



State of Alaska
Judicial Retirement System

Actuarial Valuation Report
As of June 30, 2006



Submitted By:
Buck Consultants
1200 Seventeenth Street, Suite 1200
Denver, CO 80202

October 11, 2007

State of Alaska
Alaska Retirement Management Board
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Judicial Retirement System has been prepared as of June 30, 2006 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the Plan as of June 30, 2006;
- (2) a review of experience under the Plan for the year ended June 30, 2006;
- (3) a determination of the appropriate contribution rate which will be applied for the fiscal years ending June 30, 2008 and June 30, 2009; and
- (4) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

- (1) Summary of actuarial assumptions and methods (Section 2.3)
- (2) Schedule of active member valuation data (Section 3.2, 3.3 and 3.4)

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY07 and a fixed 25-year amortization as a level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities decreased from 88.01% to 62.41% during the year. This report provides an analysis of the factors that led to the decrease.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska, and are available to answer questions regarding this report.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 43.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

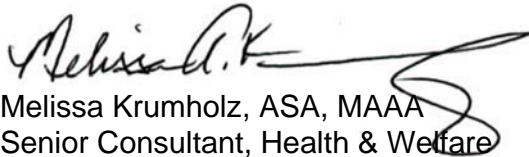


David H. Slisinsky, ASA, EA, MAAA
MAAA
Principal, Consulting Actuary



Michelle Reding DeLange, FSA, EA,
Director, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Krumholz, ASA, MAAA
Senior Consultant, Health & Welfare

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Report Highlights

This report has been prepared by Buck Consultants, an ACS Company, to:

- Present the results of a valuation of the State of Alaska Judicial Retirement System as of June 30, 2006;
- Review experience under the Plan for the period July 1, 2004 to June 30, 2006;
- Determine the contribution rate for the System for Fiscal Years 2008 and 2009;
- Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

This report is divided into three sections. Section 1 contains the results of the valuation. It includes the experience of the Plan during the 2004/2005 and 2005/2006 plan years, the current annual costs, and reporting and disclosure information.

Section 2 provides reporting and disclosure information for financial statements, governmental agencies and other interested parties.

Section 3 describes the basis of the valuation. It summarizes the Plan provisions, provides information relating to the Plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principal results are as follows:

Funding Status as of June 30		2004	2006
(a)	Valuation assets	\$ 70,455,634	\$ 79,710,103
(b)	Pension accrued liability	69,392,742	111,819,972
(c)	Healthcare accrued liability	10,659,817	15,905,786
(d)	Accrued liability, (b) + (c)	\$ 80,052,559	\$ 127,725,758
(e)	Funding Ratio, (a) / (d)	88.01%	62.41%

Recommended Contribution Rates:		FY07	FY08 - FY09
(a)	Normal Cost Rate	27.92%	26.01%
(b)	Past Service Cost Rate	9.45%	31.69%
(c)	Total Employer Contribution Rate	37.37%	57.70%

Recommended Contribution Rates for Pension:		FY07	FY08 - FY09
(a)	Normal Cost Rate	23.63%	22.08%
(b)	Past Service Cost Rate	0.73%	22.78%
(c)	Total Employer Contribution Rate	24.36%	44.86%

Recommended Contribution Rates for Healthcare:		FY07	FY08 - FY09
(a)	Normal Cost Rate	4.29%	3.93%
(b)	Past Service Cost Rate	8.72%	8.91%
(c)	Total Employer Contribution Rate	13.01%	12.84%

Analysis of Valuation

(1) Actuarial Methods and Assumptions

The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal. The assumption changes made for this valuation include a change in mortality assumption, the percentage of the population assumed to be married, healthcare assumptions and the payroll growth assumption. The actuarial value of assets was changed from market value to a 5-year smoothing method.

(2) Salary Increases

Salaries for active judges changed between June 30, 2004, and June 30, 2006. The following table presents the annual base salaries for the different court appointments:

	June 30, 2004	June 30, 2006
District Court	\$ 92,424	\$ 129,516
Superior Court	109,032	152,760
Appellate Court	111,384	156,084
Supreme Court	117,900	165,204
Administrative Director	109,032	152,760

Due to SB237 and HB98, the average annual base salary increased from \$105,316 at June 30, 2004 to \$146,458 at June 30, 2006, for an average annual increase of 17.93%. Since we assumed an average annual salary increase of 4% in the valuation as of June 30, 2004, a significant actuarial loss of \$27 million occurred on salary experience due to SB237 and HB98.

(3) Investment Experience

The approximate rate of return on investments during fiscal year 2005 was 8.0% and the approximate rate of return during fiscal year 2006 was 11.0%, net of expenses. Our actuarial calculations were based upon the assumption that the System's assets would earn 8.25% in FY05 and FY06, net of expenses. The compound average annual rate of return during the two-year period was 9.48%, which resulted in an actuarial gain of \$2 million to the System.

Analysis of Valuation *(continued)*

(4) Healthcare Costs

Healthcare costs were determined using State-specific experience. Distinct pre-65 and post-65 rates were calculated and a morbidity table was applied to account for the differences in claims cost by age.

