



**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-7
Statements of Net Position	8
Statements of Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11-14



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

## **Independent Auditors' Report**

The Division of Retirement and Benefits and  
State of Alaska Department of Administration  
State of Alaska Group Health and Life Fund:

We have audited the accompanying financial statements of the State of Alaska Group Health and Life Fund (the Plan), an internal service fund of the State of Alaska, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Plan'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 audits. We conducted our audits 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 controls 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 net position of the State of Alaska Group Health and Life Fund as of June 30, 2020 and 2019, and its changes in net position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



**Other Matter**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, on pages 3–7, 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.

KPMG LLP

October 30, 2020

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and 2019

This section presents management's discussion and analysis (MD&A) of the Group Health and Life Fund's (the Plan) financial condition and performance for the years ended June 30, 2020 and 2019. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2020 and 2019. Information for fiscal year 2018 is presented for comparative purposes.

**Financial Highlights**

The Plan's financial highlights for the year ended June 30, 2020 were as follows:

- The Plan's net position increased by \$133 thousand during fiscal year 2020.
- The Plan's health insurance premiums during fiscal year 2020 totaled \$129.0 million, a decrease of \$1.1 million from fiscal year 2019.
- The Plan's interest and dividend income during fiscal year 2020 was \$702 thousand.
- The Plan's benefit expense during fiscal year 2020 totaled \$128.1 million, an increase of \$6.4 million from fiscal year 2019.
- The Plan's administrative expense during fiscal year 2020 totaled \$5.5 million, an increase of \$442 thousand from fiscal year 2019.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's financial statements comprise four components: (1) statement of net position; (2) statement of changes in net position; (3) statement of cash flows; and (4) notes to financial statements.

*Statement of net position* – This statement presents information regarding the Plan's assets, liabilities, and resulting net position. This statement reflects the Plan's cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2020 and 2019.

*Statement of changes in net position* – This statement presents how the Plan's net position changed during the fiscal years ended June 30, 2020 and 2019, as a result of health insurance premiums, interest and dividend income, and operating expenses.

*Statement of cash flows* – This statement presents cash flows from operating, financing, and investing activities. The Plan presents its cash flows statement using the direct method for reporting cash received and disbursed during the fiscal year.

The above statements represent resources available for investment and payment of benefits as of June 30, 2020 and 2019, and the sources and uses of those funds during fiscal years 2020 and 2019.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and 2019

*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 Plan's financial statements.

**Condensed Financial Information**

Description	Net position				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 34,037,405	32,439,809	1,597,596	4.9%	\$ 25,754,059
Due from State of Alaska General Fund	—	—	—	—	57,378
Other assets	593,160	593,160	—	—	600,446
Total assets	<u>34,630,565</u>	<u>33,032,969</u>	<u>1,597,596</u>	<u>4.8</u>	<u>26,411,883</u>
<b>Liabilities:</b>					
Claims payable	15,065,000	13,261,000	1,804,000	13.6	14,530,000
Due to State of Alaska General Fund	43,781	43,192	589	1.4	—
Accrued expenses	668,780	1,008,360	(339,580)	(33.7)	805,787
Total liabilities	<u>15,777,561</u>	<u>14,312,552</u>	<u>1,465,009</u>	<u>10.2</u>	<u>15,335,787</u>
Unrestricted net position	<u>\$ 18,853,004</u>	<u>18,720,417</u>	<u>132,587</u>	<u>0.7%</u>	<u>\$ 11,076,096</u>

