



**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Financial Statements and Supplemental Schedules  
June 30, 2018 and 2017  
(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-9
Statements of Net Position	10
Statements of Revenue, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13-17
<b>Supplementary Schedules</b>	
Schedule 1 – Combining Statement of Net Position, as of June 30, 2018	18
Schedule 2 – Combining Statement of Revenue, Expenses, and Changes in Net Position, Year ended June 30, 2018	19
Schedule 3 – Combining Statement of Cash Flows, Year ended June 30, 2018	20
Schedule 4 – Combining Statement of Net Position, as of June 30, 2017	21
Schedule 5 – Combining Statement of Revenue, Expenses, and Changes in Net Position, Year ended June 30, 2017	22
Schedule 6 – Combining Statement of Cash Flows, Year ended June 30, 2017	23



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

## Independent Auditors' Report

The Division of Retirement and Benefits  
State of Alaska Retiree Health Fund:

We have audited the accompanying financial statements of the State of Alaska Retiree Health Fund (the Fund), an enterprise fund of the State of Alaska, as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the State of Alaska Retiree Health Fund as of June 30, 2018 and 2017, and the changes in net position and cash flows 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 3–9, 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.

### *Supplemental Schedules*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The supplemental schedules on pages 18-23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

December 5, 2018

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

This section presents management's discussion and analysis (MD&A) of the Retiree Health Fund's (the Fund) financial condition and performance for the year ended June 30, 2018. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Fund during the fiscal year ended June 30, 2018. Information for fiscal years 2017 and 2016 are presented for comparative purposes.

**Financial Highlights**

The Fund's financial highlights as of June 30, 2018 were as follows:

- The Fund's net position – unrestricted increased by \$37.4 million during fiscal year 2018.
- The Fund's health premiums totaled \$78.4 million during fiscal year 2018, an increase of \$3.9 million from fiscal year 2017.
- The Fund's net investment income decreased \$7.6 million during fiscal year 2018 when compared to fiscal year 2017.
- The Fund's benefit expenses totaled \$59.6 million during fiscal year 2018, an increase of \$4.1 million from fiscal year 2017.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Fund's financial statements are composed of four components: (1) statement of net position, (2) statement of revenue, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to financial statements.

*Statement of net position* – This statement presents information regarding the Fund's assets, liabilities, and resulting net position. This statement reflects the Fund's investments at fair value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2018 and 2017.

*Statement of revenue, expenses, and changes in net position* – This statement presents how the Fund's net position changed during the fiscal years ended June 30, 2018 and 2017. This statement presents health premiums and net investment income during the period. Expenses for postemployment healthcare benefits and operations are also presented.

*Statement of cash flows* – This statement presents the Fund's cash flows from operations and investing activities. The Fund presents its cash flows statement using the direct method for reporting cash received and disbursed during the fiscal year.

The above statements represent resources available for investment and payment of benefits as of June 30, 2018 and 2017 and the sources and uses of those funds during fiscal year 2018 and 2017.

*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 Fund's financial statements.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

**Condensed Financial Information**

Description	Net position				
	2018	2017	Increase (decrease)		2016
			Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 46,584,984	39,788,718	6,796,266	17.1%	\$ 37,915,566
Investments at fair value	497,098,884	462,199,555	34,899,329	7.6	415,163,905
Other	2,604,985	2,797,294	(192,309)	(6.9)	2,610,776
Total assets	<u>546,288,853</u>	<u>504,785,567</u>	<u>41,503,286</u>	<u>8.2</u>	<u>455,690,247</u>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Claims payable	14,290,000	13,369,000	921,000	6.9	13,459,740
Accrued expenses	877,786	284,489	593,297	208.5	659,299
Due to General Fund	126,110	135,342	(9,232)	(6.8)	69,517
Due to Retirement System	462	—	462	—	—
Total current liabilities	<u>15,294,358</u>	<u>13,788,831</u>	<u>1,505,527</u>	<u>10.9</u>	<u>14,188,556</u>
<b>Noncurrent liabilities:</b>					
Claims payable	<u>23,672,000</u>	<u>21,071,000</u>	<u>2,601,000</u>	<u>12.3</u>	<u>18,587,260</u>
Total liabilities	<u>38,966,358</u>	<u>34,859,831</u>	<u>4,106,527</u>	<u>11.8</u>	<u>32,775,816</u>
Total net position	<u>\$ 507,322,495</u>	<u>469,925,736</u>	<u>37,396,759</u>	<u>8.0%</u>	<u>\$ 422,914,431</u>