Effective June 30, 2006, the health cost trend assumption was adopted which varies by year and by medical and prescription drugs, declining to an ultimate rate equal to 5.0% for FY15 and later. If the long-term assumption remains reasonable, short-term gains and losses from the annually determined medical cost will offset each other over time.

Note that valuation healthcare results reported herein as of June 30, 2006 were completed after Buck's experience study for PERS and TRS and reflect base claims cost rate analysis, trend assumptions, etc., included in the experience study. Additional data became available for the PERS and TRS healthcare valuations as of June 30, 2006. Thus, JRS base claims rates are slightly different than reported for PERS and TRS as of June 30, 2006.

(5) Membership Statistics

The number of active members increased from 62 to 66 for the two year period. There were 13 new entrants to the plan with an average entry age higher than the continuing members. The average age of active members increased by 0.51 years and the average past service decreased by 0.23 years. There were small changes in the inactive statistics as well. The membership statistics are found in Sections 3.2 through 3.4 of this report. The changes in member data produced an actuarial loss.

(6) Revaluation of Plan Liabilities as of June 30, 2004

Buck Consultants replicated the June 30, 2004 valuation results of the prior actuary. The primary difference between the results was on the healthcare liabilities. The prior actuary valued the premium as a family unit. We valued the premium per individual. The revaluation of liabilities increased the employer rate by 13.45%.

Analysis of Valuation (continued)

(7) Summary

The overall effect of system experience during the two-year period resulted in a decrease in the funding ratio from 88.01% to 62.41%. The total contribution rate increased from 37.37% to 57.70%.

	<u>Pension</u>	<u>Healthcare</u>	<u>Total</u>
1. Total employer contribution rate from June 30, 2004 valuation	24.36%	13.01%	37.37%
2. Change due to revaluation of plan liabilities as of June 30, 2004	(0.88)%	14.33%	13.45%
3. Change due to:			
a. Change in assumptions and methods	4.63%	(8.88)%	(4.25)%
b. Investment experience	(0.58)%	(1.08)%	(1.66)%
c. Demographic experience and new entrants	3.71%	(0.06)%	3.65%
d. Change in legislation (SB237 and HB98)	<u>13.62%</u>	<u>(4.48)%</u>	<u>9.14%</u>
e. Total	21.38%	(14.50)%	6.88%
4. Total employer contribution rate this year [1 + 2 + 3e]	44.86%	12.84%	57.70%

Section 1 Valuation Results

This section sets forth the results of the actuarial valuation.

- Section 1.1 Shows the transactions of the System's fund during FY05 and FY06. Allocation of assets between pension and postemployment healthcare was reported to us by the Division of Retirement and Benefits.
- Section 1.2 Shows the actuarial present values as of June 30, 2006.
- Section 1.3 Calculates the actuarial gain or loss for FY05 and FY06.
- Section 1.4 Develops the total contribution rate.
- Section 1.5 Schedule of past service cost amortizations.

Section 1 (continued)**1.1(a) Statement of Changes in Net Assets as of June 30, 2005**

Fiscal Year 2005	Pension	Postemployment Healthcare	Total Market Value
(1) Net Assets, June 30, 2004 (market value)	\$ 68,652,244	\$ 1,803,390	\$ 70,455,634
(2) Additions:			
(a) Plan Member Contributions	\$ 298,504	\$ 36,738	\$ 335,242
(b) Employer Contributions	1,911,799	235,299	2,147,098
(c) Interest and Dividend Income	1,948,372	239,801	2,188,173
(d) Net Appreciation (Depreciation) in Fair Value of Investments	<u>3,211,589</u>	<u>395,273</u>	<u>3,606,862</u>
(e) Total Additions	\$ 7,370,264	\$ 907,111	\$ 8,277,375
(3) Deductions:			
(a) Medical Benefits	\$ 0	\$ 728,274	\$ 728,274
(b) Retirement Benefits	4,052,060	0	4,052,060
(c) Investment Expenses	201,168	24,759	225,927
(d) Administrative Expenses	<u>19,249</u>	<u>2,369</u>	<u>21,618</u>
(e) Total Deductions	\$ 4,272,477	\$ 755,402	\$ 5,027,879
(4) Net Assets, June 30, 2005 (market value)	\$ 71,750,031	\$ 1,955,099	\$ 73,705,130

Approximate Market Value Investment Return Rate
During FY05 Net of All Expenses

8.0%

Section 1 (continued)**1.1(b) Statement of Net Assets as of June 30, 2005**

As of June 30, 2005	Pension	Postemployment Healthcare	Total Market Value
Cash and Cash Equivalents	\$ 91,887	\$ 11,309	\$ 103,196
Domestic Equity Pool	30,788,218	834,154	31,622,372
Domestic Fixed Income Pool	18,769,416	508,655	19,278,071
International Equity Pool	11,898,917	322,433	12,221,350
Real Estate Pool	7,831,848	212,409	8,044,257
International Fixed Income Pool	2,341,247	62,631	2,403,878
Net Receivables	28,498	3,508	32,006
Total Assets	<u>\$ 71,750,031</u>	<u>\$ 1,955,099</u>	<u>\$ 73,705,130</u>

