TEACHERS' RETIREMENT SYSTEM
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Investment Section (continued)

November 18, 2005

The Honorable Frank H. Murkowski, Governor
Members of the Alaska State Legislature
Alaska Retirement Management 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, 2005.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy, completeness, and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2005. 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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures;* and GASB Statement No. 40, *Deposits and Investment Risk 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 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 and the Alaska Retirement Management Board;
- **Financial Section**, which contains the Independent Auditors' Report, management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a 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.

November 18, 2005

The 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		
	2005	2004	2003
Net Assets (millions)	$4,027.0	3,911.5	3,602.6
Participating Employers	58	58	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.

Prior to July 1, 2005, the Teachers' Retirement Board (Board) prescribed policies and regulations, heard appeals, and approved employers' contribution rates prepared by the System's independent actuary.

Prior to October 1, 2005, the ASPIB had statutory oversight of the System's investments and the authority to invest the System's monies.

The Alaska Retirement Management Board (ARMB) was constituted effective October 1, 2005, and replaces the Teachers' Retirement Board and the ASPIB. The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for member's individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;
- contracting for an independent audit of actuarial valuations and external performance calculations;
- providing a report to the legislature fifteen days after the first day of the legislative session on the short-term and long-term recommendations for addressing the unfunded liability of the System; and
- reporting to the governor, legislature and individual employers participating in the TRS on the financial condition of the system.

November 18, 2005

The Department of Revenue, Treasury Division (Treasury), is responsible for carrying out investment policies established by the ASPIB prior to October 1, 2005, and the ARMB beginning October 1, 2005. Actual investing continues to be performed by external investment firms and Treasury staff listed in the Investment Section of this report.

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.

The Teachers' Retirement Board looked at ways to reduce costs to the employers and address the unfunded status of the System while also balancing the need to provide adequate benefits in order to effectively recruit and retain new members. Senate Bill 141 was passed during the 2005 legislative session creating Tier III in the TRS. This new tier is a defined contribution plan and becomes effective for members entering the system on or after July 1, 2006.

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

The actuarial firm, Mercer Human Resource Consulting, Inc., completed the actuarial review and valuation 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, 2004. 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. We are confident our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements. Therefore, we are submitting it to the GFOA for consideration.

November 18, 2005

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 the most recent valuation report (June 30, 2003), 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 twenty-five-year period, as established by the Board. In order to bridge the gap between assets and liabilities of the System, the employer contribution rate is projected to increase over the same twenty-five-year period from the fiscal year 2004 rate of 12% to approximately 48% in fiscal year 2028, if the System's actual experience agrees with the assumptions underlying the valuation. The current asset allocation that the ASPIB set for the System's investments is expected to provide a five year median return of 7.84 percent.

There are three primary reasons that have contributed to the System's current funding ratio: (1) loss of investment income; (2) rising health care costs; and (3) change in assumptions. These three factors coupled together have negatively impacted the funding ratio for TRS and resulted in increasing employer contribution rates.

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 and where the System costs are. This "white paper" is titled "Employee Benefits and Retirement System Funding" and is located at: www.state.ak.us/drb/news/retirement-system-funding.pdf.

Currently, the Alaska TRS is among the few retirement systems that pre-fund and account for medical costs. The TRS system is fortunate in that the creators and administrators of the System had foresight to fund the healthcare costs in advance. Most other major governmental retirement systems only account for their current annual liability for healthcare costs. Once GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* is implemented, all systems will account for their future healthcare costs making comparisons between systems more meaningful. Implementation will occur with the largest plans no later than the financial reporting period beginning after December 15, 2005. The smallest plans will implement no later than the financial reporting period beginning after December 15, 2007.

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 System's monies.

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

November 18, 2005

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,

Scott J. Nordstrand
Commissioner

Melanie Millhorn
Director

Kevin Brooks
Deputy Commissioner

Charlene Morrision, CPA
Chief Financial Officer

Christina Maiquis, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System, Alaska

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

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.

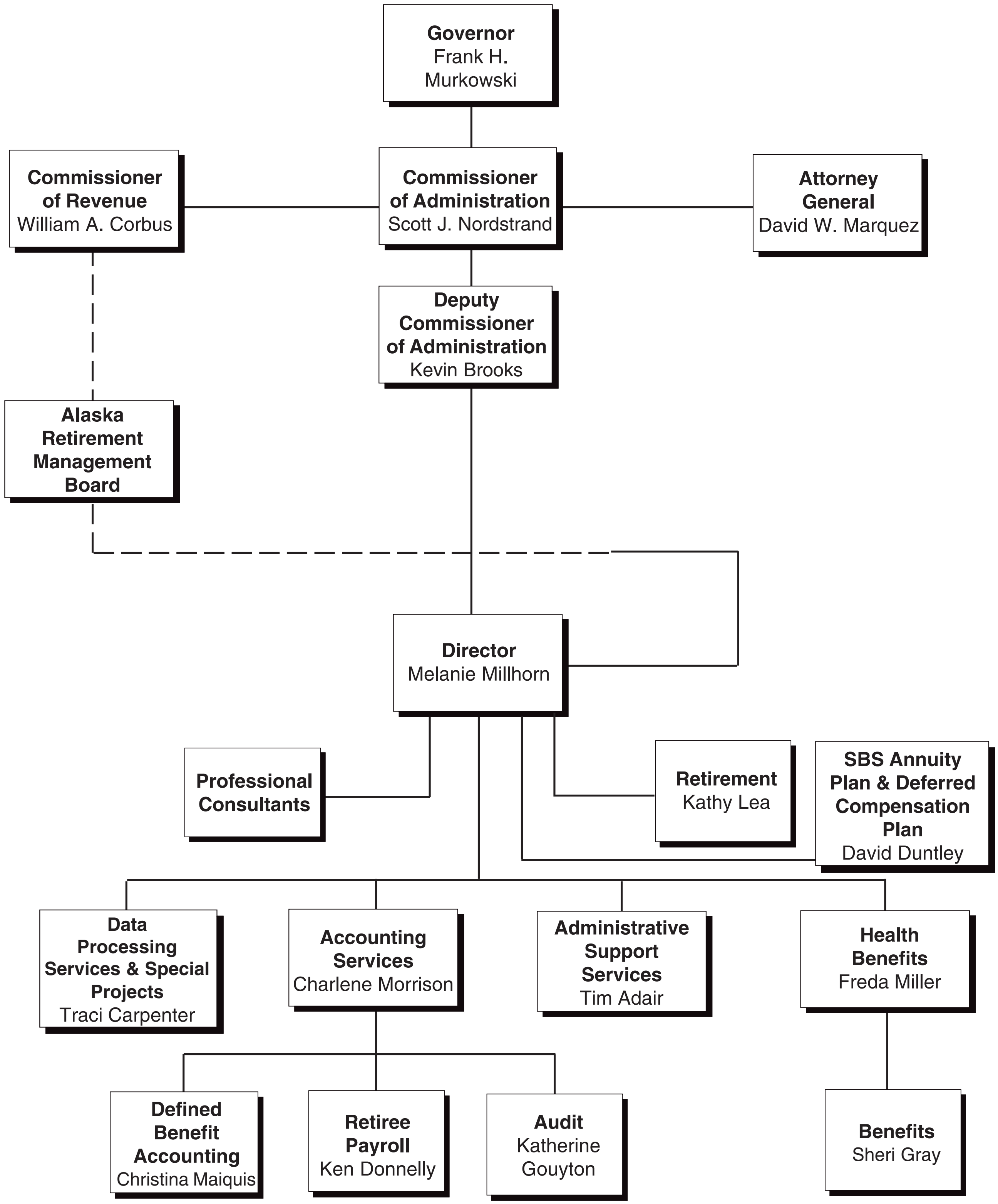
Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

ORGANIZATION CHART
(as of November 15, 2005)



Section Responsibilities

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

The **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 System uses. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the Systems' record center containing the 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
Toby Steinberger
Assistant Attorney Generals
Juneau, Alaska

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

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

A list of external money managers and consultants for the System can be found on pages 60-61, and the Schedule of Investment Management Fees on pages 68-69.

TEACHERS' RETIREMENT BOARD

(as of June 30, 2005)

Charlie Arteaga, Chair

Charlie Arteaga has been an Alaskan resident for thirty-three 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

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.

Richard Solie has been an Alaskan resident for thirty-three 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

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 seven through twelve, 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

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."

ALASKA RETIREMENT MANAGEMENT BOARD

The Alaska Retirement Management Board (ARMB) replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board effective October 1, 2005. The ARMB is made up of nine members appointed by the Governor. Initial ARMB members and their related term expiration dates are as follows:

Commissioner of Administration – Scott J. Nordstrand

Commissioner of Revenue – William A. Corbus

Two public members who are not members or beneficiaries of either the PERS or TRS:
Gail Schubert, Chair (March 1, 2007)
Martin R. Pihl (March 1, 2008)

One political subdivision finance officer – Lawrence A. Semmens (March 1, 2007)

Two members of the PERS:
Sam Trivette, Vice Chair (March 1, 2006)
Michael R. Williams (March 1, 2008)

Two members of the TRS:
Gayle W. Harbo, Secretary (March 1, 2006)
John R. Roses (March 1, 2008)

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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, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 15 to 21 and schedules of funding progress and employer contributions on pages 47 to 53 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.

KPMG

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 54 and 55 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 57 through 99 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 30, 2005, except as to note 7,
which is as of October 28, 2005

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

Management's Discussion and Analysis

June 30, 2005 and 2004

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, 2005 and 2004. 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, 2005 and 2004. Information for fiscal year 2003 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $4,026,995,000 and $3,911,515,000 at the close of fiscal years 2005 and 2004, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2005 and 2004 increased by $115,480,000 or 3.0% and increased by $308,896,000 or 8.6% over the closing balances of those assets in fiscal years 2004 and 2003, respectively.

Plan member and employer contributions received totaled $149,533,000 and $126,057,000 during fiscal years 2005 and 2004; an increase of $23,476,000 and $7,412,000 or 18.6% and 6.2% from fiscal years 2004 and 2003, respectively.

Net investment income decreased from $513,964,000 to $327,426,000 during fiscal year 2005 and increased from $111,575,000 to $513,964,000 during fiscal year 2004; reflecting a decrease of (36.3%) and increase of 360.6% from fiscal years 2004 and 2003, respectively.

Pension benefit and postemployment healthcare payments totaled $355,084,000 and $331,010,000 during fiscal years 2005 and 2004, respectively; reflecting an increase of $24,074,000 and $20,594,000 or 7.3% and 6.6% from fiscal years 2004 and 2003, 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 amount of liabilities. The Statement of Plan Net Assets classifies assets, liabilities, and net assets as current, noncurrent, 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, operating expenses, and transfers.

