TEACHERS' RETIREMENT SYSTEM
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Statistical Section

December 16, 2004

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

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

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

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

The FY 2004 CAFR is divided into five sections:

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

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	TRS		
	FY04	FY03	FY02
Net Assets (millions)	$3,911.5	3,602.6	3,689.0
Participating Employers	58	57	57

Reporting Entity

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

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

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

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

Major Initiatives

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

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

Independent Audit

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

Actuarial Valuation

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

Professional Services

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

Certificate of Achievement

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

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

Future Employer Contribution Rates

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

Based on this most recent valuation report, the System has a funding ratio (assets of the System divided by the total liabilities for pension and postemployment healthcare) of 64.3%. The unfunded portion of the System's liabilities totals approximately $2.1 billion. The unfunded liability is amortized over a 25 year period, as established by the Board. In order to bridge the gap between assets and liabilities of the System, the employer matching contribution rate would increase over the same 25 year period from the Fiscal Year 2004 rate of 12% to approximately 48% in Fiscal Year 2028 if the System earns the assumed rate of 8.25%. The current asset allocation that the Alaska State Pension Investment Board for the System's investments is expected to provide a five year median return of 7.72%.

While investment returns in Fiscal Year 2004 of 15.09% exceeded the actuarial assumed rate of 8.25%, one good year does not make up for the three prior years of earnings less than the assumed rate. Any time the System earns less than the assumed 8.25%, the impact typically will be an increase to the employer matching contribution rate. Since the three prior years rates were less than the assumed rate by 4.57% to 13.74%, these differences severely impacted the funding ratios, which in turn results in increased rates to the employers.

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

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

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

Acknowledgments

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

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

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

Respectfully submitted,

Ray Matiashowski, Commissioner

Melanie Millhorn, Director

Kevin Brooks, Deputy Commissioner

Anselm Staack, CPA, JD, Chief Financial Officer

Kevin Worley, CPA, Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

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

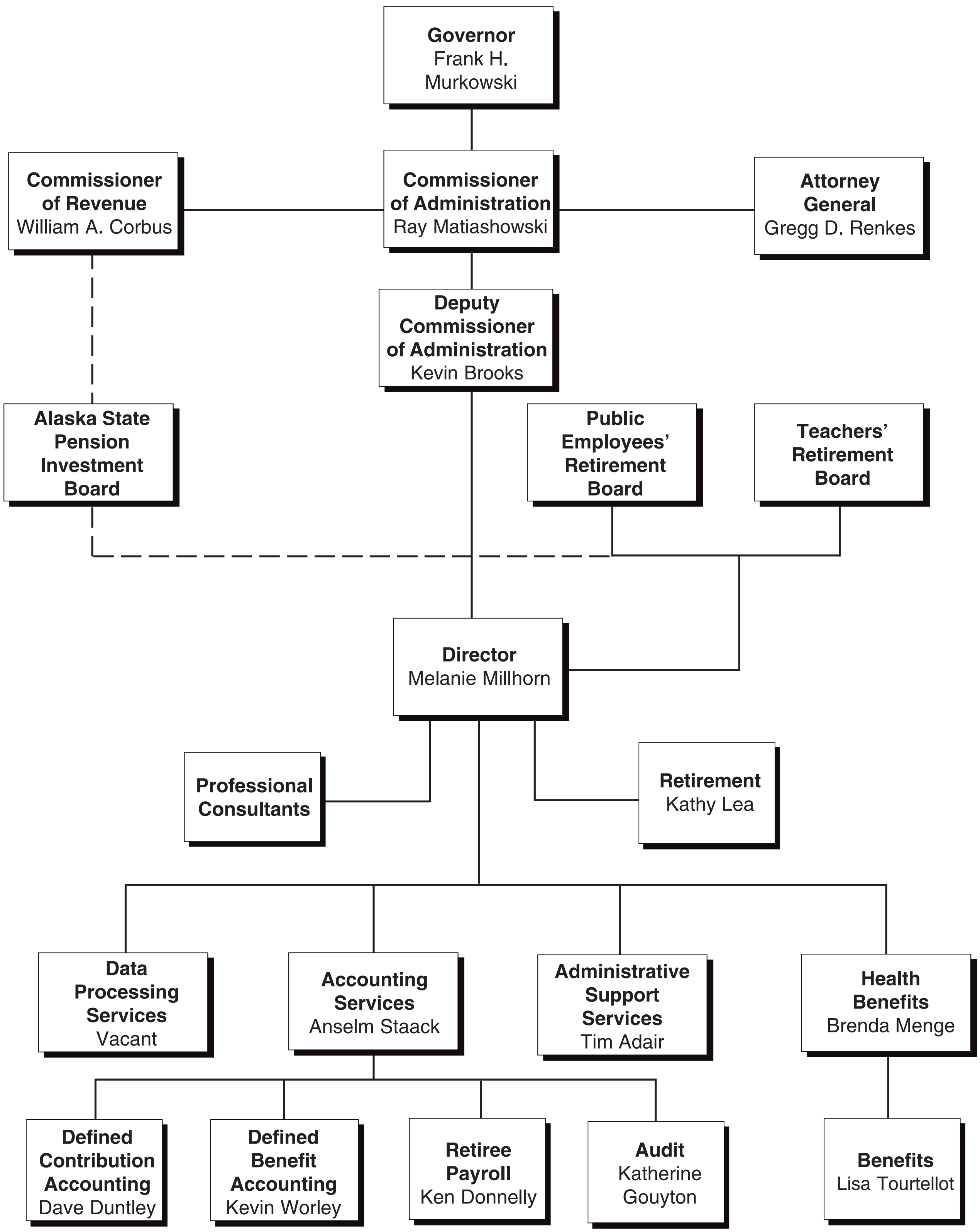
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

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

President

Executive Director

ORGANIZATION CHART



Section Responsibilities

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

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

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

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

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

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

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

PROFESSIONAL CONSULTANTS

Consulting Actuary
Mercer Human Resource Consulting
Seattle, Washington

Independent Auditors
KPMG LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

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

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

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

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

A list of external money managers and consultants for the System can be found on pages 50-51, and the Schedule of Investment Management Fees on pages 57-58.

TEACHERS' RETIREMENT BOARD

(as of June 30, 2004)

Charlie Arteaga, Chair
Term Expires: January 31, 2005

Charlie Arteaga has been an Alaskan resident for 33 years. He resides in Ketchikan. He received his Bachelor's in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and tourism. He intends to remain an active Alaskan citizen.

Gayle W. Harbo, Vice Chair
Term Expires: June 30, 2005

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska-Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District's Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed traveling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their seven grandchildren.

Richard J. Solie, Sr.
Term Expires: January 31, 2007

Richard Solie has been an Alaska resident for 33 years. He received his Bachelor's degree from the University of Wisconsin, Superior, and his Ph.D. degree in Economics from the University of Tennessee. After seven years of teaching in the "Lower 48", he served as Professor of Economics, Head of the Department of Economics, and Acting Dean of the School of Management at the University of Alaska, Fairbanks during the period from 1970-1986. Following his retirement from UAF, he was self-employed in his own economic consulting firm. He and his wife, Elsie, live in Fairbanks along with their four children and ten grandchildren.

Robert G. Boko
Term Expires: June 30, 2005

Robert Boko was born and educated in Bridgeport, Connecticut. He later moved to Washington State where he received a BA in Music & Music Education from Western Washington University. After volunteering for the draft, serving in the Korean war and receiving the Bronze Star Medal with the 7th Infantry Division, he returned to the U.S. and taught instrumental music in Seattle in 1954. He later earned a Master of Arts degree from Teacher's College Columbia University in New York City. In 1956, Robert took a position in Kodiak teaching music to grades 7 through 12, then moved to Fairbanks in 1959. During his time in Fairbanks, Robert began an All-State Band, Orchestra and Choir. Today this program is one of the most successful events for students throughout the State. He has been a teacher and administrator in the Fairbanks North Star Borough School District. Upon retiring from the district, he worked as an adjunct staff member at UAF, supervising student teachers throughout the State. Robert has been a member of the Fairbanks School board and a board member for Mount Edgecumbe High School in Sitka. Over the past seven years, Robert has been working with students in festival and clinic settings in Western Alaska, South Central & the Interior. For the past six years, he has been a councilman for the City of Fairbanks. In his spare time, Robert is the music director & conductor of the Fairbanks Community Band in addition to serving on several local boards.

Dick Schulz
Term Expires: January 31, 2006

Dick Shultz moved to Alaska in 1970 from Anselmo, a small town in central Nebraska. He settled in Mentasta Lake, a remote native village southwest of Tok where he taught kindergarten through the eighth grade. Dick relocated to Northway and taught there for five years after which his career took him to Delta-Greely as a school guidance counselor. In 1978, Dick returned to rural teaching in Nabesna until 1980, when he returned to the Delta-Greely School District as the assistant superintendent.

Dick left his career in education in 1982 when he was elected to the House of Representatives for District 17. He served in the legislature for ten years, eight as a representative and two as a senator until he retired from public service in 1992. Dick and his wife live in a rustic setting near Tok, where he enjoys life as an avid outdoorsman.

Dick was appointed to serve on the Teachers' Retirement Board by Governor Murkowski and he is looking forward to serving. He says, "I have always been concerned about maintaining the integrity of the fund to insure future retirees that their system will be able to provide stable retirement benefits."

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KPMG

701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

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

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

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

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 38 to 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 45 and 46 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG

The investment, actuarial and statistical data on pages 47 through 87 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 24, 2004

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

Management's Discussion and Analysis

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

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $3,911,515,000 and $3,602,619,000 at the close of Fiscal Years 2004 and 2003, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2004 and 2003 increased by $308,896,000 or 8.6% and decreased by $86,417,000 or 2.3% over the closing balances of those assets in Fiscal Years 2003 and 2002, respectively.

