



**STATE OF ALASKA  
JUDICIAL RETIREMENT SYSTEM**

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

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

## **Independent Auditors' Report**

The Division of Retirement and Benefits and  
Members of the Alaska Retirement Management Board  
State of Alaska Judicial Retirement System:

We have audited the accompanying combining statements of fiduciary net position of the State of Alaska Judicial Retirement System (the Plan), a component unit of the State of Alaska, as of June 30, 2015 and 2014, and the combining statements of changes in fiduciary net position for the years then ended, and the related notes to the 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 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 opinions.

### ***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 Judicial Retirement System as of June 30, 2015 and 2014, and the changes in fiduciary net position for the years then ended, in accordance with U.S. generally accepted accounting principles.



## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–10, 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 on pages 24–33 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, which 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 Schedules*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The supplemental schedules on pages 34 and 35 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 4, 2015

**STATE OF ALASKA**  
**JUDICIAL RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

This section presents management's discussion and analysis (MD&A) of the Judicial Retirement System's (the Plan) financial condition and performance for the years ended June 30, 2015 and 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, notes to required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2015 and 2014. Information for fiscal year 2014 and 2013 is presented for comparative purposes.

**Financial Highlights**

The Plan financial highlights as of June 30, 2015 were as follows:

- The Plan's fiduciary net position restricted for pension and postemployment healthcare benefits increased by \$5.5 million during fiscal year 2015.
- The plan member and employer contributions increased by \$0.25 million during fiscal year 2015.
- The State of Alaska directly appropriated \$5.2 million to the Plan during fiscal year 2015.
- The Plan earned net investment income of \$5.1 million during fiscal year 2015.
- The Plan's pension benefit expenditures totaled \$10.6 million during fiscal year 2015.
- The Plan's postemployment healthcare benefit expenditures totaled \$0.6 million in fiscal year 2015.

**Overview of the Financial Statements**

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

*Combining Statement of Plan Fiduciary Net Position* – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for pension and postemployment healthcare benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2015 and 2014.

*Combining Statement of Changes in Plan Fiduciary Net Position* – This statement presents how the Plan's net position restricted for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2015 and 2014. This statement presents contributions, State of Alaska appropriations, 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, 2015 and 2014, and the sources and uses of those funds during fiscal years 2015 and 2014.

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*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.

*Required Supplementary Information and Related Notes* – The required supplementary information consists of five schedules and related notes concerning the funded status of the Plan 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 Plan and payments to consultants (other than investment advisors) for professional services.

**Condensed Financial Information**

| Description                           | Plan Net Position     |                    |                     |             |                    |
|---------------------------------------|-----------------------|--------------------|---------------------|-------------|--------------------|
|                                       | 2015                  | 2014               | Increase (decrease) |             | 2013               |
|                                       |                       |                    | Amount              | Percentage  |                    |
| <b>Assets:</b>                        |                       |                    |                     |             |                    |
| Cash and cash equivalents             | \$ 3,329,384          | 5,406,823          | (2,077,439)         | (38.4)%     | 1,861,916          |
| Contributions receivable              | 257,175               | 256,106            | 1,069               | 0.4         | 256,591            |
| Due from State of Alaska General Fund | 208,238               | —                  | 208,238             | 100.0       | —                  |
| Other receivables                     | 2,357                 | 2                  | 2,355               | 117,750.0   | 7                  |
| Investments, at fair value            | 167,731,065           | 160,433,100        | 7,297,965           | 4.5         | 139,401,816        |
| Other assets                          | 6,374                 | 12,971             | (6,597)             | (50.9)      | 9,895              |
| Total assets                          | <u>171,534,593</u>    | <u>166,109,002</u> | <u>5,425,591</u>    | <u>3.3</u>  | <u>141,530,225</u> |
| <b>Liabilities:</b>                   |                       |                    |                     |             |                    |
| Accrued expenses                      | 108,510               | 94,940             | 13,570              | 14.3        | 104,327            |
| Claims payable                        | 58,000                | 135,000            | (77,000)            | (57.0)      | 154,000            |
| Due to State of Alaska General Fund   | 65,678                | 29,654             | 36,024              | 121.5       | 75,471             |
| Total liabilities                     | <u>232,188</u>        | <u>259,594</u>     | <u>(27,406)</u>     | <u>11.0</u> | <u>333,798</u>     |
| Net position                          | <u>\$ 171,302,405</u> | <u>165,849,408</u> | <u>5,452,997</u>    | <u>3.3%</u> | <u>141,196,427</u> |

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| Description                                       | Changes in Plan Net Position |                    |                     |               |                    |
|---|------------------------------|--------------------|---------------------|---------------|--------------------|
|   | 2015                         | 2014               | Increase (decrease) |               | 2013               |
|   |                              |                    | Amount              | Percentage    |                    |
| Net position, beginning of year                   | \$ 165,849,408               | 141,196,427        | 24,652,981          | 17.5%         | 127,378,702        |
| Additions:  |                              |                    |                     |               |                    |
| Contributions                                     | 6,312,071                    | 6,063,027          | 249,044             | 4.1           | 5,864,330          |
| Nonemployer contribution                          | 5,241,619                    | 4,460,321          | 781,298             | 17.5          | 3,785,571          |
| Net investment income                             | 5,148,525                    | 25,986,196         | (20,837,671)        | (80.2)        | 15,684,712         |
| Other   | 148,537                      | 67,453             | 81,084              | 120.2         | 31,960             |
| Total additions                                   | <u>16,850,752</u>            | <u>36,576,997</u>  | <u>(19,726,245)</u> | <u>(53.9)</u> | <u>25,366,573</u>  |
| Deductions:                                       |                              |                    |                     |               |                    |
| Pension and postemployment<br>healthcare benefits | 11,202,597                   | 11,817,759         | (615,162)           | (5.2)         | 11,443,119         |
| Refunds of contributions                          | 42,771                       | —                  | 42,771              | N/A           | —                  |
| Administrative                                    | 152,387                      | 106,257            | 46,130              | 43.4          | 105,729            |
| Total deductions                                  | <u>11,397,755</u>            | <u>11,924,016</u>  | <u>(526,261)</u>    | <u>(4.4)</u>  | <u>11,548,848</u>  |
| Increase (decrease) in<br>net position            | <u>5,452,997</u>             | <u>24,652,981</u>  | <u>(19,199,984)</u> | <u>(77.9)</u> | <u>13,817,725</u>  |
| Net position, end of year                         | <u>\$ 171,302,405</u>        | <u>165,849,408</u> | <u>5,452,997</u>    | <u>3.3%</u>   | <u>141,196,427</u> |

**Financial Analysis of the Plan**

The statements of plan fiduciary net position as of June 30, 2015 and 2014 show net position restricted for pension and postemployment healthcare benefits of \$171,302,405 and \$165,849,408, respectively. The entire balance is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries. These amounts also represent an increase of \$5,452,997 or 3.3% and an increase of \$24,652,981 or 17.5% from fiscal years 2014 and 2013. Over the long term, plan members and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

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 Plan's constraints and objectives.

