PUBLIC EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2006

Frank H. Murkowski, Governor

Prepared by

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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INTRODUCTORY SECTION

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December 8, 2006

The Honorable Sarah Palin, Governor
Members of the Alaska State Legislature
Alaska Retirement Management Board
Employers and Plan Members

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (Plan) for the fiscal year ended June 30, 2006.

This report is intended to provide comprehensive information on the financial operations of the Plan for the year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the Plan. To the best of our knowledge and belief, the enclosed information 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 Plan for the year ended June 30, 2006. All disclosures necessary to enable the reader to gain an understanding of the Plan's activities have been included.

For financial reporting purposes, the Plan 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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* GASB Statement No. 40, *Deposits and Investment Risk Disclosures, and GASB Statement No. 44, Economic Condition Reporting: The Statistical Section*. Assets of the Plan 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 CAFR is divided into five sections:

- **Introductory Section**, which contains this letter of transmittal, the administrative organization of the Plan, and a list of the members serving on the Alaska Retirement Management 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 report prepared by the investment consultant, 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 annual actuarial valuation; and

- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

December 8, 2006

The MD&A provides an analytical overview of the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located in the Financial Section of this report immediately following the Independent Auditors' Report.

The 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 Plan's age and service requirements. During the fiscal year 2005 legislative session, a law was enacted that closes the Plan. Senate Bill 141, signed into law on July 27, 2005, closes the Plan effective July 1, 2006, to new members and creates a defined contribution retirement plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the PERS will consist of two retirement plans, the defined benefit plan and the defined contribution plan.

	Years Ended June 30		
	2006	**2005**	**2004**
Net Assets (millions)	$9,379.5	8,590.8	8,177.3
Participating Employers	160	160	161

Reporting Entity

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

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

The Alaska Retirement Management Board (ARMB) constituted effective October 1, 2005, replaced the Public Employees' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (ASPIB) (effective October 1, 2005). Prior to October 1, 2005, the ASPIB had statutory oversight of the Plan's investments and the authority to invest the Plan's financial resources.

The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the PERS;
- coordinating with the PERS Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting to the governor, legislature and individual employers participating in the PERS on its financial condition.

December 8, 2006

Major Initiatives

The Public Employees' Retirement Board (governing board prior to July 1, 2005) looked at ways to reduce costs to the employers and address the unfunded status of the PERS while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. Senate Bill 141 passed during the 2005 legislative session created Tier IV in the PERS. This new tier, a hybrid plan referred to as the defined contribution retirement plan, becomes effective for members entering the PERS on or after July 1, 2006. The PERS administrator is working with legal counsel to obtain plan qualification and various private ruling letters related to the new tier.

The PERS continues to make progress on several ongoing projects. Most of these efforts focused on improvements in technology, improving methods for employers to submit information, improving methods for members to obtain information, and continued compliance with accounting requirements of the GASB and the Financial Accounting Standards Board (FASB) as applicable.

Independent Audit

The PERS 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.

Investments

At June 30, 2006, the Plan's investment portfolio was valued at $9.4 billion and earned an 11.74% return for the fiscal year ended June 30, 2006. Over the past five years ending June 30, 2006, the Plan's investments earned a 6.54% return. The ARMB has statutory oversight of the Plan's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

Internal Controls

Plan internal accounting controls are designed to reasonably assure the safekeeping of assets and the reliability of financial reporting. Control procedures are the responsibility of the Plan's management. The independent auditors do not express an opinion on the effectiveness of the internal controls.

Actuarial Valuation

The actuarial firm, Buck Consultants, completed the actuarial review and valuation as of June 30, 2005, and served as technical advisor to the PERS. An actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the PERS. 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.

December 8, 2006

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 PERS for its CAFR for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We are confident our current CAFR continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

Future Employer Contribution Rates

The PERS' consulting actuary presented the results of the June 30, 2005, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the PERS has a funding ratio (actuarial value of Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 65.7%. The unfunded portion of the Plan's liabilities totals approximately $4.4 billion. The unfunded liability is amortized over a 25-year fixed period, as established by the ARMB. In order to bridge the gap between assets and liabilities, the employer contribution rate is projected to increase over the same 25-year period, if the Plan's actual experience agrees with the assumptions underlying the valuation. The current asset allocation that the ARMB set for the Plan's investments is expected to provide a five-year median return of 7.83%.

There are three primary factors that have contributed to the Plan's current funding ratio: (1) loss of investment income in fiscal years 2001 and 2002; (2) rising healthcare costs; and (3) change in assumptions. These factors have negatively impacted the funding ratio for PERS and resulted in increasing employer contribution rates.

Currently, the PERS is among the few retirement systems that pre-fund and account for healthcare costs. The PERS is fortunate in that the creators and administrators had foresight to fund healthcare costs in advance. Most other major governmental retirement systems account for their healthcare costs on a pay-as-you-go basis. Implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans,* will be phased in beginning with the largest systems (including the PERS) implementing in fiscal year 2007. This Statement requires disclosures related to healthcare costs similar to those currently required for pension costs. Once implemented, all systems will account for their future healthcare costs making comparisons between systems more meaningful.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the Department of Administration, Division of Retirement and Benefits and the Department of Revenue, Treasury Division. 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 PERS' financial resources.

December 8, 2006

The report is available on the web at www.state.ak.us/drb/pers/perscafr.shtml and mailed to those who submit a formal request. This report forms the link between the PERS and the membership. The cooperation of the membership contributes significantly to the success of the PERS. We hope the employers and plan members find this report informative.

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

Respectfully submitted,

Kevin Brooks
Acting Commissioner

Traci Carpenter
Director

Melanie Millhorn
Deputy Commissioner

Charlene Morrision, CPA
Chief Financial Officer

Christina Maiquis
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, 2005

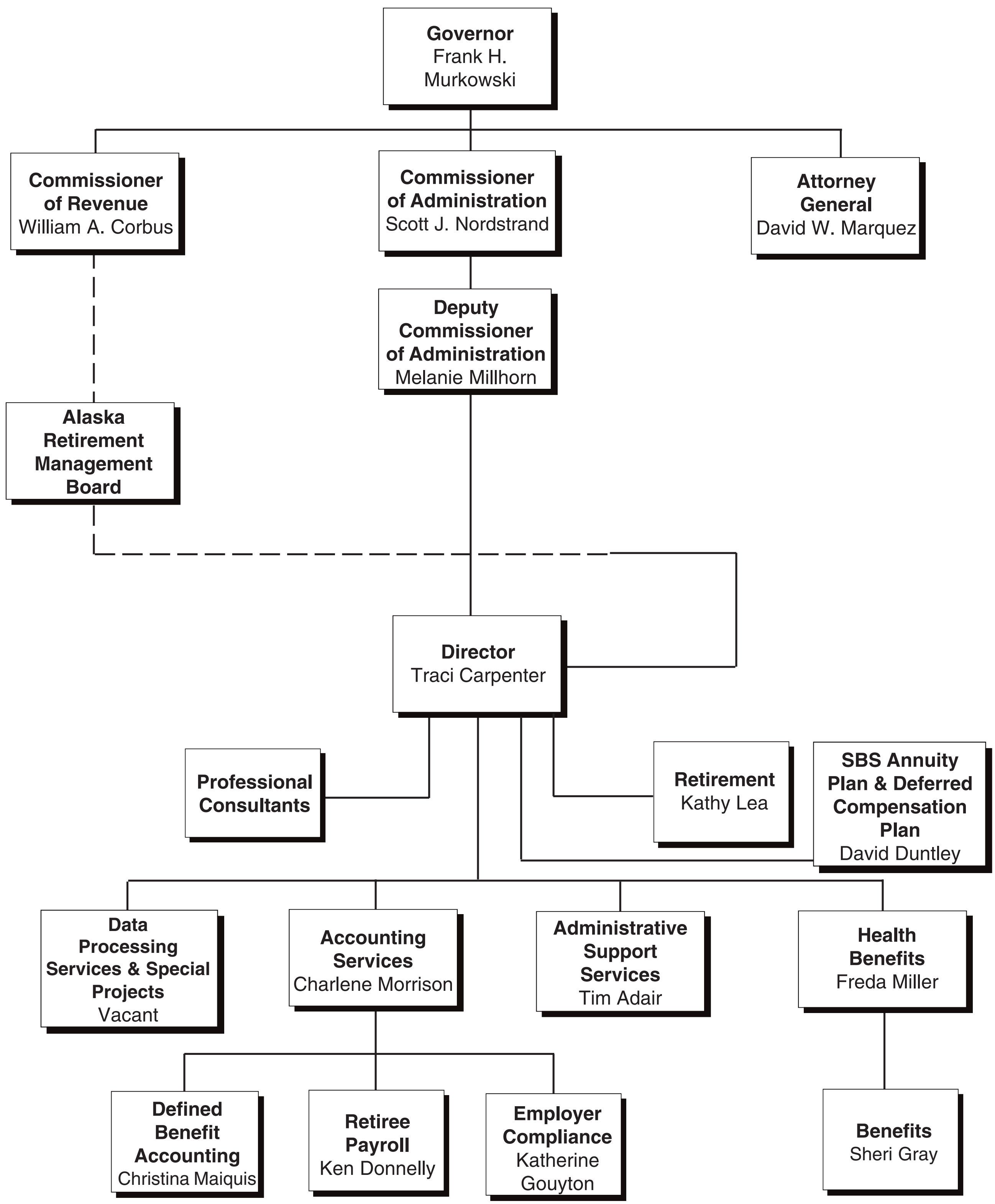
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards 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. This section appoints members to retirement benefits and maintains benefit payment information.

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

The **Accounting Services 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 **SBS Annuity Plan and Deferred Compensation Plan Section** is responsible for accounting, plan operations, and financial activities related to the SBS Annuity and Deferred Compensation Plan administered by the Division.

The **Data Processing Services Section** supports the information systems the System uses. 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.

PROFESSIONAL CONSULTANTS

Consulting Actuary
Buck Consultants
Denver, Colorado

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Buck Consultants
Denver, Colorado

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

Legal Counsel
Virginia Ragle
Toby Steinberger
Assistant Attorney Generals
Juneau, Alaska
Ice Miller LLP
Indianapolis, Indiana

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

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

A list of investment consultants can be found on pages 59-60 and on the Schedule of External Management Fees on pages 68-69.

ALASKA RETIREMENT MANAGEMENT BOARD

The Alaska Retirement Management Board (ARMB) replaced the Public Employees' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (effective October 1, 2005). At June 30, 2006, the ARMB was made up of nine members appointed by the Governor.

Gail (Anagick) Schubert, Chair, is the Executive Vice President and General Counsel for the Bering Straits Native Corporation, and President/CEO of several of its subsidiary entities. She is an attorney licensed to practice law in the states of Alaska and New York. Ms. Schubert serves as Chair of the Alaska Native Heritage Center, Chair of Akeela Treatment Services, Vice Chair of the Alaska Native Justice Center, Vice Chair of Khoanic Broadcast Corporation, Treasurer of the Bering Straits Native Corporation, and as a board member of the Alaska Federation of Natives, and the Alaska Native Arts Foundation. She is also a member of the Alaska Rural Justice and Law Enforcement Commission. Ms. Schubert received her undergraduate degree from Stanford University, and holds a Law Degree and Masters Degree in Business Administration from Cornell University.

Sam Trivette, Vice-Chair, is currently President of the Retired Public Employees of Alaska, and is on the national executive board of the American Federation of Teachers retirees. Mr. Trivette retired from public service after more than 32 years serving as Chief Probation Officer, Director of Community Corrections, Executive Director of the Parole Board, and as a probation and correctional officer. He is President of Quality Corrections Services, and on the board of directors of the Alaska Public Employees Association. Mr. Trivette has also served as an officer in a number of national and statewide professional organizations as well a many not-for-profit organizations around Alaska. He has a B.A. in Psychology from the University of Alaska, Anchorage and has completed postgraduate work in public administration, law and psychological counseling.

Gayle W. Harbo, Secretary, retired after teaching mathematics in Fairbanks for 25 years. She also served as math department chair, as advanced placement coordinator, on the district curriculum, evaluation and budget committees, and twice as chair of the Lathrop Self-Evaluation for Accreditation Committee. Ms. Harbo is a member of Alpha Delta Kappa, AARP, National Retired Teachers of Alaska, Fairbanks Retired Teachers Association, National Council of Teacher Retirement Systems, NCTR Education Committee, and the Alaska Teachers' Retirement Board. She is also a co-manager of a family trust. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a B.S. in Mathematics from North Carolina State University, and a Masters in Teaching from the University of Alaska, Fairbanks, and has completed an additional 40 hours in mathematics, counseling, law and finance.

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.

Scott Nordstrand, Commissioner of Department of Administration was appointed commissioner in 2005. He is an attorney and previously served as deputy attorney general for the civil division in the state Department of Law. Prior to his state service, Commissioner Nordstrand served for 15 years as an attorney in private practice in Anchorage primarily focusing on employment and commercial litigation. He received his Bachelor's Degree in Political Science from the University of Wisconsin and a Law Degree from the University of North Dakota School of Law.

Martin 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 B.A. in Accounting from the University of Washington and has been a CPA since 1958.

Larry Semmens is currently the Finance Director of the City of Kenai where he has been employed since 1996. Mr. Semmens started his career with Price Waterhouse and Co. in Anchorage in 1980, then worked in the Kenai Peninsula Borough finance department for 15 years in various positions, including finance director, prior to moving to Kenai. He is a past president of the Alaska Government Finance Officers Association, Vice-Chair of the Alaska Public Entities Insurance Pool Board, and Chair of the Aurora Borealis Charter School Board. Mr. Semmens is a certified public accountant and a U.S. Air Force Veteran. He holds a B.B.A. in Accounting from Boise State University.

Michael R. Williams is currently a Revenue Auditor for the Alaska Department of Revenue, performing audits of large, multi-state and multi-national corporations since 1998. He is also a partner and principal owner of Williams & Payne, LLC, a tax preparation and consultation business in Anchorage. Mr. Williams has also worked as a tax consultant for Deloitte & Touche and as a tax auditor for the State of Utah. He has served as Secretary for ASEA/AFSCME Local 52, as trustee for the ASEA Health Benefits Trust, and is a member of the National Association of Enrolled Agents. Mr. Williams holds a B.A. in Accounting & German and a Master of Professional Accountancy from Weber State University.

FINANCIAL SECTION

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KPMG LLP
Suite 600
701 West Eighth Avenue
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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

As explained in note 2, the financial statements included investments valued at approximately $1,816,443,000 (19% of net assets held in trust) whose carrying values have been estimated by management in the absences of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

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 48 to 54 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG

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 55 and 56 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.

The introductory section on pages 1 through 10 and investment, actuarial and statistical data on pages 57 through 108 are presented for the purpose of additional analysis and are not a required part of the basic financial statements to 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

October 27, 2006

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

Management's Discussion and Analysis

June 30, 2006 and 2005

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, 2006 and 2005. 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, 2006 and 2005. Information for fiscal year 2004 is presented for comparative purposes.

Financial Highlights

The Plan's total assets exceeded its total liabilities by $9,379,471,000 and $8,590,752,000 at the close of fiscal years 2006 and 2005, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2006 and 2005 increased by $788,719,000 or 9.2% and $413,446,000 or 5.1% over the closing balances of those assets in fiscal years 2005 and 2004, respectively.

