

# State of Alaska Judicial Retirement System

Actuarial Valuation Report  
As of June 30, 2014

October 2015



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October 6, 2015

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

### **Certification of Actuarial Valuation**

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

This report summarizes the annual actuarial valuation results of the State of Alaska Judicial Retirement System (JRS) as of June 30, 2014 performed by Buck Consultants, LLC.

The actuarial valuation is based on financial information provided in the financial statements audited by KPMG LLP and member data provided by the Division of Retirement and Benefits and summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2014. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Buck Consultants, LLC is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of the System.

The State of Alaska Judicial Retirement System is funded by Employer, State, and Member Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board) and as required by Alaska state statutes. The funding objective for the State of Alaska Judicial Retirement System is to pay required contributions that remain level as a percent of total JRS Compensation. The Board has also established a funding policy objective that the required contributions be sufficient to pay the Normal Costs of active plan members, System expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll over a closed 25-year period. The compensation used to determine required contributions is the total compensation of all active members in JRS. This objective is currently being met and is projected to continue to be met and as required by Alaska state statutes.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the System and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the System. The actuary performs an analysis of System experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last full experience analysis was performed in 2014. A review of the healthcare assumptions was performed for this actuarial valuation and changes were made to the healthcare cost trend rates and the per capita claims cost rates, effective June 30, 2014, to better reflect expected future healthcare experience. In addition, members identified as being covered under PERS healthcare have been removed, reducing JRS healthcare liabilities. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in Section 5.

The assumptions and methods used to determine the Actuarially Determined Contributions (ADC) of the Employers to the State of Alaska Judicial Retirement System as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 67, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Based on member data and asset information provided by the Division of Retirement and Benefits, we have prepared the trend data schedules under GASB No. 43.

Both of the undersigned are Associates of the Society of Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

Respectfully submitted,

Buck Consultants, LLC



David H. Sliskinsky, ASA, MAAA, FCA  
Principal, Consulting Actuary



Todd D. Kanaster, ASA, MAAA, FCA  
Senior Consultant

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 A. Bissett, FSA, MAAA  
Senior Consultant, Health & Productivity

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# Executive Summary

## Overview

The State of Alaska Judicial Retirement System provides pension and postemployment healthcare benefits to judicial and other eligible members. The Commissioner of the Department of Administration is responsible for administering the System. The Alaska Retirement Management Board has fiduciary responsibility over the assets of the System. This report presents the results of the actuarial valuation of the System benefits as of the valuation date of June 30, 2014.

## Purpose

An actuarial valuation is performed on the retirement plan bi-annually as of the beginning of the fiscal year. The main purposes of the actuarial valuation detailed in this report are:

1. To determine the Employer contribution necessary to meet the Board's funding policy for the System;
2. To disclose the funding assets and liability measures as of the valuation date;
3. To disclose the accounting measures for the System required by GASB Nos. 67 and 43 as of the end of the last fiscal year;
4. To review the current funded status of the System;
5. To compare actual and expected experience under the System during the last fiscal year;
6. And to report trends in contributions, assets, liabilities, and funded status over the last several years.

The actuarial valuation provides a "snapshot" of the funded position of the JRS based on the plan provisions, membership, assets, and actuarial assumptions as of the valuation date.

Future actuarial valuation measurements and projections may differ from the current measurements presented in this report to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

## Funding Status

The funding status is a measure of the progress that has been made in funding the plan as of the valuation date. It is determined as a ratio of the actuarial value of assets divided by the total actuarial accrued liability on the valuation date. A ratio of over 100% represents a plan that is ahead in funding on the valuation date. A comparative summary of the funding ratio from the prior and current actuarial valuations follows:

Funding Status as of June 30		2012	2014
<b>Pension</b>			
a. Accrued Liability	\$	182,267,524	\$ 194,430,266
b. Valuation Assets		<u>112,870,360</u>	<u>128,004,452</u>
c. Unfunded Accrued Liability, (a) – (b)	\$	69,397,164	\$ 66,425,814
d. Funding Ratio based on Valuation Assets, (b) ÷ (a)		61.9%	65.8%
e. Fair Value of Assets	\$	107,134,255	\$ 139,547,440
f. Funding Ratio based on Fair Assets, (e) ÷ (a)		58.8%	71.8%
<b>Healthcare</b>			
a. Accrued Liability	\$	16,654,623	\$ 17,207,952
b. Valuation Assets		<u>20,835,672</u>	<u>24,074,313</u>
c. Unfunded Accrued Liability, (a) – (b)	\$	(4,181,049)	\$ (6,866,361)
d. Funding Ratio based on Valuation Assets, (b) ÷ (a)		125.1%	139.9%
e. Fair Value of Assets <sup>1</sup>	\$	20,244,447	\$ 26,301,968
f. Funding Ratio based on Fair Assets, (e) ÷ (a)		121.6%	152.8%
<b>Total</b>			
a. Accrued Liability	\$	198,922,147	\$ 211,638,218
b. Valuation Assets		<u>133,706,032</u>	<u>152,078,765</u>
c. Unfunded Accrued Liability, (a) – (b)	\$	65,216,115	\$ 59,559,453
d. Funding Ratio based on Valuation Assets, (b) ÷ (a)		67.2%	71.9%
e. Fair Value of Assets	\$	127,378,702	\$ 165,849,408
f. Funding Ratio based on Fair Assets, (e) ÷ (a)		64.0%	78.4%

### 1. Actuarial Methods and Assumptions

The actuarial cost method is Entry Age Normal. The actuarial value of assets is the 5-year smoothing method.

### 2. Salary Increases

Salaries for active judges changed between June 30, 2012 and June 30, 2014. The following table presents the annual base salaries for the different court appointments:

	June 30, 2012	June 30, 2014
District Court	\$ 153,840	\$ 156,924
Superior Court	181,440	185,088
Appellate Court	185,388	189,108
Supreme Court	196,224	200,172
Administrative Director	181,440	185,088
Chief Justice	196,800	200,760

### 3. Investment Experience

The approximate FY13 investment return based on fair values was 12.3% and the approximate FY14 investment return based on fair values was 18.3% compared to the expected investment return of 8.00%. This resulted in a gain of approximately \$5 million for FY13 and a gain of approximately \$15 million for FY14 from investment experience. The asset valuation method recognizes 20 percent of the FY14 gain this year and an additional 20 percent in each of the next 4 years. In addition, 20 percent of the FY10 gain, 20 percent of the FY11 gain, 20 percent of the FY12 loss and 20 percent of the FY13 gain were recognized this year. The approximate FY14 asset return based on actuarial value was 12.2% compared to the expected asset return of 8.00%. The net result was an actuarial asset gain of approximately \$6 million to the System on the actuarial value of assets.

### 4. Demographic Experience

The number of active members increased from 69 to 76 for the two year period. There were 12 new entrants to the plan with an average entry age higher than the continuing members. The average age of active members decreased by 0.18 years, the average past service decreased by 0.34 years, and the average entry age increased by 0.16 years. The trending increase in average entry age generally leads to an increase in the normal cost rate. There were small changes in the inactive statistics as well. The membership statistics are found in Section 4 of this report. The overall demographic experience produced an actuarial loss.



## 5. Retiree Medical Experience and Assumptions

Healthcare cost assumptions regarding per capita claim costs and trend assumptions are the same as those used in the Public Employees' Retirement System actuarial valuation. In summary, we evaluate and update per capita costs annually and we review trend assumptions annually, updating those every 2-5 years as appropriate.

Historical premium details are listed in the PERS valuation report for reference. In short, the monthly retiree medical premium for the January 1, 2015 to December 31, 2015 time period will remain at \$1,223. The health cost trend rates used for this valuation are described in Section 5.2. Over the last 10 years, annual premium rate changes have ranged from no change to up to 14%. Also, over the last ten years, the increase in the premium rate has been about 4.3% compounded annually.

Per Capita Claim cost development is described in detail later in this report and in the PERS valuation report. In summary, an analysis of medical costs was completed based on claims information and enrollment data provided. Costs for medical services and prescriptions were analyzed separately, and separate trend rates were developed to project expected future medical and prescription costs. An offset for costs expected to be reimbursed by Medicare was incorporated beginning at age 65. For the 2014 valuation, we updated incurred claims cost and Medicare offset analyses using fiscal year-to-date 2014 claims and enrollment information through June 2014. A lower average claims cost was applied to retirees covered by both Medicare Part A and B vs. retirees covered only by Medicare Part B. 2014 experience rates were developed using historical incurred claims for fiscal years 2011-2014. The trend assumption is based on the proposed Society of Actuaries' Healthcare Cost Trend Model updated for 2014. The trend rate varies by year declining to 4.5% over 100 years pre-Medicare and 4% for Medicare. The trends vary by medical, pre-Medicare and Medicare, and aggregate prescription drugs. Use of the updated trend rate model for 2014 resulted in a reduction in the ultimate trend rate. See Section 5.3 for a description of the change in healthcare cost trends.

Explicit third-party administration (TPA) and applicable healthcare legislation costs were added to medical and prescription claims cost rates. Per-member TPA costs are derived from the current Aetna contract and are projected to increase at the assumed rate of 5%.

The valuation also reflects the impact of the Medicare Part D Retiree Drug Subsidy (RDS) in the projection of prescription drug benefit costs. The State has shared its payments for calendar 2011 through June 2014 and this information was used to estimate future RDS payments in this valuation. Please note, Part D subsidies are not reflected for accounting purposes under GASB No. 43.

The medical cost trend assumption was changed this year based on the proposed Society of Actuaries' Healthcare Cost Trend Model updated for 2014. The trends vary by medical, pre-Medicare and Medicare, and aggregate prescription drugs. Based upon variations in medical cost trends between Medicare-eligible and pre-Medicare populations, Buck's practice is to use separate healthcare cost trends for these populations. This, in conjunction with updates to legislation, long-term trend models and time since prior assumptions were set, indicated a need to re-set this assumption.

