



State of Alaska
Teachers' Retirement System
Defined Contribution Retirement Plan

For Occupational Death and Disability
And Retiree Medical Benefits

Actuarial Valuation Report
As of June 30, 2012

July 2013

buckconsultants®

Submitted By:
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State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Table of Contents

Letter of Certification

Executive Summary	1
Comparative Summary of Key Actuarial Valuation Results	4
Section 1: Actuarial Funding Results	6
1.1 Actuarial Liabilities and Normal Cost.....	7
1.2 Actuarial Contributions	8
1.3 Actuarial Gain / (Loss)	12
1.4 History of UAAL and Funded Ratio	13
Section 2: Plan Assets	14
2.1 Summary of Fair Value of Assets	15
2.2 Changes in Fair Value of Assets	16
2.3 Actuarial Value of Assets	17
2.4 Historical Rate of Return	19
Section 3: Accounting Information	20
3.1 Schedule of Funding Progress	21
3.2 Schedule of Employer Contributions	22
3.3 Solvency Test	23
3.4 Notes to Trend Data.....	24
Section 4: Member Data	27
4.1 Summary of Members Included	28
4.2 Age and Service Distribution of Active Members	29
4.3 Member Data Reconciliation.....	30
4.4 Schedule of Active Member Data	31
Section 5: Basis of the Actuarial Valuation	32
5.1 Summary of Plan Provisions and Changes in Benefits	33
5.2 Description of Actuarial Methods and Valuation Procedures	36
5.3 Summary of Actuarial Assumptions and Changes	38
Glossary	52

July 19, 2013

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

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 Teachers' Retirement System Defined Contribution Retirement (TRS DCR) Plan as of June 30, 2012 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, 2012. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities and other factors under the Plan 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 Plan.

The State of Alaska Teachers' Retirement System DCR Plan is funded by Employer Contributions in accordance with the funding policy adopted by the Alaska Retirement Management Board (Board). The funding objective for the State of Alaska Teachers' Retirement System DCR Plan is to pay required contributions that remain level as a percent of TRS DCR 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, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of TRS DCR Compensation over a closed 25-year period. This objective is currently being met and is projected to continue to be met.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the Plan. The actuary performs an analysis of Plan 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 2010. 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, 2012, to better reflect expected future healthcare experience. Changes were also made to expected healthcare benefit participation, lower initial relative values of DCR healthcare, and increased employer sharing of medical cost trend as a result of recent plan decision discussions. A summary of the actuarial assumptions and methods used in this actuarial valuation are shown in Section 5 beginning on page 32.

The assumptions and methods used to determine the Annual Required Contributions (ARC) of the Employers to the State of Alaska Teachers' Retirement System DCR Plan as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statements No. 25, 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 Schedule of Funding Progress, Schedule of Employer Contributions, and trend data schedules under GASB Nos. 25 and 43 that are included in the Financial Section of the CAFR. We have also prepared the member data tables shown in Section 4 of this report for the Statistical Section of the CAFR, and the summary of actuarial assumptions and solvency test for the Actuarial Section of the CAFR.

The undersigned are Enrolled Actuaries, a Fellow and an Associate 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. Slishinsky, ASA, EA, MAAA, FCA
Principal, Consulting Actuary



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Director, Consulting Actuary

The Alaska Retirement Management Board, The Department of Revenue and
The Department of Administration
July 19, 2013
Page 3

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 Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

EXECUTIVE SUMMARY

Overview

The State of Alaska Teachers' Retirement System DCR Plan provides occupational death & disability and retiree medical benefits to teachers and other eligible members hired after June 30, 2006 or who have elected participation in this plan. The Commissioner of the Department of Administration is responsible for administering the Plan. The Alaska Retirement Management Board has fiduciary responsibility over the assets of the Plan. This report presents the results of the actuarial valuation of the Plan benefits as of the valuation date of June 30, 2012.

Purpose

An actuarial valuation is performed on the retirement plan 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 Plan;
2. To disclose the funding assets and liability measures as of the valuation date;
3. To disclose the accounting measures for the Plan required by GASB Nos. 25 and 43 as of the end of the last fiscal year;
4. To review the current funded status of the Plan;
5. To compare actual and expected experience under the Plan 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 TRS DCR Plan based on the plan provisions, membership, assets, and actuarial assumptions as of the valuation date.

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, and a ratio of less than 100% represents a plan that is behind 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 30¹	2011	2012
(a) Accrued Liability ²	\$ 3,858	\$ 16,874
(b) Valuation Assets ²	<u>7,566</u>	<u>9,285</u>
(c) Unfunded Accrued Liability ² , (a) – (b)	\$ (3,708)	\$ 7,589
(d) Funding Ratio based on Valuation Assets, (b) ÷ (a)	196.1%	55.0%
(e) Fair Value of Assets ²	\$ 7,825	\$ 9,123
(f) Funding Ratio based on Fair Value of Assets, (e) ÷ (a)	202.8%	54.1%

¹ Includes occupational death & disability and retiree medical benefits.

² In thousands.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Executive Summary (cont'd)

As shown previously, the funding ratio based on valuation assets as of June 30, 2012 has decreased from 196.1% to 55.0%, a decrease of 141.1%. The total calculated employer contribution rate has increased from 0.47% of payroll for FY14 to 2.04% for FY15, an increase of 1.57%. The reasons for the change in the funded status and calculated contribution rate are explained below.

(1) Retiree Medical Costs and Assumptions

Please refer to the State of Alaska Teachers' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2012 for a full description of the assumptions and costs of the retiree medical plan. Adjustments from these costs and assumptions are described in this report.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for TRS with some adjustments to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for anticipated plan design features, including network steerage, higher initial copays, deductibles and out-of-pocket limits, FY12 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate. Participation rates were reduced to reflect the proportion of retirees expected to have access to alternative options in the Medicare market as well as the time from retirement to Medicare-eligibility where a member pays full cost.

(2) Investment Experience

The approximate FY12 investment return based on fair value was 1.6% compared to the expected investment return of 8.00%. This resulted in a loss of approximately \$532 thousand to the Plan from investment experience. The asset valuation method recognizes 20 percent of this loss (\$106 thousand) this year and an additional 20 percent in each of the next 4 years. In addition, 20 percent of the FY08 investment loss, 20 percent of the FY09 investment loss, 20 percent of the FY10 investment loss and 20 percent of the FY11 investment gain were recognized this year. The approximate FY12 asset return based on actuarial value was 6.9% compared to the expected asset return of 8.00%.

(3) Salary Increase

During the period from June 30, 2011 to June 30, 2012, salary increases for continuing active members were slightly more than anticipated in the valuation assumptions.

