KPMG

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund 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 Retiree Health Fund:

We have audited the accompanying statements of fiduciary net position of the State of Alaska Retiree Health Fund (the Plan), a pension trust fund of the State of Alaska, as of June 30, 2014 and 2013, and the related statement 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 Retiree Health Fund as of June 30, 2014 and 2013, 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 – 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

December 5, 2014

This section presents management's discussion and analysis (MD&A) of the Retiree Health Fund's (the Plan) financial condition and performance for the years ended June 30, 2014 and 2013. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to the financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2014 and 2013. Information for fiscal year 2012 is presented for comparative purposes.

Financial Highlights

The Plan financial highlights as of June 30, 2014 were as follows:

- The Plan's net position restricted for postemployment healthcare benefits increased by $51.9 million during fiscal year 2014.
- The Plan's health premiums increased by $3.7 million during fiscal year 2014.
- The Plan's net investment income increased $19.2 million to $36.3 million during fiscal year 2014.
- The Plan's benefit expenses totaled $51.7 million during fiscal year 2014.

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.

Statements of Fiduciary Net Position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for 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, 2014 and 2013.

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

The above statements represent resources available for investment and payment of benefits as of the fiscal year-end and the sources and uses of those funds during fiscal year 2014 and 2013.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the Plan's financial statements.

Condensed Financial Information

Fiduciary Net Position

Description	2014	2013	Position increase (decrease) Amount	Position increase (decrease) Percentage	2012
Assets:					
Cash and receivables	$ 103,670,413	90,148,884	13,521,529	15.0%	$ 91,160,270
Investments, at fair value	293,897,212	251,648,723	42,248,489	16.8	212,486,694
Other	1,661,931	627,712	1,034,219	164.8	776,948
Total assets	399,229,556	342,425,319	56,804,237	16.6	304,423,912
Liabilities:					
Claims payable	25,082,000	20,468,000	4,614,000	22.5	17,178,000
Accrued expenses	664,186	140,361	523,825	373.2	133,574
Due to other funds	131,203	352,756	(221,553)	(62.8)	545,692
Total liabilities	25,877,389	20,961,117	4,916,272	23.5	17,857,266
Total net position	$ 373,352,167	321,464,202	51,887,965	16.1%	$ 286,566,646

Changes in Fiduciary Net Position

Description	2014	2013	Position increase (decrease) Amount	Position increase (decrease) Percentage	2012
Net position, beginning of year	$ 321,464,202	286,566,646	34,897,556	12.2%	$ 251,585,214
Additions:					
Healthcare insurance premiums	69,066,044	65,369,592	3,696,452	5.7	60,142,982
Medicare retiree drug subsidy	49,179	63,629	(14,450)	(22.7)	81,361
Early retiree reinsurance program	—	—	—	—	159,646
Other income	72,326	1,974	70,352	3,563.9	4,932
Net investment income	36,271,014	17,046,187	19,224,827	112.8	10,404,104
Total additions	105,458,563	82,481,382	22,977,181	27.9	70,793,025
Deductions:					
Benefits	51,669,553	46,105,103	5,564,450	12.1	34,389,584
Administrative	1,901,045	1,478,723	422,322	28.6	1,422,009
Total deductions	53,570,598	47,583,826	5,986,772	12.6	35,811,593
Increase in net position	51,887,965	34,897,556	16,990,409	48.7	34,981,432
Net position, end of year	$ 373,352,167	321,464,202	51,887,965	16.1%	$ 286,566,646

(Continued)

Financial Analysis of the Plan

The statements of fiduciary net position as of June 30, 2014 and 2013 show net position restricted for postemployment healthcare benefits of $373,352,167 and $321,464,202, respectively. The entire amount is available to cover the Plan's obligations to pay postemployment healthcare benefits for its members and their beneficiaries. These amounts also represent an increase in total net position restricted for postemployment healthcare benefits of $51,857,965 or 16.1% over fiscal year 2013 and $34,897,556 or 12.2% over fiscal year 2012, respectively.