Plan member and employer contributions received totaled $126,057,000 and $118,645,000 during Fiscal Years 2004 and 2003; an increase of $7,412,000 and $6,169,000 or 6.2% and 5.5% from Fiscal Years 2003 and 2002, respectively.

Net investment income (loss) increased from $111,575,000 to $513,964,000 during Fiscal Year 2004 and from ($225,234,000) to $111,575,000 during Fiscal Year 2003; reflecting increases of 360.6% and 149.5% from Fiscal Years 2003 and 2002, respectively.

Pension benefit and postemployment healthcare payments totaled $331,010,000 and $310,416,000 during Fiscal Years 2004 and 2003, respectively; reflecting an increase of $20,594,000 and $30,573,000 or 6.6% and 10.9% from Fiscal Years 2003 and 2002, respectively.

Overview of the Financial Statements

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

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

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

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

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

Management's Discussion and Analysis

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

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

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

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

Management's Discussion and Analysis

Condensed Financial Information

Teachers' Retirement System
(000's omitted)

NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Assets:					
Cash and receivables	$ 6,475	6,849	(374)	(5.5%)	10,955
Investments, at fair value	3,908,306	3,598,476	309,830	8.6%	3,681,951
Other assets	61	88	(27)	(30.7%)	71
Total assets	3,914,842	3,605,413	309,429	8.6%	3,692,977
Liabilities:					
Accrued expenses	3,288	2,794	494	17.7%	3,418
Other liabilities	39	-	39	100.0%	523
Total liabilities	3,327	2,794	533	19.1%	3,941
Total net assets	$ 3,911,515	3,602,619	308,896	8.6%	3,689,036

CHANGES IN NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Net assets, beginning of year	$ 3,602,619	3,689,036	(86,417)	(2.3%)	4,086,848
Additions:					
Contributions	126,057	118,645	7,412	6.2%	112,476
Net investment income (loss)	513,964	111,575	402,389	360.6%	(225,234)
Other additions	77	14	63	450.0%	4
Total additions	640,098	230,234	409,864	178.0%	(112,754)
Deductions:					
Benefits	331,010	310,416	20,594	6.6%	279,843
Refunds	4,189	3,840	349	9.1%	3,120
Administrative expenses	2,203	2,395	(192)	(8.0%)	2,095
Total deductions	337,402	316,651	20,751	6.6%	285,058
Transfer in from Retiree Health Fund	6,200	-	6,200	100.0%	-
Increase (decrease) in net assets	308,896	(86,417)	395,313	457.4%	(397,812)
Net assets, end of year	$ 3,911,515	3,602,619	308,896	8.6%	3,689,036

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

Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2004 and 2003 showed total assets exceeding total liabilities by $3,911,515,000 and $3,602,619,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $308,896,000 or 8.6% and a decrease of $86,417,000 or 2.3% from Fiscal Years 2003 and 2002. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2004, ASPIB adopted an asset allocation that includes 37% in Domestic Equities, 15% in International Equities, 30% in Domestic Fixed Income, 3% in International Fixed Income, 6% in Alternatives, and 9% in Real Estate. This asset allocation is expected to provide a five year median return of 7.72%.

For Fiscal Years 2004 and 2003, the Plan's investments generated a 15.09% and 3.68% rate of return, respectively. The Plan's annualized rate of return was 4.09% over the last three years and 3.29% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in Fiscal Year 2004 and a fixed amortization of the funding target surplus or the unfunded accrued liability. The amortization period is set by the Teachers' Retirement Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Investment losses and increasing healthcare costs continued to impact the Plan's funding ratio as of June 30, 2003 (the date of the Plan's latest actuarial valuation report). The ratio of assets to liabilities decreased from 68.2% to 64.3% during the year, using June 30, 2003 net assets as a base. The goal for the Plan is to have progress toward achieving the funding objectives of the Plan.

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

	(000's omitted)	
Valuation Year	**2003**	**2002**
Valuation Assets	$ 3,752,285	3,689,036
Accrued Liabilities	5,835,609	5,411,642
Funding ratio	64.3%	68.2%

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

Management's Discussion and Analysis

Contributions and Investment Income (Loss)

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

Revenues					
	(000's Omitted)		Inc/(Dec)		
	FY04	FY03	Amt	%	FY02
Plan Member Contributions	$57,365	55,789	1,576	2.8%	51,074
Employer Contributions	68,692	62,856	5,836	9.3%	61,402
Net Investment Income (Loss)	513,964	111,575	402,389	360.6%	(225,234)
Total	**$640,021**	**230,220**	**409,801**	**178.0%**	**(112,758)**

Plan member contributions increased from $55,789,000 in Fiscal Year 2003 to $57,365,000 during Fiscal Year 2004, an increase of $1,576,000 or 2.8%. Employer contributions increased from $62,856,000 during Fiscal Year 2003 to $68,692,000 during Fiscal Year 2004, an increase of $5,836,000 or 9.3%. The matching employer contribution rate increased from 11% in Fiscal Years 2002 and 2003 to 12% in Fiscal Year 2004.

Investment income in 2004 increased by $402,389,000 or 360.6% from amounts recorded in Fiscal Year 2003. Investment income in 2003 increased by $336,809,000 or 149.5% over amounts recorded in Fiscal Year 2002. The equity markets continued their strong performance during the last quarter of Fiscal Year 2003 into the first three quarters of Fiscal Year 2004. However, the last quarter of Fiscal Year 2004 proved to be flat, posting an overall investment return of –0.09%.

Benefits, Refunds, and Expenses

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

Expenses					
	(000's Omitted)		Inc/(Dec)		
	FY04	FY03	Amt	%	FY02
Pension Benefits	$ 255,409	244,518	10,891	4.5%	222,897
Healthcare Benefits	75,601	65,898	9,703	14.7%	56,946
Refunds of Contributions	4,189	3,840	349	9.1%	3,120
Administrative Expenses	2,203	2,395	(192)	(8.0%)	2,095
Total	**$ 337,402**	**316,651**	**20,751**	**6.6%**	**285,058**

Pension benefit payments in 2004 and 2003 increased $10,891,000 and $21,621,000 or 4.5% and 9.7% from Fiscal Years 2003 and 2002, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment (ad hoc PRPA)) increase for Fiscal Year 2004.

Postemployment healthcare benefits in 2004 and 2003 increased $9,703,000 and $8,952,000 or 14.7% and 15.7% from Fiscal Years 2003 and 2002, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the increase is also directly related to the increased number of retirees in the Plan.

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

Management's Discussion and Analysis

Funding

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

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

Legislation

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

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

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

During the period July 1, 2003 to March 31, 2004, the Plan's investments continued to make great strides to the upside, a continuation of the Fiscal Year 2003's last quarter performance. The last quarter of Fiscal Year 2004 proved to be flat by returning -0.09%. Overall, the Plan's investments returned 15.09% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the first time in over three years. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely see an increase in employer contribution rates in Fiscal Year 2007. The employer contribution rate for Fiscal Year 2007 will be announced by May 2005.

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

The impact of Fiscal Year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in Fiscal Year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return, the effect is an increase to the employer contribution rate. This was the case in Fiscal Year 2003, which impacts the Plan's funding status as of June 30, 2003 as well as the Fiscal Year 2005 employer contribution rate. Due to investment deficiencies, salary increases exceeding valuation assumptions, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003 actuarial valuation report for the Plan's reported a funding ratio of 64.3%, down from Fiscal Year 2002's funding ratio of 68.2%. Due to the decline in the funding

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ratio, an increase was recommended by the consulting actuary from the calculated employer contribution rate of 35.57% in Fiscal Year 2005 to 38.85% in Fiscal Year 2006. The TRS board adopted an employer contribution rate of 21% for Fiscal Year 2006, up 5 points from the Fiscal Year 2005 employer contribution rate of 16%. However, even with the 5 point increase to 21%, employers are paying only a little over one-half of the "Total Employer Contribution Rate" of 38.85% in Fiscal Year 2006.

Requests for Information

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

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Statements of Plan Net Assets

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

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 415	108	523	449	114	563
Receivables:						
Contributions	4,722	1,230	5,952	4,748	1,202	5,950
Due from State of Alaska General Fund	-	-	-	268	68	336
Total receivables	4,722	1,230	5,952	5,016	1,270	6,286
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,311,697	263,747	1,575,444	1,194,813	248,928	1,443,741
Retirement fixed income pool	559,293	145,764	705,057	549,367	139,093	688,460
International equity pool	509,739	132,850	642,589	443,713	112,342	556,055
Real estate pool	234,721	61,173	295,894	200,400	50,739	251,139
International fixed income pool	112,745	29,384	142,129	106,615	26,994	133,609
Private equity pool (note 9)	101,990	26,581	128,571	83,703	21,193	104,896
Emerging markets equity pool	42,366	11,041	53,407	32,025	8,108	40,133
External domestic fixed income pool	286,619	74,699	361,318	303,580	76,863	380,443
Other investment pools	3,091	806	3,897	-	-	-
Total investments	3,162,261	746,045	3,908,306	2,914,216	684,260	3,598,476
Loans and mortgages, at fair value, net of allowance for loan losses of $31 in 2004 and $60 in 2003	48	13	61	59	15	74
Other current assets	-	-	-	12	2	14
Total assets	3,167,446	747,396	3,914,842	2,919,752	685,661	3,605,413
Current liabilities:						
Accrued expenses	2,608	680	3,288	2,229	565	2,794
Due to State of Alaska General Fund	31	8	39	-	-	-
Total liabilities	2,639	688	3,327	2,229	565	2,794
Commitments and contingencies (note 9)						
Net assets held in trust for pension and postemployment healthcare benefits	**$ 3,164,807**	**746,708**	**3,911,515**	**2,917,523**	**685,096**	**3,602,619**

(Schedules of funding progress are presented on pages 38 and 39.)

See accompanying notes to financial statements.