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**Plan Asset Allocation**

During fiscal years 2015 and 2014, the Board adopted the following asset allocations:

|  | <b>2015</b>                           |              |
|--|---------------------------------------|--------------|
|  | <b>Pension &amp; Healthcare Trust</b> |              |
|  | <b>Allocation</b>                     | <b>Range</b> |
| 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                                  | ± 8          |
| Alternative equity                       | 3.0                                   | -2/+4        |
| Short-term fixed income                  | 3.0                                   | -3/+8        |
| Total                                    | <u>100.0%</u>                         |              |
| Expected return five-year geometric mean | 7.22%                                 |              |
| Projected standard deviation             | 15.01                                 |              |

  

|  | <b>2014</b>                           |              |
|--|---------------------------------------|--------------|
|  | <b>Pension &amp; Healthcare Trust</b> |              |
|  | <b>Allocation</b>                     | <b>Range</b> |
| 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                       | 3.0                                   | ± 2          |
| Short-term fixed income                  | 3.0                                   | -3/+1        |
| Total                                    | <u>100.0%</u>                         |              |
| Expected return five-year geometric mean | 7.16%                                 |              |
| Projected standard deviation             | 14.81                                 |              |

For fiscal years 2015 and 2014, the Plan's investments generated a 3.29% and an 18.45% rate of return, respectively.



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**Contributions, Investment Income, and Transfer**

The additions required to fund retirement benefits are accumulated through a combination of employer, nonemployer, and plan members' contributions and investment income are as follows:

|                             | 2015                 | 2014              | Additions           |                | 2013              |
|-----------------------------|----------------------|-------------------|---------------------|----------------|-------------------|
|                             |                      |                   | Amount              | Percentage     |                   |
| Employer contributions      | \$ 5,501,252         | 5,282,973         | 218,279             | 4.1%           | 5,143,159         |
| Plan members contributions  | 810,819              | 780,054           | 30,765              | 3.9            | 721,171           |
| Nonemployer contributions – |                      |                   |                     |                |                   |
| State of Alaska             | 5,241,619            | 4,460,321         | 781,298             | 17.5           | 3,785,571         |
| Net investment income       | 5,148,525            | 25,986,196        | (20,837,671)        | (80.2)         | 15,684,712        |
| Other income                | 148,537              | 67,453            | 81,084              | 120.2          | 31,960            |
| <b>Total</b>                | <b>\$ 16,850,752</b> | <b>36,576,997</b> | <b>(19,726,245)</b> | <b>(53.9)%</b> | <b>25,366,573</b> |

The Plan's employer contributions increased from \$5,282,973 during fiscal year 2014 to \$5,501,252 during fiscal year 2015, an increase of \$218,279, or 4.1%. Employer contributions increased from \$5,143,159 during fiscal year 2013 to \$5,282,973 during fiscal year 2014, an increase of \$139,814, or 2.7%. Beginning in fiscal year 2010, the Alaska Court System, sole employer of the Plan's participants, paid only the normal cost portion of the JRS employer contribution rate and the State of Alaska funded the past service cost through a direct appropriation. The normal cost rate decreased from 40.10% in fiscal year 2014 to 39.79% in fiscal year 2015.

The Plan's net investment income in fiscal year 2015 decreased by \$20,837,671 or 80.2% from amounts recorded in fiscal year 2014 and net investment income increased by \$10,301,484 or 65.7% from amounts recorded in fiscal year 2013. Over the long term, investment income is a major component of additions to plan assets.

The Plan's investment rate of returns at June 30 is as follows:

|                          | Year ended |        |        |
|--------------------------|------------|--------|--------|
|                          | 2015       | 2014   | 2013   |
| System returns           | 3.29%      | 18.45% | 12.46% |
| Domestic equities        | 7.85       | 25.45  | 21.23  |
| International equities   | (3.33)     | 23.42  | 15.02  |
| Fixed income             | (0.74)     | 5.14   | 0.56   |
| Private equity           | 13.77      | 24.19  | 11.51  |
| Absolute return          | 9.23       | 6.51   | 8.41   |
| Real assets              | 3.70       | 12.71  | 10.25  |
| Alternative equity       | (0.89)     | 24.55  | —      |
| Cash equivalents         | 0.27       | 0.26   | 0.26   |
| Actuarial rate of return | 8.00       | 8.00   | 8.00   |

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Management's Discussion and Analysis (Unaudited)

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**Benefits and Other Deductions**

The primary deduction of the Plan is the payment of pension and postemployment healthcare benefits. These benefit payments and the cost of administering the Plan comprise the costs of operation.

|                                    | 2015                 | 2014              | Deductions          |               | 2013              |
|------------------------------------|----------------------|-------------------|---------------------|---------------|-------------------|
|                                    |                      |                   | Increase (decrease) |               |                   |
|                                    |                      |                   | Amount              | Percentage    |                   |
| Pension benefits                   | \$ 10,641,191        | 10,578,414        | 62,777              | 0.6%          | 10,343,220        |
| Postemployment healthcare benefits | 561,406              | 1,239,345         | (677,939)           | (54.7)        | 1,099,899         |
| Refunds of contributions           | 42,771               | —                 | 42,771              | N/A           | —                 |
| Administrative                     | 152,387              | 106,257           | 46,130              | 43.4          | 105,729           |
| <b>Total</b>                       | <b>\$ 11,397,755</b> | <b>11,924,016</b> | <b>(526,261)</b>    | <b>(4.4)%</b> | <b>11,548,848</b> |

The Plan's pension benefit payments in 2015 and 2014 increased \$62,777 and \$235,194 or 0.6% and 2.3% from fiscal years 2014 and 2013, respectively. Pension benefits are directly tied to active JRS member's salary increases. Active JRS members received a slight salary increase in fiscal year 2015 and 2014; therefore, pension benefit expense increased as well.

The Plan's postemployment healthcare benefit payments in 2015 and 2014 decreased \$677,939 or 54.7% and increased \$139,446 or 12.7% from fiscal years 2014 and 2013, respectively. The decrease in healthcare costs is due partially to an unusually low claim year in a very small plan.

**Net Pension Liability**

GASB Statement No. 67, implemented in 2014, requires the DB Plan to report the Total Pension Liability (TPL), Fiduciary Net Position (FNP), and Net Pension Liability (NPL). The 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 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 NPL, or the unfunded portion of the TPL.