Beginning on July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT) replaced the major medical fund of the Plan for retired members and beneficiaries covered under Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial Retirement System (JRS). Previously, these Systems had paid a monthly health insurance premium to the Plan. With the creation of the ARHCT, participating PERS, TRS, and JRS employer contributions were deposited directly to the ARHCT replacing the monthly health insurance premiums. Healthcare coverage is still accounted for some retired members, dependents, and beneficiaries in the major medical fund via monthly health insurance premiums. Over the long term, healthcare premiums collected for the Dental, Visual, and Audio (DVA) and Long-Term Care (LTC) funds are expected to cover all claims costs. With continued increases in healthcare costs, the Plan must continue to accumulate assets to meet current and future claims costs.

The investment of plan assets is a long-term undertaking. On an annual basis, the Commissioner of Revenue reviews the asset allocation policies related to plan assets 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.

During fiscal years 2014 and 2013, the asset allocation for the major medical fund was 100% Short-Term Fixed Income Fund and the asset allocation for the DVA fund was 100% General Fund and Other Non-segregated Investments (GeFONSI). The asset allocation for the Long-Term Care fund was as follows:

	2014	
	Long-Term Care	
	Allocation	Range
Short-term fixed income pool	18.38%	18% ± 1%
Broad market fixed income pool	27.12	27 ± 10
International equity	14.03	14 ± 4
Nonretirement domestic equity pool	40.47	41 ± 10
Total	100.00%	

	2013 Long-Term Care	
	Allocation	Range
Short-term fixed income pool	17.89%	18% ± 1%
Broad market fixed income pool	47.83	50 ± 10
International equity	11.61	11 ± 4
Nonretirement domestic equity pool	22.67	21 ± 10
Total	100.00%	

Insurance Premium Calculations

The overall objective of the Plan is to have sufficient funds to meet claim costs. The insurance premiums are recommended each year by the Division of Retirement and Benefits' (the Division) benefit consultant with the governing body's concurrence and the administrator's approval. Insurance premiums are based on a benefit year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop recommended premiums for the next benefit year.

Healthcare Insurance Premiums and Investment Income

The additions required to fund postemployment healthcare benefits are accumulated through a combination of employer health insurance premiums, member health insurance premiums, prescription drug rebates, and net investment income.

	Additions				
			Increase (decrease)		
	2014	2013	Amount	Percentage	2012
Employer health insurance premiums	$ 1,786,683	1,561,825	224,858	14.4%	$ 1,517,260
Member health insurance premiums	67,279,361	63,807,767	3,471,594	5.4	58,625,722
Medicare retiree drug subsidy	49,179	63,629	(14,450)	(22.7)	81,361
Early retiree reinsurance program	—	—	—	—	159,646
Other	72,326	1,974	70,352	3,563.9	4,932
Net investment income	36,271,014	17,046,187	19,224,827	112.8	10,404,104
Total	$ 105,458,563	82,481,382	22,977,181	27.9%	$ 70,793,025

System paid medical premiums were $1,223 per month per eligible retiree for calendar year 2014 and 2013 and was $1,200 per month per eligible retiree for calendar year 2012.

Other income primarily comprises of reimbursements for retiree prescription medication. The Plan was approved for participation in the Medicare Part D retiree drug subsidy (RDS) program starting in calendar year 2006. One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a payment, the retiree drug subsidy (RDS), 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 System's net investment income in fiscal year 2014 increased by $19,224,827 or 112.8% from amounts recorded in fiscal year 2013 and net investment income in fiscal year 2013 increased by $6,642,083 or 63.8% from amounts recorded in fiscal year 2012. During fiscal years 2014 and 2013, the System experienced positive returns on investments, though most gains were primarily in the Retiree Health Fund LTC Plan.

