PUBLIC EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2004

Frank H. Murkowski, Governor

Prepared by

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TABLE OF CONTENTS

Investment Section (continued)

December 16, 2004

The Honorable Frank H. Murkowski, Governor
Members of the Alaska State Legislature
Public Employees' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 2004.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2004. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The FY 2004 CAFR is divided into five sections:

- **Introductory Section**, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Public Employees' Retirement Board;
- **Financial Section**, which contains the Independent Auditors' Report, management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current (June 30, 2003) annual actuarial valuation; and
- **Statistical Section**, which includes graphs and tables of significant data.

December 16, 2004

The Alaska PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	PERS		
	FY04	FY03	FY02
Net Assets (millions)	$8,177.3	7,391.5	7,412.8
Participating Employers	161	160	161

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Public Employees' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section of this report. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

The Public Employees' and Teachers' Retirement Boards have been looking at ways to reduce costs to the employers and address the underfunded status of the Systems while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. A "Tier subcommittee" was developed to look at the possibility of adding a Tier IV in the PERS and a Tier III in the TRS. These new tiers would provide pension and postemployment healthcare benefits at levels the same as or less than current tiers. The Tier subcommittee has been meeting for almost a year and surveyed employers, employees, and benchmarked current Tiers with other states pension benefits. In order to accomplish this project the Tier Subcommittee used the services of the System's actuarial consultant to review and analyze the results of the study and determine the impact on the Systems. The Tier subcommittee did make a formal recommendation about a Tier redesign to the respective boards in November 2004.

December 16, 2004

Independent Audit

The System's annual audit was conducted by the independent accounting firm of KPMG LLP. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Actuarial Valuation

An actuarial valuation of the System is performed annually. An assumption experience study is performed at least every other year. The actuarial firm, Mercer Human Resource Consulting, completed the actuarial reviews and valuations as of June 30, 2003, and served as technical advisor to the System. Actuarial certifications and supporting statistics are included in the Actuarial and Statistical Sections of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alaska Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We are confident that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA to determine its eligibility for another certificate.

Future Employer Contribution Rates

The System's consulting actuary presented the results of the June 30, 2003 actuarial valuation report to the administrator and the board. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on this most recent valuation report, the System has a funding ratio (assets of the System divided by the total liabilities for pension and postemployment healthcare) of 72.8%. The unfunded portion of the System's liabilities totals approximately $2.9 billion. The unfunded liability is amortized over a 25 year period, as established by the Board. In order to bridge the gap between assets and liabilities of the System, the employer matching contribution rate would increase over the same 25 year period from the Fiscal Year 2004 rate of 11.77% to approximately 30% in Fiscal Year 2028 if the System earns the assumed rate of 8.25%. The current asset allocation that the Alaska State Pension Investment Board for the System's investments is expected to provide a five year median return of 7.72%.

While investment returns in Fiscal Year 2004 of 15.08% exceeded the actuarial assumed rate of 8.25%, one good year does not make up for the three prior years of earnings less than the assumed rate. Any time the System earns less than the assumed 8.25%, the impact typically will be an increase to the employer matching contribution rate. Since the three prior years rates were less than the assumed rate by 4.58% to 13.73%, these differences severely impacted the funding ratios, which in turn results in increased rates to the employers.

Besides the obvious impact of investments, the System also experienced significant increases in healthcare costs. In order to properly accrue (build up) assets to pay for the future “more expensive” health benefits, the System needs to charge employers a higher rate to offset those costs. The System has assumptions in place to account for healthcare costs, but if cost increases exceed what the System assumes, the impact is to increase the employer matching contribution rate.

For additional information on how a defined benefit system like PERS operates, the Division has developed a “white paper” that describes how the System is funded by revenues from plan members, employers, and investments, and where System costs are. This “white paper” is titled “Employee Benefits and Retirement System Funding” and is located at www.state.ak.us/drb/pers/perspublications.htm.

Currently, the Alaska PERS and TRS are rare in that these plans constitute two out of eight retirement systems that pre-fund and account for medical costs. The other three states that do this are Ohio, Michigan and Kentucky. The PERS and TRS systems are fortunate in that the creators and administrators of the Systems had foresight to fund the healthcare costs in advance. The remaining 120 other major governmental retirement systems only account for their current annual liability for healthcare costs. Once GASB #45 is effective in 2006/2007, all retirement systems will have to account for their future healthcare costs, similar to what our System already reports. So, current comparisons to other systems will be comparable once other systems start reporting their liabilities like PERS and TRS.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the System.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

We would like to take this opportunity to express our gratitude to the Public Employees’ Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,

Ray Matiashowski, Commissioner

Melanie Millhorn, Director

Kevin Brooks, Deputy Commissioner

Anselm Staack, CPA, JD, Chief Financial Officer

Kevin Worley, CPA, Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

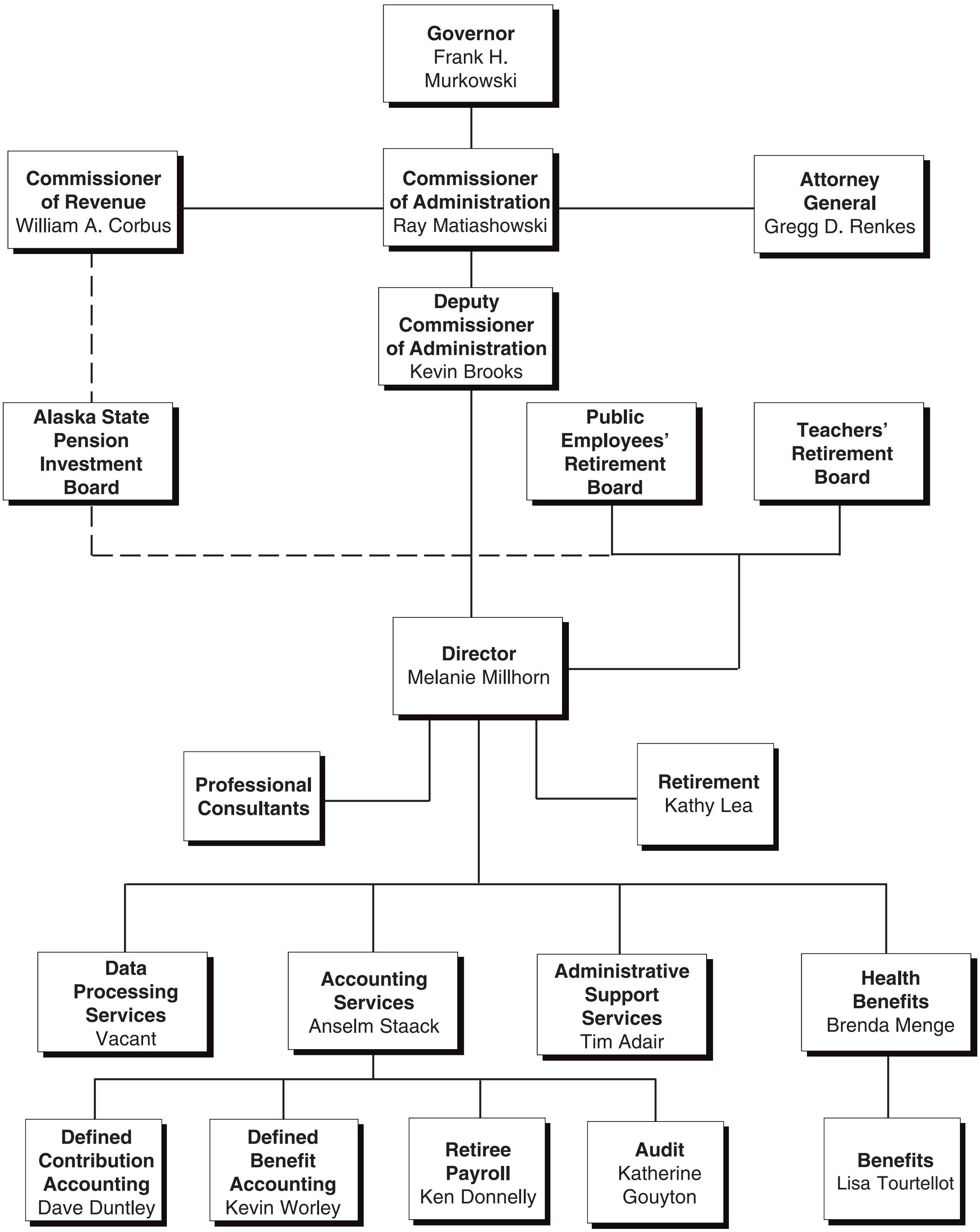
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on-demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS

Consulting Actuary
Mercer Human Resource Consulting
Seattle, Washington

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

Third Party Health Claim Administrator
Aetna Life Insurance Company
Walnut Creek, California

Legal Counsel
Virginia Ragle
Kathleen Strasbaugh
Assistant Attorney Generals
Juneau, Alaska

Legal Counsel - Retirement Boards
Wohlforth, Vassar, Johnson & Brecht
Anchorage, Alaska

Consulting Physicians
Kim Smith, M.D.
William Cole, M.D.
Juneau, Alaska

A list of external money managers and consultants for the System can be found on pages 52-53, and the Schedule of Investment Management Fees on pages 59-60.

PUBLIC EMPLOYEES' RETIREMENT BOARD

(as of June 30, 2004)

George Sullivan, Chair
Term Expires: June 30, 2006

George Sullivan grew up in Alaska. After graduation from Valdez High School, he joined the Army during WWII and served in the Aleutians. George represented the Anchorage area in the legislature in the mid 60's and was mayor of Anchorage from 1967 to 1982. He has always been active in the community and continues to give leadership to a number of organizations in Alaska, including The Anchorage Senior Center, Boys and Girls Club, Enstar Gas Board, Pioneers of Alaska, and the Veterans of Foreign Wars. George lives in Anchorage with his wife, Margaret. They divide their retirement days between a very appreciative community and the families of their 9 children, which include 15 grandchildren and 1 great-grandchild.

Alyce Hanley, Vice Chair
Term Expires: June 20, 2008

Alyce Hanley has lived in Anchorage since 1971. She graduated from high school in Pawtucket, Rhode Island and completed her nurse's training at the New England Deaconess Hospital School of Nursing in Boston, Mass. She was elected to the Anchorage School Board in 1981 and to the Alaska House of Representatives in 1984. After serving three terms, she chose not to run for re-election. In 1993, Mrs. Hanley was appointed to serve as a Commissioner with the Alaska Public Utilities Commission. She retired from that position in April 1999.

Alyce enjoys family activities with her five sons, their wives and seven grandchildren, all of whom live in the Anchorage area.

Bronk Jorgensen
Term Expires: June 20, 2010

Bronk Jorgensen was born in Jackson Hole, Wyoming. He became an Alaskan resident in 1978, before he was one year old. Bronk attended Tok School, the University of Alaska Fairbanks and attended the University of Pittsburgh, Semester at Sea program, graduating with a degree in Business Administration.

Bronk lives in Tok and is the owner/manager of All Alaska Gifts and Crafts and Jorgensen Realty. He is also a member of the Tok and State of Alaska Chambers of Commerce and was the 2002 recipient of the Chuck West New Pioneer Award from the Alaska Travel Industry Association.

Bronk enjoys Alaska's hunting, fishing and outdoor activities.

Frank Narusch
Term Expires: April 24, 2006

Frank Narusch has been an Alaskan resident since 1952. Raised in the coal mining camp of Suntrana on the Healy River, he boarded away to attend high school at Monroe High School in Fairbanks and Copper Valley School in Glennallen. While attending Seattle University, he worked summers commercial fishing in Cordova, coal mining in Suntrana, and surveying and inspecting projects around Fairbanks and Valdez for the Department of Highways (now DOT&PF). After receiving a degree in civil engineering in 1966, he began his professional career with the Department of Highways. During his 31 years of State employment, he held positions as Construction Project Manager, Regional Materials Engineer, Contract Claims Engineer, and Professional Services Chief. While with the State, he was active with the Alaska Public Employees Association.

He enjoys weekly breakfast get-togethers with retired friends as well as summer travel, camping, and exploring back roads around the State.

James "Pat" Wellington, Chair
Term Expires: April 5, 2008

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Investment Board.

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701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Public Employees' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 39 to 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 46 and 47 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG

The investment, actuarial and statistical data on pages 49 through 91 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 24, 2004

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (Plan) financial position and performance for the years ended June 30, 2004 and 2003. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2004 and 2003. Prior fiscal year information for 2002 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $8,177,306,000 and $7,391,455,000 at the close of Fiscal Years 2004 and 2003, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2004 and 2003 increased by $785,851,000 or 10.6% and decreased by $21,378,000 or 0.3% over the closing balances of those assets in Fiscal Years 2003 and 2002, respectively.

Plan member and employer contributions received totaled $224,139,000 and $211,310,000 during Fiscal Years 2004 and 2003; increases of $12,829,000 and $15,912,000 or 6.1% and 8.1% from Fiscal Years 2003 and 2002, respectively.

Net investment income (loss) increased from $237,205,000 to $1,064,605,000 during Fiscal Year 2004 and increased from ($448,279,000) to $237,205,000 during Fiscal Year 2003; reflecting an increase of 348.8% and 152.9% from Fiscal Years 2003 and 2002, respectively.