Description	Changes in net position				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Unrestricted net position, beginning of year	\$ 18,720,417	11,076,096	7,644,321	69.0%	\$ 2,121,993
<b>Operating revenue:</b>					
Health insurance premiums	129,034,366	130,180,310	(1,145,944)	(0.9)	129,599,362
Other revenue	3,959,776	3,328,600	631,176	19.0	2,048,739
Total operating revenue	<u>132,994,142</u>	<u>133,508,910</u>	<u>(514,768)</u>	<u>(0.4)</u>	<u>131,648,101</u>
<b>Operating expenses:</b>					
Healthcare benefits	128,071,357	121,685,452	6,385,905	5.2	118,401,784
Administrative	5,492,666	5,051,147	441,519	8.7	4,532,809
Total operating expenses	<u>133,564,023</u>	<u>126,736,599</u>	<u>6,827,424</u>	<u>5.4</u>	<u>122,934,593</u>
Operating income (loss)	(569,881)	6,772,311	(7,342,192)	(108.4)	8,713,508
<b>Nonoperating revenue:</b>					
Interest and dividend income	702,468	872,010	(169,542)	(19.4)	240,595
Change in unrestricted net position	<u>132,587</u>	<u>7,644,321</u>	<u>(7,511,734)</u>	<u>(98.3)</u>	<u>8,954,103</u>
Unrestricted net position, end of year	<u>\$ 18,853,004</u>	<u>18,720,417</u>	<u>132,587</u>	<u>0.7%</u>	<u>\$ 11,076,096</u>

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and 2019

**Financial Analysis of the Plan**

The statements of net position as of June 30, 2020 and 2019 show total assets exceeding total liabilities by \$18,853,004 and \$18,720,417, respectively. These amounts represent the total plan net position held in trust for healthcare benefits on each of those dates. The entire amount is available to cover the Plan's obligation to pay healthcare benefits for its members and their beneficiaries.

These amounts also represent an increase in net position of \$132,587 or 0.7% during fiscal year 2020 and an increase of \$7,644,321 or 69.0% during fiscal year 2019. Over the long-term, healthcare insurance premiums collected, other income received, and investment income earned are expected to cover all costs of the Plan. During fiscal year 2020, the Plan saw an increase in both per-member healthcare claim costs and administrative expenses and a modest decrease in premiums due to a decrease in covered members. These were partially offset by an increase in other revenue. During fiscal year 2020, the Plan saw stable operating revenues, significant increases in per member claims costs and administrative expenses, and was still able to maintain reserves similar to fiscal year 2019. During fiscal year 2019, the Plan saw an increase in administrative expenses and an increase in per-member claim cost. These increases were offset by increases in premiums and other income which continued to help build the fund's reserves. In fiscal year 2018, the Plan saw a decrease in covered members as well as a decrease in claim cost per member. While the Division of Retirement and Benefits (the Division) works to maintain a level premium and use of network medical providers to contain costs, medical conditions may exist within the membership that drive costs higher than anticipated. The Division continues to work with the Plan's actuaries and administration to monitor and adjust premiums while managing expenses to control costs. The Division expects that there will continue to be increases in future healthcare costs. The Plan must continue to balance revenue while managing expenses to meet current and future claim costs.

**Insurance Premium Calculations**

The overall objective of the Plan is to have sufficient funds to meet claim costs. The insurance premiums are recommended each year by the Division's benefit consultant with the advisory board's recommendation and the administrator's approval. Insurance premiums are based on the Plan's benefit year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to recommend premiums for the next benefit year.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and 2019

**Health Insurance Premiums and Investment Income**

The revenue required to fund healthcare benefits is accumulated through a combination of employer and member health insurance premiums, other revenue, and investment income.

	<b>Revenues</b>				
	<b>2020</b>	<b>2019</b>	<b>Increase (decrease)</b>		<b>2018</b>
			<b>Amount</b>	<b>Percentage</b>	
Health insurance premiums	\$ 129,034,366	130,180,310	(1,145,944)	(0.9)%	\$ 129,599,362
Other revenue	3,959,776	3,328,600	631,176	19.0	2,048,739
Interest and dividend income	702,468	872,010	(169,542)	(19.4)	240,595
Total	<u>\$ 133,696,610</u>	<u>134,380,920</u>	<u>(684,310)</u>	<u>(0.5)%</u>	<u>\$ 131,888,696</u>

Health insurance premiums paid by the State of Alaska were \$1,555 per employee per month in fiscal year 2020, 2019, and 2018. Changes to health insurance premiums are the result of actual and anticipated changes in healthcare costs related to covered benefits. Premiums are based on historical and anticipated experience. During fiscal year 2020 and 2019, there has been a decrease in average monthly member counts compared to fiscal year 2018. This decrease was matched by a decrease in insurance premiums paid by the employer, but partially offset by increases in insurance premiums paid by the member.