For fiscal years 2014 and 2013, the Retiree Health Fund Major Medical Plan investments generated 0.26% and 0.24%, respectively, rate of return. The Retiree Health Fund Major Medical Plan annualized rate of return was 0.31% over the last three years and 0.51% over the last five years. The Retiree Health Fund DVA Plan is invested in the GeFONSI. The GeFONSI is an investment pool managed by the State of Alaska Treasury Division in the Department of Revenue. For fiscal years 2014 and 2013, the GeFONSI investments generated 0.57% and 0.31% rate of return, respectively. The GeFONSI annualized rate or return was 0.80% over the last three years and 1.50% over the last five years. For fiscal years 2014 and 2013, the Retiree Health Fund LTC Plan investments generated 11.55% and 6.14% rate of return, respectively. The Retiree Health Fund LTC Plan annualized rate of return was 7.17% over the last three years and 11.01% over the last five years.

Benefits and Deductions

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

	Deductions				
			Increase		
	2014	2013	Amount	Percentage	2012
Healthcare benefits	$ 51,669,553	46,105,103	5,564,450	12.1%	$ 34,389,584
Administrative	1,901,045	1,478,723	422,322	28.6	1,422,009
Total	$ 53,570,598	47,583,826	5,986,772	12.6%	$ 35,811,593

Benefit expense increased by $5,564,450 or 12.1% and increased by $11,715,519 or 34.1% from fiscal years 2013 and 2012, respectively. The increase in administrative expenses is primarily due to the increase in DVA third party administrator (TPA) fees associated with having more than one TPA administering the plans. The Plan's benefit consultants continue to identify and develop premiums necessary to cover claims costs.

Funding

Postemployment healthcare benefits are funded by health insurance premiums received from the remaining participating retirement systems and plan members as well as from income earned on plan investments. Healthcare insurance premiums are recommended each year by the Division's consultant with the governing body's concurrence and the Administrator's approval.

Economic Conditions, Market Environment, and Results

The overall objective of the Plan is to have sufficient funds to meet current and future claim costs. The premiums for the major medical and DVA plans are calculated each year based on the anticipated claims and administrative costs for the following year. The benefit consultant reviews the historical claims experience and administrative costs and uses that data to estimate trends to develop premiums. The amount of reserves is considered when setting the premiums. The premiums for the LTC plan have been developed to provide future benefits for the retirees, much like an annuity. The LTC plan will accumulate large reserves to pay future benefits.

Requests for Information

This financial report is designed to provide a general overview of the Plan's financial condition for all 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 Retiree Health Fund
Division of Retirement and Benefits, Finance Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Statements of Fiduciary Net Position

