# TEACHERS' RETIREMENT SYSTEM

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## A Component Unit of the State of Alaska

For the Fiscal Year Ended June 30, 2011

**Sean Parnell, Governor**

Prepared by

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
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Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

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## Introductory Section



## Financial Section

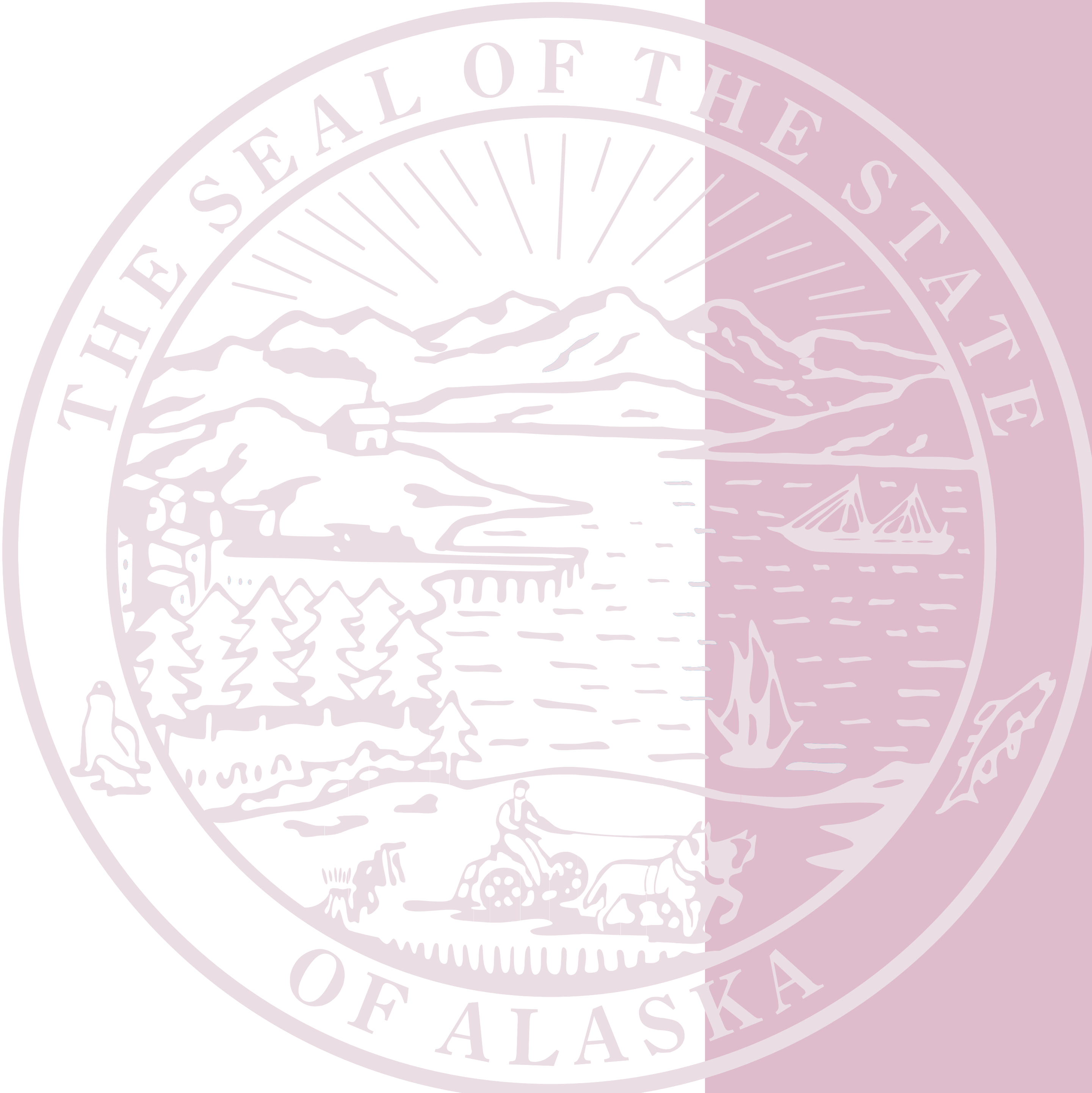
## INVESTMENT SECTION



## ACTUARIAL SECTION



## STATISTICAL SECTION




# INTRODUCTORY SECTION

Alaska Division of Retirement and Benefits

TRS

Teachers' Retirement System

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STATE OF ALASKA

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**DEPARTMENT OF ADMINISTRATION**

*DIVISION OF RETIREMENT AND BENEFITS*

**LETTER OF TRANSMITTAL**

November 23, 2011

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2011. The CAFR is intended to fulfill the legal requirements of Alaska Statute (AS) 14.25.004(a)(8).

The CAFR provides comprehensive information on the financial operations of the System for the fiscal year. Responsibility for the accuracy, completeness and fairness of the information presented rests with the management of the System. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the System for the year ended June 30, 2011. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

KPMG LLP, Certified Public Accountants, have issued an unqualified opinion on the Systems' basic financial statements for the year ended June 30, 2011. The independent auditor's report is located at the front of the Financial Section of this report.

The management's discussion and analysis (MD&A) is also located in the Financial Section of this report. The MD&A provides an analytical overview of the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR is divided into five sections:

- **Introductory Section**, which contains the letter of transmittal, the administrative organization of the TRS, and a list of the members serving on the Alaska Retirement Management Board (ARMB);

- **Financial Section**, which contains the Independent Auditor's Report, MD&A, basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a report prepared by the investment consultant, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- **Statistical Section**, which includes additional information related to financial trends, demographic and economic information, and operating information.

**Profile of the System**

The System was established in 1955 to provide pension and post-employment health care benefits to teachers and other eligible participants. Senate Bill 141, signed into law on July 27, 2005, closed the DB Plan effective July 1, 2006, to new members and created a Defined Contribution Retirement (DCR) Plan for members first hired on or after July 1, 2006. Beginning in fiscal year 2007, the System consists of: (1) the DB Plan and (2) the DCR Plan. This report includes both plans. The DB Plan includes the pension plan and the Alaska Retiree Health Care Trust. The DCR Plan includes the DCR trust, occupational death and disability plan, retiree major medical plan, and the health reimbursement arrangement plan.

**Reporting Entity**

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

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

The ARMB, constituted effective October 1, 2005, replaced the Teachers' Retirement Board (effective July 1, 2005) and the Alaska State Pension Investment Board (effective October 1, 2005).

The ARMB is responsible for:

- adopting investment policies and developing investment objectives;
- providing a range of investment options and establishing the rules by which participants can direct their investments among those options, when applicable;
- establishing crediting rates for members' individual contribution accounts, when applicable;
- assisting in prescribing policies for the proper operation of the System;
- coordinating with the System Administrator to have actuarial valuations performed;
- reviewing actuarial assumptions and conducting experience analyses;

- contracting for an independent audit of actuarial valuations and external performance calculations; and
- reporting the financial condition of the System to the Governor, Legislature, and individual employers participating in the System.

**Major Initiatives**

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

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

The System also endeavors to provide the highest degree of customer service to all its members. The Division recently established a central Retirement Customer Service Center to improve phone service and provide faster processing of all customer requests.

The System is a participant in a multi-agency project procuring and implementing Virtual Call Center functionalities for the phone system. These features will enable the Customer Service Representatives to provide faster and higher quality service to members. The Division implemented the Virtual Call Center functionalities in February 2011.

The System activated a new redesigned website in early January 2011. The new website uses a modern navigation model, is compliant with the Americans with Disabilities Act, and uses many "best practices" techniques of the web industry.

The System offers a broad array of fairs and seminars directed toward both active members and employers. A new seminar offered throughout the State of Alaska is titled "Marketing the Defined Contribution Retirement Plan." The goal of the seminar is to assist employers with successfully marketing the DCR plan. In addition, the System continues to expand its Benefits Fairs with the goal of educating members about all benefits available from early career through to retirement, encouraging healthy living and how to best use the health plan.

**Funding Requirements**

The System's consulting actuary, Buck Consultants, presented the results of the June 30, 2010, actuarial valuation report to the Plan Administrator and the ARMB. The assumptions and benefits are explained in the Actuarial Section of this report.

Based on the most recent valuation report, the TRS has a funding ratio (actuarial value of DB Plan assets divided by actuarial liabilities for pension and postemployment healthcare benefits) of 53.6%. The DB Plan's unfunded actuarial accrued liability (actuarial liability minus actuarial value of DB plan assets) totals approximately $4.1 billion. The unfunded liability continues to be addressed at all levels of the State. The Governor's budget proposes to provide funding to TRS employers in order to maintain an appropriate level of employer contributions while also paying the actuarial required contribution rate adopted by the ARMB.

**Investments**

On June 30, 2011, the DB Plan's investment portfolio was valued at $4.7 billion and earned a 21.40% return for the fiscal year ended June 30, 2011. The DCR Plan's investment portfolio was valued at $105 million for the fiscal year ended June 30, 2011. Over the past five years ending June 30, 2011, the DB Plan's investments earned a 4.37% return. The ARMB has statutory oversight of the System's investments and the Department of Revenue, Treasury Division, provides staff for the ARMB. Actual investing is performed by investment officers in the Treasury Division or by contracted external investment managers. The ARMB reviews and updates investment policies and strategies and is responsible for safeguarding invested assets.

**Accounting System**

This CAFR has been prepared to conform with the principles of accounting and reporting established by the GASB. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report.

**Internal Controls**

System management is responsible for establishing and maintaining a system of internal controls to protect TRS assets from loss, theft, or misuse and to ensure adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. The cost of internal control should not exceed anticipated benefits; the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

**Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

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

**Acknowledgements**

The preparation of this report is made possible by the dedicated services of the staff of the Department of Administration, Division of Retirement and Benefits, Department of Law, and the Department of Revenue, Treasury Division. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the TRS financial resources.

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

We are grateful to the Alaska Retirement Management Board, the staff, the advisors, and to the many people who have diligently worked to assure the successful operation of the System.

Respectfully submitted,

Becky Hultberg
Commissioner

Jim Puckett
Director

Teresa Kesey, CPA
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alaska Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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 employees retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

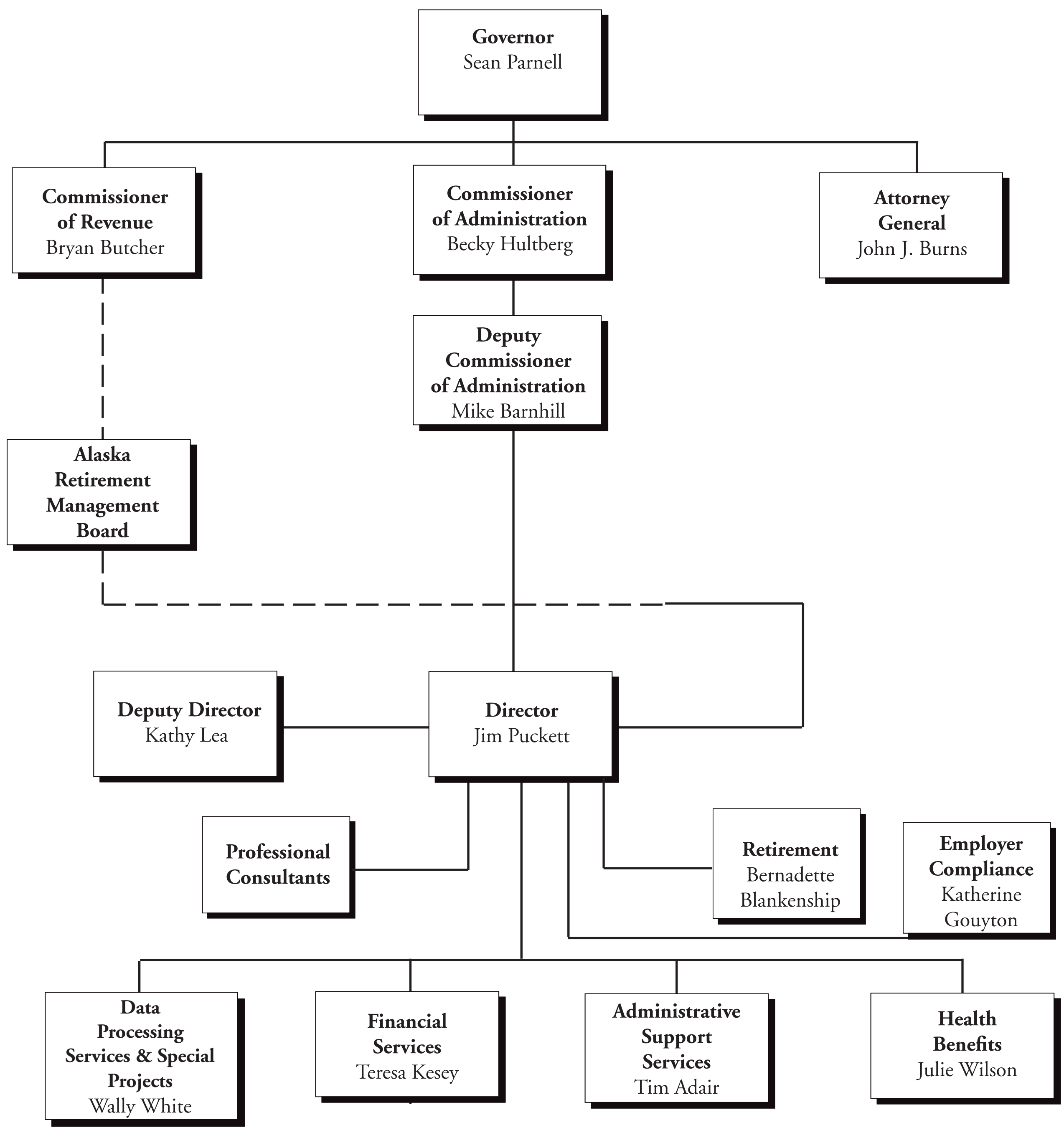
Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Jeffrey R. Emer

Executive Director

## ORGANIZATION CHART



## Section Responsibilities

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

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

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

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

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

### PROFESSIONAL CONSULTANTS

**Consulting Actuary**
Buck Consultants
*Denver, Colorado*

**Independent Auditors**
KPMG LLP
*Anchorage, Alaska*

**Benefits Consultant**
Buck Consultants
*Denver, Colorado*

**Third-Party Healthcare Claim Administrator**
Wells Fargo Insurance Services of Alaska
*Anchorage, Alaska*

**IT Consultant**
Computer Task Group
*Anchorage, Alaska*

**Legal Counsel**
Joan Wilkerson
Jessica Schrader
Toby Steinberger
Assistant Attorney Generals
*Juneau, Alaska*
Ice Miller LLP
*Indianapolis, Indiana*

**Consulting Physicians**
Kim Smith, M.D.
Melissa Hynes M.D.
William Cole, M.D.
*Juneau, Alaska*
Thomas Rodgers M.D.
*Ford, Washington*

A list of investment consultants can be found on pages 73-74 and on the Schedule of External Management Fees on pages 82-83.

## ALASKA RETIREMENT MANAGEMENT BOARD

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

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

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

**Bryan Butcher** was appointed Commissioner of the Department of Revenue by Governor Sean Parnell in November, 2010. Prior to that, he worked at the Alaska Housing Finance Corporation (AHFC) as the director of governmental relations and public affairs and advised Governor Parnell on economic development issues. He also served as vice president of the Alaska Gasline Development Corporation. Before joining AHFC in 2003, Mr. Butcher worked as a finance aide for the state House and Senate finance committees for 12 years. Mr. Butcher holds a bachelor's degree in speech communications from the University of Oregon. He is a lifelong Alaskan, born and raised in Anchorage.

**Kristin Erchinger** is currently finance director for the City of Seward, having worked for the city in finance positions since 1994 including a year serving simultaneously as finance director and acting city manager. She became the finance director in 2000. Ms. Erchinger is past president of the Alaska Government Finance Officer's Association and represents that organization in the Alaska Municipal League. She also served on the Providence Alaska Region Board, the Graduate Medical Education Committee, the Alaska Municipal League Board, and the Board of the American Society for Public

Administration, Alaska Chapter. Ms. Erchinger earned bachelor's degrees in international studies and Japanese language and literature, both from the University of Washington, and a master's degree in public administration from the University of Alaska Anchorage.

**Becky Hultberg** was appointed Commissioner of the Department of Administration by Governor Sean Parnell in December 2010. Most recently Ms. Hultberg served as the regional director of communications and marketing for Providence Health & Services Alaska, leading the organization's efforts around communications, marketing, physician relations and web development. Her past positions include serving as vice president of public relations and strategy for Bradley Reid & Associates and as press secretary in the office of former Governor Frank H. Murkowski. A lifelong Alaskan, Becky was born in Anchorage and raised in Kenai. She holds a bachelor's degree in history from Abilene Christian University, in Abilene, Texas, with minors in economics and public service. Ms. Hultburg lives in Juneau with her husband, Jeff, and children Sophie, Brandt and Dane.

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

**Tom Richards** recently retired after serving 29 years as a mathematics, science and economics teacher in Fairbanks and North Pole. He currently works as Transition Coordinator at the Fairbanks Youth Facility. Mr. Richards received a bachelor of science from the University of Idaho (Moscow) in 1976 with a major in zoology and a minor in chemistry, and obtained his State of Alaska teacher certification in 1978 with a secondary endorsement in biological science and mathematics. In 1999, he received a master of science in education from Western Oregon University (Monmouth) with an emphasis in information technology. He continues to enjoy Alaska with his wife, Debbie.

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

# FINANCIAL SECTION

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

**Independent Auditors' Report**

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying statement of system net assets of the State of Alaska Teachers' Retirement System (the System), (a Component Unit of the State of Alaska), as of June 30, 2011, and the related statement of changes in system net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the system net asset of the State of Alaska Teachers' Retirement System as of June 30, 2011, and the changes in system net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules of Funding Progress and Schedules of Contributions from Employers and the State of Alaska and Schedule of Contributions (Defined Contribution Retirement Occupational Death and Disability Benefits and Defined Contribution Retirement Retiree Medical Benefits) are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 this information and express no opinion on it.

KPMG

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented on pages 68 – 70 for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules are the responsibility of the management of the System. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in a material respects when considered in relation to the basic financial statements taken as a whole.

KPMG LLP

October 20, 2011

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

## Management's Discussion and Analysis

**June 30, 2011 and 2010**

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (System) financial position and performance for the years ended June 30, 2011 and 2010. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to financial statements, required supplementary information, and supplemental schedules to better understand the financial condition and performance of the System during the fiscal years ended June 30, 2011 and 2010. Information for fiscal year 2009 is presented for comparative purposes.

### Financial Highlights

The System financial highlights as of June 30, 2011 were as follows:

- The System's net assets held in trust for pension and postemployment healthcare benefits increased by $755.0 million during fiscal year 2011.
- The System's plan member and employer contributions increased by $3.9 million during fiscal year 2011.
- The State of Alaska directly appropriated $190.9 million during fiscal year 2011 as statutorily required.
- The System net investment income increased $456.4 million to $852.9 million during fiscal year 2011.
- The System's pension benefit expenditures totaled $343.2 million during fiscal year 2011.
- The System's postemployment healthcare benefit expenditures totaled $103.4 million in fiscal year 2011.

### Overview of the Financial Statements

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

*Statements of System Net Assets* – This statement presents information regarding the System's assets, liabilities, and resulting net assets held in trust for pension and postemployment healthcare benefits. This statements reflects the System's investments at fair market value, along with cash and short-term investments, receivables, and other assets less liabilities at June 30, 2011 and 2010.

*Statements of Changes in System Net Assets* – This statement presents how the System's net assets held in trust for pension and postemployment healthcare benefits changed during the fiscal years ended June 30, 2011 and 2010. This statement presents contributions earned and investment income (loss) during the period. Deductions for pension and postemployment healthcare benefits, refunds, and operating deductions are also presented.

The above statements represent resources available for investment and payment of benefits as of June 30, 2011 and 2010, and the sources and uses of those funds during fiscal years 2011 and 2010.

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

## Management's Discussion and Analysis

**June 30, 2011 and 2010**

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

*Required Supplementary Information and Related Notes* – The required supplementary information consists of seven schedules and related notes concerning the funded status of the system and actuarial assumptions and methods used in the actuarial valuation.

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

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

# Management's Discussion and Analysis

June 30, 2011 and 2010

**Condensed Financial Information** (In thousands)

## System Net Assets

| Description | 2011 | 2010 | Increase/(decrease) Amount | Increase/(decrease) Percentage | 2009 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and cash equivalents | $ 27,345 | 40,668 | (13,323) | (32.8)% | $ 19,704 |
| Due from State of Alaska General Fund | 10,736 | 4,852 | 5,884 | 121.3 | 9,046 |
| Contributions receivable | 4,404 | 4,778 | (374) | (7.8) | 5,591 |
| Legal settlement | — | 54,586 | (54,586) | (100.0) | — |
| Other receivables | 3,360 | 1,800 | 1,560 | 86.7 | 853 |
| Due from PERS ARHCT Fund | — | 101 | (101) | (100.0) | 102 |
| Due from Retiree Health Fund | 1 | 3,496 | (3,495) | (100.0) | 3,440 |
| Investments, at fair value | 4,813,883 | 4,004,505 | 809,378 | 20.2 | 3,727,139 |
| Other assets | 984 | 985 | (1) | (0.1) | 984 |
| Total assets | 4,860,713 | 4,115,771 | 744,942 | 18.1 | 3,766,859 |
| Liabilities: | | | | | |
| Accrued expenses | 4,268 | 3,724 | 544 | 14.6 | 3,913 |
| Claims payable | 13,542 | 13,551 | (9) | (0.1) | — |
| Legal fees payable | — | 10,592 | (10,592) | (100.0) | — |
| Total liabilities | 17,810 | 27,867 | (10,057) | (36.1) | 3,913 |
| Net assets | $ 4,842,903 | 4,087,904 | 754,999 | 18.5% | $ 3,762,946 |

## Changes In System Net Assets

| Description | 2011 | 2010 | Increase/(decrease) Amount | Increase/(decrease) Percentage | 2009 |
|---|---|---|---|---|---|
| Net assets, beginning of year | $ 4,087,904 | 3,762,946 | 324,958 | 8.6% | $ 4,823,247 |
| Additions (reductions): | | | | | |
| Contributions | 163,937 | 160,081 | 3,856 | 2.4 | 147,865 |
| Appropriation – State of Alaska | 190,850 | 173,462 | 17,388 | 10.0 | 206,300 |
| Net investment income (loss) | 852,859 | 396,417 | 456,442 | 115.1 | (996,876) |
| Legal settlement | — | 54,585 | (54,585) | (100.0) | — |
| Other additions | 5,010 | 4,459 | 551 | 12.4 | 3,598 |
| Total additions (reductions) | 1,212,656 | 789,004 | 423,652 | (53.7) | (639,113) |
| Deductions: | | | | | |
| Pension and postemployment healthcare benefits | 446,596 | 443,003 | 3,593 | 0.8 | 408,719 |
| Refund of contributions | 4,486 | 4,402 | 84 | 1.9 | 4,067 |
| Administrative | 6,575 | 6,049 | 526 | 8.7 | 8,402 |
| Legal settlement fees | — | 10,592 | (10,592) | (100.0) | — |
| Total deductions | 457,657 | 464,046 | (6,389) | (1.4) | 421,188 |
| Increase (decrease) in net assets | 754,999 | 324,958 | 430,041 | 132.3 | (1,060,301) |
| Net assets, end of year | $ 4,842,903 | 4,087,904 | 754,999 | 18.5% | $ 3,762,946 |

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

## Management's Discussion and Analysis

June 30, 2011 and 2010

**Financial Analysis of the System**

The statements of system net assets as of June 30, 2011 and 2010 show net assets held in trust for pension and postemployment healthcare benefits of $4,842,903,000 and $4,087,904,000, respectively. The entire amount is available to cover the System's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries, as well as administrative costs.

These amounts represent an increase in the System's net assets held in trust for pension and postemployment healthcare benefits of $754,999,000 or 18.5% from fiscal year 2010 to 2011 and an increase of $324,958,000 or 8.6% from fiscal years 2009 and 2010. Over the long term, plan member, employer contributions, and State of Alaska appropriations, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the System.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska Retirement Management Board (Board) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives.

***System Asset Allocation***

During fiscal years 2011 and 2010, the Board adopted the following asset allocation for the DB Plan and DCR Plan's retiree major medical insurance fund, health reimbursement, and occupational death and disability fund:

| | 2011 | |
|---|---|---|
| | Pension & Healthcare Trust | |
| | Allocation | Range |
| Broad domestic equity | 29.0% | ± 6% |
| Global equity ex-U.S. | 23.0 | ± 4 |
| Fixed income | 19.0 | ± 3 |
| Real assets | 16.0 | ± 8 |
| Private equity | 7.0 | ± 5 |
| Absolute return | 5.0 | ± 4 |
| Cash equivalents | 1.0 | -1/+5 |
| Total | 100.0% | |
| Expected five-year median return | 8.07% | |
| Standard deviation | 13.46 | |

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

## Management's Discussion and Analysis

**June 30, 2011 and 2010**

| | 2010 | |
|---|---|---|
| | Pension & Healthcare Trust | |
| | Allocation | Range |
| Broad domestic equity | 30.0% | ± 6% |
| Global equity ex-U.S. | 22.0 | ± 4 |
| Fixed income | 20.0 | ± 3 |
| Real assets | 16.0 | ± 8 |
| Private equity | 7.0 | ± 5 |
| Absolute return | 5.0 | ± 4 |
| Cash equivalents | — | + 6 |
| Total | 100.0% | |
| Expected five-year median return | 9.04% | |
| Standard deviation | 12.85 | |

For fiscal years 2011 and 2010, the DB Plan's investments generated an 21.40% and a 11.58% rate of return, respectively. The DB Plan's annualized rate of return was 2.43% over the last three years and 4.37% over the last five years, which is less than the June 30, 2009 actuarial assumed rate of return of 8.25%.

**Actuarial Valuations and Funding Progress**

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing during a fiscal year and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the actuary and adopted by the Board. Employer contribution rates are recommended by the actuary and the actuarially determined contribution rate is considered for adoption by the Board annually. The ratio of assets to liabilities was 53.6%, at June 30, 2010 (the date of the DB Plan's latest actuarial valuation report). The goal for the DB Plan is to make progress toward achieving full funding.

A summary of the actuarial assumptions and methods is presented in the notes to required supplementary information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the DB Plan.

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## Management's Discussion and Analysis

June 30, 2011 and 2010

For fiscal year 2011, (based on the June 30, 2008 actuarial valuation report) the normal cost rate decreased from 7.59% to 7.56%, the past service rate decreased from 31.94% to 31.00%, thus producing a total fiscal year 2011 actuarially determined annual contribution rate of 38.56%. The Board adopted the actuarially determined contribution rate of 38.56% for fiscal year 2011:

| | Valuation Year (In thousands) | |
|---|---|---|
| | 2010 | 2009 |
| Valuation assets | $ 4,739,128 | 4,472,958 |
| Accrued liabilities (total benefits) | 8,847,788 | 7,847,514 |
| Unfunded accrued liability | 4,108,660 | 3,374,556 |
| Funding ratio | 53.6% | 57.0% |

**Contributions, Investment Income and Other Additions**

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

| | Additions (Reductions) (In thousands) | | | | |
|---|---|---|---|---|---|
| | | | Increase/(decrease) | | |
| | 2011 | 2010 | Amount | Percentage | 2009 |
| Plan members contributions | $ 69,150 | 67,722 | 1,428 | 2.1% | $ 61,737 |
| Employer contributions | 94,787 | 92,359 | 2,428 | 2.6 | 86,128 |
| Appropriation – State of Alaska | 190,850 | 173,462 | 17,388 | 10.0 | 206,300 |
| Net investment income (loss) | 852,859 | 396,417 | 456,442 | 115.1 | (996,876) |
| Legal settlement | — | 54,585 | (54,585) | (100.0) | — |
| Other additions | 5,010 | 4,459 | 551 | 12.4 | 3,598 |
| Total | $ 1,212,656 | 789,004 | 423,652 | (53.7)% | $ (639,113) |

The System's employer contributions increased from $92,359,000 in fiscal year 2010 to $94,787,000 in fiscal year 2011, an increase of $2,428,000 or 2.6%. The System's employer contributions increased from $86,128,000 in fiscal year 2009 to $92,359,000 in fiscal year 2010, an increase of $6,231,000 or 7.2%. The increase in employer contributions is attributable to an increase in members' salaries.

The State of Alaska provided $190,850,000 for fiscal year 2011 and $173,462,000 for fiscal year 2010 in employer on-behalf payments as required by Alaska Statute 14.25.085. The employer on-behalf amount is calculated by the System's actuary. It is based on projected payroll and the difference between the actuarially determined contribution rate and the statutory effective rate. The actuarially determined contribution rate decreased from 39.53% in fiscal year 2010 to 38.56% in fiscal year 2011. The employer contribution rate of 12.56% is established in Alaska Statute 14.25.070(a).

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## Management's Discussion and Analysis

**June 30, 2011 and 2010**

The System's net investment income in fiscal year 2011 increased by $456,442,000 or 115.1% from amounts recorded in fiscal year 2010. The System experienced net investment income of $396,417,000 in fiscal year 2010 and net investment loss of $996,876,000 in fiscal year 2009. Over the long term, investment income has been a major component of additions to System assets. During fiscal year 2011, the System continued to experience positive returns on investments.

The System's investment rate of returns at June 30, are as follows:

| | Year Ended 2011 | 2010 | 2009 |
|---|---|---|---|
| System returns | 21.40% | 11.58% | (20.62)% |
| Domestic equities | 33.38 | 15.47 | (26.80) |
| International equities | 28.27 | 12.03 | (29.12) |
| Fixed income | 5.55 | 11.35 | 3.36 |
| Private equity | 20.12 | 18.87 | (23.67) |
| Absolute return | 5.99 | 6.60 | (12.52) |
| Real assets | 15.51 | 0.06 | (21.20) |
| Cash equivalents | 0.46 | — | — |

During fiscal year 2010, the Alaska Retirement Management Board settled a lawsuit against its former actuary, Mercer, regarding claims of professional malpractice, breach of contract, and unfair trade practices in advising the state on management of the Alaska Public Employees' Retirement System and the Alaska Teachers' Retirement System. The settlement agreement amounts to $500 million in exchange for dismissal of the lawsuit. The amount allocated to the Teachers' Retirement System was $44 million after legal fees were deducted.

**Benefits and Other Deductions**

The primary deduction of the DB Plan is the payment of pension and postemployment healthcare benefits. The primary deduction of the DCR Pension Trust Plan is the refund of contributions. These benefit payments, healthcare claims paid, refunds of contributions, and the cost of administering the System comprise the costs of operation as follows:

**Deductions** (In thousands)

| | 2011 | 2010 | Increase/(decrease) Amount | Increase/(decrease) Percentage | 2009 |
|---|---|---|---|---|---|
| Pension benefits | $ 343,191 | 332,690 | 10,501 | 3.2% | $ 319,148 |
| Postemployment healthcare benefits | 103,405 | 110,313 | (6,908) | (6.3) | 89,571 |
| Refund of contributions | 4,486 | 4,402 | 84 | 1.9 | 4,067 |
| Administrative | 6,575 | 6,049 | 526 | 8.7 | 8,402 |
| Legal fees | - | 10,592 | (10,592) | (100.0) | - |
| Total | $ 457,657 | 464,046 | (6,389) | (1.4%) | $ 421,188 |

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## Management's Discussion and Analysis

**June 30, 2011 and 2010**

The System's pension benefit payments in 2011 increased $10,501,000 or 3.2% from fiscal year 2010 and increased $13,542,000 or 4.2% from fiscal year 2009 to 2010. The increase in pension benefits is the result of an increase in the number of retirees.

The System's postemployment healthcare benefit payments in fiscal year 2011 decreased $6,908,000 or 6.3% from fiscal year 2010 and postemployment healthcare benefit payments increased $20,742,000 or 23.2% from fiscal year 2009 to 2010. The decrease in healthcare costs in fiscal year 2011 is attributable in part to greater discounts with our preferred providers of healthcare.

The System's administrative deductions in 2011 increased $526,000 or 8.7% from fiscal year 2010 and decreased ($2,353,000) or (28.0%) from fiscal year 2009, respectively. The increase in administrative costs in fiscal year 2011 is related to an increase in personal services and actuarial costs.

During fiscal year 2010, the system incurred legal fees of $10,592,000 associated with the legal settlement paid to the State of Alaska by Mercer.

**Funding**

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

- The employer contribution rate is determined by the System's consulting actuary and adopted by the Board annually. Alaska Statute 14.25.070(a) sets the employer contribution rate at 12.56%. The difference between the actuarially determined rate and the statutory employer effective rate is paid by the State of Alaska as a direct appropriation.
- Plan member contributions are established by Alaska Statute 14.25.050 for the DB Plan and Alaska Statute 14.25.340 for the DCR Plan.
- Alaska Statute 14.25.085 requires that additional state contributions are made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the contribution rate adopted by the Board for that fiscal year.
- The Board works with an external consultant to determine the proper asset allocation strategy.

**Legislation**

During fiscal year 2011, the Twenty-Seventh Alaska State Legislature enacted one law that affects the System:

- House Bill 108 appropriates $234.5 million from the general fund to the Department of Administration for deposit in the System's defined benefit pension fund and retiree healthcare trust as partial payment of the participating employers' contributions for the fiscal year ending June 30, 2012. This appropriation is to fund the difference between the statutory required contribution established in Senate Bill 125 of 12.56% and the actuarially determined contribution rate of 42.61% and ARMB adopted rate of 45.55% for fiscal year 2012.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
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## Management's Discussion and Analysis

**June 30, 2011 and 2010**

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

Fiscal year 2011 was another strong recovery year in terms of investment returns. Net investment income reflected an increase of 115.11% between 2010 and 2011. The Board continues to diversify the portfolio of the System to maintain an optimal risk/return ratio. The return on the System's investments exceed its actuarially assumed return of 8.25% (based on the June 30, 2008 actuarial report, which established the fiscal year 2011 rate) with a system rate of return of 21.40% at June 30, 2011.

The consulting actuary recommended a decrease from the System's actuarially determined contribution rate of 39.53% in fiscal year 2010 to 38.56% in fiscal year 2011. The Board adopted the actuarially determined contribution rate of 38.56% for fiscal year 2011, down 0.97 points from the fiscal year 2010 Board-adopted actuarially determined contribution rate of 39.53%. The statutory employer contribution rate remained at 12.56% for fiscal years 2010 and 2011.

