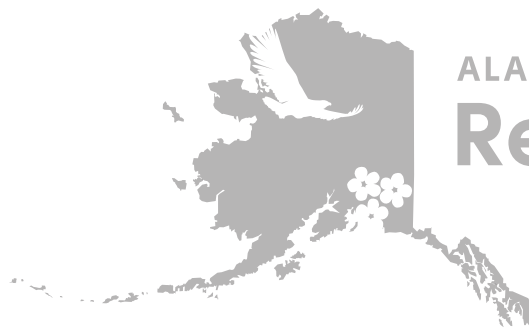




INTRODUCTORY SECTION



ALASKA DIVISION OF
**Retirement
and Benefits**



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Administration

DIVISION OF RETIREMENT AND BENEFITS

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333 Willoughby Avenue
P.O. Box 110203
Juneau, AK 99811-0203
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Toll-Free: (800) 821-2251
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Alaska.gov/drb

December 15, 2021

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

We are pleased to present the Annual Comprehensive Financial Report (ACFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2021. The ACFR is intended to fulfill the legal requirements of Alaska Statute (AS) 14.25.004(a)(8).

The ACFR 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, 2021. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, has issued an unmodified opinion on the System's basic financial statements for the year ended June 30, 2021. The Independent Auditors' Report is located at the beginning 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 ACFR is divided into five sections:

- **Introductory Section**, which contains the letter of transmittal, the organizational chart of the Division, and a list of the members serving on the Alaska Retirement Management Board (Board);
- **Financial Section**, which contains the Independent Auditor's Report, MD&A, basic financial statements, required supplementary information, and additional information;

Introductory Section

- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

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 July 1, 1975. Senate Bill 141, signed into law on July 27, 2005, closed the Defined Benefit (DB) Plan effective July 1, 2006, to new members and created a Defined Contribution Retirement (DCR) Plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of: (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan and the Alaska Retiree Health Care Trust (Tiers I and II). The DCR 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 ACFR 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 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 making progress on several on-going projects. Most of these efforts are focused on improving the following: customer service, technology, methods for employers submitting information, methods for members to obtain information, and continued compliance with Governmental Accounting Standards Board (GASB) accounting requirements, as applicable. While COVID-19 continues to impact day-to-day and face-to-face interaction with members and employers, we continue providing via teleworking and hybrid telework arrangements the necessary services needed to meet stakeholder demands while maintaining appropriate security and safety measures.

The System is in the second year of a major member benefits system upgrade. The Division signed a contract with Sagitec, an industry leader in pension and healthcare software systems. The Division branded the new system Benefits and Retirement System, or BEARS. Recently, Sagitec presented the first of three pilot demonstrations of modules designed and created since the inception of the project. Staff is excited about this new system, the enhancements it provides, and looks forward to sharing more information with members and employers as we work toward implementation in 2023.

The System strives to offer best in class health care benefits balanced by strong financial management and cost initiatives that focus on value. Two examples are (1) the implementation of preventive care coverage in the retiree health plan and (2) implementation of specialty pharmacy management programs in the employee and retiree health plans. Both changes result in valuable medical coverage to the membership while striving to contain rising healthcare costs that impact the System.

Under the guidance of Director Ajay Desai, the System continues to assess and retool its communication efforts, including printed handbooks, newsletters, and website content. The System developed new employee videos for employers' use and plan information easily accessible online by members. While technology has enhanced our outreach, it does not replace in-person efforts to meet, discuss, and plan member benefits. The System strives to ensure that all communication material is clear, accurate, and user-friendly.

The System 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, faster processing of all customer requests, and improving member education services.

The System offers a broad array of fairs, town halls, and seminars as safely as possible for both members and employers. These efforts are directed at assisting employers with successful marketing of the plans, educating members about all benefits available from early career to retirement, encouraging healthy living, and how to best use the health plan.

Funding Requirements

The System's consulting actuary, Buck Global LLC, presented the results of the June 30, 2020, actuarial valuation report to the Plan Administrator, Division, and the Board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report dated May 20, 2021, the System's DB Plan has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 86.6%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately

Introductory Section

\$1.3 billion. The unfunded liability continues to be addressed at all levels of the State. The Governor's budget proposes to provide funding to System's employers in order to maintain an appropriate level of employer contributions while also paying the actuarially determined contribution rate adopted by the Board.

Investments

On June 30, 2021, the DB Plan's investment portfolio was valued at \$10.4 billion and earned an average 27.65% return for the fiscal year ended June 30, 2021. The DCR Plan's investment portfolio was valued at \$1.1 billion for the fiscal year ended June 30, 2021. Over the past five years ending June 30, 2021, the DB Plan's investments earned an 11.87% 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.