June 30, 2014 and 2013

	2014				2013			
	Major medical	**Dental, visual, and audio**	**Long-term care**	**Total**	**Major medical**	**Dental, visual, and audio**	**Long-term care**	**Total**
Assets:								
Cash and cash equivalents (note 3):								
Investment in State of Alaska General Fund and other nonsegregated investments pool	$ —	23,230,126	—	23,230,126	—	21,582,640	—	21,582,640
Short-term fixed income pool	14,275,693	—	66,164,594	80,440,287	13,727,143	—	54,839,101	68,566,244
Total cash and cash equivalents	14,275,693	23,230,126	66,164,594	103,670,413	13,727,143	21,582,640	54,839,101	90,148,884
Investments (notes 3 and 4):								
Broad market fixed income pool	—	—	145,731,647	145,731,647	—	—	146,573,253	146,573,253
Domestic equity pool	—	—	97,664,442	97,664,442	—	—	69,491,682	69,491,682
International equity pool	—	—	18,761,281	18,761,281	—	—	16,262,048	16,262,048
International equity pool-SOA	—	—	31,739,842	31,739,842	—	—	19,321,740	19,321,740
Total investments	—	—	293,897,212	293,897,212	—	—	251,648,723	251,648,723
Other:								
Premiums receivable	9	88	12	109	87,083	44,539	67,699	199,321
Interest and dividends receivable	2,094	—	9,522	11,616	—	—	—	—
Due from State of Alaska General Fund	95,822	—	—	95,822	9,025	—	—	9,025
Other assets	37,449	1,470,018	46,917	1,554,384	33,879	338,570	46,917	419,366
Total other	135,374	1,470,106	56,451	1,661,931	129,987	383,109	114,616	627,712
Total assets	14,411,067	24,700,232	360,118,257	399,229,556	13,857,130	21,965,749	306,602,440	342,425,319
Liabilities:								
Claims payable (note 5)	165,000	3,301,000	21,616,000	25,082,000	218,000	3,428,000	16,822,000	20,468,000
Accrued expenses	5,167	619,169	39,850	664,186	10,690	91,577	38,094	140,361
Due to State of Alaska General Fund	—	125,448	5,755	131,203	—	307,179	45,577	352,756
Total liabilities	170,167	4,045,617	21,661,605	25,877,389	228,690	3,826,756	16,905,671	20,961,117
Net position restricted for postemployment healthcare benefits	$ 14,240,900	20,654,615	338,456,652	373,352,167	13,628,440	18,138,993	289,696,769	321,464,202

See accompanying notes to financial statements.

STATE OF ALASKA
RETIREE HEALTH FUND
(A Pension Trust Fund of the State of Alaska)

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2014 and 2013

	2014				2013			
	Major medical	**Dental, visual, and audio**	**Long-term care**	**Total**	**Major medical**	**Dental, visual, and audio**	**Long-term care**	**Total**
Additions:								
Contributions:								
Employer health insurance premiums	$ 1,786,683	—	—	1,786,683	1,561,825	—	—	1,561,825
Member health insurance premiums	989,270	40,531,222	25,758,869	67,279,361	1,438,564	38,415,467	23,953,736	63,807,767
Total contributions	2,775,953	40,531,222	25,758,869	69,066,044	3,000,389	38,415,467	23,953,736	65,369,592
Medicare retiree drug subsidy (note 6)	49,179	—	—	49,179	63,629	—	—	63,629
Investment income:								
Net appreciation in fair value	37,368	—	30,711,830	30,749,198	30,978	—	12,788,289	12,819,267
Interest	—	121,459	3,586,738	3,708,197	—	56,556	3,726,076	3,782,632
Dividends	—	—	1,902,559	1,902,559	—	—	515,080	515,080
Total investment income	37,368	121,459	36,201,127	36,359,954	30,978	56,556	17,029,445	17,116,979
Less investment expense	2,106	—	86,834	88,940	3,041	—	67,751	70,792
Net investment income	35,262	121,459	36,114,293	36,271,014	27,937	56,556	16,961,694	17,046,187
Other income	70,378	1,688	260	72,326	44	1,710	220	1,974
Total additions	2,930,772	40,654,369	61,873,422	105,458,563	3,091,999	38,473,733	40,915,650	82,481,382
Deductions:								
Benefits (note 5)	2,237,072	36,632,470	12,800,011	51,669,553	1,937,423	34,495,343	9,672,337	46,105,103
Administrative	81,240	1,506,277	313,528	1,901,045	139,596	1,053,777	285,350	1,478,723
Total deductions	2,318,312	38,138,747	13,113,539	53,570,598	2,077,019	35,549,120	9,957,687	47,583,826
Net change in fiduciary net position	612,460	2,515,622	48,759,883	51,887,965	1,014,980	2,924,613	30,957,963	34,897,556
Net position restricted for postemployment healthcare benefits:								
Net position, beginning of year	13,628,440	18,138,993	289,696,769	321,464,202	12,613,460	15,214,380	258,738,806	286,566,646
Net position, end of year	$ 14,240,900	20,654,615	338,456,652	373,352,167	13,628,440	18,138,993	289,696,769	321,464,202

See accompanying notes to financial statements.