Pension benefit and postemployment healthcare payments totaled $496,750,000 and $451,015,000 during Fiscal Years 2004 and 2003; reflecting an increase of $45,735,000 and $46,479,000 or 10.1% and 11.5% from Fiscal Years 2003 and 2002, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total liabilities. The Statement of Plan Net Assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Condensed Financial Information

Public Employees' Retirement System
(000's omitted)

NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Assets:					
Cash and receivables	$ 9,702	9,373	329	3.5%	14,009
Investments, at fair value	8,174,863	7,388,741	786,122	10.6%	7,406,520
Other assets	126	166	(40)	(24.1%)	118
Total assets	8,184,691	7,398,280	786,411	10.6%	7,420,647
Liabilities:					
Accrued expenses	7,281	6,764	517	7.6%	7,395
Other liabilities	104	61	43	70.5%	419
Total liabilities	7,385	6,825	560	8.2%	7,814
Total net assets	$ 8,177,306	7,391,455	785,851	10.6%	7,412,833

CHANGES IN NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Net assets, beginning of year	$ 7,391,455	7,412,833	(21,378)	(0.3%)	8,088,382
Additions:					
Contributions	224,139	211,310	12,829	6.1%	195,408
Net investment income (loss)	1,064,605	237,205	827,400	348.8%	(448,279)
Other additions	152	27	125	463.0%	10
Total additions	1,288,896	448,542	840,354	187.4%	(252,861)
Deductions:					
Benefits	496,750	451,015	45,735	10.1%	404,536
Refunds	14,723	13,025	1,698	13.0%	12,869
Administrative expenses	5,296	5,880	(584)	(9.9%)	5,283
Total deductions	516,769	469,920	46,849	10.0%	422,688
Transfer in from Retiree Health Fund	13,724	-	13,724	100.0%	-
Increase (decrease) in net assets	785,851	(21,378)	807,229	3776.0%	(675,549)
Net assets, end of year	$ 8,177,306	7,391,455	785,851	10.6%	7,412,833

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2004 and 2003 showed total assets exceeding total liabilities by $8,177,306,000 and $7,391,455,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $785,851,000 or 10.6% and a decrease of $21,378,000 or 0.3% from Fiscal Years 2003 and 2002. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2003, ASPIB adopted an asset allocation that includes 37% in Domestic Equities, 15% in International Equities, 30% in Domestic Fixed Income, 3% in International Fixed Income, 6% in Alternatives, and 9% in Real Estate. This asset allocation is expected to provide a five year median return of 7.72%.

For Fiscal Years 2004 and 2003, the Plan's investments generated 15.08% and 3.67% rate of return, respectively. The Plan's annualized rate of return was 4.09% over the last three years and 3.29% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in Fiscal Year 2004 and a fixed amortization of the funding target surplus or the unfunded accrued liability. The amortization period is set by the Public Employees' Retirement Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Investment losses and increasing healthcare costs impacted the Plan's funding ratio as of June 30, 2003 (the date of the Plan's latest actuarial valuation report). The ratio of assets to liabilities decreased from 75.2% to 72.8% during the year, using June 30, 2002 net assets as a base. The goal for the Plan is to have progress toward achieving the funding objectives of the Plan.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

The Fiscal Year 2004 employer consolidated rate decreased from 5.43% to 5.42%, the average past service rate was 1.35%, thus producing a total average rate for all employers in the Plan of 6.77%. The Public Employees' Retirement Board adopted an average employer contribution rate of 6.77%.

The Fiscal Year 2005 employer consolidated rate increased from 5.42% to 13.31%, the average past service rate was 11.60%, thus producing a total average rate for all employers in the Plan of 24.91%.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

The Public Employees' Retirement Board adopted an average employer contribution rate of 11.77%.

Valuation Year	(000's omitted) 2003	2002
Valuation Assets	$7,687,281	7,412,833
Accrued Liabilities	10,561,653	9,859,591
Funding ratio	72.8%	75.2%

Contributions and Investment Income (Loss)

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

Revenues	(000's Omitted) FY04	FY03	Inc/(Dec) Amt	%	FY02
Plan Member Contributions	$ 118,554	112,112	6,442	5.7%	100,639
Employer Contributions	105,585	99,198	6,387	6.4%	94,769
Net Investment Income (Loss)	1,064,605	237,205	827,400	348.8%	(448,279)
Total	**$1,288,744**	**448,515**	**840,229**	**187.3%**	**(252,871)**

Plan member contributions increased from $112,112,000 in Fiscal Year 2003 to $118,554,000 during Fiscal Year 2004, an increase of $6,442,000 or 5.7%. Employer contributions increased from $99,198,000 during Fiscal Year 2003 to $105,585,000 during Fiscal Year 2004, an increase of $6,387,000 or 6.4%.

Investment income in Fiscal Year 2004 increased by $827,400,000 or 348.8% from amounts recorded in Fiscal Year 2003. Investment income in Fiscal Year 2003 increased by $685,484,000 or 152.9% over amounts recorded in Fiscal Year 2002. The equity markets continued their strong performance during the last quarter of Fiscal Year 2003 into the first three quarters of Fiscal Year 2004. However, the last quarter of Fiscal Year 2004 proved to be flat, posting an overall investment return of –0.07%.

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members and the cost of administering the Plan comprise the costs of operations.

Expenses	(000's Omitted) FY04	FY03	Inc/(Dec) Amt	%	FY02
Pension Benefits	$ 329,390	307,684	21,706	7.1%	279,731
Healthcare Benefits	167,360	143,331	24,029	16.8%	124,805
Refunds of Contributions	14,723	13,025	1,698	13.0%	12,869
Administrative Expenses	5,296	5,880	(584)	(9.9%)	5,283
Total	**$ 516,769**	**469,920**	**46,849**	**10.0%**	**422,688**

Pension benefit payments in 2004 and 2003 increased $21,706,000 and $27,953,000 or 7.1% and 10.0% from Fiscal Years 2003 and 2002, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment (ad hoc PRPA)) increase for Fiscal Year 2004.

Postemployment healthcare benefits in 2004 and 2003 increased $24,029,000 and $18,526,000 or 16.8% and 14.8% from Fiscal Years 2003 and 2002, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

increase is also directly related to the increased number of retirees in the Plan.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are determined by statute.
- ASPIB works in conjunction with the Department of Revenue, Division of Treasury, in determining the proper asset allocation strategy.

Legislation

During the Fiscal Year 2004 legislative session, one law was enacted that affected the Plan:

Senate Bill 232 – The purpose of this bill is to (1) assure that the teachers' retirement system, the public employees' retirement system, and the judicial retirement system continue to meet governmental plan qualifications set by the Internal Revenue Service so that those plans may qualify for a favorable federal tax treatment; and (2) implement changes in those retirement systems for members to take advantage of changes in federal tax laws to better plan their retirement.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

During the period July 1, 2003 to March 31, 2004, the Plan's investments continued to make great strides to the upside, a continuation of the Fiscal Year 2003's last quarter performance. The last quarter of Fiscal Year 2004 proved to be flat by returning -0.07%. Overall, the Plan's investments returned 15.08% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the first time in over three years. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely see an increase in employer contribution rates in Fiscal Year 2007. The employer contribution rate for Fiscal Year 2007 will be announced by May 2005.

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. ASPIB continues to diversify the portfolio of the Plan to maintain an optimal risk / reward ratio.

The impact of Fiscal Year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in Fiscal Year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return, the effect is an increase to the employer contribution rate. This was the case in Fiscal Year 2003, which impacts the Plan's funding status as of June 30, 2003 as well as the Fiscal Year 2005 employer contribution rate. Due to investment deficiencies, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003 actuarial valuation report for the Plan's reported a funding ratio of 72.8%, down from Fiscal Year 2002's funding ratio of 75.2%.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

With the decline in the funding ratio, the consulting actuary recommended an increase from the average employer contribution rate of 24.91% in Fiscal Year 2005 to 25.63% in Fiscal Year 2006. The PERS board adopted an average employer contribution rate of 16.77% for Fiscal Year 2006, up 5 points from the Fiscal Year 2005 employer contribution rate of 11.77%. The primary reason for the five (5) point change in the average matching employer contribution rate from 11.77% to 16.77% is due to the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states "(T)he maximum change in the contribution rate from one year to the next shall be no more than five percentage points, as actuarially calculated, whether the change is an increase or a decrease." Despite a modest 0.72 point change in the calculated average employer contribution rates from Fiscal Year 2005 to 2006 prescribed by the Plan's consulting actuary, regulations prohibit more than a five point change from year to year, so the Board was limited in its capacity to increase the PERS board adopted employer rates to a rate capped at 16.77%. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to the past couple of years, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs. However, even with the five point increase to 16.77%, employers are paying only a little less than two-thirds of the average total employer contribution rate of 25.63% in Fiscal Year 2006.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Public Employees' Retirement System, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Plan Net Assets

June 30, 2004 and 2003
(000's omitted)

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 359	152	511	369	155	524
Receivables:						
Contributions	6,457	2,734	9,191	6,220	2,620	8,840
Retirement Incentive Program employer contributions (note 8)	-	-	-	7	2	9
Total receivables	6,457	2,734	9,191	6,227	2,622	8,849
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	2,453,196	845,777	3,298,973	2,210,167	764,062	2,974,229
Retirement fixed income pool	1,025,053	434,004	1,459,057	986,806	415,586	1,402,392
International equity pool	958,337	405,757	1,364,094	811,591	341,794	1,153,385
Real estate pool	441,475	186,619	628,394	364,096	153,337	517,433
International fixed income pool	208,994	88,487	297,481	193,697	81,574	275,271
Private equity pool (note 9)	189,148	80,085	269,233	152,079	64,046	216,125
Emerging markets equity pool	69,676	29,501	99,177	52,442	22,085	74,527
External domestic fixed income pool	527,115	231,179	750,294	545,603	229,776	775,379
Other investment pool	5,733	2,427	8,160	-	-	-
Total investments	5,878,727	2,296,136	8,174,863	5,316,481	2,072,260	7,388,741
Loans and mortgages, at fair value, net of allowance for loan losses of $16 in 2004 and 2003	83	36	119	99	42	141
Other	5	2	7	17	8	25
Total assets	5,885,631	2,299,060	8,184,691	5,323,193	2,075,087	7,398,280
Current liabilities:						
Accrued expenses	5,115	2,166	7,281	4,759	2,005	6,764
Due to State of Alaska General Fund	71	31	102	44	17	61
Alaska Department of Commerce escrow liability	2	-	2	-	-	-
Total liabilities	5,188	2,197	7,385	4,803	2,022	6,825
Commitments and Contingencies (note 9)						
Net assets held in trust for pension and postemployment healthcare benefits	**$5,880,443**	**2,296,863**	**8,177,306**	**5,318,390**	**2,073,065**	**7,391,455**

(Schedules of funding progress are presented on pages 39 and 40.)

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Statements of Changes in Plan Net Assets

June 30, 2004 and 2003
(000's omitted)

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 74,178	31,407	105,585	69,801	29,397	99,198
Plan members	83,290	35,264	118,554	78,889	33,223	112,112
Total contributions	157,468	66,671	224,139	148,690	62,620	211,310
Investment income:						
Net appreciation in fair value of investments (note 3)	591,306	250,357	841,663	9,723	4,094	13,817
Interest	82,927	35,111	118,038	87,690	36,930	124,620
Dividends	87,121	36,886	124,007	80,905	34,073	114,978
Net recognized mortgage loan recovery	-	-	-	50	21	71
Total investment income	761,354	322,354	1,083,708	178,368	75,118	253,486
Less investment expense	13,421	5,682	19,103	11,457	4,824	16,281
Net investment income	747,933	316,672	1,064,605	166,911	70,294	237,205
Other	107	45	152	19	8	27
Total additions	905,508	383,388	1,288,896	315,620	132,922	448,542
Deductions:						
Benefits	329,390	167,360	496,750	307,684	143,331	451,015
Refunds of contributions	10,344	4,379	14,723	9,165	3,860	13,025
Administrative expenses	3,721	1,575	5,296	4,138	1,742	5,880
Total deductions	343,455	173,314	516,769	320,987	148,933	469,920
Net increase (decrease)	562,053	210,074	772,127	(5,367)	(16,011)	(21,378)
Other financing sources (uses):						
Transfer in from Retiree Health Fund (note 7)	-	13,724	13,724	-	-	-
Net increase (decrease)	562,053	223,798	785,851	(5,367)	(16,011)	(21,378)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	5,318,390	2,073,065	7,391,455	5,323,757	2,089,076	7,412,833
Balance, end of year	**$5,880,443**	**2,296,863**	**8,177,306**	**5,318,390**	**2,073,065**	**7,391,455**

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(1) DESCRIPTION

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, agent, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. The State employees who administer the Plan participate in the Plan.

At June 30, 2004 and 2003, the number of participating local government employers and public organizations including the State was:

	2004	2003
State of Alaska	1	1
Municipalities	79	78
School districts	53	53
Other	28	28
	161	**160**

Inclusion in the Plan is a condition of employment for eligible State employees, except, as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 2003 and 2002, the dates of the two most recent actuarial valuations, which included Plan membership data, Plan membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	18,431	17,215
Terminated Plan members entitled to future benefits	5,841	5,702
	24,272	22,917
Current Plan members:		
General	31,338	30,547
Police and fire	2,727	2,695
	34,065	33,242
	58,337	**56,159**
Current Plan members:		
Vested:		
General	16,369	16,944
Police and fire	1,739	1,715
Nonvested:		
General	14,969	13,603
Police and fire	988	980
	34,065	**33,242**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(b) Pension Benefits

Employees hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For employees hired prior to July 1, 1996, and all police and fire employees, the average monthly compensation is based upon the employees' three highest, consecutive years salaries. For all other employees hired after June 30, 1996, average monthly compensation is based upon the employees' five highest, consecutive years salaries.

The benefit related to all years of service prior to July 1, 1986, and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986, is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

(c) Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all employees hired before July 1, 1986. Employees hired after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Police and fire employees with 25 years of membership service also receive benefits at no premium cost.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report, which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(d) Death Benefits

If an active other Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the Plan member's salary. If an active police and fire Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the Plan member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

Active Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age or when the service requirement for normal retirement is met. Although there are no minimum service requirements for Plan members to be eligible for occupational disability, Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the Plan member's salary at the time of the disability. The nonoccupational disability benefit is based on the Plan member's service and salary at the time of disability. At normal retirement age, a disabled other Plan member receives normal retirement benefits. A police and fire Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(f) Contributions

Plan Member Contributions

Contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for other Plan members, as required by statute. The Plan member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability or the funding surplus over a twenty-five year fixed period.

(g) Administrative Costs

Administrative costs are financed through investment earnings.

(h) Due To/From State of Alaska General Fund

Amounts due to/from the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(c) GASB Statements No. 25 and No. 26

Government Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

As the emerging markets equity pool recognizes income, the per share value changes, resulting in the recognition of unrealized gains/losses at the pool and participant level. When participants' shares in the pool are sold, previously unrealized income is realized at the participant level.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant. Total income, which includes interest and realized and unrealized gains and losses on securities, is calculated daily and distributed monthly to each participant on a pro rata basis.

Income in the retirement fixed income pool and the external domestic fixed income pool is calculated daily and is reinvested. Total income, which includes interest and realized and unrealized gains and losses on securities, is allocated daily to each participant on a pro rata basis but is not distributed.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

(e) Contributions Receivable

Contributions from plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(f) Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(g) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2001, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of plan net assets and statements of changes in plan net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The adoption of GASB No. 34 had no cumulative effect on net assets.