The components of the net pension liability of the participating employers for the Plan were as follows:

|  | 2015                 | 2014              |
|--|----------------------|-------------------|
| Total pension liability  | \$ 205,125,185       | 201,397,651       |
| Plan fiduciary net position  | (144,160,024)        | (139,547,440)     |
| <b>Employers' net pension liability</b>                                    | <b>\$ 60,965,161</b> | <b>61,850,211</b> |
| Plan fiduciary net position as a percentage of the total pension liability | 70.28%               | 69.29%            |

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**Funding**

Retirement benefits are financed by accumulations from employer, nonemployer, and plan member contributions and income earned on plan investments.

- The actuarially determined contribution rate is calculated by the Plan's consulting actuary and approved by the administrator. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation rollforward process.
- Plan member contributions are set by Alaska Statute 22.25.011.

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

**Legislation**

During fiscal year 2015, the Twenty-Ninth Alaska State Legislature enacted one law that affects the Plan:

- House Bill 2001 appropriates \$5,890,788 from the general fund to the Department of Administration for deposit in the Plan's defined benefit pension fund as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2016.

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

Net investment income decreased from \$25,986,196 in fiscal year 2014 to \$5,148,525 in fiscal year 2015, a decrease of \$20,837,671 or 80.19%. The Board continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio. Actual investment returns greater than the assumed investment return will have a positive impact on both the annual actuarially determined contribution amount and the Plan's funded level.

The actuarial valuation as of June 30, 2014 reported a funding ratio of 71.90% and an unfunded liability of \$59.6 million. The actuarial valuation for June 30, 2012 reported a funding ratio of 67.20% and an unfunded liability of \$65.2 million. The decrease in the unfunded liability is attributable to significant investment gains in fiscal year 2014 of 18.3% compared to the expected investment rate of return of 8.0%. Additionally, the Plan benefited from updated healthcare cost trend assumptions. The impacts of these, combined with negligible losses in other categories, also decreased the total actuarially determined contribution for fiscal year 2017 to 76.49% from 79.06% for fiscal year 2016.

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**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:

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

Questions concerning any of the investment information provided in this report or requests for additional investment information should be addressed to:

State of Alaska  
Department of Revenue, Treasury Division  
P.O. Box 110405  
Juneau, Alaska 99811-0405

**STATE OF ALASKA  
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Combining Statements of Plan Fiduciary Net Position

June 30, 2015 and 2014

|  | 2015           |                                       |             | 2014        |                                       |             |
|--|----------------|---------------------------------------|-------------|-------------|---------------------------------------|-------------|
|  | Pension        | Alaska retiree<br>healthcare<br>trust | Total       | Pension     | Alaska retiree<br>healthcare<br>trust | Total       |
| <b>Assets:</b>   |                |                                       |             |             |                                       |             |
| Cash and cash equivalents (notes 2, 3, and 4):                             |                |                                       |             |             |                                       |             |
| Short-term fixed income pool   | \$ 2,683,883   | 645,501                               | 3,329,384   | 4,554,097   | 852,726                               | 5,406,823   |
| <b>Receivables:</b>  |                |                                       |             |             |                                       |             |
| Contributions  | 235,460        | 21,715                                | 257,175     | 226,769     | 29,337                                | 256,106     |
| Due from State of Alaska General Fund                                      | 193,319        | 14,919                                | 208,238     | —           | —                                     | —           |
| Other receivables  | 2,357          | —                                     | 2,357       | —           | 2                                     | 2           |
| Total receivables  | 431,136        | 36,634                                | 467,770     | 226,769     | 29,339                                | 256,108     |
| <b>Investments (notes 2, 3, 4, and 5) at fair value:</b>                   |                |                                       |             |             |                                       |             |
| <b>Fixed income securities:</b>  |                |                                       |             |             |                                       |             |
| U.S. Treasury fixed pool   | 7,936,213      | 1,494,730                             | 9,430,943   | 8,119,131   | 1,538,184                             | 9,657,315   |
| Taxable municipal bond pool  | 1,366,703      | 257,408                               | 1,624,111   | 1,464,049   | 277,367                               | 1,741,416   |
| Tactical fixed income pool   | 734,177        | 138,276                               | 872,453     | —           | —                                     | —           |
| High yield fixed income pool   | 3,744,369      | 705,225                               | 4,449,594   | 3,717,143   | 704,219                               | 4,421,362   |
| International fixed income pool  | 2,311,220      | 435,301                               | 2,746,521   | 2,489,249   | 471,593                               | 2,960,842   |
| Emerging markets debt pool   | 979,650        | 184,510                               | 1,164,160   | 1,010,277   | 191,398                               | 1,201,675   |
| Total fixed income securities  | 17,072,332     | 3,215,450                             | 20,287,782  | 16,799,849  | 3,182,761                             | 19,982,610  |
| <b>Broad domestic equity pool:</b>   |                |                                       |             |             |                                       |             |
| Large cap pool   | 32,092,756     | 6,044,446                             | 38,137,202  | 30,969,329  | 5,867,200                             | 36,836,529  |
| Small cap pool   | 6,943,484      | 1,307,758                             | 8,251,242   | 6,853,410   | 1,298,393                             | 8,151,803   |
| Total broad domestic equity  | 39,036,240     | 7,352,204                             | 46,388,444  | 37,822,739  | 7,165,593                             | 44,988,332  |
| <b>Broad international equity:</b>   |                |                                       |             |             |                                       |             |
| International equity pool  | 29,913,082     | 5,633,920                             | 35,547,002  | 27,149,761  | 5,143,575                             | 32,293,336  |
| International equity small cap pool  | 1,956,045      | 368,408                               | 2,324,453   | 2,148,282   | 406,997                               | 2,555,279   |
| Frontier market pool   | 32,764         | 6,171                                 | 38,935      | 649,716     | 123,091                               | 772,807     |
| Emerging markets equity pool   | 3,797,171      | 715,171                               | 4,512,342   | 4,088,173   | 774,513                               | 4,862,686   |
| Total broad international equity   | 35,699,062     | 6,723,670                             | 42,422,732  | 34,035,932  | 6,448,176                             | 40,484,108  |
| <b>Alternative equity:</b>   |                |                                       |             |             |                                       |             |
| Alternative equity   | 4,153,786      | 782,337                               | 4,936,123   | 4,652,349   | 881,397                               | 5,533,746   |
| Convertible bond pool  | 1,192,067      | 224,518                               | 1,416,585   | 1,290,761   | 244,537                               | 1,535,298   |
| Total alternative equity   | 5,345,853      | 1,006,855                             | 6,352,708   | 5,943,110   | 1,125,934                             | 7,069,044   |
| Private equity pool  | 11,057,008     | 2,082,510                             | 13,139,518  | 11,393,082  | 2,158,442                             | 13,551,524  |
| Absolute return pool   | 8,172,968      | 1,539,320                             | 9,712,288   | 5,413,778   | 1,025,650                             | 6,439,428   |
| <b>Real assets:</b>  |                |                                       |             |             |                                       |             |
| Real estate pool   | 7,974,174      | 1,496,365                             | 9,470,539   | 8,778,121   | 1,662,340                             | 10,440,461  |
| Real estate investment trust pool  | 1,971,262      | 371,274                               | 2,342,536   | 2,395,405   | 453,815                               | 2,849,220   |
| Infrastructure private pool  | 1,737,752      | 327,293                               | 2,065,045   | —           | —                                     | —           |
| Infrastructure public pool   | 1,516,570      | 285,635                               | 1,802,205   | 1,086,580   | 205,854                               | 1,292,434   |
| Master limited partnership pool  | 3,175,661      | 598,113                               | 3,773,774   | 3,220,754   | 610,178                               | 3,830,932   |
| Energy pool  | 615,209        | 115,869                               | 731,078     | 705,235     | 133,609                               | 838,844     |
| Farmland pool  | 4,652,819      | 876,325                               | 5,529,144   | 4,682,624   | 887,132                               | 5,569,756   |
| Timber pool  | 2,319,356      | 436,834                               | 2,756,190   | 2,372,622   | 449,497                               | 2,822,119   |
| Treasury inflation protected securities pool                               | 805,393        | 151,689                               | 957,082     | 230,601     | 43,687                                | 274,288     |
| Total real assets  | 24,768,196     | 4,659,397                             | 29,427,593  | 23,471,942  | 4,446,112                             | 27,918,054  |
| Total investments  | 141,151,659    | 26,579,406                            | 167,731,065 | 134,880,432 | 25,552,668                            | 160,433,100 |
| Other assets   | —              | 6,374                                 | 6,374       | —           | 12,971                                | 12,971      |
| Total assets   | 144,266,678    | 27,267,915                            | 171,534,593 | 139,661,298 | 26,447,704                            | 166,109,002 |
| <b>Liabilities:</b>  |                |                                       |             |             |                                       |             |
| Accrued expenses   | 105,237        | 3,273                                 | 108,510     | 91,752      | 3,188                                 | 94,940      |
| Claims payable (note 7)  | —              | 58,000                                | 58,000      | —           | 135,000                               | 135,000     |
| Due to State of Alaska General Fund (note 2)                               | 1,417          | 64,261                                | 65,678      | 22,106      | 7,548                                 | 29,654      |
| Total liabilities  | 106,654        | 125,534                               | 232,188     | 113,858     | 145,736                               | 259,594     |
| Net position restricted for pension and postemployment healthcare benefits | \$ 144,160,024 | 27,142,381                            | 171,302,405 | 139,547,440 | 26,301,968                            | 165,849,408 |

