds' returns were also above the 16.11% median return for Callan's Public Fund database.

Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 10-year annualized return through June 30, 2014 was 7.26% while TRS's return was slightly higher at 7.31%. These returns were in line with and slightly above their target return of 7.20%. Over the longest period for which Callan has detailed data (22.75 years) for PERS and TRS, they achieved annualized total returns of 8.05% and 8.10%, respectively, which is higher than the policy benchmark return of 8.02%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a long-term "real" return of 4.5% or better.

In summary, fiscal 2014 was a good year for most major asset categories allowing diversified investment portfolios to perform well.

Sincerely,



Paul Erlendson
Senior Vice President

Department of Revenue Treasury Division Staff As of June 30, 2014

| | | | |
|---|---|--|---|
| <p>Commissioner Angela Rodell</p> <p>Deputy Commissioner Michael Pawlowski</p> <p>Director Pamela Leary, CPA</p> | <p>Chief Investment Officer Gary Bader</p> <p>Comptroller Scott Jones, CPA</p> <p>Cash Management Michelle M. Prebula, MBA, CPA, CCM</p> | <p>Investment Officers</p> <p>Bob G. Mitchell Stephen R. Sikes Zachary Hanna Steve Verschoor Shane Carson Sean Howard Paul Hackenmueller</p> <p>ARMB Liaison Officer Judy Hall</p> | <p>Casey Colton Nicholas Orr Victor Djajalie Joy Wilkinson Alyson Campbell Emily Peyton</p> |
|---|---|--|---|

External Money Managers and Consultants

Investment Consultants

Callan Associates, Inc.
Denver, CO
The Townsend Group
San Francisco, CA

Investment Advisory Council

William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
Robert Shaw
San Francisco, CA

Absolute Return

Crestline Investors, Inc.
Fort Worth, TX
Global Assets Management Inc.
Los Angeles, CA
Prisma Capital Partners
New York, NY

Domestic Equity Large Capitalization

Analytic Investors LLC
Los Angeles, CA
Barrow, Hanley, Mewhinney & Strauss
Dallas, TX
Capital Guardian Trust Co.
Los Angeles, CA
Allianz Global Investors (formerly RCM)
San Francisco, CA
McKinley Capital Management, Inc.
Anchorage, AK
Relational Investors LLC
San Diego, CA
Quantitative Management Associates
Newark, NJ

Domestic Equity MicroCap

DePrince, Race & Zollo, Inc.
Winter Park, FL
Lord Abbett & Co.
Jersey City, NJ

Domestic Equity Small Capitalization

Jennison Associates LLC
New York, NY
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, TX
Frontier Capital Management
Boston, MA
Victory Capital Management
St. Louis, MO

Domestic Equity Index Fund

State Street Global Advisors
San Francisco, CA

Emerging Markets

Eaton Vance Management
Boston, MA
Lazard Asset Management
New York, NY

Global Equity and Emerging Income

Lazard Freres Asset Management
New York, NY

High Yield/Convertible Bond

MacKay Shields LLC
New York, NY
Advent Capital Management
New York, NY

Taxable Municipal Bonds

Guggenheim Partners LLC
Santa Monica, CA
Western Asset Management Company
Pasadena, CA

International Equity – EAFE

Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

Investment Section

External Money Managers and Consultants (cont.)

International Small Cap

Mondrian Investment Partners
London, England
Schroders Investment Management NA
New York, NY

International Fixed Income

Mondrian Investment Partners
London, England

Master Limited Partnerships

FAMCO MLP
St. Louis, MO
Tortoise Capital Advisors LLC
Leawood, KS

Private Equity

Abbott Capital Management, L.P.
New York, NY
Pathway Capital Management, LLC
Irvine, CA

Real Assets – Energy

EIG Global Energy Partners
Washington, DC

Real Assets – Farmland

Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT

Real Assets – Timber

Hancock Timber Resource Group
Charlotte, NC
Timberland Investment Resources LLC
Brookline, MA

Real Assets – Real Estate Core Separate Accounts

Cornerstone Real Estate Advisers, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Assets – Commingled Real Estate Funds

Almanac Realty Investors
Alpharetta, GA
BlackRock Realty
San Francisco, CA
Colony Capital
Los Angeles, CA
Cornerstone Real Estate Advisers, LLC
Hartford, CT

Real Assets – Commingled Real Estate Funds (cont'd)

Coventry Real Estate Fund II, LLC
New York, NY
Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Silverpeake Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
Tishman Speyer Properties
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Assets – Infrastructure

Brookfield Investment Management
Encinitas, CA
Industry Funds Management
New York, NY
JP Morgan Asset Management
San Francisco, CA
Lazard Asset Management
New York, NY

Supplemental Benefits System, Deferred Compensation Plan and Defined Contribution Plan

BlackRock
San Francisco, CA
Allianz Global Investors (formerly RCM)
San Francisco, CA
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD
Brandes Investment Partners
San Diego, CA

Global Master Custodian

State Street Bank & Trust Co.
Boston, MA

Independent Auditors

KPMG, LLP
Anchorage, AK

Legal Counsel

Robert Johnson
Anchorage, AK

Teachers' Retirement System Investment Report

INVESTMENTS

The investment goals of the State of Alaska Teachers' Retirement System (TRS) are the long term return and sustainability of the pension funds under management. Annually, the Alaska Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an expected optimal risk/return level within the set constraints and objectives of the ARMB.

The ARMB categorizes its investments into eight asset classes: domestic equities, global equities ex-U.S., alternative equity strategies, private equity, real assets, fixed income, absolute return, and cash equivalents. The performance of each asset class is compared with a benchmark comprised of one or more market indices. The performance for the total portfolio is compared with its policy portfolio, determined by calculating the weighted performance of the underlying asset class benchmarks at the portfolio's target asset allocation. The asset class benchmarks are illustrated below:

| Asset Class | Benchmark |
|---------------------------------|---|
| Domestic Equity | Russell 3000 Index |
| Global Equities Ex-U.S. | MSCI All Country World Ex-U.S. Index |
| Alternative Equities Strategies | 50% S&P 500 Index 30% CBOE Buy Write Index 20% Bank of America Yield Alternative Index |
| Private Equity | 1/3 S&P 500 Index 1/3 Russell 2000 Index 1/3 MSCI EAFE Index |
| Real Assets | 50% NCREIF Property Index 15% Barclays TIPS Index 10% NCREIF Farmland Index 10% NCREIF Timberland Index 5% FTSE NAREIT All Equity REIT Index 10% S&P Global Infrastructure ¹ |
| Fixed Income | 80% Barclays Intermediate Treasury Index 10% Bank of America Merrill Lynch US High Yield Master II Constrained Index 7% Citigroup World Gov. Bond Ex-U.S. Index 3% JP Morgan Global Bond Index - Emerging Markets Global Diversified Index |
| Absolute Return | 91 Day Treasury Bill + 5% |
| Cash Equivalents | 91 Day Treasury Bill |

The target asset allocation is determined by the ARMB, utilizing capital market assumptions provided by its independent general investment consultant, Callan Associates. During the 2014 fiscal year, ARMB's target asset allocation was 26% domestic equities, 25% global equities ex-U.S., 3% alternative equity strategies, 9% private equity, 17% real assets, 12% fixed income, 5% absolute return, and 3% cash equivalents. The target asset allocation is expected to generate a return of 7.16% with a standard deviation of 14.81%.

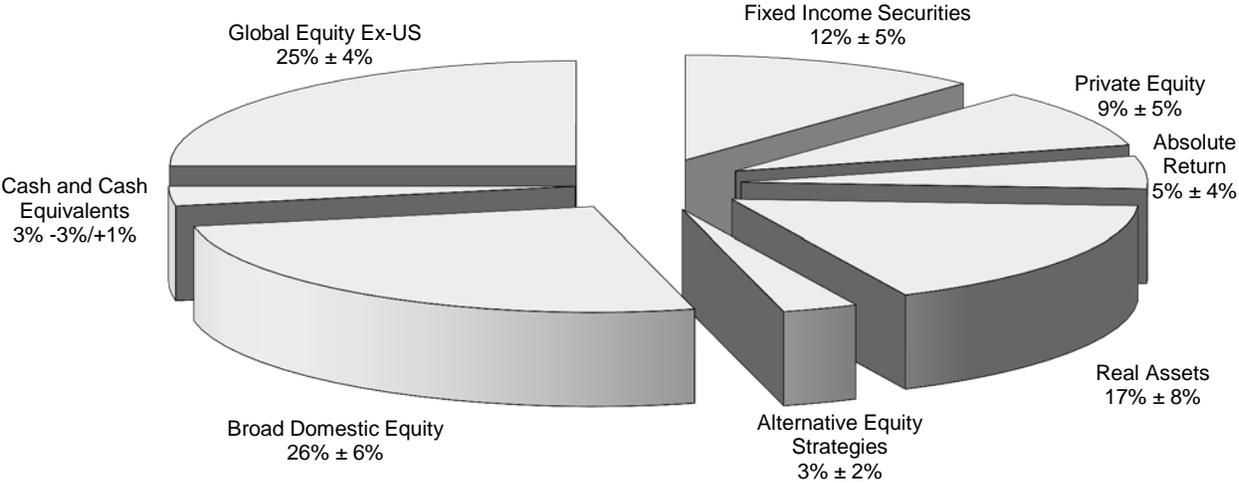
¹Between July 1 and March 31, the benchmark for real assets was 55% NCREIF Property Index, 20% Barclays TIPS Index, 10% NCREIF Farmland Index, 10% NCREIF Timberland Index, 5% FTSE NAREIT All Equity REIT Index.

Investment Section

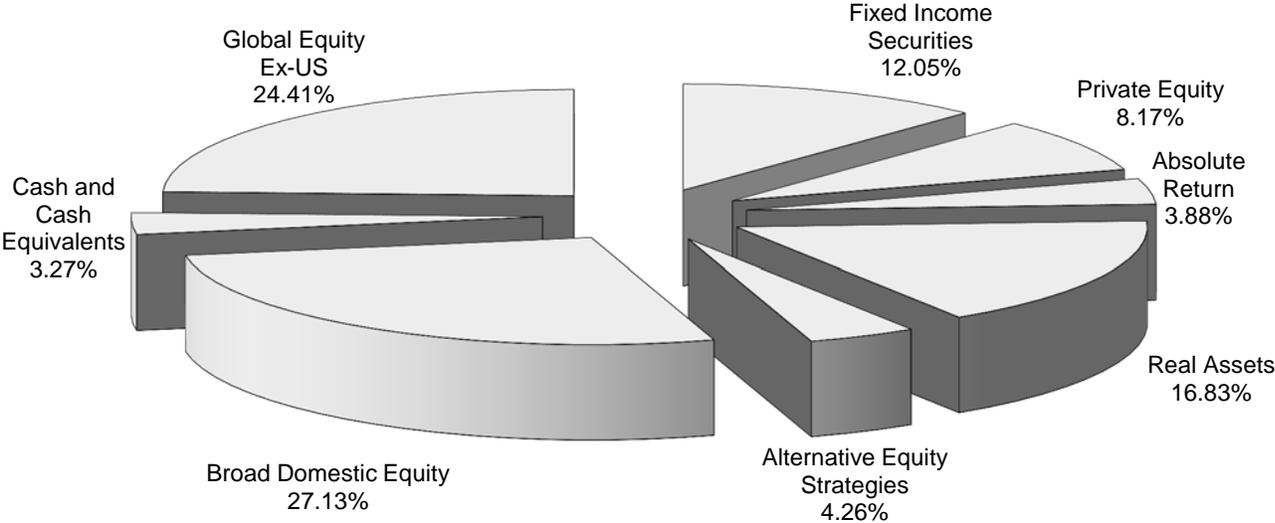
| Teachers' Retirement System Schedule of Investment Results Fiscal Years Ended June 30 | | | | | | | |
|--|--------|--------|---------|--------|--------|------------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | Annualized | |
| | | | | | | 3 Year | 5 Year |
| Total Fund | | | | | | | |
| TRS | 11.58% | 21.40% | 0.51% | 12.59% | 18.46% | 10.26% | 12.66% |
| <i>Actuarial Earnings Rate</i> | 8.25 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| U.S. Common Stock Returns | | | | | | | |
| TRS Domestic Equities | 15.47 | 33.38 | 1.83 | 21.24 | 25.45 | 15.70 | 18.99 |
| <i>Custom Composite Index</i> | 15.72 | 32.37 | 3.84 | 21.46 | 25.22 | 16.46 | 19.33 |
| Fixed Income | | | | | | | |
| TRS | 11.35 | 5.55 | 4.82 | 0.57 | 5.14 | 3.49 | 5.43 |
| <i>Custom Composite Index</i> | 10.16 | 5.06 | 5.08 | (0.04) | 3.31 | 2.76 | 4.67 |
| Real Assets | | | | | | | |
| TRS | 0.06 | 15.51 | 10.45 | 10.65 | 12.71 | 11.26 | 9.70 |
| <i>Custom Composite Index</i> | 1.17 | 12.66 | 11.41 | 8.35 | 10.98 | 10.24 | 8.84 |
| International Stock Returns | | | | | | | |
| TRS International Equities | 12.03 | 28.27 | (13.66) | 15.03 | 23.41 | 7.02 | 11.99 |
| <i>MSCI ACWI ex-US</i> | 10.87 | 30.27 | (14.15) | 14.14 | 22.27 | 6.21 | 11.59 |
| Private Equity | | | | | | | |
| TRS | 18.87 | 20.12 | 9.44 | 11.68 | 24.19 | 14.93 | 16.73 |
| <i>Custom Composite Index</i> | 13.87 | 32.93 | (3.61) | 21.24 | 24.01 | 13.16 | 17.01 |
| Absolute Return | | | | | | | |
| TRS | 6.60 | 5.99 | (2.05) | 8.41 | 6.51 | 4.19 | 5.03 |
| <i>3-month Treasury Bill +5%</i> | 5.16 | 5.16 | 5.06 | 5.11 | 5.05 | 5.07 | 5.11 |
| Alternative Equity | | | | | | | |
| TRS | — | — | — | — | 24.55 | — | — |
| <i>Custom Composite Index</i> | — | — | — | — | 18.70 | — | — |
| Cash Equivalents | | | | | | | |
| TRS | — | 0.46 | 0.42 | 0.25 | 0.26 | 0.31 | — |
| <i>3-month Treasury Bill</i> | — | 0.16 | 0.06 | 0.11 | 0.05 | 0.07 | — |
| <p>MSCI ACWI =Morgan Stanley Capital International All Country World Index Returns for periods longer than one year are reported on an annualized basis. Basis of calculation: Time-Weighed rate of return based on the market rate of return.</p> | | | | | | | |

**Teachers' Retirement System
Asset Allocation
June 30, 2014**

Policy



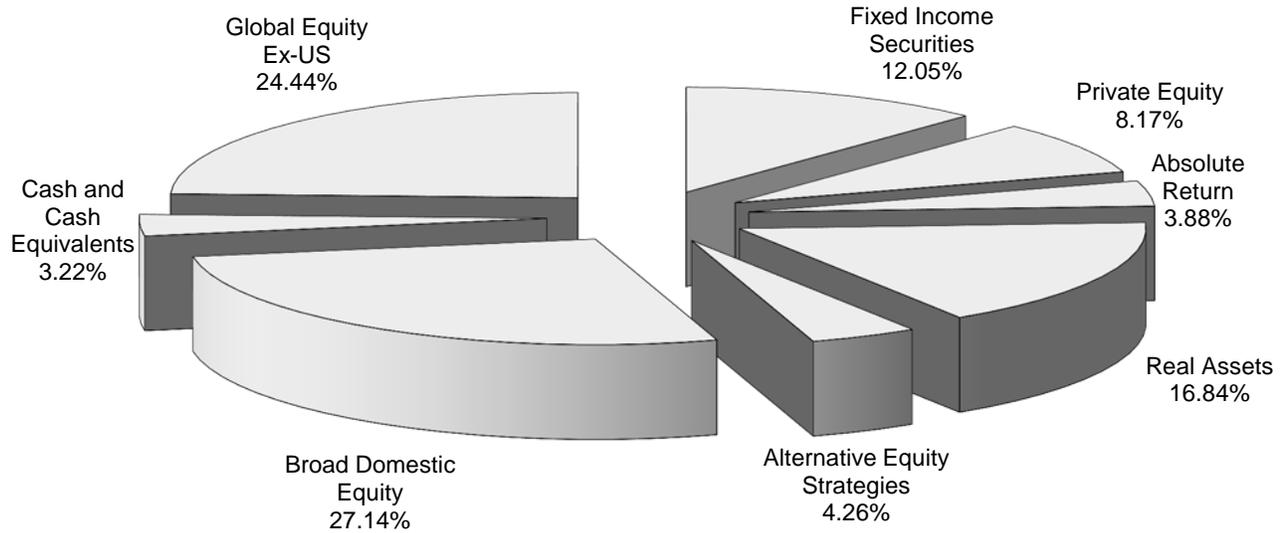
Actual — Defined Benefit Pension



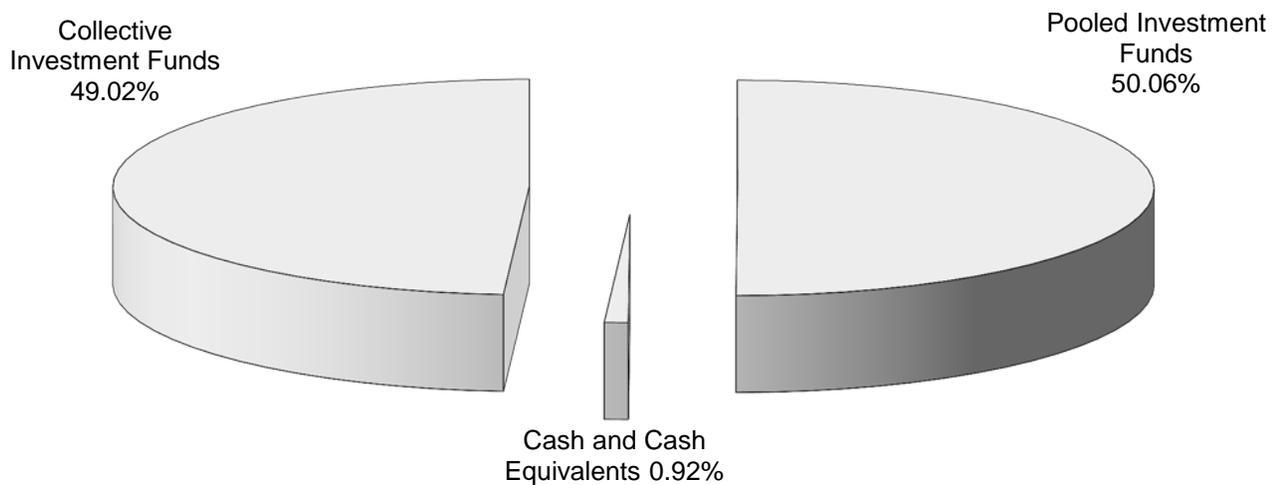
Investment Section

Teachers' Retirement System Asset Allocation June 30, 2014

Actual — Defined Benefit Alaska Retiree Healthcare Trust

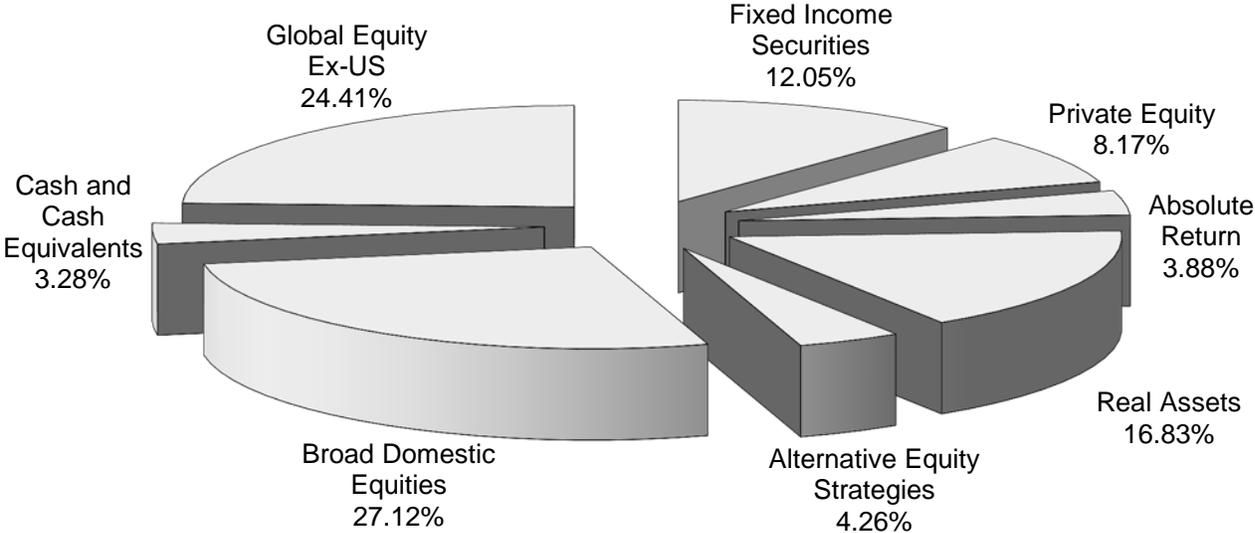


Actual — Defined Contribution Participant Directed

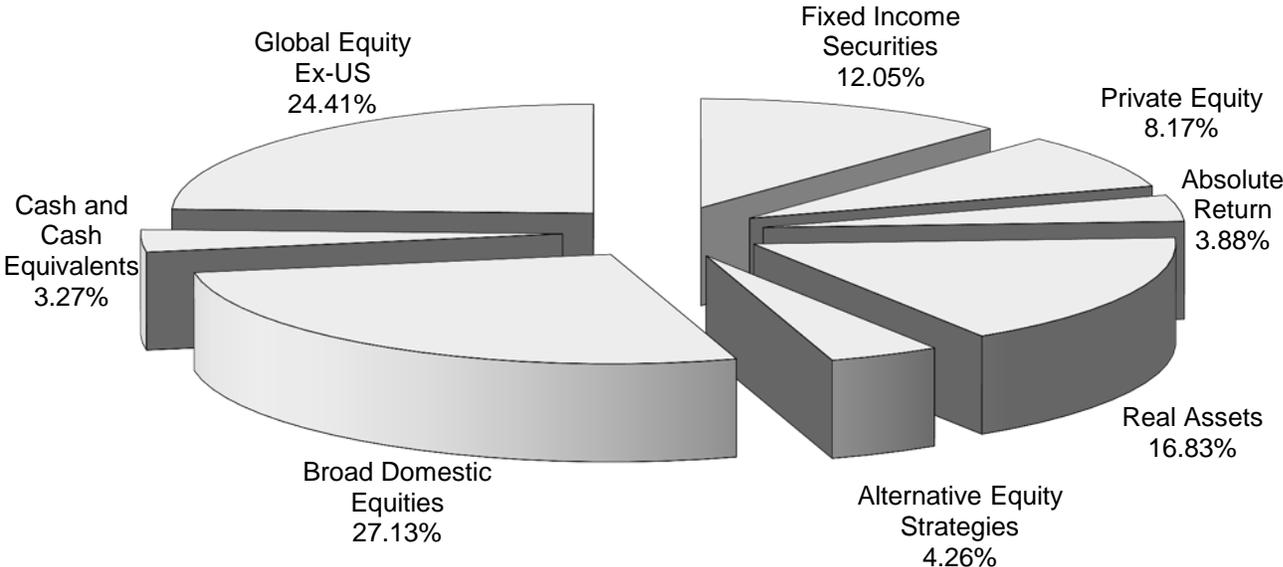


Teachers' Retirement System
Asset Allocation
June 30, 2014

Actual — Health Reimbursement Arrangement



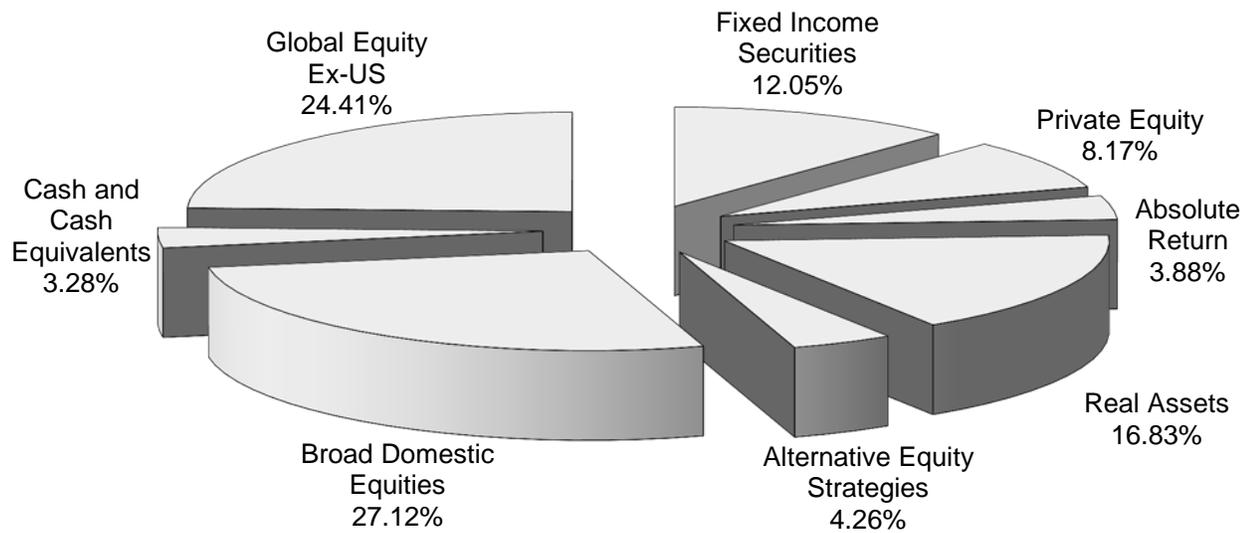
Actual — Occupational Death & Disability



Investment Section

Teachers' Retirement System
Asset Allocation
June 30, 2014

Actual — Retiree Medical Plan



Investment Section

Alaska Retirement Management Board

Top Ten Holdings by Asset Type

June 30, 2014

Invested assets under the fiduciary responsibility of the Alaska Retirement Management Board (ARMB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created twenty-six different mutual fund-like pools to accomplish the investment asset allocation policies of the ARMB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Second, pooling investments significantly reduces accounting, budgeting, and administrative costs. Finally, the ARMB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Below are the ten largest fixed income and equity holdings.