Contributions received totaled $391,915,000 and $292,845,000 during fiscal years 2006 and 2005; an increase of $99,070,000 and $68,706,000 or 33.8% and 30.7% from fiscal years 2005 and 2004, respectively.

Net investment income increased from $692,303,000 in 2005 to $974,006,000 in 2006 and decreased from $1,064,605,000 in 2004 to $692,303,000 in 2005; reflecting an increase of 40.7% and a decrease of 35.0% from fiscal years 2005 and 2004, respectively.

Pension benefit and postemployment healthcare payments totaled $592,285,000 and $550,112,000 during fiscal years 2006 and 2005 reflecting an increase of $42,173,000 and $53,362,000 or 7.7% and 10.7% from fiscal years 2005 and 2004, 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 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 amount of liabilities.

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, operating deductions, and transfers.

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

Notes to 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.

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

Management's Discussion and Analysis

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

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment deductions 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

NET ASSETS
(Dollars in thousands)

Description	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percentage	2004
Assets:					
Cash, cash equivalents and receivables	$ 15,169	12,275	2,894	23.6%	9,702
Securities lending collateral	929,519	659,801	269,718	40.9	993,268
Investments, at fair value	9,372,102	8,585,876	786,226	9.2	8,174,863
Other assets	4	12	(8)	(66.7)	126
Total assets	10,316,794	9,257,964	1,058,830	11.4	9,177,959
Liabilities:					
Accrued expenses	7,329	6,541	788	12.0	7,281
Securities lending collateral payable	929,519	659,801	269,718	40.9	993,268
Other liabilities	475	870	(395)	(45.4)	104
Total liabilities	937,323	667,212	270,111	40.5	1,000,653
Net Assets	**$ 9,379,471**	**8,590,752**	**788,719**	**9.2%**	**8,177,306**

CHANGES IN NET ASSETS
(Dollars in thousands)

	2006	2005	Amount	Percentage	2004
Net assets, beginning of year	$ 8,590,752	8,177,306	413,446	5.1%	7,391,455
Additions:					
Contributions	391,915	292,845	99,070	33.8	224,139
Net investment income	974,006	692,303	281,703	40.7	1,064,605
Other additions	312	3	309	10,300.0	152
Transfer from Retiree Health Fund	34,635	-	34,635	100.0	13,724
Total additions	1,400,868	985,151	415,717	42.2	1,302,620
Deductions:					
Benefits	592,285	550,112	42,173	7.7	496,750
Refunds	14,063	16,587	(2,524)	(15.2)	14,723
Administrative	5,801	5,006	795	15.9	5,296
Total deductions	612,149	571,705	40,444	7.1	516,769
Increase in net Assets	788,719	413,446	375,273	90.8	785,851
Net assets, end of year	**$ 9,379,471**	**8,590,752**	**788,719**	**9.2%**	**8,177,306**

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, 2006 and 2005 showed total assets exceeding total liabilities by $9,379,471,000 and $8,590,752,000. 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 $788,719,000 or 9.2% and $413,446,000 or 5.1% from fiscal years 2005 and 2004, respectively. 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 Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. During fiscal year 2006, the ARMB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed-income, 2% in international fixed-income, 6% in private equity, 2% in high yield, 3% in absolute return, 3% in other investments, and 9% in real estate. This asset allocation is expected to provide a five-year median return of 7.83%.

For fiscal years 2006 and 2005, the Plan's investments generated an 11.74% and an 8.95% rate of return, respectively. The Plan's annualized rate of return was 11.90% over the last three years and 6.54% 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 members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2006 and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the Plan's funding ratio. The ratio of assets to liabilities was 65.7%, at June 30, 2005 (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make 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.

For fiscal year 2007, the employer consolidated normal cost rate increased from 13.24% to 13.32%, the average past service rate increased from 12.39% to 14.87%, thus producing a total fiscal year 2007

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

Management's Discussion and Analysis

average annual required contribution rate for all employers in the Plan of 28.19%. The ARMB adopted an average employer contribution rate of 21.77%.

	Valuation Year (Dollars in thousands) 2005	2004
Valuation Assets	$ 8,442,919	8,030,414
Actuarial Liabilities (total benefits)	12,844,841	11,443,916
Funding ratio	65.7%	70.2%

Contributions, Investment Income and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, investment income and a transfer.

Additions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Percent	2004
Plan member contributions	$ 119,566	114,640	4,926	4.3%	118,554
Employer contributions	253,922	178,205	75,717	42.5	105,585
State of Alaska	18,427	-	18,427	100.0	-
Net investment income	974,006	692,303	281,703	40.7	1,064,605
Other additions	312	3	309	10,300.0	152
Transfer from Retiree Health Fund	34,635	-	34,635	100.0	13,724
Total	$1,400,868	985,151	415,717	42.2%	1,302,620

Employer contributions increased from $178,205,000 in fiscal year 2005 to $253,922,000 in fiscal year 2006 an increase of $75,717,000 or 42.5%. Employer contributions increased from $105,585,000 in fiscal year 2004 to $178,205,000 in fiscal year 2005, an increase of $72,620,000 or 68.8%. Increases experienced in fiscal year 2006 are largely due to the contribution shortfall related to contributions made in fiscal year 2005. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation year used to set fiscal year 2005 employer contribution rates).

Net investment income in fiscal year 2006 increased by $281,703,000 or 40.7% from amounts recorded in fiscal year 2005. Net investment income in fiscal year 2005 decreased by $372,302,000 or 35.0% from amounts recorded in fiscal year 2004. The Plan's total returns were 11.74%, 8.95% and 15.08% for the years ending 2006, 2005 and 2004, respectively. Changes in both years are due to the performance of the equity markets. The Domestic Equity Pool, International Equity Pool, Real Estate Pool, Private Equity Pool and the Other Investments Pool each had higher returns in 2006 when compared to 2005. The Domestic Equity Pool realized a return of 9.2% in 2006 compared to 4.5% in 2005. The International Equity Pool realized a return of 28.7% in 2006 compared to 13.4% in 2005. The Real Estate Pool realized a return of 18.6% in 2006 compared to 17.4% in 2005. The Private Equity Pool realized a return of 25.9% in 2006 compared to 18.1% in 2005. The Other Investments Pool realized a return of 8.6% in 2006 compared to 5.5% in 2005. More than seventy percent of invested assets were invested in these pools.

Over the long-term, investment income has been a major component of additions to plan assets. During fiscal year 2006, the Plan continued to record significant rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the Plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the third consecutive year.

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During 2006 and 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. The result was excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. In fiscal year 2006, the Plan recognized a transfer of $34,635,000 from the Retiree Health Fund. No transfer occurred in 2005 and a $13,724,000 transfer occurred in 2004.

Benefits and Other Deductions

The primary deduction 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.

Deductions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2004
Pension benefits	$ 381,672	357,763	23,909	6.7%	329,390
Healthcare benefits	210,613	192,349	18,264	9.5	167,360
Refunds of contributions	14,063	16,587	(2,524)	(15.2)	14,723
Administrative	5,801	5,006	795	15.9	5,296
Total	**$ 612,149**	**571,705**	**40,444**	**7.1%**	**516,769**

Pension benefit payments in 2006 and 2005 increased $23,909,000 and $28,373,000 or 6.7% and 8.6% from fiscal years 2005 and 2004, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees as well as a continuing increase in average benefits.

Postemployment healthcare benefits in 2006 and 2005 increased $18,264,000 and $24,989,000 or 9.5% and 14.9% from fiscal years 2005 and 2004, respectively. Healthcare costs continue to rise year over year and this increase is directly related to the number of new retirees in the Plan.

Funding

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

- The employer contributions are calculated by the Plan's consulting actuaries and approved by the ARMB annually.
- Plan member contributions are set by Alaska Statute 39.35.160.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During the fiscal year 2006 legislative session, one law was enacted that affects the Plan:

Senate Bill 46, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

During the fiscal year 2005 legislative session, a law was enacted that closes the PERS defined benefit plan. Senate Bill 141, effective July 1, 2006 closed the PERS defined benefit plan to new members and

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creates a PERS defined contribution plan for members first hired on or after July 1, 2006.

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

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. The ARMB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The return on Plan investments exceeded its' actuarially assumed return of 8.25% for the third consecutive year. Even with investment returns exceeding the actuarial rate of return, the Plan will continue to see an increase in employer contribution rates due to rising medical costs and the contribution shortfall in fiscal year 2005 and 2006. In addition, employer contribution rates will rise in fiscal year 2008 due to an error discovered when the June 30, 2004, actuarial valuation was replicated in 2006. The replication of the June 30, 2004, actuarial valuation discovered an error in the development of liabilities associated with postemployment healthcare benefits.

The consulting actuary recommended an increase from the average employer contribution rate of 25.63% in fiscal year 2006 to 28.19% in fiscal year 2007. The ARMB adopted an average employer contribution rate of 21.77% for fiscal year 2007, up 5 points from the fiscal year 2006 board adopted employer contribution rate of 16.77%. The reason for the five point change in the average employer contribution rate is the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states "The 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 2.56 point change in the calculated average employer contribution rates from fiscal year 2006 to 2007 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 employer contribution rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to those in 2001 and 2002, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs. Regulation 2 AAC 35.900 was repealed effective July 20, 2006.

The June 30, 2005, actuarial valuation for the Plan reported a funding ratio of 65.7% and an unfunded liability of $4.4 billion.

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.

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Statements of Plan Net Assets

June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Assets:						
Cash and Cash Equivalents (notes 5 and 6):						
Short-Term Fixed Income Pool	$ 336	224	560	407	247	654
Securities Lending Collateral	557,143	372,376	929,519	410,431	249,370	659,801
Total Cash and Cash Equivalents	557,479	372,600	930,079	410,838	249,617	660,455
Receivables:						
Contributions	8,756	5,853	14,609	7,229	4,392	11,621
Total Receivables	8,756	5,853	14,609	7,229	4,392	11,621
Investments (notes 3, 4, 5 and 7):						
Domestic Equity Pool	3,091,953	487,950	3,579,903	2,828,626	467,654	3,296,280
Domestic Fixed Income Pool	1,214,397	811,660	2,026,057	1,188,353	722,022	1,910,375
International Equity Pool	855,180	571,572	1,426,752	832,084	505,559	1,337,643
Real Estate Pool	563,987	376,949	940,936	514,772	312,766	827,538
International Fixed Income Pool	117,676	78,651	196,327	198,622	120,679	319,301
Private Equity Pool	338,860	226,483	565,343	236,282	143,561	379,843
Emerging Markets Equity Pool	108,084	72,240	180,324	83,402	50,674	134,076
Other Investments Pool	42,577	28,457	71,034	19,758	12,005	31,763
High Yield Pool	87,688	58,608	146,296	86,119	52,325	138,444
Absolute Return Pool	143,332	95,798	239,130	131,012	79,601	210,613
Total Investments	6,563,734	2,808,368	9,372,102	6,119,030	2,466,846	8,585,876
Other:						
Loans and Mortgages, Net of Allowance for Loan Losses of $5 in 2006 and 2005	1	1	2	6	4	10
Other	2	-	2	2	-	2
Total Other	3	1	4	8	4	12
Total Assets	7,129,972	3,186,822	10,316,794	6,537,105	2,720,859	9,257,964
Liabilities:						
Accrued Expenses	4,393	2,936	7,329	4,069	2,472	6,541
Due to State of Alaska General Fund	285	190	475	541	329	870
Securities Lending Collateral Payable (note 5)	557,144	372,375	929,519	410,431	249,370	659,801
Total Liabilities	561,822	375,501	937,323	415,041	252,171	667,212
Commitments and Contingencies (note 7)						
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	**$6,568,150**	**2,811,321**	**9,379,471**	**6,122,064**	**2,468,688**	**8,590,752**

(Schedules of funding progress are presented on pages 48 and 49.)

See accompanying notes to financial statements.

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Statements of Changes in Plan Net Assets

Years ended June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 152,198	101,724	253,922	110,853	67,352	178,205
Plan Members	71,666	47,900	119,566	71,312	43,328	114,640
State of Alaska	11,045	7,382	18,427	-	-	-
Total contributions	234,909	157,006	391,915	182,165	110,680	292,845
Investment Income:						
Net Appreciation in Fair Value (note 3)	424,780	283,908	708,688	285,594	173,522	459,116
Interest	72,259	48,296	120,555	68,250	41,468	109,718
Dividends	99,085	66,224	165,309	87,430	53,120	140,550
Net Mortgage Loan Recovery	-	-	-	7	4	11
Total Investment Income	596,124	398,428	994,552	441,281	268,114	709,395
Less Investment Expense	13,510	9,028	22,538	11,588	7,040	18,628
Net Investment Income Before Security Lending Activities	582,614	389,400	972,014	429,693	261,074	690,767
Securities Lending Income (note 5)	20,111	13,441	33,552	9,180	5,577	14,757
Less Securities Lending Expenses (note 5)	18,917	12,643	31,560	8,224	4,997	13,221
Net Income from Securities Lending Activities	1,194	798	1,992	956	580	1,536
Net Investment Income	583,808	390,198	974,006	430,649	261,654	692,303
Other:						
Other	187	125	312	2	1	3
Transfer from Retiree Health Fund (note 6)	20,760	13,875	34,635	-	-	-
Total Additions	839,664	561,204	1,400,868	612,816	372,335	985,151
Deductions:						
Benefits	381,672	210,613	592,285	357,763	192,349	550,112
Refunds of Contributions	8,429	5,634	14,063	10,318	6,269	16,587
Administrative	3,477	2,324	5,801	3,114	1,892	5,006
Total Deductions	393,578	218,571	612,149	371,195	200,510	571,705
Net Increase	446,086	342,633	788,719	241,621	171,825	413,446
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:						
Balance, Beginning of Year	6,122,064	2,468,688	8,590,752	5,880,443	2,296,863	8,177,306
Balance, End of Year	**$6,568,150**	**2,811,321**	**9,379,471**	**6,122,064**	**2,468,688**	**8,590,752**

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2006 and 2005

(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. Members should refer to the Plan agreement for more complete information.

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, the number of participating local government employers and public organizations including the State was:

	2006	2005
State of Alaska	1	1
Municipalities	77	77
School districts	53	53
Other	29	29
	160	**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 peace officer and firefighter employees covered by the Plan. At June 30, Plan membership consisted of:

	2006	2005
Retirees and beneficiaries currently receiving benefits	21,852	20,703
Terminated plan members entitled to future benefits	6,102	6,105
	27,954	26,808
Active plan members:		
General	31,865	30,997
Peace officer and firefighter	2,795	2,733
	34,660	33,730
	62,614	**60,538**
Active plan members:		
Vested:		
General	17,336	17,550
Peace officer and firefighter	1,815	1,799
Nonvested:		
General	14,529	13,447
Peace officer and firefighter	980	934
	34,660	**33,730**

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Pension Benefits

Members 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 members first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Members 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 members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the member's three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the member's 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 members is equal to 2% of the member'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 member's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For peace officer and firefighters, the benefit for years of service through a total of ten years is equal to 2% of the member's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for members 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 spouse consents 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 funding ratio of the Plan meets or exceeds one-hundred and five percent. 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.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members 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. Peace officers and firefighters with 25 years of membership service also receive benefits at no premium cost.

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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 administered retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. The 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.

