



**STATE OF ALASKA  
NATIONAL GUARD AND  
NAVAL MILITIA RETIREMENT SYSTEM**

(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2023

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA  
NATIONAL GUARD AND  
NAVAL MILITIA RETIREMENT SYSTEM**  
(A Component Unit of the State of Alaska)

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KPMG LLP  
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## Independent Auditors' Report

The Division of Retirement and Benefits and  
Members of the Alaska Retirement Management Board  
State of Alaska National Guard and Naval Militia Retirement System:

### *Disclaimer of Opinion*

We were engaged to audit the financial statements of the State of Alaska National Guard and Naval Militia Retirement System (the System), a component unit of the State of Alaska, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the System. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

### *Basis for Disclaimer of Opinion*

The components of the pension liability (asset) as of June 30, 2023, which includes the total pension liability of \$28,322,520, the fiduciary net position of \$44,501,184, and net pension asset of \$16,178,664, are disclosed in note 4 to the financial statements. The total pension liability is measured using various actuarial assumptions and the underlying census data for plan participants. We were not allowed access to the personnel records to determine whether the census data is complete and accurate. As a result, we were unable to determine whether any adjustments to total pension liability and net pension asset were necessary.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our responsibility is to conduct an audit of the System's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.



We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

KPMG LLP

Anchorage, Alaska  
February 1, 2024

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Management's Discussion and Analysis (Unaudited)

June 30, 2023

This section presents management's discussion and analysis (MD&A) of the State of Alaska National Guard and Naval Militia Retirement System's (the Plan) financial position and performance for the year ended June 30, 2023. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the Plan during the fiscal year ended June 30, 2023. Information for fiscal years 2022 and 2021 is presented for comparative purposes.

**Financial Highlights**

The Plan's financial highlights for the year ended June 30, 2023 were as follows:

- The Plan's fiduciary net position restricted for pension benefits increased by \$413 thousand.
- The State of Alaska, Department of Military and Veterans' Affairs did not appropriate funds to the Plan for fiscal year 2023 due to the Plan's significant over-funded level.
- The Plan's net investment income increased by \$6.2 million when compared to 2022, to \$2.5 million.
- Plan pension benefit expenditures totaled \$1.7 million.

**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) statement of fiduciary net position, (2) statement of changes in fiduciary net position, and (3) notes to financial statements. This report also contains required supplementary information and other supplemental schedules.

*Statement of fiduciary net position* – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2023.

*Statement of changes in fiduciary net position* – This statement presents how the Plan's net position restricted for pension benefits changed during the fiscal year ended June 30, 2023. This statement presents contributions and investment income during the period. Deductions for pension benefits and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2023, and the sources and uses of those funds during fiscal year 2023.

*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.

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*Required supplementary information and related notes* – The required supplementary information consists of three schedules and related notes concerning the funded status of the Plan, as well as 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	Fiduciary net position				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,842,786	578,572	1,264,214	218.5%	\$ 1,385,305
Accounts receivable	319	79	240	303.8	319
Investments at fair value	42,814,322	43,633,890	(819,568)	(1.9)	48,659,557
Total assets	44,657,427	44,212,541	444,886	1.0	50,045,181
<b>Liabilities:</b>					
Accrued expenses	45,212	25,116	20,096	80.0	29,429
Securities lending collateral payable	86,801	80,866	5,935	7.3	113,918
Due to State of Alaska General Fund	24,230	18,518	5,712	30.8	88,798
Total liabilities	156,243	124,500	31,743	25.5	232,145
Net position	\$ 44,501,184	44,088,041	413,143	0.9%	\$ 49,813,036

Description	Changes in fiduciary net position				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Net position, beginning of year	\$ 44,088,041	49,813,036	(5,724,995)	(11.5)%	\$ 42,095,708
<b>Additions:</b>					
Contributions – Alaska DMVA	—	—	—	—	—
Net investment income (loss)	2,453,401	(3,746,506)	6,199,907	165.5	9,474,407
Miscellaneous income	—	—	—	—	1,690
Total additions	2,453,401	(3,746,506)	6,199,907	165.5	9,476,097
<b>Deductions:</b>					
Pension benefits	1,745,217	1,620,749	124,468	7.7	1,454,330
Administrative	295,041	357,740	(62,699)	(17.5)	304,439
Total deductions	2,040,258	1,978,489	61,769	3.1	1,758,769
Increase (decrease) in net position	413,143	(5,724,995)	6,138,138	107.2	7,717,328
Net position, end of year	\$ 44,501,184	44,088,041	413,143	0.9%	\$ 49,813,036

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**Financial Analysis of the Plan**

The statement of fiduciary net position as of June 30, 2023 shows net position restricted for pension benefits of \$44,501,184. The entire amount is available to cover the Plan's obligations to pay benefits to its members and their beneficiaries, as well as administrative costs.