Other income increased from \$3,328,600 in fiscal year 2019 to \$3,959,776 in fiscal year 2020, an increase of \$631,176 or 19%. This increase is primarily due to additional pharmacy rebates received in fiscal year 2020.

Interest and dividend income decreased by \$169,542, or 19.4% from amounts recorded in fiscal year 2019, and increased by \$631,415, or 262.4% from amounts recorded in fiscal year 2018. The Plan is invested in the General Fund and Other Nonsegregated Investments (GeFONSI), which is an investment pool managed by the State of Alaska, Treasury Division in the Department of Revenue. For fiscal years 2020 and 2019, the GeFONSI investments generated 2.15% and 3.08% rates of return, respectively. The GeFONSI annualized rate of return was 2.08% over the last three years and 1.52% over the last five years. The invested balance increased by \$1,597,596 and \$6,685,750 in fiscal years 2020 and 2019, respectively.

**Benefits and Expenses**

The primary expense of the Plan is the payment of healthcare benefits. These cost of benefits and administering the Plan comprise the cost of operations.



**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and 2019

	Expenses				
	2020	2019	Increase (decrease)		2018
			Amount	Percentage	
Healthcare benefits	\$ 128,071,357	121,685,452	6,385,905	5.2%	\$ 118,401,784
Administrative	5,492,666	5,051,147	441,519	8.7	4,532,809
Total	\$ 133,564,023	126,736,599	6,827,424	5.4%	\$ 122,934,593

Benefit expenses increased by \$6,385,905, or 5.2%, from fiscal year 2019 and increased by \$3,283,668, or 2.8%, from fiscal year 2018. Fiscal year 2020 saw a 1.1% decrease in average covered members and a 5.4% increase in average claims costs per member. Fiscal year 2019 saw a 0.3% decrease in average covered members and a 3.5% increase in average claims costs per member then fiscal year 2020.

Administrative expenses increased by \$441,519, or 8.7%, from fiscal year 2019 and increased by \$518,338, or 11.4%, from fiscal year 2018. The increase in administrative expenses during fiscal year 2020 was primarily due to fees paid to Plan consultants. The increase in administrative expenses during fiscal year 2019 was primarily due to administrative fees associated with implementing services through Employer Direct Health Care known as SurgeryPlus and increases in network access fees paid to the Health Care Cost Management Corporation of Alaska. The decrease in fiscal year 2018 administrative expenses was due to fiscal year 2017 being the last year for payments of Patient Protection and Affordable Care Act transitional reinsurance fees as well as decreases in fees paid to third-party administrators (TPAs).

**Economic Conditions, Market Environment, and Results**

Net investment rate of return of 2.15% during fiscal year 2020 exceeded the five-year average of 1.53%, ending the year at 261% of the five-year rate.

During fiscal year 2020, the Plan saw stable operating revenues and significant increases in both per member claim costs and administrative expenses but was still able to maintain the fund's reserves. The Division continues to work on ways to control costs going forward, along with prudent management of premiums to maintain adequate funding. The Plan continues to analyze various methods to manage its net position centered around adjustments to health insurance premiums and working with TPAs to further contain medical costs.