Death Benefits

If an active general 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 peace officer or firefighter 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. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). 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 50% joint and survivor option benefit based on the member's credited service and average monthly compensation at the time of death. If the Plan member is not married or vested, a lump-sum death benefit is payable to the named beneficiary(ies).

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 general Plan member receives normal retirement benefits. A peace officer or firefighter Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

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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 general 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. 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 a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period. Regulation 2 AAC 35.900 Maximum Employer Contribution Rate Change, prohibits the ARMB from increasing or decreasing employer contribution rates by more than five percentage points over the rate adopted in the prior year.

Contributions from the State of Alaska

Senate Bill 46, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

Refunds

Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re-establish an employee relationship with a participating Plan employer before July 1, 2010. Members who have not re-established an employee relationship with a participating Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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Administrative Costs

Administrative costs are financed through investment earnings.

Due to State of Alaska General Fund

Amounts due to 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

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.

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.

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, additions and deductions not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. 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. 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 deductions consist of those administrative deductions directly related to the Plan's investment operations.

In fiscal year 2005, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

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Valuation

Investments with Readily Determinable Fair Values

Fixed-income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Money market funds are valued at amortized cost, which approximates fair value.

Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2006 and 2005, the allowance for loan loss totaled $5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

Investments with Estimated Fair Values

Private equity securities are valued periodically by the general partners. Underlying private equity investments that are listed on a national exchange are valued using quoted market prices. Securities for which there are no market quotations available are initially carried at original cost and subsequently valued at fair value as determined by the general partners. In determining fair value, the financial condition, operating results and projected operating cash flow of the underlying portfolio companies, prices paid in private sales of such securities, the nature and duration of restrictions on disposition of the securities, the expenses and delay that would be involved in registration, the price and extent of public trading in similar securities, the existence of merger proposals or tender offers affecting securities, and reports prepared by analysts are considered as appropriate. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

Absolute return investments are carried at fair value as determined by the pro-rata interest in the net assets of the underlying investment funds. These investment funds are valued periodically by the general partners and the managers of the underlying investments. The net asset value represents the amount that would be expected to be received if it were to liquidate its interests subject to liquidity or redemption restrictions. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

The energy related investments in the Other Investments Pool consist primarily of loans and preferred stock that are valued at the lower of cost or fair value. The agricultural investments in the Other Investments Pool consist primarily of farmland investments that are stated at fair value based upon independent appraisals performed periodically. In years when an

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independent appraisal is not performed, the valuation is reviewed by an independent advisor. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and these differences could be material.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised once every three years, in conjunction with the property's purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis.

Income in the domestic fixed income pool, equity pools, high yield pool and the international fixed income pool is credited daily to each participant on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments and real estate pool is credited to pool participants monthly on a pro rata basis.

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.

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).

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2005 amounts in order to conform to the 2006 presentation.

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the Plan's investments. As the fiduciary, the ARMB 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.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of

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Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short–term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2006 and 2005, the Plan had a 0.02% and 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $21,543 and $8,927 respectively. The Plan had a 9.28% and 3.35% indirect ownership in the short-term fixed income pool at June 30, 2006 and 2005, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool in comprised of an internally managed and an externally managed pool.

Retirement Fixed Income Pool

The Plan participates in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2006, was $1,843. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.04% and 67.32% ownership in the retirement fixed income pool, respectively.

External Domestic Fixed Income Pool

The Plan participates in the ARMB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2006, was $1,548. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 67.43% and 66.86% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $1,791. The manager

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independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.29% and 67.81% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2006, was $1,072. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.22% and 68.14% ownership in the high yield pool.

Domestic Equity Pool

The domestic equity pool is comprised of an external large cap domestic equity pool and external small cap domestic equity pool.

Large Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,132. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.13% and 67.63% ownership in the large cap domestic equity pool.

Small Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,173. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.14%

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and 67.70% ownership in the small cap domestic equity pool.

International Equity Pool

The Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2006, was $3,364. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.50% and 68.00% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2006, was $2,615. 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 member. 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, 2006 and 2005, the Plan had a 65.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2006, was $1,719. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.62% and 68.15% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,135. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.21% and 68.15% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,156. Underlying assets in the pool are comprised of a limited partnership interest in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.62% and 68.15% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ARMB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $2,483. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. 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, 2006 and 2005, the Plan had a 68.17% and 67.70% ownership in the real estate pool, respectively.

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At June 30, 2006, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	-	-	3,425	3,425
Overnight Sweep Account	425	734	-	12,431	-	13,590
Money Market Fund	-	-	-	-	929,519	929,519
Short-term Investment Fund	10,472	-	1,188	-	21,597	33,257
Commercial Paper	21,002	6,800	-	-	-	27,802
U.S. Treasury Notes	-	111,417	-	-	-	111,417
U.S. Treasury Bonds	-	119,347	-	-	-	119,347
U.S. Treasury Strips	-	11,488	-	-	-	11,488
U.S. Government Agency Discount Notes	-	96,151	-	-	-	96,151
U.S. Government Agency	-	175,690	-	-	-	175,690
Municipal Bonds	-	1,415	-	-	-	1,415
Foreign Government Bonds	-	-	111,744	-	-	111,744
Mortgage-backed	18,079	961,003	-	-	-	979,082
Other Asset-backed	125,717	118,192	-	250	-	244,159
Corporate Bonds	65,044	419,280	76,247	125,017	-	685,588
Convertible Bonds	-	-	-	2,720	-	2,720
Yankees:						
Government	-	15,603	-	-	-	15,603
Corporate	2,669	1,360	-	4,662	-	8,691
Fixed Income Pools:						
Equity	-	-	-	38	-	38
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	200,597	200,597
Equity	-	-	-	-	3,339,373	3,339,373
International Equity Pool:						
Equity	-	-	-	-	1,404,660	1,404,660
Emerging Markets Equity Pool	-	-	-	-	180,324	180,324
Private Equity Pool:						
Limited Partnerships	-	-	-	-	565,343	565,343
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	239,130	239,130
Other Investments Pool:						
Limited Partnerships	-	-	-	-	27,598	27,598
Agricultural Holdings	-	-	-	-	43,436	43,436
Real Estate Pool:						
Real Estate	-	-	-	-	533,531	533,531
Commingled Funds	-	-	-	-	190,943	190,943
Limited Partnerships	-	-	-	-	147,192	147,192
Real Estate Investment Trusts	-	-	-	-	68,333	68,333
Mortgages	-	-	-	-	2	2
Net Other Assets (Liabilities)	(137)	(222,472)	7,148	1,178	5,280	(209,003)
Ownership by Other Pools	(242,711)	210,049	-	-	32,662	-
Total	**$ 560**	**2,026,057**	**196,327**	**146,296**	**7,932,945**	**10,302,185**

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At June 30, 2005, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	6,587	-	3,052	9,639
Overnight Sweep Account	88	935	-	37,348	-	38,371
Money Market Fund	-	-	-	-	659,801	659,801
Short-term Investment Fund	-	-	2,220	-	22,460	24,680
Commercial Paper	4,920	9,216	-	-	-	14,136
U.S. Treasury Bills	3,852	-	-	-	-	3,852
U.S. Treasury Notes	3,346	101,314	-	-	-	104,660
U.S. Treasury Bonds	-	123,573	-	-	-	123,573
U.S. Treasury Strips	-	25,160	-	-	-	25,160
U.S. Government Agency						
Discount Notes	851	7,245	-	-	-	8,096
U.S. Government Agency	-	125,170	-	-	-	125,170
Municipal Bonds	-	969	-	-	-	969
Foreign Government Bonds	-	-	212,977	-	-	212,977
Mortgage-backed	9,721	917,260	-	-	-	926,981
Other Asset-backed	27,264	112,094	-	272	-	139,630
Corporate Bonds	12,365	429,452	99,155	94,720	-	635,692
Convertible Bonds	-	-	-	1,445	-	1,445
Yankees:						
Government	-	9,502	-	-	-	9,502
Corporate	474	6,915	-	2,917	-	10,306
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	177,777	177,777
Equity	-	-	-	-	3,074,626	3,074,626
International Equity Pool:						
Convertible Bonds	-	-	-	-	313	313
Equity	-	-	-	-	1,311,369	1,311,369
Emerging Markets Equity Pool	-	-	-	-	134,076	134,076
Private Equity Pool:						
Limited Partnerships	-	-	-	-	379,843	379,843
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	210,613	210,613
Other Investments Pool:						
Limited Partnerships	-	-	-	-	15,097	15,097
Agricultural Holdings	-	-	-	-	16,666	16,666
Real Estate Pool:						
Real Estate	-	-	-	-	473,584	473,584
Commingled Funds	-	-	-	-	172,117	172,117
Limited Partnerships	-	-	-	-	104,288	104,288
Real Estate Investment Trusts	-	-	-	-	76,249	76,249
Mortgages	-	-	-	-	10	10
Net Other Assets (Liabilities)	637	16,443	(1,638)	1,742	7,889	25,073
Ownership by Other Pools	(62,864)	25,127	-	-	37,737	-
Total	**$ 654**	**1,910,375**	**319,301**	**138,444**	**6,877,567**	**9,246,341**

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed-income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2006, was 4.80 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed-income portfolio to ± 25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2006, was 6.08 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2006, was 4.59 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows for purposes of the effective duration calculation.

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At June 30, 2006, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	**International**	**High yield**
U.S. Treasury Notes	2.65	-	-
U.S. Treasury Bonds	9.73	-	-
U.S. Treasury Strips	20.17	-	-
U.S. Government Agency	3.61	-	-
Municipal Bonds	11.98	-	-
Foreign Government Bonds	-	6.41	-
Mortgage-Backed	3.57	-	-
Other Asset-Backed	1.78	-	4.73
Corporate Bonds	5.21	4.12	3.76
Convertible Bonds	-	-	2.40
Yankees:			
Government	9.67	-	-
Corporate	2.18	-	4.43
Portfolio effective duration	3.83	5.45	3.43

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Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The Plan is subject to limited credit risk associated with securities lending transactions since the ARMB is indemnified by State Street Corporation (the Bank) against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ARMB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitations relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

The ARMB's investment policy has the following limitations with regard to credit risk:

Domestic fixed-income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

International fixed-income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

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No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the ARMB does not consider this investment subject to the credit risk limitations above.

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At June 30, 2006, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool			
	Rating[1]	Short-term	Domestic	International	High Yield
Overnight Sweep Account	Not Rated	-%	-%	-%	8%
Short-term Investment Account	Not Rated	5	-	-	-
Commercial Paper	A-1	9	-	-	-
U.S. Government Agency					
Discount Notes	Not Rated	-	5	-	-
U.S. Government Agency	Not Rated	-	10	-	-
Foreign Government	AAA	-	-	51	-
Foreign Government	AA	-	-	3	-
Foreign Government	A	-	-	3	-
Mortgage-backed	AAA	-	42	-	-
Mortgage-backed (Agency)	Not Rated	8	11	-	-
Other Asset-backed	AAA	48	6	-	-
Other Asset-backed	AA	-	1	-	-
Corporate Bonds	AAA	2	1	26	-
Corporate Bonds	AA	16	4	13	-
Corporate Bonds	A	9	10	-	1
Corporate Bonds	BBB	-	8	-	1
Corporate Bonds	BB	-	-	-	18
Corporate Bonds	B	-	-	-	53
Corporate Bonds	CCC	-	-	-	12
Corporate Bonds	D	-	-	-	1
Convertible Bonds	B	-	-	-	2
Yankees:					
Government	AAA - BBB	-	1	-	-
Corporate	AA	1	-	-	-
Corporate	B	-	-	-	3
No credit exposure		2	1	4	1
		100%	100%	100%	100%

[1]Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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Custodial Credit Risk - Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2006, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International equity pool	**$ 3,356**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ARMB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the ARMB's asset allocation policy permits the Plan to hold up to 4% of total investments in international fixed-income.

The ARMB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to 18% of total investments in these two pools combined.

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to 10% of total investments in private equity.

At June 30, 2006, the Plan had exposure to foreign currency risk with the following international equity pool deposits:

Currency	Amounts (in thousands)
Canadian Dollar	$ 3
Euro Currency	1,261
Hong Kong Dollar	45
Japanese Yen	1,675
New Zealand Dollar	3
Norwegian Krone	138
Pound Sterling	345
Singapore Dollar	17
Swedish Krona	122
Swiss Franc	36
	$ 3,645

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At June 30, 2006, the Plan had exposure to foreign currency risk with the following investments:

	Amount (In thousands)			
	International fixed income pool		**International equity pool**	**Private equity pool**
Currency	**Foreign government**	**Corporate**	**Equity**	**Limited partnerships**
Australian Dollar	$ 11,765	-	25,555	-
Canadian Dollar	-	-	28,389	-
Danish Krone	-	-	1,038	-
Euro Currency	88,695	-	514,356	36,780
Hong Kong Dollar	-	-	14,638	-
Hungarian Forint	-	-	2,703	-
Japanese Yen	5,979	76,247	289,393	-
New Taiwan Dollar	-	-	3,135	-
New Zealand Dollar	-	-	2,173	-
Norwegian Krone	-	-	16,506	-
Polish Zloty	5,304	-	-	-
Pound Sterling	-	-	238,640	6,430
Singapore Dollar	-	-	12,076	-
South African Rand	-	-	7,243	-
South Korean Won	-	-	14,967	-
Swedish Krona	168,044	-	20,881	-
Swiss Franc	-	-	94,723	-
	$279,787	**76,247**	**1,286,416**	**43,210**

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Notes to Financial Statements

June 30, 2006 and 2005

At June 30, 2006, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ARMB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income and high yield pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2006, the Plan had $756 million in Federal National Mortgage Association securities which represented 8% of the Plan's total investments. Federal National Mortgage Association securities are not classified as corporate bonds.

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June 30, 2006 and 2005

The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value during the ended year June 30 as follows (in thousands):

	2006	2005
Domestic equity pool	$253,306	94,882
Domestic fixed income pool	(98,600)	45,707
International equity pool	319,293	139,368
Real estate pool	103,690	76,173
International fixed income pool	(12,328)	17,143
Private equity pool	99,185	44,189
Emerging markets equity pool	20,300	33,965
Absolute return pool	25,794	6,504
High yield pool	(3,687)	599
Other investments pool	1,735	586
	$708,688	**459,116**

(4) Foreign Exchange, Foreign Exchange Contracts and Off-Balance Sheet Risk

The international fixed income and international equity pool's investment income includes the following at June 30:

	2006	2005
Net realized gain on foreign currency	$21,661,967	122,903,509
Net unrealized loss on foreign currency	(26,077)	(26,827)
Net realized gain (loss) on foreign exchange contracts	252,345	(217,279)

The international equity pool includes 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 eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2006	2005
Net contract sales	$2,976,479	6,587,214
Less fair value	2,984,540	6,302,248
Net unrealized gains (losses)	**$ (8,061)**	**284,966**

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June 30, 2006 and 2005

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) Securities Lending

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with the Bank to lend equity and domestic fixed-income securities. The Bank, acting as the ARMB'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, 2006 and 2005, the fair value of securities on loan allocable to the Plan's invested assets totaled $915,963,861 and $642,524,010, respectively. There is no limit to the amount that can be loaned and the ARMB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of $929,519,157 is invested in a registered 2(a)-7 money market fund which is valued at amortized cost approximating fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral in the amount of $3,972,138 may be pledged or sold upon borrower default. Since the ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded on the financial statements. The bank, the Plan and the borrower receive a fee from earnings on invested collateral. The bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

For the years ended June 30, 2006 and 2005, 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.