See accompanying notes to financial statements.

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Combining Statements of Changes in Plan Fiduciary Net Position  
Years ended June 30, 2015 and 2014

|   | 2015           |                                    |             | 2014        |                                    |             |
|---|----------------|------------------------------------|-------------|-------------|------------------------------------|-------------|
|   | Pension        | Alaska retiree<br>healthcare trust | Total       | Pension     | Alaska retiree<br>healthcare trust | Total       |
| Additions:  |                |                                    |             |             |                                    |             |
| Contributions:  |                |                                    |             |             |                                    |             |
| Employer  | \$ 4,980,772   | 520,480                            | 5,501,252   | 4,578,693   | 704,280                            | 5,282,973   |
| Plan members  | 810,819        | —                                  | 810,819     | 780,054     | —                                  | 780,054     |
| Nonemployer contribution – State of Alaska                                  | 5,241,619      | —                                  | 5,241,619   | 4,282,876   | 177,445                            | 4,460,321   |
| Total contributions   | 11,033,210     | 520,480                            | 11,553,690  | 9,641,623   | 881,725                            | 10,523,348  |
| Other income  | 92             | 148,445                            | 148,537     | 12          | 67,441                             | 67,453      |
| Investment income:  |                |                                    |             |             |                                    |             |
| Net appreciation in fair value (note 2)                                     | 2,075,190      | 374,884                            | 2,450,074   | 19,814,917  | 3,696,277                          | 23,511,194  |
| Interest  | 552,997        | 102,786                            | 655,783     | 516,396     | 96,483                             | 612,879     |
| Dividends   | 2,051,897      | 384,609                            | 2,436,506   | 1,858,369   | 348,258                            | 2,206,627   |
| Total investment income   | 4,680,084      | 862,279                            | 5,542,363   | 22,189,682  | 4,141,018                          | 26,330,700  |
| Less investment expense   | 330,597        | 63,241                             | 393,838     | 344,371     | 133                                | 344,504     |
| Net investment income   | 4,349,487      | 799,038                            | 5,148,525   | 21,845,311  | 4,140,885                          | 25,986,196  |
| Total additions   | 15,382,789     | 1,467,963                          | 16,850,752  | 31,486,946  | 5,090,051                          | 36,576,997  |
| Deductions:   |                |                                    |             |             |                                    |             |
| Pension and postemployment healthcare benefits                              | 10,641,191     | 561,406                            | 11,202,597  | 10,578,414  | 1,239,345                          | 11,817,759  |
| Refunds of contributions  | 42,771         | —                                  | 42,771      | —           | —                                  | —           |
| Administrative  | 86,243         | 66,144                             | 152,387     | 65,716      | 40,541                             | 106,257     |
| Total deductions  | 10,770,205     | 627,550                            | 11,397,755  | 10,644,130  | 1,279,886                          | 11,924,016  |
| Net increase  | 4,612,584      | 840,413                            | 5,452,997   | 20,842,816  | 3,810,165                          | 24,652,981  |
| Net position restricted for pension and postemployment healthcare benefits: |                |                                    |             |             |                                    |             |
| Balance, beginning of year  | 139,547,440    | 26,301,968                         | 165,849,408 | 118,704,624 | 22,491,803                         | 141,196,427 |
| Balance, end of year  | \$ 144,160,024 | 27,142,381                         | 171,302,405 | 139,547,440 | 26,301,968                         | 165,849,408 |

See accompanying notes to financial statements.

