PUBLIC EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A Component Unit of the State of Alaska
For the Fiscal Year Ended June 30, 2008

Sarah Palin, Governor

Prepared by

Department of Administration
Division of Retirement and Benefits
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PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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INTRODUCTORY SECTION

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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

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December 15, 2008

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) (System) for the fiscal year ended June 30, 2008.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. 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 fairly present the financial position and results of operations of the System for the year ended June 30, 2008. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System uses 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*; GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*; GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section;* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements 25 and 27*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the notes to financial statements and in the required supplementary information following the notes to financial statements.

The CAFR is divided into five sections:

- **Introductory Section**, which contains the letter of transmittal, the administrative organization of the PERS, and a list of the members serving on the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditor's 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.

The MD&A provides an analytical overview of the financial statements. The 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 Auditor's Report.

Profile of the System

The System 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 closed the Defined Benefit (DB) Plan. Senate Bill 141, signed into law on July 27, 2005, closed the DB Plan effective July 1, 2006, to new members and created a Defined Contribution Retirement (DCR) plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of : (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan, the postemployment healthcare plan, and the new Alaska Retiree Health Care Trust that replaces the postemployment healthcare plan. The DCR Plan includes the DCR trust, occupational death and disability plan (OD&D), retiree major medical plan (RMP), and the health reimbursement arrangement plan (HRA).

	Years Ended June 30		
	2008	**2007**	**2006**
Net Assets (millions)	$10,765.3	10,942.3	9,379.5
Participating Employers	159	160	160

Reporting Entity

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

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

The 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).

December 15, 2008

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 funds among those options, when applicable;
- establishing credit rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System 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 the System's financial condition to the governor, legislature, and those individual employers participating in the System.

Major Initiatives

The Public Employees' Retirement Board (governing board prior to July 1, 2005) examined ways to reduce costs to the employers and address the unfunded status of the PERS while balancing the need of providing adequate benefits for effective recruitment and retention of 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 (DCR Plan) became effective for members entering the PERS on or after July 1, 2006. The PERS administrator continues to work with legal counsel to obtain plan qualification and various private ruling letters related to the new tier.

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

The System continues to assess and retool its communication efforts, which include printed handbooks, newsletters, and website content. The System strives to ensure that all communication material is clear, accurate, and user-friendly.

The System also endeavors to provide the highest degree of customer service to all our members. Whether working with our pre-retirement or retirement services, health benefits, accounting, administrative sections, or attending our counseling and investment services, the System continues to analyze and improve ways to make interactions with us as pleasant and informative as possible.

Funding Requirements

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2007, 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 DB Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 68.0%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately $4.7 billion. The unfunded liability is being addressed at all levels of the State. The Governor's budget proposes to provide funding to PERS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the ARMB.

Independent Audit

The System's annual audit was conducted by the independent certified public accounting firm of KPMG LLP. The audit of the System was conducted in accordance with generally accepted auditing standards (GAAS). The independent auditors' report on the financial statements is the first item in the Financial Section of this report and precedes the MD&A and financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the System for the fiscal year ended June 30, 2008, are free of material misstatement. The audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and evaluating the overall financial statement presentation.

Investments

At June 30, 2008, the DB Plan's investment portfolio was valued at $10.9 billion and earned a -3.06% return for the fiscal year ended June 30, 2008. The DCR Plan's investment portfolio was valued at $34.2 million for the fiscal year ended June 30, 2008. Over the past five years ending June 30, 2008, the DB Plan's investments earned a +10.06% return. The ARMB has statutory oversight of the System'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

System management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Actuarial Valuation

The System's consulting actuarial firm, Buck Consultants, completed the actuarial review and valuation as of June 30, 2007, and served as technical advisor to the PERS. The 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 System. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

December 15, 2008

Awards

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, 2007. In order to be awarded a Certificate of Achievement, a government entity 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.

Acknowledgements

The preparation of this report is made possible by the dedicated services of the staff of the Department of Administration, Division of Retirement and Benefits, Department of Law, 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 System financial resources.

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 System and the membership. The cooperation of the membership contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

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

Respectfully submitted,

Annette Kreitzer
Commissioner

Rachael Petro
Deputy Commissioner

Pat Shier
Director

Kevin Worley
Chief Financial Officer

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, 2007

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

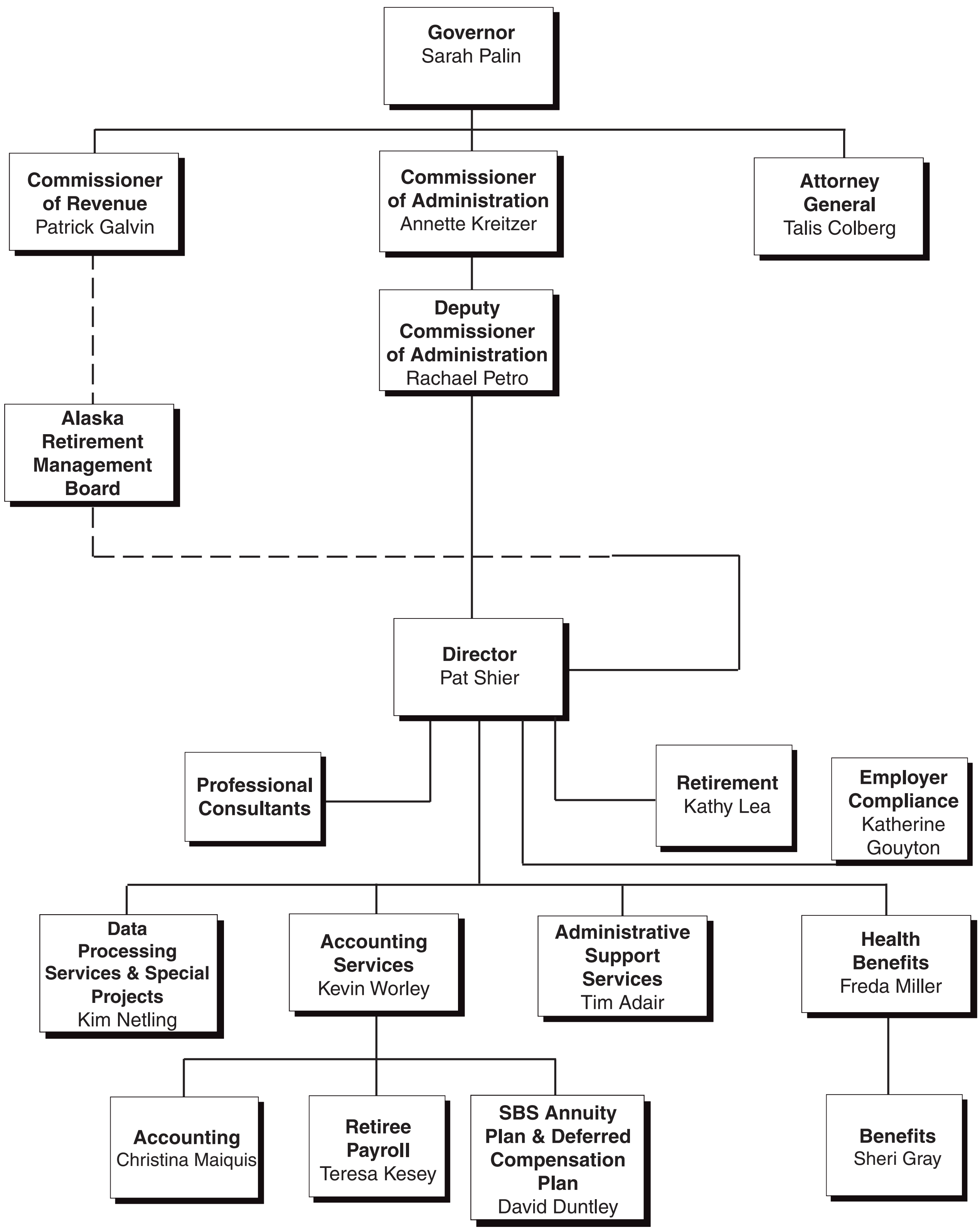
Oliver S. Cox

President

Jeffrey R. Esser

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 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 and Special Projects 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
Premera Blue Cross Blue Shield of Alaska
Seattle, Washington

Legal Counsel
Anne Johnson
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 79-80 and on the Schedule of External Management Fees on pages 88-89.

ALASKA RETIREMENT MANAGEMENT BOARD

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. Mrs. Schubert is an attorney licensed to practice law in the states of Alaska and New York, and holds a Law Degree and Masters Degree in Business Administration from Cornell University. She received her undergraduate degree from Stanford University. Mrs. Schubert serves as Chair of the Alaska Native Heritage Center, Chair of Akeela Treatment Services, Chair of the Alaska Retirement Management Board, Vice Chair of the Alaska Native Justice Center, Vice Chair of Khoanic Broadcast Corporation, Treasurer of the Bering Straits Native Corporation, and a board member of the Alaska Federation of Natives, and the Alaska Native Arts Foundation. Mrs. Schubert is also a member of the Alaska Rural Justice and Law Enforcement Commission.

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 Bachelor's degree 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, and the NCTR Education Committee. She is also a co-manager of a family trust. Ms. Harbo was named Alaska Teacher of the Year in 1989. She holds a Bachelor's of Science 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.

Patrick Galvin was appointed Commissioner of the Department of Revenue by Governor Sarah Palin effective December 4, 2006. Before his appointment he served as a Petroleum Land Manager for the Alaska Department of Natural Resources (DNR), Division of Oil and Gas. His responsibilities included managing the oil and gas leasing and licensing programs, lease administration, and oil and gas permitting for the division. His education background includes a Bachelor's degree in Visual Arts and Quantitative Economics from the University of California, San Diego, a Law Degree from the University of San Diego, and a Master of Business Administration from San Diego State University. Prior to his position at DNR, Mr. Galvin served as Director of the Division of Governmental Coordination, overseeing the Alaska Coastal Management Program. Previously, Mr. Galvin was a private practice attorney focusing on municipal, corporate, and tribal law.

Annette Kreitzer was appointed Commissioner of the Department of Administration by Governor Sarah Palin in January 2007. Most recently Ms. Kreitzer served as Chief of Staff for former Lieutenant Governor Loren Leman. She also served as Committee Aide for the Senate Special Committee on Oil and Gas, then as Committee Aide for the Senate Labor & Commerce and Resources committees, and Senate Finance Subcommittee staff for the Departments of Revenue, Environmental Conservation, and Natural Resources. Ms. Kreitzer has served as the Governor's appointee to Rural CAP (2002 - 2007); represented the Alaska Senate on the National Conference of State Legislatures Chemical Weapons Study Group (1998-1999); and served on the Governor's Safety Advisory Council (1994-1997). Ms. Kreitzer has also worked as an Emergency Medical Services Squad Leader and EMT II, administrator for the Anna Livingston Memorial Clinic, a reporter and a freelance writer. Volunteer activities include service on the Bartlett Regional Hospital Board, the Aleutians East Borough Health Committee, teaching gun safety and assisting with Ducks Unlimited and National Rifle Association events. Ms. Kreitzer attended Wright State University with an emphasis on journalism and took additional courses through the University of Washington and University of Alaska Fairbanks.

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 Bachelor's degree in Accounting from the University of Washington and has been a CPA since 1958.

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 Bachelor's degree in Accounting & German and a Master of Professional Accountancy from Weber State University.

Tom Richards is currently a mathematics and general education teacher at the Star of the North Charter School in Fairbanks. Mr. Richards previously taught mathematics, science and economics and was chair of the mathematics department at Lathrop High School. He also serves on the Alaska State Bond Reimbursement and Grant Review Committee. Mr. Richards received a bachelor of science from the University of Idaho in 1976 earning a major in zoology and a minor in chemistry, and obtained his State of Alaska teacher certification in 1978 with a secondary endorsement in biological science and mathematics. In 1999, he received a master of science in education from Western Oregon University with an emphasis in information technology.

Vacant
One trustee position is currently vacant. The term of the vacant trustee position expires March 1, 2011.

FINANCIAL SECTION

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the State of Alaska Public Employees' Retirement System (System), a Component Unit of the State of Alaska, as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the State of Alaska Public Employees' Retirement System, as of June 30, 2008, and the changes in net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 21 and schedules of funding progress and employer contributions on pages 67 to 73 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 74 and 75 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 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 77-131 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjeect to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

December 15, 2008

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

Management's Discussion and Analysis

June 30, 2008 and 2007

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement Systems (System) financial position and performance for the year ended June 30, 2008. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary and additional information to better understand the financial condition and performance of the System during the fiscal year ended June 30, 2008.

Financial Highlights

The Plan's net assets held in trust for pension and postemployment healthcare benefits as of June 30, 2008, is $10,765,304,000.

The System's net assets held in trust for pension and postemployment healthcare benefits as of June 30, 2008 decreased by ($177,020,000) or -1.6% from fiscal year 2007.

The System's contributions totaled $514,976,000 during fiscal year 2008; an increase of $46,315,000 or 9.9% from fiscal year 2007.

State of Alaska appropriations totaled $185,000,000 during fiscal year 2008; an increase of $166,418,000 or 895.6% from fiscal year 2007.

The System's net investment income was ($336,985,000) in 2008; reflecting a decrease of ($2,068,838,000) or -119.5% from fiscal year 2007.

The System's pension benefit and postemployment healthcare payments totaled $516,197,000 during fiscal year 2008, reflecting a decrease of ($195,975,000) or -30.9% from fiscal year 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System'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 and other supplementary schedules.

Statement of Plan Net Assets – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statement reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less current liabilities at June 30, 2008.

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

Management's Discussion and Analysis

June 30, 2008

Statement of Changes in Plan Net Assets – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal year ended June 30, 2008. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2008, and the sources and uses of those funds during fiscal year 2008.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that is essential to full understanding of the System's financial statements.

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

Other Supplementary Schedules – Other schedules include detailed information on administrative and investment deductions incurred by the System and payments to consultants (other than investment advisors) for professional services.

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

Management's Discussion and Analysis

June 30, 2008

Condensed Financial Information

NET ASSETS
(Dollars in thousands)

Description	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Assets:				
Cash, cash equivalents and receivables	$ 3,572,742	47,966	3,524,776	7,348.5%
Securities lending collateral	-	1,191,168	(1,191,168)	n/a
Investments, at fair value	10,779,493	10,901,724	(122,231)	(1.1)
Other assets	8	4	4	100.0
Total assets	14,352,243	12,140,862	2,211,381	18.2
Liabilities:				
Accrued expenses	9,022	7,358	1,664	22.6
Due to State of Alaska general fund	16,861	12	16,849	140,408.3
Due to retiree health medical fund	5,485	-	5,485	n/a
Due to Alaska retiree healthcare trust - TRS	64,995	-	64,995	n/a
Securities lending collateral payable	-	1,191,168	(1,191,168)	n/a
Other liabilities	3,490,576	-	3,490,576	n/a
Total liabilities	3,586,939	1,198,538	2,388,401	199.3
Net assets	**$10,765,304**	**10,942,324**	**(177,020)**	**(1.6)%**

CHANGES IN NET ASSETS
(Dollars in thousands)

Description	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Net assets, beginning of year	**$10,942,324**	**9,379,471**	**1,562,853**	**16.7%**
Additions:				
Contributions	514,976	468,661	46,315	9.9
State of Alaska appropriation	185,000	18,582	166,418	895.6
Net investment income (loss)	(336,985)	1,731,853	(2,068,838)	(119.5)
Transfer in	3,490,576	-	3,490,576	n/a
Other additions	47	84	(37)	(44.0)
Total additions	3,853,614	2,219,180	1,634,434	73.7
Deductions:				
Pension and postemployment healthcare benefits	516,197	635,098	(118,901)	(18.7)
Refunds	15,159	14,953	206	1.4
Administrative	8,702	6,276	2,426	38.7
Transfer out	3,490,576	-	3,490,576	n/a
Total deductions	4,030,634	656,327	3,374,307	514.1
Increase (decrease) in net assets	(177,020)	1,562,853	(1,739,873)	(111.3)
Net assets, end of year	**$10,765,304**	**10,942,324**	**(177,020)**	**(1.6)%**

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

Management's Discussion and Analysis

June 30, 2008

Financial Analysis of the Plans

The Statements of Net Assets as of June 30, 2008 and 2007 showed total net assets held in trust for pension and postemployment healthcare benefits of $10,765,304,000 and $10,942,324,000. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent a decrease in the System's net assets held in trust for pension and postemployment healthcare benefits of ($177,020,000) or -1.6% from fiscal year 2008 to 2007. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System. The decrease in net assets is primarily due to the negative investment returns of the System.

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 2008, the ARMB adopted an asset allocation that includes 37% in domestic equities, 14% in international equities, 2% in emerging market equity, 7% in private equity, 18% in retirement fixed income, 3% in high yield, 2% in international fixed income, 10% in real estate, 4% in absolute return, and 3% in other investments. The asset allocation is expected to provide a five year median return of 12.52%.

For fiscal years 2008 and 2007, the DB Plan's investments generated a -3.06% and +18.87% rate of return. The DB Plan's annualized rate of return was +8.81% over the last three years and +10.06% over the last five years.

Actuarial Valuations and Funding Progress – DB Plan

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 during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Contribution rates are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the DB Plan's funding ratio. The ratio of assets to liabilities was 68.0%, at June 30, 2007 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving the funding objectives.

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 DB Plan.

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For fiscal year 2008, the consolidated normal cost rate increased from 13.32% to 14.48%, the average past service rate increased from 14.87% to 18.03%, thus producing a total fiscal year 2008 average annual required contribution rate in the DB Plan of 32.51%. The ARMB adopted a contribution rate of 32.51% for Fiscal Year 2008.

	Valuation Year (Dollars in thousands)	
	2007	**2006**
Valuation Assets	$ 9,900,960	9,040,908
Accrued Liabilities (total benefits)	14,963,119	14,388,413
Funding ratio	66.2%	62.8%

Contributions and Investment Income

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, State of Alaska appropriation, investment income (loss), other additions, and a transfer.

Additions *(in thousands)*

			Increase/(Decrease)	
	2008	**2007**	**Amount**	**Percentage**
Plan member contributions	$134,151	126,278	7,873	6.2%
Employer contributions	380,825	342,383	38,442	11.2
State of Alaska Appropriation	185,000	18,582	166,418	895.6
Net investment income (loss)	(336,985)	1,731,853	(2,068,838)	(119.5)
Transfer from postemployment health fund	3,490,576	-	3,490,576	n/a
Other additions	(47)	84	(37)	(44.0)
Total	**$3,853,614**	**2,219,180**	**1,634,434**	**73.6%**

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June 30, 2008 and 2007

The Plan's employer contributions increased from $342,383,000 in fiscal year 2007 to $379,519,000 in fiscal year 2008, an increase of $37,136,000 or 10.8%. The State of Alaska provided $185,000,000 in employer on-behalf payments for fiscal year 2008 in Senate Bill 53, Section 55 (e).

The DB Plan's actuarial determined employer contribution rate increased from 28.19% in fiscal year 2007 to 32.51% in fiscal year 2008. The employer effective contribution rate for fiscal year 2008 was established to be 22.00%, but not lower than 14.48%, in Senate Bill 53, Section 55 (f).

Increases in actuarial determined contribution rates in fiscal year 2008 are largely due to the contribution shortfall related to contributions made in fiscal year 2006 and 2007.