Fixed Income

| <u>Rank</u> | <u>Largest Fixed Income Holdings</u> | <u>Market Value</u> | <u>Par Value</u> |
|-------------|--------------------------------------|---------------------|------------------|
| 1 | US Treasury 1.625% 7/31/2019 | \$55,990,421 | \$55,863,834 |
| 2 | US Treasury 1.500% 2/28/2019 | 39,974,403 | 39,983,759 |
| 3 | US Treasury 0.875% 12/31/2016 | 38,867,114 | 38,661,743 |
| 4 | US Treasury 0.625% 4/30/2018 | 33,440,070 | 34,198,875 |
| 5 | US Treasury 2.625% 5/15/2024 | 31,976,923 | 31,738,881 |
| 6 | US Treasury 0.875% 7/31/2019 | 19,833,045 | 20,559,025 |
| 7 | US Treasury 0.75% 1/15/2017 | 13,597,858 | 13,569,240 |
| 8 | US Treasury 0.625% 5/31/2017 | 10,262,377 | 10,322,049 |
| 9 | US Treasury 1.625% 4/30/2019 | 9,119,039 | 9,087,089 |
| 10 | US Treasury 2.000% 7/31/2020 | 8,581,621 | 8,507,183 |

Equities

| <u>Rank</u> | <u>Largest Equity Holdings</u> | <u>Market Value</u> |
|-------------|--------------------------------|---------------------|
| 1 | Apple Inc. | \$45,293,027 |
| 2 | Microsoft Corp. | 31,986,021 |
| 3 | Johnson & Johnson | 19,868,346 |
| 4 | Wells Fargo & Co. | 18,070,253 |
| 5 | Pfizer Inc. | 17,397,711 |
| 6 | Chevron Corp. | 16,305,133 |
| 7 | JPMorgan Chase & Co. | 16,300,645 |
| 8 | Intel Corp. | 16,293,813 |
| 9 | Citigroup Inc. | 15,703,646 |
| 10 | Verizon Communications Inc. | 15,169,489 |

Additional investment information may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

Investment Section

Teachers' Retirement System Schedule of Investment Management Fees Year Ended June 30, 2014

| | Total Fair Value | Fees |
|---|------------------|-----------|
| Fixed Income | | |
| Municipal Bond Pool | | |
| * Western Asset Management | \$ 32,338,429 | \$ 55,397 |
| * Guggenheim Partners | 31,712,907 | 32,697 |
| Total Municipal Bond Pool | 64,051,336 | 88,094 |
| High Yield Pool | | |
| * Mackay Shields, LLC | 162,623,091 | 697,087 |
| International Fixed Income | | |
| * Mondrian Investment Partners | 108,903,334 | 402,822 |
| Broad Domestic Equity Pools | | |
| * Barrow, Hanley, Mewhinney & Strauss, INC | 71,472,911 | 567,106 |
| * Jennison Associates LLC | 41,503,116 | 338,678 |
| * Lazard Asset Management | 109,406,312 | 243,670 |
| * Lord Abbett & Co. | 69,566,788 | 577,229 |
| * Luther King Cap. Management | 39,464,487 | 236,226 |
| * Victory Capital Management | 31,876,963 | 233,330 |
| * Frontier Capital Management | 31,095,689 | 391,044 |
| * McKinley Capital | 100,849,791 | 314,550 |
| * Quantitative Management Associates | 96,173,312 | 291,627 |
| * SSgA Russell 1000 Growth | 355,989,461 | 39,898 |
| * SSgA Russell 1000 Value | 336,332,469 | 40,120 |
| * SSgA Russell 2000 Growth | 5,099,424 | 2,400 |
| * SSgA Russell 2000 Value | 18,683,240 | 8,687 |
| * SSgA Russell 200 | 154,943,435 | 17,603 |
| * SSgA Futures Large Cap | 3,848,502 | 3,544 |
| * SSgA Future Small Cap | 3,248,827 | 3,019 |
| * DePrince, Race& Zollo Inc.-Micro Cap | 28,529,587 | 298,081 |
| * Allianz Global Investors | 101,615,559 | 210,363 |
| Total Domestic Equities | 1,599,699,873 | 3,817,175 |
| Global Equity Ex-U.S. | | |
| * SSgA | 194,304,105 | 108,672 |
| * Brandes Investment Partners | 320,710,511 | 1,105,281 |
| * Capital Guardian Trust Co. | 237,874,644 | 821,097 |
| * McKinley Capital Mgmt. | 113,840,031 | 515,030 |
| * Lazard Freres | 126,695,038 | 172,256 |
| * Mondrian Investment Partners | 46,121,984 | 318,263 |
| * Blackrock ACWI Ex-US IMI | 194,364,941 | 106,344 |
| * Schroder Investment Management | 47,864,460 | 345,459 |
| Total International Equities | 1,281,775,714 | 3,492,402 |
| Alternative Equity Strategies | | |
| Alternative Equity Pool | | |
| * Analytic SSgA Account | 68,771,471 | 60,793 |
| * Analytic Buy Write Account | 2,299,434 | 4,743 |
| * Allianz Global Investors | - | 88,746 |
| Total Alternative Equity | 71,070,905 | 154,282 |
| Convertible Bond Pool | | |
| * Advent Capital | 56,470,149 | 281,391 |
| Private Equity Pool | | |
| ** BlumCapital Partners-Strategic | 3,162,545 | 66,190 |
| ** Warburg Pincus X | 11,580,967 | 155,351 |
| ** Angelo Gordon & Co. | 2,439,800 | 58,501 |
| ** Onex Partners | 6,994,231 | 94,732 |
| ** Lexington Partners | 14,421,687 | 208,593 |
| ** Neuberger Berman Secondary Opportunities | 1,445,290 | 240,493 |
| * Pathway Capital Management | 232,272,197 | 655,122 |
| * Abbott Capital Management | 221,914,378 | 556,424 |
| ** Merit Capital Partners | 4,166,735 | 115,669 |
| Total Private Equities | 498,397,830 | 2,151,075 |

Teachers' Retirement System
Schedule of Investment Management Fees (cont.)
Year Ended June 30, 2013

| | Total Fair Value | Fees |
|---|------------------|----------------------|
| Absolute Return Pool | | |
| ** Mariner Investment Group | \$ - | \$ 1,203 |
| ** Crestline Investors Inc. | 52,294,446 | 501,292 |
| ** Global Asset Management | 91,086,157 | 592,238 |
| ** Prisma Capital Partners | 93,469,476 | 632,686 |
| Total Absolute Return | 236,850,079 | 1,727,419 |
| Real Assets | | |
| Real Estate Pool | | |
| ** JPM Strategic | 67,183,041 | 550,570 |
| ** UBS Consolidated | 23,539,120 | 245,905 |
| ** Cornerstone | 34,641,255 | 188,627 |
| ** Lasalle | 42,535,044 | 356,095 |
| ** Sentinel ,SA | 43,837,769 | 240,754 |
| ** UBS Separate | 86,232,631 | 480,949 |
| ** Lowe Hospitality | 656,358 | 10,136 |
| ** KKR. | 6,880,834 | 55,773 |
| ** ING Clarion | 7,980,363 | 105,030 |
| ** Silverpeak Legacy Pension Partners | 19,832,247 | 267,046 |
| ** Almanac Realty Securities | 11,227,970 | 166,992 |
| ** Tishman Speyer | 16,781,060 | 234,391 |
| ** BlackRock Diamond | 8,050,581 | 99,505 |
| ** Colony Investors VIII, L.P. | 7,250,253 | 174,958 |
| ** LaSalle Medical Office Fund II | 1,706,430 | 67,433 |
| ** Cornerstone Apartment Venture III | 2,050,885 | 48,018 |
| ** Coventry | 3,591,929 | 93,299 |
| Total Real Estate | 383,977,770 | 3,385,481 |
| Infrastructure Public Pool | | |
| * Brookfield Investment Management | 24,083,668 | 48,468 |
| * Lazard Asset Management | 23,453,554 | 45,787 |
| Total Infrastructure Public Pool | 47,537,222 | 94,255 |
| Master Limited Partnerships Pool | | |
| * Tortoise MLP | 73,845,306 | 375,130 |
| * Advisory Research Inc | 67,061,028 | 277,978 |
| Total Master Limited Partnerships Pool | 140,906,334 | 653,108 |
| Energy Pool | | |
| ** EIG Energy Fund XV | 11,293,210 | 140,917 |
| ** EIG Energy Fund XD | 2,217,398 | 28,476 |
| ** EIG Energy Fund XIV-A | 15,144,062 | 186,386 |
| ** EIG Energy Fund XVI | 2,199,167 | 232,836 |
| Total Energy Pool | 30,853,837 | 588,615 |
| Farmland Pool | | |
| ** Hancock Agriculture Investment Group | 63,439,466 | 634,813 |
| ** UBS Agrivest | 141,423,090 | 1,127,123 |
| Total Farmland | 204,862,556 | 1,761,936 |
| Timber Pool | | |
| ** Timberland Investment Resources | 75,507,996 | 435,857 |
| ** Hancock Natural Resource Group | 28,292,949 | 194,983 |
| Total Timber Pool | 103,800,945 | 630,840 |
| Custodian | | |
| * State Street Bank | | 286,800 |
| Investment Advisory | | |
| * Townsend Group | | 29,673 |
| * Callan Associates | | 46,010 |
| * Investment Advisory Council | | 24,958 |
| Total Investment Advisory | | 100,641 |
| Investment Performance | | |
| * Callan Associates | | 81,796 |
| Total External Management Fees | | \$ 20,395,219 |

*These fees are paid through the Alaska Statewide Accounting System (AKSAS)

**These fees are deducted from earnings by the fund manager and are not directly recorded in AKSAS.

Investment Section

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| <u>Investments (at Fair Value)</u> | <u>Asset Allocation</u> | | <u>Defined Benefit - Pension</u> | |
|--|-------------------------|--------------|----------------------------------|--------------------------|
| | <u>Policy</u> | <u>Range</u> | <u>Fair Market Value</u> | <u>% of Total Assets</u> |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 3.00% | -3%/+ 1% | \$ 123,198,450 | |
| Total Cash and Cash Equivalents | | | <u>123,198,450</u> | 3.27% |
| Fixed Income Securities | | | | |
| U.S. Treasury Fixed Income Pool | | | 219,574,549 | |
| Taxable Municipal Bond Pool | | | 39,593,830 | |
| High Yield Pool | | | 100,526,724 | |
| International Fixed Income Pool | | | 67,319,440 | |
| Emerging Debt Pool | | | 27,321,961 | |
| Total Fixed Income Securities | 12.00% | ± 5% | <u>454,336,504</u> | 12.05% |
| Broad Domestic Equity | | | | |
| Large Cap Pool | | | 837,537,847 | |
| Small Cap Pool | | | 185,344,407 | |
| Total Broad Domestic Equity | 26.00% | ± 6% | <u>1,022,882,254</u> | 27.13% |
| Global Equity Ex-U.S. | | | | |
| International Equity Pool | | | 734,241,145 | |
| International Equity Small Cap Pool | | | 58,098,450 | |
| Frontier Markets Pool | | | 17,571,079 | |
| Emerging Markets Equity Pool | | | 110,561,071 | |
| Total Global Equity Ex-U.S. | 25.00% | ± 4% | <u>920,471,745</u> | 24.41% |
| Alternative Equity Strategies | | | | |
| Alternative Equity Strategies | | | 125,818,715 | |
| Convertible Bond Pool | | | 34,907,459 | |
| Total Alternative Equities | 3.00% | ± 2% | <u>160,726,174</u> | 4.26% |
| Private Equity | | | | |
| Private Equity Pool | | | 308,115,801 | |
| Total Private Equity | 9.00% | ± 5% | <u>308,115,801</u> | 8.17% |
| Absolute Return | | | | |
| Absolute Return Pool | | | 146,410,712 | |
| Total Absolute Return | 5.00% | ± 4% | <u>146,410,712</u> | 3.88% |
| Real Assets | | | | |
| Real Estate Pool | | | 237,396,629 | |
| Real Estate Investment Trust Pool | | | 64,781,676 | |
| Infrastructure Public Pool | | | 29,385,502 | |
| Master Limited Partnership Pool | | | 87,102,343 | |
| Energy Pool | | | 19,072,537 | |
| Farmland Pool | | | 126,637,376 | |
| Timber Pool | | | 64,165,359 | |
| Treasury Inflation Protected Securities Pool | | | 6,236,306 | |
| Total Real Assets | 17.00% | ± 8% | <u>634,777,728</u> | 16.83% |
| Total Invested Assets | <u>100.00%</u> | | <u>\$ 3,770,919,368</u> | <u>100.00%</u> |

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| <u>Investments (at Fair Value)</u> | <u>Defined Benefit - Alaska Retiree Health Care Trust</u> | | | <u>% of Total Assets</u> |
|--|---|--------------|--------------------------------|--------------------------|
| | <u>Asset Allocation</u> | | <u>Fair Market Value</u> | |
| | <u>Policy</u> | <u>Range</u> | | |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 3.00% | -3%/+1% | \$ 73,011,079 | |
| Total Cash and Cash Equivalents | | | <u>73,011,079</u> | 3.22% |
| Fixed Income Securities | | | | |
| U.S. Treasury Fixed Income Pool | | | 131,922,097 | |
| Taxable Municipal Bond Pool | | | 23,788,281 | |
| High Yield Pool | | | 60,397,238 | |
| International Fixed Income Pool | | | 40,446,044 | |
| Emerging Debt Pool | | | 16,415,248 | |
| Total Fixed Income Securities | 12.00% | ± 5% | <u>272,968,908</u> | 12.05% |
| Broad Domestic Equity | | | | |
| Large Cap Pool | | | 503,199,255 | |
| Small Cap Pool | | | 111,356,364 | |
| Total Broad Domestic Equity | 26.00% | ± 6% | <u>614,555,619</u> | 27.14% |
| Global Equity Ex-U.S. | | | | |
| International Equity Pool | | | 441,137,791 | |
| International Equity Small Cap Pool | | | 34,906,000 | |
| Frontier Markets Pool | | | 10,556,840 | |
| Emerging Markets Equity Pool | | | 66,425,951 | |
| Total Global Equity Ex-U.S. | 25.00% | ± 4% | <u>553,026,582</u> | 24.44% |
| Alternative Equity Strategies | | | | |
| Alternative Equity Strategies | | | 75,592,864 | |
| Convertible Bond Pool | | | 20,972,674 | |
| Total Alternative Equities | 3.00% | ± 2% | <u>96,565,538</u> | 4.26% |
| Private Equity | | | | |
| Private Equity Pool | | | 185,118,370 | |
| Total Private Equity | 9.00% | ± 5% | <u>185,118,370</u> | 8.17% |
| Absolute Return | | | | |
| Absolute Return Pool | | | 87,964,694 | |
| Total Absolute Return | 5.00% | ± 4% | <u>87,964,694</u> | 3.88% |
| Real Assets | | | | |
| Real Estate Pool | | | 142,570,275 | |
| Real Estate Investment Trust Pool | | | 38,921,336 | |
| Infrastructure Public Pool | | | 17,655,038 | |
| Master Limited Partnership Pool | | | 52,331,764 | |
| Energy Pool | | | 11,458,930 | |
| Farmland Pool | | | 76,084,722 | |
| Timber Pool | | | 38,551,047 | |
| Treasury Inflation Protected Securities Pool | | | 3,746,822 | |
| Total Real Assets | <u>17.00%</u> | ± 8% | <u>381,319,934</u> | 16.84% |
| Total Invested Assets | <u>100.00%</u> | | <u>\$ 2,264,530,724</u> | <u>100.00%</u> |

Investment Section

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| Investments (at Fair Value) | Asset Allocation | | Fair Market Value | % of Total Assets |
|--|------------------|-------|------------------------------|-----------------------|
| | Policy | Range | | |
| Defined Contribution - Participant Directed | | | | |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 100.00% | 0% | \$ 1,985,139 | |
| Total Cash and Cash Equivalents | | | <u>1,985,139</u> | 0.92% |
| Pooled Investment Funds (1) | | | | |
| T. Rowe Price | | | | |
| Target 2010 Trust | | | 566,018 | |
| Target 2015 Trust | | | 2,047,164 | |
| Target 2020 Trust | | | 4,664,541 | |
| Target 2025 Trust | | | 6,345,228 | |
| Target 2030 Trust | | | 6,888,030 | |
| Target 2035 Trust | | | 10,473,839 | |
| Target 2040 Trust | | | 11,491,816 | |
| Target 2045 Trust | | | 19,992,219 | |
| Target 2050 Trust | | | 26,727,623 | |
| Target 2055 Trust | | | 5,045,676 | |
| Alaska Balanced Fund | | | 249,705 | |
| Long-Term Balanced Fund | | | 11,515,309 | |
| Alaska Money Market | | | 1,619,627 | |
| Total Pooled Investment Funds | | | <u>107,626,795</u> | 50.06% |
| Collective Investment Funds (1) | | | | |
| State Street Global Advisors | | | | |
| Money Market Fund | | | 146,513 | |
| S&P Stock Index Fund | | | 13,173,746 | |
| Russell 3000 Index | | | 15,084,374 | |
| Real Estate Investment Trust Index | | | 2,552,540 | |
| World Equity Ex-U.S. Index | | | 11,968,465 | |
| Long U.S. Treasury Bond Index | | | 97,503 | |
| Treasury Inflation Protected Securities Index | | | 1,206,767 | |
| World Government Bond Ex-U.S. Index | | | 2,666,743 | |
| Global Balanced Fund | | | 7,056,026 | |
| Barclays | | | | |
| Daily Government/Corporate Bond Fund | | | 13,321,595 | |
| Intermediate Bond Fund | | | 87,936 | |
| Brandes Institutional | | | | |
| International Equity Fund | | | 15,181,492 | |
| RCM | | | | |
| Socially Responsible Fund | | | 1,230,804 | |
| T. Rowe Price | | | | |
| Small-Cap Fund | | | 21,618,972 | |
| Total Collective Investment Funds | | | <u>105,393,476</u> | 49.02% |
| Total Invested Assets | | | <u>\$ 215,005,410</u> | <u>100.00%</u> |

(1) Pooled Investment Funds and Collective Investment Funds are participant directed and therefore are not subject to an asset allocation.

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| <u>Investments (at Fair Value)</u> | <u>Health Reimbursement Arrangement</u> | | <u>Fair Market Value</u> | <u>% of Total Assets</u> |
|--|---|--------------|--------------------------|--------------------------|
| | <u>Asset Allocation</u> | | | |
| | <u>Policy</u> | <u>Range</u> | | |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 3.00% | -3%/+1% | \$ 1,610,630 | |
| Total Cash and Cash Equivalents | | | 1,610,630 | 3.28% |
| Fixed Income Securities | | | | |
| U.S. Treasury Fixed Income Pool | | | 2,858,876 | |
| Taxable Municipal Bond Pool | | | 515,514 | |
| High Yield Pool | | | 1,308,865 | |
| International Fixed Income Pool | | | 876,503 | |
| Emerging Debt Pool | | | 355,734 | |
| Total Fixed Income Securities | 12.00% | ± 5% | 5,915,492 | 12.05% |
| Broad Domestic Equity | | | | |
| Large Cap Pool | | | 10,904,801 | |
| Small Cap Pool | | | 2,413,197 | |
| Total Broad Domestic Equity | 26.00% | ± 6% | 13,317,998 | 27.12% |
| Global Equity Ex-U.S. | | | | |
| International Equity Pool | | | 9,559,870 | |
| International Equity Small Cap Pool | | | 756,445 | |
| Frontier Markets Pool | | | 228,776 | |
| Emerging Markets Equity Pool | | | 1,439,513 | |
| Total Global Equity Ex-U.S. | 25.00% | ± 4% | 11,984,604 | 24.41% |
| Alternative Equity Strategies | | | | |
| Alternative Equity Strategies | | | 1,638,168 | |
| Convertible Bond Pool | | | 454,498 | |
| Total Alternative Equities | 3.00% | ± 2% | 2,092,666 | 4.26% |
| Private Equity | | | | |
| Private Equity Pool | | | 4,011,689 | |
| Total Private Equity | 9.00% | ± 5% | 4,011,689 | 8.17% |
| Absolute Return | | | | |
| Absolute Return Pool | | | 1,906,278 | |
| Total Absolute Return | 5.00% | ± 4% | 1,906,278 | 3.88% |
| Real Assets | | | | |
| Real Estate Pool | | | 3,089,632 | |
| Real Estate Investment Trust Pool | | | 843,462 | |
| Infrastructure Public Pool | | | 382,602 | |
| Master Limited Partnership Pool | | | 1,134,079 | |
| Energy Pool | | | 248,326 | |
| Farmland Pool | | | 1,648,827 | |
| Timber Pool | | | 835,437 | |
| Treasury Inflation Protected Securities Pool | | | 81,197 | |
| Total Real Assets | 17.00% | ± 8% | 8,263,562 | 16.83% |
| Total Invested Assets | 100.00% | | \$ 49,102,919 | 100.00% |

Investment Section

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| <u>Investments (at Fair Value)</u> | <u>Asset Allocation</u> | | <u>Occupational Death and Disability</u> | |
|--|-------------------------|--------------|--|--------------------------|
| | <u>Policy</u> | <u>Range</u> | <u>Fair Market Value</u> | <u>% of Total Assets</u> |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 3.00% | -3%/+1% | \$ 100,503 | |
| Total Cash and Cash Equivalents | | | 100,503 | 3.27% |
| Fixed Income Securities | | | | |
| U.S. Treasury Fixed Income Pool | | | 179,037 | |
| Taxable Municipal Bond Pool | | | 32,284 | |
| High Yield Pool | | | 81,968 | |
| International Fixed Income Pool | | | 54,891 | |
| Emerging Debt Pool | | | 22,278 | |
| Total Fixed Income Securities | 12.00% | ± 5% | 370,458 | 12.05% |
| Broad Domestic Equity | | | | |
| Large Cap Pool | | | 682,913 | |
| Small Cap Pool | | | 151,126 | |
| Total Broad Domestic Equity | 26.00% | ± 6% | 834,039 | 27.13% |
| Global Equity Ex-U.S. | | | | |
| International Equity Pool | | | 598,686 | |
| International Equity Small Cap Pool | | | 47,372 | |
| Frontier Markets Pool | | | 14,327 | |
| Emerging Markets Equity Pool | | | 90,150 | |
| Total Global Equity Ex-U.S. | 25.00% | ± 4% | 750,535 | 24.41% |
| Alternative Equity Strategies | | | | |
| Alternative Equity Strategies | | | 102,590 | |
| Convertible Bond Pool | | | 28,463 | |
| Total Alternative Equities | 3.00% | ± 2% | 131,053 | 4.26% |
| Private Equity | | | | |
| Private Equity Pool | | | 251,232 | |
| Total Private Equity | 9.00% | ± 5% | 251,232 | 8.17% |
| Absolute Return | | | | |
| Absolute Return Pool | | | 119,380 | |
| Total Absolute Return | 5.00% | ± 4% | 119,380 | 3.88% |
| Real Assets | | | | |
| Real Estate Pool | | | 193,489 | |
| Real Estate Investment Trust Pool | | | 52,822 | |
| Infrastructure Public Pool | | | 23,960 | |
| Master Limited Partnership Pool | | | 71,022 | |
| Energy Pool | | | 15,552 | |
| Farmland Pool | | | 103,258 | |
| Timber Pool | | | 52,320 | |
| Treasury Inflation Protected Securities Pool | | | 5,085 | |
| Total Real Assets | 17.00% | ± 8% | 517,508 | 16.83% |
| Total Invested Assets | 100.00% | | \$ 3,074,708 | 100.00% |

Teachers' Retirement System Investment Summary Schedule June 30, 2014

| <u>Investments (at Fair Value)</u> | <u>Asset Allocation</u> | | <u>Fair Market Value</u> | <u>% of Total Assets</u> |
|--|-------------------------|--------------|--------------------------|--------------------------|
| | <u>Policy</u> | <u>Range</u> | | |
| Retiree Medical Plan | | | | |
| Cash and Cash Equivalents | | | | |
| Short-term Fixed Income Pool | 3.00% | -3%/+1% | \$ 378,875 | |
| Total Cash and Cash Equivalents | | | 378,875 | 3.28% |
| Fixed Income Securities | | | | |
| U.S. Treasury Fixed Income Pool | | | 673,393 | |
| Taxable Municipal Bond Pool | | | 121,427 | |
| High Yield Pool | | | 308,296 | |
| International Fixed Income Pool | | | 206,456 | |
| Emerging Debt Pool | | | 83,791 | |
| Total Fixed Income Securities | 12.00% | ± 5% | 1,393,363 | 12.05% |
| Broad Domestic Equity | | | | |
| Large Cap Pool | | | 2,568,569 | |
| Small Cap Pool | | | 568,416 | |
| Total Broad Domestic Equity | 26.00% | ± 6% | 3,136,985 | 27.12% |
| Global Equity Ex-U.S. | | | | |
| International Equity Pool | | | 2,251,778 | |
| International Equity Small Cap Pool | | | 178,177 | |
| Frontier Markets Pool | | | 53,887 | |
| Emerging Markets Equity Pool | | | 339,070 | |
| Total Global Equity Ex-U.S. | 25.00% | ± 4% | 2,822,912 | 24.41% |
| Alternative Equity Strategies | | | | |
| Alternative Equity Strategies | | | 385,862 | |
| Convertible Bond Pool | | | 107,055 | |
| Total Alternative Equities | 3.00% | ± 2% | 492,917 | 4.26% |
| Private Equity | | | | |
| Private Equity Pool | | | 944,933 | |
| Total Private Equity | 9.00% | ± 5% | 944,933 | 8.17% |
| Absolute Return | | | | |
| Absolute Return Pool | | | 449,014 | |
| Total Absolute Return | 5.00% | ± 4% | 449,014 | 3.88% |
| Real Assets | | | | |
| Real Estate Pool | | | 727,746 | |
| Real Estate Investment Trust Pool | | | 198,673 | |
| Infrastructure Public Pool | | | 90,120 | |
| Master Limited Partnership Pool | | | 267,127 | |
| Energy Pool | | | 58,492 | |
| Farmland Pool | | | 388,373 | |
| Timber Pool | | | 196,782 | |
| Treasury Inflation Protected Securities Pool | | | 19,126 | |
| Total Real Assets | 17.00% | ± 8% | 1,946,439 | 16.83% |
| Total Invested Assets | 100.00% | | \$ 11,565,438 | 100.00% |

Investment Section

Teachers' Retirement System Recaptured Commission Fees June 30, 2014

| Fund | Domestic Equity Pool | International Equity Pool | Total |
|---|-------------------------------------|--------------------------------------|----------------|
| Defined Benefit Plan – Pension | \$3,717 | \$102 | \$3,819 |
| Postemployment Benefit - Alaska Retiree Healthcare Trust | 2,196 | 60 | 2,256 |
| Postemployment Benefit - Health Reimbursement Arrangement | 45 | 1 | 46 |
| Postemployment Benefit - Occupational Death & Disability | 3 | - | 3 |
| Postemployment Benefit - Retiree Medical Pan | 11 | - | 11 |
| Total Recapture Commission Fees | \$5,972 | \$163 | \$6,135 |

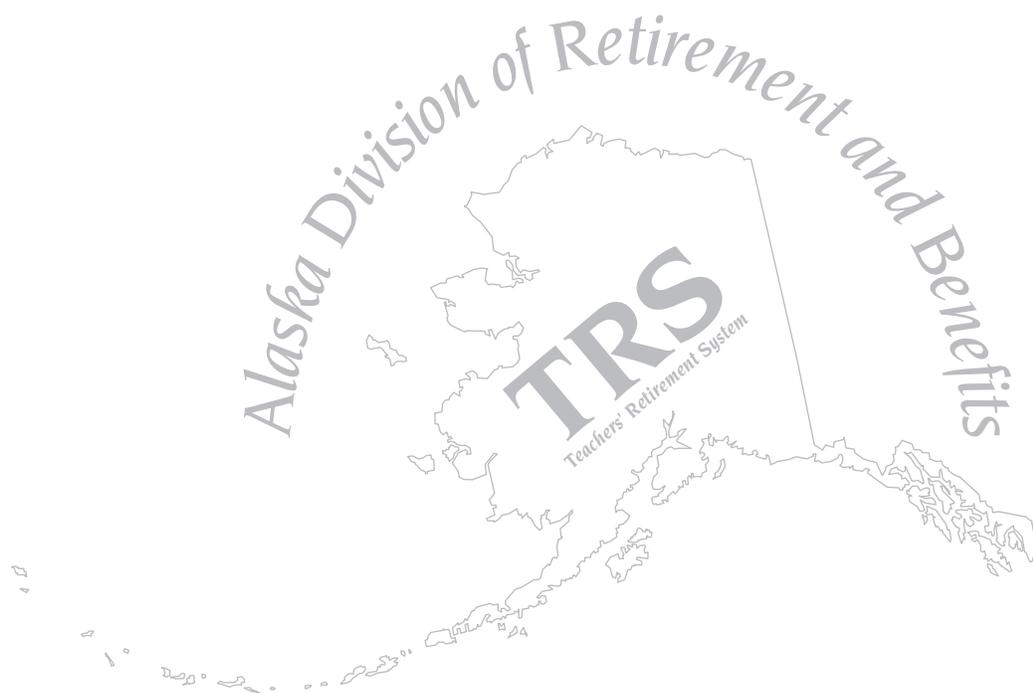
The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund.

The program allows managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

The current rebate arrangement with State Street Global Markets (SSGM) is: 90% of the commissions received in excess of executing the brokers' execution-only rates; 100% of commissions in excess of its execution-only rates for all trading directed through SSGM.



ACTUARIAL SECTION



August 22, 2014

State of Alaska
The Alaska Retirement Management Board
The Department of Revenue, Treasury Division
The Department of Administration, Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Certification of Actuarial Valuation

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

This report summarizes the annual actuarial valuation results of the State of Alaska Teachers' Retirement System (TRS) as of June 30, 2013 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2013. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Buck Consultants, LLC is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of the System.