(1) Description

The following brief description of the State of Alaska Retiree Health Fund (the Plan), a pension trust fund of the State of Alaska (the State), is provided for general information purposes only. Participants should refer to the Retiree Group Insurance Information Booklet for more complete information.

General

The Plan was established to provide self-insured healthcare benefits to retirees of the Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System, and Elected Public Officers Retirement System (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Plan is a pension trust fund of the State financial reporting entity and is included as such in the State's comprehensive annual financial report. As of June 30, 2014 and 2013, there were 38,627 and 38,320 retirees, respectively, excluding dependents, covered by the Plan.

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

Benefits

The Plan offers major medical, voluntary dental, visual, and audio (DVA) and voluntary long-term care (LTC) benefits to eligible benefit recipients of the Retirement Systems and their dependents.

Medical

The Plan provides medical benefits to qualified benefit recipients of the Retirement Systems. The State pays the medical premiums for benefit recipients of the Elected Public Officers Retirement System, for benefit recipients of the Marine Engineers Beneficial Association who retired from the State after July 1, 1986 and for benefit recipients of the NorthWest Marine Trust who retired from the State before July 1, 1984. The following benefit recipients must elect coverage and pay a premium:

- Benefit recipients of the Public Employees' Retirement System (PERS) first hired under the PERS on or after July 1, 1986, who are under age 60, are not receiving a disability benefit, and had less than 25 years of peace officer/firefighter service or less than 30 years of other service.
- Benefit recipients of the Teachers' Retirement System (TRS) first hired under the TRS on or after July 1, 1990, who are under age 60, are not receiving a disability benefit, and had less than 25 years of service.
- Benefit recipients of the PERS first hired under the PERS on or after July 1, 1996, who are age 60 or older and do not have at least 10 years of credited service.
- Alternate payees under a Qualified Domestic Relations Order (QDRO).

(1) Description (cont.)

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 Plan.

Voluntary DVA and LTC

Individuals receiving benefits from one of the Retirement Systems, excluding alternate payees under a QDRO, may elect coverage for themselves and their eligible dependents. If coverage is elected, the premiums are paid by deductions from retirement checks.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Investments

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in the State’s Department of Revenue, Treasury Division, or by contracted external investment managers. The Fund invests in the State’s internally managed General Fund and Other Non-segregated Investments (GeFONSI), Short-term Fixed Income Pools and Broad Market Fixed Income Pools. GeFONSI consists of investments in the Short-Term Fixed Income Pool, the Short-Term Liquidity Fixed Income Pool, and the Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Department of Administration, Division of Finance.

Valuation and Income Allocation

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

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

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-Term, Short-Term Liquidity, Intermediate-Term, and Broad Market Fixed Income Pools as well as the International Equity Pool is allocated to pool participants daily on a pro rata basis. Domestic Equity income is credited and allocated in accordance with the participants pro rata share of the fund when received.

Statements of Cash

For purposes of reporting cash flows, cash and cash equivalents include the Plan's investment in the GeFONSI, which includes appreciation (depreciation) at June 30, 2014 and 2013. This investment pool has the general characteristics of a demand deposit account.

Administration

The Plan is administered by the State's Division of Retirement and Benefits (the Division). The Division utilizes the services of ca claims administrator, HealthSmart Benefit Solutions (HealthSmart), Aetna, Moda Health, and Pay Flex, to process all medical, dental, and prescription drug claims. Some of the managed-care vision benefits provided by the Plan are administered by Vision Service Plan (VSP).

Funding

The Plan is self-insured for all benefits. The Plan's funding policy provides for the collection of insurance premiums from the retirement systems administered by the DRB as well as from benefit recipients, as applicable. Premium amounts are actuarially determined on an annual basis and adjusted as necessary. The retirement systems retain the risk of loss of allowable claims.