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

June 30, 2005 and 2004

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 of the Plan and actuarial assumptions and methods used in the actuarial valuation.

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

June 30, 2005 and 2004

Condensed Financial Information

NET ASSETS
(000's omitted)

Description	2005	2004	Increase/Decrease Amount	Increase/Decrease %	2003
Assets:					
Cash and receivables	$ 4,695	6,475	(1,780)	(27.5)%	6,849
Securities lending collateral	308,847	464,744	(155,897)	(33.5)	468,380
Investments, at fair value	4,025,669	3,908,306	117,363	3.0	3,598,476
Other assets	48	61	(13)	(21.3)	88
Total assets	4,339,259	4,379,586	(40,327)	(0.9)	4,073,793
Liabilities:					
Accrued expenses	2,870	3,288	(418)	(12.7)	2,794
Securities lending collateral payable	308,847	464,744	(155,897)	(33.5)	468,380
Other liabilities	547	39	508	1,302.6	-
Total liabilities	312,264	468,071	(155,807)	(33.3)	471,174
Total net assets	$4,026,995	3,911,515	115,480	3.0%	3,602,619

CHANGES IN NET ASSETS
(000's omitted)

	2005	2004	Increase/Decrease Amount	Increase/Decrease %	2003
Net assets, beginning of year	$3,911,515	3,602,619	308,896	8.6%	3,689,036
Additions:					
Contributions	149,533	126,057	23,476	18.6	118,645
Net investment income	327,426	513,964	(186,538)	(36.3)	111,575
Other additions	10	77	(67)	(87.0)	14
Transfer in from Retiree Health Fund	-	6,200	(6,200)	(100.0)	-
Total additions	476,969	646,298	(169,329)	(26.2)	230,234
Deductions:					
Benefits	355,084	331,010	24,074	7.3	310,416
Refunds	4,376	4,189	187	4.5	3,840
Administrative expenses	2,029	2,203	(174)	(7.9)	2,395
Total deductions	361,489	337,402	24,087	7.1	316,651
Increase (decrease) in net assets	115,480	308,896	(193,416)	(62.6)	(86,417)
Net assets, end of year	$4,026,995	3,911,515	115,480	3.0%	3,602,619

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

Management's Discussion and Analysis

June 30, 2005 and 2004

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2005 and 2004 showed total assets exceeding total liabilities by $4,026,995,000 and $3,911,515,000. 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 represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $115,480,000 or 3.0% and a decrease of $308,896,000 or (8.6%) from fiscal years 2004 and 2003. 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/return level given the Plan's constraints and objectives. During fiscal year 2005, ASPIB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed income, 2% in international fixed income, 9% in real estate, 6% in private equity, 2% in high yield, 3% in absolute return, and 3% in other. This asset allocation is expected to provide a five year median return of 7.84%.

For fiscal years 2005 and 2004, the Plan's investments generated a 9.01% and a 15.09% rate of return, respectively. The Plan's annualized rate of return was 9.16% over the last three years and 3.06% 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 employer contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2005 and a fixed amortization of the unfunded accrued liability. The amortization period is set by the Teachers' Retirement Board. Employer contribution levels are recommended by the Actuary and adopted by the Board each year. Increasing healthcare costs continued to impact the Plan's funding ratio. The ratio of assets to liabilities was 64.3%, using June 30, 2003, net assets as a base (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make progress toward achieving the funding objectives of the Plan.

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

	Valuation Year (000's omitted)	
	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

June 30, 2005 and 2004

Contributions and Investment Income

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)

	2005	2004	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2003
Plan Member Contributions	$ 55,993	57,365	(1,372)	(2.4)%	55,789
Employer Contributions	93,540	68,692	24,848	36.2	62,856
Net Investment Income	327,426	513,964	(186,538)	(36.3)	111,575
Total	**$476,959**	**640,021**	**(163,062)**	**(25.5)%**	**230,220**

Employer contributions increased from $68,692,000 in fiscal year 2004 to $93,540,000 during fiscal year 2005, an increase of $24,848,000 or 36.2%. 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 employer contribution rate increased from 12% in fiscal year 2004 to 16% in fiscal year 2005. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation used to set fiscal year 2005 employer contribution rates). Increases experienced in fiscal year 2004 are due to normal differences between actual experience and experience assumed in the valuation.

Investment income in fiscal year 2005 decreased by $186,538,000 or (36.3%) from amounts recorded in fiscal year 2004. Investment income in fiscal year 2004 increased by $402,389,000 or 360.6% from amounts recorded in fiscal year 2003. Changes in both years are due to the performance of the equity markets. Returns in these markets in fiscal year 2004 were in excess of 20% compared to a negative return in fiscal year 2003. Likewise, returns in these markets in fiscal year 2005 were back in the 4.5% range for domestic securities and 15% range for international securities. The Plan's investment in equities represent more than 50% of total investments.

Over the long term, the investment portfolio has been a major component in additions to plan assets. During fiscal year 2005, the Plan continued to record significant rates of return on investments. The Plan's rate of return for fiscal year 2005 was 9.01%. The rate of return used in the actuarial valuation report to determine liabilities of the plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the second consecutive year.

During 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund, the result was an excess computed amount of net assets not specifically identified for other reserves. The excess amount of $20,000,000 was moved back to the respective retirement system. In fiscal year 2004, the Plan recognized a transfer of $6,200,00 from the Retiree Health Fund.

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Management's Discussion and Analysis

June 30, 2005 and 2004

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)

	2005	2004	Increase/(Decrease) Amount	%	2003
Pension Benefits	$ 269,414	255,409	14,005	5.5%	244,518
Healthcare Benefits	85,670	75,601	10,069	13.3	65,898
Refunds of Contributions	4,376	4,189	187	4.5	3,840
Administrative Expenses	2,029	2,203	(174)	(7.9)	2,395
Total	**$ 361,489**	**337,402**	**24,087**	**7.1%**	**316,651**

Pension benefit payments in 2005 and 2004 increased $14,005,000 and $10,891,000 or 5.5% and 4.5% from fiscal years 2004 and 2003, 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 2005.

Postemployment healthcare benefits in 2005 and 2004 increased $10,069,000 and $9,703,000 or 13.3% and 14.7% from fiscal years 2004 and 2003, 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.

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.
- The ASPIB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During the fiscal year 2005 legislative session, two laws were enacted that affect the Plan:

House Bill 161 – An Act relating to reemployment of and benefits for retired teachers and public employees and to teachers or employees who participated in retirement incentive programs and are subsequently reemployed as a commissioner; and providing for an effective date.

Senate Bill 141 – An Act creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2006; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; and providing for an effective date.

STATE OF ALASKA
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Management's Discussion and Analysis

June 30, 2005 and 2004

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

Overall, the Plan's investments returned 9.01% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the second consecutive year. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely continue to see an increase in employer contribution rates.

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/return 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 or experiences costs in excess of those assumed, 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 reported a funding ratio of 64.3%, down from fiscal year 2002's funding ratio of 68.2%.

The consulting actuary recommended an increase 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, 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 and Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

STATE OF ALASKA
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Statements of Plan Net Assets

June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 5):						
Short-term fixed income pool	$ 428	157	585	415	108	523
Securities lending collateral	225,998	82,849	308,847	368,662	96,082	464,744
Total cash and cash equivalents	226,426	83,006	309,432	369,077	96,190	465,267
Receivables:						
Contributions	3,008	1,102	4,110	4,722	1,230	5,952
Total receivables	3,008	1,102	4,110	4,722	1,230	5,952
Investments (notes 3, 4, 5 and 7):						
Domestic equity pool	1,420,291	120,279	1,540,570	1,311,697	263,747	1,575,444
Domestic fixed income pool	662,788	242,972	905,760	845,912	220,463	1,066,375
International equity pool	450,569	165,174	615,743	509,739	132,850	642,589
Real estate pool	282,974	103,735	386,709	234,721	61,173	295,894
International fixed income pool	109,180	40,025	149,205	112,745	29,384	142,129
Private equity pool	129,882	47,613	177,495	101,990	26,581	128,571
Emerging markets equity pool	52,832	19,368	72,200	42,366	11,041	53,407
Other investment pools	10,862	3,982	14,844	3,091	806	3,897
High yield pool	47,363	17,363	64,726	-	-	-
Absolute return pool	72,016	26,401	98,417	-	-	-
Total investments	3,238,757	786,912	4,025,669	3,162,261	746,045	3,908,306
Loans and mortgages, net of allowance for loan losses of $29 in 2005 and $30 in 2004	35	13	48	48	13	61
Total assets	3,468,226	871,033	4,339,259	3,536,108	843,478	4,379,586
Current liabilities:						
Accrued expenses	2,100	770	2,870	2,608	680	3,288
Securities lending collateral payable (note 5)	225,998	82,849	308,847	368,662	96,082	464,744
Due to State of Alaska General Fund	401	146	547	31	8	39
Total liabilities	228,499	83,765	312,264	371,301	96,770	468,071
Commitments and contingencies (note 7)						
Net assets held in trust for pension and postemployment healthcare benefits	**$ 3,239,727**	**787,268**	**4,026,995**	**3,164,807**	**746,708**	**3,911,515**

(Schedules of funding progress are presented on pages 47 and 48.)

See accompanying notes to financial statements.

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Statements of Changes in Plan Net Assets

Years ended June 30, 2005 and 2004
(000's omitted)

	2005			2004		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 68,448	25,092	93,540	54,492	14,200	68,692
Plan members	40,973	15,020	55,993	45,505	11,860	57,365
Total contributions	109,421	40,112	149,533	99,997	26,060	126,057
Investment income:						
Net appreciation in fair value of investments (note 3)	159,596	58,507	218,103	322,858	84,144	407,002
Interest	42,892	15,725	58,617	47,863	12,475	60,338
Dividends	48,485	17,773	66,258	47,238	12,311	59,549
Total investment income	250,973	92,005	342,978	417,959	108,930	526,889
Less investment expense	11,380	4,172	15,552	10,253	2,672	12,925
Net investment income	239,593	87,833	327,426	407,706	106,258	513,964
Other	7	3	10	61	16	77
Transfer in from Retiree Health Fund (note 6)	-	-	-	-	6,200	6,200
Total additions	349,021	127,948	476,969	507,764	138,534	646,298
Deductions						
Benefits	269,414	85,670	355,084	255,409	75,601	331,010
Refunds of contributions	3,202	1,174	4,376	3,323	866	4,189
Administrative expenses	1,485	544	2,029	1,748	455	2,203
Total deductions	274,101	87,388	361,489	260,480	76,922	337,402
Net increase	74,920	40,560	115,480	247,284	61,612	308,896
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	3,164,807	746,708	3,911,515	2,917,523	685,096	3,602,619
Balance, end of year	**$3,239,727**	**787,268**	**4,026,995**	**3,164,807**	**746,708**	**3,911,515**

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2005 and 2004

(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.