The June 30, 2010 actuarial valuation for the DB Plan reported a funding ratio of 53.6% and an unfunded liability of $4.1 billion.

For fiscal years 2011 and 2010, the DCR Plan's employer contribution rate was established at 12.56%. The DCR Plan retiree medical plan actuarially determined contribution rate was adopted by the Board to be 0.68% and 1.03% for fiscal years 2011 and 2010, respectively. The DCR Plan's actuarially determined occupational death and disability rate was adopted by the Board to be 0.28% and 0.32% for fiscal years 2011 and 2010, respectively.

### Requests for Information

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

State of Alaska Teachers' Retirement System
Division of Retirement and Benefits, Accounting Section
P.O. Box 110203
Juneau, Alaska 99811-0203

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

# Statement of System Net Assets
# June 30, 2011

**(With summarized financial information for June 30, 2010)**

**(In thousands)**

| | Defined benefit plan | | | Defined contribution pension trust plan | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pension | Alaska retiree healthcare trust | Total | Participant directed | Occupational death and disability | Retiree medical plan | Health reimbursement arrangement | Total | System total June 30, 2011 | System total June 30, 2010 |
| Assets: | | | | | | | | | | |
| Cash and cash equivalents (notes 2, 3 and 4): | | | | | | | | | | |
| Short-term fixed income pool | $ 16,226 | 8,510 | 24,736 | 2,116 | 26 | 62 | 224 | 2,428 | 27,164 | 39,279 |
| Great West account | — | — | — | 181 | — | — | — | 181 | 181 | 1,389 |
| Total cash and cash equivalents | 16,226 | 8,510 | 24,736 | 2,297 | 26 | 62 | 224 | 2,609 | 27,345 | 40,668 |
| Receivables: | | | | | | | | | | |
| Contributions | 4,309 | 42 | 4,351 | 40 | 1 | 2 | 10 | 53 | 4,404 | 4,778 |
| Due from State of Alaska General Fund (note 2) | 3,315 | 4,257 | 7,572 | 2,554 | 44 | 110 | 456 | 3,164 | 10,736 | 4,852 |
| Due from PERS Alaska retiree healthcare trust | — | — | — | — | — | — | — | — | — | 101 |
| Due from retiree health fund | 1 | — | 1 | — | — | — | — | — | 1 | 3,496 |
| Legal settlement | — | — | — | — | — | — | — | — | — | 54,586 |
| Other account receivable | — | 3,360 | 3,360 | — | — | — | — | — | 3,360 | 1,800 |
| Total receivables | 7,625 | 7,659 | 15,284 | 2,594 | 45 | 112 | 466 | 3,217 | 18,501 | 69,613 |
| Investments (notes 2, 3, 4 and 5) at fair value: | | | | | | | | | | |
| Fixed income securities: | | | | | | | | | | |
| Retirement fixed income pool | 7,562 | 3,885 | 11,447 | — | — | — | — | — | 11,447 | 380,128 |
| U.S. Treasury fixed income pool | 327,617 | 180,186 | 507,803 | — | 284 | 692 | 2,261 | 3,237 | 511,040 | 198,855 |
| High yield fixed-income pool | 77,920 | 40,034 | 117,954 | — | 44 | 106 | 346 | 496 | 118,450 | 98,061 |
| International fixed income pool | 72,186 | 37,087 | 109,273 | — | 44 | 108 | 353 | 505 | 109,778 | 60,032 |
| Emerging markets debt pool | 24,370 | 12,521 | 36,891 | — | 44 | 106 | 348 | 498 | 37,389 | 30,677 |
| Total fixed income securities | 509,655 | 273,713 | 783,368 | — | 416 | 1,012 | 3,308 | 4,736 | 788,104 | 767,753 |
| Broad domestic equity | 935,487 | 480,551 | 1,416,038 | — | 653 | 1,589 | 5,195 | 7,437 | 1,423,475 | 1,154,949 |
| Global equity ex-U.S.: | | | | | | | | | | |
| International equity pool | 562,119 | 288,762 | 850,881 | — | 411 | 999 | 3,266 | 4,676 | 855,557 | 609,421 |
| Emerging markets equity pool | 188,024 | 96,605 | 284,629 | — | 108 | 263 | 858 | 1,229 | 285,858 | 232,739 |
| Total global equity ex-U.S. | 750,143 | 385,367 | 1,135,510 | — | 519 | 1,262 | 4,124 | 5,905 | 1,141,415 | 842,160 |
| Private equity pool | 287,298 | 147,604 | 434,902 | — | 154 | 375 | 1,226 | 1,755 | 436,657 | 387,078 |
| Absolute return pool | 137,790 | 70,792 | 208,582 | — | 110 | 267 | 871 | 1,248 | 209,830 | 201,081 |
| Real assets: | | | | | | | | | | |
| Real estate pool | 248,788 | 127,887 | 376,675 | — | 216 | 526 | 1,718 | 2,460 | 379,135 | 336,940 |
| Real estate investment trust pool | 31,849 | 16,361 | 48,210 | — | 7 | 16 | 54 | 77 | 48,287 | 15,776 |
| Energy pool | 14,916 | 7,664 | 22,580 | — | 7 | 16 | 52 | 75 | 22,655 | 25,386 |
| Farmland pool | 99,711 | 58,422 | 158,133 | — | 35 | 85 | 278 | 398 | 158,531 | 143,196 |
| Farmland water pool | 13,877 | — | 13,877 | — | — | — | — | — | 13,877 | 11,315 |
| Timber pool | 36,603 | 18,807 | 55,410 | — | 22 | 53 | 173 | 248 | 55,658 | 49,738 |
| Treasury inflation protected securities pool | 36,502 | 18,754 | 55,256 | — | 70 | 170 | 557 | 797 | 56,053 | 23,731 |
| Total real assets | 482,246 | 247,895 | 730,141 | — | 357 | 866 | 2,832 | 4,055 | 734,196 | 606,082 |
| Other investment funds, at fair value: | | | | | | | | | | |
| Pooled investment funds | — | — | — | 26,079 | — | — | — | 26,079 | 26,079 | 11,078 |
| Collective investment funds | — | — | — | 54,127 | — | — | — | 54,127 | 54,127 | 34,324 |
| Total other investment funds | — | — | — | 80,206 | — | — | — | 80,206 | 80,206 | 45,402 |
| Total investments | 3,102,619 | 1,605,922 | 4,708,541 | 80,206 | 2,209 | 5,371 | 17,556 | 105,342 | 4,813,883 | 4,004,505 |
| Other assets | — | 984 | 984 | — | — | — | — | — | 984 | 985 |
| Total assets | 3,126,470 | 1,623,075 | 4,749,545 | 85,097 | 2,280 | 5,545 | 18,246 | 111,168 | 4,860,713 | 4,115,771 |
| Liabilities: | | | | | | | | | | |
| Accrued expenses | 2,940 | 203 | 3,143 | 1,125 | — | — | — | 1,125 | 4,268 | 3,724 |
| Claims payable (note 6) | — | 13,542 | 13,542 | — | — | — | — | — | 13,542 | 13,551 |
| Legal fees payable | — | — | — | — | — | — | — | — | — | 10,592 |
| Total liabilities | 2,940 | 13,745 | 16,685 | 1,125 | — | — | — | 1,125 | 17,810 | 27,867 |
| Commitment and contingencies (note 9) | — | — | — | — | — | — | — | — | — | — |
| Net assets held in trust for pension and postemployment healthcare benefits | $3,123,530 | 1,609,330 | 4,732,860 | 83,972 | 2,280 | 5,545 | 18,246 | 110,043 | 4,842,903 | 4,087,904 |

See accompanying notes to the financial Sstatements.

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

# Statement of Changes in System Net Assets
# Year ended June 30, 2011

**(With summarized financial information for June 30, 2010)**

**(In thousands)**

| | Defined benefit plan | | | Defined contribution pension trust plan | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pension | Alaska retiree healthcare trust | Total | Participant directed | Occupational death and disability | Retiree medical plan | Health reimbursement arrangement | Total | System total June 30, 2011 | System total June 30, 2010 |
| Additions: | | | | | | | | | | |
| Contributions: | | | | | | | | | | |
| Employers | $ 32,804 | 43,217 | 76,021 | 11,943 | 474 | 1,154 | 5,195 | 18,766 | 94,787 | 92,359 |
| Plan members | 55,347 | 138 | 55,485 | 13,665 | — | — | — | 13,665 | 69,150 | 67,722 |
| Employer legislative relief | 109,343 | 81,507 | 190,850 | — | — | — | — | — | 190,850 | 173,462 |
| Total contributions | 197,494 | 124,862 | 322,356 | 25,608 | 474 | 1,154 | 5,195 | 32,431 | 354,787 | 333,543 |
| Investment income: | | | | | | | | | | |
| Net appreciation in fair value (note 2) | 499,430 | 244,631 | 744,061 | 12,731 | 286 | 694 | 2,105 | 15,816 | 759,877 | 330,986 |
| Interest | 16,780 | 8,711 | 25,491 | 11 | 12 | 30 | 93 | 146 | 25,637 | 32,708 |
| Dividends | 51,903 | 25,029 | 76,932 | — | 29 | 69 | 213 | 311 | 77,243 | 40,504 |
| Total investment income | 568,113 | 278,371 | 846,484 | 12,742 | 327 | 793 | 2,411 | 16,273 | 862,757 | 404,198 |
| Less investment expense | 9,893 | 5 | 9,898 | — | — | — | — | — | 9,898 | 7,781 |
| Net investment income | 558,220 | 278,366 | 836,586 | 12,742 | 327 | 793 | 2,411 | 16,273 | 852,859 | 396,417 |
| Other: | | | | | | | | | | |
| Legal settlement | — | — | — | — | — | — | — | — | — | 54,585 |
| Other | 54 | 4,951 | 5,005 | 5 | — | — | — | 5 | 5,010 | 4,459 |
| Total additions | 755,768 | 408,179 | 1,163,947 | 38,355 | 801 | 1,947 | 7,606 | 48,709 | 1,212,656 | 789,004 |
| Deductions: | | | | | | | | | | |
| Pension and postemployment benefits | 343,191 | 103,405 | 446,596 | — | — | — | — | — | 446,596 | 443,003 |
| Refunds of contributions | 2,798 | — | 2,798 | 1,688 | — | — | — | 1,688 | 4,486 | 4,402 |
| Legal settlement fees | — | — | — | — | — | — | — | — | — | 10,592 |
| Administrative | 2,806 | 3,080 | 5,886 | 689 | — | | — | 689 | 6,575 | 6,049 |
| Total deductions | 348,795 | 106,485 | 455,280 | 2,377 | — | — | — | 2,377 | 457,657 | 464,046 |
| Net increase | 406,973 | 301,694 | 708,667 | 35,978 | 801 | 1,947 | 7,606 | 46,332 | 754,999 | 324,958 |
| Net assets held in trust for pension and postemployment healthcare benefits: | | | | | | | | | | |
| Balance, beginning of year | 2,716,557 | 1,307,636 | 4,024,193 | 47,994 | 1,479 | 3,598 | 10,640 | 63,711 | 4,087,904 | 3,762,946 |
| Balance, end of year | $3,123,530 | 1,609,330 | 4,732,860 | 83,972 | 2,280 | 5,545 | 18,246 | 110,043 | 4,842,903 | 4,087,904 |

See accompanying notes to the financial statements.

**STATE OF ALASKA**
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**(A Component Unit of the State of Alaska)**

# Notes to Financial Statements

**June 30, 2011**
**(With summarized financial information for June 30, 2010)**

## (1) Description

The following is a brief description of the State of Alaska Teachers' Retirement System (TRS or the System) Defined Benefit Retirement Pension and Postemployment Healthcare Plan (the DB Plan) and Defined Contribution Retirement Trust Fund (the DCR Plan). TRS is a Component Unit of the State of Alaska (the State). The DB Plan is a plan within the System, which includes the Defined Benefit Retirement Pension Trust Fund and Alaska Retiree Healthcare Trust Fund. The DCR Plan consists of a Participant Directed Fund, Retiree Medical Fund, Health Reimbursement Arrangement Fund, and Occupational Death and Disability Fund. Participants should refer to the System agreement for more complete information.

At June 30, 2011 and 2010, the number of participating local government employers was as follows:

| | |
|---|---|
| State of Alaska | 1 |
| School districts | 53 |
| Other | 4 |
| Total employers | 58 |

Inclusion in the DB Plan and DCR 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.

### Defined Benefit Retirement Plan

*General*

The DB Plan is a defined benefit, cost-sharing, multiple employer plan within the System established and administered by the State to provide pension and postemployment healthcare benefits for teachers and other eligible members. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The System is a component unit of the State financial reporting entity and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006.

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

| | Valuation as of June 30 | |
|---|---|---|
| | **2010** | **2009** |
| Retirees and beneficiaries currently receiving benefits | 10,598 | 10,255 |
| Terminated plan members entitled to future benefits | 840 | 884 |
| Total current and future benefits | 11,438 | 11,139 |
| Active plan members: | | |
| Vested | 5,959 | 5,799 |
| Nonvested | 1,873 | 2,427 |
| Total active plan member | 7,832 | 8,226 |
| Total members | 19,270 | 19,365 |

STATE OF ALASKA
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## Notes to Financial Statements

June 30, 2011
(With summarized financial information for June 30, 2010)

***Pension Benefits***

Vested members hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, 55, or early retirement age, 50. For members hired after June 30, 1990, the normal and early retirement ages are 60 and 55, respectively. Members 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 average base salary. The average base salary is based upon the members' three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of 20 years is equal to 2% of the employee's average base salary. The benefit for each year over 20 years of service subsequent to June 30, 1990 is equal to 2 ½% of the employee's base salary.

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

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

The DB Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the DB Plan's administrator, if the cost of living in the previous calendar year rises and the financial condition of the DB Plan's 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 members first hired before July 1, 1990, (2) members hired after July 1, 1990 with 25 years of membership service, and (3) members who are disabled or age 60 or older, regardless of their initial hire dates. Members first hired after June 30, 1990 may receive major medical benefits prior to age 60 by paying premiums.

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

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## Notes to Financial Statements

**June 30, 2011**
**(With summarized financial information for June 30, 2010)**

***Death Benefits***

When benefits are payable under the 1% supplemental contribution provision, the DB 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 DB Plan member's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the DB Plan member's base salary. DB Plan members first hired after June 30, 1982 are not eligible to participate in this provision.

If an active DB Plan member dies from occupational causes, the spouse may receive a monthly pension from the DB Plan. When death is due to occupational causes and there is no surviving spouse, the DB Plan member's dependent child(ren) may receive a monthly pension until the child(ren) is/are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension is 40% of the member's base salary at the time of death. The amount of the occupational death pension changes on the date the DB Plan member's normal retirement would have occurred if the DB Plan member had lived. The new benefit is based on the DB Plan member's average base salary at the time of death and the credited service that would have accrued had the DB 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 DB Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average base salary at the time of death. If the DB Plan member is not married or vested, a lump-sum death benefit is payable to the named beneficiary(ies).

***Disability Benefits***

If a DB 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 DB 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 System member receives normal retirement benefits.

***Contributions***

**DB Plan Member Contributions**

The DB Plan members contribute 8.65% of their base salary as required by statute. The DB Plan's member contributions are deducted before federal tax is withheld. Eligible DB Plan members contribute an additional 1.11% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the DB Plan. DB Plan member contributions earn interest at the rate of 4.50% per annum, compounded annually.

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**Employer Contributions**

The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the entry age normal actuarial cost method of funding. The DB Plan uses the level percentage of pay method to amortize the unfunded liability over a 25 year fixed period. Employer contributions are accumulated in both the pension and the healthcare funds based on the adopted actuarially determined contribution rate for the fiscal year.

**Contributions from the State of Alaska**

Alaska Statute 14.25.085 requires that additional state contributions made each July 1 or as soon after July 1 for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Alaska Retirement Management Board (the Board) for that fiscal year.

***Refunds***

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablish an employee relationship with a participating DB Plan employer before July 1, 2010. Members who have not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

**Defined Contribution Retirement Plan**

***General***

The DCR Pension Trust Fund is a defined contribution, cost-sharing, multiple employer public employee retirement plan within TRS established and administered by the State to provide pension and postemployment healthcare benefits for eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DCR Pension Trust Fund was created by State of Alaska Statutes effective July 1, 2006. A defined contribution plan is a plan in which savings are accumulated in an individual retirement account for the exclusive benefit of the member or beneficiaries.

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At June 30, 2011 and 2010, DCR Pension Trust Fund membership consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | — | — |
| Terminated plan members entitled to future benefits: | | |
| 25% Vested | 285 | 247 |
| 50% Vested | 123 | 106 |
| 75% Vested | 70 | 37 |
| 100% Vested | 24 | 4 |
| Total terminated plan members entitled to future benefits | 502 | 394 |
| Total current and future benefits | 502 | 394 |
| Active plan members: | | |
| 25% Vested | 653 | 622 |
| 50% Vested | 544 | 472 |
| 75% Vested | 441 | 286 |
| 100% Vested | 259 | 3 |
| Nonvested | 841 | 886 |
| Total active plan members | 2,738 | 2,269 |
| Total members | 3,240 | 2,663 |

***Pension Benefits***

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

***Postemployment Healthcare Benefits***

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

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***Death Benefits***

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

The monthly survivor's pension section for survivors of employees is 40% of the employee's monthly compensation in the month in which the employee dies. While the monthly survivor's pension is being paid, the employer shall make contributions on behalf of the employee's beneficiaries based on the deceased employee's gross monthly compensation at the time of occupational death.

***Disability Benefits***

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

***Contributions***

**Defined Contribution Member Contributions**

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

**Employer Contributions**

An employer shall contribute to each member's individual account an amount equal to 7.0% of the member's compensation.

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

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

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***Refunds***

A member is eligible to elect distribution of the member's account in accordance with this section 60 days after termination of employment.

***Participant Accounts***

Participant accounts under the DCR Plan are self-directed with respect to investment options. Investment options are disclosed in note 3.

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

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

### (2) Summary of Significant Accounting Policies

***Basis of Accounting***

The System'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, No. 43, and No. 50***

The DB Plan and DCR Plan follow the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25). GASB 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two separate categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. The DB Plan and DCR Plan follow the provisions of GABS Statement No. 50, *Pension Disclosure*; GASB 50 amended certain disclosure provisions of GASB 25 and expanded the required disclosures regarding pensions.

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

***Investments***

Investments are reported under the Department of Revenue, Division of Treasury (Treasury). Treasury financial statements are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net contributions (withdrawals) represent contributions from employers and employees, net of benefits paid to plan participants and administrative and investment management expenses. Contributions, benefits paid, and all expenses are recorded on a cash basis.

**Pooled Investments**

With the exception of the Short-term Fixed Income Pool, ownership in the various pools 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.

The Short-Term Fixed Income Pool maintains a share price of $1. 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. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

***Valuation and Income Allocation***

**Fixed Income Investment Pools**

With the exception of the Emerging Markets Debt Pool, fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the investment manager determine the allocation between permissible securities.

The Emerging Markets Debt Pool participates in one externally managed commingled investment fund alongside other institutional investors through ownership of equity shares, which are valued on the last business day of each month by the investment manager.

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**Broad Domestic Equity, International Equity, and Real Estate Investment Trust (REIT) Pools**

Domestic equity, international equity, and REIT securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Income in the pools is credited to the net asset value of the pool daily and allocated to pool participants daily on a pro rata basis. Treasury staff or the external manager determine the allocation between permissible securities.

**Emerging Markets Equity, Private Equity, Absolute Return, Real Estate, Energy, Farmland, Farmland Water, and Timber Pools**

Income in these pools is credited to the net asset value of the pool daily and allocated to pool participants monthly on a pro rata basis.

Emerging markets securities are valued on the last business day of each month by the investment managers. The pool participates in three externally managed commingled investment funds alongside other institutional investors through ownership of equity shares. The commingled funds invest in the securities markets of developing countries.

Private equity investments are valued quarterly by the general partners and investment sponsors. Private equity oversight managers and Treasury staff employ a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of venture capital, buyout, restructuring, and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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. Underlying assets are comprised of hedge fund investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

The energy related investments are valued quarterly by the general partner. The general partner is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments. Underlying assets are comprised of a limited partnership with an energy related venture capital operating company.

Real estate, farmland, farmland water property, and timber investments are valued quarterly by investment managers based on market conditions. Additionally, real estate, farmland, and timber investments are appraised annually by independent appraisers. Underlying assets in the pool comprise separate accounts, commingled accounts, and limited partnerships. Managers independently determine permissible investments.

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***Defined Contribution Participant Directed Investments***

The Alaska Retirement Management Board (Board) contracts with an external investment manager who is given the authority to invest in a wholly owned pooled environment to accommodate 13 participant directed funds. Additionally, the Board Contracts with external managers who manage a mix of collective investment funds. Income for the Pooled Investment and Collective Investment Funds is credited to the fund's net asset value on a daily basis and allocated to pool participants daily on a pro rata basis.

Pooled Participant Directed Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the DCR Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of domestic and international stocks, investment grade bonds, federally guaranteed mortgages, money market instruments, and other cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1/P1 or better as well as, obligations of the U.S. government and its agencies, and repurchase agreements collateralized by U.S. Treasury Instruments.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the DCR Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis. Underlying assets are comprised of commingled investment funds, alongside other investors, through ownership of equity shares.

***Contributions Receivable***

Contributions from the System's 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.

***Administrative Costs***

Administrative costs are paid from investment earnings.

***Due From (to) State of Alaska General Fund***

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

***Federal Income Tax Status***

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

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**(3) Investments**

The Board is the investment oversight authority of the System's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's Invested Assets is pursuant to Alaska Statutes 37.10.210-390.

Alaska Statute 37.10.071 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.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the DCR Participant Directed Pension Plans under the Board's fiduciary responsibility.

Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies, and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the High Yield Fixed Income Pool, International Fixed Income Pool, Emerging Markets Debt Pool, Broad Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Real Estate Pool, Energy Pool, Farmland Pool, Farmland Water Pool, Timber Pool, Pooled Participant Directed Investment Funds, and Collective Participant Directed Investment Funds are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, U.S. Treasury Fixed Income Pool, Real Estate Investment Trust Pool, Treasury Inflation Protected Securities Pool, and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

The Short-term Fixed Income Pool is a State pool managed by Treasury that holds investments on behalf of Board as well as other state funds.

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## (4) Deposit and Investment Risk

At June 30, 2011, the System investments included the following (in thousands):

| | Fair Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fixed income pools | | | | | | | | |
| | Short-term | Retirement | U.S. Treasury | High yield | International | Convertible | TIPS | Other | Total |
| Bridge loans | $ — | — | — | 172 | — | — | — | — | 172 |
| Commercial paper | 5,657 | — | 15,506 | — | — | — | — | — | 21,163 |
| Convertible bonds | — | — | — | 1,421 | — | — | — | — | 1,421 |
| Corporate bonds | 25,024 | — | 23,462 | 101,863 | — | — | — | — | 150,349 |
| Deposits | — | — | — | — | 499 | — | — | — | 499 |
| Foreign corporate bonds | — | — | — | — | 23,193 | — | — | — | 23,193 |
| Foreign government bonds | — | — | — | — | 80,377 | — | — | — | 80,377 |
| Mortgage-backed | 1,162 | 5,996 | — | — | — | — | — | — | 7,158 |
| Mutual funds | — | — | — | — | — | — | — | 58,409 | 58,409 |
| Other asset-backed | 25,107 | — | 97 | — | — | — | — | — | 25,204 |
| Overnight sweep account (Imcs) | 675 | — | — | 5,556 | — | 93 | — | — | 6,324 |
| Short-term investment fund | — | — | — | — | 962 | — | — | 6,004 | 6,966 |
| U.S. government agency | 1,396 | — | 4,072 | — | — | — | — | — | 5,468 |
| U.S. government agency discount note | 2,069 | — | — | — | — | — | — | — | 2,069 |
| Treasury bills | 11,828 | — | — | — | — | — | — | — | 11,828 |
| Treasury bonds | — | — | 34,977 | — | — | — | — | — | 34,977 |
| Treasury notes | — | — | 419,050 | — | 3,116 | — | — | — | 422,166 |
| U.S. Treasury TIP bonds | — | — | — | — | — | — | 19,191 | — | 19,191 |
| U.S. Treasury TIP notes | — | — | — | — | — | — | 36,342 | — | 36,342 |
| Yankees: | | | | | | | | | |
| Corporate | 494 | — | 7,446 | 7,921 | — | — | — | — | 15,861 |
| Government | — | — | 435 | — | — | — | — | — | 435 |
| Fixed income pools: | | | | | | | | | |
| Equity | — | — | — | 136 | — | — | — | — | 136 |
| Warrants | — | — | — | 10 | — | — | — | — | 10 |
| Emerging markets debt pool | — | — | — | — | — | — | — | 37,389 | 37,389 |
| Broad domestic equity pool: | | | | | | | | | |
| Convertible bonds | — | — | — | — | — | 23,963 | — | — | 23,963 |
| Deposit | — | — | — | — | — | — | — | 7,117 | 7,117 |
| Equity | — | — | — | — | — | 3,058 | — | 1,250,114 | 1,253,172 |
| Limited partnership | — | — | — | — | — | — | — | 94,909 | 94,909 |
| Mutual fund | — | — | — | — | — | — | — | 17,592 | 17,592 |
| Options | — | — | — | — | — | — | — | (8,531) | (8,531) |
| Treasury bills | — | — | — | — | — | — | — | 1,337 | 1,337 |
| International equity pool: | | | | | | | | | |
| Deposits | — | — | — | — | — | — | — | 10,069 | 10,069 |
| Equity | — | — | — | — | — | — | — | 778,633 | 778,633 |
| Rights | — | — | — | — | — | — | — | 55 | 55 |
| Emerging markets equity pool | — | — | — | — | — | — | — | 285,858 | 285,858 |
| Private equity pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 436,031 | 436,031 |
| Absolute return pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 209,830 | 209,830 |
| Real Estate Pool: | | | | | | | | | |
| Commingled funds | — | — | — | — | — | — | — | 79,785 | 79,785 |
| Limited partnerships | — | — | — | — | — | — | — | 102,801 | 102,801 |
| Real estate | — | — | — | — | — | — | — | 196,549 | 196,549 |
| Real estate investment trust pool: | | | | | | | | | |
| Equity | — | — | — | — | — | — | — | 48,109 | 48,109 |
| Energy pool: | | | | | | | | | |
| Limited partnerships | — | — | — | — | — | — | — | 22,655 | 22,655 |
| Farmland pool: | | | | | | | | | |
| Agricultural holdings | — | — | — | — | — | — | — | 158,531 | 158,531 |
| Farmland water pool: | | | | | | | | | |
| Agricultural holdings | — | — | — | — | — | — | — | 13,877 | 13,877 |
| Timber pool: | | | | | | | | | |
| Timber holdings | — | — | — | — | — | — | — | 55,658 | 55,658 |
| Participant directed: | | | | | | | | | |
| Collective investment funds | — | — | — | — | — | — | — | 54,127 | 54,127 |
| Pooled investment funds | — | — | — | — | — | — | — | 26,079 | 26,079 |
| Net other assets (liabilities) | 34 | 49 | (926) | 1,371 | 1,631 | 149 | 378 | 3,048 | 5,734 |
| Other pool ownership | (46,282) | 5,402 | 6,921 | — | — | — | 142 | 33,817 | — |
| Total invested assets | $ 27,164 | 11,447 | 511,040 | 118,450 | 109,778 | 27,263 | 56,053 | 3,979,852 | 4,841,047 |

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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 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and 12 month prepay speeds for other securities. At June 30, 2011, the expected average life of individual fixed rate securities ranged from 1 day to 1 year and the expected average life of floating rate securities ranged from 8 days to 14 years.

**Other Defined Benefit Plan Fixed Income Pools**

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options, and other variable cash flows to calculate effective duration.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Retirement Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2011 was 5.19 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the Intermediate U.S. Treasury Fixed Income portfolio to ± 20% of the Barclays Capital U.S. Treasury Intermediate Index. The effective duration for the Barclays Capital U.S. Treasury Intermediate Index at June 30, 2011 was 3.94 years.

Through the Board'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 Fixed Income portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Constrained Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Constrained Index at June 30, 2011 was 4.52 years.

Through the Board'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-USD World Government Bond Index. The effective duration for the Citigroup Non-USD World Government Bond Index at June 30, 2011 was 6.97 years.

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Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the TIPS portfolio to ± 20% of the Barclays Capital U.S. Treasury Inflation-Protected (U.S. TIPS) Index, or a reasonable proxy thereof. The average life of the proxy index at June 30, 2011 was 5.31 years.

The Board does not have a policy to limit interest rate risk for the Emerging Debt or Convertible Bond portfolios.

At June 30, 2011, the effective duration of the DB Plan's fixed income pools, by investment type, was as follows:

| | **Effective duration** (In years) | | | | |
|---|---|---|---|---|---|
| | **Retirement** | **U.S. Treasury** | **High yield** | **International** | **TIPS** |
| Corporate bonds | — | 4.18 | 4.66 | — | — |
| Convertible bonds | — | — | 0.30 | — | — |
| Equity | — | | 7.49 | | |
| Foreign corporate bonds | — | — | — | 1.30 | — |
| Foreign government bonds | — | — | — | 3.98 | — |
| Mortgage-backed | 2.72 | 2.32 | — | — | — |
| Other asset-backed | — | 1.98 | — | — | — |
| U.S. Treasury bonds | — | 7.61 | — | — | 9.49 |
| U.S. Treasury notes | — | 3.67 | — | 5.86 | 2.92 |
| U.S. government agency | — | 7.71 | — | — | — |
| Yankees: | | | | | |
| Corporate | — | 3.27 | 4.42 | — | — |
| Government | — | (4.69) | — | — | — |
| **Portfolio effective duration** | **1.43** | **3.86** | **4.37** | **3.40** | **5.18** |

**Defined Contribution Pooled Investment Funds**

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate 13 participant-directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

> Under normal conditions, for government debt, corporate debt and mortgage-backed securities, duration is limited to ± 0.2 years of the Barclays Capital U.S. Aggregate Bond Index. Further deviations are acceptable if they do not contribute significantly to the overall risk of the portfolio. In no event at time of purchase shall effective duration exceed ± 0.4 years relative to the index.

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At June 30, 2011, the duration of the government corporate debt, and mortgage-backed securities was 5.12 years and the duration of the Barclays Capital Aggregate Bond Index was 5.19 years.

Under normal conditions, the DCR Plan will invest in cash equivalent instruments with maturities of less than one year.

**Defined Contribution Collective Investment Funds**

The Board does not have a policy to limit interest rate risk for its collective investment funds. At June 30, 2011, the modified duration of collective investment funds that consisted solely of debt securities were as follows – SSgA Money Market Trust: 0.05 years, SSgA World Government Bond Ex-U.S. Index: 6.76 years, SSgA Long U.S. Treasury Bond Index: 14.46 years, SSgA TIPS Index: 4.69 years, Barclays Gov/Corp Bond Fund: 7.73 years, and the Barclays Intermediate Bond Fund: 3.98 years.

***Credit Risk***

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

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

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P1 or equivalent. Assetbacked and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if rated by only one of these agencies if they are rated AAA.

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

**Retirement Fixed Income**

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

Corporate debt securities must be investment grade.

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

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

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

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**U.S. Treasury Fixed Income**

No more than 10% of the portfolio's assets may be invested in securities that are not nominal, United States Treasury obligations or the internally managed short term or substantially similar portfolio at the time of purchase.

Corporate, asset-backed, and nonagency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's, Moody's, and Fitch. Asset-backed and 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.

**High Yield Fixed Income**

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.

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

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

**International Fixed Income**

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

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

**Convertible Bonds**

Non-rated convertible securities are permitted provided the manager is able to assign an appropriate credit rating consistent with the criteria used by Standard and Poor's, Moody's, or Fitch. Non-rated securities are limited to 35% of the total market value of the portfolio.

The weighted average rating of the portfolio shall not fall below the Standard and Poor's equivalent of B.

Investments are limited to instruments with a credit rating above CCC- by Standard and Poor's and Caa3 by Moody's. However, the manager may continue to hold securities downgraded below CCC- by Standard and Poor's and Caa3 by Moody's if such an investment is considered appropriate given the Board's investment objective.

In the case of a split rating by two or more of the rating agencies, the lower rating shall apply.

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**TIPS**

Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's.

No more than 5% of the portfolio's assets may be invested in investment grade corporate debt.

No more than 5% of the portfolio's assets may be invested in BBB+ to BBB- rated debt by Standard & Poor's or the equivalents by Moody's or Fitch.

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

**Broad Domestic Equity, International Equity, Emerging Markets Debt and Collective Investment**

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

Commercial paper must bear the highest rating assigned by Moody's, Standard & Poor's, or Fitch rating services.

The Board does not have a policy to limit the concentration of credit risk for the Emerging Markets Debt Pool or the Collective Investment Funds.