The Plan's net investment income in fiscal year 2008 decreased by ($2,068,838,000) or -119.5% from amounts recorded in fiscal year 2007. The Plan's total returns were -3.1%, 18.87%, and +11.74% for the years ending 2008, 2007 and 2006. Changes are due to the performance of the equity markets. All investments pools with the exception of the retirement fixed income pool, international fixed income pool, and other investments pool had lower returns in 2008 when compared to 2007. The domestic equity pool realized a return of -13.5% in 2008 compared to 20.1% in 2007. The retirement fixed income pool realized a return of +6.6% in 2008 compared to +6.2% in 2007. The international equity pool realized a return of -9.4% in 2008 compared to +17.0% in 2007. The real estate pool realized a return of +5.7% in 2008 compared to +20.7%. The international fixed income pool realized a return of +19.0% in 2008 compared to 2.0% in 2007. The private equity pool realized a return of +13.2% in 2008 compared to +28.7% in 2007. The emerging markets equity pool realized a return of +4.0% in 2008 compared to +48.0% in 2007. The high yield pool realized a return of -0.09% in 2008 compared to +10.9% in 2007. The Other Investments Pool realized a return of +19.1% in 2008 compared to +11.3% in 2007. More than ninety-five 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 2008, the System experienced a significant reduction in rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the DB Plan was 8.25%. The actual rate of return did not exceed the actuarial rate of return for fiscal year 2008 as it had for the three prior consecutive years.

The Defined Contribution Retirement (DCR) Pension Trust employer effective rate for the DCR Pension Trust Fund's for fiscal year 2008 was set at no less than 14.48% and no more than 22%, based on their DB plan rate.

The DCR Pension Trust employer contribution rate for fiscal year 2008 was 5.00%. The DCR Retiree Medical Fund rate for fiscal year 2008 was 0.99%. The DCR Occupational Death and Disability rate for peace officers and firefighters for fiscal year 2008 was 1.33%. The DCR Occupational Death and Disability rate for all other employees for fiscal year 2008 was 0.58%. The Retiree Major Medical Insurance Fund was 0.99% per ARMB Resolution 2006-28, and the rate for the Health Reimbursement Arrangement Fund was set at 3% of the employer's average annual compensation per AS 39.30.370.

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Management's Discussion and Analysis

June 30, 2008 and 2007

During fiscal year 2008, the Plan transferred the $3,490,576,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust (ARHCT) as a result of the creation of the ARHCT fund, which began on July 1, 2007.

Benefits and Other Deductions

The primary deduction of the DB Plan is the payment of pension benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, together with postemployment healthcare claims paid, healthcare claims paid, lump sum refunds made to former plan members, and the cost of administering the plans comprise the costs of operations.

Deductions (in thousands)

			Increase/(Decrease)	
	2008	**2007**	**Amount**	**Percentage**
Pension and postemployment healthcare benefits	$516,197	635,098	(118,901)	(18.7)%
Refunds of contributions	15,159	14,943	216	1.4
Administrative	8,702	6,277	2,425	38.6
Total	**$540,058**	**656,318**	**(116,260)**	**(17.7)%**

The Plan's pension and postemployment healthcare benefit payments in 2008 and 2007 decreased ($195,975,000) or -30.9% from fiscal year 2007.

The DB Plan Alaska Retiree Healthcare Trust (ARHCT) was established with Senate Bill 123 and become effective July 1, 2007. The ARHCT healthcare claims payments were $77,074,000 for fiscal year 2008. Prior to fiscal year 2008, the Plan was responsible for healthcare premium paid directly to the Retiree Health Fund (RHF) for each retired member / beneficiary participating in the Plan. Beginning July 1, 2007, the Plan began funding the ARHCT via employer contributions. The RHF continued to pay healthcare claims for the three participating plans until February 29, 2008. Beginning March 1, 2008, the ARHCT is responsible for payment of healthcare claims.

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June 30, 2008

Funding

Retirement benefits are financed by accumulations from employers, plan members, State of Alaska appropriations, contributions and income earned on System investments.

- The employer contributions are determined by the DB Plan's consulting actuaries and approved by the ARMB annually. The DCR Plan's employer contribution rates were established by Alaska Statute and adopted by the ARMB, with the exception of the Healthcare Reimbursement Arrangement Plan amounts, which are calculated and approved by the Department.
- Plan member contributions are set by Alaska Statute 39.35.160 for the DB Plan and Alaska Statute 39.35.730 for the DCR Plan.
- Alaska Statute 39.25.280 requires that additional state contributions are required each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the Plan's past service liability at the contribution rate adopted by the ARMB for that fiscal year.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During fiscal year 2008, the Twenty-Sixth Alaska State Legislature enacted three laws that affect the System:

- Senate Bill 125 created a cost-share plan for PERS and established an employer contribution rate of 22 percent for all PERS employers.
- House Bill 310 appropriated $241.6 million from the general fund to the Department of Administration for deposit in the Plan's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2009. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 22 percent and the actuarially required contribution of 35.22 percent for fiscal year 2009.
- House Bill 13 authorizes the State of Alaska to issue pension obligation bonds to help reduce the plans unfunded liability.

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Management's Discussion and Analysis

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

The financial market environment continues to challenge investors. With the threat of inflation, the failures of financial institutions and brokerage firms, and continued turmoil in the Middle East, many forces once again pose changes to Plan investments. The ARMB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The return on the DB Plan's investments failed to meet or exceed its' actuarially assumed return of 8.25%. Even with investment returns exceeding the actuarial rate of return, the System will continue to see an increase in actuarial determined contribution rates due to rising medical cost and past contribution shortfalls.

The consulting actuary recommended an increase from the average employer contribution rate of 28.19% in fiscal year 2007 to 32.51% in fiscal year 2008. The ARMB adopted an average employer contribution rate of 32.51% for fiscal year 2008, up 4.32 points from the fiscal year 2007 ARMB adopted employer contribution rate of 21.77%. The employer effective rate for fiscal year 2008 was set at no less than 14.48% and no more than 22%.

Regulation 2 AAC 35.900, which prohibited more than a five point change from year to year in employer contribution rates, was repealed effective July 20, 2006. This regulation had limited the ARMB's 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.

The June 30, 2007, actuarial valuation for the DB Plan reported a funding ratio of 68.0% and an unfunded liability of $4.7 billion.

For fiscal year 2008 and 2007, the DCR Plan's employer contribution rate was established at 5.00%. The DCR Plan retiree medical plan contribution rate was adopted by the ARMB to be 0.99% and 1.75% for fiscal years 2008 and 2007 respectively. The DCR Plan's occupational death and disability rate for peace officers and firefighters was adopted by the ARMB to be 1.33% and 0.40% for fiscal year 2008 and 2007. The DCR Plan's occupational death and disability rate for all other employees was adopted by the ARMB to be 0.58% and 0.30% for fiscal year 2008 and 2007.

Requests for Information

This financial report is designed to provide a general overview of the finances for all those with interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Public Employees' Retirement System
Division of Retirement & Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statements of Plan Net Assets

June 30, 2008 (in thousands)

	Defined Benefit Plan 2008			
	Pension	Postemployment healthcare	Alaska retiree healthcare trust	Total
Assets				
Cash and cash equivalents (notes 3 and 5):				
Short-term fixed income pool	$ 3,273	2,659	26,599	32,531
Great West / participant directed deposit	-	-	-	-
Total cash and cash equivalents	3,273	2,659	26,599	32,531
Receivables:				
Contributions	26,267	-	812	27,079
Due from State of Alaska General Fund	-	-	17,624	17,624
Due from postemployment healthcare fund (note 6)	-	-	3,490,576	3,490,576
Other account receivable	-	-	138	138
Total receivables	26,267	-	3,509,150	3,535,417
Investments (notes 3, 4, 5, and 8):				
Domestic equity pool	3,069,144	351,199	-	3,420,343
Retirement fixed income pool	906,295	736,276	-	1,642,571
International equity pool	857,743	696,833	-	1,554,576
Real estate pool	719,837	584,797	-	1,304,634
International fixed income pool	121,180	98,447	-	219,627
Private equity pool	490,444	398,438	-	888,882
Emerging markets equity pool	161,994	131,604	-	293,598
Treasury inflation protection pool	31,750	25,794	-	57,544
Other investments pool	188,001	152,732	-	340,733
High yield pool	143,650	116,701	-	260,351
Absolute return pool	240,147	195,096	-	435,243
Collective investment funds, at fair value:				
Great West participant directed	-	-	-	-
Common trust funds	-	-	327,130	327,130
ERISA commingled and mutual funds	-	-	-	-
Total investments	6,930,185	3,487,917	327,130	10,745,232
Other:				
Other	8	-	-	8
Total other	8	-	-	8
Total assets	6,959,733	3,490,576	3,862,879	14,313,188
Liabilities:				
Accrued expenses	7,064	-	1,294	8,358
Due to State of Alaska General Fund	16,861	-	-	16,861
Due to Retiree Health Medical Fund	-	-	5,485	5,485
Due to Alaska Retiree Healthcare Trust - TRS	-	-	64,995	64,995
Due to Alaska Retiree Healthcare Trust - PERS (note 6)	-	3,490,576	-	3,490,576
Total liabilities	23,925	3,490,576	71,774	3,586,275
Commitment and contingencies (note 8)				
Net assets held in trust for pension and postemployment healthcare benefits	$6,935,808	-	3,791,105	10,726,913

See accompanying notes to financial statements.

(continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statements of Plan Net Assets

June 30, 2008 (in thousands)

	Defined Contribution Pension Trust Fund 2008						
	Participant directed	Occupational death and disability-all others	Occupational death and disability-P/F	Retiree medical plan	Healthcare reimburse-ment arrangement	Total	SYSTEM TOTAL
Assets:							
Cash and cash equivalents (notes 3 and 5):							
Short-term fixed income pool	1,099	47	9	62	260	1,477	34,008
Great West / participant directed deposit	324	-	-	-	-	324	324
Total cash and cash equivalents	1,423	47	9	62	260	1,801	34,332
Receivables:							
Contributions	130	5	1	10	30	176	27,255
Due from State of Alaska General Fund	2,074	84	20	158	481	2,817	20,441
Due from postemployment healthcare fund (note 6)	-	-	-	-	-	-	3,490,576
Other account receivable	-	-	-	-	-	-	138
Total receivables	2,204	89	21	168	511	2,993	3,538,410
Investments (notes 3, 4, 5, and 8):							
Domestic equity pool	-	-	-	-	-	-	3,420,343
Retirement fixed income pool	-	-	-	-	-	-	1,642,571
International equity pool	-	-	-	-	-	-	1,554,576
Real estate pool	-	-	-	-	-	-	1,304,634
International fixed income pool	-	-	-	-	-	-	219,627
Private equity pool	-	-	-	-	-	-	888,882
Emerging markets equity pool	-	-	-	-	-	-	293,598
Treasury inflation protection pool	-	85	20	233	746	1,084	58,628
Other investments pool	-	-	-	-	-	-	340,733
High yield pool	-	-	-	-	-	-	260,351
Absolute return pool	-	-	-	-	-	-	435,243
Collective investment funds, at fair value:							
Great West participant directed	23,724	-	-	-	-	23,724	23,724
Common trust funds	-	-	-	-	-	-	327,130
ERISA commingled and mutual funds	-	752	182	2,016	6,503	9,453	9,453
Total investments	23,724	837	202	2,249	7,249	34,261	10,779,493
Other:							
Other	-	-	-	-	-	-	8
Total other	-	-	-	-	-	-	8
Total assets	27,351	973	232	2,479	8,020	39,055	14,352,243
Liabilities:							
Accrued expenses	664	-	-	-	-	664	9,022
Due to State of Alaska General Fund	-	-	-	-	-	-	16,861
Due to Retiree Health Medical Fund	-	-	-	-	-	-	5,485
Due to Alaska Retiree Healthcare Trust - TRS	-	-	-	-	-	-	64,995
Due to Alaska Retiree Healthcare Trust - PERS (note 6)	-	-	-	-	-	-	3,490,576
Total liabilities	664	-	-	-	-	664	3,586,939
Commitment and contingencies (note 8)							
Net assets held in trust for pension and postemployment healthcare benefits	26,687	973	232	2,479	8,020	38,391	10,765,304

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statements of Changes in Plan Net Assets

June 30, 2008 (in thousands)

	Defined Benefit Plan			
	2008			
	Pension	Postemployment healthcare	Alaska retiree healthcare trust	Total
Additions:				
Contributions:				
Employers	$ 100,323	-	263,755	364,078
Plan members	120,506	-	474	120,980
State of Alaska	50,875	-	134,125	185,000
Total contributions	271,704	-	398,354	670,058
Investment income:				
Net appreciation (depreciation) in fair value (note 3)	(707,662)	-	(30,267)	(737,929)
Interest	130,125	-	7,631	137,756
Dividends	281,043	-	3,833	284,876
Total investment income (loss)	(296,494)	-	(18,803)	(315,297)
Less investment expense	23,089	-	-	23,089
Net investment income (loss) before security lending activities	(319,583)	-	(18,803)	(338,386)
Securities lending income (note 5)	39,635	-	-	39,635
Less securities lending expenses (note 5)	35,342	-	-	35,342
Net income from securities lending activities	4,293	-	-	4,293
Net investment income (loss)	(315,290)	-	(18,803)	(334,093)
Transfer from postemployment healthcare fund (note 6)	-	-	3,490,576	3,490,576
Other:				
Other	47	-	-	47
Total additions	(43,539)	-	3,870,127	3,826,588
Deductions:				
Pension and postemployment benefits	439,123	-	77,074	516,197
Refunds of contributions	14,333	-	-	14,333
Administrative	6,585	-	1,948	8,533
Total deductions	460,041	-	79,022	539,063
Transfer to Alaska retiree healthcare trust (note 6)	-	3,490,576	-	3,490,576
Net increase (decrease)	(503,580)	(3,490,576)	3,791,105	(203,051)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	7,439,388	3,490,576	-	10,929,964
Balance, end of year	$6,935,808	-	3,791,105	10,726,913

See accompanying notes to financial statements.

(continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statements of Changes in Plan Net Assets

June 30, 2008 and 2007 (in thousands)

	Defined Contribution Pension Trust Fund 2008						
	Participant directed	Occupational death and disability-all others	Occupational death and disability-P/F	Retiree medical plan	Healthcare reimburse-ment arrangement	Total	SYSTEM TOTAL
Additions:							
Contributions:							
Employers	8,221	847	216	1,561	5,902	16,747	380,825
Plan members	13,171	-	-	-	-	13,171	134,151
State of Alaska	-	-	-	-	-	-	185,000
Total contributions	21,392	847	216	1,561	5,902	29,918	699,976
Investment income:							
Net appreciation (depreciation) in fair value (note 3)	-	(47)	(5)	(154)	(469)	(675)	(738,604)
Interest	(2,294)	4	2	11	35	(2,242)	135,514
Dividends	-	2	-	5	16	23	284,899
Total investment income (loss)	(2,294)	(41)	(3)	(138)	(418)	(2,894)	(318,191)
Less investment expense	-	-	-	-	-	-	23,089
Net investment income (loss) before security lending activities	(2,294)	(41)	(3)	(138)	(418)	(2,894)	(341,280)
Securities lending income (note 5)	-	1	-	2	4	7	39,642
Less securities lending expenses (note 5)	-	-	-	1	4	5	35,347
Net income from securities lending activities	-	1	-	1	1	2	4,295
Net investment income (loss)	(2,294)	(40)	(3)	(137)	(418)	(2,892)	(336,985)
Transfer from postemployment healthcare fund (note 6)	-	-	-	-	-	-	3,490,576
Other:							
Other	-	-	-	-	-	-	47
Total additions	19,098	807	213	1,424	5,484	27,026	3,853,614
Deductions:							
Pension and postemployment benefits	-	-	-	-	-	-	516,197
Refunds of contributions	826	-	-	-	-	826	15,159
Administrative	169	-	-	-	-	169	8,702
Total deductions	995	-	-	-	-	995	540,058
Transfer to Alaska retiree healthcare trust (note 6)	-	-	-	-	-	-	3,490,576
Net increase (decrease)	18,103	807	213	1,424	5,484	26,031	(177,020)
Net assets held in trust for pension and postemployment healthcare benefits:							
Balance, beginning of year	8,584	166	19	1,055	2,536	12,360	10,942,324
Balance, end of year	26,687	973	232	2,479	8,020	38,391	10,765,304

STATE OF ALASKA
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Notes to Financial Statements

June 30, 2008

(1) Description

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

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

	2008	2007
State of Alaska	1	1
Municipalities	76	77
School districts	53	53
Other	29	29
	159	160

Inclusion in the Defined Benefit (DB) Plan and Defined Contribution Retirement (DCR) 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 Plans.

Defined Benefit Retirement Plan

(a) General

The DB Plan is a defined benefit, agent, multiple employer plan within the 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 DB Plan is a plan within PERS. PERS is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report pension trust fund. The State employees who administer the DB Plan and DCR Plan participate in both. With the passing of SB141, the PERS DB Plan is closed to all new members effective July 1, 2006.

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Notes to Financial Statements

June 30, 2008

At June 30, DB Plan's membership consisted of:

	2008	2007
Retirees and beneficiaries currently receiving benefits	24,063	22,992
Terminated plan members entitled to future benefits	6,358	6,277
Total current and future benefits	30,421	29,269
Active plan members:		
General	26,868	29,300
Peace officer and firefighter	2,563	2,709
Total active plan membership	29,431	32,009
Total	**59,852**	**61,278**
Active plan members:		
Vested:		
General	18,271	17,860
Peace officer and firefighter	1,937	1,898
Nonvested:		
General	8,597	11,440
Peace officer and firefighter	626	811
Total active plan membership	**29,431**	**32,009**

(b) 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 members' three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the members' five highest, consecutive years' salaries.

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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 DB 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 DB Plan's Administrator if the funding ratio of the DB 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.

(c) 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.

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 DB Plan. Retirees of three other State administered retirement plans also participate in the RHF. The DB 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.

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Beginning July 1, 2007, the Alaska Retiree Healthcare Trust (ARHCT), a healthcare trust fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the Plan. The Plan retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the RHF.

(d) Death Benefits

If an active general DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the DB Plan's member's salary. If an active peace officer or firefighter DB Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the DB Plan's 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 DB Plan's member's dependent children 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 DB Plan member's normal retirement would have occurred if the DB 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 DB Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the DB 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 DB Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

Active DB 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, DB Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the DB Plan's member's salary at the time of the disability. The nonoccupational disability benefit is based on the DB Plan member's service and salary at the time of disability. At normal retirement age, a disabled general DB 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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(f) Defined Benefit Plan Member Contributions

The DB Plan's member contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The DB Plan's member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the DB Plan. The DB Plan's member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

(g) Employer Contributions

The DB 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 entry age normal actuarial funding method. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the approved contribution rate for the fiscal year.

(h) Contributions from the State of Alaska

Senate Bill 53, passed by the twenty-fifth Alaska State Legislature, appropriated $185 million from the general fund to the Department of Administration for deposit in the DB Plan's accounts in the public employee's retirement plan as partial payment of the participating public employee's retirement plan employers' contributions for the fiscal year ending June 30, 2008. This appropriation is intended to be the amount required to set the effective employer contribution rate of all public employee's retirement plan employers for the fiscal year ending June 30, 2008, at the lower of the level percentage of pay rate approved by the ARMB or 22.00% but not lower than 14.48%.