(4) Demographic Experience

The number of active members increased 12.89% from 2,708 at June 30, 2011 to 3,057 at June 30, 2012 due to the opening of the DCR Plan to new entrants as of July 1, 2006. The average age of active members increased from 37.25 to 37.61 and average credited service increased from 2.62 to 3.00 years.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Executive Summary (cont'd)

(5) Changes in Methods Since the Prior Valuation

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

(6) Changes in Assumptions Since the Prior Valuation

There have been changes in actuarial assumptions since the prior valuation regarding healthcare cost trend rates and the DCR retiree medical plan adjustments. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend. We also updated member contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

To account for anticipated plan design features, FY12 claims costs adjustments were changed from 5.9% for medical and 0.7% for prescription drugs to 11.9% and 7.1% respectively. Retiree out-of-pocket amounts were indexed 0.2% each year, compared to 4.8% last year. Participation rates were reduced to reflect the proportion of retirees expected to have access to alternative options in the Medicare market as well as the time from retirement to Medicare-eligibility where a member pays full cost.

The assumption changes resulted in an increase in the actuarial accrued liability of \$11.5 million, and an increase in the total employer contribution rate of 1.57%.

(7) Changes in Benefit Provisions Since the Prior Valuation

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Comparative Summary of Key Actuarial Valuation Results

Total Employer Contribution Rates for Occupational Death & Disability for Fiscal Year Ending:	2014	2015
(a) Employer Normal Cost Rate	0.05%	0.05%
(b) Past Service Cost Rate	<u>(0.05)%</u>	<u>(0.05)%</u>
(c) Total Employer Contribution Rate, (a) + (b), not less than 0%	0.00%	0.00%

Total Employer Contribution Rates for Retiree Medical for Fiscal Year Ending:	2014	2015
(a) Employer Normal Cost Rate	0.54%	1.72%
(b) Past Service Cost Rate	<u>(0.07)%</u>	<u>0.32%</u>
(c) Total Employer Contribution Rate, (a) + (b), not less than 0%	0.47%	2.04%

Total Employer Contribution Rates for Fiscal Year Ending:	2014	2015
(a) Total Employer Contribution Rate	0.47%	2.04%
(b) Board Adopted Total Employer Contribution Rate	0.47%	2.04%

The exhibit below shows the historical Board adopted employer contribution rates for the DCR Plan.

Valuation Date	Fiscal Year	Total Employer Contribution Rate		
		Occupational Death & Disability	Retiree Medical	Total
N/A	FY07	N/A	1.75%	1.75%
N/A	FY08	0.56%	0.99%	1.55%
N/A	FY09	0.62%	0.99%	1.61%
June 30, 2007	FY10	0.32%	1.03%	1.35%
June 30, 2008	FY11	0.28%	0.68%	0.96%
June 30, 2009	FY12	0.00%	0.58%	0.58%
June 30, 2010	FY13	0.00%	0.49%	0.49%
June 30, 2011	FY14	0.00%	0.47%	0.47%
June 30, 2012	FY15	0.00%	2.04%	2.04%

Contribution rates are based on salary for DCR Plan members only.

The rates shown above are for funding purposes which differ from the Annual Required Contribution for GASB No. 43 reporting purposes. Under GASB No. 43, retiree medical liabilities are gross of the retiree drug subsidy and based on a discount rate in accordance with GASB parameters.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Comparative Summary of Key Actuarial Valuation Results (cont'd)

Summary of Actuarial Gain/(Loss)

The following table shows the gain/(loss) on total accrued liability (in thousands):

	Occupational Death & Disability	Retiree Medical	Total	% of Expected
- Retirement Experience	\$ 0	\$ 0	\$ 0	0.00%
- Termination Experience	0	238	238	1.42%
- Active Mortality Experience	31	(5)	26	0.16%
- Inactive Mortality Experience	0	0	0	0.00%
- Disability Experience	44	(4)	40	0.24%
- New Entrants	(5)	(281)	(286)	(1.71)%
- Rehires	(2)	(267)	(269)	(1.61)%
- Other Demographic Experience	17	(244)	(227)	(1.36)%
- Salary Increases	0	N/A	0	0.00%
- Medical Claims Costs	N/A	311	311	1.86%
- Total	\$ 85	\$ (252)	\$ (167)	(1.00)%

A gain on total accrued liability is favorable to the Plan. A loss is unfavorable.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1

Actuarial Funding Results

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.1

Actuarial Liabilities and Normal Cost (\$'s in 000's)

As of June 30, 2012	Present Value of Projected Benefits	Accrued (Past Service) Liability
Active Members		
Occupational Death Benefits	\$ 410	\$ 30
Occupational Disability Benefits	481	33
Medical and Prescription Drug Benefits	44,707	19,427
Medicare Part D Subsidy	<u>(5,983)</u>	<u>(2,616)</u>
Subtotal	\$ 39,615	\$ 16,874
Benefit Recipients		
Survivor Benefits	\$ 0	\$ 0
Disability Benefits	0	0
Medical and Prescription Drug Benefits	0	0
Medicare Part D Subsidy	<u>0</u>	<u>0</u>
Subtotal	\$ 0	\$ 0
Total	\$ 39,615	\$ 16,874
Total Occupational Death & Disability	\$ 891	\$ 63
Total Retiree Medical, Net of Part D Subsidy	\$ 38,724	\$ 16,811
Total Retiree Medical, Gross of Part D Subsidy	\$ 44,707	\$ 19,427

As of June 30, 2012	Normal Cost
Active Members	
Occupational Death Benefits	\$ 44
Occupational Disability Benefits	51
Medical and Prescription Drug Benefits	3,763
Medicare Part D Subsidy	<u>(507)</u>
Subtotal	\$ 3,351
Total	\$ 3,351
Total Occupational Death & Disability	\$ 95
Total Retiree Medical, Net of Part D Subsidy	\$ 3,256
Total Retiree Medical, Gross of Part D Subsidy	\$ 3,763

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.2

Actuarial Contributions – FY15 (\$'s in 000's)

Normal Cost Rate	Occupational Death & Disability	Retiree Medical	Total
(1) Total Normal Cost	\$ 95	\$ 3,256	\$ 3,351
(2) DCR Plan Member Salaries Projected for FY13	189,680	189,680	189,680
(3) Employer Normal Cost Rate, (1) / (2)	0.05%	1.72%	1.77%
Past Service Rate			
(1) Accrued Liability	\$ 63	\$ 16,811	\$ 16,874
(2) Valuation Assets	<u>2,348</u>	<u>6,937</u>	<u>9,285</u>
(3) Total Unfunded Liability, (1) – (2)	\$ (2,285)	\$ 9,874	\$ 7,589
(4) Funded Ratio based on Valuation Assets	3,727.0%	41.3%	55.0%
(5) Past Service Cost Amortization Payment	(95)*	611	516
(6) DCR Plan Member Salaries Projected for FY13	189,680	189,680	189,680
(7) Past Service Cost Rate, (5) / (6)	(0.05)%*	0.32%	0.27%
Total Employer Contribution Rate, not less than 0%	0.00%	2.04%	2.04%

The table below shows the total employer contribution rate based on total DB and DCR Plan payroll for informational purposes.