The following table summarizes data sources and assumptions and the relative impact changes in each have on healthcare cost projections for 2014 as compared to 2013:

Healthcare Cost Rate Data Source or Assumption Change, 2014 vs. 2013	Gain / Loss Impact on 2014 Valuation Results
Claim lag specific to medical and prescription experience	Negligible
Individual claims level data	<ul style="list-style-type: none"> <li>– No impact on cost data used for 2014, though potentially a source of future modifications</li> <li>– No impact on morbidity assumptions used for 2014, though potentially a source of future modifications</li> </ul>
Explicit TPA fees	Negligible
Actual RDS payments received	Negligible
Experience Study	Moderate loss due to updated demographic assumptions
Updated healthcare cost trend assumptions	Gain due to lower ultimate trend rates; particularly for the Medicare population
Aggregate claims data	Moderate gain due to experience; mainly Medicare eligible, but dampened by weighting methodology
Census Data	Loss due to updated census

#### 6. Changes in Methods from the Prior Valuation

There have been no changes in asset methods or valuation methods since the prior valuation.

#### 7. Changes in Assumptions from the Prior Valuation

Effective for June 30, 2014 valuation, the Board adopted the changes to the demographic assumptions recommended by the actuary based on the results of an experience analysis performed on the population experience from July 1, 2009 through June 30, 2013. The changes in assumptions were adopted by the Board during the December 2014 Board meeting. We also updated the Healthcare Cost Trend and Contribution Trend assumptions.

#### 8. Changes in Benefit Provisions Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation.

#### 9. Summary

The overall effect of system experience during the two-year period resulted in an increase in the funding ratio from 67.2% to 71.9%. The total contribution rate decreased from 79.06% to 76.49%.

# Comparative Summary of Key Actuarial Valuation Results

Recommended Contribution Rates for Pension:	FY15	FY17
a. Employer Normal Cost Rate	35.92%	37.00%
b. Past Service Cost Rate	<u>40.55%</u>	<u>37.32%</u>
c. Total Employer Contribution Rate, (a)+(b)	76.47%	74.32%

Recommended Contribution Rates for Healthcare:	FY15	FY17
a. Employer Normal Cost Rate	3.87%	4.48%
b. Past Service Cost Rate	<u>(1.28)%</u>	<u>(2.31)%</u>
c. Total Employer Contribution Rate, (a)+(b)	2.59%	2.17%

Recommended Contribution Rates:	FY15	FY17
a. Employer Normal Cost Rate	39.79%	41.48%
b. Past Service Cost Rate	<u>39.27%</u>	<u>35.01%</u>
c. Total Employer Contribution Rate, (a)+(b)	79.06%	76.49%

For the June 30, 2013 valuation results, we performed a roll forward of liabilities and determined the FY16 contribution rates using actual assets. The contribution rates that were calculated for FY16 were 79.90% for Pension, 2.58% for Healthcare, and 82.48% in Total.

The following table summarizes the sources of change in the total Employer contribution rate based on total member payroll.

	Pension	Healthcare	Total
1. Total employer contribution rate from June 30, 2012 valuation	76.47%	2.59%	79.06%
2. Change during FY13	<u>3.43%</u>	<u>(0.01)%</u>	<u>3.42%</u>
3. Total employer contribution rate from June 30, 2013 roll-forward valuation	79.90%	2.58%	82.48%
4. Change due to:			
a. Effect of two-year delay in the contribution rate	0.70%	(0.30)%	0.40%
b. Change in assumptions	2.49%	0.31%	2.80%
c. Investment experience	(2.21)%	(0.43)%	(2.64)%
d. State of Alaska appropriation	(1.99)%	(0.08)%	(2.07)%
e. Demographic experience, medical experience and new entrants <sup>1</sup>	<u>(4.57)%</u>	<u>0.09%</u>	<u>(4.48)%</u>
f. Total	(5.58)%	(0.41)%	(5.99)%
5. Total employer contribution rate this year [3 + 4f]	74.32%	2.17%	76.49%

<sup>1</sup> Includes changes in future healthcare claims costs.

# Section 1 Actuarial Funding Results

## Section 1.1 Actuarial Liabilities and Normal Cost

At June 30, 2014	Normal Cost	Accrued Liability	Present Value of Projected Benefits
<b>Active Members</b>			
Retirement Benefits	\$ 5,373,040	\$ 55,324,419	\$ 85,697,443
Disability Benefits	14,497	(23,586)	80,670
Death Benefits	103,186	428,423	988,173
Termination Benefits <sup>1</sup>	323,405	(744,514)	1,548,795
Medical and Prescription Drug Benefits	645,479	5,750,731	9,383,662
Medicare Part D Subsidy	<u>(39,773)</u>	<u>(376,603)</u>	<u>(587,518)</u>
Subtotal	\$ 6,419,834	\$ 60,358,870	\$ 97,111,225
<b>Benefit Recipients</b>			
Retiree Benefits		\$ 123,677,295	\$ 123,677,295
Survivor Benefits		12,112,313	12,112,313
Disability Benefits		0	0
Medical and Prescription Drug Benefits		12,092,570	12,092,570
Medicare Part D Subsidy		<u>(1,015,359)</u>	<u>(1,015,359)</u>
Subtotal		\$ 146,866,819	\$ 146,866,819
<b>Vested Terminations</b>			
Deferred Retirement Benefits		\$ 3,655,916	\$ 3,655,916
Medical and Prescription Drug Benefits		798,576	798,576
Medicare Part D Subsidy		<u>(41,963)</u>	<u>(41,963)</u>
Subtotal		\$ 4,412,529	\$ 4,412,529
<b>Non-Vested Terminations</b>			
		\$ 0	\$ 0
<b>Total</b>	<b>\$ 6,419,834</b>	<b>\$ 211,638,218</b>	<b>\$ 248,390,573</b>
<b>Total Pension</b>	<b>\$ 5,814,128</b>	<b>\$ 194,430,266</b>	<b>\$ 227,760,605</b>
<b>Total Healthcare, Net of Part D Subsidy</b>	<b>\$ 605,706</b>	<b>\$ 17,207,952</b>	<b>\$ 20,629,968</b>

<sup>1</sup> Includes return of contributions.

## Section 1.2 Actuarial Contributions - FY17

Normal Cost	Pension	Healthcare	Total
1. Total Normal Cost	\$ 5,814,128	\$ 605,706	\$ 6,419,834
2. Total Base Salaries for Upcoming Fiscal Year	\$ 13,506,984	\$ 13,506,984	\$ 13,506,984
3. Total Normal Cost Rate, (1) / (2)	43.05%	4.48%	47.53%
4. Average Member Contribution Rate	<u>6.05%</u>	<u>0.00%</u>	<u>6.05%</u>
5. Employer Normal Cost Rate, (3) - (4)	37.00%	4.48%	41.48%

Past Service Rate	Pension	Healthcare	Total
1. Accrued Liability	\$ 194,430,266	\$ 17,207,952	\$ 211,638,218
2. Valuation Assets	<u>128,004,452</u>	<u>24,074,313</u>	<u>152,078,765</u>
3. Total Unfunded Liability, (1) - (2)	\$ 66,425,814	\$ (6,866,361)	\$ 59,559,453
4. Funded Ratio, (2) / (1)	65.8%	139.9%	71.9%
5. Past Service Cost Amortization Payment	\$ 5,041,108	\$ (312,083)	\$ 4,729,025
6. Total Base Salaries for Upcoming Fiscal Year	\$ 13,506,984	\$ 13,506,984	\$ 13,506,984
7. Past Service Cost Rate, (5) / (6)	37.32%	(2.31)%	35.01%
<b>Total Employer Contribution Rate</b>	<b>74.32%</b>	<b>2.17%</b>	<b>76.49%</b>

Pension					
Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability <sup>1</sup>	06/30/2002	13	\$ 5,864,449	\$ 5,944,794	\$ 579,264
FY03/FY04 Loss <sup>1</sup>	06/30/2004	15	855,068	890,622	78,080
Loss due to revaluation of plan liabilities <sup>1</sup>	06/30/2005	16	9,115,451	9,558,735	800,297
FY05/FY06 Loss <sup>1</sup>	06/30/2006	17	18,186,558	19,127,450	1,535,159
FY07 Loss	06/30/2007	18	1,364,721	1,435,566	110,818
FY08 Gain	06/30/2008	19	(29,014,739)	(30,467,760)	(2,268,818)
FY09 Loss	06/30/2009	20	21,273,454	22,241,199	1,601,896
Change in Assumptions	06/30/2010	21	13,976,981	14,514,610	1,013,504
FY10 Loss	06/30/2010	21	6,474,780	6,723,834	469,502
FY11 Loss	06/30/2011	22	7,397,917	7,631,107	517,700
FY12 Loss	06/30/2012	23	11,916,371	12,186,235	804,765
FY13 Loss	06/30/2013	24	7,033,497	6,878,557	442,964
Change in Assumptions	06/30/2014	25	4,219,851	4,219,851	265,421
FY14 Gain	06/30/2014	25	(14,458,986)	(14,458,986)	(909,444)
<b>Total</b>				<b>\$ 66,425,814</b>	<b>\$ 5,041,108</b>

<sup>1</sup> The pension and healthcare split was done using a ratio of unfunded accrued liability as of June 30, 2006.

