



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

Financial Statements and Supplemental Schedules

June 30, 2023 and 2022

(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
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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:

Opinion

We have audited the financial statements of the State of Alaska Supplemental Benefits System (the System), a component unit of the State of Alaska, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2023 and 2022, and the changes in its fiduciary net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Anchorage, Alaska
October 12, 2023

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

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

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, 2023 and 2022. 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. Information for fiscal year 2021 is presented for comparative purposes.

Financial Highlights

The Plan's financial highlights for the year ended June 30, 2022 were as follows:

- The Plan's net position restricted for benefits increased by \$341.5 million during fiscal year 2023.
- The Plan's participant and employer contributions and transfers into the Plan increased by \$7.0 million during fiscal year 2023 compared to fiscal year 2022.
- The Plan earned net investment income of \$426.7 million during fiscal year 2023, an increase of \$946.9 million compared to fiscal year 2022.
- The Plan's benefits paid decreased by \$36.6 million during fiscal year 2023 compared to fiscal year 2022.

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, (2) statements of changes in fiduciary net position, and (3) notes to financial statements.

Statements of fiduciary net position – This statement presents information regarding the Plan's assets, liabilities, and resulting net position restricted for participants and operations. This statement reflects the Plan's investments, at fair value and contract value, along with cash and cash equivalents, receivables, and other assets less liabilities at June 30, 2023 and 2022. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Cafeteria Plan.

Statements of changes in fiduciary net position – This statement presents how the Plan's net position restricted for participants and operations changed during the years ended June 30, 2023 and 2022. This statement presents contributions and net investment income (loss) during the period. Deductions for benefits and refunds of contributions, 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, 2023 and 2022 and the sources and uses of those funds during the years ended June 30, 2023 and 2022.

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

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Condensed Financial Information (In thousands)

Fiduciary net position					
Description	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Assets:					
Cash and cash equivalents	\$ 11,999	9,710	2,289	23.6%	\$ 9,109
Receivables	467	672	(205)	(30.5)	742
Due from State of Alaska General Fund	6,417	6,045	372	6.2	5,552
Investments	4,751,924	4,412,831	339,093	7.7	5,064,378
Investment loss trust fund (ILTF) at fair value	2,123	2,091	32	1.5	2,089
Total assets	<u>4,772,930</u>	<u>4,431,349</u>	<u>341,581</u>	<u>7.7</u>	<u>5,081,870</u>
Liabilities:					
Accrued expenses	364	360	4	1.1	382
Payable to plan participants	258	154	104	67.5	128
ILTF plan participant payable	2,123	2,091	32	1.5	2,089
Total liabilities	<u>2,745</u>	<u>2,605</u>	<u>140</u>	<u>5.4</u>	<u>2,599</u>
Fiduciary net position	<u>\$ 4,770,185</u>	<u>4,428,744</u>	<u>341,441</u>	<u>7.7%</u>	<u>\$ 5,079,271</u>

Changes in fiduciary net position					
Description	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Fiduciary net position, beginning of year	\$ 4,428,744	5,079,271	(650,527)	(12.8)%	\$ 4,237,919
Additions:					
Contributions	183,953	176,971	6,982	3.9	176,383
Net investment income (loss)	426,659	(520,224)	946,883	(182.0)	939,692
Other income (expense)	529	(321)	850	(264.8)	1,587
Total additions (reductions)	<u>611,141</u>	<u>(343,574)</u>	<u>954,715</u>	<u>(277.9)</u>	<u>1,117,662</u>
Deductions:					
Benefits and refunds of contributions	263,505	300,088	(36,583)	(12.2)	270,451
Administrative	6,195	6,865	(670)	(9.8)	5,859
Total deductions	<u>269,700</u>	<u>306,953</u>	<u>(37,253)</u>	<u>(12.1)</u>	<u>276,310</u>
Increase (decrease) in net position	<u>341,441</u>	<u>(650,527)</u>	<u>991,968</u>	<u>(152.5)</u>	<u>841,352</u>
Fiduciary net position, end of year	<u>\$ 4,770,185</u>	<u>4,428,744</u>	<u>341,441</u>	<u>7.7%</u>	<u>\$ 5,079,271</u>

Financial Analysis of the Plans

The statement of fiduciary net position as of June 30, 2023 and 2022 show fiduciary net position of \$4,770,185,000 and \$4,428,744,000, respectively. 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 \$341,441,000 or 7.7% from fiscal year 2022 to fiscal year 2023, and a decrease of \$650,527,000 or 12.8% from fiscal year 2021 to fiscal year 2022.