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, the number of participating local government employers was:

	2005	2004
State of Alaska	1	1
School districts	53	53
Other	4	4
Total employers	**58**	**58**

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, 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**

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.

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.

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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.

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.

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, 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

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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).

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.

Contributions

Plan Member Contributions

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.

Employer Contributions

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

Administrative Costs

Administrative costs are financed through investment earnings.

Due To State of Alaska General Fund

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

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

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

GASB Statements No. 25 and No. 26

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.

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on equity securities is accrued on the exdividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

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

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the midpoint between the bid and asked price or at prices for securities of comparable maturity, quality, and type. Money market funds are valued at amortized cost, which approximates fair value.

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

Emerging markets securities are valued at their current market or fair values on the last business day of each month by the Trustee.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

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

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

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

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

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2005 and 2004, the allowance for loan loss totaled $28,904 and $29,683, respectively and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

The cost of securities is determined on the average cost basis.

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

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

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

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Notes to Financial Statements

June 30, 2005 and 2004

Contributions Receivable

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

Federal Income Tax Status

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

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2004 amounts in order to conform to the 2005 presentation.

(3) INVESTMENTS

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments. 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.

The Department of Revenue, Treasury Division (Treasury), provides staff for the ASPIB. Treasury has created a pooled environment by which it manages the investments the ASPIB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. The ASPIB has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short-term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2005 and 2004, the Plan had a 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $7,098 and $3,631, respectively. The Plan had a 1.58% and 3.45% indirect ownership in the short-term fixed income pool at June 30, 2005 and 2004, respectively.

Domestic Fixed Income Pool

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

<u>Retirement Fixed Income Pool</u>

The Plan participates in the ASPIB's internally managed retirement fixed income pool which

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June 30, 2005 and 2004

was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2005, was $1,848. Treasury 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, 2005 and 2004, the Plan had a 32.08% and 32.39% ownership in the retirement fixed income pool, respectively.

External Domestic Fixed Income Pool

The Plan participates in the ASPIB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2005, was $1,546. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.33% and 32.14% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ASPIB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $1,790. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.68% and 32.17% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ASPIB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2005, was $1,016. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.86% ownership in the high yield pool.

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June 30, 2005 and 2004

Domestic Equity Pool

Effective July 1, 2004, the domestic equity pool was replaced with an external large cap domestic equity pool and an external small cap domestic equity pool. At June 30, 2004, the Plan had a 32.09% ownership in the domestic equity pool.

Large Cap Domestic Equity Pool

The Plan participates in the ASPIB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,050. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.61% ownership in the large cap domestic equity pool.

Small Cap Domestic Equity Pool

The Plan participates in the ASPIB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,019. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005, the Plan had a 31.64% ownership in the small cap domestic equity pool.

International Equity Pool

The Plan participates in the ASPIB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2005, was $2,622. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2005 and 2004, the Plan had a 31.30% and 31.78% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ASPIB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2005, was $1,944. The pool participates in two externally managed commingled investment funds through ownership of equity

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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, 2005 and 2004, the Plan had a 35.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ASPIB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2005, was $1,365. Underlying assets in the pool are comprised of venture capital, buy-outs, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each 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, 2005 and 2004, the Plan had a 31.85% and 32.32% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ASPIB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,027. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each 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, 2005, the Plan had a 31.85% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ASPIB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2005, was $1,065. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each 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

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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, 2005 and 2004, the Plan had a 31.85% and 32.32% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ASPIB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2005, was $2,104. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determine the permissible real estate investment trusts to invest in. 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, 2005 and 2004, the Plan had a 31.64% and 31.80% ownership in the real estate pool, respectively.

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

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	3,078	-	1,405	4,483
Overnight Sweep Account	42	438	-	17,461	-	17,941
Money Market Fund	-	-	-	-	308,847	308,847
Short-term Investment Fund	-	-	1,038	-	10,356	11,394
Commercial Paper	2,336	4,319	-	-	-	6,655
U.S. Treasury Bills	1,831	-	-	-	-	1,831
U.S. Treasury Notes	1,590	48,100	-	-	-	49,690
U.S. Treasury Bonds	-	58,628	-	-	-	58,628
U.S. Treasury Strips	-	11,949	-	-	-	11,949
U.S. Government Agency						
Discount Notes	404	3,422	-	-	-	3,826
U.S. Government Agency	-	59,322	-	-	-	59,322
Municipal Bonds	-	454	-	-	-	454
Foreign Government Bonds	-	-	99,521	-	-	99,521
Mortgage-backed	4,621	435,195	-	-	-	439,816
Other Asset-backed	12,960	52,868	-	127	-	65,955
Corporate Bonds	5,878	203,649	46,334	44,284	-	300,145
Convertible Bonds	-	-	-	676	-	676
Yankees:						
Government	-	4,501	-	-	-	4,501
Corporate	225	3,259	-	1,364	-	4,848
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	83,089	83,089
Equity	-	-	-	-	1,436,975	1,436,975
International Equity Pool:						
Convertible Bonds	-	-	-	-	144	144
Equity	-	-	-	-	603,648	603,648
Emerging Markets Equity Pool	-	-	-	-	72,200	72,200
Private Equity Pool:						
Limited Partnerships	-	-	-	-	177,452	177,452
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	98,417	98,417
Other Investments Pool:						
Limited Partnerships	-	-	-	-	7,056	7,056
Agricultural Holdings	-	-	-	-	7,788	7,788
Real Estate Pool:						
Real Estate	-	-	-	-	221,307	221,307
Commingled Funds	-	-	-	-	80,431	80,431
Limited Partnerships	-	-	-	-	48,734	48,734
Real Estate Investment Trusts	-	-	-	-	35,631	35,631
Mortgages	-	-	-	-	48	48
Net Other Assets (Liabilities)	308	7,684	(766)	814	3,707	11,747
Ownership by Other Pools	(29,610)	11,972	-	-	17,638	-
Invested assets	**$ 585**	**905,760**	**149,205**	**64,726**	**3,214,873**	**4,335,149**

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Interest Rate Risk

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

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2005, was 4.16 years.

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to ± 25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2005, was 6.09 years.

Through the ASPIB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ±20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2005, was 4.58 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

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

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

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At June 30, 2005, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	International	High yield
U.S. Treasury Notes	3.27	-	-
U.S. Treasury Bonds	10.10	-	-
U.S. Treasury Strips	17.29	-	-
U.S. Government Agency	5.69	-	-
Municipal Bonds	13.95	-	-
Foreign Government Bonds	-	5.59	-
Mortgage-Backed	2.50	-	-
Other Asset-Backed	1.19	-	5.28
Corporate Bonds	5.27	4.17	3.59
Convertible Bonds	-	-	4.54
Yankees:			
Government	6.98	-	-
Corporate	7.68	-	4.43
Portfolio effective duration	3.99	5.00	2.64

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Credit Risk

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

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

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

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

Domestic fixed income:

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

Corporate debt securities must be investment grade;

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

International fixed income:

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

Domestic and international equity:

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

High yield:

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

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

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

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

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

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At June 30, 2005, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool				International
	Rating[1]	Short-term	Domestic	International	High Yield	Equity
Overnight Sweep Account	Not Rated	-%	-%	-%	27%	-%
Short-term Investment Account	Not Rated	-	-	1	-	1
Commercial Paper	A	8	1	-	-	-
U.S. Government Agency Discount Notes	Not Rated	1	-	-	-	-
U.S. Government Agency	Not Rated	-	6	-	-	-
Foreign Government	AAA	-	-	53	-	-
Foreign Government	AA	-	-	9	-	-
Foreign Government	A	-	-	5	-	-
Mortgage-backed	AAA	15	13	-	-	-
Mortgage-backed (Agency)	Not Rated	-	34	-	-	-
Other Asset-backed	AAA	39	6	-	-	-
Other Asset-backed	A	3	-	-	-	-
Corporate Bonds	AAA	1	3	24	-	-
Corporate Bonds	AA	11	3	7	-	-
Corporate Bonds	A	9	7	-	-	-
Corporate Bonds	BBB	-	10	-	1	-
Corporate Bonds	BB	-	-	-	17	-
Corporate Bonds	B	-	-	-	43	-
Corporate Bonds	CCC	-	-	-	8	-
Convertible Bonds	B	-	-	-	1	-
Yankees:						
Government	BBB	-	1	-	-	-
Corporate	A	1	-	-	-	-
Corporate	BB	-	-	-	1	-
Corporate	B	-	-	-	1	-
No credit exposure		12	16	1	1	99
		100%	100%	100%	100%	100%

1 - Rating modifiers are not disclosed.

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

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ASPIB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2005, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International fixed income pool	$ 3,078
International equity pool	1,374
	$ 4,452

Foreign Currency Risk

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

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

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

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

At June 30, 2005, the Plan had exposure to foreign currency risk with the following deposits:

	Amount (In thousands)	
Currency	**International fixed income pool**	**International equity pool**
Australian Dollar	$ 32	11
Canadian Dollar	-	9
Danish Krone	-	58
Euro Currency	-	205
Hong Kong Dollar	-	79
Japanese Yen	3,046	544
New Zealand Dollar	-	1
Norwegian Krone	-	115
Pound Sterling	-	107
Singapore Dollar	-	1
Swiss Franc	-	2
	$3,078	**1,132**

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At June 30, 2005, the Plan had exposure to foreign currency risk with the following investments:

	Amount (In thousands)				
	International fixed income pool		International equity pool		Private equity pool
Currency	**Foreign government**	**Corporate**	**Convertible bonds**	**Equity**	**Limited partnerships**
Australian Dollar	$ -	-	-	10,121	-
Canadian Dollar	-	-	-	9,437	-
Danish Krone	-	-	-	1,316	-
Euro Currency	-	-	-	226,660	18,315
Hong Kong Dollar	-	-	-	6,180	-
Japanese Yen	13,063	46,334	-	122,839	-
New Zealand Dollar	-	-	-	2,277	-
Norwegian Krone	-	-	-	5,811	-
Polish Zloty	7,933	-	-	-	-
Pound Sterling	-	-	-	120,045	394
Singapore Dollar	-	-	-	8,496	-
South African Rand	-	-	-	2,162	-
South Korean Won	-	-	-	4,497	-
Swedish Krona	78,525	-	-	5,308	-
Swiss Franc	-	-	144	49,913	-
	$ 99,521	**46,334**	**144**	**575,062**	**18,709**

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At June 30, 2005, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

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

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

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

At June 30, 2005, the Plan's investments included $279.6 million in Federal National Mortgage Association securities which represented 6% of Plan total assets.