**(1) Description**

The State of Alaska Judicial Retirement System (the Plan) is a component unit of the State of Alaska (the State). The Plan consists of a single employer defined benefit pension plan and a defined benefit other postemployment healthcare plan and is administered by the State to provide pension and postemployment healthcare benefits for eligible State justices and judges. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The System is governed by the Alaska Retirement Management Board (the 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 Teachers' Retirement System (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

**Defined Benefit Pension Plan**

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, 2015 the plan membership consisted of the following:

|   |             |
|---|-------------|
| Inactive plan members or beneficiaries currently receiving benefits | 108         |
| Inactive plan members entitled to but not yet receiving benefits    | 4           |
| Active plan members   | 76          |
|   | <hr/>       |
|   | 188         |
|   | <hr/> <hr/> |

***Pension Benefits***

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement age, 60, or early retirement age, 55. Members who are under age 60 and have 20 or more years of credited service may retire at any age and receive an actuarially reduced benefit.

The normal monthly pension benefit is based on the member's years of service and the current authorized salary for the position from which they retired. The pension benefit is equal to 5% for each year of service up to a maximum of 75% of the current base salary for an active judge in the month the benefit is paid. In the event of salary increases for active judges, the monthly pension benefit for retired judges also increases.

***Death Benefits***

Upon the death of a member who has served for at least two years, the surviving spouse is entitled to receive monthly benefits equal to one-half of the monthly retirement pay the member would have been entitled to receive if retired at the time of death. If the member was not eligible to retire or would have been entitled to less than 60% of the monthly authorized salary, the spouse is entitled to monthly benefits equal to 30% of the authorized salary. The benefits continue until the surviving spouse dies.

If there is no eligible surviving spouse, the member's surviving dependent child(ren) are entitled to receive a benefit equal to 50% of the above survivor's benefit. Each child will receive an equal share of the benefit while they are dependent. If there is no surviving spouse or dependent child(ren), the member's beneficiary(ies) shall receive the difference between contributions made and interest accrued in the Plan less benefits paid by the Plan.

***Disability Benefits***

Members who are involuntarily retired for incapacity and have a minimum of five years of service at the time of retirement for incapacity are eligible for pension benefits.

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***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 both pension and postemployment healthcare benefits earned by plan members during the year. The Plan members first appointed after June 30, 1978 contribute 7.00% of their compensation as required by statute. Contributions are not required after members have made contributions for 15 years. Members appointed before July 1, 1978 are not required to make contributions. For fiscal years 2015 and 2014, employer contribution rates are 82.48% and 73.28%, of which only the employer normal cost rate of 39.79% and 40.10% were required from the Alaska Court System. The past service costs were paid for separately by the State of Alaska via annual appropriations.

***Refunds***

Plan member contributions may be voluntarily refunded to the justice or judge if office is vacated before the justice or judge is fully vested. A justice or judge shall have a vested right to accrued pay if the justice or judge has served five years or more. Plan member contributions may be involuntarily refunded to a garnishing agency. Members whose contributions have been refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they have returned to active service. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the involuntary refunded balance and accrued interest.

**Other Postemployment Benefit Plan**

***Postemployment Healthcare Benefits***

Major medical benefits are provided without cost to retired plan members.

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan 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.

As of June 30, 2015, membership in the plan was as follows:

|   |     |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefits | 108 |
| Inactive plan members entitled to but not yet receiving benefits    | 4   |
| Active plan members   | 76  |
|   | 188 |
|   | 188 |



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

**(a) Basis of Accounting**

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

**(b) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

**(c) Investments**

The Plan owns shares in various investment pools that are administered by the State of Alaska Department of Revenue, Division of Treasury (the 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. 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.

**(d) Contributions Receivable**

Contributions from plan members and the employer 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.

**(e) Administrative Costs**

Administrative costs are paid from investment earnings.

**(f) 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 Plan on behalf of others and amounts paid by others on behalf of the Plan.

**(g) Federal Income Tax Status**

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

**(h) GASB Statement No. 67**

The Plan implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), during the year ended June 30, 2014. 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.

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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 and related ratios, 2) the actuarially and contractually determined contributions of employer contributing entities, and 3) the annual money-weighted rate of return on plan investments.

*(i) Reclassifications*

Certain reclassifications were made to the prior year information to conform to current year presentation.

**(3) Investments**

The Board is the investment oversight authority of the Plan'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. The Treasury has created a pooled environment by which it manages investments of the Board.

Actual investing is performed by investment officers in the Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Treasury manages the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities (TIPS) Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments. All other investments are managed by external management companies.

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

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, 2015 for the defined benefit pension plan is 3.09%.

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**(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, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 years.

*Other Plan 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 is the average fair value weighted duration of each security taking into account all related cash flows.

At June 30, 2015, the effective duration of the Board's fixed income investments was as follows (in years):

|  |        |
|--|--------|
| Bank loans                                 | (0.05) |
| Certificate of deposit                     | 0.14   |
| Convertible bonds                          | 0.07   |
| Corporate bonds                            | 4.32   |
| Foreign government bonds                   | 6.26   |
| Mortgage backed                            | 1.75   |
| Municipal bonds                            | 11.15  |
| Other asset backed                         | 0.69   |
| U.S. Government agency                     | 7.89   |
| U.S. Treasury bills, notes, bonds and TIPS | 4.65   |
| Yankee corporate                           | 4.13   |
| Yankee government                          | 6.18   |
| Total portfolio                            | 4.97   |

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**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Plan'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.

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. 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:

| <b>Fixed income</b> | <b>Global equity ex-U.S.</b> | <b>Private equity pool</b> |
|---------------------|------------------------------|----------------------------|
| 20%                 | 29%                          | 14%                        |

***Concentration of Credit Risk***

At June 30, 2015, the Plan's invested assets did not have exposure to any one issuer greater than 5% of total invested assets.

**(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 Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

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. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. 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.

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**(6) Net Pension Liability**

The components of the net pension liability of the participating employers for the Plan at June 30, 2015, were as follows:

|  |    |                      |
|--|----|----------------------|
| Total pension liability  | \$ | 205,125,185          |
| Plan fiduciary net position  |    | <u>(144,160,024)</u> |
| Employers' net pension liability   | \$ | <u>60,965,161</u>    |
| Plan fiduciary net position as a percentage of the total pension liability |    | 70.28%               |

**Actuarial Assumptions**

The total pension liability was determined by actuarial valuations as of July 1, 2014, using the following actuarial assumptions, applied to all periods in the measurement.

|                           |   |
|---------------------------|---|
| Inflation                 | 3.12%   |
| Salary increases          | 3.62% per year, compounded annually   |
| Investment 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%. |

Post-termination mortality rates were based on 94% of the male rates and 97% of the female rates of the RP-2000 Combined Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. The rates for pre-termination mortality were 68% of the male rates and 60% of the female rates of the post-termination mortality rates.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Board (and Department of Administration) to better reflect expected future experience.

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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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

| Asset class          | Long-term<br>Expected real<br>rate of return |
|----------------------|--|
| Domestic equity      | 5.35%  |
| International equity | 5.55%  |
| Private equity       | 6.25%  |
| Fixed income         | 0.80%  |
| Real estate          | 3.65%  |
| Absolute return      | 4.70%  |

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that Employer and 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.