The State of Alaska Teachers' Retirement System is funded by Employer, State, and Member Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the State of Alaska Teachers' Retirement System is to pay required contributions that remain level as a percent of total TRS Compensation. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, System expenses, and amortize the Unfunded Actuarial Accrued Liability as a level dollar amount over a closed 25-year period. The Board changed the amortization method used for funding from the level percentage of payroll method to the level dollar method in June 2012 effective June 30, 2012. The compensation used to determine required contributions is the total compensation of all active members in TRS, including those hired after July 1, 2006 who are members of the Defined Contribution Retirement (DCR) Plan. This objective is currently being met and is projected to continue to be met.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the System and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the System. The actuary performs an analysis of System experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last full experience analysis was performed in 2010. A review of the healthcare assumptions was performed for last year's actuarial valuation and changes were made to the healthcare cost trend rates and the per capita claims cost rates, effective June 30, 2012, to better reflect expected future healthcare experience. Based on updated experience, these assumptions are still reasonable. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in are shown in this report.

Actuarial Section

The assumptions and methods used to determine the Annual Required Contributions (ARC) of the Employers to the State of Alaska Teachers' Retirement System as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Based on member data and asset information provided by the Division of Retirement and Benefits, we have prepared the Schedule of Funding Progress, Schedule of Employer Contributions, and trend data schedules under GASB Nos. 25 and 43 that are included in the Financial Section of the CAFR. We have also prepared the member data tables shown in Section 5 of this report for the Statistical Section of the CAFR, and the summary of actuarial assumptions, solvency test, and analysis of financial experience for the Actuarial Section of the CAFR.

The undersigned is an Enrolled Actuary, an Associate of the Society of Actuaries and Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

Respectfully submitted,

BUCK CONSULTANTS, LLC



David H. Slshinsky, ASA, EA, MAAA, FCA
Principal, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

State of Alaska
Teachers' Retirement System
Defined Benefit Retirement Plan
Description of Actuarial Methods and Valuation Procedures

The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

A. Actuarial Method – Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level dollar amount. The initial unfunded accrued liability was established on June 30, 2002 and amortized over a closed 25-year period. Any changes in the unfunded accrued liability established after June 30, 2002 due to changes in plan provisions, actuarial methods or assumptions, or actuarial experience are amortized over a 25-year period from the date established. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

Projected pension and postemployment healthcare benefits were determined for all active members. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for pension benefits (constant dollar amount for healthcare benefits) from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

State of Alaska
Teachers' Retirement System
Defined Benefit Retirement Plan
Description of Actuarial Methods and Valuation Procedures

B. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years. This method was 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 financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

Changes in Methods from the Prior Valuation

There was one change in valuation methods since the previous valuation.

C. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Teachers' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our annual experience rate update for the period July 1, 2012 to June 30, 2013.

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, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

We analyzed HealthSmart management level reporting for fiscal 2010 through April 2013, and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.
2. Available management level reporting does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups for fiscal 2010 through 2012. Fiscal 2013 management level reporting includes the percentage of claims attributable to both groups but does not address enrollment by group. DB Tier retiree census supplied by the Division was split into under and over age 65 counts as a proxy for fiscal 2013 Medicare and non-Medicare enrollment. Historical claim level reporting and estimated impacts of Medicare coordination and plan design were used to augment cost data by Medicare status.

State of Alaska
Teachers' Retirement System
Defined Benefit Retirement Plan
Description of Actuarial Methods and Valuation Procedures

3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these “no-Part A” individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claim experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The smaller the no-Part A population, the more accrued liabilities will decrease. Based on census data received from HealthSmart, 0.6% of the current retiree population was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire and/or re-hire, date of birth, tier, etc. All claims cost rates developed from management level reporting have been compared to similar rates developed from claim level data.

4. The steps above result in separate incurred claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four fiscal years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We deemed incurred claim data from HealthSmart management reports to be complete for fiscal 2010, 2011 and 2012. Fiscal 2013 medical claim data was completed using a factor of 0.82; fiscal 2013 prescription claim data was completed using a factor of 0.90 – these factors were derived from historic completion patterns for AlaskaCare retiree claims. Incurred claim cost rates are projected forward to the valuation year using a blend of Alaska plan-specific trend and national trend rates over the same period, with Alaska experience receiving 75% weight, national trend 25%. These weighted trend factors for this purpose for the current valuation are as follows:

| Alaska-Specific and National Average Weighted Trend from Experience Period to Valuation Year | | | |
|--|---------|--------------|-------------------|
| Experience Period | Medical | Prescription | Weighting Factors |
| FY 2010 to FY 2011 | 13.0% | 9.6% | 10.0% |
| FY 2011 to FY 2012 | 8.1% | 4.5% | 20.0% |
| FY 2012 to FY 2013 | 8.3% | 5.1% | 40.0% |
| FY 2013 to FY 2014 | 8.9% | 7.1% | 30.0% |

5. Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts other than noted fees have been included in the valuation results.
 - Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

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- The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosure, Buck estimated the year in which the tax would potentially affect Alaska to be sufficiently far into the future to produce a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees. Patient-centered outcomes research fees and transitional reinsurance fees are included in the administration fees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

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June 30, 2013 Valuation – FY 2014 Claims Cost Rates

| | Medical | | |
|---|----------------------|-------------------------|------------------------|
| | Pre-Medicare | Medicare A&B | Medicare B Only |
| Fiscal 2010 Incurred Claims | \$233,601,103 | \$60,082,942 | \$1,421,948 |
| Membership | 32,026 | 27,915 | 156 |
| Paid Claims Cost Rate | \$7,294 | \$2,152 | \$9,115 |
| Trend to FY2014 | 1.441 | 1.441 | 1.441 |
| FY2014 Paid Cost Rate | \$10,514 | \$3,102 | \$13,138 |
| Provider Contracting Factor | 0.970 | 0.970 | 0.970 |
| FY 2014 Incurred Cost Rate | \$10,200 | \$3,010 | \$12,747 |
| Fiscal 2011 Incurred Claims | \$232,732,266 | \$55,615,233 | \$849,185 |
| Membership | 31,362 | 29,997 | 138 |
| Paid Claims Cost Rate | \$7,421 | \$1,854 | \$6,154 |
| Trend to FY2014 | 1.275 | 1.275 | 1.275 |
| FY2014 Paid Cost Rate | \$9,463 | \$2,364 | \$7,847 |
| Provider Contracting Factor | 0.970 | 0.970 | 0.970 |
| FY 2014 Incurred Cost Rate | \$9,181 | \$2,294 | \$7,613 |
| Fiscal 2012 Incurred Claims | \$233,633,045 | \$71,443,709 | \$1,586,219 |
| Membership | 29,500 | 33,631 | 208 |
| Paid Claims Cost Rate | \$7,920 | \$2,124 | \$7,626 |
| Trend to FY2014 | 1.180 | 1.180 | 1.180 |
| FY2014 Paid Cost Rate | \$9,343 | \$2,506 | \$8,997 |
| Provider Contracting Factor | 0.970 | 0.970 | 0.970 |
| FY 2014 Incurred Cost Rate | \$9,065 | \$2,431 | \$8,728 |
| Fiscal 2013 Incurred Claims | \$245,965,030 | \$75,299,373 | \$1,948,514 |
| Membership | 27,036 | 37,912 | 217 |
| Paid Claims Cost Rate | \$9,098 | \$1,986 | \$8,979 |
| Trend to FY2014 | 1.089 | 1.089 | 1.089 |
| FY2014 Paid Cost Rate | \$9,911 | \$2,164 | \$9,783 |
| Provider Contracting Factor | 0.970 | 0.970 | 0.970 |
| FY 2014 Incurred Cost Rate | \$9,616 | \$2,099 | \$9,491 |
| Weighted Average 7/1/2013-6/30/2014 Incurred Claims Cost Rates: | | | |
| At average age | \$9,367 | \$2,362 | \$9,136 |
| At age 65 | \$11,125 | \$1,726 | \$6,676 |

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June 30, 2013 Valuation – FY 2014 Claims Cost Rates (cont.)

| | Prescription Drugs | | | Total |
|---|---------------------|----------------------|------------------|----------------------|
| | Pre-Medicare | Medicare A&B | Medicare B Only | |
| Fiscal 2010 Incurred Claims | \$59,287,225 | \$69,463,204 | \$394,011 | \$424,250,433 |
| Membership | 32,026 | 27,915 | 156 | 60,097 |
| Paid Claims Cost Rate | \$1,851 | \$2,488 | \$2,526 | \$7,059 |
| Trend to FY2014 | 1.289 | 1.289 | 1.289 | |
| FY2014 Paid Cost Rate | \$2,387 | \$3,208 | \$3,256 | \$9,848 |
| Provider Contracting Factor | 0.993 | 0.993 | 0.993 | |
| FY2014 Incurred Cost Rate | \$2,370 | \$3,186 | \$3,233 | \$9,618 |
| Fiscal 2011 Incurred Claims | \$48,403,436 | \$85,633,319 | \$393,948 | \$423,627,387 |
| Membership | 31,362 | 29,997 | 138 | 61,497 |
| Paid Claims Cost Rate | \$1,543 | \$2,855 | \$2,855 | \$6,889 |
| Trend to FY2014 | 1.176 | 1.176 | 1.176 | |
| FY2014 Paid Cost Rate | \$1,816 | \$3,358 | \$3,358 | \$8,568 |
| Provider Contracting Factor | 0.993 | 0.993 | 0.993 | |
| FY2014 Incurred Cost Rate | \$1,803 | \$3,335 | \$3,335 | \$8,372 |
| Fiscal 2012 Incurred Claims | \$50,486,235 | \$95,369,339 | \$589,833 | \$453,108,380 |
| Membership | 29,500 | 33,631 | 208 | 63,339 |
| Paid Claims Cost Rate | \$1,711 | \$2,836 | \$2,836 | \$7,154 |
| Trend to FY2014 | 1.126 | 1.126 | 1.126 | |
| FY2014 Paid Cost Rate | \$1,927 | \$3,193 | \$3,193 | \$8,315 |
| Provider Contracting Factor | 0.993 | 0.993 | 0.993 | |
| FY2014 Incurred Cost Rate | \$1,913 | \$3,170 | \$3,170 | \$8,126 |
| Fiscal 2013 Incurred Claims | \$57,036,466 | \$107,792,216 | \$616,977 | \$488,658,576 |
| Membership | 27,036 | 37,912 | 217 | 65,165 |
| Paid Claims Cost Rate | \$2,110 | \$2,843 | \$2,843 | \$7,499 |
| Trend to FY2014 | 1.071 | 1.071 | 1.071 | |
| FY2014 Paid Cost Rate | \$2,259 | \$3,045 | \$3,045 | \$8,123 |
| Provider Contracting Factor | 0.993 | 0.993 | 0.993 | |
| FY2014 Incurred Cost Rate | \$2,244 | \$3,024 | \$3,024 | \$7,943 |
| Weighted Average 7/1/2013-6/30/2014 Incurred Claims Cost Rates: | | | | |
| At average age | \$2,036 | \$3,161 | \$3,166 | \$8,362 |
| At age 65 | \$2,621 | \$2,621 | \$2,621 | \$8,208 |

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Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare. Below are the results of this analysis:

**Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2013 through June 30, 2014**

| Age | Medical and Medicare Parts A & B | Medical and Medicare Part B Only | Prescription Drug | Medicare Retiree Drug Subsidy |
|------------|---|---|------------------------------|--|
| 45 | \$6,161 | \$6,161 | \$1,383 | \$ — |
| 50 | 6,971 | 6,971 | 1,642 | — |
| 55 | 7,887 | 7,887 | 1,950 | — |
| 60 | 9,367 | 9,367 | 2,261 | — |
| 65 | 1,726 | 6,676 | 2,621 | 502 |
| 70 | 2,100 | 8,122 | 2,824 | 541 |
| 75 | 2,493 | 9,645 | 3,012 | 577 |
| 80 | 2,686 | 10,390 | 3,088 | 591 |

Actuarial Section

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The demographic and economic assumptions used in the June 30, 2013 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed as of June 30, 2009.

1. Investment Return / Discount Rate 8.00% per year (geometric), compounded annually, net of expenses.
2. Salary Scale Inflation – 3.12% per year. Productivity – 0.5% per year. See Table 1 for salary scale rates.
3. Payroll Growth 3.62% per year. (Inflation + Productivity).
4. 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.
5. Mortality (Pre-termination)* Based upon the 2005-2009 actual experience. (See Table 2). 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from non-occupational causes 85% of the time.
6. Mortality (Post-termination)* Based upon the 2005-2009 actual experience. (See Table 3). The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and 4-year setback for males.
7. Turnover Select and ultimate rates based upon the 2005-2009 actual withdrawal experience. (See Table 4).
8. Disability Incidence rates based upon the 2005-2009 actual experience, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
9. Retirement Retirement rates based upon the 2005-2009 actual experience, in accordance with Table 6. Deferred vested members are assumed to retire at their earliest unreduced retirement date.
10. Marriage and Age Difference Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
11. 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.
12. Contribution Refunds 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.
13. COLA Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

*The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

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- | | | |
|-----|-----------------------------------|--|
| 14. | Sick Leave | 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired, terminates or dies. |
| 15. | Postretirement Pension Adjustment | 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic Postretirement Pension Adjustment (PRPA) as specified in the statute. |
| 16. | Expenses | All expenses are net of the investment return assumption. |
| 17. | Part-time Status | Part-time employees are assumed to earn 0.60 years of credited service per year. |
| 18. | Re-Employment Option | We assume all re-employed retirees return to work under the Standard Option. |
| 19. | Service | Total credited service is provided by the State. We assume that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes. |
| 20. | 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. |
| 21. | Per Capita Claims Cost | Sample claims cost rates adjusted to age 65 for FY14 medical benefits are shown below: |

| | Medical | Prescription drugs |
|----------------------|-----------|-----------------------|
| Pre-Medicare | \$ 11,125 | 2,621 |
| Medicare Parts A & B | 1,726 | 2,621 |
| Medicare Part B Only | 6,676 | 2,621 |
| Medicare Part D | N/A | 502 |

- | | | |
|-----|--------------------------------|---|
| 22. | Third Party Administrator Fees | \$177.57 per person per year; assumed trend rate of 5% per year. |
| 23. | Medicare Part B Only | For actives and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or re-hire |

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24. 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, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims costs.

| Fiscal year | Medical pre-65 | Medical post-65 | Prescription drugs |
|-------------|-------------------|--------------------|-----------------------|
| 2014 | 8.7% | 6.4% | 6.3% |
| 2015 | 8.5 | 6.3 | 6.2 |
| 2016 | 8.0 | 6.3 | 6.2 |
| 2017 | 7.5 | 6.2 | 6.1 |
| 2018 | 7.0 | 6.1 | 6.0 |
| 2019 | 6.6 | 6.1 | 5.8 |
| 2020 | 6.4 | 6.0 | 5.8 |
| 2025 | 6.0 | 6.0 | 5.8 |
| 2050 | 5.0 | 5.0 | 5.0 |
| 2100 | 4.5 | 4.5 | 4.5 |

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

25. 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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26. Retired Member Contributions for Medical Benefits

Currently contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY14 contributions based on monthly rates shown below for calendar 2013 and 2014 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 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

| Coverage category | Calendar 2014 | | Calendar 2013 |
|------------------------|---------------------|----------------------|----------------------|
| | Annual contribution | Monthly contribution | Monthly contribution |
| Retiree only | \$ 9,876 | 823 | 807 |
| Retiree and spouse | 19,764 | 1,647 | 1,615 |
| Retiree and child(ren) | 13,956 | 1,163 | 1,140 |
| Retiree and family | 23,844 | 1,987 | 1,948 |
| Composite | 14,676 | 1,223 | 1,200 |

27. Trend Rate for Retired Member Medical Contribution

The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 8.2% is applied to the FY14 retired member medical contributions to get the FY15 retired member medical contributions.

| | |
|--------------|------|
| Fiscal year: | |
| 2014 | 8.2% |
| 2015 | 8.0 |
| 2016 | 7.6 |
| 2017 | 7.2 |
| 2018 | 6.7 |
| 2019 | 6.4 |
| 2025 | 5.9 |
| 2050 | 5.0 |
| 2100 | 4.5 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2012 valuation. Note that actual FY14 retired member medical contributions are reflected in the valuation so trend on such contribution during FY14 is not applicable.

28. 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.

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Table 1
Alaska TRS
Salary Scale

| <u>Year of Employment</u> | <u>Unisex Rates</u> |
|---------------------------|---------------------|
| 1-6 | 6.11% |
| 7 | 5.94 |
| 8 | 5.78 |
| 9 | 5.61 |
| 10 | 5.44 |
| 11 | 5.28 |
| 12 | 5.11 |
| 13 | 4.94 |
| 14 | 4.78 |
| 15 | 4.61 |
| 16 | 4.45 |
| 17 | 4.28 |
| 18 | 4.11 |
| 19 | 3.95 |
| 20 | 3.78 |
| 21+ | 3.62 |

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Table 2
Alaska TRS Mortality Table (Pre-termination)

| Age | Male | Female |
|-----|--------|--------|
| 20 | 0.017% | 0.012% |
| 21 | 0.018 | 0.012 |
| 22 | 0.019 | 0.012 |
| 23 | 0.021 | 0.013 |
| 24 | 0.024 | 0.013 |
| 25 | 0.026 | 0.013 |
| 26 | 0.030 | 0.014 |
| 27 | 0.032 | 0.014 |
| 28 | 0.033 | 0.015 |
| 29 | 0.034 | 0.016 |
| 30 | 0.035 | 0.017 |
| 31 | 0.036 | 0.019 |
| 32 | 0.037 | 0.020 |
| 33 | 0.037 | 0.021 |
| 34 | 0.037 | 0.022 |
| 35 | 0.037 | 0.023 |
| 36 | 0.038 | 0.024 |
| 37 | 0.039 | 0.025 |
| 38 | 0.041 | 0.027 |
| 39 | 0.042 | 0.029 |
| 40 | 0.045 | 0.032 |
| 41 | 0.047 | 0.034 |
| 42 | 0.050 | 0.037 |
| 43 | 0.053 | 0.039 |
| 44 | 0.056 | 0.041 |
| 45 | 0.060 | 0.042 |
| 46 | 0.064 | 0.044 |
| 47 | 0.069 | 0.047 |
| 48 | 0.075 | 0.051 |
| 49 | 0.081 | 0.055 |
| 50 | 0.088 | 0.061 |
| 51 | 0.097 | 0.068 |
| 52 | 0.106 | 0.078 |
| 53 | 0.118 | 0.090 |
| 54 | 0.131 | 0.102 |
| 55 | 0.149 | 0.116 |
| 56 | 0.170 | 0.135 |
| 57 | 0.195 | 0.157 |
| 58 | 0.224 | 0.181 |
| 59 | 0.253 | 0.208 |
| 60 | 0.284 | 0.239 |
| 61 | 0.326 | 0.274 |
| 62 | 0.368 | 0.314 |
| 63 | 0.425 | 0.359 |
| 64 | 0.479 | 0.410 |

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Table 3
Alaska TRS Mortality Table (Post-termination)

| Age | Male | Female |
|-----|--------|--------|
| 50 | 0.142% | 0.085% |
| 51 | 0.153 | 0.092 |
| 52 | 0.166 | 0.100 |
| 53 | 0.181 | 0.111 |
| 54 | 0.196 | 0.124 |
| 55 | 0.215 | 0.143 |
| 56 | 0.235 | 0.163 |
| 57 | 0.263 | 0.185 |
| 58 | 0.291 | 0.212 |
| 59 | 0.331 | 0.246 |
| 60 | 0.377 | 0.285 |
| 61 | 0.433 | 0.328 |
| 62 | 0.499 | 0.378 |
| 63 | 0.561 | 0.434 |
| 64 | 0.631 | 0.498 |
| 65 | 0.725 | 0.570 |
| 66 | 0.819 | 0.653 |
| 67 | 0.944 | 0.745 |
| 68 | 1.064 | 0.844 |
| 69 | 1.196 | 0.948 |
| 70 | 1.362 | 1.052 |
| 71 | 1.512 | 1.150 |
| 72 | 1.634 | 1.242 |
| 73 | 1.787 | 1.342 |
| 74 | 1.915 | 1.434 |
| 75 | 2.094 | 1.583 |
| 76 | 2.298 | 1.726 |
| 77 | 2.518 | 1.918 |
| 78 | 2.748 | 2.094 |
| 79 | 3.061 | 2.338 |
| 80 | 3.361 | 2.669 |
| 81 | 3.788 | 2.985 |
| 82 | 4.292 | 3.327 |
| 83 | 4.868 | 3.707 |
| 84 | 5.510 | 4.136 |
| 85 | 6.214 | 4.625 |

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Table 4
Alaska TRS Turnover Assumptions
Select Rates of Turnover During the First 8 Years of Employment:

| <u>Year of Employment</u> | <u>Unisex Rate</u> |
|---------------------------|--------------------|
| 1 | 17.00% |
| 2 | 17.00 |
| 3 | 14.00 |
| 4 | 12.00 |
| 5 | 10.00 |
| 6 | 9.00 |
| 7 | 7.50 |
| 8 | 6.00 |

Ultimate Rates of Turnover
After the First 8 Years of Employment

| <u>Age</u> | <u>Male</u> | <u>Female</u> | <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|------------|-------------|---------------|
| 15 | 4.4584% | 4.3747% | 40 | 4.3189% | 4.2658% |
| 16 | 4.4528 | 4.3714 | 41 | 4.3065 | 4.2559 |
| 17 | 4.4483 | 4.3692 | 42 | 4.2908 | 4.2460 |
| 18 | 4.4438 | 4.3681 | 43 | 4.2762 | 4.2372 |
| 19 | 4.4415 | 4.3670 | 44 | 4.2570 | 4.2262 |
| 20 | 4.4067 | 4.3351 | 45 | 4.2357 | 4.2130 |
| 21 | 4.4044 | 4.3351 | 46 | 4.2132 | 4.2009 |
| 22 | 4.3999 | 4.3340 | 47 | 4.1850 | 4.1844 |
| 23 | 4.3965 | 4.3340 | 48 | 4.1524 | 4.1657 |
| 24 | 4.3909 | 4.3329 | 49 | 4.1187 | 4.1470 |
| 25 | 4.3864 | 4.3329 | 50 | 4.0804 | 4.1250 |
| 26 | 4.3819 | 4.3318 | 51 | 4.0354 | 4.0997 |
| 27 | 4.3774 | 4.3307 | 52 | 3.9825 | 4.0700 |
| 28 | 4.3729 | 4.3274 | 53 | 3.9240 | 4.0348 |
| 29 | 4.3684 | 4.3241 | 54 | 3.8588 | 3.9974 |
| 30 | 4.3650 | 4.3208 | 55 | 3.7845 | 3.9523 |
| 31 | 4.3628 | 4.3186 | 56 | 3.6945 | 3.8940 |
| 32 | 4.3594 | 4.3142 | 57 | 3.5843 | 3.8192 |
| 33 | 4.3572 | 4.3109 | 58 | 3.4639 | 3.7345 |
| 34 | 4.3560 | 4.3065 | 59 | 3.3188 | 3.6267 |
| 35 | 4.3538 | 4.3021 | 60 | 3.1557 | 3.5046 |
| 36 | 4.3504 | 4.2955 | 61 | 2.9745 | 3.3682 |
| 37 | 4.3459 | 4.2900 | 62 | 2.7642 | 3.2131 |
| 38 | 4.3380 | 4.2823 | 63 | 2.5245 | 3.0360 |
| 39 | 4.3290 | 4.2746 | 64 | 2.2647 | 2.8435 |
| | | | 65+ | 4.5000 | 4.4000 |

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Table 5
Alaska TRS Disability Table

| Age | Male | Female |
|------------|-------------|---------------|
| 20 | 0.0224% | 0.0202% |
| 21 | 0.0224 | 0.0202 |
| 22 | 0.0232 | 0.0209 |
| 23 | 0.0232 | 0.0209 |
| 24 | 0.0240 | 0.0216 |
| 25 | 0.0240 | 0.0216 |
| 26 | 0.0240 | 0.0216 |
| 27 | 0.0248 | 0.0223 |
| 28 | 0.0256 | 0.0230 |
| 29 | 0.0264 | 0.0238 |
| 30 | 0.0272 | 0.0245 |
| 31 | 0.0272 | 0.0245 |
| 32 | 0.0280 | 0.0252 |
| 33 | 0.0288 | 0.0259 |
| 34 | 0.0296 | 0.0266 |
| 35 | 0.0304 | 0.0274 |
| 36 | 0.0320 | 0.0288 |
| 37 | 0.0328 | 0.0295 |
| 38 | 0.0344 | 0.0310 |
| 39 | 0.0352 | 0.0317 |
| 40 | 0.0368 | 0.0331 |
| 41 | 0.0384 | 0.0346 |
| 42 | 0.0408 | 0.0367 |
| 43 | 0.0432 | 0.0389 |
| 44 | 0.0472 | 0.0425 |
| 45 | 0.0520 | 0.0468 |
| 46 | 0.0560 | 0.0504 |
| 47 | 0.0608 | 0.0547 |
| 48 | 0.0664 | 0.0598 |
| 49 | 0.0712 | 0.0641 |
| 50 | 0.0768 | 0.0691 |
| 51 | 0.0832 | 0.0749 |
| 52 | 0.0912 | 0.0821 |
| 53 | 0.1016 | 0.0914 |
| 54 | 0.1136 | 0.1022 |
| 55 | 0.1280 | 0.1152 |
| 56 | 0.1472 | 0.1325 |
| 57 | 0.1712 | 0.1541 |
| 58 | 0.1952 | 0.1757 |
| 59 | 0.2304 | 0.2074 |
| 60 | 0.2696 | 0.2426 |
| 61 | 0.3120 | 0.2808 |
| 62 | 0.3616 | 0.3254 |
| 63 | 0.4176 | 0.3758 |
| 64 | 0.4768 | 0.4291 |

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Table 6
Alaska TRS Retirement Table

| Age at Retirement | Retirement Rate | | |
|-------------------|-----------------|-----------|--------|
| | Reduced | Unreduced | |
| | Unisex Rates | Male | Female |
| <50 | N/A | 10.00% | 10.00% |
| 50 | 8.00% | 13.00 | 13.00 |
| 51 | 8.00 | 12.00 | 12.00 |
| 52 | 8.00 | 12.00 | 12.00 |
| 53 | 6.00 | 13.00 | 13.00 |
| 54 | 12.00 | 16.00 | 16.00 |
| 55 | 8.00 | 18.00 | 20.00 |
| 56 | 8.00 | 17.00 | 15.00 |
| 57 | 8.00 | 13.00 | 17.50 |
| 58 | 8.00 | 17.50 | 18.00 |
| 59 | 12.00 | 15.00 | 17.50 |
| 60 | N/A | 17.50 | 20.00 |
| 61 | N/A | 17.50 | 20.00 |
| 62 | N/A | 11.00 | 25.00 |
| 63 | N/A | 20.00 | 25.00 |
| 64 | N/A | 25.00 | 20.00 |
| 65 | N/A | 30.00 | 20.00 |
| 66 | N/A | 25.00 | 20.00 |
| 67 | N/A | 25.00 | 20.00 |
| 68 | N/A | 25.00 | 20.00 |
| 69 | N/A | 25.00 | 20.00 |
| 70-84 | N/A | 50.00 | 50.00 |
| 85 | N/A | 100.00 | 100.00 |

