



**STATE OF ALASKA**  
**SUPPLEMENTAL BENEFITS SYSTEM**  
(A Component Unit of the State of Alaska)

Financial Statements and Supplemental Schedules

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**STATE OF ALASKA**  
**SUPPLEMENTAL BENEFITS SYSTEM**  
(A Component Unit of the State of Alaska)

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KPMG LLP  
Suite 600  
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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the State of Alaska Supplemental Benefits System (the Plan), a component unit of the State of Alaska, as of and for the years ended June 30, 2019 and 2018, and the related notes to financial statements, which collectively comprise the Plan's 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 opinion.

### *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 Supplemental Benefits System as of June 30, 2019 and 2018, 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 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

**KPMG LLP**

October 16, 2019

**STATE OF ALASKA**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

This section presents management's discussion and analysis (MD&A) of the State of Alaska Supplemental Benefits System's (the Plan) financial position and performance for the fiscal years ended June 30, 2019 and 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 Plan during the fiscal years ended June 30, 2019 and 2018. Information for fiscal year 2017 is presented for comparative purposes.

**Financial Highlights**

The Plan's financial highlights as of June 30, 2019 were as follows:

- The Plan's net position restricted for benefits increased by \$206.8 million during fiscal year 2019.
- The Plan's participant and employer contributions and transfers into the Plan increased by \$6.0 million during fiscal year 2019 compared to fiscal year 2018.
- The Plan earned net investment income of \$255.3 million during fiscal year 2019, a decrease of \$7.2 million compared to fiscal year 2018.
- The Plan's benefits and purchases of annuity contracts increased by \$6.7 million during fiscal year 2019 compared to fiscal year 2018.

**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) statements of fiduciary net position – annuity and cafeteria plans, (2) statements of changes in fiduciary net position – annuity and cafeteria plans, and (3) notes to financial statements.

*Statements of fiduciary net position – Annuity and cafeteria plans* – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for participants and operations. This statement reflects the Plan's investments at fair value along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2019 and 2018. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

*Statements of changes in fiduciary net position – Annuity and cafeteria plans* – This statement presents how the Plan's net position restricted for participants and operations changed during the years ended June 30, 2019 and 2018. This statement presents contributions and net investment income during the period. Deductions for benefits and refunds of contributions, including purchases of annuity contracts and administrative expenses, are also presented. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

The above statements represent resources available for investment and payment of benefits and expenses as of June 30, 2019 and 2018 and the sources and uses of those funds during the years ended June 30, 2019 and 2018.

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

**Condensed Financial Information** (In thousands)

Description	Fiduciary net position		Increase (decrease)		2017
	2019	2018	Amount	Percentage	
<b>Assets:</b>					
Cash and cash equivalents	\$ 4,933	10,778	(5,845)	(54.2)%	\$ 10,471
Receivables	814	6,939	(6,125)	(88.3)	7,487
Due from State of Alaska General Fund	12,523	—	12,523	100.0	—
Investments	4,117,577	3,905,154	212,423	5.4	3,691,373
Investment loss trust fund (ILTF) at fair value	2,049	1,999	50	2.5	1,968
Total assets	<u>4,137,896</u>	<u>3,924,870</u>	<u>213,026</u>	<u>5.4</u>	<u>3,711,299</u>
<b>Liabilities:</b>					
ILTF plan participant payable	2,049	1,999	50	2.5	1,968
Payable to plan participants	86	68	18	26.5	68
Accrued expenses	8,327	1,901	6,426	338.0	2,105
Due to State of Alaska General Fund	—	277	(277)	(100.0)	910
Total liabilities	<u>10,462</u>	<u>4,245</u>	<u>6,217</u>	<u>146.5</u>	<u>5,051</u>
Fiduciary net position	<u>\$ 4,127,434</u>	<u>3,920,625</u>	<u>206,809</u>	<u>5.3%</u>	<u>\$ 3,706,248</u>