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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)				
	2023	2022	Increase (decrease)		2021
			Amount	Percentage	
Employer mandatory contributions	\$ 90,482	86,973	3,509	4.0%	\$ 84,988
Plan participant mandatory contributions	90,484	86,932	3,552	4.1	84,993
Transfer-in contributions	2,987	3,066	(79)	(2.6)	6,402
Total plan participant and employer contributions	183,953	176,971	6,982	3.9	176,383
Net investment income (loss)	426,659	(520,224)	946,883	182.0	939,692
Other income (expense)	529	(321)	850	264.8	1,587
Total	\$ 611,141	(343,574)	954,715	277.9%	\$ 1,117,662

Plan member and employer contributions increased from \$176,971,000 for fiscal year 2022 to \$183,953,000 for fiscal year 2023, an increase of \$6,982,000 or 3.9%, and increased from \$176,383,000 for fiscal year 2021 to \$176,971,000 for fiscal year 2022 due to increases in participant earnings for each fiscal year, which excludes any plan participant voluntary transfer-in contributions.

No contribution was made to the plan participant voluntary contributions in fiscal year 2022 and 2023 due to the voluntary supplemental benefit premium was shifted to the cafeteria plan third-party administrator (TPA). The TPA collects voluntary supplemental benefits premiums directly from participant employers and processes all claims.

The Plan's net investment income increased from a loss of \$520,224,000 in fiscal year 2022 to \$426,659,000 in fiscal year 2023, an increase of \$946,883,000 or 182.0% from amounts recorded in fiscal year 2022. The Plan's net investment income decreased from \$939,692,000 in fiscal year 2021 to a loss of \$520,224,000 in fiscal year 2022, a decrease of \$1,459,916,000 or 155.4% from amounts recorded in fiscal year 2021. The increase relates to an overall better investment environment during fiscal year 2023 in the equities market compared to fiscal year 2022.

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The Plan's investment rates of return at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Alaska Balanced Trust	5.86 %	(9.02)%
Alaska Long-Term Balanced Trust	10.13	(11.17)
Alaska Target Date Retirement 2010 Trust	6.24	(8.29)
Alaska Target Date Retirement 2015 Trust	7.12	(8.84)
Alaska Target Date Retirement 2020 Trust	8.49	(9.77)
Alaska Target Date Retirement 2025 Trust	10.25	(10.95)
Alaska Target Date Retirement 2030 Trust	11.68	(11.85)
Alaska Target Date Retirement 2035 Trust	13.07	(12.65)
Alaska Target Date Retirement 2040 Trust	14.21	(13.26)
Alaska Target Date Retirement 2045 Trust	15.09	(13.72)
Alaska Target Date Retirement 2050 Trust	15.52	(13.87)
Alaska Target Date Retirement 2055 Trust	15.52	(13.89)
Alaska Target Date Retirement 2060 Trust	15.52	(13.96)
Alaska Target Date Retirement 2065 Trust	15.52	(13.97)
BlackRock Strategic Completion Fund	(4.27)	(2.49)
Environmental, Social and Governance Fund	18.55	(10.61)
International Equity Fund	18.30	(26.39)
JP Morgan SmartRetirement Blend 2015 R6	6.64	(11.99)
JP Morgan SmartRetirement Blend 2020 R6	6.81	(12.10)
Passive U.S. Bond Index Fund	(0.93)	(10.26)
Russell 3000 Index Fund	19.01	(13.69)
S&P 500 Stock Index Fund	19.58	(10.64)
Stable Value Fund	2.12	1.84
State Street Institutional Treasury Money Market	3.60	0.15
U.S. Small-Cap Trust	10.90	(23.19)
World Equity Ex-U.S. Index Fund	13.24	(19.14)

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Benefits and Other Deductions

The primary deductions from the Plan are the payment of benefits and refunds of contributions. Benefit payments and administrative costs were as follows:

	Deductions (In thousands)				
			Increase (decrease)		2021
	2022	2022	Amount	Percentage	
Benefits and refunds of contributions	\$ 263,505	300,088	(36,583)	(12.2)%	\$ 270,451
Administrative	6,195	6,865	(670)	(9.8)	5,859
Total	\$ 269,700	306,953	(37,253)	(12.1)%	\$ 276,310

The Plan's benefits paid to participants and refunds of contributions, including purchases of annuity contracts for fiscal year 2023 decreased \$36,583,000 or 12.2% from fiscal year 2022, and increased \$29,637,000 or 11.0% from fiscal year 2021 to fiscal year 2022. The decrease in refunds of contributions in fiscal year 2023 is related to the decrease in per distribution dollar amount. The increase in refunds of contributions in fiscal year 2022 is related to the increase in the number of members requesting disbursements from the Plan. The increase in refunds of contributions in fiscal year 2021 is primarily related to Coronavirus Aid, Relief, and Economic Security (CARES) Act distributions that active and terminated members could receive as described below.

The CARES Act was signed into U.S. law on March 27, 2020. Section 2202 of the CARES Act provided expanded distribution options for up to \$100,000 of coronavirus-related distributions from eligible retirements plans. The Department of Administration, Division of Retirement and Benefits, in coordination with Empower Retirement, allowed for coronavirus-related distributions for members effective June 3, 2020.

Qualified active members of the Plan could request an in-service distribution of 25% of their account balance or \$25,000 maximum, whichever is less, between both the Plan and the State of Alaska Deferred Compensation Plan (DCP). Qualified terminated members could request up to an amount not to exceed \$100,000 from their account. Coronavirus-related withdrawals were required to be processed before December 31, 2020. The CARES Act had an option for the recipient to re-contribute any portion or all of the coronavirus-related withdrawal within three years of receipt. Through June 30, 2021, the Plan had \$28,010,000 in CARES Act distributions.

The Plan had administrative expenses of \$6,195,000 for fiscal year 2023 compared to \$6,865,000 for fiscal year 2022, a decrease of \$670,000 or 9.8%. The decrease in administrative expenses in fiscal year 2023 is primarily due to a decrease in system modernization project expenses. The Plan had administrative expenses of \$6,865,000 for fiscal year 2022 compared to \$5,859,000 for fiscal year 2021, an increase of \$1,006,000 or 17.2%. The increase was primarily due to increases in system modernization project expenses over the prior year.

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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 for those parties interested in the Plan's finances. Questions concerning any of the information provided in this financial 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

**STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM**
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Statements of Fiduciary Net Position

June 30, 2023 and 2022

(In thousands)

	2023			2022		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Assets:						
Cash and cash equivalents:						
Investment in State of Alaska General Fund and Other Nonsegregated Investments Pool	\$ 666	—	666	827	—	827
Money market fund – nonparticipant-directed	11,333	—	11,333	8,883	—	8,883
Total cash and cash equivalents	11,999	—	11,999	9,710	—	9,710
Receivables:						
Mandatory and voluntary contributions	467	—	467	672	—	672
Due from State of Alaska General Fund	6,417	—	6,417	6,045	—	6,045
Total receivables	6,884	—	6,884	6,717	—	6,717
Investments:						
Participant directed at fair value:						
Collective investment funds	1,469,418	—	1,469,418	1,315,424	—	1,315,424
Pooled investment funds	2,793,919	—	2,793,919	2,586,999	—	2,586,999
Participant directed at contract value:						
Synthetic investment contracts	488,587	—	488,587	510,408	—	510,408
Total investments	4,751,924	—	4,751,924	4,412,831	—	4,412,831
Investment loss trust fund at fair value	2,123	—	2,123	2,091	—	2,091
Total assets	4,772,930	—	4,772,930	4,431,349	—	4,431,349
Liabilities:						
Accrued expenses	364	—	364	360	—	360
Payable to plan participants	258	—	258	154	—	154
Investment loss trust fund plan participant payable	2,123	—	2,123	2,091	—	2,091
Total liabilities	2,745	—	2,745	2,605	—	2,605
Fiduciary net position	\$ 4,770,185	—	4,770,185	4,428,744	—	4,428,744