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2004 and 2003, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3. Shares in the Emerging market equity, Private equity, Real estate equity, and Other investments pools are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

The cost and fair value of the Plan's investments at June 30, 2004 and 2003 are as follows:

	Cost	Fair Value
2004:		
Domestic equity pool	$ 2,855,031	3,298,973
Retirement fixed income pool	1,471,701	1,459,057
International equity pool	1,341,813	1,364,094
Real estate pool	587,151	628,394
International fixed income pool	272,320	297,481
Private equity pool	329,777	269,233
Emerging markets equity pool	92,092	99,177
External domestic fixed income pool	752,291	750,294
Other investments pool	8,122	8,160
	$ 7,710,298	**8,174,863**
2003:		
Domestic equity pool	$ 2,879,386	2,974,229
Retirement fixed income pool	1,345,983	1,402,392
International equity pool	1,368,516	1,153,385
Real estate pool	478,080	517,433
International fixed income pool	241,082	275,271
Private equity pool	295,669	216,125
Emerging markets equity pool	91,005	74,527
External domestic fixed income pool	757,370	775,379
	$ 7,457,091	**7,388,741**

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

During 2004 and 2003, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2004	2003
Investments measured by quoted fair values in an active market:		
Domestic equity pool	$ 525,916	(26,722)
Retirement fixed income pool	(65,161)	68,371
International equity pool	321,070	(98,684)
Real estate pool	10,796	6,929
International fixed income pool	7,836	44,907
Private equity pool	40,053	(33,551)
Emerging markets equity pool	23,562	3,847
External domestic fixed income pool	(22,448)	48,720
Other investments pool	39	-
	$ 841,663	**13,817**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2004 and 2003, the Plan held no individual investments that exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up and maintained share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, mortgage and asset-backed securities, corporate debt and other U.S. dollar denominated bonds. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2004 and 2003, the Plan has a 0.03% direct ownership in the short-term fixed income pool totaling $511 and $524, respectively. These amounts include interest receivable of $5 and $8, respectively.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up share price of $1,000. The share price at June 30, 2004 was $4,086. Each manager independently determines the allocation between equity and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the domestic equity pool totaled 67.20% and 66.84%, respectively, and consisted of the following:

	2004	2003
Domestic equity securities	$3,265,803	2,942,732
Convertible bonds	526	2,051
Cash and cash equivalents held in the short-term fixed income pool, other short-term debt instruments, and currency	31,183	28,723
Net receivables	1,461	723
	$3,298,973	2,974,229

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2004 was $1,723. Treasury division staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the retirement fixed income pool totaled 67.03% and 66.69%, respectively, and consisted of the following:

	2004	2003
Mortgage related	$ 725,257	623,423
Corporate	351,933	393,174
U.S. Treasury	202,047	172,370
Yankees	12,642	14,089
Municipal	-	15,701
Asset backed	45,486	73,366
U.S. government agency	63,076	68,382
Cash and cash equivalents held in the short-term fixed income pool	109,481	191,825
Net payables	(50,865)	(149,938)
	$1,459,057	1,402,392

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2004 was $2,312. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international equity pool totaled 67.46% and 67.01%, respectively, and consisted of the following:

	2004	2003
International equity securities	$1,343,014	1,134,731
Cash and cash equivalents held in short-term debt instruments and foreign currency	14,925	18,468
Net receivables	6,155	186
	$1,364,094	**1,153,385**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2004 was $1,807. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has 67.54% and 66.88% direct ownership in the real estate equity pool totaling $628,394 and $517,433, respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2004 was $1,630. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contribu-

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

tions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international fixed income pool totaled 67.32% and 66.98%, respectively and consisted of the following:

	2004	2003
International fixed income securities	$ 288,456	266,857
Cash and cash equivalents held in short-term debt instruments and foreign currency	2,991	3,030
Net receivables	6,034	5,384
	$ 297,481	**275,271**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2004 was $1,156. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 67.68% and 67.32% ownership in the private equity pool totaling $269,233 and $216,125, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an emerging markets equity pool. The pool was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2004 was $1,438. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 65% ownership in the emerging markets equity pool totaling $99,177 and $74,527, respectively.

(i) Other Investments Pool

The Plan, along with one other State retirement system, participates in an externally managed other investments pool. The pool was established March 18, 2004 with a start up share price

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

of $1,000. The share price at June 30, 2004 was $1,006. The underlying asset in the pool is composed of a limited partnership interest in a venture capital operating company. The venture capital operating company invests in oil, gas and other hydrocarbon properties, operations or projects as well as electric and other forms of power generation, transmission and distribution and other power-related projects or operations. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004, the Plan has a 67.68% ownership in the other investments pool totaling $8,160.

(j) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2004 was $1,448. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the external domestic fixed income pool totaled 66.73% and 66.32%, respectively and consisted of the following:

	2004	2003
Mortgage related	$309,517	344,769
Corporate	141,037	154,372
U.S. Treasury	168,072	71,338
U.S. government agency	66,023	51,603
Asset backed	24,954	25,005
Yankees	14,039	8,620
Municipal	-	9,578
Cash and cash equivalents held in short-term debt instruments	151,960	254,036
Net payables	(125,308)	(143,942)
	$ 750,294	**775,379**

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investments in the international equity pool and the international fixed income pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from forty-five to ninety-six days. The Plan had net unrealized gains

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(losses) with respect to such contracts, calculated using forward rates at June 30 as follows:

	2004	2003
Net contract sales	$ 4,981	1,003
Less: fair value	5,312	990
Net unrealized gains (losses) on contracts	**$ (331)**	**13**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Alaska State Pension Investment Board (the Board) to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001, the Board entered into an agreement with State Street Corporation (the Bank) to lend fixed income, domestic equity, and international equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2004 and 2003, the fair value of securities on loan allocable to the Plan totaled $960,292 and $624,928, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the years ended June 30, 2004 and 2003, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(7) TRANSFER TO RETIREMENT SYSTEMS

During Fiscal Year 2004, a review was conducted of all medical reserve amounts. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan transferred $20,000,000 to the four contributing retirement systems. The transfers were made in the following manner:

Public Employees' Retirement System	$ 13,724,000
Teachers' Retirement System	6,200,000
Judicial Retirement System	50,000
Elected Public Officials Retirement System	26,000

(8) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provided for a retirement incentive program (RIP or program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings to the employer. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established a program. The original application period for employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods on an "as needed basis" anytime through June 30, 1999.

Senate Bill 1003 (Chapter 4, FSSLA 96) was passed on June 28, 1996, and provides for a RIP for employees of the State, the University of Alaska and all employers other than school districts. Under this legislation, the State and University of Alaska could open a RIP application period on an "as needed basis" anytime between July 18, 1996 and June 30, 1999. The program was designed to allow State agencies to use the RIP in a strategic, targeted approach tailored to the specific budget and personnel situation of each agency. Some State agencies could determine that the RIP was not cost-effective for their agency and elect not to participate in the RIP. Other agencies offered the RIP only in divisions or job classifications facing budget reductions or position cuts.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

Employers who participated in either of the RIP programs were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired. Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retire. There were no additions to plan net assets during fiscal year 2004 or 2003.

When employees terminated employment to participate in the program, they were indebted to the Plan for the following percentages of their annual compensation for the calendar year in which they terminated:

Police and fire members	22.50%
Other members	20.25%

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount.

(9) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $321,598 to be paid through the year 2009.

The Plan, through its investment in the other investments pool, entered into agreements through an external investment manager to provide capital funding for a limited partnership as it continues to build an other investments portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $46,023 to be paid through the year 2014.

The Plan, through its investment in the real estate pool, entered into agreements through an external investment manager to provide capital funding for real estate investments as it continues to build a real estate portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $66,350 to be paid through the year 2007.

(b) Contingencies

The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

is, in management's opinion, not considered probably but rather only possible, and the potential loss, if any cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and seven same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependents, thus excluding coverage for domestic partners of employees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. In 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment.

Approximately 50 Plan members have filed administrative challenges to the Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the Plan statutes in effect before that date, to have leave cash-in payments included. The Plan board, which hears appeals from decisions of the Plan administrator, has ruled on two of the appeals, and those rulings have in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the Plan board. In addition, a class action lawsuit, raising the same issues, has been filed in the superior court, but has been put on hold until final resolution of the members' claim. The administrator intends to vigorously contest all of these claims.

The State is a defendant in a class action lawsuit involving a constitutional challenge to PERS and TRS statutes that provide a 10 percent cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of non-resident benefit recipients, and therefore, the 10 percent COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2004 and 2003
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funded excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$4,692,095	4,430,237	261,858	105.9%	$1,235,439	21.2%
1999	4,992,453	4,730,841	261,612	105.5%	1,283,549	20.4%
2000	5,245,612	5,190,835	54,777	101.1%	1,321,480	4.1%
2001	5,579,440	5,528,026	51,414	100.9%	1,208,700	4.3%
2002	4,611,170	6,133,182	(1,522,012)	75.2%	1,245,054	(122.2%)
2003	4,607,673	6,330,541	(1,722,868)	72.8%	1,300,041	(132.5%)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2004 and 2003
(000's omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$1,879,467	1,773,754	105,713	105.9%	$1,235,439	8.6%
1999	2,023,887	1,917,832	106,055	105.5%	1,283,549	8.3%
2000	2,209,146	2,186,077	23,069	101.1%	1,321,480	1.7%
2001	2,362,316	2,340,548	21,768	100.9%	1,208,700	1.8%
2002	2,801,663	3,726,409	(924,746)	75.2%	1,245,054	(74.3%)
2003	3,079,608	4,231,112	(1,151,504)	72.8%	1,300,041	(88.6%)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
(Unaudited)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2004 and 2003
(000's omitted)

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1999	$69,337	27,860	97,197	100.0%	100.0%	100.0%
2000	63,344	25,740	89,084	105.2%	105.2%	105.2%
2001	65,151	26,477	91,628	105.3%	105.3%	105.3%
2002	65,485	26,613	92,098	102.9%	102.9%	102.9%
2003	63,283	26,651	89,934	110.3%	110.3%	110.3%
2004	74,178	31,407	105,585	100.0%	100.0%	100.0%

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2004 and 2003
(000's omitted)

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuations as of June 30, 2003 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a rolling twenty-five year fixed period level percentage of pay.

(b) Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Deaths are assumed to be occupational 85% of the time for police and fire members, 35% of the time for other members.

(c) Retirement – retirement rates based on the 1997-1999 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of expenses.

(e) Health cost trend –

Fiscal Year	
04-05	12.0%
06	11.5%
07	11.0%
08	10.5%
09	10.0%
10	9.5%
11	9.0%
12	8.5%
13	8.0%
14	7.5%
15	7.0%
16	6.0%
FY17 and later	5.0%

(f) Salary scale – inflation 3.5%, productivity and merit (first five years) for police and fire members, 1.0% and 1.5%, respectively, and for all other members, productivity and merit (first ten years) 0.5% and 1.5%, respectively.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2004 and 2003
(000's omitted)

(h) Cost of living allowance (domicile in Alaska) – 68% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds – 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Disability – incidence rates based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(k) Asset valuation method – recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

(l) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(m) Spouse's age – wives are assumed to be four years younger than husbands.

(n) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(o) Post-retirement pension adjustment – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified by statute.

(p) Expenses – expenses are covered in the investment return assumption.

(q) Total turnover – based upon the 1997-1999 actual withdrawal experience.

(r) Part-time status – part time employees are assumed to earn 0.600 years of credited service per year.

(s) New entrants – growth projections are made for the active PERS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial as-

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2004 and 2003
(000's omitted)

sumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 2000, the following changes were made:

- The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table, 1994 base year.

- The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.

- The retirement age assumptions were revised based on actual experience in 1997-1999.

- The health cost trend assumptions were changed for fiscal years 2009 and later from an ultimate rate of 4.5% for fiscal years 2009-2013 and 4% for all subsequent fiscal years.

- The salary scale assumptions were changed. The inflation assumption was changed to 3.5% from 4%, the productivity and merit (first five years) assumptions of 0.5% and 1%, respectively, were broken out for police/fire members and other members. Productivity and merit (first five years) for police/fire members and other members were set at 1% and 1.5%, and 0.5% and 1.5%, respectively.

- The total inflation assumption was changed from 4% to 3.5%.

- The cost of living allowance was decreased from 71% to 68%.

- Disabilities are no longer assumed to be occupational 85% of the time for police and fire members and 35% for other members.

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 2.343757% from 2.296%.

- For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.

Effective June 30, 2001 the following changes were made:

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 3.381643% from 2.343757%.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information
(Unaudited)

June 30, 2004 and 2003
(000's omitted)

Effective June 30, 2002, the following changes were made:

- The target-funding ratio was changed from 102% to 100%.
- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.
- The salary scale assumptions were changed. Productivity rates (first five years) for police/fire members were set at 1.0% from 0.5%.
- Part-time employees are assumed to earn 0.600 years of credited service per year.
- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.
- The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Public Employees Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1998-1999 employer contributions being equal to the annual required contribution and 2000-2003 employer contributions being more than the annual required contribution.

Schedule 1

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Expenses

Year ended June 30, 2004
with comparative totals for 2003
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2004	Totals 2003
Personal services:				
Wages	$ 2,215	851	3,066	3,020
Benefits	861	307	1,168	1,429
Total personal services	3,076	1,158	4,234	4,449
Travel:				
Transportation	34	46	80	110
Per diem	28	36	64	99
Moving	-	-	-	6
Honorarium	18	15	33	34
Total travel	80	97	177	249
Contractual services:				
Management and consulting	429	16,591	17,020	14,002
Accounting and auditing	22	793	815	922
Other professional services	772	64	836	677
Data processing	214	26	240	265
Communications	227	29	256	336
Advertising and printing	117	214	331	274
Rentals/leases	104	11	115	309
Legal	1	67	68	77
Medical specialists	29	-	29	48
Repairs and maintenance	15	1	16	9
Transportation	2	2	4	6
Other services	113	16	129	103
Total contractual services	2,045	17,814	19,859	17,028
Other:				
Equipment	-	11	11	151
Supplies	95	23	118	284
Total other	95	34	129	435
Total administrative and investment expenses	**$ 5,296**	**19,103**	**24,399**	**22,161**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2004 and 2003
(000's omitted)

Firm	Services	2004	2003
State Street Corporation	Custodian banking services	$ 942	849
Deloitte and Touche LLP	Benefits consultation	148	76
Mercer Human Resource Consulting	Actuarial services	316	317
Milliman USA	Actuarial audit	-	46
Systems Central Services, Inc.	Data processing consultants	214	199
State of Alaska, Department of Law	Legal services	253	155
Mikunda, Cottrell & Co., Inc.	PERS Board elections	-	110
Wohlforth, Vasser, Johnson and Brecht	PERS Board legal services	25	51
Cost Effectiveness Measurement	Cost study	-	25
First National Bank of Alaska	Banking services	25	24
KPMG LLP	Auditing services	22	106
		$ 1,945	**1,958**

See accompanying independent auditors' report.