Accounting System

This ACFR 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 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 ACFR for the fiscal year ended June 30, 2020. 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 ACFR. 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. The Division is confident our current ACFR 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 to the Division for the fiscal year ended June 30, 2021. This award signifies that the Alaska TRS complies with the standard benchmarks for public defined benefit systems in the United States. The standards require a high level for the following: comprehensive benefit program, funding adequacy, accepted actuarial and audit practices, investment policy and evaluation, and member communications.

Introductory Section

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 standards award requirements and will apply to the PPCC for consideration in 2022.

Acknowledgements

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

The report is available on the web at <http://doa.alaska.gov/drb/trs/employee/resources/CAFR.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 the employers and plan members find this report informative.

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,



Paula Vrana
Commissioner



Ajay Desai
Division Director



Emily Ricci
Chief Health Policy Administrator



Jim Puckett
Chief Pension 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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2021***

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

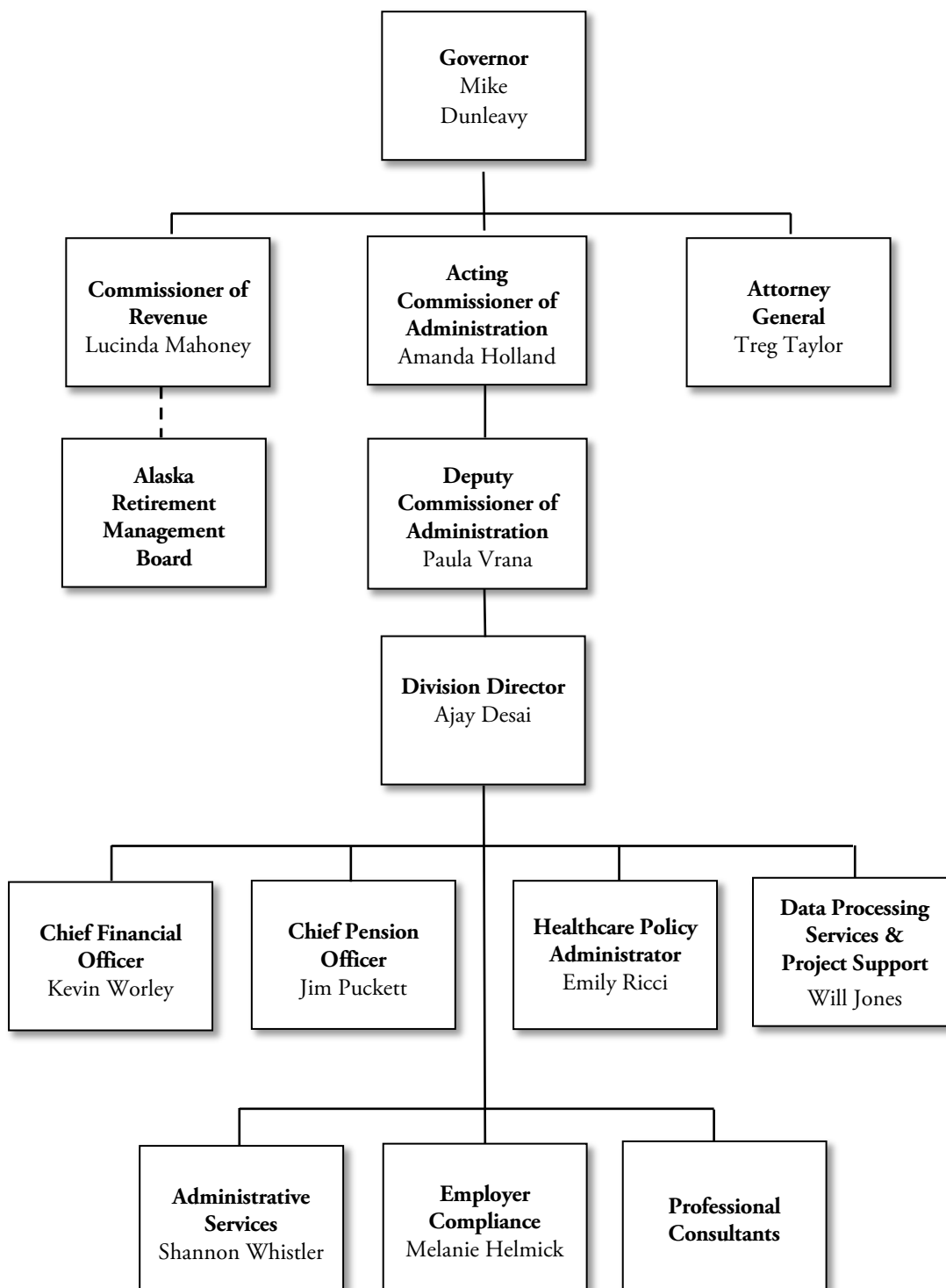
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