(6) Transfer from Retirement Systems

During fiscal year 2006, a review was conducted of all medical reserve amounts in the Retiree Health Fund. 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 excess reserve

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Notes to Financial Statements

June 30, 2006 and 2005

balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received $34,635,000 in fiscal year 2006 from the Retiree Health Fund.

(7) Commitments and Contingencies

Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2006, the Plan's member share of the unfunded commitment totaled $69,729,977. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $507,540,902. These commitments are estimated to be paid within ten years from agreement date.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2006, the Plan's member share of this unfunded commitment totaled $23,056,852 to be paid through the year 2007.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $228,703,629 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union (ACLU) and a number of same-sex couples with regards to the statutes limiting members and retiree healthcare coverage and certain survivor benefits to members and retirees and their spouses and dependents, thus excluding coverage for domestic partners of members and retirees. An adverse ruling against the State was issued by the Alaska Supreme Court on October 28, 2005, holding that "the spousal limitations are unconstitutional as applied to public members with same-sex domestic partners." Briefing on the remedy was completed in January 2006 with both the State and ACLU suggesting giving the legislature time to act to amend statutes relevant to the case. The legislature did not enact legislation to implement benefits for affected members and retirees. On June 1, 2006, the Alaska Supreme Court issued its remedy order requiring the state to provide benefits complying with the court's opinion by no later than January 1, 2007. The case has been remanded to the superior court, with directions that the court issue whatever orders it deems necessary to ensure compliance with the January 2007 deadline. The Alaska Supreme Court order states that the Plan's current benefit program will remain in effect until the Plan begins providing benefits. The potential effect of this ruling cannot be reasonably estimated until the Plan

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June 30, 2006 and 2005

begins providing benefits. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution development process.

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. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the state's favor. The administrator intends to vigorously contest all of the remaining claims and believes that the state's success to date will result in dismissal of the remaining cases and pending claims. The Plan has not recorded an accrual related to any of these cases or pending claims, because an unfavorable outcome in these matters is, in management's opinion, not considered probable 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 class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% 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 nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. On summary judgment motions, the superior court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the superior court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State has appealed to the Alaska Supreme Court. The superior court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. Briefing and oral arguments have been completed. The State is vigorously litigating the appeals but realize that an unfavorable outcome is reasonably possible. The Plan has not recorded an accrual related to this class action lawsuit because the potential loss cannot be reasonably estimated at this time. Costs associated with the loss of this class action lawsuit will be passed through to employers through the normal contribution development process.

(8) Subsequent Event

During the fiscal year 2005 legislative session, a law was enacted that closes the Plan. Senate Bill 141, signed into law on July 27, 2005 and

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June 30, 2006 and 2005

effective July 1, 2006, closes the Plan to new members and creates a defined contribution plan for members first hired on or after July 1, 2006.

Regulation 2 AAC 35.900, Maximum Employer Contribution Rate Changes, that prohibits the ARMB from increasing or decreasing employer contribution rates by more than five percentage points over the rate adopted in the prior year was repealed on July 20, 2006.

STATE OF ALASKA
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Required Supplementary Information

Schedule of Funding Progress
Pension Benefits

June 30, 2006
(Dollars in thousands)

Actuarial Valuation Date as of 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
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)
2004	4,708,592	6,711,507	(2,001,915)	70.2	1,305,670	(153.3)
2005	4,658,413	7,087,191	(2,428,778)	65.7	1,404,043	(173.0)

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

STATE OF ALASKA
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Required Supplementary Information

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2006
(Dollars in thousands)

Actuarial Valuation Date as of 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
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)
2005	3,320,822	4,732,409	(1,411,587)	70.2	1,305,670	(108.1)
2006	3,784,506	5,757,650	(1,973,144)	65.7	1,404,043	(140.5)

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Required Supplementary Information

Schedule of Contributions from Employers and the State of Alaska Pension and Postemployment Healthcare Benefits

June 30, 2006
(Dollars in thousands)

Year Ended June 30	Actuarial Valuation Date as of June 30(1)	Annual Required Contribution			Pension Percentage Contributed		Post-employment Healthcare Percentage Contributed		Total Percentage Contributed (note 3)
		Pension	Post-employment Healthcare	Total	by Employer (note 3)	by State of Alaska (note 3)	by Employer (note 3)	by State of Alaska (note 3)	
2001	1998	$ 65,151	26,477	91,628	105.3%	-%	105.3%	-%	105.3%
2002	1999	65,485	26,613	92,098	102.9	-	102.9	-	102.9
2003	2000	63,283	26,651	89,934	110.3	-	110.3	-	110.3
2004	2001	74,178	31,407	105,585	100.0	-	100.0	-	100.0
2005	2002	234,361	142,393	376,754	47.3	-	47.3	-	47.3
2006	2003	249,488	166,749	416,237	61.0	4.4	61.0	4.4	65.4

(1) Actuarial valuation related to annual required contribution for fiscal year.

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

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June 30, 2006

(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 was prepared by Buck Consultants. The significant actuarial assumptions used in the valuations as of June 30, 2005, are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability is amortized over a 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 peace officer and firefighter members, 35% of the time for general members.

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

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

(e) Health cost trend –

Fiscal year	Medical	Prescription
2006	9.5%	14.0%
2007	9.0	13.0
2008	8.5	12.0
2009	8.0	11.0
2010	7.5	10.0
2011	7.0	9.0
2012	6.5	8.0
2013	6.0	7.0
2014	5.5	6.0
2015	5.0	5.0
2016 and later	5.0	5.0

(f) Salary scale – inflation 3.5%, productivity and merit (first five years) for peace officer and firefighter members, 1.0% and 1.5%, respectively, and for all general 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.

(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.

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June 30, 2006

(i) Contribution refunds – 100% of those 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 fair 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 postage 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) Postretirement 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 members are assumed to earn 0.600 years of credited service 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 assumptions 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.

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June 30, 2006

- 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 peace officer/firefighter members and other members. Productivity and merit (first five years) for peace officer/firefighter 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 peace officer and firefighter 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 members 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%.

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 peace officer/firefighter members were set at 1.0% from 0.5%.

- Part-time members 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

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Notes to Required Supplementary Information

June 30, 2006

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.

Schedule 1

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

Schedule of Administrative and Investment Deductions

Year Ended June 30, 2006
with Summarized Financial Information for 2005
(In thousands)

	Administrative	Investment	Totals 2006	Totals 2005
Personal Services:				
Wages	$ 2,127	800	2,927	3,066
Benefits	1,171	329	1,500	1,265
Total Personal Services	3,298	1,129	4,427	4,331
Travel:				
Transportation	29	92	121	133
Per Diem	5	10	15	22
Moving	-	-	-	21
Honorarium	-	8	8	32
Total Travel	34	110	144	208
Contractual Services:				
Management and Consulting	619	19,885	20,504	16,390
Accounting and Auditing	29	917	946	843
Data Processing	465	279	744	555
Communications	136	36	172	151
Advertising and Printing	89	11	100	135
Rentals/Leases	178	24	202	197
Legal	441	52	493	413
Medical Specialists	12	-	12	75
Repairs and Maintenance	40	25	65	14
Transportation	2	4	6	4
Securities Lending	-	31,560	31,560	13,221
Other Services	218	37	255	150
Total Contractual Services	2,229	52,830	55,059	32,148
Other:				
Equipment	157	6	163	71
Supplies	83	23	106	97
Total Other	240	29	269	168
Total Administrative and Investment Deductions	**$ 5,801**	**54,098**	**59,899**	**36,855**

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, 2006 and 2005
(In thousands)

Firm	Services	2006	2005
State Street Corporation	Custodian Banking Services	$ 1,319	991
Deloitte and Touche LLP	Benefits Consultation	24	46
Buck Consultant LLP	Actuarial Services	256	-
Mercer Human Resource Consulting	Actuarial Services	190	339
Systems Central Services, Inc.	Data Processing Consultants	237	241
Wostmann & Associates	Data Processing Consultants	130	-
State of Alaska, Department of Law	Legal Services	307	284
Mikunda, Cottrell & Co., Inc.	Board Elections	-	55
First National Bank Alaska	Banking Services	20	27
KPMG LLP	Auditing Services	21	48
		$ 2,504	2,031

See accompanying independent auditors' report.

INVESTMENT SECTION

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CALLAN ASSOCIATES INC

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

October 12, 2006

Alaska Retirement Management Board
State of Alaska, Department of Revenue
Treasury Division
333 Willoughby Avenue, 11th Floor
Juneau, AK 99801

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2006.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. Callan Associates Inc. serves as ARMB's independent general investment consultant and evaluates the Board's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made in compliance with Global Investment Performance Standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, the ARMB periodically evaluates liabilities, expected contributions, and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential and acceptable risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

Fiscal year 2006 was a year of good progress for domestic equity and strong performance by international stocks. The Russell 3000 Index, a measure of the broad U.S. equity market achieved a solid return of 9.56%. International stocks, as measured by the MSCI EAFE Index, posted an exceptional overall return of 26.56%. Interest rate increases hurt bond prices and performance. The Lehman Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, suffered a small negative return of 0.81%. Equity real estate enjoyed another strong year with returns of more than 18%.

For the fiscal year, the Public Employees' Retirement System (PERS) had a time-weighted total return of 11.74% and the Teachers' Retirement System (TRS) had a time-weighted total return of 11.78%. Both Systems exceeded their strategic policy benchmark target return of 10.38% and ranked in the 22nd and 21st percentile respectively of Callan's Public Fund database. The policy benchmark was largely unchanged during the year. Over the trailing 3-year period, a span that includes three years of recovering equity market returns, PERS and TRS have achieved annualized returns of 11.90% and 11.93% respectively. These results were slightly better than the policy target index return of 11.63% and also above the Callan Public Fund database median. These results have largely offset the weak returns experienced during the fiscal 2001-2003 period. Over the longest period for which Callan has detailed data (14 3/4 years), PERS and TRS have achieved annualized total returns of 8.89% and 8.96% respectively while the policy benchmark return for the same span was 8.83%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are slightly more conservative than that of the average public fund.

In summary, fiscal 2006 was another strong year that helps demonstrate the wisdom of broad diversification across multiple asset classes.

Sincerely,

Michael J. O'Leary, Jr., CFA
Executive Vice President

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Susan Taylor, CPA

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

Investment Officers
Bob G. Mitchell
Stephen R. Sikes
Philip Bartlett
Zachary Hanna
Victor Djajalie
James McKnight
Casey Colton
Clay Cummins
Nicholas Orr
Ryan Bigelow
Bree Simpson

ARMB Liaison Officer
Judy Hall

External Money Managers and Consultants

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

Investment Advisory Council
William Jennings
Colorado Springs, CO
Jerrold Mitchell
Wayland, MA
George Wilson
Boston, MA

Absolute Return
Cadogan Management, LLC
New York, NY
Crestline Investors, Inc.
Fort Worth, TX
Mariner Investment Group, Inc.
Harrison, NY

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
Relational Investors LLC
San Diego, CA
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization
Jennison Associates LLC
New York, NY
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, 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

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

External Money Managers and Consultants (con't)

High Yield
ING Investment Management
Hartford, CT
MacKay Shields LLC
New York, NY

International Equity – EAFE
Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed-Income
Mondrian Investment Partners
London, England

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

Real Estate – Agriculture
Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT

Real Estate – Commingled Funds
Cornerstone Real Estate Advisers, LLC
Hartford, CT
Coventry Real Estate Fund II, LLC
New York, NY
Heitman Capital Management
Chicago, IL
ING Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Lehman Brothers Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Estate – Core Separate Accounts
Cornerstone Real Estate Advisers, 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

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

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Johnson, Brecht,
Cartledge & Brooking
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 Employee Retirement System's (PERS) 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 Retirement Management Board (ARMB) 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 ARMB.

During the 2006 fiscal year[1], ARMB's asset allocation was 36% domestic equities, 15% international equities, 24% domestic fixed-income, 2% international fixed-income, 9% real estate, 6% private equity, 3% absolute return, 2% high yield fixed-income, and 3% other (farmland and energy).

For the 2006 fiscal year, PERS investments generated a 11.74% rate of return. The PERS annualized rate of return was 6.54% over the last five years. The annualized rate of return over the last fourteen and three-quarter years has been 8.89%.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect overall returns. For the 2006 fiscal year, the real estate portfolio gained 18.58% and the international equity portfolio gained 28.73%. The U.S equity portfolio generated a 9.23% return up from 4.47% the previous year.

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 2006 fiscal year, the fund posted a return of 9.23%. This was less than the target return of 9.67%. The annualized domestic equity return for the five-year period was 2.44% from a negative 1.94% in the 2005 fiscal year. Investment guidelines for all asset classes are approved by ARMB and govern investment objectives, program risk management and implementation, procedures for investment, and other operational requirements. Equity investment guidelines include policies with regard to the types of permissible equity investments, limitations on holding and investment of cash, proxy voting, and restrictions/prohibitions on the use of leverage and derivatives.

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 return was 28.73% which was greater than the target return of 26.56%. The international equity return for the five-year period was 11.14% from 1.82% in fiscal year 2005.

FIXED-INCOME

The domestic fixed-income portfolio represented 21.6% of the total assets of PERS as of June 30, 2006. 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. Fixed-income investment guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, and company concentration.

[1] July 1, 2005 – June 30, 2006

Public Employees' Retirement System
Investment Report

Over the 2006 fiscal year, the PERS domestic bond portfolio gained 0.05%, down from 7.08% the year before. The Lehman Brothers Aggregate Bond Index returned a negative 0.81%, versus 6.80% during 2005 fiscal year. The annualized domestic fixed-income return for the five-year period was 5.23% from 7.60% in the 2005 fiscal year.

The international fixed-income portfolio, which represented about 2.1% of the total assets of PERS, returned a negative 0.27% over the 2006 fiscal year. The annualized international fixed-income return for the five-year period was 12.44% from 11.19% in the 2005 fiscal year. International fixed-income guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, company concentration, country restrictions, and currency hedging.

During the fiscal year PERS began investing in the High Yield Sector of the U.S. Fixed-Income Market. High yield fixed-income guidelines include policies with regard to duration, credit quality, geographic concentration, sector concentration, issuer concentration, and restrictions/prohibitions on the use of leverage and derivatives. The High Yield portfolio which represented 1.6% of the total assets of PERS, returned 5.55% over the 2006 fiscal year. This was more than the target return of 4.65%.

REAL ESTATE

At the end of the 2006 fiscal year, PERS had 10.3% of its portfolio invested in real estate. The portfolio is primarily invested in specific institutional properties geographically diversified across the U.S. Property types include apartments, office, industrial, and retail. The portfolio is also invested in value-added real estate funds and real estate investment trust (REIT) equity securities. Investing in real estate helps diversify the overall portfolio due to its low correlation to stocks and bonds. Real estate adds a stable source of income and provides a degree of inflation hedge. Real estate guidelines include policies with regard to property quality, geographic concentration, property size, property type, leverage, insurance coverage, and environmental evaluations.

The total return for real estate, net of fees, was 18.58% in fiscal year 2006 compared to 17.42% for the 2005 fiscal year. The five-year annualized net total return was 12.27% from 10.65% in the 2005 fiscal year.