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Statements of Changes in Plan Net Assets

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

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 54,492	14,200	68,692	50,157	12,699	62,856
Plan members	45,505	11,860	57,365	44,518	11,271	55,789
Total contributions	99,997	26,060	126,057	94,675	23,970	118,645
Investment income:						
Net appreciation in fair value of investments (note 3)	322,858	84,144	407,002	1,607	407	2,014
Interest	45,025	11,735	56,760	48,782	12,351	61,133
Dividends	47,238	12,311	59,549	45,051	11,406	56,457
Net recognized mortgage loan recovery	-	-	-	23	6	29
Total investment income	415,121	108,190	523,311	95,463	24,170	119,633
Less investment expense	7,415	1,932	9,347	6,430	1,628	8,058
Net investment income	407,706	106,258	513,964	89,033	22,542	111,575
Other	61	16	77	11	3	14
Total additions	507,764	132,334	640,098	183,719	46,515	230,234
Deductions						
Benefits	255,409	75,601	331,010	244,518	65,898	310,416
Refunds of contributions	3,323	866	4,189	3,064	776	3,840
Administrative expenses	1,748	455	2,203	1,911	484	2,395
Total deductions	260,480	76,922	337,402	249,493	67,158	316,651
Net increase (decrease)	247,284	55,412	302,696	(65,774)	(20,643)	(86,417)
Other financing sources (uses):						
Transfer in from Retiree Health Fund (note 7)	-	6,200	6,200	-	-	-
Net increase (decrease)	247,284	61,612	308,896	(65,774)	(20,643)	(86,417)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	2,917,523	685,096	3,602,619	2,983,297	705,739	3,689,036
Balance, end of year	**$3,164,807**	**746,708**	**3,911,515**	**2,917,523**	**685,096**	**3,602,619**

See accompanying notes to financial statements.

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(1) DESCRIPTION

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

(a) General

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

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

	2004	2003
State of Alaska	1	1
School districts	53	53
Other	4	3
Total employers	58	57

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 2003 and 2002, the dates of the two most recent actuarial valuations, Plan membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	8,312	7,804
Terminated Plan members entitled to future benefits	708	783
	9,020	8,587
Current Plan members:		
Vested	5,289	5,224
Nonvested	4,584	4,466
	9,873	9,690
	18,893	**18,277**

(b) Pension Benefits

Vested employees hired prior to July 1,1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

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The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

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

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

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

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, (2) employees hired after July 1, 1990 with 25 years of membership service, and (3) employees who are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

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

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the Plan member's spouse,

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or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active Plan member dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average base salary at the time of death and the credited service that would have accrued had the Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

If a Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled Plan member receives normal retirement benefits.

(f) Contributions

<u>Plan Member Contributions</u>

Plan members contribute 8.65% of their base salary as required by statute. The Plan member contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

<u>Employer Contributions</u>

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

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(g) Administrative Costs

Administrative costs are financed through investment earnings.

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Use of Estimates

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

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

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

(d) Investments

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

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

(e) Contributions Receivable

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

(f) Federal Income Tax Status

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

(g) GASB Statement No. 34

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

(3) INVESTMENTS

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

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

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

	Cost	Fair Value
2004:		
Domestic equity pool	$ 1,312,303	1,575,444
Retirement fixed income pool	710,921	705,057
International equity pool	635,851	642,589
Real estate pool	274,496	295,894
International fixed income pool	131,003	142,129
Private equity pool	157,949	128,571
Emerging markets equity pool	49,910	53,407
External domestic fixed income pool	361,984	361,318
Other investments pool	3,878	3,897
	$ 3,638,295	**3,908,306**
2003:		
Domestic equity pool	$ 1,349,855	1,443,741
Retirement fixed income pool	661,022	688,460
International equity pool	663,498	556,055
Real estate pool	230,775	251,139
International fixed income pool	118,148	133,609
Private equity pool	143,420	104,896
Emerging markets equity pool	49,325	40,133
External domestic fixed income pool	371,343	380,443
	$ 3,587,386	**3,598,476**

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

	2004	2003
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$ 254,386	(16,651)
Retirement fixed income pool	(31,460)	33,296
International equity pool	154,034	(49,916)
Real estate pool	5,240	3,494
International fixed income pool	3,781	22,041
Private equity pool	19,266	(16,519)
Emerging markets equity pool	12,689	2,071
External domestic fixed income pool	(10,953)	24,198
Other investments pool	19	-
	$ 407,002	**2,014**

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

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

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up and maintained share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, commercial paper, U.S. Treasuries, U.S. Government agency debt, mortgage and asset-backed securities, and corporate debt. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2004 and 2003, the Plan has a 0.03% direct ownership in the short-term fixed income pool totaling $523 and $563, respectively. These amounts include interest receivable of $4 and $4, respectively.

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(000's omitted)

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up share price of $1,000. The share price at June 30, 2004 was $4,086. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the domestic equity pool totaled 32.09% and 32.44%, respectively, and consisted of the following:

	2004	2003
Domestic equity securities	$1,559,603	1,428,452
Convertible bonds	251	996
Cash and cash equivalents held in the short-term fixed income pool, other short-term debt instruments, and currency	14,892	13,942
Net receivables	698	351
	$1,575,444	**1,443,741**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an internally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2004 was $1,723. Treasury division staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the retirement fixed income pool totaled 32.39% and 32.74%, respectively, and consisted of the following:

	2004	2003
Mortgage related	$ 350,464	306,050
Corporate	170,064	193,016
U.S. Treasury	97,635	84,619
Municipal	-	7,708
Yankees	6,109	6,916
Asset backed	21,980	36,017
U.S. government agency	30,480	33,570
Cash and cash equivalents held in the short-term fixed income pool	52,904	94,171
Net payables	(24,579)	(73,607)
	$ 705,057	**688,460**

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(000's omitted)

(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2004 was $2,312. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international equity pool totaled 31.78% and 32.31% respectively, and consisted of the following:

	2004	2003
International equity securities	$ 632,658	547,062
Cash and cash equivalents held in short-term debt instruments and foreign currency	7,031	8,903
Net receivables	2,900	90
	$ 642,589	**556,055**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2004 was $1,807. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 31.80% and 32.46% direct ownership in the real estate pool totaling $295,894 and $251,139, respectively.

(f) International Fixed Income Pool

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

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share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international fixed income pool totaled 32.17% and 32.51% respectively, and consisted of the following:

	2004	2003
International fixed income securities	$ 137,817	129,525
Cash and cash equivalents held in short-term debt instruments and foreign currency	1,429	1,471
Net receivables	2,883	2,613
	$ 142,129	**133,609**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2004 was $1,156. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 32.32% and 32.68% ownership in the private equity pool totaling $128,571 and $104,896, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed emerging markets equity pool. The pool was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2004 was $1,438. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 35.00% ownership in the emerging markets equity pool totaling $53,407 and $40,133, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up share price of $1,000. The share price at June 30, 2004 was $1,448. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the

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

net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the external domestic fixed income pool totaled 32.14% and 32.54%, respectively, and consisted of the following:

	2004	2003
Mortgage related	$ 149,054	169,162
Corporate	67,919	75,743
U.S. Treasury	80,938	35,002
U.S. government agency	31,795	25,319
Asset backed	12,017	12,269
Yankees	6,761	4,230
Municipal	-	4,699
Cash and cash equivalents held in short-term debt instruments	73,179	124,644
Net payables	(60,345)	(70,625)
	$ 361,318	**380,443**

(j) Other Investments Pool

The Plan, along with one other State retirement system, participates in an externally managed other investments pool. The pool was established March 18, 2004 with a start up share price of $1,000. The share price at June 30, 2004 was $1,006. The underlying asset in the pool is composed of a limited partnership interest in a venture capital operating company. The venture capital operating company invests in oil, gas and other hydrocarbon properties, operations or projects as well as electric and other forms of power generation, transmission and distribution and other power-related projects or operations. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004, the Plan has a 32.32% ownership in the other investments pool totaling $3,897.

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

The Plan, through its investments in the international equity pool and the international fixed income pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from forty-five to ninety-six days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2004	2003
Net contract sales	$ 2,412	426
Less: fair value	2,571	421
Net unrealized gains (losses) on contracts	**$ (159)**	**5**

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

(6) SECURITIES LENDING

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

At June 30, 2004 and 2003, the fair value of securities on loan allocable to the Plan totaled $459,196 and $303,478, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

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

(7) TRANSFER TO RETIREMENT SYSTEMS

During Fiscal Year 2004, a review was conducted of all medical reserve amounts. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential

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(000's omitted)

on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

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

(8) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provided for a retirement incentive program (RIP or Program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participated in the RIP were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired.

Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retired. There were no additions to plan net assets during fiscal year 2004 or 2003.

When employees terminated employment to participate in the program, they were indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminated. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount.

(9) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide

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

capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $153,578 to be paid through the year 2009.

The Plan, through its investment in the other investments pool, entered into agreements through an external investment manager to provide capital funding for a limited partnership as it continues to build an other investments portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $21,977 to be paid through the year 2014.

The Plan, through its investment in the real estate pool, entered into agreements through an external investment manager to provide capital funding for real estate investments as it continues to build a real estate portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $31,242 to be paid through the year 2007.

(b) Contingencies

The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters is, in management's opinion, not considered probably but rather only possible, and the potential loss, if any cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

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

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

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

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(000's omitted)

superior court, but has been put on hold until final resolution of the members' claim. The administrator intends to vigorously contest all of these claims.