Senate Bill 53, passed by the first special session of the twenty-fifth Alaska State Legislature, appropriated $185 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, 2008.

Senate Bill 231, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.6 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, 2007.

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(i) Refunds

DB 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 DB Plan employer before July 1, 2010. Members who have not re established an employee relationship with a participating DB Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan' membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

(j) Administrative Costs

Administrative costs are financed through investment earnings.

(k) Due from (to) State of Alaska General Fund

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

Defined Contribution Retirement Pension Trust Fund

(l) General

The DCR Plan is a defined contribution, agent, multiple employer public employee retirement plan 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 DCR Plan was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

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At June 30, Plan membership consisted of:

	2008
Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitled to future benefits:	
25% Vested	1
50% Vested	2
75% Vested	4
100% Vested	5
Total terminated plan members entitled to future benefits	12
Total current and future benefits	12
Active plan members:	
General	4,735
Peace officer and firefighter	390
Total active members	5,125
Total Members	**5,137**
Active plan members:	
Vested General:	
25% Vested	13
50% Vested	2
75% Vested	4
100% Vested	6
Total vested general	25
Vested peace officer and firefighter	
25% Vested	-
50% Vested	-
75% Vested	-
100% Vested	-
Total vested peace officer and firefighter	-
Nonvested:	
General	4,710
Peace officer and firefighter	390
Total nonvested general and peace officer and firefighter	5,100
Total Members	**5,137**

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(m) Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings. A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings, after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of a) 25% with two years of service, b) 50% with three years of service; c) 75% with four years of service; and d) 100% with five years of service.

(n) Postemployment Healthcare Benefits

Major medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement arrangement plan. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

(o) Death Benefits

If (1) the death of an employee occurs before the employee's retirement and before the employee's normal retirement date, (2) the proximate cause of death is a bodily injury sustained or a hazard undergone while in the performance and within the scope of the employee's duties, and (3) the injury or hazard is not the proximate result of willful negligence of the employee, a monthly survivor's pension shall be paid to the surviving spouse. If there is no surviving spouse or if the spouse later dies, the monthly survivor's pension shall be paid in equal parts to the dependent children of the employee.

The monthly survivor's pension section for survivors of employees who were not peace officers or fire fighters is 40% of the employee's monthly compensation in the month in which the employee dies. The monthly survivor's pension for survivors of employees who were peace officers or fire fighters is 50% of the monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

(p) Disability Benefits

An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date. The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment.

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(q) Plan Member Contributions

Contribution rates are 8.0% for DCR Plan members, as required by statute. The employer shall deduct the contribution from the member's compensation at the end of each payroll period, and the contribution shall be credited by the plan to the member's individual account. The contributions shall be deducted from the member's compensation before the computation of applicable federal taxes.

(r) Employer Contributions

An employer shall contribute to each member's individual account an amount equal to 5.0% of the member's compensation.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds. Investment options are disclosed in note 3.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

(s) Refunds

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment. Distributions that are being paid to a member may not be affected by the member's subsequent reemployment with the employer. Upon reemployment, a new individual account shall be established for the member to whom any future contributions shall be allocated.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The 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.

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(b) Use of Estimates

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

(c) GASB Statements No. 25 and No. 43

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

During the fiscal year, the DB Plan adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43). GASB 43 establishes uniform financial reporting standards for Other Postemployment Benefit Plans (OPEB) and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting or Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed by GASB 43 is generally consistent with the approach adopted in GASB 25, with modifications to reflect differences between pension and OPEB plans.

(d) Investments

Investments are carried at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on 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.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Contributions, benefits paid and all expenses are recorded on a cash basis.

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Valuation

Defined Benefit Pension and Postemployment Healthcare Investments

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.

Domestic and international 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.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and ARMB staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investments in the other investments pool are valued quarterly by the general partners. The agricultural investments are valued quarterly by the investment managers based on market conditions. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions. Separate account real estate investments are appraised annually 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.

Defined Benefit Alaska Retiree Healthcare Trust Investments

With the exception of the SSgA emerging markets strategy which is valued bi-monthly following the third Wednesday and last business day of each month, common trust funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or close for certain markets on their principal exchange on the valuation date. If no sales

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are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at the fair value as determined in good faith by the Trustee.

Defined Contribution Pension Participant Direct Investments

Pooled investment funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the System. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the System. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Occupational Death and Disability, Retiree Medical and Health Reimbursement Arrangement Investments

ERISA commingled and mutual funds are valued daily. Equity investments for which market quotations are readily available are valued at the last reported sale price or official close for certain markets on their principal exchange on valuation date. If no sales are reported for that day, investments are valued at the more recent of the last published sale price or the mean between the last reported bid and asked prices, or at fair value as determined in good faith by the Trustee.

Income Allocation

Income in the fixed income and domestic and international equity pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments, and real estate pools is credited the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Income for the common trust funds is credited and allocated in accordance with the participants pro rata share of the fund when received.

Income for the pooled investment and collective investment funds is credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.

Income for the ERISA commingled and mutual funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

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(e) Contributions Receivable

Contributions from the DB Plan and DCR 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.

(f) Federal Income Tax Status

The DB Plan and DCR Plan are qualified plans under Section 401(a) and 414(d) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the DB Plan and DCR Plan 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. Additionally, Treasury manages a mix of common trust funds, pooled investment funds, collective investment funds, ERISA commingled funds, and mutual funds for the Alaska Retiree Healthcare Trust, and the following Defined Contribution Plans: Participant Direct Pension Plan, Occupational Death and Disability Plan, Retiree Medical Plan, and Health Reimbursement Arrangement Plan.

Actual investing is performed by investment officers in the State's Department of 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. Specifically, international fixed income pool, high yield pool, domestic equity pool, international equity pool, emerging markets equity pool, private equity pool, absolute return pool, other investments pool, real estate pool investments (with the exception of real estate investment trust holdings), common trust funds, pooled investment funds, collective investment funds, ERISA commingled funds, and mutual funds are managed by external management companies. Treasury manages the retirement fixed income pool, enhanced cash pool, treasury inflation protected securities pool, and real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The short-term fixed income pool is a State pool managed by the State's Department of Revenue, Treasury Division that holds investments on behalf of the Plan as well as other pension and state funds.

Both Defined Benefit and Defined Contribution Pension Trust Plan invested assets participate in two internally managed fixed income pools.

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(a) 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 startup 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, 2008, the Plan had a 0.79% direct ownership in the short-term fixed income pool which included interest receivable of $84,664. The Plan had a 2.98% indirect ownership through ownership by other investment pools which invest in the short-term fixed income pool at June 30, 2008.

(b) Treasury Inflation Protected Securities (TIPS) Pool

The Plan participates in the ARMB's internally managed TIPS pool which was established on May 24, 2006 with a startup price of $1,000. The share price at June 30, 2008 was $1,177. 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, 2008 the Plan's invested assets included a 65.58% ownership in the TIPS Pool.

Defined Benefit Investment – Pension Plan Investments

(c) 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 startup share price of $1,000. The share price at June 30, 2008, was $2,083. 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, 2008 the Plan's invested assets included a 69.15% ownership in the retirement fixed income pool.

Enhanced Cash Fixed Income Pool

The Plan participates in the ARMB's internally managed enhanced cash fixed income pool which had only one investor, the retirement fixed income pool. The enhanced cash fixed income pool was established on June 27, 2007 with a startup price of $1,000. The share price at June 30, 2008 was $1,009. 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 assets value per share is determined by dividing the total fair value of net assets of the pool

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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 transactions. At June 30, 2008 the Plan's invested assets included a 69.15% indirect ownership in the enhanced cash fixed income pool.

(d) 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 startup share price of $1,000. The share price at June 30, 2008, was $2,172. 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, 2008 the Plan had a 68.58% ownership in the international fixed income pool.

(e) 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 startup share price of $1,000. The share price at June 30, 2008, was $1,179. 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, 2008 the Plan had a 68.45% ownership in the high yield pool.

(f) 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 startup share price of $1,000. The share price at June 30, 2008, was $1,182. 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, 2008 the Plan had a 68.40% ownership in the large cap domestic equity pool.

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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 startup share price of $1,000. The share price at June 30, 2008, was $1,194. 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, 2008 the Plan had a 68.13% ownership in the small cap domestic equity pool.

(g) International Equity Pool

The Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a startup share price of $1,000. The share price at June 30, 2008, was $3,899. 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, 2008 the Plan had a 68.52% ownership in the international equity pool.

(h) 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 startup share price of $1,000. The share price at June 30, 2008, was $4,023. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds 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, 2008 the Plan had a 68.75% ownership in the emerging markets equity pool.

(i) Private Equity Pool

The Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a startup share price of $1,000. The share price at June 30, 2008, was $2,507. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring, and special

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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, 2008 the Plan had a 69.11% ownership in the private equity pool.

(j) Absolute Return Pool

The Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,267. Underlying assets in the pool are comprised of hedge fund investments through limited partnership agreements. Each fund administrator 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, 2008 the Plan had a 68.57% ownership in the absolute return pool.

(k) Other Investments Pool

The Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a startup share price of $1,000. The share price at June 30, 2008, was $1,532. Underlying assets in the pool are comprised of limited partnership interests 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, 2008 the Plan had a 69.12% ownership in the other investments pool.

(l) Real Estate Pool

The Plan participates in the ARMB's real estate pool which was established June 27, 1997, with a startup share price of $1,000. The share price at June 30, 2008, was $3,273. 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, managers independently determine permissible investments. 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

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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, 2008 the Plan had a 68.72% ownership in the real estate pool.

Alaska Retiree Health Care Trust Investments

The Board Contracts with an external manager who manages a mix of Common Trust Funds.

(m) Domestic Equity

The Health Care Trust Investments in Domestic Equity are comprised of two externally managed Common Trust Funds.

SSgA Domestic Large Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

SSgA Domestic Small Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

(n) SSgA International Equity

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own Index securities in market-weighted proportion.

(o) SSgA Emerging Markets

The purpose of this fund is to closely match the returns of the capitalization-weighted MSCI Emerging Markets Index.

(p) SSgA Domestic Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based on criteria generated by SSgA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

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(q) SSgA International Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and sector of the Index.

(r) SSgA High Yield Bond Index

The purpose of this fund is to deliver a risk-controlled, higher quality, liquid exposure to the broad U.S. high yield market with low tracking error. The strategy uses stratified sampling to create a portfolio of liquid issuers that target the Lehman High Yield $200 Million Very Liquid Index (HYVLI) in such characteristics as duration, issuer market weight, credit quality and industry.

(s) SSgA TIPS

The purpose of the U.S. Treasury Inflation Protected Securities Index Strategy is to replicate the returns and characteristics of the Lehman Brothers Inflation Notes Index.

Defined Contribution Pension Trust Fund Participant Directed Investments

Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate four participant-directed funds.

(t) T. Rowe Alaska Target 2025 Trust

On July 1, 2006 the DCR Plan began participation in the Target 2025 Trust. The purpose of this fund is to provide a diverse mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. Underlying investments are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, and money market instruments. At June 30, 2008 the DCR Plan invested assets included a 0.19% ownership in the Alaska Target 2025 Trust.

(u) T. Rowe Alaska Balanced Trust

On July 1, 2006 the DCR Plan began participation in the Alaska Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2008 the DCR Plan invested assets included a 0.01% ownership in the Alaska Balanced Trust.

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(v) T. Rowe Long-Term Balanced Trust

On July 1, 2006 the DCR Plan began participation in the Long-Term Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money market instruments for investors with an average risk tolerance. At June 30, 2008 the DCR Plan invested assets included a 0.20% ownership in the Long-Term Balanced Trust.

(w) T. Rowe Alaska Money Market Trust

On July 1, 2006 the DCR Plan began participation in the Alaska Money Market Trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments. The goal is to maintain a $1.00 unit price for investors of trust with a low risk tolerance. At June 30, 2008 the DCR Plan invested assets included an 86.30% ownership in the Alaska Money Market Trust.

Collective Investment Funds

The ARMB contracts with external investment managers who maintain collective investment funds. Managers selected are subject to the provision of the collective investment funds the ARMB has selected.

(x) SSgA S&P 500 Stock Index Fund

The purpose of this fund is to provide income and capital appreciation that matches total return of the Standards & Poor's Composite Stock Price Index.

(y) SSgA Government/Corporate Bond Fund

The purpose of this fund was to match or exceed the return of the Lehman Brothers Government/Credit Bond Index. This fund was liquidated in September 2007 and replaced by the Barclays government/corporate bond fund.

(z) Barclays Government/Corporate Bond Fund

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

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(aa) Capital Guardian Global Balanced Fund

The purpose of this fund is to invest in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

(bb) Brandes Institutional International Equity Fund

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such stocks.

(cc) Citizens Core Growth Fund

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner. This fund was liquidated in April 2008 and replaced by the sentinel sustainable opportunities fund.

(dd) Sentinel Sustainable Opportunities Fund

The purpose of this fund is to invest primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner.

(ee) T. Rowe Small Cap Stock Fund

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

Defined Contribution Health and Occupational Death and Disability Investments

ERISA Commingled and Mutual Funds

The ARMB Contracts with external managers who manage a mix of ERISA and Mutual Funds.

(ff) Domestic Equity

The Health Care Trust Investments in domestic equity are comprised of two externally managed ERISA Funds.

SSgA Domestic Large Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 1000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

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SSgA Domestic Small Cap

The purpose of this fund is to replicate the returns and characteristics of the Russell 2000® Index through buying, holding and trading securities only when there is a change to the composition of the Index or when cash flow activity occurs in the Strategy.

(gg) SSgA International Equity

The purpose of this fund is to replicate the returns and characteristics of the MSCI EAFE Index through investing in 21 individual MSCI country funds which, in turn, own Index securities in market-weighted proportion.

(hh) SSgA Domestic Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the domestic investment grade bond market. The strategy seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Bond Index through individual security selection based on criteria generated by SSgA's credit and research group, security availability, and the analysis of its impact on the portfolio's weightings.

(ii) SSgA International Fixed Income

The purpose of this fund is to create a well diversified portfolio that is representative of the international government bond market. The strategy seeks to replicate the returns and characteristics of the Citigroup World Government Bond Ex-US Index by matching duration, quality and sector of the Index.

(jj) SSgA Real Estate

The purpose of this strategy is to replicate the returns and characteristics of the Dow Jones Wilshire REIT Index. To accomplish this, SSgA's strategy is to buy and hold securities, trading only when there is a change in the composition of the Index or when cash flow activity occurs in the Strategy.

(kk) Lazard Emerging Markets Mutual Fund

The purpose of this fund is to meet or exceed the MSCI Emerging Markets Index by 3% per annum over a rolling five-year period. Underlying investments are comprised of domestic and global equities as well as alternative assets.

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At June 30, 2008, the DB Plan and DCR Plan's investments included the following:

	Fair value (In thousands)								
	Short-term	Retirement	Enhanced cash	Interna-tional	High yield	TIPS	Pooled investments funds	Other	Total
Deposits	$ -	-	-	806	-	-	1	5,154	5,961
Overnight sweep account (lmcs)	-	-	-	-	10,244	-	-	-	10,244
Short-term investment fund	-	-	-	1,377	-	-	15	30,126	31,518
Commercial paper	11,061	-	-	-	-	-	201	-	11,262
Domestic equity	-	-	-	-	53	-	291	-	344
International equity	-	-	-	-	-	-	18	-	18
Bridge loans	-	-	-	-	3,862	-	-	-	3,862
U.S. treasury notes	-	162,532	-	-	-	42,575	-	-	205,107
U.S. treasury bonds	-	65,679	-	-	-	15,481	20	-	81,180
U.S. treasury - TIPS	-	-	-	-	-	-	40	-	40
U.S. government agency									
Discount notes	-	-	-	-	-	-	2	-	2
U.S. government agency	71,585	29,436	-	-	-	-	31	-	101,052
Municipal bonds	-	599	-	-	-	-	22	-	621
Foreign government bonds	-	-	-	121,986	-	-	-	-	121,986
Mortgage-backed	5,751	871,097	10,258	-	-	-	70	-	887,176
Other asset-backed	33,347	87,678	12,662	-	502	-	-	-	134,189
Corporate bonds	31,565	327,159	5,088	93,182	158,771	-	73	-	615,838
Convertible bonds	-	-	-	-	654	-	4	-	658
Yankees:									
Government	-	7,652	-	-	-	-	5	-	7,657
Corporate	9,464	42,236	2,873	-	15,952	-	9	-	70,534
Domestic equity pool:									
Limited partnership	-	-	-	-	-	-	-	154,961	154,961
Convertible bonds	-	-	-	-	-	-	-	489	489
Treasury bills	-	-	-	-	-	-	-	1,136	1,136
Equity	-	-	-	-	-	-	-	3,218,807	3,218,807
International equity pool:									
Convertible bonds	-	-	-	-	-	-	-	787	787
Equity	-	-	-	-	-	-	-	1,511,285	1,511,285
Emerging markets equity pool	-	-	-	-	-	-	-	293,598	293,598
Private equity pool:									
Limited partnership	-	-	-	-	-	-	-	888,882	888,882
Absolute return pool:									
Limited partnership	-	-	-	-	-	-	-	435,243	435,243
Other investments pool:									
Limited partnership	-	-	-	-	-	-	-	53,327	53,327
Agricultural holdings	-	-	-	-	-	-	-	287,405	287,405
Real estate pool:									
Real estate	-	-	-	-	-	-	-	633,386	633,386
Commingled funds	-	-	-	-	-	-	-	239,888	239,888
Limited partnership	-	-	-	-	-	-	-	377,851	377,851
Real estate investment trusts	-	-	-	-	-	-	-	52,708	52,708
Mutual funds	-	-	-	-	70,081	-	-	359,443	429,524
Net other assets (liabilities)	(4)	(51,162)	(2,572)	2,276	232	501	(3)	(4,358)	(55,090)
Other pool ownership	(128,761)	99,665	(28,309)	-	-	71	-	57,334	-
Unallocated deposit in transit	-	-	-	-	-	-	-	65	65
Total invested assets	$ 34,008	1,642,571	-	219,627	260,351	58,628	799	8,597,517	10,813,501

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(ll) Interest Rate Risk

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

(mm) 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, 2008, the expected average life of individual fixed income securities ranged from eight days to less than three months.

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 to calculate effective duration.

(nn) Other Defined Benefit 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 retirement 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, 2008, was 4.68 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 enhanced cash fixed income portfolio to one year.

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 Salomon Non-U.S. World Government Bond Index. The effective duration for the Salomon Non-U.S. World Government Bond Index at June 30, 2008, was 6.24 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, 2008, was 4.49 years.

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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 TIPS portfolio to a band which may not exceed ± 20% around the duration of the Lehman Brothers Global Inflation-Linked U.S. TIPS Index, or a reasonable proxy thereof. The duration of the proxy index at June 30, 2008, was 6.19 years.