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<b>Changes in fiduciary net position</b>					
<b>Description</b>	<b>2019</b>	<b>2018</b>	<b>Increase (decrease)</b>		<b>2017</b>
			<b>Amount</b>	<b>Percentage</b>	
Fiduciary net position, beginning of year	\$ 3,920,625	3,706,248	214,377	5.8%	\$ 3,434,415
Additions:					
Contributions	173,604	167,599	6,005	3.6	168,278
Net investment income	255,307	262,496	(7,189)	(2.7)	320,773
Other income	149	56	93	166.1	24
Total additions	<u>429,060</u>	<u>430,151</u>	<u>(1,091)</u>	<u>(0.3)</u>	<u>489,075</u>
Deductions:					
Benefits and refunds of contributions	218,096	211,386	6,710	3.2	213,505
Administrative	4,155	4,388	(233)	(5.3)	3,737
Total deductions	<u>222,251</u>	<u>215,774</u>	<u>6,477</u>	<u>3.0</u>	<u>217,242</u>
Increase in net position	<u>206,809</u>	<u>214,377</u>	<u>(7,568)</u>	<u>(3.5)</u>	<u>271,833</u>
Fiduciary net position, end of year	<u>\$ 4,127,434</u>	<u>3,920,625</u>	<u>206,809</u>	<u>5.3%</u>	<u>\$ 3,706,248</u>

**Financial Analysis of the Plans**

The statement of fiduciary net position – Annuity and cafeteria plans as of June 30, 2019 shows fiduciary net position of \$4,127,434,000. The entire amount is available to pay benefits to participants and their beneficiaries as well as administrative costs.

These amounts represent an increase in plan net position restricted for participants and operations of \$206,809,000 or 5.3% from fiscal year 2018 to fiscal year 2019 and an increase of \$214,377,000 or 5.8% from fiscal year 2017 to fiscal year 2018.

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**Contributions, Investment Income, and Other Additions**

Additions to the Plan are accumulated through a combination of employer and plan participant contributions, investment income, and other additions as follows:

	Additions (In thousands)				
	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Plan participant mandatory contributions	\$ 81,769	80,069	1,700	2.1%	\$ 80,097
Employer mandatory contributions	81,767	80,084	1,683	2.1	80,083
Plan participant voluntary contributions	3,818	3,650	168	4.6	4,002
Transfer-in contributions	6,250	3,796	2,454	64.6	4,096
Total plan member and employer contributions	173,604	167,599	6,005	3.6	168,278
Net investment income	255,307	262,496	(7,189)	(2.7)	320,773
Other income	149	56	93	166.1	24
Total	\$ 429,060	430,151	(1,091)	(0.3)%	\$ 489,075

Plan member and employer contributions increased from \$167,599,000 in fiscal year 2018 to \$173,604,000 for fiscal year 2019, an increase of \$6,005,000 or 3.6% primarily due to the raising of the social security administration compensation limit base for both calendar year 2018 and 2019, as SBS contributions are based on higher salary levels, thus more participant and employer contributions. Plan member and employer contributions decreased from \$168,278,000 for fiscal year 2017 to \$167,599,000 for fiscal year 2018, a decrease of \$679,000 or 0.4%.

The Plan's net investment income decreased from \$262,496,000 in fiscal year 2018 to \$255,307,000 in fiscal year 2019, a decrease of \$7,189,000 or 2.7% from amounts recorded in fiscal year 2018. The decrease relates to the decrease in rates of return in fiscal year 2019. Net investment income decreased during fiscal year 2018 by \$58,277,000 or 18.2% from amounts recorded during fiscal year 2017. This decrease relates to significant decrease in rates of return in fiscal year 2018 compared to similar investments in fiscal year 2017.