Total Employer Contribution Rate as Percent of Total Payroll

(1) Total Normal Cost	\$ 95	\$ 3,256	\$ 3,351
(2) Total DB and DCR Plan Member Salaries Projected for FY13	743,945	743,945	743,945
(3) Employer Normal Cost Rate, (1) / (2)	0.01%	0.44%	0.45%
(4) Past Service Cost Amortization Payment	\$ (95)*	\$ 611	\$ 516
(5) Past Service Cost Rate, (4) / (2)	(0.01)%	0.08%	0.07%
(6) Total Employer Contribution Rate, (3) + (5)	0.00%	0.52%	0.52%

*Adjusted to offset normal cost, so employer contribution is not less than \$0.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.2 (cont'd)

Actuarial Contributions – FY15 (\$'s in 000's)

Schedule of Past Service Cost Amortizations – Occupational Death & Disability

Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	06/30/2007	20	\$ 16	\$ 16	\$ 1
FY08 Gain	06/30/2008	21	(392)	(408)	(28)
Change in Assumptions	06/30/2009	22	(82)	(84)	(6)
FY09 Gain	06/30/2009	22	(594)	(615)	(42)
Change in Assumptions	06/30/2010	23	(7)	(8)	(1)
FY10 Gain	06/30/2010	23	(479)	(490)	(32)
FY11 Gain	06/30/2011	24	(560)	(567)	(37)
FY12 Gain	06/30/2012	25	(129)	(129)	(8)
Total				\$ (2,285)	\$ (153)

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.2 (cont'd)

Actuarial Contributions – FY15 (\$'s in 000's)

Schedule of Past Service Cost Amortizations – Retiree Medical

Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	06/30/2007	20	\$ (239)	\$ (251)	\$ (18)
Change in Assumptions	06/30/2008	21	84	90	6
FY08 Gain	06/30/2008	21	(393)	(409)	(29)
Change in Assumptions	06/30/2009	22	(69)	(70)	(5)
FY09 Gain	06/30/2009	22	(281)	(292)	(20)
Change in Assumptions ³	06/30/2010	23	0	0	0
FY10 Gain	06/30/2010	23	(545)	(557)	(37)
FY11 Gain	06/30/2011	24	(94)	(95)	(6)
Change in Assumptions	06/30/2012	25	11,518	11,518	724
FY12 Gain	06/30/2012	25	(60)	(60)	(4)
Total				\$ 9,874	\$ 611

³ The net effect of changing assumptions is less than \$1,000. The demographic assumption changes decreased liability by \$133 thousand and the economic assumption changes increased the liability by \$133 thousand. Therefore, the net effect of all assumption changes is \$0 for amortization purposes.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.2 (cont'd)

Actuarial Contributions – FY15 (\$'s in 000's)

Schedule of Past Service Cost Amortizations – Total

Charge	Amortization Period		Balances		Beginning-of-Year Payment
	Date Created	Years Left	Initial	Outstanding	
Initial Unfunded Liability	06/30/2007	20	\$ (223)	\$ (235)	\$ (17)
Change in Assumptions	06/30/2008	21	84	90	6
FY08 Gain	06/30/2008	21	(785)	(817)	(57)
Change in Assumptions	06/30/2009	22	(151)	(154)	(11)
FY09 Gain	06/30/2009	22	(875)	(907)	(62)
Change in Assumptions	06/30/2010	23	(7)	(8)	(1)
FY10 Gain	06/30/2010	23	(1,024)	(1,047)	(69)
FY11 Gain	06/30/2011	24	(654)	(662)	(43)
Change in Assumptions	06/30/2012	25	11,518	11,518	724
FY12 Gain	06/30/2012	25	(189)	(189)	(12)
Total				\$ 7,589	\$ 458

The amortization factor for 25 years is 15.898717. The weighted average amortization factor is 16.569869. The amortization method is level percentage of pay.

The equivalent single amortization period is 27.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.3

Actuarial Gain/(Loss) for FY12 (\$'s in 000's)

	Occupational Death & Disability	Retiree Medical	Total
(1) Expected Actuarial Accrued Liability			
(a) Accrued Liability, June 30, 2011	\$ 57	\$ 3,801	\$ 3,858
(b) Normal Cost for FY12	80	867	947
(c) Interest on (a) and (b) at 8.00%	11	373	384
(d) Benefit Payments for FY12	0	0	0
(e) Interest on (d) at 8.00% for one-half year	0	0	0
(f) Change in Assumptions	<u>0</u>	<u>11,518</u>	<u>11,518</u>
(g) Expected Accrued Liability as of June 30, 2012 (a) + (b) + (c) - (d) - (e) + (f)	\$ 148	\$ 16,559	\$ 16,707
(2) Actual Accrued Liability, June 30, 2012	<u>63</u>	<u>16,811</u>	<u>16,874</u>
(3) Liability Gain/(Loss), (1)(g) - (2)	\$ 85	\$ (252)	\$ (167)
(4) Expected Actuarial Asset Value			
(a) Actuarial Asset Value, June 30, 2011	\$ 2,193	\$ 5,373	\$ 7,566
(b) Interest on (a) at 8.00%	175	430	605
(c) Employer Contributions for FY12	(1)	1,160	1,159
(d) Interest on (c) at 8.00% for one-half year	0	46	46
(e) Benefit Payments for FY12	0	0	0
(f) Interest on (e) at 8.00% for one-half year	<u>0</u>	<u>0</u>	<u>0</u>
(g) Expected Actuarial Asset Value, June 30, 2012 (a) + (b) + (c) + (d) - (e) - (f)	\$ 2,367	\$ 7,009	\$ 9,376
(5) Actuarial Asset Value, June 30, 2012	<u>2,348</u>	<u>6,937</u>	<u>9,285</u>
(6) Actuarial Asset Gain/(Loss), (5) - (4)(g)	\$ (19)	\$ (72)	\$ (91)
(7) Actuarial Gain/(Loss), (3) + (6)	\$ 66	\$ (324)	\$ (258)
(8) Effect of the 2-Year Delay on Contributions	\$ 63	\$ 384	\$ 447
(9) FY12 Gain/(Loss) to be Amortized, (7) + (8)	\$ 129	\$ 60	\$ 189

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 1.4

History of UAAL and Funded Ratio (\$'s in 000's)

Valuation Date	Aggregate Accrued Liability	Valuation Assets	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL)
June 30, 2007	\$ 374	\$ 597	159.7%	\$ (223)
June 30, 2008	\$ 801	\$ 1,728	215.7%	\$ (927)
June 30, 2009	\$ 1,460	\$ 3,424	234.5%	\$ (1,964)
June 30, 2010	\$ 2,448	\$ 5,472	223.5%	\$ (3,024)
June 30, 2011	\$ 3,858	\$ 7,566	196.1%	\$ (3,708)
June 30, 2012	\$ 16,874	\$ 9,285	55.0%	\$ 7,589