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At June 30, 2011, the System's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

| | | Fixed income pools | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Investment type** | **Rating** | **Short-term** | **Retirement** | **U.S. Treasury** | **High yield** | **International** | **Convertible** | **TIPS** |
| Bridge loans | Not rated | —% | —% | —% | 0.15% | —% | —% | —% |
| Commercial paper | A-1 | 6.95 | — | — | — | — | — | — |
| Commercial paper | Not rated | 0.75 | — | — | — | — | — | — |
| Convertible bonds | AA | — | — | — | — | — | 0.93 | — |
| Convertible bonds | A | — | — | — | — | — | 9.89 | — |
| Convertible bonds | BBB | — | — | — | — | — | 14.79 | — |
| Convertible bonds | BB | — | — | — | — | — | 19.72 | — |
| Convertible bonds | B | — | — | — | 0.76 | — | 13.80 | — |
| Convertible bonds | CCC | — | — | — | — | — | 5.73 | — |
| Convertible bonds | Not rated | — | — | — | 0.44 | — | 23.03 | — |
| Corporate bonds | AAA | 23.65 | — | — | — | — | — | — |
| Corporate bonds | AA | 1.45 | — | 0.70 | — | — | — | — |
| Corporate bonds | A | 3.20 | — | 1.39 | — | — | — | — |
| Corporate bonds | BBB | — | — | 0.95 | 3.51 | — | — | — |
| Corporate bonds | BB | — | — | — | 33.36 | — | — | — |
| Corporate bonds | B | — | — | — | 39.72 | — | — | — |
| Corporate bonds | CCC | — | — | — | 5.74 | — | — | — |
| Corporate bonds | CC | — | — | — | 0.17 | — | — | — |
| Corporate bonds | Not rated | 5.78 | — | — | 3.51 | — | — | — |
| Equity | A | — | — | — | — | — | 1.94 | — |
| Equity | BBB | — | — | — | 0.11 | — | — | — |
| Equity | BB | — | — | — | — | — | 6.16 | — |
| Equity | CCC | — | — | — | — | — | 3.11 | — |
| Foreign corporate bonds | AAA | — | — | — | — | 17.87 | — | — |
| Foreign corporate bonds | A | — | — | — | — | 2.52 | — | — |
| Foreign corporate bonds | BBB | — | — | — | — | 0.74 | — | — |
| Foreign government bonds | AA | — | — | — | — | 4.12 | — | — |
| Foreign government bonds | A | — | — | — | — | 18.74 | — | — |
| Foreign government bonds | BBB | — | — | — | — | 5.85 | — | — |
| Foreign government bonds | Not rated | — | — | — | — | 44.51 | — | — |
| Mortgage-backed | AAA | 1.58 | 37.74 | 3.56 | — | — | — | — |
| Mortgage-backed | AA | — | 1.41 | 0.08 | — | — | — | — |
| Mortgage-backed | A | — | 4.42 | 0.10 | — | — | — | — |
| Mortgage-backed | CCC | — | 5.26 | — | — | — | — | — |
| Mortgage-backed | Not rated | — | 3.55 | 0.85 | — | — | — | — |
| Other asset-backed | AAA | 30.49 | — | — | — | — | — | — |
| Other asset-backed | A | 0.07 | — | — | — | — | — | — |
| Other asset-backed | Not rated | 3.62 | — | 0.02 | — | — | — | — |
| Short-term investment | Not rated | — | — | — | 4.69 | 0.88 | 0.34 | — |
| U.S. Treasury bills | AAA | 16.10 | — | — | — | — | — | — |
| U.S. Treasury bonds | AAA | — | — | 6.84 | — | — | — | 34.24 |
| U.S. Treasury notes | AAA | — | — | 82.00 | — | 2.84 | — | 64.83 |
| U.S. Treasury agency | AAA | 1.90 | — | — | — | — | — | — |
| U.S. Treasury agency | Not rated | — | — | 0.80 | — | — | — | — |
| U.S. Treasury agency discount notes | Not rated | 2.82 | — | — | — | — | — | — |
| Yankees: | | | | | | | | |
| Government | Not rated | — | — | 0.09 | — | — | — | — |
| Corporate | AA | 0.49 | — | 0.56 | — | — | — | — |
| Corporate | A | 0.11 | — | 0.50 | — | — | — | — |
| Corporate | BBB | — | — | 0.23 | 0.36 | — | — | — |
| Corporate | BB | — | — | — | 2.60 | — | — | — |
| Corporate | B | — | — | — | 3.22 | — | — | — |
| Corporate | Not rated | 0.07 | — | 0.16 | 0.50 | — | — | — |
| No credit exposure | | 0.97 | 47.62 | 1.17 | 1.16 | 1.93 | 0.56 | 0.93 |
| | | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

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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 Board does not have a policy in relation to custodial credit risk for deposits; however, any uninvested U.S. cash held in accounts is fully insured by the Federal Deposit Insurance Corporation (FDIC) under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act effective December 31, 2010. This section of the act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured depository institutions thereby limiting custodial credit risk.

At June 30, 2011, the System's Invested Assets had the following uncollateralized and uninsured deposits:

| | Amount (In thousands) |
|---|---|
| Board international equity pool | $ 10,052 |
| International fixed income pool | 499 |

***Foreign Currency Risk***

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Board'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 these countries: Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Eurozone sovereign issuers in the aggregate, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Peru, Poland, Russia, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. The Board has no specific policy with regard to foreign currency risk relating to international or private equity. However, through its asset allocation policy, the Board limits total investments in international fixed income, global equity ex-U.S., and private equity to the following:

| Fixed income | Global equity ex-U.S. | Private equity pool |
|---|---|---|
| 22% | 27% | 12% |

The Board has no policy regarding foreign currency risk in the Defined Contribution Pooled Investment Funds and Collective Investment Funds.

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At June 30, 2011, the System had exposure to foreign currency risk with the following deposits:

| Currency | Amount (In thousands) International fixed income pool | Broad international equity pool |
|---|---|---|
| Australian dollar | $ — | 129 |
| Brazilian real | — | 1 |
| Canadian dollar | — | 76 |
| Danish krone | — | 79 |
| Euro currency | 13 | 7,610 |
| Hong Kong dollar | — | 149 |
| Hungarian fornit | 79 | — |
| Israeli shekel | — | 5 |
| Japanese yen | 63 | 1,338 |
| Mexican peso | 269 | — |
| New Taiwan dollar | — | 268 |
| New Zealand dollar | — | 4 |
| Norwegian krone | — | 22 |
| Pound sterling | — | 223 |
| Singapore dollar | — | 13 |
| South African rand | 65 | — |
| Swedish krona | — | 80 |
| Swiss franc | — | 55 |
| Thailand baht | 10 | — |
| | $ 499 | 10,052 |

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At June 30, 2011, the System had exposure to foreign currency risk with the following investments:

| | **Amount** (In thousands) | | | |
|---|---|---|---|---|
| | **International fixed income pool** | | **Broad international equity pool** | **Private equity pool** |
| **Currency** | **Foreign government** | **Corporate** | **Equity** | **Limited partnerships** |
| Australian dollar | $ — | — | 23,105 | — |
| Brazilian real | 4,851 | — | 2,519 | — |
| Canadian dollar | — | — | 26,543 | — |
| Chilean peso | 609 | — | — | — |
| Colombian peso | 2,205 | — | — | — |
| Czech koruna | 625 | — | 338 | — |
| Danish krone | — | — | 5,902 | — |
| Euro currency | 26,815 | 3,579 | 234,161 | 50,200 |
| Hong Kong dollar | — | — | 26,863 | — |
| Hungarian forint | 2,646 | — | — | — |
| Indian rupee | — | — | 1,322 | — |
| Indonesian rupah | — | — | 613 | — |
| Israeli shekel | — | — | 747 | — |
| Japanese yen | 11,534 | 19,614 | 159,421 | — |
| Malaysian ringgit | 2,191 | — | 1,315 | — |
| Mexican peso | 7,082 | — | 195 | — |
| New Taiwan dollar | — | — | 2,654 | — |
| New Zealand dollar | — | — | 3,727 | — |
| Norwegian krone | — | — | 5,861 | — |
| Peruvian Nouveau sol | 1,572 | — | — | — |
| Polish zloty | 8,765 | — | 2,257 | — |
| Pound sterling | 5,299 | — | 148,483 | 8,106 |
| Singapore dollar | — | — | 8,260 | — |
| South African rand | 2,982 | — | 1,343 | — |
| South Korean won | — | — | 13,653 | — |
| Swedish krona | — | — | 14,438 | — |
| Swiss franc | — | — | 48,306 | — |
| Thailand baht | 849 | — | 1,444 | — |
| Turkish lira | 2,352 | — | — | — |
| | $ 80,377 | 23,193 | 733,470 | 58,306 |

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At June 30, 2011, the System also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool consists of investments in commingled funds; therefore, no disclosure of specific currencies is made.

***Concentration of Credit Risk***

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. This provision does not apply to securities backed by the full faith and credit of the United States government.

The Board's policy with regard to concentration of credit risk for the Retirement Fixed Income, U.S. Treasury Fixed Income, High Yield Fixed Income, International Fixed Income, and Convertible Bond Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group. The Board does not have a policy with regard to concentration of credit for the Emerging Markets Debt or TIPS Pools.

At June 30, 2011, the System did not have exposure to any one issuer greater than 5% of total invested assets.

**(5) Foreign Exchange, Derivative, and Counterparty Credit Risk**

The System is exposed to credit risk on investment derivative instruments that are in asset positions. The Board has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Board has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Board have a policy for contingencies.

On June 30, 2011 the System had the following derivative instruments outstanding (in thousands):

| | Changes in fair value | | Fair value at June 30, 2011 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| Equity options written | Investment revenue | $ 675 | Options | $(8,509) | (1,452) |
| FX forwards | Investment revenue | (515) | Long term instruments | (22) | 4,120 |
| Index futures long | Investment revenue | 4,175 | Futures | — | 18 |
| Index options written | Investment revenue | 88 | Options | (7) | (2) |
| Rights | Investment revenue | 145 | Common stock | 7 | 31 |
| Warrants | Investment revenue | (7) | Common stock | 10 | 11 |
| Grand totals | | $ 4,561 | | $(8,521) | |

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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 counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance 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.

At June 30, 2011, the System had the following counterparty credit and counterparty concentration risk associated with its investment derivative positions (in thousands):

| Counterparty name | Percentage of net exposure | S&P rating | Fitch rating | Moody's rating |
|---|---|---|---|---|
| UBS AG | —% | A+ | A+ | Aa3 |

| | |
|---|---|
| Maximum amount of loss Alaska ARMB (TRS) would face in case of default of all counterparties i.e., aggregated (positive) fair value of OTC positions as of June 30, 2011 | $ 25 |
| Effect of collateral reducing maximum exposure | — |
| Liabilities subject to netting arrangements reducing exposure | — |
| Resulting net exposure | $ 25 |

**(6) Claims Payable**

The liability for claims incurred but not reported represents the estimated amounts necessary to settle all outstanding claims, incurred but not reported, as of the balance sheet date. The DB Plan's reserve estimates are based primarily on historical development patterns adjusted for current trends that would modify past experience. Claims are reevaluated periodically to consider the effects of inflation, claims settlement trends, and other economic factors. The process of establishing loss reserves is subject to uncertainties that are normal, recurring, and inherent in the healthcare business.

Changes in the balances of claims liabilities follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Beginning of year: | | |
| Due to State of Alaska General Fund for outstanding warrants | $ — | — |
| Incurred but not reported | 13,551 | — |
| Total, beginning of year | 13,551 | — |
| Benefit deductions | 103,405 | 110,313 |
| Benefits paid | (103,414) | (96,762) |
| Total, end of year | 13,542 | 13,551 |
| End of year: | | |
| Due to State of Alaska General Fund for outstanding warrants | — | — |
| Incurred but not reported | 13,542 | 13,551 |
| Total, end of year | $ 13,542 | 13,551 |

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### (7) Funded Status and Funding Progress

The funded status of the defined benefit pension and postemployment healthcare benefit plan is as follows (dollars in thousands):

| | Actuarial valuation date | Actuarial aggregate accrued liability (AAL) - entry age | Actuarial valuation assets | Assets as a percent of accrued liability (funded ratio) | Unfunded actuarial accrued liability (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|---|
| Pension | June 30, 2010 | $ 6,006,981 | 3,259,868 | 54.3% | $ 2,747,113 | 564,887 | 486.3% |
| Post employment healthcare | June 30, 2010 | 3,076,388 | 1,479,260 | 48.1 | 1,597,128 | 564,887 | 282.7 |

The funded status of the defined contribution retirement plan occupational death and disability and retiree medical benefits is as follows (dollars in thousands):

| | Actuarial valuation date | Actuarial accrued liability (AAL) - entry age | Actuarial valuation assets | Funded ratio | Unfunded actuarial accrued liability (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|---|
| Death and disability plan | June 30, 2010 | $ 18 | 1,577 | 8,761.1% | $ (1,559) | 118,813 | (1.3)% |
| Retiree medical | June 30, 2010 | 2,809 | 3,895 | 138.7 | (1,086) | 118,813 | (0.9) |

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

The accompanying schedules of contributions (unaudited) from employers present trend information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

**June 30, 2010**

| Valuation date | Defined Benefit | Defined Contribution ODD and Retiree Medical |
|---|---|---|
| Actuarial cost method | Entry age normal; level percentage of pay for pension; level dollar for healthcare | Entry age normal; level percentage of pay for occupational death and disability; level dollar for retiree medical |
| Amortization method | Level dollar, closed | Level dollar, closed with bases established annually |
| Equivalent single amortization period | 19 years | 24 years |
| Asset valuation method | 5 year smoothed market | 5 year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 8.00% for pension, 8.00% for healthcare (includes inflation at 3.12%) | 8.00% (includes inflation at 3.12%) |
| Projected salary increases | 6.11% for first 5 years of service grading down to 3.2% after 20 years | 6.11% for first 5 years of service grading down to 3.62% after 20 years |
| Cost-of-living adjustment | Postretirement pension adjustment | Not applicable |

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Health cost trend for defined benefit, defined contribution occupational death and disability, and retiree medical plans is as follows:

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2011 | 6.9% | 8.3% |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2017 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

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

The State of Alaska Teachers Retirement System's retiree healthcare benefits are partially funded. GASB outlines two reasonable methods of developing a blended discount rate when a plan is partially funded. These methods base the proportion of assumed plan and employer asset returns on 1) the funded ratio and 2) the percentage of the ARC actually being contributed to the plan. The State of Alaska has utilized the second methodology to develop a discount rate of 8.25% as of June 30, 2008, to be used for fiscal 2011 disclosure.

**(8) Commitments and Contingencies**

***Commitments***

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2011, the System's share of the unfunded commitment totaled $22,765,454. This commitment can be withdrawn annually in December with 90 days notice.

The Board 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, 2011, the System's share of these unfunded commitments totaled $264,674,326 to be paid through 2020.

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The Board entered into agreements through external investment managers to provide capital funding for a limited partnership as it continues to build the energy investment portfolio. At June 30, 2011, the System's share of these unfunded commitments totaled $20,587,529 to be paid through the year 2019.

The Board 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, 2011, the System's share of these unfunded commitments totaled $38,908,793 to be paid through the year 2018.

***Contingencies***

The Division of Retirement and Benefits (the Division) is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Division's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Division.

### (9) Medicare Part D Retiree Drug Subsidy

One of the provisions of Medicare Part D provides sponsors of pension healthcare plans the opportunity to receive a retiree drug subsidy (RDS) payment if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The RDS is equal to 28% of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, by virtue of continuing to be covered by the sponsor's plan. The DB Plan was approved for participation in the Medicare Part D program beginning calendar year 2006. The RDS for the six-month period ended June 30, 2011 cannot be reasonably estimated and, therefore, is not recorded in the financial statements for the period ended June 30, 2011.

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# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress
# Defined Benefit Retirement Pension Benefits

**June 30, 2011**
**(In thousands)**

| Actuarial valuation date as of June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2005 | $ 4,334,585 | 2,640,642 | 60.9% | $1,693,943 | 561,038 | 301.9% |
| 2006 | 4,859,336 | 3,296,934 | 67.8 | 1,562,402 | 574,409 | 272.0 |
| 2007 | 5,043,448 | 3,441,867 | 68.2 | 1,601,581 | 554,245 | 289.0 |
| 2008 | 5,231,654 | 3,670,086 | 70.2 | 1,561,568 | 549,148 | 284.4 |
| 2009 | 5,463,987 | 3,115,719 | 57.0 | 2,348,268 | 557,026 | 421.6 |
| 2010 | 6,006,981 | 3,259,868 | 54.3 | 2,747,113 | 564,887 | 486.3 |

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

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# Required Supplementary Information (Unaudited)
## Schedule of Funding Progress
## Defined Benefit Retirement Postemployment Healthcare Benefits

June 30, 2011
(In thousands)

| Actuarial valuation date as of June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2005 | $ 2,163,971 | 1,318,297 | 60.9% | $ 845,674 | 561,038 | 150.7% |
| 2006 | 4,288,707 | 844,766 | 19.7 | 3,443,941 | 574,409 | 599.6 |
| 2007 | 4,059,573 | 982,532 | 24.2 | 3,077,041 | 554,245 | 555.2 |
| 2008 | 4,648,055 | 1,266,890 | 27.3 | 3,381,165 | 549,148 | 615.7 |
| 2009 | 4,604,820 | 1,357,239 | 29.5 | 3,247,581 | 557,026 | 583.0 |
| 2010 | 3,076,388 | 1,479,260 | 48.1 | 1,597,128 | 564,887 | 282.7 |

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

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# Required Supplementary Information (Unaudited)
# Schedule of Funding Progress

## Defined Contribution Retirement
## Occupational Death and Disability Benefits

**June 30, 2011**
**(In thousands)**

| Actuarial valuation date as of June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2007 | $ 16 | — | —% | $ 16 | 28,410 | 0.1% |
| 2008 | 44 | 420 | 954.5 | (376) | 56,369 | (0.7) |
| 2009 | 14 | 1,071 | 7,650.0 | (1,057) | 89,708 | (1.2) |
| 2010 | 18 | 1,577 | 8,761.1 | (1,559) | 118,813 | (1.3) |

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

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# Required Supplementary Information (Unaudited)
## Schedule of Funding Progress
## Defined Contribution Retirement Retiree Medical Benefits

June 30, 2011
(In thousands)

| Actuarial valuation date as of June 30 | Actuarial accrued liabilities (AAL) | Actuarial value of plan assets | Funded ratio | Unfunded actuarial accrued liabilities (UAAL) | Covered payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 2007 | $ 403 | 597 | 148.1% | $ (194) | $ 28,410 | (0.7)% |
| 2008 | 899 | 1,308 | 145.5 | (409) | 56,369 | (0.7) |
| 2009 | 1,690 | 2,353 | 139.2 | (663) | 89,708 | (0.7) |
| 2010 | 2,809 | 3,895 | 138.7 | (1,086) | 118,813 | (0.9) |

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

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# Required Supplementary Information (Unaudited)
# Schedule of Contributions from Employers and the State of Alaska
# Defined Benefit Retirement Pension and Postemployment Healthcare

**June 30, 2011**
**(In thousands)**

| | | Annual required contribution | | | Pension percentage contributed | | | Postemployment healthcare percentage contributed | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended June 30 | Actuarial valuation date as of June 30 (1) | Pension | Post-employment healthcare | Total | By employer | By State of Alaska (note 3) | Total percentage contributed (note 3) | By employer | By State of Alaska (note 3) | Total percentage contributed (note 3) |
| 2005 | 2002 | $ 152,168 | 55,783 | 207,951 | 45.0% | —% | 45.0% | 45.0% | —% | 45.0% |
| 2006 | 2003 | 170,019 | 66,719 | 236,738 | 54.1 | — | 54.1 | 54.1 | — | 54.1 |
| 2007 | 2004 | 169,974 | 76,879 | 246,853 | 62.2 | — | 62.2 | 62.2 | — | 62.2 |
| 2008 | 2005 | 134,544 | 185,271 | 319,815 | 23.3 | 82.7 | 106.0 | 23.6 | 85.7 | 109.3 |
| 2009 | 2006 | 94,388 | 164,171 | 258,559 | 28.7 | 110.6 | 139.3 | 28.7 | 62.1 | 90.8 |
| 2010 (2)(3) | 2007 | 170,788 | 312,922 | 483,710 | 19.8 | 58.8 | 78.6 | 13.6 | 38.8 | 52.4 |

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

(2) In the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed includes the Mercer legal settlement net of legal fees.

(3) Beginning in the year ended June 30, 2010, the postemployment healthcare annual required contribution and percentage contributed includes the Medicare Part D subsidy.

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

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## Required Supplementary Information (Unaudited)
## Schedule of Contributions
## Defined Contribution Retirement Occupational Death and Disability Benefits

**June 30, 2011**
**(In thousands)**

| Year ended June 30 | Annual required contribution | Percentage of ARC contributed |
|---|---|---|
| 2007 | $ 72 | —% |
| 2008 | 408 | 100.0 |
| 2009 | 623 | 100.0 |
| 2010 | 442 | 100.0 |

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

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# Required Supplementary Information (Unaudited)
# Schedule of Contributions
# Defined Contribution Retirement Retiree Medical Benefits

June 30, 2011
(In thousands)

| Year ended June 30 | Annual required contribution | Percentage of ARC contributed |
|---|---|---|
| 2007 | $ 575 | 100.0% |
| 2008 | 763 | 85.0 |
| 2009 | 1,162 | 85.0 |
| 2010 | 1,628 | 87.0 |

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

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# Notes to Required Supplementary Information (Unaudited)

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## (1) Description of Schedule of Funding Progress

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

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

## (2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2010 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percent of pay. However, for Governmental Accounting Standards Board (GASB) disclosure requirements, the net amortization period will not exceed 30 years and the level dollar amortization method is used since the defined benefit plan membership was closed effective July 1, 2006.

(b) Valuation of assets – Recognizes 20% of the difference between actual and expected investment return in each of the current and preceding four years and phased in over the next five years. All assets are valued at fair value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

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

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – inflation 3.12% per year, and productivity 0.50% per year.

(f) Payroll growth – 3.62% per year (inflation + productivity).

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(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

(h) Mortality (pretermination) – Based upon the 2005 – 2009 actual experience. 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from nonoccupational causes 85% of the time.

(i) Mortality (posttermination) – Based upon the 2005 – 2009 actual experience. The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a three-year setback for females and four-year setback for males.

(j) Turnover – Select and ultimate rates based upon the 2005 – 2009 actual withdrawal experience.

(k) Disability – Incidence rates based upon the 2005 – 2009 actual experience. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table.

(1) Retirement – Retirement rates based on the 2005 – 2009 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date.

(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

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

(o) Contribution refunds – 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with nonvested benefits are assumed to have their contributions refunded.

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

(q) 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, terminates or dies.

(r) Postretirement pension adjustment (PRPA) – 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic PRPA as specified in the statute.

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

(t) Part-time status – part-time members are assumed to earn 0.60 years of credited service per year.

(u) Reemployment option – the actuary assumes all reemployed retirees return to work under the Standard Option.

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(v) Service – Total credited service is provided by the State of Alaska (State). The actuary assumes that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes.

(w) Final average earnings – final average earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future.

(x) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY11 medical benefits and prescription are shown below:

| | Medical | Prescription drugs |
|---|---|---|
| Pre-Medicare | $ 8,606 | 2,600 |
| Medicare Parts A and B | 1,563 | 2,600 |
| Medicare Part B Only | 6,654 | 2,600 |
| Medicare Part D | N/A | 515 |

(y) Third party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(z) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims cost.

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2011 | 6.9% | 8.3% |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2017 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

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For the June 30, 2009 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amount beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

(aa) Aging factors:

| Age | Medical | Prescription drugs |
|---|---|---|
| 0 – 44 | 2.0% | 4.5% |
| 45 – 54 | 2.5 | 3.5 |
| 55 – 64 | 3.5 | 3.0 |
| 65 – 74 | 4.0 | 1.5 |
| 75 – 84 | 1.5 | 0.5 |
| 85 – 94 | 0.5 | — |
| 95 + | — | — |

(bb) Retired member contributions for medical benefits – Currently, contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY11 contributions based on monthly rates shown below for calendar 2010 and 2011 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

| | Calendar 2011 | | Calendar 2010 |
|---|---|---|---|
| Coverage category | Annual contribution | Monthly contribution | Monthly contribution |
| Retiree only | $ 9,492 | 791 | 719 |
| Retiree and spouse | 18,996 | 1,583 | 1,439 |
| Retiree and child(ren) | 13,416 | 1,118 | 1,016 |
| Retiree and family | 22,920 | 1,910 | 1,736 |
| Composite | 14,112 | 1,176 | 1,068 |

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(cc) Trend rate for retired member contributions – The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 6.7% is applied to the FY11 retired member medical contributions to get the FY12 retired member medical contributions.

| Fiscal year: | |
|---|---|
| 2011 | 6.7% |
| 2012 | 6.3 |
| 2013 | 6.0 |
| 2014 | 5.7 |
| 2015 | 5.3 |
| 2016 | 5.0 |
| 2017 | 5.0 |
| 2018 | 5.0 |
| 2019 and later | 5.0 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY10 retired member medical contributions are reflected in the valuation so trend on such contribution during FY10 is not applicable.

(dd) Healthcare participation – 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2010 are as follows:

(a) Actuarial cost method – Entry age actuarial cost method of funding. Any funding surplus or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

(b) Valuation of assets – Recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over five years. Market Value of Assets was $0 as of June 30, 2006. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG, LLP. Valuation assets are constrained to a range of 80% to 120% of market value of assets.

(c) Valuation of retiree medical benefits – Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2010 for defined benefit pension and postemployment healthcare benefit plan (TRS DB Plan) with some adjustments. The claim costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles,

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and out-of-pocket limits, fiscal year 2010 claim costs were reduced to 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

(d) Investment return/discount rate – 8.00% per year (geometric), compounded annually, net of expenses.

(e) Salary scale – Inflation 3.12% per year. Productivity 0.5% per year.

(f) Payroll growth – 3.62% per year (inflation+productivity).

(g) Total inflation – Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually.

(h) Mortality (pretermination) – Based upon the 2005 – 2009 actual experience. 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA, for females and 45% for males. 15% of deaths are assumed to result from occupational causes.

(i) Mortality (posttermination) – Based upon the 2005 – 2009 actual experience of the TRS DB Plan. three-year setback of the 1994 GAM Table 1994, Base Year without margin projected to 2013 using Projection Scale AA, for females and four-year setback for males.

(j) Turnover – Select rates were estimated and ultimate rates were set to the TRS DB Plan's rate loaded by 10%.

(k) Disability – Incidence rates based upon the 2005 – 2009 actual experience of the TRS DB Plan. Postdisability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes.

(l) Retirement – Retirement rates were estimated in accordance with the following table:

| Age | Rate |
|---|---|
| < 55 | 2% |
| 55-59 | 3 |
| 60 | 5 |
| 61 | 5 |
| 62 | 10 |
| 63 | 5 |
| 64 | 5 |
| 65 | 25 |
| 66 | 25 |
| 67 | 25 |
| 68 | 20 |
| 69 | 20 |
| 70 | 100 |

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(m) Marriage and age difference – Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married.

(n) Part-time status – Part-time employees are assumed to earn 0.60 years of credited service per year.

(o) Expenses – All expenses are net of the investment return assumption.

(p) Per capita claims cost – Sample claims cost rates adjusted to age 65 for FY11 medical benefits are shown below:

| | Medical | Prescription drugs |
|---|---|---|
| Pre-Medicare | $ 8,606 | 2,600 |
| Medicare Parts A and B | 1,563 | 2,600 |
| Medicare Part B Only | 6,654 | 2,600 |
| Medicare Part D | N/A | 515 |

(q) Third-party administrator fees – $153.33 per person per year; assumed trend rate of 5% per year.

(r) Base claims cost adjustments – Due to higher initial copays, deductibles, out-of-pocket limits, and member cost sharing compared to the DB medical plan, the following adjustments were made: 0.941 for medical plan, 0.993 for the prescription drug plan, and 0.952 for the annual indexing for member cost sharing.

(s) Health cost trend – The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.9% is applied to the FY11 medical claims cost to get the FY12 medical claims costs:

| Fiscal year | Medical | Prescription drugs |
|---|---|---|
| 2011 | 6.9% | 8.3% |
| 2012 | 6.4 | 7.1 |
| 2013 | 5.9 | 5.9 |
| 2014 | 5.9 | 5.9 |
| 2015 | 5.9 | 5.9 |
| 2016 | 5.9 | 5.9 |
| 2017 | 5.9 | 5.9 |
| 2025 | 5.8 | 5.8 |
| 2050 | 5.7 | 5.7 |
| 2100 | 5.1 | 5.1 |

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug cost. This model effectively begins estimating trend amount beginning in 2012, and projects out to 2100. This model has been populated with assumptions that are specific to the State of Alaska.

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(t) Aging factors:

| Age | Medical | Prescription drugs |
|---|---|---|
| 0 – 44 | 2.0% | 4.5% |
| 45 – 54 | 2.5 | 3.5 |
| 55 – 64 | 3.5 | 3.0 |
| 65 – 74 | 4.0 | 1.5 |
| 75 – 84 | 1.5 | 0.5 |
| 85 – 94 | 0.5 | — |
| 95 + | — | — |

(u) Retiree medical participation:

| Years of service | Percent participation |
|---|---|
| 10 – 14 | 75.0% |
| 15 – 19 | 80.0 |
| 20 – 24 | 85.0 |
| 25 – 29 | 95.0 |
| 30+ | 100.0 |

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System. The foregoing actuarial assumptions are based on the presumption that the System will continue. Were the system to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

***Changes in Assumptions Since the Last Valuation***

Effective June 30, 2010, there was no change in methods from the prior valuation. The significant changes in actuarial assumptions used in the defined benefit pension and postemployment healthcare benefit plan valuation as of June 30, 2010 are as follows:

(a) Salary scale assumption has changed from based on actual experience from 2001 to 2005 to rates adjusted on actual experience from 2005 to 2009.

(b) Payroll growth assumption has changed from 4.00% per year and 3.62% per year.

(c) Total Inflation assumption has changed from 3.50% to 3.12%.

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(d) Investment return/discount rate assumption has changed from 8.25% per year (geometric), compounded annually, net of expenses to 8.00% per year (geometric), compounded annually, net of expenses.

(e) Pretermination mortality assumption has changed from the 1994 GAM Sex-distinct Table, 1994 Base Year adjusted 55% for males, and 60% for females to the 1994 GAM Sex-distinct Table, 1994 Base Year projected to 2013 using Projection Scale AA, adjusted 45% for males, and 55% for females.

(f) Posttermination mortality assumption has changed from The 1994 GAM Sex-distinct Table, 1994 Base Year, setback one year for females and three-year setback for males to The 1994 GAM Sex-distinct Table, 1994 Base Year projected to 2013 using Projection Scale AA, setback three-years for females and four-year setback for males.

(g) Disability mortality assumption has changed from 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits to RP-2000 Disabled Retiree Mortality Table.

(h) Turnover assumption has changed from based on actual experience from 2001 to 2005 to rates adjusted based on actual experience from 2005 to 2009.

(i) Disability assumption has changed from based on actual experience from 2001 to 2005 to male/female rates decreased based on actual experience from 2005 to 2009 and stop rate at earliest retirement age.

(j) Retirement assumption has changed from based on actual experience from 2001 to 2005 to rates adjusted based on actual experience from 2005 to 2009.

(k) Part-time service assumption has changed from 0.55 years of credited service per year to 0.60 years of credited service per year.

(l) Occupational assumption has changed from 0% of deaths are assumed to be from occupational causes to 15% of deaths are assumed to be from occupational causes.

(m) Deferred vested commencement age assumption has changed from earliest reduced age to earliest unreduced age.

(n) Healthcare participation assumption has changed from 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible to 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible and 10% of nonsystem paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

The significant actuarial assumptions changes used in the defined contribution retirement plan occupational death and disability and retiree medical benefit plan valuation as of June 30, 2010 are as follows:

(a) Investment return/discount rate assumption has changed from 8.25% per year (geometric), compounded annually, net of expenses to 8.00% per year (geometric), compounded annually, net of expenses.

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(b) Salary scale assumption has changed from based on actual TRS DB Plan experience from 2001 to 2005 to rates adjusted on actual experience from 2005 to 2009.

(c) Payroll growth assumption has changed from 4.00% per year and 3.62% per year.

(d) Inflation assumption has changed from 3.50% to 3.12%.

(e) Pretermination mortality assumption has changed from 55% of the 1994 GAM Table, 1994 Base Year for males. 60% for females to 45% of the 1994 GAM Table, 1994 Base Year projected to 2013 using Projection Scale AA for males. 55% for females.

(f) Posttermination mortality assumption has changed from one-year setback of the 1994 GAM Table, 1994 Base Year for females and three-year setback for males to three-year setback of the 1994 GAM Table, 1994 Base Year projected to 2013 using Projection Scale AA for females and four-year setback for males.

(g) Disability mortality assumption has changed from 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits to RP-2000 Disabled Retiree Mortality Table.

(h) Turnover assumption has changed from Unisex five-year select period, ultimate rates are sex-distinct and are equal to the DB Plan's rates loaded by 10% to most unisex select rates increased, ultimate rates are sex-distinct and are equal to the DB Plan's rates loaded by 10%.

(i) Disability assumption has changed from based on actual TRS DB Plan experience from 2001 to 2005 to rates adjusted based on actual TRS DB Plan experience from 2005 to 2009.

(j) Part-time service assumption has changed from 0.55 years of credited service per year to 0.60 years of credited service per year.

(k) Healthcare participation assumption has changed from 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible to 75% for years of service 10-14, 80% for years of service 15-19, 85% for years of service 20-24, 95% for years of service 25-29, and 100% for years of service 30+.

**(3) Contributions – State of Alaska**

Alaska Statute 14.25.085 states that the State of Alaska shall contribute to the System each July 1 or, if funds are not available on July 1, as soon after July 1 as funds become available, an amount for the ensuing fiscal year that, when combined with the total employer contributions of 12.56%, is sufficient to pay the DB Plan's past service liability at the consolidated actuarially required contribution (ARC) adopted by the Board for the fiscal year. The actuarially determined required contribution adopted by the Board for fiscal year 2011 was 38.56%.

SCHEDULE 1

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

# Schedule of Administrative and Investment Deductions
# Defined Benefit Plan

**Year ended June 30, 2011**
**(with summarized financial information for June 30, 2010)**
**(In thousands)**

| | Administrative | Investment | Totals 2011 | Totals 2010 |
|---|---|---|---|---|
| Personal services: | | | | |
| Wages | $ 1,366 | 510 | 1,876 | 1,803 |
| Benefits | 791 | 226 | 1,017 | 942 |
| Total personal services | 2,157 | 736 | 2,893 | 2,745 |
| Travel: | | | | |
| Transportation | 21 | 52 | 73 | 66 |
| Per diem | 5 | 8 | 13 | 12 |
| Moving | — | — | — | 1 |
| Total travel | 26 | 60 | 86 | 79 |
| Contractual services: | | | | |
| Management and consulting | 2,689 | 8,463 | 11,152 | 9,389 |
| Accounting and auditing | 27 | 315 | 342 | 317 |
| Advertising and printing | 41 | 2 | 43 | 50 |
| Data processing | 436 | 188 | 624 | 539 |
| Communications | 48 | 15 | 63 | 66 |
| Rental/leases | 105 | 24 | 129 | 136 |
| Legal | 63 | 30 | 93 | 10,663 |
| Medical specialists | 8 | 10 | 18 | 9 |
| Repairs and maintenance | 5 | 6 | 11 | 26 |
| Other professional services | 111 | 25 | 136 | 131 |
| Transportation | 42 | 1 | 43 | 24 |
| Total contractual services | 3,575 | 9,079 | 12,654 | 21,350 |
| Other: | | | | |
| Equipment | 70 | 8 | 78 | 88 |
| Supplies | 58 | 15 | 73 | 37 |
| Total other | 128 | 23 | 151 | 125 |
| Total administrative and investment deductions | $ 5,886 | 9,898 | 15,784 | 24,299 |

See accompanying independent auditors' report.