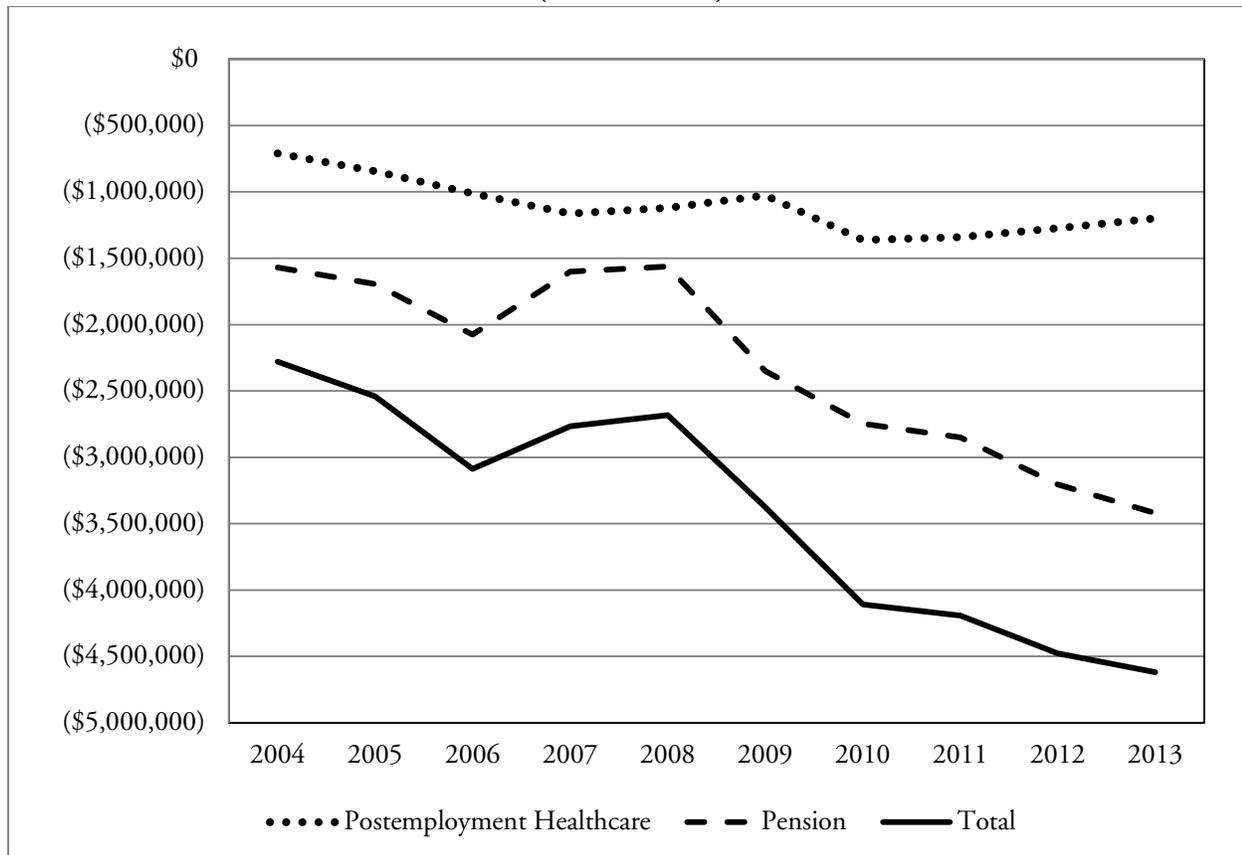
Changes in Actuarial Assumptions Since the Prior Valuation

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

Actuarial Section

| Teachers' Retirement System Defined Benefit Retirement Plan Funding Excess/(Unfunded Liability) (In thousands) | | | | |
|--|---------------------------|----------------|---|--------------|
| Actuarial Valuation Year Ended June 30 | Postemployment Healthcare | Pension | Total Funding Excess/(Unfunded Liability) | Funded Ratio |
| 2004 | \$ (709,527) | \$ (1,568,703) | \$ (2,278,230) | 62.8% |
| 2005 | (845,674) | (1,693,934) | (2,539,608) | 60.9 |
| 2006 | (1,012,540) | (2,075,617) | (3,088,157) | 57.3 |
| 2007 | (1,163,423) | (1,601,581) | (2,765,004) | 61.5 |
| 2008 | (1,120,634) | (1,561,568) | (2,682,202) | 64.8 |
| 2009 | (1,026,288) | (2,348,268) | (3,374,556) | 57.0 |
| 2010 | (1,361,547) | (2,747,113) | (4,108,660) | 53.6 |
| 2011 | (1,340,703) | (2,850,155) | (4,190,858) | 54.1 |
| 2012 | (1,272,507) | (3,204,783) | (4,477,290) | 52.1 |
| 2013 | (1,198,791) | (3,419,240) | (4,618,031) | 51.9 |

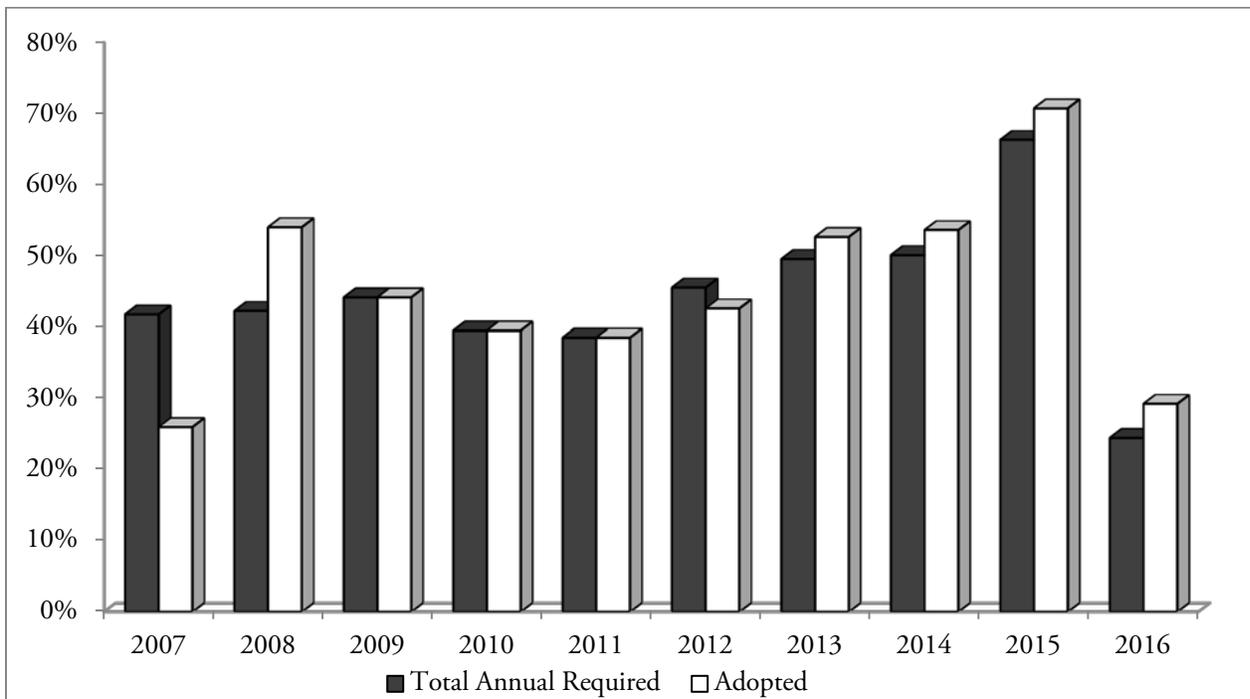
**10-YEAR TREND OF UNFUNDED LIABILITY
(In thousands)**



| Teachers' Retirement System Defined Benefit Retirement Plan Employer Contribution Rates | | | | | |
|---|--|-----------------------------|-----------------|-----------------------------|--------------------|
| Year Ended June 30 | Actuarially Determined | | | | Adopted |
| | Actuarial Valuation Year Ended June 30 | Normal Cost ¹ | Past Service | Total Annual Required | |
| 2007 | 2004 | 13.76% | 28.02% | 41.78% | 26.00% |
| 2008 | 2005 | 12.56 | 29.70 | 42.26 | 54.03 ² |
| 2009 | 2006 | 9.37 | 34.80 | 44.17 | 44.17 |
| 2010 | 2007 | 7.59 | 31.94 | 39.53 | 39.53 |
| 2011 | 2008 | 7.56 | 31.00 | 38.56 | 38.56 |
| 2012 | 2009 | 6.57 | 36.04 | 42.61 | 45.55 |
| 2013 | 2010 | 7.47 | 42.09 | 49.56 | 52.67 |
| 2014 | 2011 | 6.59 | 43.51 | 50.10 | 53.62 |
| 2015 | 2012 | 6.40 | 59.91 | 66.31 | 70.75 |
| 2016 | 2013 | 4.64 | 19.84 | 24.48 | 29.27 |

¹ Also referred to as the consolidated rate.
² The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.
 Valuations are used to set contribution rates in future years.

10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



Actuarial Section

| Teachers' Retirement System Defined Benefit Retirement Plan Schedule of Active Member Valuation Data | | | | | |
|--|--------|-----------------------------------|----------------------------|--|---|
| Valuation Date | Number | Annual Earnings (In thousands) | Annual Average Earnings | Percent Increase In Average Earnings | Number of Participating Employers |
| June 30, 2013 | 6,352 | \$504,260 | \$79,386 | 2.6% | 58 |
| June 30, 2012 | 6,845 | 529,468 | 77,351 | 3.6 | 58 |
| June 30, 2011 | 7,303 | 545,155 | 74,648 | 3.5 | 58 |
| June 30, 2010 | 7,832 | 564,887 | 72,125 | 6.5 | 58 |
| June 30, 2009 | 8,226 | 557,026 | 67,715 | 5.2 | 58 |
| June 30, 2008 | 8,531 | 549,148 | 64,371 | 5.8 | 58 |
| June 30, 2007 | 9,107 | 554,245 | 60,859 | 2.9 | 58 |
| June 30, 2006 | 9,710 | 574,409 | 59,156 | 6.6 | 58 |
| June 30, 2005 | 9,656 | 535,837 | 55,493 | 2.9 | 58 |
| June 30, 2004 | 9,688 | 522,421 | 53,925 | 0.0 | 58 |

| Teachers' Retirement System Defined Benefit Retirement Plan Schedule of Pension Benefit Recipients Added to and Removed from Rolls | | | | | | | | |
|--|----------------|----------------------------|--------------------|----------------------------|---------------------|---------------------------|---|-----------------------------------|
| Year Ended | Added to Rolls | | Removed from Rolls | | Rolls – End of Year | | Percent Increase /(Decrease) In Annual Pension Allowances | Average Annual Pension Allowances |
| | No.* | Annual Pension Allowances* | No.* | Annual Pension Allowances* | No. | Annual Pension Allowances | | |
| June 30, 2013 | 576 | \$19,387,542 | 172 | \$1,652,575 | 11,705 | \$396,159,703 | 4.69% | \$33,845 |
| June 30, 2012 | 473 | 17,104,564 | 188 | (617,561) | 11,301 | 378,424,736 | 4.91 | 33,486 |
| June 30, 2011 | 564 | 19,546,369 | 146 | 1,464,766 | 11,016 | 360,702,611 | 5.28 | 32,744 |
| June 30, 2010 | 533 | 16,980,817 | 190 | 5,495,399 | 10,598 | 342,621,008 | 3.47 | 32,329 |
| June 30, 2009 | 368 | 9,788,639 | 139 | (2,857,118) | 10,255 | 331,135,590 | 3.97 | 32,290 |
| June 30, 2008 | 481 | 14,265,236 | 133 | 806,945 | 10,026 | 318,489,833 | 4.41 | 31,766 |
| June 30, 2007 | 432 | 12,388,703 | 140 | (14,114,559) | 9,678 | 305,031,542 | 9.52 | 31,518 |
| June 30, 2006 | 487 | 12,731,292 | 121 | (50,838) | 9,386 | 278,528,280 | 4.81 | 29,675 |
| June 30, 2005 | 446 | 11,243,448 | 133 | 13,053,612 | 9,020 | 265,746,150 | (0.68) | 29,462 |
| June 30, 2004 | 491 | 17,867,366 | 96 | 5,503,666 | 8,707 | 267,556,314 | 4.84 | 30,729 |

*Numbers are estimated, and include other internal transfers.

| Teachers' Retirement System Defined Benefit Retirement Plan Pension Solvency Test (In thousands) | | | | | | | |
|--|--|-------------------------|---|--------------------------|---|-------|-----|
| Valuation Date | Pension Aggregate Accrued Liability For: | | | Pension Valuation Assets | Portion of Accrued Liabilities Covered by Assets: | | |
| | (1) Active Member Contributions | (2) Inactive Members | (3) Active Members (Employer-Financed Portion) | | (1) | (2) | (3) |
| June 30, 2013 | \$726,139 | \$4,726,282 | \$1,137,132 | \$3,170,313 | 100.0% | 51.7% | — % |
| June 30, 2012 | 727,435 | 4,532,982 | 1,139,360 | 3,194,994 | 100.0 | 54.4 | — |
| June 30, 2011 | 717,819 | 4,352,035 | 1,126,250 | 3,345,949 | 100.0 | 60.4 | — |
| June 30, 2010 ¹ | 716,675 | 4,153,119 | 1,137,187 | 3,259,868 | 100.0 | 61.2 | — |
| June 30, 2009 | 692,105 | 3,815,020 | 956,862 | 3,115,719 | 100.0 | 63.5 | — |
| June 30, 2008 | 654,662 | 3,700,812 | 876,180 | 3,670,086 | 100.0 | 81.5 | — |
| June 30, 2007 | 638,420 | 3,567,894 | 837,134 | 3,441,867 | 100.0 | 78.6 | — |
| June 30, 2006 ^{1 2} | 615,207 | 3,432,703 | 811,426 | 3,296,934 | 100.0 | 78.1 | — |
| ¹ Change in Assumptions ² Change in Methods | | | | | | | |

Actuarial Section

| Teachers' Retirement System Defined Benefit Retirement Plan Postemployment Healthcare Solvency Test (In thousands) | | | | | | | |
|--|--|-------------------------|---|---|---|-------|-----|
| Valuation Date | Postemployment Healthcare Aggregate Accrued Liability For: | | | Post-Employment Healthcare Valuation Assets | Portion of Accrued Liabilities Covered by Assets: | | |
| | (1) Active Member Contributions | (2) Inactive Members | (3) Active Members (Employer-Financed Portion) | | (1) | (2) | (3) |
| June 30, 2013 | \$ — | \$2,012,114 | \$990,440 | \$1,803,863 | 100.0% | 89.6% | — % |
| June 30, 2012 | — | 1,933,288 | 1,013,379 | 1,674,160 | 100.0 | 86.6 | — |
| June 30, 2011 | — | 1,879,564 | 1,053,127 | 1,591,988 | 100.0 | 84.7 | — |
| June 30, 2010 ¹ | — | 1,755,961 | 1,084,846 | 1,479,260 | 100.0 | 84.2 | — |
| June 30, 2009 | — | 1,477,788 | 905,739 | 1,357,239 | 100.0 | 91.8 | — |
| June 30, 2008 ¹ | — | 1,480,864 | 906,660 | 1,266,890 | 100.0 | 85.6 | — |
| June 30, 2007 | — | 1,344,131 | 801,824 | 982,532 | 100.0 | 73.1 | — |
| June 30, 2006 ^{1 2} | — | 1,493,219 | 877,296 | 844,766 | 100.0 | 56.6 | — |

Healthcare liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy).

¹ Change in Assumptions
² Change in Methods

| Teachers' Retirement System Defined Benefit Retirement Plan Analysis of Financial Experience | | | | | |
|--|---|---------------|---------------|---------------|---------------|
| Change in Employer/State Contribution Rate Due to (Gains) and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience | | | | | |
| Type of (Gain) or Loss | Change in Employer/State Contribution Rate During Fiscal Year | | | | |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Health Experience | (1.21)% | (2.02)% | (0.72)% | 0.19% | (2.67)% |
| Salary Experience | (0.30) | — | (0.03) | 0.59 | 0.29 |
| Investment Experience | 2.44 | 4.18 | (0.46) | 0.05 | 7.23 |
| Demographic Experience | 0.38 | (0.36) | (0.03) | (0.75) | (0.54) |
| Contribution Shortfall | 1.62 | 0.71 | 0.86 | 0.01 | (0.26) |
| (Gain) or Loss During Year From Experience | 2.93 | 2.51 | 0.54 | 0.09 | 4.05 |
| Non-recurring changes | | | | | |
| Asset Valuation Method | — | — | — | — | — |
| Past Service Amortization Change | — | 13.07 | — | — | — |
| Assumption and Method Changes | — | 0.63 | — | 6.86 | — |
| System Benefit Changes | — | — | — | — | — |
| Composite (Gain) or Loss During Year | 2.93 | 16.21 | 0.54 | 6.95 | 4.05 |
| Beginning Total Employer/State Contribution Rate | 66.31 | 50.10 | 49.56 | 42.61 | 38.56 |
| Ending Total Employer/State Contribution Rate | 69.24 | 66.31 | 50.10 | 49.56 | 42.61 |
| Board Adopted Contribution Rate | <u>24.48%</u> | <u>70.75%</u> | <u>53.62%</u> | <u>52.67%</u> | <u>45.55%</u> |
| Fiscal Year Above Rate is Applied | FY16 | FY15 | FY14 | FY13 | FY12 |

NOTE: In the second session of the 28th Alaska legislature, the legislature changed the actuarial methodology from level dollar amortization to level percent of pay. The June 30, 2013 PERS actuarial valuation report was not updated for this change, but specific revisions for the amortization change were presented to reflect the change in amortization. The change in the amortization resulted in an adjusted FY 16 employer/state contribution rate of 24.48%.

Actuarial Section

| Teachers' Retirement System Defined Benefit Retirement Plan Analysis of Financial Experience | | | | | | |
|---|--|---------------|---------------|-------------------|---------------|---------------|
| Change in Employer/State Contribution Rate Due to (Gains) and Losses in Accrued Liabilities During the Last Three Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience | | | | | | |
| Type of (Gain) or Loss | Change in Employer/State Contribution Rate During Fiscal Year | | | | | |
| | Pension | | | Healthcare | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Health Experience | N/A | N/A | N/A | (1.21)% | (2.02)% | (0.72)% |
| Salary Experience | (0.30)% | —% | (0.03)% | N/A | N/A | N/A |
| Investment Experience | 2.09 | 3.47 | 0.18 | 0.35 | 0.71 | 0.28 |
| Demographic Experience | 0.38 | (0.36) | (0.03) | N/A | N/A | N/A |
| Contribution Shortfall | 1.34 | 0.52 | 0.75 | 0.28 | 0.19 | (0.11) |
| (Gain) or Loss During Year From Experience | 3.51 | 3.63 | 0.87 | (0.58) | (1.12) | (0.33) |
| Non-recurring changes | | | | | | |
| Asset Valuation Method | — | — | — | — | — | — |
| Past Service Amortization Change | — | 9.52 | — | — | 3.55 | — |
| Assumption and Method Changes | — | — | — | — | 0.63 | — |
| System Benefit Changes | — | — | — | — | — | — |
| Composite (Gain) or Loss During Year | 3.51 | 13.15 | 0.87 | (0.58) | 3.06 | (0.33) |
| Beginning Total Employer/State Contribution Rate | 44.55 | 31.40 | 30.53 | 21.76 | 18.70 | 19.03 |
| Ending Total Employer/State Contribution Rate | <u>48.06%</u> | <u>44.55%</u> | <u>31.40%</u> | <u>21.18%</u> | <u>21.76%</u> | <u>18.70%</u> |
| Fiscal Year Above Rate is Applied | FY16 | FY15 | FY14 | FY16 | FY15 | FY14 |

State of Alaska
Teachers' Retirement System
Defined Benefit Retirement Plan
Summary of Plan Provisions and Changes in Plan Provisions

1. Effective Date

July 1, 1955, with amendments through June 30, 2013. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990 (Tier 1) are eligible for different benefits than members hired after June 30, 1990 (Tier 2). Chapter 9, 2005 Session Laws of Alaska, closed the plan to new members hired after June 30, 2006.

2. Administration of Plan

The Commissioner of Administration or the Commissioner's designee is the administrator of the system. The Attorney General of the state is the legal counsel for the system and shall advise the administrator and represent the system in legal proceedings.

Prior to June 30, 2005, the Teachers' Retirement Board prescribed policies and adopted regulations and performed other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division was responsible for investing TRS funds.

On July 27, 2005, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

3. Employers Included

Currently, there are 58 employers participating in the TRS, including the State of Alaska, 53 school districts, and four other eligible organizations.

4. Membership

Membership in the Alaska TRS is mandatory for the following employees hired before July 1, 2006:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development and the Department of Labor and Workforce Development;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for worker's compensation benefits due to an on-the-job assault and who, as a result of the physical injury, is placed on leave without pay.

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

State of Alaska
Teachers' Retirement System
Defined Benefit Retirement Plan
Summary of Plan Provisions and Changes in Plan Provisions

Employees who work half-time in the TRS and Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

Senate Bill 141, signed into law on July 27, 2005, closes the plan effective July 1, 2006 to new members first hired on or after July 1, 2006.

5. Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Part-time members who work at least 50% of full-time receive membership credit for each day in proportion to full-time service. Credit is granted for all Alaskan public school service.

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;
- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;
- Unused sick leave credit after members retire; and
- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

Survivors who are receiving occupational death benefits continue to earn TRS service credit while occupational survivor benefits are being paid.

6. Employer Contributions

TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

The normal cost rate is a uniform rate for all participating employers (less the value of members' contributions).

The past service rate is a uniform rate for all participating employers to amortize the unfunded past service liability with payments that are a level dollar amount over fixed 25-year periods.

Employer rates cannot be less than the normal cost rate.

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7. Additional State Contribution

Pursuant to AS14.25.070 effective July 1, 2008, the State shall contribute an amount (in addition to the State contribution as an employer) that when combined with the employer contribution (12.56% of total DB and DCR payroll, less employer contributions to DCR) will be sufficient to pay the total contribution rate adopted by The State of Alaska Retirement Management Board.

8. Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (5) above.

1% Supplemental Contributions: Members who joined the system before July 1, 1982 and elected to participate in the supplemental contributions provision are required to contribute an additional 1% of their salaries. Supplemental contributions are deducted from gross salaries after federal income taxes are withheld. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies (see 13 below). Supplemental contributions are only refundable upon death (see 13 below).

Interest: Members' contributions earn 4.5% interest, compounded annually on June 30.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid Qualified Domestic Relations Orders.

Reinstatement of Contributions: Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS prior to July 1, 2010. Interest accrues on refunds until paid in full or members retire.

9. Retirement Benefits

Eligibility:

- a. Members, including deferred vested members, are eligible for normal retirement at age 55 or early retirement at age 50 if they were hired before July 1, 1990 (Tier 1) and age 60 or early retirement at age 55 if they were hired on or after July 1, 1990 (Tier 2). Additionally, they must have at least:
 - i. eight years of paid-up membership service;
 - ii. 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;
 - iii. five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;
 - iv. 12 years of combined part-time and full-time paid-up membership service;

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Summary of Plan Provisions and Changes in Plan Provisions

- v. two years of paid-up membership service if they are vested in the Public Employees' Retirement System (PERS); or
 - vi. one year of paid-up membership service if they are retired from the PERS.
- b. Members may retire at any age when they have:
- i. 25 years of paid-up creditable service, the last five years of which are membership service;
 - ii. 20 years of paid-up membership service;
 - iii. 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or
 - iv. 20 years of combined paid-up part-time and full-time membership service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may select joint and survivor options and a last survivor option. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990 is calculated at 2%.

Indebtedness: Members who terminate and refund their TRS contributions are not eligible to retire unless they return to TRS employment and pay back their refunds plus interest or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life. Indebtedness balances may also be created when a member purchases qualified claimed service.

10. Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement are eligible to return under the Standard Option.

Under the Standard Option, retirement and retiree healthcare benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

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Summary of Plan Provisions and Changes in Plan Provisions

Members retired under the RIP who return to employment under the TRS, Public Employees' Retirement System (PERS), Judicial Retirement System (JRS) or the University of Alaska's Optional Retirement Plan will:

- a. forfeit the three years of incentive credits that they received;
- b. owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and
- c. be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

11. Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990 (Tier 1) and their surviving spouses and (2) members and their surviving spouses who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 (Tier 2) and their surviving spouses may receive major medical benefits prior to age sixty by paying premiums.

12. Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

Members are appointed to normal retirement on the first of the month after they become eligible.

13. Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

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Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

Lump Sum Benefit: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service or is vested, the beneficiary also receives \$1,000 and \$100 for each year of TRS service, up to a maximum of \$3,000. An additional \$500 may be payable if the member is survived by dependent children.

Supplemental Contributions Provision: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

- a. **Survivor's Allowance:** If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.
- b. **Spouse's Pension:** The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or the unreduced retirement benefit that the deceased member would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.
- c. **Death After Retirement:** If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check.

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14. Postretirement Pension Adjustments

Postretirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) for urban wage earners and clerical workers for Anchorage increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, excluding the Alaska COLA, times:

- a. 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or
- b. 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990 (Tier 1) if the CPI increases and the funding ratio is at least 105%.

In a year where an Ad Hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

15. Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits. The following benefit recipients are eligible:

- a. members who were first hired under the TRS before July 1, 1990 (Tier 1) and their survivors;
- b. members who were first hired under the TRS after June 30, 1990 (Tier 2) and their survivors if they are at least age 65; and
- c. all disabled members.

Changes in Benefit Provisions Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation.

August 22, 2014

State of Alaska
The Alaska Retirement Management Board
The Department of Revenue, Treasury Division
The Department of Administration, Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Certification of Actuarial Valuation

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

This report summarizes the annual actuarial valuation results of the State of Alaska Teachers' Retirement System Defined Contribution Retirement (TRS DCR) Plan as of June 30, 2013 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2013. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Buck Consultants, LLC is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of the Plan.

The State of Alaska Teachers' Retirement System DCR Plan is funded by Employer Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the State of Alaska Teachers' Retirement System DCR Plan is to pay required contributions that remain level as a percent of TRS DCR Compensation. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of TRS DCR Compensation over a closed 25-year period. This objective is currently being met and is projected to continue to be met.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the Plan. The actuary performs an analysis of Plan experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last full experience analysis was performed in 2010. A review of the healthcare assumptions was performed for last year's actuarial valuation and changes were made to the healthcare cost trend rates and the per capita claims cost rates, effective June 30, 2012, to better reflect expected future healthcare experience. Changes were also made to expected healthcare benefit participation, lower initial relative values of DCR healthcare, and increased employer sharing of medical cost trend as a result of recent plan decision discussions. Based on updated experience, these assumptions are still reasonable. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in this report.

The assumptions and methods used to determine the Annual Required Contributions (ARC) of the Employers to the State of Alaska Teachers' Retirement System DCR Plan as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Based on member data and asset information provided by the Division of Retirement and Benefits, we have prepared the Schedule of Funding Progress, Schedule of Employer Contributions, and trend data schedules under GASB Nos. 25 and 43 that are included in the Financial Section of the CAFR. We have also prepared the member data tables shown in Section 4 of this report for the Statistical Section of the CAFR, and the summary of actuarial assumptions and solvency test for the Actuarial Section of the CAFR.

The undersigned is an Enrolled Actuary, an Associate of the Society of Actuaries and Member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

Respectfully submitted,

BUCK CONSULTANTS, LLC



David H. Slisinsky, ASA, EA, MAAA, FCA
Principal, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries



Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

Actuarial Section

State of Alaska
Teachers' Retirement System
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Summary of Actuarial Methods and Valuation Procedures

The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was implemented effective June 30, 2006.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

Valuation of Liabilities

A. Actuarial Method – Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses 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.

Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for death and disability benefits (constant dollar amount for retiree medical benefits), from the assumed entry age to the last age with a future benefit were applied to the projected benefits to determine the normal cost (the portion of the total cost of the Plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total DCR Plan payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the Plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for beneficiaries and disabled members currently receiving benefits (if any) was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

The actuarial accrued liability under this method at any point in time is the theoretical amount of the fund that would have been accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of plan assets measured on the valuation date.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

B. Valuation of Assets

Effective June 30, 2006, the asset valuation method 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 were \$0 as of June 30, 2006. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the fair value of assets.

State of Alaska
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C. Valuation of Retiree Medical Benefits

The methodology used for the valuation of the retiree medical benefits is described in Section 6.2(c) of the State of Alaska Teachers' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2013.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for TRS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include network steerage, 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, FY12 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.

No implicit subsidies are assumed. Employees projected to retire with 30 years of service prior to Medicare are valued with commencement deferred to Medicare eligibility, as such members will be required to pay the full plan premium. Explicit subsidies for disabled and normal retirement are determined using the plan-defined percentages of total projected plan costs, again with no implicit subsidy assumed.