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2

Plan Assets

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2.1

Summary of Fair Value of Assets (\$'s in 000's)

As of June 30, 2012	Occupational Death & Disability	Retiree Medical	Total Fair Value	Allocation Percent
Cash and Short-Term Investments				
- Cash and Cash Equivalents	\$ 37	\$ 320	\$ 357	3.9%
- Subtotal	\$ 37	\$ 320	\$ 357	3.9%
Fixed Income Investments				
- Domestic Fixed Income Pool	\$ 255	\$ 721	\$ 976	10.8%
- International Fixed Income Pool	53	150	203	2.2%
- High Yield Pool	63	177	240	2.7%
- Treasury Inflation Protection Pool	28	79	107	1.2%
- Emerging Debt Pool	17	50	67	0.7%
- Subtotal	\$ 416	\$ 1,177	\$ 1,593	17.6%
Equity Investments				
- Domestic Equity Pool	\$ 682	\$ 1,927	\$ 2,609	28.9%
- International Equity Pool	376	1,064	1,440	15.9%
- Private Equity Pool	228	645	873	9.6%
- Emerging Markets Equity Pool	122	345	467	5.2%
- Subtotal	\$ 1,408	\$ 3,981	\$ 5,389	59.6%
Other Investments				
- Real Estate Pool	\$ 211	\$ 596	\$ 807	8.9%
- Other Investments Pool	141	395	536	5.9%
- Absolute Return Pool	98	276	374	4.1%
- Other Assets	0	0	0	0.0%
- Subtotal	\$ 450	\$ 1,267	\$ 1,717	18.9%
Total Cash and Investments	\$ 2,311	\$ 6,745	\$ 9,056	100.0%
Net Accrued Receivables	0	67	67	
Net Assets	\$ 2,311	\$ 6,812	\$ 9,123	

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2.2

Changes in Fair Value of Assets (\$'s in 000's)

Fiscal Year 2012 (in thousands)	Occupational Death & Disability	Retiree Medical	Total Fair Value
(1) Net Assets, June 30, 2011 (fair value)	\$ 2,280	\$ 5,545	\$ 7,825
(2) Additions:			
(a) Member Contributions	\$ 0	\$ 0	\$ 0
(b) Employer Contributions	(1)	1,160	1,159
(c) Interest and Dividend Income	54	143	197
(d) Net Appreciation (Depreciation) in Fair Value of Investments	(22)	(36)	(58)
(e) Other	<u>0</u>	<u>0</u>	<u>0</u>
(f) Total Additions	\$ 31	\$ 1,267	\$ 1,298
(3) Deductions:			
(a) Medical Benefits	\$ 0	\$ 0	\$ 0
(b) Death & Disability Benefits	0	0	0
(c) Investment Expenses	0	0	0
(d) Administrative Expenses	<u>0</u>	<u>0</u>	<u>0</u>
(e) Total Deductions	\$ 0	\$ 0	\$ 0
(4) Net Assets, June 30, 2012 (fair value)	\$ 2,311	\$ 6,812	\$ 9,123
Approximate Fair Value Investment Return Rate During FY12 Net of All Expenses	1.4%	1.7%	1.6%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2.3

Actuarial Value of Assets (\$'s in 000's)

The actuarial value of assets and the fair value were \$0 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.

In Thousands	Occupational Death & Disability	Retiree Medical	Total
(1) Deferral of Investment Return/(Loss) for FY12			
(a) Fair Value, June 30, 2011	\$ 2,280	\$ 5,545	\$ 7,825
(b) Contributions for FY12	(1)	1,160	1,159
(c) Benefit Payments for FY12	0	0	0
(d) Actual Investment Return (<i>net of expenses</i>)	32	107	139
(e) Expected Return Rate (<i>net of expenses</i>)	8.00%	8.00%	8.00%
(f) Expected Return	182	489	671
(g) Investment Gain/(Loss) for the Year (<i>d. - f.</i>)	(150)	(382)	(532)
(h) Deferred Investment Return/(Loss)	(37)	(125)	(162)
(2) Actuarial Value, June 30, 2012			
(a) Fair Value, June 30, 2012	\$ 2,311	\$ 6,812	\$ 9,123
(b) 2012 Deferred Investment Return/(Loss)	(37)	(125)	(162)
(c) Preliminary Actuarial Value, June 30, 2012 (<i>a. - b.</i>)	2,348	6,937	9,285
(d) Upper Limit: 120% of Fair Value, June 30, 2012	2,773	8,174	N/A
(e) Lower Limit: 80% of Fair Value, June 30, 2012	1,849	5,450	N/A
(f) Actuarial Value, June 30, 2012 (<i>c. limited by d. and e.</i>)	\$ 2,348	\$ 6,937	\$ 9,285
(g) Ratio of Actuarial Value of Assets to Fair Value of Assets	101.6%	101.8%	101.8%
(h) Approximate Actuarial Value Investment Return Rate During FY12 Net of All Expenses	7.1%	6.8%	6.9%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2.3 (cont'd)

Actuarial Value of Assets (\$'s in 000's)

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

Occupational Death & Disability

Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2008	\$ (25)	\$ (20)	\$ (5)	\$ 0
6/30/2009	(127)	(75)	(26)	(26)
6/30/2010	(14)	(6)	(3)	(5)
6/30/2011	190	38	38	114
6/30/2012	(150)	0	(30)	(120)
Total	\$ (126)	\$ (63)	\$ (26)	\$ (37)

Retiree Medical

Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2008	\$ (71)	\$ (56)	\$ (15)	\$ 0
6/30/2009	(369)	(222)	(74)	(73)
6/30/2010	(58)	(24)	(12)	(22)
6/30/2011	460	92	92	276
6/30/2012	(382)	0	(76)	(306)
Total	\$ (420)	\$ (210)	\$ (85)	\$ (125)

Total

Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized in Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2008	\$ (96)	\$ (76)	\$ (20)	\$ 0
6/30/2009	(496)	(297)	(100)	(99)
6/30/2010	(72)	(30)	(15)	(27)
6/30/2011	650	130	130	390
6/30/2012	(532)	0	(106)	(426)
Total	\$ (546)	\$ (273)	\$ (111)	\$ (162)

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 2.4

Historical Asset Rate of Return

Year Ending	Actuarial Value		Fair Value	
	Annual	Cumulative	Annual	Cumulative
June 30, 2008	6.4%	6.4%	(0.3)%	(0.3)%
June 30, 2009	3.2%	4.8%	(12.0)%	(6.3)%
June 30, 2010	4.2%	4.6%	6.4%	(2.3)%
June 30, 2011	7.4%	5.3%	18.9%	2.6%
June 30, 2012	6.9%	5.6%	1.6%	2.4%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3

Accounting Information

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.1

Schedule of Funding Progress (\$'s in 000's)

The exhibit below shows the death and disability plan disclosure under GASB No. 25.