Schedule 2

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

## Schedule of Administrative Deductions
## Defined Contribution Retirement Trust Plan

**Year ended June 30, 2011**
**(with summarized financial information for June 30, 2010)**
**(In thousands)**

| | 2011 | 2010 |
|---|---|---|
| Personal services: | | |
| Wages | $ 46 | 16 |
| Benefits | 21 | 14 |
| Total personal services | 67 | 30 |
| Travel: | | |
| Transportation | 2 | 1 |
| Per Diem | 1 | — |
| Total travel | 3 | 1 |
| Contractual services: | | |
| Management and consulting | 581 | 80 |
| Accounting and auditing | 17 | — |
| Data processing | 9 | 3 |
| Communications | 2 | 1 |
| Rentals/leases | 3 | 2 |
| Legal | 2 | 3 |
| Repairs and maintenance | — | 1 |
| Other professional services | 1 | 1 |
| Total contractual services | 615 | 91 |
| Other: | | |
| Equipment | 2 | 1 |
| Supplies | 2 | — |
| Total other | 4 | 1 |
| Total administrative deductions | $ 689 | 123 |

See accompanying independent auditors' report.

**SCHEDULE 3**

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

## Schedule of Payments to Consultants Other than Investment Advisors

**Year ended June 30, 2011**
**(with summarized financial information for June 30, 2010)**
**(In thousands)**

| Firm | Services | 2011 | 2010 |
|---|---|---|---|
| Paul, Weiss, Rifkind, Wharton & Garrison, LLP | Legal services | $ — | 10,592 |
| Wostmann & Associates, Inc. | Data processing consultants | 16 | 41 |
| Six Degrees Consulting | Data processing consultants | 42 | 13 |
| KPMG LLP | Auditing services | 43 | 25 |
| State of Alaska, Department of Law | Legal services | 65 | 22 |
| Computer Task Group, Inc. | Data processing consultants | 233 | 192 |
| Buck Consultants | Actuarial services | 264 | 246 |
| State Street Bank and Trust Company | Custodian banking services | 319 | 288 |
| | | $ 982 | 11.419 |

See accompanying independent auditors' report.

# INVESTMENT SECTION

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CALLAN ASSOCIATES INC

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

September 15, 2011

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

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2011.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. ARMB's real estate consultant, the Townsend Group, calculates returns for the real estate segment of the portfolio. Callan incorporates that data into the total plan returns. Callan serves as ARMB's independent general investment consultant and evaluates the ARMB's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made using methodology similar to Global Investment Performance standards.

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

Fiscal year 2011 was a positive period for all major investment categories. The Russell 3000 Index, a measure of the broad U.S. equity market gained 32.37% for the fiscal year despite a small decline in the June quarter when the index fell 0.03%. International stocks, as measured by the MSCI-ACWI ex-U.S. Index, increased 30.27%. In fiscal year 2011, the Barclays Capital Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, achieved an overall return of 3.90%. Absolute Return Strategies such as hedge fund-of-funds also posted positive, although modest, returns during the fiscal year. For example, the Callan Absolute Return Hedge Fund-of-Funds Style median return was a positive 6.32%. Private real estate investments rebounded strongly particularly in the recent quarters. The NCREIF Property Index posted a very attractive 16.73% return for the fiscal year. Publicly traded real estate, as measured by the NAREIT Index, increased 34.09%.

For the fiscal year, the Public Employees Retirement System (PERS) had a time-weighted total return of 21.18% and the Teachers Retirement System (TRS) had a time-weighted total return of 21.36%. Both Systems almost matched their strategic policy benchmark target return of 21.62% and the 21.59% median return for Callan's Public Fund database.

The greatest sources of performance differences from the policy target components for TRS were: strong relative returns in domestic public equities (+33.38% versus a target index return of +32.37%), real assets (+15.25% versus a target of +12.66%) and fixed income (5.55% versus a target return of 5.06%). Private equity underperformed public equity in the strong public equity market (20.12% versus a public equity benchmark of 32.93%). This difference in performance from public markets is, in our opinion, very typical and attributable to the timing differences in the valuation metrics employed. The comparatively low allocation to fixed income was a positive factor each of the past two years. Over longer-term periods, PERS and TRS have closely tracked their target index returns. For example, PERS' 2-year annualized return was 16.18% versus the policy benchmark's 16.25% while TRS's return was slightly higher at 16.36%. Over the longest period for which Callan has detailed data (19 3/4 years), PERS and TRS have achieved annualized total returns of 7.72% and 7.77%, respectively, while the policy benchmark return for the same span was 7.73%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are consistent with achievement of a long-term "real" return of 5% or more.

In summary, fiscal 2011 was another strong recovery year for all investors particularly those with significant equity exposure.

Sincerely,

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

## Department of Revenue
## Treasury Division
## Staff

**Commissioner**
Bryan Butcher

**Deputy Commissioner**
Jerry Burnett

**Chief Investment Officer**
Gary Bader

**Comptroller**
Pamela Leary, CPA

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

**Investment Officers**
Bob G. Mitchell
Stephen R. Sikes
Zachary Hanna
Steve Verschoor
Elizabeth Walton
Sean Howard
Paul Hackenmueller
Casey Colton
Nicholas Orr
Victor Djajalie
Joy Wilkinson
Shane Carson
Alyson Campbell

**ARMB Liaison Officer**
Judy Hall

## External Money Managers and Consultants

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

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

**Absolute Return**
Crestline Investors, Inc.
*Fort Worth, TX*
Global Assets Management Inc.
*Los Angeles, CA*
Prisma Capital Partners
*New York, NY*
Mariner Investment Group, Inc.
*Harrison, NY*

**Domestic Equity Large Capitalization**
Analytic Investors LLC
*Los Angeles, CA*
Barrow, Hanley, Mewhinney & Strauss
*Dallas, TX*
Capital Guardian Trust Co.
*Los Angeles, CA*
RCM Global Investors
*San Francisco, CA*
McKinley Capital Management, Inc.
*Anchorage, AK*
Relational Investors LLC
*San Diego, CA*
Quantitative Management Associates
*Newark, NJ*

**Domestic Equity Small Capitalization**
Jennison Associates LLC
*New York, NY*
Lord Abbett & Co.
*Jersey City, NJ*
Luther King Capital Management
*Fort Worth, TX*
Barrow, Hanley, Mewhinney & Strauss
*Dallas, TX*

**Domestic Equity MicroCap**
DePrince, Race & Zollo, Inc.
*Winter Park, FL*
Lord Abbett & Co.
*Jersey City, NJ*

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

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

**Global Equity**
Lazard Freres Asset Management
*New York, NY*

## External Money Managers and Consultants (con't)

**High Yield**
Rogge Global Partners
*Hartford, CT*
MacKay Shields LLC
*New York, NY*
Advent Capital Management
*New York, NY*

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

**International Small Cap**
Mondrian Investment Partners
*London, England*
Schroders Investment Management NA
*New York, NY*

**International Fixed Income**
Mondrian Investment Partners
*London, England*

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

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

**Real Estate – Commingled Funds**
BlackRock Realty
*San Francisco, CA*
Colony Capital
*Los Angeles, CA*
Cornerstone Real Estate Advisers, LLC
*Hartford, CT*
Coventry Real Estate Fund II, LLC
*New York, NY*
ING Clarion Partners
*New York, NY*
J.P. Morgan Investment Management Inc.
*New York, NY*
Silverpeake Real Estate Partners
*New York, NY*
Lowe Hospitality Investment Partners, LLC
*Los Angeles, CA*
Sentinel Real Estate Corporation
*New York, NY*
Tishman Speyer Properties
*New York, NY*
UBS Realty Investors, LLC
*Hartford, CT*

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

**Real Estate – Timber**
Hancock Timber Resource Group
*Charlotte, NC*
Timberland Investment Resources LLC
*Brookline, MA*

**Supplemental Benefits System and Deferred Compensation Plan**
BlackRock
*San Francisco, CA*
RCM
*San Francisco, CA*
State Street Global Advisors
*Boston, MA*
T. Rowe Price Investment Services
*Baltimore, MD*
Brandes Investment Partners
*San Diego, CA*

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

**Independent Auditors**
KPMG Peat Marwick, LLP
*Anchorage, AK*

**Legal Counsel**
Robert Johnson
*Anchorage, AK*

## Teachers' Retirement System
## Investment Report

### 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 Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the ARMB.

The ARMB categorizes its investments into six asset classes: domestic equities, global equities ex-U.S., fixed income, real assets, private equity and absolute return. The performance of each asset class is compared with a benchmark comprised of one or more market indices. The performance for the total portfolio is compared with its policy portfolio, determined by calculating the weighted performance of the underlying asset class benchmarks at the portfolio's target asset allocation. The asset class benchmarks are illustrated below:

| Asset Class | Benchmark |
|---|---|
| Domestic Equities | Russell 3000 Index |
| Global Equities Ex-U.S. | MSCI All Country World Index Ex-U.S. |
| Fixed Income | 70% Barclays Capital Aggregate Index, 10% Barclays Capital Treasury Index, 10% Citigroup Non-U.S. World Government Bond Index, 10% Merrill Lynch High Yield Master II Constrained Index |
| Real Assets | 60% NCREIF Property Index, 20% Barclays Capital TIPS Index, 10% NCREIF Farmland Index, 10% NCREIF Timber Index |
| Private Equity | 33.3% S&P 500 Index, 33.3% Russell 2000, 33.3% MSCI EAFE Index |
| Absolute Return | 91 Day Treasury Bill + 5% |

The target asset allocation is determined by the ARMB, utilizing capital market assumptions provided by its independent general investment consultant, Callan Associates. During the 2011 fiscal year, ARMB's target asset allocation was 29% domestic equities, 23% global equities ex-U.S., 19% fixed income, 16% real assets, 7% private equity, 5% absolute return, and 1% cash equivalents. The target asset allocation was expected to generate a return of 8.07% with a standard deviation of returns of 13.46%.

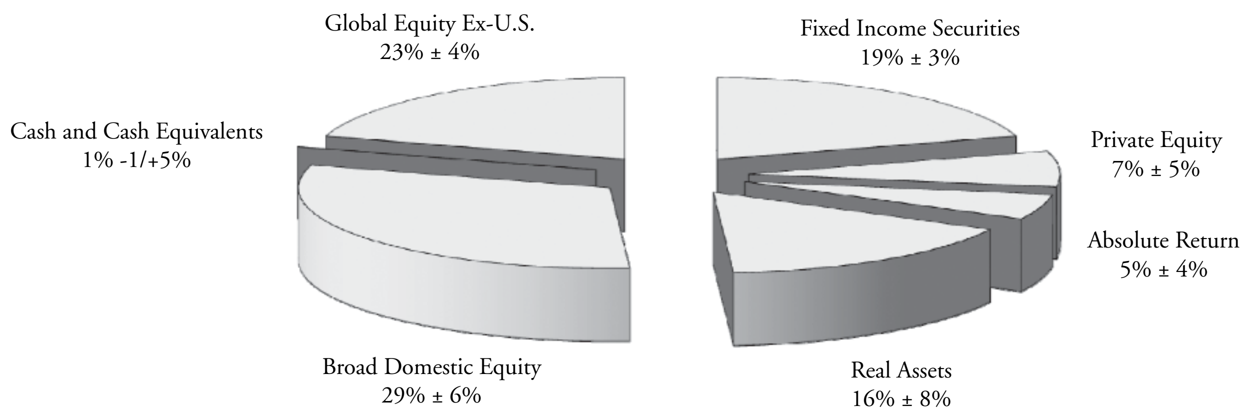
**Teachers' Retirement System**
**Schedule of Investment Results**
**Fiscal Years Ended June 30**

| | 2007 | 2008 | 2009 | 2010 | 2011 | Annualized 3 Year | Annualized 5 Year |
|---|---|---|---|---|---|---|---|
| **Total Fund** | | | | | | | |
| TRS | 18.92% | (3.05%) | (20.62%) | 11.58% | 21.40% | 2.43% | 4.37% |
| *Actuarial Earnings Rate* | 8.25 | 8.25 | 8.25 | 8.25 | 8.00 | 8.00 | 8.00 |
| **U.S. Common Stock Returns** | | | | | | | |
| TRS Domestic Equities | 20.10 | (13.53) | (26.80) | 15.47 | 33.38 | 4.08 | 3.21 |
| *Custom Composite Index* | - | - | (26.56) | 15.72 | 32.37 | 4.00 | 3.09 |
| *S&P 500/Russell 2000 Composite* | 20.59 | (13.68) | - | - | - | - | - |
| **International Stock Returns** | | | | | | | |
| TRS International Equities | 30.15 | (7.48) | (29.12) | 12.03 | 28.27 | 0.62 | 4.17 |
| *Morgan Stanley Capital International ACWI ex-US* | - | - | (30.54) | 10.87 | 30.27 | 0.11 | 3.43 |
| *Morgan Stanley Capital International EAFE* | 27.00 | (10.61) | - | - | - | - | - |
| **Fixed-Income** | | | | | | | |
| TRS | - | - | 3.36 | 11.35 | 5.55 | 6.70 | 6.56 |
| *Custom Composite Index* | - | - | 5.41 | 10.16 | 5.06 | 6.85 | 6.80 |
| **Private Equity** | | | | | | | |
| TRS | - | - | (23.67) | 18.87 | 20.12 | 2.91 | 9.69 |
| *Custom Composite Index* | - | - | (27.19) | 13.87 | 32.93 | 3.29 | 3.00 |
| **Absolute Return** | | | | | | | |
| TRS | - | - | (12.52) | 6.60 | 5.99 | (0.39) | 2.00 |
| *3-month Treasury Bill +5%* | - | - | 5.95 | 5.16 | 5.16 | 5.42 | 6.81 |
| **Real Assets** | | | | | | | |
| TRS | - | - | (21.20) | 0.06 | 15.51 | (3.19) | 2.94 |
| *Custom Composite Index* | - | - | (10.82) | 1.17 | 12.66 | 0.55 | 4.88 |
| **Domestic Fixed-Income** | | | | | | | |
| TRS | 6.20 | 6.50 | - | - | - | - | - |
| *Lehman Brothers Aggregate Index* | 6.12 | 7.12 | - | - | - | - | - |
| **International Fixed-Income** | | | | | | | |
| TRS | 1.97 | 18.95 | - | - | - | - | - |
| *Citigroup Non-U.S. Government* | 2.20 | 18.72 | - | - | - | - | - |
| **Real Estate Equity** | | | | | | | |
| TRS | 20.75 | 5.71 | - | - | - | - | - |
| *NCREIF* | 17.24 | 6.82 | - | - | - | - | - |
| **Cash Equivalents** | | | | | | | |
| TRS | - | - | - | - | 0.46 | - | - |
| *3-month Treasury Bill* | - | - | - | - | 0.16 | - | - |

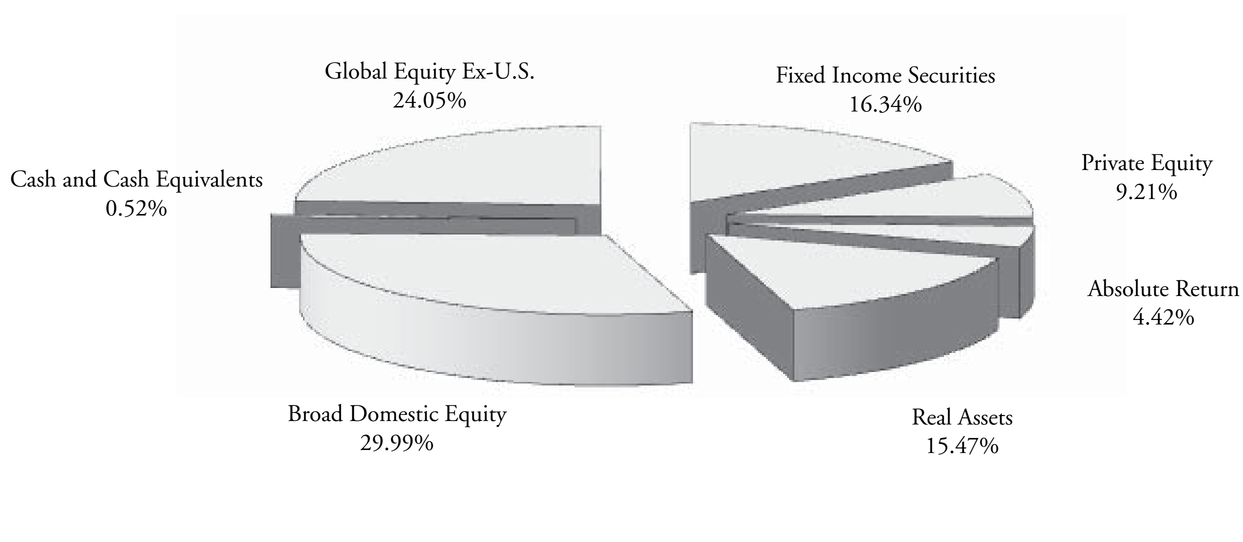
S&P 500 = Standard & Poor's Domestic Equity Stock Index
ACWI = Alll Country World Index
EAFE = Europe, Australia, and Far East Stock Index
NCREIF = National Council of Real Estate Investment Fiduciaries Index
Basis of calculation: Time-Weighed rate of return based on the market rate of return.

**Teachers' Retirement System**
**Asset Allocation**
**June 30, 2011**

### Policy

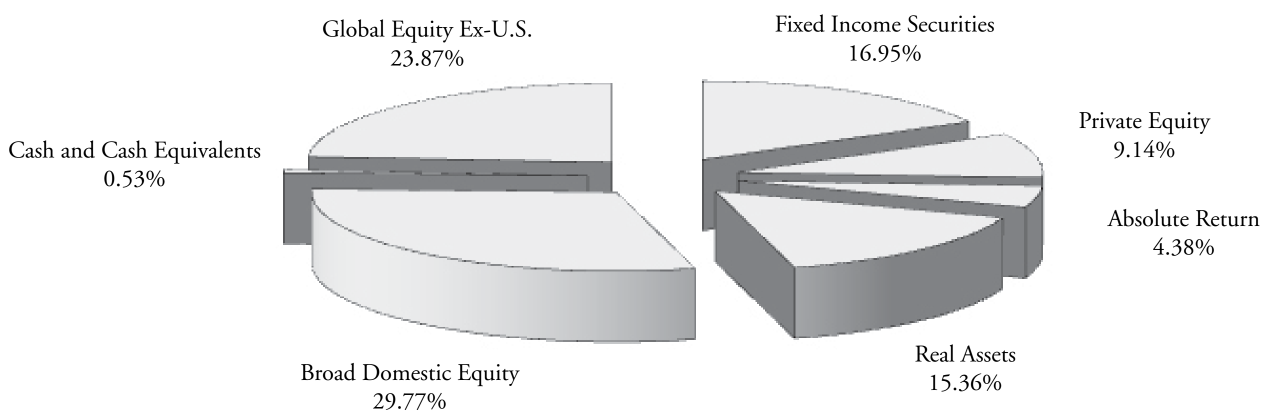



### Actual — Defined Benefit Pension

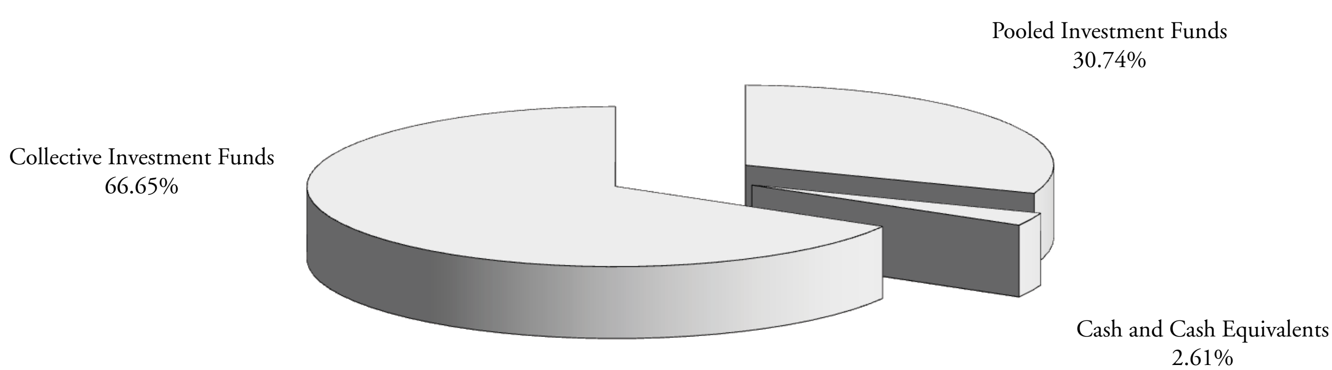


**Teachers' Retirement System**
**Asset Allocation**
**June 30, 2011**

**Actual — Defined Benefit Alaska Retiree Healthcare Trust**

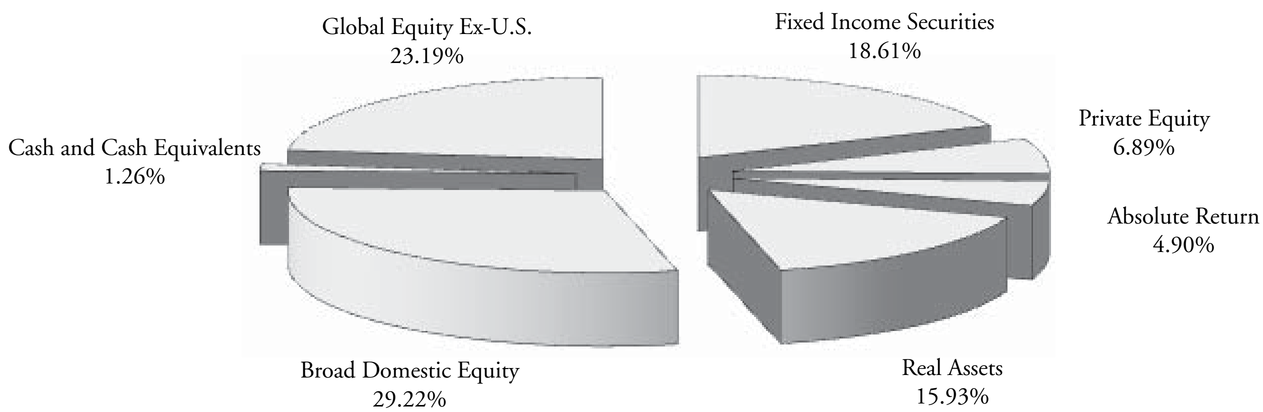



**Actual — Defined Contribution Participant Directed**

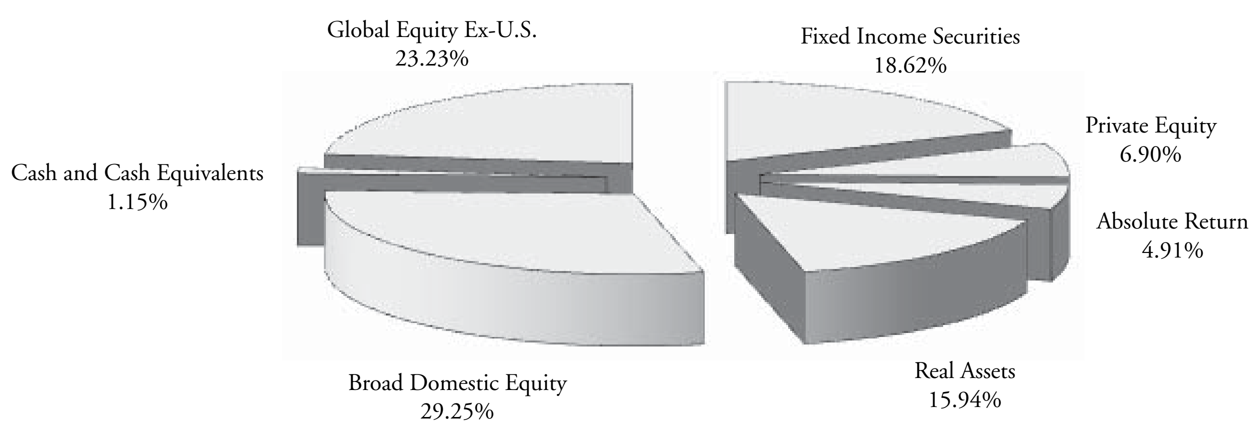


**Teachers' Retirement System**
**Asset Allocation**
**June 30, 2011**

### Actual — Defined Contribution Health Reimbursement Arrangement

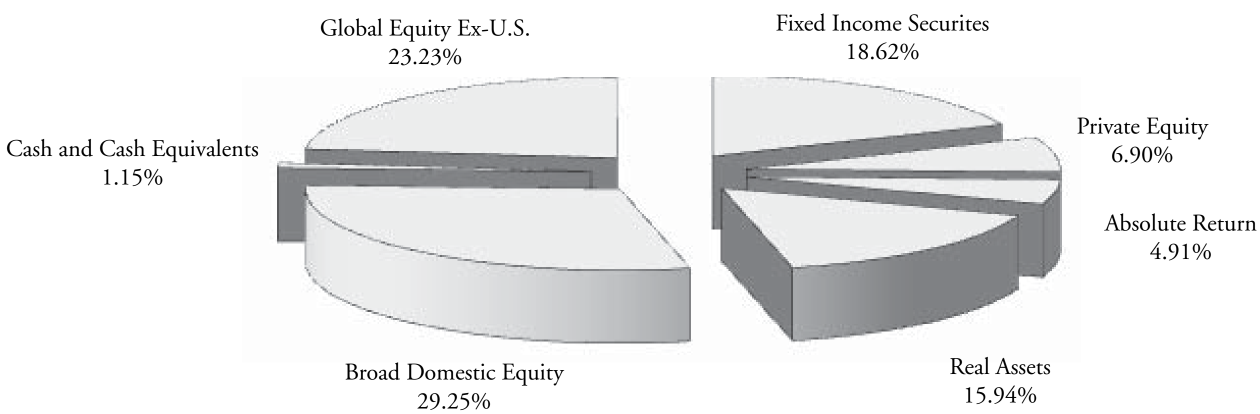



### Actual — Defined Contribution Occupational Death & Disability



## Teachers' Retirement System
## Asset Allocation
## June 30, 2011

### Actual — Defined Contribution Retiree Medical Plan



**Alaska Retirement Management Board**
**Top Ten Holdings by Asset Type**
**June 30, 2011**

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

**Fixed Income**

| Rank | Security | Market Value | Par Value |
|---|---|---|---|
| 1 | US Treasury 1.5% 06/30/2016 | $132,241,549 | $133,873,467 |
| 2 | US Treasury 0.75% 06/15/2014 | 58,557,680 | 58,628,622 |
| 3 | US Treasury 1.75% 08/15/2012 | 43,099,227 | 42,390,500 |
| 4 | US Treasury 3.625% 02/15/2020 | 34,912,519 | 33,002,000 |
| 5 | US Treasury 4.875% 02/15/2012 | 23,997,920 | 23,312,215 |
| 6 | US Treasury 1.75% 05/31/2016 | 21,326,335 | 21,293,118 |
| 7 | US Treasury 2.375% 09/30/2014 | 20,633,859 | 19,715,850 |
| 8 | US Treasury 2.0% 01/31/2016 | 20,215,396 | 19,829,650 |
| 9 | US Treasury 2.0% 11/30/2013 | 12,874,054 | 12,459,393 |
| 10 | US Treasury 2.625% 08/15/2020 | 12,294,110 | 12,700,934 |

**Equities**

| Rank | Largest Domestic Equity Holdings | Market Value |
|---|---|---|
| 1 | Apple Inc | $26,565,631 |
| 2 | Exxon Mobil Corp | 21,521,204 |
| 3 | Chevron Corp | 17,666,056 |
| 4 | JPMorgan Chase & Co | 17,578,535 |
| 5 | Pfizer Inc | 16,975,700 |
| 6 | International Business Machines Corp | 15,498,389 |
| 7 | Wells Fargo & Co | 14,165,971 |
| 8 | Oracle Corp | 13,971,800 |
| 9 | General Electric Co | 12,746,045 |
| 10 | AT&T Inc | 12,344,912 |

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

## Teachers' Retirement System
## Schedule of External Investment Management Fees
## Year Ended June 30, 2011

| Investment Management Fees | Fair Value | Fees |
|---|---|---|
| **International Fixed Income** | | |
| * Mondrian Investment Partners | $ 109,778,628 | $ 230,997 |
| **High Yield Pool** | | |
| * Mackay Shields, LLC | 118,450,074 | 460,201 |
| * ING Investments | - | 56,402 |
| Total High Yield | 118,450,074 | 516,603 |
| **Domestic Equity Pools** | | |
| ** Relational Investors | 92,796,064 | 553,814 |
| * Advent Capital | 27,262,681 | 169,580 |
| * Barrow,Hanley, Mewhinney & Strauss, INC | 71,472,911 | 199,300 |
| * Jennison Associates LLC | 48,064,876 | 328,884 |
| * Lazard Asset Management | 101,819,673 | 244,158 |
| * Lord Abbett & Co. | 75,989,016 | 387,425 |
| * Luther King Cap. Management | 39,140,179 | 183,126 |
| * McKinley Capital | 114,836,020 | 514,968 |
| * Quantitative Management Associates | 40,536,816 | 145,590 |
| * SSgA Russell 1000 Growth | 178,123,226 | 27,449 |
| * SSgA Russell 1000 Value | 274,624,847 | 47,360 |
| * SSgA Russell 2000 Growth | 17,410,516 | 9,771 |
| * SSga Russell 2000 Value | 26,812,129 | 41,717 |
| * SSgA Russell 200 | 107,274,868 | 12,019 |
| * SSgA Futures Large Cap | 2,367,370 | 5,206 |
| * SSgA Future Small Cap | 1,875,651 | 2,683 |
| * DePrince, Race & Zollo Inc.-Micro Cap | 21,108,174 | 64,391 |
| * Analytic Buy Write Account | 29,992,226 | 56,537 |
| * RCM Buy Write Account | 29,664,422 | 400,149 |
| * RCM | 122,303,915 | 47,312 |
| Total Domestic Equities | 1,423,475,580 | 3,441,439 |
| **Private Equity Pool** | | |
| ** BlumCapital Partners-Strategic | 7,209,787 | 96,306 |
| ** Warburg Pincus X | 6,812,665 | 116,074 |
| ** Angelo Gordon & Co. | 9,332,350 | 117,302 |
| ** Onex Partners | 1,786,430 | 48,970 |
| ** Lexington Partners | 6,508,035 | 97,838 |
| * Pathway Capital Management | 203,565,658 | 653,902 |
| * Abbott Capital Management | 200,448,753 | 541,954 |
| ** Merit Capital Partners | 992,543 | 70,162 |
| Total Private Equities | 436,656,221 | 1,742,508 |
| **International Equity Pools** | | |
| * SSgA | 114,341,869 | 58,933 |
| * Brandes Investment Partners | 244,101,002 | 959,570 |
| * Capital Guardian Trust Co. | 187,426,145 | 629,439 |
| * McKinley Capital Mgmt. | 103,386,234 | 371,454 |
| * Lazard Freres | 135,212,601 | 173,090 |
| * Mondrian Investment Partners | 35,064,687 | 199,862 |
| * Schroder Investment Management | 36,024,137 | 228,826 |
| Total International Equities | 855,556,675 | 2,621,174 |
| **Absolute Return Pool** | | |
| ** Mariner Investment Group | 58,790,695 | 565,894 |
| ** Cadogan Management LLC | 177,991 | - |
| ** Crestline Investors Inc. | 64,854,298 | 585,898 |
| ** Global Asset Management | 41,899,178 | 290,449 |
| ** Prisma Capital Partners | 44,107,568 | 276,794 |
| Total Absolute Return | 209,829,730 | 1,719,035 |

(continued)

## Teachers' Retirement System
## Schedule of External Investment Management Fees (Cont.)
## Year Ended June 30, 2011

| | Fair Value | Fees |
|---|---|---|
| **Emerging Markets Equity Pool** | | |
| ** The Capital Group Inc. | $ 130,974,163 | $ 757,507 |
| ** Lazard Freres Asset Managers | 88,904,187 | - |
| ** Eaton Vance | 65,979,639 | - |
| Total Emerging Markets | 285,857,989 | 757,507 |
| **Real Estate Pool** | | |
| ** JPM Strategic | 53,646,562 | 401,844 |
| ** UBS Consolidated | 19,762,952 | 160,928 |
| ** Cornerstone | 46,538,195 | 347,467 |
| ** Lasalle | 54,804,093 | 391,232 |
| ** Sentinel, SA | 28,186,015 | 177,972 |
| ** UBS Separate | 67,020,723 | 513,175 |
| ** Lowe Hospitality | 1,016,284 | 62,642 |
| ** ING Clarion | 7,367,191 | 102,647 |
| ** Silverpeak Legacy Pension Partners | 29,255,713 | 418,708 |
| ** Rothschild Five Arrows | 16,701,410 | 194,157 |
| ** Tishman Speyer | 18,901,755 | 340,570 |
| ** BlackRock Diamond | 6,375,696 | 71,718 |
| ** Colony Investors VIII, L.P. | 8,648,106 | 220,418 |
| ** LaSalle Medical Office Fund II | 6,148,327 | 79,613 |
| ** Cornerstone Apartment Venture III | 8,727,720 | 95,797 |
| ** Coventry | 6,034,122 | - |
| Total Real Estate | 379,134,864 | 3,578,888 |
| **Timber Pool** | | |
| ** Timberland INVT Resources | 34,004,328 | 273,679 |
| ** Hancock Natural Resource Group | 21,653,261 | 138,492 |
| Total Timber Pool | 55,657,589 | 412,171 |
| **Farmland Pool** | | |
| ** Hancock Agriculture Investment Group | 61,503,293 | 448,923 |
| ** UBS Agrivest | 97,027,588 | 769,312 |
| Total Farmland | 158,530,881 | 1,218,235 |
| **Farmland Water Pool** | | |
| ** Hancock Farmland & Water | 4,207,832 | 30,555 |
| ** UBS Agrivest | 9,669,019 | 65,823 |
| Total Farmland Water Pool | 13,876,851 | 96,378 |
| **Energy Pool** | | |
| ** EIG Energy Fund XV | 709,218 | 39,157 |
| ** EIG Energy Fund XD | 4,175,896 | 66,794 |
| ** EIG Energy Fund XIV-A | 17,769,635 | 265,515 |
| Total Energy Pool | $ 22,654,749 | 371,466 |
| **Custodian** | | |
| * State Street Bank | | 289,938 |
| **Investment Advisory** | | |
| * Townsend Group | | 29,441 |
| * Callan Associates | | 30,766 |
| * Investment Advisory Council | | 8,982 |
| Total Investment Advisory | | 69,189 |
| **Investment Performance** | | |
| * Callan Associates | | 76,915 |
| **Total External Management Fees** | | **$ 17,142,443** |

*These fees are paid through the Alaska Statewide Accounting System (AKSAS).
**These fees are deducted from earnings by the fund manager and are not directly recorded in AKSAS.