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The Plan's investment rates of return at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Alaska Balanced Trust	6.53%	4.27%
Alaska Long-Term Balanced Trust	6.67	7.19
Alaska Target Date Retirement 2010 Trust	5.92	5.45
Alaska Target Date Retirement 2015 Trust	6.23	6.49
Alaska Target Date Retirement 2020 Trust	6.42	7.60
Alaska Target Date Retirement 2025 Trust	6.61	8.48
Alaska Target Date Retirement 2030 Trust	6.76	9.36
Alaska Target Date Retirement 2035 Trust	6.80	10.09
Alaska Target Date Retirement 2040 Trust	6.77	10.67
Alaska Target Date Retirement 2045 Trust	6.82	10.88
Alaska Target Date Retirement 2050 Trust	6.83	10.88
Alaska Target Date Retirement 2055 Trust	6.79	10.90
Alaska Target Date Retirement 2060 Trust	6.74	10.80
Allianz/RCM Socially Responsible Investment Fund	—	15.67
Government/Credit Bond Index Fund	—	(0.65)
Environmental, Social, and Governance Fund	N/A	—
Intermediate Bond Fund	—	(0.71)
International Equity Fund	(3.15)	6.49
Long U.S. Treasury Bond Index Fund	—	(0.17)
Passive U.S. Bond Index Fund	N/A	—
Russell 3000 Index Fund	8.98	14.73
S&P 500 Index Fund	10.40	14.36
Stable Value Fund	N/A	2.41
State Street Institutional Treasury Money Market Fund	2.17	1.22
U.S. Real Estate Investment Trust Index Fund	9.72	4.18
U.S. Small-Cap Trust	11.02	18.48
U.S. Treasury Inflation Protected Security Index Fund	4.79	2.07
World Equity Ex-U.S. Index Fund	1.51	7.49
World Government Bond Ex-U.S. Index Fund	—	3.15

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**Benefits and Other Deductions**

The primary deductions of the Plan are the payment of benefits and purchases of annuity contracts. Benefit payments, insurance premiums, dependent care reimbursements, and administrative costs were as follows:

	Deductions (In thousands)				
	2019	2018	Increase (decrease)		2017
			Amount	Percentage	
Benefits and refunds of contributions	\$ 218,096	211,386	6,710	3.2%	\$ 213,505
Administrative	4,155	4,388	(233)	(5.3)	3,737
Total	<u>\$ 222,251</u>	<u>215,774</u>	<u>6,477</u>	<u>3.0%</u>	<u>\$ 217,242</u>

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts for fiscal year 2019 increased \$6,710,000 or 3.2% from fiscal year 2018, and decreased \$2,119,000 or 1.0% from the period ended June 30, 2017. The increase in refunds of contributions in fiscal year 2019 is related to an increase in number of members requesting disbursements from the Plan.

The Plan had administrative expenses of \$4,155,000 for fiscal year 2019 compared to \$4,388,000 for fiscal year 2018, a decrease of \$233,000 or 5.3%. The decrease in administrative expenses in fiscal year 2019 is due to a decrease in other professional services. The Plan had administrative expenses of \$4,388,000 in fiscal year 2018 compared to \$3,737,000 in fiscal year 2017, an increase of \$651,000 or 17.4% primarily due to increases in personal service costs and contractual services.

**Fiduciary Responsibilities**

The Alaska Retirement Management Board and the Commissioner of Administration are co-fiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries, and alternate payees.

**Request for Information**

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

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

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Statements of Fiduciary Net Position – Annuity and Cafeteria Plans

June 30, 2019 and 2018

(In thousands)

	2019			2018		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
<b>Assets:</b>						
Cash and cash equivalents:						
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 856	926	1,782	6,805	926	7,731
Money market fund – nonparticipant-directed	3,151	—	3,151	3,047	—	3,047
Total cash and cash equivalents	4,007	926	4,933	9,852	926	10,778
Receivables:						
Mandatory and voluntary contributions	814	—	814	6,939	—	6,939
Due from State of Alaska General Fund	12,523	—	12,523	—	—	—
Total receivables	13,337	—	13,337	6,939	—	6,939
Investments:						
Participant directed at fair value:						
Collective investment funds	1,203,643	—	1,203,643	1,104,316	—	1,104,316
Pooled investment funds	2,520,997	—	2,520,997	2,445,939	—	2,445,939
Participant directed at contract value:						
Synthetic investment contracts	392,937	—	392,937	354,899	—	354,899
Total investments	4,117,577	—	4,117,577	3,905,154	—	3,905,154
Investment loss trust fund at fair value	2,049	—	2,049	1,999	—	1,999
Total assets	4,136,970	926	4,137,896	3,923,944	926	3,924,870
Liabilities:						
Accrued expenses	7,401	926	8,327	975	926	1,901
Payable to plan participants	86	—	86	68	—	68
Investment loss trust fund plan participant payable	2,049	—	2,049	1,999	—	1,999
Due to State of Alaska General Fund	—	—	—	277	—	277
Total liabilities	9,536	926	10,462	3,319	926	4,245
Fiduciary net position	\$ 4,127,434	—	4,127,434	3,920,625	—	3,920,625