This represents an increase of \$413,143 or 0.9% in plan net position restricted for pension benefits from fiscal year 2022 to 2023, and a decrease of \$5,724,995 or 11.5% from fiscal year 2021 to 2022. Over the long term, employer contributions and investment income are projected to sufficiently fund the Plan's pension and administrative costs.

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.

***Plan Asset Allocation***

During fiscal years 2023 and 2022, the Board adopted the following asset allocations:

	<u>2023</u>		<u>2022</u>	
	<u>Allocation</u>	<u>Range</u>	<u>Allocation</u>	<u>Range</u>
Broad domestic equity	20.0%	± 6%	20.0%	± 6%
Global equity ex-U.S.	13.0	± 4	13.0	± 4
Fixed income	44.0	± 10	46.0	± 10
Multi-asset	8.0	± 4	6.0	± 4
Real assets	7.0	± 4	7.0	± 4
Private equity	8.0	± 4	8.0	± 4
Total	<u>100.0%</u>		<u>100.0%</u>	
Expected return - 20 year geometric mean	5.73%		5.68%	
Projected standard deviation	9.46		9.33	

For fiscal years 2023 and 2022, the Plan's investments generated a 5.44% and (6.29)% rate of return, respectively.

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**Contributions and Investment Income**

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

	<b>Additions</b>				
	<b>2023</b>	<b>2022</b>	<b>Increase (decrease)</b>		<b>2021</b>
			<b>Amount</b>	<b>Percentage</b>	
Contributions – Alaska DMVA	\$ —	—	—	—%	—
Net investment income (loss)	2,453,401	(3,746,506)	6,199,907	165.5	9,474,407
Other	—	—	—	—	1,690
<b>Total</b>	<b>\$ 2,453,401</b>	<b>(3,746,506)</b>	<b>6,199,907</b>	<b>165.5%</b>	<b>9,476,097</b>

The Plan's employer contributions from the Alaska Department of Military and Veterans Affairs (DMVA) remained at \$0 during fiscal years 2023 and 2022 as the Plan continues to maintain a funded level well above 100%. These amounts were the actuarially determined contribution as calculated by the Plan's consulting actuary. No actuarially determined contribution amount was required for fiscal 2023 as a result of the roll-forward actuarial valuation report. Full actuarial valuation reports are completed for the Plan biennially with roll-forward actuarial valuation reports being completed in the interim years.

The Plan's net investment income in fiscal year 2023 increased by \$6,199,907 or 165.5% from amounts in fiscal year 2022. The Plan's net investment income in fiscal year 2022 decreased by \$13,220,913 or 139.5% from amounts in fiscal year 2021. The investment gains in fiscal year 2023 were substantially higher than the investment losses seen in fiscal year 2022, primarily due to improved investor sentiment in domestic stocks and an increase in overseas stocks aided through currency appreciation versus the U.S. dollar that exceeded the Plan's actuarial rate of return. However, other investment classes did not fare as well, ending the year below the 5.75% rate of return. Over the long term, investment earnings play a significant role in funding plan benefits. The Board continues to look at investment classes and strategies best suited to meet the expected earnings returns to meet future benefit payments.