## Teachers' Retirement System
## Investment Summary Schedule

### June 30, 2011

| | Defined Benefit - Pension | | | |
|---|---|---|---|---|
| | Asset Allocation | | Fair Market | % of Total |
| Investments (at Fair Value) | Policy | Range | Value | Assets |
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | | | $ 16,225,632 | |
| Total Cash and Cash Equivalents | 1.00% | 0-6% | 16,225,632 | 0.52% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 7,561,753 | |
| U.S. Treasury Fixed Income Pool | | | 327,617,559 | |
| High Yield Pool | | | 77,919,938 | |
| International Fixed Income Pool | | | 72,185,842 | |
| Emerging Debt Pool | | | 24,370,342 | |
| Total Fixed Income Securities | 19.00% | 16-22% | 509,655,434 | 16.34% |
| **Broad Domestic Equity** | | | | |
| Large Cap | | | 746,963,820 | |
| Small Cap Pool | | | 170,876,714 | |
| Convertible Bond Pool | | | 17,647,017 | |
| Total Broad Domestic Equity | 29.00% | 23-35% | 935,487,551 | 29.99% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 515,496,052 | |
| International Equity Small Cap Pool | | | 46,623,120 | |
| Emerging Markets Equity Pool | | | 188,024,481 | |
| Total Global Equity Ex-U.S. | 23.00% | 19-27% | 750,143,653 | 24.05% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 287,297,583 | |
| Total Private Equity | 7.00% | 2-12% | 287,297,583 | 9.21% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 137,789,609 | |
| Total Absolute Return | 5.00% | 1-9% | 137,789,609 | 4.42% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 248,787,814 | |
| Real Estate Investment Trust Pool | | | 31,848,675 | |
| Energy Pool | | | 14,915,906 | |
| Farmland Pool | | | 99,711,080 | |
| Farmland Water Pool | | | 13,876,851 | |
| Timber Pool | | | 36,603,039 | |
| Treasury Inflation Protected Securities Pool | | | 36,501,715 | |
| Total Real Assets | 16.00% | 8-24% | 482,245,080 | 15.47% |
| **Total Invested Assets** | **100.00%** | | **$3,118,844,542** | **100.00%** |

## Teachers' Retirement System
## Investment Summary Schedule

## June 30, 2011

| | Defined Benefit - Alaska Retiree Healthcare Trust | | | |
|---|---|---|---|---|
| | Asset Allocation | | Fair Market | % of Total |
| Investments (at Fair Value) | Policy | Range | Value | Assets |
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | | | $ 8,510,135 | |
| Total Cash and Cash Equivalents | 1.00% | 0-6% | 8,510,135 | 0.53% |
| **Fixed Income Securities** | | | | |
| Retirement Fixed Income Pool | | | 3,885,290 | |
| U.S. Treasury Fixed Income Pool | | | 180,186,156 | |
| High Yield Pool | | | 40,034,114 | |
| International Fixed Income Pool | | | 37,087,069 | |
| Emerging Debt Pool | | | 12,521,193 | |
| Total Fixed Income Securities | 19.00% | 16-22% | 273,713,822 | 16.95% |
| **Broad Domestic Equity** | | | | |
| Large Cap Pool | | | 383,246,669 | |
| Small Cap Pool | | | 87,782,681 | |
| Convertible Bond Pool | | | 9,521,292 | |
| Total Broad Domestic Equity | 29.00% | 23-35% | 480,550,642 | 29.77% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 264,813,566 | |
| International Equity Small Cap Pool | | | 23,947,943 | |
| Emerging Markets Equity Pool | | | 96,604,786 | |
| Total Global Equity Ex-U.S. | 23.00% | 19-27% | 385,366,295 | 23.87% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 147,603,633 | |
| Total Private Equity | 7.00% | 2-12% | 147,603,633 | 9.14% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 70,792,474 | |
| Total Absolute Return | 5.00% | 1-9% | 70,792,474 | 4.38% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 127,887,277 | |
| Real Estate Investment Trust Pool | | | 16,361,367 | |
| Energy Pool | | | 7,663,616 | |
| Farmland Pool | | | 58,421,593 | |
| Timber Pool | | | 18,807,132 | |
| Treasury Inflation Protected Securities Pool | | | 18,754,224 | |
| Total Real Assets | 16.00% | 8-24% | 247,895,209 | 15.36% |
| **Total Invested Assets** | **100.00%** | | **$1,614,432,210** | **100.00%** |

## Teachers' Retirement System
## Investment Summary Schedule

### June 30, 2011

| Investments (at Fair Value) | Defined Contribution - Participant Directed<br>Asset Allocation<br>Policy | Range | Fair Market Value | % of Total Assets |
|---|---|---|---|---|
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | 100% | 0% | $ 2,115,739 | |
| Total Cash and Cash Equivalents | | | 2,115,739 | 2.61% |
| **Pooled Investment Fund (1)** | | | | |
| T. Rowe Price | | | | |
| Target 2010 Trust | | | 206,063 | |
| Target 2015 Trust | | | 669,177 | |
| Target 2020 Trust | | | 1,021,661 | |
| Target 2025 Trust | | | 1,176,257 | |
| Target 2030 Trust | | | 1,162,611 | |
| Target 2035 Trust | | | 2,088,566 | |
| Target 2040 Trust | | | 2,261,588 | |
| Target 2045 Trust | | | 4,183,253 | |
| Target 2050 Trust | | | 5,300,766 | |
| Target 2055 Trust | | | 177,859 | |
| Alaska Balanced Fund | | | 86,167 | |
| Long-Term Balanced Fund | | | 5,000,270 | |
| Alaska Money Market | | | 1,631,849 | |
| Total Pooled Investment Funds | | | 24,966,087 | 30.74% |
| **Collective Investment Funds (1)** | | | | |
| State Street Global Advisors | | | | |
| Money Market Funds | | | 14,661 | |
| S&P Stock Index Fund | | | 13,801,136 | |
| Russell 3000 Index | | | 133,376 | |
| Real Estate Investment Trust Index | | | 123,996 | |
| World Equity Ex-U.S. Index | | | 52,767 | |
| Long U.S. Treasury Bond Index | | | 18,729 | |
| Treasury Inflation Protected Securities Index | | | 99,891 | |
| World Government Bond Ex-U.S. Index | | | 8,623 | |
| Global Balanced Fund | | | 1,538,163 | |
| Barclays | | | | |
| Daily Government/Corporate Bond Fund | | | 4,032,979 | |
| Intermediate Bond Fund | | | 67,751 | |
| Brandes Institutional | | | | |
| International Equity Fund | | | 18,989,927 | |
| RCM | | | | |
| Socially Responsible Fund | | | 1,249,041 | |
| T. Rowe Price | | | | |
| Small-Cap Fund | | | 13,995,497 | |
| Total Collective Investment Funds | | | 54,126,537 | 66.65% |
| **Total Invested Assets** | | | **$ 81,208,363** | **100.00%** |

(1) Pooled Investment Funds and Collective Investment Funds are participant directed and therefore are not subject to an asset allocation

## Teachers' Retirement System
## Investment Summary Schedule

## June 30, 2011

**Defined Contribution - Health Reimbursement Arrangement**

| Investments (at Fair Value) | Asset Allocation Policy | Asset Allocation Range | Fair Market Value | % of Total Assets |
|---|---|---|---|---|
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | | | $ 224,277 | |
| Total Cash and Cash Equivalents | 1.00% | 0-6% | 224,277 | 1.26% |
| **Fixed Income Securities** | | | | |
| U.S. Treasury Fixed Income Pool | | | 2,260,710 | |
| High Yield Pool | | | 346,468 | |
| International Fixed Income Pool | | | 353,230 | |
| Emerging Debt Pool | | | 347,660 | |
| Total Fixed Income Securites | 19.00% | 16-22% | 3,308,068 | 18.61% |
| **Broad Domestic Equity** | | | | |
| Large Cap Pool | | | 4,590,924 | |
| Small Cap Pool | | | 540,162 | |
| Convertible Bond Pool | | | 63,521 | |
| Total Broad Domestic Equity | 29.00% | 23-35% | 5,194,607 | 29.22% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 2,904,062 | |
| International Equity Small Cap Pool | | | 361,561 | |
| Emerging Markets Equity Pool | | | 858,252 | |
| Total Global Equity Ex-U.S. | 23.00% | 19-27% | 4,123,875 | 23.19% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 1,225,882 | |
| Total Private Equity | 7.00% | 2-12% | 1,225,882 | 6.89% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 871,445 | |
| Total Absolute Return | 5.00% | 1-9% | 871,445 | 4.90% |
| **Real Assets** | | | | |
| Real Estate Equity Pool | | | 1,718,156 | |
| Real Estate Investment Trust Pool | | | 53,621 | |
| Energy Pool | | | 52,546 | |
| Farmland Pool | | | 278,149 | |
| Timber Pool | | | 172,827 | |
| Treasury Inflation Protected Securities Pool | | | 556,701 | |
| Total Real Assets | 16.00% | 8-24% | 2,832,000 | 15.93% |
| **Total Invested Assets** | **100.00%** | | **$ 17,780,154** | **100.00%** |

## Teachers' Retirement System
## Investment Summary Schedule

## June 30, 2011

| | Defined Contribution - Occupational Death & Disability | | | |
|---|---|---|---|---|
| | Asset Allocation | | | % of |
| | | | Fair Market | Total |
| Investments (at Fair Value) | Policy | Range | Value | Assets |
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | | | $ 25,736 | |
| Total Cash and Cash Equivalents | 1.00% | 0-6% | 25,736 | 1.15% |
| **Fixed Income Securities** | | | | |
| U.S. Treasury Fixed Income Pool | | | 284,338 | |
| High Yield Pool | | | 43,577 | |
| International Fixed Income Pool | | | 44,431 | |
| Emerging Debt Pool | | | 43,727 | |
| Total Fixed Income Securities | 19.00% | 16-22% | 416,073 | 18.62% |
| **Broad Domestic Equity** | | | | |
| Large Cap Pool | | | 576,054 | |
| Small Cap Pool | | | 67,968 | |
| Convertible Bond Pool | | | 9,471 | |
| Total Broad Domestic Equity | 29.00% | 23-35% | 653,493 | 29.25% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 365,443 | |
| International Equity Small Cap Pool | | | 45,514 | |
| Emerging Markets Equity Pool | | | 107,949 | |
| Total Global Equity Ex-U.S. | 23.00% | 19-27% | 518,906 | 23.23% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 154,160 | |
| Total Private Equity | 7.00% | 2-12% | 154,160 | 6.90% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 109,618 | |
| Total Absolute Return | 5.00% | 1-9% | 109,618 | 4.91% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 216,093 | |
| Real Estate Investment Trust Pool | | | 6,747 | |
| Energy Pool | | | 6,609 | |
| Farmland Pool | | | 34,983 | |
| Timber Pool | | | 21,734 | |
| Treasury Inflation Protected Securities Pool | | | 70,019 | |
| Total Real Assets | 16.00% | 8-24% | 356,185 | 15.94% |
| **Total Invested Assets** | **100.00%** | | **$ 2,234,171** | **100.00%** |

**Teachers' Retirement System**
**Investment Summary Schedule**

**June 30, 2011**

| | Defined Contribution - Retiree Medical Plan | | | |
|---|---|---|---|---|
| | Asset Allocation | | | % of |
| | | | Fair Market | Total |
| **Investments (at Fair Value)** | **Policy** | **Range** | **Value** | **Assets** |
| **Cash and Cash Equivalents** | | | | |
| Short-Term Fixed Income Pool | | | $ 62,576 | |
| Total Cash and Cash Equivalents | 1.00% | 0-6% | 62,576 | 1.15% |
| **Fixed Income Securities** | | | | |
| U.S. Treasury Fixed Income Pool | | | 691,523 | |
| High Yield Pool | | | 105,978 | |
| International Fixed Income Pool | | | 108,056 | |
| Emerging Debt Pool | | | 106,342 | |
| Total Fixed Income Securities | 19.00% | 16-22% | 1,011,899 | 18.62% |
| **Broad Domestic Equity** | | | | |
| Large Cap Pool | | | 1,402,613 | |
| Small Cap Pool | | | 165,294 | |
| Convertible Bond Pool | | | 21,381 | |
| Total Broad Domestic Equity | 29.00% | 23-35% | 1,589,288 | 29.25% |
| **Global Equity Ex-U.S.** | | | | |
| International Equity Pool | | | 888,727 | |
| International Equity Small Cap Pool | | | 110,687 | |
| Emerging Markets Equity Pool | | | 262,522 | |
| Total Global Equity Ex-U.S. | 23.00% | 19-27% | 1,261,936 | 23.23% |
| **Private Equity** | | | | |
| Private Equity Pool | | | 374,964 | |
| Total Private Equity | 7.00% | 2-12% | 374,964 | 6.90% |
| **Absolute Return** | | | | |
| Absolute Return Pool | | | 266,585 | |
| Total Absolute Return | 5.00% | 1-9% | 266,585 | 4.91% |
| **Real Assets** | | | | |
| Real Estate Pool | | | 525,524 | |
| Real Estate Investment Trust Pool | | | 16,409 | |
| Energy Pool | | | 16,073 | |
| Farmland Pool | | | 85,076 | |
| Timber Pool | | | 52,856 | |
| Treasury Inflation Protected Securities Pool | | | 170,281 | |
| Total Real Assets | 16.00% | 8-24% | 866,219 | 15.94% |
| **Total Invested Assets** | **100.00%** | | **$ 5,433,467** | **100.00%** |

## Teachers' Retirement System
## Recaptured Commission Fees
## Year Ended June 30, 2011

| FUND | Domestic Equity Pool | International Equity Pool | Total |
|---|---|---|---|
| Defined Benefit Plan - Pension | $ 74,402 | $ 28,572 | $102,974 |
| Defined Benefit Plan - Alaska Retiree Health Care Trust | 37,096 | 14,095 | 51,191 |
| Defined Contribution Retirement Plan - Health Reimbursement Arrangement | 370 | 125 | 495 |
| Defined Contribution Retirement Plan - Occupational Death & Disability | 49 | 17 | 66 |
| Defined Contribution Retirement Plan - Retiree Medical Plan | 120 | 41 | 161 |
| **Total Recaptured Commission Fees** | **$112,037** | **$ 42,850** | **$ 154,887** |

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

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

The current rebate arrangement with State Street Global Markets (SSGM) is: 90% of the commissions received in excess of executing the brokers' execution-only rates; 100% of commissions in excess of its execution-only rates for all trading directed through SSGM.

# ACTUARIAL SECTION

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October 4, 2011

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

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

**Actuarial Certification**

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 2010 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the System as of June 30, 2010;
(2) a review of experience under the System for the year ended June 30, 2010;
(3) a determination of the appropriate total contribution rate to be paid by all employers in the System including additional State contributions pursuant to SB 125, which will be applied for the fiscal year ending June 30, 2013; and
(4) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

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

(1) Summary of actuarial assumptions and methods
(2) Schedule of active member valuation data
(3) Schedule of benefit recipients added to and removed from rolls
(4) Solvency test
(5) Analysis of financial experience
(6) Schedule of Funding Progress, Schedule of Employer Contributions and trend data schedules

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**The Alaska Retirement Management Board,**
**The Department of Revenue and The Department of Administration**
**October 4, 2011**
**Page 2**

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to The Alaska Retirement Management Board (Board) in September 2010 and adopted by the Board in December 2010. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed during the experience study.

The total contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY11 and a fixed 25-year amortization as a level percentage of payroll of the initial unfunded accrued liability and subsequent assumption changes and gains/losses. The payroll used to determine the contribution rates is the total payroll of all active members in the System, including those hired after July 1, 2006 who are in the Defined Contribution Retirement (DCR) Plan. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of valuation assets to liabilities decreased from 57.0% to 53.6% during the year. This report provides an analysis of the factors that led to the decrease. This report also provides a history of the funding ratio of the System.

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

The funding objective of the plan, as adopted by the ARM Board, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period as a level percentage of payroll. The funding objective for the plan, as adopted by the ARM Board is currently being met.

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

(1) differences between actual experience and anticipated experience based on the assumptions;
(2) changes in actuarial assumptions or methods;
(3) changes in statutory provisions; or
(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

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The Alaska Retirement Management Board,
The Department of Revenue and The Department of Administration
October 4, 2011
Page 3

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

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 43.

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

Sincerely,

David H. Slishinsky

David H. Slishinsky, ASA, EA, MAAA
Principal, Consulting Actuary

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

Melissa A. Bissett

Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

buckconsultants

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

The demographic and economic assumptions used in the June 30, 2010 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed as of June 30, 2009. The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

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

**Valuation of Liabilities**

**A. Actuarial Method** - Entry Age Actuarial Cost

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

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

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

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

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

**Changes in Methods from the Prior Valuation**

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

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## B. Valuation of Assets

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

## C. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost rates for the State of Alaska Teachers' Retirement System postemployment healthcare plan. Note that methodology reflects the results of our annual experience rate update for the period July 1, 2010 to June 30, 2011.

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

We analyzed WFIS and Premera management level reporting for fiscal 2007 through fiscal 2010, as well as WFIS and Premera claim level data for the same period and derived recommended base claims cost rates as described in the following steps:

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

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

3. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For these "no-Part A" individuals, the State is the primary payer for hospital bills and other Part A services. Thus, claims costs are higher for the no-Part A group. To date, claim experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. Therefore, higher no-Part A claims are spread across the entire retired population and have been applied to future claims of current active employees projected to retire in the future. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate and will be lower. The smaller the no-Part A population, the more accrued liabilities will decrease.

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Based on census data received from WFIS, 0.6% of the current retiree population was identified as having coverage only under Medicare Part B. For future retirees, we assume their Part A eligible status based on a combination of date of hire, date of birth, tier, etc.

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

4. The steps above result in separate paid claims cost rates for medical and prescription benefits for non-Medicare, Medicare Part B only and Medicare Part A&B members for the past four fiscal years. Medical claims cost rates reflect differing average ages and levels of Medicare coordination for each group. Prescription claims cost rates reflect differing average ages. We converted paid claim data to incurred cost rates projected from each historical data period to the valuation year using a weighted average of national and Alaska-specific trend factors and developed weighted average incurred claims cost rates. The assumed lag between medical claim incurred and paid dates is approximately 2.4 months for medical claims and 0.15 months for prescription claims.

5. Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.

   - Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

   - The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosures, Buck estimated the year in which the tax would potentially affect Alaska to be 2047, and with a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

   We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

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## June 30, 2010 Valuation – FY 2011 Claims Cost Rates

| | Medical | | |
|---|---|---|---|
| | **Pre-Medicare** | **Medicare A&B** | **Medicare B Only** |
| **Fiscal 2007 Paid Claims** | **$129,762,975** | **$22,677,328** | **$3,524,812** |
| Membership | 33,446 | 20,315 | 1,069 |
| Paid Claims Cost Rate | $3,880 | $1,116 | $3,297 |
| Trend to FY2011 | 1.512 | 1.512 | 1.512 |
| FY 2011 Paid Cost Rate | $5,866 | $1,688 | $4,984 |
| Paid to Incurred Factor** | 1.022 | 1.022 | 1.022 |
| **FY2011 Incurred Cost Rate** | **$5,995** | **$1,725** | **$5,094** |
| **Fiscal 2008 Paid Claims** | **$169,598,064** | **$28,657,490** | **$6,079,463** |
| Membership | 33,630 | 21,434 | 893 |
| Paid Claims Cost Rate | $5,043 | $1,337 | $6,807 |
| Trend to FY2011 | 1.358 | 1.358 | 1.358 |
| FY 2011 Paid Cost Rate | $6,847 | $1,815 | $9,243 |
| Paid to Incurred Factor** | 1.022 | 1.022 | 1.022 |
| **FY 2011 Incurred Cost Rate** | **$6,998** | **$1,855** | **$9,446** |
| **Fiscal 2009 Paid Claims** | **$185,275,626** | **$39,286,392** | **$3,949,927** |
| Membership | 32,943 | 24,624 | 539 |
| Paid Claims Cost Rate | $5,624 | $1,595 | $7,327 |
| Trend to FY2011 | 1.221 | 1.221 | 1.221 |
| FY 2011 Paid Cost Rate | $6,866 | $1,948 | $8,944 |
| Paid to Incurred Factor** | 1.022 | 1.022 | 1.022 |
| **FY 2011 Incurred Cost Rate** | **$7,017** | **$1,991** | **$9,141** |
| **Fiscal 2010 Paid Claims** | **$199,739,865** | **$51,373,725** | **$1,215,832** |
| Membership | 32,026 | 27,915 | 156 |
| Paid Claims Cost Rate | $6,237 | $1,840 | $7,794 |
| Trend to FY2011 | 1.130 | 1.130 | 1.130 |
| FY 2011 Paid Cost Rate | $7,050 | $2,080 | $8,810 |
| Paid to Incurred Factor** | 1.022 | 1.022 | 1.022 |
| **FY 2011 Incurred Cost Rate** | **$7,205** | **$2,126** | **$9,003** |
| Weighted Average 7/1/2010 – 6/30/2011 Incurred Claims Cost Rates: | | | |
| At average age | $6,967 | $1,978 | $8,756 |
| At age 65* | $8,606 | $1,563 | $6,654 |

* Methodology prior to 2006 did not include separate Part B only analysis; applicable rates above are determined so that the composite Medicare rate equates to separate A&B and B only rates based on the 3.5% of Medicare membership assumed to lack Part A.

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

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## June 30, 2010 Valuation – FY 2011 Claims Cost Rates (cont.)

| | Prescription Drugs | | | |
|---|---|---|---|---|
| | **Pre-Medicare** | **Medicare A&B** | **Medicare B Only** | **Total** |
| **Fiscal 2007 Paid Claims** | **$46,176,199** | **$42,348,638** | **$2,391,089** | **$246,881,041** |
| Membership | 33,446 | 20,315 | 1,069 | 54,830 |
| Paid Claims Cost Rate | $1,381 | $2,085 | $2,236 | $4,503 |
| Trend to FY2011 | 1.467 | 1.467 | 1.467 | |
| FY 2011 Paid Cost Rate | $2,026 | $3,059 | $3,282 | $6,734 |
| Paid to Incurred Factor** | 1.001 | 1.001 | 1.001 | |
| **FY 2011 Incurred Cost Rate** | **$2,028** | **$3,062** | **3,285** | **$6,830** |
| **Fiscal 2008 Paid Claims** | **$53,506,123** | **$52,529,773** | **$2,346,512** | **$312,717,425** |
| Membership | 33,630 | 21,434 | 893 | 55,957 |
| Paid Claims Cost Rate | $1,591 | $2,451 | $2,627 | $5,589 |
| Trend to FY2011 | 1.316 | 1.316 | 1.316 | |
| FY 2011 Paid Cost Rate | $2,094 | $3,226 | $3,459 | $7,508 |
| Paid to Incurred Factor** | 1.001 | 1.001 | 1.001 | |
| **FY 2011 Incurred Cost Rate** | **$2,096** | **$3,229** | **$3,462** | **$7,618** |
| **Fiscal 2009 Paid Claims** | **$61,062,842** | **$60,195,838** | **$1,412,907** | **$351,183,532** |
| Membership | 32,943 | 24,624 | 539 | 58,106 |
| Paid Claims Cost Rate | $1,854 | $2,445 | $2,621 | $6,044 |
| Trend to FY2011 | 1.184 | 1.184 | 1.184 | |
| FY 2011 Paid Cost Rate | $2,194 | $2,893 | $3,102 | $7,300 |
| Paid to Incurred Factor** | 1.001 | 1.001 | 1.001 | |
| **FY 2011 Incurred Cost Rate** | **$2,196** | **$2,896** | **$3,105** | **$7,407** |
| **Fiscal 2010 Paid Claims** | **$62,310,224** | **$73,005,066** | **$414,101** | **$388,058,813** |
| Membership | 32,026 | 27,915 | 156 | 60,097 |
| Paid Claims Cost Rate | $1,946 | $2,615 | $2,654 | $6,457 |
| Trend to FY2011 | 1.096 | 1.096 | 1.096 | |
| FY 2011 Paid Cost Rate | $2,132 | $2,866 | $2,909 | $7,221 |
| Paid to Incurred Factor** | 1.001 | 1.001 | 1.001 | |
| **FY 2011 Incurred Cost Rate** | **$2,134** | **$2,869** | **$2,912** | **$7,327** |
| Weighted Average 7/1/2010 – 6/30/2011 Incurred Claims Cost Rates: | | | | |
| At average age | $2,141 | $2,971 | $3,136 | $7,427 |
| At age 65* | $2,600 | $2,600 | $2,600 | $7,924 |

* Methodology prior to 2006 did not include separate Part B only analysis; applicable rates above are determined so that the composite Medicare rate equates to separate A & B and B only rates based on the 3.5% of Medicare membership assumed to lack Part A.

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

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

Below are the results of this analysis:

**Distribution of Per Capita Claims Cost by Age**
**for the Period July 1, 2010 through June 30, 2011**

| Age | Medical and Medicare Parts A & B | Medical and Medicare Part B Only | Prescription Drug | Medicare Retiree Drug Subsidy |
|---|---|---|---|---|
| 45 | $ 4,766 | $ 4,766 | $ 1,372 | $ - |
| 50 | 5,392 | 5,392 | 1,629 | - |
| 55 | 6,101 | 6,101 | 1,935 | - |
| 60 | 7,246 | 7,246 | 2,243 | - |
| 65 | 1,563 | 6,654 | 2,600 | 515 |
| 70 | 1,902 | 8,096 | 2,801 | 555 |
| 75 | 2,258 | 9,613 | 2,988 | 592 |
| 80 | 2,433 | 10,356 | 3,063 | 607 |

## D. Actuarial Assumptions

| | | |
|---|---|---|
| 1. | Investment Return/ Discount Rate | 8.00% per year (geometric), compounded annually, net of expenses. |
| 2. | Salary Scale | Inflation - 3.12% per year<br>Productivity - 0.5% per year<br>See Table 1 for salary scale rates |
| 3. | Payroll Growth | 3.62% per year. (Inflation + Productivity). |
| 4. | Total Inflation | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually. |
| 5. | Mortality (Pre-termination) | Based upon the 2005-2009 actual experience. (See Table 2). 1994 Group Annuity Mortality (GAM) Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males. Deaths are assumed to result from non-occupational causes 85% of the time. |

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| | | |
|---|---|---|
| 6. | Mortality (Post-termination) | Based upon the 2005-2009 actual experience. (See Table 3). The 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and 4-year setback for males. |
| 7. | Turnover | Select and ultimate rates based upon the 2005-2009 actual withdrawal experience. (See Table 4.) |
| 8. | Disability | Incidence rates based upon the 2005-2009 actual experience, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. |
| 9. | Retirement | Retirement rates based upon the 2005-2009 actual experience in accordance with Table 6. Deferred vested members are assumed to retire at their earliest unreduced retirement date. |
| 10. | Marriage and Age Difference | Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married. |
| 11. | Dependent Children | Benefits to dependent children have been valued assuming members who are married and between the ages of 25 and 45 have two dependent children. |
| 12. | Contribution Refunds | 10% of terminating members with vested benefits are assumed to have their contributions refunded. 100% of those with non-vested benefits are assumed to have their contributions refunded. |
| 13. | COLA | Of those benefit recipients who are eligible for the COLA, 60% are assumed to remain in Alaska and receive the COLA. |
| 14. | 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, terminates or dies. |
| 15. | Post Retirement Pension Adjustment | 50% and 75% of assumed inflation, or 1.56% and 2.34% respectively, is valued for the annual automatic Postretirement Pension Adjustment (PRPA) as specified in the statute. |
| 16. | Expenses | All expenses are net of the investment return assumption. |
| 17. | Part-Time Status | Part-time employees are assumed to earn 0.60 years of credited service per year. |
| 18. | Re-employment Option | We assume all re-employed retirees return to work under the Standard Option. |
| 19. | Service | Total credited service is provided by the State. We assume that this service is the only service that should be used to calculate benefits. Additionally, the State provides claimed service (including Bureau of Indian Affairs Service). Claimed service is used for vesting and eligibility purposes. |
| 20. | Final Average Earnings | Final Average Earnings is provided on the data for active members. This amount is used as a minimum in the calculation of the average earnings in the future. |

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21. Per Capita Claims Cost

Sample claims cost rates adjusted to age 65 for FY11 medical benefits are shown below:

| | Medical | Prescription Drugs |
|---|---|---|
| Pre-Medicare | $8,606 | $2,600 |
| Medicare Parts A & B | 1,563 | 2,600 |
| Medicare Part B Only | 6,654 | 2,600 |
| Medicare Part D | N/A | 515 |

22. Third Party Administrator Fees

$153.33 per person per year; assumed trend rate of 5% per year.

23. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.9% is applied to the FY11 rate claims costs to get the FY12 claims costs.

| | Medical | Prescription Drugs |
|---|---|---|
| FY11 | 6.9% | 8.3% |
| FY12 | 6.4 | 7.1 |
| FY13 | 5.9 | 5.9 |
| FY14 | 5.9 | 5.9 |
| FY15 | 5.9 | 5.9 |
| FY16 | 5.9 | 5.9 |
| FY17 | 5.9 | 5.9 |
| FY25 | 5.8 | 5.8 |
| FY50 | 5.7 | 5.7 |
| FY100 | 5.1 | 5.1 |

For the June 30, 2009 valuations and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

24. Aging Factors

| Age | Medical | Prescription Drugs |
|---|---|---|
| 0-44 | 2.0% | 4.5% |
| 45-54 | 2.5 | 3.5 |
| 55-64 | 3.5 | 3.0 |
| 65-74 | 4.0 | 1.5 |
| 75-84 | 1.5 | 0.5 |
| 85-94 | 0.5 | 0.0 |
| 95+ | 0.0 | 0.0 |

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25. Retired Member Contributions for Medical Benefits

Currently contributions are required for TRS members who are under age 60 and have less than 25 years of service. Eligible Tier 1 members are exempt from contribution requirements. Annual FY11 contributions based on monthly rates shown below for calendar 2010 and 2011 are assumed based on the coverage category for current retirees. The composite rate shown is used for current active and inactive members in Tier 2 who are assumed to retire prior to age 60 with less than 25 years of service and who are not disabled:

| Coverage Category | Calendar 2011 Annual Contribution | Calendar 2011 Monthly Contribution | Calendar 2010 Monthly Contribution |
|---|---|---|---|
| Retiree Only | $ 9,492 | $ 791 | $ 719 |
| Retiree and Spouse | 18,996 | 1,583 | 1,439 |
| Retiree and Child(ren) | 13,416 | 1,118 | 1,016 |
| Retiree and Family | 22,920 | 1,910 | 1,736 |
| Composite | 14,112 | 1,176 | 1,068 |

26. Trend Rate for Retired Member Medical Contribution

The table below shows the rate used to project the retired member medical contributions from the shown fiscal year to the next fiscal year. For example, 6.7% is applied to the FY11 retired member medical contributions to get the FY12 retired member medical contributions.

| | |
|---|---|
| FY11 | 6.7% |
| FY12 | 6.3 |
| FY13 | 6.0 |
| FY14 | 5.7 |
| FY15 | 5.3 |
| FY16 | 5.0 |
| FY17 | 5.0 |
| FY18 | 5.0 |
| FY 19 and later | 5.0 |

Graded trend rates for retired member medical contributions were reinitialized for the June 30, 2005 valuation. Note that actual FY10 retired member medical contributions are reflected in the valuation so trend on such contribution during FY10 is not applicable.

27. Healthcare Participation

100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. 10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.