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Alaska State Pension Investment Board
P.O. Box 110405
Juneau, Alaska 99811-0405
(907) 465-3749

Message from the Chair

I am pleased to present the 2004 Annual Report of Investments for the period ending June 30, 2004 to you, the participants and beneficiaries of the PERS retirement trust fund.

The Alaska State Pension Investment Board is responsible for the investment of the money paid into the state public employees', teachers', judicial, and military retirement systems. In addition, ASPIB selects the investment managers for the Supplemental Benefit System and Deferred Compensation.

Trustees of ASPIB owe a fiduciary duty to the participants in the retirement systems and by law all investment decisions made by ASPIB must comply with the prudent investor rule. ASPIB consists of two elected members from the Public Employees' Retirement System (PERS), two elected members from the Teachers' Retirement System (TRS), three members appointed by the Governor, and the Commissioner of the Department of Revenue (DOR).

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. This asset allocation is reviewed annually and is designed to provide competitive returns at a reasonable level of risk. It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. Therefore, we are encouraged to observe that the 12 ¾ year cumulative annualized return (the longest period available) of 8.67% compares favorably to the System's actuarial earnings assumption of 8.25%.

The Investment Report on the following pages provides more detail regarding the investment results of each asset category, as well as an economic overview of the market conditions existing during the past fiscal year.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that members should be kept well informed about the performance of the retirement funds and about what we as fiduciaries are doing on their behalf. To this end, we are proud of the ASPIB web site, which can be accessed at www.revenue.state.ak.us/treasury/aspib/index.htm. We continue to encourage member participation at our meetings, and welcome letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as fiduciaries.

Sincerely,

Gail Schubert, Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2004)

Gail R. Schubert, Chair

Appointed by the Governor

Gail R. Schubert, Chair, was first appointed to the board by Governor Hickel, then reappointed by Governor Knowles and Governor Murkowski. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2007.

Wilson L. Condon, Vice Chair

PERS Representative

Wilson L. Condon, Vice Chair, was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.

James "Pat" Wellington

PERS Representative

James "Pat" Wellington, Secretary, was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.

William Corbus

Statutory Representative

William Corbus was appointed Commissioner of the Department of Revenue in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. The Commissioner sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

Merritt C. Olson, Secretary
TRS Representative

Merritt C. Olson was elected in 1992 to serve as a trustee on the newly-created ASPIB and reelected for three more terms. Mr. Olson served previously as a trustee for the Teachers' Retirement Systems Board. He also served as president of NEA-Alaska/Retired and sat on the national NEA-Retired Advisory Council for six years. He earned the doctoral degree in psychology from Rutgers University and was a Fulbright scholar and lecturer at the University of Ibadan in Nigeria. Dr. Olson taught mathematics in Anchorage secondary schools and served as an adjunct professor of psychology at the University of Alaska Anchorage and at Alaska Methodist University. His term expires December 31, 2007.

Martin Pihl
Appointed by the Governor

Martin Pihl was appointed to the board in 2003 by Governor Murkowski. Mr. Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a BA in Accounting from the University of Washington and has been a CPA since 1958. His term expires December 31, 2006.

Jeffrey E. Sinz
Appointed by the Governor

Jeffrey E. Sinz was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Chief Fiscal Officer for the Municipality of Anchorage. He has over twenty years experience in public sector financial management and analysis, including fourteen years with the Municipality of Anchorage. Prior to accepting his current position in Anchorage, he served as Director of Finance for the Kenai Peninsula Borough. Mr. Sinz has also held positions with the Alaska Railroad Corporation and prior to moving to Alaska in 1981, with a Wisconsin public school district. He also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors and is on the Board of Directors for the Anchorage Parking Authority. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.

Dorothy Wells
TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

Investment Officers
Bob G. Mitchell, Marketable Debt
Stephen R. Sikes
Philip Bartlett
Michael T. Oliver, CFA, Alternatives
Zach Hanna
Victor Djajalie
Yuri Morgan
Clay Cummins

Cash Management
Michelle M. Prebula, MBA, CPA, CCM

External Money Managers and Consultants

Investment Consultants
Callan Associates Inc.
San Francisco, CA
The Townsend Group
Denver, CO

Domestic Fixed Income
BlackRock Financial Management, Inc.
New York, NY

Domestic Equity Large Capitalization
Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA
McKinley Capital Management, Inc.
Anchorage, AK
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Capital Guardian Trust Co.
San Francisco, CA
John McStay Investment Counsel
Dallas, TX
Trust Company of the West
New York, NY
Turner Investment Partners, Inc.
Berwyn, PA

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

Domestic Enhanced Index
Invesco Capital Management, Inc.
New York, NY

Emerging Markets
Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Fleming Asset Management, Inc.
New York, NY

Global Equity
Lazard Freres Asset Management
New York, NY

International Equity—EAFE
Bank of Ireland Asset Management (US) Ltd.
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

External Money Managers and Consultants (con't)

International Fixed Income
Delaware International Advisers Ltd.
London, England

Private Equity
Abbott Capital Management, L.P.
New York, NY
Pathway Capital Management, LLC
Irvine, CA

Performance Measurement
Callan Associates Inc.
Denver, CO

Real Estate Management—Commingled Funds
Heitman Capital Management
Chicago, IL
J.P. Morgan Investment Management Inc.
New York, NY
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartfort, CT

Real Estate—Core Separate Accounts
Cornerstone Real Estate Advisors, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Estate—Value Added Separate Accounts
Invesco Realty Advisors
Dallas, TX
Lowe Enterprises Investment Management Inc.
Los Angeles, CA

Supplemental Benefits System
Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
Citizens Funds
Portsmouth, NH
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD

Deferred Compensation
Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
T. Rowe Price Investment Services
Baltimore, MD & Glen Allen, VA

Global Master Custodian
State Street Bank & Trust Co.
Boston, MA

Investment Advisory Council
William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
Timothy O'Brien
Denver, CO

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Vassar, Johnson & Brecht
Anchorage, AK

Public Employees' Retirement System
Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

INVESTMENTS

The State of Alaska Public Employees' Retirement System's investment goals are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually, the Alaska State Pension Investment Board (ASPIB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the Investment Board.

During the 2004 Fiscal Year[1], ASPIB's asset allocation was 40.4% domestic equities, 17.9% international equities, 27.0% domestic fixed income, 3.6% international fixed income, 7.8% real estate and 3.3% alternative investments.

For the 2004 Fiscal Year, PERS investments generated a 15.08% rate of return. The PERS annualized rate of return was 3.29% over the last five years. The annualized rate of return over the last twelve and three-quarter years has been 8.67%.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio gained 20.06% and the international equity portfolio gained 31.71%. The U.S fixed-income market generated a 0.60% return down from 10.69% the previous year. ASPIB continued the systematic increase of PERS investments in real estate and private equity. The real estate portfolio earned 11.57% for the 2004 Fiscal Year versus 8.97% in Fiscal Year 2003. The PERS investments in private equities gained 21.42%, as compared to a 14.75% loss in 2003. Over the past five years, PERS real estate investments have earned an average of 9.27% per year.

DOMESTIC ECONOMY

The economy grew at a healthy pace throughout Fiscal 2004. Growth was strongest in the first half of the year and then moderated in the June quarter. Initial estimates of GDP growth in the June quarter came in at 3.0%, down significantly from the unsustainable 7.4% pace of the September 2003 quarter. Nonetheless, many expect full calendar 2004 growth to approximate 4.5%. This is up from the 3.1% pace observed in calendar 2003.

The economy's continued recovery has raised concerns regarding the possible re-emergence of inflation. After remaining at very low levels for many quarters, inflation, as measured by the CPI, accelerated in the June quarter to a 3.3% year over year pace. Commodities, particularly oil prices, figured importantly in this rise. The Producers Price Index (PPI) experienced a year over year change of 6.6% in the June quarter.

As widely anticipated, the Federal Reserve raised short-term rates to 1.5% during the last half of the fiscal year. By any standard however, most observers agree that short-term rates remain at very low levels and are likely to increase further over the next 6 to 18 months. Importantly, they believe that modest additional rate hikes will not halt economic growth.

Despite uncertainty regarding the implications of the upcoming elections, the outlook for energy prices and the challenges of Iraq, the economy continues to post solid gains. Employment growth, while slower than many had anticipated, has been

[1] July 1st, 2003 – June 30th, 2004

Public Employees' Retirement System
Investment Report

solid. Manufacturing capacity utilization has improved from 72.6% last year to 77.2% in the June quarter. Historically, capital spending has tended to accelerate when the utilization rate exceeds 80%. Such spending is a key ingredient to the economy's continued growth.

Investors are sensitive to short-term news developments and financial markets will be affected accordingly. Fortunately, underlying economic fundamentals point toward continued growth in employment and corporate profits. Interest rates, while higher than a year ago, remain low and there appears to be ample liquidity to fund continuation of the economic expansion.

EQUITIES

The Total Domestic Equity Pool is diversified across large cap value, large cap growth, core, small cap value and small cap growth equity styles so as to gain broad market exposure. For the 2004 Fiscal Year, the fund posted a net return of 20.06%. This was less than the target return of 21.43%. The annualized domestic equity return for the five year period improved to a negative 0.85% from a negative 1.43% in the 2003 Fiscal Year.

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool net return was 31.71% which was less than the target return of 32.37%. The international equity return for the five year period improved to 2.80% from 0.06% in Fiscal Year 2003.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented 27.0% of the total assets of PERS as of June 30, 2004. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the PERS bond portfolio is the Lehman Brothers Aggregate Bond Index.

Over the 2004 Fiscal Year, the PERS domestic bond portfolio gained 0.60%, down from 10.69% the year before. The Lehman Brothers Aggregate Bond Index returned 0.32%, versus 10.40% during 2003 Fiscal Year.

The international fixed-income portfolio, which represented about 3.63% of the total assets of PERS, returned 7.52% over the 2004 Fiscal Year, nearly equivalent to the 7.60% posted by the Salomon Brothers Non U.S. Government Index.

REAL ESTATE

At the end of the 2004 Fiscal Year, PERS had 7.79% of its portfolio invested in real estate. At fiscal year end, the real estate portfolio totaled $638 million. The total return for real estate, net of fees, was 11.57% compared to 8.97% for the 2003 Fiscal Year. The year total return was 9.27%.

ASPIB's real estate portfolio is made up of 31% apartment, 34% office, 24% industrial, 11% retail and 1% hotel.

PRIVATE EQUITY

During the 2004 Fiscal Year the Private Equity component of the PERS portfolio showed a net return of 21.42% with a five year annualized return of 4.87%.

Public Employees' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

	2000	2001	2002	2003	2004	Annualized 3 Year	Annualized 5 Year
Total Fund							
PERS	10.07%	(5.25%)	(5.48%)	3.67%	15.08%	4.09%	3.29%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	10.41%	(12.20%)	(16.85%)	(0.97%)	20.06%	(0.38%)	(0.85%)
S&P 500	7.24%	(14.83%)	(17.99%)	0.25%	19.11%	(0.70%)	(2.20%)
International Stock Returns							
PERS International Equities	20.59%	(16.89%)	(8.27%)	(5.18%)	31.71%	4.64%	2.80%
Morgan Stanley Capital International EAFE	18.11%	(23.83%)	(9.49%)	(6.46%)	32.37%	3.87%	0.06%
Domestic Fixed Income							
PERS	4.55%	11.83%	8.17%	10.69%	0.60%	6.40%	7.09%
*Lehman Brothers Aggregate Index**	1.69%	11.22%	8.63%	10.40%	0.32%	6.36%	6.96%
International Fixed Income							
PERS	(3.27%)	(5.68%)	22.56%	24.48%	7.52%	17.93%	8.40%
Salomon Non-U.S. Government	2.42%	(7.43%)	15.73%	17.90%	7.60%	13.66%	6.84%
Real Estate Equity							
PERS	8.43%	11.43%	5.24%	8.97%	11.55%	8.61%	9.30%
NCREIF	11.61%	11.15%	5.60%	7.64%	10.83%	7.97%	9.40%

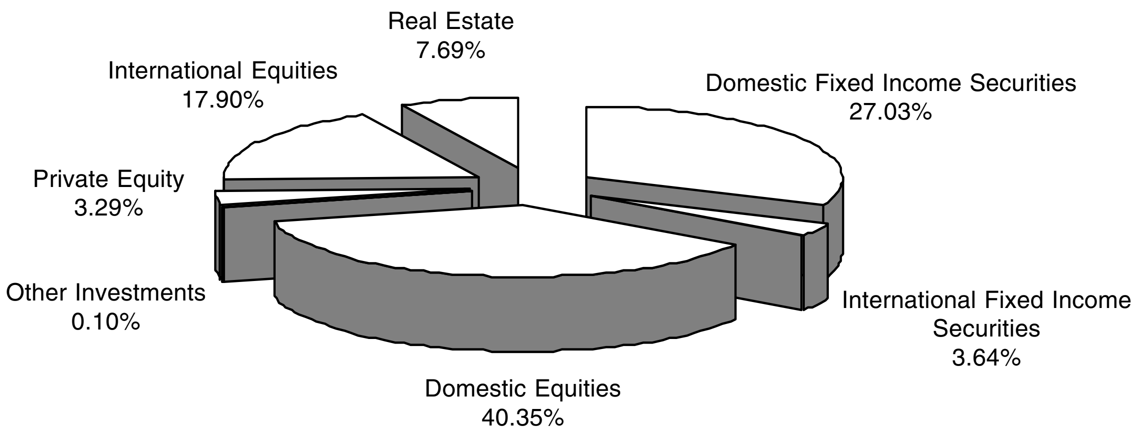
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