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The Plan's investment rates of return for the year ended June 30 were as follows:

	Year ended		
	2023	2022	2021
System returns	5.44%	(6.29)%	21.56 %
Domestic equities	17.83	(11.73)	42.84
Fixed income	0.50	(7.25)	2.31
Multi-asset	4.10	(10.58)	23.94
Real assets	2.37	14.29	10.22
International equities	15.15	(20.96)	38.73
Private equity	(3.28)	26.26	68.52
Cash equivalents	—	—	0.19
Actuarially assumed rate of return	5.75	5.75	5.75

**Benefits and Other Deductions**

The primary deduction of the Plan is the payment of pension benefits. These benefit payments and the cost of administering the Plan comprise the cost of operations as follows:

	Deductions				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Pension benefits	\$ 1,745,217	1,620,749	124,468	7.7%	\$ 1,454,330
Administrative	295,041	357,740	(62,699)	(17.5)	304,439
Total	\$ 2,040,258	1,978,489	61,769	3.1%	\$ 1,758,769

The fiscal year 2023 and 2023 increase in pension benefits is due to an increase in the number of lump sum payment recipients.

The Plan's administrative costs in fiscal year 2023 decreased \$62,699 or 17.50% from fiscal year 2022 and increased \$53,301 or 17.5% from fiscal year 2021. The decreased administrative cost in fiscal years 2023 is related to reductions related to a capital project for a retirement system replacement and reductions on contractual costs charged to the Plan. For fiscal year 2022, the increase in costs is related to a capital project for a retirement system replacement.

**Net Pension Asset**

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, requires the Plan to report the total pension liability, fiduciary net position, and the net pension liability. The total

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pension liability represents the total obligation for the 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 Plan's fiduciary net position represents the assets available to pay the Plan's future payment stream. The assets are derived from contributions received from the participating employer and nonemployer contributions, if any, as well as investment earnings, less benefit payments during the year and the related costs to administer the Plan. When the fiduciary net position exceeds the total pension liability, the Plan reports a net pension asset.

The components of the net pension asset at June 30 were as follows:

	<u>2023</u>	<u>2022</u>
Total pension liability	\$ 28,322,520	26,667,059
Plan fiduciary net position	<u>(44,501,184)</u>	<u>(44,088,041)</u>
Plan's net pension asset	<u>\$ (16,178,664)</u>	<u>(17,420,982)</u>
Plan fiduciary net position as a percentage of the total pension liability	157.12 %	165.33 %

### Funding

Retirement benefits are financed by accumulations from DMVA contributions, periodic State of Alaska appropriations, and income earned on Plan investments.

- The actuarially determined employer contribution amounts are calculated by the Plan's consulting actuary and approved by the Board. Contributions are determined on an annual basis either through the actuarial valuation or the actuarial valuation roll-forward process.
- The Board works with an external consultant to determine the proper asset allocation strategy.

### Legislation

During fiscal year 2023, the 33rd Alaska State Legislature did not appropriate contribution funding from the General Fund to the Department of Military and Veterans' Affairs for deposit in the Plan's defined benefit pension fund as retirement funding for fiscal year ending June 30, 2024, due to the continued significant overfunding of the Plan.

### Economic Conditions, Future Contribution Amounts, and Funding Status

Fiscal year 2023 had positive investment returns, with an overall return rate of 5.44%, slightly less than the 5.75% assumed rate of return. Net investment income increased from negative \$3,746,506 in fiscal year 2022 to \$2,453,401 in fiscal year 2023, an increase of \$6,199,907 or 165.5%. The Board continues to work with its external investment consultant and the Alaska Department of Revenue, Treasury Division, to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

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The consulting actuary recommended no change from the Plan's actuarially determined contribution amount of \$0 in fiscal year 2022 to fiscal year 2023. For fiscal year 2023, the actuary recommended that a contribution to the Plan was not necessary. With the Plan's 162.9% funding ratio as of the June 30, 2022 actuarial valuation report, the Board concurred that no additional contributions are necessary for the Plan until such time that the Plan's funded ratio is less than 100%. The Alaska legislature did not appropriate funds for fiscal year 2024 and will continue to evaluate future contributions to the Plan.

The actuarial valuation report for June 30, 2022 reported a funded ratio of 162.9% and a funding excess of \$17.8 million. The actuarial roll-forward valuation for June 30, 2021 reported a funded ratio of 196.9% and a funding excess of \$22.3 million.

The decrease in the funding excess is attributable to investment losses during fiscal year 2022 that provided an actuarial rate of return less than the expected return. Additionally, there was an increase to the actuarial accrued liability of approximately \$1.0 million due to new entrants and rehires that had service accrued prior to June 30, 2022, and the effect of the newly adopted assumptions that increased the actuarial accrued liability by \$3.9 million.