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

<b>Revenue expenses, and changes in net position</b>					
<b>Description</b>	<b>2018</b>	<b>2017</b>	<b>Increase (decrease)</b>		<b>2016</b>
			<b>Amount</b>	<b>Percentage</b>	
Net position, beginning of year	\$ 469,925,736	422,914,431	47,011,305	11.1%	\$ 395,300,234
Operating revenue:					
Healthcare insurance premiums	78,410,108	74,487,285	3,922,823	5.3	71,355,285
Medicare retiree drug subsidy	8,894	74,849	(65,955)	(88.1)	106,196
Other income	52,255	1,560,921	(1,508,666)	(96.7)	135,044
Total operating revenue	<u>78,471,257</u>	<u>76,123,055</u>	<u>2,348,202</u>	<u>3.1</u>	<u>71,596,525</u>
Operating expenses:					
Healthcare benefits	59,602,991	55,534,359	4,068,632	7.3	55,780,519
Administrative	3,084,293	2,800,593	283,700	10.1	2,906,599
Total operating expenses	<u>62,687,284</u>	<u>58,334,952</u>	<u>4,352,332</u>	<u>7.5</u>	<u>58,687,118</u>
Operating income	15,783,973	17,788,103	(2,004,130)	(11.3)	12,909,407
Nonoperating revenue:					
Net investment income	21,612,786	29,223,202	(7,610,416)	(26.0)	14,704,790
Change in net position	<u>37,396,759</u>	<u>47,011,305</u>	<u>(9,614,546)</u>	<u>(20.5)</u>	<u>27,614,197</u>
Net position, end of year	<u>\$ 507,322,495</u>	<u>469,925,736</u>	<u>37,396,759</u>	<u>8.0%</u>	<u>\$ 422,914,431</u>

**Financial Analysis of the Fund**

The statement of net position as of June 30, 2018 and 2017 shows a net position of \$507,322,495 and \$469,925,736, respectively. The entire amount is available to cover the Fund's obligations to pay postemployment healthcare benefits for its members and their beneficiaries.

These amounts also represent an increase in total net position of \$37,396,759 or 8.0% over fiscal year 2017 to 2018 and an increase of \$47,011,305 or 11.1% from fiscal year 2016 to 2017. These increases are attributed to the Long-Term Care (LTC) plan with an increase in premiums collected and an increase in interest and dividend income.

Premiums are collected monthly from retirees to cover retired members, dependents, and beneficiaries. Over the long term, healthcare premiums collected for the Dental, Vision, and Audio (DVA) and LTC funds are expected to cover all claims costs. It is anticipated that there will continue to be increases in future healthcare costs, and the funds must continue to accumulate assets to meet current and future claims costs.

The investment of fund assets is a long-term undertaking. On an annual basis, the Commissioner of Revenue reviews the asset allocation policies related to fund assets and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Fund's constraints and objectives.

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

During fiscal years 2018 and 2017, 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 Nonsegregated Investments (GeFONSI). The asset allocation for the LTC fund was as follows:

	<b>2018</b>	
	<b>LTC</b>	
	<b>Allocation</b>	<b>Range</b>
Broad market fixed income pool	53.00 %	± 5
Domestic equity pool	24.00	± 5
International equity pool	14.00	± 5
Real estate investment trust pool	4.00	-4/+ 5
High yield fixed income pool	5.00	-5/+ 5
Short-term fixed income pool	—	2
Total	<u>100.00 %</u>	

	<b>2017</b>	
	<b>LTC</b>	
	<b>Allocation</b>	<b>Range</b>
Broad market fixed income pool	61.00 %	± 10
Domestic equity pool	21.00	± 10
International equity pool	15.00	± 4
Real estate investment trust pool	3.00	-3/+ 4
Short-term fixed income pool	—	2
Total	<u>100.00 %</u>	

**Insurance Premium Calculations**

The overall objective of the Fund 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.