	Actuarial Accrued Liabilities (AAL)	Actuarial Value of Assets	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 63	\$ 2,348	3,727.0%	\$ (2,285)	\$ 200,043	(1.1)%
June 30, 2011	57	2,193	3,847.4%	(2,136)	170,606	(1.3)%
June 30, 2010	18	1,577	8,761.1%	(1,559)	118,813	(1.3)%
June 30, 2009	14	1,071	7,650.0%	(1,057)	89,708	(1.2)%
June 30, 2008	44	420	954.5%	(376)	56,369	(0.7)%
June 30, 2007	16	0	0.0%	16	28,410	0.1%

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

	Actuarial Accrued Liabilities (AAL)	Actuarial Value of Assets	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 19,427	\$ 6,937	35.7%	\$ 12,490	\$ 200,043	6.2%
June 30, 2011	4,386	5,373	122.5%	(987)	170,606	(0.6)%
June 30, 2010	2,809	3,895	138.7%	(1,086)	118,813	(0.9)%
June 30, 2009	1,690	2,353	139.2%	(663)	89,708	(0.7)%
June 30, 2008	899	1,308	145.5%	(409)	56,369	(0.7)%
June 30, 2007	403	597	148.1%	(194)	28,410	(0.7)%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.2

Schedule of Employer Contributions (\$'s in 000's)

The following shows the death and disability disclosure under GASB No. 25 for fiscal year ending 2007 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2012	\$ 0	100%
June 30, 2011	\$ 474	100%
June 30, 2010	\$ 442	100%
June 30, 2009	\$ 623	100%
June 30, 2008	\$ 408	100%
June 30, 2007	\$ 72	0%

The following shows the retiree medical disclosure without regard to Medicare Part D subsidy under GASB No. 43 for fiscal year ending 2007 and later.

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2012	\$ 1,420	82%
June 30, 2011	\$ 1,422	81%
June 30, 2010	\$ 1,628	87%
June 30, 2009	\$ 1,162	85%
June 30, 2008	\$ 763	85%
June 30, 2007	\$ 575	100%

The exhibit below shows the annual required contribution (ARC) as a percentage of pay.

Valuation Date	Fiscal Year	Total Employer Contribution Rate		
		Occupational Death & Disability	Retiree Medical	Total
N/A	FY07	N/A	1.75%	1.75%
N/A	FY08	0.56%	1.16%	1.72%
N/A	FY09	0.62%	1.16%	1.78%
June 30, 2007	FY10	0.32%	1.18%	1.50%
June 30, 2008	FY11	0.28%	0.84%	1.12%
June 30, 2009	FY12	0.00%	0.71%	0.71%
June 30, 2010	FY13	0.00%	0.60%	0.60%
June 30, 2011	FY14	0.00%	0.58%	0.58%
June 30, 2012	FY15	0.00%	2.39%	2.39%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.3

Notes to Trend Data

Actuarial Assumptions, Methods and Additional Information Under GASB

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Level Percentage of Pay Normal Cost Basis for Occupational Death & Disability Level Dollar Normal Cost Basis for Retiree Medical
Amortization Method	Level Percent of Pay, closed with bases established annually
Equivalent Single Amortization Period	27 years
Asset Valuation Method	5-year smoothed market, 80% / 120% of fair value corridor
Actuarial Assumptions:	
Investment rate of return*	8.00%
Projected salary increases	6.11% for first 5 years of service grading down to 3.62% after 20 years. Inflation – 3.12% per year.
*Includes price 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 Teachers' Retirement System DCR Plan's retiree medical benefits are fully funded. Therefore, the 8.00% 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.

Disregarding future Medicare Part D payments, the fiscal 2015 employer ARC for accounting purposes is 2.39% of pay for retiree medical benefits and 2.39% of pay for retiree medical and death and disability benefits combined.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.4

Solvency Test (\$'s in 000's)

The exhibit below shows the combined occupational death & disability and retiree medical solvency test for valuation dates June 30, 2010 and before.

Valuation Date	Aggregate Accrued Liability For:			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
June 30, 2010 ¹	\$ 0	\$ 0	\$ 2,448	\$ 5,472	100.0%	100.0%	100.0%
June 30, 2009 ¹	0	0	1,460	3,424	100.0%	100.0%	100.0%
June 30, 2008 ¹	0	0	801	1,728	100.0%	100.0%	100.0%
June 30, 2007	0	0	374	597	100.0%	100.0%	100.0%
June 30, 2006	0	0	0	0	100.0%	100.0%	100.0%

Retiree medical liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy).

¹ Change in Assumptions

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.4 (cont'd)

Solvency Test (\$'s in 000's)

The exhibit below shows the occupational death & disability solvency test for valuation dates June 30, 2006 and later.

Valuation Date	Occupational Death & Disability Aggregate Accrued Liability For:				Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)	Occupational Death & Disability Valuation Assets	(1)	(2)	(3)
	Active Member Contributions	Inactive Members	Active Members (Employer- Financed Portion)				
June 30, 2012	\$ 0	\$ 0	\$ 63	\$ 2,348	100.0%	100.0%	100.0%
June 30, 2011	0	0	57	2,193	100.0%	100.0%	100.0%
June 30, 2010 ¹	0	0	18	1,577	100.0%	100.0%	100.0%
June 30, 2009 ¹	0	0	14	1,071	100.0%	100.0%	100.0%
June 30, 2008	0	0	44	420	100.0%	100.0%	100.0%
June 30, 2007	0	0	16	0	100.0%	100.0%	0.0%
June 30, 2006	0	0	0	0	N/A	N/A	N/A

¹ Change in Assumptions

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 3.4 (cont'd)

Solvency Test (\$'s in 000's)

The exhibit below shows the retiree medical solvency test for valuation dates June 30, 2006 and later.

Valuation Date	Retiree Medical Aggregate Accrued Liability For:			Retiree Medical Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Inactive Members	(3) Active Members (Employer- Financed Portion)		(1)	(2)	(3)
June 30, 2012 ¹	\$ 0	\$ 0	\$ 16,811	\$ 6,937	100.0%	100.0%	41.3%
June 30, 2011	0	0	3,801	5,373	100.0%	100.0%	100.0%
June 30, 2010 ¹	0	0	2,430	3,895	100.0%	100.0%	100.0%
June 30, 2009 ¹	0	0	1,446	2,353	100.0%	100.0%	100.0%
June 30, 2008 ¹	0	0	757	1,308	100.0%	100.0%	100.0%
June 30, 2007	0	0	358	597	100.0%	100.0%	100.0%
June 30, 2006	0	0	0	0	N/A	N/A	N/A

Retiree medical liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy).