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position – Annuity and Cafeteria Plans

Years ended June 30, 2019 and 2018

(In thousands)

	2019			2018		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions:						
Contributions:						
Employers	\$ 81,767	—	81,767	80,084	—	80,084
Plan members	88,019	3,818	91,837	83,865	3,650	87,515
Total contributions	169,786	3,818	173,604	163,949	3,650	167,599
Investment income:						
Net appreciation in fair value of investments	255,899	—	255,899	263,409	—	263,409
Interest	993	—	993	498	—	498
Total investment income	256,892	—	256,892	263,907	—	263,907
Less investment expense	1,585	—	1,585	1,411	—	1,411
Net investment income	255,307	—	255,307	262,496	—	262,496
Other income	149	—	149	56	—	56
Total additions	425,242	3,818	429,060	426,501	3,650	430,151
Deductions:						
Benefits and refunds of contributions	214,278	3,818	218,096	207,736	3,650	211,386
Administrative	4,155	—	4,155	4,388	—	4,388
Total deductions	218,433	3,818	222,251	212,124	3,650	215,774
Net increase in fiduciary net position	206,809	—	206,809	214,377	—	214,377
Fiduciary net position, beginning of year	3,920,625	—	3,920,625	3,706,248	—	3,706,248
Fiduciary net position, end of year	\$ 4,127,434	—	4,127,434	3,920,625	—	3,920,625

See accompanying notes to financial statements.

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**(1) Description**

The following description of the State of Alaska Supplemental Benefits System (the Plan), which comprises the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan, is provided for general information purposes only. Participants should refer to the plan documents for more complete information.

**(a) General**

The Plan was created by State of Alaska (the State) statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State's Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska statute. There were 22 participating employers, including the State as of June 30, 2019. There were 46,895 participants in the Plan as of June 30, 2019.

At June 30, 2019 and 2018, the number of participating local government employers and public organizations, including the State was as follows:

State of Alaska	1
Municipalities	9
School districts	5
Other	7
	7
Total employers	22

The Division of Retirement and Benefits is responsible for plan administration and record keeping. The Alaska Retirement Management Board (the Board) is responsible for the specific investment of moneys in the Plan.

**(b) Contributions**

Mandatory contributions are made to the Supplemental Annuity Plan, a defined-contribution plan, and voluntary contributions to the Supplemental Benefits Cafeteria Plans. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf.

Supplemental Benefits Cafeteria Plan voluntary contributions are based on the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based on

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the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to the Plan on the employee's behalf.

**(c) Participant Accounts**

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options. Each participant designates how their contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Record keeping/administrative fees, consisting of a fixed amount applied in a lump sum each calendar year and a variable amount applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the contracted recordkeeper and by the State. Most of the investment management and custody fees are netted out of the funds' performance.

At June 30, 2019 and June 30, 2018, participants had the following investment options:

**(i) Collective Investment Funds**

*Allianz/RCM Socially Responsible Investment Fund* – This fund is actively managed and only invests in companies contained within the MSCI USA environmental, social, and governance (ESG) Index (LMSI). The LMSI holds approximately 600 companies with the highest ESG rankings in each sector of the 1,000 largest U.S. stocks. This fund changed management in 2018, and assets rolled over to the Environmental, Social, and Governance Fund.

*Environmental, Social, and Governance Fund* – This fund is passively managed to have returns, net of fees, over time, closely matching the MSCI UAS Environmental, Social, and Governance (ESG) Leaders Index. The fund invests in domestic large cap and mid-cap investments with high ESG rankings.

*Government/Credit Bond Index Fund* – This fund invests in a highly diversified portfolio of high-quality U.S. fixed-income securities. The fund buys and holds portfolios of the securities included in the Bloomberg Barclays Capital Government/Credit Bond Index. The fund seeks to closely match the index's total rate of return. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

*Intermediate Bond Fund* – This fund buys and holds representative securities included in the Bloomberg Barclays U.S. Intermediate Bond Index. The fund seeks to closely match the index's total rate of return. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

*International Equity Fund* – This fund is invested primarily in the equity securities of non-U.S. issuers. The fund is a multimanager fund comprising two investment managers of differing investment strategies, style, and long-term market correlation.