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

The following presents the net pension liability of the Plan calculated using the discount rate of 8.0%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

|                       | 1% Decrease<br>(7.0%) | Current<br>discount rate<br>(8.0%) | 1% Increase<br>(9.0%) |
|-----------------------|-----------------------|------------------------------------|-----------------------|
| Net pension liability | \$ 84,084,583         | 60,965,161                         | 41,455,213            |

**(7) 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 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,

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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 follow:

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Beginning of year:  |             |             |
| Due to State of Alaska General Fund for<br>outstanding warrants | \$ 7,548    | 63,873      |
| Incurred but not reported                                       | 135,000     | 154,000     |
| Total, beginning of year  | 142,548     | 217,873     |
| Benefit deductions  | 561,406     | 1,239,345   |
| Benefits paid   | (581,693)   | (1,314,670) |
| Total, end of year  | \$ 122,261  | 142,548     |
| End of year:  |             |             |
| Due to State of Alaska General Fund for<br>outstanding warrants | \$ 64,261   | 7,548       |
| Incurred but not reported                                       | 58,000      | 135,000     |
| Total, end of year  | \$ 122,261  | 142,548     |

**(8) Funded Status and Funding Progress**

The funded status as of June 30, 2014 of the postemployment healthcare benefit plan is as follows:

| Actuarial valuation date | Actuarial<br>value of<br>assets | Actuarial<br>Accrued<br>Liability<br>(AAL) –<br>entry age | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>(UAAL) | Funded ratio | Covered<br>payroll | UAAL as a<br>percentage of<br>covered<br>payroll |
|--------------------------|---------------------------------|---|---|--------------|--------------------|--|
| Healthcare trust         | \$ 24,074,313                   | 18,641,877  | (5,432,436)   | 129.1%       | 13,373,232         | (40.6)%  |

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 schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions (unaudited) presents 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 thirty years.

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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 plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

|                                       |   |
|---------------------------------------|---|
| Valuation date                        | June 30, 2014   |
| 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 | 20 years  |
| Asset valuation method                | 5 year smoothed market, constrained to 80% / 120% of fair value corridor  |
| Actuarial assumptions:                |   |
| Investment rate of return             | 8.00% (includes inflation at 3.12%)   |
| Projected salary increases            | 3.62%   |
| Cost-of-living adjustment             | 4.12%   |

Health cost trend:

| Fiscal year | Medical |         | Prescription drugs |
|-------------|---------|---------|--------------------|
|             | Pre-65  | Post-65 |                    |
| 2015        | 10.0%   | 6.0%    | 6.0%               |
| 2016        | 9.4     | 5.9     | 5.7                |
| 2017        | 8.8     | 5.8     | 5.4                |
| 2018        | 8.2     | 5.7     | 5.1                |
| 2019        | 7.6     | 5.6     | 4.8                |
| 2020        | 7.0     | 5.6     | 4.6                |
| 2021        | 6.5     | 5.6     | 4.4                |
| 2025        | 5.6     | 5.6     | 4.2                |
| 2050        | 4.4     | 4.0     | 4.0                |
| 2100        | 4.4     | 4.0     | 4.0                |

GASB 43 requires that the discount rate used in the actuarial 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 Plan's retiree healthcare benefits are being 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.



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Using the GASB 43 discount rate determined above and disregarding future Medicare Part D payments, the fiscal year 2015 employer ARC for accounting purposes is 3.12% of pay for healthcare benefits and 92.67% of pay for healthcare and pension benefits combined.

**(9) Commitments and Contingencies**

The Board entered into agreements through external managers to provide capital funding for limited partnerships in the domestic equity, private equity, energy, and real estate portfolios. At June 30, 2015, the Board's unfunded commitments were as follows:

| <u>Portfolio</u> | <u>Unfunded commitment</u> | <u>Estimated to be paid through:</u>                     |
|------------------|----------------------------|--|
| Domestic equity  | \$ —                       | May be canceled annually in December with 90 days notice |
| Private equity   | 8,958,538                  | Fiscal Year 2026   |
| Energy           | 563,846                    | Fiscal Year 2023   |
| Real estate      | 1,371,321                  | Fiscal Year 2024   |
|                  | <u>\$ 10,893,705</u>       |  |

**(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 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), a temporary program that provides reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who are not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the Plan is up to 80% of claims cost for health benefits between \$15,000 and \$90,000. The program was authorized by the Affordable Care Act as part of the U.S. Government Health Reform package. The Plan started participation in the ERRP program beginning calendar year 2013. The program ended on January 1, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net Pension Liability and Related Ratios– Defined Benefit Pension Plan

|  | <u>2015</u>   | <u>2014</u>  | <u>2013</u>  | <u>2012</u>  |
|--|---------------|--------------|--------------|--------------|
| Total pension liability:   |               |              |              |              |
| Service cost   | \$ 5,814,128  | 5,185,969    | 5,004,795    | 5,062,095    |
| Interest   | 15,564,753    | 15,284,981   | 14,576,016   | 14,278,926   |
| Changes of benefit terms   | —             | —            | —            | —            |
| Differences between expected and actual experience                         | (11,187,236)  | —            | —            | (451,843)    |
| Changes of assumptions   | 4,219,851     | —            | —            | —            |
| Benefit payments, including refunds of member contributions                | (10,683,962)  | (10,578,414) | (10,343,220) | (10,046,138) |
| Net change in total pension liability                                      | 3,727,534     | 9,892,536    | 9,237,591    | 8,843,040    |
| Total pension liability – beginning  | 201,397,651   | 191,505,115  | 182,267,524  | 173,424,484  |
| Total pension liability – ending (a)                                       | 205,125,185   | 201,397,651  | 191,505,115  | 182,267,524  |
| Plan fiduciary net position:   |               |              |              |              |
| Contributions – employers  | 4,980,772     | 4,578,693    | 4,443,785    | 3,212,901    |
| Contributions – member   | 810,819       | 780,054      | 721,171      | 704,671      |
| Contributions – nonemployer (State)  | 5,241,619     | 4,282,876    | 3,650,650    | 2,205,898    |
| Total net investment income  | 4,349,487     | 21,845,311   | 13,180,214   | 121,042      |
| Other miscellaneous income   | 92            | 12           | —            | 12           |
| Benefit payments, including refunds of member contributions                | (10,683,962)  | (10,578,414) | (10,343,220) | (9,666,901)  |
| Administrative expenses  | (86,243)      | (65,716)     | (82,231)     | (44,855)     |
| Net change in plan fiduciary net position                                  | 4,612,584     | 20,842,816   | 11,570,369   | (3,467,232)  |
| Plan fiduciary net position – beginning                                    | 139,547,440   | 118,704,624  | 107,134,255  | 110,601,487  |
| Plan fiduciary net position – ending (b)                                   | 144,160,024   | 139,547,440  | 118,704,624  | 107,134,255  |
| Plan's net pension liability (a) – (b)                                     | \$ 60,965,161 | 61,850,211   | 72,800,491   | 75,133,269   |
| Plan fiduciary net position as a percentage of the total pension liability | 70.28%        | 69.29%       | 61.99%       | 58.78%       |
| Covered-employee payroll   | \$ 13,506,984 | 13,730,948   | 13,289,096   | 11,845,548   |
| Net pension liability as a percentage of covered-employee payroll          | 451.36%       | 450.44%      | 547.82%      | 634.27%      |