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**Table 1**
**Alaska TRS**
**Salary Scale**

| Years of Employment | Unisex Rates |
|---|---|
| 1-6 | 6.11% |
| 7 | 5.94 |
| 8 | 5.78 |
| 9 | 5.61 |
| 10 | 5.44 |
| 11 | 5.28 |
| 12 | 5.11 |
| 13 | 4.94 |
| 14 | 4.78 |
| 15 | 4.61 |
| 16 | 4.45 |
| 17 | 4.28 |
| 18 | 4.11 |
| 19 | 3.95 |
| 20 | 3.78 |
| 21+ | 3.62 |

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**Table 2**
**Alaska TRS**
**Mortality Table (Pre-termination)**

| Age | Male | Female |
|---|---|---|
| 20 | .017% | .012% |
| 21 | .018 | .012 |
| 22 | .019 | .012 |
| 23 | .021 | .013 |
| 24 | .024 | .013 |
| 25 | .026 | .013 |
| 26 | .030 | .014 |
| 27 | .032 | .014 |
| 28 | .033 | .015 |
| 29 | .034 | .016 |
| 30 | .035 | .017 |
| 31 | .036 | .019 |
| 32 | .037 | .020 |
| 33 | .037 | .021 |
| 34 | .037 | .022 |
| 35 | .037 | .023 |
| 36 | .038 | .024 |
| 37 | .039 | .025 |
| 38 | .041 | .027 |
| 39 | .042 | .029 |
| 40 | .045 | .032 |
| 41 | .047 | .034 |
| 42 | .050 | .037 |
| 43 | .053 | .039 |
| 44 | .056 | .041 |
| 45 | .060 | .042 |
| 46 | .064 | .044 |
| 47 | .069 | .047 |
| 48 | .075 | .051 |
| 49 | .081 | .055 |
| 50 | .088 | .061 |
| 51 | .097 | .068 |
| 52 | .106 | .078 |
| 53 | .118 | .090 |
| 54 | .131 | .102 |
| 55 | .149 | .116 |
| 56 | .170 | .135 |
| 57 | .195 | .157 |
| 58 | .224 | .181 |
| 59 | .253 | .208 |
| 60 | .284 | .239 |
| 61 | .326 | .274 |
| 62 | .368 | .314 |
| 63 | .425 | .359 |
| 64 | .479 | .410 |

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**Table 3**
**Alaska TRS**
**Mortality Table (Post-termination)**

| Age | Male | Female |
|---|---|---|
| 50 | .142% | .085% |
| 51 | .153 | .092 |
| 52 | .166 | .100 |
| 53 | .181 | .111 |
| 54 | .196 | .124 |
| 55 | .215 | .143 |
| 56 | .235 | .163 |
| 57 | .263 | .185 |
| 58 | .291 | .212 |
| 59 | .331 | .246 |
| 60 | .377 | .285 |
| 61 | .433 | .328 |
| 62 | .499 | .378 |
| 63 | .561 | .434 |
| 64 | .631 | .498 |
| 65 | .725 | .570 |
| 66 | .819 | .653 |
| 67 | .944 | .745 |
| 68 | 1.064 | .844 |
| 69 | 1.196 | .948 |
| 70 | 1.362 | 1.052 |
| 71 | 1.512 | 1.150 |
| 72 | 1.634 | 1.242 |
| 73 | 1.787 | 1.342 |
| 74 | 1.915 | 1.434 |
| 75 | 2.094 | 1.583 |
| 76 | 2.298 | 1.726 |
| 77 | 2.518 | 1.918 |
| 78 | 2.748 | 2.094 |
| 79 | 3.061 | 2.338 |
| 80 | 3.361 | 2.669 |
| 81 | 3.788 | 2.985 |
| 82 | 4.292 | 3.327 |
| 83 | 4.868 | 3.707 |
| 84 | 5.510 | 4.136 |
| 85 | 6.214 | 4.625 |

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**Table 4**
**Alaska TRS**
**Turnover Assumptions**

**Select Rates of Turnover During the First 8 Years of Employment:**

| Year of Employment | Unisex Rate |
|---|---|
| 1 | 17.00% |
| 2 | 17.00 |
| 3 | 14.00 |
| 4 | 12.00 |
| 5 | 10.00 |
| 6 | 9.00 |
| 7 | 7.50 |
| 8 | 6.00 |

**Ultimate Rates of Turnover**
**After the First 8 Years of Employment**

| Age | Male | Female | Age | Male | Female |
|---|---|---|---|---|---|
| 15 | 4.4584% | 4.3747% | 40 | 4.3189% | 4.2658% |
| 16 | 4.4528 | 4.3714 | 41 | 4.3065 | 4.2559 |
| 17 | 4.4483 | 4.3692 | 42 | 4.2908 | 4.2460 |
| 18 | 4.4438 | 4.3681 | 43 | 4.2762 | 4.2372 |
| 19 | 4.4415 | 4.3670 | 44 | 4.2570 | 4.2262 |
| 20 | 4.4067 | 4.3351 | 45 | 4.2357 | 4.2130 |
| 21 | 4.4044 | 4.3351 | 46 | 4.2132 | 4.2009 |
| 22 | 4.3999 | 4.3340 | 47 | 4.1850 | 4.1844 |
| 23 | 4.3965 | 4.3340 | 48 | 4.1524 | 4.1657 |
| 24 | 4.3909 | 4.3329 | 49 | 4.1187 | 4.1470 |
| 25 | 4.3864 | 4.3329 | 50 | 4.0804 | 4.1250 |
| 26 | 4.3819 | 4.3318 | 51 | 4.0354 | 4.0997 |
| 27 | 4.3774 | 4.3307 | 52 | 3.9825 | 4.0700 |
| 28 | 4.3729 | 4.3274 | 53 | 3.9240 | 4.0348 |
| 29 | 4.3684 | 4.3241 | 54 | 3.8588 | 3.9974 |
| 30 | 4.3650 | 4.3208 | 55 | 3.7845 | 3.9523 |
| 31 | 4.3628 | 4.3186 | 56 | 3.6945 | 3.8940 |
| 32 | 4.3594 | 4.3142 | 57 | 3.5843 | 3.8192 |
| 33 | 4.3572 | 4.3109 | 58 | 3.4639 | 3.7345 |
| 34 | 4.3560 | 4.3065 | 59 | 3.3188 | 3.6267 |
| 35 | 4.3538 | 4.3021 | 60 | 3.1557 | 3.5046 |
| 36 | 4.3504 | 4.2955 | 61 | 2.9745 | 3.3682 |
| 37 | 4.3459 | 4.2900 | 62 | 2.7642 | 3.2131 |
| 38 | 4.3380 | 4.2823 | 63 | 2.5245 | 3.0360 |
| 39 | 4.3290 | 4.2746 | 64 | 2.2647 | 2.8435 |
| | | | 65+ | 4.5000 | 4.4000 |

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**TEACHERS' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 5**
**Alaska TRS**
**Disability Table**

| Age | Male | Female |
|---|---|---|
| 20 | .0224% | .0202% |
| 21 | .0224 | .0202 |
| 22 | .0232 | .0209 |
| 23 | .0232 | .0209 |
| 24 | .0240 | .0216 |
| 25 | .0240 | .0216 |
| 26 | .0240 | .0216 |
| 27 | .0248 | .0223 |
| 28 | .0256 | .0230 |
| 29 | .0264 | .0238 |
| 30 | .0272 | .0245 |
| 31 | .0272 | .0245 |
| 32 | .0280 | .0252 |
| 33 | .0288 | .0259 |
| 34 | .0296 | .0266 |
| 35 | .0304 | .0274 |
| 36 | .0320 | .0288 |
| 37 | .0328 | .0295 |
| 38 | .0344 | .0310 |
| 39 | .0352 | .0317 |
| 40 | .0368 | .0331 |
| 41 | .0384 | .0346 |
| 42 | .0408 | .0367 |
| 43 | .0432 | .0389 |
| 44 | .0472 | .0425 |
| 45 | .0520 | .0468 |
| 46 | .0560 | .0504 |
| 47 | .0608 | .0547 |
| 48 | .0664 | .0598 |
| 49 | .0712 | .0641 |
| 50 | .0768 | .0691 |
| 51 | .0832 | .0749 |
| 52 | .0912 | .0821 |
| 53 | .1016 | .0914 |
| 54 | .1136 | .1022 |
| 55 | .1280 | .1152 |
| 56 | .1472 | .1325 |
| 57 | .1712 | .1541 |
| 58 | .1952 | .1757 |
| 59 | .2304 | .2074 |
| 60 | .2696 | .2426 |
| 61 | .3120 | .2808 |
| 62 | .3616 | .3254 |
| 63 | .4176 | .3758 |
| 64 | .4768 | .4291 |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 6**
**Alaska TRS**
**Retirement Table**

| Age at Retirement | Retirement Rate: Reduced Unisex Rates | Unreduced Male | Unreduced Female |
|---|---|---|---|
| <50 | N/A | 10.00% | 10.00% |
| 50 | 8.00% | 13.00 | 13.00 |
| 51 | 8.00 | 12.00 | 12.00 |
| 52 | 8.00 | 12.00 | 12.00 |
| 53 | 6.00 | 13.00 | 13.00 |
| 54 | 12.00 | 16.00 | 16.00 |
| 55 | 8.00 | 18.00 | 20.00 |
| 56 | 8.00 | 17.00 | 15.00 |
| 57 | 8.00 | 13.00 | 17.50 |
| 58 | 8.00 | 17.50 | 18.00 |
| 59 | 12.00 | 15.00 | 17.50 |
| 60 | N/A | 17.50 | 20.00 |
| 61 | N/A | 17.50 | 20.00 |
| 62 | N/A | 11.00 | 25.00 |
| 63 | N/A | 20.00 | 25.00 |
| 64 | N/A | 25.00 | 20.00 |
| 65 | N/A | 30.00 | 20.00 |
| 66 | N/A | 25.00 | 20.00 |
| 67 | N/A | 25.00 | 20.00 |
| 68 | N/A | 25.00 | 20.00 |
| 69 | N/A | 25.00 | 20.00 |
| 70-84 | N/A | 50.00 | 50.00 |
| 85 | | 100.00 | 100.00 |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Changes in Actuarial Assumptions Since the Prior Valuation**

| | June 30, 2009 | June 30, 2010 |
|---|---|---|
| Salary Scale | Based on actual experience from 2001 to 2005. | Rates adjusted on actual experience 2005 to 2009. |
| Payroll Growth | 4.00% per year | 3.62% per year |
| Total Inflation | 3.50% | 3.12% |
| Investment Return/ Discount Rate | 8.25% per year (geometric), compounded annually, net of expenses | 8.00% per year (geometric), compounded annually, net of expenses |
| Pre-termination Mortality | The 1994 GAM Sex-distinct Table, 1994 Base Year adjusted 55% for males, and 60% for females. | The 1994 GAM Sex-distinct Table, 1994 Base Year projected to 2013 using Projection Scale AA, adjusted 45% for males, and 55% for females. |
| Post-termination Mortality | The 1994 GAM Sex-distinct Table, 1994 Base Year, setback 1 year for females and 3-year setback for males. | The 1994 GAM Sex-distinct Table, 1994 Base Year projected to 2013 using Projection Scale AA, setback 3 years for females and 4-year setback for males. |
| Disability Mortality | 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits. | RP-2000 Disabled Retiree Mortality Table. |
| Turnover | Based on actual experience from 2001 to 2005. | Rates adjusted based on actual experience from 2005 to 2009. |
| Disability | Based on actual experience from 2001 to 2005. | Male/female rates decreased based on actual experience from 2005 to 2009 and stop rates at earliest retirement age. |
| Retirement | Based on actual experience from 2001 to 2005. | Rates adjusted based on actual experience from 2005 to 2009. |
| Part-time Service | .55 years of credited service per year. | .60 years of credited service per year. |
| Occupational Assumption | 0% of deaths are assumed to be from occupational causes. | 15% of deaths are assumed to be from occupational causes. |
| Deferred Vested Commencement Age | Earliest reduced age. | Earliest unreduced age. |

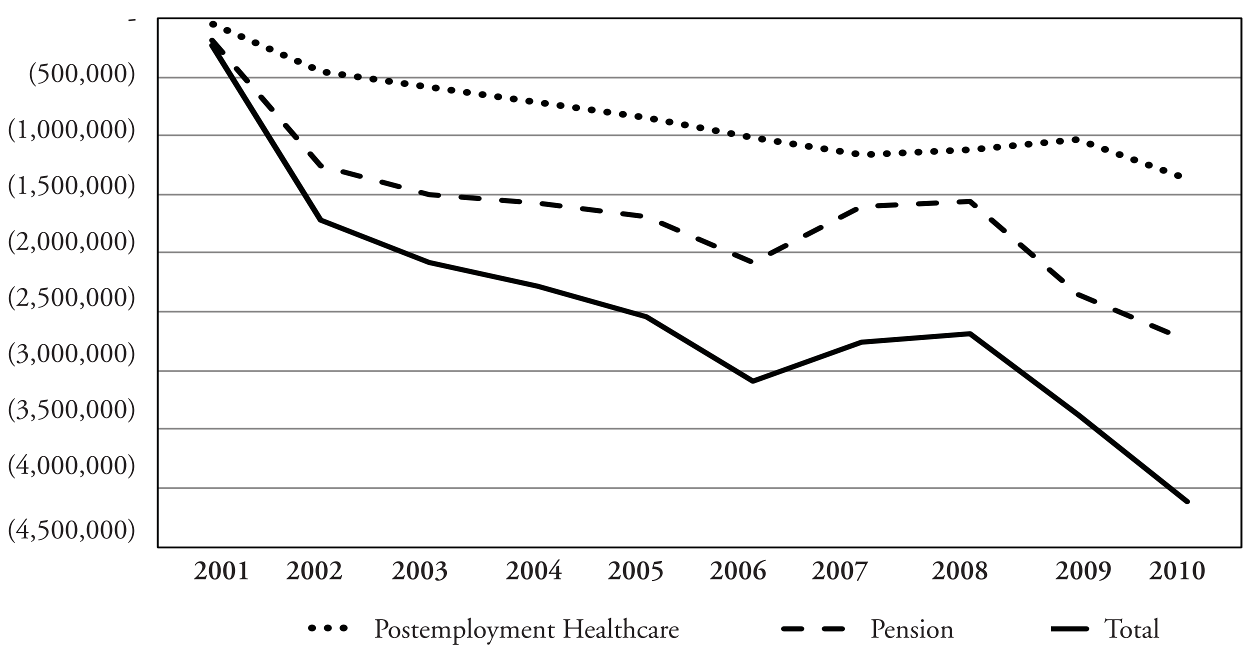
**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Summary of Actuarial Assumptions, Methods and Procedures**

**Changes in Actuarial Assumptions Since the Prior Valuation (cont.)**

| | June 30, 2009 | June 30, 2010 |
|---|---|---|
| Healthcare Participation | 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. | 100% of system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible.<br><br>10% of non-system paid members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. |

| Teachers' Retirement System<br>Funding Excess/(Unfunded Liability)<br>(In thousands) | | | | |
|---|---|---|---|---|
| Actuarial Valuation Year Ended June 30 | Postemployment Healthcare | Pension | Total Funding Excess/ (Unfunded Liability) | Funded Ratio |
| 2001 | (47,740) | (183,178) | (230,918) | 95.0 |
| 2002 | (462,093) | (1,260,513) | (1,722,606) | 68.2 |
| 2003 | (587,139) | (1,496,185) | (2,083,324) | 64.3 |
| 2004 | (709,527) | (1,568,703) | (2,278,230) | 62.8 |
| 2005 | (845,674) | (1,693,934) | (2,539,608) | 60.9 |
| 2006 | (1,012,540) | (2,075,617) | (3,088,157) | 57.3 |
| 2007 | (1,163,423) | (1,601,581) | (2,765,004) | 61.5 |
| 2008 | (1,120,634) | (1,561,568) | (2,682,202) | 64.8 |
| 2009 | (1,026,288) | (2,348,268) | (3,374,556) | 57.0 |
| 2010 | (1,361,547) | (2,747,113) | (4,108,660) | 53.6 |

**10-YEAR TREND OF UNFUNDED LIABILITY**
**(In thousands)**



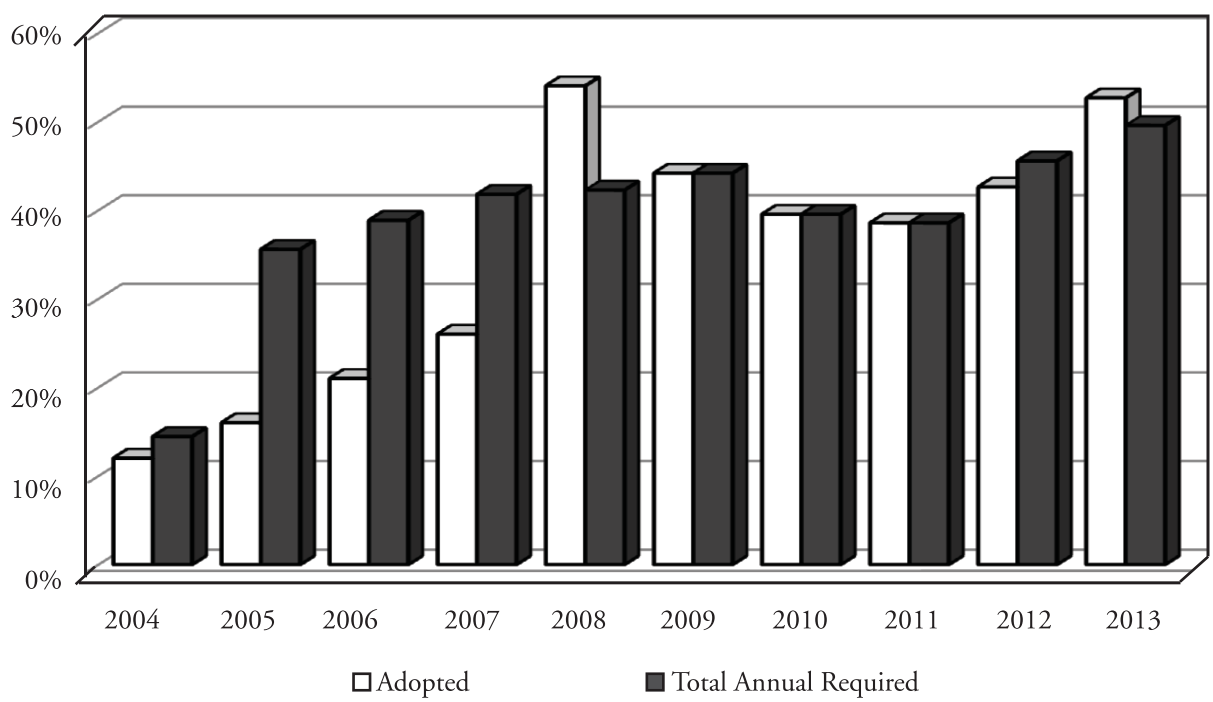
| Teachers' Retirement System Employer Contribution Rates | | | | | |
|---|---|---|---|---|---|
| | Actuarially Determined | | | | |
| Year Ended June 30 | Actuarial Valuation Year Ended June 30 | Normal Cost[1] | Past Service | Total Annual Required | Adopted |
| 2004 | 2001 | 10.33 | 4.11 | 14.44 | 12.00 |
| 2005 | 2002 | 14.76 | 20.81 | 35.57 | 16.00 |
| 2006 | 2003 | 14.28 | 24.57 | 38.85 | 21.00 |
| 2007 | 2004 | 13.76 | 28.02 | 41.78 | 26.00 |
| 2008 | 2005 | 12.56 | 29.70 | 42.26 | 54.03[2] |
| 2009 | 2006 | 9.37 | 34.80 | 44.17 | 44.17 |
| 2010 | 2007 | 7.59 | 31.94 | 39.53 | 39.53 |
| 2011 | 2008 | 7.56 | 31.00 | 38.56 | 38.56 |
| 2012 | 2009 | 6.57 | 36.04 | 42.61 | 45.55 |
| 2013 | 2010 | 7.47 | 42.09 | 49.56 | 52.67 |

[1] Also referred to as the consolidated rate.

[2] The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

Valuations are used to set contribution rates in future years.

## 10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



| Teachers' Retirement System<br>Schedule of Active Member Valuation Data | | | | | |
|---|---|---|---|---|---|
| Valuation Date | Number | Annual Earnings (In thousands) | Annual Average Earnings | Percent Increase/ (Decrease) In Average Earnings | Number of Participating Employers |
| June 30, 2010 | 7,832 | $564,887 | $72,125 | 6.5% | 58 |
| June 30, 2009 | 8,226 | 557,026 | 67,715 | 5.2 | 58 |
| June 30, 2008 | 8,531 | 549,148 | 64,371 | 5.8 | 58 |
| June 30, 2007 | 9,107 | 554,245 | 60,859 | 2.9 | 58 |
| June 30, 2006 | 9,710 | 574,409 | 59,156 | 6.6 | 58 |
| June 30, 2005 | 9,656 | 535,837 | 55,493 | 2.9 | 58 |
| June 30, 2004 | 9,688 | 522,421 | 53,925 | 0.0 | 58 |
| June 30, 2003 | 9,873 | 532,630 | 53,948 | 2.7 | 57 |
| June 30, 2002 | 9,690 | 509,437 | 52,535 | 3.9 | 57 |
| June 30, 2001 | 9,815 | 496,188 | 50,544 | 1.8 | 60 |

| Teachers' Retirement System<br>Schedule of Pension Benefit Recipients Added to and Removed from Rolls | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Added to Rolls | | Removed from Rolls | | Rolls - End of Year | | Percent Increase in Annual Pension Benefits | Average Annual Pension Benefits |
| Year Ended | No.* | Annual Pension Benefits* | No.* | Annual Pension Benefits* | No. | Annual Pension Benefits | | |
| June 30, 2010 | 533 | $16,980,817 | 190 | $ 5,495,399 | 10,598 | $342,621,008 | 3.47% | $32,329 |
| June 30, 2009 | 368 | 9,788,639 | 139 | (2,857,118) | 10,255 | 331,135,590 | 3.97 | 32,290 |
| June 30, 2008 | 481 | 14,265,236 | 133 | 806,945 | 10,026 | 318,489,833 | 4.41 | 31,766 |
| June 30, 2007 | 432 | 12,388,703 | 140 | (14,114,559) | 9,678 | 305,031,542 | 9.52 | 31,518 |
| June 30, 2006 | 487 | 12,731,292 | 121 | (50,838) | 9,386 | 278,528,280 | 4.81 | 29,675 |
| June 30, 2005 | 446 | 11,243,448 | 121 | 13,053,612 | 9,020 | 265,746,150 | (0.68) | 29,462 |
| June 30, 2004 | 491 | 17,867,366 | 96 | 5,503,666 | 8,707 | 267,556,314 | 4.84 | 30,729 |
| 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 |

* Numbers are estimated, and include other internal transfers.

## Teachers' Retirement System
## Solvency Test

| Valuation Date | Aggregate Accrued Liability For: (1) Active Member Contributions (In thousands) | (2) Inactive Members (In thousands) | (3) Active Members (Employer-Financed Portion) (In thousands) | Valuation Assets (In thousands) | Portion of Accrued Liabilities Covered by Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| June 30, 2010[2] | $716,675 | $5,909,080 | $2,222,033 | $4,739,128 | 100% | 68.1% | 0.0% |
| June 30, 2009 | 692,105 | 5,292,808 | 1,862,601 | 4,472,958 | 100 | 71.4 | 0.0 |
| June 30, 2008[2] | 654,662 | 5,181,676 | 1,782,840 | 4,936,976 | 100 | 82.6 | 0.0 |
| June 30, 2007 | 638,420 | 4,912,025 | 1,638,958 | 4,424,399 | 100 | 77.1 | 0.0 |
| June 30, 2006[2][3] | 615,207 | 4,925,922 | 1,688,722 | 4,141,700 | 100 | 71.6 | 0.0 |
| June 30, 2005 | 589,169 | 4,694,176 | 1,215,211 | 3,958,939 | 100 | 71.8 | 0.0 |
| June 30, 2004[2] | 569,435 | 4,423,036 | 1,131,129 | 3,845,370 | 100 | 74.1 | 0.0 |
| 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 | 100.0 | 73.0 |

Healthcare liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy).

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

| Teachers' Retirement System<br>Analysis of Financial Experience | | | | | |
|---|---|---|---|---|---|
| **Change in Employer/State 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/State Contribution Rate During Fiscal Year** | | | | |
| | **2010** | **2009** | **2008** | **2007** | **2006** |
| Health Experience | 0.19% | (2.67)% | (1.22)% | (3.90)% | (2.52)% |
| Salary Experience | 0.59 | 0.29 | 0.43 | (0.27) | 0.79 |
| Investment Experience | 0.05 | 7.23 | (0.85) | (1.37) | (0.36) |
| Demographic Experience | (0.75) | (0.54) | (0.33) | 1.63 | (0.27) |
| Contribution Shortfall | 0.01 | (0.26) | (0.98) | 1.31 | 1.21 |
| (Gain) or Loss During Year From Experience | 0.09 | 4.05 | (2.95) | (2.60) | (1.15) |
| **Non-recurring changes** | | | | | |
| Asset Valuation Method | - | - | - | - | - |
| Past Service Amortization Change | - | - | - | - | - |
| Assumption and Method Changes | 6.86 | - | 1.98 | (2.04)* | 3.06 |
| System Benefit Changes | - | - | - | - | - |
| Composite (Gain) Loss During Year | 6.95 | 4.05 | (0.97) | (4.64) | 1.91 |
| Beginning Total Employer/State Contribution Rate | 42.61 | 38.56 | 39.53 | 44.17 | 42.26 |
| Ending Total Employer/State Contribution Rate | 49.56 | 42.61 | 38.56 | 39.53 | 44.17 |
| Board Adopted Contribution Rate | 52.67% | 45.55% | 38.56% | 39.53% | 44.17% |
| Fiscal Year Above Rate is Applied | FY13 | FY12 | FY11 | FY10 | FY09 |

* Includes change in rate by using total payroll.

| Teachers' Retirement System<br>Analysis of Financial Experience | | | | | | |
|---|---|---|---|---|---|---|
| **Change in Employer/State Contribution Rate<br>Due to (Gains) and Losses in Accrued Liabilities<br>During the Last Three Fiscal Years Resulting From<br>Differences Between Assumed Experience and Actual Experience** | | | | | | |
| | **Change in Employer/State Contribution Rate During Fiscal Year** | | | | | |
| | **Pension** | | | **Healthcare** | | |
| **Type of (Gain) or Loss** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** |
| Health Experience | N/A | N/A | N/A | 0.19% | (2.67)% | (1.22)% |
| Salary Experience | 0.59% | 0.29% | 0.43% | N/A | N/A | N/A |
| Investment Experience | (0.34) | 6.53 | (0.62) | 0.39 | 0.70 | (0.23) |
| Demographic Experience | (0.75) | (0.54) | (0.33) | N/A | N/A | N/A |
| Contribution Shortfall | 0.46 | 0.01 | (0.11) | (0.45) | (0.27) | (0.87) |
| (Gain) or Loss During Year From Experience | (0.4) | 6.29 | (0.63) | 0.13 | (2.24) | (2.32) |
| **Non-recurring changes** | | | | | | |
| Asset Valuation Method | - | - | - | - | - | - |
| Past Service Amortization Change | - | - | - | - | - | - |
| Assumption and Method Changes | 3.96 | - | - | 2.90 | - | 1.98 |
| System Benefit Changes | - | - | - | - | - | - |
| Composite (Gain) Loss During Year | 3.92 | 6.29 | (0.63) | 3.03 | (2.24) | (0.34) |
| Beginning Total Employer/State Contribution Rate | 26.61 | 20.32 | 20.95 | 16.00 | 18.24 | 18.58 |
| Ending Total Employer/State Contribution Rate | 30.53% | 26.61% | 20.32% | 19.03% | 16.00% | 18.24% |
| Fiscal Year Above Rate is Applied | FY13 | FY12 | FY11 | FY13 | FY12 | FY11 |

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## Summary of Plan Provisions

**(1) Effective Date**

July 1, 1955, with amendments through June 30, 2010. 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 (Tier 1) are eligible for different benefits than members hired after June 30, 1990 (Tier 2). Chapter 9, 2005 Session Laws of Alaska, closed the plan to new members hired after June 30, 2006.

**(2) Administration of Plan**

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

Prior to June 30, 2005, the Teachers' Retirement Board prescribed policies and adopted regulations and performed other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division was responsible for investing TRS funds.

On July 27, 2005, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

**(3) Employers Included**

Currently, there are 58 employers participating in the TRS, including the State of Alaska, 53 school districts, and four other eligible organizations.

**(4) Membership**

Membership in the Alaska TRS is mandatory for the following employees hired before July 1, 2006:

- 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;

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**

**Summary of Plan Provisions**

- 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.

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

**(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 who work at least 50% of full-time receive membership credit for each day in proportion to full-time service. Credit is granted for all Alaskan public school service.

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.

Survivors who are receiving occupational death benefits continue to earn TRS service credit while occupational survivor benefits are being paid.

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM

### Summary of Plan Provisions

**(6) Employer Contributions**

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

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

The past service rate is a uniform rate for all participating employers to amortize the unfunded past service liability with payments that are a level percentage of pay amount over fixed 25-year periods.

Employer rates cannot be less than the normal cost rate.

**(7) Additional State Contributions**

Pursuant to AS14.25.070 effective July 1, 2008, the State shall contribute an amount (in addition to the State contribution as an employer) that when combined with the employer contribution (12.56%) will be sufficient to pay the total contribution rate adopted by The State of Alaska Retirement Management Board.

**(8) 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 (5) 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 after 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 (13) below). Supplemental contributions are only refundable upon death (see (13) 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.

Reinstatement of Contributions: Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS prior to July 1, 2010. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**

**Summary of Plan Provisions**

**(9) Retirement Benefits**

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 55 or early retirement at age 50 if they were hired before July 1, 1990 (Tier 1) and age 60 or early retirement at age 55 if they were hired on or after July 1, 1990 (Tier 2). Additionally, they must 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.

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 and a last survivor option. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**

**Summary of Plan Provisions**

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 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. Indebtedness balances may also be created when a member purchases qualified claimed service.

**(10) 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 and retiree healthcare 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 first became effective July 1, 2005 and applies to reemployment periods after that date. The Waiver Option is no longer available after June 30, 2009.

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.

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM

### Summary of Plan Provisions

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

**(11) 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 (Tier 1) and their surviving spouses and (2) members and their surviving spouses 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 (Tier 2) and their surviving spouses may receive major medical benefits prior to age sixty by paying premiums.

**(12) 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.

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

**(13) 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 or is vested, 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.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**

**Summary of Plan Provisions**

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.

(a) 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.

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

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

**(14) Postretirement Pension Adjustments**

Postretirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) for urban wage earners and clerical workers for Anchorage increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, excluding the Alaska COLA, times:

(a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on 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 (Tier I) if the CPI increases and the funding ratio is at least 105%.

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

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**

**Summary of Plan Provisions**

**(15) 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 (Tier 1) and their survivors;

(b) members who were first hired under the TRS after June 30, 1990 (Tier 2) and their survivors if they are at least age 65; and

(c) all disabled members.

**Changes in Benefit Provisions Since the Prior Valuation**

There has been no changes in benefit provisions since the prior valuation.

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September 23, 2011

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

Dear Members of The Alaska Retirement Management Board, The Department of Revenue and The Department of Administration:

**Actuarial Certification**

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System Defined Contribution Retirement (DCR) Plan has been prepared as of June 30, 2010 by Buck Consultants. The purposes of the report include:

(1) a presentation of the valuation results of the Plan as of June 30, 2010;
(2) a review of experience under the Plan for the year ended June 30, 2010;
(3) a determination of the appropriate contribution rate which will be applied for the fiscal year ending June 30, 2013; and
(4) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

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

(1) Summary of actuarial assumptions and methods
(2) Schedule of active member valuation data
(3) Solvency test
(4) Schedule of Funding Progress, Schedule of Employer Contributions and trend data schedules

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the Plan liability. The employee data has not been audited, but it has been reviewed and found

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The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
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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 Alaska Retirement Management Board (Board) in September 2010 and adopted by the Board in December 2010. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed during the experience study.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY11 and a fixed 25-year amortization as a level percentage of payroll 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 valuation assets to liabilities decreased from 234.5% to 223.5% during the year. This report provides an analysis of the factors that led to the decrease.

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

The funding objective of the plan, as adopted by the ARM Board, is to set a contribution rate that will pay the normal cost and amortize the initial unfunded actuarial accrued liability and each subsequent annual change in the unfunded actuarial accrued liability over a closed 25-year period as a level percentage of payroll. The funding objective for the plan, as adopted by the ARM Board, is currently being met.

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

(1) differences between actual experience and anticipated experience based on the assumptions;
(2) changes in actuarial assumptions or methods;
(3) changes in statutory provisions; or
(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

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

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 43.

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The Alaska Retirement Management Board, The Department
of Revenue and The Department of Administration
September 23, 2011
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We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

David H. Slishinsky

David H. Slishinsky, ASA, EA, MAAA
Principal, Consulting Actuary

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

Melissa A. Bissett

Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

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## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
### Defined Contribution Retirement Plan
### Occupational Death and Disability and Retiree Medical Benefits
## Summary of Actuarial Assumptions, Methods and Procedures

The demographic and economic assumptions used in the June 30, 2010 valuation are described below. Unless noted otherwise, these assumptions were adopted by the Board in December 2010. These assumptions were the result of an experience study performed for the DB Plan as of June 30, 2009. The funding method used in this valuation was adopted by the Board in October 2006. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

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

**Valuation of Liabilities**

**A. Actuarial Method** - Entry Age Actuarial Cost

Liabilities and contributions shown in the report are computed using the Entry Age Actuarial Cost method of funding. Any funding surpluses or unfunded accrued liability is amortized over 25 years as a level percentage of expected payroll. Payroll is assumed to increase by the payroll growth assumption per year for this purpose. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

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

The actuarial accrued liability for beneficiaries and disabled members currently receiving benefits (if any) was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

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

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

**B. Valuation of Assets**

Effective June 30, 2006, 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 five years. Market Value of Assets were $0 as of June 30, 2006. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

**STATE OF ALASKA**
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**C. Valuation of Retiree Medical Benefits**

The methodology used for the valuation of the retiree medical benefits is described in Section 2.3(c) of the State of Alaska Teachers' Retirement System Defined Benefit Plan Actuarial Valuation Report as of June 30, 2010.

Due to the lack of experience for the DCR Plan only, base claims costs are based on those described in the actuarial valuation as of June 30, 2010 for TRS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, FY10 claims costs were reduced 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

No implicit subsidies are assumed. Employees projected to retire with 30 years of service prior to Medicare are valued with commencement deferred to Medicare eligibility, as such participants will be required to pay the full plan premium. Explicit subsidies for disabled and normal retirement are determined using the plan-defined percentages of total projected plan costs, again with no implicit subsidy assumed.

**Healthcare Reform**

Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Buck evaluated the impact of the following provisions; however, none of the impacts have been included in the valuation results.

- Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions are required. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

- The Plan will be subject to the high cost plan excise tax (Cadillac tax). Based upon guidance available at the time of disclosures, Buck estimated the year in which the tax would potentially affect Alaska to be 2047, and with a minimal impact. Buck determined the impact to be immaterial based on a blend of pre-Medicare and Medicare retirees.

We have not identified any other specific provisions of healthcare reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

**Changes in Methods From the Prior Valuation**

There were no changes in methods from the prior valuation.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
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**Summary of Actuarial Assumptions, Methods and Procedures**

**D. Actuarial Assumptions**

| | | |
|---|---|---|
| 1. | Investment Return/ Discount Rate | 8.00% per year (geometric), compounded annually, net of expenses. |
| 2. | Salary Scale | Inflation - 3.12% per year<br>Productivity - 0.5% per year<br>See Table 1 for salary scale rates. |
| 3. | Payroll Growth | 3.62% per year |
| 4. | Total Inflation | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.12% annually. |
| 5. | Mortality (Pre-termination) | Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 2). 55% of the 1994 Group Annuity Mortality (GAM) Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 45% for males. 15% of deaths are assumed to result from occupational causes. |
| 6. | Mortality (Post-termination) | Based upon the 2005-2009 actual experience of the TRS DB Plan. (See Table 3). 3-year setback of the 1994 GAM Table, 1994 Base Year without margin projected to 2013 using Projection Scale AA for females and 4-year setback for males. |
| 7. | Turnover | Select rates were estimated and ultimate rates were set to the TRS DB Plan's rates loaded by 10%. (See Table 4). |
| 8. | Disability | Incidence rates based upon the 2005-2009 actual experience of the TRS DB Plan, in accordance with Table 5. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. 15% of disabilities are assumed to result from occupational causes. |
| 9. | Retirement | Retirement rates were estimated in accordance with Table 6. |
| 10. | Marriage and Age Difference | Wives are assumed to be three years younger than husbands. 85% of male members and 75% of female members are assumed to be married. |
| 11. | Part-time Status | Part-time employees are assumed to earn 0.60 years of credited service per year. |
| 12. | Expenses | All expenses are net of the investment return assumption. |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
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## Summary of Actuarial Assumptions, Methods and Procedures

13. Per Capita Claims Cost

Sample claims cost rates adjusted to age 65 for FY11 medical benefits are shown below:

| | Medical | Prescription Drugs |
|---|---|---|
| Pre-Medicare | $8,606 | $2,600 |
| Medicare Parts A & B | 1,563 | 2,600 |
| Medicare Part B Only | 6,654 | 2,600 |
| Medicare Part D | N/A | 515 |

14. Third Party Administrator Fees

$153.33 per person per year; assumed trend rate of 5% per year.