Healthcare					
Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability <sup>1</sup>	06/30/2002	13	\$ 2,295,257	\$ 2,326,703	\$ 226,715
FY03/FY04 Loss <sup>1</sup>	06/30/2004	15	334,660	348,575	30,559
Loss due to revaluation of plan liabilities <sup>1</sup>	06/30/2005	16	3,567,649	3,741,143	313,224
FY05/FY06 Loss <sup>1</sup>	06/30/2006	17	7,117,943	7,486,193	600,838
FY07 Gain	06/30/2007	18	(810,073)	(852,125)	(65,779)
FY08 Change in Assumptions	06/30/2008	19	789,072	828,588	61,702
FY08 Gain	06/30/2008	19	(14,011,596)	(14,713,280)	(1,095,642)
FY09 Loss	06/30/2009	20	901,355	942,359	67,872
Change in Assumptions	06/30/2010	21	2,006,196	2,083,365	145,474
FY10 Gain	06/30/2010	21	(1,930,656)	(2,004,917)	(139,996)
FY11 Loss	06/30/2011	22	550,376	567,725	38,515
Change in Assumptions	06/30/2012	23	353,605	361,613	23,881
FY12 Gain	06/30/2012	23	(5,516,210)	(5,641,134)	(372,534)
FY13 Loss	06/30/2013	24	226,259	228,990	14,746
Change in Assumptions	06/30/2014	25	772,305	772,305	48,577
FY14 Gain	06/30/2014	25	(3,342,464)	(3,342,464)	(210,235)
<b>Total</b>				<b>\$ (6,866,361)</b>	<b>\$ (312,083)</b>

<sup>1</sup> The pension and healthcare split was done using a ratio of unfunded accrued liability as of June 30, 2006.

Total					
Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	6/30/2002	13	\$ 8,159,706	\$ 8,271,497	\$ 805,979
FY03/FY04 Loss	6/30/2004	15	1,189,728	1,239,197	108,639
Loss due to revaluation of plan liabilities	06/30/2005	16	12,683,100	13,299,878	1,113,521
FY05/FY06 Loss	06/30/2006	17	25,304,501	26,613,643	2,135,997
FY07 Loss	06/30/2007	18	554,648	583,441	45,039
FY08 Change in Assumptions	06/30/2008	19	789,072	828,588	61,702
FY08 Gain	06/30/2008	19	(43,026,335)	(45,181,040)	(3,364,460)
FY09 Loss	06/30/2009	20	22,174,809	23,183,558	1,669,768
Change in Assumptions	06/30/2010	21	15,983,177	16,597,975	1,158,978
FY10 Loss	06/30/2010	21	4,544,124	4,718,917	329,506
FY11 Loss	06/30/2011	22	7,948,293	8,198,832	556,215
Change in Assumptions	06/30/2012	23	353,605	361,613	23,881
FY12 Loss	06/30/2012	23	6,400,161	6,545,101	432,231
FY13Loss	06/30/2013	24	7,259,756	7,107,547	457,710
Change in Assumptions	06/30/2014	25	4,992,156	4,992,156	313,998
FY14 Loss	06/30/2014	25	(17,801,450)	(17,801,450)	(1,119,679)
<b>Total</b>				<b>\$ 59,559,453</b>	<b>\$ 4,729,025</b>



## Section 1.3 Actuarial Gain / (Loss) for FY14

<b>Liability Gain/(Loss)</b>	<b>Pension</b>	<b>Healthcare</b>	<b>Total</b>
1. Accrued Liability, June 30, 2013	\$ 191,505,115	\$ 17,583,031	\$ 209,088,146
2. Normal Cost for FY14	5,185,969	466,382	5,652,351
3. Interest on (1) and (2) at 8.00%	15,735,287	1,443,953	17,179,240
4. Benefit Payments for FY14	10,578,414	1,239,345	11,817,759
5. Refund of Contributions for FY14	0	0	0
6. Interest on (4) and (5) at 8.00% for one-half year	414,996	48,620	463,616
7. Change in Assumptions	<u>4,219,851</u>	<u>772,305</u>	<u>4,992,156</u>
8. Expected Accrued Liability, June 30, 2014 (1) + (2) + (3) – (4) – (5) – (6) + (7)	\$ 205,652,812	\$ 18,977,706	\$ 224,630,518
9. Accrued Liability, June 30, 2014	<u>194,430,266</u>	<u>17,207,952</u>	<u>211,638,218</u>
10. Liability Gain/(Loss) (8) – (9)	<b>\$ 11,222,546</b>	<b>\$ 1,769,754</b>	<b>\$ 12,992,300</b>
<b>Asset Gain/(Loss)</b>			
11. Valuation Assets, June 30, 2013	\$ 115,032,531	\$ 21,706,165	\$ 136,738,696
12. Interest on (11) at 8.00%	9,202,602	1,736,493	10,939,095
13. Member Contributions for FY14	780,054	0 <sup>1</sup>	780,054
14. Employer Contributions for FY14	4,578,693	704,280	5,282,973
15. State of Alaska Appropriation Relief	4,282,876	177,445	4,460,321
16. Medicare Part D Subsidy	0	67,441	67,441
17. Interest on (13), (14), (15) and (16) at 8.00% for one-half year	378,246	37,236	415,482
18. Benefit Payments for FY14	10,578,414	1,239,345	11,817,759
19. Refund of Contributions for FY14	0	0	0
20. Interest on (18) and (19) at 8.00% for one-half year	<u>414,996</u>	<u>48,620</u>	<u>463,616</u>
21. Expected Valuation Assets, June 30, 2014 (11) + (12) + (13) + (14) + (15) + (16) + (17) – (18) – (19) – (20)	\$ 123,261,592	\$ 23,141,095	\$ 146,402,687
22. Valuation Assets, June 30, 2014	<u>128,004,452</u>	<u>24,074,313</u>	<u>152,078,765</u>
23. Asset Gain/(Loss) (22) – (21)	<b>\$ 4,742,860</b>	<b>\$ 933,218</b>	<b>\$ 5,676,078</b>
<b>Total Gain/(Loss)</b>			
24. Actuarial Gain/(Loss) (10) + (23)	<b>\$ 15,965,406</b>	<b>\$ 2,702,972</b>	<b>\$ 18,668,378</b>
25. Effect of Delay on Contributions and State Appropriations	<b>\$ (1,506,420)</b>	<b>\$ 639,492</b>	<b>\$ (866,928)</b>
26. Total Gain/(Loss) to be Amortized (24) + (25)	<b>\$ 14,458,986</b>	<b>\$ 3,342,464</b>	<b>\$ 17,801,450</b>

<sup>1</sup> These contributions are premiums paid by retirees who are not eligible for system paid medical benefits.

## Section 1.4 Development of Change in Unfunded Liability during FY14

	Pension	Healthcare	Total
1. 2013 Unfunded Liability	\$ 76,472,584	\$ (4,123,134)	\$ 72,349,450
a. Interest on Unfunded Liability	\$ 6,117,807	\$ (329,851)	\$ 5,787,956
b. Normal Cost	5,185,969	466,382	5,652,351
c. Employee Contributions	(780,054)	0	(780,054)
d. Employer Contributions	(4,578,693)	(704,280)	(5,282,973)
e. State Appropriation	(4,282,876)	(177,445)	(4,460,321)
f. Medicare Part D Subsidy	0	(67,441)	(67,441)
g. Interest on b., c., d., e., f.	36,632	75	36,707
h. Change in Assumptions	<u>4,219,851</u>	<u>772,305</u>	<u>4,992,156</u>
i. Expected Change in Liability during FY14	\$ 5,918,636	\$ (40,255)	\$ 5,878,381
2. Expected 2014 Unfunded Liability	\$ 82,391,220	\$ (4,163,389)	\$ 78,227,831
a. Liability (Gain)/Loss	\$ (11,222,546)	\$ (1,769,754)	\$ (12,992,300)
b. Asset (Gain)/Loss	<u>(4,742,860)</u>	<u>(933,218)</u>	<u>(5,676,078)</u>
c. Other Changes in Unfunded Liability during FY14	\$ (15,965,406)	\$ (2,702,972)	\$ (18,668,378)
3. Actual 2014 Unfunded Liability	\$ 66,425,814	\$ (6,866,361)	\$ 59,559,453

## Section 1.5 History of UAAL and Funded Ratio

Valuation Date	Actuarial Accrued Liability	Valuation Assets	Assets as a Percent of Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)
June 30, 2000	\$ 73,483,475	\$ 72,660,197	98.9%	\$ 823,278
June 30, 2002	71,843,615	63,683,909	88.6%	8,159,706
June 30, 2004	80,052,559	70,455,634	88.0%	9,596,925
June 30, 2006	127,725,758	79,710,103	62.4%	48,015,655
June 30, 2007	133,988,906	84,773,226	63.3%	49,215,680
June 30, 2008	148,737,880	141,235,655	95.0%	7,502,225
June 30, 2009	156,679,506	127,173,616	81.2%	29,505,890
June 30, 2010	184,828,106	134,694,195	72.9%	50,133,911
June 30, 2011	194,831,317	136,546,204	70.1%	58,285,113
June 30, 2012	198,922,147	133,706,032	67.2%	65,216,115
June 30, 2013	209,088,146	136,738,696	65.4%	72,349,350
June 30, 2014	211,638,218	152,078,765	71.9%	59,559,453

## Section 2 Plan Assets

### Section 2.1 Summary of Fair Value of Assets

As of June 30, 2013	Pension	Healthcare	Total Fair Value	Allocation Percent
Cash and Short-Term Investments				
- Cash and Cash Equivalents	\$ 1,465,268	\$ 396,648	\$ 1,861,916	1.3%
- Subtotal	\$ 1,465,268	\$ 396,648	\$ 1,861,916	1.3%
Fixed Income Investments				
- Domestic Fixed Income Pool	\$ 9,016,556	\$ 1,713,973	\$ 10,730,529	7.6%
- International Fixed Income Pool	2,334,646	443,785	2,778,431	2.0%
- High Yield Pool	3,338,463	634,619	3,973,082	2.8%
- Treasury Inflation Protection Pool	1,720,666	327,085	2,047,751	1.5%
- Emerging Debt Pool	993,762	188,906	1,182,668	0.8%
- Subtotal	\$ 17,404,093	\$ 3,308,368	\$ 20,712,461	14.7%
Equity Investments				
- Domestic Equity Pool	\$ 38,677,928	\$ 7,352,646	\$ 46,030,574	32.6%
- International Equity Pool	23,032,348	4,378,372	27,410,720	19.4%
- Private Equity Pool	10,618,009	2,018,401	12,636,410	8.9%
- Emerging Markets Equity Pool	3,481,448	661,799	4,143,247	2.9%
- Subtotal	\$ 75,809,733	\$ 14,411,218	\$ 90,220,951	63.8%
Other Investments				
- Real Estate Pool	\$ 10,811,240	\$ 2,063,757	\$ 12,874,997	9.1%
- Other Investments Pool	7,873,160	1,496,637	9,369,797	6.6%
- Absolute Return Pool	5,229,520	994,090	6,223,610	4.4%
- Other Assets	0	9,895	9,895	nil%
- Subtotal	\$ 23,913,920	\$ 4,564,379	\$ 28,478,299	20.1%
Total Cash and Investments	\$ 118,593,014	\$ 22,680,613	\$ 141,273,627	100.1%
Net Accrued Receivables	111,610	(188,810)	(77,200)	
Net Assets	\$ 118,704,624	\$ 22,491,803	\$ 141,196,427	