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

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Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Pension Benefits

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

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$2,825,528	2,893,325	(67,797)	97.7%	$469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5%	466,414	16.6%
2000	3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5%)
2001	3,468,310	3,651,488	(183,178)	95.0%	496,188	(36.9%)
2002	2,699,445	3,959,958	(1,260,513)	68.2%	509,437	(247.4%)
2003	2,694,785	4,190,970	(1,496,185)	64.3%	532,630	(280.9%)

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

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(Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

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

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$620,542	635,432	(14,890)	97.7%	$469,433	(3.2%)
1999	694,682	677,445	17,237	102.5%	466,414	3.7%
2000	845,315	848,316	(3,001)	99.6%	482,571	(0.6%)
2001	903,919	951,659	(47,740)	95.0%	496,188	(9.6%)
2002	989,591	1,451,684	(462,093)	68.2%	509,437	(90.7%)
2003	1,057,500	1,644,639	(587,139)	64.3%	532,630	(110.2%)

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

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Required Supplementary Information
(Unaudited)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

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

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1999	$44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%
2001	46,067	10,324	56,391	114%	114%	114%
2002	32,331	7,245	39,576	155%	155%	155%
2003	37,800	9,570	47,370	133%	133%	133%
2004	65,571	17,089	82,660	83%	83%	83%

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

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Notes to Required Supplementary Information
(Unaudited)

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

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

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

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

(2) ACTUARIAL ASSUMPTIONS AND METHODS

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

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

(b) Mortality – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from non-occupational causes.

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

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

(e) Health cost trend –

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

(f) Salary scale – inflation 3.5% per year, productivity 0.5% per year, merit (first five years of employment) 1.5% per year.

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

(h) Cost of living allowance (domicile in Alaska) – 65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

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June 30, 2004 and 2003
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(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Total turnover – select and ultimate rates based upon the 1997-1999 actual withdrawal experience.

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

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

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

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

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

(p) New entrants – growth projections are made for active TRS population under three scenarios:

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

(q) Sick leave – 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.

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

(s) Part-time status – part-time employees are assumed to earn 0.550 years of credited service per year.

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

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

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(Unaudited)

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

the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

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

- Effective June 30, 2000, the following changes were made:
  - ➢ There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.
  - ➢ The retirement assumptions were revised based on actual experience in 1997-1999.
  - ➢ The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.
  - ➢ The cost of living allowance was increased from 62% to 65% participation.
  - ➢ For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.
  - ➢ The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.
  - ➢ The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal Year	
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

- Effective June 30, 2002, the following changes were made:
  - ➢ The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

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

- ➢ Part-time employees are assumed to earn 0.550 years of credited service per year.

- ➢ The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

Effective June 30, 2003, the following changes were made:

- Members currently under age 50 who have already attained 21 years of service are assumed to retire one year following the valuation date.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

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

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

The Plan's utilization of the enhanced actuarial projection system resulted in 1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001-2003 employer contributions being more than the annual required contribution.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Expenses

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

	Administrative expenses	Investment expenses	Totals 2004	Totals 2003
Personal services:				
Wages	$ 917	382	1,299	1,330
Benefits	365	138	503	603
Total personal services	1,282	520	1,802	1,933
Travel:				
Transportation	25	23	48	59
Per diem	21	19	40	56
Moving	-	-	-	3
Honorarium	11	15	26	31
Total travel	57	57	114	149
Contractual services:				
Management and consulting	217	8,102	8,319	6,889
Accounting and auditing	22	389	411	474
Other professional services	130	30	160	225
Advertising and printing	49	115	164	137
Data processing	124	14	138	143
Communications	130	32	162	120
Rentals/leases	87	24	111	155
Legal	65	36	101	33
Medical specialists	1	-	1	5
Repairs and maintenance	5	1	6	3
Transportation	1	1	2	2
Other services	5	8	13	35
Total contractual services	836	8,752	9,588	8,221
Other:				
Equipment	-	6	6	114
Supplies	28	12	40	36
Total other	28	18	46	150
Total administrative and investment expenses	**$ 2,203**	**9,347**	**11,550**	**10,453**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
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Schedule of Payments to Consultants
Other than Investment Advisors

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

Firm	Services	2004	2003
State Street Corporation	Custodian banking services	$ 460	422
Systems Central Services Inc.	Data processing consultants	124	114
Mercer Human Resource Consulting	Actuarial services	185	160
Milliman USA	Actuarial auditing services	-	27
KPMG LLP	Auditing services	22	14
State of Alaska, Department of Law	Legal services	59	53
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	6	8
		$ 856	**798**

See accompanying independent auditors' report.

Alaska State Pension Investment Board

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

Message from the Chair

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

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

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

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. This asset allocation is reviewed annually and is designed to provide competitive returns at a reasonable level of risk. It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. Therefore, we are encouraged to observe that the 12 ¾ year cumulative annualized return (the longest period available) of 8.73% compares favorably to the System's actuarial earnings assumption of 8.25%.

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

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

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

Sincerely,

Gail Schubert, Chair

ALASKA STATE PENSION INVESTMENT BOARD (as of June 30, 2004)

Gail R. Schubert, Chair

Appointed by the Governor

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

Wilson L. Condon, Vice Chair

PERS Representative

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

James "Pat" Wellington

PERS Representative

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

William Corbus

Statutory Representative

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

Merritt C. Olson, Secretary

TRS Representative

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

Martin Pihl

Appointed by the Governor

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

Jeffrey E. Sinz

Appointed by the Governor

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

Dorothy Wells

TRS Representative

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

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

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

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

External Money Managers and Consultants

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

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

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

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

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

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

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

Global Equity
Lazard Freres Asset Management
New York, NY

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

External Money Managers and Consultants (con't)

International Fixed Income
Delaware International Advisers Ltd.
London, England

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

Performance Measurement
Callan Associates Inc.
Denver, CO

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

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

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

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

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

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

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

Independent Auditors
KPMG LLP
Anchorage, AK

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

Teachers' Retirement System
Investment Report

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

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

INVESTMENTS

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

During the 2004 Fiscal Year[1], ASPIB's asset allocation was composed of 40.4% domestic equities, 17.8% international equities, 27.2% domestic fixed income, 3.6% international fixed income, 7.7% real estate and 3.3% alternative investments.

For the 2004 Fiscal Year, TRS investments generated a 15.09% rate of return. The TRS annualized rate of return was a positive 3.29% over the last five years. The annualized rate of return over the last twelve and three-quarter years has been 8.73%.

INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio gained 20.06% and the international equity portfolio gained 31.7% (as compared to the 2003 Fiscal Year losses of -0.97% and -5.83% respectively). The U.S fixed-income market generated a 0.61% return down from 10.69% the previous year.

ASPIB continued the systematic increase of TRS investments in real estate and private equity. The real estate portfolio earned 11.57% for the 2004 Fiscal Year versus 8.97% in Fiscal Year 2003. The TRS investments in private equities gained 21.42%, as compared to a 14.75% loss in 2003. Over the past five years, TRS real estate investments have earned an average of 9.26% per year.

DOMESTIC ECONOMY

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

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

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

[1] July 1st, 2003 – June 30th, 2004

Teachers' Retirement System Investment Report

Despite uncertainty regarding the implications of the upcoming elections, the outlook for energy prices and the challenges of Iraq, the economy continues to post solid gains. Employment growth, while slower than many had anticipated, has been solid. Manufacturing capacity utilization has improved from 72.6% last year to 77.2% in the June quarter. Historically, capital spending has tended to accelerate when the utilization rate exceeds 80%. Such spending is a key ingredient to the economy's continued growth.

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

EQUITIES

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

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool net return was 31.70% which was less than the target return of 32.37%. The international equity return for the five year period improved to 2.81% from 0.06% in Fiscal Year 2003.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 27.26% of the total assets of TRS as of June 30, 2004. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index.

Over the 2004 Fiscal Year, the TRS domestic bond portfolio gained 0.61%, down from 10.69% the year before. The Lehman Brothers Aggregate Bond Index returned 0.32%, versus 10.40% during 2003 Fiscal Year.

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

REAL ESTATE

At the end of the 2004 Fiscal Year, TRS had 7.68% of its portfolio invested in real estate. At fiscal year end, the real estate portfolio totaled $300 million. The total return for real estate, net of fees, was 11.57% compared to 8.97% for the 2003 Fiscal Year. The five year total return was 9.26%.

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

PRIVATE EQUITY

During the 2004 Fiscal Year the Private Equity component of the TRS portfolio showed a net return of 21.42% with a five year annualized return of 5.30%.

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

	2000	2001	2002	2003	2004	Annualized 3 Year	Annualized 5 Year
Total Fund							
TRS	10.15%	(5.35%)	(5.49%)	3.68%	15.09%	4.09%	3.29%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
TRS Domestic Equities	10.41%	(12.20%)	(16.85%)	(0.97%)	20.06%	(0.38%)	(0.85%)
S&P 500	7.24%	(14.83%)	(17.99%)	0.25%	19.11%	(0.70%)	(2.20%)
International Stock Returns							
TRS International Equities	20.59%	(16.92%)	(8.24%)	(5.11%)	31.70%	4.67%	2.81%
Morgan Stanley Capital International EAFE	18.11%	(23.83%)	(9.49%)	(6.46%)	32.37%	3.87%	0.06%
Domestic Fixed Income							
TRS	4.56%	11.93%	8.16%	10.70%	0.61%	6.40%	7.11%
*Lehman Brothers Aggregate Index**	1.69%	11.22%	8.63%	10.40%	0.32%	6.36%	6.96%
International Fixed Income							
TRS	(3.27%)	(5.68%)	22.56%	24.48%	7.52%	17.93%	8.40%
Salomon Non-U.S. Government	2.42%	(7.43%)	15.73%	17.90%	7.60%	13.66%	6.84%
Real Estate Equity							
TRS	8.43%	11.37%	5.24%	8.97%	11.55%	8.61%	9.29%
NCREIF	11.61%	11.15%	5.60%	7.64%	10.83%	7.97%	9.40%