15. Base Claims Cost Adjustments

Due to higher initial copays, deductibles, out-of-pocket limits and member cost sharing compared to the DB medical plan, the following adjustments were made:

- 0.941 for the medical plan.
- 0.993 for the prescription drug plan.
- 0.952 for the annual indexing for member cost sharing.

16. Health Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.9% is applied to the FY11 medical claims costs to get the FY12 medical claims costs.

| | Medical | Prescription Drugs |
|---|---|---|
| FY11 | 6.9% | 8.3% |
| FY12 | 6.4 | 7.1 |
| FY13 | 5.9 | 5.9 |
| FY14 | 5.9 | 5.9 |
| FY15 | 5.9 | 5.9 |
| FY16 | 5.9 | 5.9 |
| FY17 | 5.9 | 5.9 |
| FY25 | 5.8 | 5.8 |
| FY50 | 5.7 | 5.7 |
| FY100 | 5.1 | 5.1 |

For the June 30, 2008 valuation and later, the Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model effectively begins estimating trend amounts beginning in 2012 and projects out to 2100. The model has been populated with assumptions that are specific to the State of Alaska.

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17. Aging Factors

| Age | Medical | Prescription Drugs |
|---|---|---|
| 0-44 | 2.0% | 4.5% |
| 45-54 | 2.5 | 3.5 |
| 55-64 | 3.5 | 3.0 |
| 65-74 | 4.0 | 1.5 |
| 75-84 | 1.5 | 0.5 |
| 85-94 | 0.5 | 0.0 |
| 95+ | 0.0 | 0.0 |

18. Retiree Medical Participation

| Years of Service | Percent Participation |
|---|---|
| 10-14 | 75% |
| 15-19 | 80 |
| 20-24 | 85 |
| 25-29 | 95 |
| 30+ | 100 |

# STATE OF ALASKA
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## Summary of Actuarial Assumptions, Methods and Procedures

**Table 1**
**Alaska TRS DCR Plan**
**Salary Scale**

| Year of Employment | Unisex Rate |
|---|---|
| 1-6 | 6.11% |
| 7 | 5.94 |
| 8 | 5.78 |
| 9 | 5.61 |
| 10 | 5.44 |
| 11 | 5.28 |
| 12 | 5.11 |
| 13 | 4.94 |
| 14 | 4.78 |
| 15 | 4.61 |
| 16 | 4.45 |
| 17 | 4.28 |
| 18 | 4.11 |
| 19 | 3.95 |
| 20 | 3.78 |
| 21+ | 3.62 |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
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**Summary of Actuarial Assumptions, Methods and Procedures**

**Table 2**
**Alaska TRS DCR Plan**
**Mortality Table (Pre-termination)**

| Age | Male | Female |
|---|---|---|
| 20 | .017% | .012% |
| 21 | .018 | .012 |
| 22 | .019 | .012 |
| 23 | .021 | .013 |
| 24 | .024 | .013 |
| 25 | .026 | .013 |
| 26 | .030 | .014 |
| 27 | .032 | .014 |
| 28 | .033 | .015 |
| 29 | .034 | .016 |
| 30 | .035 | .017 |
| 31 | .036 | .019 |
| 32 | .037 | .020 |
| 33 | .037 | .021 |
| 34 | .037 | .022 |
| 35 | .037 | .023 |
| 36 | .038 | .024 |
| 37 | .039 | .025 |
| 38 | .041 | .027 |
| 39 | .042 | .029 |
| 40 | .045 | .032 |
| 41 | .047 | .034 |
| 42 | .050 | .037 |
| 43 | .053 | .039 |
| 44 | .056 | .041 |
| 45 | .060 | .042 |
| 46 | .064 | .044 |
| 47 | .069 | .047 |
| 48 | .075 | .051 |
| 49 | .081 | .055 |
| 50 | .088 | .061 |
| 51 | .097 | .068 |
| 52 | .106 | .078 |
| 53 | .118 | .090 |
| 54 | .131 | .102 |
| 55 | .149 | .116 |
| 56 | .170 | .135 |
| 57 | .195 | .157 |
| 58 | .224 | .181 |
| 59 | .253 | .208 |
| 60 | .284 | .239 |
| 61 | .326 | .274 |
| 62 | .368 | .314 |
| 63 | .425 | .359 |
| 64 | .479 | .410 |

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
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## Summary of Actuarial Assumptions, Methods and Procedures

**Table 3**
**Alaska TRS DCR Plan**
**Mortality Table (Post-termination)**

| Age | Male | Female |
|---|---|---|
| 50 | .142% | .085% |
| 51 | .153 | .092 |
| 52 | .166 | .100 |
| 53 | .181 | .111 |
| 54 | .196 | .124 |
| 55 | .215 | .143 |
| 56 | .235 | .163 |
| 57 | .263 | .185 |
| 58 | .291 | .212 |
| 59 | .331 | .246 |
| 60 | .377 | .285 |
| 61 | .433 | .328 |
| 62 | .499 | .378 |
| 63 | .561 | .434 |
| 64 | .631 | .498 |
| 65 | .725 | .570 |
| 66 | .819 | .653 |
| 67 | .944 | .745 |
| 68 | 1.064 | .844 |
| 69 | 1.196 | .948 |
| 70 | 1.362 | 1.052 |
| 71 | 1.512 | 1.150 |
| 72 | 1.634 | 1.242 |
| 73 | 1.787 | 1.342 |
| 74 | 1.915 | 1.434 |
| 75 | 2.094 | 1.583 |
| 76 | 2.298 | 1.726 |
| 77 | 2.518 | 1.918 |
| 78 | 2.748 | 2.094 |
| 79 | 3.061 | 2.338 |
| 80 | 3.361 | 2.669 |
| 81 | 3.788 | 2.985 |
| 82 | 4.292 | 3.327 |
| 83 | 4.868 | 3.707 |
| 84 | 5.510 | 4.136 |
| 85 | 6.214 | 4.625 |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
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**Table 4**
**Alaska TRS DCR Plan**
**Turnover Assumptions**
**Select Rates of Turnover During the First 5 Years of Employment**

| Year of Employment | Rate |
|---|---|
| 0 | 18% |
| 1 | 17 |
| 2 | 14 |
| 3 | 12 |
| 4 | 10 |

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

| Age | Male | Female | Age | Male | Female |
|---|---|---|---|---|---|
| 15 | 4.9042% | 4.8122% | 40 | 4.7508% | 4.6924% |
| 16 | 4.8981 | 4.8085 | 41 | 4.7372 | 4.6815 |
| 17 | 4.8931 | 4.8061 | 42 | 4.7199 | 4.6706 |
| 18 | 4.8882 | 4.8049 | 43 | 4.7038 | 4.6609 |
| 19 | 4.8857 | 4.8037 | 44 | 4.6827 | 4.6488 |
| 20 | 4.8474 | 4.7686 | 45 | 4.6593 | 4.6343 |
| 21 | 4.8448 | 4.7686 | 46 | 4.6345 | 4.6210 |
| 22 | 4.8399 | 4.7674 | 47 | 4.6035 | 4.6028 |
| 23 | 4.8362 | 4.7674 | 48 | 4.5676 | 4.5823 |
| 24 | 4.8300 | 4.7662 | 49 | 4.5306 | 4.5617 |
| 25 | 4.8250 | 4.7662 | 50 | 4.4884 | 4.5375 |
| 26 | 4.8201 | 4.7650 | 51 | 4.4389 | 4.5097 |
| 27 | 4.8151 | 4.7638 | 52 | 4.3808 | 4.4770 |
| 28 | 4.8102 | 4.7601 | 53 | 4.3164 | 4.4383 |
| 29 | 4.8052 | 4.7565 | 54 | 4.2447 | 4.3971 |
| 30 | 4.8015 | 4.7529 | 55 | 4.1630 | 4.3475 |
| 31 | 4.7991 | 4.7505 | 56 | 4.0640 | 4.2834 |
| 32 | 4.7953 | 4.7456 | 57 | 3.9427 | 4.2011 |
| 33 | 4.7929 | 4.7420 | 58 | 3.8103 | 4.1080 |
| 34 | 4.7916 | 4.7372 | 59 | 3.6507 | 3.9894 |
| 35 | 4.7892 | 4.7323 | 60 | 3.4713 | 3.8551 |
| 36 | 4.7854 | 4.7251 | 61 | 3.2720 | 3.7050 |
| 37 | 4.7805 | 4.7190 | 62 | 3.0406 | 3.5344 |
| 38 | 4.7718 | 4.7105 | 63 | 2.7770 | 3.3396 |
| 39 | 4.7619 | 4.7021 | 64 | 2.4912 | 3.1279 |
| | | | 65+ | 4.9500 | 4.8400 |

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Defined Contribution Retirement Plan**
**Occupational Death and Disability and Retiree Medical Benefits**
## Summary of Actuarial Assumptions, Methods and Procedures

**Table 5**
**Alaska TRS DCR Plan**
**Disability Table**

| Age | Male | Female |
|---|---|---|
| 20 | .022% | .020% |
| 21 | .022 | .020 |
| 22 | .023 | .021 |
| 23 | .023 | .021 |
| 24 | .024 | .022 |
| 25 | .024 | .022 |
| 26 | .024 | .022 |
| 27 | .025 | .022 |
| 28 | .026 | .023 |
| 29 | .026 | .024 |
| 30 | .027 | .025 |
| 31 | .027 | .025 |
| 32 | .028 | .025 |
| 33 | .029 | .026 |
| 34 | .030 | .027 |
| 35 | .030 | .027 |
| 36 | .032 | .029 |
| 37 | .033 | .030 |
| 38 | .034 | .031 |
| 39 | .035 | .032 |
| 40 | .037 | .033 |
| 41 | .038 | .035 |
| 42 | .041 | .037 |
| 43 | .043 | .039 |
| 44 | .047 | .043 |
| 45 | .052 | .047 |
| 46 | .056 | .050 |
| 47 | .061 | .055 |
| 48 | .066 | .060 |
| 49 | .071 | .064 |
| 50 | .077 | .069 |
| 51 | .083 | .075 |
| 52 | .091 | .082 |
| 53 | .102 | .091 |
| 54 | .114 | .102 |
| 55 | .128 | .115 |
| 56 | .147 | .133 |
| 57 | .171 | .154 |
| 58 | .195 | .176 |
| 59 | .230 | .207 |
| 60 | .270 | .243 |
| 61 | .312 | .281 |
| 62 | .362 | .325 |
| 63 | .418 | .376 |
| 64 | .477 | .429 |

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
### Defined Contribution Retirement Plan
### Occupational Death and Disability and Retiree Medical Benefits
## Summary of Actuarial Assumptions, Methods and Procedures

**Table 6**
**Alaska TRS DCR Plan**
**Retirement Table**

| Age | Rate |
|---|---|
| <55 | 2% |
| 55-59 | 3 |
| 60 | 5 |
| 61 | 5 |
| 62 | 10 |
| 63 | 5 |
| 64 | 5 |
| 65 | 25 |
| 66 | 25 |
| 67 | 25 |
| 68 | 20 |
| 69 | 20 |
| 70 | 100 |

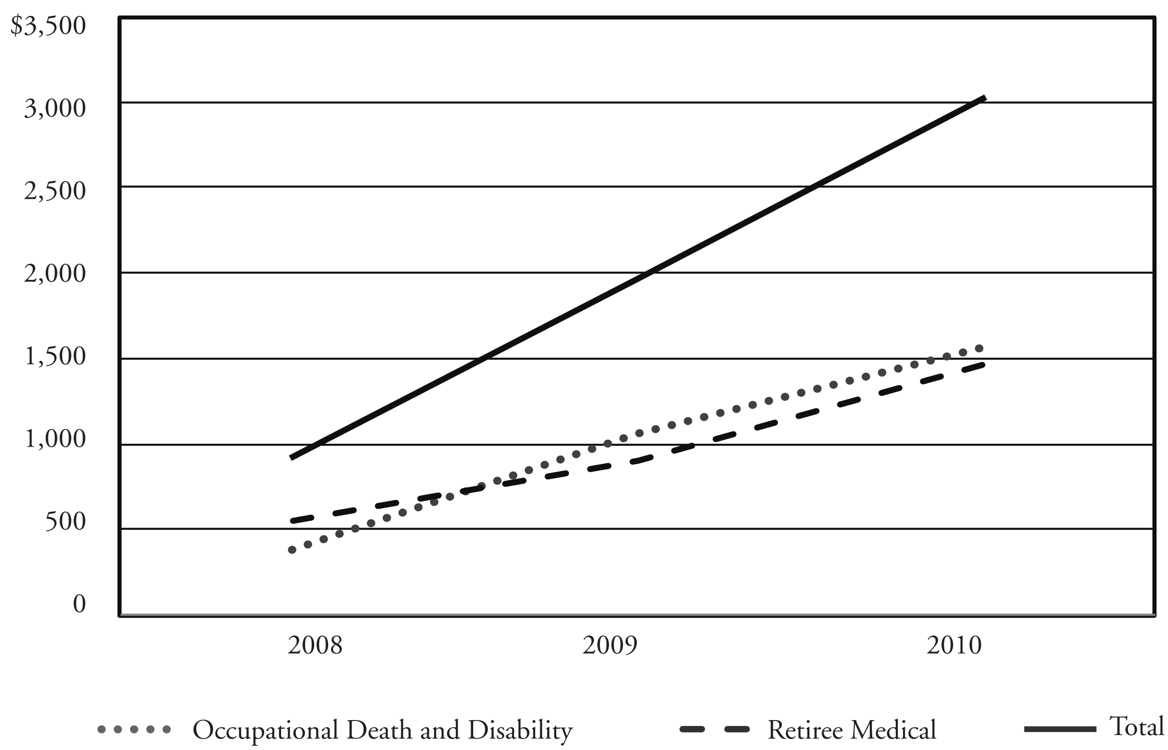
## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
### Defined Contribution Retirement Plan
### Occupational Death and Disability and Retiree Medical Benefits
## Summary of Actuarial Assumptions, Methods and Procedures

**Changes in Actuarial Assumptions Since the Prior Valuation**

| | **June 30, 2009** | **June 30, 2010** |
|---|---|---|
| Investment Return/ Discount Rate | 8.25% per year (geometric), compounded annually, net of expenses. | 8.00% per year (geometric), compounded annually, net of expenses. |
| Salary Scale | Based on actual TRS DB Plan experience from 2001 to 2005. | Rates adjusted based on actual experience from 2005 to 2009 |
| Payroll Growth | 4.00% per year | 3.62% per year |
| Inflation | 3.50% | 3.12% |
| Pre-termination Mortality | 55% of the 1994 GAM Table, 1994 Base Year for males. 60% for females. | 45% of the 1994 GAM Table, 1994 Base Year projected to 2013 using Projection Scale AA for males. 55% for females. |
| Post-termination Mortality | 1-year setback of the 1994 GAM Table, 1994 Base Year for females and 3-year setback for males. | 3-year setback of the 1994 GAM Table, 1994 Base Year projected to 2013 using Projection Scale AA for females and 4-year setback for males. |
| Disability Mortality | 1979 PBGC Disability Mortality Table for those receiving Social Security disability benefits. | RP-2000 Disabled Retiree Mortality Table. |
| Turnover | Unisex 5-year select period, ultimate rates are sex-distinct and are equal to the DB Plan's rates loaded by 10%. | Most unisex select rates increased, ultimate rates are sex-distinct and are equal to the DB Plan's rates loaded by 10%. |
| Disability | Based on actual TRS DB Plan experience from 2001 to 2005. | Rates adjusted based on actual TRS DB Plan experience from 2005 to 2009. |
| Part-time Service | 0.55 years of credited service per year. | 0.60 years of credited service per year. |
| Healthcare Participation | 100% of members and their spouses are assumed to elect healthcare benefits as soon as they are eligible. | Years of Service / Participation:<br>10-14: 75%<br>15-19: 80<br>20-24: 85<br>25-29: 95<br>30+: 100 |

| Teachers' Retirement System<br>Defined Contribution Retirement Plan for Occupational Death and Disability<br>And Retiree Medical Benefits<br>Funding Excess/(Unfunded Liability)<br>(In Thousands) | | | | |
|---|---|---|---|---|
| Actuarial Valuation Year Ended June 30 | Occupational Death and Disability | Retiree Medical | Total Funding Excess/ (Unfunded Liability) | Funded Ratio |
| 2008 | $ 376 | $ 551 | $ 927 | 215.73% |
| 2009 | 1,057 | 907 | 1,964 | 234.5 |
| 2010 | 1,559 | 1,465 | 3,024 | 223.5 |

## 3-YEAR TREND OF UNFUNDED LIABILITY
(in thousands)



| Teachers' Retirement System<br>Defined Contribution Retirement Plan<br>For Occupational Death and Disability<br>And Retiree Medical Benefits<br>Employer Contribution Rates | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Actuarial Valuation Year Ended June 30 | Occupational Death and Disability | Retiree Medical | Total Annual Required | Adopted |
| 2007 | N/A | N/A | 1.75% | 1.75% | 1.75% |
| 2008 | N/A | 0.56 | 0.99 | 1.55 | 1.55 |
| 2009 | N/A | 0.62 | 0.99 | 1.61 | 1.61 |
| 2010 | 2007 | 0.32 | 1.03 | 1.35 | 1.35 |
| 2011 | 2008 | 0.28 | 0.68 | 0.96 | 0.96 |
| 2012 | 2009 | 0.00 | 0.58 | 0.58 | 0.58 |
| 2013 | 2010 | 0.00 | 0.49 | 0.49 | 0.49 |
| Valuations are used to set contribution rates in future years. | | | | | |

**Teachers' Retirement System**
**Defined Contribution Retirement Plan**
**For Occupational Death and Disability**
**And Retiree Medical Benefits**
**Schedule of Active Member Valuation Data**

| Valuation Date | Number | Annual Earnings[1] (In thousands) | Annual Average Earnings | Percent Increase/ (Decrease) In Average Earnings | Number of Participating Employers |
|---|---|---|---|---|---|
| June 30, 2010 | 2,246 | $118,813 | $52,900 | 5.7% | 58 |
| June 30, 2009 | 1,792 | 89,708 | 50,061 | 6.4 | 58 |
| June 30, 2008 | 1,198 | 56,369 | 47,053 | 6.2 | 58 |
| June 30, 2007 | 641 | 28,410 | 44,322 | — | 58 |
| June 30, 2006 | — | — | — | — | 58 |

[1]Annual earnings are the annualized earnings for the fiscal year ending on the valuation date.

| Teachers' Retirement System<br>Defined Contribution Retirement Plan<br>For Occupational Death and Disability<br>And Retiree Medical Benefits<br>Solvency Test | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Aggregate Accrued Liability For: | | | | Portion of Accrued Liabilities Covered by Assets | | |
| Valuation Date | (1) Active Member Contributions (In thousands) | (2) Inactive Members (In thousands) | (3) Active Members (Employer-Financed Portion) (In thousands) | Valuation Assets (In thousands) | (1) | (2) | (3) |
| June 30, 2010 [1] | $ — | $ — | $2,448 | $5,472 | 100% | 100% | 100% |
| June 30, 2009[1] | — | — | 1,460 | 3,424 | 100 | 100 | 100 |
| June 30, 2008[1] | — | — | 801 | 1,728 | 100 | 100 | 100 |
| June 30, 2007 | — | — | 374 | 597 | 100 | 100 | 100 |
| June 30, 2006 | — | — | — | — | 100 | 100 | 100 |

Retiree medical liabilities are calculated using the funding assumptions (i.e., funding investment return and net of Medicare Part D subsidy.)

(1) Change in Assumptions.

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
### Defined Contribution Retirement Plan
### Occupational Death and Disability and Retiree Medical Benefits
## Summary of Plan Provisions

**(1) Effective Date**

July 1, 2006, with amendments through June 30, 2010.

**(2) Administration of Plan**

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

The Alaska Retirement Management Board prescribes policies, adopts regulations, invests the funds, and performs other activities necessary to carry out the provisions of the Plan.

**(3) Employers Included**

Currently there are 58 employers participating in the TRS DCR Plan, including the State of Alaska, 53 school districts, and four other eligible organizations.

**(4) Membership**

An employee of a participating employer who first enters service on or after July 1, 2006, or a member of the defined benefit plan who works for an employer who began participation on or after July 1, 2006, and meets the following criteria is a participant in the Plan:

- Permanent full-time or part-time elementary or secondary teachers, school nurses, or a person in a position requiring a teaching certificate as a condition of hire in a public school of the State of Alaska, the Department of Education and Early Development or in the Department of Labor and Workforce Development.

- Full-time or part-time teachers at the University of Alaska or persons occupying full-time administrative positions requiring academic standing who are not in the University's Optional Retirement Plan.

Members can convert to the DCR Plan if they are an eligible nonvested member of the TRS defined benefit plan whose employer consents to transfers to the defined contribution plan and they elect to transfer his or her account balance to the TRS DCR Plan.

**(5) Member Contributions**

There are no member contributions for the occupational death & disability and retiree medical benefits.

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM
### Defined Contribution Retirement Plan
### Occupational Death and Disability and Retiree Medical Benefits
## Summary of Plan Provisions

**(6) Retiree Medical**

- Member must retire directly from the plan to be eligible for retiree medical coverage. Normal retirement eligibility is the earlier of a) 30 years of service or b) Medicare eligible and 10 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.
- Members who are receiving disability benefits or survivors who are receiving monthly survivor benefits are not eligible until the member meets, or would have met if he/she had lived, the normal retirement eligibility requirements.
- The plan's coverage is supplemental to Medicare.
- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

| Years of Service | Percent of Premium Paid by Member |
|---|---|
| Less than 15 years | 30% |
| 15 – 19 | 25 |
| 20 – 24 | 20 |
| 25 – 29 | 15 |
| 30 years or more | 10 |

**(7) Occupational Disability Benefits**

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or at any age with 30 years of service.
- No retiree medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

**STATE OF ALASKA**
**TEACHERS' RETIREMENT SYSTEM**
**Defined Contribution Retirement Plan**
**Occupational Death and Disability and Retiree Medical Benefits**
**Summary of Plan Provisions**

**(8) Occupational Death Benefits**

- Benefit is 40% of salary.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- The period during which the survivor is receiving benefits is counted as service credit toward retiree medical benefits.
- No retiree medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

**Changes Since the Prior Valuation**

There have been no changes in benefit provisions since the prior valuation.

# STATISTICAL SECTION

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## Statistical Section Overview

The statistical section of the Teachers' Retirement System comprehensive annual financial report provides additional detail in the form of financial trends, operating statistics and demographic information. This data is provided to enhance the reader's understanding of the System.



These schedules contain financial trend information utilizing a multi-year presentation so the reader can better understand how the System's financial performance has changed over time. Financial information is presented on an accrual basis.



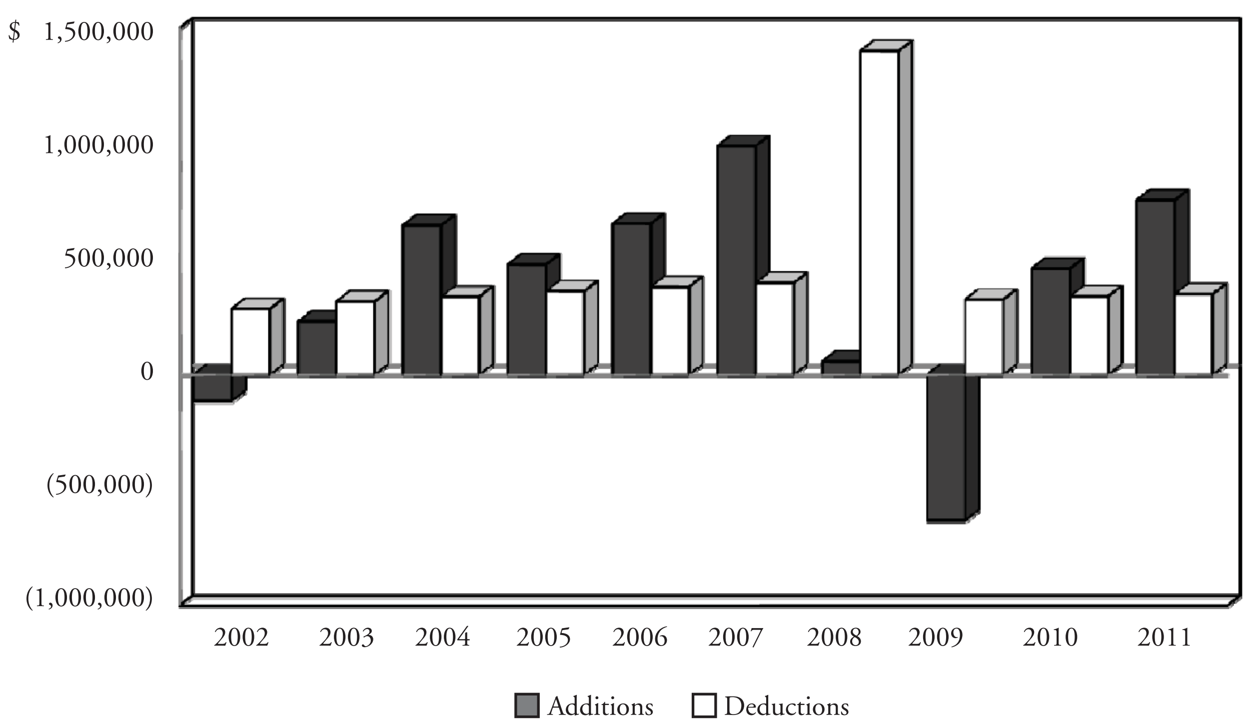
These schedules contain detailed benefit payment information to provide the reader a better understanding of the pension benefits provided by the Division.



These schedules contain detailed demographic data to provide the reader a better understanding of the membership and employer participation in the System.

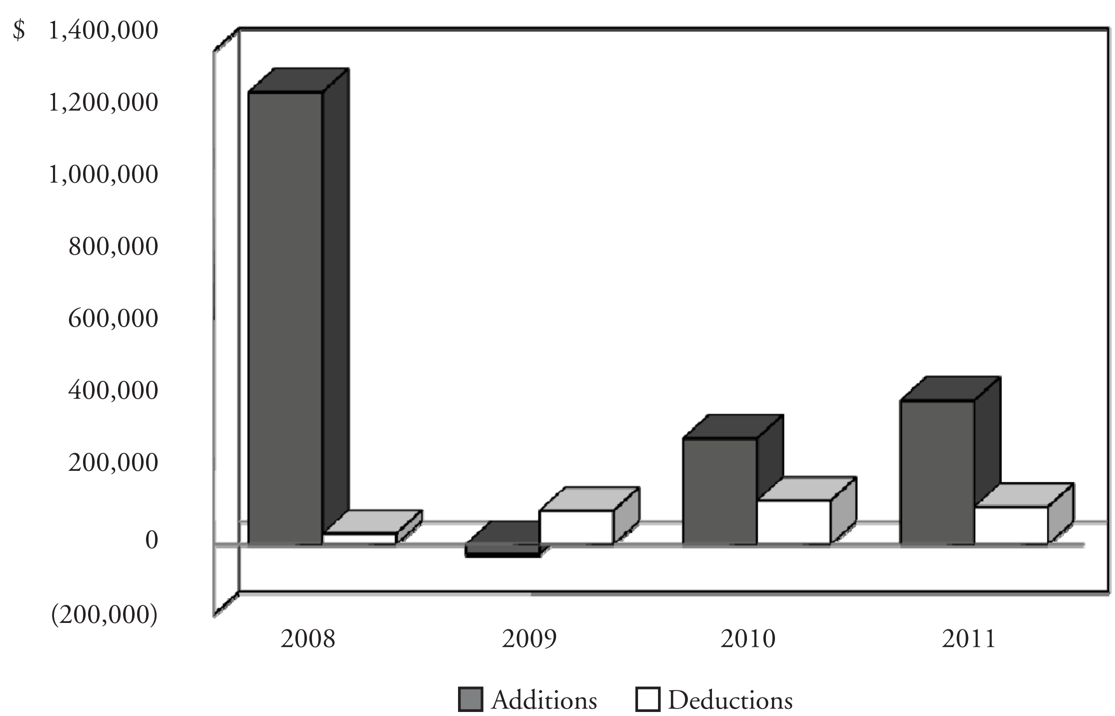
| Teachers' Retirement System<br>Defined Benefit Pension<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2002 | 4,086,848 | (112,754) | 285,058 | (397,812) | 3,689,036 |
| 2003 | 3,689,036 | 230,234 | 316,651 | (86,417) | 3,602,619 |
| 2004 | 3,602,619 | 646,298 | 337,402 | 308,896 | 3,911,515 |
| 2005 | 3,911,515 | 476,969 | 361,489 | 115,480 | 4,026,995 |
| 2006 | 4,026,995 | 652,648 | 379,672 | 272,976 | 4,299,971 |
| 2007 | 4,299,971 | 989,840 | 396,697 | 593,143 | 4,893,114 |
| 2008 | 4,893,114 | 57,423 | 1,399,739 | (1,342,316) | 3,550,798 |
| 2009 | 3,550,798 | (629,058) | 325,307 | (954,365) | 2,596,433 |
| 2010 | 2,596,433 | 458,984 | 338,860 | 120,124 | 2,716,557 |
| 2011 | 2,716,557 | 755,768 | 348,795 | 406,973 | 3,123,530 |

**10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



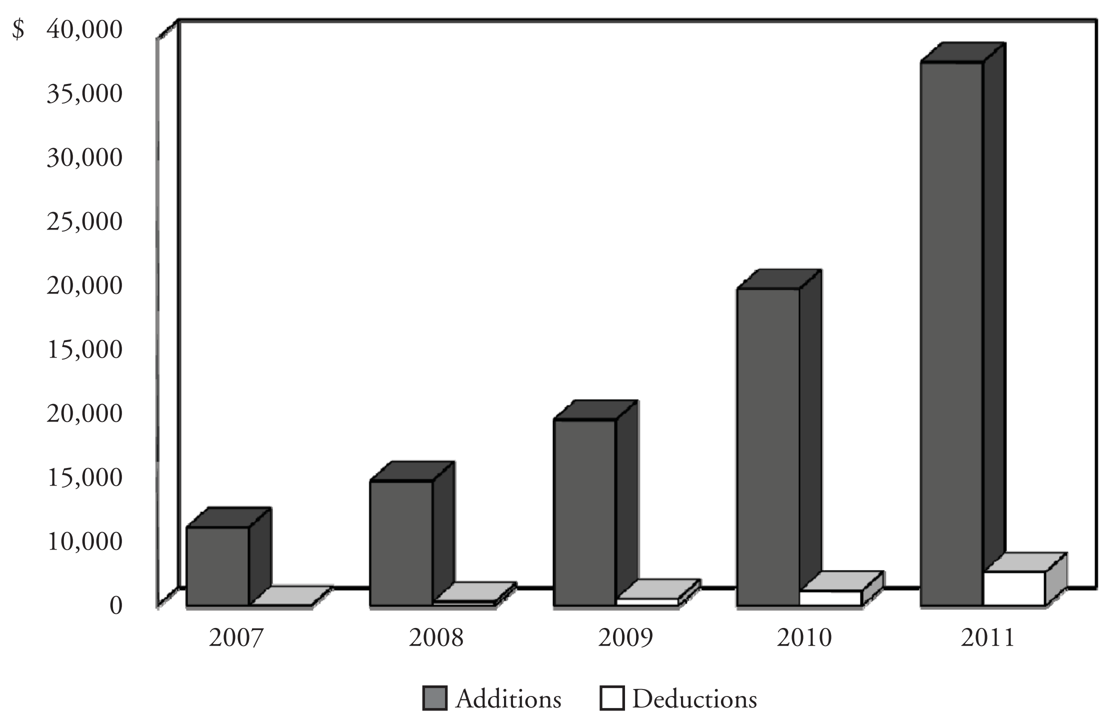
| Teachers' Retirement System<br>Defined Benefit Alaska Retiree Healthcare Trust<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2008 | $ - | $ 1,283,865 | $ 30,292 | $ 1,253,573 | $ 1,253,573 |
| 2009 | 1,253,573 | (27,157) | 95,383 | (122,540) | 1,131,033 |
| 2010 | 1,131,033 | 300,736 | 124,133 | 176,603 | 1,307,636 |
| 2011 | 1,307,636 | 408,179 | 106,485 | 301,694 | 1,609,330 |

**4-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



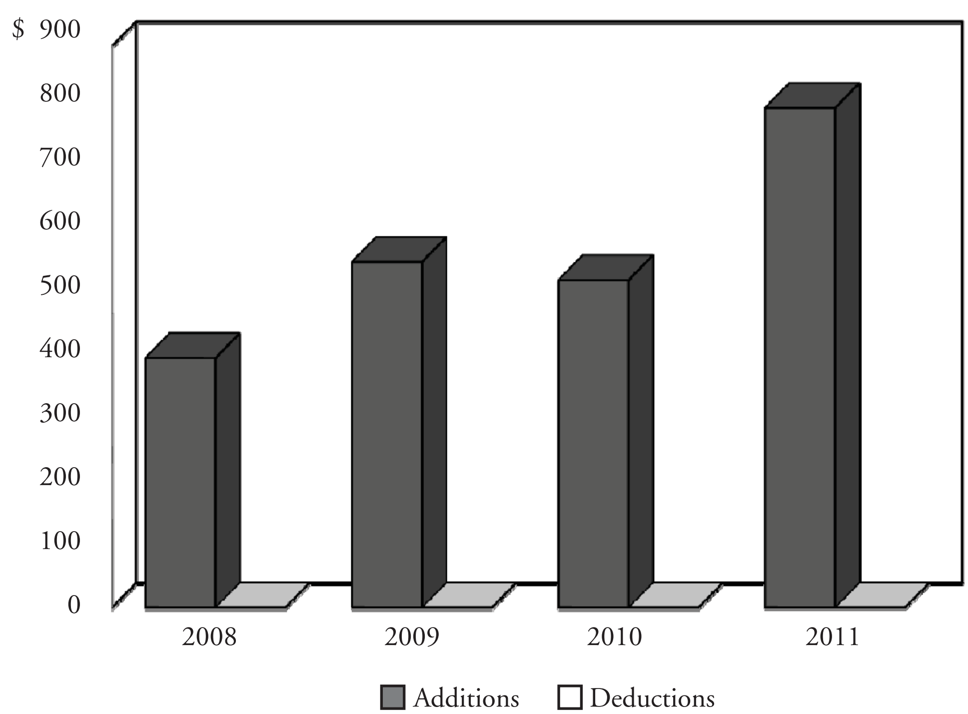
| Teachers' Retirement System<br>Deferred Contribution Retirement Participant Directed<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2007 | $ - | $ 5,543 | $ 36 | $ 5,507 | $ 5,507 |
| 2008 | 5,507 | 8,825 | 278 | 8,547 | 14,054 |
| 2009 | 14,054 | 13,132 | 498 | 12,634 | 26,688 |
| 2010 | 26,688 | 22,359 | 1,053 | 21,306 | 47,994 |
| 2011 | 47,994 | 38,355 | 2,377 | 35,978 | 83,972 |