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*Long U.S. Treasury Bond Index Fund* – This fund invests in one or more commingled funds managed by State Street Global Advisors (SSgA), which, in combination, are designed to replicate the return of the Bloomberg Barclays U.S. Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Bloomberg Barclays U.S. Long Treasury Bond Index by investing in a well-diversified portfolio of Treasury securities with maturities longer than 10 years. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. bond index fund.

*Passive U.S. Bond Index Fund* – This fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the underlying index, the BlackRock U.S. Debt Index Non-Lendable Fund E. The fund is invested and reinvested primarily in a portfolio of debt securities with the objective of approximating the total rate of return of the market for debt securities as defined by the Bloomberg Barclays U.S. Aggregate Bond Index.

*Russell 3000 Index Fund* – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index. The fund measures the performance of the largest 3,000 U.S. companies representing approximately 98.0% of the investable U.S. equity market.

*Standard & Poor's 500 Stock Index Fund* – This fund offers diversified investment in the U.S. equity market and replicates the returns and characteristics of the Standard & Poor's (S&P) 500 Composite Stock Price Index. The S&P 500 Index is the world's most widely followed stock index representing about 81% of the entire U.S. equity market.

*SSgA Global Balanced Fund* – This fund has a target asset allocation of 60% equities and 40% fixed income and is invested in a mix of passively managed index commingled funds, which, in combination, are designed to replicate the returns and characteristics of the fund benchmark. This fund was closed in fiscal year 2018 and assets rolled over to the Alaska long-term balanced trust.

*State Street Institutional Treasury Money Market Fund* – This money market fund seeks to achieve its investment objective by investing substantially all of its investable assets in the State Street Money Market Portfolio of State Street Master Funds, which has the same investment objective as, and investment policies that are substantially similar to, those of the fund. The fund attempts to achieve its investment objective by investing exclusively in direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds. The fund may also invest in other mutual funds, subject to regulatory limitations, that invest exclusively in such obligations.

*U.S. Real Estate Investment Trust Index Fund* – This fund seeks to replicate the returns and characteristics of the Dow Jones U.S. Select REIT Index by purchasing each security in the same capitalization weight as it appears in the index. This fund was closed in August 2019 and assets were rolled over to a new investment option called the Strategic Completion Fund.

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*U.S. Small-Cap Trust* – This fund invests primarily in common stocks of small companies that appear undervalued or offer the potential for superior earnings growth. The trust's benchmark is the Russell 2000 Index, a broad representation of the small-cap U.S. equity market.

*U.S. Treasury Inflation-Protected Securities (TIPS) Index Fund* – This fund invests in the Barclays Capital U.S. TIPS Index and is intended to replicate the return of the Bloomberg Barclays U.S. TIPS index while providing for daily liquidity for the plan participants. The fund seeks to match the returns of the index by investing in a portfolio of U.S. TIPS and is managed duration neutral to the index at all times. This fund is one of full replication, investing in a portfolio that owns the market-value weight of each security in the index. This fund was closed in August 2019 and assets were rolled over to a new investment option called the Strategic Completion Fund.

*World Equity Ex-U.S. Index Fund* – This fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the MSCI ACWI Ex-U.S. Index and provide a broad-based, low-cost exposure to both the developed and emerging markets. The index consists of approximately 2,000 securities across 47 markets.

*World Government Bond Ex-U.S. Index Fund* – This fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Citigroup World Government Ex-U.S. Index over the long term. The fund is managed using a passive or indexing investment approach. This fund was closed in fiscal year 2019 and assets rolled over to the Passive U.S. Bond Index Fund.

(ii) *Pooled Investment Funds*

The Board contracts with an external investment manager who is given authority to invest in a wholly owned pooled environment to accommodate 13 participant-directed funds.

*Alaska Balanced Trust* – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

*Alaska Long-Term Balanced Trust* – The purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium to long investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities.