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

Alan H. Winkle
Program Administrator

ORGANIZATION CHART

As of June 30, 2021



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 Global LLC <i>Denver, Colorado</i></p>	<p>Legal Counsel Kevin Dilg Ivy Greever Morgan A. Griffin Ben Hofmeister Joleen Langel Grace Lee Jessica Leeah Bill Milks Rebecca Polizzotto</p>	<p>Legal Counsel (cont.) Jennifer Williams Laura Wolff <i>Anchorage, AK</i> Ice Miller LLP <i>Indianapolis, Indiana</i></p>
<p>Reviewing Actuary Gabriel Roeder Smith <i>Denver, Colorado</i></p>	<p>Assistant Attorney Generals <i>Juneau, Alaska</i></p>	<p>Third-Party Healthcare Claim Administrators Aetna Life Insurance Company <i>Lexington, Kentucky</i> CHCS Services, Inc. <i>Pensacola, Florida</i> Moda Health / Delta Dental of Alaska <i>Portland, Oregon</i> PayFlex Systems USA, Inc. <i>Omaha, Nebraska</i> Optum Rx <i>Irvine, California</i></p>
<p>Independent Auditors KPMG LLP <i>Anchorage, Alaska</i></p>	<p>Jessie Alloway Colleen Bailey Katherine Demarest Javier Diaz Angie G. Fraker Kimberly Halstead Vanessa Lamantia Siobhan McIntyre Margret Paton-Walsh Jeff Pickett Amy Robinson Christopher Robison Kimber Rodgers Robert Schmidt Brad Sharp</p>	<p>Consulting Physicians Julius Goslin <i>Anchorage, AK (HSS)</i> Managed Medical Review Organization <i>Novi, Michigan</i></p>
<p>Benefits Consultants Buck Global LLC <i>Denver, Colorado</i> The Segal Company <i>Greenwood Village, Colorado</i></p>		
<p>IT Consultants Alaska IT Group <i>Juneau, Alaska</i> Applied Microsystems, Inc. Computer Task Group <i>Anchorage, Alaska</i></p>		

A list of investment consultants can be found in the Investment Section on pages 78–79.

Investment fees and commissions can be found on pages 87 and 94.

Introductory Section

Alaska Retirement Management Board

As of June 30, 2021

Robert M. (“Rob”) Johnson, Chair, has been an attorney in Alaska for over 40 years. In private practice, Mr. Johnson was outside counsel for ARMB since its inception in 2005 until he recently retired from full-time practice. He also was sole outside counsel for ARMB’s predecessor entities, the Alaska State Pension Investment Board and the PERS and TRS board. Mr. Johnson’s law practice included many matters of state-wide importance including Exxon Valdez litigation, public sector labor disputes under the Public Employees Relations Act, and multi-year controversies involving valuation of the Trans-Alaska Pipeline System. His public employment included tenures as an assistant attorney general and director of petroleum revenue. Mr. Johnson received his law degree from Stanford and a BA in history from Claremont McKenna College.

Bob Williams, Vice Chair, began his teaching career as a Peace Corps teacher in Gambia, Africa. He is a nationally board-certified teacher, (NBCT, Math – AYA) and currently teaches Calculus and Geometry at Colony High School in Palmer. Mr. Williams is the Alaska 2009 Teacher of the Year, served as the president of the Alaska Council of Teachers of Mathematics from 2011-2013, and is the recipient of the Presidential Award for Excellence in Mathematics Teaching. He was one of five national recipients of the 2010 Horace Mann Teaching Excellence award and is a 2012 Aspen Teacher Leader Fellow. Mr. Williams has a B.S. in Petroleum Engineering from the University of Alaska, Fairbanks, an M.A. in Mathematics Education from Columbia University, and an M.Ed. in Educational Leadership from the University of Alaska, Anchorage. Mr. Williams also serves Chair of the ARMB Defined Contribution Plan Committee.

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Ms. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, 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 BS in Mathematics from North Carolina State University, and a Master’s in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law, and finance. Ms. Harbo also serves as Chair of the ARMB Audit Committee

Lorne Bretz was appointed by Governor Dunleavy in March 2019. Lorne immigrated to Alaska in 1992, and with its vast beauty, it quickly became home. Volunteering in the community, hiking and off-road adventuring are some of Lorne's favorite hobbies. Mr. Bretz is the *Plan Administrator* for the Municipality of Anchorage Retiree Medical Funding Program Trust for Police Officers and Firefighters. He has a Master’s in Business Administration, a Retirement Plans Associate designation and is a Certified Financial Planner professional. He has a passion for finances and a desire to support the needs of retirees and future retirees of the state he calls home.