**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

**Healthcare Insurance Premiums and Investment Income**

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

	2018	2017	Revenue		2016
			Increase (decrease)		
			Amount	Percentage	
Employer paid health insurance premiums	\$ 1,750,816	1,790,260	(39,444)	(2.2)%	\$ 1,802,485
Member health insurance premiums	76,659,292	72,697,025	3,962,267	5.5	69,552,800
Medicare retiree drug subsidy	8,894	74,849	(65,955)	(88.1)	106,196
Other	52,255	1,560,921	(1,508,666)	(96.7)	135,044
Net investment income	21,612,786	29,223,202	(7,610,416)	(26.0)	14,704,790
<b>Total</b>	<b>\$ 100,084,043</b>	<b>105,346,257</b>	<b>(5,262,214)</b>	<b>(5.0)%</b>	<b>\$ 86,301,315</b>

Employer paid medical premiums were \$1,223 per month per eligible retiree for calendar years 2018, 2017, and 2016.

Member health insurance premiums increased as a result of a higher member count within the DVA Plan as well as the LTC Plan.

Other income primarily comprises reimbursements for retiree prescription medication and prescription drug rebates paid through the third-party administrator (TPA). The Fund 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 postemployment healthcare Funds the opportunity to receive an RDS payment if the sponsor's Fund 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 Fund.

The Fund's net investment income in fiscal year 2018 decreased by \$7,610,416, or 26%, from amounts recorded in fiscal year 2017, which had increased by \$14,518,412 or 98.7% from amounts recorded in fiscal year 2016. During fiscal year 2018 and 2017, the Fund experienced positive returns on investments, primarily in the LTC Plan.

The major medical plan investments generated 1.53% rate of return for fiscal year 2018, and 0.88% for fiscal year 2017. The major medical plan annualized rate of return was 0.99% over the last three years and 0.71% over the last five years. The 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. The GeFONSI investments generated 1.02% rate of return for fiscal year 2018, and 0.56% for fiscal year 2017. The GeFONSI annualized rate of return was 0.80% over the last three years and 0.68% over the last five years. The LTC plan investments generated 4.53% rate of return for fiscal year 2018, and 6.79% for fiscal year 2017. The LTC plan annualized rate of return was 4.97% over the last three years and 5.81% over the last five years.

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

**Benefits and Expenses**

The primary expense of the Fund is the payment of postemployment healthcare benefits. These benefit costs and the costs of administering the Fund comprise the costs of operation.

	<b>Expenses</b>				
	<b>2018</b>	<b>2017</b>	<b>Increase</b>		<b>2016</b>
			<b>Amount</b>	<b>Percentage</b>	
Healthcare benefits	\$ 59,602,991	55,534,359	4,068,632	7.3%	\$ 55,780,519
Administrative	3,084,293	2,800,593	283,700	10.1	2,906,599
Total	<u>\$ 62,687,284</u>	<u>58,334,952</u>	<u>4,352,332</u>	<u>7.5%</u>	<u>\$ 58,687,118</u>

Healthcare benefit expense increased by \$4,068,632, or 7.3%, from fiscal year 2017, and decreased by \$246,160 or 0.4% from fiscal year 2016. The fiscal year 2018 increase in benefit expenses was caused by an increase in DVA benefit cost which is impacted by an increase in retirees and an increase in cost per retiree. Additionally, the LTC fund benefits cost increased due to an increase in the number of retirees with open claims. The fiscal year 2017 decrease in benefit expenses was caused by contracts with two new TPAs in January 2014 and a new LTC TPA in May 2016. The TPAs use networks to help reduce healthcare benefit costs. Currently, the Fund is benefiting through the use of networks provided by the TPAs in its continued efforts at cost containment.

Administrative expenses increased by \$283,700, or 10.1%, from fiscal year 2017, which had decreased by \$106,006 or 3.6% from fiscal year 2016. The increase in administrative expenses in 2018 is due to an increase in legal fees, TPA fees and actuarial fees. The primary reason for the decrease from 2016 to 2017 was that in May 2016, the LTC plan incurred a onetime transition cost when the Plan contracted with a new TPA. The Plan's benefit consultants and Division continue to identify and develop premiums necessary to cover claims costs.