At June 30, 2008, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

	Effective duration (In years)				
	Retirement	**Enhanced cash**	**International**	**High yield**	**TIPS**
U.S. treasury notes	7.24	-	-	-	3.52
U.S. treasury bonds	13.48	-	-	-	12.66
U.S. government agency	4.85	-	-	-	-
Municipal bonds	10.96	-	-	-	-
Mortgage-backed	4.37	0.73	-	-	-
Other asset-backed	2.58	0.18	-	3.25	-
Corporate bonds	4.91	(0.02)	-	4.46	-
Convertible bonds	-	-	-	5.91	-
Yankees					
Government	11.93	-	6.65	-	-
Corporate	5.48	(0.76)	4.09	4.04	-
Portfolio effective duration	**4.57**	**0.20**	**5.49**	**2.99**	**5.95**

Defined Benefit Common Trust Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the common trust investment funds that consists solely of debt securities, domestic fixed income, high yield, international fixed income, and TIPS were 4.69, 4.45, 6.31, and 7.83 years at June 30, 2008, respectively.

Defined Contribution Pension Trust Pooled Investment Funds

The ARMB contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant directed funds. Through the ARMB's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to ± 0.25 years of the Lehman Brothers Government/Credit Index. At June 30, 2008, the duration of the government and corporate debt securities was 5.32 years and the duration of the Lehman Brothers Government Credit Index was 5.30 years.

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For mortgage-backed securities, duration is limited to ± 0.25 years of the Lehman GNMA Index. At June 30, 2008, the duration of the mortgage-backed securities was 4.14 years and the duration of the Lehman GNMA Index was 4.25 years.

The weighted average maturity of the money market portfolio was forty-five days at June 30, 2008.

The ARMB does not have a policy with respect to these funds to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.

Defined Contribution Pension Trust Collective Investment Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the collective investment fund that consisted solely of debt securities, the government/corporate bond fund, was 5.18 years at June 30, 2008.

Defined Contribution Pension Trust Occupational Death and Disability, Retiree Medical, and Health Reimbursement ERISA Commingled and Mutual Funds

The ARMB does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the ERISA commingled investment funds that consists solely of debt securities, domestic fixed income and international fixed income, were 4.69 and 6.31 years at June 30, 2008, respectively.

(oo) 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:

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 P1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by both Standard & Poor's and Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. 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.

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

Retirement Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

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, Moody's and Fitch. Asset-backed and non-agency 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.

No more than 40% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 15% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalent by Moody's or Fitch.

Enhanced Cash Fixed Income:

Commercial paper must carry a rating of at least P-1 by Moody's and A-1 by Standard and Poor's.

The average portfolio credit quality shall be A3 or higher.

No more than 10% percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than 2% percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

International Fixed Income:

Corporate and asset-backed obligations must be rated investment grade or better by a recognized credit rating agency.

Commercial paper and euro commercial paper must be rated A-1 by Standard & Poor's or P-1 by Moody's or the equivalent of a comparable rating agency.

High Yield:

No more than 10% percent 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.

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

No more than 10% percent of the portfolio's assets may be invested in countries not rated investment grade, including emerging markets.

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The lower of any Standard & Poor's, 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.

TIPS:

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.
Corporate debt securities must be investment grade.
No more than 5% percent of the portfolio's assets may be invested in investment grade corporate debt.
No more than 5% percent of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.
Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's, Moody's, and Fitch. Asset-backed and non-agency 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.

Domestic equity, international equity and emerging markets:

Corporate debt obligations must carry a rating of at least A or better by Moody's, Standard & Poor's or Fitch rating services.
Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The ARMB does not have a policy to limit the concentration of credit risk for the common trust funds, defined contribution pooled investment funds, collective investment funds, ERISA commingled funds or mutual funds.

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At June 30, 2008, the System'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	Short-term	Retirement	Enhanced cash	Intern'l	High yield	TIPS	Pooled investment funds
Commercial paper	Not rated	6.80%	-%	-%	-%	-%	-%	3.86%
Bridge loans	Not rated	-	-	-	-	1.48	-	-
Short term investment fund	Not rated	-	-	-	-	-	-	2.45
U.S. treasury notes	AAA	-	9.89	-	-	-	72.62	9.29
U.S. treasury bonds	AAA	-	4.00	-	-	-	26.41	4.74
U.S. government agency								
Discount notes	AAA	-	-	-	-	-	-	0.04
U.S. government agency	AAA	44.00	1.34	-	-	-	-	7.19
U.S. government agency	Not rated	-	0.46	-	-	-	-	-
Municipal bonds	AA	-	0.04	-	-	-	-	-
Municipal bonds	A	-	-	-	-	-	-	0.28
Municipal bonds	Not rated	-	-	-	-	-	-	0.14
Mortgage-backed	AAA	2.99	45.33	19.37	-	-	-	13.97
Mortgage-backed	AA	0.20	-	-	-	-	-	-
Mortgage-backed	A	0.12	-	-	-	-	-	-
Mortgage-backed	BBB	-	-	2.36	-	-	-	-
Mortgage-backed	Not rated	0.24	7.68	7.70	-	-	-	1.43
Other asset-backed	AAA	16.17	3.88	23.11	-	-	-	-
Other asset-backed	AA	0.63	0.22	0.43	-	-	-	-
Other asset-backed	A	2.53	0.24	0.13	-	-	-	-
Other asset-backed	BBB	0.24	0.47	11.75	-	-	-	-
Other asset-backed	BB	0.92	0.53	0.92	-	0.16	-	-
Other asset-backed	Not rated	-	-	-	-	0.03	-	-
Corporate bonds	AAA	2.01	1.23	1.50	-	-	-	0.81
Corporate bonds	AA	12.20	4.42	3.42	-	-	-	2.19
Corporate bonds	A	4.10	9.07	6.41	-	-	-	6.67
Corporate bonds	BBB	-	4.69	2.46	-	3.38	-	4.14
Corporate bonds	BB	-	-	-	-	20.92	-	0.05
Corporate bonds	B	-	-	-	-	29.01	-	-
Corporate bonds	CCC	-	-	-	-	4.42	-	-
Corporate bonds	D	-	-	-	-	0.07	-	-
Corporate bonds	Not rated	1.09	0.51	0.80	-	3.19	-	0.06
Convertible bonds	AA	-	-	-	-	-	-	0.07
Convertible bonds	BBB	-	-	-	-	0.10	-	-
Convertible bonds	B	-	-	-	-	0.15	-	-
Yankees:								
Government	AAA	-	-	-	19.32	-	-	0.13
Government	AA	-	-	-	6.52	-	-	0.35
Government	A	-	-	-	21.96	-	-	0.37
Government	BBB	-	0.25	-	-	-	-	0.28
Government	Not rated	-	0.22	-	7.74	-	-	-
Corporate	AAA	-	-	-	28.78	-	-	0.61
Corporate	AA	3.81	0.62	2.92	13.00	-	-	0.27
Corporate	A	1.26	1.16	0.92	-	-	-	0.57
Corporate	BBB	-	0.58	0.93	-	0.15	-	0.72
Corporate	BB	-	-	-	-	2.50	-	-
Corporate	B	-	-	-	-	2.50	-	-
Corporate	CCC	-	-	-	-	0.29	-	-
Corporate	D	-	-	-	-	0.12	-	-
Corporate	Not rated	0.74	0.22	3.47	0.65	0.57	-	-
No credit exposure		(0.05)	2.95	11.40	2.03	30.96	0.97	39.32
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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(pp) 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, 2008, the System had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International fixed income pool	$ 806
International equity pool	5,164

(qq) 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 four percent 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 twenty-one percent 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 twelve percent of total investments in private equity.

The ARMB has no policy regarding foreign currency risk in the common trust funds, defined contribution pooled investment funds, collective investment funds, ERISA commingled and mutual funds.

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At June 30, 2008, the Plan had exposure to foreign currency risk with the following investment pools:

	Amount (In thousands)	
Currency	**International fixed income pool**	**International equity pool**
Australian Dollar	$ -	(19)
Brazilian Real	-	23
Canadian Dollar	-	33
Danish Krone	-	353
Euro Currency	2	897
Hong Kong Dollar	-	333
Japanese Yen	427	3,111
Mexican Peso	377	-
New Zealand Dollar	-	42
Norwegian Krone	-	163
Pound Sterling	-	130
Swedish Krona	-	79
Swiss Franc	-	(2)
	$ 806	**5,143**

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At June 30, 2008, 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	Pooled Investment funds
Currency	Foreign government	Corporate	Equity	Limited partnerships	Equity
Australian Dollar	$ -	-	34,272	-	1
Brazilian Real	-	-	6,673	-	-
Canadian Dollar	-	-	45,230	-	-
Danish Krone	-	-	12,119	-	1
Euro Currency	77,187	3,391	447,694	151,394	7
Hong Kong Dollar	-	-	35,497	-	1
Indonesian Rupah	-	-	4,404	-	-
Japanese Yen	20,765	89,791	329,394	-	3
Mexican Peso	24,033	-	652	-	-
New Taiwan Dollar	-	-	1,619	-	-
New Zealand Dollar	-	-	2,196	-	-
Norwegian Krone	-	-	11,548	-	1
Polish Zloty	-	-	255	-	-
Pound Sterling	-	-	283,922	9,794	2
Singapore Dollar	-	-	11,314	-	-
South African Rand	-	-	6,459	-	-
South Korean Won	-	-	9,442	-	-
Swedish Krona	-	-	20,837	-	1
Swiss Franc	-	-	125,253	-	1
	$ 121,985	**93,182**	**1,388,780**	**161,188**	**18**

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At June 30, 2008, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool consists of investments in commingled funds; therefore no disclosure of specific currencies is made.

(rr) Concentration of Credit Risk

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 five percent 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 retirement fixed income, international fixed income and high yield pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The ARMB does not have a policy with regard to concentration of credit for the enhanced cash and TIPS pools.

At June 30, 2008 the Plan's invested assets did not have exposure to any one issue grater than 5% of total invested assets.

(ss) Collective Investment Funds

The DCR Plan's investments include the following collective investment funds at June 30, 2008:

	Units owned	Unit value	Balance (In thousands)
Global balanced fund	$ 71,993	31.270	2,251
Government/credit bond fund	3,053	25.359	77
Alaska long-term balanced trust	30,402	13.537	411
Alaska balanced trust	3,959	33.794	134
Alaska target 2025 trust	1,667	11.229	19
Brandes INST international equity fund	343,542	19.770	6,792
T. Rowe Price small cap stock trust	92,007	38.110	3,506
S&P 500 stock index fund	186,289	24.597	4,582
Sentinel sustainable core opportunities	439,811	12.850	5,652
Money market fund	234,605	1	235
Unallocated deposit in transit			65
Total collective investment funds			$ 23,724

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(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:

	2008 (In thousands)
Net realized gain on foreign currency	$97,772
Net unrealized gain (loss) on foreign currency	25
Net realized gain (loss) on foreign exchange contracts	(87)

The international fixed income and 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 two to one hundred and fifty-five days. The System had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2008 (In thousands)
Contract sales	$42,308
Less fair value	42,281
Net unrealized gain (losses) on contracts	$ 27

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. In February of 2008, the ARMB voted to suspend securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the ARMB's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future. There were no outstanding securities on loan at June 30, 2008.

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While the securities lending agreement was active, there was no limit to the amount that could be loaned and the ARMB was able to sell securities on loan. International equity security loans were collateralized at not less than 105% of their fair value. All other security loans were collateralized at not less than 102% of their fair value. Loaned securities and collateral were marked to market daily and collateral was received or delivered the following day to maintain collateral levels.

There is no cash collateral at June 30, 2008. Cash collateral in the amount of $1,191,167,776 at June 30, 2007 was invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Securities under loan, cash collateral and cash collateral payable were recorded on the financial statements at fair value in prior years. The Bank, the DB Plan received a fee from earnings on invested collateral. The Bank and the DB Plan shared a fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the ARMB was indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnified the ARMB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

(6) Transfers

During fiscal year 2008, the Plan transferred the $3,490,576,000 balance of the Postemployment Healthcare fund to the Alaska Retiree Healthcare Trust as a result of the creation of the Alaska Retiree Healthcare Trust fund, which began on July 1, 2007.

Under SB 123, enacted in 2007, the State of Alaska sought to enhance compliance of the states' pension systems with the Internal Revenue Code by creating a new defined benefit retiree healthcare trust into which OPEB contributions would be deposited, and from which OPEB benefits would be paid. Historically, all such contributions had been deposited and benefits paid from the pension trust fund account. With the creation of the new healthcare trust fund account, the systems then sought approval from the Internal Revenue Service (IRS) through the Voluntary Compliance Program to post the amount allocated to healthcare in the 2007 CAFR to the new healthcare trust fund. On October 10, 2008, the IRS orally advised tax counsel for the states' pension systems that the request to transfer the 2007 CAFR amount in the new healthcare trust had been approved. The systems are awaiting the formal VCP decision of the IRS.

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(7) Funded Status and Funding Progress - DB Pension and Postemployment Healthcare Benefit Plan

The funded status of the defined benefit retirement postemployment healthcare benefit plan is as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL) - entry age	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	FE/UAAL as a percentage of covered payroll
Pension						
June 30, 2007	$6,739,004	8,662,324	1,923,320	77.8%	1,605,819	119.8%
Postemployment healthcare						
June 30, 2007	$3,161,956	6,300,795	3,138,839	50.2%	1,605,819	195.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an on going basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are

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designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2007
Actuarial cost method	Entry age normal level percentage of pay for pension; level dollar for healthcare
Amortization method	Level dollar, closed
Equivalent single amortization period	21 years
Asset valuation method	5 year smoothing market
Actuarial Assumptions:	
Investment rate of return	8.25% for pension, 4.50% for healthcare
Projected salary increases	Peace Officer/Firefighter: merit – 2.5% per year for the first 6 years of employment, 0.5% thereafter. Productivity - .05% per year. Others: merit – 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0.0%. Productivity – 0.5% per year. (Includes inflation at 3.5%)
Cost-of-living adjustment	Postretirement pension adjustment

Health cost trend –

	Medical	Prescription Drugs
FY08	8.5%	12.0%
FY09	8.0%	11.0%
FY10	7.5%	10.0%
FY11	7.0%	9.0%
FY12	6.5%	8.0%
FY13	6.0%	7.0%
FY14	5.5%	6.0%
FY15	5.0%	5.0%
FY16 and later	5.0%	5.0%

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

PERS' retiree healthcare benefits are partially funded. GASB 43 outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of annual required contribution actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 4.50% as of June 30, 2007 to be used for Fiscal Year 2008 disclosure.

(8) Commitments and Contingencies

(a) 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, 2008, the DB Plan's share of the unfunded commitment totaled $58,589,397. 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, 2008, the DB Plan's share of these unfunded commitments totaled $493,056,100. These commitments are estimated to be paid through 2019.

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, 2008, the DB Plan's share of this unfunded commitment totaled $58,080,852 to be paid through the year 2018.

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, 2008, the DB Plan's share of these unfunded commitments totaled $200,592,634 to be paid through the year 2018.

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(b) Contingencies

The Department of Administration determined that statutory changes were needed to ensure that the Defined Benefit Retiree Health Program is funded in compliance with the Internal Revenue Code. Consequently, during the Fiscal Year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), effective June 7, 2007, directs all separately calculated employer contributions for the retiree health benefits, and appropriations, earning and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration established and implemented the ARHCT effective as of July 1, 2007. The ARHCT is funded through contributions from employers, premiums paid by retirees, and net investment income.

The Department of Administration has received a favorable tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009, concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). In addition, the Department of Administration engages counsel to submit a voluntary compliance program filing with respect to the retiree health plan administered by the System. The voluntary compliance program filing provided, among other things, that the Department of Administration would transfer sufficient funds from pension assets to properly fund assets available to pay postemployment healthcare benefits. Verbal approval from the Internal Revenue Service has been received, and the Department of Administration believes that it is unlikely that the Internal Revenue Service will reverse its verbal approval. Pursuant to the filing, the accompanying financial statements reflect a transfer in the amount of $3,490,576 which will be made subsequent to year end.

Approximately 50 Plan members had filed administrative challenges to the DB 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 DB Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the DB Plan statutes in effect before that date, to have leave cash in payments included. The DB Plan's prior board, which heard appeals from decisions of the Plan administrator, had ruled on two of the appeals, and those rulings had in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the DB Plan's board. In addition, a class action lawsuit, raising the same issues, had 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. Subsequently, retirees who had worked under pre-1977 collective bargaining agreements filed appeals with the Office of Administrative Hearings (OAH). Some members litigated before the OAH and the Division prevailed in these cases. Since then, other retirees eventually dismissed their cases and pending claims.

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An IRS assessment may eventually result from the statutory provision and the Plan's practice under which retiree medical benefits were paid to some survivors' spouses and dependents who were not eligible dependents under the IRC, or from the manner in which retiree health benefits were funded before June 6, 2007. However, management believes that any such assessment would be paid from the State's general fund, not from the Plan's assets. Furthermore, the Plan's statutes under which payment of medical benefits was made for ineligible dependents was corrected by SB 141, effective January 1, 2006, and the funding of retiree medical benefits was clarified and corrected by SB 123, which was effective June 6, 2007. Finally, although there were press reports of possible legal action regarding amendments to the PERS and TRS statutes by HB 161 (rehired retiree legislation), no litigation has been served on the Plan challenging provisions of that legislation. Management is not aware of any other specific unasserted claims or assessments against the Plan.

(9) Subsequent Event

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the System, which could impact the value of investments after the date of these financial statements. Estimated losses through November 30, 2008 are $2.3 billion, which could ultimately affect the funded status of the System. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual actuarial valuation report for the year ended June 30, 2010 is performed.

The Alaska Legislature passed and signed into law Chapter 13, SLA 2008 (SB 125) which converted the Public Employees' Retirement System to a cost-sharing plan and provided for an integrated system of accounting for all employers. Under the integrated system, the Public Employees' Retirement System defined benefit plan's unfunded liability will be shared among all employers. This bill became effective July 1, 2008.

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2008
(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
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	4,709,592	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)
2006	6,331,065	8,094,043	(1,762,978)	78.2	1,590,693	(110.8)
2007	6,739,004	8,662,324	(1,923,320)	77.8	1,605,819	(119.8)

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

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2008
(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
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)
2004	3,320,822	4,732,409	(1,411,587)	70.2	1,305,670	(108.1)
2005	3,784,506	5,757,650	(1,973,144)	65.7	1,404,043	(140.5)
2006	2,709,843	6,294,370	(3,584,527)	43.1	1,590,693	(549.8)
2007	3,161,956	6,300,795	(3,138,839)	50.2	1,605,819	(195.5)

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

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Required Supplementary Information (Unaudited)

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

June 30, 2008
(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)	
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
2007	2005	268,742	189,495	458,237	73.2	4.1	73.2	4.1	77.3
2008	2005	140,729	370,456	511,185	71.2	36.2	71.2	36.2	107.4

(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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(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 valuation as of June 30, 2007 are as follows:

(a) Actuarial cost method – entry age, unfunded actuarial accrued liability or funding excess amortized over a fixed 25 year period as a level percentage of expected payroll.

(b) Valuation of assets – recognizes 20% of the investment gain or loss in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

(c) Valuation of medical and prescription drug benefits – base claims cost rates are incurred healthcare cost expressed as a rate per member per year. Separate analysis is limited by the availability and credibility of cost and enrollment data for each component of cost. This valuation reflects nonprescription claims separated by Medicare status, including eligibility of free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes. Analysis to date on Medicare Part A coverage is limited since Part A coverage is not available by individual, nor is this status incorporated into historical claim data. Valuation assumes 5.0% of the current retiree population does not receive Part A coverage.