Due to State of Alaska General Fund

Due to the State of Alaska General Fund represents reimbursements to be made by the Plan to other funds for net payments made by other funds on behalf of the Plan.

Federal Income Tax Status

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

 (Continued)

(3) Deposit and Investment Risk

At June 30, 2014, the fund's share of pooled investments was as follows:

	Fair value					
	Fixed income pools					
Investment type	Short-term fixed	Short-term liquidity	Intermediate-term fixed	Broad market	Other	Total
Deposits	$ —	—	—	(18)	—	(18)
Corporate bonds	6,761,450	—	479,732	27,042,307	—	34,283,489
Mortgage backed	464,614	—	221,072	42,349,493	—	43,035,179
Municipal bonds	—	—	—	381,233	—	381,233
Other asset backed	32,631,031	—	239,558	6,614,691	—	39,485,280
Overnight sweep accounts	10,596,086	—	—	—	—	10,596,086
Repurchase agreement	6,621,014	—	—	—	—	6,621,014
U.S. government agency	—	—	10,691	2,773,191	—	2,783,882
U.S. Treasury bills	57,117,652	3,192,342	465,389	—	—	60,775,383
U.S. Treasury bonds	—	—	—	3,617,169	—	3,617,169
U.S. Treasury notes	12,849,077	106,892	6,313,527	43,717,729	—	62,987,225
U.S. Treasury strip	—	—	17,087	2,858,161	—	2,875,248
Yankees:						
Corporate	1,533,508	—	110,491	4,923,297	—	6,567,296
Government	—	—	36,412	1,614,676	—	1,651,088
Domestic equity	—	—	—	—	97,664,442	97,664,442
International equity	—	—	—	—	50,471,717	50,471,717
Total invested assets	128,574,432	3,299,234	7,893,959	135,891,929	148,136,159	423,795,713
Pool related net assets (liabilities)	(27,023,738)	1,329	632,601	144,420	29,406	(26,215,982)
Other pool ownership	(9,695,298)	—	—	9,695,298	—	—
Unallocated deposit in transit	(12,106)	—	—	—	—	(12,106)
Net invested assets	$ 91,843,290	3,300,563	8,526,560	145,731,647	148,165,565	397,567,625

(3) Deposit and Investment Risk (cont.)

At June 30, 2013, the fund's share of pooled investments was as follows:

	Fair value						
	Fixed income pools						
Investment type		Short-term fixed	Short-term liquidity	Intermediate-term fixed	Broad market	Other	Total
Deposits	$	1,895,225	—	—	(1,264)	—	1,893,961
Commercial paper		3,698,521	—	—	—	—	3,698,521
Corporate bonds		4,533,657	—	789,443	30,396,781	—	35,719,881
Mortgage backed		190,230	—	207,942	48,645,406	—	49,043,578
Municipal bonds		44,379	—	2,131	—	—	46,510
Other asset backed		37,845,332	—	261,454	5,068,220	—	43,175,006
Discount notes		6,310	—	—	—	—	6,310
U.S. government agency		—	—	312,255	4,380,996	—	4,693,251
U.S. Treasury bills		37,354,105	2,120,620	658,960	—	—	40,133,685
U.S. Treasury bonds		—	—	—	3,136,791	—	3,136,791
U.S. Treasury notes		—	—	6,984,330	44,034,385	—	51,018,715
U.S. Treasury strip		—	—	57,445	655,490	—	712,935
Yankees:							
Corporate		1,187,821	—	140,828	6,539,518	—	7,868,167
Government		—	—	37,695	1,455,171	—	1,492,866
Domestic equity		—	—	—	—	69,491,682	69,491,682
International equity		—	—	—	—	35,533,911	35,533,911
Total invested assets		86,755,580	2,120,620	9,452,483	144,311,494	105,025,593	347,665,770
Pool related net assets (liabilities)		(1,586,005)	(1)	(87,304)	(4,244,730)	49,877	(5,868,163)
Other pool ownership		(6,506,489)	—	—	6,506,489	—	—
Net invested assets	$	78,663,086	2,120,619	9,365,179	146,573,253	105,075,470	341,797,607

Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed-rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of individual fixed-rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from 8 days to 3.2 years.