**Funding**

Postemployment healthcare benefits are funded by health insurance premiums received from participants in the retirement system as well as from income earned on fund 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 Fund 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.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2018 and 2017

**Requests for Information**

This financial report is designed to provide a general overview of the Fund's financial condition for all those with interest in the Fund'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**  
(An Enterprise Fund of the State of Alaska)

Statements of Net Position

June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents (note 3):		
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ 20,238,757	20,040,542
Short-term fixed income pool	26,346,227	19,748,176
Total cash and cash equivalents	46,584,984	39,788,718
Investments (note 3):		
Broad market fixed income pool	263,509,341	281,569,551
High yield fixed income pool	20,797,714	—
Domestic equity pool	123,380,661	93,619,062
International equity pool	67,784,040	74,245,287
Real estate investment trust pool	21,627,128	12,765,655
Total investments	497,098,884	462,199,555
Receivables:		
Accounts receivable	213	9,908
Interest and dividends receivable	44,314	19,682
Due from State of Alaska General Fund	225,440	347,209
Total receivables	269,967	376,799
Total current assets	543,953,835	502,365,072
<b>Noncurrent assets:</b>		
Other assets	2,335,018	2,420,495
Total assets	546,288,853	504,785,567
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Claims payable (note 4)	14,290,000	13,369,000
Accrued expenses	877,786	284,489
Due to State of Alaska General Fund	126,110	135,342
Due to Retirement System – PERS	462	—
Total current liabilities	15,294,358	13,788,831
<b>Noncurrent liabilities:</b>		
Claims payable (note 4)	23,672,000	21,071,000
Total noncurrent liabilities	23,672,000	21,071,000
Total liabilities	38,966,358	34,859,831
Net position – unrestricted	\$ 507,322,495	469,925,736

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Employer health insurance premiums	\$ 1,750,816	1,790,260
Member health insurance premiums	76,659,292	72,697,025
Medicare retiree drug subsidy (note 5)	8,894	74,849
Other income	<u>52,255</u>	<u>1,560,921</u>
Total operating revenue	<u>78,471,257</u>	<u>76,123,055</u>
Operating expenses:		
Healthcare benefits (note 4)	59,602,991	55,534,359
Administrative	<u>3,084,293</u>	<u>2,800,593</u>
Total operating expenses	<u>62,687,284</u>	<u>58,334,952</u>
Operating income	<u>15,783,973</u>	<u>17,788,103</u>
Nonoperating revenue:		
Investment income:		
Net appreciation in fair value	11,764,890	21,223,064
Interest	8,802,054	7,514,903
Dividends	<u>1,139,636</u>	<u>569,755</u>
Total investment income	21,706,580	29,307,722
Less investment expense	<u>93,794</u>	<u>84,520</u>
Net investment income	<u>21,612,786</u>	<u>29,223,202</u>
Change in unrestricted net position	37,396,759	47,011,305
Net position, beginning of year	<u>469,925,736</u>	<u>422,914,431</u>
Net position, end of year	<u>\$ 507,322,495</u>	<u>469,925,736</u>

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received for premiums from the State of Alaska	\$ 1,873,047	1,560,189
Cash received for premiums from others	76,754,464	72,601,640
Cash received from third-party administrator	61,150	1,635,770
Cash payments for benefits to third-party administrator	(56,066,377)	(52,998,438)
Cash payments to employees	(7,260)	(8,799)
Cash payments to suppliers	(2,507,583)	(3,104,081)
Net cash provided by operating activities	<u>20,107,441</u>	<u>19,686,281</u>
Cash flows from investing activities:		
Purchase of investments	(149,337,010)	(205,405,670)
Proceeds from sale and maturities of investments	119,927,752	159,104,083
Investment income received	16,098,083	28,488,458
Net cash used in investing activities	<u>(13,311,175)</u>	<u>(17,813,129)</u>
Net increase in cash and cash equivalents	6,796,266	1,873,152
Cash and cash equivalents, beginning of year	<u>39,788,718</u>	<u>37,915,566</u>
Cash and cash equivalents, end of year	<u>\$ 46,584,984</u>	<u>39,788,718</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,783,973	17,788,103
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in assets:		
Due from State of Alaska General Fund	121,769	(230,071)
Accounts receivable	95,172	(95,385)
Other assets	—	139,789
Increase (decrease) in liabilities:		
Claims payable	3,522,000	2,393,000
Due to State of Alaska General Fund	(9,232)	65,825
Due to Retirement System – PERS	462	—
Accrued expenses	593,297	(374,980)
Net cash provided by operating activities	<u>\$ 20,107,441</u>	<u>19,686,281</u>

See accompanying notes to financial statements.

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2018 and 2017

**(1) Description**

The following brief description of the State of Alaska Retiree Health Fund (the Fund), an enterprise 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.