PRIVATE EQUITY

Six percent of the PERS portfolio is invested in Private Equity for long-term return enhancement and diversification. Investments are made through three investment managers. These investment managers have invested in over 100 private equity partnerships focused on venture capital, buyouts, or special situations. The private equity portfolio is well diversified by strategy, industry, geography, manager, and time. Private equity policies and procedures include guidelines with regard to investment quality, diversification, investment structure, and operation of the program.

During the 2006 fiscal year, the Private Equity component of the PERS portfolio had a net return of 25.89% with a five-year annualized return of 5.00%.

ABSOLUTE RETURN

During the 2005 fiscal year the PERS portfolio began investing in absolute return strategies for additional diversification. Absolute return investments are made through three fund-of-fund managers and are 2.5% of the total portfolio. Each fund is well diversified by strategy and manager and targets a 5% real return with low correlation to equity and fixed-income markets. Absolute return policies and procedures include guidelines with regard to investment objectives, investment structure, investment quality, leverage, liquidity, strategy, manager concentration, risk management, and operation of the program. Absolute Return returned 10.51% over the 2006 fiscal year. This was more than the target return of 8.39%.

Public Employees' Retirement System
Investment Report

OTHER

The PERS portfolio is also invested in farmland and energy investments. These investments are relatively new and are focused on providing the portfolio with additional diversification. The farmland investments are made through two separate account managers responsible for assembling a well diversified portfolio. The energy investment manager is focused on creating a balanced and diversified portfolio of oil, gas, and electric investments. Collectively, farmland and energy investments represent 0.8% of the overall portfolio and had a net return of 8.56% for the 2006 fiscal year.

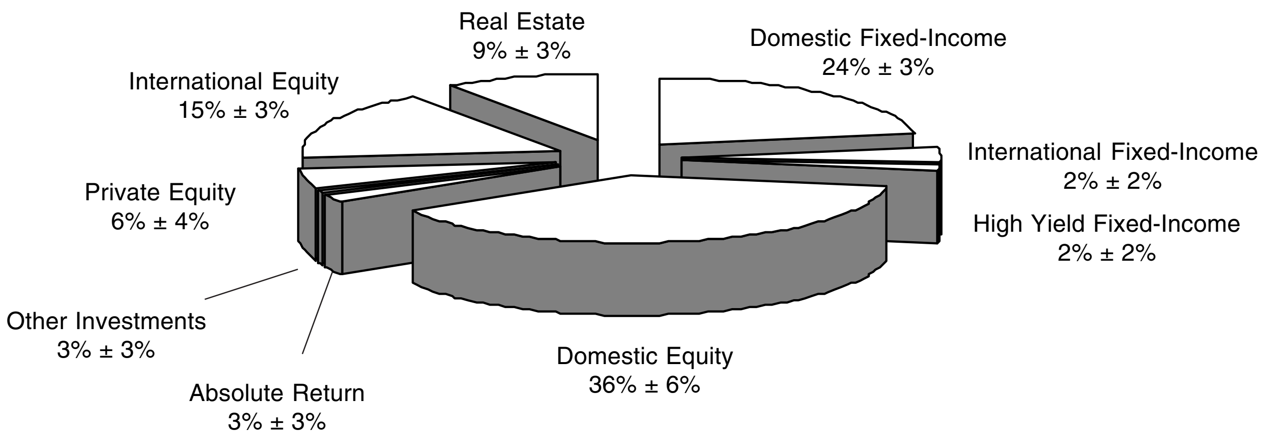
Public Employees' Retirement System
Schedule of Investment Results
Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	Annualized 3 Year	Annualized 5 Year
Total Fund							
PERS	(5.48%)	3.67%	15.08%	8.95%	11.74%	11.90%	6.54%
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	(16.85%)	(0.97%)	20.06%	4.47%	9.23%	11.07%	2.44%
S&P 500/Russell 2000 Composite	(17.99%)	0.25%	19.11%	6.87%	9.67%	12.48%	3.63%
International Stock Returns							
PERS International Equities	(8.27%)	(5.18%)	31.71%	14.96%	28.73%	24.91%	11.14%
Morgan Stanley Capital International EAFE	(9.49%)	(6.46%)	32.37%	13.65%	26.56%	23.94%	10.02%
Domestic Fixed-Income							
PERS	8.17%	10.69%	0.60%	7.08%	0.05%	2.54%	5.23%
Lehman Brothers Aggregate Index	8.63%	10.40%	0.32%	6.80%	(0.81%)	2.05%	4.97%
International Fixed-Income							
PERS	22.56%	24.48%	7.52%	9.84%	(0.27%)	5.61%	12.44%
Salomon Non-U.S. Government	15.73%	17.90%	7.60%	7.75%	(0.01%)	5.05%	9.61%
Real Estate Equity							
PERS	5.24%	8.97%	11.55%	17.42%	18.58%	15.81%	12.27%
NCREIF	5.60%	7.64%	10.83%	18.02%	18.79%	15.79%	12.01%

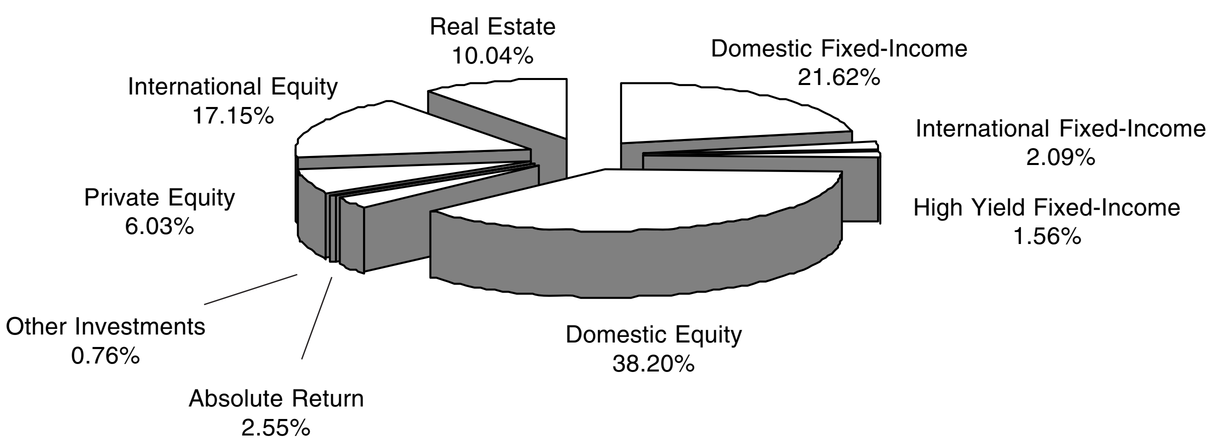
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

Public Employees' Retirement System
Asset Allocation
June 30, 2006

Policy

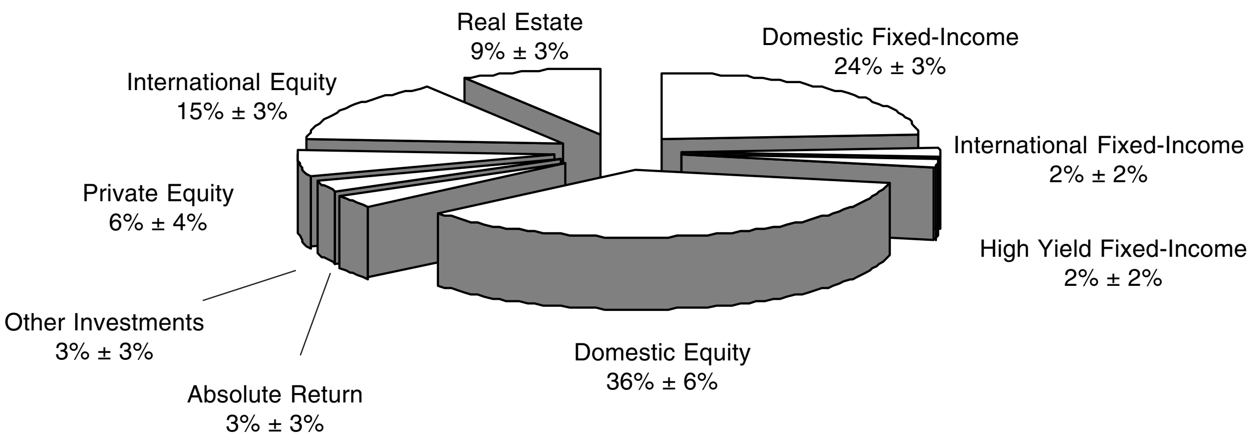


Actual

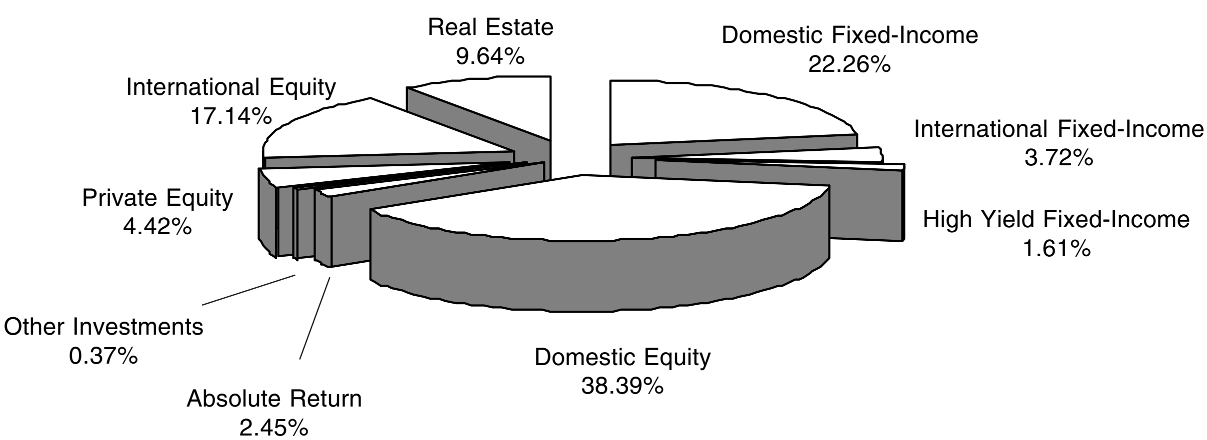


Public Employees' Retirement System
Asset Allocation
June 30, 2005

Policy



Actual



Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2006

Invested assets under the fiduciary responsibility of the ARMB have been commingled in various investment pools to minimize costs and maximize returns. The Treasury Division has created twelve different mutual fund-like pools to accomplish the investment asset allocation policies of the ARMB. 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. Second, pooling investments significantly reduces accounting, budgeting, and administrative costs. Finally, the ARMB 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 as of June 30, 2006.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Maturity	Credit Rating
Fixed-Income	1	$138,460,389	$138,500,000	FNMA Discount Notes	0.00%	7/5/2006	AAA
	2	$78,596,681	$60,105,000	U.S. Treasury Bond	8.50%	2/15/2020	Not Rated
	3	$68,606,481	$71,500,000	Federal National Mtg. Assn.	5.50%	8/1/2036	Not Rated
	4	$61,082,019	$62,128,000	Federal National Mtg. Assn.	6.00%	8/1/2036	Not Rated
	5	$59,425,080	$62,450,000	U.S. Treasury Notes	4.50%	2/15/2016	Not Rated
	6	$55,410,756	$59,300,000	Federal National Mtg. Assn.	5.00%	8/1/2036	Not Rated
	7	$30,994,196	$68,000,000	Federal National Mtg. Assn.	0.00%	10/9/2019	Not Rated
	8	$30,242,087	$30,261,000	U.S. Treasury Notes	5.13%	6/30/2008	Not Rated
	9	$28,196,688	$28,700,000	Federal Home Loan Banks	4.43%	4/7/2008	AAA
	10	$23,993,778	$25,544,280	Federal National Mtg. Assn.	5.00%	11/1/2033	Not Rated
Equities	1	$124,351,488	3,772,800	General Electric			
	2	$84,623,736	3,631,920	Microsoft			
	3	$82,114,398	1,338,458	Exxon Mobil			
	4	$66,661,646	1,385,897	Bank America			
	5	$65,437,596	1,089,900	PepsiCo			
	6	$64,607,253	1,339,288	Citigroup			
	7	$63,669,434	1,062,574	Johnson & Johnson			
	8	$59,815,229	1,012,959	American Int'l Group			
	9	$54,467,928	979,639	Procter & Gamble			
	10	$52,860,990	1,258,595	JP Morgan Chase			

Note: As of June 30, 2006, the PERS owned 67.86% of the fixed-income securities listed above and 68.13% of the equity securities listed above.

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

Public Employees' Retirement System
Schedule of External Management Fees
Year Ended June 30, 2006

	Fair Value	Fees
Investment Management Fees		
Domestic Fixed-Income		
Blackrock Financial Management, Inc.	$ 560,745,705	634,063
International Fixed-Income		
Mondrian Investment Partners	196,326,644	435,850
High Yield Pool		
ING Investment Management	73,441,954	356,413
MacKay Shields, LLC	72,853,772	320,242
Total High Yield	146,295,726	676,655
Domestic Equity Pool		
Cap Guardian Trust Co.	263,848,004	558,953
TCW Asset Management Company	202,402,073	1,496,319
SSgA S&P 500 Index Fund	1,356,290,803	200,596
Jennison Associates, LLC	127,713,367	1,000,933
Lord Abbett & Co	121,892,689	811,338
Luther King Capital Management	89,094,463	515,006
Lazard Freres	262,650,441	913,359
McKinley Capital Management	231,751,905	771,363
RCM	313,881,938	843,490
Relational Investors, LLC	200,597,076	2,316,532
Russell 2000	8,591,984	803
Tukman, Value	201,186,255	1,089,176
Turner Investment Partners	200,002,410	1,157,782
Total Domestic Equity Pool	3,579,903,408	11,675,650
Private Equity Pool		
Blum Capital Partners-Strategic	23,079,998	449,441
Blum Capital Partners-Public	33,340,726	310,184
Pathway Capital Management LLC	161,328,977	522,883
Abbott Capital	347,592,936	772,544
Total Private Equity	565,342,637	2,055,052
International Equity Pool		
Brandes Investment Partners	357,117,797	1,678,125
Cap Guardian Trust Co	333,383,838	1,141,156
Lazard Freres	326,391,292	735,219
McKinley Capital Management	209,405,164	944,557
State Street Global Advisors	200,453,552	915,484
Total International Equities	1,426,751,643	5,414,541
Absolute Return Pool		
Mariner Investment Group	78,063,656	1,005,033
Cadogan Management LLC	78,750,205	951,546
Crestline Investors, Inc.	82,316,332	1,062,907
Total Absolute Return	239,130,193	3,019,486

Public Employees' Retirement System
Schedule of External Management Fees (con't)
Year Ended June 30, 2006