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

(e) Salary scale – inflation 3.5% per year. Peace Officer/Firefighter – Merit 2.5% per year for the first 6 years of employment, 0.5% thereafter. Productivity 0.5% per year. Others: Merit – 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%. Productivity – 0.5% per year.

(f) Payroll Growth – 4.0% per year.

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(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) Mortality (Pre retirement) – Peace Officer/Firefighters: 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Others: based upon the 2001 2005 actual experience. 42% of 1994 Group Annuity Table 1994 Base Year for males and females. Deaths are assumed to be occupation 75% of the time for Peace Officer/Firefighters, 50% of the time for Others.

(i) Mortality (Post-retirement) – 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year.

(j) Turnover – based upon the 2001–2005 actual withdrawal experience.

(k) Disability – incidence rates based upon the 2001–2005 actual experience. Post–disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 75% of the time for Peace Officers/Firefighters, 50% of the time for Others.

(l) Retirement – retirement rates based on the 2001–2005 actual experience. Deferred vested members are assumed to retire at their earliest retirement date.

(m) Marriage and age difference – wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.

(n) Dependent children – benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.

(o) Contribution refunds – 15% of those terminating are assumed to have their contributions refunded.

(p) Cost of Living Allowance (COLA) – of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.

(q) Post-Retirement Pension Adjustment (PRPA) – 50% and 75% of assumed inflation, of 1.75% and 2.625% respectively, is valued for the annual automatic PRPA as specified in the statute. Disability benefits are loaded by 9% to account for the immediate COLA of 75% of assumed inflection or 2.625%.

(r) Expenses – all expenses are net of the investment return assumption.

(s) Part–time status – part–time members are assumed to earn 1.00 years of credited service per year for Peach Officer/Firefighters and 0.65 years for credited service per year for Other members.

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

Notes to Required Supplementary Information

June 30, 2008

(t) Per capita claims cost – sample claims cost rates for FY08 medical benefits are shown below:

	Medical	Prescription drugs
Total	$7,196	$2,173
Medicare Part A & B	$1,151	n/a
Medicare Part B Only	$2,805	n/a
Medicare Part D	n/a	$ 465

(u) Third party administrator fees – $146.18 per person per year; assumed trend rate of 5% per year.

(v) Health cost trend –

	Medical	Prescription
FY08	8.5%	12.0%
FY09	8.0	11.0
FY10	7.5	10.0
FY11	7.0	9.0
FY12	6.5	8.0
FY13	6.0	7.0
FY14	5.5	6.0
FY15	5.0	5.0
FY16 and later	5.0	5.0

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as of the 2005 valuation.

(z) Aging Factors –

Age	Medical	Prescription drugs
0-44	2.0%	4.5%
45-54	2.5	3.5
55-64	3.5	3.0
65-74	4.0	1.5
75-84	1.5	0.5
85+	0.5	0.0

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

Notes to Required Supplementary Information

June 30, 2008

(x) 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. Annual FY08 contributions based on monthly rates shown below for calendar 2007 and 2008 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service:

Coverage Category	FY08 annual contribution	Calendar 2008 monthly contribution	Calendar 2007 monthly contribution
Retiree only	$ 7,080	$ 590	$ 590
Retiree and spouse	$14,148	$1,179	$1,179
Retiree and child(ren)	$ 9,996	$ 883	$ 883
Retiree and family	$17,076	$1,423	$1,423
Composite	$10,512	$ 876	$ 876

(y) Trend Rate for Retired Member Contributions:

FY08	7.7%
FY09	7.3
FY10	7.0
FY11	6.7
FY12	6.3
FY13	6.0
FY14	5.7
FY15	5.3
FY16	5.0
FY17 and later	5.0

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new rates above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

(z) Healthcare participation – 100% of members are assumed to elect healthcare benefits as soon as they are eligible.

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.

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

Notes to Required Supplementary Information

June 30, 2008

Effective June 30, 2007, there was a change in the actuarial cost methods. The cost method was changed from Projected Unit Credit to Entry Age Normal. The ARMB adopted the changes to the demographic and economic assumptions recommended by the actuary based on the results of an experience analysis performed of the population experience from June 30, 2001 through June 30, 2005. The changes in assumptions were adopted by the ARMB during the October 2006 ARMB meeting.

Changes in Assumptions since the Last Valuation

(a) Healthcare – 5.0% of current retirees are assumed to be covered by Part B only. Change assumed lag between medical claim incurred and paid dates from 2 months for medical and prescription combined to 2.3 months for medical and 0.6 months for prescription. Added explicit TPA fees based on current admin contract and assumed to increase at 5%. Partially reflected Alaska-specific trend rates to bring forward experience period claims to the base year.

(3) Contributions - State of Alaska

Alaska Statute 39.35.280 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 22 percent, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Alaska Retirement Management Board (Board) for the fiscal year. During fiscal year 2008, the actuarially required contribution adopted by the Board was 32.51 percent. The additional state contribution is sufficient to contribute the 13.51 percent difference between the ARC and the employer contribution rate of 22 percent.

Schedule 1

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

Schedule of Administrative and Investment Deductions

Years ended June 30, 2008
(In thousands)

	Administrative	Investment	Totals 2008
Personal Services:			
Wages	$ 2,472	1,305	3,777
Benefits	1,707	573	2,280
Total Personal Services	4,179	1,878	6,057
Travel:			
Transportation	39	129	168
Per Diem	10	19	29
Honorarium	-	-	-
Total Travel	49	148	197
Contractual Services:			
Management and Consulting	2,591	19,336	21,927
Accounting and Auditing	38	934	972
Data Processing	429	397	826
Communications	186	47	233
Advertising and Printing	79	13	92
Rental/leases	168	52	220
Legal	84	125	209
Medical Specialists	22	-	22
Repairs and Maintenance	29	14	43
Transportation	6	5	11
Securities Lending	-	35,347	35,347
Other Services	360	42	402
Total Contractual Services	3,992	56,312	60,304
Other:			
Equipment	390	15	405
Supplies	92	83	175
Total Other	482	98	580
Total Administrative and Investment Deductions	**$ 8,702**	**58,436**	**67,138**

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, 2008
(In thousands)

Firm	Services	2008
State Street Corporation	Custodian banking services	$ 929
Buck Consultant LLP	Actuarial services	258
Computer Task Group Inc.	Data processing consultants	130
Wostmann & Associates	Data processing consultants	103
State of Alaska, Department of Law	Legal services	355
First National Bank Alaska	Banking services	22
KPMG LLP	Auditing services	33
		$1,830

See accompanying independent auditors' report.

INVESTMENT SECTION

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CALLAN ASSOCIATES INC

CAI

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

December 8, 2008

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, 2008.

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 2008 was a very difficult time for domestic and international equities. The Russell 3000 Index, a measure of the broad U.S. equity market lost 12.69%. International stocks, as measured by the MSCI-EAFE Index, posted a slightly better return then the broad domestic equity market declining 10.61 %. In the last fiscal year, the Lehman Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, achieved an overall return of 7.12%. The strong performance was driven by returns in the first half of the fiscal year. Spreads fluctuated during the period, most notably between the third and fourth quarters when spreads tightened considerably. Equity real estate enjoyed another strong year with returns of more than 9%.

For the fiscal year, the Public Employees Retirement System (PERS) had a timeweighted total return of -3.13% and the Teachers Retirement System (TRS) had a timeweighted total return of -3.12%. Both Systems exceeded their strategic policy benchmark target return of -4.73% and ranked in the 23rd percentile 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 two years of strong equity market returns, PERS and TRS have achieved annualized returns of 8.78% and 8.81% respectively. These results were better than the policy target index return of 7.15% and ranked in the 13th and 11th percentile of the Callan Public Fund database. Over the longest period for which Callan has detailed data (16 3/4 years), PERS and TRS have achieved annualized total returns of 8.71% and 8.76% respectively while the policy benchmark return for the same span was 8.42%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a "real" return slightly greater than 5%.

In summary, fiscal 2008 was an unusually difficult year for equities and a strong year for fixed income. The Systems held up well in this volatile environment.

Sincerely,

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

Department of Revenue
Treasury Division
Staff

Commissioner
Patrick Galvin

Acting Deputy Commissioner
Jerry Burnett

Chief Investment Officer
Gary Bader

Comptroller
Pamela Green, CPA

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

Investment Officers
Bob G. Mitchell
Stephen R. Sikes
Zachary Hanna
Victor Djajalie
Andy Wink
James McKnight
Casey Colton
Nicholas Orr
Ryan Bigelow
Bree Simpson
Steve Verschoor
Shane Carson

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 Equity Large Capitalization
Barrow, Hanley, Mewhinney & Strauss
Dallas, TX
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

Domestic Equity Small Capitalization
Jennison Associates LLC
New York, NY
Lord Abbett & Co.
Jersey City, NJ
Luther King Capital Management
Fort Worth, TX
Turner Investment Partners, Inc.
Berwyn, PA

Domestic Equity Index Fund
State Street Global Advisors
San Francisco, CA

Emerging Markets
Capital Guardian Trust Co.
Los Angeles, CA
Eaton Vance Managemetn
Boston, MA

Global Equity
Lazard Freres Asset Management
New York, NY

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

External Money Managers and Consultants (con't)

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

International Fixed-Income
Delaware International Advisers Ltd.
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
BlackRock Realty
San Francisco, CA
Colony Capital
Los Angeles, CA
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
Tishman Speyer Properties
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

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

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

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

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Johnson, Brecht,
Cartledge & Brooking
Anchorage, AK

Public Employees' Retirement System
Investment Report

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 2008 fiscal year, ARMB's target asset allocation was 37% domestic equities, 16% international equities, 18.5% domestic fixed income, 2% international fixed income, 10% real estate, 7% private equity, 4% absolute return, 3% high yield fixed income, and 2.5% other (farmland, energy and Treasury inflation-protected securities).

For the 2008 fiscal year, PERS investments generated a -3.06% rate of return. The PERS annualized rate of return was 10.06% over the last five years. The annualized rate of return over the last sixteen and three-quarter years has been 8.71%.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect overall returns. For the 2008 fiscal year, the private equity portfolio gained 13.19% and the international fixed income portfolio gained 18.96%. The U.S fixed income portfolio generated a 6.58% return, up slightly from 6.20% the previous year. Investments in farmland, energy, and Treasury inflation-protected securities produced the highest returns of any asset class in the 2008 fiscal year, gaining 19.12%. Unfortunately, farmland/energy, private equity, and international fixed income traditionally make up a smaller portion of the pool's total assets. Asset classes with larger allocations, such as domestic and international equity, saw returns of -13.53% and -7.58% respectively.

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 2008 fiscal year, the pool posted a return of -13.53%. This was greater than the target return of -13.68%. The annualized domestic equity return for the five year period was 7.31%, down from 10.26% in the 2007 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.

Public Employees' Retirement System
Investment Report

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. The International Equity pool return was -7.58% which was greater than the target return of -8.72%. The international equity return for the five year period was 18.59%, down from 19.20% in fiscal year 2007.

FIXED INCOME

The domestic fixed-income portfolio represented 16.4% of the total assets of PERS as of June 30, 2008. 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.

Over the 2008 fiscal year, the PERS domestic bond portfolio gained 6.58%, up from 6.20% the year before. The Lehman Brothers Aggregate Bond Index returned 7.33%, versus 6.12% during 2007 fiscal year. The annualized domestic fixed-income return for the five year period was 4.06%, up from 4.85% in the 2007 fiscal year.

The international fixed-income portfolio, which represented about 2.1% of the total assets of PERS, returned 18.96% over the 2008 fiscal year, compared with a 18.72% return posted by the Citigroup Non-U.S. Government Index. The annualized international fixed-income return for the five year period was 7.40%, down from 8.37% in the 2007 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.

The High Yield portfolio, which represented 2.5% of the total assets of PERS, returned -0.90% over the 2008 fiscal year. This was more than the target return of -2.11%. 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.

REAL ESTATE

At the end of the 2008 fiscal year, PERS had 12.4% 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 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 5.71% in fiscal year 2008 compared to 20.70% for the 2007 fiscal year. The five year annualized net total return was 14.75%, down from 15.36% in the 2007 fiscal year.

Public Employees' Retirement System
Investment Report

PRIVATE EQUITY

PERS had 8.5% of its portfolio invested in Private Equity for long-term return enhancement and diversification. Investments are made through outside 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 2008 fiscal year, the Private Equity component of the PERS portfolio had a net return of 13.19% with a five year annualized return of 21.34%.

ABSOLUTE RETURN

Absolute return investments are made through fund-of-fund managers and are 4.2% 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 1.52% over the 2008 fiscal year. This was less than the target return of 8.36%.

OTHER

The PERS portfolio is also invested in farmland, energy, and Treasury inflation-protected securities. 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, other investments represent 3.2% of the overall portfolio and had a net return of 19.12% for the 2008 fiscal year, providing the best returns of any asset class in the PERS pool.

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

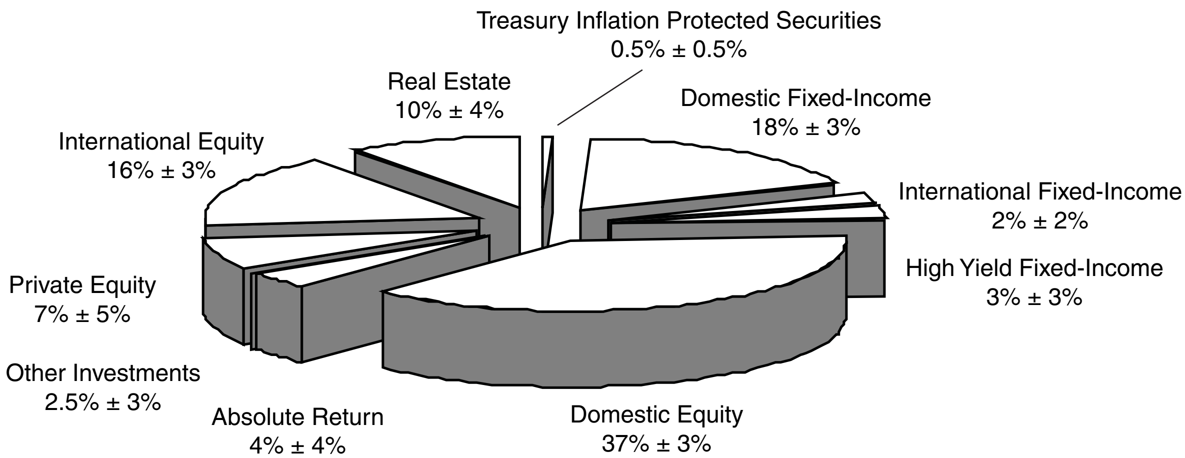
						Annualized	
	2004	**2005**	**2006**	**2007**	**2008**	**3 Year**	**5 Year**
Total Fund							
PERS	15.08%	8.95%	11.74%	18.88%	(3.06%)	8.81%	10.06%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	20.06%	4.47%	9.23%	20.10%	(13.53%)	4.29%	7.31%
S&P 500/Russell 2000 Composite	19.11%	6.87%	9.67%	20.59%	(13.68%)	4.32%	8.06%
International Stock Returns							
PERS International Equities	31.71%	14.96%	28.73%	30.00%	(7.58%)	15.71%	18.59%
Morgan Stanley Capital International EAFE	32.37%	13.65%	26.56%	27.00%	(10.61%)	12.84%	16.67%
Domestic Fixed-Income							
PERS	0.60%	7.08%	0.05%	6.20%	6.58%	4.23%	4.06%
Lehman Brothers Aggregate Index	0.32%	6.80%	(0.81%)	6.12%	7.12%	4.09%	3.85%
International Fixed-Income							
PERS	7.52%	9.84%	(0.27%)	1.97%	18.96%	6.55%	7.40%
Salomon Non-U.S. Government	7.60%	7.75%	(0.01%)	2.20%	18.72%	6.65%	7.06%
Real Estate Equity							
PERS	11.55%	17.42%	18.58%	20.75%	5.71%	14.95%	14.75%
NCREIF	10.83%	18.02%	18.79%	17.24%	6.82%	14.04%	14.39%

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

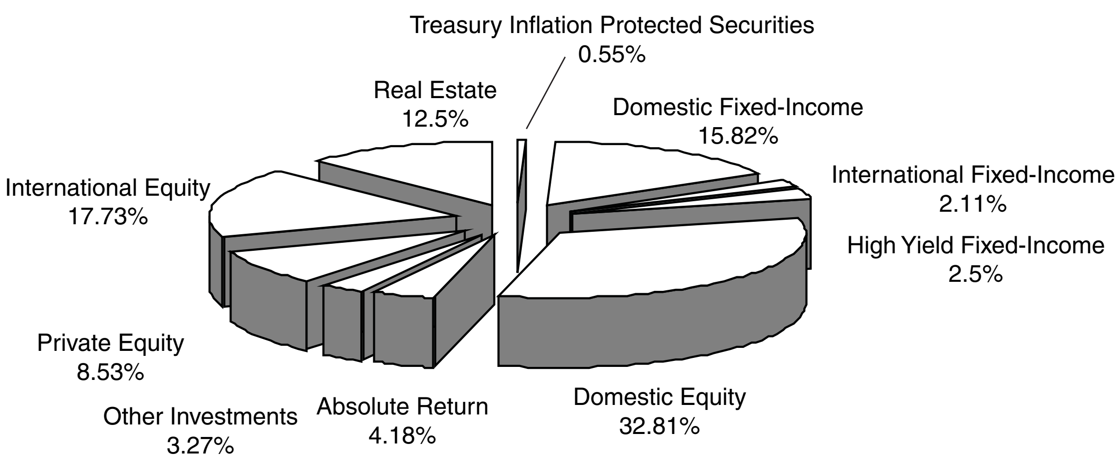
The investment returns are time-weighted rates of return prepared in accordance with industry standard performance calculation methodologies.