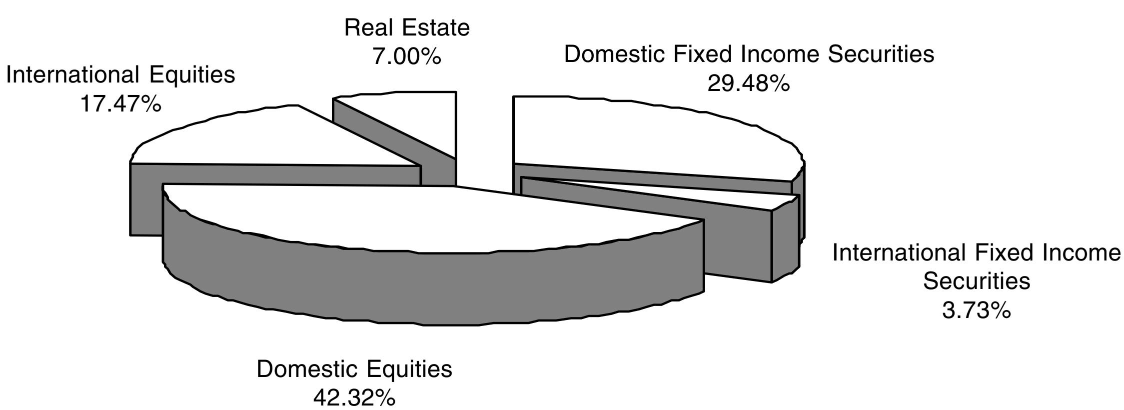
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

Public Employees' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2004



June 30, 2003



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2004

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	$199,205,372	199,300,000	Federal National Mtg. Assn.	0.000%	7/14/2004	A-1+
	2	97,305,155	97,275,000	Federal National Mtg. Assn.	5.000%	2/1/2018	AAA
	3	94,428,924	94,745,000	U.S. Treasury Note	2.500%	5/31/2006	AAA
	4	82,453,997	81,600,000	U.S. Treasury Note	4.800%	5/15/2014	AAA
	5	81,897,299	84,503,863	Federal National Mtg. Assn.	5.000%	3/1/2031	AAA
	6	57,212,500	57,500,000	Federal National Mtg. Assn.	5.500%	3/1/2033	AAA
	7	48,507,152	39,348,000	U.S. Treasury Bond	7.500%	11/15/2016	AAA
	8	40,249,475	39,854,872	Master Alternative Loans Trust	6.000%	2/25/2034	AAA
	9	33,135,178	34,101,991	Government National Mtg. Assn.	5.000%	9/15/2033	AAA
	10	31,987,747	32,205,000	U.S. Treasury Note	2.300%	4/30/2006	AAA
Equities	1	$118,438,200	3,655,500	General Electric Co.			
	2	114,187,571	3,331,026	Pfizer Inc.			
	3	94,662,691	3,314,520	Microsoft Corporation			
	4	87,518,288	1,658,800	Wal Mart Stores, Inc.			
	5	83,396,460	1,169,984	American International Group, Inc.			
	6	82,822,785	1,864,958	Exxon Mobil Corporation			
	7	80,469,787	1,355,852	Emerging Markets Growth Fund			
	8	78,488,931	1,687,934	Citigroup, Inc.			
	9	72,114,465	5,463,217	Mgt Emerging Markets Equity Fund			
	10	71,065,925	124,760	Wells Fargo Company			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

Public Employees' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 2004

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	$ 1,124,342,920	$ 1,017,993
International Fixed Income		
Delaware International Advisers, Ltd.	441,865,513	436,995
Domestic Equity		
Capital Guardian Trust Co.	911,606,330	1,483,846
John McStay Investment Counsel	-	422,947
TCW Asset Management Company	276,694,373	1,233,359
SSgA S&P 500 Index Fund	1,245,933,802	175,837
Invesco Capital Management, Inc.	629,918,856	559,368
Lazard Freres Asset Management	472,547,872	1,011,617
McKinley Capital Mgmt	258,953,686	599,823
RMC	445,419,327	851,370
Tukman, Value	424,492,784	1,428,746
Turner Investment Partners	243,518,901	397,661
Total Domestic Equity	4,909,085,931	8,164,574
Private Equity		
Pathway Capital Management, LLC	44,018,420	302,960
Abbott Capital Management, L.P.	353,785,528	675,360
Total Private Equity	397,803,948	978,320
International Equity		
Bank of Ireland Asset Management Ltd.	376,911,016	878,173
Brandes Investment Partners, L.P.	760,967,591	1,795,210
Lazard Freres Asset Management	511,118,692	1,131,135
Capital Guardian Trust Co.	373,227,201	1,111,721
Total International Equity	2,022,224,500	4,916,239
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management, Inc.	72,114,465	378,682
Capital Guardian Trust Co.	80,469,787	314,035
Total Emerging Markets Equity	152,584,252	692,717
Total External Management Fees	$9,047,907,064	16,206,838

Public Employees' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2004

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corporation		765,595
Investment Advisory		
Callan Associates Inc.		49,873
The Townsend Group		100,414
Total		150,287
Investment Performance Measurement		
Callan Associates Inc.		131,776
Total Other Management Fees		1,047,658
Total Management Fees		$17,254,496

Public Employees' Retirement System
Investment Summary Schedule
June 30, 2004

	Public Employees' Asset Allocation Policy	Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 510,556	0.02%	0.01%
Retirement Fixed Income Pool			1,459,056,670	66.02%	17.85%
External Domestic Fixed Income Pool			750,293,368	33.95%	9.18%
Total Domestic Fixed Income	30%	27-33%	2,209,860,594	**100.00%**	27.03%
International					
International Fixed Income Pool	3%	1-5%	297,481,250	100.00%	3.64%
Total Fixed Income Securities	**33%**	**28-38%**	**2,507,341,844**		**30.67%**
Participation in Pools Owning Domestic Equities					
Small cap(1) and Alternative Investments					
Domestic Equity Pool			648,182,572	19.65%	7.93%
Total Small Cap Domestic Equities and Alternative Investments	6%	4-8%	648,182,572	19.65%	7.93%
Large cap and Alternative Investments					
Domestic Equity Pool-active			1,390,191,763	42.14%	17.00%
Domestic Equity Pool-passive			1,260,598,699	38.21%	15.42%
Total Large Cap Domestic Equities and Alternative Investments	31%	28-34%	2,650,790,462	80.35%	32.42%
Total Domestic Equities	**37%**	**32-42%**	**3,298,973,034**	**100.00%**	**40.35%**
Participation in Pools Owning International Equities					
International Equity Pool			1,364,094,145	93.22%	16.69%
Emerging Markets Equity Pool			99,177,084	6.78%	1.21%
Total International Equities	**15%**	**12-18%**	**1,463,271,229**	**100.00%**	**17.90%**
Participation in Pools Owning Alternative Investments					
Private Equity Pool	6%	3-9%	269,232,951	100.00%	3.29%
Other Investment Pools			8,160,418	**100.00**%	0.10%
Participation in Real Estate					
Mortgages, net of allowances			118,650	0.02%	0.00%
Real Estate Pool			628,393,630	99.98%	7.69%
Total Real Estate	**9%**	**6-12%**	**628,512,280**	**100.00%**	**7.69%**
Total Invested Assets	**100%**		**$ 8,175,491,757**		**100.00%**

(1) Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

Public Employees' Retirement System
Credit Risk of Investments
Pension Trust Funds
(Expressed in Thousands)
June 30, 2004

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	$ 2,209,351			2,209,351
International fixed income	297,481			297,481
Equity securities				
Domestic equities	3,298,973			3,298,973
International equities	1,364,094			1,364,094
	$ 6,580,656	**-**	**-**	7,169,899
Not Categorized				
Emerging market equities				99,177
Private equities				269,233
Real estate equities				628,513
Other investments				8,160
Total investments not categorized				1,005,083
Total investments				**8,174,982**

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the System's securities fails. Those investments represented by specific, indentifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The System's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the System's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools are considered to be Category 1 as defined by GASB Statement No. 3. Emerging market equity, Private equity, Real estate equity, and Other investments pools are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2004

	Domestic Equity	International Equity	Total
PERS	$ 483,304	209,986	693,290
TRS	232,767	100,155	332,922
Judicial	4,452	2,044	6,496
Military	639	249	888
Total	**$ 721,162**	**312,434**	**1,033,596**

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time, ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the ASPIB augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January 1998 have resulted from international equity trades.

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MERCER

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April 30, 2004

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

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2003 by Mercer Human Resource Consulting. The purposes of the report include:

(1) a review of experience under the Plan for the year ended June 30, 2003;

(2) a determination of the appropriate contribution rate for each employer in the System which will be applied for the fiscal year ending June 30, 2006; and

(3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

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

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

(3) Schedule of benefit recipients added to and removed from rolls

(4) Solvency test

(5) Analysis of financial experience

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Human Resource Consulting

Public Employees' Retirement Board
April 30, 2004
Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. Actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY04 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain relatively constant as a percentage of payroll. The ratio of assets to liabilities changed from 75.2% to 72.8% during the year primarily due to lower than expected equity market returns. Over the years, progress has been made toward achieving the funding objectives of the System.

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

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

(1) differences between actual experience and anticipated experience based on the assumptions;

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

MERCER

Human Resource Consulting

Public Employees' Retirement Board
April 30, 2004
Page 3

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

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

Sincerely,

Robert M. Reynolds, ASA, MAAA

Marcia L. Chapman, FSA, EA, MAAA

MAG/CMB/RMR/kmp/cam

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

The demographic and non-health economic assumptions used in this valuation were recommended by Mercer Human Resource Consulting and were adopted at the Fall 2000 PERS Board Meeting. These assumptions were the result of an experience study performed in the Fall of 2000. The funding method used in this valuation was adopted June 30, 1985 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

A. Valuation of Liabilities

Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The initial unfunded accrued liability and future gains/losses are amortized over a 25-year fixed period level percentage of pay. However, in keeping with GASB requirements, the net amortization period for all gains and losses will not exceed 30 years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to the date, and to the extent that this liability is not covered by assets of the plan there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the accrued liability over the assets of the plan. The annual payment to be made over a stipulated number of years to amortize the unfunded liability is the Past Service Cost.

The Normal Cost is the present value of those benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the unfunded liability, subject to amortization.

B. Actuarial Assumptions

1.	Investment Return	8.25% per year, compounded annually, net of expenses.
2.	Salary Scale	Inflation - 3.5% per year Police/Fire Merit (first 5 years of employment) - 1.5% per year Productivity - 1.0% per year Others Merit (first 10 years of employment) - 1.5% per year Productivity - 0.5% per year
3.	Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

4.	Health Cost Trend	FY04 - 12.0% FY05 - 12.0% FY06 - 11.5% FY07 - 11.0% FY08 - 10.5% FY09 - 10.0% FY10 - 9.5%	FY11 - 9.0% FY12 - 8.5% FY13 - 8.0% FY14 - 7.5% FY15 - 7.0% FY16 - 6.0% FY17 and later 5.0%
5.	Mortality	1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% of the time for Others.	
6.	Total Turnover	Based upon the 1997-99 actual withdrawal experience. (See Table 1.)	
7.	Disability	Incidence rates, based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.	
8.	Retirement	Retirement rates based upon the 1997-99 actual experience in accordance with Table 3.	
9.	Spouse's Age	Wives are assumed to be four years younger than husbands.	
10.	Dependent Children	Benefits to dependent children have been valued assuming members who are not single have one dependent child.	
11.	Contribution Refunds	100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.	
12.	C.O.L.A.	Of those benefit recipients who are eligible for the C.O.L.A., 68% are assumed to remain in Alaska and receive the C.O.L.A.	
13.	New Entrants	Growth projections are made for the active PERS population under three scenarios: Pessimistic: 0% per year Median: 1% per year Optimistic: 2% per year	
14.	Post-Retirement Pension Adjustment	50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.	

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

15. Expenses	Expenses are covered in the investment return assumption.
16. Part-Time Status	Part-time employees are assumed to earn 0.600 years of credited service per year.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG LLP. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

D. Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY04, the pre-65 monthly premium is $1,016.04 and the post-65 premium is $387.06, based on an assumed total blended premium of $777.28. The assumed total blended premium for FY04 is the average of the 2003 and 2004 calendar year actual blended premiums. For the time period January 1, 2004 to December 31, 2004, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is $806.00.

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 5 Years of Employment | **Ultimate Rates of Turnover After the First 5 Years of Employment**

Police and Fire:

Year of Employment	Rate		Age	Rate
1	.12		20+	.03
2	.10			
3	.08			
4	.07			
5	.06			

Other:

Year of Employment	-------- Age at Hire -------- 20-34	35+	Age	Rate
1	.25	.15	20-34	.11
2	.23	.15	35-39	.08
3	.20	.13	40-44	.06
4	.16	.12	45+	.05
5	.15	.11		

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Police & Fire Rate	"Other" Member Rate
20	.88	.28
21	.89	.28
22	.90	.29
23	.91	.29
24	.93	.30
25	.94	.30
26	.95	.30
27	.98	.31
28	1.00	.32
29	1.03	.33
30	1.05	.34
31	1.08	.34
32	1.10	.35
33	1.13	.36
34	1.16	.37
35	1.20	.38
36	1.24	.40
37	1.29	.41
38	1.34	.43
39	1.39	.44
40	1.44	.46
41	1.50	.48
42	1.59	.51
43	1.70	.54
44	1.85	.59
45	2.03	.65
46	2.20	.70
47	2.39	.76
48	2.59	.83
49	2.79	.89
50	3.00	.96
51	3.25	1.04
52	3.58	1.14
53	3.98	1.27
54	4.44	1.42
55	5.00	1.60
56	5.74	1.84
57	6.68	2.14
58	7.63	2.44
59	9.00	2.88
60	10.54	3.37

Public Employees' Retirement System
Summary of Actuarial Assumptions and Methods

Table 3
Retirement Rates

Age	Police & Fire Rate	"Other" Member Rate
50	.10	.05
51	.10	.05
52	.10	.05
53	.05	.06
54	.05	.06
55	.20	.10
56	.13	.10
57	.13	.10
58	.13	.10
59	.13	.10
60	.20	.10
61	.25	.10
62	.25	.15
63	.25	.15
64	.25	.15
65	1.00	.20
66	1.00	.20
67	1.00	.20
68 & Up	1.00	1.00

Police and fire members retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Other members retiring at ages under 50 are assumed to retire immediately upon attaining 31 years of service.