Healthcare Reform

Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact due to the following provisions; however, only the Patient Centered Outcomes Research Institute fee impact has been included in the valuation results as part of the administrative fee.

Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We did look at the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosure Buck estimated the year in which the tax would potentially affect Alaska to be sufficiently far into the future to produce a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

Changes in Methods From the Prior Valuation

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

State of Alaska
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Summary of Actuarial Assumptions and Changes in Assumptions

The demographic and economic assumptions used in the June 30, 2013 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed for the DB Plan as of June 30, 2009.

1. Investment Return / Discount Rate 8.00% per year (geometric), compounded annually, net of expenses.
2. Salary Scale Inflation – 3.12% per year. Productivity – 0.5% per year. See Table 1 for salary scale rates.
3. Payroll Growth 3.62% per year.
4. 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.
5. Mortality (Pre-termination)* Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 2) 55% of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 45% for males. 15% of deaths are assumed to result from occupational causes.
6. Mortality (Post-termination)* Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 3). 3-year setback of the 1994 GAM Table, 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 4-year setback for males.
7. Turnover Select rates were estimated and ultimate rates were set to the TRS DB Plan's rate loaded by 10%. (See Table 4).
8. Disability Incidence rates based upon the 2005-2009 actual experience of the TRS DB Plan, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.
9. Retirement Retirement rates were estimated in accordance with Table 6.
10. Marriage and Age Difference Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
11. Part-time Status Part-time employees are assumed to earn 0.60 years of credited service per year.
12. Expenses All expenses are net of the investment return assumption.

*The mortality assumptions include an allowance for future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

State of Alaska
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Summary of Actuarial Assumptions and Changes in Assumptions

13. Per Capita Claims Cost

Sample claims cost rates adjusted to age 65 for FY14 medical benefits are shown below:

| | Medical | Prescription drugs |
|----------------------|----------------|---------------------------|
| Pre-Medicare | \$ 11,125 | 2,621 |
| Medicare Parts A & B | 1,726 | 2,621 |
| Medicare Part B Only | 6,676 | 2,621 |
| Medicare Part D | N/A | 502 |

14. Third Party Administrator Fees

\$177.57 per person per year; assumed trend rate of 5% per year.

15. 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 are applied to the per capita claims cost rates above:

- 0.881 for the medical plan.
- 0.929 for the prescription drug plan.
- 0.998 for the annual indexing of member cost sharing.

16. 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, 8.7% is applied to the FY14 pre-Medicare medical claims costs to get the FY15 medical claims costs.

| Fiscal year | Medical pre-65 | Medical post-65 | Prescription drugs |
|--------------------|-----------------------|------------------------|---------------------------|
| 2014 | 8.7% | 6.4% | 6.3% |
| 2015 | 8.5 | 6.3 | 6.2 |
| 2016 | 8.0 | 6.3 | 6.2 |
| 2017 | 7.5 | 6.2 | 6.1 |
| 2018 | 7.0 | 6.1 | 6.0 |
| 2019 | 6.6 | 6.1 | 5.8 |
| 2020 | 6.4 | 6.0 | 5.8 |
| 2025 | 6.0 | 6.0 | 5.8 |
| 2050 | 5.0 | 5.0 | 5.0 |
| 2100 | 4.5 | 4.5 | 4.5 |

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

Actuarial Section

State of Alaska
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Summary of Actuarial Assumptions and Changes in Assumptions

17. Aging Factors

| <u>Age</u> | <u>Medical</u> | <u>Prescription drugs</u> |
|------------|----------------|---------------------------|
| 0-44 | 2.0% | 4.5% |
| 45-54 | 2.5 | 3.5 |
| 55-64 | 3.5 | 3.0 |
| 65-73 | 4.0 | 1.5 |
| 74-83 | 1.5 | 0.5 |
| 84-95 | 0.5 | — |
| 94 + | — | — |

18. Retiree Medical Participation

| <u>Decrement due to disability</u> | | <u>Decrement due to retirement</u> | |
|------------------------------------|------------------------------|------------------------------------|------------------------------|
| <u>Age</u> | <u>Percent participation</u> | <u>Age</u> | <u>Percent participation</u> |
| <56 | 73.00% | <55 | 40.00% |
| 56 | 77.50 | 56 | 50.00 |
| 57 | 79.75 | 57 | 55.00 |
| 58 | 82.00 | 58 | 60.00 |
| 59 | 84.25 | 59 | 65.00 |
| 60 | 86.50 | 60 | 70.00 |
| 61 | 88.75 | 61 | 75.00 |
| 62 | 91.00 | 62 | 80.00 |
| 63 | 93.25 | 63 | 85.00 |
| 64 | 95.50 | 64 | 90.00 |
| 65+ | 94.00 | 65+ | <u>Years of Service</u> |
| | | | <15 |
| | | | 15-19 |
| | | | 20-24 |
| | | | 25-29 |
| | | | 30+ |

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

State of Alaska
Teachers' Retirement System
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Summary of Actuarial Assumptions and Changes in Assumptions

Table 1
Alaska TRS DCR Plan
Salary Scale

| Year of Employment | Unisex Rates |
|---------------------------|---------------------|
| 1-6 | 6.11% |
| 7 | 5.94 |
| 8 | 5.78 |
| 9 | 5.61 |
| 10 | 5.44 |
| 11 | 5.28 |
| 12 | 5.11 |
| 13 | 4.94 |
| 14 | 4.78 |
| 15 | 4.61 |
| 16 | 4.45 |
| 17 | 4.28 |
| 18 | 4.11 |
| 19 | 3.95 |
| 20 | 3.78 |
| 21+ | 3.62 |

State of Alaska
Teachers' Retirement System
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Summary of Actuarial Assumptions and Changes in Assumptions

Table 2
Alaska TRS DRC Plan
Mortality Table (Pre-termination)

| Age | Male | Female |
|-----|--------|--------|
| 20 | 0.017% | 0.012% |
| 21 | 0.018 | 0.012 |
| 22 | 0.019 | 0.012 |
| 23 | 0.021 | 0.013 |
| 24 | 0.024 | 0.013 |
| 25 | 0.026 | 0.013 |
| 26 | 0.030 | 0.014 |
| 27 | 0.032 | 0.014 |
| 28 | 0.033 | 0.015 |
| 29 | 0.034 | 0.016 |
| 30 | 0.035 | 0.017 |
| 31 | 0.036 | 0.019 |
| 32 | 0.037 | 0.020 |
| 33 | 0.037 | 0.021 |
| 34 | 0.037 | 0.022 |
| 35 | 0.037 | 0.023 |
| 36 | 0.038 | 0.024 |
| 37 | 0.039 | 0.025 |
| 38 | 0.041 | 0.027 |
| 39 | 0.042 | 0.029 |
| 40 | 0.045 | 0.032 |
| 41 | 0.047 | 0.034 |
| 42 | 0.050 | 0.037 |
| 43 | 0.053 | 0.039 |
| 44 | 0.056 | 0.041 |
| 45 | 0.060 | 0.042 |
| 46 | 0.064 | 0.044 |
| 47 | 0.069 | 0.047 |
| 48 | 0.075 | 0.051 |
| 49 | 0.081 | 0.055 |
| 50 | 0.088 | 0.061 |
| 51 | 0.097 | 0.068 |
| 52 | 0.106 | 0.078 |
| 53 | 0.118 | 0.090 |
| 54 | 0.131 | 0.102 |
| 55 | 0.149 | 0.116 |
| 56 | 0.170 | 0.135 |
| 57 | 0.195 | 0.157 |
| 58 | 0.224 | 0.181 |
| 59 | 0.253 | 0.208 |
| 60 | 0.284 | 0.239 |
| 61 | 0.326 | 0.274 |
| 62 | 0.368 | 0.314 |
| 63 | 0.425 | 0.359 |
| 64 | 0.479 | 0.410 |

State of Alaska
Teachers' Retirement System
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Summary of Actuarial Assumptions and Changes in Assumptions

Table 3
Alaska TRS DCR Plan
Mortality Table (Post-termination)

| Age | Male | Female |
|-----|--------|--------|
| 50 | 0.142% | 0.085% |
| 51 | 0.153 | 0.092 |
| 52 | 0.166 | 0.100 |
| 53 | 0.181 | 0.111 |
| 54 | 0.196 | 0.124 |
| 55 | 0.215 | 0.143 |
| 56 | 0.235 | 0.163 |
| 57 | 0.263 | 0.185 |
| 58 | 0.291 | 0.212 |
| 59 | 0.331 | 0.246 |
| 60 | 0.377 | 0.285 |
| 61 | 0.433 | 0.328 |
| 62 | 0.499 | 0.378 |
| 63 | 0.561 | 0.434 |
| 64 | 0.631 | 0.498 |
| 65 | 0.725 | 0.570 |
| 66 | 0.819 | 0.653 |
| 67 | 0.944 | 0.745 |
| 68 | 1.064 | 0.844 |
| 69 | 1.196 | 0.948 |
| 70 | 1.362 | 1.052 |
| 71 | 1.512 | 1.150 |
| 72 | 1.634 | 1.242 |
| 73 | 1.787 | 1.342 |
| 74 | 1.915 | 1.434 |
| 75 | 2.094 | 1.583 |
| 76 | 2.298 | 1.726 |
| 77 | 2.518 | 1.918 |
| 78 | 2.748 | 2.094 |
| 79 | 3.061 | 2.338 |
| 80 | 3.361 | 2.669 |
| 81 | 3.788 | 2.985 |
| 82 | 4.292 | 3.327 |
| 83 | 4.868 | 3.707 |
| 84 | 5.510 | 4.136 |
| 85 | 6.214 | 4.625 |

State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Actuarial Assumptions and Changes in Assumptions

Table 4
Alaska TRS DCR Plan
Turnover Assumptions
Select Rates of Turnover During the First 5 Years of Employment:

| <u>Year of Employment</u> | <u>Rate</u> |
|---------------------------|-------------|
| 0 | 18.00% |
| 1 | 17.00 |
| 2 | 14.00 |
| 3 | 12.00 |
| 4 | 10.00 |

Ultimate Rates of Turnover
After the First 5 Years of Employment

| <u>Age</u> | <u>Male</u> | <u>Female</u> | <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|------------|-------------|---------------|
| 15 | 4.9042% | 4.8122% | 40 | 4.7508% | 4.6924% |
| 16 | 4.8981 | 4.8085 | 41 | 4.7372 | 4.6815 |
| 17 | 4.8931 | 4.8061 | 42 | 4.7199 | 4.6706 |
| 18 | 4.8882 | 4.8049 | 43 | 4.7038 | 4.6609 |
| 19 | 4.8857 | 4.8037 | 44 | 4.6827 | 4.6488 |
| 20 | 4.8474 | 4.7686 | 45 | 4.6593 | 4.6343 |
| 21 | 4.8448 | 4.7686 | 46 | 4.6345 | 4.6210 |
| 22 | 4.8399 | 4.7674 | 47 | 4.6035 | 4.6028 |
| 23 | 4.8362 | 4.7674 | 48 | 4.5676 | 4.5823 |
| 24 | 4.8300 | 4.7662 | 49 | 4.5306 | 4.5617 |
| 25 | 4.8250 | 4.7662 | 50 | 4.4884 | 4.5375 |
| 26 | 4.8201 | 4.7650 | 51 | 4.4389 | 4.5097 |
| 27 | 4.8151 | 4.7638 | 52 | 4.3808 | 4.4770 |
| 28 | 4.8102 | 4.7601 | 53 | 4.3164 | 4.4383 |
| 29 | 4.8052 | 4.7565 | 54 | 4.2447 | 4.3971 |
| 30 | 4.8015 | 4.7529 | 55 | 4.1630 | 4.3475 |
| 31 | 4.7991 | 4.7505 | 56 | 4.0640 | 4.2834 |
| 32 | 4.7953 | 4.7456 | 57 | 3.9427 | 4.2011 |
| 33 | 4.7929 | 4.7420 | 58 | 3.8103 | 4.1080 |
| 34 | 4.7916 | 4.7372 | 59 | 3.6507 | 3.9894 |
| 35 | 4.7892 | 4.7323 | 60 | 3.4713 | 3.8551 |
| 36 | 4.7854 | 4.7251 | 61 | 3.2720 | 3.7050 |
| 37 | 4.7805 | 4.7190 | 62 | 3.0406 | 3.5344 |
| 38 | 4.7718 | 4.7105 | 63 | 2.7770 | 3.3396 |
| 39 | 4.7619 | 4.7021 | 64 | 2.4912 | 3.1279 |
| | | | 65+ | 4.9500 | 4.8400 |

State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Actuarial Assumptions and Changes in Assumptions

Table 5
Alaska TRS DCR Plan
Disability Table

| Age | Male | Female |
|-----|--------|--------|
| 20 | 0.022% | 0.020% |
| 21 | 0.022 | 0.020 |
| 22 | 0.023 | 0.021 |
| 23 | 0.023 | 0.021 |
| 24 | 0.024 | 0.022 |
| 25 | 0.024 | 0.022 |
| 26 | 0.024 | 0.022 |
| 27 | 0.025 | 0.022 |
| 28 | 0.026 | 0.023 |
| 29 | 0.026 | 0.024 |
| 30 | 0.027 | 0.025 |
| 31 | 0.027 | 0.025 |
| 32 | 0.028 | 0.025 |
| 33 | 0.029 | 0.026 |
| 34 | 0.030 | 0.027 |
| 35 | 0.030 | 0.027 |
| 36 | 0.032 | 0.029 |
| 37 | 0.033 | 0.030 |
| 38 | 0.034 | 0.031 |
| 39 | 0.035 | 0.032 |
| 40 | 0.037 | 0.033 |
| 41 | 0.038 | 0.035 |
| 42 | 0.041 | 0.037 |
| 43 | 0.043 | 0.039 |
| 44 | 0.047 | 0.043 |
| 45 | 0.052 | 0.047 |
| 46 | 0.056 | 0.050 |
| 47 | 0.061 | 0.055 |
| 48 | 0.066 | 0.060 |
| 49 | 0.071 | 0.064 |
| 50 | 0.077 | 0.069 |
| 51 | 0.083 | 0.075 |
| 52 | 0.091 | 0.082 |
| 53 | 0.102 | 0.091 |
| 54 | 0.114 | 0.102 |
| 55 | 0.128 | 0.115 |
| 56 | 0.147 | 0.133 |
| 57 | 0.171 | 0.154 |
| 58 | 0.195 | 0.176 |
| 59 | 0.230 | 0.207 |
| 60 | 0.270 | 0.243 |
| 61 | 0.312 | 0.281 |
| 62 | 0.362 | 0.325 |
| 63 | 0.418 | 0.376 |
| 64 | 0.477 | 0.429 |

State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Actuarial Assumptions and Changes in Assumptions

Table 6
Alaska TRS DCR Plan
Retirement Table

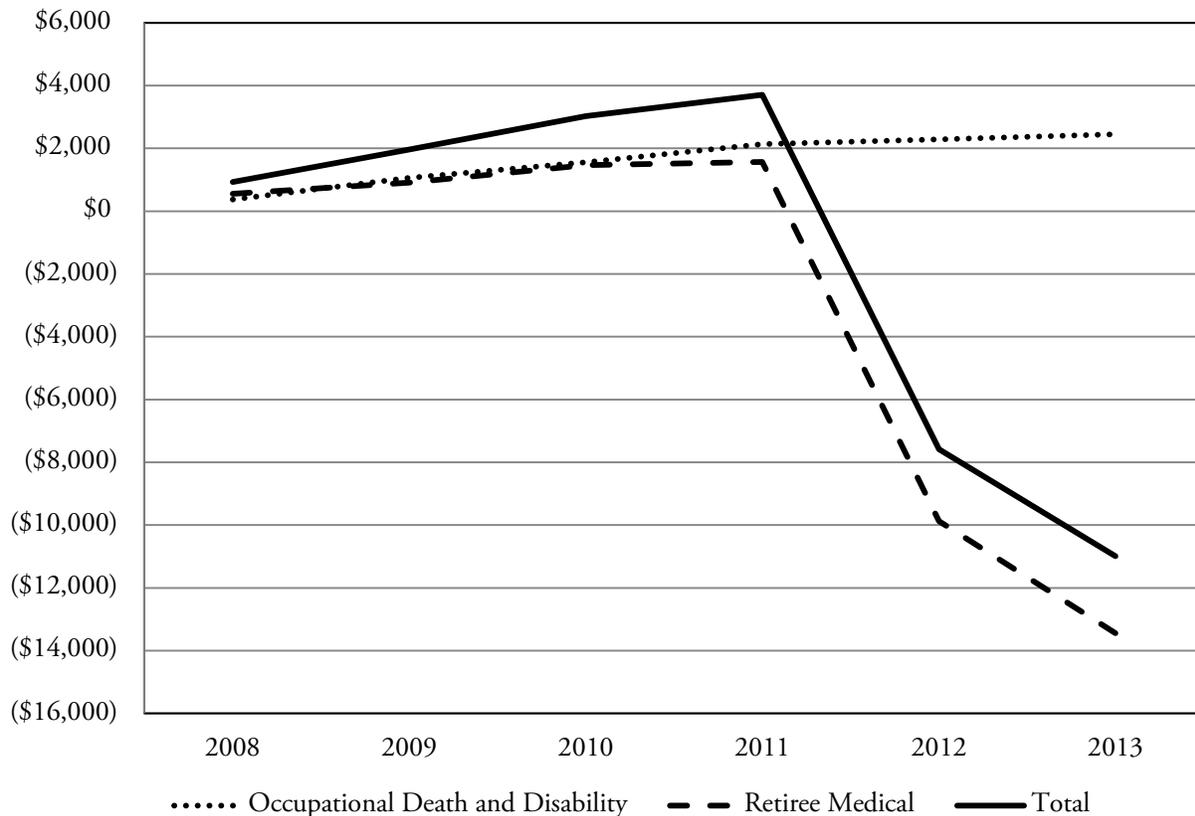
| <u>Age</u> | <u>Rate</u> |
|------------|-------------|
| <55 | 2.00% |
| 55-59 | 3.00 |
| 60 | 5.00 |
| 61 | 5.00 |
| 62 | 10.00 |
| 63 | 5.00 |
| 64 | 5.00 |
| 65 | 25.00 |
| 66 | 25.00 |
| 67 | 25.00 |
| 68 | 20.00 |
| 69 | 20.00 |
| 70 | 100.00 |

Changes in Actuarial Assumptions Since the Prior Valuation

There have been changes in assumptions since the prior valuation.

| Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Funding Excess/(Unfunded Liability) (In thousands) | | | | |
|---|-----------------------------------|-----------------|---|--------------|
| Actuarial Valuation Year Ended June 30 | Occupational Death and Disability | Retiree Medical | Total Funding Excess/(Unfunded Liability) | Funded Ratio |
| 2008 | \$ 376 | \$ 551 | \$ 927 | 215.73% |
| 2009 | 1,057 | 907 | 1,964 | 234.5 |
| 2010 | 1,559 | 1,465 | 3,024 | 223.5 |
| 2011 | 2,136 | 1,572 | 3,708 | 196.1 |
| 2012 | 2,285 | (9,874) | (7,589) | 55.0 |
| 2013 | 2,452 | (13,444) | (10,992) | 50.3 |

**6-YEAR TREND OF FUNDING EXCESS
(In thousands)**



Actuarial Section

| Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Employer Contribution Rates | | | | | |
|--|--|-----------------------------------|-----------------|-----------------------|---------|
| Fiscal Year | Actuarial Valuation Year Ended June 30 | Occupational Death and Disability | Retiree Medical | Total Annual Required | Adopted |
| 2007 | N/A | N/A | 1.75% | 1.75% | 1.75% |
| 2008 | N/A | 0.56 % | 0.99 | 1.55 | 1.55 |
| 2009 | N/A | 0.62 | 0.99 | 1.61 | 1.61 |
| 2010 | 2007 | 0.32 | 1.03 | 1.35 | 1.35 |
| 2011 | 2008 | 0.28 | 0.68 | 0.96 | 0.96 |
| 2012 | 2009 | — | 0.58 | 0.58 | 0.58 |
| 2013 | 2010 | — | 0.49 | 0.49 | 0.49 |
| 2014 | 2011 | — | 0.47 | 0.47 | 0.47 |
| 2015 | 2012 | — | 2.04 | 2.04 | 2.04 |
| 2016 | 2013 | — | 2.04 | 2.04 | 2.04 |

Valuations are used to set contribution rates in future years.

| Teachers' Retirement System Defined Contribution Retirement Plan For Occupational Death and Disability and Retiree Medical Benefits Schedule of Active Member Valuation Data | | | | | |
|---|--------|---|-------------------------|--|-----------------------------------|
| Valuation Date | Number | Annual Earnings ¹ (In thousands) | Annual Average Earnings | Percent Increase/ (Decrease) in Average Earnings | Number of Participating Employers |
| June 30, 2013 | 3,272 | \$197,944 | \$60,496 | 3.5% | 58 |
| June 30, 2012 | 3,057 | 178,761 | 58,476 | 4.7 | 58 |
| June 30, 2011 | 2,708 | 151,269 | 55,860 | 5.6 | 58 |
| June 30, 2010 | 2,246 | 118,813 | 52,900 | 5.7 | 58 |
| June 30, 2009 | 1,792 | 89,708 | 50,061 | 6.4 | 58 |
| June 30, 2008 | 1,198 | 56,369 | 47,053 | 6.2 | 58 |
| June 30, 2007 | 641 | 28,410 | 44,322 | — | 58 |
| June 30, 2006 | — | — | — | — | 58 |

¹ Annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

| Teachers' Retirement System Defined Contribution Retirement Plan Occupational Death and Disability Solvency Test (In thousands) | | | | | | | |
|---|--|-------------------------|---|--|---|--------|--------|
| Valuation Date | Occupational Death and Disability Aggregate Accrued Liability For: | | | Occupational Death and Disability Valuation Assets | Portion of Accrued Liabilities Covered by Assets: | | |
| | (1) Active Member Contributions | (2) Inactive Members | (3) Active Members (Employer-Financed Portion) | | (1) | (2) | (3) |
| June 30, 2013 | \$ — | \$ — | \$80 | \$2,532 | 100.0% | 100.0% | 100.0% |
| June 30, 2012 | — | — | 63 | 2,348 | 100.0 | 100.0 | 100.0 |
| June 30, 2011 | — | — | 57 | 2,193 | 100.0 | 100.0 | 100.0 |
| June 30, 2010 ¹ | — | — | 18 | 1,577 | 100.0 | 100.0 | 100.0 |
| June 30, 2009 ¹ | — | — | 14 | 1,071 | 100.0 | 100.0 | 100.0 |
| June 30, 2008 | — | — | 44 | 420 | 100.0 | 100.0 | 100.0 |
| June 30, 2007 | — | — | 16 | — | 100.0 | 100.0 | 0.0 |
| June 30, 2006 | — | — | — | — | N/A | N/A | N/A |
| ¹ Change in Assumptions | | | | | | | |

Actuarial Section

| Teachers' Retirement System Defined Contribution Retirement Plan Retiree Medical Solvency Test (In thousands) | | | | | | | |
|---|--|--|--|---|---|------------|------------|
| | Retiree Medical Aggregate Accrued Liability For: | | | | Portion of Accrued Liabilities Covered by Assets: | | |
| Valuation Date | (1) Active Member Contributions | (2) Inactive Members | (3) Active Members (Employer- Financed Portion) | Retiree Medical Valuation Assets | (1) | (2) | (3) |
| June 20, 2013 | \$ — | \$ — | \$22,058 | \$8,614 | 100.0% | 100.0% | 39.1% |
| June 20, 2012 ¹ | — | — | 16,811 | 6,937 | 100.0 | 100.0 | 41.3 |
| June 30, 2011 | — | — | 3,801 | 5,373 | 100.0 | 100.0 | 100.0 |
| June 30, 2010 ¹ | — | — | 2,430 | 3,895 | 100.0 | 100.0 | 100.0 |
| June 30, 2009 ¹ | — | — | 1,446 | 2,353 | 100.0 | 100.0 | 100.0 |
| June 30, 2008 ¹ | — | — | 757 | 1,308 | 100.0 | 100.0 | 100.0 |
| June 30, 2007 | — | — | 358 | 597 | 100.0 | 100.0 | 100.0 |
| June 30, 2006 | — | — | — | — | N/A | N/A | N/A |
| Retiree medical liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy). | | | | | | | |
| ¹ Change in Assumptions | | | | | | | |

State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Plan Provisions and Changes in Plan Provisions

1. Effective Date

July 1, 2006, with amendments through June 30, 2013.

2. Administration of Plan

The Commissioner of Administration or the Commissioner's designee is the administrator of the Plan. The Attorney General of the state is the legal counsel for the Plan and shall advise the administrator and represent the Plan in legal proceedings.

The Alaska Retirement Management Board prescribes policies, adopts regulations, invests the funds, and performs other activities necessary to carry out the provisions of the Plan.

3. Employers Included

Currently there are 58 employers participating in the TRS DCR Plan, including the State of Alaska, 53 school districts, and four other eligible organizations.

4. Membership

An employee of a participating employer who first enters service on or after July 1, 2006, or a member of the defined benefit plan who works for an employer who began participation on or after July 1, 2006, and meets the following criteria is a member in the Plan:

- Permanent full-time or part-time elementary or secondary teachers, school nurses, or a person in a position requiring a teaching certificate as a condition of hire in a public school of the State of Alaska, the Department of Education and Early Development or in the Department of Labor and Workforce Development.
- Full-time or part-time teachers at the University of Alaska or persons occupying full-time administrative positions requiring academic standing who are not in the University's Optional Retirement Plan.

Members can convert to the DCR Plan if they are an eligible nonvested member of the TRS defined benefit plan whose employer consents to transfers to the defined contribution plan and they elect to transfer his or her account balance to the TRS DCR Plan.

5. Member Contributions

There are no member contributions for the occupational death & disability and retiree medical benefits.