	Fair Value	Fees
Other Investment Pool		
TCW Energy Fund	$ 27,598,340	287,779
UBS Agrivest, LLC	31,869,329	146,216
Hancock Agricultural Investment Group	11,565,833	42,202
Total Other Investment	71,033,502	476,197
Emerging Markets Equity Pool		
JP Morgan Investment Management	83,448,385	495,939
The Capital Group Inc.	96,876,003	563,428
Total Emerging Market	180,324,388	1,059,367
Real Estate Pool		
J.P. Morgan Liquidity Fund	867	-
Cornerstone Real Estate Advisors	122,318,540	717,884
Lasalle Investment Management	149,074,967	863,167
Coventry Real Estate Advisors	10,912,129	318,938
Lowe Hospitality Investment Partners	19,912,240	170,425
Lowe Enterprises	-	238,476
Tishman Speyer Real Estate Venture VI	29,450,956	166,927
Rothschild Five Arrows	12,502,586	426,062
Cornerstone Rotational Fund	39,874,596	47,801
ING Clarion Partners	13,019,764	-
Lehman Brothers Real Estate Partners	21,519,425	1,505,005
J.P. Morgan Strategic Property	136,685,443	992,105
UBS Brinson Consolidated Account	54,256,204	543,970
UBS Brinson Separate Account	212,361,155	1,108,606
Sentinel Real Estate Corporation	50,117,546	264,851
Invesco Realty Advisors	-	2,186,143
Total Real Estate	872,006,418	9,550,360
Total	$7,837,860,264	34,997,221
Custodian		
State Street Corporation		880,586
Investment Advisory		
Callan Associates		38,741
The Townsend Group		158,831
Total Investment Advisory		197,572
Investment Performance Measurement		
Callan Associates		163,197
Total External Management Fees		$36,238,576

Public Employees' Retirement System
Investment Summary Schedule
June 30, 2006

	Asset Allocation Policy	Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed-Income Securities					
Domestic					
Short-Term			$ 559,886	0.03%	0.01%
Retirement			1,465,310,842	72.30%	15.63%
External			560,745,705	27.67%	5.98%
Total Domestic Fixed-Income	24%	21-27%	2,026,616,433	100.00%	21.62%
International					
International Fixed Income Pool	2%	0-4%	196,326,644	100.00%	2.09%
High Yield					
High Yield Fixed Income Pool	2%	0-4%	146,295,726	100.00%	1.56%
Total Fixed-Income	**28%**	**21-35%**	**2,369,238,803**		**25.27%**
Participation in Pools Owning Domestic Equities					
Small cap[1]	6%	3-9%	749,697,984	20.94%	8.00%
Large cap	30%	27-33%	2,830,205,424	79.06%	30.20%
Total Domestic Equities	**36%**	**30-42%**	**3,579,903,408**	**100.00%**	**38.20%**
Participation in Pools Owning International Equities					
International			1,426,751,643	88.78%	15.23%
Emerging Markets			180,324,388	11.22%	1.92%
Total International Equities	**15%**	**12-18%**	**1,607,076,031**	**100.00%**	**17.15%**
Participation in Pools owning Alternative Investments					
Private Equity	**6%**	**2-10%**	**565,342,637**	**100.00%**	**6.03%**
Other Investments	**3%**	**0-6%**	**71,033,502**	**100.00%**	**0.76%**
Absolute Return	**3%**	**0-6%**	**239,130,193**	**100.00%**	**2.55%**
Participation in Real Estate					
Mortgages, net of allowances			1,507	0.00%	0.00%
Real Estate Pool			940,936,275	100.00%	10.04%
Total Real Estate	**9%**	**6-12%**	**940,937,782**	**100.00%**	**10.04%**
Total Invested Assets	**100%**		**$ 9,372,662,356**		**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
Recaptured Commission Fees
Year Ended June 30, 2006

Domestic Equity	International Equity	Total
$ 480,095	169,363	649,458

The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund.

The program allows managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

The current rebate arrangement with State Street Global Markets is: 80% of the brokerage commissions earned in executing domestic equity transactions; 72% of the brokerage commissions earned in executing domestic equity transactions via correspondent brokers; and, 60% of the brokerage commissions earned in executing international equity transactions.

Net Securities Lending Income
Year Ended June 30, 2006

Securities lending income	$ 33,552,331
Less Securities lending expense	31,559,750
Net income from securities lending activities	$ 1,992,581

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed-income securities. The Bank, acting as the ARMB'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.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost approximating fair value. The ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, therefore securities collateral is not recorded on the financial statements.

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ACTUARIAL SECTION

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buckconsultants
an ACS company

November 10, 2006

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

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2005 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the Plan as of June 30, 2005;

(2) a review of experience under the Plan for the year ended June 30, 2005;

(3) a determination of the appropriate contribution rate for each employer in the System which will be applied for the fiscal year ending June 30, 2008; and

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

The following schedules that we have prepared are included in the Actuarial Section:

(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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720.359.7700 • 720.359.7701 (fax)

Alaska Retirement Management Board
November 10, 2006
Page 2

In addition, we have provided the data necessary for the schedules of Funding Progress and the Notes to Required Supplementary Information included in the Financial Section.

In preparing the 2005 actuarial valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The 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 and 2004. For the 2005 actuarial valuation, additional changes to the assumptions used to value medical benefit liabilities and corrections to differences between plan provisions and certain calculations included in the prior valuation were incorporated.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY06 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 valuation assets to liabilities decreased from 70.2% to 65.7% during the year. The 2005 actuarial valuation provides an analysis of the factors that led to the decrease. The Actuarial Section and the 2005 actuarial valuation report also provide a history of the funding ratio of the System.

The actuarial assumptions, when applied in combination, fairly represent past and anticipated future experience in 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.

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Alaska Retirement Management Board
November 10, 2006
Page 3

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska. We believe that the assumptions and methods used for funding purposes and for the disclosures presented satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that the 2005 actuarial valuation conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

David H. Slishinsky, A.S.A., E.A.
Principal, Consulting Actuary

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Director, Consulting Actuary

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

Leonard C. "Trey" Sarsfield, A.S.A., M.A.A.A.
Senior Consultant, Health & Welfare

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an ACS company

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

The demographic and non-health economic assumptions used in the June 30, 2005 valuation are described below. Unless noted otherwise, these assumptions 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. For this valuation, Buck is recommending changes to the assumptions and methods used to value medical benefit liabilities. 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.

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

Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit

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 as a level percentage of pay based on a 4.25% payroll growth assumption. The payroll growth assumption will be reviewed next year to reflect plan changes that become effective after the valuation date. 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/ Discount Rate	8.25% per year, compounded annually, net of expenses.

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

2.	Salary Scale	Inflation - 3.5% per year <u>Peace Officers/Firefighter</u> Merit (first 5 years of employment) - 1.5% per year Productivity - 1.0% per year <u>Others</u> 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.
4.	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 Peace Officers/Firefighter, 35% of the time for Others.
5.	Total Turnover	Based upon the 1997-99 actual withdrawal experience. (See Table 1.)
6.	Disability	Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with the 1974 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Peace Officers/ Firefighter, 35% of the time for Others.
7.	Retirement	Retirement rates based upon the 1997-99 actual experience in accordance with Table 3. Deferred vested members are assumed to retire at their earliest retirement date.
8.	Spouse's Age	Wives are assumed to be four years younger than husbands.
9.	Dependent Children	Benefits to dependent children have been valued assuming members who are married have one dependent child.
10.	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.
11.	COLA	Of those benefit recipients who are eligible for the COLA, 68% are assumed to remain in Alaska and receive the COLA.
12.	Post-Retirement Pension Adjustment	50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
13.	Expenses	Expenses are covered in the investment return assumption.

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

14. Part-Time Status — Part-time employees are assumed to earn 0.600 years of credited service per year.

15. Per Capita Claims Cost — Sample claims cost rates for FY06 medical and prescriptions are shown below:

	Medical		Rx	
	Total	Medicare	Total	Medicare
Age 65	$8,328	$6,821	$1,936	$414*

*Represents FY06 value of Medicare Part D subsidy. Rate is not applied until January 1, FY2006 as subsidy is not available until then.

16. Health Cost Trend

	Medical	Rx
FY06	9.5%	14%
FY07	9.0%	13%
FY08	8.5%	12%
FY09	8.0%	11%
FY10	7.5%	10%
FY11	7.0%	9%
FY12	6.5%	8%
FY13	6.0%	7%
FY14	5.5%	6%
FY15	5.0%	5%
FY16 and later	5.0%	5%

Note, graded Health Cost Trend Rates were reinitialized for the June 30, 2005 valuation such that FY05 trend used in the June 30, 2004 valuation (9.5% for Medical and 14% for Rx) is assumed for FY06 in the current valuation. FY06 trend used in the prior valuation (9.0% for Medical and 13% for Rx) is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns regarding claim costs and past trend rates derived from analysis of aggregate claim data versus potential results obtained if data disaggregated into pre-Medicare, Medicare A &B and Medicare B only categories were available.

Aging Factors

Age	Medical	Rx
00-44	2.0%	4.5%
45-54	2.5%	3.5%
55-64	3.5%	3.0%
65-74	4.0%	1.5%
75-84	1.5%	0.5%
85+	0.5%	0.0%

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

17. Retired Member Contributions for Medical Benefits — Currently contributions are required for PERS members who are under age 60 and have less than 30 years of service (25 for peace officer/firefighter). Eligible Tier 1 members are exempt from contribution requirements. An annual contribution of $10,356 for FY06 is assumed to be paid for those required, equal to the annualized average of $850 and $876 per month for calendar 2005 and 2006, respectively.

18. Trend Rate for Retired Member Medical Contributions

FY06	6.9%
FY07	10.2%
FY08	9.6%
FY09	8.9%
FY10	8.3%
FY11	7.6%
FY12	7.0%
FY13	6.3%
FY14	5.7%
FY15	5.0%
FY16 and later	5.0%

Note, graded Trend Rates for Retired Member Medical Contributions were reinitialized for the June 30, 2005 valuation such that FY05 trend of 6.9% used in the June 30, 2004 valuation is assumed for FY06 in the current valuation. FY06 trend of 10.2% used in the prior valuation is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns described above regarding aggregated claims data and also better reflects recent Retired Member Medical Contribution increases.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain (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 taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

D. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost for the State of Alaska Public Employees' Retirement System postemployment healthcare benefits.

The analysis is separated into two phases:

- Development of total projected claims cost; and
- Development of the distribution of per capita claims cost by age.

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

To determine total projected costs for the valuation period, an analysis of claims experience for the State of Alaska PERS and TRS was completed based on information provided by its administrators. This analysis is presented on the following page, "Detailed Development of Claims Cost."

Paid claims for the period from June 2002 through May 2005 were tabulated and an average annual amount determined. Next, three adjustments were applied:

- A participation adjustment to account for differences in exposures between the experience period and the current census.
- A factor to trend historical claims from the midpoint of the experience period to the midpoint of the valuation period.
- An adjustment to restate paid claims on an incurred basis, assuming that claims are paid on average three months after the date incurred for medical and vision benefits.

To this, estimated administrative costs were added. The result is total projected costs for the period July 1, 2005 to June 30, 2006.

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Detailed Development of Claims Cost
For the Period July 1, 2005 through June 30, 2006

	Medical	Rx
Paid Claims (6/02 – 5/03)	$133,794,131	$49,761,201
Paid Claims (6/03 – 5/04)	143,042,729	61,583,420
Paid Claims (6/04 – 5/05)	163,039,365	73,932,659
Estimated Annual Paid Claims	$146,625,408	$61,759,093
Population Adjustment[11]	1.0935	1.0803
Trend Adjustment (25 months)[12]	1.2081	1.3139
Incurred Adjustment[12]	1.0229	1.0000
Projected incurred claims	$198,146,866	$87,657,508
Administrative costs[13]	9,685,363	0
Projected Plan Costs	**$207,832,229**	**$87,657,508**

[11] *Adjusts for exposure differences between the current census and the experience period from which the claims were derived. To calculate an appropriate per capita claims cost, the number of employees used below includes all actives, not just those eligible for retiree healthcare benefits*

Current census; retirees:	*28,310*	*28,310*
Average enrollment during experience period:	*25,890*	*26,206*

[12] *Trend:*	*9.5%*	*14.0%*
Months of Trend:	*25.0*	*25.0*
Incurred Adjustment:	*3.0*	*0.0*

[13] *Administrative Fees:*	*$28.51*	*$0.00*

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

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

Below are the results of this analysis:

Distribution of Per Capita Claims Cost by Age
for the Period July 1, 2005 through June 30, 2006

Age	Medical	Prescription Drug
45	$4,612	$ 1,021
50	5,218	1,213
55	5,904	1,441
60	7,012	1,670
65	1,507	1,936
70	1,833	2,086
75	2,231	2,247
80	2,403	2,304

Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

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**

Peace Officer and Firefighter:

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, Methods and Procedures

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Peace Officer/Firefighter 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, Methods and Procedures

Table 3
Retirement Rates

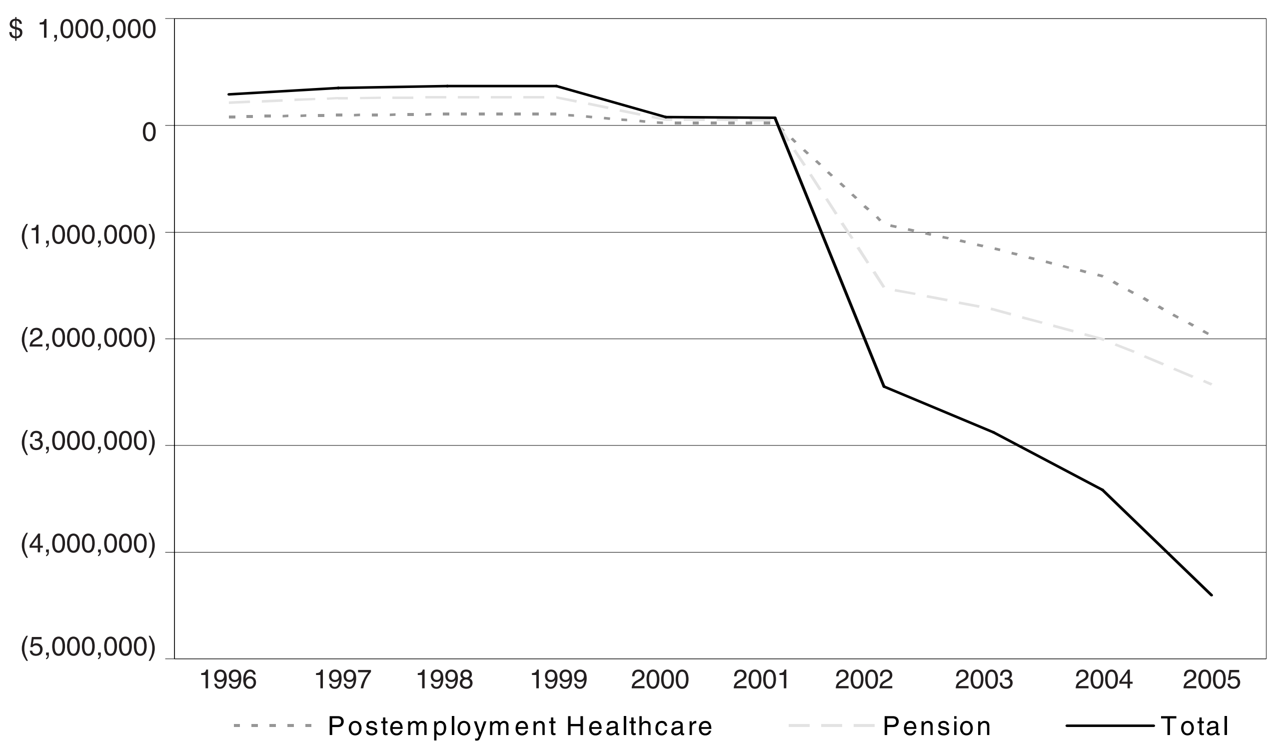
Age	Peace Officer/Firefighter Rate	Other Member Rate
50	.10	.05
51	.10	.05
52	.10	.05
53	.05	.06
54	.05	.06
55	.20	.10
56	.13	.10
57	.13	.10
58	.13	.10
59	.13	.10
60	.20	.10
61	.25	.10
62	.25	.15
63	.25	.15
64	.25	.15
65	1.00	.20
66	1.00	.20
67	1.00	.20
68 & Up	1.00	1.00