**Requests for Information**

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

State of Alaska Group Health and Life Fund  
Division of Retirement and Benefits, Finance Section  
P.O. Box 110203  
Juneau, Alaska 99811-0203

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Statements of Net Position

June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Cash and cash equivalents:		
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 34,037,405	32,439,809
Other assets	593,160	593,160
Total assets	34,630,565	33,032,969
<b>Liabilities:</b>		
Claims payable	15,065,000	13,261,000
Due to State of Alaska General Fund	43,781	43,192
Accrued expenses	668,780	1,008,360
Total liabilities	15,777,561	14,312,552
Unrestricted net position	\$ 18,853,004	18,720,417

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Statements of Changes in Net Position

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Employer health insurance premiums	\$ 109,254,300	110,428,330
Member health insurance premiums	<u>19,780,066</u>	<u>19,751,980</u>
Total health insurance premiums	<u>129,034,366</u>	<u>130,180,310</u>
Other revenue:		
Pharmacy rebate	3,746,602	2,940,593
Miscellaneous revenue	<u>213,174</u>	<u>388,007</u>
Total other revenue	<u>3,959,776</u>	<u>3,328,600</u>
Total operating revenue	<u>132,994,142</u>	<u>133,508,910</u>
Operating expenses:		
Healthcare benefits	128,071,357	121,685,452
Administrative	<u>5,492,666</u>	<u>5,051,147</u>
Total operating expenses	<u>133,564,023</u>	<u>126,736,599</u>
Operating income (loss)	(569,881)	6,772,311
Nonoperating revenue:		
Interest and dividend income	<u>702,468</u>	<u>872,010</u>
Change in unrestricted net position	132,587	7,644,321
Total unrestricted net position, beginning of year	<u>18,720,417</u>	<u>11,076,096</u>
Total unrestricted net position, end of year	<u>\$ 18,853,004</u>	<u>18,720,417</u>

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Cash received for premiums from the State of Alaska	\$ 129,034,366	130,180,379
Cash received from third-party administrator	3,959,776	3,335,817
Cash payments for benefits to third-party administrator	(126,267,357)	(122,954,452)
Cash payments to employees	(368,621)	(354,768)
Cash payments to suppliers	(5,463,036)	(4,393,236)
Net cash provided by operating activities	895,128	5,813,740
Cash flows from investing activities:		
Interest and dividend income received	702,468	872,010
Net increase in cash and cash equivalents	1,597,596	6,685,750
Cash and cash equivalents, beginning of year	32,439,809	25,754,059
Cash and cash equivalents, end of year	\$ 34,037,405	32,439,809
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (569,881)	6,772,311
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
(Increase) decrease in assets:		
Due from State of Alaska General Fund	—	57,378
Other assets	—	7,286
Increase (decrease) in liabilities:		
Claims payable	1,804,000	(1,269,000)
Due to State of Alaska General Fund	589	43,192
Accrued expenses	(339,580)	202,573
Net cash provided by operating activities	\$ 895,128	5,813,740

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2020 and 2019

**(1) Description**

The following brief description of the State of Alaska Group Health and Life Fund (the Plan), an Internal Service Fund of the State of Alaska (the State), is provided for general information purposes only. Participants should refer to the Select Benefits Information Booklet for more complete information.

**(a) General**

The Plan was established on July 1, 1997, to provide self-insured healthcare benefits to eligible employees of the State. The Plan is an internal service fund of the State financial reporting entity and is included as such in the State's Comprehensive Annual Financial Report (CAFR). As of June 30, 2020 and 2019, there were 5,741 and 5,898 employees, respectively, excluding dependents, covered by the Plan.

Prior to July 1, 1997, healthcare benefits for state employees were fully insured through the payment of premiums to an insurance company.

**(b) Benefits**

The Plan offers medical, dental, vision, and audio benefits to eligible state employees and their dependents.

**(c) Eligibility**

The Plan does not provide benefits to members of the following collective bargaining units, who chose to receive health coverage through a union trust:

- Labor, Trades, and Crafts Unit
- Public Safety Airport Security Unit
- Public Safety Troopers Unit
- Masters, Mates, and Pilots
- General Government Unit.

All other permanent and long-term nonpermanent employees of the State are covered by the Plan, including permanent and long-term nonpermanent seasonal and part-time employees who elect coverage.

The Plan also provides coverage for state legislators and elected officials.