## Section 2.2 Changes in Fair Value of Assets

Fiscal Year 2013	Pension	Healthcare	Total Fair Value
1. Net Assets, June 30, 2012 (fair value)	\$ 107,134,255	\$ 20,244,447	\$ 127,378,702
2. Additions:			
(a) Member Contributions	\$ 721,171	\$ 0 <sup>1</sup>	\$ 721,171
(b) Employer Contributions	4,443,785	699,374	5,143,159
(c) State of Alaska Appropriation	3,650,650	134,921	3,785,571
(d) Interest and Dividend Income	2,095,100	394,216	2,489,316
(e) Net Appreciation/(Depreciation) in Fair Value of Investments	11,388,922	2,110,417	13,499,339
(f) Medicare Part D Subsidy	0	31,960	31,960
(g) Other	<u>0</u>	<u>0</u>	<u>0</u>
(h) Total Additions	\$ 22,299,628	\$ 3,370,888	\$ 25,670,516
3. Deductions:			
(a) Medical Benefits	\$ 0	\$ 1,099,899	\$ 1,099,899
(b) Retirement Benefits	10,343,220	0	10,343,220
(c) Investment Expenses	303,808	135	303,943
(d) Administrative Expenses	<u>82,231</u>	<u>23,498</u>	<u>105,729</u>
(e) Total Deductions	\$ 10,729,259	\$ 1,123,532	\$ 11,852,791
4. Net Assets, June 30, 2013 (fair value)	\$ 118,704,624	\$ 22,491,803	\$ 141,196,427
Estimated Investment Return During FY13 Net of Expenses	12.3%	12.3%	12.3%

Allocation of assets between pension and postemployment healthcare was reported to us by the Division of Retirement and Benefits.

<sup>1</sup> These contributions are premiums paid by retirees who are not eligible for system-paid medical benefits.

## Section 2.3 Summary of Fair Value of Assets

As of June 30, 2014	Pension	Healthcare	Total Fair Value	Allocation Percent
Cash and Short-Term Investments				
- Cash and Cash Equivalents	\$ 4,554,097	\$ 852,726	\$ 5,406,823	3.3%
- Subtotal	\$ 4,554,097	\$ 852,726	\$ 5,406,823	3.3%
Fixed Income Investments				
- Domestic Fixed Income Pool	\$ 8,119,131	\$ 1,538,184	\$ 9,657,315	5.8%
- International Fixed Income Pool	2,489,249	471,593	2,960,842	1.8%
- High Yield Pool	3,717,143	704,219	4,421,362	2.7%
- Treasury Inflation Protection Pool	230,601	43,687	274,288	0.2%
- Frontier Market Pool	649,716	123,091	772,807	0.5%
- Taxable Municipal Bond	1,464,049	277,367	1,741,416	1.0%
- Infrastructure Public Pool	1,086,580	205,854	1,292,434	0.8%
- Emerging Debt Pool	1,010,277	191,398	1,201,675	0.7%
- Subtotal	\$ 18,766,746	\$ 3,555,393	\$ 22,322,139	13.5%
Equity Investments				
- Domestic Equity Pool	\$ 43,765,849	\$ 8,291,527	\$ 52,057,376	31.4%
- International Equity Pool	29,298,043	5,550,572	34,848,615	21.0%
- Private Equity Pool	11,393,082	2,158,442	13,551,524	8.2%
- Emerging Markets Equity Pool	4,088,173	774,513	4,862,686	2.9%
- Subtotal	\$ 88,545,147	\$ 16,775,054	\$ 105,320,201	63.5%
Other Investments				
- Real Estate Pool	\$ 11,173,526	\$ 2,116,155	\$ 13,289,681	8.0%
- Other Investments Pool	10,981,235	2,080,416	13,061,651	7.9%
- Absolute Return Pool	5,413,778	1,025,650	6,439,428	3.9%
- Other Assets	0	12,971	12,971	nil%
- Subtotal	\$ 27,568,539	\$ 5,235,192	\$ 32,803,731	19.8%
Total Cash and Investments	\$ 139,434,529	\$ 26,418,365	\$ 165,852,894	100.0%
Net Accrued Receivables	112,911	(116,397)	(3,486)	
Net Assets	\$ 139,547,440	\$ 26,301,968	\$ 165,849,408	

## Section 2.4 Changes in Fair Value of Assets

Fiscal Year 2014	Pension	Healthcare	Total Fair Value
1. Net Assets, June 30, 2013(fair value)	\$ 118,704,624	\$ 22,491,803	\$ 141,196,427
2. Additions:			
a. Member Contributions	\$ 780,054	\$ 0 <sup>1</sup>	\$ 780,054
b. Employer Contributions	4,578,693	704,280	5,282,973
c. State of Alaska Appropriation	4,282,876	177,445	4,460,321
d. Interest and Dividend Income	2,374,765	444,741	2,819,506
e. Net Appreciation/(Depreciation) in Fair Value of Investments	19,814,917	3,696,277	23,511,194
f. Medicare Part D Subsidy	0	67,441	67,441
g. Other	<u>12</u>	<u>0</u>	<u>12</u>
h. Total Additions	\$ 31,831,317	\$ 5,090,184	\$ 36,921,501
3. Deductions:			
a. Medical Benefits	\$ 0	\$ 1,239,345	\$ 1,239,345
b. Retirement Benefits	10,578,414	0	10,578,414
c. Investment Expenses	344,371	133	344,504
d. Administrative Expenses	<u>65,716</u>	<u>40,541</u>	<u>106,257</u>
e. Total Deductions	\$ 10,988,501	\$ 1,280,019	\$ 12,268,520
4. Net Assets, June 30, 2014(fair value)	\$ 139,547,440	\$ 26,301,968	\$ 165,849,408
Estimated Investment Return During FY14 Net of Expenses*	18.2%	18.8%	18.3%

Allocation of assets between pension and postemployment healthcare was reported to us by the Division of Retirement and Benefits.

\*Based on money-weighted rate of return used in GASB 67 calculations.

<sup>1</sup> These contributions are premiums paid by retirees who are not eligible for system-paid medical benefits.

## Section 2.5 Actuarial Value of Assets

The actuarial value of assets was set equal to the fair value at June 30, 2006. Future investment gains and losses will be recognized 20% per year over 5 years. In no event may valuation assets be less than 80% or more than 120% of fair value as of the current valuation date.

	Pension	Healthcare	Total
1. Deferral of Investment Return for FY14			
a. Fair Value, June 30, 2013	\$ 118,704,624	\$ 22,491,803	\$ 141,196,427
b. Contributions for FY14	9,641,623	881,725	10,523,348
c. Medicare Part D Subsidy	0	67,441	67,441
d. Benefit Payments for FY14	10,578,414	1,239,345	11,817,759
e. Actual Investment Return ( <i>net of expenses</i> )	21,779,607	4,100,344	25,879,951
f. Expected Return Rate ( <i>net of expenses</i> )	8.00%	8.00%	8.00%
g. Expected Return - Weighted for Timing	9,459,619	1,787,960	11,247,579
h. Investment Gain/(Loss) for the Year ( <i>e. – g.</i> )	12,319,988	2,312,384	14,632,372
i. Deferred Investment Return	11,542,988	2,227,655	13,770,643
2. Actuarial Value, June 30, 2014			
a. Fair Value, June 30, 2014	\$ 139,547,440	\$ 26,301,968	\$ 165,849,408
b. 2014 Deferred Investment Return/(Loss)	11,542,988	2,227,655	13,770,643
c. Preliminary Actuarial Value, June 30, 2014 (a. - b.)	128,004,452	24,074,313	152,078,765
d. Upper Limit: 120% of Fair Value, June 30, 2014	167,456,928	31,562,361	N/A
e. Lower Limit: 80% of Fair Value, June 30, 2014	111,637,952	21,041,575	N/A
f. Actuarial Value, June 30, 2014 (c. limited by d. and e.)	\$ 128,004,452	\$ 24,074,313	\$ 152,078,765
g. Ratio of Actuarial Value of Assets to Fair Value of Assets	91.7%	91.5%	91.7%
h. Approximate Actuarial Value Investment Return Rate During FY14 Net of All Expenses	12.1%	12.3%	12.2%



The tables below show the development of gain/(loss) to be recognized in the current year.