**(a) General**

The Fund was established to provide low-cost health insurance options to retirees of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System, and Elected Public Officers Retirement System (EPORS) (collectively referred to as the Retirement Systems) beginning July 1, 1997. The Fund is an enterprise fund of the State financial reporting entity and is included as such in the State's Comprehensive Annual Financial Report (CAFR).

**(b) Premiums and Participants**

The Fund's health plan options are funded by monthly premiums paid by members and eligible recipients. A member may extend coverage to dependents for an additional monthly premium based on the coverage requested.

**(c) Benefits**

The Fund offers major medical; voluntary dental, vision, and audio (DVA); and voluntary long-term care (LTC) insurance options to eligible recipients of the Retirement Systems and their dependents.

**(d) Medical**

The Fund provides medical benefits to qualified benefit recipients of the Retirement Systems. The State pays the medical premiums for benefit recipients of the EPORS, 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 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 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).

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2018 and 2017

**(e) Voluntary DVA and LTC**

Individuals receiving benefits from one of the Retirement Systems, excluding alternate payees under a QDRO, may elect insurance 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**

**(a) Basis of Accounting**

The Fund'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.

**(b) Financial Statement Presentation**

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

**(c) Use of Estimates**

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

**(d) Investments**

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments. The Commissioner of Revenue (the Commissioner) has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The funds invest in the State's internally managed General Fund and Other Nonsegregated Investments Pool (GeFONSI), Short-term Fixed Income Pool, Broad Market Fixed Income Pool, High Yield Fixed Income Pool, Domestic Equity Pool, International Equity Pool, and Real Estate Investment Trust Pool. The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool, and Intermediate-term Fixed Income Pool. The complete financial activity of the funds is shown in the State's CAFR available from the Department of Administration, Division of Finance.

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



**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)  
Notes to Financial Statements  
June 30, 2018 and 2017

**(e) 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.

The accrual basis of accounting is used for investment income. GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term Fixed Income Pool, Broad Market Fixed Income Pool, High Yield Fixed Income Pool, Domestic Equity Pool, International Equity Pool, and Real Estate Investment Trust Pool is allocated to the pool participants daily on a pro rata basis.

**(f) Statement of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include the Fund's investment in the GeFONSI and the short-term fixed income pool. This investment pool has the general characteristics of a demand deposit account.

**(g) Administration**

The Fund is administered by the State's Division of Retirement and Benefits (the Division). The Division utilizes the services of claims administrators, Aetna, Moda Health, Pay Flex, and Capgemini US to process all medical, prescription drug, DVA, and LTC claims and pays monthly administrative fees to these claims administrators. Other administrative expenses are related to employees of the Division and related office expenses.

**(h) Funding**

The Fund is self-insured for all benefits. The Fund's funding policy provides for the collection of insurance premiums from the Retirement Systems administered by the Division 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.

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

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

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2018 and 2017

**(3) Investments**

At June 30, 2018, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>
Cash and cash equivalents:		
Short-term fixed income pool	\$ 17,420,086	8,926,141
Domestic fixed income:		
Broad market fixed income pool	—	263,509,341
High yield fixed income pool	—	20,797,714
Equity:		
Domestic equity pool	—	123,380,661
International equity pool	—	67,784,040
Real estate investment trust pool	—	21,627,128
Total	<u>\$ 17,420,086</u>	<u>506,025,025</u>
	<u>DVA</u>	
GeFONSI balance	\$ 20,238,757	

At June 30, 2017, the Fund's share of pool investments was as follows:

<u>Investment pool</u>	<u>Major medical</u>	<u>LTC</u>
Cash and cash equivalents:		
Short-term fixed income pool	\$ 16,168,266	3,579,910
Domestic fixed income:		
Broad market fixed income pool	—	281,569,551
Equity:		
Domestic equity pool	—	93,619,062
International equity pool	—	74,245,287
Real estate investment trust pool	—	12,765,655
Total	<u>\$ 16,168,266</u>	<u>465,779,465</u>
	<u>DVA</u>	
GeFONSI balance	\$ 20,040,542	