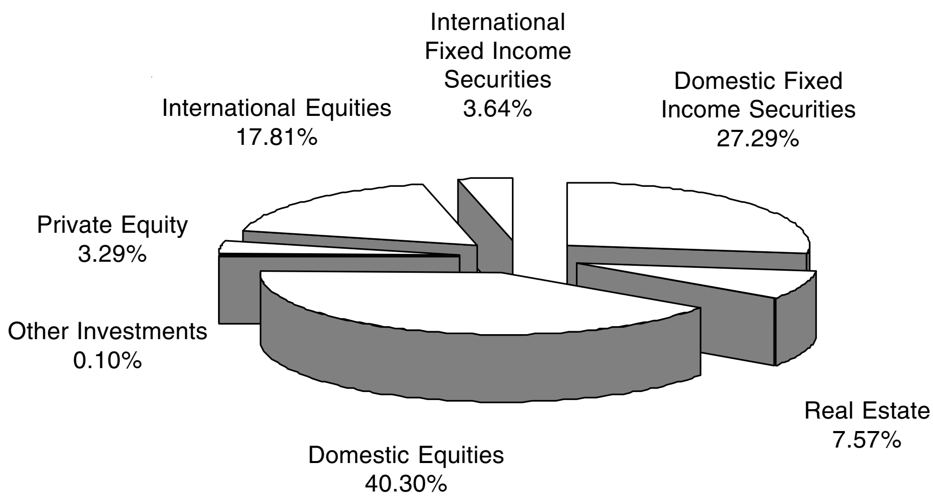
S&P 500 = Standard & Poor's Domestic Equity Stock Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index

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

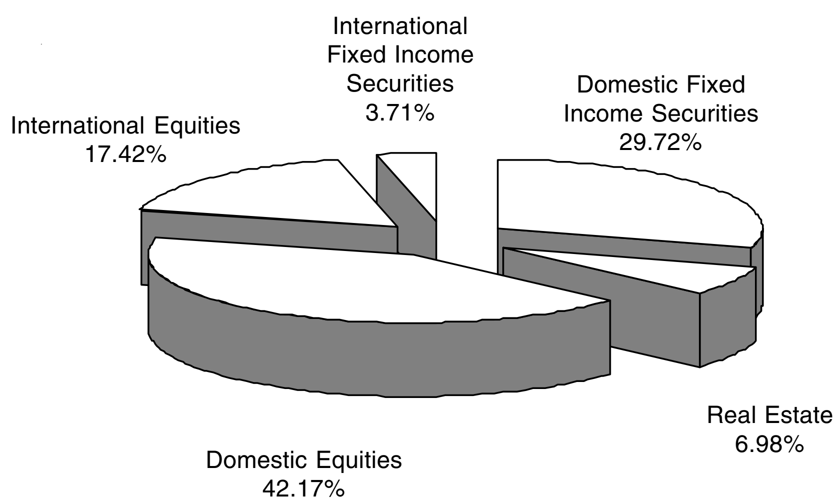
**Lehman Brothers Government/Corporate Index prior to 3/31/2000.*

Teachers' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2004



June 30, 2003



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

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

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

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

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

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	$1,124,342,920	$ 499,482
International Fixed Income		
Delaware International Advisers, Ltd.	441,865,513	212,105
Domestic Equity		
Capital Guardian Trust Co.	911,606,330	723,093
John McStay Investment Counsel	-	205,306
TCW Asset Management Company	276,694,373	598,693
State Street Global Advisors S&P 500 Index Fund	1,245,933,802	85,354
Invesco Capital Management, Inc.	629,918,856	271,527
Lazard Freres Asset Management	472,547,872	499,029
McKinley Capital Management, Inc.	258,953,686	291,164
Dresdner RCM Global Investors	445,419,327	413,270
Tukman Capital Management, Inc.	424,492,784	693,537
Turner Investment Partners	243,518,901	193,031
Total Domestic Equity	4,909,085,931	3,974,004
Private Equity		
Pathway Capital Management, LLC	44,018,420	147,040
Abbott Capital Management, L.P.	353,785,528	327,783
Total Private Equity	397,803,948	474,823
International Equity		
Bank of Ireland Asset Management Ltd.	376,911,016	423,374
Brandes Investment Partners, L.P.	760,967,591	865,483
Lazard Freres Asset Management	511,118,692	537,355
Capital Guardian Trust Co.	373,227,201	538,245
Total International Equity	2,022,224,500	2,364,457
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management	72,114,465	203,921
Capital Guardian Trust Co.	80,469,787	169,096
Total Emerging Markets Equity	152,584,252	373,017
Total External Management Fees	$9,047,907,064	7,897,888

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

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corporation		375,809
Investment Advisory		
Callan Associates Inc.		25,127
The Townsend Group		48,736
Total		73,863
Investment Performance Measurement		
Callan Associates Inc.		64,675
Total Other Management Fees		514,347
Total Management Fees		$ 8,412,235

Teachers' Retirement System
Investment Summary Schedule
June 30, 2004

	Teachers' Asset Allocation Policy	Teachers' Asset Allocation Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 522,580	0.05%	0.01%
Retirement Fixed Income Pool			705,056,898	66.08%	18.04%
External Domestic Fixed Income Pool			361,318,017	33.87%	9.24%
Total Domestic Fixed Income	30%	27-33%	1,066,897,495	**100.00%**	27.29%
International					
International Fixed Income Pool	3%	1-5%	142,128,648	**100.00%**	3.64%
Total Fixed Income Securities	**33%**	**28-38%**	**1,209,026,143**		**30.93%**
Participation in Pools Owning Domestic Equities					
Small cap[(1)] and Alternative Investments					
Domestic Equity Pool			309,543,397	19.65%	7.92%
Total Small Cap Domestic Equities and Alternative Investments	6%	4-8%	309,543,397	19.65%	7.92%
Large cap and Alternative Investments					
Domestic Equity Pool-active			663,894,248	42.14%	16.98%
Domestic Equity Pool-passive			602,006,319	38.21%	15.40%
Total Large Cap Domestic Equities and Alternative Investments	31%	28-34%	1,265,900,567	80.35%	32.38%
Total Domestic Equities	**37%**	**32-42%**	**1,575,443,964**	**100.00%**	**40.30%**
Participation in Pools Owning International Equities					
International Equity Pool			642,588,831	92.33%	16.44%
Emerging Markets Equity Pool			53,407,169	7.67%	1.37%
Total International Equities	**15%**	**12-18%**	**695,996,000**	**100.00%**	**17.81%**
Participation in Pools Owning Alternative Investments					
Private Equity Pools	6%	3-9%	128,570,997	97.05%	3.29%
Other Investment Pools			3,896,845	2.95%	0.10%
Total Alternative Investments	**6%**	**3-9%**	**132,467,842**	**100.00%**	**3.39%**
Participation in Real Estate					
Mortgages, net of allowances			60,808	0.02%	0.00%
Real Estate Pool			295,894,158	99.98%	7.57%
Total Real Estate	**9%**	**6-12%**	**295,954,966**	**100.00%**	**7.57%**
Total Invested Assets	**100%**		**$ 3,908,888,915**		**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.

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

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	$ 1,066,375			1,066,375
International fixed income	142,129			142,129
Equity securities				
Domestic equities	1,575,444			1,575,444
International equities	642,589			642,589
	$ 3,426,537	-	-	3,426,537
Not Categorized				
Emerging market equities				53,407
Private equities				128,571
Real estate equities				295,955
Other investments				3,897
Total investments not categorized				481,830
Total investments				**3,908,367**

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

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

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

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

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

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

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March 19, 2004

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & 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 Teachers' Retirement System has been prepared as of June 30, 2003 by Mercer Human Resource Consulting. The purposes of the report include:

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

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

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

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

(1) Summary of actuarial assumptions and methods

(2) Schedule of active member valuation data

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

(4) Solvency test

(5) Analysis of financial experience

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Human Resource Consulting

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

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY04 and a fixed 25-year amortization as a level percentage of pay of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities decreased from 68.2% to 64.3% during the year primarily due to lower than expected equity market returns. Over the years, progress has been made toward achieving the funding objectives of the System.

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

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

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

(2) changes in actuarial assumptions or methods;

(3) changes in statutory provisions; or

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

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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.

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

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

Sincerely,

Robert M Reynolds

Marcia L. Chapman

Robert M. Reynolds, ASA, MAAA

Marcia L. Chapman, FSA, EA, MAAA

MAG/CMB/RMR/kmp/cam

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

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

A. Valuation of Liabilities

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

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

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

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

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

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

B. Actuarial Assumptions

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

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

4.	Health Cost Trend	FY04 - 12.0% FY05 - 12.0% FY06 - 11.5% FY07 - 11.0% FY08 - 10.5% FY09 - 10.0% FY10 - 9.5%	FY11 - 9.0% FY12 - 8.5% FY13 - 8.0% FY14 - 7.5% FY15 - 7.0% FY16 - 6.0% FY17 and later 5.0%

5. Mortality — 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. All deaths are assumed to result from non-occupational causes.

6. Total Turnover — Select and ultimate rates based upon the 1997-99 actual withdrawal experience (See Table 1.)

7. Disability — Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

8. Retirement — Retirement rates based upon the 1997-99 actual experience in accordance with Table 3.

9. Spouse's Age — Wives are assumed to be four years younger than husbands.

10. Dependent Children — Benefits to dependent children have been valued assuming members who are not single have one dependent child.

11. Contribution Refunds — 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

12. C.O.L.A. — Of those benefit recipients who are eligible for the C.O.L.A., 65% are assumed to remain in Alaska and receive the C.O.L.A.

13. New Entrants — Growth projections are made for the active TRS population under three scenarios:

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

14. Sick Leave — 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired.

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

15.	Post-Retirement Pension Adjustment	50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
16.	Expenses	Expenses are covered in the investment return assumption.
17.	Part-Time Status	Part-time employees are assumed to earn 0.550 years of credited service per year.