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The cost and fair value of the Plan's investments at June 30 are as follows (in thousands):

	Cost	Fair Value
2005:		
Domestic equity pool	$ 1,303,618	1,540,570
Domestic fixed income	895,168	905,760
International equity pool	617,677	615,743
Real estate pool	341,377	386,709
International fixed income pool	140,437	149,205
Private equity pool	201,686	177,495
Emerging markets equity pool	50,413	72,200
Other investments pool	14,556	14,844
High yield pool	64,411	64,726
Absolute return pool	95,368	98,417
	$ 3,724,711	**4,025,669**
2004:		
Domestic equity pool	$ 1,312,303	1,575,444
Domestic fixed income pool	1,072,905	1,066,375
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
Other investments pool	3,878	3,897
	$ 3,638,295	**3,908,306**

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

	2005	2004
Domestic equity pool	$ 43,980	254,386
Domestic fixed income pool	21,870	(42,413)
International equity pool	65,507	154,034
Real estate pool	35,828	5,240
International fixed income pool	8,244	3,781
Private equity pool	20,769	19,266
Emerging markets equity pool	18,289	12,689
Other investments pool	270	19
Absolute return pool	3,066	-
High yield	280	-
	$ 218,103	**407,002**

(4) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

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

	2005	2004
Realized gain on foreign currency	$57,329,781	41,966,731
Unrealized gain (loss) on foreign currency	(12,800)	9,174
Realized gain (loss) on foreign exchange contracts	(106,656)	38,950

The international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2005	2004
Net contract sales	$3,047,799	2,412,498
Less fair value	2,915,950	2,571,117
Net unrealized gains (losses)	**$ 131,849**	**(158,619)**

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

(5) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ASPIB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the ASPIB'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, 2005 and 2004, the fair value of securities on loan allocable to the Plan totaled $300,770,734 and $459,195,625, respectively. There is no limit to the amount that can be loaned and the ASPIB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

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

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

For the year ended June 30, 2005 and 2004, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(6) TRANSFER TO RETIREMENT SYSTEMS

During fiscal year 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets

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

Based on this review, the Plan received $6,200,000 in fiscal year 2004 from the Retiree Health Fund.

(7) COMMITMENTS AND CONTINGENCIES

Commitments

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2005, the Plan's participant share of the unfunded commitment totaled $48,993,175. This commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $225,369,315. Ninety-four percent of this commitment is estimated to be paid through the year 2010. Six percent of this commitment can be withdrawn annually in December with ninety days notice.

The ASPIB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2005, the Plan's participant share of this unfunded commitment totaled $18,599,699 to be paid through the year 2007.

The ASPIB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2005, the Plan's participant share of these unfunded commitments totaled $109,881,612 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union and a number of same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependants, thus excluding coverage for domestic partners of employees. An adverse ruling against the State was issued on October 28, 2005. The effect of this ruling will increase the number of persons covered by insurance paid by the Plan. The court ruling states that the Plan's current benefit program will remain in effect until the issue of remedies is resolved. The potential effect of this ruling cannot be reasonably estimated until the issue of remedies is resolved. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution process.

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

Notes to Financial Statements

June 30, 2005 and 2004

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 probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The 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. The Superior Court granted summary judgment in favor of the plaintiffs on the issue of liability, and the Alaska Supreme Court granted the Plan's petition for review. Following briefing and argument, the Supreme Court reversed the Superior Court and remanded for further proceedings. This issue is now pending in the Superior Court for a determination of the matter in accordance with the Supreme Court's instructions.

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

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

Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Pension Benefits

June 30, 2005 and 2004
(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.

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

Required Supplementary Information
(Unaudited)

Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2005 and 2004
(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.

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

Required Supplementary Information
(Unaudited)

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

June 30, 2005 and 2004
(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
2005	152,168	55,783	207,951	45	45	45

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

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

(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 nonoccupational 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	
2005	12.0%
2006	11.5
2007	11.0
2008	10.5
2009	10.0
2010	9.5
2011	9.0
2012	8.5
2013	8.0
2014	7.5
2015	7.0
2016	6.0
2017 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.

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

Notes to Required Supplementary Information (Unaudited)

June 30, 2005 and 2004

(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 the Plan to terminate, different actuarial

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

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 three 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:	
2001	7.5%
2002	6.5
2003	5.5
2004-2008	5.0
2009-2013	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.

- 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.

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

Notes to Required Supplementary Information
(Unaudited)

June 30, 2005 and 2004

The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and proceeding 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 fifty who have already attained twenty-one 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
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Expenses

Year ended June 30, 2005
with comparative totals for 2004
(000's omitted)

	Administrative	Investment	Totals 2005	Totals 2004
Personal services:				
Wages	$ 886	436	1,322	1,299
Benefits	381	158	539	503
Total personal services	1,267	594	1,861	1,802
Travel:				
Transportation	31	44	75	48
Per diem	7	6	13	40
Moving	-	11	11	-
Honorarium	10	12	22	26
Total travel	48	73	121	114
Contractual services:				
Management and consulting	282	7,988	8,270	8,319
Accounting and auditing	19	407	426	411
Other professional services	-	-	-	160
Advertising and printing	33	1	34	164
Data processing	161	133	294	138
Communications	36	17	53	162
Rentals/leases	69	13	82	111
Legal	35	50	85	101
Medical specialists	6	-	6	1
Repairs and maintenance	2	5	7	6
Transportation	1	1	2	2
Other services	37	22	59	13
Securities lending	-	6,214	6,214	3,578
Total contractual services	681	14,851	15,532	13,166
Other:				
Equipment	17	9	26	6
Supplies	16	25	41	40
Total other	33	34	67	46
Total administrative and investment expenses	**$ 2,029**	**15,552**	**17,581**	**15,128**

See accompanying independent auditors' report.

Schedule 2

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

Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2005 and 2004
(000's omitted)

Firm	Services	2005	2004
State Street Corporation	Custodian banking services	$ 476	460
Systems Central Services Inc.	Data processing consultants	137	124
Mercer Human Resource Consulting	Actuarial services	211	185
KPMG LLP	Auditing services	34	22
State of Alaska, Department of Law	Legal services	39	59
Wohlforth, Johnson, Brecht, Cartledge & Brooking	TRS Board legal services	-	6
		$ 897	**856**

See accompanying independent auditors' report.

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Alaska State Pension Investment Board

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

Message from the Chair

I am pleased to present the 2005 Annual Report of Investments for the period ending June 30, 2005 to you, the participants and beneficiaries of the TRS retirement trust fund.

The Alaska State Pension Investment Board (ASPIB) 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 13 ¾ year cumulative annualized return (the longest period available) of 8.75% 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.

The ASPIB serves as fiduciary for 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/default.asp. We continue to encourage member participation at our meetings, and welcome letters and comments.

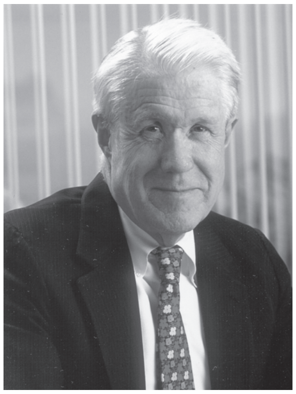
On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.

Sincerely,

Wilson Condon, Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2005)



Wilson L. Condon, Chair

PERS Representative

Wilson L. Condon, 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.

Dorothy Wells, Vice Chair

TRS Representative

Dorothy Wells, Vice Chair, 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.

James "Pat" Wellington, Secretary

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.

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

TRS Representative

Merritt C. Olson was elected in 1992 to serve as a trustee on the newly-created ASPIB and was 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.

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.

Gail R. Schubert

Appointed by the Governor

Gail R. Schubert 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 four of its 8(a) subsidiaries, and of counsel to the law firm of Amodio, Stanley & 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 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.

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.

Department of Revenue
Treasury Division
Staff

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Susan Taylor, CPA

ASPIB Liaison Officer
Judy Hall

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

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

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

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

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

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

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

Domestic Equity Index Fund
State Street Global Advisors
Boston, MA

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

Global Equity
Lazard Freres Asset Management
New York, NY

External Money Managers and Consultants (con't)

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

International Equity – EAFE
Bank of Ireland Asset Management (US) Ltd.
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA
McKinley Capital Management
Anchorage, AK
State Street Global Advisors
Boston, MA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed Income
Mondrian Investment Partners Limited
London, England

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

Other
Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT
TCW Asset Management Co.
Los Angeles, CA

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

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

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

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

Independent Auditors
KPMG LLP
Anchorage, AK

Legal Counsel
Wohlforth, Johnson, Brecht, Cartledge and Brooking
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 (TRS) 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 ASPIB.

During the 2005 fiscal year[1], ASPIB's asset allocation was 36% domestic equities, 15% international equities, 24% domestic fixed income, 2% international fixed income, 9% real estate, 6% private equity, 3% absolute return, 2% high yield fixed income, and 3% other (farmland and energy).

For the 2005 fiscal year, TRS investments generated a 9.01% rate of return. The TRS annualized rate of return was 3.06% over the last five years. The annualized rate of return over the last thirteen and three-quarter years has been 8.75%.

INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect overall returns. For the 2005 fiscal year, the real estate portfolio gained 17.43% and the international equity portfolio gained 15.17%. The U.S equity portfolio generated a 4.48% return down from 20.06% the previous year.

ASPIB continued the systematic increase of TRS investments in real estate and alternative investments. ASPIB added investments in high yield fixed income, absolute return strategies, farmland, and energy to the portfolio with the objective of enhancing returns and reducing risk through diversification.

DOMESTIC ECONOMY

The economy grew at a healthy pace throughout fiscal year 2005. Growth was fairly stable throughout the year ranging from 3% to 4% annual growth each quarter. Economic growth is generally expected to continue this pace heading into calendar year 2006. Employment was also up during the fiscal year with nonfarm payrolls increasing by over 2 million jobs and the unemployment rate dropping from 5.6% to 5% during the fiscal year.

The economy's continued recovery has raised concerns regarding the possible re-emergence of inflation. However, broad measures indicate inflation is contained with the Consumer Price Index increasing 2.5% and the Producer Price Index increasing 3.6% from June 2004 to June 2005. CPI and PPI measures declined to 2.0% and 2.2%, respectively, over the last year. Oil continues to be a concern to the inflation outlook as West Texas Intermediate increased by over $19 a barrel, a 52% increase to $56.50, during the fiscal year.