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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Schedule of Employer and Nonemployer Contributions – Defined Benefit Pension Plan

|  | <u>2015</u>       | <u>2014</u>      | <u>2013</u>      | <u>2012</u>      |
|--|-------------------|------------------|------------------|------------------|
| Actuarially determined contribution                                  | \$ 10,328,791     | 9,155,796        | 8,366,815        | 5,051,754        |
| Contributions in relation to the actuarially determined contribution | <u>10,222,391</u> | <u>8,861,569</u> | <u>8,094,435</u> | <u>5,418,799</u> |
| Contribution deficiency (excess)                                     | <u>\$ 106,400</u> | <u>294,227</u>   | <u>272,380</u>   | <u>(367,045)</u> |
| Covered-employee payroll   | \$ 13,506,984     | 13,730,948       | 13,289,096       | 11,803,164       |
| Contributions as a percentage of covered-employee payroll            | 75.68%            | 64.54%           | 60.91%           | 45.91%           |

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 Investment Returns

|  | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense: | 3.09%       | 18.40%      |

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 Funding Progress

Postemployment Healthcare Benefits

| <b>Actuarial<br/>valuation<br/>year ended<br/>June 30</b> | <b>Actuarial<br/>value of<br/>plan assets</b> | <b>Actuarial<br/>accrued<br/>liabilities<br/>(AAL)</b> | <b>Unfunded<br/>actuarial<br/>accrued<br/>liabilities<br/>(UAAL)</b> | <b>Funded<br/>ratio</b> | <b>Covered<br/>payroll</b> | <b>UAAL<br/>as a<br/>percentage<br/>of covered<br/>payroll</b> |
|---|---|--|--|-------------------------|----------------------------|--|
| 2004  | \$ 16,854,927                                 | 21,856,126   | 5,001,199  | 77.1%                   | \$ 6,529,608               | 76.6%  |
| 2006  | 2,399,387                                     | 17,794,213   | 15,394,826   | 13.5                    | 7,130,592                  | 215.9  |
| 2008  | 18,352,929                                    | 19,941,128   | 1,588,199  | 92.0                    | 10,462,322                 | 15.2   |
| 2010  | 19,693,969                                    | 22,346,395   | 2,652,426  | 88.1                    | 11,845,548                 | 22.4   |
| 2012  | 20,835,672                                    | 18,236,104   | (2,599,568)  | 114.3                   | 11,803,164                 | (22.0)   |
| 2014  | 24,074,313                                    | 18,641,877   | (5,432,436)  | 129.1                   | 13,373,232                 | (40.6)   |

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

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Required Supplementary Information (Unaudited)

Schedule of Contributions from Employer and the State of Alaska

Pension and Postemployment Healthcare Benefits

| <b>Year<br/>ended<br/>June 30</b> | <b>Actuarial<br/>valuation or<br/>roll-forward<br/>date as of<br/>June 30</b> | <b>Pension<br/>annual<br/>required<br/>contribution</b> | <b>Postemployment<br/>healthcare<br/>annual<br/>required<br/>contribution</b> | <b>Total<br/>annual<br/>required<br/>contribution</b> | <b>Pension<br/>percentage<br/>contributed</b> | <b>Postemployment<br/>healthcare<br/>percentage<br/>contributed</b> |
|-----------------------------------|---|---|---|---|---|---|
| 2010                              | 2007  | \$ 5,236,646  | 1,432,721   | 6,669,367   | 69.8%   | 60.9%   |
| 2011                              | 2008  | 3,895,881   | 722,960   | 4,618,841   | 98.5  | 80.1  |
| 2012                              | 2009  | 5,051,754   | 712,911   | 5,764,665   | 107.3   | 97.8  |
| 2013                              | 2010  | 8,366,815   | 1,076,417   | 9,072,584   | 96.7  | 80.5  |
| 2014                              | 2011  | 5,062,095   | 1,094,357   | 5,723,686   | 175.1   | 86.7  |
| 2015                              | 2012  | 9,887,087   | 312,548   | 10,199,635  | 103.4   | 166.5   |

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

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Notes to Required Supplementary Information (Unaudited)

June 30, 2015

**(1) Description of Schedule of Funding Progress**

Each time a new benefit is added that applies to service already rendered, an “unfunded actuarial accrued liability” is created. Laws governing the Plan 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 valuation as of June 30, 2014 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 percent of expected payroll. However, in keeping with Governmental Accounting Standards Board (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 and phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.
- (c) Valuation of medical and prescription drug 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, 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.
- (d) Accounting impact of Medicare Part D – The State of Alaska’s prescription drug program is actuarially equivalent to the federal Medicare Part D program and the State of Alaska qualifies for the Medicare Part D subsidy.
- (e) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.
- (f) Pre-termination mortality – 68% of the male rates and 60% of the females rates of the Post-Termination Mortality Rates.



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- (g) Post-termination mortality – 94% of the males rates and 97% of the female rates of RP-2000 Combined Mortality Table, 2000 Base Year, projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females.

Post-termination disabled mortality is in accordance with RP-2000 Disabled Retiree Table, 2000 Base Year projected to 2018 with Projection Scale BB.

- (h) Salary scale – 3.62% per year, compounded annually.
- (i) Total payroll growth – 3.62% per year.
- (j) 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.
- (k) Per capita claims cost – Sample claims cost rates adjusted to age 65 for fiscal year 2015 medical and prescription costs are shown below:

|                        | <b>Medical</b> | <b>Prescription<br/>drugs</b> |
|------------------------|----------------|-------------------------------|
| Pre-Medicare           | \$ 12,362      | 2,624                         |
| Medicare Parts A and B | 1,657          | 2,624                         |
| Medicare Part B only   | 7,920          | 2,624                         |
| Medicare Part D        | N/A            | 507                           |

- (l) 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 rehire.