C. Valuation of Assets

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

D. Valuation of Medical Benefits

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

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

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 8 Years of Employment

Year of Employment	Rate
1	.10
2	.10
3	.09
4	.09
5	.08
6	.07
7	.06
8	.05

Ultimate Rates of Turnover After the First 8 Years of Employment

Ages	Rate
20+	.04

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate
20	.28
21	.28
22	.29
23	.29
24	.30
25	.30
26	.30
27	.31
28	.32
29	.33
30	.34
31	.34
32	.35
33	.36
34	.37
35	.38
36	.40
37	.41
38	.43
39	.44
40	.46
41	.48
42	.51
43	.54
44	.59
45	.65
46	.70
47	.76
48	.83
49	.89
50	.96
51	1.04
52	1.14
53	1.27
54	1.42
55	1.60
56	1.84
57	2.14
58	2.44
59	2.88
60	3.37
61	3.90
62	4.52
63	5.22
64	5.96

Teachers' Retirement System
Summary of Actuarial Assumptions and Methods

Table 3
Retirement Rates

Age at Retirement	Retirement Rate
50	.05
51	.05
52	.05
53	.05
54	.05
55	.15
56	.13
57	.10
58	.10
59	.10
60	.10
61	.10
62	.10
63	.17
64	.17
65	.50
66 & up	1.00

Teachers retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Members currently under age 50 who have already attained 21 years of service are assumed to retire 1 year following the valuation date.

Teachers' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Average Increase/ (Decrease) In Average Pay	Number of Participating Employers
June 30, 2003	9,873	$532,630	$53,948	2.7%	57
June 30, 2002	9,690	509,064	52,535	3.9%	57
June 30, 2001	9,815	496,188	50,544	1.8%	60
June 30, 1999	9,396	466,414	49,640	(2.1)%	61
June 30, 1998	9,262	469,433	50,684	(0.4)%	61
June 30, 1997	9,164	466,455	50,901	1.3%	61
June 30, 1996	9,259	465,182	50,241	(0.5)%	61
June 30, 1995	9,452	477,205	50,487	0.6%	61
June 30, 1994	9,489	476,098	50,174	3.2%	61
June 30, 1993	9,459	459,746	48,604	0.2%	61

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

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Allowances	Average Annual Allowance
	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
June 30, 2003	599	$21,475,421	91	$3,377,352	8,312	$255,192,614	7.63%	$30,702
June 30, 2002	589	24,789,896	118	4,966,397	7,804	237,094,545	9.12%	30,381
June 30, 2001	1,057	39,213,327	210	7,790,727	7,333	217,271,046	16.91%	29,629
June 30, 1999	598	19,014,567	91	2,893,521	6,486	185,848,446	9.50%	28,654
June 30, 1998	674	24,479,595	38	1,380,155	5,979	169,727,400	15.75%	28,387
June 30, 1997	583	29,988,351 (1)	43	2,211,834 (1)	5,343	146,627,960	23.37%	27,443
June 30, 1996	376	8,410,895	32	441,353	4,803	118,851,443	7.19%	24,745
June 30, 1995	368	10,386,432	43	94,443	4,459	110,881,901	10.23%	24,867
June 30, 1994	280	8,923,551	37	616,360	4,134	100,589,912	9.00%	24,332
June 30, 1993	344	6,874,777	55	1,044,709	3,891	92,282,721	6.74%	23,717

* Numbers are estimated, and include other internal transfers.

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

Teachers' Retirement System Solvency Test

Valuation Date	Aggregate Accrued Liability For: (1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)	Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
June 30, 2003	$548,947	$4,105,445	$1,181,217	$3,752,285	100%	78.0%	0.0%
June 30, 2002[(1)(2)(3)]	523,142	3,755,882	1,132,618	3,689,036	100%	84.3%	0.0%
June 30, 2001	533,752	3,213,431	855,964	4,372,229	100%	100%	73.0%
June 30, 2000[(1)(2)(3)]	490,176	2,872,250	836,442	4,184,015	100%	100%	98.2%
June 30, 1999	469,068	2,571,345	680,541	3,815,633	100%	100%	100.0%
June 30, 1998	449,383	2,344,263	735,111	3,446,070	100%	100%	88.8%
June 30, 1997	483,735	2,095,843	780,491	3,120,044	100%	100%	69.2%
June 30, 1996[(2)]	451,249	1,689,636	799,552	2,858,756	100%	100%	89.8%
June 30, 1995	437,089	1,531,406	944,972	2,647,392	100%	100%	71.8%
June 30, 1994[(1)(2)]	398,990	1,419,506	942,913	2,472,957	100%	100%	69.4%

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

Teachers' Retirement System Analysis of Financial Experience

Change in 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 Employer Contribution Rate During Fiscal Year 2003	2002	2001	2000	1999
Health Experience	-	3.85%	-	-	-
Salary Experience	0.10%	(0.11)%	(1.68)%	-	(0.64)%
Investment Experience	0.43%	15.03%	1.35%	(3.35)%	(3.73)%
Demographic Experience	1.35%	4.21%	2.66%	(0.91)%	0.80%
Contribution Shortfall	1.40%	-	-	-	-
(Gain) or Loss During Year from Experience	3.28%	22.98%	2.33%	(4.26)%	(3.57)%
Non-recurring changes					
Asset Valuation Method	-	0.03%	-	(1.38)%	-
Past Service Amortization Change	-	(9.08)%	-	-	-
Assumption Changes	-	6.84%	-	6.68%	-
System Benefit Changes	-	-	0.17%	-	-
Administrative System Changes	-	-	3.49%	-	-
Ad hoc PRPA	-	0.36%	0.16%	0.16%	0.11%
Composite (Gain) or Loss During Year	3.28%	21.13%	6.15%	1.20%	(3.46)%
Beginning Total Employer Contribution Rate	35.57%	14.44%	8.29%	7.09%	10.55%
Ending Total Employer Contribution Rate	38.85%	35.57%	14.44%	8.29%	7.09%
Board Adopted Employer Contribution Rate	21.00%	16.00%	12.00%	11.00%	11.00%
Fiscal Year above rate is applied	FY06	FY05	FY04	FY03	FY02

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through July 1, 2003. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990.

(2) Administration of Plan

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

(3) Employers Included

Currently, there are 57 employers participating in the TRS, including the State of Alaska and 56 school districts and other eligible organizations.

(4) Membership

Membership in the Alaska TRS is mandatory for the following employees:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development and the Department of Labor and Workforce Development;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for worker's compensation benefits due to an on the job assault and who, as a result of the physical injury, is placed on leave without pay.

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

Employees who work half-time in the TRS and Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

(5) Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Part-time members receive membership credit for each day in proportion to full-time service. Credit is granted for all Alaskan public school service.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;
- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;
- Unused sick leave credit after members retire; and
- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

(6) Employer Contributions

TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

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

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

(7) Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (4) above.

1% Supplemental Contributions: Members who joined the system before July 1, 1982, and elected to participate in the supplemental contributions provision, are required to contribute an additional 1% of their salaries. Supplemental contributions are deducted from gross salaries before federal income taxes are withheld. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies (see (11) below).

Interest: Members' contributions earn 4.5% interest, compounded annually on June 30.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory 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.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

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

(8) Retirement Benefits

Eligibility:

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

(i) eight years of paid-up membership service;

(ii) 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;

(iii) five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;

(iv) 12 years of combined part-time and full-time paid-up membership service;

(v) two years of paid-up membership service if they are vested in the Public Employees' Retirement System (PERS); or

(vi) one year of paid-up membership service if they are retired from the PERS.

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

(i) 25 years of paid-up creditable service, the last five years of which are membership service;

(ii) 20 years of paid-up membership service;

(iii) 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or

(iv) 20 years of combined paid-up part-time and full-time membership service.

[1] Members participating before July 1, 1990 are eligible for normal retirement at age 55 or early retirement at age 50.

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 to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may select joint and survivor options. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of $25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990, is calculated at 2%.

Indebtedness: Members who terminate and refund their TRS contributions are not eligible to retire unless they return to TRS employment and pay

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

back their refunds, plus interest, or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

(9) Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement have two options available, the Standard Option or the Waiver Option.

Under the Standard Option, retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

If an Alaska school district has established that there is a shortage of teachers in a particular discipline or specialty and has passed a resolution to that effect, a retiree returning to work in a permanent full-time or part-time TRS position with that school district may exercise the Waiver Option. The Waiver Option allows a retiree who retired under a Normal Retirement to reemploy with a TRS employer and continue to receive a retirement benefit by signing a waiver of participation in the TRS. The Waiver Option became effective July 1, 2001 and applies to reemployment periods after that date.

The Waiver Option is not available to members who retired early or under the Retirement Incentive Program (RIP).

Members retired under the RIP who return to employment under the TRS, Public Employees' Retirement System (PERS), Judicial Retirement System (JRS) or the University of Alaska's Optional Retirement Plan will:

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

(b) owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; 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.

(10) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990, and (2) members who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

(11) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Members are appointed to normal retirement on the first of the month after they become eligible.

(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 supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary 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 average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

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, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

Lump Sum Benefit: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service, the beneficiary also receives $1,000 and $100 for each year of TRS service, up to a maximum of $3,000. An additional $500 may be payable if the member is survived by dependent children.

Supplemental Contributions Provision: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

Survivor's Allowance: If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.

Spouse's Pension: The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.

Death After Retirement: If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check.

(13) Post Retirement Pension Adjustments

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

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS 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 under age 60 if the recipient has been receiving benefits for at least eight years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990, if the CPI increases and the financial condition of the fund will permit an increase.

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

(14) Alaska Cost of Living Allowance

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

(a) members who were first hired under the TRS before July 1, 1990, and their survivors;

(b) members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and

(c) all disabled members.