Public Employees' Retirement System
Asset Allocation
June 30, 2008

Policy

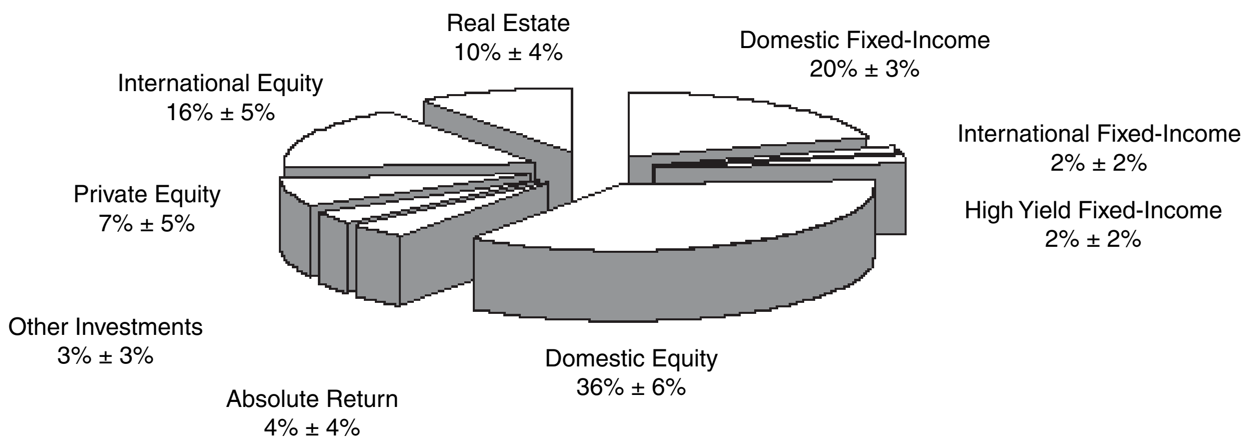


Actual

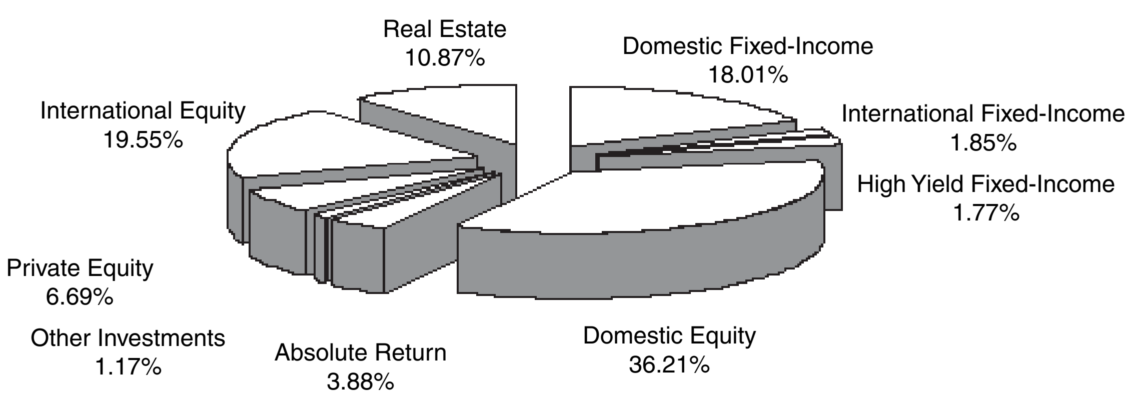


Public Employees' Retirement System
Asset Allocation
June 30, 2007

Policy



Actual



Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2008

Invested assets under the fiduciary responsibility of the Alaska Retirement Management Board (ARMB) have been commingled in various investment pools to minimize costs and maximize returns. 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, 2008.

Fixed Income	Rank	Security	Market Value	Shares
	1	United States Treasury 3.875 5/15/2018	$127,626,701	128,733,000
	2	United States Treasury 3.625 6/30/2013	$59,173,875	59,100,000
	3	United States Treasury 5 5/15/2037	$55,284,469	51,405,000
	4	FNMA 5.5 Jul 2007 MBS TBA	$34,496,875	35,000,000
	5	United States Treasury 6.25 8/15/2023	$30,012,315	25,237,000
	6	FNMA Pool 725027	$27,068,091	28,070,288
	7	GNMA 6 Jul 2007 MBS TBA	$25,149,765	24,780,000
	8	FNMA Pool 678915	$22,402,261	22,592,888
	9	FNGT 2002-T11 B 4/25/2012	$21,100,816	20,560,000
	10	United States Treasury 4.5 9/30/2011	$20,903,125	20,000,000

Note: As of June 30, 2008, the above pool of fixed income securities was owned by the following retirement systems: PERS—69.1%; TRS—29.4%; JRS—0.8%; NGNMRS —0.7%

Equities	Rank	Largest Domestic Equity Holdings	Market Value
	1	Exxon Mobil Corp	$44,895,361
	2	Microsoft Corp	$30,992,766
	3	Google Inc	$29,006,795
	4	Wal Mart Stores Inc	$26,890,295
	5	Apple Inc	$25,686,133
	6	Hewlett Packard Co	$21,360,813
	7	Baxter Intl Inc	$21,228,080
	8	Oracle Corp	$21,183,225
	9	AT&T Inc	$20,934,966
	10	Goldman Sachs Group Inc	$20,603,220

Note: As of June 30, 2008, the above pool of fixed income securities was owned by the following retirement systems: PERS—68.3%; TRS—30.5%; JRS—1.0%; NGNMRS —0.2%

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, 2008

	Fair Value	Fees
International Fixed Income		
Mondrian Investment Partners	$ 219,627,507	394,074
High Yield Pool		
Mackay Shields, LLC	96,072,161	420,924
ING Investments	94,207,373	438,720
Total High Yield	190,279,534	859,644
Domestic Equity Pool		
Relational Investors	156,584,169	2,066,159
Barrow,Hanley, Mewhinney & Strauss, INC	83,844,308	433,907
Capital Guardian Trust	224,904,856	670,863
Jennison Associates LLC	130,670,863	947,707
Lazard Asset Management	190,491,228	908,088
Lord Abbett & Co.	140,318,836	903,710
Luther King Cap. Management	106,356,663	601,999
McKinley Capital	271,003,053	1,161,267
Quantitative Management Associates	84,673,005	90,160
Dresdner RCM Capital	267,367,891	818,702
SSgA Russell 1000 Growth	733,153,817	95,187
SSgA Russell 1000 Value	637,771,955	101,519
SSgA Russell 2000 Growth	74,527,759	26,793
SSga Russell 2000 Value	72,297,322	42,920
SSgA Russell 200	157,749,454	18,850
SSgA FuturesLarge Cap	1,996,951	14,880
SSgA Future Small Cap	2,885,551	13,205
SSgA Russell 2000 (ERISA)	-	1,162
Turner Investment Partners	106,356,663	816,988
Total Domestic Equities	3,442,954,344	9,734,065
Private Equity Pool		
Blum Capital Partners-Public(Stinson)	28,179,260	376,225
BlumCapital Partners-Strategic	24,501,851	471,816
Warburg Pincus X	4,312,450	132,783
Pathway Capital Management	368,327,864	1,023,261
Abbott Capital Management	457,081,058	903,636
Total Private Equities	882,402,483	2,907,721
International Equity Pool		
SSgA	240,836,493	1,276,767
Brandes Investment Partners	404,088,580	1,736,079
Capital Guardian Trust Co.	355,768,625	1,665,285
McKinley Capital Mgmt.	305,115,284	1,531,559
Lazard Freres	244,555,737	955,026
Total International Equities	1,550,364,719	7,164,715
Absolute Return Pool		
Mariner Investment Group	165,031,673	1,036,467
Cadogan Management LLC	90,950,446	1,276,339
Crestline Investors Inc.	179,261,304	1,618,848
Total Absolute Return	435,243,423	3,931,654

Public Employees' Retirement System
Schedule of External Management Fees (con't)
Year Ended June 30, 2008

	Fair Value	Fees
Other Investment Pool		
TCW Energy Fund XD	$ 39,612,741	508,804
TCW Energy Fund XIV-A	13,714,725	693,464
UBS Agrivest	204,996,239	361,178
Hancock	86,620,326	337,727
Total Other Investments	344,944,031	1,901,173
Emerging Markets Equity Pool		
The Capital Group Inc.	163,750,586	1,044,649
Lazard Freres Asset Managers	63,854,727	135,565
Eaton Vance	66,709,893	155,963
J P Morgan	-	690,057
Total Emerging Markets	294,315,206	2,026,234
Real Estate Pool		
JPM Strategic	172,534,052	1,387,003
UBS Consolidated	67,353,649	845,385
Cornerstone	153,817,769	792,396
Lasalle	164,606,319	997,755
Sentinel, SA	59,596,947	286,041
UBS Separate	255,364,881	1,339,731
Coventry	43,622,461	471,556
Lowe Hospitality	34,736,098	553,550
Cornerstone Rotational	128,805	81,310
ING Clarion	23,729,776	78,986
Lehman Brothers Real Estate Partners II	90,050,388	668,648
Rothschild Five Arrows	19,776,850	310,231
Tishman Speyer	62,506,551	512,956
Rorhschild Five Arrows V	1,600,187	153,487
Tishman Speyer VII	9,442,301	148,757
BlackRock Diamond	54,762,430	192,511
Colony Investors VIII, L.P.	19,270,263	573,694
LaSalle Medical Office Fund II	6,477,359	309,886
Cornerstone Apartment Venture III	4,947,919	42,152
Total Real Estate	$ 1,244,325,006	9,746,036
TIPS		
SSgA TIPS		49
Custodian		
State Street Bank		929,310
Investment Advisory		
Townsend Group		68,470
Callan Associates		159,822
Investment Advisory Council		79,741
Total Investment Advisory		308,033
Investment Performance		
Callan Associates		129,840
Total External Management Fees		$ 40,032,547

Public Employees' Retirement System
Investment Summary Schedule
June 30, 2008

	Asset Allocation Policy	Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed-Income Securities					
Domestic					
Short-Term Fixed Income Pool	0%	0-3%	$5,932,243	0.36%	0.06%
Retirement Fixed Income Pool	18%	15-21%	1,642,571,175	99.64%	15.76%
Total Domestic Fixed Income			1,648,503,418	100.00%	15.82%
TIPS					
TIPS	0.5%	0-1%	57,543,641	100.00%	0.55%
International					
International Fixed Income Pool	2%	0-4%	219,627,508	100.00%	2.11%
High Yield					
High Yield Fixed Income Pool	3%	0-6%	260,351,576	100.00%	2.50%
Total Fixed Income Securities			2,186,026,143		20.98%
Participation in Pools Owning Domestic Equities					
Domestic Equities					
Small cap(1)	7%	4-10%	639,929,671	18.71%	6.14%
Large cap	30%	27-33%	2,780,413,484	81.29%	26.67%
Total Domestic Equities			3,420,343,155	100.00%	32.81%
Participation in Pools Owning International Equities					
International Equity Pool	14%	11-17%	1,554,575,779	84.11%	14.91%
Emerging Markets Equity Pool	2%	0-4%	293,597,781	15.89%	2.82%
Total International Equities			1,848,173,560	100.00%	17.73%
Participation in Pools owning Alternative Investments					
Private Equity Pool	7%	2-12%	888,881,826	100.00%	8.53%
Other Investments Pool	2.5%	0-5%	340,732,686	100.00%	3.27%
Absolute Return Pool	4%	0-8%	435,243,423	100.00%	4.18%
Participation in Real Estate					
Real Estate Pool	10%	6-14%	1,304,633,934	100.00%	12.50%
Total Invested Assets	100%		$10,424,034,727	100.00%	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, 2008

Domestic Equity	International Equity	Total
$ 349,851	145,048	494,899

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, 2008

Securities lending income	$ 39,642,338
Less Securities lending expense	35,347,772
Net income from securities lending activities	$ 4,294,566

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.


Public Employees' Retirement System
PERS

ACTUARIAL SECTION

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an ACS company

July 17, 2008

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, 2007 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the Plan as of June 30, 2007;

(2) a review of experience under the Plan for the year ended June 30, 2007;

(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, 2010; and

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

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

(1) Summary of actuarial assumptions and methods

(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

(6) Summary of GASB No. 25 and 43 disclosure information

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

Alaska Retirement Management Board
July 17, 2008
Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to and adopted by the Board in October 2006. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed and revised during the experience study.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY08 and a fixed 25-year amortization as level percentage of payroll of the initial unfunded accrued liability and subsequent gains/losses. The payroll used to determine the contribution rates is the total payroll of all active members in the system, includig those hired after July 1, 2006 who are in the Defined Contribution Retirement (DCR) Plan. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities increased from 62.8% to 68.0% during the year.

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

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

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Alaska Retirement Management Board
July 17, 2008
Page 3

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 43.

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

Sincerely,

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

Michelle Reding DeLange, F.S.A.,E.A., M.A.A.A.
Director, Consulting Actuary

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

Melissa Krumholz, F.S.A., M.A.A.A.
Senior Consultant, Health & Productivity

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

The demographic and economic assumptions used in the June 30, 2007 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in October 2006. These assumptions were the result of an experience study performed as of June 30, 2005. The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was 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 - Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percent of pay. Payroll is assumed to increase 4.0% per year for this purpose. State statutes allow the contribution rate to be determined on payroll for all members, defined benefit and defined contribution member payroll combined. However, for GASB disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

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

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

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

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

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

Changes in Methods from the Prior Valuation

There were no changes in methods from the prior valuation, except for any described in the healthcare sections below.

B. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method was phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

C. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Public Employees' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our Experience Study for the period July 1, 2001 to June 30, 2005.

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

We analyzed Aetna and Premera management level reporting for calendar 2003 through fiscal 2007, as well as Aetna and Premera claim level data for calendar 2004, 2005 and 2006, and derived recommended base claims cost rates as described in the following steps:

1. Based on analysis described in our Experience Study, dental, vision and audio claims (DVA) are excluded from data analyzed for this valuation.

2. Available management level reporting does not show claims or enrollment separately for Medicare and non-Medicare plan participants, but does include overall statistics as to the percentage of claims and enrollment attributable to both groups. Claim level reporting and the State's approved RDS listing from Medicare were used to augment cost and enrollment data by Medicare status.

3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these "no-Part A" individuals, the State is the primary payer for hospital bills and other Part A services. Thus,

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

claims costs are higher for the no-Part A group. To date, claim and enrollment experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The larger the no-Part A population, the more accrued liabilities will decrease.

Current retiree census does not include date of hire, although the Tier indicator does imply that Tier I PERS retirees should probably be considered as no-Part A retirees. After analysis of active employee data, including individual claim records, and accounting for retirees who return to work and therefore pay Medicare taxes, we assume that 5.0% of the active and inactive workforce will not qualify for free Part A coverage when they retire. Similarly, we assume 5.0% of the current Medicare retiree population does not receive Part A coverage.

We are working with the State to compile census records for no-Part A members to build an historic claim database isolating no-Part A members.

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

4. The steps above result in separate paid claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four calendar years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We converted paid claim data to incurred cost rates projected from each historical data period to the valuation year using an average of national and Alaska-specific trend factors and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is approximately 2.3 months for medical claims and 0.6 months for prescription claims. This "trend and blend" methodology differs mechanically from the method used for 2004 and 2005 that essentially averaged three years of paid claims before projecting forward to an incurred basis for the valuation year. During transition to a trended blended average basis, we recommend weighting each year's data in the 4-year experience period at 25%. We also incorporated actual administrative costs that are projected to increase at 5%.

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

June 30, 2007 Valuation – FY 2008 Claims Cost Rates

	Medical		
	Pre-Medicare	Medicare A&B	Medicare B Only
Calendar 2004 Paid Claims	**$125,222,188**	**$20,330,785**	**$2,955,315**
Membership	32,858	17,558	924
Paid Claims Cost Rate	$3,811	$1,158	$3,198
Trend to FY2008	1.286	1.286	1.286
FY 2008 Paid Cost Rate	$ 4,901	$1,489	$4,112
Paid to Incurred Factor**	1.013	1.013	1.013
FY 2008 Incurred Cost Rate	$4,966	$1,509	$4,167
Calendar 2005 Paid Claims	**$146,356,647**	**$25,618,571**	**$3,976,509**
Membership	33,343	18,603	979
Paid Claims Cost Rate	$4,389	$1,377	$4,061
Trend to FY2008	1.188	1.188	1.188
FY 2008 Paid Cost Rate	$5,214	$1,636	$4,824
Paid to Incurred Factor**	1.013	1.013	1.013
FY 2008 Incurred Cost Rate	$5,283	$1,657	$4,888
Calendar 2006 Paid Claims	**$150,287,171**	**$24,546,905**	**$4,079,223**
Membership	33,473	19,490	1,026
Paid Claims Cost Rate	$4,490	$1,259	$3,977
Trend to FY2008	1.142	1.142	1.142
FY 2008 Paid Cost Rate	$5,128	$1,438	$4,542
Paid to Incurred Factor**	1.013	1.013	1.013
FY 2008 Incurred Cost Rate	$5,196	$1,458	$4,602
Fiscal 2007 Paid Claims	**$129,762,975**	**$22,677,328**	**$3,524,812**
Membership	33,446	20,315	1,069
Paid Claims Cost Rate	$3,880	$1,116	$3,297
Trend to FY2008	1.063	1.063	1.063
FY 2008 Paid Cost Rate	$4,122	$1,186	$3,503
Paid to Incurred Factor**	1.013	1.013	1.013
FY 2008 Incurred Cost Rate	$4,177	$1,202	$3,549
Weighted Average 7/1/2007 – 6/30/2008 Incurred Claims Cost Rates:			
At average age	$4,905	$1,456	$4,302
At age 65*	$7,196	$1,151	$2,805

* Final Medicare rates are adjusted so that net plan cost for members with Parts A & B are one-half of net plan costs for members with Part B only. Also, prior methodology did not include separate Part B only analysis; applicable rates above are determined so that the composite Medicare rate equates to separate A&B and B only rates based on the 7.5% of membership assumed to lack Part A.

** As data specific to Medicare and Pre-Medicare retirees is provided, lag factors specific to Medicare status will be reflected.

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

June 30, 2007 Valuation – FY 2008 Claims Cost Rates (Con't)

	Prescription Drugs			
	Pre-Medicare	Medicare A&B	Medicare B Only	Total
Calendar 2004 Paid Claims	**$37,938,758**	**$29,894,935**	**$1,689,411**	**$218,031,392**
Membership	32,858	17,558	924	51,340
Paid Claims Cost Rate	$1,155	$1,703	$1,828	$4,247
Trend to FY2008	1.400	1.400	1.400	
FY 2008 Paid Cost Rate	$1,616	$2,383	$2,559	$5,615
Paid to Incurred Factor**	1.004	1.004	1.004	
FY 2008 Incurred Cost Rate	$1,622	$2,391	$2,568	$5,671
Calendar 2005 Paid Claims	**$42,812,358**	**$35,481,585**	**$ 1,999,302**	**$256,244,972**
Membership	33,343	18,603	979	52,925
Paid Claims Cost Rate	$1,284	$1,907	$2,042	$4,842
Trend to FY2008	1.258	1.258	1.258	
FY 2008 Paid Cost Rate	$1,615	$2,399	$2,569	$5,857
Paid to Incurred Factor**	1.004	1.004	1.004	
FY 2008 Incurred Cost Rate	$1,621	$2,408	$2,578	$5,917
Calendar 2006 Paid Claims	**$45,461,356**	**$39,644,399**	**$2,235,948**	**$266,255,002**
Membership	33,473	19,490	1,026	53,989
Paid Claims Cost Rate	$1,358	$2,034	$2,180	$4,932
Trend to FY2008	1.195	1.195	1.195	
FY 2008 Paid Cost Rate	$1,622	$2,430	$2,604	$5,717
Paid to Incurred Factor**	1.004	1.004	1.004	
FY 2008 Incurred Cost Rate	$1,628	$2,439	$2,613	$5,774
Fiscal 2007 Paid Claims	**$46,176,199**	**$42,348,638**	**$2,391,089**	**$246,881,041**
Membership	33,446	20,315	1,069	54,830
Paid Claims Cost Rate	$1,381	$2,085	$2,236	$4,503
Trend to FY2008	1.083	1.083	1.083	
FY 2008 Paid Cost Rate	$1,495	$2,257	$2,421	$4,817
Paid to Incurred Factor**	1.004	1.004	1.004	
FY 2008 Incurred Cost Rate	$1,500	$2,265	$2,430	$4,864
Weighted Average 7/1/2007 – 6/30/2008 Incurred Claims Cost Rates				
At average age	$1,593	$2,376	$2,547	$5,517
At age 65*	$2,173	$2,173	$2,173	$7,131

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, 2007 through June 30, 2008

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug and Medicare Retiree Drug Subsidy
45	$ 3.928	$ 3,928	$ 1,169
50	4,444	4,444	1,388
55	5,077	5,077	1,641
60	6,030	6,030	1,902
65	1,151	2,805	1,708
70	1,400	3,413	1,840
75	1,663	4,053	1,962
80	1,791	4,366	2,012

D. Actuarial Assumptions

1. Investment Return/ Discount Rate — 8.25% per year, compounded annually, net of expenses.

2. Salary Scale — Inflation - 3.5% per year
   <u>Peace Officers/Firefighter</u>:
   Merit - 2.5% per year
   Productivity - 1.0% per year for the first 6 years of employment, 0.5% thereafter.
   Productivity - 0.5% per year
   <u>Others</u>:
   Merit - 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%.
   Productivity - 0.5% per year

3. Payroll Growth — 4.0% per year

4. Total Inflation — Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

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

5.	Mortality (Pre-Retirement)	Peace Officers/Firefighter: 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. Others: Based upon the 2001-2005 actual mortality experience (see Table 1). 42% of the 1994 Group Annuity Table, 1994 Base Year for males and females. Deaths are assumed to be occupational 75% of the time for Peace Officers/Firefighter, 50% of the time for Others.
6.	Mortality (Post-Retirement)	1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year.
7.	Total Turnover	Based upon the 2001-2005 actual withdrawal experience. (See Table 2.)
8.	Disability	Incidence rates based upon the 2001-2005 actual experience, in accordance with Table 3. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 75% of the time for Peace Officers/ Firefighter, 50% of the time for Others.
9.	Retirement	Retirement rates based upon the 2001-2005 actual experience in accordance with Tables 4 and 5. Deferred vested members are assumed to retire at their earliest retirement date.
10.	Marriage and Age Difference	Wives are assumed to be three years younger than husbands. 80% of male members and 70% of female members are assumed to be married.
11.	Dependent Children	Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children.
12.	Contribution Refunds	15% of terminated members are assumed to have their contributions refunded.
13.	COLA	Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA.
14.	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. Disability benefits are loaded by 9% to account for the immediate COLA of 75% of assumed inflation or 2.625%.
15.	Expenses	All expenses are included in the investment return assumption.