Allen Hippler was appointed by Governor Dunleavy in March 2019. Allen Hippler is a Vice President of Commercial Lending at Northrim Bank, where he specializes in underwriting loans for Alaskan businesses. He has almost two decades of experience working in finance throughout the state, most notably Wasilla, Bethel, and Anchorage. Mr. Hippler has chaired the City of Bethel finance committee; was elected to and served on the Bethel City Council; and was named one of Alaska’s ‘Top Forty under Forty’ in 2009. He is active with the Alaska Chamber of Commerce, and currently is Vice Chairman of that organization. Previous service to the State of Alaska includes working as a Commissioner of the Alaska Health Care Commission. Mr. Hippler holds a B.A. in Economics from the University of Dallas. Mr Hippler also serves as Chair of the Actuarial Committee.

Amanda Holland was appointed as Acting Commissioner of the Department of Administration by Governor Dunleavy on March 29, 2021. Deputy Commissioner Amanda Holland has served the State of Alaska and its citizens for over 29 years in six different operating agencies. This included 9 years with DOA, Acting OMB Director at OMB, and as DOT & PF's Deputy Commissioner and Administrative Services Director. In these roles, she has been responsible for budget, administrative support services, and strategic workforce management, and has helped state agencies realize operational efficiencies and build resiliency into the workforce. Deputy Commissioner Holland received her Bachelor's degree in Industrial/Organizational Psychology and her Master's degree in Organizational Leadership. She has a strong background in workforce planning, organizational development, leadership, and human resources. In 2015, she launched a nationally recognized leadership development program.

Donald Krohn was appointed by Governor Dunleavy in March 2021. He began his career in law enforcement more than 45 years ago with a four-year stint in the Air Force. From there, he joined the U.S. Customs Service in Chicago, working on narcotics interdiction. In 1979, he was transferred to Anchorage and after five more years working in inspections and intercepting drug traffic, he joined the Anchorage Police Department. Mr. Krohn worked for several years at the department as a detective specializing in white-collar crime. He was then promoted to the major crime's unit. He finished his 18 years at APD working major crimes and as a homicide detective. In January 2002, he joined First National Bank Alaska as Security Officer. During his first three years at the bank, he developed and implemented programs that resulted in an 80 percent reduction in successful criminal attacks against the bank and its customers. He retired in May 2020. Mr. Krohn also holds a Bachelor of Science in Occupational Education, with a minor in Criminal Justice from Wayland Baptist University.

Lucinda Mahoney is the Commissioner of the Department of Revenue appointed by Governor Dunleavy in February 2020. Lucinda has over 30 years of broad business experience working for various companies in the State of Alaska. Her experience includes investment management, business valuations, treasury, debt, accounting, strategic planning, budgeting, process improvements, shared services, and Sarbanes Oxley consulting. Lucinda was previously the CFO for the Municipality of Anchorage. She also managed the Arctic Slope Regional Corporation Shared Services Center. Prior to that, she was a Director with KPMG LLP managing its business consulting practice in Alaska. Finally, she held various management positions at ARCO, a multibillion oil company. Lucinda has a Master's in Business Administration, University of Alaska; a Bachelor's in Business Administration with a concentration in Finance, University of Texas; and is a Certified Valuation Analyst with the National Association of Certified Valuation Analysts.

Dennis Moen was appointed by Governor Dunleavy in 2020. He is a retired Facility Manager for the State of Alaska, Department of Transportation & Public Facilities, Northern Region. Dennis established and managed a multi-million-dollar annual operating budget. Supervised over 50 employees. Developed an annual budget for over 400 state owned facilities and was the Contracting Officer for 100's of state vendors. Fourteen hours after retiring from the State of Alaska, he went to work for the Public Employees Local 71 Laborer's Union. He was elected as Business Manager/Secretary Treasurer in 2012. As Business Manager, Mr. Moen represented 2400 members statewide. He developed a multi-million-dollar budget and provided fiduciary oversight of Local 71's operating budget. Dennis directed investment bankers and economic consultants for PE Local 71's Health Trust Fund. He also oversaw actuarial analysis and audits. Mr. Moen was concurrently Business Manager/Secretary Treasurer for Alaska District Council of Laborers for three Alaska Laborer Locals. Dennis was also the Vice President of the Pacific Health Coalition (PHC), a private health coalition representing 250,000 members through public and private unions and small businesses. Dennis lived and raised his 2 children in Fairbanks, Alaska for 40 years. He is a private pilot, a Coast-Guard Captain for 100-ton vessels and since his retirement from the Union in 2019 enjoys commercial fishing in Southeast Alaska.



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