Pension				
Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2010	\$ 2,031,934	\$ 1,625,548	\$ 406,386	\$ 0
6/30/2011	11,939,288	7,163,574	2,387,857	2,387,857
6/30/2012	(8,632,909)	(3,453,164)	(1,726,582)	(3,453,163)
6/30/2013	4,587,172	917,434	917,434	2,752,304
6/30/2014	12,319,988	0	2,463,998	9,855,990
<b>Total</b>	<b>\$ 22,245,473</b>	<b>\$ 6,253,392</b>	<b>\$ 4,449,093</b>	<b>\$ 11,542,988</b>

Healthcare				
Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2010	\$ 426,838	\$ 341,471	\$ 85,367	\$ 0
6/30/2011	2,240,326	1,344,195	448,065	448,066
6/30/2012	(1,531,533)	(612,614)	(306,307)	(612,612)
6/30/2013	903,824	180,765	180,765	542,294
6/30/2014	2,312,384	0	462,477	1,849,907
<b>Total</b>	<b>\$ 4,351,839</b>	<b>\$ 1,253,817</b>	<b>\$ 870,367</b>	<b>\$ 2,227,655</b>

Total				
Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2010	\$ 2,458,772	\$ 1,967,019	\$ 491,753	\$ 0
6/30/2011	14,179,614	8,507,769	2,835,922	2,835,923
6/30/2012	(10,164,442)	(4,065,778)	(2,032,889)	(4,065,775)
6/30/2013	5,490,996	1,098,199	1,098,199	3,294,598
6/30/2014	14,632,372	0	2,926,475	11,705,897
<b>Total</b>	<b>\$ 26,597,312</b>	<b>\$ 7,507,209</b>	<b>\$ 5,319,460</b>	<b>\$ 13,770,643</b>

## Section 2.6 Historical Asset Rate of Return

Year Ending	Actuarial Value		Fair Value	
	Annual	Cumulative	Annual	Cumulative
June 30, 2005	8.0%	8.0%	8.0%	8.0%
June 30, 2006	11.0%	9.5%	11.0%	9.5%
June 30, 2007	10.2%	9.7%	18.1%	12.3%
June 30, 2008	7.4%	9.1%	(4.8)%	7.7%
June 30, 2009	(9.7)%	5.1%	(20.6)%	1.4%
June 30, 2010	8.7%	5.7%	10.6%	2.8%
June 30, 2011	5.0%	5.6%	20.8%	5.2%
June 30, 2012	0.7%	5.0%	0.1%	4.6%
June 30, 2013	3.6%	4.8%	12.3%	5.4%
June 30, 2014	12.2%	5.5%	18.3%	6.6%

\*Rates of return after June 30, 2013 are based on money-weighted rate of return used in GASB 67 calculations.

# Section 3 Accounting Information

## Section 3.1 Historical Exhibits

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	105.2%	\$ 5,716,092	N/A
June 30, 2000	\$ 72,660,197	\$ 73,483,475	823,278	98.9%	\$ 5,701,980	14.4%
June 30, 2002	63,683,909	71,843,615	8,159,706	88.6%	5,941,860	137.3%
June 30, 2004	70,455,634	80,052,559	9,596,925	88.0%	6,529,608	147.0%

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 shown.

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

	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	69.1%	\$ 7,130,592	484.0%
June 30, 2008	\$ 122,882,726	\$ 130,596,048	\$ 7,713,322	94.1%	\$ 10,462,322	73.7%
June 30, 2010	\$ 115,000,226	\$ 164,523,775	\$ 49,523,594	69.9%	\$ 11,845,548	418.1%
June 30, 2012	\$ 112,870,360	\$ 182,267,524	\$ 69,397,164	61.9%	\$ 11,803,164	588.0%

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. The exhibit below shows the combined annual required contribution for fiscal years ending in 2004 and before.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 1998	\$ 2,204,026	100.0%
June 30, 2000	\$ 1,510,516	100.0%
June 30, 2002	\$ 1,005,968	100.0%
June 30, 2004	\$ 1,786,835	100.0%

The following shows pension disclosure under GASB No. 25 for fiscal year ending 2006 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2006	\$ 2,133,876	115.6%
June 30, 2007	\$ 3,168,943	100.0%
June 30, 2008	\$ 3,898,001	1,045.0%
June 30, 2009	\$ 4,937,406	100.0%
June 30, 2010	\$ 5,236,646	69.8%
June 30, 2011	\$ 3,895,881	98.5%
June 30, 2012	\$ 5,051,754	107.3%
June 30, 2013	\$ 8,366,815	96.7%

## Section 3.2 Postemployment Healthcare

The following shows healthcare disclosure without regard to Medicare Part D subsidy under GASB No. 43 for fiscal year ending 2006 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2006	\$ 262,631	115.6%
June 30, 2007	\$ 486,800	100.0%
June 30, 2008	\$ 567,415	2,489.4%
June 30, 2009	\$ 1,411,259	100.0%
June 30, 2010	\$ 1,432,721	60.9%
June 30, 2011	\$ 722,960	80.1%
June 30, 2012	\$ 712,911	97.8%
June 30, 2013	\$ 1,076,417	80.5%
June 30, 2014	\$ 1,094,357	86.7%

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

	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	13.5%	\$ 7,130,592	215.9%
June 30, 2008	\$ 18,352,929	\$ 19,941,128	\$ 1,588,199	92.0%	\$ 10,462,322	15.2%
June 30, 2010	\$ 19,693,696	\$ 22,346,395	\$ 2,652,462	88.1%	\$ 11,845,548	22.4%
June 30, 2012	\$ 20,835,671	\$ 18,236,104	\$ (2,599,567)	114.3%	\$ 11,803,164	(22.0)%
June 30, 2014	\$ 24,074,313	\$ 18,641,877	\$ (5,432,436)	129.1%	\$ 13,373,232	(40.6)%

## Notes to Trend Data

### Actuarial Assumptions, Methods and Additional Information under GASB

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Level Dollar for Healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	20 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return*	8.00%
Projected salary increases	3.62%
*Includes inflation at	3.12%

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 being fully funded. Therefore, the 8.00% discount rate also applied 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.

Using the GASB 43 discount rate determined above and disregarding future Medicare Part D payments, the fiscal 2015 employer ARC for accounting purposes is 3.12% of pay for healthcare benefits and 92.67% of pay for healthcare and pension benefits combined.

## Section 3.3 Pension-GASB 67

Notes to the Financial Statements for the Year Ended June 30, 2014

### Summary of Significant Accounting Policies

*Method used to value investments.* Investments are reported at fair value.

### Plan Description

*Plan administration.* The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska Retirement Management Board is responsible for managing and investing the fund.

*Plan membership.* At June 30, 2012, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	108
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>69</u>
Total	182

*Benefits provided.* Please see Section 5.1 of the 2012 actuarial valuation report for a summary of plan provisions.

*Contributions.* The Alaska Department of Administration establishes contributions based on an actuarially determined contribution rate recommended by an independent actuary pursuant to State statutes. The actuarially determined contribution rate is the estimated amount as a percentage of payroll necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2014, the participating employers and the State contributed \$8,861,569 to the plan.

### Investments

*Rate of return.* For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Receivables

N/A.

## Net Pension Liability (Asset)

The components of the net pension liability (asset) at June 30, 2014, were as follows:

Total pension liability	\$ 201,397,651
Plan fiduciary net position	<u>(139,547,440)</u>
Employers net pension liability (asset)	\$ 61,850,211
Plan fiduciary net position as a percentage of the total pension liability (asset)	69.29%

## Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2012, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014:

Inflation	3.12%
Salary increases	4.12% per year, compounded annually
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males for pre-termination mortality and the 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 1-year setback for females and 3-year setback for males for post-termination mortality.

The actuarial assumptions used in the June 30, 2012 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board (and Department of Administration) to better reflect expected future experience.



The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2010 are summarized in the following table (note that the rates shown below exclude the inflation component):

<b><u>Asset Class</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Domestic Equity	6.77%
International Equity	7.50%
Private Equity	10.86%
Fixed Income	2.05%
Real Estate	3.63%
Absolute Return	4.80%

*Discount rate.* The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability, calculated using the discount rate of 8.00%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease 7.0%</b>	<b>Current Discount Rate 8.0%</b>	<b>1% Increase 9.0%</b>
Net Pension Liability (Asset)	\$ 84,067,949	\$ 61,850,211	\$ 43,000,097

## **Schedules of Required Supplementary Information**

### **Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios**

	<b>FYE June 30, 2013</b>	<b>FYE June 30, 2014</b>
<b>Total pension liability</b>		
Service cost	\$ 5,004,795	\$ 5,185,969
Interest	14,576,016	15,284,981
Changes of benefit terms	0	0
Differences between expected and actual experience	0	0
Changes of assumptions	0	0
Benefit payments	<u>(10,343,220)</u>	<u>(10,578,414)</u>
Net change in total pension liability	\$ 9,237,591	\$ 9,892,536
Total pension liability-beginning	<u>182,267,524</u>	<u>191,505,115</u>
Total pension liability-ending (a)	\$ 191,505,115	\$ 201,397,651
<b>Plan fiduciary net pension</b>		
Contributions – employers and state	\$ 8,094,435	\$ 8,861,569
Contributions – members	721,171	780,054
Net investment income	13,180,214	21,845,311
Benefit payments, including refunds of member contributions	(10,343,220)	(10,578,414)
Administrative expenses	(82,231)	(65,716)
Other	<u>0</u>	<u>12</u>
Net change in Plan fiduciary net position	\$ 11,570,369	\$ 20,842,816
Plan fiduciary net position-beginning	<u>107,134,255</u>	<u>118,704,624</u>
Plan fiduciary net position-ending (b)	\$ 118,704,624	\$ 139,547,440
Plan's net pension liability (asset)-ending (a)-(b)	\$ 72,800,491	\$ 61,850,211
Plan fiduciary net position as a percentage of the total pension liability	61.99%	69.29%
Covered-employee payroll	\$ 13,289,096	\$ 13,730,948
Net pension liability (asset) as a percentage of covered-employee payroll	547.82%	450.44%

### **Notes to Schedule**

*Benefit changes.* None.

*Changes of assumptions.* None.