Members currently under age 50 who have already attained 21 years of service (31 years for Others) are assumed to retire 1 year after the valuation date.

Public Employees' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Average Increase/ (Decrease) In Average Pay	Number of Participating Employers
All Others					
June 30, 2003	31,338	$ 1,300,041	$41,484	1.8%	160
June 30, 2002	30,547	1,245,055	40,759	0.3%	161
June 30, 2001	29,758	1,208,700	40,618	5.4%	158
June 30, 1999	29,590	1,140,706	38,550	3.0%	148
June 30, 1998	29,293	1,096,786	37,442	0.2%	148
June 30, 1997	29,267	1,093,433	37,361	0.7%	156
June 30, 1996	29,326	1,087,504	37,083	1.3%	156
June 30, 1995	28,893	1,057,840	36,612	0.9%	153
June 30, 1994	28,883	1,048,541	36,303	2.3%	155
June 30, 1993	28,509	1,011,864	35,493	4.2%	155
Police/Fire					
June 30, 2003	2,727	$160,743	$58,945	0.8%	160
June 30, 2002	2,695	157,632	58,490	3.4%	161
June 30, 2001	2,683	151,701	56,542	3.9%	158
June 30, 1999	2,624	142,843	54,437	2.7%	148
June 30, 1998	2,617	138,653	52,982	1.0%	148
June 30, 1997	2,587	135,702	52,455	2.8%	156
June 30, 1996	2,634	134,362	51,011	0.2%	156
June 30, 1995	2,557	130,204	50,921	(1.7)%	153
June 30, 1994	2,481	128,456	51,776	2.8%	155
June 30, 1993	2,463	124,025	50,355	3.2%	155

Public Employees' Retirement System
Schedule of Benefit Recipients Added to and Removed from Rolls

Year Ended	Added to Rolls No.*	Added to Rolls Annual Allowances*	Removed from Rolls No.*	Removed from Rolls Annual Allowances*	Rolls - End of Year No.	Rolls - End of Year Annual Allowances	Increase in Annual Allowances	Average Annual Allowance
All Others								
June 30, 2003	1,445	$27,802,265	351	$6,507,821	16,440	$257,205,574	9.0%	$15,645
June 30, 2002	1,135	27,484,388	332	8,039,486	15,346	235,911,130	9.0%	15,373
June 30, 2001	2,342	46,880,694	506	10,128,792	14,543	216,466,228	20.5%	15,071
June 30, 1999	1,053	19,402,623	124	2,284,829	12,707	179,714,326	10.5%	14,143
June 30, 1998	1,219	25,116,364	113	2,328,260	11,778	162,596,532	16.3%	13,805
June 30, 1997	830	23,255,081(1)	101	2,829,835(1)	10,672	139,808,955	7.2%	13,100
June 30, 1996	702	8,803,872	40	501,645	9,943	119,383,182	7.5%	12,007
June 30, 1995	561	8,327,484	123	850,316	9,281	111,080,955	7.2%	11,969
June 30, 1994	567	7,584,088	100	225,631	8,843	103,603,787	7.6%	11,716
June 30, 1993	464	5,408,670	93	4,057,669	8,376	96,245,330	1.4%	11,491
Police/Fire								
June 30, 2003	143	$4,923,581	21	$ 802,499	1,991	$61,406,855	7.2%	$30,842
June 30, 2002	157	6,155,365	19	744,917	1,869	57,285,773	10.4%	30,650
June 30, 2001	328	12,637,854	75	2,889,753	1,731	51,875,325	23.1%	29,986
June 30, 1999	163	4,761,117	8	233,673	1,478	42,127,224	12.0%	28,503
June 30, 1998	195	6,096,918	2	62,532	1,323	37,599,780	19.1%	28,420
June 30, 1997	161	6,672,261(1)	9	372,984(1)	1,130	31,565,394	24.9%	27,934
June 30, 1996	88	2,217,256	2	50,392	978	25,266,117	9.4%	25,834
June 30, 1995	95	2,697,924	3	85,198	892	23,099,253	12.8%	25,896
June 30, 1994	77	2,428,767	4	119,938	800	20,486,527	12.7%	25,608
June 30, 1993	39	982,991	11	212,565	727	18,177,698	4.4%	25,004

* Numbers are estimated, and include other internal transfers.

1 Includes additional benefits to current retirees from a one time retroactive ad hoc Post-Retirement Pension Adjustments.

Public Employees' Retirement System Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2003	$1,026,730	$6,860,834	$2,674,089	$7,687,281	100%	97.1%	0.0%
June 30, 2002[(1)(2)(3)]	967,045	6,301,095	2,591,451	7,412,833	100%	100%	5.6%
June 30, 2001	920,702	5,059,386	1,888,486	7,941,756	100%	100%	100%
June 30, 2000[(2)(3)]	892,949	4,588,201	1,895,762	7,454,758	100%	100%	100%
June 30, 1999	854,497	3,961,063	1,833,113	7,016,340	100%	100%	100%
June 30, 1998[(1)(2)(3)]	819,226	3,610,352	1,774,413	6,571,562	100%	100%	100%
June 30, 1997	795,170	3,020,608	1,716,338	5,885,488	100%	100%	100%
June 30, 1996[(2)]	754,679	2,511,953	1,713,326	5,271,253	100%	100%	100%
June 30, 1995	673,196	2,445,870	1,852,106	4,794,754	100%	100%	90.5%
June 30, 1994[(1)(2)]	615,925	2,233,349	1,770,908	4,379,305	100%	100%	86.4%

[(1)] Change in Asset Valuation Method. [(2)] Change of Assumptions. [(3)] Change in Methods.

Public Employees' Retirement System Analysis of Financial Experience

Change in Average Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of Gain or Loss	Change in Average Contribution Rate During Fiscal Year 2003	2002	2001	2000	1999
Health Experience	-	3.68%	-	-	-
Salary Experience	(0.19)%	(0.20)%	(1.03)%	-	(0.23)%
Investment Experience	0.31%	7.24%	0.11%	(0.12)%	(0.49)%
Demographic Experience	0.40%	1.21%	0.77%	(0.81)%	0.21%
Contribution Shortfall	1.10%	-	-	-	-
(Gain) or Loss During Year From Experience	1.62%	11.93%	(0.15)%	(0.93)%	(0.51)%
Non-recurring changes					
Asset Valuation Method	-	4.11%	-	(2.67)%	-
Past Service Amortization Change	-	(5.06)%	-	-	-
Assumption Changes	-	6.98%	-	3.09%	-
System Benefit Changes	-	0.04%	0.17%	-	-
Addition of 102% Target Funding Ratio	-	-	0.57%	-	-
Elimination of 102% Target Funding Ratio	(0.90)%	-	-	-	-
Ad hoc PRPA	-	0.14%	0.06%	0.07%	0.04%
Composite (Gain) or Loss During Year	0.72%	18.14%	0.65%	(0.44)%	(0.47)%
Beginning Average Employer Contribution Rate	24.91%	6.77%	6.12%	6.56%	7.03%
Ending Average Employer Contribution Rate	25.63%	24.91%	6.77%	6.12%	6.56%
Board Adopted Employer Contribution Rate	16.77%	11.77%	6.77%	6.75%	6.75%
Fiscal Year Above Rate is Applied	FY06	FY05	FY04	FY03	FY02

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2003. Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986. Chapter 4, 1996 Session Laws of Alaska created a third tier. Members who were first hired after June 30, 1996 have a 10-year requirement for system paid health benefits and non-Police/Fire members have a different Final Average Earnings calculation than members from the other tiers.

(2) Administration of Plan

The Commissioner of Administration is responsible for administering the system. The Public Employees' Retirement Board prescribes policies and adopts regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division is responsible for investing PERS funds. The Attorney General represents the system in legal proceedings.

(3) Employers Included

Currently there are 160 employers participating in the PERS, including the State of Alaska and 159 political subdivisions and public organizations.

(4) Membership

PERS membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or employer participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the PERS. Elected officials may waive PERS membership.

Certain members of the Alaska Teachers' Retirement System (TRS) are eligible for PERS retirement benefits for their concurrent elected public official service with municipalities. In addition, employees who work half-time in the PERS and TRS simultaneously are eligible for halftime PERS and TRS credit.

(5) Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976;
- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;
- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;
- military service (not more than five years may be claimed);
- temporary service after December 31, 1960;
- elected official service before January 1, 1981;

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

- Alaska Bureau of Indian Affairs service;
- past service rendered by employees who worked halftime in the PERS and Teachers' Retirement System (TRS) simultaneously;
- leave without pay service after June 13, 1987, while receiving Workers' Compensation;
- Village Public Safety Officer service; and
- service as a temporary employee of the legislature before July 1, 1979, but this service must be claimed no later than July 1, 2003, or by the date of retirement, if sooner (not more than 10 years may be claimed).

Except for service before January 1, 1961, with the State, former Territory of Alaska, or U.S. Government in Alaska, contributions are required for all past service.

Past employment with participating political subdivisions that occurred before the employers joined the PERS is creditable if the employers agree to pay the required contributions.

At the election of certain PERS members, certain service may be credited in the same fashion as members in the State of Alaska Teachers' Retirement System (TRS).

Members employed as dispatchers or within a state correctional facility may, at retirement, elect to convert their dispatcher or correctional facility service from "all other" service to police/fire service and retire under the 20 year retirement option. Members pay the full actuarial cost of conversion.

(6) Employer Contributions

Individual contribution rates are established for PERS employers based upon their consolidated and past service rates.

The consolidated rate is a uniform rate for all participating employers, amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The past service rate is determined separately for each employer to amortize their unfunded past service liability with payments that are level as a percentage of pay over fixed 25-year periods. Effective June 30, 1996, funding surpluses are amortized over 25 years.

(7) Member Contributions

Mandatory Contributions: Police/Fire members are required to contribute 7.5% of their compensation; all Others contribute 6.75%. Those all Others who have elected to have their service calculated under the Teachers' Retirement System rules contribute 9.6% of their compensation. Members' contributions are deducted from gross wages before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (5) above.

Voluntary Contributions: Members may voluntarily contribute up to 5% of their salary. Voluntary contributions are recorded in a separate account and are payable to the:

(a) member in lump sum payment upon termination of employment;

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(b) member's beneficiary if the member dies; or

(c) member in a lump sum, life annuity, or payments over a designated period of time when the member retires.

Interest: Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid Qualified Domestic Relations Orders.

Reinstatement of Contributions: Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(8) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60[1], or early retirement at age 55, if they have at least:

(i) five years of paid-up PERS service;

(ii) 60 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS before May 30, 1987;

(iii) 80 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS after May 29, 1987;

(iv) two years of paid-up PERS service and they are vested in the Teachers' Retirement System; or

(v) two years of paid-up PERS service and a minimum three years of TRS service to qualify for a public service benefit.

(b) Members may retire at any age when they have:

(i) 20 paid-up years of PERS police/fire service; or

(ii) 30 paid-up years of PERS "all other" or "elected official" service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements under the "20 and out" or "30 and out" provisions. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

[1] Members participating before July 1, 1986 are eligible for normal retirement at age 55 or early retirement at age 50.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Members may elect an early retirement or a joint and survivor option. Members who entered the PERS prior to July 1, 1986 may also select a level income option. Under these options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculations: Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire members are 2% for the first ten years of service and 2.5% for all service over 10 years.

The percentage multipliers for all Others are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Indebtedness: Members who terminate and refund their PERS contributions are not eligible to retire, unless they return to PERS employment and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. PERS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded PERS service is included in total service for the purpose of calculating retirement benefits. However, if a member is otherwise eligible to retire, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

(9) Reemployment of Retired Members

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS service and contributions are withheld from their wages. A member who retired with a normal retirement benefit can elect to waive payment of PERS contributions. The waiver allows the member to continue receiving the retirement benefit during the period of reemployment. Members who elect the waiver option do not earn additional PERS service. The Waiver Option is not available to members who retired early or under the Retirement Incentive Programs (RIPs).

Members retired under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

(a) forfeit the three years of incentive credits that they received;

(b) owe the PERS 150% of the benefits that they received for state and political subdivision members, and 110% for school district employees, under the 1996-2000 RIP, which may include costs for health insurance, excluding amounts that they paid to participate for the 1986 and 1989 RIPs. Under prior RIPs, the penalty is 110% of the benefits received; and

(c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(10) Postemployment Healthcare Benefits

Major medical benefits are provided to retirees by the PERS for all employees hired before July 1, 1986. Employees hired after June 30, 1986 with five years of credited service (or ten years of credited service for those first hired after June 30, 1996) must pay the full monthly premium if they are under age sixty and will receive benefits paid by the PERS if they are over age sixty. In addition, peace officers with twenty-five years of peace officer service and other employees with thirty years of membership service receive benefits paid by the PERS, regardless of their age or date of hire.

(11) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. Members are appointed to normal retirement on the first of the month after they become eligible.

Occupational Disability: Members are not required to satisfy age or service requirements to be eligible for occupational disability. Monthly benefits are equal to 40% of their gross monthly compensation on the date of their disability. Members on occupational disability continue to earn PERS service until they become eligible for normal retirement. Police/Fire members may elect to retain the disability benefit formula for the calculation of their normal retirement benefits.

Nonoccupational Disability: Members must be vested (five paid-up years of PERS service) to be eligible for nonoccupational disability benefits. Monthly benefits are calculated based on the member's average monthly compensation and PERS service on the date of termination from employment because of disability. Members do not earn PERS service while on nonoccupational disability.

(12) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date. Survivors of Police/Fire members receive the greater of 50% of the member's gross monthly compensation on the date of death or disability, or 75% of the member's monthly normal retirement benefit (including service projected to Normal Retirement).

Death after Occupational Disability: When a member dies while occupationally disabled, benefits are paid as described above in Occupational Death.

Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of termination or death.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Lump Sum Benefit: Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. If the member has more than one year of PERS service, the beneficiary also receives $1,000 and $100 for each year of PERS service.

Death After Retirement: When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check. If the member selected a survivor option at retirement, the eligible spouse receives continuing, lifetime monthly benefits.

(13) Post Retirement Pension Adjustments

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability; or

(b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase.