Both the actuarial valuation report of June 30, 2022 and the actuarial roll-forward valuation report of June 30, 2021 are posted to the Plan's web page. The actuarial valuation reports for the Plan are conducted biennially. The actuarial valuation report for June 30, 2022 was presented to the Board in June 2023, and adopted in September 2023. The actuarial roll-forward valuation for June 30, 2021 report was completed and presented in March 2022, and adopted by the Board in June 2022. The Board adopted new valuation assumptions as a result of an experience study conducted for the period July 1, 2017 to June 30, 2021. The adoption of these assumptions occurred in June 2022 and were used on the actuarial valuation report for the year ended June 30, 2022.

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**Requests for Information**

This financial report is designed to provide a general overview for those parties interested 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 National Guard and Naval Militia 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

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Statement of Fiduciary Net Position

June 30, 2023

Assets:	
Cash and cash equivalents:	
Short-term fixed income pool	\$ 1,755,985
Securities lending collateral	86,801
Total cash and cash equivalents	<u>1,842,786</u>
Accounts receivable	<u>319</u>
Investments at fair value:	
Fixed income securities:	
Transition pool	419,906
Opportunistic fixed income pool	3,725,333
Barclays aggregate bond fund	13,864,270
Total fixed income securities	<u>18,009,509</u>
Broad domestic equity:	
Large cap pool	7,542,065
Small cap pool	679,300
Total broad domestic equity	<u>8,221,365</u>
Global equity ex-U.S.:	
International equity pool	4,561,670
Emerging markets equity pool	997,741
Total global equity ex-U.S.	<u>5,559,411</u>
Multi-asset:	
Alternative equity strategies pool	452,269
Tactical allocation strategies pool	1,547,923
Alternative fixed income pool	1,227,374
Alternative beta pool	421,020
Total Multi-asset	<u>3,648,586</u>
Private equity pool	<u>4,161,352</u>
Real assets:	
Real estate pools	1,181,861
Real estate investment trust pool	342,411
Infrastructure private pool	614,026
Energy pool	38,323
Farmland pool	754,303
Timber pool	283,175
Total real assets	<u>3,214,099</u>
Total investments	<u>42,814,322</u>
Total assets	<u>44,657,427</u>
Liabilities:	
Accrued expenses	45,212
Securities lending collateral payable	86,801
Due to State of Alaska General Fund	24,230
Total liabilities	<u>156,243</u>
Fiduciary net position restricted for pension benefits	<u>\$ 44,501,184</u>

See accompanying notes to financial statements.

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Statement of Changes in Fiduciary Net Position

Year ended June 30, 2023

Additions:

Contributions – Alaska Department of Military & Veterans Affairs	\$ <u>          —</u>
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Investment income:

Net appreciation in fair value	1,709,292
Interest	482,410
Dividends	<u>357,023</u>

Total investment income	2,548,725
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Less investment expense	<u>97,486</u>
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Net investment income before securities lending activities	<u>2,451,239</u>
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Securities lending income	2,702
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Less securities lending expense	<u>540</u>
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Net income from securities lending activities	<u>2,162</u>
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Net investment income	<u>2,453,401</u>
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Total additions	<u>2,453,401</u>
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Deductions:

Pension benefits	1,745,217
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Administrative	<u>295,041</u>
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Total deductions	<u>2,040,258</u>
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Net increase	413,143
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Fiduciary net position restricted for pension benefits:

Balance, beginning of year	<u>44,088,041</u>
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Balance, end of year	<u>\$ <u>44,501,184</u></u>
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See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2023

**(1) Description**

The State of Alaska National Guard and Naval Militia Retirement System (the Plan) is a component unit of the State of Alaska (the State). The Plan is administered by the Division of Retirement and Benefits (the Division) within the Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Alaska Retirement Management Board (the Board) is responsible for overseeing the management and investment of the Plan. The Board consists of nine trustees as follows, two trustees 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 PERS members, and two trustees who are TRS members.