**STATE OF ALASKA  
RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2018 and 2017

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

**(4) Claims Payable**

The liability for claims represents the estimated amounts necessary to settle all outstanding claims including claims incurred but not reported (IBNR) and the present value of amounts not yet due (PVANYD) for LTC as of the balance sheet date. The Fund's reserve estimates for IBNR are based primarily on historical development patterns adjusted for current trends that would modify past experience. The Fund's reserve estimates for PVANYD is based on an actuarial valuation which considers expected future benefits, expense and premium revenue discounted to the current valuation date. 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:

	<u>2018</u>	<u>2017</u>
Total, beginning of year	\$ 34,575,342	32,116,517
Benefit deductions	59,602,991	55,534,359
Benefits paid	<u>(56,090,223)</u>	<u>(53,075,534)</u>
Total, end of year	<u>\$ 38,088,110</u>	<u>34,575,342</u>
End of year:		
Current liabilities:		
Due to State of Alaska General Fund	\$ 126,110	135,342
Incurred but not reported	<u>14,290,000</u>	<u>13,369,000</u>
	14,416,110	13,504,342
Noncurrent liabilities:		
Incurred but not reported	<u>23,672,000</u>	<u>21,071,000</u>
Total, end of year	<u>\$ 38,088,110</u>	<u>34,575,342</u>

**(5) Medicare Part D Retiree Drug Subsidy**

A provision of Medicare Part D provides sponsors of postemployment healthcare funds the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's Fund 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 Fund. The Fund was approved for participation in the Medicare Part D program beginning calendar year 2006.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Net Position

June 30, 2018

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	20,238,757	—	20,238,757
Short-term fixed income pool	17,420,086	—	8,926,141	26,346,227
Total cash and cash equivalents	17,420,086	20,238,757	8,926,141	46,584,984
Investments:				
Broad market fixed income pool	—	—	263,509,341	263,509,341
High yield fixed income pool	—	—	20,797,714	20,797,714
Domestic equity pool	—	—	123,380,661	123,380,661
International equity pool	—	—	67,784,040	67,784,040
Real estate investment trust pool	—	—	21,627,128	21,627,128
Total investments	—	—	497,098,884	497,098,884
Receivables:				
Accounts receivable	213	—	—	213
Interest and dividends receivable	30,600	—	13,714	44,314
Due from State of Alaska General Fund	225,440	—	—	225,440
Total receivables	256,253	—	13,714	269,967
Total current assets	17,676,339	20,238,757	506,038,739	543,953,835
Other assets	3,570	1,131,448	1,200,000	2,335,018
Total assets	17,679,909	21,370,205	507,238,739	546,288,853
<b>Liabilities:</b>				
Current liabilities:				
Claims payable	104,000	3,056,000	11,130,000	14,290,000
Accrued expenses	10,901	817,664	49,221	877,786
Due to State of Alaska General Fund	—	79,061	47,049	126,110
Due to Retirement System – PERS	—	462	—	462
Total current liabilities	114,901	3,953,187	11,226,270	15,294,358
Noncurrent liabilities:				
Claims payable	—	—	23,672,000	23,672,000
Total noncurrent liabilities	—	—	23,672,000	23,672,000
Total liabilities	114,901	3,953,187	34,898,270	38,966,358
Net position	\$ 17,565,008	17,417,018	472,340,469	507,322,495

See accompanying independent auditors' report.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2018

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenue:				
Employer health insurance premiums	\$ 1,750,816	—	—	1,750,816
Member health insurance premiums	215,799	43,713,021	32,730,472	76,659,292
Medicare retiree drug subsidy	8,894	—	—	8,894
Other income	51,859	396	—	52,255
Total operating revenue	<u>2,027,368</u>	<u>43,713,417</u>	<u>32,730,472</u>	<u>78,471,257</u>
Operating expenses:				
Healthcare benefits	928,175	42,183,247	16,491,569	59,602,991
Administrative	111,445	2,376,770	596,078	3,084,293
Total operating expenses	<u>1,039,620</u>	<u>44,560,017</u>	<u>17,087,647</u>	<u>62,687,284</u>
Operating income (loss)	<u>987,748</u>	<u>(846,600)</u>	<u>15,642,825</u>	<u>15,783,973</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	255,602	—	11,509,288	11,764,890
Interest	—	208,438	8,593,616	8,802,054
Dividends	—	—	1,139,636	1,139,636
Total investment income	255,602	208,438	21,242,540	21,706,580
Less investment expense	3,904	—	89,890	93,794
Net investment income	<u>251,698</u>	<u>208,438</u>	<u>21,152,650</u>	<u>21,612,786</u>
Change in restricted net position	1,239,446	(638,162)	36,795,475	37,396,759
Net position, beginning of year	16,325,562	18,055,180	435,544,994	469,925,736
Net position, end of year	<u>\$ 17,565,008</u>	<u>17,417,018</u>	<u>472,340,469</u>	<u>507,322,495</u>