The Federal Reserve raised short-term rates from 1.25% to 3.25% incrementally through 0.25% increases at each of its Federal Open Market Committee (FOMC) meetings during the fiscal year. The FOMC continues to view monetary policy as accommodative and has indicated continued measured removal of this stimulus.

[1] July 1, 2004 – June 30, 2005

Teachers' Retirement System
Investment Report

EQUITIES

The 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 2005 fiscal year, the fund posted a return of 4.48%. This was less than the target return of 6.87%. The annualized domestic equity return for the five-year period was a negative 1.93% from a negative 0.85% in the 2004 fiscal year. Investment guidelines for all asset classes are approved by ASPIB and govern investment objectives, program risk management and implementation, procedures for investment, and other operational requirements. Equity investment guidelines include policies with regard to the types of permissible equity investments, limitations on holding and investment of cash, proxy voting, and restrictions/prohibitions on the use of leverage and derivatives.

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool return was 15.17% which was greater than the target return of 13.65%. The international equity return for the five year period was 1.87% from 2.81% in fiscal year 2004.

FIXED INCOME

The domestic fixed-income portfolio represented 22.5% of the total assets of TRS as of June 30, 2005. 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. Fixed income investment guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, and company concentration.

Over the 2005 fiscal year, the TRS domestic bond portfolio gained 7.10%, up from 0.61% the year before. The Lehman Brothers Aggregate Bond Index returned 6.80%, versus 0.32% during the 2004 fiscal year. The annualized domestic fixed-income return for the five-year period was 7.63% from 7.11% in the 2004 fiscal year.

The international fixed-income portfolio, which represented about 3.7% of the total assets of TRS, returned 9.84% over the 2005 fiscal year, exceeding the 7.75% posted by the Salomon Brothers Non-U.S. Government Index. The annualized international fixed-income return for the five-year period was 11.19% from 8.40% in the 2004 fiscal year. International fixed income guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, company concentration, country restrictions, and currency hedging.

During the 2005 fiscal year, TRS began investing in the High Yield Sector of the U.S. Fixed Income Market. High yield fixed income guidelines include policies with regard to duration, credit quality, geographic concentration, sector concentration, issuer concentration, and restrictions/prohibitions on the use of leverage and derivatives. Full year results are not yet available since TRS has been invested in high yield for less than a year.

REAL ESTATE

At the end of the 2005 fiscal year, TRS had 9.6% of its portfolio invested in real estate. The portfolio is primarily invested in specific institutional properties geographically diversified across the U.S. Property types include apartments, offices, industrial, and retail. The portfolio is also invested in value-added real estate funds and REIT equity securities. Investing in real estate helps diversify the overall portfolio due to its low correlation to stocks and bonds. Real estate adds a stable source of income and provides a degree of inflation hedge.

Teachers' Retirement System
Investment Report

Real estate guidelines include policies with regard to property quality, geographic concentration, property size, property type, leverage, insurance coverage, and environmental evaluations.

The total return for real estate, net of fees, was 17.43% in fiscal year 2005 compared to 11.55% for the 2004 fiscal year. The five-year annualized net total return was 10.69% from 9.29% in the 2004 fiscal year.

PRIVATE EQUITY

Four point four percent of the TRS portfolio is invested in Private Equity for long-term return enhancement and diversification. Investments are made through three investment managers. These investment managers have invested in over 100 private equity partnerships focused on venture capital, buyouts, or special situations. The private equity portfolio is well diversified by strategy, industry, geography, manager, and time.

During the 2005 fiscal year, the Private Equity component of the TRS portfolio had a net return of 18.10% with a five-year annualized return of 0.49%.

ABSOLUTE RETURN

During the 2005 fiscal year the TRS portfolio began investing in absolute return strategies for additional diversification. Absolute return investments are made through three fund-of-fund managers and are 2.4% of the total portfolio. Each fund is well diversified by strategy and manager and targets a 5% real return with low correlation to equity and fixed income markets. Absolute return policies and procedures include guidelines with regard to investment objectives, investment structure, investment quality, leverage, liquidity, strategy, manager concentration, risk management, and operation of the program. Full year results are not available since TRS has been invested in absolute return for less than a year.

OTHER

The TRS portfolio is also invested in farmland and energy investments. These investments are relatively new and are focused on providing the portfolio with additional diversification. The farmland investments are made through two separate account managers responsible for assembling a well diversified portfolio. The energy investment manager is focused on creating a balanced and diversified portfolio of oil, gas, and electric investments. Collectively, farmland and energy investments represent 0.4% of the overall portfolio and had a net return of 5.51% for the 2005 fiscal year.

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

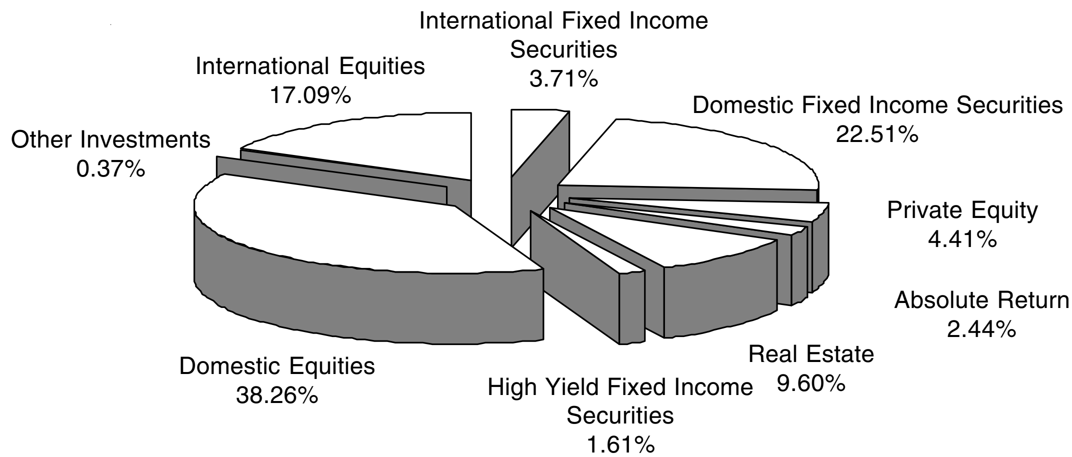
	2001	2002	2003	2004	2005	Annualized 3 Year	Annualized 5 Year
Total Fund							
TRS	(5.35%)	(5.49%)	3.68%	15.09%	9.01%	9.16%	3.06%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
TRS Domestic Equities	(12.20%)	(16.85%)	(0.97%)	20.06%	4.48%	7.50%	(1.93%)
S&P 500/Russell 2000 Composite	(14.83%)	(17.99%)	0.25%	19.11%	6.87%	9.02%	(0.49%)
International Stock Returns							
TRS International Equities	(16.92%)	(8.24%)	(5.11%)	31.70%	15.17%	12.91%	1.87%
Morgan Stanley Capital International EAFE	(23.83%)	(9.49%)	(6.46%)	32.37%	13.65%	12.06%	(0.55%)
Domestic Fixed Income							
TRS	11.93%	8.16%	10.70%	0.61%	7.10%	6.05%	7.63%
Lehman Brothers Aggregate Index	11.22%	8.63%	10.40%	0.32%	6.80%	5.76%	7.40%
International Fixed Income							
TRS	(5.68%)	22.56%	24.48%	7.52%	9.84%	13.70%	11.19%
Salomon Non-U.S. Government	(7.43%)	15.73%	17.90%	7.60%	7.75%	10.98%	7.93%
Real Estate Equity							
TRS	11.37%	5.24%	8.97%	11.55%	17.43%	12.60%	10.69%
NCREIF	11.15%	5.60%	7.64%	10.83%	18.02%	12.08%	10.63%

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

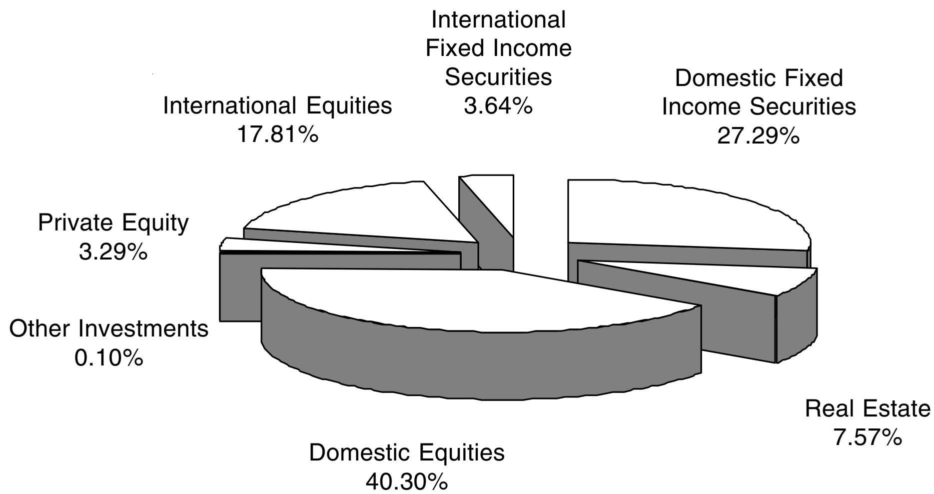
The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

Teachers' Retirement System Trust Fund
Actual Asset Allocation

June 30, 2005



June 30, 2004



Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2005

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 twelve 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. 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 as of June 30, 2005.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	$70,191,563	$70,500,000	Federal National Mtg. Assn.	5.00%	9/1/2035	Not Rated
	2	$57,739,829	$39,350,000	U.S. Treasury Bond	8.50%	2/15/2020	Not Rated
	3	$53,370,405	$53,530,000	U.S. Treasury Note	3.50%	5/31/2007	Not Rated
	4	$36,434,882	$36,768,000	U.S. Treasury Note	3.00%	12/31/2006	Not Rated
	5	$33,759,824	$68,000,000	Federal National Mtg. Assn.	0.00%	10/09/2019	AA-
	6	$32,674,958	$32,204,860	Federal National Mtg. Assn.	5.50%	4/1/2034	Not Rated
	7	$30,788,074	$30,676,656	Merrill Lynch Mtg. Invs Inc.	4.76%	12/25/2034	AAA
	8	$25,452,697	$25,161,058	Federal National Mtg. Assn.	5.29%	5/25/2009	Not Rated
	9	$25,295,962	$25,200,000	Federal Home Loan Mtg. Assn.	5.125%	11/07/2013	Not Rated
	10	$24,897,545	$16,643,000	U.S. Treasury Bonds	9.125%	5/15/2018	Not Rated
Equities	1	$143,031,735	4,127,900	General Electric Co.			
	2	$85,237,090	1,483,158	Exxon Mobil Corp.			
	3	$78,768,137	3,171,020	Microsoft Corp.			
	4	$77,641,460	1,194,484	Johnson & Johnson			
	5	$69,246,120	1,284,000	Pepsico Inc.			
	6	$64,926,013	1,404,413	Citigroup Inc.			
	7	$64,718,117	1,050,960	Wells Fargo Company			
	8	$59,401,680	1,232,400	Wal Mart			
	9	$55,312,407	2,005,526	Pfizer Inc.			
	10	$52,882,340	712,700	IBM			