(3) Deposit and Investment Risk (cont.)

Short-Term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed rate securities to 6 months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2014, the expected average life of fixed rate securities ranged from 31 to 179 days.

Intermediate-Term and Broad Market Fixed Income Pools

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options, and other variable cash flows for purposes of the effective duration calculation.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting effective duration of its other fixed income pool portfolios to the following:

Intermediate-Term Fixed Income Pool – ± 20% of the Barclays 1-3 year Government Bond Index. The effective duration for the Barclays 1-3 year Government Bond Index at June 30, 2014 was 1.94 years.

Broad Market Fixed Income Pool – ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2014 was 5.52 years.

(3) Deposit and Investment Risk (cont.)

At June 30, 2014, the effective duration by investment type was as follows (in years):

	Effective duration	
	Intermediate-term fixed income pool	**Broad market fixed income pool**
Corporate bonds	1.40	8.11
Mortgage backed	0.99	4.24
Municipal bonds	—	15.09
Other asset backed	0.70	0.69
U.S. Treasury bill	0.42	—
U.S. Treasury bonds	—	19.07
U.S. Treasury notes	2.14	4.71
U.S. Treasury strip	3.27	3.44
U.S. government agency	1.71	8.00
Yankees:		
Corporate	0.62	5.89
Government	0.78	8.21
Portfolio effective duration	**1.72**	**5.21**

Credit Risk

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

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

Short-Term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's Corporation. Asset-backed and nonagency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard and Poor's Corporation, Moody's, and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-Term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State's internally managed Short-Term Fixed Income Pool.

(3) Deposit and Investment Risk (cont.)

Intermediate-Term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and nonagency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard and Poor's Corporation, Moody's, and Fitch. Asset-backed and nonagency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

(3) Deposit and Investment Risk (cont.)

At June 30, 2014, the State's internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment Type	Rating	Short-term fixed income pool	Short-term liquidity fixed income pool	Intermediate-term fixed income pool	Broad market fixed income pool
Corporate bonds	AAA	0.06%	—%	0.10%	0.19%
Corporate bonds	AA	2.90		1.33	2.51
Corporate bonds	A	3.71	—	2.98	9.85
Corporate bonds	BBB	—	—	0.73	5.81
Corporate bonds	BB	—	—	—	0.09
Corporate bonds	Not Rated	—	—	—	0.10
U.S. government agency	AA	—	—	0.11	1.90
Overnight sweep account	Not Rated	10.44	—	—	—
Mortgage backed	AAA	0.23	—	1.19	2.82
Mortgage backed	AA	0.04	—	0.69	24.77
Mortgage backed	A	0.06	—	0.15	0.34
Mortgage backed	BBB	—	—	0.01	0.03
Mortgage backed	Not Rated	0.12	—	0.32	1.09
Municipal bonds	AA	—	—	—	0.10
Municipal bonds	A	—	—	—	0.16
Other asset backed	AAA	22.93	—	1.71	3.13
Other asset backed	AA	0.21	—	0.34	0.78
Other asset backed	A	0.79	—	—	—
Other asset backed	Not Rated	8.20	—	0.51	0.64
Other pool ownership	Not Rated	—	0.01	8.81	6.65
Repurchase agreement	AA	6.52	—	—	—
U.S. Treasury bills	AA	56.25	96.71	4.98	—
U.S. Treasury bonds	AA	—	—	—	2.48
U.S. Treasury notes	AA	12.65	3.24	67.52	30.03
U.S. Treasury strips	AA	—	—	0.18	1.96
Yankees:					
Corporate	AAA	—	—	—	0.23
Corporate	AA	0.77	—	0.63	0.81
Corporate	A	0.74	—	0.38	1.08
Corporate	BBB	—	—	0.06	0.89
Corporate	Not Rated	—	—	0.11	0.36
Government	AAA	—	—	—	0.08
Government	AA	—	—	0.35	0.56
Government	BBB	—	—	—	0.37
Government	Not Rated	—	—	0.04	0.09
No credit risk		(26.62)	0.04	6.77	0.10
		100.00%	100.00%	100.00%	100.00%

(3) Deposit and Investment Risk (cont.)