**(a) Plan Membership**

Plan membership as of the valuation year ended June 30 is as follows:

	<b>2022</b>
Retirees and beneficiaries currently receiving benefits	691
Terminated plan members entitled to future benefits	702
Total current and future benefits	1,393
Active plan members:	
Alaska Air National Guard	2,300
Alaska Army National Guard	1,560
Alaska Naval Militia	49
Total active plan members	3,909
Total members	5,302

NOTE: The data for the Air Guard group was available as of June 30, 2021 only. Buck, the Plan's consulting actuary, assumed the status of each Air Guard member as of June 30, 2021 was the same as of June 30, 2022, and increased each Air Guard active member's service as of June 30, 2021 by 1 year.

**(b) Pension Benefits**

Members who voluntarily retire from the Alaska National Guard or Alaska Naval Militia after at least five years of Alaska Guard service and a total of at least 20 years of U.S. military service or members who involuntarily leave the Alaska Guard service due to federal standards imposed on the Alaska Guard, regardless of length of service, are eligible for a retirement pension. The retirement pension is

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\$100 per month for each month of Alaska Guard service and may be paid to the member monthly or in a one-time lump sum.

**(c) *Death Benefits***

Upon the death of an eligible member, as previously described, the member's designated beneficiary is entitled to a lump-sum benefit equal to the original pension amount less any payments already paid to the member.

**(d) *Contributions***

The Plan's funding policy provides for annual employer contributions by the State of Alaska, Department of Military and Veterans' Affairs (Department) at actuarially determined contribution amounts that are sufficient to accumulate assets to pay benefits when due. Some officials of the Department may be members of the Plan. Plan members make no contributions to the Plan.

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

**(a) *Basis of Accounting***

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

**(b) *Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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 (Treasury). The Plan'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) *Administrative Costs***

Administrative costs are paid from investment earnings.



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**(e) Due to State of Alaska General Fund**

Amounts due to the State of Alaska General Fund represent the amounts paid by the General Fund on behalf of the Plan.

**(f) 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).

**(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 assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's invested assets is pursuant to Alaska Statutes 37.10.210–390.

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

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Treasury manages the U.S. Treasury Fixed-Income Pool and Real Estate Investment Trust 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 Treasury that holds investments on behalf of the Board as well as other State funds.

**Rate of Return**

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The Plan's annual money-weighted rate of return, net of investment expense, for the year ended June 30, 2023 was 5.71%.

For additional information on securities lending, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at [treasury.dor.alaska.gov/armb/reports-and-policies/annual-audited-financial-schedules](https://treasury.dor.alaska.gov/armb/reports-and-policies/annual-audited-financial-schedules)

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**(4) Net Pension Asset**

The components of the net pension asset at June 30, 2023 were as follows:

Total pension liability	\$	28,322,520
Plan fiduciary net position		<u>(44,501,184)</u>
Plan's net pension asset	\$	<u>(16,178,664)</u>
Plan fiduciary net position as a percentage of the total pension liability		157.12%

**(a) Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2023:

Inflation	2.50% per year
Salary increases	N/A
Investment rate of return	5.75%, net of pension plan investment expenses.
Mortality	<p>Pre-commencement mortality rates were based on the Pub-2010 Safety Employee table, amount-weighted, and projected with MP-2021 generational improvement.</p> <p>Post-commencement mortality rates for healthy retirees were based on the Pub-2010 Safety Retiree table, amount-weighted, and projected with MP-2021 generational improvement.</p> <p>Post-commencement mortality rates for disabled retirees were based on the Pub-2010 Safety Disabled Retiree table, amount-weighted, and projected with MP-2021 generational improvement.</p> <p>Post-commencement mortality rates for beneficiaries were based on the Pub-2010 Contingent Survivor table, amount-weighted, and projected with MP-2021 generational improvement. These rates are applied only after the death of the original member.</p>

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The long-term expected rate of return on 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 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 adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2023 are summarized in the following table (note that the rates shown below exclude an inflation component of 2.82%).

Asset class	Long-term expected real rate of return
Domestic equity	6.17%
Global equity (non-US)	6.55
Aggregate bonds	1.63
Real assets	4.87
Private equity	11.57
Cash equivalents	0.49

**(b) Discount Rate**

The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the 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 in accordance with the method prescribed by GASB 67. In the event benefit payments are not covered by the Plan's fiduciary net position, a municipal bond rate would be used to discount the benefit payments not covered by the Plan's fiduciary net position. The S&P Municipal Bond 20-Year High Grade Index rate was 4.13% as of June 30, 2023.