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, 2005

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2005	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management	$ 857,480,531	$ 473,689
International Fixed Income		
Mondrian Investment Partners	470,909,750	227,284
High Yield Pool		
ING Investment Management	101,872,269	36,660
MacKay Shields, LLC	101,297,351	30,590
Total High Yield	203,169,620	67,250
Domestic Equity Pool		
Cap Guardian Trust Co.	440,734,606	404,330
TCW Asset Management Company	324,617,017	703,003
SSgA S&P 500 Index Fund	1,605,944,030	92,443
Invesco, Enhanced Index	-	69,971
Jennison Associates, LLC	161,594,778	-
Lord Abbett & Co	160,729,875	58,836
Luther King Capital Management	106,891,181	-
Lazard Freres	422,050,861	403,809
McKinley Capital Mgmt.	305,639,340	352,869
Dresdner RCM Global Investors	425,276,241	410,689
Relational Investors, LLC	262,867,859	-
SSgA Russell 2000	11,014,995	10,754
Tukman, Value	373,817,109	716,044
Turner Investment Partners	271,806,009	506,643
Total Domestic Equity Pool	4,872,983,901	3,729,391
Private Equity Pool		
Blum Capital Partners-Strategic	6,060,606	-
Blum Capital Partners-Public	21,546,700	6,016
Pathway Capital Management LLC	111,026,204	199,438
Abbott Capital	418,704,720	352,968
Total Private Equity	557,338,230	558,422
International Equity Pool		
Bank of Ireland Asset Mgmt.	666,272	325,586
Brandes Investment Partners	702,725,943	970,288
Cap Guardian Trust Co	416,217,173	459,496
Lazard Freres	439,646,229	420,361
McKinley Capital Management	203,763,215	31,397
State Street Global Advisors (SSga)	204,391,056	41,728
Total International Equities	1,967,409,888	2,248,856

Teachers' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2005

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2005 (con't)	Fees (con't)
External Management Fees (con't)		
Absolute Return Pool		
Mariner Investment Group	102,784,100	199,930
Cadogan Management LLC	101,608,405	173,130
Crestline Investors, Inc.	104,637,516	184,327
Total Absolute Return	309,030,021	557,387
Other Investment Pool		
TCW Energy Fund	22,152,744	59,086
UBS Agrivest, LLC	18,437,180	3,356
Hancock Agricultural Investment Group	6,016,762	3,170
Total Other Investment	46,606,686	65,612
Emerging Markets Equity Pool		
JP Morgan Investment Mgmt.	98,174,011	267,361
The Capital Group Inc.	108,102,297	210,524
Total Emerging Market	206,276,308	477,885
Total External Management Fees	$9,491,204,935	8,405,776
Other		
Custodian		
State Street Bank & Trust Co.		386,501
Investment Advisory		
Callan Associates		35,384
The Townsend Group		71,651
Total Investment Advisory		107,035
Investment Performance Measurement		
Callan Associates		48,899
Miscellaneous		
Securities Lending		6,213,581
Other		4,078
Total Miscellaneous		6,217,659
Total Other Fees		6,760,094
Total External Investment Fees		$15,165,870

Teachers' Retirement System
Investment Summary Schedule
June 30, 2005

	Asset Allocation Policy	Range	Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			$ 585,538	0.06%	0.01%
Retirement Fixed Income Pool			637,072,215	70.29%	15.82%
External Domestic Fixed Income Pool			268,688,033	29.65%	6.67%
Total Domestic Fixed Income	24%	21-27%	906,345,786	**100.00%**	22.51%
International					
International Fixed Income Pool	2%	0-4%	149,204,976	**100.00%**	3.71%
High Yield					
High Yield Fixed Income Pool	2%	0-4%	64,726,076	**100.00%**	1.61%
Total Fixed Income Securities	**28%**	**21-35%**	**1,120,276,838**		**27.82%**
Domestic Equities					
Small cap(1)					
Domestic Equity Pool					
Total Small Cap Domestic Equities and Alternative Investments	6%	3-9%	327,962,769	21.29%	8.15%
Large cap					
Domestic Equity Pool-active			704,991,952	45.76%	17.51%
Domestic Equity Pool-passive			507,615,098	32.95%	12.61%
Total Large Cap Domestic Equities	30%	27-33%	1,212,607,050	78.71%	30.12%
Total Domestic Equities	**36%**	**30-42%**	**1,540,569,819**	**100.00%**	**38.26%**
International Equities					
International Equity Pool			615,742,632	89.50%	15.29%
Emerging Markets Equity Pool			72,200,332	10.50%	1.79%
Total International Equities	**15%**	**12-18%**	**687,942,964**	**100.00%**	**17.09%**
Alternative Investments					
Private Equity Pools	**6%**	**2-10%**	**177,495,095**	**100.00%**	**4.41%**
Other Investment Pools	**3%**	**0-6%**	**14,843,683**	**100.00%**	**0.37%**
Absolute Return Pool	**3%**	**0-6%**	**98,416,990**	**100.00%**	**2.44%**
Real Estate					
Mortgages, net of allowances			47,635	0.01%	0.00%
Real Estate Pool			386,709,217	99.99%	9.60%
Total Real Estate	**9%**	**6-12%**	**386,756,852**	**100.00%**	**9.60%**
Total Invested Assets	**100%**		**$ 4,026,302,241**		**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.

Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2005

	Domestic Equity	International Equity	Total
PERS	$ 1,026,910	231,901	1,258,811
TRS	483,462	107,836	591,298
Judicial	9,435	2,340	11,775
Military	1,407	303	1,710
Total	**$ 1,521,214**	**342,380**	**1,863,594**

The Alaska State Pension Investment Board (ASPIB) has had a commission recapture program in place since 1995 working directly with brokerage firms. In fiscal year 2005, ASPIB enhanced its Commission Recapture program by selecting State Street Global Markets to administer the program on its behalf. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund. The program allows brokers to place trades for commission recapture purposes, if the direction continues to fulfill their fiduciary obligation to achieve best execution of transactions. ASPIB has not established direction percentages for the managers to strive for, but instead has requested their involvement as a means to enhance the portfolio return over time.

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

Alaska State Pension Investment Board
Securities Lending Income in FY 2005

Securities lending income	$ 6,899,706
Securities lending expense:	
Borrower rebates	6,079,989
Management fees	133,592
Total securities lending expense	6,213,581
Net securities lending income	$ 686,125

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

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost, which approximates fair value. ASPIB does not have the ability to pledge or sell securities collateral unless the borrower defaults.

Income as a result of the investment of cash collateral is recorded in the System's financial statements as interest. Securities lending expense is recorded in the System's financial statements as investment expense.

MERCER

Human Resource Consulting

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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

MERCER

Human Resource Consulting

Teachers' Retirement Board
March 19, 2004
Page 2

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. 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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Human Resource Consulting

Teachers' Retirement Board
March 19, 2004
Page 3

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

The <u>Unfunded Liability</u> 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 <u>Past Service Cost.</u>

The <u>Normal Cost</u> 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

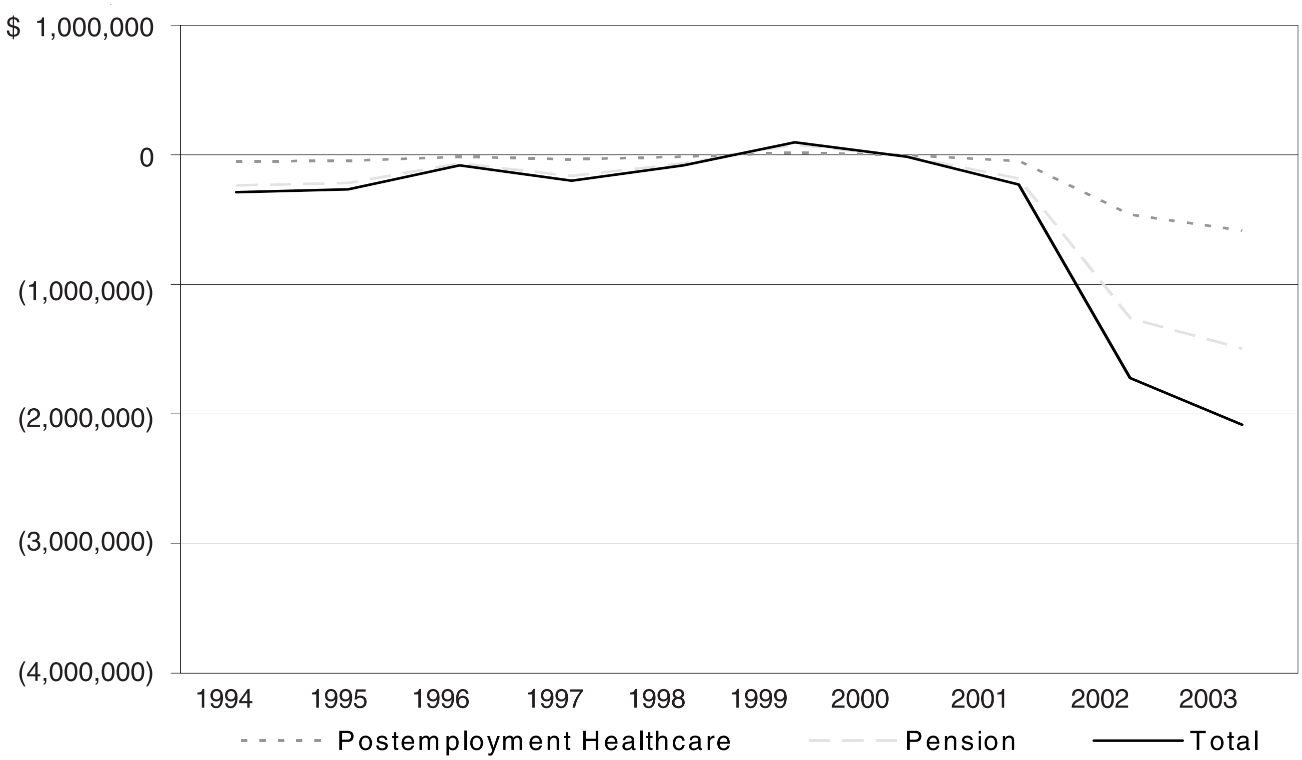
Age at Retirement	Retirement Rate
50	.05
51	.05
52	.05
53	.05
54	.05
55	.15
56	.13
57	.10
58	.10
59	.10
60	.10
61	.10
62	.10
63	.17
64	.17
65	.50
66 & up	1.00