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	2023			2022		
	Annuity	Cafeteria	Total	Annuity	Cafeteria	Total
Additions (reductions):						
Contributions:						
Employers	\$ 90,482	—	90,482	86,973	—	86,973
Plan members	90,484	—	90,484	86,932	—	86,932
Transfers in	2,987	—	2,987	3,066	—	3,066
Total contributions	<u>183,953</u>	<u>—</u>	<u>183,953</u>	<u>176,971</u>	<u>—</u>	<u>176,971</u>
Investment income (loss):						
Net appreciation (depreciation) in value of investments	430,026	—	430,026	(514,276)	—	(514,276)
Interest	2,466	—	2,466	110	—	110
Total investment income (loss)	<u>432,492</u>	<u>—</u>	<u>432,492</u>	<u>(514,166)</u>	<u>—</u>	<u>(514,166)</u>
Less investment expense	5,833	—	5,833	6,058	—	6,058
Net investment income (loss)	<u>426,659</u>	<u>—</u>	<u>426,659</u>	<u>(520,224)</u>	<u>—</u>	<u>(520,224)</u>
Other income (expense)	529	—	529	(321)	—	(321)
Total additions (reductions)	<u>611,141</u>	<u>—</u>	<u>611,141</u>	<u>(343,574)</u>	<u>—</u>	<u>(343,574)</u>
Deductions:						
Benefits and refunds of contributions	263,505	—	263,505	300,088	—	300,088
Administrative	6,195	—	6,195	5,939	926	6,865
Total deductions	<u>269,700</u>	<u>—</u>	<u>269,700</u>	<u>306,027</u>	<u>926</u>	<u>306,953</u>
Net increase (decrease) in fiduciary net position	<u>341,441</u>	<u>—</u>	<u>341,441</u>	<u>(649,601)</u>	<u>(926)</u>	<u>(650,527)</u>
Fiduciary net position, beginning of year	<u>4,428,744</u>	<u>—</u>	<u>4,428,744</u>	<u>5,078,345</u>	<u>926</u>	<u>5,079,271</u>
Fiduciary net position, end of year	<u>\$ 4,770,185</u>	<u>—</u>	<u>4,770,185</u>	<u>4,428,744</u>	<u>—</u>	<u>4,428,744</u>

See accompanying notes to financial statements.

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
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Notes to Financial Statements

June 30, 2023 and 2022

(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. Effective January 1, 2020 the administration of the voluntary supplemental benefits was transferred to a TPA. This transition includes the collection of all premiums from participating employers.

(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 21 participating employers, including the State, as of June 30, 2023. There were 51,413 participants in the Plan as of June 30, 2023.

At June 30, 2023 and 2022, the number of participating local government employers and public organizations, including the State was as follows:

State of Alaska	1
State of Alaska component units	1
Municipalities	9
School districts	5
Other	5
	5
Total employers	21

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.

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Notes to Financial Statements

June 30, 2023 and 2022

(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 costs incurred by the contracted recordkeeper and by the State.

At June 30, 2023 and 2022, participants had the following investment options:

(i) Collective Investment Funds

BlackRock Strategic Completion Fund – This fund allocates its investments across a strategic mix of U.S. Treasury Inflation Protected Securities, real estate investment trusts, and commodities asset classes, with the objective of complementing a diversified portfolio of more traditional asset classes. The asset classes in which the fund invests tend to have some “real return” characteristics and therefore may also provide a means to manage the effects of inflation on a diversified portfolio of more traditional asset classes. The fund shall be invested and reinvested in common stocks and other forms of equity securities, depositary receipts, investment company shares, fixed-income securities and other debt obligations, asset-backed securities, mortgage-backed securities, securities issued by publicly traded real estate companies, futures contracts, forward contracts, swaps, options, and other structured investments. The fund employs a proprietary investment model that analyzes securities market data, including risk, correlation and expected return statistics, to recommend the portfolio allocation among the asset classes.

Environmental, Social and Governance Fund – This fund is 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.

International Equity Fund – This fund is investing 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.

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, 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.

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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.

State Street Institutional Treasury Money Market Fund – The Treasury Money Market Fund seeks a high level of current income consistent with preserving principal and liquidity and the maintenance of a stable \$1.00 per share net asset value (“NAV”). The money market investment is neither insured nor guaranteed by the U.S. Government.