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**(c) Sensitivity of the Net Pension Asset to Changes in the Discount Rate**

The following presents the Plan's net pension asset as of June 30, 2023, calculated using the discount rate of 5.75%, as well as what the Plan's net pension asset would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% decrease (4.75%)</u>	<u>Current discount rate (5.75%)</u>	<u>1% Increase (6.75%)</u>
Net pension asset	\$ 13,377,845	16,178,664	18,578,625

**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

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Required Supplementary Information (Unaudited)

Schedule of Changes in Employer Net Pension (Asset) Liability and Related Ratios

Last 10 Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:										
Service cost	\$ 722,955	656,678	517,376	507,899	578,431	610,686	610,686	603,495	603,495	654,797
Interest	1,521,266	1,438,540	1,567,548	1,532,008	2,370,401	2,265,875	2,170,196	2,659,657	2,553,940	2,359,276
Differences between expected and actual experience	1,156,457	—	(627,562)	—	(13,086,972)	4,338	(8,663,535)	4,565	1,258,332	—
Changes of assumptions	—	964,524	2,573,336	—	(265,847)	—	—	—	145,422	—
Benefit payments	(1,745,217)	(1,620,749)	(1,454,330)	(1,641,475)	(1,343,753)	(1,359,467)	(1,485,669)	(1,728,729)	(1,563,816)	(1,610,506)
Net change in total pension liability	1,655,461	1,438,993	2,576,368	398,432	(11,747,740)	1,521,432	(7,368,322)	1,538,988	2,997,373	1,403,567
Total pension liability – beginning	26,667,059	25,228,066	22,651,698	22,253,266	34,001,006	32,479,574	39,847,896	38,308,908	35,311,535	33,907,968
Total pension liability – ending (a)	28,322,520	26,667,059	25,228,066	22,651,698	22,253,266	34,001,006	32,479,574	39,847,896	38,308,908	35,311,535
Plan fiduciary net position:										
Contributions – employer	—	—	—	860,686	851,686	907,231	866,905	734,500	627,300	740,100
Total net investment income (loss)	2,453,401	(3,746,506)	9,474,407	2,142,109	2,321,285	1,964,832	3,181,993	181,711	589,856	4,527,672
Benefit payments	(1,745,217)	(1,620,749)	(1,454,330)	(1,641,475)	(1,343,753)	(1,359,467)	(1,485,669)	(1,728,729)	(1,563,816)	(1,610,506)
Administrative expenses	(295,041)	(357,740)	(304,439)	(230,609)	(282,338)	(226,466)	(257,396)	(241,750)	(240,750)	(223,334)
Other income	—	—	1,690	—	—	—	—	582	145	21
Net change in plan fiduciary net position	413,143	(5,724,995)	7,717,328	1,130,711	1,546,880	1,286,130	2,305,833	(1,053,686)	(587,265)	3,433,953
Plan fiduciary net position – beginning	44,088,041	49,813,036	42,095,708	40,964,997	39,418,117	38,131,987	35,826,154	36,879,840	37,467,105	34,033,152
Plan fiduciary net position – ending (b)	44,501,184	44,088,041	49,813,036	42,095,708	40,964,997	39,418,117	38,131,987	35,826,154	36,879,840	37,467,105
Plan's net pension (asset) liability (a)–(b)	\$ (16,178,664)	(17,420,982)	(24,584,970)	(19,444,010)	(18,711,731)	(5,417,111)	(5,652,413)	4,021,742	1,429,068	(2,155,570)
Plan fiduciary net position as a percentage of the total pension liability	157.12 %	165.33 %	197.45 %	185.84 %	184.09 %	115.93 %	117.40 %	89.91 %	92.27 %	106.10 %
Covered payroll	\$ N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