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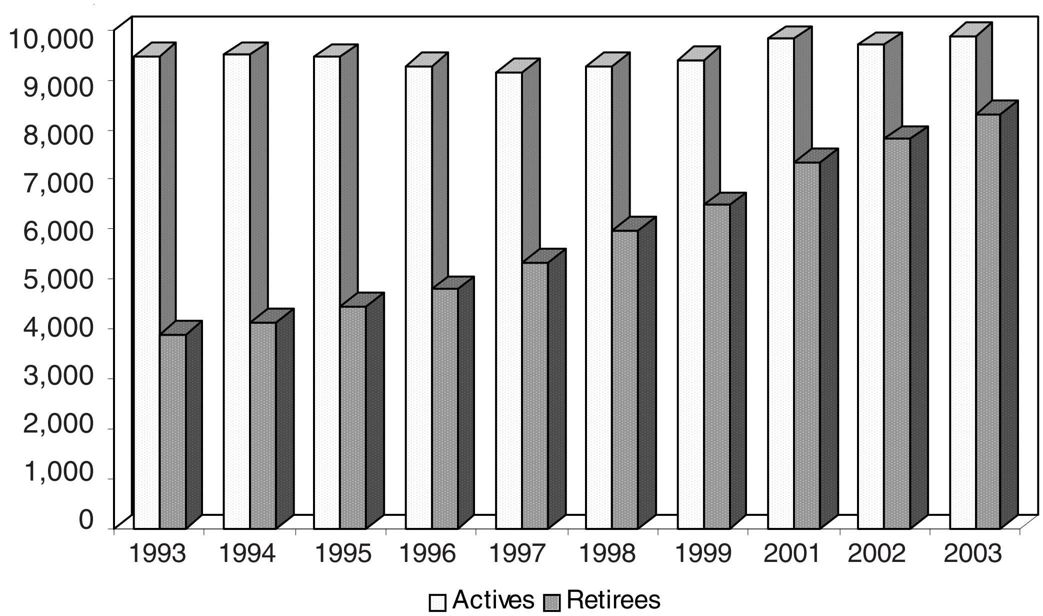
Teachers' Retirement System System Membership by Status					
Year ended June 30	**Active**	**Retirees & Beneficiaries**	**Vested Terminations**	**Nonvested Terminations w/Balance**	**Total**
1993	9,459	3,891	823	1,013	15,186
1994	9,489	4,134	930	1,090	15,643
1995	9,452	4,459	859	1,140	15,910
1996	9,259	4,803	1,116	1,195	16,373
1997	9,164	5,343	1,279	1,310	17,096
1998	9,262	5,979	1,064	1,285	17,590
1999	9,396	6,486	1,150	1,297	18,329
2001	9,815	7,333	767	2,207	20,122
2002	9,690	7,804	783	2,447	20,724
2003	9,873	8,312	708	2,327	21,220

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

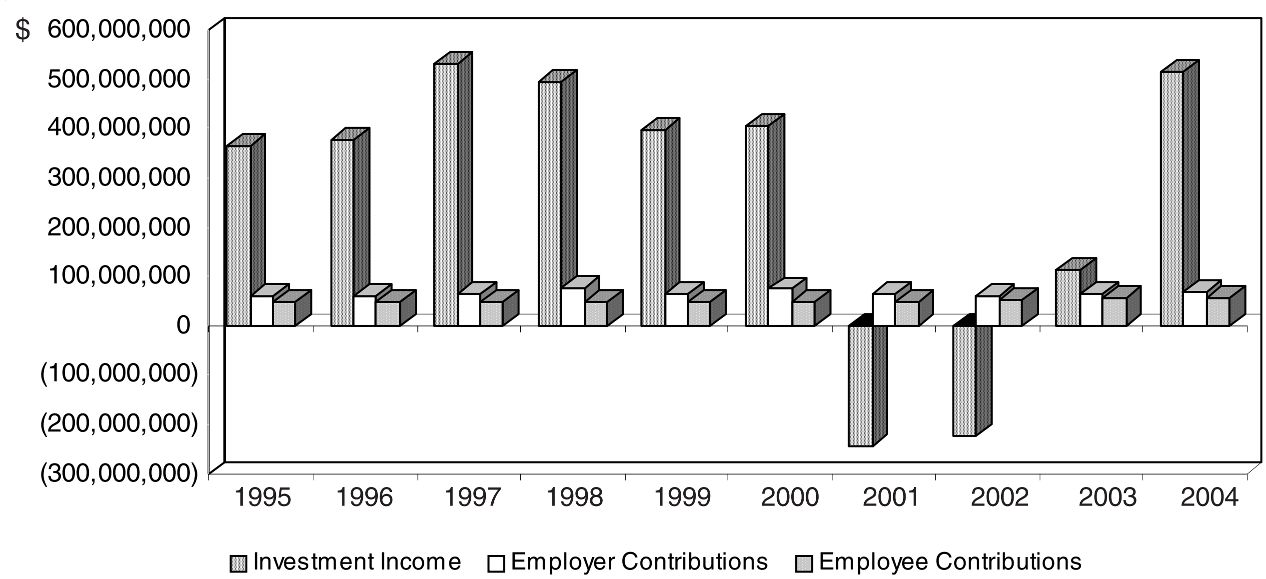
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



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

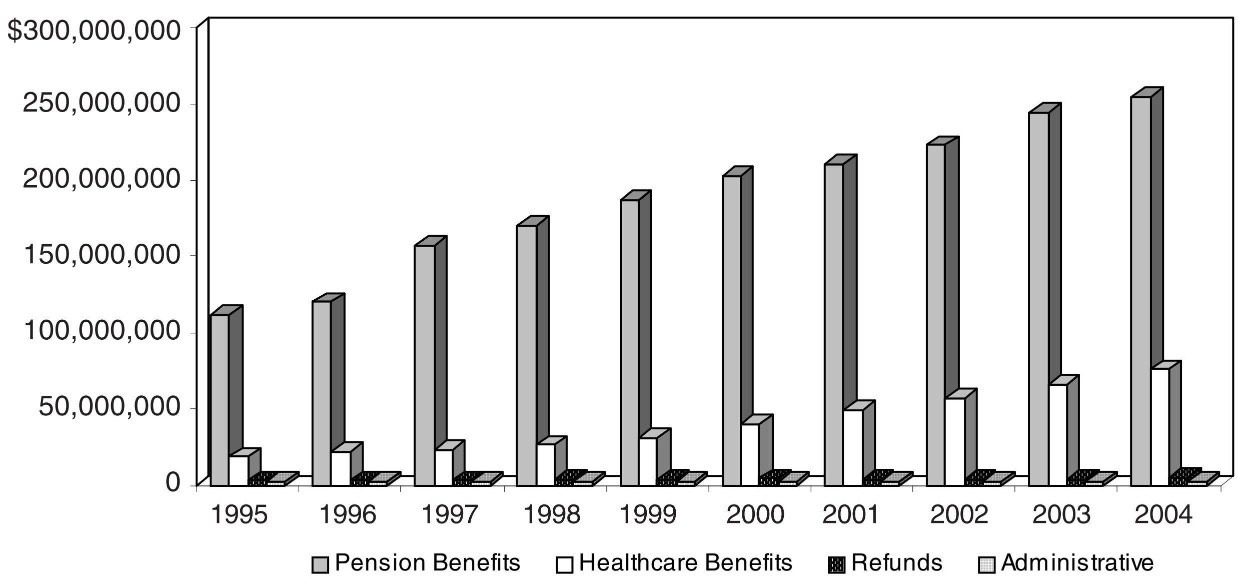
Teachers' Retirement System Revenues by Source (000's omitted)					
Year ended June 30	**Plan Member Contributions**	**Employer Contributions**	**Investment Income (Loss)**	**Other**	**Total**
1995	$ 47,477	$ 60,018	$ 363,645	$ (6)	$ 471,134
1996	47,980	61,162	379,312	27	488,481
1997	49,581	66,347	530,568	-	646,496
1998	50,056	77,782	496,990	10	624,838
1999	48,302	66,266	397,499	1	512,068
2000	48,505	74,714	406,609	-	529,828
2001	48,725	64,141	(245,363)	(4)	(132,501)
2002	51,074	61,402	(225,234)	4	(112,754)
2003	55,789	62,856	111,575	14	230,234
2004	57,365	68,692	513,964	77	640,098

TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES BY SOURCE

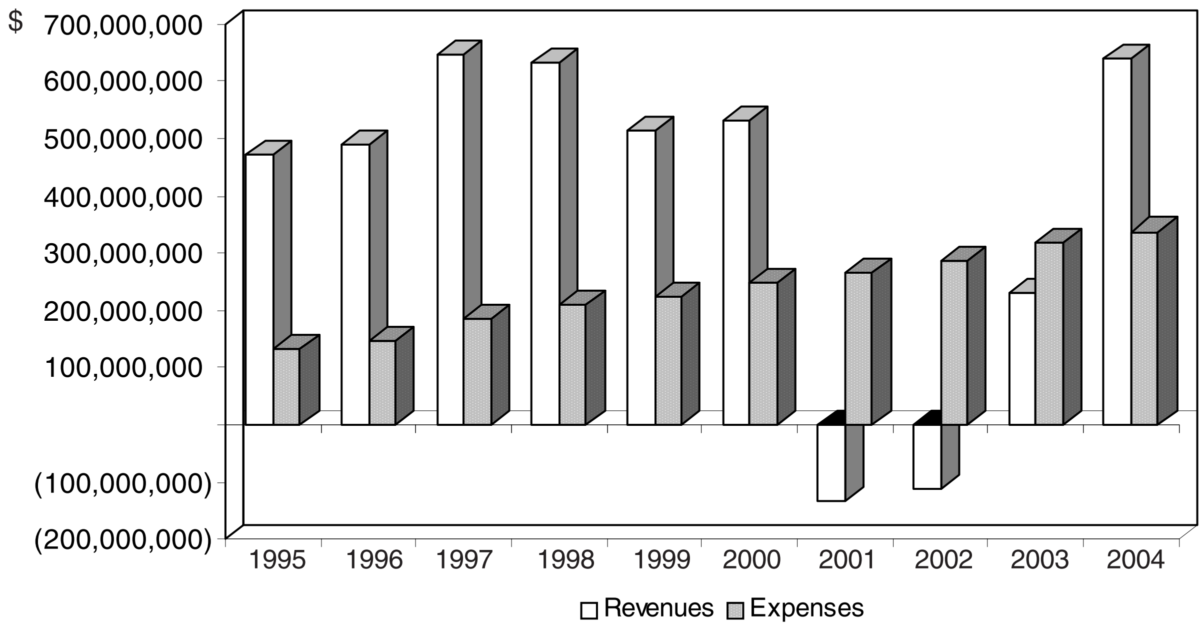


Teachers' Retirement System Expenses by Type (000's omitted)					
Year ended June 30	Pension Benefits	Healthcare Benefits	Refunds of Contributions	Administrative Expenses	Total
1995	$111,498	$18,264	$ 2,819	$ 1,821	$134,402
1996	119,949	21,655	2,629	2,055	146,288
1997	157,567	22,653	2,626	2,223	185,069
1998	169,831	26,123	3,489	2,231	201,674
1999	187,085	30,987	3,490	1,722	223,284
2000	202,927	40,183	4,118	1,717	248,945
2001	210,945	48,928	3,742	1,938	265,553
2002	222,897	56,946	3,120	2,095	285,058
2003	244,518	65,898	3,840	2,395	316,651
2004	255,409	75,601	4,189	2,203	337,402