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 Underfunded Liability (In thousands)			
Actuarial Valuation Year Ended June 30	**Postemployment Healthcare**	**Pension**	**Total**
1994	$ (50,164)	$ (238,288)	$ (288,452)
1995	(47,175)	(218,900)	(266,075)
1996	(14,956)	(66,725)	(81,681)
1997	(35,668)	(164,357)	(200,025)
1998	(14,890)	(67,797)	(82,687)
1999	17,237	77,442	94,679
2000	(3,001)	(11,852)	(14,853)
2001	(47,740)	(183,178)	(230,918)
2002	(462,093)	(1,260,513)	(1,722,606)
2003	(587,139)	(1,496,185)	(2,083,324)

TEACHERS' RETIREMENT SYSTEM
10-YEAR TREND OF UNFUNDED LIABILITY

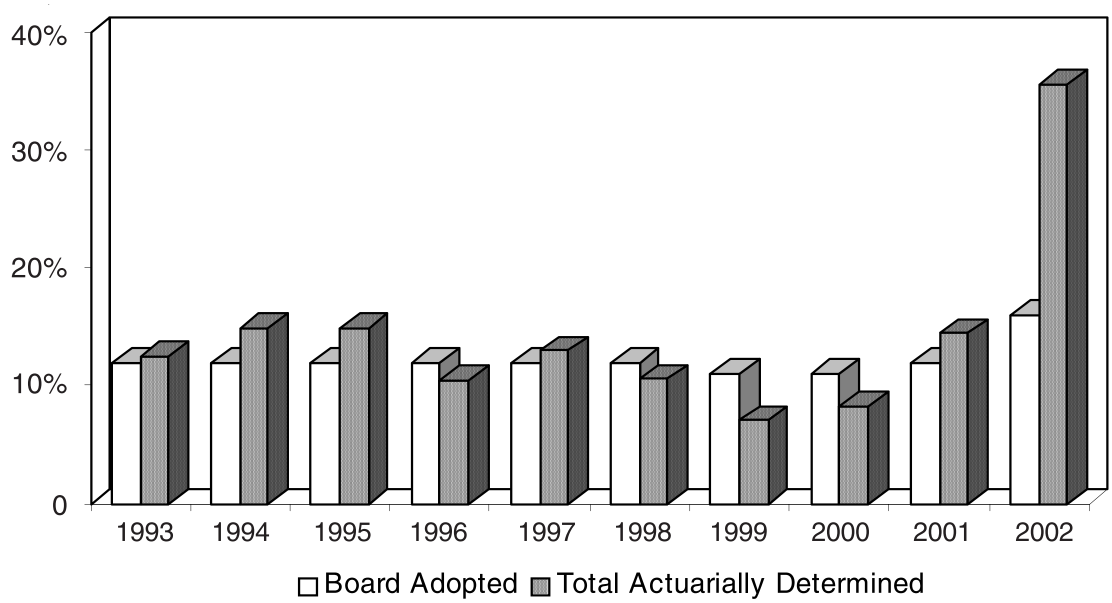


Teachers' Retirement System Employer Contribution Rates				
	Actuarially Determined			
Actuarial Valuation Year Ended June 30	**Normal Cost[1]**	**Past Service**	**Total Actuarially Determined**	**Board Adopted**
1993	9.06%	3.42%	12.48%	12.00%
1994	9.70%	5.26%	14.96%	12.00%
1995	10.10%	4.84%	14.94%	12.00%
1996	8.97%	1.55%	10.52%	12.00%
1997	9.21%	3.79%	13.00%	12.00%
1998	8.99%	1.56%	10.55%	12.00%
1999	8.88%	(1.79)%	7.09%	11.00%
2000	8.02%	0.27%	8.29%	11.00%
2001	10.33%	4.11%	14.44%	12.00%
2002	14.76%	20.81%	35.57%	16.00%

[1]Also referred to as the consolidated rate.

Valuations are used to set contribution rates in future years. For example, financial data at June 30, 2002, used in the 2002 valuation determined the actuarial contribution rate for fiscal year 2005. The Board uses the 2002 valuation information to set the Board adopted rate for fiscal year 2005.

TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



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 Adjustment.

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	477,976	2,070,893	771,200	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 workers' 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

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated 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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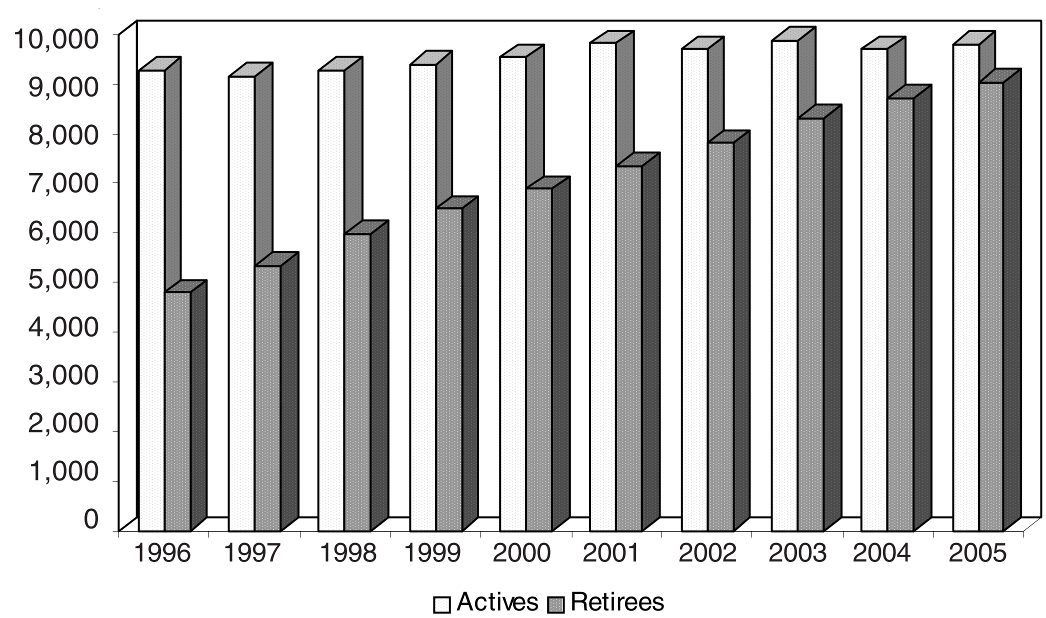
Teachers' Retirement System
System Membership by Status

Year Ended June 30	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
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
2000	9,529	6,887	610	2,353	19,379
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
2004	9,688	8,707	724	2,746	21,865
2005	9,786	9,018	750	2,769	22,323

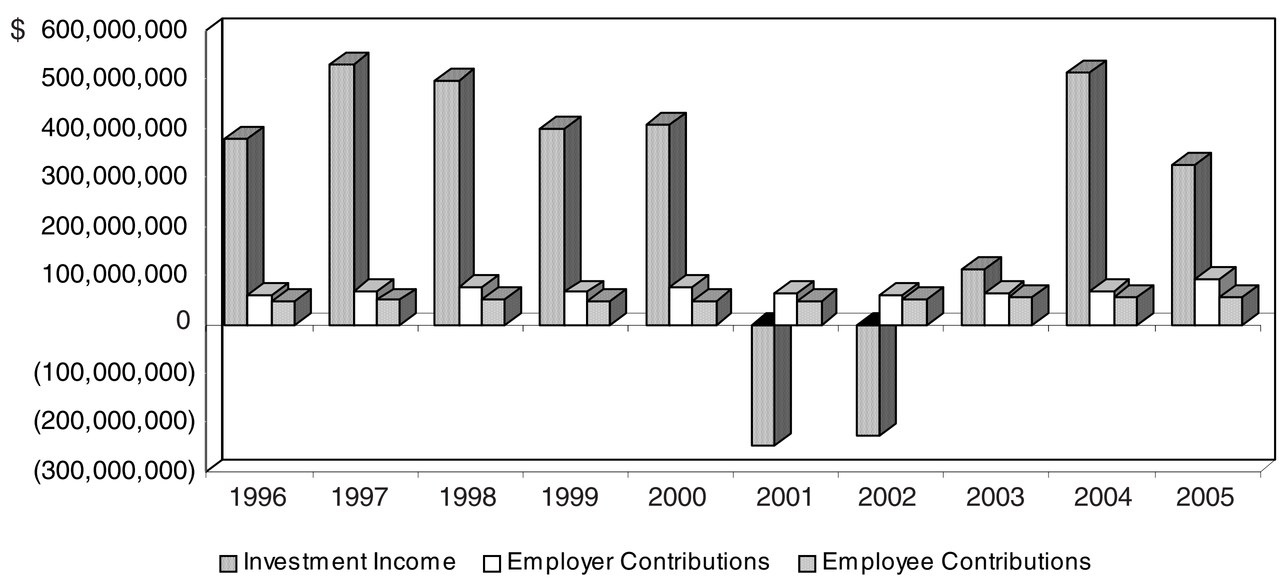
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF ACTIVE AND RETIRED MEMBERS



Teachers' Retirement System
Revenues by Source (000's omitted)