## Schedule of Employer Contributions

	FYE June 30, 2013	FYE June 30, 2014
Actuarially determined contribution	\$ 8,366,815	\$ 9,155,796
Contributions related to the actuarially determined contribution	<u>8,094,435</u>	<u>8,861,569</u>
Contribution deficiency (excess)	\$ 272,380	\$ 294,227
Covered employee payroll	\$ 13,289,096	\$ 13,730,948
Contributions as a percentage of covered employee payroll	60.91%	64.54%

## Notes to Schedule

Valuation date: June 30, 2012

Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal.
Amortization method	Level percentage of expected payroll, closed.
Amortization period	25 years, layered.
Equivalent single amortization period	18 years.
Asset valuation method	Actuarial value that smooth's investment gains and losses over 5 years, constrained to a range of 80% - 120% of fair value.
Inflation	3.12% per annum.
Salary increases	4.12% per year, compounded annually.
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Retirement age	An age-related assumption is used for participants not yet receiving payments.

Mortality	1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males for pre-termination mortality and the 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 1-year setback for females and 3-year setback for males for post-termination mortality.
Other information	Please see Section 6 of the 2012 actuarial report.

# Section 4 Member Data

## Section 4.1 Summary of Members Included

As of June 30	2006	2008	2010	2012	2014
<b>Active Members</b>					
1. Number	66	73	72	69	76
2. Average Age	54.7	55.64	56.58	57.83	57.65
3. Average Service	10.45	10.2	9.20	9.04	8.70
4. Average Entry Age	44.25	45.44	47.38	48.79	48.95
5. Average Annual Base Pay	\$ 146,458	\$ 159,617	\$ 167,813	\$ 174,477	\$ 177,723
6. Number Vested	41	46	45	43	48
<b>Vested Terminated Members</b>					
1. Number	7	5	4	5	4
2. Average Age	55.88	54.81	57.53	52.28	53.53
3. Average Service	12.22	7.67	10.99	7.95	7.40
4. Average Monthly Benefit	\$ 6,653	\$ 4,743	\$ 6,823	\$ 5,937	\$ 5,704
<b>Non-Vested Terminated Members</b>					
1. Number	0	0	1	0	0
2. Average Age	0	0	56.95	0	0
3. Average Service	0	0	1.5	0	0
4. Average Account Balance	\$ 0	\$ 0	\$ 12,191	\$ 0	\$ 0
<b>Benefit Recipients</b>					
1. Number	86	90	99	108	108
2. Average Age	70.16	70.92	71.42	70.95	72.09
3. Average Monthly Benefit	\$ 6,029	\$ 6,765	\$ 7,484	\$ 7,774	\$ 8,141

## Section 4.2 Age and Service Distribution of Active Members

Annual Earnings By Age				Annual Earnings By Service			
Age Groups	Number	Total Earnings	Average Earnings	Years of Service	Number	Total Earnings	Average Earnings
0-19	0	\$ 0	\$ 0	0	3	\$ 497,988	\$ 165,996
20-24	0	0	0	1	9	1,612,440	179,160
25-29	0	0	0	2	5	860,508	172,102
30-34	0	0	0	3	5	860,508	172,102
35-39	3	466,128	155,376	4	6	1,043,760	173,960
40-44	2	342,612	171,306	0-4	28	4,875,204	174,114
45-49	8	1,330,620	166,328	5-9	26	4,571,424	175,824
50-54	8	1,382,388	172,799	10-14	12	2,115,396	176,283
55-59	20	3,499,788	174,989	15-19	3	564,696	188,232
60-64	23	4,176,564	181,590	20-24	3	497,988	165,996
65-69	12	2,175,132	181,261	25-29	3	565,272	188,424
70-74	0	0	0	30-34	1	183,252	183,252
75-79	0	0	0	35-39	0	0	0
80 +	0	0	0	40 +	0	0	0
Total	76	\$ 13,373,232	\$ 175,964	Total	76	\$ 13,373,232	\$ 175,964

Age	Years of Service by Age									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	3	0	0	0	0	0	0	0	0	3
40-44	2	0	0	0	0	0	0	0	0	2
45-49	5	2	1	0	0	0	0	0	0	8
50-54	2	4	2	0	0	0	0	0	0	8
55-59	5	8	4	2	1	0	0	0	0	20
60-64	7	9	3	1	1	2	0	0	0	23
65-69	4	3	2	0	1	1	1	0	0	12
70-74	0	0	0	0	0	0	0	0	0	0
75+	0	0	0	0	0	0	0	0	0	0
	28	26	12	3	3	3	1	0	0	76

Total annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

## Section 4.3 Member Data Reconciliation

	Active Members	Vested Members	Nonvested Members	Benefit Recipients	Total
Total at June 30, 2012	69	5	0	108	182
New Entrants	12	0	0	0	12
Rehires	1	(1)	0	0	0
Nonvested Terminations	0	0	0	0	0
Refund of Contributions	0	0	0	0	0
Vested Terminations	0	0	0	0	0
Retirements	(6)	0	0	6	0
New Survivors	0	0	0	3	3
New QDROs	0	0	0	0	0
Deaths	0	0	0	(9)	(9)
Total at June 30, 2014	76	4	0	108	188

# Section 5 Basis of the Actuarial Valuation

## Section 5.1 Summary of Plan Provisions and Changes in Plan Provisions

### 1. **Effective Date**

May 4, 1963, with amendments through June 30, 2014.

### 2. **Administration of Plan**

The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska Retirement Management Board is responsible for managing and investing the fund (Ch 5, SLA 2005).

### 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. JRS members become vested in the plan after reaching 5 years of credited service.

### 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 before appointment to retirement.

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.

### 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 retirement benefit payments are recalculated when the salary for the office held by the member at the time of retirement 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) until age 19 or 23 and attending an accredited educational or technical institution on a full-time basis.

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) while the children are under 19 or 23 and attending an accredited educational or technical institution on a full-time basis.

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

## **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**

There have been no changes in benefit provisions since the prior valuation.

## Section 5.2 Descriptions of Actuarial Methods and Valuation Procedures

### **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 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.

### **Valuation of Medical and Prescription Drug Benefits**

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Judges' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our annual experience rate update for the period July 1, 2014 to June 30, 2015.

Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require

differing projection assumptions or methods, i.e., medical claims, prescription drug claims, administrative costs, etc. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

We analyzed HealthSmart and Aetna management level reporting for fiscal 2011 through 2014, and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.
2. Available historic management level reporting from HealthSmart does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups. Historical claim level reporting and estimated impacts of Medicare coordination and plan design were used to augment cost data by Medicare status. Aetna does provide separate experience by Medicare status and will be incorporated into per capita rate development as credible experience emerges.
3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these “no-Part A” individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claim experience is not available separately for members with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active members projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The smaller the no-Part A population, the more accrued liabilities will decrease.

Based on census data received from Aetna, 0.33% of the current retiree (including dependents) population was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire and/or re-hire, date of birth, tier, etc.

All claims cost rates developed from management level reporting have been compared to similar rates developed from claim level data.

4. The steps above result in separate incurred claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four fiscal years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We deemed incurred claim data from HealthSmart management reports to be complete for fiscal 2011, 2012 and 2013. Fiscal 2014 medical claim data was completed using a factor of 0.81; fiscal 2014 prescription claim data was completed using a factor of 0.92 – these factors were derived from historic completion patterns for AlaskaCare retiree claims. Incurred claim cost rates are projected forward to the valuation year using a blend of Alaska plan-specific trend and national trend rates over the same period, with Alaska experience receiving 75% weight, national trend 25%. These weighted trend factors for this purpose for the current valuation are as follows:

Alaska-Specific and National Average Weighted Trend from Experience Period to Valuation Year			
Experience Period	Medical	Prescription	Weighting Factors
FY2010 to FY2011	8.1%	4.5%	10%
FY2011 to FY2012	8.3%	5.1%	20%
FY2012 to FY2013	8.9%	7.1%	40%
FY2013 to FY2014	7.7%	6.5%	30%

5. For per capita claim cost development, medical claims were trended on a composite basis for pre-Medicare vs. Medicare due to limited reporting as noted in #2 above. Trend assumptions used for rate development are assessed annually and as additional/improved reporting becomes available, we will incorporate into rate development as appropriate.
6. Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.

Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosure, Buck estimated the impact to be immaterial to the accrued liability based on a blend of pre-Medicare and Medicare retirees and the projected impact to future healthcare cost trends due to the estimated tax.

Patient-centered outcomes research fees are included in the admin fees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