**(d) Flexible Benefits**

Employees who are not covered through a union trust are eligible for flexible healthcare benefits. A monthly employer premium is paid for each eligible employee under this program. The amount of employer premium paid for each eligible employee is determined by the Department of Administration, Division of Retirement and Benefits (the Division) and the consulting actuary, and can be adjusted annually. The legislative branch approves the premiums through the budgetary process. Employees select from available coverage options that offer different benefits or pay benefits at different rates. In

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2020 and 2019

most instances, the employee is responsible to pay a portion of the health costs through a pretax payroll contribution, and the amount of the contribution will vary based on collective bargaining provisions and the employee coverage option selected.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Insurance premiums are recognized as revenue in the period in which they are due. Benefits are recognized when due and payable.

**(b) Financial Statement Presentation**

The Plan distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Plan's principal ongoing operations. The principal operating revenue of the Plan is employer and member health insurance premiums. Operating expenses for the Plan include benefits and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**(c) 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.

**(d) Investments**

The Plan participates in the State General Fund and Other Nonsegregated Investments (GeFONSI) pool, which invests in fixed-income securities that are valued each business day using an independent pricing service. The Department of Revenue, Division of Treasury (the Treasury) calculates a participant's daily cash balance in the GeFONSI by the GeFONSI's actual daily rate of return. Interest is compounded daily.

GeFONSI investment income is distributed to pool participants if prescribed by statute or if appropriated by state legislature.

**(e) Statements of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include the Plan's investment in the GeFONSI at June 30, 2020 and 2019. This investment pool has the general characteristics of a demand deposit account.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2020 and 2019

**(f) Administration**

The Plan is administered by the Division, which utilizes the services of claims administrators, Aetna, Moda Health, and PayFlex to process medical, dental, and vision claims and utilizes the services of pharmacy benefit manager OptumRx to process prescription drug claims. Some of the managed-care vision benefits provided by the Plan are administered by Vision Service Plan.

**(g) Funding**

The Plan is self-insured for all benefits. The Plan's funding policy provides for the collection of insurance premiums from employees, if applicable, and the State. Insurance premium amounts are actuarially determined on an annual basis and adjusted as necessary. The State retains the risk of loss of allowable claims.

**(h) Due from (to) State of Alaska General Fund**

Amounts due from (to) the State of Alaska General Fund represent the amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

**(i) Federal Income Tax Status**

The Plan is an internal service fund of the State financial reporting entity and is included as such in the State's CAFR. The Plan is not subject to federal income tax by virtue of the Plan's status as a government entity.

**(3) Investments**

The Treasury has created a pooled environment by which it manages the investments. The Commissioner of Revenue (the Commissioner) has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The fund invests in the State's internally managed GeFONSI pool, which consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, and the Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the State of Alaska CAFR available from the Department of Administration, Division of Finance.

Assets in the pool are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by the state legislature. Income in the Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, and Intermediate-term Fixed Income Pool is allocated to pool participants daily on a pro rata basis.

**STATE OF ALASKA**  
**GROUP HEALTH AND LIFE FUND**  
(An Internal Service Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2020 and 2019

The Plan's share of pool investments was as follows:

		<u>June 30, 2020</u>	<u>June 30, 2019</u>
GeFONSI balance	\$	34,037,405	32,439,809

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the "Invested Assets Under the Investment Authority of the Commissioner of Revenue" (Audited) at <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>.

**(4) Claims Payable**

The liability for claims incurred but not reported (IBNR) represents the estimated amounts necessary to settle all outstanding claims as of the balance sheet date. The Plan's reserve estimates for IBNR are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are re-evaluated 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 during the years ended June 30, 2020 and 2019 were as follows:

		<u>2020</u>	<u>2019</u>
Total, beginning of year	\$	13,261,000	14,530,000
Healthcare benefits		128,071,357	121,685,452
Benefits paid		<u>(126,267,357)</u>	<u>(122,954,452)</u>
Total, end of year	\$	<u>15,065,000</u>	<u>13,261,000</u>
End of year:			
Incurred but not reported	\$	<u>15,065,000</u>	<u>13,261,000</u>
Total, end of year	\$	<u>15,065,000</u>	<u>13,261,000</u>