See accompanying independent auditors' report.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Cash Flows

Year ended June 30, 2018

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received for premiums from the State of Alaska	\$ 1,872,585	462	—	1,873,047
Cash received for premiums from others	225,494	43,798,498	32,730,472	76,754,464
Cash received from third-party administrator	60,754	396	—	61,150
Cash payments for benefits to third-party administrator	(953,175)	(42,086,248)	(13,026,954)	(56,066,377)
Cash payments to employees	(6,977)	—	(283)	(7,260)
Cash payments to suppliers	(184,905)	(1,723,331)	(599,347)	(2,507,583)
Net cash provided by (used in) operating activities	<u>1,013,776</u>	<u>(10,223)</u>	<u>19,103,888</u>	<u>20,107,441</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(149,337,010)	(149,337,010)
Proceeds from sale and maturities of investments	—	—	119,927,752	119,927,752
Investment income received	238,044	208,438	15,651,601	16,098,083
Net cash provided by (used in) investing activities	<u>238,044</u>	<u>208,438</u>	<u>(13,757,657)</u>	<u>(13,311,175)</u>
Net increase in cash and cash equivalents	1,251,820	198,215	5,346,231	6,796,266
Cash and cash equivalents, beginning of year	<u>16,168,266</u>	<u>20,040,542</u>	<u>3,579,910</u>	<u>39,788,718</u>
Cash and cash equivalents, end of year	<u>\$ 17,420,086</u>	<u>20,238,757</u>	<u>8,926,141</u>	<u>46,584,984</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 987,748	(846,600)	15,642,825	15,783,973
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Due from State of Alaska General Fund	121,769	—	—	121,769
Accounts receivable	9,695	85,477	—	95,172
Increase (decrease) in liabilities:				
Claims payable	(25,000)	97,000	3,450,000	3,522,000
Due to State of Alaska General Fund	—	(23,847)	14,615	(9,232)
Due to Retirement System – PERS	—	462	—	462
Accrued expenses	(80,436)	677,285	(3,552)	593,297
Net cash provided by (used in) operating activities	<u>\$ 1,013,776</u>	<u>(10,223)</u>	<u>19,103,888</u>	<u>20,107,441</u>

See accompanying independent auditors' report.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Net Position

June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and cash equivalents:				
Investment in State of Alaska General Fund and other nonsegregated investments pool	\$ —	20,040,542	—	20,040,542
Short-term fixed income pool	16,168,266	—	3,579,910	19,748,176
Total cash and cash equivalents	16,168,266	20,040,542	3,579,910	39,788,718
Investments:				
Broad market fixed income pool	—	—	281,569,551	281,569,551
Domestic equity pool	—	—	93,619,062	93,619,062
International equity pool	—	—	74,245,287	74,245,287
Real estate investment trust pool	—	—	12,765,655	12,765,655
Total investments	—	—	462,199,555	462,199,555
Receivables:				
Accounts receivable	9,908	—	—	9,908
Interest and dividends receivable	16,947	—	2,735	19,682
Due from State of Alaska General Fund	347,209	—	—	347,209
Total receivables	374,064	—	2,735	376,799
Total current assets	16,542,330	20,040,542	465,782,200	502,365,072
Other assets	3,570	1,216,925	1,200,000	2,420,495
Total assets	16,545,900	21,257,467	466,982,200	504,785,567
Liabilities:				
Current liabilities:				
Claims payable	129,000	2,959,000	10,281,000	13,369,000
Accrued expenses	91,338	140,379	52,772	284,489
Due to State of Alaska General Fund	—	102,908	32,434	135,342
Total current liabilities	220,338	3,202,287	10,366,206	13,788,831
Noncurrent liabilities:				
Claims payable	—	—	21,071,000	21,071,000
Total noncurrent liabilities	—	—	21,071,000	21,071,000
Total liabilities	220,338	3,202,287	31,437,206	34,859,831
Net position	\$ 16,325,562	18,055,180	435,544,994	469,925,736

See accompanying independent auditors' report.