Last 10 Fiscal Years

<b>Fiscal Year</b>	<b>Actuarially determined contribution</b>	<b>Contribution in relation to the actuarially determined contribution</b>	<b>Contributions deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contribution as a percentage of covered payroll</b>
2023	\$ —	—	—	N/A	N/A
2022	—	—	—	N/A	N/A
2021	—	—	—	N/A	N/A
2020	—	860,686	(860,686)	N/A	N/A
2019	—	851,686	(851,686)	N/A	N/A
2018	907,231	907,231	—	N/A	N/A
2017	866,900	866,905	(5)	N/A	N/A
2016	734,560	734,500	60	N/A	N/A
2015	627,327	627,300	27	N/A	N/A
2014	474,791	740,100	(265,309)	N/A	N/A

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

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Schedule of Investment Returns

<b>Fiscal Year</b>	<b>Annual money-weighted rate of return, net of investment expense</b>
2023	5.71 %
2022	(7.69)%
2021	23.01 %
2020	5.28 %
2019	5.95 %
2018	5.17 %
2017	8.99 %
2016	(0.16)%
2015	1.63 %
2014	13.53 %

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



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June 30, 2023

**(1) Actuarial Assumptions and Methods**

The actuarial valuation was prepared by Buck. The significant actuarial methods and assumptions used in the defined benefit pension benefit Plan valuation as of June 30, 2022 were as follows:

- (a) Actuarial cost method – Liabilities and contributions in the report are computed using the Entry Age Normal Actuarial Cost Method (level dollar basis). Any funding surpluses or unfunded accrued liability is amortized over 20 years less the average total military service of active members.

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

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the unfunded actuarial accrued liability, subject to amortization.

- (b) Valuation of assets – Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method was phased in over five years. Assets are initialized at market value as of June 30, 2006. All assets are valued at fair market value. Assets are accounted for on an accrued basis and are taken directly from financial statements. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.
- (c) Investment return – 5.75% per year, net of investment expenses
- (d) Mortality (pre-commencement) – Pub-2010 Safety Employee table, amount-weighted, and projected with MP-2021 generational improvement.
- (e) Mortality (post-commencement) – Retiree mortality in accordance with the Pub-2010 Safety Retiree table, amount-weighted, and projected with MP-2021 generational improvement.

Beneficiary mortality in accordance with the Pub-2010 Contingent Survivor table, amount-weighted, and projected with MP-2021 generational improvement.

- (f) Turnover – Select and ultimate rates based upon the 2017-2021 actual experience. Sample rates are shown below.

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<b>Select Rates of Turnover During the First 5 Years of Employment</b>		<b>Ultimate Rates of Turnover After the First 5 Years of Employment</b>		
<b>Years of Employment</b>	<b>Unisex Rate</b>	<b>Age</b>	<b>Male Rate</b>	<b>Female Rate</b>
< 1	20.00%	< 30	9.53%	9.94%
1	10.00%	30	9.43%	9.84%
2	10.00%	35	8.81%	9.20%
3	10.00%	40	7.73%	8.06%
4	10.00%	45	6.83%	7.13%
		50	4.16%	4.33%
		55	2.64%	2.75%
		60	2.88%	3.00%

- (g) Disability – No changes to the incidence rates from the prior valuation due to insufficient 2017-2021 actual experience. Disability rates continue after a member is eligible for retirement. Sample rates are shown below.

<b>Age</b>	<b>Male</b>	<b>Female</b>	<b>Age</b>	<b>Male</b>	<b>Female</b>
< 23	0.0179%	0.0112%	50	0.1714%	0.1071%
23	0.0244	0.0153	55	0.2954	0.1846
25	0.0374	0.0234	60	0.5110	0.3194
30	0.0570	0.0356	65	0.6109	0.3818
35	0.0679	0.0425	69	0.2036	0.1273
40	0.0822	0.0514	70 +	0.2036	0.1273
45	0.1157	0.0723			

Post-disability mortality in accordance with the Pub-2010 Safety Disabled Retiree table, amount-weighted, and projected with MP-2021 generational improvement.

- (h) Retirement – Retirement rates based on the 2017 – 2021 actual experience.

<b>Age</b>	<b>Male</b>	<b>Female</b>	<b>Age</b>	<b>Male</b>	<b>Female</b>
< 53	15.34%	18.20%	59	37.00%	32.50%
53	17.70	21.00	60	40.70	35.75
54	23.60	28.00	61	44.40	35.75
55	18.50	16.25	62	44.40	35.75
56	25.90	22.75	63	44.40	35.75
57	29.60	26.00	64	44.40	35.75
58	33.30	29.25	65 +	100.00	100.00

Vested terminated members are assumed to retire at the later of current age or age 50 when electing an annuity, and at current age when electing a lump sum.