T. Rowe Price U.S. Small-Cap Trust – This fund provides long-term capital appreciation by investing primarily in the common stocks of small companies that appear undervalued or offer the potential for superior earnings growth.

World Equity Ex-U.S. Index Fund – This fund provides income and capital appreciation and to replicate the returns of the MSCI Index and provide broad-based, low cost exposure to both the developed and emerging markets.

(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 14 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. The fund seeks to provide a mixture of income and modest capital appreciation.

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.

Alaska Target Date Retirement 2010–2065 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 allocated among a broad range of underlying T. Rowe Price stock and bond portfolios. The allocations for the trusts with a stated retirement date will change over time; these trusts emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus on supporting an income stream over a long-term postretirement withdrawal horizon.

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(iii) Synthetic Investment Contracts

Stable Value Fund – This fund seeks to preserve principal and to offer a competitive rate of interest consistent with stability and safety of principal. The fund primarily holds cash reserves and synthetic investment contracts (SICs), issued by high quality banks and insurance companies that allow for participant-directed withdrawals and transfers to principal plus accrued interest. SICs are supported by fixed income portfolios made up of high-quality fixed income assets owned by the Plan. SICs credit a rate of interest based on a formula that intends to smooth the long-term performance of the fixed income portfolios supporting SICs. The supporting fixed income portfolios are benchmarked to the Bloomberg Barclays U.S. Intermediate Aggregate Bond Index.

(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 disbursements through its contracted recordkeeper. Various annuities can also be purchased from an insurance carrier, which are excluded from plan assets.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the Internal Revenue Code. Hardship withdrawals are disbursed as lump sums and must be approved by the plan administrator.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into U.S. law on March 27, 2020. Section 2202 of the CARES Act provided expanded distribution options for up to \$100,000 of coronavirus-related distributions from eligible retirements plans. The Department of Administration, Division of Retirement and Benefits, in coordination with Empower Retirement, allowed for coronavirus-related distributions for members effective June 3, 2021.

Qualified active members of the Plan could request an in-service distribution of 25% of their account balance or \$25,000 maximum, whichever is less, between both the Plan and the State of Alaska Deferred Compensation Plan (DCP). Qualified terminated members could request up to an amount not to exceed \$100,000 from their account. Coronavirus-related withdrawals were required to be processed before December 31, 2020. The CARES Act had an option for the recipient to re-contribute any portion or all of the coronavirus-related withdrawal within three years of receipt.

(e) 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.

(f) 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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(g) Termination, Partial Termination, or Complete Discontinuance of Contributions

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) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2023 are composed of ownership of pooled investments and money market funds. The money market fund consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

(c) Contributions Receivable

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

(d) Due from State of Alaska General Fund

Amounts due from the State of Alaska General Fund represent State of Alaska contributions receivable, less administrative and investment expenses paid after June 30.

(e) 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 per unit, as reported by the TPA, multiplied by the number of units held by the Plan. The net asset value per unit 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.

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(f) Valuation 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.

(g) Valuation of Synthetic Investment Contracts

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

(h) Reclassifications

The Plan made certain reclassifications to the 2021 balances in the accompanying supplemental schedules to make them consistent with the 2022 presentation.