State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Plan Provisions and Changes in Plan Provisions

6. Retiree Medical

- Member must retire directly from the plan to be eligible for retiree medical coverage. Normal retirement eligibility is the earlier of a) 30 years of service or b) Medicare eligible and 10 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.
- Members who are receiving disability benefits or survivors who are receiving monthly survivor benefits are not eligible until the member meets, or would have met if he/she had lived, the normal retirement eligibility requirements.
- The plan's coverage is supplemental to Medicare.
- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

| <u>Years of Service</u> | <u>Percent of Premium Paid by Member</u> |
|-------------------------|--|
| Less than 15 years | 30.00% |
| 15 – 19 | 25.00 |
| 20 – 24 | 20.00 |
| 25 – 29 | 15.00 |
| 30 years or more | 10.00 |

7. Occupational Disability Benefits

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or at any age with 30 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

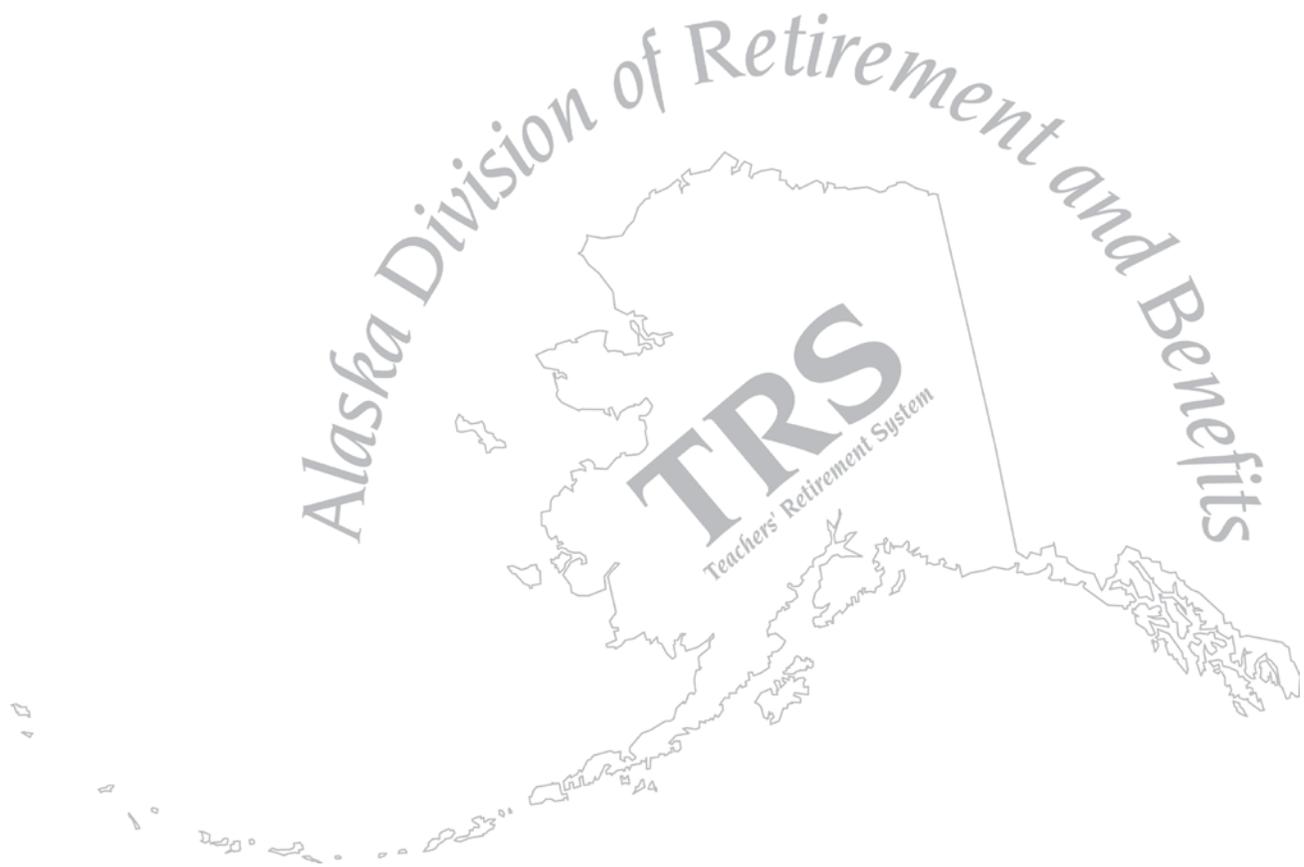
State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan
Summary of Plan Provisions and Changes in Plan Provisions

8. Occupational Death Benefits

- Benefit is 40% of salary.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- The period during which the survivor is receiving benefits is counted as service credit toward retiree medical benefits.
- No retiree medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

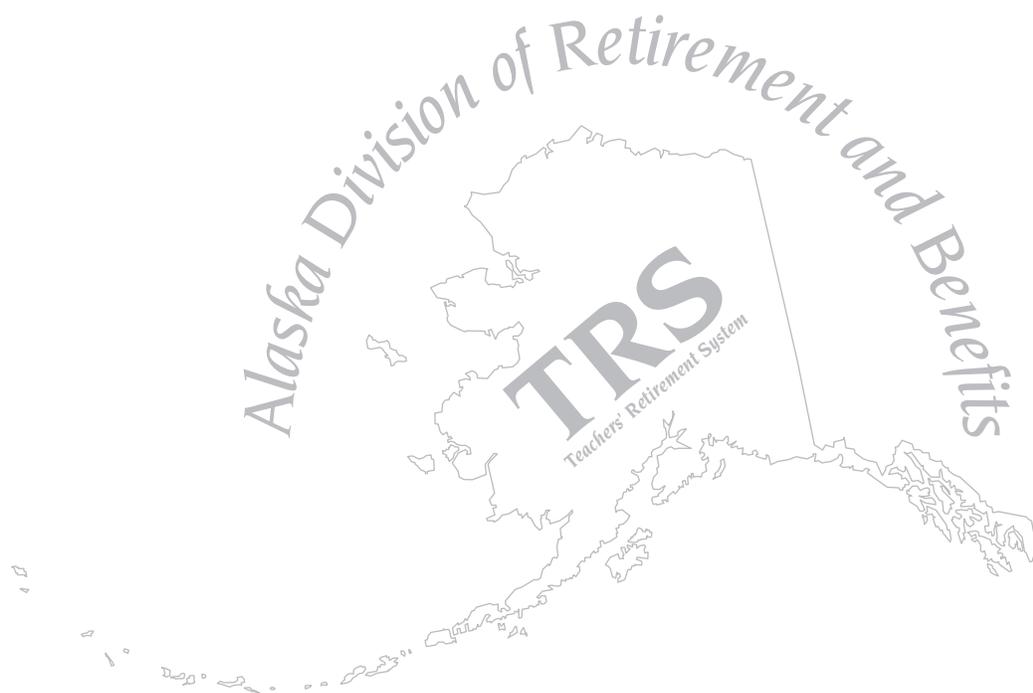
Changes Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation.





STATISTICAL SECTION



STATISTICAL SECTION OVERVIEW

The statistical section of the Teachers’ Retirement System (System) comprehensive annual financial report provides additional detail in the form of financial trends, operating statistics and demographic information. This data is provided to enhance the reader’s understanding of the System.

Financial Trends 144-160

These schedules contain financial trend information utilizing a multi-year presentation so the reader can better understand how the System’s financial performance has changed over time. Financial information is presented on an accrual basis.

Operating Information 161-163

These schedules contain detailed benefit payment information to provide the reader a better understanding of the pension benefits provided by the Division.

Demographic Information 164-166

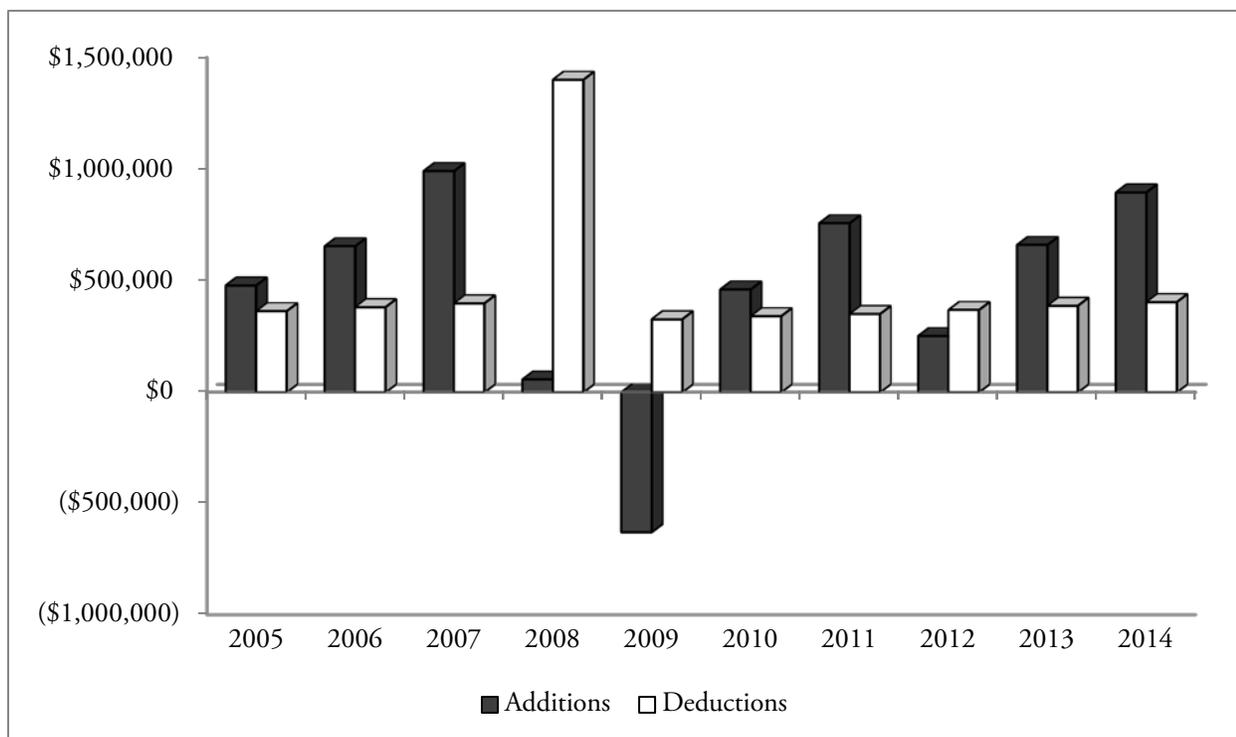
These schedules contain detailed demographic data to provide the reader a better understanding of the membership and employer participation in the System.

Statistical Section

Teachers' Retirement System Defined Benefit Pension Changes in Fiduciary Net Position (In thousands)

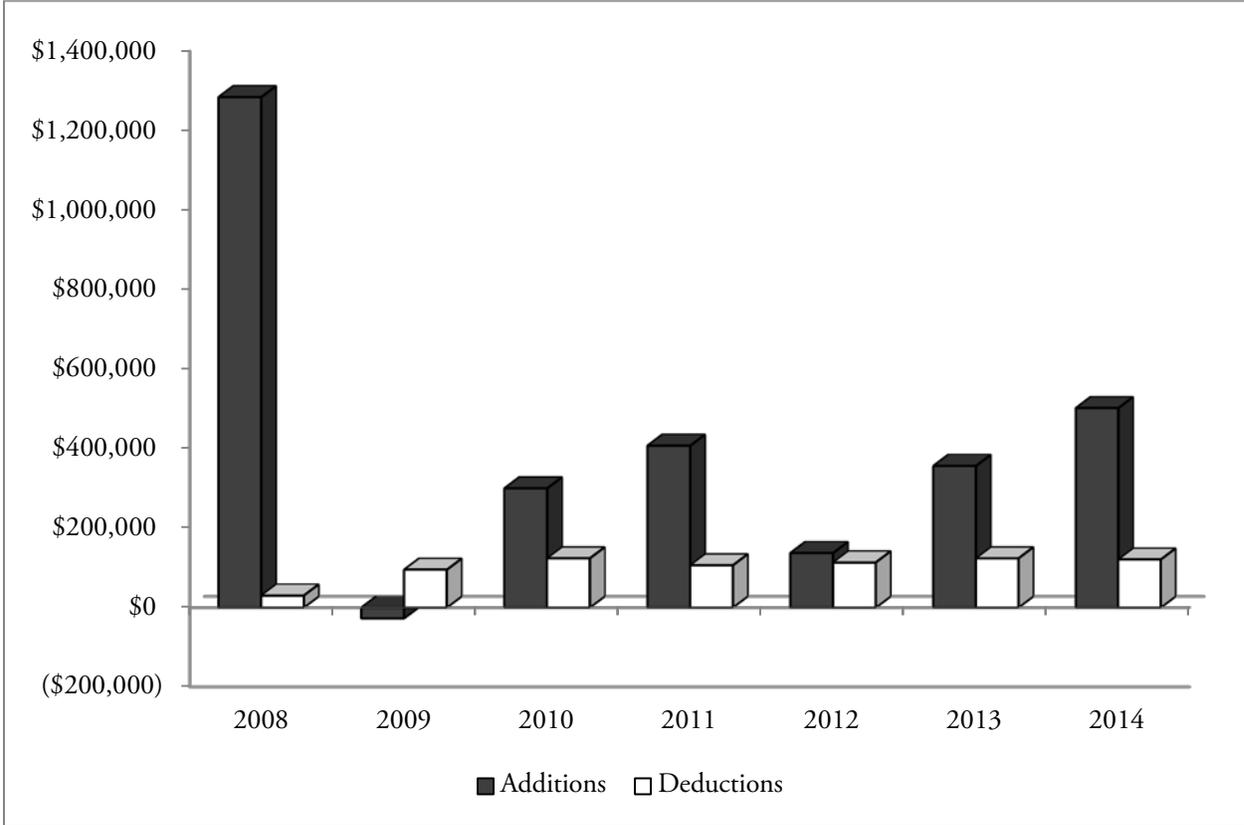
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
|-----------------------|--|------------|------------|--|---|
| 2005 | \$ 3,911,515 | \$ 476,969 | \$ 361,489 | \$ 115,480 | \$ 4,026,995 |
| 2006 | 4,026,995 | 652,648 | 379,672 | 272,976 | 4,299,971 |
| 2007 | 4,299,971 | 989,840 | 396,697 | 593,143 | 4,893,114 |
| 2008 | 4,893,114 | 57,423 | 1,399,739 | (1,342,316) | 3,550,798 |
| 2009 | 3,550,798 | (629,058) | 325,307 | (954,365) | 2,596,433 |
| 2010 | 2,596,433 | 458,984 | 338,860 | 120,124 | 2,716,557 |
| 2011 | 2,716,557 | 755,768 | 348,795 | 406,973 | 3,123,530 |
| 2012 | 3,123,530 | 249,803 | 366,686 | (116,883) | 3,006,647 |
| 2013 | 3,006,647 | 658,405 | 385,922 | 272,483 | 3,279,130 |
| 2014 | 3,279,130 | 894,170 | 402,161 | 492,009 | 3,771,139 |

10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS (In thousands)



| Teachers' Retirement System Defined Benefit Pension Alaska Retiree Healthcare Trust Changes in Fiduciary Net Position (In thousands) | | | | | |
|--|--|------------------|-------------------|--|--|
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
| 2008 | \$ — | \$ 1,283,865 | \$ 30,292 | \$ 1,253,573 | \$ 1,253,573 |
| 2009 | 1,253,573 | (27,157) | 95,383 | (122,540) | 1,131,033 |
| 2010 | 1,131,033 | 300,736 | 124,133 | 176,603 | 1,307,636 |
| 2011 | 1,307,636 | 408,179 | 106,485 | 301,694 | 1,609,330 |
| 2012 | 1,609,330 | 137,594 | 113,883 | 23,711 | 1,633,041 |
| 2013 | 1,633,041 | 357,454 | 124,074 | 233,380 | 1,866,421 |
| 2014 | 1,866,421 | 502,833 | 121,119 | 381,714 | 2,248,135 |

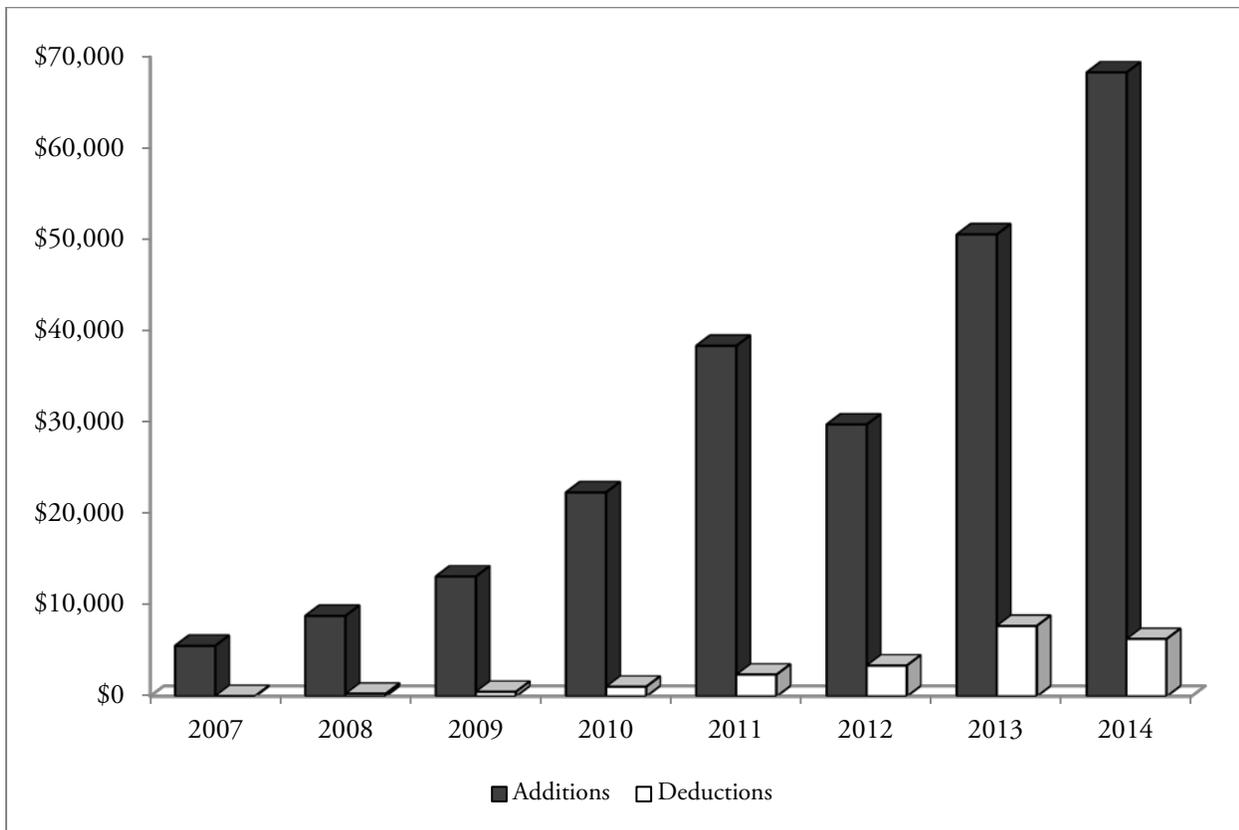
**7-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



Statistical Section

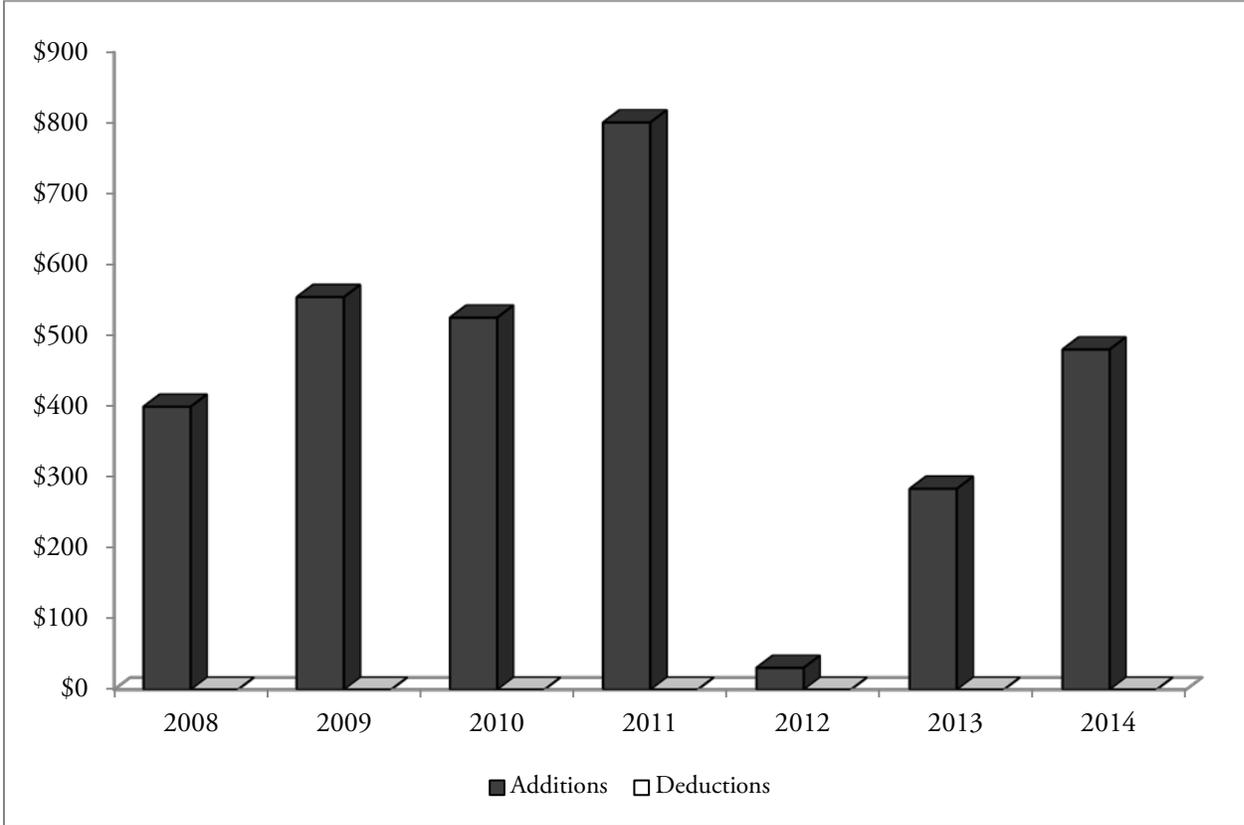
| Teachers' Retirement System Defined Contribution Retirement Participant Directed Changes in Fiduciary Net Position (In thousands) | | | | | |
|---|--|------------------|-------------------|--|--|
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
| 2007 | \$ — | \$ 5,543 | \$ 36 | \$ 5,507 | \$ 5,507 |
| 2008 | 5,507 | 8,825 | 278 | 8,547 | 14,054 |
| 2009 | 14,054 | 13,132 | 498 | 12,634 | 26,688 |
| 2010 | 26,688 | 22,359 | 1,053 | 21,306 | 47,994 |
| 2011 | 47,994 | 38,355 | 2,377 | 35,978 | 83,972 |
| 2012 | 83,972 | 29,791 | 3,374 | 26,417 | 110,389 |
| 2013 | 110,389 | 50,560 | 7,715 | 42,845 | 153,234 |
| 2014 | 153,234 | 68,315 | 6,281 | 62,034 | 215,268 |

**8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



| Teachers' Retirement System Defined Contribution Retirement Occupational Death & Disability Changes in Fiduciary Net Position (In thousands) | | | | | |
|---|--|-----------|------------|--|---|
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
| 2008 | \$ — | \$ 400 | \$ — | \$ 400 | \$ 400 |
| 2009 | 400 | 554 | — | 554 | 954 |
| 2010 | 954 | 525 | — | 525 | 1,479 |
| 2011 | 1,479 | 801 | — | 801 | 2,280 |
| 2012 | 2,280 | 31 | — | 31 | 2,311 |
| 2013 | 2,311 | 284 | — | 284 | 2,595 |
| 2014 | 2,595 | 480 | — | 480 | 3,075 |

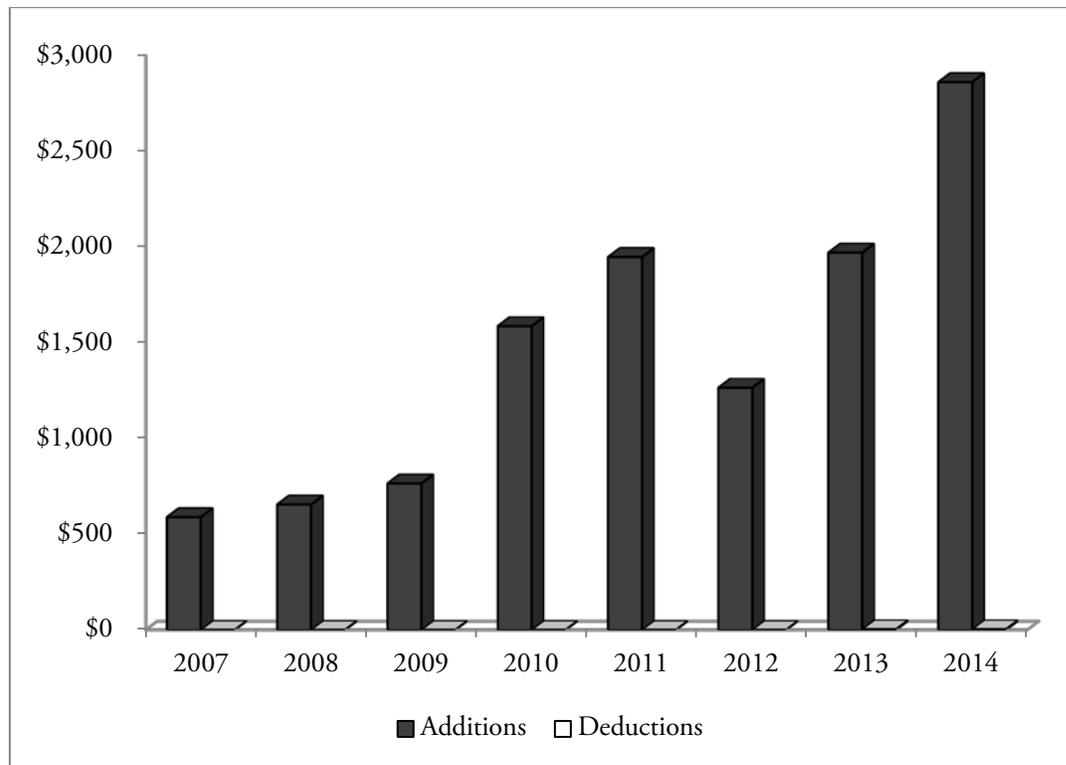
7-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)



Statistical Section

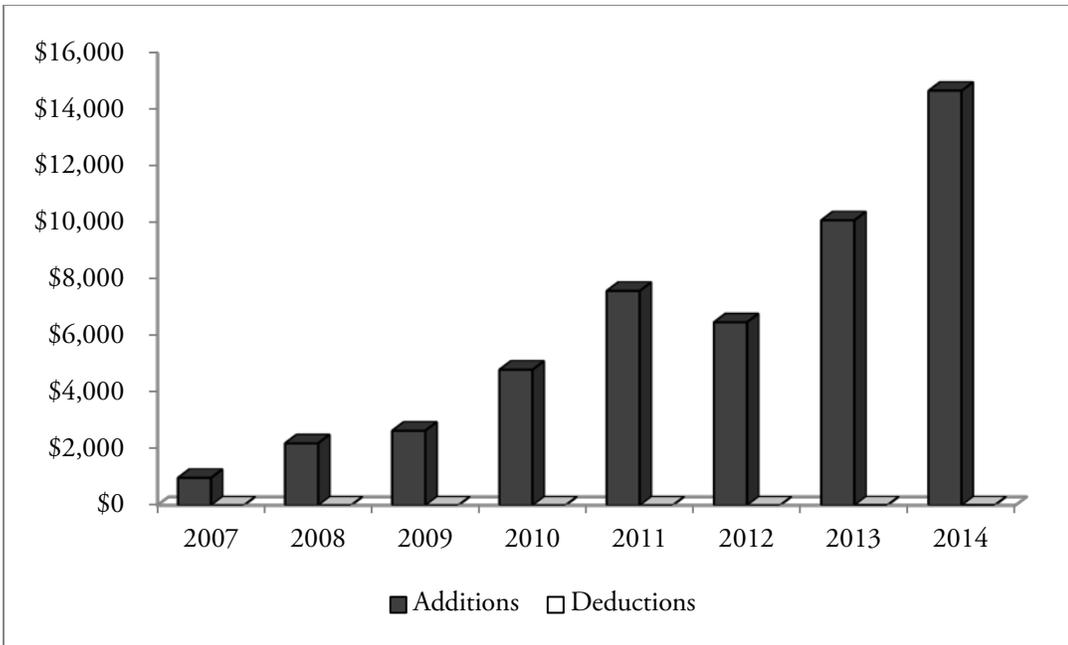
| Teachers' Retirement System Defined Contribution Retirement Medical Plan Changes in Fiduciary Net Position (In thousands) | | | | | |
|---|--|------------------|-------------------|--|--|
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
| 2007 | \$ — | \$ 590 | \$ — | \$ 590 | \$ 590 |
| 2008 | 590 | 656 | — | 656 | 1,246 |
| 2009 | 1,246 | 766 | — | 766 | 2,012 |
| 2010 | 2,012 | 1,586 | — | 1,586 | 3,598 |
| 2011 | 3,598 | 1,947 | — | 1,947 | 5,545 |
| 2012 | 5,545 | 1,267 | — | 1,267 | 6,812 |
| 2013 | 6,812 | 1,970 | 3 | 1,967 | 8,779 |
| 2014 | 8,779 | 2,861 | 3 | 2,858 | 11,637 |

**8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



| Teachers' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Changes in Fiduciary Net Position (In thousands) | | | | | |
|---|--|------------------|-------------------|--|--|
| Year Ended June 30 | Fiduciary Net Position, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Fiduciary Net Position | Fiduciary Net Position, End of Year |
| 2007 | \$ — | \$ 974 | \$ — | \$ 974 | \$ 974 |
| 2008 | 974 | 2,202 | — | 2,202 | 3,176 |
| 2009 | 3,176 | 2,650 | — | 2,650 | 5,826 |
| 2010 | 5,826 | 4,814 | — | 4,814 | 10,640 |
| 2011 | 10,640 | 7,606 | — | 7,606 | 18,246 |
| 2012 | 18,246 | 6,491 | — | 6,491 | 24,737 |
| 2013 | 24,737 | 10,079 | 3 | 10,076 | 34,813 |
| 2014 | 34,813 | 14,662 | 3 | 14,659 | 49,472 |