Peace Officers/Firefighter members retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

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

Public Employees' Retirement System Unfunded Liability (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total	Funded Ratio
1996	$ 81,028	$ 210,267	$ 291,295	105.8%
1997	95,402	255,907	351,372	106.3
1998	105,713	261,858	367,571	105.9
1999	106,055	261,612	367,667	105.5
2000	23,069	54,777	77,846	101.1
2001	21,768	51,414	73,182	100.9
2002	(924,746)	(1,522,012)	(2,446,758)	75.2
2003	(1,151,504)	(1,722,868)	(2,874,372)	72.8
2004	(1,411,587)	(2,001,915)	(3,413,502)	70.2
2005	(1,973,144)	(2,428,778)	(4,401,922)	65.7

10-YEAR TREND OF UNFUNDED LIABILITY

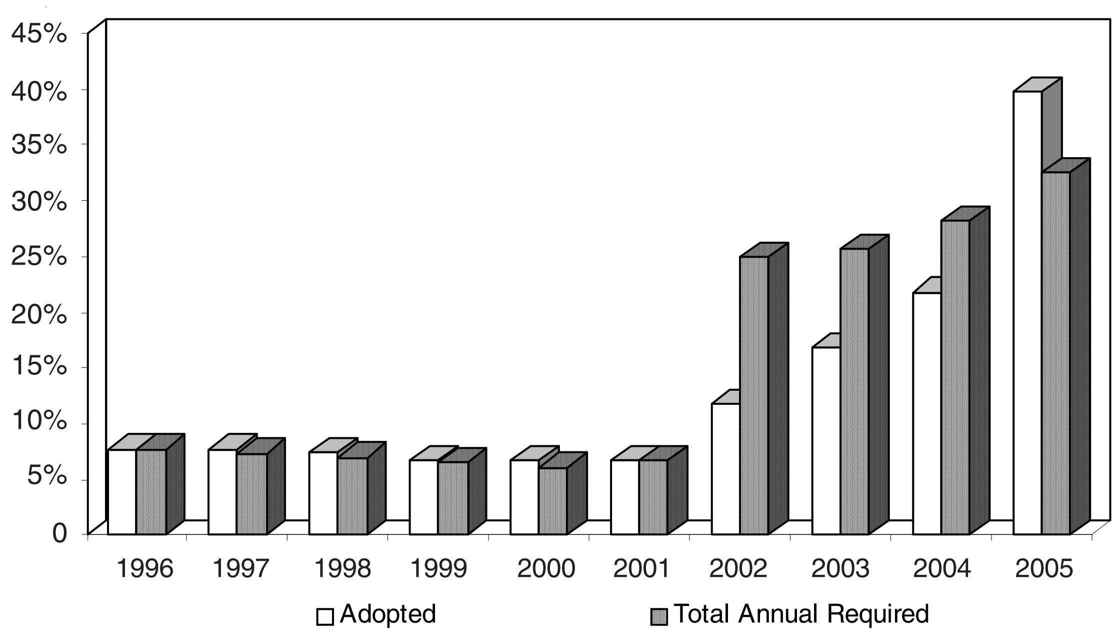


Public Employees' Retirement System
Average Employer Contribution Rates

Actuarially Determined					
Year Ended June 30	Valuation Year Ended June 30	Normal Cost[1]	Average Past Service	Total Annual Required	Adopted
1999	1996	9.85%	(2.11)%	7.74%	7.74%
2000	1997	9.89	(2.53)	7.36	7.74
2001	1998	8.67	(1.64)	7.03	7.40
2002	1999	8.07	(1.51)	6.56	6.75
2003	2000	5.43	0.69	6.12	6.75
2004	2001	5.42	1.35	6.77	6.77
2005	2002	13.31	11.60	24.91	11.77
2006	2003	13.24	12.39	25.63	16.77
2007	2004	13.32	14.87	28.19	21.77
2008	2005	14.48	18.03	32.51	39.76[2]

[1]Also referred to as the consolidated rate.
Valuations are used to set contribution rates in future years.
[2]The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

10-YEAR COMPARISON OF AVERAGE EMPLOYER CONTRIBUTION RATES



Public Employees' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (In thousands)	Annual Average Earnings	Percent Increase/ (Decrease) in Average Earnings	Number of Participating Employers
All Others					
June 30, 2005	30,997	$1,338,962	$ 43,197	2.3%	160
June 30, 2004	30,907	1,305,670	42,245	1.8	161
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
Peace Officer/Firefighter					
June 30, 2005	2,733	$174,155	$ 63,723	3.0%	160
June 30, 2004	2,705	167,317	61,855	4.9	161
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

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

Year Ended	Added to Rolls No.*	Added to Rolls Annual Benefits*	Removed from Rolls No.*	Removed from Rolls Annual Benefits*	Rolls - End of Year No.	Rolls - End of Year Annual Benefits	Percemt Increase in Annual Benefits	Average Annual Benefits
All Others								
June 30, 2005	1,287	$22,966,842	296	$17,019,851	18,423	$283,946,938	2.1%	$15,413
June 30, 2004	1,346	27,617,383	354	6,823,010	17,432	277,999,947	8.1	15,948
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
Peace Officer/Firefighter								
June 30, 2005	145	$3,904,737	5	$3,332,357	2,280	$67,463,195	0.9%	$29,589
June 30, 2004	174	6,388,270	25	904,310	2,140	66,890,815	8.9	31,257
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

* 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 Adjustment.

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, 2005	$1,104,821	$8,667,058	$3,072,962	$8,442,919	100%	84.7%	0.0%
June 30, 2004	1,070,268	7,650,156	2,723,492	8,030,414	100	91.0	0.0
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	795,457	3,021,700	1,716,959	5,885,488	100	100	100
June 30, 1996[2]	754,679	2,511,953	1,713,326	5,271,253	100	100	100

[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				
	2005	2004	2003	2002	2001
Health Experience	1.49%	- %	- %	3.68%	- %
Salary Experience	(0.32)	0.08	(0.19)	(0.20)	(1.03)
Investment Experience	(0.02)	0.02	0.31	7.24	0.11
Demographic Experience	0.01	0.54	0.40	1.21	0.77
Contribution Shortfall	0.98	0.89	1.10	-	-
(Gain) or Loss During Year From Experience	2.14	1.53	1.62	11.93	(0.15)
Non-recurring changes					
Asset Valuation Method	-	-	-	4.11	-
Past Service Amortization Change	-	-	-	(5.06)	-
Assumption Changes	-	1.03	-	6.98	-
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
Change Due to Revaluation of Plan Liability as of June 30, 2004	2.18	-	-	-	-
Composite (Gain) Loss During Year	4.32%	2.56%	0.72%	18.14%	0.65%
Beginning Average Employer Contribution Rate	28.19	25.63	24.91	6.77	6.12
Ending Average Employer Contribution Rate	32.51%	28.19%	25.63%	24.91%	6.77%
Board Adopted Employer Contribution Rate	39.76%	21.77%	16.77%	11.77%	6.77%
Fiscal Year Above Rate is Applied	FY08	FY07	FY06	FY05	FY04

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2005. 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-Peace Officer/Firefighter 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 Attorney General represents the system in legal proceedings.

For the Fiscal Year ending June 30, 2005, the Public Employees' Retirement Board prescribed policies and adopted regulations and performed other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division was responsible for investing PERS funds.

Subsequent to the date of this valuation, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Public Employees' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

(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 half-time 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 whose survivors are receiving occupational death benefits continue to earn PERS credit while occupational survivor benefits are being paid.

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;

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- 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;
- Alaska Bureau of Indian Affairs service;
- past service rendered by employees who worked half-time in the PERS and 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 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 peace officers/ firefighter 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 normal cost and past service rates.

The consolidated normal cost rate is a uniform rate for all participating employers (less the value of members' contributions).

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.

Employer rates cannot be less than the consolidated normal cost rate.

(7) Member Contributions

Mandatory Contributions: Peace Officers/Firefighter 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 TRS 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 on an after-tax

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basis. Voluntary contributions are recorded in a separate account and are payable to the:

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

(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 prior to July 1, 2010. 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 TRS; 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 Peace Officer/Firefighter 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.

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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 66-2/3 last survivor option and 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 Peace Officer/Firefighter 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 Peace Officer/ Firefighter 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 first became effective July 1, 2005, and applies to reemployment periods after that date. The Waiver Option is not available to members who retired early or under the Retirement Incentive Programs (RIPs). The Waiver Option is no longer available after June 30, 2009.

Members retired under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, 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

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(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.

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

(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 members 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. Peace Officer/Firefighter 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 Peace Officers/Firefighter 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).

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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.

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 funding ratio is at least 105%.

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.

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STATISTICAL SECTION

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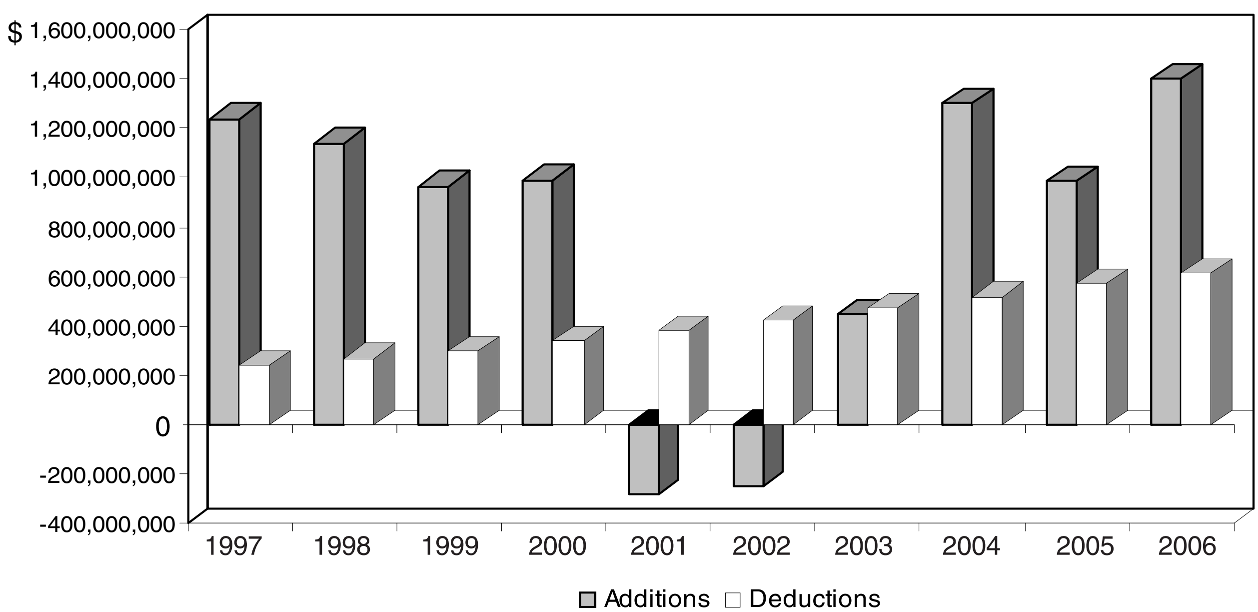
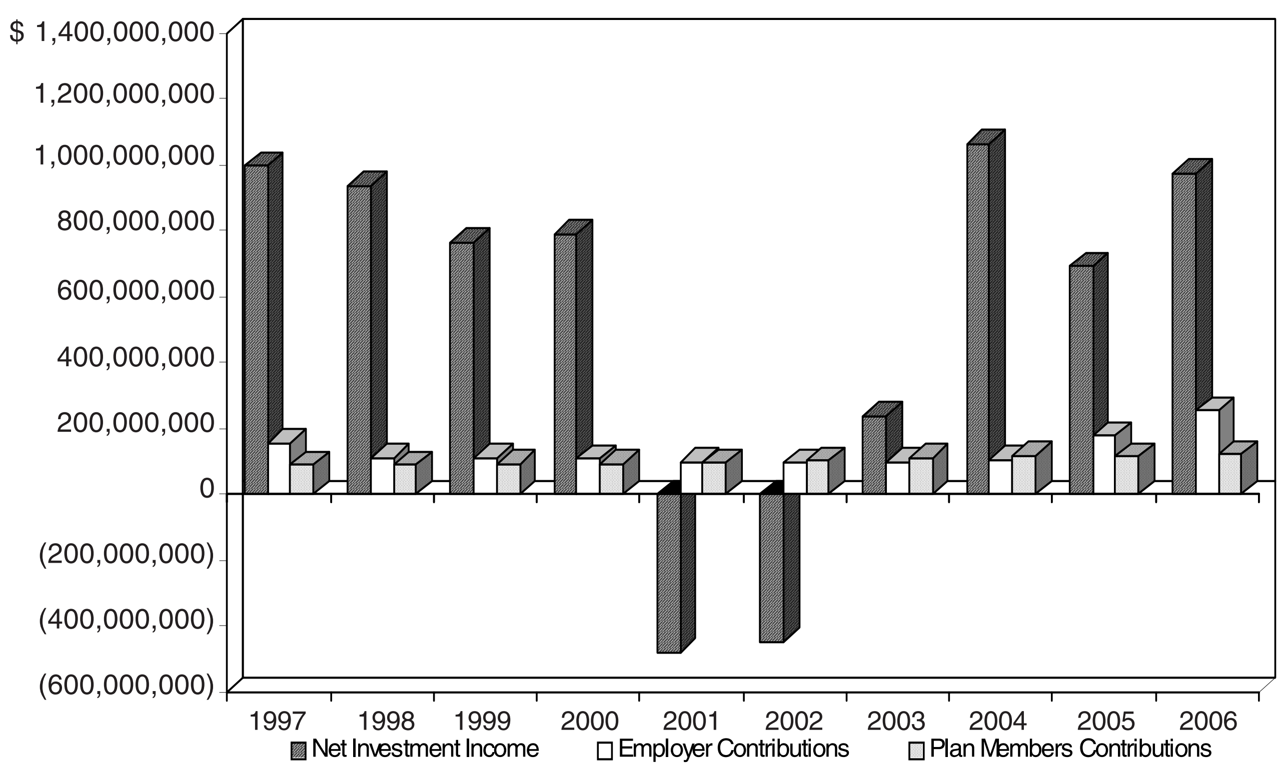
Public Employees' Retirement System Changes in Net Assets (In thousands)					
Year Ended June 30	Net Assets, Beginning of Year	Additions	Deductions	Increase (Decrease) in Net Assets	Net Assets, End of Year
1997	5,567,721	1,239,965	241,531	998,434	6,566,155
1998	6,566,155	1,139,429	267,186	872,243	7,438,398
1999	7,438,398	965,199	298,239	666,960	8,105,358
2000	8,105,358	990,702	339,480	651,222	8,756,580
2001	8,756,580	(286,775)	381,423	(668,198)	8,088,382
2002	8,088,382	(252,861)	422,688	(675,549)	7,412,833
2003	7,412,833	448,542	469,920	(21,378)	7,391,455
2004	7,391,455	1,302,620	516,769	785,851	8,177,306
2005	8,177,306	985,151	571,705	413,446	8,590,752
2006	8,590,752	1,400,868	612,149	788,719	9,379,471