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for the Plan at the beginning of each fiscal year, which places policy limitations on the amount of international securities the Plan is allowed to hold. The following policy was in place during fiscal year 2014 and invested assets included the following holdings at June 30, 2014, for the Plan's investment in the International Equity Pool:

	Policy	Actual
Retiree Health Insurance Fund, Long-Term Care	14% ±/- 4%	14.03%

At June 30, 2014, the Plan had exposure to foreign currency risk as follows:

Currency		Fair value
Deposits:		
Japanese Yen	$	4,792
Pound Sterling		41,104
		45,896
Investments – international equity:		
Australian Dollar		331,356
Canadian Dollar		480,906
Danish Krone		174,857
Euro Currency		4,942,948
Japanese Yen		3,585,572
Norwegian Krone		110,271
Pound Sterling		4,911,238
Swedish Krona		611,346
Swiss Franc		1,151,234
		16,299,728
Total	$	16,345,624

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than 5% of a pool's holdings in corporate bonds of any one company or affiliated group.

(3) Deposit and Investment Risk (cont.)

At June 30, 2014, the funds invested in the Broad Market Fixed Income Pool had more than 5% of their investments in Federal Mortgage Association as follows (in thousands):

	Fair value	Percent of total investments
Federal National Mortgage Association	$ 26,624	6.70%

Federal National Mortgage Association securities are not classified as corporate bonds, are backed by the full faith of the credit of the U.S. government, and therefore, may be held in higher concentration.

(4) Foreign Exchange, Foreign Exchange Contracts, Off-Balance Sheet Risk, and Derivative Exposure

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy for contingencies. The International Equity Pool investment includes the following income from derivative investments at June 30, 2014:

	Changes in fair value		Fair value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
FX Forwards	Investment revenue	$ 2,532	Long-term instruments	$ —	—

Additionally, the International Equity Pool had the following income from foreign currency transactions:

Net realized gain on foreign currency	$ 109,329

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 for the purpose of hedging existing security positions. 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. At June 30, 2014, the International Equity Pool had no outstanding contracts.

(5) 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, and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring, and inherent in the healthcare business. Changes in the balances of claims liabilities are as follows:

		2014	2013
Beginning of year:			
Due to State of Alaska General Fund for outstanding warrants	$	352,756	545,692
Incurred but not reported		20,468,000	17,178,000
Total, beginning of year		20,820,756	17,723,692
Benefit deductions		51,669,553	46,105,103
Benefits paid		(47,277,106)	(43,008,039)
Total, end of year	$	25,213,203	20,820,756
End of year:			
Due to State of Alaska General Fund for outstanding warrants	$	131,203	352,756
Incurred but not reported		25,082,000	20,468,000
Total, end of year	$	25,213,203	20,820,756

(6) 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 retiree drug subsidy (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.

(Continued)

(7) Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) was a temporary program that provided reimbursement to participating employment-based plans for a portion of the costs of health benefits for retirees age 55 and older who were not eligible for Medicare, and their spouses and surviving spouses and dependents. The amount of the reimbursement to the Plan was up to 80% of claims cost for health benefits between $15,000 and $90,000. The program was authorized by the Affordable Care Act as part of the U.S. government Health Reform package. The Plan started participation in the ERRP program beginning calendar year 2013. The program ended on January 1, 2014. The EERP amount for fiscal year 2014 was $0.