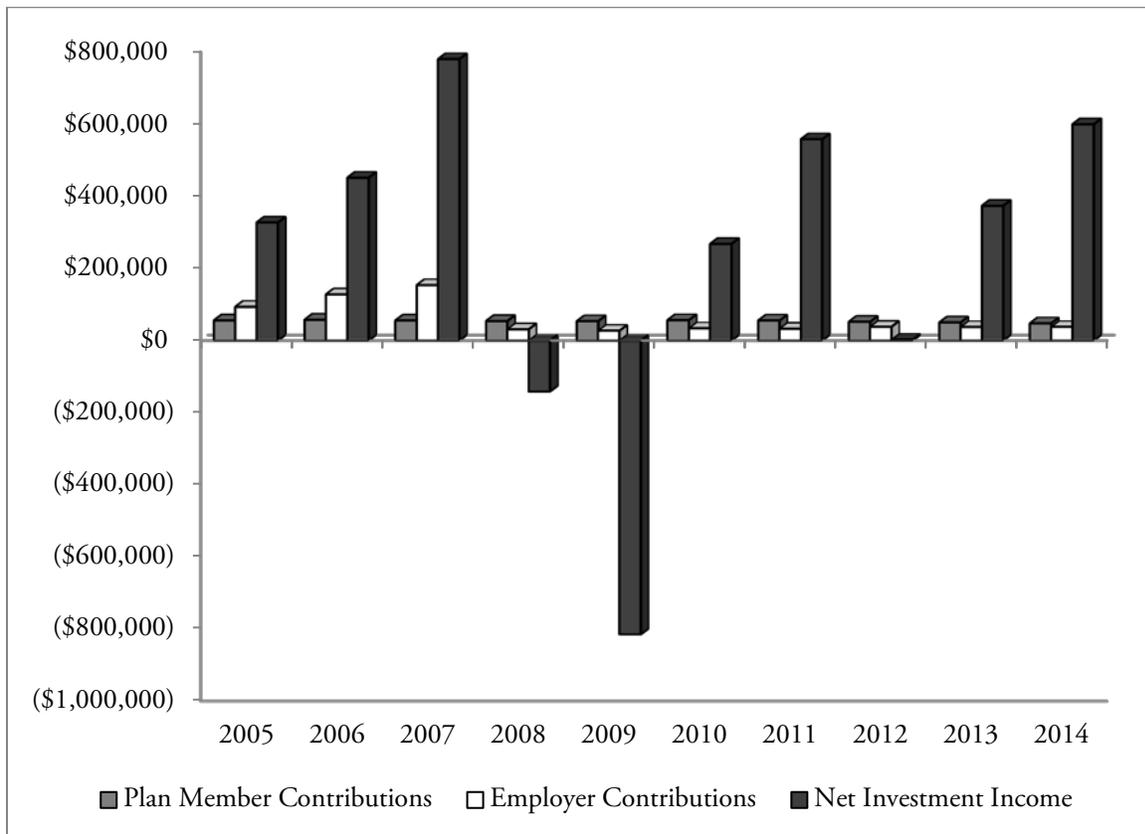
**8-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
(In thousands)**



Statistical Section

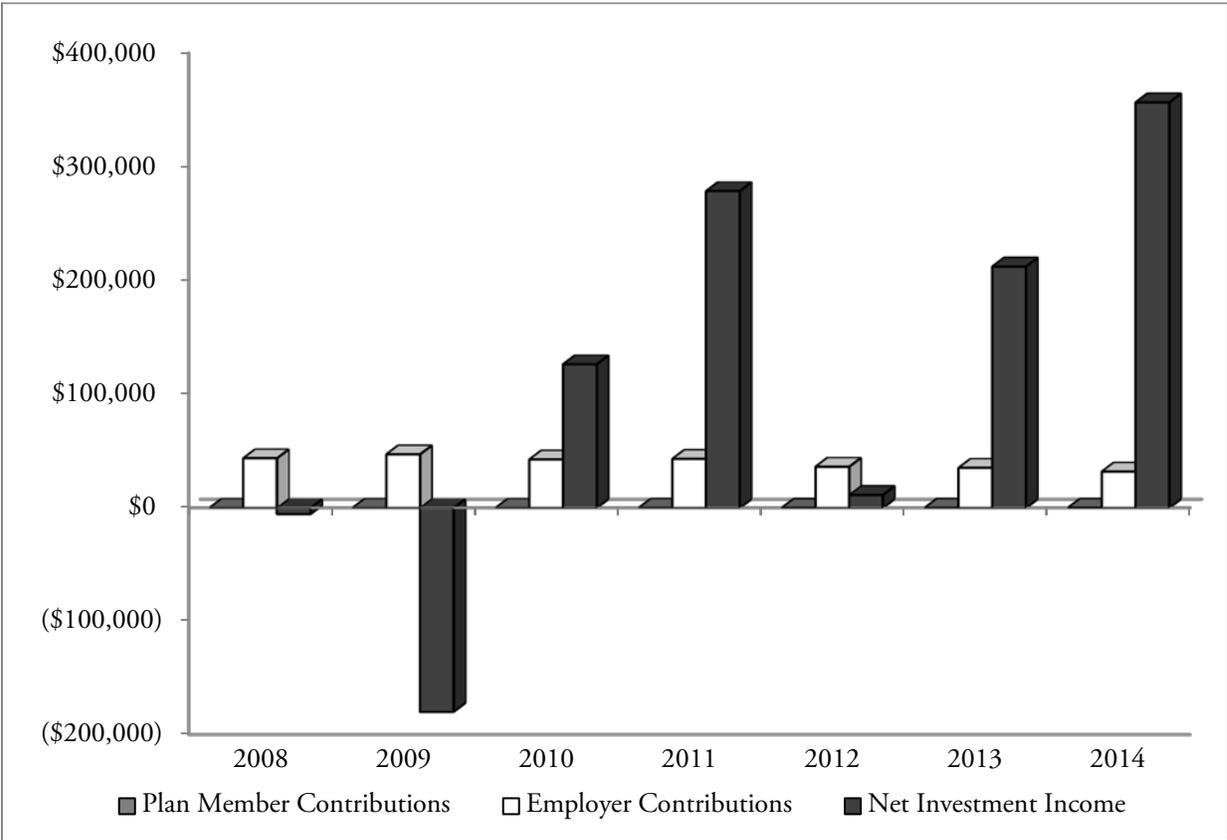
| Teachers' Retirement System Defined Benefit Pension Additions by Source (In thousands) | | | | | | |
|--|---------------------------|------------------------|-----------------|------------------------------|--------|------------|
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | State of Alaska | Net Investment Income (Loss) | Other | Total |
| 2005 | \$ 55,993 | \$ 93,540 | \$ — | \$ 327,426 | \$ 10 | \$ 476,969 |
| 2006 | 57,802 | 127,967 | — | 451,689 | 15,190 | 652,648 |
| 2007 | 55,689 | 153,618 | — | 780,512 | 21 | 989,840 |
| 2008 | 54,121 | 31,313 | 111,237 | (139,282) | 34 | 57,423 |
| 2009 | 53,544 | 27,110 | 104,423 | (814,138) | 3 | (629,058) |
| 2010 | 56,554 | 33,800 | 100,475 | 268,146 | 9 | 458,984 |
| 2011 | 55,347 | 32,804 | 109,343 | 558,220 | 54 | 755,768 |
| 2012 | 52,020 | 38,189 | 157,387 | 2,190 | 17 | 249,803 |
| 2013 | 50,201 | 37,372 | 196,945 | 373,868 | 19 | 658,405 |
| 2014 | 47,724 | 37,571 | 208,890 | 599,958 | 27 | 894,170 |

**10-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)**



| Teachers' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Additions by Source (In thousands) | | | | | | | |
|--|----------------------|------------------------|-----------------|------------------------------|-------------|--------|--------------|
| Year Ended June 30 | Plan Member Premiums | Employer Contributions | State of Alaska | Net Investment Income (Loss) | Transfer | Other | Total |
| 2008 | \$ 111 | \$ 43,697 | \$ 158,755 | \$ (5,318) | \$1,086,620 | \$ — | \$ 1,283,865 |
| 2009 | 116 | 47,174 | 101,877 | (179,919) | — | 3,595 | (27,157) |
| 2010 | 117 | 42,694 | 72,987 | 125,903 | — | 59,035 | 300,736 |
| 2011 | 138 | 43,217 | 81,507 | 278,366 | — | 4,951 | 408,179 |
| 2012 | 183 | 36,281 | 77,130 | 11,465 | — | 12,535 | 137,594 |
| 2013 | 250 | 35,293 | 105,832 | 211,927 | — | 4,152 | 357,454 |
| 2014 | 263 | 31,980 | 107,956 | 356,411 | — | 6,223 | 502,833 |

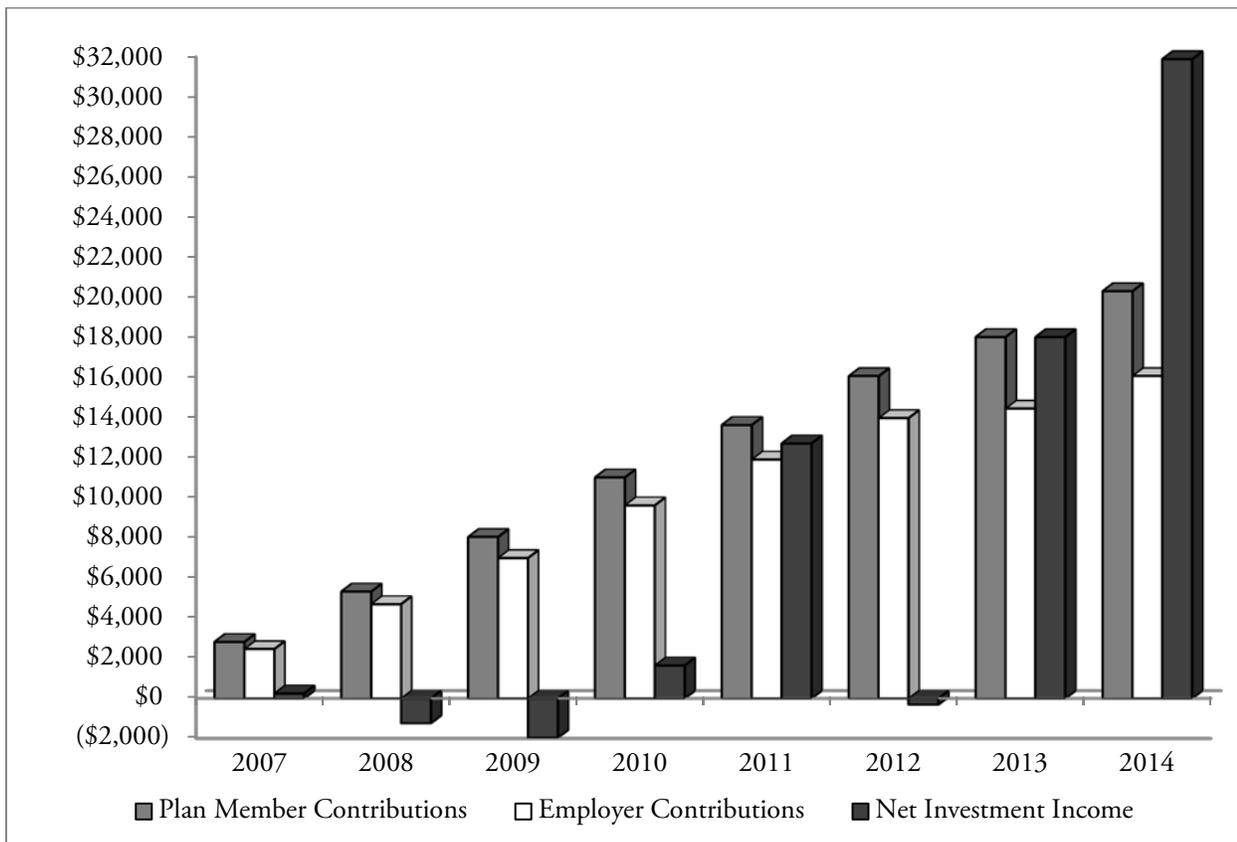
**7-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)**



Statistical Section

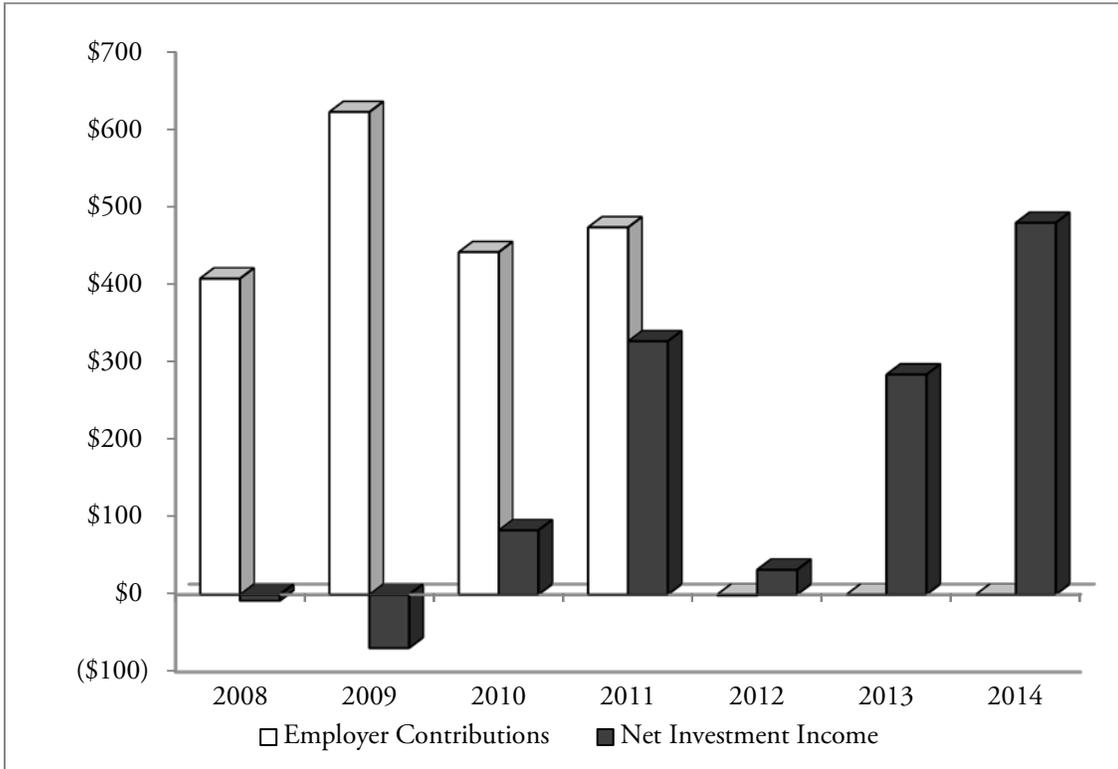
| Teachers' Retirement System Defined Contribution Retirement Participant Directed Additions by Source (In thousands) | | | | | |
|--|---------------------------|------------------------|------------------------------|-------|----------|
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | Net Investment Income (Loss) | Other | Total |
| 2007 | \$ 2,827 | \$ 2,465 | \$ 251 | \$ — | \$ 5,543 |
| 2008 | 5,347 | 4,717 | (1,239) | — | 8,825 |
| 2009 | 8,077 | 7,023 | (1,968) | — | 13,132 |
| 2010 | 11,051 | 9,658 | 1,650 | — | 22,359 |
| 2011 | 13,665 | 11,943 | 12,742 | 5 | 38,355 |
| 2012 | 16,095 | 14,003 | (307) | — | 29,791 |
| 2013 | 18,044 | 14,474 | 18,040 | 2 | 50,560 |
| 2014 | 20,326 | 16,098 | 31,887 | 4 | 68,315 |

8-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



| Teachers' Retirement System Defined Contribution Retirement Occupational Death & Disability Additions by Source (In thousands) | | | |
|---|------------------------|------------------------------|--------|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2008 | \$ 408 | \$ (8) | \$ 400 |
| 2009 | 623 | (69) | 554 |
| 2010 | 442 | 83 | 525 |
| 2011 | 474 | 327 | 801 |
| 2012 | (1) | 32 | 31 |
| 2013 | — | 284 | 284 |
| 2014 | — | 480 | 480 |

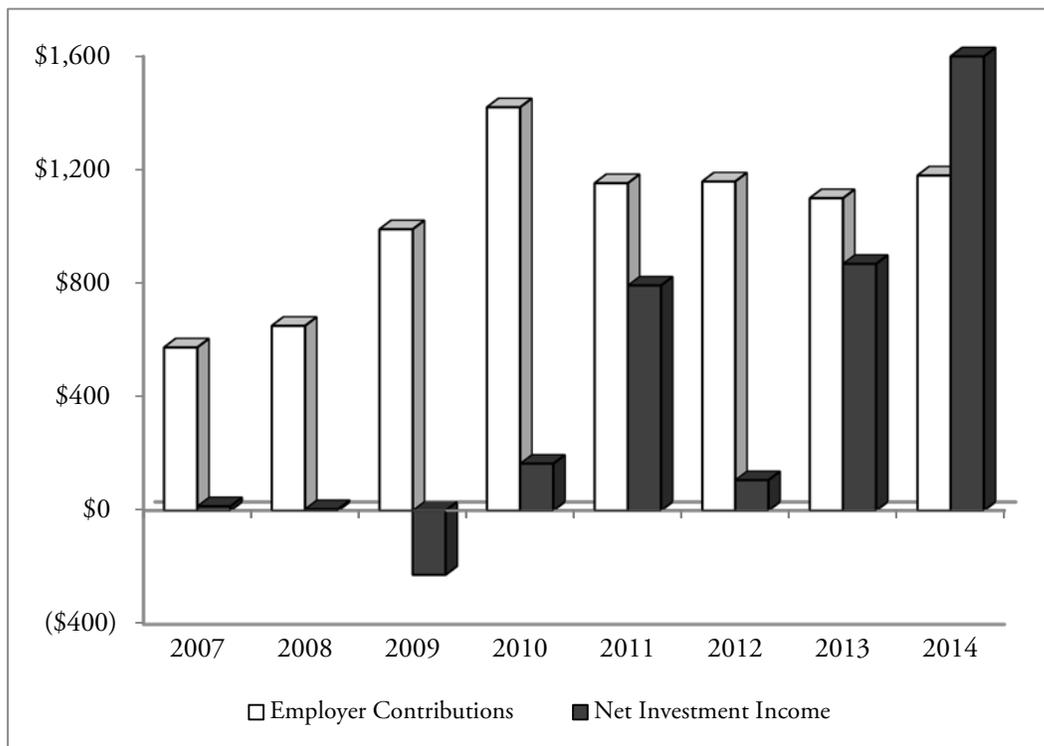
7-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



Statistical Section

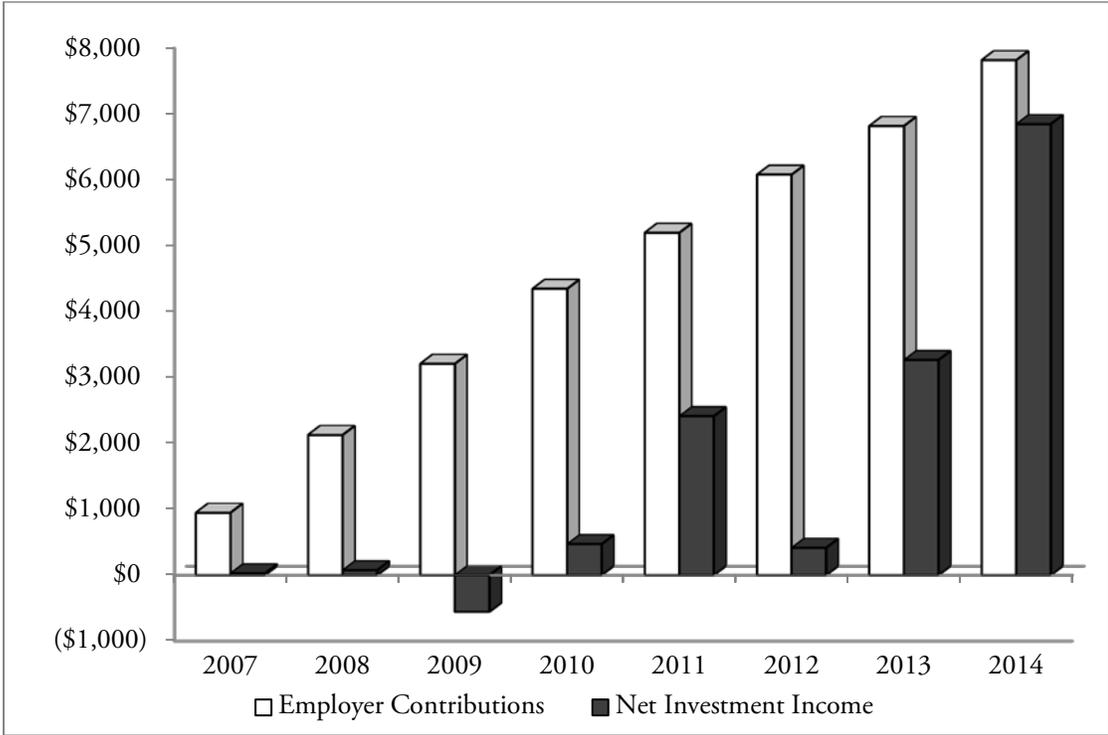
| Teachers' Retirement System Defined Contribution Retirement Retiree Medical Plan Additions by Source (In thousands) | | | |
|---|--|--|--------------|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2007 | \$ 575 | \$ 15 | \$ 590 |
| 2008 | 651 | 5 | 656 |
| 2009 | 992 | (226) | 766 |
| 2010 | 1,421 | 165 | 1,586 |
| 2011 | 1,154 | 793 | 1,947 |
| 2012 | 1,160 | 107 | 1,267 |
| 2013 | 1,101 | 869 | 1,970 |
| 2014 | 1,181 | 1,680 | 2,861 |

**8-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)**



| Teachers' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Additions by Source (In thousands) | | | |
|--|------------------------|------------------------------|--------|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2007 | \$ 947 | \$ 27 | \$ 974 |
| 2008 | 2,127 | 75 | 2,202 |
| 2009 | 3,206 | (556) | 2,650 |
| 2010 | 4,344 | 470 | 4,814 |
| 2011 | 5,195 | 2,411 | 7,606 |
| 2012 | 6,077 | 414 | 6,491 |
| 2013 | 6,816 | 3,263 | 10,079 |
| 2014 | 7,816 | 6,846 | 14,662 |

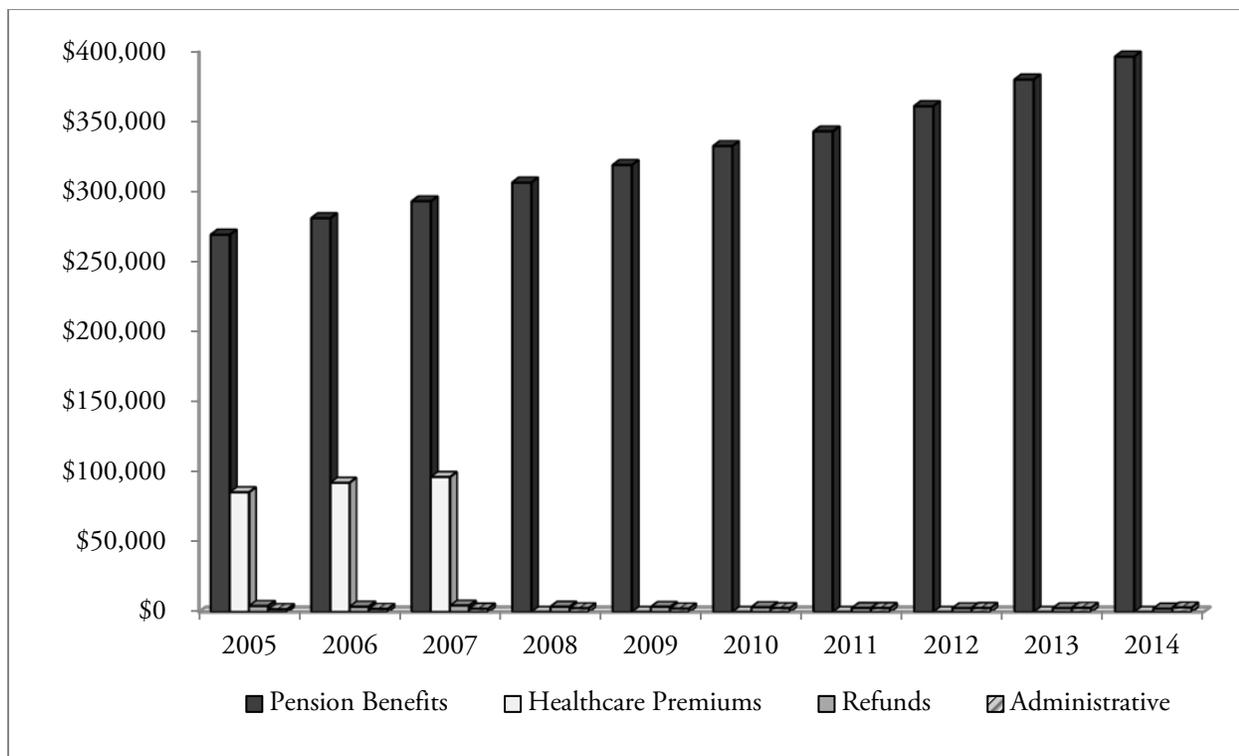
8-YEAR COMPARISON OF ADDITIONS BY SOURCE
(In thousands)



Statistical Section

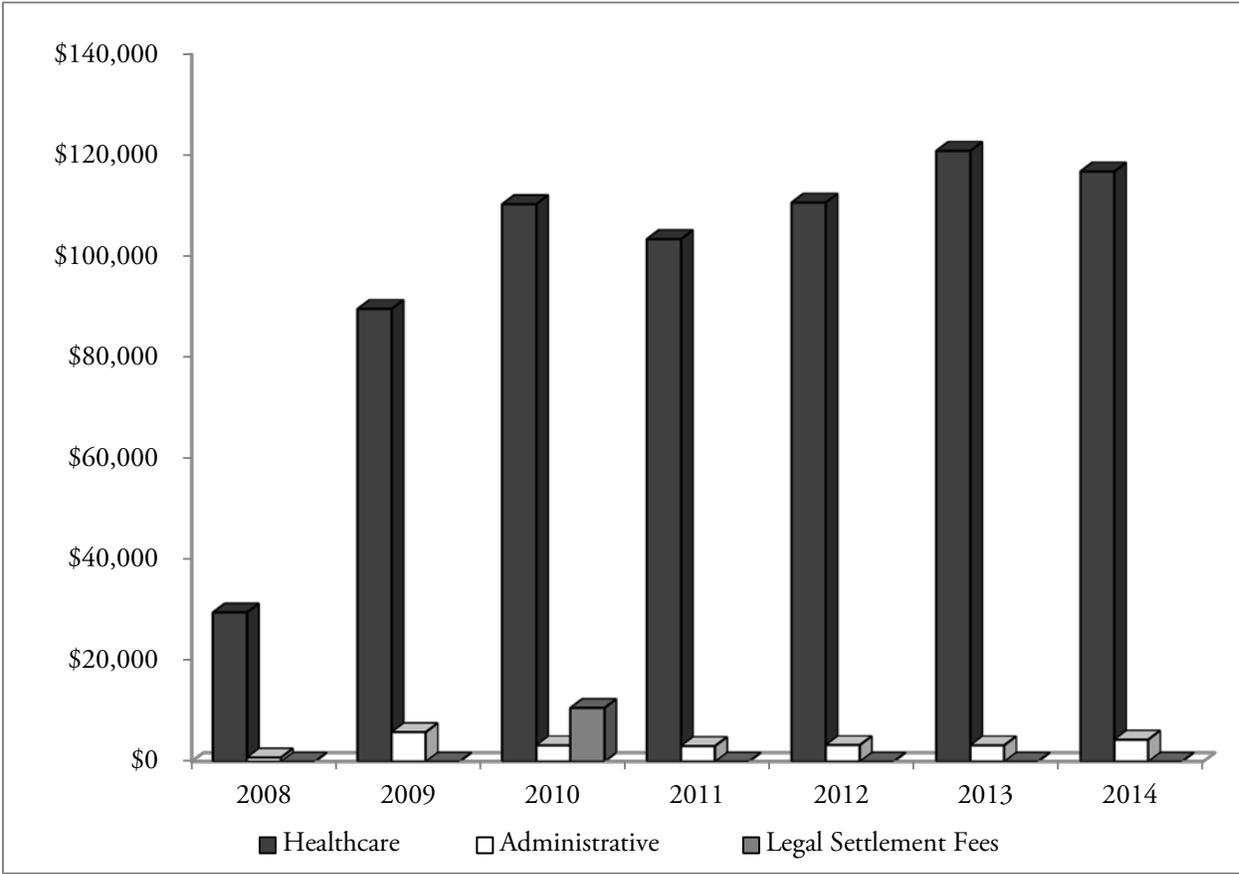
| Teachers' Retirement System Defined Benefit Pension Deductions by Type (In thousands) | | | | | | |
|--|------------------|------------|--------------------------|----------------|-----------|------------|
| Year Ended June 30 | Pension Benefits | Healthcare | Refunds of Contributions | Administrative | Transfer | Total |
| 2005 | \$ 269,414 | \$ 85,670 | \$ 4,376 | \$ 2,029 | \$ — | \$ 361,489 |
| 2006 | 281,205 | 92,462 | 3,832 | 2,173 | — | 379,672 |
| 2007 | 293,224 | 96,544 | 4,535 | 2,394 | — | 396,697 |
| 2008 | 306,689 | — | 3,761 | 2,669 | 1,086,620 | 1,399,739 |
| 2009 | 319,148 | — | 3,622 | 2,537 | — | 325,307 |
| 2010 | 332,690 | — | 3,472 | 2,698 | — | 338,860 |
| 2011 | 343,191 | — | 2,798 | 2,806 | — | 348,795 |
| 2012 | 361,202 | — | 2,637 | 2,847 | — | 366,686 |
| 2013 | 380,265 | — | 2,668 | 2,989 | — | 385,922 |
| 2014 | 396,614 | — | 2,387 | 3,160 | — | 402,161 |