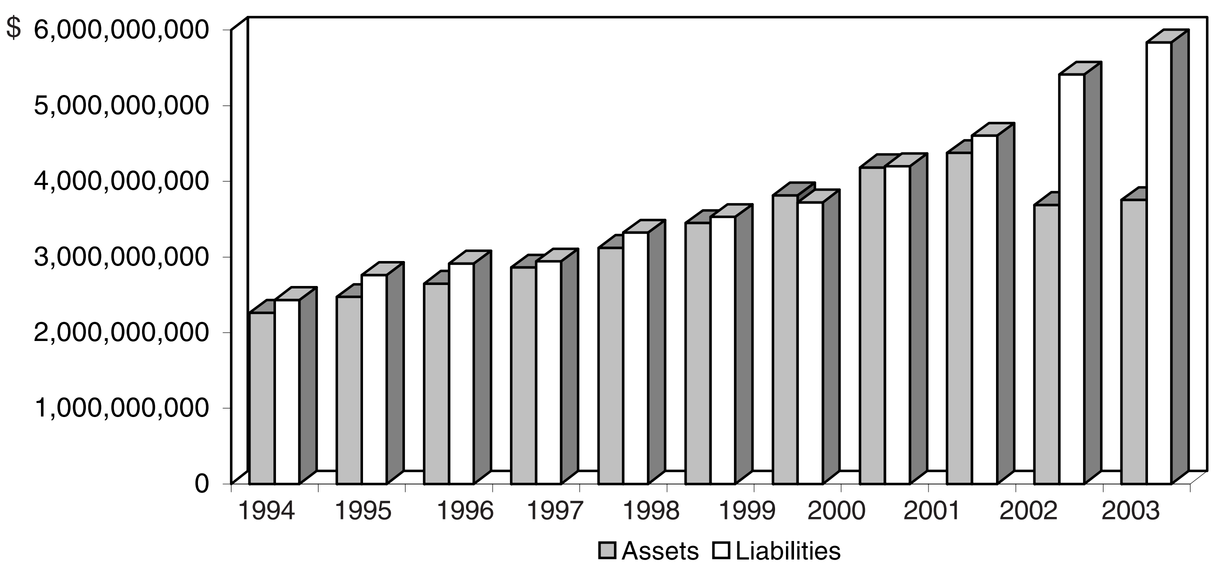
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF REVENUES AND EXPENSES



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

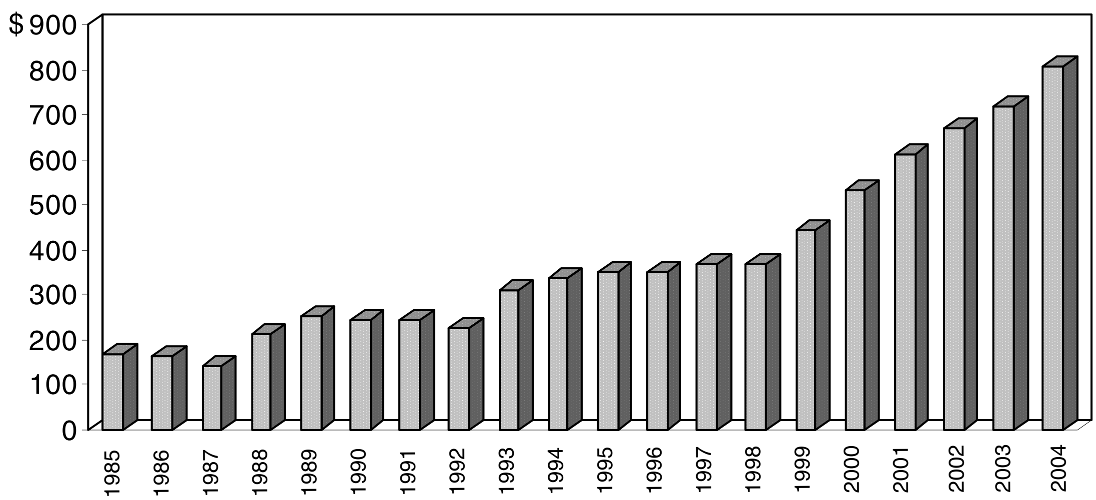


Teachers' Retirement System
Schedule of Benefit Expenses by Type
(000's omitted)

Year Ended June 30	Service	Disability	Survivor	Dependent[1]	COLA[2]	PRPA[3]	Healthcare	Total
1995	$ 85,933	$2,546	$2,513	$ -	$5,642	$14,864	$18,264	$129,762
1996	93,089	2,798	2,618	-	6,082	15,362	21,655	141,604
1997[1]	147,259	3,943	6,322	43	-	-	22,653	180,220
1998	160,409	3,693	5,691	38	-	-	26,123	195,954
1999	176,830	3,775	6,384	96	-	-	30,987	218,072
2000	191,138	4,601	7,059	129	-	-	40,183	243,110
2001	201,338	3,410	5,784	413	-	-	48,928	259,873
2002	213,106	2,979	6,320	492	-	-	56,946	279,843
2003	234,253	2,872	6,901	492	-	-	65,898	310,416
2004	245,122	2,483	7,345	459	-	-	75,601	331,010

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

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



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

Amount of Monthly Benefit	Number of Recipients	Type of Benefit 1	Type of Benefit 2	Type of Benefit 3	Option Selected 1	Option Selected 2	Option Selected 3	Option Selected 4
$ 1 - $ 300	105	82	23	0	58	20	21	6
301 - 600	270	211	59	0	151	50	57	12
601 - 900	466	371	95	0	266	93	82	25
901 - 1200	478	380	98	0	293	99	77	9
1201 - 1500	510	432	78	0	305	92	97	16
1501 - 1800	518	434	80	4	330	71	105	12
1801 - 2100	668	609	51	8	402	119	134	13
2101 - 2400	814	766	27	21	480	136	180	18
2401 - 2700	868	832	15	21	516	149	184	19
2701 - 3000	784	764	11	9	480	105	183	16
3001 - 3300	741	728	6	7	469	81	176	15
3301 - 3600	566	555	3	8	350	70	139	7
3601 - 3900	453	446	3	4	268	47	131	7
3901 - 4200	308	308	0	0	187	37	79	5
over 4200	763	762	1	0	437	84	223	19
Totals	8,312	7,680	550	82	4,992	1,253	1,868	199

Type of Benefit
1 - Normal retirement
2 - Survivor payment
3 - Disability

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

Teachers' 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+
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	$ 996	$ 828	$1,042	$1,692	$2,493	$3,353	$3,812
Number of Recipients	19	42	71	77	151	153	52
Period 7/1/97 - 6/30/98:							
Average Monthly Benefit	$1,051	$ 850	$1,095	$1,842	$2,590	$3,443	$4,280
Number of Recipients	26	51	80	105	240	154	57
Period 7/1/98 - 6/30/99:							
Average Monthly Benefit	$1,230	$ 820	$1,152	$1,691	$2,510	$3,285	$3,756
Number of Recipients	23	43	67	81	176	153	55
Period 7/1/99 - 6/30/01:							
Average Monthly Benefit	$1,514	$1,021	$1,488	$1,935	$2,435	$2,551	$2,864
Number of Recipients	2	33	101	237	374	201	109
Period 7/1/01 - 6/30/02:							
Average Monthly Benefit	$ 532	$ 795	$1,168	$1,706	$2,455	$3,126	$3,915
Number of Recipients	4	36	62	78	180	137	92
Period 7/1/02 - 6/30/03:							
Average Monthly Benefit	$ 236	$ 899	$1,153	$2,350	$2,835	$3,969	$5,133
Number of Recipients	16	40	69	91	264	87	32

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

Teachers' Retirement System
Participating Employers

Alaska Department of Education
Alaska Gateway School District
Alaska, University of
Alaska State Legislature
Aleutian Region School District
Aleutians East Borough School District
Anchorage School District
Annette Island School District

Bering Strait School District
Bristol Bay Borough School District

Chatham School District
Chugach School District
Copper River School District
Cordova City School District
Craig City School District

Delta-Greely School District
Denali Borough School District
Dillingham City School District

Fairbanks North Star Borough School District

Galena City School District

Haines Borough School District
Hoonah City School District
Hydaburg City School District

Iditarod Area School District

Juneau School District, City and Borough of

Kake City School District
Kashunamiut School District
Kenai Peninsula Borough School District
Ketchikan Gateway Borough School District
Klawock City School District
Kodiak Island Borough School District
Kuspuk School District

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

Matanuska-Susitna Borough School District

Nenana City School District
Nome City School District
North Slope Borough School District
Northwest Arctic Borough School District

Pelican City School District
Petersburg City School District
Pribilof School District

Saint Mary's School District
Sitka Borough School District
Skagway City School District
Southeast Island School District
Southeast Regional Resource Center
Southwest Region School District
Special Education Service Agency

Tanana School District

Unalaska City School District

Valdez City School District

Wrangell Public School District

Yakutat School District
Yukon Flats School District
Yukon-Koyukuk School District
Yupiit School District

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