Section 1 (continued)**1.1(c) Statement of Changes in Net Assets as of June 30, 2006**

Fiscal Year 2006	Pension	Postemployment Healthcare	Total Market Value
(1) Net Assets, June 30, 2005 (market value)	\$ 71,750,031	\$ 1,955,099	\$ 73,705,130
(2) Additions:			
(a) Plan Member Contributions	\$ 333,150	\$ 41,003	\$ 374,153
(b) Employer Contributions	2,467,780	303,727	2,771,507
(c) Interest and Dividend Income	2,041,114	251,215	2,292,329
(d) Net Appreciation (Depreciation) in Fair Value of Investments	5,285,881	650,570	5,936,451
(e) Transfer in from Retiree Health Fund	<u>111,301</u>	<u>13,699</u>	<u>125,000</u>
(f) Total Additions	\$ 10,239,226	\$ 1,260,214	\$ 11,499,440
(3) Deductions:			
(a) Medical Benefits	\$ 0	\$ 789,880	\$ 789,880
(b) Retirement Benefits	4,466,917	0	4,466,917
(c) Investment Expenses	166,368	20,476	186,844
(d) Administrative Expenses	<u>45,256</u>	<u>5,570</u>	<u>50,826</u>
(e) Total Deductions	\$ 4,678,541	\$ 815,926	\$ 5,494,467
(4) Net Assets, June 30, 2006 (market value)	\$ 77,310,716	\$ 2,399,387	\$ 79,710,103

Approximate Market Value Investment Return Rate
During FY06 Net of All Expenses

11.0%

Section 1 (continued)**1.1(d) Statement of Net Assets as of June 30, 2006**

As of June 30, 2006	Pension	Postemployment Healthcare	Total Market Value
Cash and Cash Equivalents	\$ 45,182	\$ 5,561	\$ 50,743
Domestic Equity Pool	31,440,800	959,524	32,400,324
Domestic Fixed Income Pool	17,043,292	520,134	17,563,426
International Equity Pool	14,906,061	454,910	15,360,971
Real Estate Pool	8,815,022	269,021	9,084,043
International Fixed Income Pool	1,424,172	43,463	1,467,635
High Yield Pool	1,218,055	37,173	1,255,228
Absolute Return Pool	2,031,315	61,993	2,093,308
Net Receivables	<u>386,817</u>	<u>47,608</u>	<u>434,425</u>
Total Assets	\$ 77,310,716	\$ 2,399,387	\$ 79,710,103

Section 1 (continued)**1.2 Breakdown of Accrued Liability and Normal Cost**

At June 30, 2006	Normal Cost	Accrued Liability
Active Participants		
Retirement Benefits	\$ 2,280,254	\$ 27,372,545
Disability Benefits	24,228	69,236
Death Benefits	119,112	773,208
Deferred Benefits	184,183	1,651,753
Medical and Prescription Drug Benefits	428,994	4,471,581
Medicare Part D Subsidy	<u>(49,480)</u>	<u>(512,559)</u>
Subtotal	\$ 2,987,291	\$ 33,825,764
Benefit Recipients		
Retiree Benefits		\$ 64,569,040
Survivor Benefits		9,749,891
Disability Benefits		0
Medical and Prescription Drug Benefits		11,582,284
Medicare Part D Subsidy		<u>(1,263,234)</u>
Subtotal		\$ 84,637,981
Vested Terminations		
Deferred Retirement Benefits		\$ 7,634,299
Medical and Prescription Drug Benefits		1,740,348
Medicare Part D Subsidy		<u>(112,634)</u>
Subtotal		\$ 9,262,013
Total	\$ 2,987,291	\$ 127,725,758
Total Pension	\$ 2,607,777	\$ 111,819,972
Total Healthcare, Net of Part D Subsidy	\$ 379,514	\$ 15,905,786

Section 1 (continued)**1.3 Development of Actuarial Gain/(Loss) for FY05 and FY06**

(1) Accrued Liability, June 30, 2004	\$	80,052,559
(2) Normal Cost for FY05		2,171,489
(3) Normal Cost for FY06		2,350,637
(4) Interest on (1), (2) and (3) at 8.25%		14,320,533
(5) Benefit Payments for FY05 and FY06		10,037,131
(6) Interest on (5) at 8.25%		<u>816,151</u>
(7) Expected Accrued Liability, June 30, 2006 (1) + (2) + (3) + (4) – (5) – (6)	\$	88,041,936
(8) Accrued Liability, June 30, 2006		<u>127,725,758</u>
(9) Liability Gain/(Loss) (7) – (8)	\$	(39,683,822)
(10) Valuation Assets, June 30, 2004	\$	70,455,634
(11) Member Contributions for FY05 and FY06		709,395
(12) Employer Contributions for FY05 and FY06		4,918,605
(13) Interest on (10), (11) and (12) at 8.25%		12,545,346
(14) Benefit Payments for FY05 and FY06		10,037,131
(15) Interest on (14) at 8.25%		<u>816,151</u>
(16) Expected Valuation Assets, June 30, 2006 (10) + (11) + (12) + (13) – (14) – (15)	\$	77,775,698
(17) Valuation Assets, June 30, 2006		<u>79,710,103</u>
(18) Asset Gain/(Loss) (17) – (16)	\$	1,934,405
(19) Total Gain/(Loss) (9) + (18)	\$	(37,749,417)*

*The total gain/loss will not match the change bases of \$38,188,910 as of June 30, 2006 set up since 2004 shown on page 14 due to the revaluation of plan liabilities, the changes in actuarial assumptions and methods and changes in legislation.