**June 30, 2014 Valuation – FY 2014 Claims Cost Rates**

	Medical			Prescription Drugs			Total
	Pre-Medicare	Medicare A&B	Medicare B Only	Pre-Medicare	Medicare A&B	Medicare B Only	
<b>Fiscal 2011 Incurred Claims</b>	<b>\$ 232,724,861</b>	<b>\$ 55,613,464</b>	<b>\$ 849,158</b>	<b>\$ 48,405,895</b>	<b>\$ 85,637,669</b>	<b>\$ 393,968</b>	<b>\$ 423,625,015</b>
Membership	31,362	29,997	138	31,362	29,997	138	61,497
Paid Claims Cost Rate	\$ 7,421	\$ 1,854	\$ 6,153	\$ 1,543	\$ 2,855	\$ 2,855	\$ 6,889
Trend to FY2015	1.372	1.372	1.372	1.253	1.253	1.253	
FY 2015 Paid Cost Rate	\$ 10,182	\$ 2,544	\$ 8,443	\$ 1,934	\$ 3,576	\$ 3,576	\$ 9,191
Paid to Incurred Factor	0.970	0.993	0.993	0.967	0.967	0.967	
<b>FY 2015 Incurred Cost Rate</b>	<b>\$ 9,876</b>	<b>\$ 2,526</b>	<b>\$ 8,384</b>	<b>\$ 1,870</b>	<b>\$ 3,458</b>	<b>\$ 3,458</b>	<b>\$ 8,936</b>
<b>Fiscal 2012 Incurred Claims</b>	<b>\$ 233,755,671</b>	<b>\$ 71,481,207</b>	<b>\$ 1,587,051</b>	<b>\$ 50,508,869</b>	<b>\$ 95,412,095</b>	<b>\$ 590,097</b>	<b>\$ 453,334,990</b>
Membership	29,500	33,631	208	29,500	33,631	208	63,339
Paid Claims Cost Rate	\$ 7,924	\$ 2,125	\$ 7,630	\$ 1,712	\$ 2,837	\$ 2,837	\$ 7,157
Trend to FY2015	1.269	1.269	1.269	1.199	1.199	1.199	
FY 2015 Paid Cost Rate	\$ 10,058	\$ 2,698	\$ 9,685	\$ 2,053	\$ 3,401	\$ 3,401	\$ 8,922
Paid to Incurred Factor	0.970	0.970	0.970	0.967	0.967	0.967	
<b>FY 2015 Incurred Cost Rate</b>	<b>\$ 9,757</b>	<b>\$ 2,617</b>	<b>\$ 9,395</b>	<b>\$ 1,985</b>	<b>\$ 3,289</b>	<b>\$ 3,289</b>	<b>\$ 8,646</b>
<b>Fiscal 2013 Incurred Claims</b>	<b>\$ 240,038,962</b>	<b>\$ 73,485,175</b>	<b>\$ 1,901,568</b>	<b>\$ 52,633,265</b>	<b>\$ 99,470,696</b>	<b>\$ 569,334</b>	<b>\$ 468,099,000</b>
Membership	27,037	37,913	217	27,037	37,913	217	65,167
Paid Claims Cost Rate	\$ 8,878	\$ 1,938	\$ 8,763	\$ 1,947	\$ 2,624	\$ 2,624	\$ 7,183
Trend to FY2015	1.172	1.172	1.172	1.140	1.140	1.140	
FY 2015 Paid Cost Rate	\$ 10,407	\$ 2,272	\$ 10,272	\$ 2,220	\$ 2,992	\$ 2,992	\$ 8,345
Paid to Incurred Factor	0.970	0.970	0.970	0.967	0.967	0.967	
<b>FY 2015 Incurred Cost Rate</b>	<b>\$ 10,094</b>	<b>\$ 2,204</b>	<b>\$ 9,963</b>	<b>\$ 2,147</b>	<b>\$ 2,893</b>	<b>\$ 2,893</b>	<b>\$ 8,087</b>
<b>Fiscal 2014 Incurred Claims</b>	<b>\$ 264,308,816</b>	<b>\$ 81,160,409</b>	<b>\$ 2,901,430</b>	<b>\$ 45,236,118</b>	<b>\$ 131,470,349</b>	<b>\$ 692,910</b>	<b>\$ 525,770,032</b>
Membership	24,486	42,311	223	24,486	42,311	223	67,020
Paid Claims Cost Rate	\$ 10,794	\$ 1,918	\$ 13,011	\$ 1,847	\$ 3,107	\$ 3,107	\$ 7,845
Trend to FY2015	1.076	1.076	1.076	1.065	1.065	1.065	
FY 2015 Paid Cost Rate	\$ 11,613	\$ 2,064	\$ 13,998	\$ 1,967	\$ 3,308	\$ 3,308	\$ 8,411
Paid to Incurred Factor	0.985	0.985	0.985	0.984	0.984	0.984	
<b>FY 2015 Incurred Cost Rate</b>	<b>\$ 11,439</b>	<b>\$ 2,033</b>	<b>\$ 13,788</b>	<b>\$ 1,935</b>	<b>\$ 3,254</b>	<b>\$ 3,254</b>	<b>\$ 8,280</b>
Weighted Average 7/1/2014-6/30/2015 Incurred Claims Cost Rates:							
At average age	\$ 10,408	\$ 2,267	\$ 10,839	\$ 2,023	\$ 3,137	\$ 3,137	\$ 8,342
At age 65	\$ 12,362	\$ 1,657	\$ 7,920	\$ 2,624	\$ 2,624	\$ 2,624	\$ 8,132

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.

Below are the results of this analysis:

**Distribution of Per Capita Claims Cost by Age  
for the Period July 1, 2014 through June 30, 2015**

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug	Medicare Retiree Drug Subsidy
45	\$ 6,846	\$ 6,846	\$ 1,384	\$ -
50	7,746	7,746	1,644	-
55	8,764	8,764	1,953	-
60	10,408	10,408	2,263	-
65	1,657	7,920	2,624	507
70	2,016	9,636	2,827	546
75	2,394	11,442	3,015	583
80	2,579	12,326	3,091	597

#### **Changes in Methods Since the Prior Valuation**

There were no changes in valuation methods except for the changes described in the healthcare sections above.

## Section 5.3 Summary of Actuarial Assumptions and Changes in Assumptions

The demographic and economic assumptions used in the June 30, 2014 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2014. These assumptions were the results of an experience study performed as of June 30, 2013.

Investment Return/Discount Rate	8.00% per year (geometric), compound annually, net of expenses for all funding calculations and pension disclosure; 8.00% for healthcare liabilities under GASB 43.		
Pre-termination Mortality*	68% of the male rates and 60% of the female rates of the Post-Termination Mortality Rates (See Table 1.)		
Post-termination Mortality*	94% of the male rates and 97% of the female rates of RP-2000 Combined Mortality Table, 2000 Base Year, projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. (See Table 2.)  Post-termination disabled mortality is in accordance with RP-2000 Disabled Retiree Table, 2000 Base Year projected to 2018 with Projection Scale BB. (See Table 3.)		
Salary Scale	3.62% per year, compounded annually.		
Total Payroll Growth	3.62% per year.		
Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.		
Per Capita Claims Cost	Sample claims cost rates adjusted to age 65 for FY15 medical and prescription are shown below:		
		<b>Medical</b>	<b>Prescription Drugs</b>
	Pre-Medicare	\$ 12,362	\$ 2,624
	Medicare Parts A & B	\$ 1,657	\$ 2,624
	Medicare Part B Only	\$ 7,920	\$ 2,624
	Medicare Part D	N/A	\$ 507
Medicare Part B Only	For actives and retirees not yet Medicare-eligible, participation is set based on whether the employee/retiree will have 40 quarters of employment after March 31, 1986, depending upon date of hire and/or re-hire.		

\*The mortality assumption includes an allowance for future mortality improvement. The mortality table used was set in 2014 with an Actual Deaths to Expected Deaths ratio of 115%.

## Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 10.0% is applied to the FY15 pre-Medicare medical claims cost to get the FY16 medical claims cost.

	Medical Pre-65	Medical Post-65	Prescription Drugs
FY15	10.0%	6.0%	6.00%
FY16	9.4%	5.9%	5.70%
FY17	8.8%	5.8%	5.40%
FY18	8.2%	5.7%	5.10%
FY19	7.6%	5.6%	4.80%
FY20	7.0%	5.6%	4.60%
FY21	6.5%	5.6%	4.40%
FY25	5.6%	5.6%	4.20%
FY50	4.4%	4.0%	4.00%
FY100	4.4%	4.0%	4.00%

For the June 30, 2014 valuations and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2014, and projects out to 2090. This model has been adopted by the Society of Actuaries, and has been populated with assumptions that are specific to the State of Alaska.

Aging Factors	Age	Medical	Prescription Drugs
	0-44	2.0%	4.5%
	45-54	2.5%	3.5%
	55-64	3.5%	3.0%
	65-73	4.0%	1.5%
	74-83	1.5%	0.5%
	84-93	0.5%	0.0%
	94+	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.		
Turnover	a. 3% if service is less than 10 years. b. 1% if service is greater than 10 years.		
Retirement	Retirement rates based on 2010-2013 experience, in accordance with Table 5. Terminated vested members are expected to commence benefits at age 60.		
Marriage and Age Difference	Wives are assumed to be four years younger than husbands. 90% of male members and 70% of female members are assumed to be married.		
Disability	In accordance with Table 4.		
Maximum Retirement Age	Age 70		
Form of Payment	Married members are assumed to choose the 50% Joint and Survivor benefit option. Single members are assumed to choose the Modified Cash Refund Annuity.		
Contribution Refunds	0% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with non-vested benefits are assumed to have their contributions refunded.		



**Table 1****Pre-Termination Mortality Rates**

Age	Rate	
	Male	Female
20	0.000182	0.000098
21	0.000191	0.000101
22	0.000200	0.000104
23	0.000209	0.000105
24	0.000216	0.000105
25	0.000222	0.000106
26	0.000226	0.000107
27	0.000228	0.000109
28	0.000228	0.000111
29	0.000229	0.000114
30	0.000231	0.000118
31	0.000238	0.000123
32	0.000249	0.000130
33	0.000269	0.000137
34	0.000302	0.000146
35	0.000340	0.000169
36	0.000382	0.000193
37	0.000425	0.000217
38	0.000468	0.000240
39	0.000509	0.000262
40	0.000547	0.000283
41	0.000584	0.000305
42	0.000618	0.000330
43	0.000653	0.000357
44	0.000692	0.000389
45	0.000736	0.000427
46	0.000787	0.000470
47	0.000846	0.000517
48	0.000913	0.000567
49	0.000979	0.000620
50	0.001050	0.000674
51	0.001126	0.000731
52	0.001208	0.000791
53	0.001295	0.000855
54	0.001483	0.000908
55	0.001615	0.000985
56	0.001766	0.001054
57	0.001901	0.001132
58	0.002117	0.001221
59	0.002409	0.001344
60	0.002643	0.001501
61	0.002917	0.001659
62	0.003229	0.001837
63	0.003599	0.002080
64	0.004021	0.002367
65	0.004504	0.002723
66	0.005057	0.003118
67	0.005594	0.003582
68	0.006202	0.004036
69	0.007017	0.004546
70	0.007828	0.005130