*Alaska Target Date Retirement 2010–2060 Trusts* – The purpose of these funds is to provide a diverse mix of stocks, bonds, and money market securities for long-term investors with a higher tolerance for risk. The trusts are designed to gradually invest more conservatively as the target retirement date approaches. The trusts invest in four underlying common trust funds, each one



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emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities. Over time, the allocations become more conservative, systematically decreasing exposure to stocks and increasing exposure to bonds and money market securities on a quarterly basis. At the target date, the trusts maintain a substantial exposure to stocks (approximately 55%). The most conservative allocation to stocks (approximately 20%) occurs 30 years after the target date is reached.

*(iii) Synthetic Investment Contracts*

*Stable Value Fund* – The purpose of this fund is to preserve principal with a competitive rate of interest consistent with the preservation of capital. The fund invests in a diversified portfolio of synthetic investment contracts (SICs), issued by banks and insurance companies directly with the Plan, that meet specified credit standards. Supporting securities for SICs typically include U.S. Treasury/agency obligations, mortgage and asset-backed securities, as well as investment-grade corporate bonds.

**(d) Payment of Benefits**

Participants are eligible to withdraw from the Supplemental Annuity Plan 60 days after termination. Benefits are payable in the form of a lump sum or a periodic payment option, unless the participant elects to defer commencement of benefits. The Plan issues lump-sum disbursements through its contracted recordkeeper. Various annuities can also be purchased from an insurance carrier, which are excluded from plan assets.

**(e) Supplemental Benefits Cafeteria Plan**

Benefits available under the Supplemental Benefits Cafeteria Plan include life, accidental death, disability, and critical illness insurance. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee's change in status. The Plan is funded entirely by employee contributions based on benefit selections. All supplemental benefits are provided through contractual arrangements.

**(f) Funding of the Annuity Plan**

Supplemental annuity plan contributions from employers and participants were deposited with investment managers under contract with the Plan. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to contributions received during the period.

**(g) Income Taxes**

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

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**(h) Effect of Plan Termination**

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may, in its sole and absolute discretion, terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

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

**(a) Basis of Accounting**

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and additions and deductions for the reporting periods. Actual results could differ from those estimates.

**(b) Valuation of Collective Investment Funds**

The Plan's investments in collective investment funds, held in trust, are stated at fair value based on the net asset value as reported by third-party administrator (TPA) multiplied by the number of units held by the Plan. The unit value is determined by the TPA based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

**(c) Valuation of Synthetic Investment Contracts**

The Plan's investments in fully benefit-responsive SICs are stated at contract value.

**(d) Valuation of Ownership of Pooled Investment Funds**

The Plan's ownership of pooled investment funds held in trust are stated at fair value based on the unit values as reported by the trustees multiplied by the number of units held by the Plan. The unit value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

**(e) Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2019 are composed of interest-bearing deposits. The money market fund consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

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**(f) Contributions Receivable**

Contributions applicable to wages earned through June 30 are accrued. These contributions are considered fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

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

Amounts due from the State of Alaska General Fund represent the amounts remitted by employers to the General Fund but not yet transmitted to the Plan. Amounts due to the State of Alaska General Fund represent amounts paid by others on behalf of the Plan.

**(3) Investments**

The Plan is primarily participant directed, which means that the Plan's participants decide in which options to invest. Of the total plan fiduciary net assets of \$4,127,434,000 at June 30, 2019, 99.8% or \$4,117,577,000 were specifically allocated to individual participant accounts.

Each participant designates how their contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions, adjusted for the appreciation or depreciation in unit value for the investment funds, and reduced for administrative fees.