¹ Change in Assumptions

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 4

Member Data

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 4.1

Summary of Members Included

As of June 30	2008	2009	2010	2011	2012
Active Members					
(1) Number	1,198	1,792	2,246	2,708	3,057
(2) Average Age	36.82	37.10	36.79	37.25	37.61
(3) Average Credited Service	1.29	1.68	2.07	2.62	3.00
(4) Average Entry Age	35.53	35.42	34.72	34.63	34.61
(5) Average Annual Earnings	\$ 47,053	\$ 50,061	\$ 52,900	\$ 55,860	\$ 58,476
Retirees, Disableds and Beneficiaries					
(1) Number	0	0	0	0	0
(2) Average Age	N/A	N/A	N/A	N/A	N/A
(3) Average Monthly Death & Disability Benefit	N/A	N/A	N/A	N/A	N/A
Inactive Members*					
(1) Number	3	4	4	24	68
Total Number of Members	1,201	1,796	2,250	2,732	3,125

*Inactive members are not eligible for future benefits from the Plan.

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 4.2

Age and Service Distribution of Active Members

Annual Earnings by Age

Age	Number	Total Annual Earnings	Average Annual Earnings
0 – 19	0	\$ 0	\$ 0
20 – 24	108	5,245,901	48,573
25 – 29	798	42,438,949	53,182
30 – 34	663	37,855,234	57,097
35 – 39	422	25,431,088	60,263
40 – 44	321	19,485,114	60,701
45 – 49	268	16,761,620	62,543
50 – 54	234	14,765,096	63,099
55 – 59	151	10,290,771	68,151
60 – 64	74	5,194,422	70,195
65 – 69	16	1,166,772	72,923
70 – 74	2	126,213	63,107
75+	0	0	0
Total	3,057	\$ 178,761,180	\$ 58,476

Annual Earnings by Credited Service

Years of Service	Number	Total Annual Earnings	Average Annual Earnings
0	113	\$ 5,699,381	\$ 50,437
1	663	36,612,192	55,222
2	596	33,989,817	57,030
3	557	32,443,597	58,247
4	494	29,978,244	60,685
0 – 4	2,423	138,723,231	57,253
5 – 9	632	39,881,189	63,103
10 – 14	2	156,760	78,380
15 – 19	0	0	0
20 – 24	0	0	0
25 – 29	0	0	0
30 – 34	0	0	0
35 – 39	0	0	0
40+	0	0	0
Total	3,057	\$ 178,761,180	\$ 58,476

Years of Credited 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	108	0	0	0	0	0	0	0	0	108
25 – 29	714	84	0	0	0	0	0	0	0	798
30 – 34	511	151	1	0	0	0	0	0	0	663
35 – 39	308	114	0	0	0	0	0	0	0	422
40 – 44	244	77	0	0	0	0	0	0	0	321
45 – 49	203	64	1	0	0	0	0	0	0	268
50 – 54	162	72	0	0	0	0	0	0	0	234
55 – 59	108	43	0	0	0	0	0	0	0	151
60 – 64	53	21	0	0	0	0	0	0	0	74
65 – 69	10	6	0	0	0	0	0	0	0	16
70 – 74	2	0	0	0	0	0	0	0	0	2
75+	0	0	0	0	0	0	0	0	0	0
Total	2,423	632	2	0	0	0	0	0	0	3,057

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 4.3

Member Data Reconciliation

	Actives	Vested Inactive	Retired	Disabled	Beneficiary	Total
Total as of July 1, 2011	2,708	24	0	0	0	2,732
Vested Termination	(44)	44	0	0	0	0
Non-vested Termination	(346)	0	0	0	0	(346)
Refund of Contributions	(41)	(2)	0	0	0	(43)
Disabled	0	0	0	0	0	0
Retired	0	0	0	0	0	0
Deceased, No Beneficiary	(1)	0	0	0	0	(1)
Deceased, With Beneficiary	0	0	0	0	0	0
Return to Active	114	(6)	0	0	0	108
Data Adjustment	6	8	0	0	0	14
New Entrant	661	0	0	0	0	661
Total as of July 1, 2012	3,057	68	0	0	0	3,125

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 4.4

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Earnings (000's)	Annual Average Earnings	Percent Increase/ (Decrease) in Average Earnings	Number of Participating Employers
June 30, 2012	3,057	\$ 178,761	\$ 58,476	4.7%	58
June 30, 2011	2,708	151,269	55,860	5.6%	58
June 30, 2010	2,246	118,813	52,900	5.7%	58
June 30, 2009	1,792	89,708	50,061	6.4%	58
June 30, 2008	1,198	56,369	47,053	6.2%	58
June 30, 2007	641	28,410	44,322	0.0%	58
June 30, 2006	0	0	0	0.0%	58

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5

Basis of the Actuarial Valuation

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.1

Summary of Plan Provisions and Changes in Plan Provisions

(1) Effective Date

July 1, 2006, with amendments through June 30, 2012.

(2) Administration of Plan

The Commissioner of Administration or the Commissioner's designee is the administrator of the Plan. The Attorney General of the state is the legal counsel for the Plan and shall advise the administrator and represent the Plan in legal proceedings.

The Alaska Retirement Management Board prescribes policies, adopts regulations, invests the funds, and performs other activities necessary to carry out the provisions of the Plan.

(3) Employers Included

Currently there are 58 employers participating in the TRS DCR Plan, including the State of Alaska, 53 school districts, and four other eligible organizations.

(4) Membership

An employee of a participating employer who first enters service on or after July 1, 2006, or a member of the defined benefit plan who works for an employer who began participation on or after July 1, 2006, and meets the following criteria is a member in the Plan:

- Permanent full-time or part-time elementary or secondary teachers, school nurses, or a person in a position requiring a teaching certificate as a condition of hire in a public school of the State of Alaska, the Department of Education and Early Development or in the Department of Labor and Workforce Development.
- Full-time or part-time teachers at the University of Alaska or persons occupying full-time administrative positions requiring academic standing who are not in the University's Optional Retirement Plan.

Members can convert to the DCR Plan if they are an eligible nonvested member of the TRS defined benefit plan whose employer consents to transfers to the defined contribution plan and they elect to transfer his or her account balance to the TRS DCR Plan.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.1 (cont'd)

Summary of Plan Provisions and Changes in Plan Provisions

(5) Member Contributions

There are no member contributions for the occupational death & disability and retiree medical benefits.

(6) Retiree Medical

- Member must retire directly from the plan to be eligible for retiree medical coverage. Normal retirement eligibility is the earlier of a) 30 years of service or b) Medicare eligible and 10 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.
- Members who are receiving disability benefits or survivors who are receiving monthly survivor benefits are not eligible until the member meets, or would have met if he/she had lived, the normal retirement eligibility requirements.
- The plan's coverage is supplemental to Medicare.
- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

Years of Service	Percent of Premium Paid by Member
Less than 15 years	30%
15 – 19	25%
20 – 24	20%
25 – 29	15%
30 years or more	10%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.1 (cont'd)

Summary of Plan Provisions and Changes in Plan Provisions

(7) Occupational Disability Benefits

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or at any age with 30 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

(8) Occupational Death Benefits

- Benefit is 40% of salary.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- The period during which the survivor is receiving benefits is counted as service credit toward retiree medical benefits.
- No retiree medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

Changes Since the Prior Valuation

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.2

Description of Actuarial Methods and Valuation Procedures

The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was implemented effective June 30, 2006.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

Valuation of Liabilities

(A) 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.