10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS



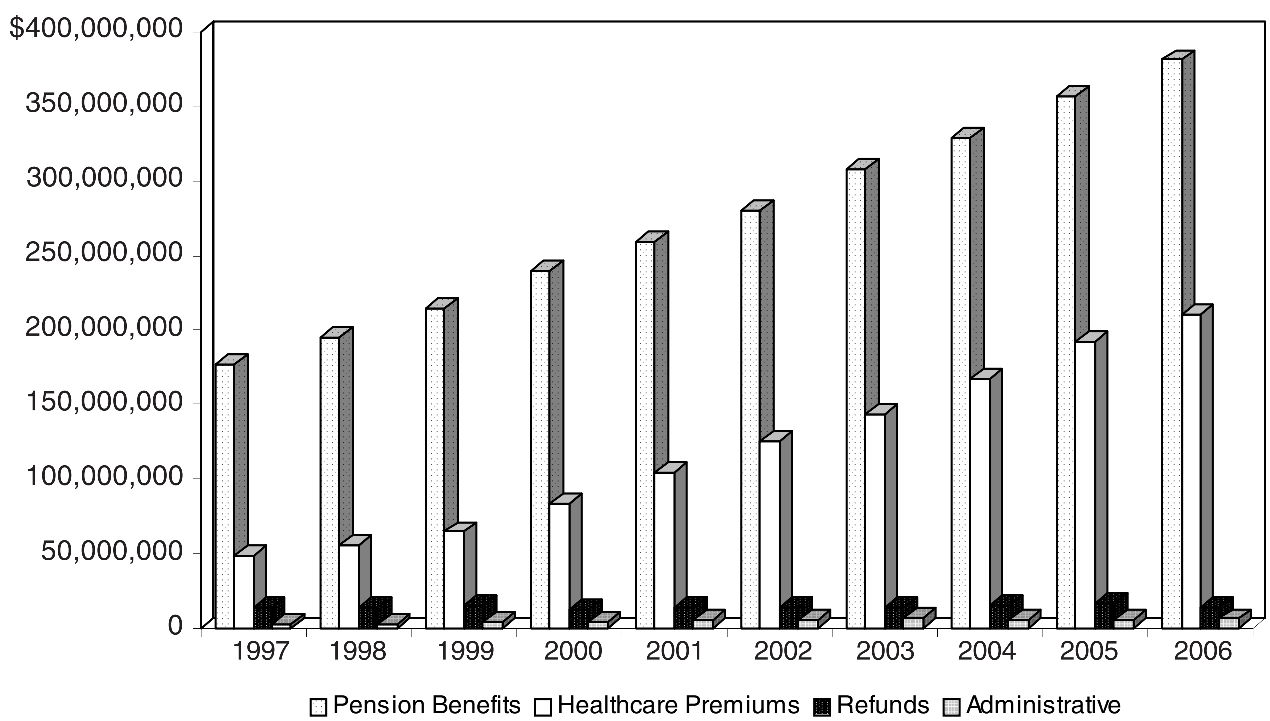
Public Employees' Retirement System Additions by Source (In thousands)						
Year Ended June 30	Employer Contributions	Plan Member Contributions	State of Alaska	Net Investment Income (Loss)	Other	Total
1997	$154,599	$87,949	$ -	$ 997,410	$ 7	$1,239,965
1998	112,384	89,256	-	937,782	7	1,139,429
1999	109,938	90,635	-	764,622	4	965,199
2000	107,596	92,770	-	790,336	-	990,702
2001	96,484	94,983	-	(478,249)	7	(286,775)
2002	94,769	100,639	-	(448,279)	10	(252,861)
2003	99,198	112,112	-	237,205	27	448,542
2004	105,585	118,554	-	1,064,605	13,876	1,302,620
2005	178,205	114,640	-	692,303	3	985,151
2006	253,922	119,566	18,427	974,006	34,947	1,400,868

10-YEAR COMPARISON OF ADDITIONS BY SOURCE



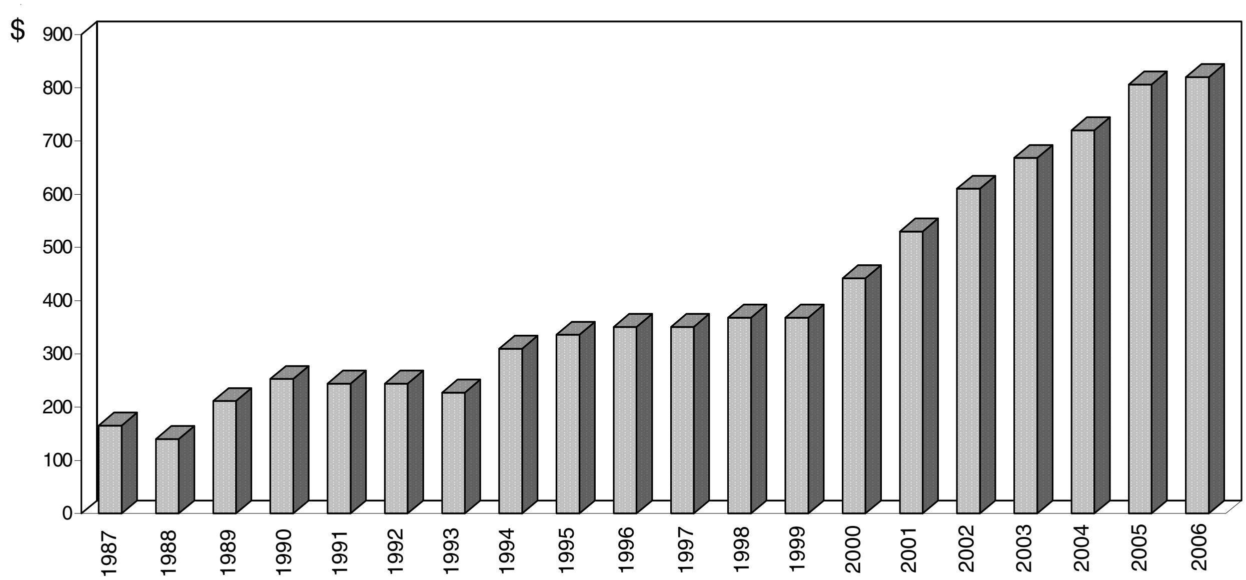
Public Employees' Retirement System Deductions by Type (In thousands)					
Year Ended June 30	Pension Benefits	Healthcare Premiums	Refunds of Contributions	Administrative	Total
1997	$177,328	$ 48,361	$13,012	$ 2,830	$ 241,531
1998	195,544	55,165	13,557	2,920	267,186
1999	215,170	64,486	14,435	4,148	298,239
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
2005	357,763	192,349	16,587	5,006	571,705
2006	381,672	210,613	14,063	5,801	612,149

10-YEAR COMPARISON OF DEDUCTIONS BY TYPE



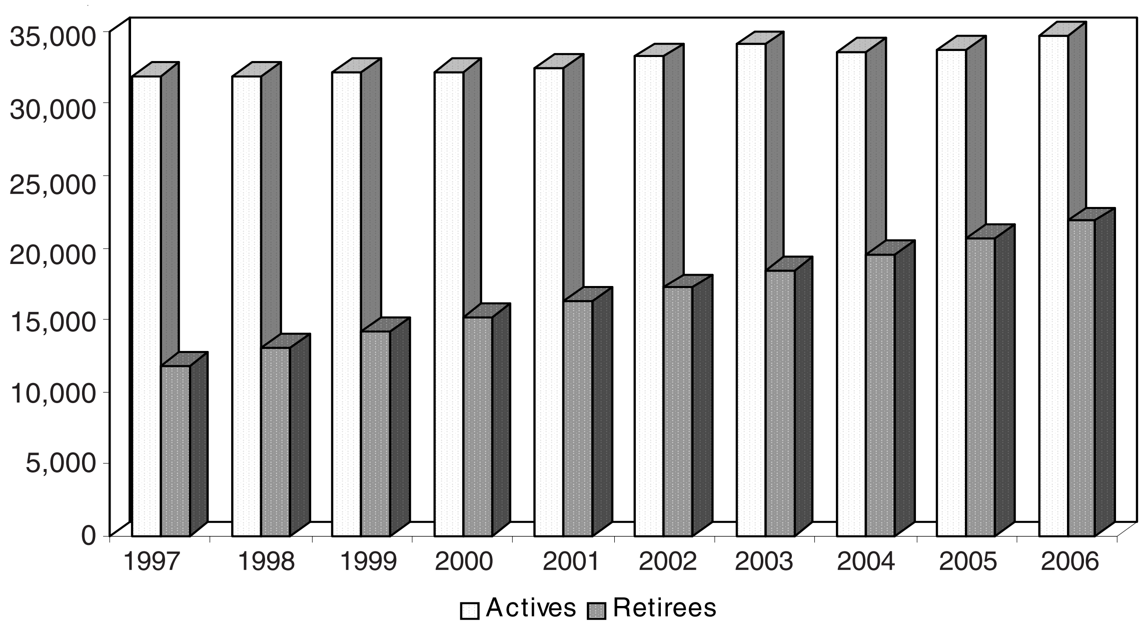
Public Employees' Retirement System Schedule of Benefit Deductions by Type (In thousands)						
Year Ended June 30	Service	Disability	Survivor	Dependent	Healthcare	Total
1997	$160,103	$6,228	$10,314	$ 683	$ 48,361	$225,689
1998	177,556	6,598	10,823	567	55,165	250,709
1999	195,605	7,195	12,141	229	64,486	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
2005	332,179	8,720	16,864	-	192,349	550,112
2006	355,841	7,779	18,052	-	210,613	592,285

20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS



Public Employees' Retirement System System Membership by Status					
Year Ended June 30	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
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
2000	32,134	15,174	5,433	11,465	64,206
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
2004	33,612	19,572	5,965	11,860	71,009
2005	33,730	20,703	6,105	12,761	73,299
2006	34,660	21,852	6,102	13,696	76,310

10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Public Employees' Retirement System
Schedule of Benefit Recipients by Type
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Type of Benefit: Service	Survivor/QDRO	Disability
$ 0 - 300	1,758	1,421	329	8
301 - 600	3,802	3,276	481	45
601 - 900	3,103	2,712	350	41
901 - 1,200	2,637	2,320	269	48
1,201 - 1,500	1,984	1,753	171	60
1,501 - 1,800	1,636	1,478	110	48
1,801 - 2,100	1,369	1,210	98	61
2,101 - 2,400	1,083	984	52	47
2,401 - 2,700	918	859	42	17
2,701 - 3,000	775	745	20	10
3,001 - 3,300	664	642	18	4
3,301 - 3,600	480	469	11	-
3,601 - 3,900	442	434	4	4
3,901 - 4,200	347	342	2	3
over 4,200	854	844	9	1
Totals	21,852	19,489	1,966	397

Schedule of Benefit Recipients by Option Selected
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Option Selected: 1	2	3	4	5	6	7	8	9
$ 0 - 300	1,758	441	341	244	70	325	218	111	-	8
301 - 600	3,802	1,243	959	590	235	249	392	89	-	45
601 - 900	3,103	1,067	774	440	218	213	287	63	5	36
901 - 1,200	2,637	856	680	407	183	194	209	60	21	27
1,201 - 1,500	1,984	591	559	293	140	170	139	32	40	20
1,501 - 1,800	1,636	479	477	267	120	135	92	18	35	13
1,801 - 2,100	1,369	362	433	221	106	88	84	14	53	8
2,101 - 2,400	1,083	262	382	180	70	90	46	6	35	12
2,401 - 2,700	918	237	321	167	71	63	37	5	14	3
2,701 - 3,000	775	196	305	138	54	52	18	2	5	5
3,001 - 3,300	664	163	284	98	48	49	16	2	4	-
3,301 - 3,600	480	110	206	72	50	31	10	1	-	-
3,601 - 3,900	442	112	204	61	24	33	4	-	1	3
3,901 - 4,200	347	74	178	47	30	13	2	-	2	1
over 4,200	854	204	405	127	70	38	9	-	1	-
Totals	21,852	6,397	6,508	3,352	1,489	1,743	1,563	403	216	181

Options
1 - Whole Life Annuity
2 - 75% Joint and Survivor Annuity
3 - 50% Joint and Survivor Annuity
4 - 66 2/3% Joint and Survivor Annuity
5 - Level Income
6 - Survivors Annuity
7 - QDRO Annuity
8 - Occupational Disability
9 - Nonoccupational Disability

Public Employess' Retirement System
Schedule of Benefit Recipients by Healthcare Coverage
June 30, 2006

Amount of Monthly Benefit	Number of Recipients	Medical 1	Medical 2	Medical 3	Other Member Paid DVA	Other Member Paid LTC	Other Member Paid Life
$ 0 - 300	1,758	-	1,520	238	701	365	43
301 - 600	3,802	-	3,508	294	1,972	1,086	168
601 - 900	3,103	14	2,934	155	1,800	997	160
901 - 1,200	2,637	10	2,525	102	1,703	985	199
1,201 - 1,500	1,984	11	1,918	55	1,390	825	180
1,501 - 1,800	1,636	6	1,594	36	1,222	739	160
1,801 - 2,100	1,369	8	1,342	19	1,051	664	148
2,101 - 2,400	1,083	1	1,074	8	880	539	158
2,401 - 2,700	918	4	910	4	751	481	133
2,701 - 3,000	775	1	770	4	659	426	138
3,001 - 3,300	664	-	658	6	583	371	131
3,301 - 3,600	480	1	478	1	426	271	114
3,601 - 3,900	442	-	441	1	395	266	119
3,901 - 4,200	347	-	346	1	305	218	95
over 4,200	854	-	847	7	768	520	243
Totals	21,852	56	20,865	931	14,606	8,753	2,189

Type of Medical Coverage
1 - None
2 - Member paid
3 - Plan paid

Type of Other Coverage
DVA = Dental, Vision, and Audio
LTC = Long-term Care
Life = Life Insurance

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+
Other							
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
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$ 659	$ 745	$ 806	$ 968	$ 917	$1,163	$1,488
Number of Recipients	28	300	231	218	234	109	58
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 451	$ 494	$ 961	$1,508	$2,298	$3,134	$3,648
Number of Recipients	34	357	310	247	232	138	111
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	$ 522	$ 577	$ 998	$1,561	$2,391	$3,468	$4,052
Number of Recipients	33	353	250	242	197	130	92
Peace Officer/Firefigher							
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
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$1,644	$2,392	$2,298	$2,093	$2,435	$2,895	$2,546
Number of Recipients	4	78	46	43	61	30	8
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 327	$ 768	$1,248	$1,676	$2,528	$3,307	$3,628
Number of Recipients	1	11	14	31	73	33	5
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	$ 278	$ 703	$1,326	$1,904	$3,265	$3,715	$5,077
Number of Recipients	2	6	11	16	43	10	2

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

Public Employees' Retirement System Principal Participating Employers June 30, 2006			
Employer	**Non-retired Members**	**Rank**	**Percentage of of Total Non-retired Members**
State of Alaska	22,625	1	41.2%
University of Alaska	5,007	2	9.1
Anchorage School District	4,311	3	7.9
Total	**31,943**		**58.2%**

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