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The carrying values of participant-directed investments at June 30, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Alaska Balanced Trust	\$ 1,142,898	1,144,403
Alaska Long-Term Balanced Trust	686,764	683,417
S&P 500 Stock Index Fund	479,723	454,989
Stable Value Fund	392,937	354,899
U.S. Small Cap Trust	195,075	175,996
Passive U.S. Bond Index Fund	123,502	—
Alaska Target Date Retirement 2020 Trust	99,420	94,958
Alaska Target Date Retirement 2025 Trust	85,664	76,798
Alaska Target Date Retirement 2015 Trust	83,366	85,904
Alaska Target Date Retirement 2050 Trust	79,151	68,944
Russell 3000 Index Fund	76,179	72,624
Alaska Target Date Retirement 2055 Trust	70,325	56,097
Alaska Target Date Retirement 2045 Trust	70,241	60,065
World Equity Ex-U.S. Index Fund	69,755	54,818
Alaska Target Date Retirement 2030 Trust	65,211	56,387
International Equity Fund	63,716	69,084
Alaska Target Date Retirement 2040 Trust	61,931	53,116
Alaska Target Date Retirement 2035 Trust	61,654	52,457
Allianz/RCM Socially Responsible Investment Fund	58,909	53,141
State Street Institutional Treasury Money Market Fund	48,325	41,482
U.S. Treasury Inflation-Protected Security Index Fund	47,908	31,695
U.S. Real Estate Investment Trust Index Fund	40,550	34,012
Alaska Target Date Retirement 2010 Trust	10,227	10,130
Alaska Target Date Retirement 2060 Trust	4,146	3,263
Government/Credit Bond Index Fund	—	50,435
Intermediate Bond Fund	—	40,059
Long U.S. Treasury Bond Index Fund	—	13,397
World Government Bond Ex-U.S. Index Fund	—	12,584
Total	<u>\$ 4,117,577</u>	<u>3,905,154</u>

For additional information on synthetic investment contracts, interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at <http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

**(4) Investment Loss Trust Fund**

The Investment Loss Trust Fund was established by the State of Alaska to hold harmless Plan participants who had invested in a guaranteed investment contract that suffered losses during the 1990s. The Investment Loss Trust Fund comprises cash and cash equivalents managed by the State Treasury. The associated participant payable represents amounts due to participants under a settlement agreement associated with the guaranteed investment contract.

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**(5) Risk and Uncertainty**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of fiduciary net position.

The Plan may invest in pooled separate accounts that include securities with contractual cash flows, which may include asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

## **SUPPLEMENTAL SCHEDULES**

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Schedule of Administrative and Investment Deductions

Years ended June 30, 2019 and 2018

(In thousands)

	<u>Administrative</u>	<u>Investment</u>	<u>Totals</u>	
			<u>2019</u>	<u>2018</u>
Personal services:				
Wages	\$ 378	64	442	468
Benefits	<u>229</u>	<u>27</u>	<u>256</u>	<u>310</u>
Total personal services	<u>607</u>	<u>91</u>	<u>698</u>	<u>778</u>
Travel:				
Transportation	4	14	18	25
Per diem	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Total travel	<u>5</u>	<u>16</u>	<u>21</u>	<u>29</u>
Contractual services:				
Management and consulting	3,321	1,262	4,583	4,224
Accounting and auditing	27	4	31	35
Data processing	106	142	248	252
Communications	9	5	14	28
Advertising and printing	1	—	1	1
Rentals/leases	33	19	52	46
Legal	1	19	20	16
Repairs and maintenance	7	1	8	3
Transportation	9	1	10	17
Other professional services	<u>18</u>	<u>7</u>	<u>25</u>	<u>346</u>
Total contractual services	<u>3,532</u>	<u>1,460</u>	<u>4,992</u>	<u>4,968</u>
Other:				
Equipment	7	4	11	11
Supplies	<u>4</u>	<u>14</u>	<u>18</u>	<u>13</u>
Total other	<u>11</u>	<u>18</u>	<u>29</u>	<u>24</u>
Total administrative and investment deductions	<u>\$ 4,155</u>	<u>1,585</u>	<u>5,740</u>	<u>5,799</u>

See accompanying independent auditors' report.

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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2019 and 2018

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2019</u>	<u>2018</u>
Buck (formerly Conduent Human Resource Services)	Actuarial services	\$ —	1
KPMG LLP	Auditing services	25	30
State Street Bank and Trust	Custodial banking services	390	297
Alaska IT Group	Data processing services	27	27
Applied Microsystems Incorporated	Data processing services	9	27
Genesys Telecommunications Lab	Data processing services	—	7
G Treasury SS LLC	Data processing services	2	—
International Business Machines	Data processing services	1	1
Resource Data Incorporated	Data processing services	6	—
SHI International Corporation	Data processing services	30	36
Sungard Availability Services	Data processing services	—	3
State of Alaska, Department of Law	Legal services	17	12
		<u>\$ 507</u>	<u>441</u>

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

See accompanying independent auditors' report.