Cost factors designed to produce annual costs as a constant percentage of each member's expected compensation in each year for death and disability benefits (constant dollar amount for retiree medical benefits), from the assumed entry age to the last age with a future benefit 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 DCR Plan 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 beneficiaries and disabled members currently receiving benefits (if any) 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.

(B) 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. Fair Value of Assets were \$0 as of June 30, 2006. All assets are valued at fair 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 fair value of assets.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.2 (cont'd)

Description of Actuarial Methods and Valuation Procedures

(C) Valuation of Retiree Medical Benefits

The methodology used for the valuation of the retiree medical benefits is described in Section 6.2(c) of the State of Alaska Teachers' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2012.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2012 for TRS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include network steerage, different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, FY12 claims costs were reduced 11.9% for medical and 7.1% for prescription drugs. Retiree out-of-pocket amounts were indexed 0.2% each year to reflect the effect of the deductible leveraging on trend and other plan design features.

No implicit subsidies are assumed. Employees projected to retire with 30 years of service prior to Medicare are valued with commencement deferred to Medicare eligibility, as such members will be required to pay the full plan premium. Explicit subsidies for disabled and normal retirement are determined using the plan-defined percentages of total projected plan costs, again with no implicit subsidy assumed.

Healthcare Reform

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 due to 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 did look at 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 year in which the tax would potentially affect Alaska to be sufficiently far into the future to produce a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

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.

Changes in Methods From the Prior Valuation

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

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3

Summary of Actuarial Assumptions and Changes in Assumptions

The demographic and economic assumptions used in the June 30, 2012 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed for the DB Plan as of June 30, 2009.

Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses.
Salary Scale	Inflation – 3.12% per year. Productivity – 0.5% per year. See Table 1 for salary scale rates.
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.
Mortality (Pre-termination)*	Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 2). 55% of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 45% for males. 15% of deaths are assumed to result from occupational causes.
Mortality (Post-termination)*	Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 3). 3-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 4-year setback for males.
Turnover	Select rates were estimated and ultimate rates were set to the TRS DB Plan's rates loaded by 10%. (See Table 4).
Disability	Incidence rates based upon the 2005-2009 actual experience of the TRS DB Plan, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.
Retirement	Retirement rates were estimated in accordance with Table 6.
Marriage and Age Difference	Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.
Part-time Status	Part-time employees are assumed to earn 0.60 years of credited service per year.

*The mortality assumptions include an allowance for expected future mortality improvement. The mortality table used was set in 2010 with an Actual Deaths to Expected Deaths ratio of 117%.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Expenses	All expenses are net of the investment return assumption.	
Per Capita Claims Cost	Sample claims cost rates adjusted to age 65 for FY13 medical benefits are shown below:	
	Medical	Prescription Drugs
Pre-Medicare	\$ 9,856	\$ 2,736
Medicare Parts A & B	\$ 1,628	\$ 2,736
Medicare Part B Only	\$ 6,219	\$ 2,736
Medicare Part D	N/A	\$ 535
Third Party Administrator Fees	\$163.52 per person per year; assumed trend rate of 5% per year.	
Base Claims Cost Adjustments	<p>Due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following cost adjustments are applied to the per capita claims cost rates above:</p> <ul style="list-style-type: none"> • 0.881 for the medical plan. • 0.929 for the prescription drug plan. • 0.998 for the annual indexing of member cost sharing. 	

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

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, 9.0% is applied to the FY13 pre-Medicare medical claims costs to get the FY14 medical claims costs.

	Medical Pre-65	Medical Post-65	Prescription Drugs
FY13	9.0%	6.5%	6.4%
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%
FY25	6.0%	6.0%	5.8%
FY50	5.0%	5.0%	5.0%
FY100	4.5%	4.5%	4.5%

For the June 30, 2012 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 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska. The model asks the user to input estimated baseline costs for year 2015. Using this value as the base cost, the model projects per-person expenditures and growth rates through 2100 using a set of equations and assumptions developed by the author with the assistance of an SOA working group. The user can then use the model input cells to specify alternative assumptions regarding responsiveness to external trends, income growth, and other factors to arrive at alternative projections. The model provisionally uses default short term annual projected by CMS for years 2011-2015 (4% to 6%), but users may input their own estimates for these model years. In this model, cost controls can be simulated in two ways: by specifying a Share Restriction Point, a percentage of GDP represented by healthcare and above which the current trends will be reduced; or by specifying a limit year after which the rate of growth in health care costs will be reduced to match the rate of growth

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

in per capita income (as both CMS and CBO assume). While this model is not directly applicable, it was used for a reference point in the ultimate pharmacy trend. We set pharmacy trend based upon recent plan and industry experience and grade down slowly in the select period (similar to post-65 medical trend) to an ultimate trend rate based upon what we are seeing for medical trend and consistent within the industry.

The following table compares plan-specific inputs and the model's baseline assumptions for key assumptions as of June 30, 2012:

Key Assumption	Alaska-Specific Values		
	Base Line Value	Pre-Medicare Medical	Medicare Medical
HCCTR 2012-2013	4.6%	9.0%	6.1%
HCCTR 2013-2014	7.4%	8.0%	5.8%
HCCTR 2014-2015	5.0%	7.0%	5.5%
2015 GDP % of healthcare	18.3%	17.9%	17.9%
2015 PCCC	\$10,000	\$10,295	\$2,596
CPI	2.5%	2.5%	2.5%
Real GDP	1.7%	1.5%	1.5%
Income Multiplier	1.40	1.30	1.30
Taste/Technology	1.1%	1.1%	1.1%
Max GDP as % of healthcare	25.0%	25.0%	25.0%
Year reached	2075	2075	2075

Future (2026+) assumptions for inflation (2.4% for 2026-3025 and 2.3% thereafter), real GDP (1.5%), income multiplier (1.05 for 2026-3025 and 1.00 thereafter) and technology (0.9% for 2026-3025 and 0.8% thereafter) were not changed from the baseline inputs.