In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

(14) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits or $50, whichever is more. The following benefit recipients are eligible:

(a) members who first entered the PERS before July 1, 1986, and their survivors;

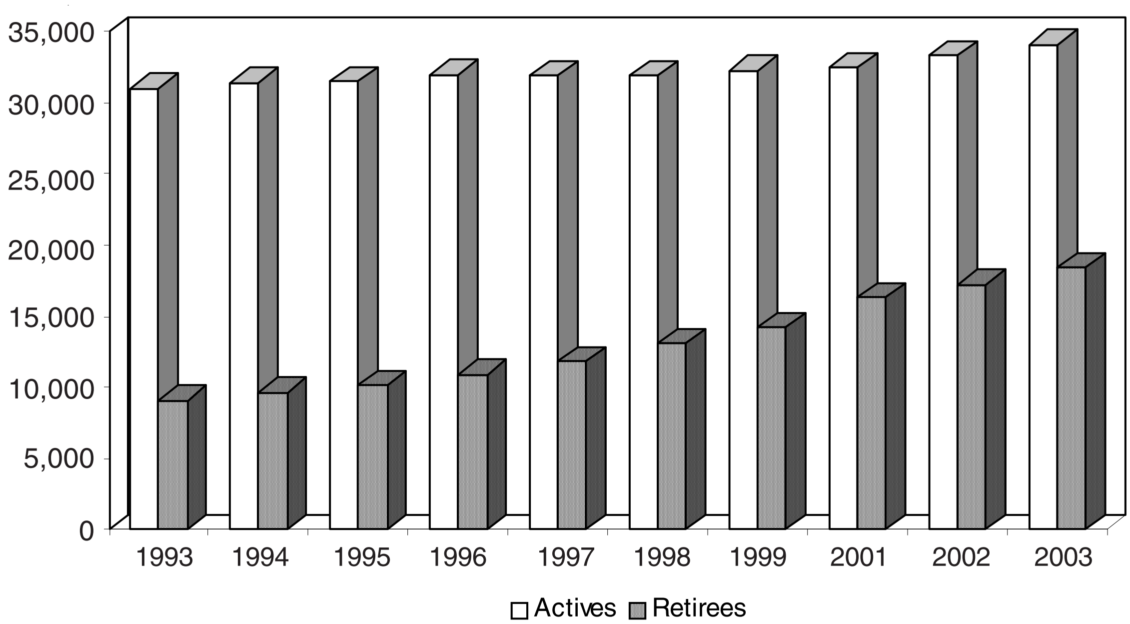
(b) members who first entered the PERS after June 30, 1986, and their survivors if they are at least age 65; and

(c) all disabled members.

Public Employees' Retirement System System Membership by Status					
Year ended June 30	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
1993	30,972	9,103	3,572	4,721	48,368
1994	31,364	9,643	3,771	4,859	49,637
1995	31,450	10,173	4,144	5,398	51,165
1996	31,960	10,921	4,382	5,847	53,110
1997	31,854	11,802	4,742	6,260	54,658
1998	31,910	13,101	5,143	6,571	56,725
1999	32,214	14,185	5,395	7,500	59,294
2001	32,441	16,274	6,187	11,403	66,305
2002	33,242	17,215	5,702	11,301	67,460
2003	34,065	18,431	5,841	10,798	69,135

Data not available for FY 2000 due to transition to a new computer system.

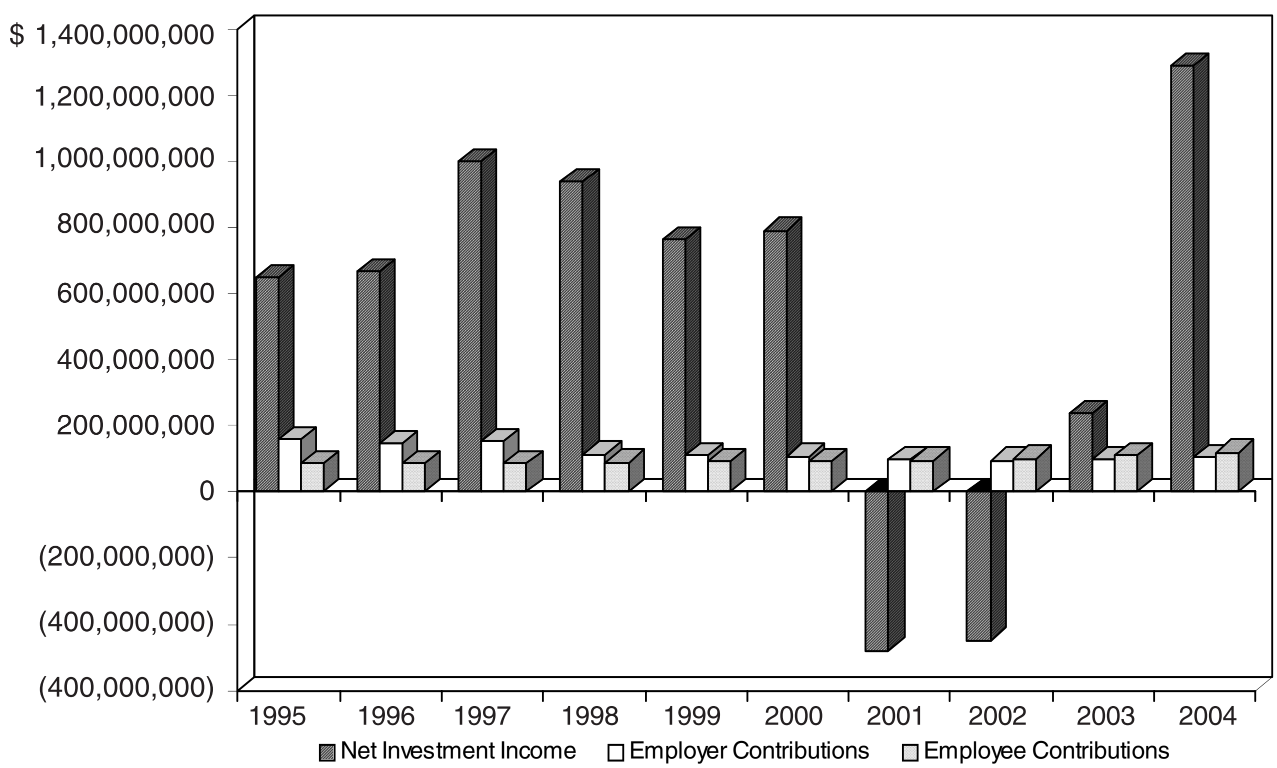
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Data not available for FY 2000 due to transition to a new computer system.

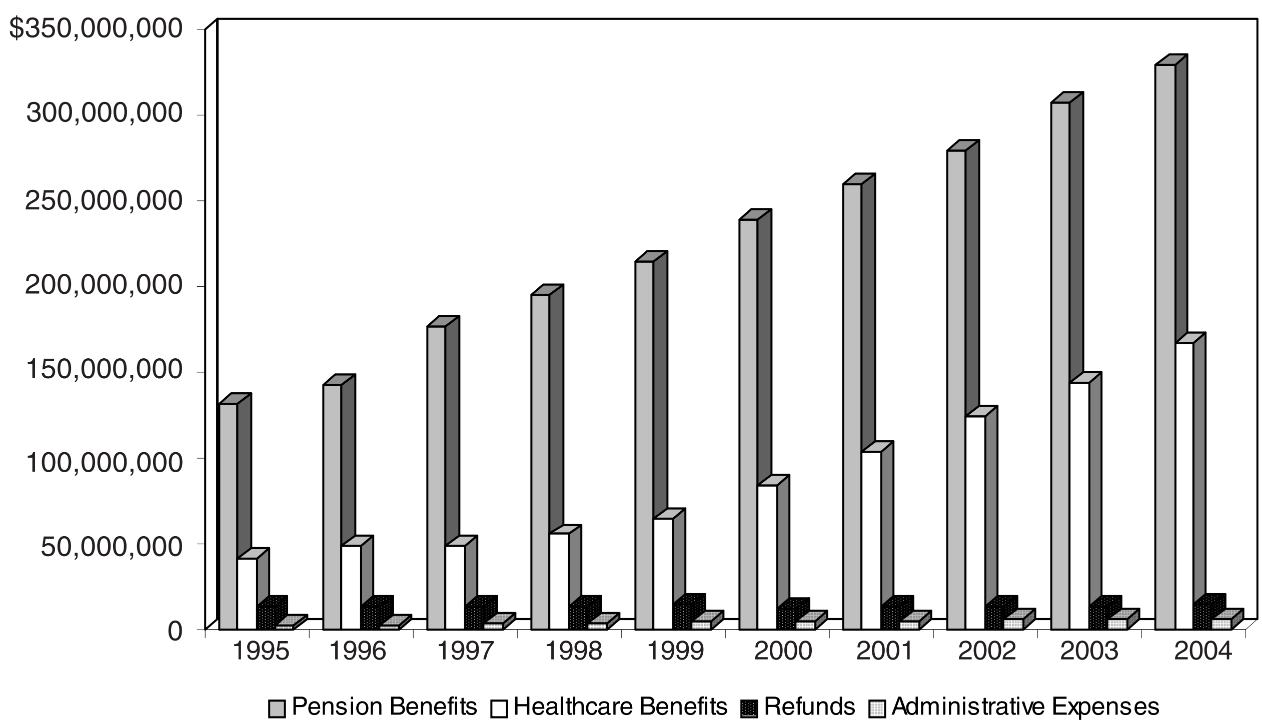
Public Employees' Retirement System Revenues by Source (000's omitted)					
Year ended June 30	Plan Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total
1995	$83,683	$156,445	$ 647,012	$ 3	$ 887,143
1996	85,120	147,640	665,087	4	897,851
1997	87,949	154,599	997,410	7	1,239,965
1998	89,256	112,384	937,782	7	1,139,429
1999	90,635	109,938	764,622	4	965,199
2000	92,770	107,596	790,336	-	990,702
2001	94,983	96,484	(478,249)	7	(286,775)
2002	100,639	94,769	(448,279)	10	(252,861)
2003	112,112	99,198	237,205	27	448,542
2004	118,554	105,585	1,064,605	152	1,288,896

PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR COMPARISON OF REVENUES BY SOURCE

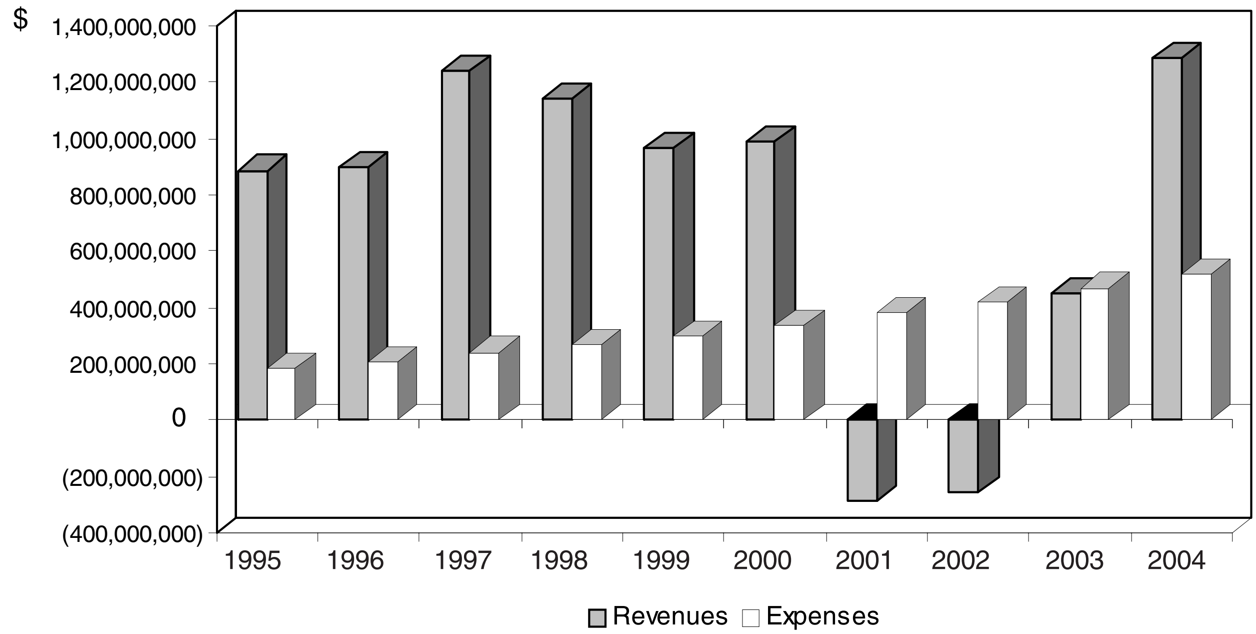


Public Employees' Retirement System Expenses by Type (000's omitted)					
Year ended June 30	Pension Benefits	Healthcare Benefits	Refunds of Contributions	Administrative Expenses*	Total
1995	$131,634	$ 40,687	$12,774	$ 2,253	$ 187,348
1996	143,039	47,964	13,413	2,522	206,938
1997	177,328	48,361	13,012	2,830	241,531
1998	195,544	55,165	13,557	2,920	267,186
1999	215,170	64,486	14,435	4,148	298,239
2000	239,441	83,794	11,998	4,247	339,480
2001	259,771	103,846	13,134	4,672	381,423
2002	279,731	124,805	12,869	5,283	422,688
2003	307,684	143,331	13,025	5,880	469,920
2004	329,390	167,360	14,723	5,296	516,769