Section 1 (continued)**1.4 Calculation of Total Contribution Rate**

	Pension	Healthcare	Total
1. Total Normal Cost	\$ 2,607,777	\$ 379,514	\$ 2,987,291
2. Total Base Salaries for Upcoming Fiscal Year	\$ 9,666,228	\$ 9,666,228	\$ 9,666,228
3. Total Normal Cost Rate, (1) / (2)	26.97%	3.93%	30.90%
4. Average Member Contribution Rate	<u>4.89%</u>	<u>0.00%</u>	<u>4.89%</u>
5. Employer Normal Cost Rate, (3) - (4)	22.08%	3.93%	26.01%
6. Accrued Liability	\$111,819,972	\$ 15,905,786	\$ 127,725,758
7. Valuation Assets	<u>77,310,716</u>	<u>2,399,387</u>	<u>79,710,103</u>
8. Total Unfunded Liability, (6) - (7)	\$ 34,509,256	\$ 13,506,399	\$ 48,015,655
9. Past Service Cost Amortization Payment (See Section 1.5)	\$ 2,201,548	\$ 861,653	\$ 3,063,201
10. Past Service Cost Rate, (9) / (2)	22.78%	8.91%	31.69%
11. Total Employer Contribution Rate, (5) + (10)	44.86%	12.84%	57.70%

Section 1 (continued)

1.5 Schedule of Past Service Cost Amortizations

Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	6/30/2002	21	\$ 8,159,706	\$ 8,600,932	\$ 593,709
FY03/FY04 Loss	6/30/2004	23	1,189,728	1,225,813	79,950
Loss due to revaluation of plan liabilities	6/30/2005	24	12,683,100	12,884,409	819,079
FY05/FY06 Loss	6/30/2006	25	25,304,501	25,304,501	1,570,463
Total				\$ 48,015,655	\$ 3,063,201

Credit	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Total				\$ 0	\$ 0
Total				\$ 48,015,655	\$ 3,063,201

Section 2

Information Required by GASB Nos. 25 and 43

This section contains supplementary information on retirement benefits that is required to be disclosed in financial statements to comply with Statements No. 25 and 43 of the Governmental Accounting Standards Board (GASB Nos. 25 and 43). GASB No. 43 first applies for the June 30, 2006 disclosure.

- Section 2.1 Shows the Schedule of Employer Contributions.
- Section 2.2 Shows the Schedule of Funding Progress.
- Section 2.3 Shows the Actuarial Assumptions, Method and Additional Information

Section 2 (continued)**2.1 Schedule of Employer Contributions**

Fiscal Year Ending	Annual Required Contribution (ARC)	Annual Actual Contribution	Percentage of ARC Contributed
June 30, 1998	\$ 2,204,026	\$ 2,204,026	100.00%
June 30, 2000	1,510,516	1,510,516	100.00%
June 30, 2002	1,005,968	1,005,968	100.00%
June 30, 2004	1,786,835	1,786,835	100.00%
June 30, 2006	2,771,507	2,771,507	100.00%

Prior to adoption of GASB Statement No. 25 and 26 in 1997, an ARC was not determined pursuant to the parameters of the statements. Therefore, history prior to 1997 has not been shown.

Section 2 (continued)

2.2 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1998	\$ 64,689,972	\$ 61,483,386	N/A	105.22%	\$ 5,716,092	N/A
June 30, 2000	72,660,197	73,483,475	823,278	98.88%	5,701,980	14.44%
June 30, 2002	63,683,909	71,843,615	8,159,706	88.64%	5,941,860	137.33%
June 30, 2004	70,455,634	80,052,559	9,596,925	88.01%	6,529,608	146.98%

Note: Prior to adoption of GASB Statements No. 25 and 26 in 1997, information which does not meet the parameters of GASB 25 was used to determine funding requirements. Therefore, the history prior to 1997 has not been show.

The exhibit below shows the pension disclosure under GASB No. 25.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 77,310,716	\$ 111,819,972	\$ 34,509,256	69.14%	\$ 7,130,592	483.96%

The exhibit below shows the postemployment healthcare disclosure without regard to Medicare Part D under GASB No. 43.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 2,399,387	\$ 17,794,213	\$ 15,394,826	13.48%	\$ 7,130,592	215.90%

Section 2 (continued)**2.3 Actuarial Assumptions, Method and Additional Information**

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Equivalent Single Amortization Period	24 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return*	8.25%
Projected salary increases	4.0%
*Includes inflation at	3.5%
Cost-of-living adjustment	4.0%

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

The State of Alaska Judicial Retirement System's retiree health care benefits are fully funded. Therefore, the 8.25% discount rate used for GASB 25 reporting is also applied herein for GASB 43 reporting.