Aging Factors

Age	Prescription	
	Medical	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%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Retiree Medical Participation

<u>Decrement Due to Disability</u>		<u>Decrement Due to Retirement</u>	
<u>Age</u>	<u>Percent Participation</u>	<u>Age</u>	<u>Percent Participation</u>
<56	73.00%	55	40.0%
56	77.50%	56	50.0%
57	79.75%	57	55.0%
58	82.00%	58	60.0%
59	84.25%	59	65.0%
60	86.50%	60	70.0%
61	88.75%	61	75.0%
62	91.00%	62	80.0%
63	93.25%	63	85.0%
64	95.50%	64	90.0%
65+	94.00%	65+	<u>Years of Svc</u>
			<15 70.5%
			15-19 75.2%
			20-24 79.9%
			25-29 89.3%
			30+ 94.0%

*Updated participation rates reflect the expected plan election rate that varies by reason for decrement, duration that a member may pay full cost prior to Medicare eligibility, and availability of alternative and/or lower cost options, particularly in the Medicare market.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 1
Alaska TRS DCR Plan
Salary Scale

<u>Year of Employment</u>	<u>Unisex Rate</u>
1-6	6.11%
7	5.94
8	5.78
9	5.61
10	5.44
11	5.28
12	5.11
13	4.94
14	4.78
15	4.61
16	4.45
17	4.28
18	4.11
19	3.95
20	3.78
21+	3.62

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 2
Alaska TRS DCR Plan
Mortality Table (Pre-termination)

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.017%	.012%
21	.018	.012
22	.019	.012
23	.021	.013
24	.024	.013
25	.026	.013
26	.030	.014
27	.032	.014
28	.033	.015
29	.034	.016
30	.035	.017
31	.036	.019
32	.037	.020
33	.037	.021
34	.037	.022
35	.037	.023
36	.038	.024
37	.039	.025
38	.041	.027
39	.042	.029
40	.045	.032
41	.047	.034
42	.050	.037
43	.053	.039
44	.056	.041
45	.060	.042
46	.064	.044
47	.069	.047
48	.075	.051
49	.081	.055
50	.088	.061
51	.097	.068
52	.106	.078
53	.118	.090
54	.131	.102
55	.149	.116
56	.170	.135
57	.195	.157
58	.224	.181
59	.253	.208
60	.284	.239
61	.326	.274
62	.368	.314
63	.425	.359

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

64

.479

.410

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 3
Alaska TRS DCR Plan
Mortality Table (Post-termination)

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	.142%	.085%
51	.153	.092
52	.166	.100
53	.181	.111
54	.196	.124
55	.215	.143
56	.235	.163
57	.263	.185
58	.291	.212
59	.331	.246
60	.377	.285
61	.433	.328
62	.499	.378
63	.561	.434
64	.631	.498
65	.725	.570
66	.819	.653
67	.944	.745
68	1.064	.844
69	1.196	.948
70	1.362	1.052
71	1.512	1.150
72	1.634	1.242
73	1.787	1.342
74	1.915	1.434
75	2.094	1.583
76	2.298	1.726
77	2.518	1.918
78	2.748	2.094
79	3.061	2.338
80	3.361	2.669
81	3.788	2.985
82	4.292	3.327
83	4.868	3.707
84	5.510	4.136
85	6.214	4.625

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 4
Alaska TRS DCR Plan
Turnover Assumptions

Select Rates of Turnover During the First 5 Years of Employment

Year of Employment	Rate
0	18%
1	17%
2	14%
3	12%
4	10%

Ultimate Rates of Turnover After the First 5 Years of Employment

Age	Male	Female	Age	Male	Female
15	4.9042%	4.8122%	40	4.7508%	4.6924%
16	4.8981	4.8085	41	4.7372	4.6815
17	4.8931	4.8061	42	4.7199	4.6706
18	4.8882	4.8049	43	4.7038	4.6609
19	4.8857	4.8037	44	4.6827	4.6488
20	4.8474	4.7686	45	4.6593	4.6343
21	4.8448	4.7686	46	4.6345	4.6210
22	4.8399	4.7674	47	4.6035	4.6028
23	4.8362	4.7674	48	4.5676	4.5823
24	4.8300	4.7662	49	4.5306	4.5617
25	4.8250	4.7662	50	4.4884	4.5375
26	4.8201	4.7650	51	4.4389	4.5097
27	4.8151	4.7638	52	4.3808	4.4770
28	4.8102	4.7601	53	4.3164	4.4383
29	4.8052	4.7565	54	4.2447	4.3971
30	4.8015	4.7529	55	4.1630	4.3475
31	4.7991	4.7505	56	4.0640	4.2834
32	4.7953	4.7456	57	3.9427	4.2011
33	4.7929	4.7420	58	3.8103	4.1080
34	4.7916	4.7372	59	3.6507	3.9894
35	4.7892	4.7323	60	3.4713	3.8551
36	4.7854	4.7251	61	3.2720	3.7050
37	4.7805	4.7190	62	3.0406	3.5344
38	4.7718	4.7105	63	2.7770	3.3396
39	4.7619	4.7021	64	2.4912	3.1279
			65+	4.9500	4.8400

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 5
Alaska TRS DCR Plan
Disability Table

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.022%	.020%
21	.022	.020
22	.023	.021
23	.023	.021
24	.024	.022
25	.024	.022
26	.024	.022
27	.025	.022
28	.026	.023
29	.026	.024
30	.027	.025
31	.027	.025
32	.028	.025
33	.029	.026
34	.030	.027
35	.030	.027
36	.032	.029
37	.033	.030
38	.034	.031
39	.035	.032
40	.037	.033
41	.038	.035
42	.041	.037
43	.043	.039
44	.047	.043
45	.052	.047
46	.056	.050
47	.061	.055
48	.066	.060
49	.071	.064
50	.077	.069
51	.083	.075
52	.091	.082
53	.102	.091
54	.114	.102
55	.128	.115
56	.147	.133
57	.171	.154
58	.195	.176
59	.230	.207
60	.270	.243
61	.312	.281
62	.362	.325
63	.418	.376
64	.477	.429

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Table 6
Alaska TRS DCR Plan
Retirement Table

Age	Rate
<55	2%
55-59	3%
60	5%
61	5%
62	10%
63	5%
64	5%
65	25%
66	25%
67	25%
68	20%
69	20%
70	100%

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

Section 5.3 (cont'd)

Summary of Actuarial Assumptions and Changes in Assumptions

Changes in Actuarial Assumptions Since the Prior Valuation

There have been changes in actuarial assumptions since the prior valuation regarding healthcare cost trend rates and the DCR retiree medical plan adjustments. The updated healthcare cost trend assumption reflects differences in Medicare eligible and non-Medicare eligible medical costs, maintains a distinct prescription drug cost trend and utilizes the Society of Actuaries long-term cost trend model to estimate ultimate trend. We also updated member contributions to reflect the new non-Medicare and pharmacy benefit cost trend on a weighted average basis.

To account for anticipated plan design features, FY12 claims costs adjustments were changed from 5.9% for medical and 0.7% for prescription drugs to 11.9% and 7.1% respectively. Retiree out-of-pocket amounts were indexed 0.2% each year, compared to 4.8% last year. Participation rates were reduced to reflect the proportion of retirees expected to have access to alternative options in the Medicare market as well as the time from retirement to Medicare-eligibility where a member pays full cost.

State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan

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.
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 Other Post-Employment Benefit (OPEB) Cost.
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 member 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.