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- (i) Imputed data – Data changes from the prior valuation which are deemed to have an immaterial impact on liabilities and contributions are assumed to be correct in the current year’s client data.

Active and terminated members with a date of termination after the last date of hire are assumed to be terminated with status based on their amount of vesting service.

Buck assumed the status of each Air Guard member as of June 30, 2021 was the same as of June 30, 2022, and increased each Air Guard active member’s service as of June 30, 2021 by 1 year.

- (j) Form of payment – 50% of members are assumed to elect a lump sum benefit. 50% of members are assumed to elect a monthly annuity with the number of payments equal to the number of months they were active in the Plan. A lump sum of the remaining payments is paid if the member should die while receiving payments. Lump sums are calculated based on a 5.75% discount rate annuity certain factor.

- (k) Administrative expenses – The Normal Cost as of June 30, 2022 was increased by \$331,000 for administrative expenses. This amount is based on the average of actual administrative expenses during the last two fiscal years.

The expense load is equal to the average of the prior two years’ actual administrative expenses rounded to the nearest \$1,000 as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2021	\$ 304,000
2022	<u>358,000</u>
Total	\$ 662,000
	÷ <u>2</u>
Expense load (rounded)	<u>\$ 331,000</u>

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 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, 2020 to June 30, 2022***

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

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***Changes in Actuarial Assumptions Since the Prior Valuation – June 30, 2020 to June 30, 2022***

Effective for the June 30, 2022 valuation, the Board adopted the changes to the demographic and economic assumptions recommended by the actuary, based on the results of an experience study performed on the Plan experience from July 1, 2017 to June 30, 2021. The changes in assumptions were adopted at the June 2022 Board meeting. The effect of the new assumptions was to increase the actuarial accrued liability as of June 30, 2022 by approximately \$3.9 million.

The amount included in the Normal Cost for administrative expenses was changed from \$256,000 at June 30, 2020 to \$331,000 at June 30, 2022.

***Changes in Benefit Provisions Since the Prior Valuation – June 30, 2020 to June 30, 2022***

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

## **SUPPLEMENTAL SCHEDULES**

**STATE OF ALASKA  
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Schedule of Administrative and Investment Deductions

Year ended June 30, 2023

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>
Personal services:			
Wages	\$ 78,096	5,634	83,730
Benefits	49,604	2,628	52,232
Total personal services	<u>127,700</u>	<u>8,262</u>	<u>135,962</u>
Travel:			
Transportation	239	103	342
Per diem	41	20	61
Total travel	<u>280</u>	<u>123</u>	<u>403</u>
Contractual services:			
Management and consulting	25,348	5,320	30,668
Investment management and custodial fees	—	80,831	80,831
Accounting and auditing	41,238	39	41,277
Data processing	74,769	2,155	76,924
Communications	792	21	813
Advertising and printing	3,400	3	3,403
Rental/leases	9,892	200	10,092
Legal	18	112	130
Repairs & Maintenance	81	5	86
Transportation	2,227	2	2,229
Securities lending	—	540	540
Other services	8,441	128	8,569
Total contractual services	<u>166,206</u>	<u>89,356</u>	<u>255,562</u>
Other:			
Equipment	143	60	203
Supplies	712	225	937
Total other	<u>855</u>	<u>285</u>	<u>1,140</u>
Total administrative and investment deductions	<u>\$ 295,041</u>	<u>98,026</u>	<u>393,067</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other Than Investment Advisors

Year ended June 30, 2023

<u>Firm</u>	<u>Services</u>	<u>Amount</u>
Buck Global LLC	Actuarial services	\$ 21,678
KPMG LLP	Auditing services	41,000
State Street Bank and Trust	Custodial banking services	1,988
Applied Microsystems Incorporated	Data processing services	3,702
Sagitec Solutions	Data processing services	58,559
TechData Service Company	Data processing services	5,035
		<u>131,962</u>
		<u>\$ 131,962</u>

This schedule presents payments to consultants receiving greater than \$1,000.

See accompanying independent auditors' report.