Based on GASB accounting rules, the retiree drug subsidy the State of Alaska receives under Medicare Part D has not been recognized for GASB 43 disclosure purposes.

Section 3

Basis of the Valuation

In this section, the basis of the valuation is presented and described. This information – the provisions of the System and the census of participants – is the foundation of the valuation, since these are the present facts upon which benefit payments will depend.

A summary of the System's provisions is provided in Section 3.1 and participant census information is shown in Section 3.2 to Section 3.4.

The valuation is based upon the premise that the Plan will continue in existence, so that future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the fund; the number of participants who will retire, die or terminate their services; their ages at such termination and their expected benefits.

The actuarial assumptions and the actuarial cost method, or funding method, which have been adopted to guide the sponsor in funding the System in a reasonable and acceptable manner, are described in Section 3.5.

Section 3 (continued)

3.1 Summary of Plan Provisions

(1) *Effective Date*

May 4, 1963, with amendments through June 30, 2006.

(2) *Administration of Plan*

The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska State Pension Investment Board is responsible for managing and investing the fund (Ch 31, SLA 1992).

(3) *Members Included*

JRS membership is mandatory for all Supreme Court justices and Superior, District and Appellate Court judges. The administrative director of the Court System may elect to participate in either the JRS or the Public Employees' Retirement System (PERS).

(4) *Credited Service*

Members receive credit for each day of JRS employment. Earlier service as a magistrate or deputy magistrate before July 1, 1967 is covered under the JRS.

(5) *Member Contributions*

Members hired after July 1, 1978, are required to contribute 7% of their base annual salaries. Contributions are required for a maximum of 15 years. Members hired before July 1, 1978 are not required to contribute.

Interest Credited: 4.5% compounded semiannually on June 30 and December 31.

Refund of Contributions: Nonvested members may receive a refund of their contributions and interest earned if they terminate employment. Refunded contributions, plus 7% indebtedness interest, must be repaid within one year of JRS reemployment.

JRS contributions for terminated members may be attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levies. Contributions that are attached to satisfy claims or tax levies may be reinstated at any time. The member is not required to return to JRS employment.

Section 3 (continued)

3.1 Summary of Plan Provisions

(6) Retirement Eligibility and Benefits

Normal Retirement: Members are eligible for normal retirement at age 60 if they have at least five years of JRS service. Terminated, vested members may defer retirement and begin receiving normal retirement benefits when they reach age 60. Vesting is completion of at least five years of JRS service.

Early Retirement: Members are eligible for early retirement at any age if they have at least 20 years of service. Terminated, vested members may defer retirement and begin receiving early retirement benefits when they reach age 55. Under early retirement, members receive reduced benefits equal to the actuarial equivalent of their normal retirement benefits. Early benefits are based on the member's service and early retirement date.

Type of Benefit: Lifetime monthly benefits are paid to the member. Upon the member's death, a survivor's benefit (below) may be payable if the member has an eligible spouse or dependent children.

Computation of Normal Retirement Benefit: 5% of authorized monthly base salary for each year of JRS service up to a maximum of 15 years. JRS benefits are recalculated when the salary for the office held changes. The maximum JRS benefit payable to a member is 75% of the authorized salary.

(7) Survivor's Benefits

Survivor's benefits are payable to the spouse of a member if they have been married for at least one year immediately preceding the member's death and the member has at least two years of JRS service. The monthly survivor's benefit is equal to the greater of:

- (a) one-half of the monthly benefit that the member would have received if retired at the time of death; or
- (b) 30% of the authorized monthly base salary if the member was not eligible to retire, or was entitled to less than 60% of the authorized monthly base salary.

If there is no eligible surviving spouse, the member's dependent children receive, in equal shares, 50% of the benefit under (a) or (b).

When there is both an eligible surviving spouse and dependent children residing in separate households, the spouse and children share equally the benefit under (a) or (b).

When there is no surviving spouse or dependent children, the members' contribution account balance, including interest earned, will be paid to the designated beneficiary.

Section 3 (continued)**3.1 Summary of Plan Provisions*****(8) Disability Benefits***

Members are eligible to receive monthly disability benefits at any age if they become incapacitated and they have at least two years of JRS service. Disability benefits are calculated the same as normal retirement benefits.

(9) Medical Benefits

Medical benefits are provided at no cost to JRS members, their spouses and dependents while monthly retirement, disability and survivor benefits are being paid.

Changes Since the Prior Valuation

SB237 and HB97 increased the salary for active members. The new and old rates are described on page 3.