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

16. Part-Time Status

Part-time employees are assumed to earn 1.00 years of credited service per year for Peace Officer/Firefighters and 0.65 years of credited service per year for Other members.

17. Per Capita Claims Cost

Sample claims cost rates for FY08 medical and prescriptions are shown below:

	Medical	**Prescription Drugs**
Total	$7,196	$2,173
Medicare Parts A & B	$1.151	N/A
Medicare Part B Only	$2,805	N/A
Medicare Part D	N/A	$ 465

18. Third Party Administrator Fees

$146.18 per person per year; assumed trend rate of 5% per year.

19. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 8.5% is applied to the FY08 rate claims costs to get the FY09 claims costs.

	Medical	**Prescription Drugs**
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%

For the June 30, 2005 valuation, graded Healthcare Cost Trend Rates (HCCTR) were reinitialized. A survey of healthcare trends in the past year has revealed a general lowering of HCCTR. No reinitialization is required this year, so the trend rates will follow the same pattern as for the 2005 and 2006 valuation.

20. Aging Factors

Age	**Medical**	**Prescriptions Drugs**
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

21. 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. Annual FY08 contributions based on monthly rates shown below for calendar 2007 and 2008 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members assumed to retire prior to age 60 with less than 30 years of service.

Coverage Category	FY08 Annual Contribution	Calendar 2008 Monthly Contribution	Calendar 2007 Monthly Contribution
Retiree Only	$ 7,080	$ 590	$ 590
Retiree and Spouse	$ 14,148	$ 1,179	$ 1,179
Retiree and Child(ren)	$ 9,996	$ 883	$ 883
Retiree and Family	$ 17,076	$ 1,423	$ 1,423
Composite	$ 10,512	$ 876	$ 876

22. Trend Rate for Retired Member Medical Contributions

The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 7.7% is applied to the FY08 retired member medical contributions to get the FY09 retired member medical contributions.

FY08	7.7%
FY09	7.3%
FY10	7.0%
FY11	6.7%
FY12	6.3%
FY13	6.0%
FY14	5.7%
FY15	5.3%
FY16	5.0%
FY17 and later	5.0%

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. A study of the required contribution history along with assumptions related to the impact of recent accounting regulations leads us to recommend the new rates above for the contribution trends. Note that actual FY07 retired member medical contributions are reflected in the valuation so trend on such contribution during FY07 is not applicable.

23. Healthcare Participation

100% of members are assumed to elect healthcare benefits as soon as they are eligible.

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

Table 1
Alaska PERS Other
Mortality Table (Preretirement)

Age	Male	Female
20	.0229%	.0128%
21	.0239	.0129
22	.0251	.0131
23	.0266	.0131
24	.0282	.0131
25	.0299	.0131
26	.0315	.0133
27	.0328	.0136
28	.0341	.0142
29	.0352	.0150
30	.0362	.0158
31	.0371	.0168
32	.0379	.0179
33	.0383	.0191
34	.0383	.0202
35	.0384	.0216
36	.0389	.0231
37	.0402	.0249
38	.0424	.0270
39	.0452	.0294
40	.0484	.0320
41	.0522	.0347
42	.0565	.0373
43	.0611	.0396
44	.0659	.0417
45	.0713	.0439
46	.0778	.0467
47	.0858	.0502
48	.0949	.0545
49	.1050	.0591
50	.1165	.0645
51	.1297	.0708
52	.1451	.0783
53	.1619	.0861
54	.1797	.0941
55	.1998	.1036
56	.2235	.1157
57	.2252	.1318
58	.2845	.1517
59	.3202	.1745
60	.3602	.2005

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

Table 2
Alaska PERS
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:

Select Rates of Turnover During the First 5 Years of Employment:

Year of Employment	Male	Female
1	11%	12%
2	9	10
3	7	8
4	6	7
5	5	6

Ultimate Rates of Turnover After the First 5 Years of Employment:

Age	Male	Female
20	4.57%	5.76%
25	4.54	5.75
30	4.49	5.71
35	4.46	5.66
40	4.39	5.56
45	4.20	5.38
50	3.88	5.09
55	3.24	4.51
60	1.74	2.94
65+	4.80	6.00

Other:

Select Rates of Turnover During the First 5 Years of Employment:

Year of Employment	--------Age at Hire--------			
	Male	Female	Male	Female
1	25%	26%	15%	16%
2	23	24	15	16
3	20	21	13	14
4	16	17	12	12
5	15	16	11	11

Ultimate Rates of Turnover After the First 5 Years of Employment:

Age	Male	Female
20	12.01%	13.68%
25	11.99	13.67
30	11.97	13.66
35	8.66	9.89
40	6.42	7.35
45	5.24	6.04
50	5.09	5.94
55	4.80	5.74
60	4.19	5.23
65+	5.50	6.25

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

Table 3
Alaska PERS
Retirement Rates

Age	Peace Officer/ Firefighter Rate	Other Member Rate Male	Other Member Rate Female
20	.088%	.032%	.029%
21	.089	.032	.029
22	.090	.033	.031
23	.091	.033	.031
24	.093	.035	.032
25	.094	.035	.032
26	.095	.035	.032
27	.098	.036	.033
28	.100	.037	.034
29	.103	.038	.035
30	.105	.039	.036
31	.108	.039	.036
32	.110	.040	.037
33	.113	.041	.038
34	.116	.043	.039
35	.120	.044	.040
36	.124	.046	.042
37	.129	.047	.043
38	.134	.050	.045
39	.139	.051	.046
40	.144	.053	.048
41	.150	.055	.050
42	.159	.059	.054
43	.170	.062	.057
44	.185	.068	.062
45	.203	.075	.068
46	.220	.081	.074
47	.239	.087	.080
48	.259	.096	.087
49	.279	.102	.094
50	.300	.110	.101
51	.325	.120	.109
52	.353	.131	.120
53	.398	.146	.133
54	.444	.163	.149
55	.500	.184	.168
56	.574	.212	.193
57	.668	.246	.225
58	.763	.281	.256
59	.900	.331	.302
60	1.054	.388	.354

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

Table 4
Alaska PERS Peace Officer/Firefighter
Retirement Table

Age at Retirement	Retirement Rate			
	Reduced		Unreduced	
	Male	Female	Male	Female
<50	N/A	N/A	10.40%	10.40%
50	10.50%	6.30%	40.00	40.00
51	14.80	10.00	27.50	27.50
52	15.00	10.00	27.50	27.50
53	19.70	10.00	25.00	25.00
54	19.60	10.00	25.00	25.00
55	8.80	15.60	30.00	30.00
56	9.60	13.00	22.75	22.75
57	13.00	13.00	22.75	22.75
58	12.70	13.00	15.60	15.60
59	13.00	13.00	15.60	15.60
60	N/A	N/A	25.00	25.00
61	N/A	N/A	25.00	25.00
62	N/A	N/A	26.00	26.00
63	N/A	N/A	25.00	25.00
64	N/A	N/A	25.00	25.00
65	N/A	N/A	100.00	100.00

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

Table 5
Alaska PERS Other
Retirement Table

Age at Retirement	Retirement Rate			
	Reduced		Unreduced	
	Male	Female	Male	Female
<50	N/A	N/A	7.10%	7.20%
50	6.00%	7.30%	20.00	20.00
51	6.20	7.50	17.50	20.00
52	7.50	7.50	20.00	15.00
53	7.50	8.90	18.00	24.00
54	6.00	5.40	30.00	21.00
55	7.90	8.20	30.00	30.00
56	9.50	9.20	17.50	17.50
57	9.60	9.10	17.50	17.50
58	9.50	9.10	15.00	17.50
59	4.70	3.80	15.00	17.50
60	N/A	N/A	20.00	21.00
61	N/A	N/A	17.50	15.00
62	N/A	N/A	30.00	18.75
63	N/A	N/A	22.50	18.75
64	N/A	N/A	26.25	18.75
65	N/A	N/A	27.00	25.00
66	N/A	N/A	27.00	25.00
67	N/A	N/A	27.00	25.00
68	N/A	N/A	30.00	25.00
69	N/A	N/A	30.00	30.00
70	N/A	N/A	100.00	100.00

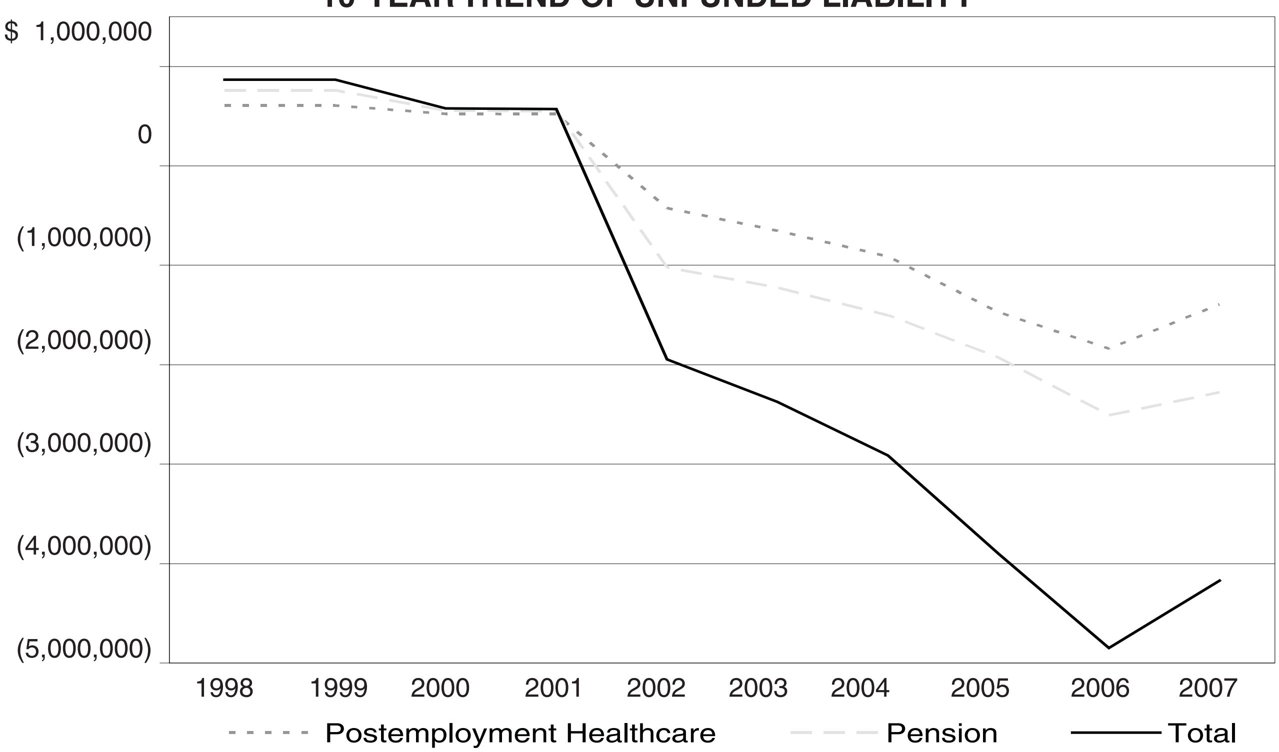
Public Employees' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Changes in Actuarial Assumptions Since the Prior Valuation

	June 30, 2006	June 30, 2007
Healthcare	Included effect of Medicare Part A & B vs. Medicare Part B only. Active employees hired after April 1, 1986 are assumed to be covered by Medicare Parts A & B. 7.5% of current retirees are assumed to be covered by Part B only. Change assumed lag between medical claim incurred and paid dates from 3 months to 2 lag months. Changed trend rate table for the retiree medical contributions to start at 8.0% and graded down to 5.0%.	5.0% of current retirees are assumed to be covered by Part B only. Change assumed lag between medical claim incurred and paid dates from 2 months for medical and prescription combined to 2.3 months for medical and 0.6 months for prescription. Added explicit TPA fees based on current admin contract and assumed to increase at 5.0%. Partially reflected Alaska-specific trend rates to bring forward experience period claims to the base year.

Public Employees' Retirement System Funding Excess/(Unfunded Liability) (In thousands)				
Actuarial Valuation Year Ended June 30	**Postemployment Healthcare**	**Pension**	**Total Funding Excess/ (Unfunded Liability)**	**Funded Ratio**
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
2006	(2,339,325)	(3,008,180)	(5,347,505)	62.8
2007	(1,893,705)	(2,776,268)	(4,669,973)	68.0

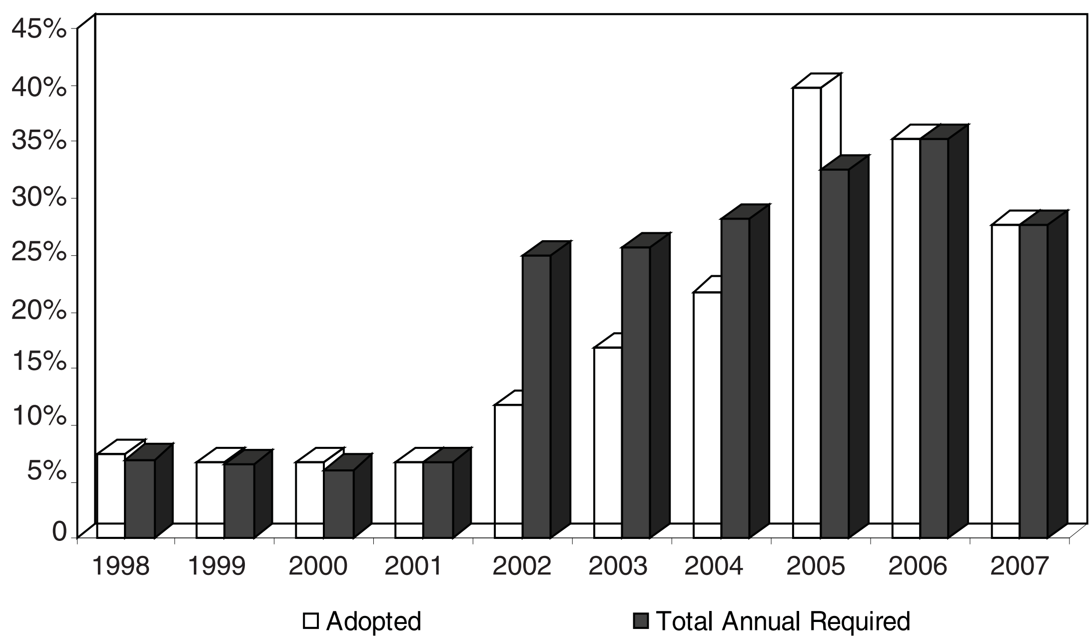
10-YEAR TREND OF UNFUNDED LIABILITY



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
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]
2009	2006	13.72	21.50	35.22	35.22
2010	2007	9.46	18.19	27.65	27.65

[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, 2007	28,675	$1,414,145	$ 49,316	9.5%	160
June 30, 2006	31,286	1,408,863[1]	45,032	4.2	160
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
Peace Officer/Firefighter					
June 30, 2007	2,687	$191,674	$ 71,334	9.3%	160
June 30, 2006	2,785	181,830[1]	65,289	2.5	160
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

[1]Prior to June 30, 2006, unannualized earnings were used. Starting June 30, 2006, annualized earnings are used.

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	Percent Increase in Annual Benefits	Average Annual Benefits
All Others								
June 30, 2007	1,479	$28,985,748	454	$(14,280,390)	20,558	$351,141,175	14.1%	$17,081
June 30, 2006	1,494	26,193,750	384	2,265,651	19,533	307,875,037	8.4	15,762
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
Peace Officer/Firefighter								
June 30, 2007	138	$3,930,564	67	$(2,546,491)	2,439	$77,020,333	9.2%	$31,579
June 30, 2006	118	3,289,370	30	209,287	2,368	70,543,278	4.6	29,790
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*

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, 2007	$1,203,007	$8,967,038	$4,400,888	$9,900,960	100%	97.0%	0.0%
June 30, 2006[2][3]	1,157,755	8,923,811	4,306,847	9,040,908	100	88.3	0.0
June 30, 2005	1,104,821	8,667,058	3,072,962	8,442,919	100	84.7	0.0
June 30, 2004[2]	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

[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				
	2007	2006	2005	2004	2003
Health Experience	(5.64)%	(4.06)%	1.49%	-%	-%
Salary Experience	0.23	0.02	(0.32)	0.08	(0.19)
Investment Experience	(1.03)	(0.29)	(0.02)	0.02	0.31
Demographic Experience	(0.17)	1.05	0.01	0.54	0.40
Contribution Shortfall	0.94	1.01	0.98	0.89	1.10
(Gain) or Loss During Year From Experience	(5.67)	(2.27)	2.14	1.53	1.62
Non-recurring changes					
Asset Valuation Method	-	-	-	-	-
Past Service Amortization Change	-	-	-	-	-
Assumption Changes	(1.90)	4.98	-	1.03	-
System Benefit Changes	-	-	-	-	-
Addition of 102% Target Funding Ratio	-	-	-	-	-
Elimination of 102% Target Funding Ratio	-	-	-	-	(0.90)
Ad hoc PRPA	-	-	-	-	-
Change Due to Revaluation of Plan Liability as of June 30, 2004	-	-	2.18	-	-
Composite (Gain) Loss During Year	(7.57)%	2.71%	4.32%	2.56%	0.72%
Beginning Average Employer Contribution Rate	35.22	32.51	28.19	25.63	24.91
Ending Average Employer Contribution Rate	27.65%	35.22%	32.51%	28.19%	25.63%
Board Adopted Contribution Rate	27.65%	35.22%	22.00%	21.77%	16.77%
Fiscal Year Above Rate is Applied	FY10	FY09	FY08	FY07	FY06

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

January 1, 1961, with amendments through June 30, 2007. 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 (Tier 1) are eligible for different benefits than members hired after June 30, 1986 (Tier 2). Chapter 4, 1996 Session Laws of Alaska created a third tier. Members who were first hired after June 30, 1996 (Tier 3) 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. Chapter 9, 2005 Session Laws of Alaska, closed the plan to new members hired after June 30, 2006.