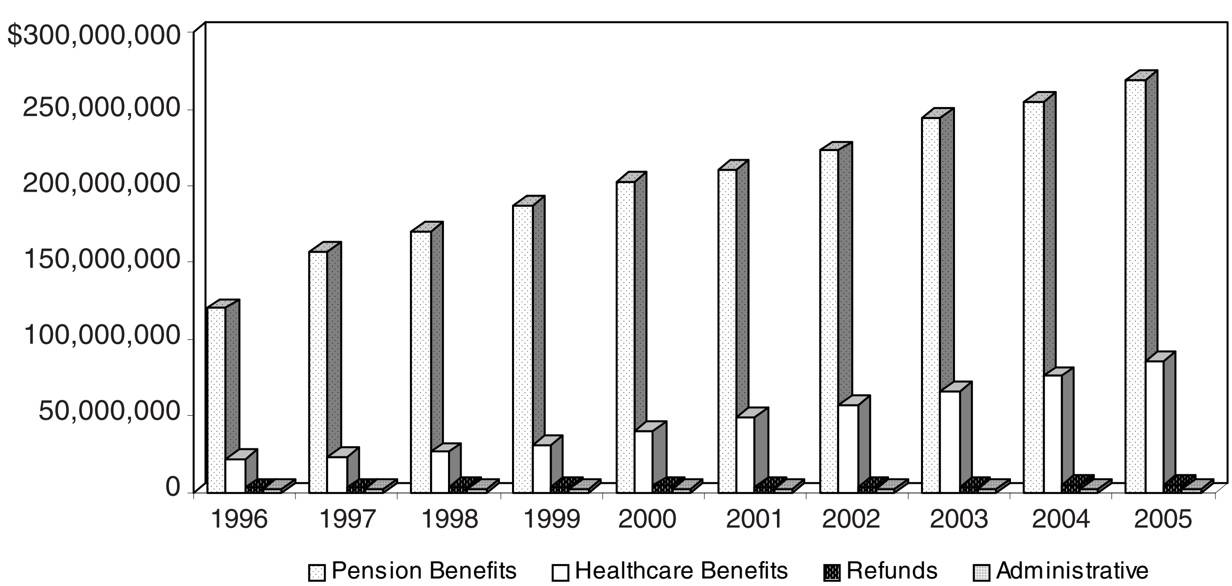
Year Ended June 30	Plan Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total
1996	$ 47,980	$ 61,162	$ 379,312	$ 27	$ 488,481
1997	49,581	66,347	530,568	-	646,496
1998	50,056	77,782	496,990	10	624,838
1999	48,302	66,266	397,499	1	512,068
2000	48,505	74,714	406,609	-	529,828
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	6,277	646,298
2005	55,993	93,540	327,426	10	476,969

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

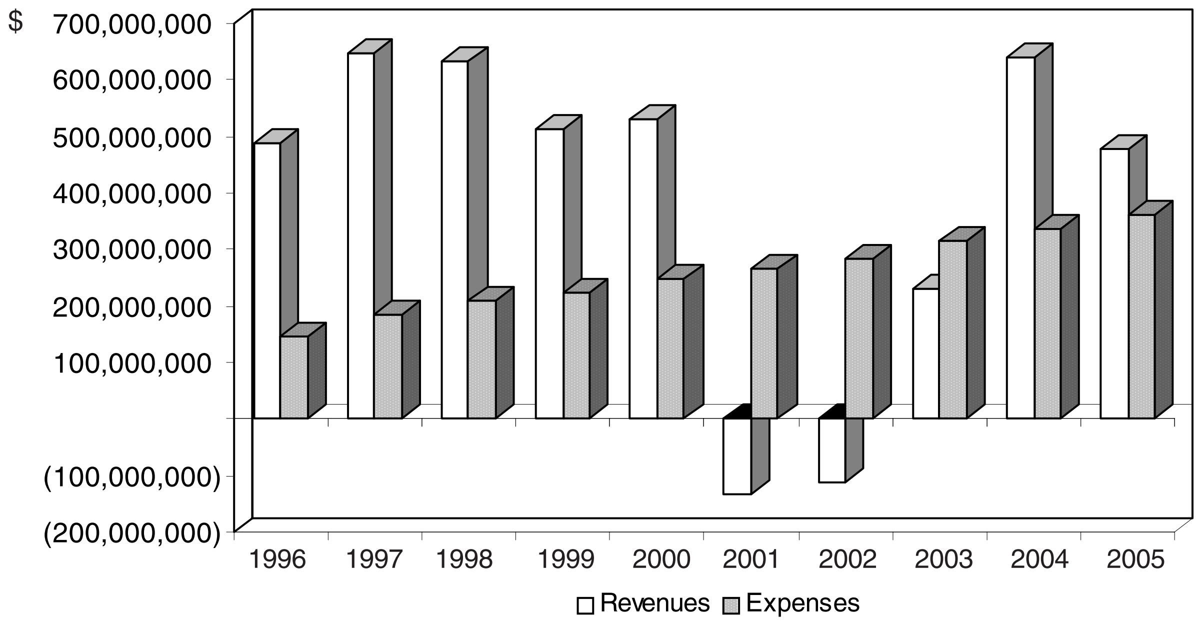


Teachers' Retirement System Expenses by Type (000's omitted)					
Year Ended June 30	**Pension Benefits**	**Healthcare Benefits**	**Refunds of Contributions**	**Administrative Expenses**	**Total**
1996	$119,949	$21,655	$ 2,629	$ 2,055	$146,288
1997	157,567	22,653	2,626	2,223	185,069
1998	169,831	26,123	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
2005	269,414	85,670	4,376	2,029	361,489

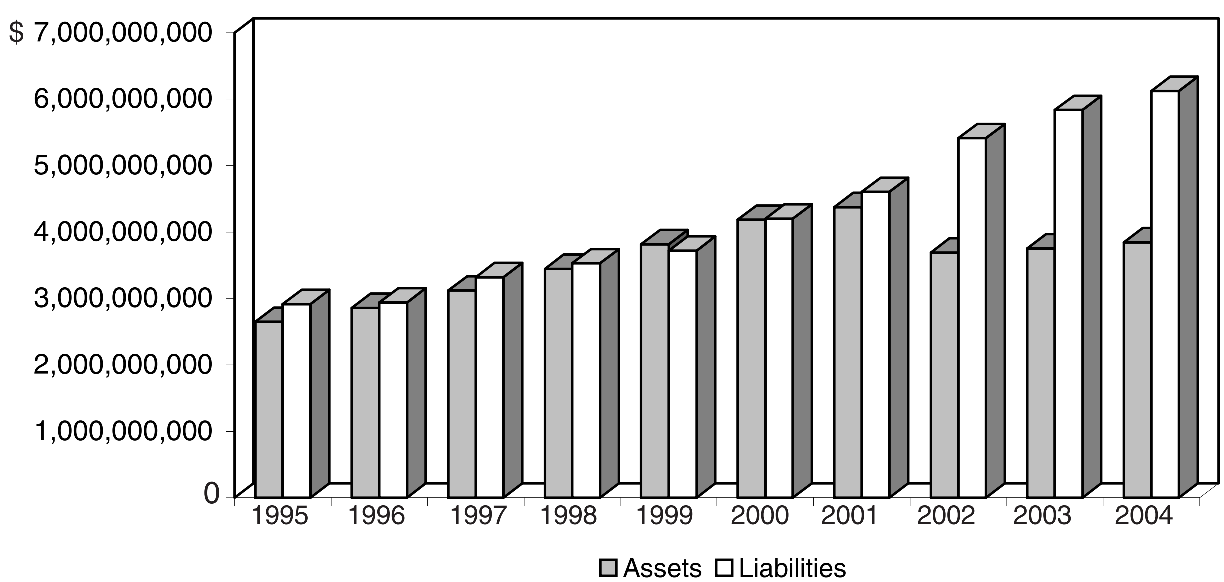
TEACHERS' RETIREMENT SYSTEM
10-YEAR COMPARISON OF EXPENSES BY TYPE



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)

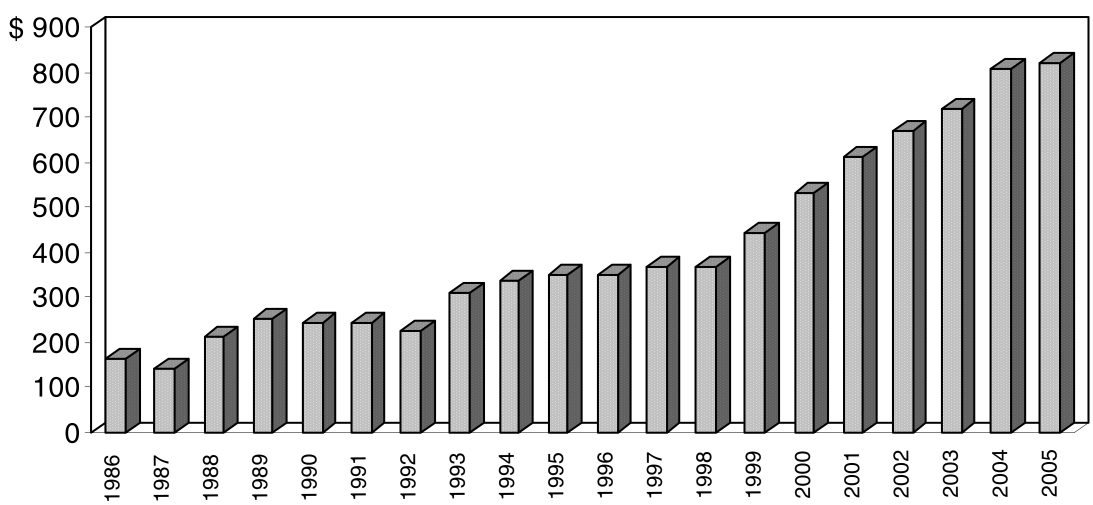
Year Ended June 30	Service	Disability	Survivor	Dependent[1]	COLA[2]	PRPA[3]	Healthcare	Total
1996	$ 93,089	$2,798	$2,618	$ -	$6,082	$15,362	$21,655	$141,604
1997[1]	147,259	3,943	6,322	43	-	-	22,653	180,220
1998	160,409	3,693	5,691	38	-	-	26,123	195,954
1999	176,830	3,775	6,384	96	-	-	30,987	218,072
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
2005	258,998	2,400	7,695	321	-	-	85,670	355,084

[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, 2005

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	138	111	27	0	71	30	27	10
301 - 600	292	229	62	1	159	58	64	11
601 - 900	521	416	105	0	282	115	101	23
901 - 1,200	535	434	101	0	319	117	83	16
1,201 - 1,500	530	445	85	0	295	106	111	18
1,501 - 1,800	545	457	88	0	315	99	117	14
1,801 - 2,100	652	591	54	7	365	119	152	16
2,101 - 2,400	857	816	31	10	461	168	206	22
2,401 - 2,700	910	880	20	10	503	168	211	28
2,701 - 3,000	838	822	8	8	469	135	218	16
3,001 - 3,300	794	772	11	11	467	99	211	17
3,301 - 3,600	635	630	2	3	376	92	160	7
3,601 - 3,900	494	485	4	5	280	56	149	9
3,901 - 4,200	374	370	1	3	229	45	95	5
over 4,200	876	867	2	7	498	92	264	22
Totals	8,991	8,325	601	65	5,089	1,499	2,169	234

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 7/1/98 - 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
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	$ 251	$ 896	$1,243	$2,044	$2,782	$3,640	$4,860
Number of Recipients	21	51	75	85	178	64	17
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	$ 239	$ 823	$1,166	$1,1761	$2,539	$3,053	$4,370
Number of Recipients	12	42	65	53	126	95	51

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

Teachers' Retirement System
Participating Employers
at June 30, 2005

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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