Section 3 (continued)**3.2 Changes in System Participation from June 30, 2004 to June 30, 2006****Active Participants**

Total at June 30, 2004	62
New Entrants	13
Returned From Non-Vested Status	0
Returned From Vested Status	1
Non-Vested Terminations	0
Vested Terminations	(1)
Retirements	(8)
Deaths	<u>(1)</u>
Total at June 30, 2006	66

Vested Terminations

Total at June 30, 2004	11
New Vested Terminations	1
Retirements	(4)
Returned to Active Status	(1)
Deaths	0
Data Corrections	<u>0</u>
Total at June 30, 2006	7

Benefit Recipients

Total at June 30, 2004	75
New Retirements	12
New Survivors	2
QDRO Adjustments	0
Deaths	<u>(3)</u>
Total at June 30, 2006	86

Section 3 (continued)**3.3 Participant Census Information**

As of June 30	1998	2000	2002	2004	2006
Active Members					
1. Number	58	57	56	62	66
2. Average Age	50.93	52.05	52.88	54.19	54.70
3. Average Service	9.07	10.22	10.85	10.68	10.45
4. Average Annual Base Pay	\$ 98,553	\$ 100,035	\$ 106,105	\$ 105,316	\$ 146,458
Vested Terminated Members					
1. Number	13	13	11	11	7
2. Average Age	53.05	55.05	54.97	54.94	55.88
3. Average Service	8.66	8.66	9.65	10.08	12.22
4. Average Monthly Benefit	\$ 3,386	\$ 3,386	\$ 3,879	\$ 3,911	\$ 6,653
Benefit Recipients					
1. Number	63	59	71	75	86
2. Average Age	69.36	71.02	69.91	70.35	70.16
3. Average Monthly Benefit	\$ 4,272	\$ 4,693	\$ 4,354	\$ 4,255	\$ 6,029

Section 3 (continued)

3.4 Distributions of Active Participants

Annual Earnings By Age

Age Groups	Number	Total Earnings	Average Earnings
0-19	0	\$ 0	\$ 0
20-24	0	0	0
25-29	0	0	0
30-34	0	0	0
35-39	2	259,032	129,516
40-44	4	564,552	141,138
45-49	9	1,258,620	139,847
50-54	14	2,045,664	146,119
55-59	24	3,545,868	147,745
60-64	11	1,674,528	152,230
65-69	2	317,964	158,982
70-74	0	0	0
75-79	0	0	0
80+	0	0	0

Annual Earnings By Service

Years of Service	Number	Total Earnings	Average Earnings
0	13	\$ 1,799,928	\$ 138,456
1	0	0	0
2	3	411,792	137,264
3	6	846,828	141,138
4	3	458,280	152,760
0-4	25	3,516,828	140,673
5-9	11	1,610,628	146,421
10-14	11	1,626,396	147,854
15-19	10	1,520,124	152,012
20-24	5	753,000	150,600
25-29	4	639,252	159,813
30-34	0	0	0
35-39	0	0	0
40+	0	0	0

Total 66 \$ 9,666,228 \$ 146,458

Total 66 \$ 9,666,228 \$ 146,458

Years of Service By Age

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
0-19	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0
35-39	2	0	0	0	0	0	0	0	0	2
40-44	3	1	0	0	0	0	0	0	0	4
45-49	5	3	1	0	0	0	0	0	0	9
50-54	7	4	2	1	0	0	0	0	0	14
55-59	7	3	4	7	2	1	0	0	0	24
60-64	1	0	3	2	3	2	0	0	0	11
65-69	0	0	1	0	0	1	0	0	0	2
70-74	0	0	0	0	0	0	0	0	0	0
75+	0	0	0	0	0	0	0	0	0	0
	25	11	11	10	5	4	0	0	0	66

Section 3 (continued)

3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods

Actuarial Method – Entry Age Actuarial Cost.

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

Projected pension and preretirement spouse's death benefits were determined for all active members. Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for pension benefits (constant dollar amount for healthcare benefits), from the assumed entry age to the assumed retirement age were applied to the projected benefits to determine the normal cost (the portion of the total cost of the plan allocated to the current year under the method). The normal cost is determined by summing intermediate results for active members and determining an average normal cost rate which is then related to the total payroll of active members. The actuarial accrued liability for active members (the portion of the total cost of the plan allocated to prior years under the method) was determined as the excess of the actuarial present value of projected benefits over the actuarial present value of future normal costs.

The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits, terminated vested members and disabled members not yet receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

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

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Valuation of Assets

Effective June 30, 2006, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. Assets are initialized at market value as of June 30, 2006. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

Section 3 (continued)
3.5 Actuarial Basis

Valuation of Medical and Prescription Drug Benefits

Medical and prescription drug benefits for retirees are calculated using state-specific claims experience. Distinct medical costs are calculated for pre-65 retirees, post-65 retirees assumed to be covered by Medicare Parts A&B (retirees hired after April 1, 1986 and eligible for both coverages), and post-65 retirees assumed to be covered by Medicare Part B but not Medicare Part A (retirees hired before April 1, 1986 and not fully eligible for Medicare Part A coverage). Distinct prescription drug costs are calculated for pre-65 and post-65 retirees (to account for the impact of Medicare Part D). These medical and prescription drug costs are then increased with the health cost trend assumptions. The actuarial cost method, Entry Age Normal, used for funding retirement benefits is also used to value health benefits.