(3) Investments

The Plan is primarily participant directed, which means that the Plan's participants decide in which options to invest. Of total plan fiduciary net position of \$4,770,185,000 at June 30, 2023, 99.6% or \$4,751,924,000 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, 2023 and 2022 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Alaska Balanced Trust	\$ 1,041,489	1,046,166
Alaska Long-Term Balanced Trust	748,135	678,647
S&P 500 Stock Index Fund	546,822	434,904
Stable Value Fund	488,587	510,408
U.S. Small-Cap Trust	200,856	197,175
Passive U.S. Bond Index Fund	162,372	141,741
Alaska Target Date Retirement 2055 Trust	148,661	117,453
Alaska Target Date Retirement 2050 Trust	138,305	111,622
Russell 3000 Index Fund	138,028	131,132
Alaska Target Date Retirement 2045 Trust	123,160	101,237
Alaska Target Date Retirement 2025 Trust	106,890	100,684
Alaska Target Date Retirement 2035 Trust	106,095	89,117
Alaska Target Date Retirement 2030 Trust	102,810	89,771
Environmental, Social, and Governance Fund	101,072	134,842
Alaska Target Date Retirement 2040 Trust	99,468	83,465
International Equity Fund	96,403	95,882
World Equity Ex-U.S. Index Fund	86,693	72,688
Alaska Target Date Retirement 2020 Trust	76,484	77,643
State Street Institutional Treasury Money Market	70,760	69,735
BlackRock Strategic Completion Fund	66,412	37,325
Alaska Target Date Retirement 2015 Trust	66,074	66,992
Alaska Target Date Retirement 2060 Trust	17,095	9,486
Alaska Target Date Retirement 2065 Trust	9,165	4,570
Alaska Target Date Retirement 2010 Trust	8,764	9,089
JP Morgan Smart Retirement Blend 2015 R6	1,003	922
JP Morgan Smart Retirement Blend 2020 R6	321	135
Total	<u>\$ 4,751,924</u>	<u>4,412,831</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 treasury.dor.alaska.gov/amb/reports-and-policies/annual-audited-financial-schedules

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(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 is comprised of 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.

The Insurance Commissioner of the State of California, on behalf of policyholders of Executive Life Insurance Company, had filed a complaint against certain parties in 1999 for fraud related to the purchase of Aurora National Life Assurance Company guaranteed insurance contracts. In 2005, the Insurance Commissioner received a portion of settlement proceeds related to this complaint, and the Plan received some settlement funds between 2006–2010. In 2015, the last remaining defendant settled in the 16-year lawsuit. The Plan received a final distribution related to the lawsuit in July 2020 totaling \$1,159,000.

(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.

(6) Subsequent Event

On February 13, 2023, the Plan was notified that the JPMorgan SmartRetirement Blend 2015 R6 pooled investment fund would be closed and liquidated due to the low level of assets invested. Additionally, the JPMorgan SmartRetirement Blend 2020 R6 pooled investment fund was going to be merged with JPMorgan's broader target date funds and will no longer be a discrete retiree income solution. JPMorgan will close the 2015 fund on October 25, 2023 and will also close the 2020 fund to participants on the same date. Plan members may transfer out from those funds prior to that date, but any member in those funds at the closure date will be converted to an age-appropriate target date fund.

SUPPLEMENTAL SCHEDULES

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Schedules of Administrative and Investment Deductions

Years ended June 30, 2023 and 2022

(In thousands)

	Administrative	Investment	Totals	
			2023	2022
Personal services:				
Wages	\$ 405	182	587	649
Benefits	250	85	335	406
Total personal services	655	267	922	1,055
Travel:				
Transportation	4	9	13	4
Per diem	1	2	3	1
Total travel	5	11	16	5
Contractual services:				
Management and consulting	4,464	49	4,513	4,856
Investment management and custodial fees	—	5,327	5,327	5,430
Accounting and auditing	41	2	43	45
Data processing	880	132	1,012	1,366
Communications	5	1	6	5
Advertising and printing	10	—	10	13
Rentals/leases	52	11	63	23
Legal	12	12	24	26
Repairs and maintenance	—	1	1	—
Transportation	21	—	21	27
Other professional services	45	9	54	60
Total contractual services	5,530	5,544	11,074	11,851
Other:				
Equipment	1	2	3	3
Supplies	4	9	13	9
Total other	5	11	16	12
Total administrative and investment deductions	\$ 6,195	5,833	12,028	12,923

See accompanying independent auditors' report.

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Schedules of Payments to Consultants Other Than Investment Advisors

Years ended June 30, 2023 and 2022

(In thousands)

<u>Firm</u>	<u>Services</u>	<u>2023</u>	<u>2022</u>
KPMG LLP	Auditing services	\$ 40	37
State Street Bank and Trust	Custodial banking services	500	651
Applied Microsystems Incorporated	Data processing services	20	30
International Business Machines	Data processing services	1	—
Sagitec Solutions	Data processing services	789	1,158
SHI International Corporation	Data processing services	6	4
TechData Service Company	Data processing services	27	30
State of Alaska, Department of Law	Legal services	19	26
		<u>\$ 1,402</u>	<u>1,936</u>

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

See accompanying independent auditors' report.