**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Operating revenue:				
Employer health insurance premiums	\$ 1,790,260	—	—	1,790,260
Member health insurance premiums	201,958	41,544,620	30,950,447	72,697,025
Medicare retiree drug subsidy	74,849	—	—	74,849
Other income	99,728	29,124	1,432,069	1,560,921
Total operating revenue	<u>2,166,795</u>	<u>41,573,744</u>	<u>32,382,516</u>	<u>76,123,055</u>
Operating expenses:				
Healthcare benefits	1,069,332	39,415,323	15,049,704	55,534,359
Administrative	125,140	2,174,329	501,124	2,800,593
Total operating expenses	<u>1,194,472</u>	<u>41,589,652</u>	<u>15,550,828</u>	<u>58,334,952</u>
Operating income (loss)	<u>972,323</u>	<u>(15,908)</u>	<u>16,831,688</u>	<u>17,788,103</u>
Nonoperating revenue:				
Investment income:				
Net appreciation in fair value	137,181	—	21,085,883	21,223,064
Interest	—	113,550	7,401,353	7,514,903
Dividends	—	—	569,755	569,755
Total investment income	137,181	113,550	29,056,991	29,307,722
Less investment expense	3,394	—	81,126	84,520
Net investment income	<u>133,787</u>	<u>113,550</u>	<u>28,975,865</u>	<u>29,223,202</u>
Change in restricted net position	1,106,110	97,642	45,807,553	47,011,305
Net position, beginning of year	15,219,452	17,957,538	389,737,441	422,914,431
Net position, end of year	<u>\$ 16,325,562</u>	<u>18,055,180</u>	<u>435,544,994</u>	<u>469,925,736</u>

See accompanying independent auditors' report.



**STATE OF ALASKA**  
**RETIREE HEALTH FUND**  
(An Enterprise Fund of the State of Alaska)

Combining Statement of Cash Flows

Year ended June 30, 2017

	<u>Major medical</u>	<u>Dental, vision, and audio</u>	<u>Long-term care</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received for premiums from the State of Alaska	\$ 1,560,189	—	—	1,560,189
Cash received for premiums from others	192,050	41,459,143	30,950,447	72,601,640
Cash received from third-party administrator	174,577	29,124	1,432,069	1,635,770
Cash payments for benefits to third-party administrator	(1,185,039)	(39,560,466)	(12,252,933)	(52,998,438)
Cash payments to employees	(8,799)	—	—	(8,799)
Cash payments to suppliers	(36,053)	(2,283,808)	(784,220)	(3,104,081)
Net cash provided by (used in) operating activities	<u>696,925</u>	<u>(356,007)</u>	<u>19,345,363</u>	<u>19,686,281</u>
Cash flows from investing activities:				
Purchase of investments	—	—	(205,405,670)	(205,405,670)
Proceeds from sale and maturities of investments	—	—	159,104,083	159,104,083
Investment income received	128,607	113,550	28,246,301	28,488,458
Net cash provided by (used in) investing activities	<u>128,607</u>	<u>113,550</u>	<u>(18,055,286)</u>	<u>(17,813,129)</u>
Net increase (decrease) in cash and cash equivalents	825,532	(242,457)	1,290,077	1,873,152
Cash and cash equivalents, beginning of year	<u>15,342,734</u>	<u>20,282,999</u>	<u>2,289,833</u>	<u>37,915,566</u>
Cash and cash equivalents, end of year	<u>\$ 16,168,266</u>	<u>20,040,542</u>	<u>3,579,910</u>	<u>39,788,718</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 972,323	(15,908)	16,831,688	17,788,103
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
(Increase) decrease in assets:				
Due from State of Alaska General Fund	(230,071)	—	—	(230,071)
Accounts receivable	(9,908)	(85,477)	—	(95,385)
Other assets	11,293	112,857	15,639	139,789
Increase (decrease) in liabilities:				
Claims payable	(127,000)	(258,000)	2,778,000	2,393,000
Due to State of Alaska General Fund	—	62,693	3,132	65,825
Accrued expenses	80,288	(172,172)	(283,096)	(374,980)
Net cash provided by (used in) operating activities	<u>\$ 696,925</u>	<u>(356,007)</u>	<u>19,345,363</u>	<u>19,686,281</u>

See accompanying independent auditors' report.