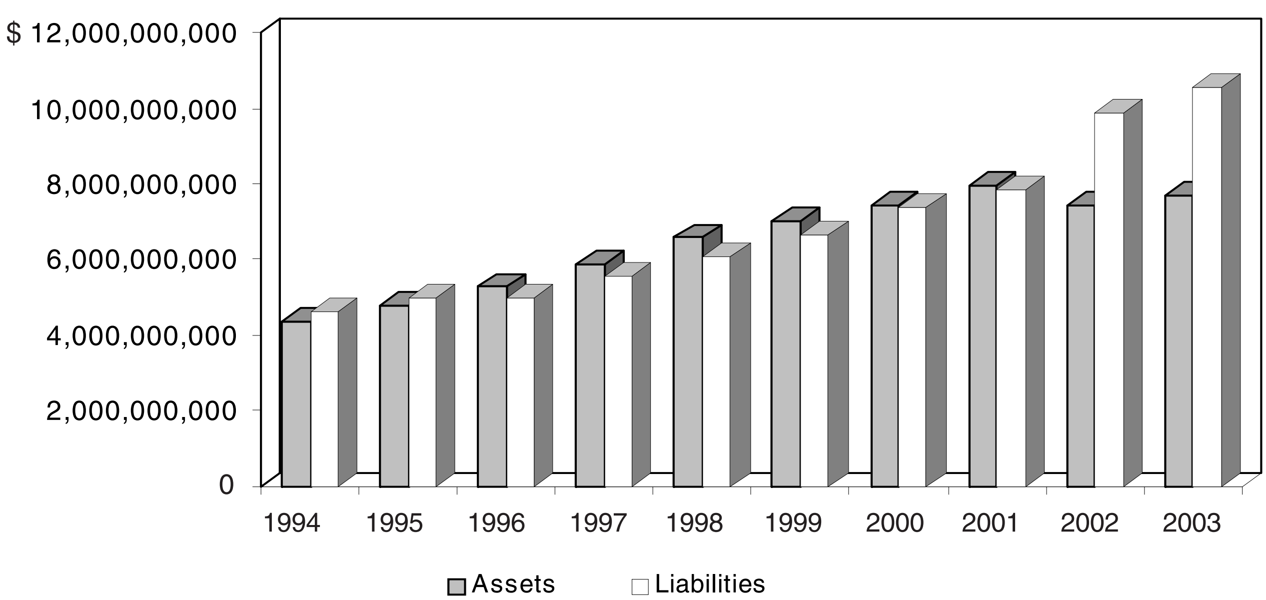
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES



PUBLIC EMPLOYEES' RETIREMENT SYSTEM
10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES

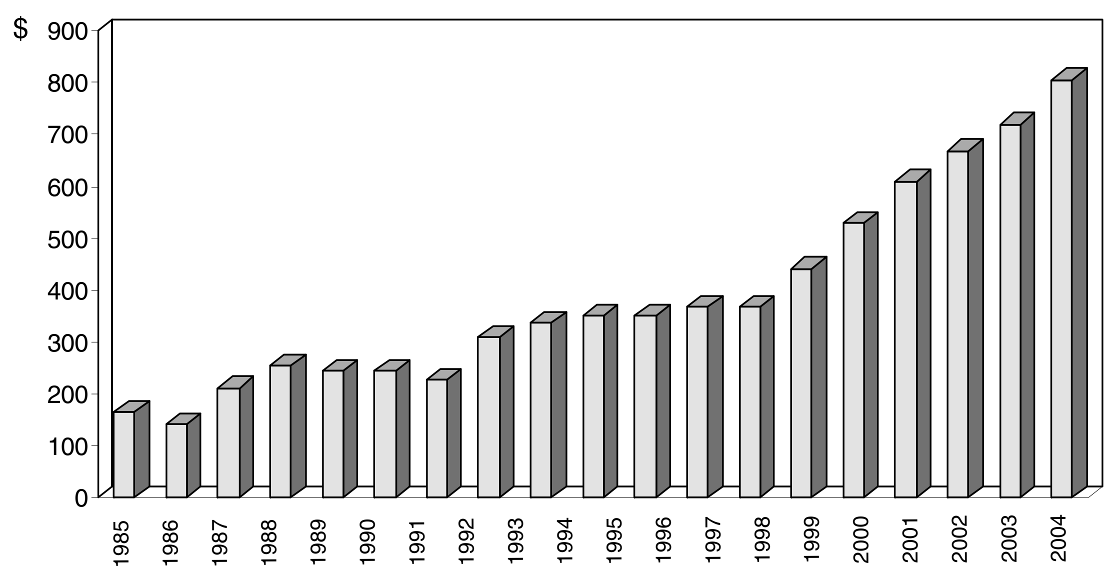


Public Employees' Retirement System
Schedule of Benefit Expenses by Type
(000's Omitted)

Year Ended June 30	Service	Disability	Survivor	Dependent[1]	COLA[2]	PRPA[3]	Medical	Total
1995	$97,730	$4,076	$ 5,431	$ -	$7,597	$16,800	$40,687	$172,321
1996	107,082	4,608	5,546	-	8,244	17,559	47,964	191,003
1997[1]	160,103	6,228	10,314	683	-	-	48,361	225,689
1998	177,556	6,598	10,823	567	-	-	55,165	250,709
1999	195,605	7,195	12,141	229	-	-	64,486	279,656
2000	216,118	9,669	13,650	4	-	-	83,794	323,235
2001	239,814	8,185	11,772	-	-	-	103,846	363,617
2002	258,189	8,379	13,163	-	-	-	124,805	404,536
2003	283,927	8,827	14,930	-	-	-	143,331	451,015
2004	305,047	8,691	15,652	-	-	-	167,360	496,750

(1) Due to the implementation of a new computer system, COLA and PRPAs can now be combined with the appropriate base benefit and dependent benefits can be separated from survivor and disability benefits.
(2) Cost-of-Living in Alaska (COLA)
(3) Post-Retirement Pension Adjustment (PRPA)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
20-YEAR COMPARISON OF RETIREE MONTHLY HEALTH INSURANCE PREMIUMS



Public Employees' Retirement System
Schedule of Benefit Recipients by Type of Benefit and Option Selected
June 30, 2003

Amount of Monthly Benefit	Number of Recipients	Type of Benefit			Option Selected				
		1	2	3	1	2	3	4	5
Others									
$ 1 - $300	1,461	1,187	263	11	637	298	204	57	265
301 - 600	3,236	2,809	374	53	1,575	742	475	193	251
601 - 900	2,720	2,380	293	47	1,313	634	366	209	198
901 - 1200	2,159	1,920	186	53	984	540	298	155	182
1201 - 1500	1,632	1,435	138	59	663	433	254	116	166
1501 - 1800	1,289	1,177	66	46	512	355	180	104	138
1801 - 2100	972	865	50	57	345	289	159	81	98
2101 - 2400	743	692	22	29	252	237	106	59	89
2401 - 2700	517	492	14	11	169	157	96	42	53
2701 - 3000	463	438	18	7	144	152	78	38	51
3001 - 3300	321	307	6	8	88	121	47	26	39
3301 - 3600	232	224	4	4	58	96	41	19	18
3601 - 3900	187	180	3	4	60	79	18	16	14
3901 - 4200	153	150	0	3	40	69	30	12	2
over 4200	355	348	3	4	102	139	58	31	25
Totals	16,440	14,604	1,440	396	6,942	4,341	2,410	1,158	1,589
Police/Fire									
$ 1 - $300	29	18	11	0	14	9	1	0	5
301 - 600	103	75	27	1	40	27	16	8	12
601 - 900	101	66	30	5	58	24	5	7	7
901 - 1200	129	102	22	5	52	24	18	8	27
1201 - 1500	113	92	18	3	45	31	10	15	12
1501 - 1800	121	91	17	13	47	31	15	14	14
1801 - 2100	141	107	20	14	58	46	15	12	10
2101 - 2400	167	141	12	14	50	69	18	14	16
2401 - 2700	199	182	10	7	48	91	33	14	13
2701 - 3000	152	144	8	0	31	76	22	14	9
3001 - 3300	157	154	2	1	33	78	20	17	9
3301 - 3600	141	138	3	0	29	72	23	10	7
3601 - 3900	123	121	1	1	21	60	13	17	12
3901 - 4200	105	105	0	0	19	60	8	11	7
Over 4200	210	205	5	0	46	121	23	12	8
Totals	1,991	1,741	186	64	591	819	240	173	168

Type of Benefit

1 - Normal retirement
2 - Survivor payment
3 - Disability

Option 1 - Whole Life Annuity
Option 2 - 75% Joint and Contingent Annuity
Option 3 - 50% Joint and Contingent Annuity
Option 4 - 66 2/3% Joint and Survivor Annuity
Option 5 - Level Income Option

Public Employees' Retirement System
Schedule of Average Benefit Payments
New Benefit Recipients

	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Others							
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	$ 905	$ 481	$ 872	$1,507	$2,086	$2,821	$3,308
Number of Recipients	43	254	223	191	112	54	27
Period 7/1/97 - 6/30/98:							
Average Monthly Benefit	$ 943	$ 511	$ 935	$1,512	$2,090	$3,007	$3,700
Number of Recipients	107	246	281	282	175	86	42
Period 7/1/98 - 6/30/99:							
Average Monthly Benefit	$ 653	$ 518	$ 894	$1,477	$2,129	$2,853	$3,813
Number of Recipients	55	237	249	225	157	86	44
Period 7/1/99 - 6/30/01:							
Average Monthly Benefit	$ 602	$ 577	$ 791	$1,129	$1,392	$1,771	$1,949
Number of Recipients	8	174	289	594	542	438	297
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$ 488	$ 500	$ 886	$1,428	$2,020	$2,663	$3,653
Number of Recipients	15	283	246	227	198	94	72
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$ 984	$ 678	$1,022	$1,601	$2,201	$3,116	$4,004
Number of Recipients	202	379	290	219	179	99	77
Police/Fire							
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	$1,263	$ 592	$ 957	$1,719	$2,811	$3,545	$4,733
Number of Recipients	10	12	18	40	68	15	3
Period 7/1/97 - 6/30/98:							
Average Monthly Benefit	$1,472	$ 723	$1,177	$2,091	$3,199	$3,548	$3,380
Number of Recipients	13	8	13	40	64	22	4
Period 7/1/98 - 6/30/99:							
Average Monthly Benefit	$1,879	$ 698	$1,214	$1,808	$2,849	$3,713	$4,097
Number of Recipients	22	8	23	29	61	17	3
Period 7/1/99 - 6/30/01:							
Average Monthly Benefit	$1,416	$ 927	$1,249	$1,704	$2,824	$2,892	$2,702
Number of Recipients	2	13	34	61	143	57	18
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$1,903	$ 466	$1,056	$1,561	$2,567	$3,447	$5,996
Number of Recipients	1	6	12	19	85	32	2
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$ 1,594	$ 697	$1,131	$2,043	$3,013	$4,079	$4,313
Number of Recipients	1	9	20	20	79	11	3

"Average Monthly Benefit" includes post-retirement pension adjustments and cost-of-living increases.

Public Employees' Retirement System
Participating Employers

Akutan, City of
Alaska, State of
Alaska Gateway School District
Alaska Housing Finance Corporation
Alaska Municipal League
Alaska, University of
Alaska Geophysical Institute, University of
Aleutian Housing Authority
Aleutian Region School District
Aleutians East Borough
Aleutians East Borough School District
Aleutians West Coastal Resource Service Area
Allakaket, City of
Anchorage, Municipality of
Anchorage Parking Authority
Anchorage School District
Anderson, City of
Angoon, City of
Annette Island School District
Atka, City of

Baranof Island Housing Authority
Barrow, City of
Bartlett Regional Hospital
Bering Straits Coastal Resource Service Area
Bering Straits Regional Housing Authority
Bering Strait School District
Bethel, City of
Bristol Bay Borough
Bristol Bay Borough School District
Bristol Bay Housing Authority

Chatham School District
Chugach School District
Cook Inlet Housing Authority
Copper River Basin Regional Housing Authority
Copper River School District
Cordova, City of
Cordova Community Medical Center
Cordova City School District
Craig, City of
Craig City School District

Delta-Greely School District
Delta Junction, City of
Denali Borough
Denali Borough School District
Dillingham, City of
Dillingham City School District

Eek, City of
Egegik, City of
Elim, City of

Fairbanks, City of
Fairbanks North Star Borough
Fairbanks North Star Borough School District
Fort Yukon, City of

Galena, City of
Galena City School District

Haines Borough
Haines Borough School District
Homer, City of
Hoonah, City of
Hoonah City School District
Hooper Bay, City of
Huslia, City of
Hydaburg City School District

Iditarod Area School District
Ilisagvik College
Interior Regional Housing Authority
Inter-island Ferry Authority

Juneau School District, City and Borough of
Juneau, City and Borough of

Kachemak, City of
Kake, City of
Kake City School District
Kaltag, City of
Kashunamiut School District
Kenai, City of
Kenai Peninsula Borough
Kenai Peninsula Borough School District
Ketchikan, City of
Ketchikan Gateway Borough
Ketchikan Gateway Borough School District
King Cove, City of
Kivalina, City of

Public Employees' Retirement System
Participating Employers (continued)

Klawock, City of
Klawock City School District
Kodiak, City of
Kodiak Island Borough
Kodiak Island Borough School District
Kotzebue, City of
Koyuk, City of
Kuspuk School District

Lake and Peninsula Borough
Lake and Peninsula Borough School District
Lower Kuskokwim School District
Lower Yukon School District

Matanuska-Susitna Borough
Matanuska-Susitna Borough School District
Mekoryuk, City of

Nenana, City of
Nenana City School District
Nome, City of
Nome City School District
Nome Joint Utility System
Noorvik, City of
North Pacific Fishery Management Council
North Pacific Rim Housing Authority
North Pole, City of
North Slope Borough
North Slope Borough School District
Northwest Arctic Borough
Northwest Arctic Borough School District
Northwest Inupiat Housing Authority

Palmer, City of
Pelican, City of
Pelican City School District
Petersburg, City of
Petersburg General Hospital
Petersburg City School District
Pribilof School District

Quinhagak, City of

Ruby, City of

Saint George, City of
Saint Mary's, City of
Saint Mary's School District
Saint Paul, City of
Sand Point, City of
Saxman, City of
Saxman Seaport
Selawik, City of
Seldovia, City of
Seward, City of
Shaktoolik, City of
Sitka, City and Borough of
Sitka Community Hospital
Sitka Borough School District
Skagway, City of
Skagway City School District
Soldotna, City of
Southeast Island School District
Southeast Regional Resource Center
Southwest Region School District
Special Education Service Agency

Tanana, City of
Tanana School District
Thorne Bay, City of
Tlingit-Haida Regional Housing Authority
Toksook Bay, City of

Unalakleet, City of
Unalaska, City of
Unalaska City School District
Upper Kalskag, City of

Valdez, City of
Valdez City School District

Wasilla, City of
Whittier, City of
Wrangell, City of
Wrangell Public School District

Yakutat, City and Borough of
Yakutat School District
Yukon Flats School District
Yukon-Koyukuk School District
Yupiit School District

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