(2) Administration of Plan

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

Prior to 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.

On July 27, 2005, 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.

Senate Bill 141, signed into law on July 27, 2005, closes the Plan effective July 1, 2006, to new members first hired on or after July 1, 2006.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

(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;
- 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 have been 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.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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 on the 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 a level percentage of pay amount 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 9.76% 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 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.

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

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

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 55 or early retirement at age 50 if they were hired before July 1, 1986 (Tier 1), and 60 or early retirement at age 55 if they were hired after July 1, 1986 (Tiers 2 & 3). Additionally, they must 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 the 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 the 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.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary of Plan Provisions

Members may elect an early retirement or a joint and survivor option. Members who entered the PERS prior to July 1, 1986 may also select a 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. Indebtedness balances may also be created when a member purchases qualified claimed service.

(9) Reemployment of Retired Members

Retirement and retiree healthcare 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, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

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

STATE OF ALASKA
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Summary of Plan Provisions

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

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

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 (Tier 1). Employees hired after June 30, 1986 (Tier 2) with five years of credited service (or ten years of credited service for those first hired after June 30, 1996 (Tier 3)) must pay the full monthly premium if they are under age sixty and will receive benefits paid by the PERS if they are over age sixty. In addition, Peace Officers with twenty-five years of Peace Officer service and other employees with thirty years of membership service receive benefits paid by the PERS, regardless of their age or date of hire.

(11) Disability Benefits

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

<u>Occupational Disability</u>: 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.

<u>Nonoccupational Disability</u>: 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.

STATE OF ALASKA
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Summary of Plan Provisions

Occupational Death: When an active member (vested or nonvested) 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 Officer/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).

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 Nonoccupational Death 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 or is vested, 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

Postretirement 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, excluding the Alaska COLA, 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 (Tier I), if the CPI increases and the funding ratio is at least 105%.

STATE OF ALASKA
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Summary of Plan Provisions

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 (Tier I), and their survivors;

(b) members who first entered the PERS after June 30, 1986 (Tiers 2 & 3), and their survivors if they are at least age 65; and

(c) all disabled members.

(15) Changes in Plan Provisions Since the Prior Valuation

There have been no changes in benefit provisions since the prior valuation. SB 123 was passed in 2007 which clarified and revised statutory language to comply with federal law, created the Alaska retiree health care trust, and defined total compensation paid to the employer's active employees for purposes of determining the employer contribution rate.

STATISTICAL SECTION

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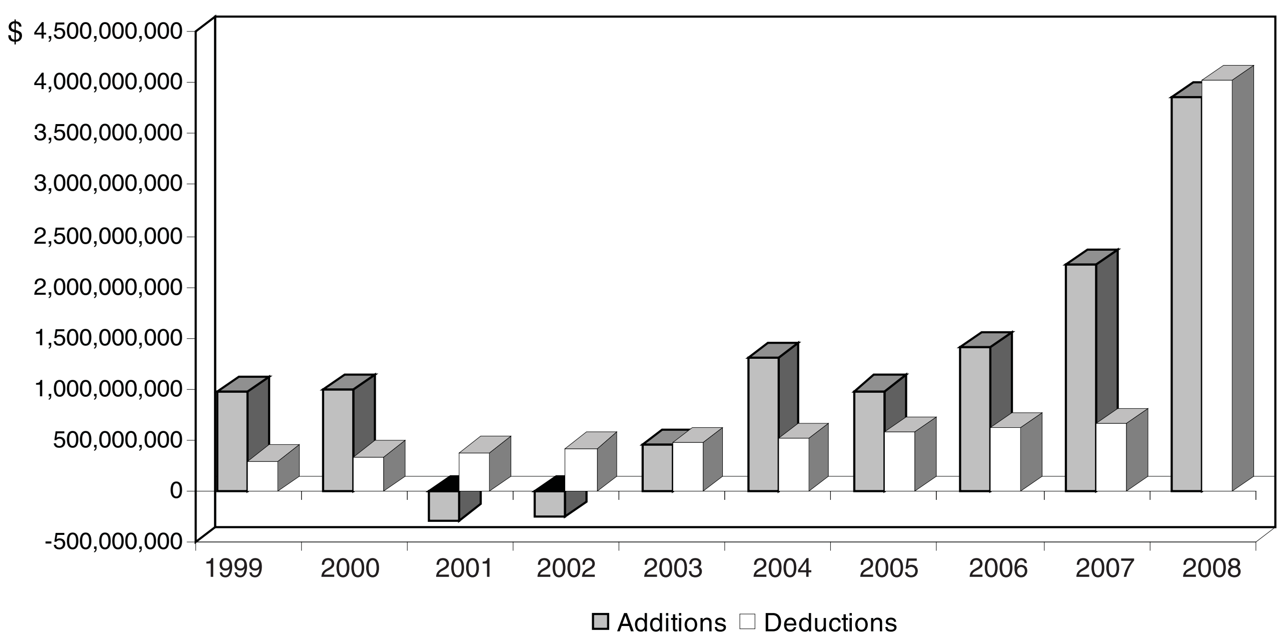
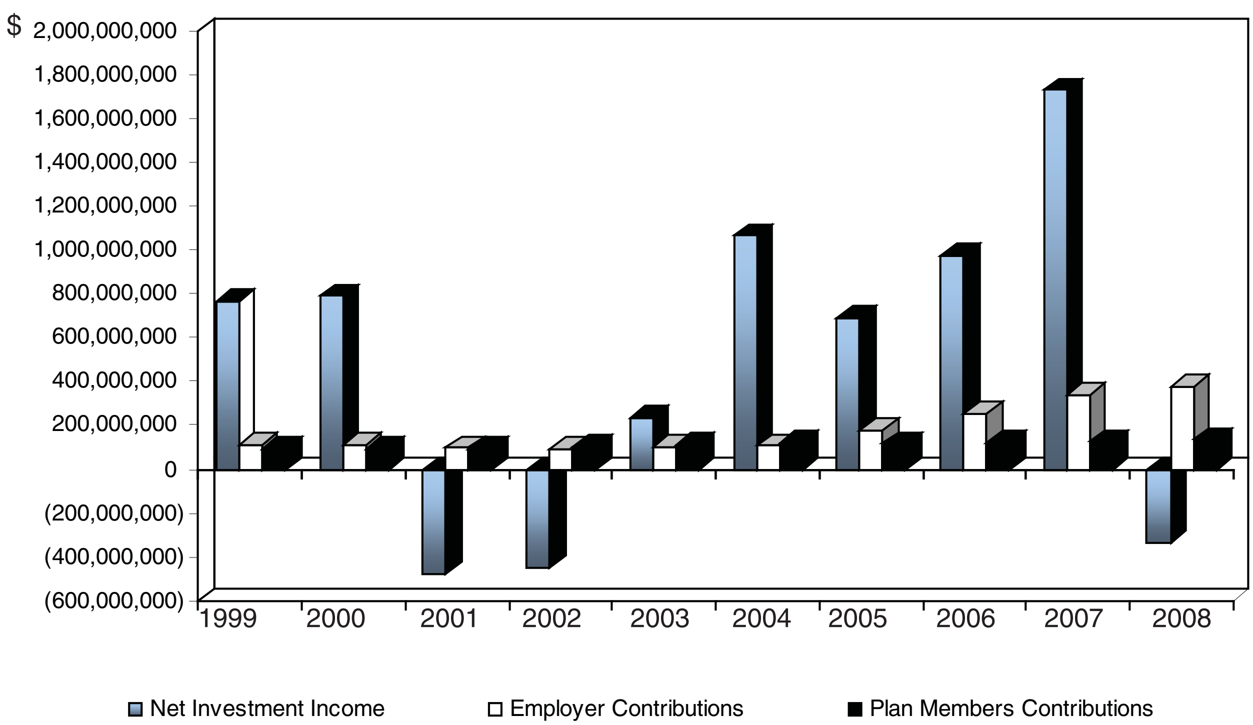
Public Employees' Retirement System Changes in Net Assets (In thousands)					
Year Ended June 30	**Net Assets, Beginning of Year**	**Additions**	**Deductions**	**Increase / (Decrease) in Net Assets**	**Net Assets, End of Year**
1999	7,438,398	965,199	298,239	666,960	8,105,358
2000	8,105,358	990,702	339,480	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
2007	9,379,471	2,219,181	656,328	1,562,853	10,942,324
2008	10,942,324	3,853,614	4,030,634	(177,020)	10,765,304

10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS



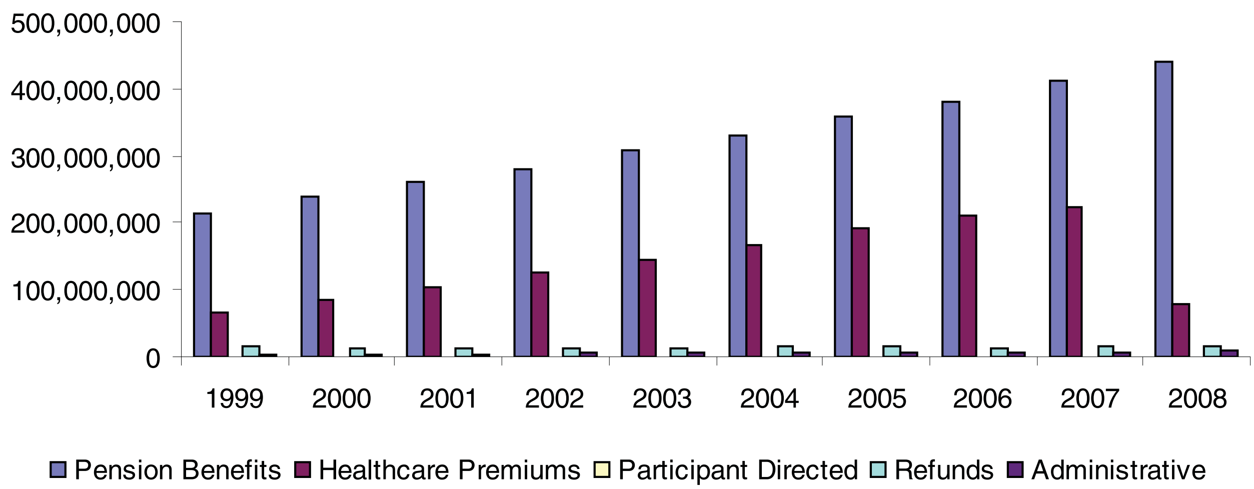
Public Employees' Retirement System Additions by Source (In thousands)							
Year Ended June 30	Plan Member Contributions	Employer Contributions	State of Alaska	Net Investment Income (Loss)	Transfer	Other	Total
1999	$ 90,635	$109,938	$ -	$ 764,622	$ -	$ 4	$ 965,199
2000	92,770	107,596	-	790,336	-	-	990,702
2001	94,983	96,484	-	(478,249)	-	7	(286,775)
2002	100,639	94,769	-	(448,279)	-	10	(252,861)
2003	112,112	99,198	-	237,205	-	27	448,542
2004	118,554	105,585	-	1,064,605	-	13,876	1,302,620
2005	114,640	178,205	-	692,303	-	3	985,151
2006	119,566	253,922	18,427	974,006	-	34,947	1,400,868
2007	126,278	342,383	18,582	1,731,853	-	85	2,219,181
2008	134,151	380,825	185,000	(336,985)	3,490,576	47	3,853,614

10-YEAR COMPARISON OF ADDITIONS BY SOURCE



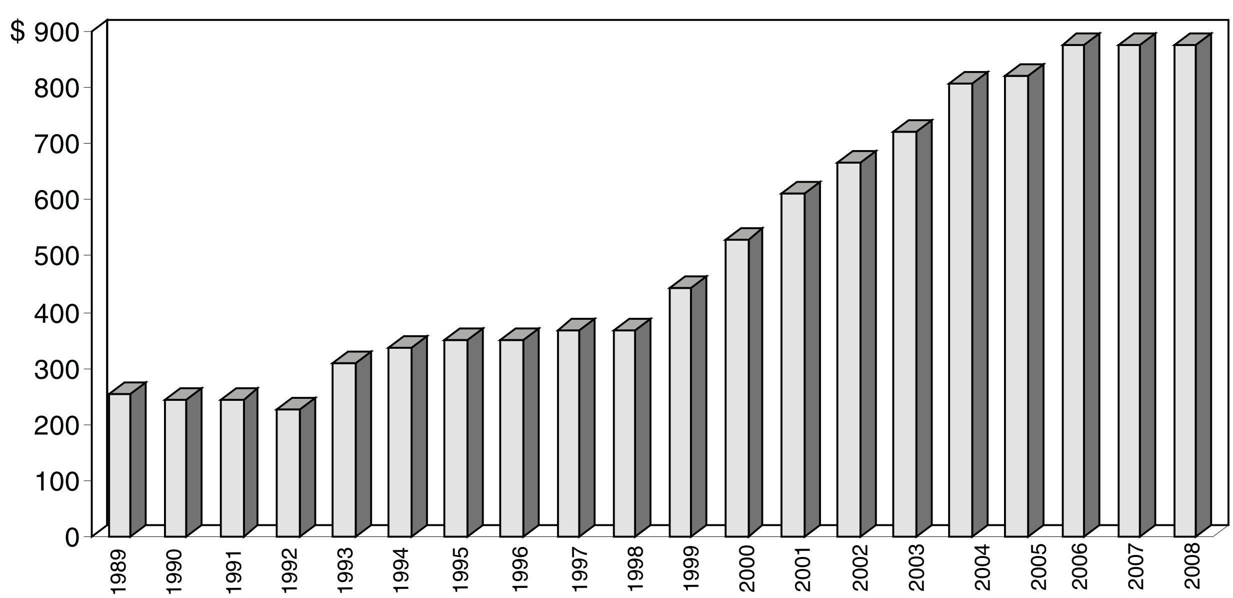
Public Employees' Retirement System Deductions by Type (In thousands)							
Year Ended June 30	Pension Benefits	Healthcare Premiums	Participant Directed	Refunds of Contributions	Administrative Deductions	Transfer	Total
1999	$215,170	$ 64,486	-	$14,435	$ 4,148	$ -	$ 298,239
2000	239,441	83,794	-	11,998	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
2007	410,545	224,553	15	14,953	6,262	-	656,328
2008	439,123	77,074	-	15,159	8,702	3,490,576	4,030,634

10-YEAR COMPARISON OF DEDUCTIONS BY TYPE



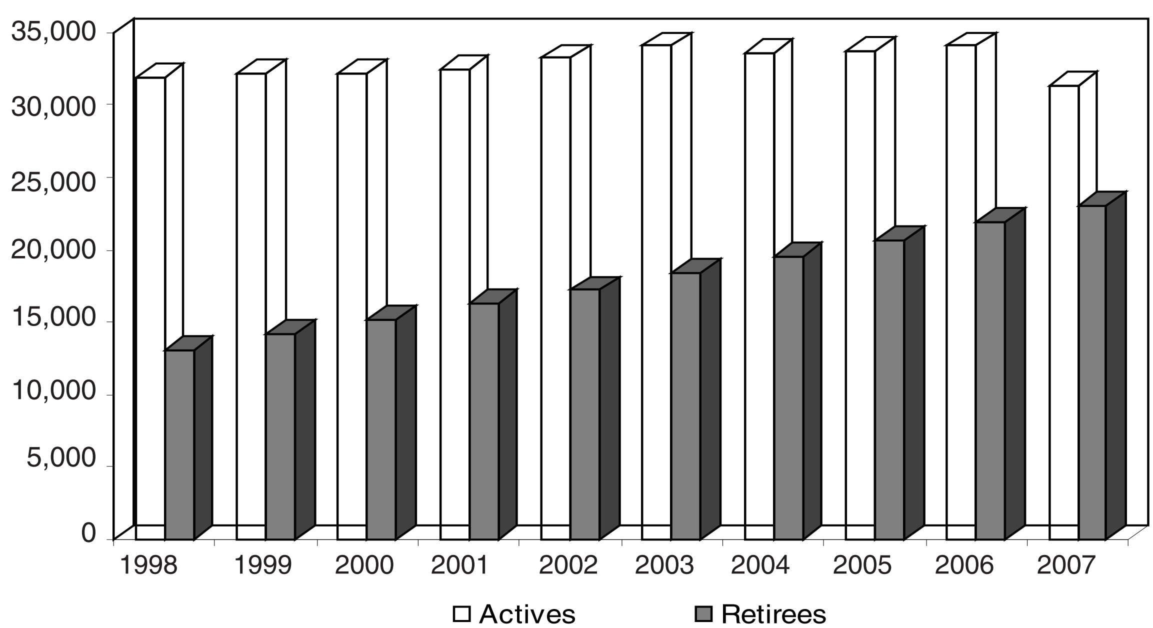
Public Employees' Retirement System Schedule of Benefit Deductions by Type (In thousands)						
Year Ended June 30	Service	Disability	Survivor	Dependent	Healthcare	Total
1999	$195,605	$7,195	$12,141	$ 229	$ 64,486	$279,656
2000	216,118	9,669	13,650	4	83,794	323,235
2001	239,814	8,185	11,772	-	103,846	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
2007	383,516	7,603	19,426	-	224,553	635,098
2008	405,775	8,460	24,888	-	235,474	674,597

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**
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	34,071	21,901	6,219	14,155	76,346
2007	31,362	22,997	6,398	14,902	75,659

10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



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 7/1/01 - 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	$ 423	$ 516	$1,008	$1,571	$2,249	$3,176	$3,369
Number of Recipients	40	363	266	211	213	118	76
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	$ 519	$ 536	$ 950	$1,464	$2,212	$3,247	$3,837
Number of Recipients	72	319	271	246	197	184	50
Period 7/1/06 - 6/30/07:							
Average Monthly Benefit	$1,026	$ 564	$1,084	$1,773	$2,509	$3,699	$4,132
Number of Recipients	97	320	263	207	190	183	44
Peace Officer/Firefigher							
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	$ 277	$ 700	$1,209	$1,823	$2,852	$3,804	$3,846
Number of Recipients	1	14	20	23	66	13	3
Period 7/1/05 - 6/30/06:							
Average Monthly Benefit	$1,556	$ 748	$1,280	$2,236	$2,931	$3,595	$4,190
Number of Recipients	5	11	9	26	29	13	3
Period 7/1/06 - 6/30/07:							
Average Monthly Benefit	$ 925	$ 858	$1,304	$2,385	$3,180	$4,198	$4,942
Number of Recipients	4	13	9	26	40	12	4

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

Public Employees' Retirement System Principal Participating Employers June 30, 2007			
Employer	**Non-retired Members**	**Rank**	**Percentage of of Total Non-retired Members**
State of Alaska	23,449	1	41.6%
University of Alaska	4,954	2	8.4
Anchorage School District	4,495	3	8.1
Total	**32,898**		**58.1%**