10-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



| Teachers' Retirement System Defined Benefit Alaska Retiree Healthcare Trust Deductions by Type (In thousands) | | | | |
|--|------------|----------------|-----------------------|-----------|
| Plan Ended June 30 | Healthcare | Administrative | Legal Settlement Fees | Total |
| 2008 | \$ 29,494 | \$ 798 | \$ — | \$ 30,292 |
| 2009 | 89,571 | 5,812 | — | 95,383 |
| 2010 | 110,313 | 3,228 | 10,592 | 124,133 |
| 2011 | 103,405 | 3,080 | — | 106,485 |
| 2012 | 110,632 | 3,251 | — | 113,883 |
| 2013 | 120,855 | 3,219 | — | 124,074 |
| 2014 | 116,781 | 4,338 | — | 121,119 |

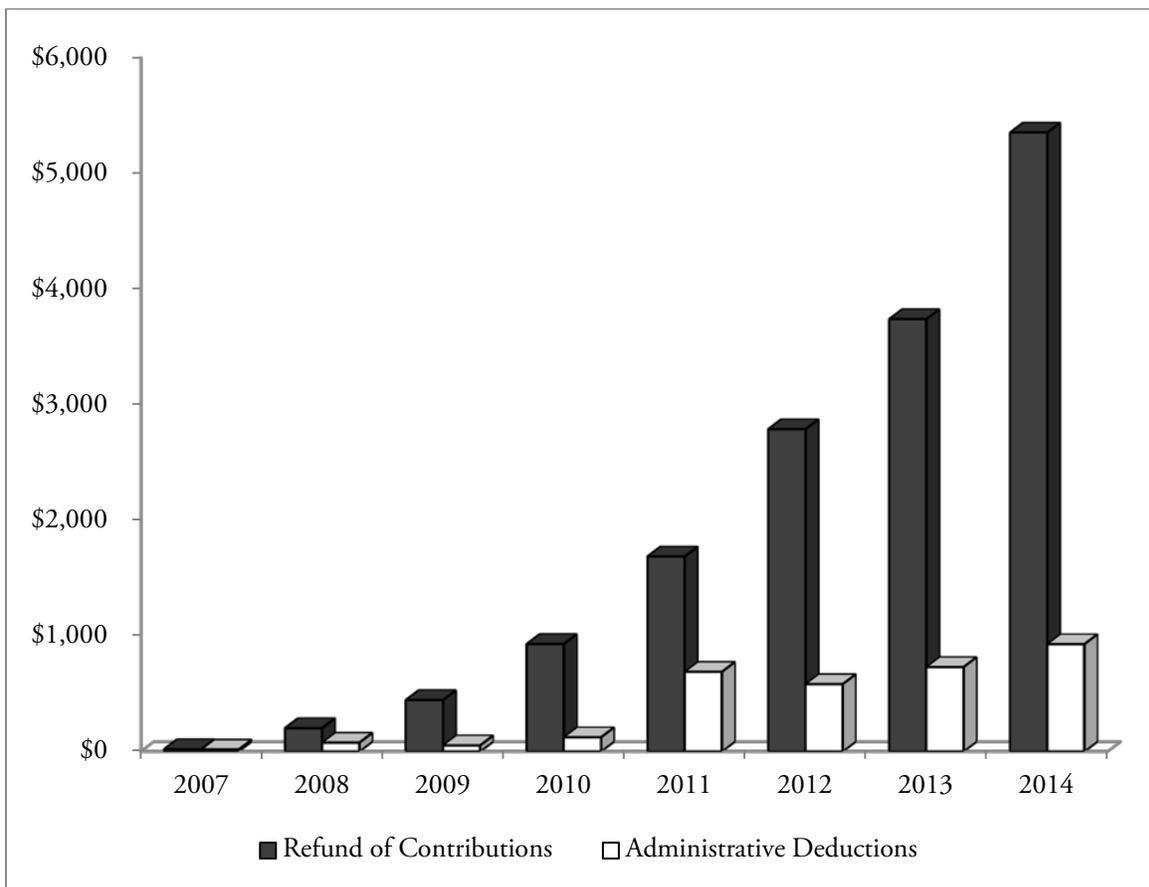
7-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



Statistical Section

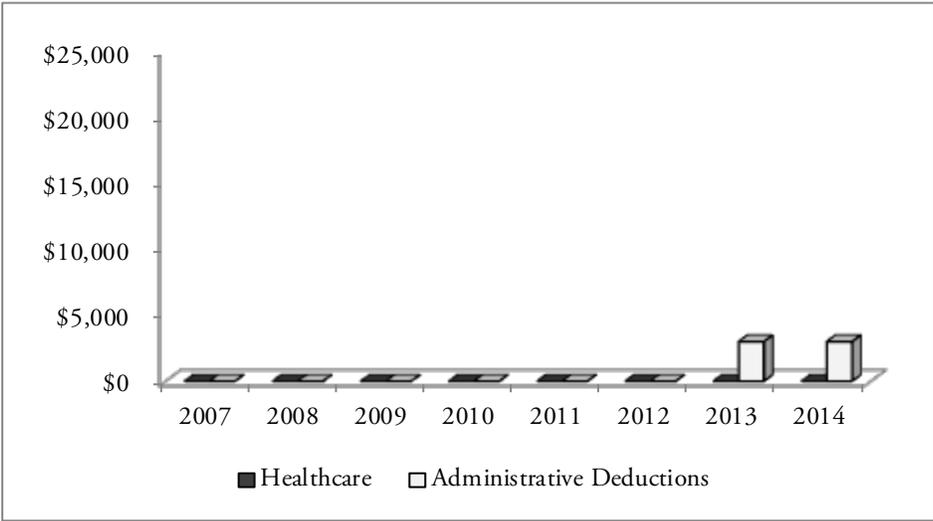
| Teachers' Retirement System Defined Contribution Retirement Participant Directed Deductions by Type (In thousands) | | | | |
|---|-------------------------|----------------|--|-------|
| Plan Ended June 30 | Refund of Contributions | Administrative | Prior Year Forfeiture Payable Adjustment | Total |
| 2007 | \$ 20 | \$ 16 | \$ — | \$ 36 |
| 2008 | 202 | 76 | — | 278 |
| 2009 | 445 | 53 | — | 498 |
| 2010 | 930 | 123 | — | 1,053 |
| 2011 | 1,688 | 689 | — | 2,377 |
| 2012 | 2,791 | 583 | — | 3,374 |
| 2013 | 3,737 | 731 | 3,247 | 7,715 |
| 2014 | 5,352 | 929 | — | 6,281 |

8-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)



| Teachers' Retirement System Defined Contribution Retirement Medical Plan Deductions by Type (In thousands) | | | |
|--|-------------------|-----------------------|--------------|
| Plan Ended June 30 | Healthcare | Administrative | Total |
| 2007 | \$ — | \$ — | \$ — |
| 2008 | — | — | — |
| 2009 | — | — | — |
| 2010 | — | — | — |
| 2011 | — | — | — |
| 2012 | — | — | — |
| 2013 | — | 3 | 3 |
| 2014 | — | 3 | 3 |

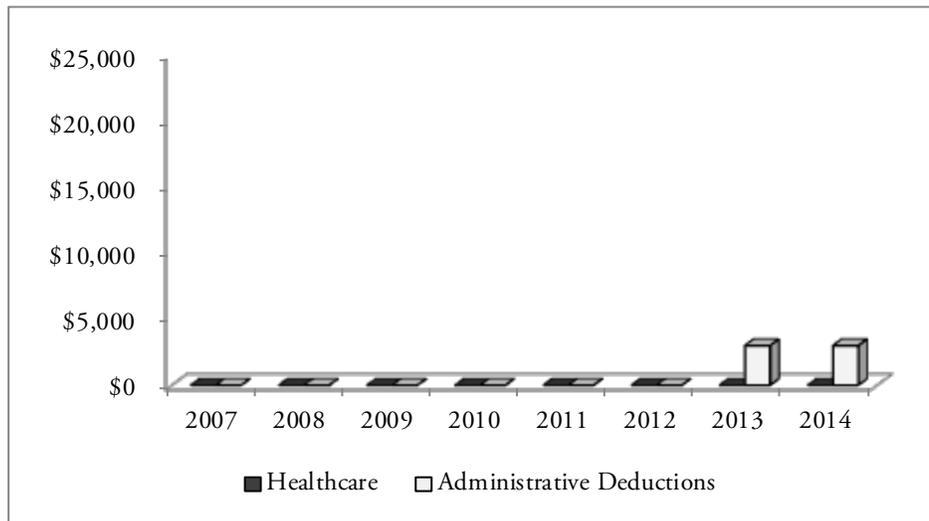
**8-YEAR COMPARISON OF DEDUCTIONS BY TYPE
 (In thousands)**



Statistical Section

| Teachers' Retirement System Defined Contribution Retirement Health Reimbursement Arrangement Deductions by Type (In thousands) | | | |
|---|------------|----------------|-------|
| Plan Ended June 30 | Healthcare | Administrative | Total |
| 2007 | \$ — | \$ — | \$ — |
| 2008 | — | — | — |
| 2009 | — | — | — |
| 2010 | — | — | — |
| 2011 | — | — | — |
| 2012 | — | — | — |
| 2013 | — | 3 | 3 |
| 2014 | — | 3 | 3 |

8-YEAR COMPARISON OF DEDUCTIONS BY TYPE
(In thousands)

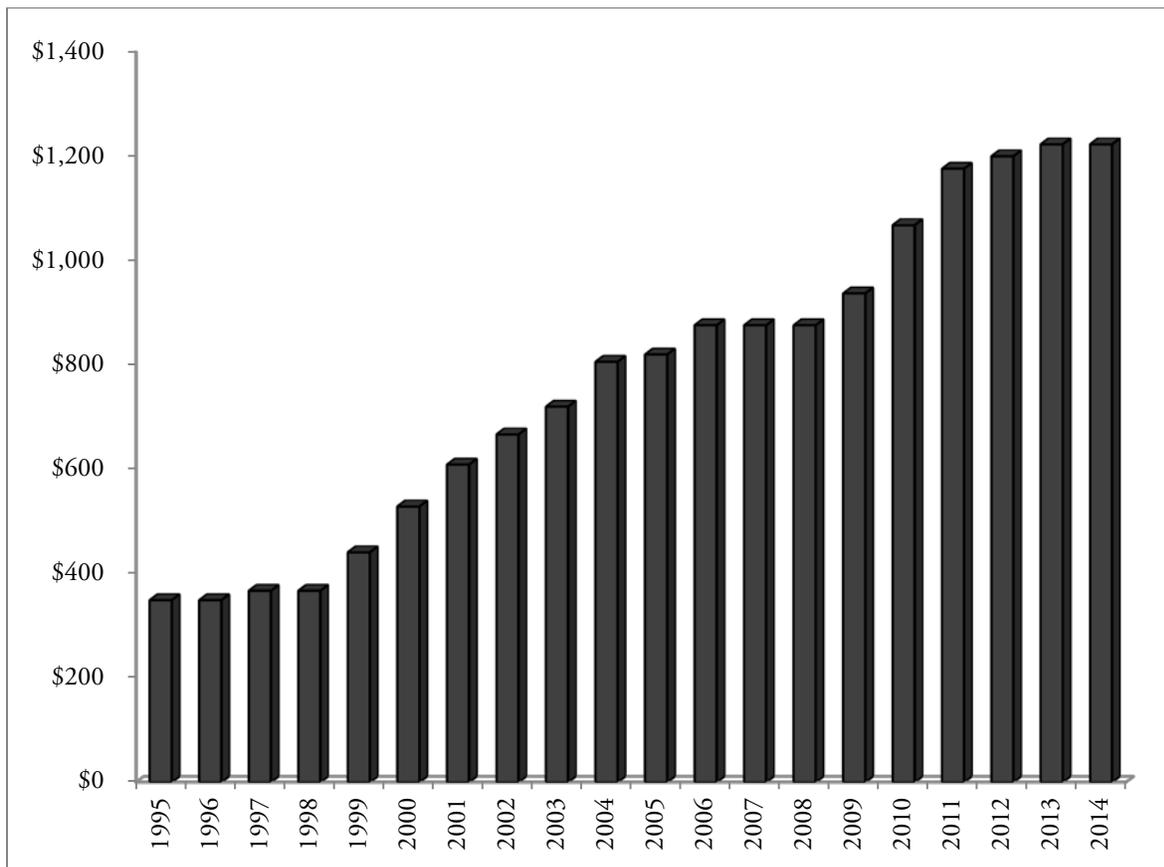


| Teachers' Retirement System Schedule of Average Pension Benefit Payments New Benefit Recipients | | | | | | | |
|--|---------------------------|---------|---------|---------|---------|---------|---------|
| | Years of Credited Service | | | | | | |
| | 0 - 4 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ |
| Period 7/1/07 - 6/30/08 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$209 | \$945 | \$1,248 | \$2,226 | \$2,966 | \$3,832 | \$5,057 |
| Number of Recipients | 13 | 44 | 62 | 92 | 95 | 87 | 33 |
| Period 7/1/08 - 6/30/09 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$230 | \$950 | \$1,168 | \$2,239 | \$2,957 | \$3,897 | \$4,860 |
| Number of Recipients | 13 | 35 | 64 | 52 | 67 | 54 | 18 |
| Period 7/1/09 - 6/30/10 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$482 | \$1,020 | \$1,343 | \$2,263 | \$2,992 | \$4,120 | \$6,263 |
| Number of Recipients | 14 | 50 | 63 | 85 | 109 | 79 | 49 |
| Period 7/1/10 - 6/30/11 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$146 | \$902 | \$1,432 | \$2,328 | \$3,131 | \$4,283 | \$5,496 |
| Number of Recipients | 5 | 68 | 63 | 77 | 118 | 104 | 67 |
| Period 7/1/11 - 6/30/12 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$353 | \$1,064 | \$1,512 | \$2,241 | \$3,276 | \$4,320 | \$5,739 |
| Number of Recipients | 11 | 43 | 62 | 61 | 118 | 81 | 58 |
| Period 7/1/12 - 6/30/13 ⁽¹⁾ : | | | | | | | |
| Average Monthly Benefit | \$253 | \$1,030 | \$1,496 | \$2,450 | \$3,281 | \$4,384 | \$6,052 |
| Number of Recipients | 10 | 57 | 67 | 90 | 101 | 79 | 64 |
| "Average Monthly Benefit" includes post-retirement pension adjustments and cost-of-living increases. | | | | | | | |
| ⁽¹⁾ Does not include beneficiaries | | | | | | | |

Statistical Section

| Teachers' Retirement System Schedule of Pension and Healthcare Benefits Deductions by Type (In thousands) | | | | | | |
|--|------------|------------|----------|-----------|------------|------------|
| Year Ended June 30 | Service | Disability | Survivor | Dependent | Healthcare | Total |
| 2005 | \$ 258,998 | \$ 2,400 | \$ 7,695 | \$ 321 | \$ 85,670 | \$ 355,084 |
| 2006 | 270,504 | 2,342 | 8,353 | 6 | 92,462 | 373,667 |
| 2007 | 281,879 | 2,193 | 9,146 | 6 | 96,544 | 389,768 |
| 2008 | 294,807 | 1,889 | 9,974 | 18 | 99,583 | 406,271 |
| 2009 | 306,748 | 1,692 | 10,688 | 20 | 103,093 | 422,241 |
| 2010 | 319,109 | 1,757 | 11,787 | 37 | 117,556 | 450,246 |
| 2011 | 329,308 | 1,337 | 12,499 | 47 | 133,152 | 476,343 |
| 2012 | 346,538 | 1,222 | 13,398 | 45 | 146,309 | 507,512 |
| 2013 | 364,387 | 1,377 | 14,467 | 34 | 160,337 | 540,602 |
| 2014 | 379,594 | 1,231 | 15,703 | 86 | 166,631 | 563,245 |

20-YEAR COMPARISON OF RETIREE MONTHLY COMPOSITE MEDICAL PREMIUMS



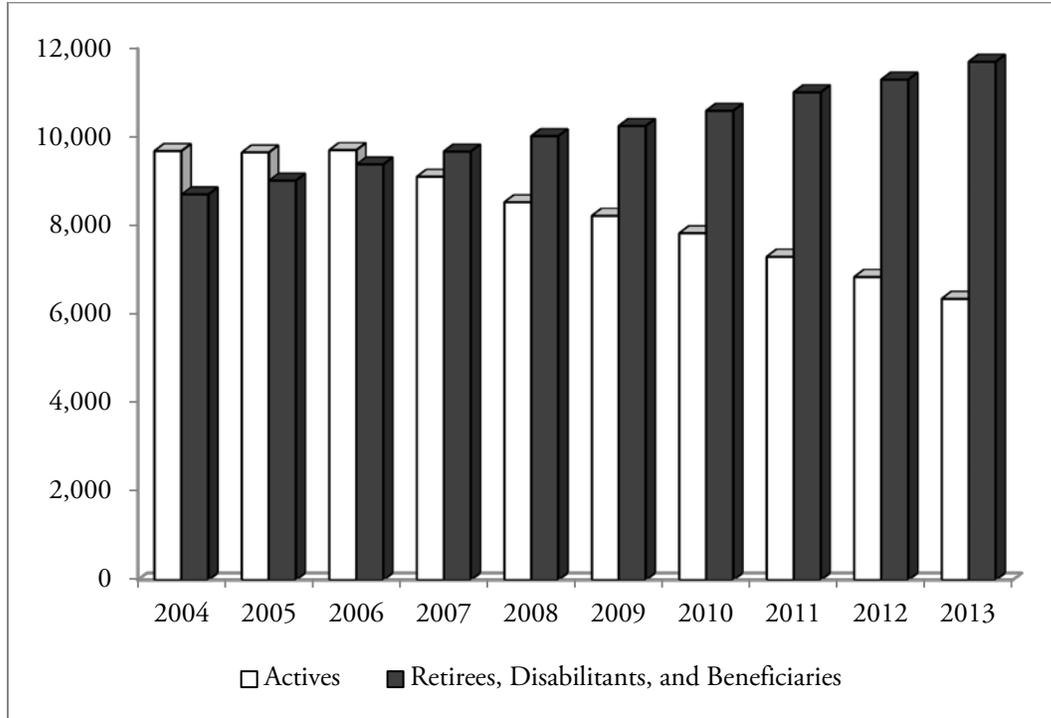
| Teachers' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Elected Valuation as of June 30, 2013 | | | | |
|--|----------------------------|-------------------------|------------------|------------|
| Amount of Monthly Pension Benefit | Number of Recipients | Type of Pension Benefit | | |
| | | Regular Retirement | Survivor Payment | Disability |
| \$ 1 - 300 | 203 | 150 | 53 | — |
| 301 - 600 | 363 | 265 | 98 | — |
| 601 - 900 | 637 | 522 | 115 | — |
| 901 - 1,200 | 733 | 600 | 133 | — |
| 1,201 - 1,500 | 667 | 533 | 134 | — |
| 1,501 - 1,800 | 630 | 514 | 115 | 1 |
| 1,801 - 2,100 | 699 | 583 | 115 | 1 |
| 2,101 - 2,400 | 846 | 776 | 70 | — |
| 2,401 - 2,700 | 1,006 | 945 | 58 | 3 |
| 2,701 - 3,000 | 970 | 929 | 33 | 8 |
| 3,001 - 3,300 | 902 | 873 | 24 | 5 |
| 3,301 - 3,600 | 802 | 784 | 15 | 3 |
| 3,601 - 3,900 | 733 | 717 | 9 | 7 |
| 3,901 - 4,200 | 593 | 586 | 6 | 1 |
| over 4,200 | 1,921 | 1,911 | 7 | 3 |
| Totals | 11,705 | 10,688 | 985 | 32 |

| Teachers' Retirement System Schedule of Pension Benefit Recipients by Type of Pension Benefit and Option Elected Valuation as of June 30, 2013 | | | | | |
|--|----------------------------|-----------------------|--|--|---|
| Amount of Monthly Pension Benefit | Number of Recipients | Option Selected | | | |
| | | Whole Life Annuity | 75% Joint and Contingent Annuity | 50% Joint and Contingent Annuity | 66 2/3% Joint and Contingent Annuity |
| \$ 1 - 300 | 203 | 118 | 44 | 33 | 8 |
| 301 - 600 | 363 | 192 | 75 | 77 | 19 |
| 601 - 900 | 637 | 328 | 140 | 137 | 32 |
| 901 - 1,200 | 733 | 423 | 161 | 117 | 32 |
| 1,201 - 1,500 | 667 | 350 | 154 | 139 | 24 |
| 1,501 - 1,800 | 630 | 341 | 142 | 125 | 22 |
| 1,801 - 2,100 | 699 | 362 | 152 | 164 | 21 |
| 2,101 - 2,400 | 846 | 391 | 200 | 223 | 32 |
| 2,401 - 2,700 | 1,006 | 484 | 238 | 259 | 25 |
| 2,701 - 3,000 | 970 | 461 | 213 | 269 | 27 |
| 3,001 - 3,300 | 902 | 426 | 189 | 266 | 21 |
| 3,301 - 3,600 | 802 | 400 | 150 | 233 | 19 |
| 3,601 - 3,900 | 733 | 379 | 128 | 205 | 21 |
| 3,901 - 4,200 | 593 | 303 | 92 | 189 | 9 |
| over 4,200 | 1,921 | 903 | 283 | 678 | 57 |
| Totals | 11,705 | 5,861 | 2,361 | 3,114 | 369 |

Statistical Section

| Teachers' Retirement System System Membership by Status | | | | | |
|--|--------|--|------------------------|--|--------|
| Year Ended June 30 | Active | Retirees Disabilitants & Beneficiaries | Vested Terminations | Nonvested Terminations w/Balance | Total |
| 2004 | 9,688 | 8,707 | 724 | 2,746 | 21,865 |
| 2005 | 9,656 | 9,020 | 826 | 2,874 | 22,376 |
| 2006 | 9,710 | 9,386 | 795 | 3,085 | 22,976 |
| 2007 | 9,107 | 9,678 | 846 | 3,044 | 22,675 |
| 2008 | 8,531 | 10,026 | 873 | 2,971 | 22,401 |
| 2009 | 8,226 | 10,255 | 884 | 2,830 | 22,195 |
| 2010 | 7,832 | 10,598 | 840 | 2,789 | 22,059 |
| 2011 | 7,303 | 11,016 | 852 | 2,675 | 21,846 |
| 2012 | 6,845 | 11,301 | 868 | 2,559 | 21,573 |
| 2013 | 6,352 | 11,705 | 906 | 2,448 | 21,411 |

**10-YEAR COMPARISON OF ACTIVE MEMBERS AND RETIREES,
DISABILITANTS, AND BENEFICIARIES**

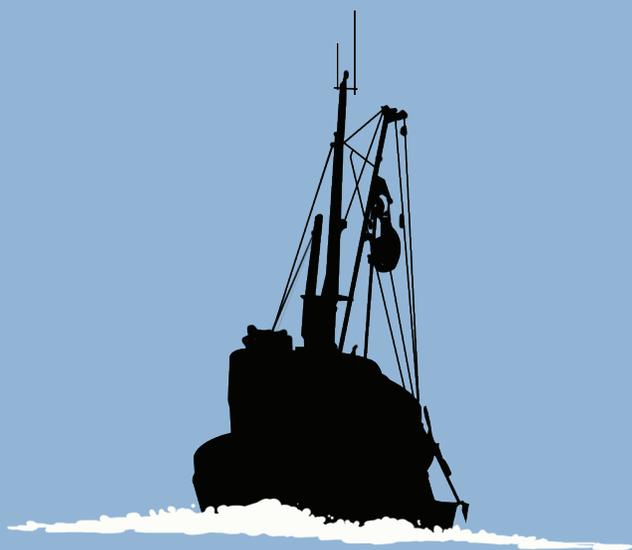


| Teachers' Retirement System Principal Participating Employers June 30, 2014 | | | |
|--|--------------------------------|-------------|--|
| Employer | Non-retired Members | Rank | Percentage of Total Non-retired Members |
| Anchorage School District | 4,862 | 1 | 32.25% |
| Matanuska-Susitna Borough School District | 1,499 | 2 | 9.94 |
| Fairbanks North Star Borough School District | <u>1,321</u> | 3 | <u>8.76</u> |
| Total | <u><u>7,682</u></u> | | <u><u>50.95%</u></u> |

Statistical Section

Teachers' Retirement System Participating Employers June 30, 2014

| | |
|--|--|
| Alaska Department of Education | Lake and Peninsula Borough School District |
| Alaska Gateway School District | Lower Kuskokwim School District |
| Aleutian Region School District | Lower Yukon School District |
| Aleutians East Borough School District | |
| Anchorage School District | Matanuska-Susitna Borough School District |
| Annette Island School District | |
| | Nenana City School District |
| Bering Strait School District | Nome City School District |
| Bristol Bay Borough School District | North Slope Borough School District |
| | Northwest Arctic Borough School District |
| Chatham School District | |
| Chugach School District | Pelican City School District |
| Copper River School District | Petersburg City School District |
| Cordova City School District | Pribilof School District |
| Craig City School District | |
| | Saint Mary's School District |
| Delta-Greely School District | Sitka Borough School District |
| Denali Borough School District | Skagway City School District |
| Dillingham City School District | Southeast Island School District |
| | Southeast Regional Resource Center |
| Fairbanks North Star Borough School District | Southwest Region School District |
| | Special Education Service Agency |
| Galena City School District | |
| | Tanana School District |
| Haines Borough School District | |
| Hoonah City School District | Unalaska City School District |
| Hydaburg City School District | University of Alaska |
| | |
| Iditarod Area School District | Valdez City School District |
| | |
| Juneau School District, City and Borough of | Wrangell Public School District |
| | |
| Kake City School District | Yakutat School District |
| Kashunamiut School District | Yukon Flats School District |
| Kenai Peninsula Borough School District | Yukon-Koyukuk School District |
| Ketchikan Gateway Borough School District | Yup'it School District |
| Klawock City School District | |
| Kodiak Island Borough School District | |
| Kuspuk School District | |



State of Alaska
Department of Administration | Division of Retirement and Benefits
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