**Table 2****Post-Termination Mortality Rates**

Age	Rate		Age	Rate	
	Male	Female		Male	Female
50	0.001544	0.001124	86	0.064248	0.043940
51	0.001656	0.001219	87	0.072770	0.048789
52	0.001777	0.001318	88	0.082264	0.054261
53	0.001904	0.001424	89	0.092884	0.060450
54	0.002181	0.001513	90	0.104794	0.068659
55	0.002375	0.001641	91	0.118129	0.077983
56	0.002597	0.001756	92	0.132941	0.088452
57	0.002795	0.001887	93	0.149196	0.100021
58	0.003113	0.002035	94	0.165479	0.112560
59	0.003543	0.002240	95	0.182705	0.125866
60	0.003887	0.002501	96	0.200693	0.139699
61	0.004289	0.002765	97	0.219249	0.153813
62	0.004749	0.003062	98	0.233940	0.164973
63	0.005293	0.003466	99	0.252821	0.178741
64	0.005913	0.003946	100	0.267022	0.188730
65	0.006624	0.004538	101	0.285888	0.201393
66	0.007436	0.005196	102	0.299408	0.209540
67	0.008227	0.005970	103	0.318102	0.220440
68	0.009121	0.006727	104	0.331094	0.226232
69	0.010318	0.007576	105	0.349384	0.237489
70	0.011511	0.008550	106	0.360058	0.246863
71	0.012798	0.009494	107	0.368483	0.258063
72	0.014180	0.010494	108	0.374013	0.270683
73	0.015902	0.011599	109	0.376000	0.284323
74	0.017595	0.013068	110	0.376000	0.298577
75	0.019536	0.014502	111	0.376000	0.313043
76	0.021760	0.016130	112	0.376000	0.327318
77	0.024276	0.017929	113	0.376000	0.340998
78	0.027093	0.019871	114	0.376000	0.353678
79	0.030198	0.021938	115	0.376000	0.364959
80	0.033590	0.024170	116	0.376000	0.374435
81	0.037326	0.026620	117	0.376000	0.381702
82	0.041482	0.029345	118	0.376000	0.386359
83	0.046095	0.032397	119	0.376000	0.388000
84	0.051589	0.035811	≥120	1.000000	1.000000
85	0.057637	0.039636			

**Table 3****Post-Termination Disabled Mortality Rates**

Age	Female	Male	Age	Female	Male
≤45	0.0071	0.0214	80	0.0582	0.0833
46	0.0078	0.0226	81	0.0621	0.0880
47	0.0085	0.0238	82	0.0662	0.0928
48	0.0093	0.0250	83	0.0707	0.0978
49	0.0101	0.0262	84	0.0755	0.1028
50	0.0109	0.0275	85	0.0806	0.1079
51	0.0118	0.0287	86	0.0862	0.1130
52	0.0127	0.0299	87	0.0921	0.1204
53	0.0137	0.0311	88	0.0985	0.1282
54	0.0144	0.0324	89	0.1054	0.1362
55	0.0151	0.0336	90	0.1148	0.1503
56	0.0158	0.0348	91	0.1249	0.1667
57	0.0164	0.0354	92	0.1359	0.1841
58	0.0171	0.0359	93	0.1475	0.2022
59	0.0176	0.0365	94	0.1611	0.2209
60	0.0182	0.0370	95	0.1745	0.2400
61	0.0188	0.0376	96	0.1877	0.2594
62	0.0194	0.0382	97	0.2003	0.2790
63	0.0204	0.0389	98	0.2084	0.2934
64	0.0214	0.0396	99	0.2192	0.3128
65	0.0226	0.0404	100	0.2250	0.3264
66	0.0238	0.0413	101	0.2362	0.3459
67	0.0252	0.0422	102	0.2455	0.3585
68	0.0267	0.0434	103	0.2613	0.3762
69	0.0284	0.0454	104	0.2741	0.3850
70	0.0303	0.0477	105	0.2931	0.3979
71	0.0323	0.0502	106	0.3078	0.4000
72	0.0345	0.0529	107	0.3227	0.4000
73	0.0368	0.0558	108	0.3374	0.4000
74	0.0393	0.0591	109	0.3515	0.4000
75	0.0420	0.0625	110	0.3646	0.4000
76	0.0449	0.0662	111	0.3762	0.4000
77	0.0479	0.0702	112	0.3860	0.4000
78	0.0511	0.0744	113	0.3935	0.4000
79	0.0546	0.0788	114	0.3983	0.4000
			115+	0.4000	0.4000

**Table 4**  
**Disability Rates**

Age	Rate
20	0.000170
21	0.000170
22	0.000180
23	0.000180
24	0.000180
25	0.000190
26	0.000190
27	0.000190
28	0.000200
29	0.000200
30	0.000210
31	0.000210
32	0.000220
33	0.000220
34	0.000230
35	0.000240
36	0.000250
37	0.000260
38	0.000270
39	0.000280
40	0.000290
41	0.000300
42	0.000320
43	0.000340
44	0.000370
45	0.000410
46	0.000440
47	0.000480
48	0.000520
49	0.000560
50	0.000600
51	0.000650
52	0.000720
53	0.000800
54	0.000890
55	0.001000
56	0.001150
57	0.001340
58	0.001530
59	0.001800
≥60	0.000000

**Table 5**  
**Retirement Rates**

Age	Unisex
≤58	0.03
59	0.10
60	0.20
61	0.20
62	0.10
63	0.10
64	0.10
65	0.20
66	0.20
67	0.10
68	0.10
69	0.10
≥ 70	1.00

## Changes in Actuarial Assumptions since the Prior Valuation

	June 30, 2013	June 30, 2014
Pre-termination Mortality	45% of the male rates and 55% of the female rates of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA.	68% of the male rates and 60% of the female rates of the post-termination mortality rates. (See Table 1.)
Post-termination Mortality	1994 GAM Table, 1994 Base Year without margin projected to 2013 with Projection Scale AA, with a 3-year setback for males and a 1-year setback for females.	94% of the male rates and 97% of the female rates of RP-2000 Combined Mortality, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females. (See Table 2.)
Salary Scale	4.12% per year, compounded annually.	3.62% per year, compounded annually.
Retirement	3% if vested and age is less than 59 and 10% if vested and age is greater than 59, 100% at age 70.	Retirement rates based on 2010-2013 experience, in accordance with Table 4. Terminated vested members are expected to commence benefits at age 60.
Disability Mortality	RP-2000 Disabled Retiree Mortality Table.	RP-2000 Disabled Retiree Table, 2000 Base Year projected to 2018 with Projection Scale BB.

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**June 30, 2013****June 30, 2014**

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## Health Cost Trend

	<b>Medical Pre-65</b>	<b>Medical Post-65</b>	<b>Prescription Drugs</b>
FY14	8.7%	6.4%	6.3%
FY15	8.5%	6.3%	6.2%
FY16	8.0%	6.3%	6.2%
FY17	7.5%	6.2%	6.1%
FY18	7.0%	6.1%	6.0%
FY19	6.6%	6.1%	5.8%
FY20	6.4%	6.1%	5.8%
FY25	6.0%	6.0%	5.7%
FY50	5.0%	5.0%	5.0%
FY100	4.5%	4.5%	4.5%

	<b>Medical Pre-65</b>	<b>Medical Post-65</b>	<b>Prescription Drugs</b>
FY15	10.0%	6.0%	6.00%
FY16	9.4%	5.9%	5.70%
FY17	8.8%	5.8%	5.40%
FY18	8.2%	5.7%	5.10%
FY19	7.6%	5.6%	4.80%
FY20	7.0%	5.6%	4.60%
FY21	6.5%	5.6%	4.40%
FY25	5.6%	5.6%	4.20%
FY50	4.4%	4.0%	4.00%
FY100	4.4%	4.0%	4.00%

# Glossary of Terms

Actuarial Accrued Liability	Total accumulated cost to fund pension benefits arising from service in all prior years.
Actuarial Cost Method	Technique used to assign or allocate, in a systematic and consistent manner, the expected cost of a pension plan for a group of plan members to the years of service that give rise to that cost.
Actuarial Present Value of Projected Benefits	Amount which, together with future interest, is expected to be sufficient to pay all future benefits.
Actuarial Valuation	Study of probable amounts of future pension benefits and the necessary amount of contributions to fund those benefits.
Actuary	Person who performs mathematical calculations pertaining to pension and insurance benefits based on specific procedures and assumptions.
Annual Required Contribution	Disclosure measure of annual pension cost.
GASB 25 and 27	Governmental Accounting Standards Board Statement Number 25 which specifies how the Annual Required Contribution (ARC) is to be calculated, and Number 27 which specifies Employer reporting of Pension Cost. These statements have been amended by GASB 67 and 68, respectively.
GASB 43 and 45	Governmental Accounting Standards Board Statement Number 43 which specifies how the Annual Required Contribution (ARC) is to be calculated, and Number 45 which specifies Employer reporting of OPEB Cost.
GASB 67 and 68	Governmental Accounting Standards Board Statement Number 67 amends Number 25 effective for the fiscal year beginning after June 15, 2013, and defines new financial reporting requirements for public pension plans.  Governmental Accounting Standards Board Statement Number 68 amends Number 27 effective for fiscal years beginning after June 15, 2014 and defines new accounting and financial reporting requirements for employers sponsoring public pension plans.
Liquidity Factor	Is calculated as the average annual Fair Value of Assets divided by the total annual benefit payments. This measures the approximate number of years that assets will cover benefit payments without contributions or investment return. Trend shows solvency risk.
Maturity Ratio	The ratio of the actuarial accrued liability for members who are no longer active to the total actuarial accrued liability. A ratio of over 50% indicates a mature plan. The higher the maturity ratio, the more volatile the contribution rate will be from year to year given actuarial gains and losses.
Normal Cost	That portion of the actuarial present value of benefits assigned to a particular year in respect to an individual participant or the plan as a whole.
Unfunded Actuarial Accrued Liability (UAAL)	The portion of the actuarial accrued liability not offset by plan assets.
Vested Benefits	Benefits which are unconditionally guaranteed regardless of employment status.