Accounting Impact of Medicare Part D

We have determined that the State of Alaska's prescription drug program is actuarially equivalent to the federal Medicare Part D program and that the State qualifies for the Medicare Part D subsidy. Governmental Accounting Standards Board rulings prohibit the direct application of this subsidy to reduce Accrued Liabilities. For funding purposes, the Accrued Liability and Normal Cost values presented are net of the Medicare Part D projected subsidy amount. If the projected subsidy is not considered a reduction in accrued liability, the following amounts are added to the values already presented:

Active Accrued Liability:	\$ 512,559
Deferred Vested Accrued Liability:	112,634
Retiree Accrued Liability:	<u>1,263,234</u>
Total Accrued Liability:	\$ 1,888,427
Active Normal Cost:	\$ 49,480

Actuarial Required Contribution without regard to Medicare Part D:	14.59%
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If and when the State chooses to fully comply with GASB 45 for funding purposes, the funding ratios and required contribution amounts will be impacted by the required accounting treatment of the Medicare Part D subsidy.

Changes in Methods Since the Prior Valuation

The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal effective with the June 30, 2006 valuation. The actuarial value of assets was changed from the market value to a 5-year smoothed value.

Section 3 (continued)
3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods (continued)

Investment Return	8.25% per year, compound annually, net of expenses for all funding calculations and pension disclosure; 8.25% for healthcare liabilities under GASB 43.				
Pre-retirement Mortality	In accordance with Table 1.				
Post-retirement Mortality	In accordance with Table 2.				
Salary Scale	4% per year, compounded annually.				
Total Payroll Growth	4% per year.				
Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.				
Per Capita Claims Cost	Sample claims cost rates for FY07 medical and prescription are shown below:				
		Medical		Prescription Drugs	
		Medicare Part A & B	Medicare Part B Only		Medicare Part D Reimbursement
	Total			Total	
Age 65	\$9,304	\$8,356	\$7,408	\$2,409	\$515
Health Cost Trend		Medical		Prescription Drugs	
	FY07	9.0%		13.0%	
	FY08	8.5%		12.0%	
	FY09	8.0%		11.0%	
	FY10	7.5%		10.0%	
	FY11	7.0%		9.0%	
	FY12	6.5%		8.0%	
	FY13	6.0%		7.0%	
	FY14	5.5%		6.0%	
	FY15 and later	5.0%		5.0%	
Aging Factors	Age	Medical		Prescription Drugs	
	0-44	2.0%		4.5%	
	45-54	2.5%		3.5%	
	55-64	3.5%		3.0%	
	65-74	4.0%		1.5%	
	75-84	1.5%		0.5%	
	85-94	0.5%		0.0%	
	95+	0.0%		0.0%	
Medical Participation	Because medical benefits are provided at no cost to the retiree, we have assumed 100% participation in the medical plans.				

Section 3 (continued)
3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods (continued)

Turnover and Early Retirement	Annual turnover and early retirement at each age and service is the <u>greatest</u> of the following amounts: a. 0% b. 3% if service is greater than 15 years c. 6% if vested <u>and</u> immediately eligible for full benefits based on retirement provision. d. 10% if vested and age is <u>greater than 64</u> .
Disability	In accordance with Table 3. Post-disability mortality in accordance with Table 4.
Maximum Retirement Age	Age 70
Marital Status	Married inactive members are assumed to choose the 50% Joint and Survivor benefit option. 90% of active and inactive members are assumed to be married. Husbands are assumed to be 4 years older than their wives.

Changes in Assumptions Since the Last Valuation

	June 30, 2004	June 30, 2006
Pre-retirement Mortality	1994 Group Annuity Mortality Table for males and females, 1994 Base Year.	55% of the male rates and 60% of the female rates in the 1994 Group Annuity Mortality Table for males and females, 1994 Base Year.
Post-retirement Mortality	1994 Group Annuity Mortality Table for males and females, 1994 Base Year.	1994 Group Annuity Mortality Table setback 1 year for females and 3 years for males, 1994 Base Year.
Payroll Growth	4.25% per year.	4.00% per year.
Marital Status	Marital status as of the valuation date.	90% of active and inactive members.
Healthcare	Blended premium, no adjustment for age – based morbidity. Blended table for medical and prescription drugs. Liabilities valued on a composite retiree basis without distinction for dependents.	Actual claims experience used to set claims costs. Adjusted for age – based morbidity. Distinct medical claims costs for Medicare A & B vs. Medicare B only. Distinct prescription drug claims costs for pre-Medicare vs. Medicare Part D. Distinct trend rates for medical and prescription drugs. Valued liabilities based on a composite individual basis with actual dependent elections. This is a weighted average of the prior years (FY06) claims cost used for the June 30, 2005 valuations for PERS and TRS, rolled forward with expected trend to FY07. There is a description of this methodology in the June 30, 2005 PERS and TRS reports.