- (m) 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, 10.0% is applied to the fiscal year 2015 pre-Medicare medical claims costs to get the fiscal year 2016 medical claims costs.

| <b>Fiscal year</b> | <b>Medical</b> |                | <b>Prescription<br/>drugs</b> |
|--------------------|----------------|----------------|-------------------------------|
|                    | <b>Pre-65</b>  | <b>Post-65</b> |                               |
| 2015               | 10.0%          | 6.0%           | 6.0%                          |
| 2016               | 9.4            | 5.9            | 5.7                           |
| 2017               | 8.8            | 5.8            | 5.4                           |
| 2018               | 8.2            | 5.7            | 5.1                           |
| 2019               | 7.6            | 5.6            | 4.8                           |
| 2020               | 7.0            | 5.6            | 4.6                           |
| 2021               | 6.5            | 5.6            | 4.4                           |
| 2025               | 5.6            | 5.6            | 4.2                           |
| 2050               | 4.4            | 4.0            | 4.0                           |
| 2100               | 4.4            | 4.0            | 4.0                           |

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Notes to Required Supplementary Information (Unaudited)

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For the June 30, 2014 valuation 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 2014 and projects out to 2090. The model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

(n) Aging factors:

| <u>Age</u> | <u>Medical</u> | <u>Prescription<br/>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                           |
| 84-93      | 0.5            | —                             |
| 94+        | —              | —                             |

- (o) Medical participation – Because medical benefits are provided at no cost to the retiree, 100% participation in the medical plans is assumed.
- (p) Turnover – Annual turnover is 3% if service is less than 10 years, and 1% if service is greater than 10 years.
- (q) Retirement – 3% if vested and age is less than 59, 10% if vested and age is greater than 59, and 100% at age 70. Terminated vested members are expected to commence benefits at age 60.
- (r) Marriage and age difference – Wives are assumed to be four years younger than husbands. 90% of males members and 70% of female members are assumed to be married.
- (s) Disability – Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.
- (t) Maximum retirement age – Age 70.
- (u) Marital status – 90% of male and 70% of female active and inactive members are assumed to be married. Husbands are assumed to be 4 years older than their wives.
- (v) Form of payment – Married members are assumed to choose the 50% Joint and Survivor benefit option. Single members are assumed to choose the Modified Cash Refund Annuity.
- (w) Contribution refunds – 0% 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.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will

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continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

***Changes in Actuarial Methods since the Prior Valuation – June 30, 2012 to June 30, 2014***

There were no changes in methods from the prior valuation, except for the changes in healthcare as previously stated.

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***Changes in Actuarial Assumptions from the Last Actuarial Valuation or Roll-forward – June 30, 2013 to June 30, 2014***

|                            | <u>June 30, 2013</u>   | <u>June 30, 2014</u>  |
|----------------------------|--|---|
| Salary scale               | 4.12% per year, compounded annually.   | 3.62% per year, compounded annually.  |
| Pre-termination mortality  | 45% of the male rates and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.               | 68% of the male rates and 60% of the female rates of the post-termination mortality rates.  |
| Post-termination mortality | 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA, with a 3-year setback for males and with a 1-year setback for females. | 94% of the male rates and 97% of the female rates of RP-2000 Combined Mortality, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. |
| Retirement                 | 3% if vested and age is less than 59, and 10% if vested and age is greater than 59, 100% at age 70.  | Retirement rates based on 2010-2013 experience. Terminated vested members are expected to commence benefits at age 60.  |
| Disability mortality       | RP-2000 Disabled Retiree Mortality Table.  | RP-2000 Disabled Retiree Table, 2000 Base Year projected to 2018 with Projection Scale BB.  |

## **SUPPLEMENTAL SCHEDULES**

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2015 and 2014

|  | <u>Administrative</u> | <u>Investment</u> | <u>Total</u>   |                |
|--|-----------------------|-------------------|----------------|----------------|
|  |                       |                   | <u>2015</u>    | <u>2014</u>    |
| Personal services:                             |                       |                   |                |                |
| Wages  | \$ 17,236             | 2,286             | 19,522         | 20,528         |
| Benefits                                       | 9,761                 | 979               | 10,740         | 11,574         |
| Total personal services                        | <u>26,997</u>         | <u>3,265</u>      | <u>30,262</u>  | <u>32,102</u>  |
| Travel:  |                       |                   |                |                |
| Transportation                                 | 132                   | 1,043             | 1,175          | 1,299          |
| Per diem                                       | 26                    | 467               | 493            | 557            |
| Total travel                                   | <u>158</u>            | <u>1,510</u>      | <u>1,668</u>   | <u>1,856</u>   |
| Contractual services:                          |                       |                   |                |                |
| Management and consulting                      | 99,658                | 371,685           | 471,343        | 384,630        |
| Accounting and auditing                        | 12,115                | 8,369             | 20,484         | 7,692          |
| Data processing                                | 5,172                 | 5,905             | 11,077         | 16,875         |
| Rental/leases                                  | 1,348                 | 566               | 1,914          | 1,825          |
| Legal  | 5,062                 | 931               | 5,993          | 1,892          |
| Other services                                 | 1,179                 | 848               | 2,027          | 2,590          |
| Total contractual services                     | <u>124,534</u>        | <u>388,304</u>    | <u>512,838</u> | <u>415,504</u> |
| Other:   |                       |                   |                |                |
| Supplies                                       | 540                   | 596               | 1,136          | 1,021          |
| Equipment                                      | 158                   | 163               | 321            | 278            |
| Total other                                    | <u>698</u>            | <u>759</u>        | <u>1,457</u>   | <u>1,299</u>   |
| Total administrative and investment deductions | <u>\$ 152,387</u>     | <u>393,838</u>    | <u>546,225</u> | <u>450,761</u> |

See accompanying independent auditors' report.

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Schedule of Payments to Consultants  
Other than Investment Advisors

Years ended June 30, 2015 and 2014

| <u>Firm</u>                        | <u>Services</u>                | <u>2015</u>      | <u>2014</u>   |
|------------------------------------|--------------------------------|------------------|---------------|
| Buck Consultants, a Xerox Company  | Actuarial services             | \$ 70,121        | 25,711        |
| KPMG LLP                           | Auditing services              | 12,095           | 7,524         |
| State Street Corporation           | Custodian banking services     | 9,101            | 7,866         |
| Alaska IT Group                    | Data processing consultants    | 862              | 866           |
| State of Alaska, Department of Law | Legal services                 | 5,002            | 615           |
| Applied Microsystems, Inc.         | Management consulting services | 2,179            | 6,365         |
| Chicago Dell Marketing LP          | Software maintenance           | —                | 2,402         |
|                                    |                                | <u>\$ 99,360</u> | <u>51,349</u> |

See accompanying independent auditors' report.