Section 3 (continued)
3.5 Actuarial Basis

Table 1
Pre-Retirement Mortality Rates
Annual Rates Per 1,000 Members

Age	Rate		Age	Rate	
	Male	Female		Male	Female
20	.300	.183	45	.933	.628
21	.314	.185	46	1.019	.667
22	.329	.187	47	1.123	.718
23	.348	.188	48	1.243	.778
24	.369	.188	49	1.376	.845
25	.391	.188	50	1.525	.922
26	.412	.190	51	1.698	1.012
27	.430	.194	52	1.900	1.118
28	.446	.203	53	2.120	1.231
29	.461	.214	54	2.353	1.345
30	.474	.226	55	2.617	1.480
31	.486	.241	56	2.927	1.653
32	.496	.256	57	3.301	1.883
33	.502	.272	58	3.726	2.167
34	.502	.289	59	4.193	2.492
35	.503	.308	60	4.717	2.864
36	.510	.330	61	5.315	3.286
37	.527	.356	62	6.001	3.763
38	.556	.386	63	6.784	4.307
39	.591	.421	64	7.653	4.916
40	.634	.458			
41	.684	.496			
42	.740	.533			
43	.800	.566			
44	.862	.595			

Section 3 (continued)

3.5 Actuarial Basis

**Table 2
Post-Retirement Mortality Rates
Annual Rates Per 1,000 Members**

Age	Rate		Age	Rate	
	Male	Female		Male	Female
20	.463	.301	45	1.346	.992
21	.495	.305	46	1.454	1.046
22	.521	.308	47	1.568	1.111
23	.545	.311	48	1.697	1.196
24	.570	.313	49	1.852	1.297
25	.598	.313	50	2.042	1.408
26	.633	.313	51	2.260	1.536
27	.671	.316	52	2.501	1.686
28	.711	.324	53	2.773	1.864
29	.749	.338	54	3.088	2.051
30	.782	.356	55	3.455	2.241
31	.811	.377	56	3.854	2.466
32	.838	.401	57	4.278	2.755
33	.862	.427	58	4.758	3.139
34	.883	.454	59	5.322	3.612
35	.902	.482	60	6.001	4.154
36	.912	.514	61	6.774	4.773
37	.913	.550	62	7.623	5.476
38	.915	.593	63	8.576	6.271
39	.927	.643	64	9.663	7.179
40	.958	.701			
41	1.010	.763			
42	1.075	.826			
43	1.153	.888			
44	1.243	.943			

Section 3 (continued)
3.5 Actuarial Basis

Table 3
Disability Rates
Annual Rates Per 1,000 Members

Age	Rate	Age	Rate
20	.17	45	.41
21	.17	46	.44
22	.18	47	.48
23	.18	48	.52
24	.18	49	.56
25	.19	50	.60
26	.19	51	.65
27	.19	52	.72
28	.20	53	.80
29	.20	54	.89
30	.21	55	1.00
31	.21	56	1.15
32	.22	57	1.34
33	.22	58	1.53
34	.23	59	1.80
35	.24		
36	.25		
37	.26		
38	.27		
39	.28		
40	.29		
41	.30		
42	.32		
43	.34		
44	.37		

Section 3 (continued)
3.5 Actuarial Basis

Table 4
Post-Disability Mortality Rates
Annual Rates Per 1,000 Members

Age	Rate		Age	Rate	
	Male	Female		Male	Female
20	51.0	42.6	55	66.2	41.7
21	51.0	42.6	56	67.9	42.0
22	51.0	42.6	57	69.5	42.4
23	51.0	42.6	58	71.2	42.9
24	51.0	42.6	59	72.9	43.5
25	51.0	42.6	60	74.6	44.2
26	51.4	42.7	61	76.3	44.9
27	51.8	42.8	62	78.0	45.6
28	51.0	43.0	63	79.7	46.5
29	50.2	43.0	64	81.3	47.3
30	49.5	43.2	65	82.2	48.4
31	48.8	42.5	66	82.9	49.7
32	48.2	41.9	67	84.1	50.8
33	47.6	41.3	68	85.1	52.2
34	47.3	40.9	69	85.9	53.0
35	47.0	40.5	70	87.3	53.6
36	46.9	40.2	71	88.9	53.8
37	46.9	40.0	72	90.7	54.7
38	47.1	39.9	73	92.1	55.2
39	47.3	39.7	74	93.3	56.1
40	47.6	39.6	75	94.7	56.7
41	48.2	39.4	76	96.7	57.7
42	48.8	39.3	77	98.2	59.0
43	49.5	39.2	78	99.1	63.1
44	50.4	39.2	79	104.3	68.6
45	51.4	39.2	80	112.8	74.6
46	52.5	39.2	81	122.1	81.3
47	53.7	39.4	82	132.3	88.5
48	55.0	39.6	83	143.2	96.2
49	56.7	39.8	84	155.1	104.3
50	58.0	40.1	85	168.2	112.8
51	59.5	40.3			
52	61.2	40.7			
53	62.3	41.0			
54	64.5	41.3			