**5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



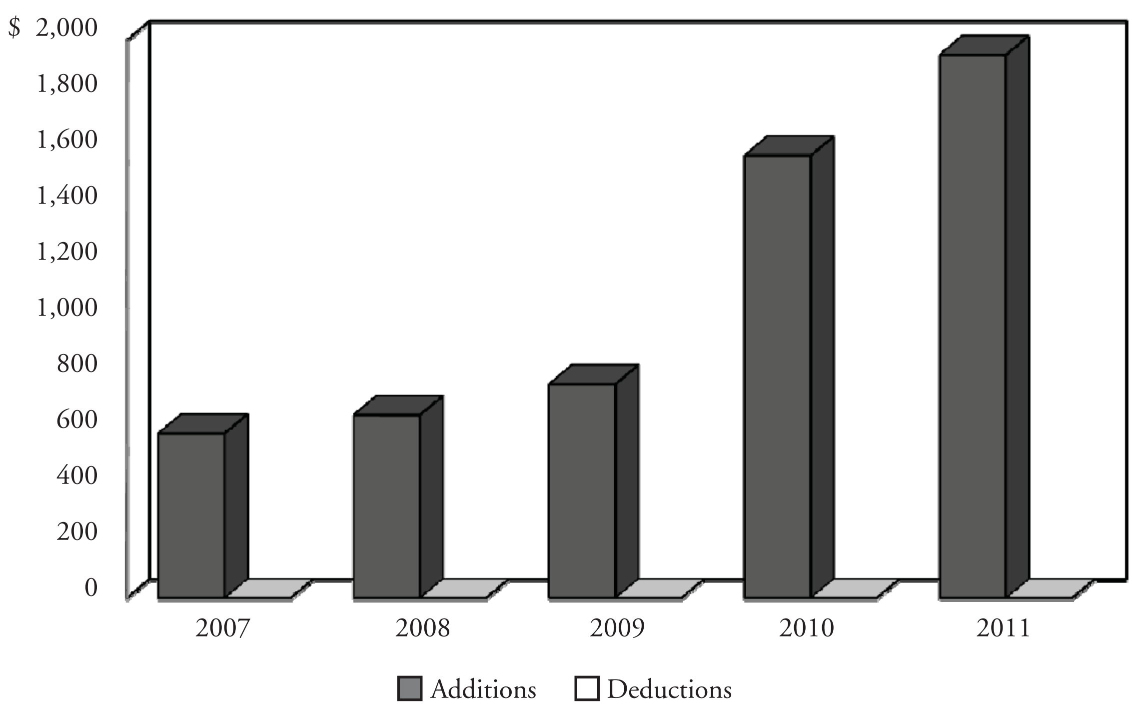
| Teachers' Retirement System<br>Defined Contribution Retirement Occupational Death & Disability<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2008 | $ - | $ 400 | $ - | $ 400 | $ 400 |
| 2009 | 400 | 554 | - | 554 | 954 |
| 2010 | 954 | 525 | - | 525 | 1,479 |
| 2011 | 1,479 | 801 | - | 801 | 2,280 |

**4-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



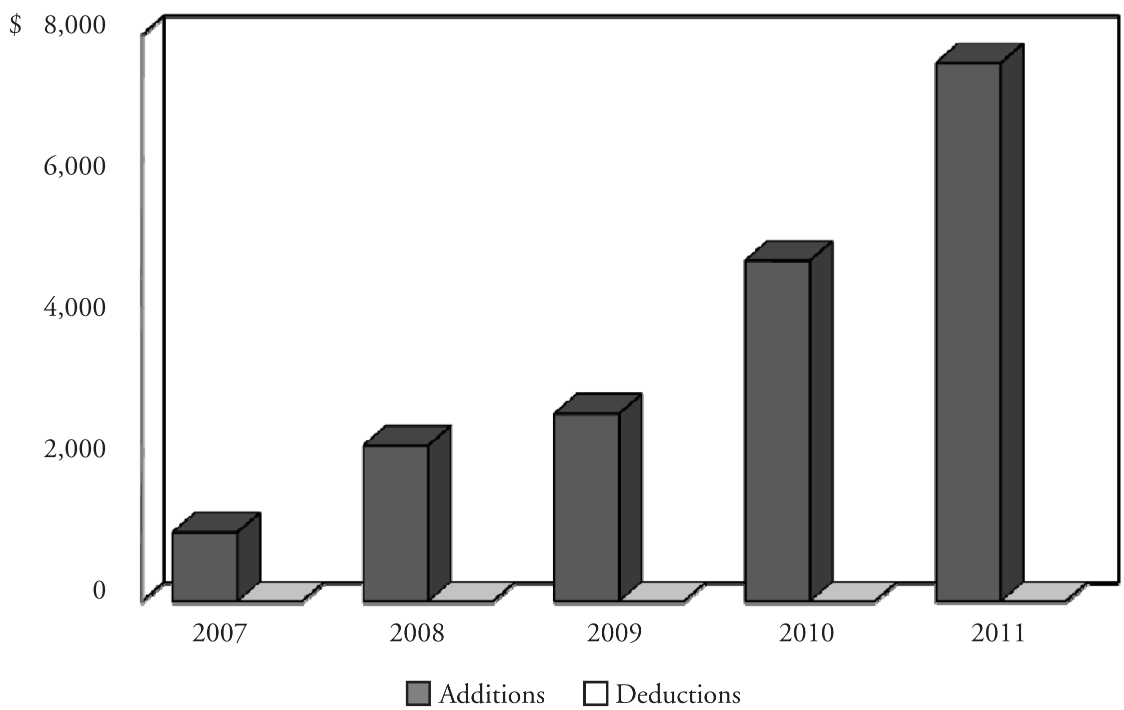
| Teachers' Retirement System<br>Defined Contribution Retirement Retiree Medical Plan<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2007 | $ - | $ 590 | $ - | $ 590 | $ 590 |
| 2008 | 590 | 656 | - | 656 | 1,246 |
| 2009 | 1,246 | 766 | - | 766 | 2,012 |
| 2010 | 2,012 | 1,586 | - | 1,586 | 3,598 |
| 2011 | 3,598 | 1,947 | - | 1,947 | 5,545 |

**5-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS**
**(In thousands)**



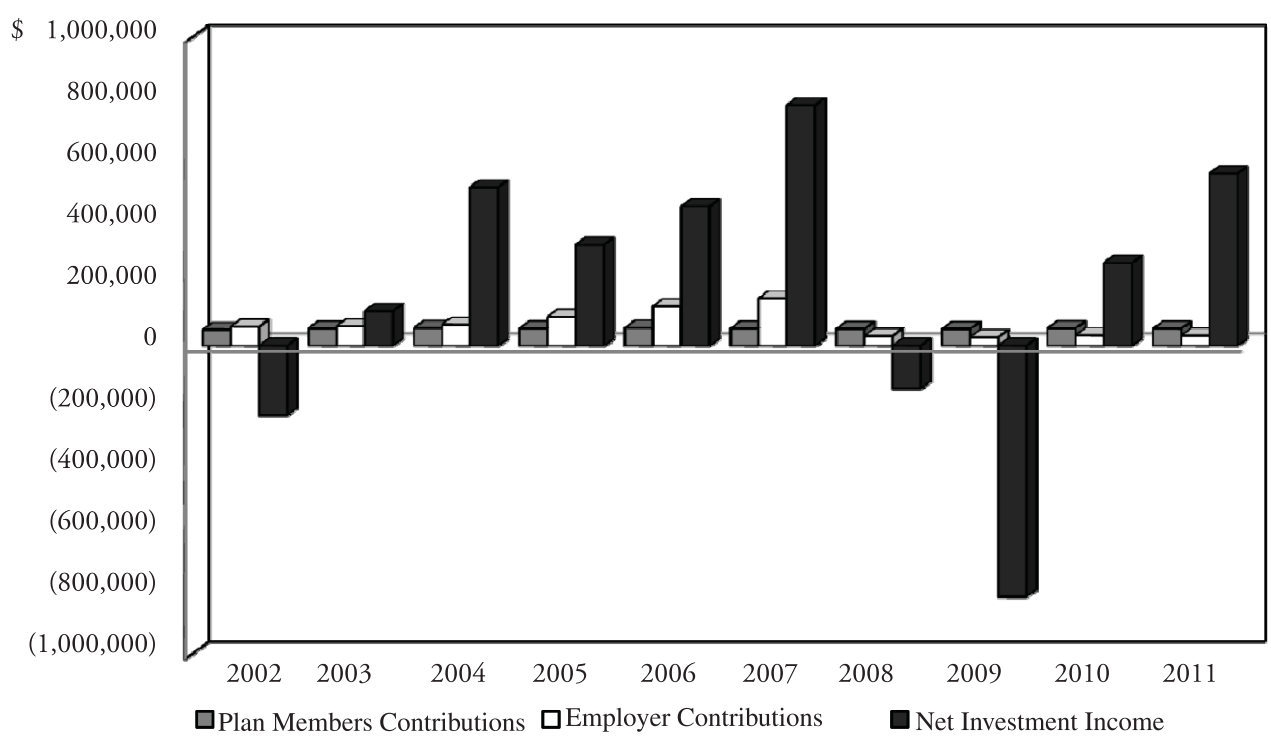
| Teachers' Retirement System<br>Defined Contribution Retirement Health Reimbursement Arrangement<br>Changes in Net Assets<br>(In thousands) | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Net Assets, Beginning of Year | Additions | Deductions | Increase / (Decrease) in Net Assets | Net Assets, End of Year |
| 2007 | $ - | $ 974 | $ - | $ 974 | $ 974 |
| 2008 | 974 | 2,202 | - | 2,202 | 3,176 |
| 2009 | 3,176 | 2,650 | - | 2,650 | 5,826 |
| 2010 | 5,826 | 4,814 | - | 4,814 | 10,640 |
| 2011 | 10,640 | 7,606 | - | 7,606 | 18,246 |

## 10-YEAR COMPARISON OF ADDITIONS AND DEDUCTIONS
## (In thousands)

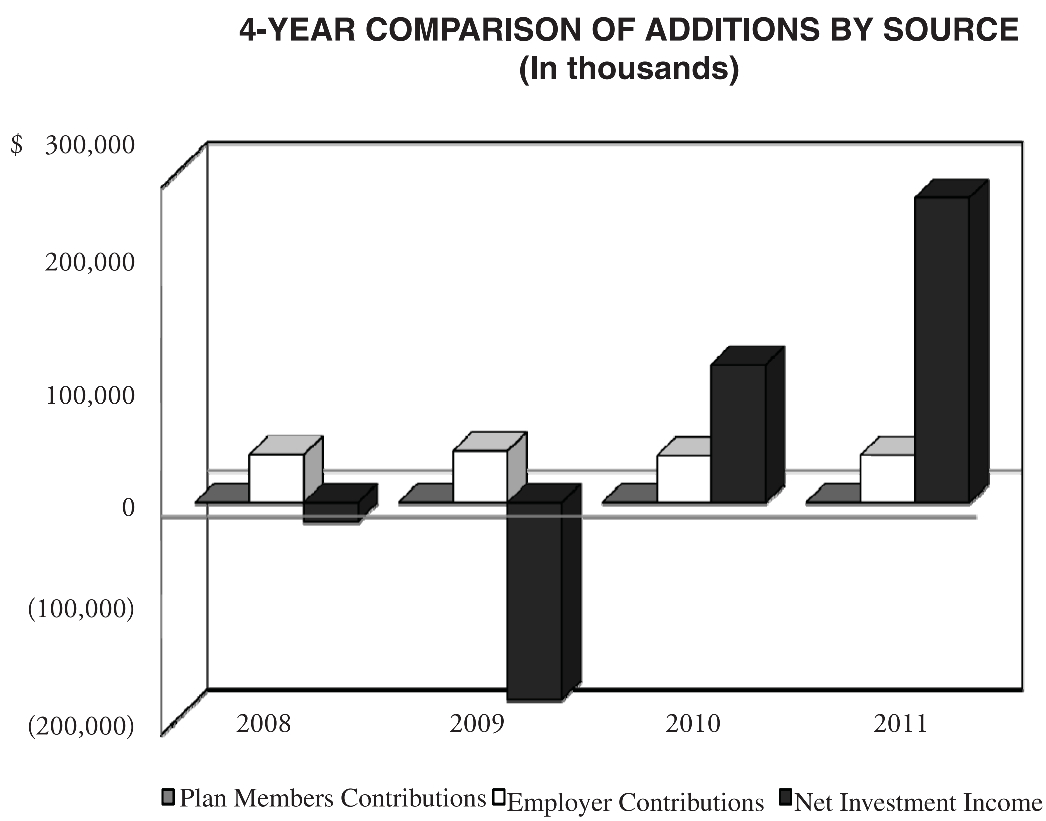


| Teachers' Retirement System<br>Defined Benefit Pension<br>Additions by Source<br>(In thousands) | | | | | | |
|---|---|---|---|---|---|---|
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | State of Alaska | Net Investment Income (Loss) | Other | Total |
| 2002 | $ 51,074 | $ 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 |
| 2006 | 57,802 | 127,967 | - | 451,689 | 15,190 | 652,648 |
| 2007 | 55,689 | 153,618 | - | 780,512 | 21 | 989,840 |
| 2008 | 54,121 | 31,313 | 111,237 | (139,282) | 34 | 57,423 |
| 2009 | 53,544 | 27,110 | 104,423 | (814,138) | 3 | (629,058) |
| 2010 | 56,554 | 33,800 | 100,475 | 268,146 | 9 | 458,984 |
| 2011 | 55,347 | 32,804 | 109,343 | 558,220 | 54 | 755,768 |

## 10-YEAR COMPARISON OF ADDITIONS BY SOURCE
## (In thousands)



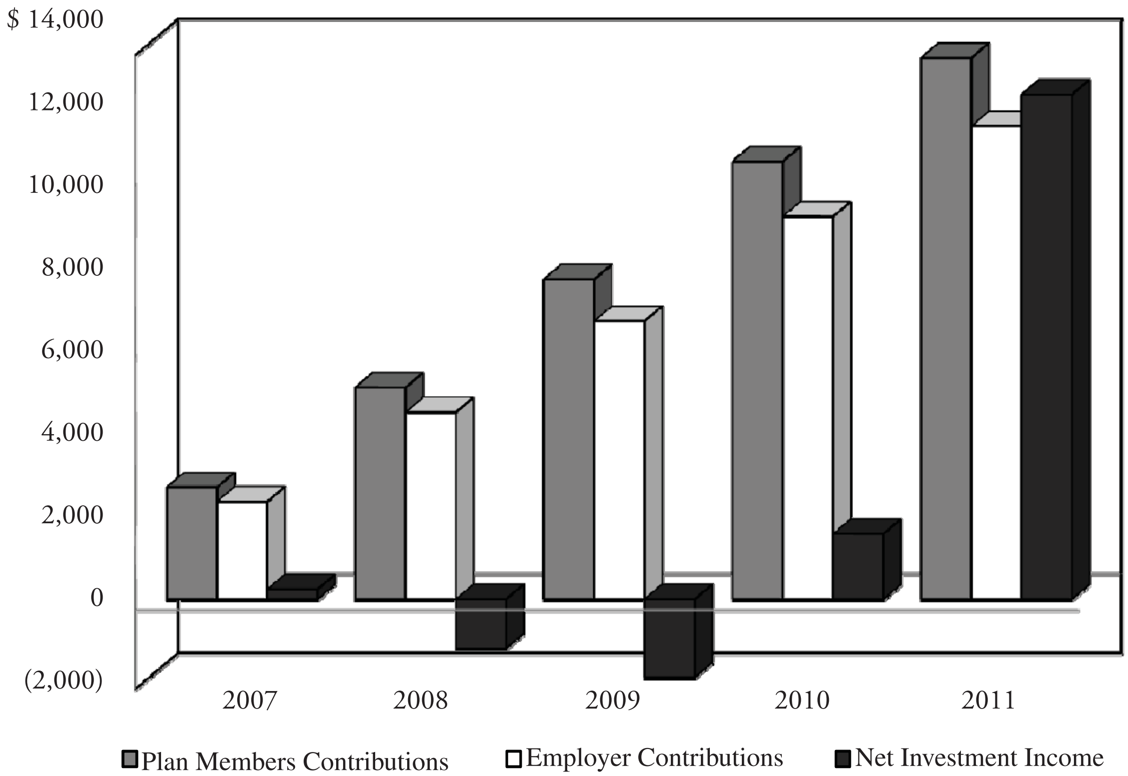
| Teachers' Retirement System<br>Defined Benefit Alaska Retiree Healthcare Trust<br>Additions by Source<br>(In thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | State of Alaska | Net Investment Income (Loss) | Transfer | Other | Total |
| 2008 | $ 111 | $ 43,697 | $ 158,755 | $ (5,318) | $1,086,620 | $ - | $ 1,283,865 |
| 2009 | 116 | 47,174 | 101,877 | (179,919) | - | 3,595 | (27,157) |
| 2010 | 117 | 42,694 | 72,987 | 125,903 | - | 59,035 | 300,736 |
| 2011 | 138 | 43,217 | 81,507 | 278,366 | - | 4,951 | 408,179 |



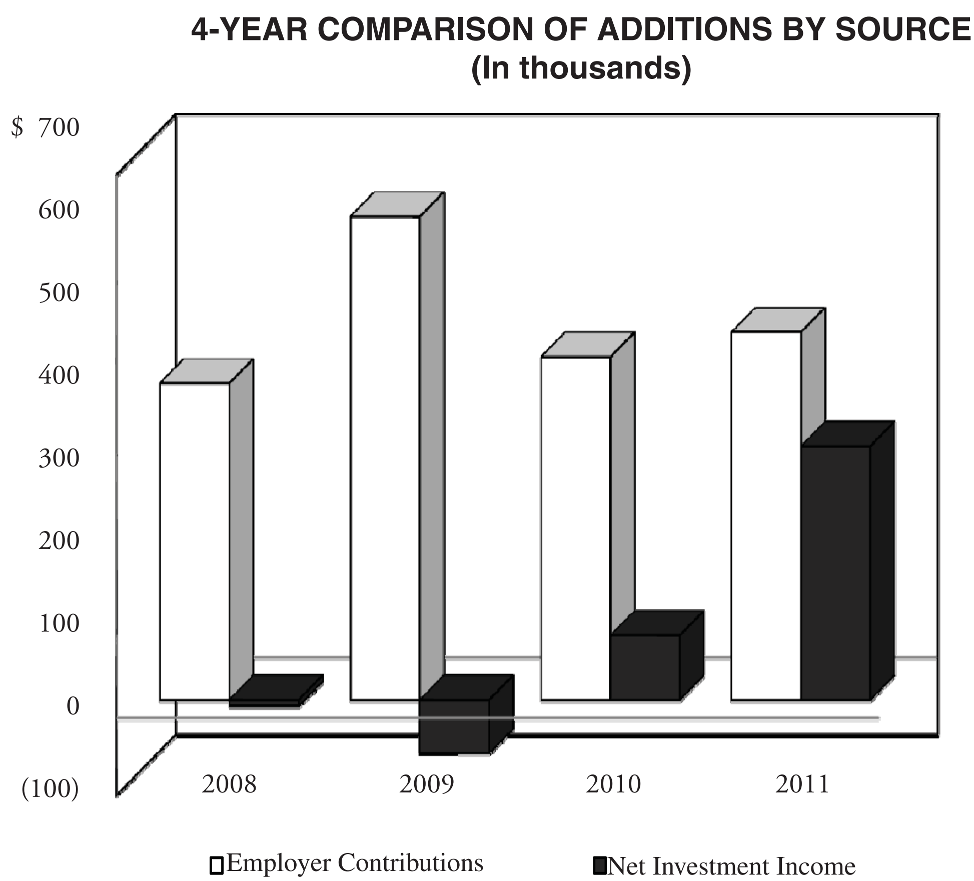
| Year Ended June 30 | Plan Member Contributions | Employer Contributions | Net Investment Income (Loss) | Other | Total |
|---|---|---|---|---|---|
| 2007 | $ 2,827 | $ 2,465 | $ 251 | $ - | $ 5,543 |
| 2008 | 5,347 | 4,717 | (1,239) | - | 8,825 |
| 2009 | 8,077 | 7,023 | (1,968) | - | 13,132 |
| 2010 | 11,051 | 9,658 | 1,650 | - | 22,359 |
| 2011 | 13,665 | 11,943 | 12,742 | 5 | 38,355 |

Teachers' Retirement System
Defined Contribution Retirement Participant Directed
Additions by Source
(In thousands)

**5-YEAR COMPARISON OF ADDITIONS BY SOURCE**
**(In thousands)**

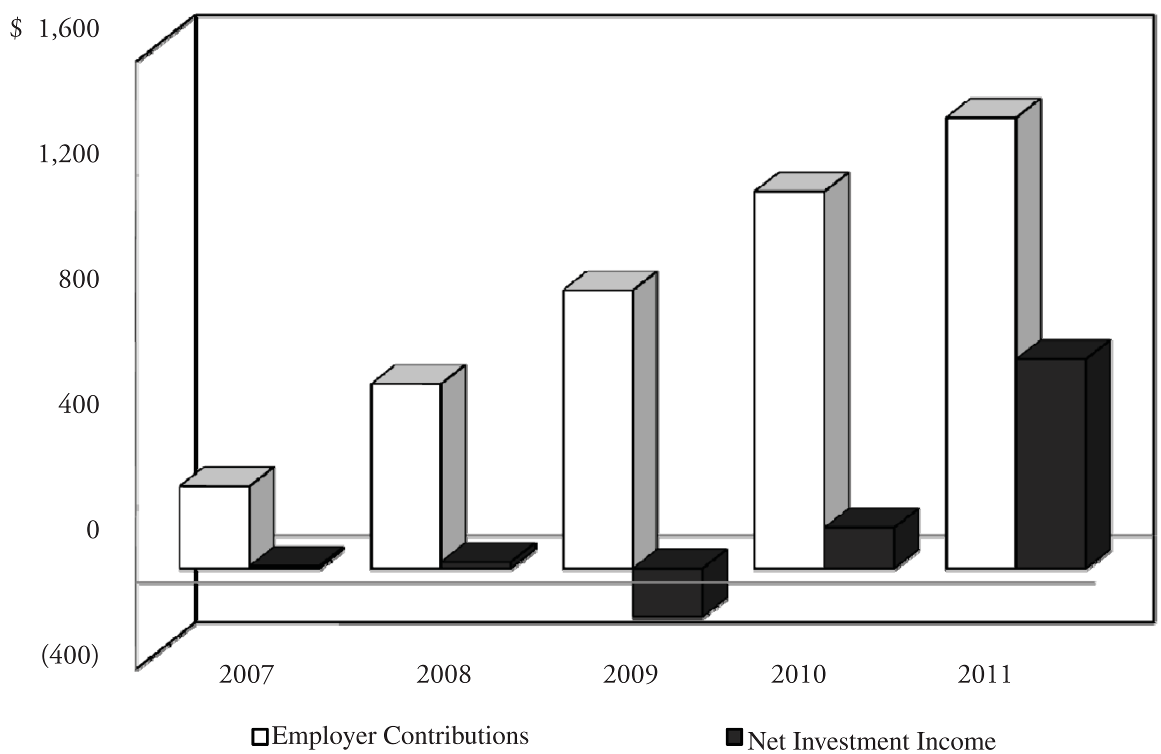


| Teachers' Retirement System<br>Defined Contribution Retirement Occupational Death & Disability<br>Additions by Source<br>(In thousands) | | | |
|---|---|---|---|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2008 | $ 408 | $ (8) | $ 400 |
| 2009 | 623 | (69) | 554 |
| 2010 | 442 | 83 | 525 |
| 2011 | 474 | 327 | 801 |



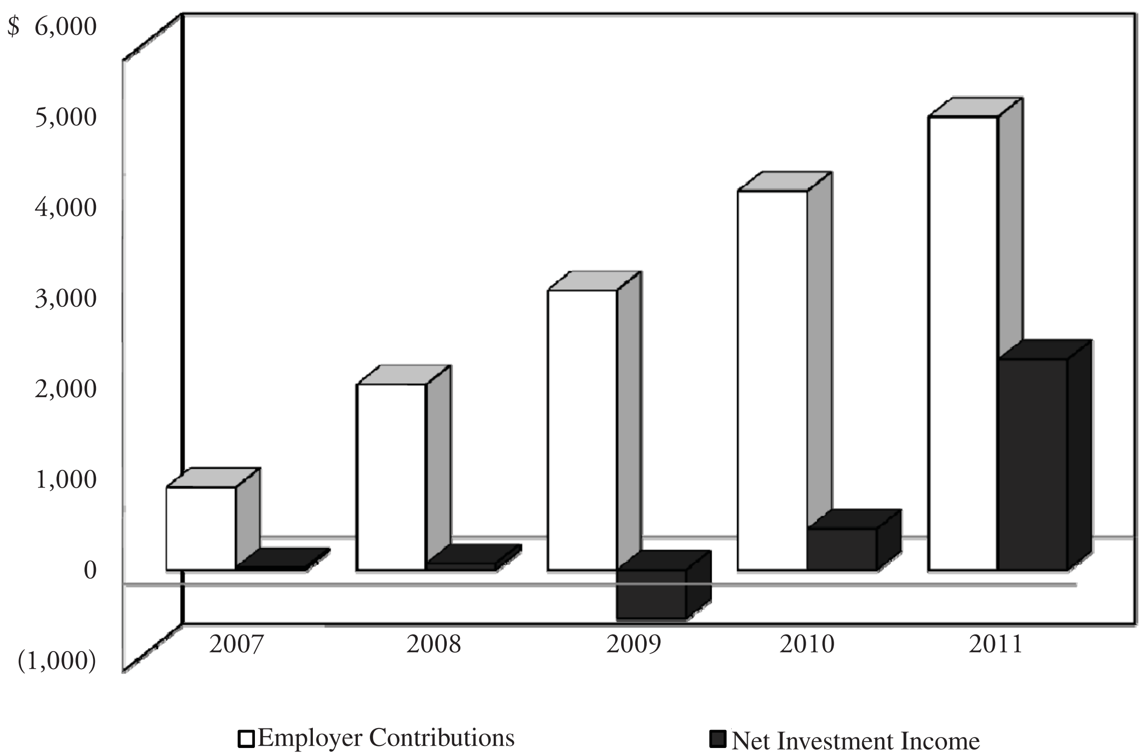
| Teachers' Retirement System<br>Defined Contribution Retirement Retiree Medical Plan<br>Additions by Source<br>(In thousands) | | | |
|---|---|---|---|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2007 | $ 575 | $ 15 | $ 590 |
| 2008 | 651 | 5 | 656 |
| 2009 | 992 | (226) | 766 |
| 2010 | 1,421 | 165 | 1,586 |
| 2011 | 1,154 | 793 | 1,947 |

**5-YEAR COMPARISON OF ADDITIONS BY SOURCE**
**(In thousands)**



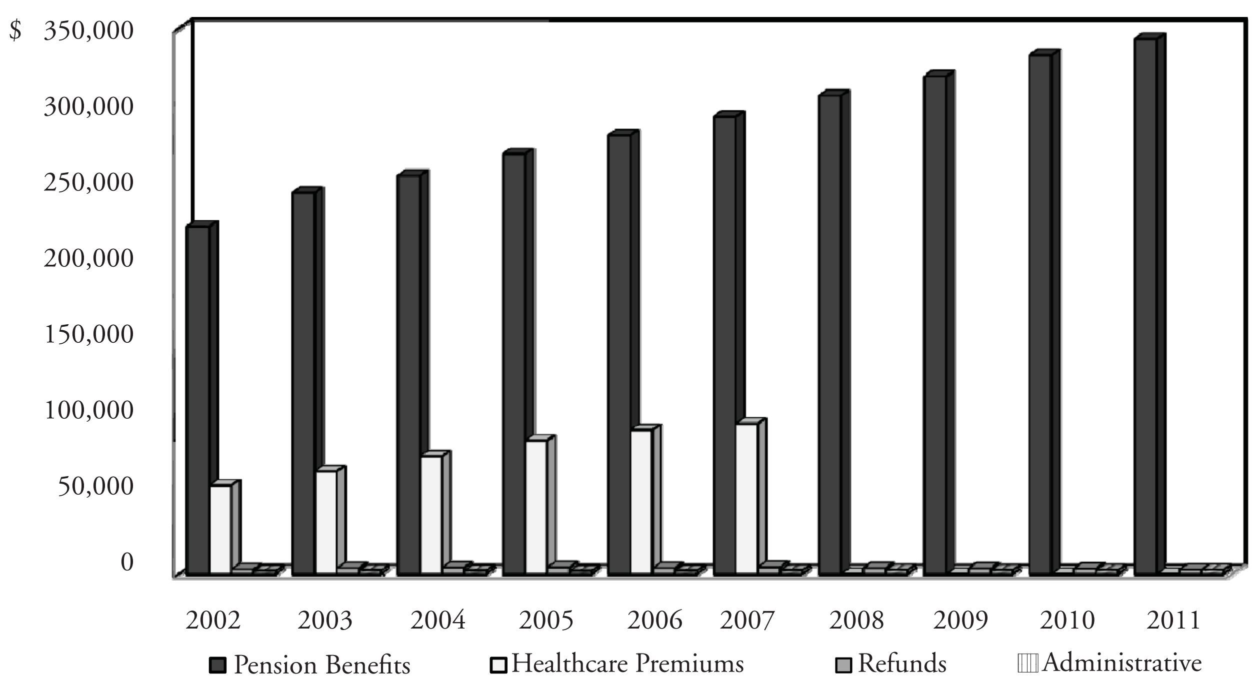
| Teachers' Retirement System<br>Defined Contribution Retirement Health Reimbursement Arrangement<br>Additions by Source<br>(In thousands) | | | |
|---|---|---|---|
| Plan Ended June 30 | Employer Contributions | Net Investment Income (Loss) | Total |
| 2007 | $ 947 | $ 27 | $ 974 |
| 2008 | 2,127 | 75 | 2,202 |
| 2009 | 3,206 | (556) | 2,650 |
| 2010 | 4,344 | 470 | 4,814 |
| 2011 | 5,195 | 2,411 | 7,606 |

**5-YEAR COMPARISON OF ADDITIONS BY SOURCE**
**(In thousands)**



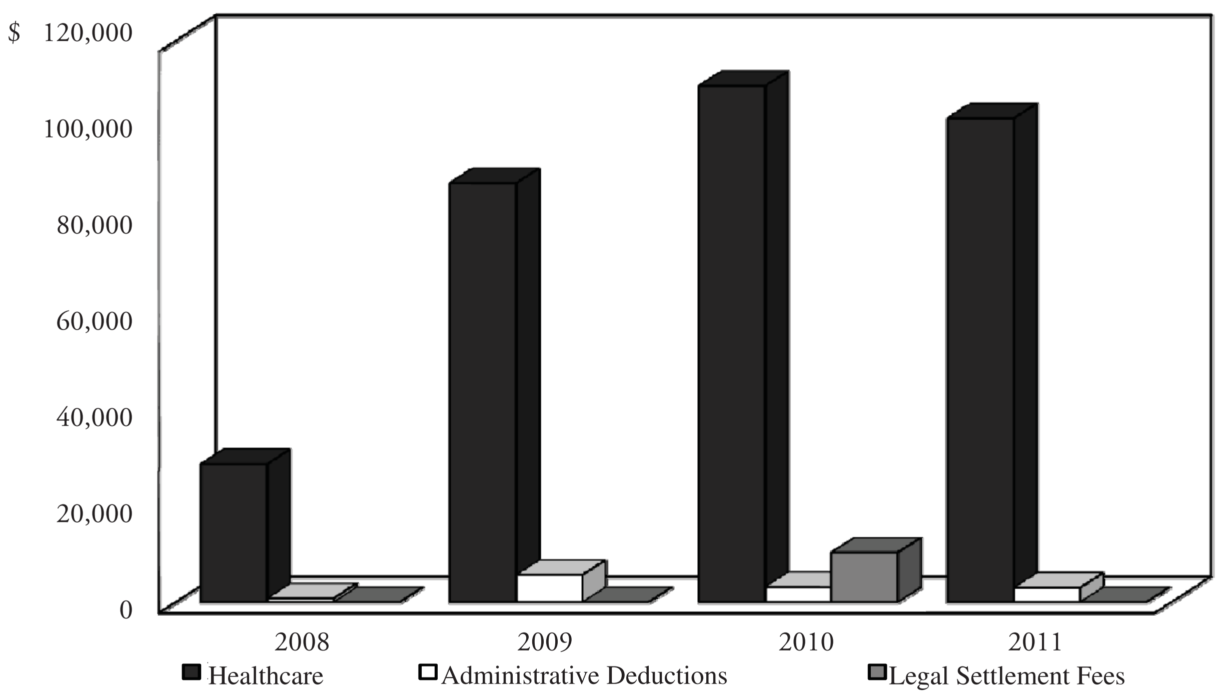
| Teachers' Retirement System<br>Defined Benefit Pension<br>Deductions by Type<br>(In thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year Ended June 30 | Pension Benefits | Healthcare | Refunds of Contributions | Administrative Deductions | Legal Fee Settlement | Transfer | Total |
| 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 |
| 2006 | 281,205 | 92,462 | 3,832 | 2,173 | - | - | 379,672 |
| 2007 | 293,224 | 96,544 | 4,535 | 2,394 | - | - | 396,697 |
| 2008 | 306,689 | - | 3,761 | 2,669 | - | 1,086,620 | 1,399,739 |
| 2009 | 319,148 | - | 3,622 | 2,537 | - | - | 325,307 |
| 2010 | 332,690 | - | 3,472 | 2,698 | - | - | 338,860 |
| 2011 | 343,191 | - | 2,798 | 2,806 | - | - | 348,795 |

**10-YEAR COMPARISON OF DEDUCTIONS BY TYPE**
**(In thousands)**

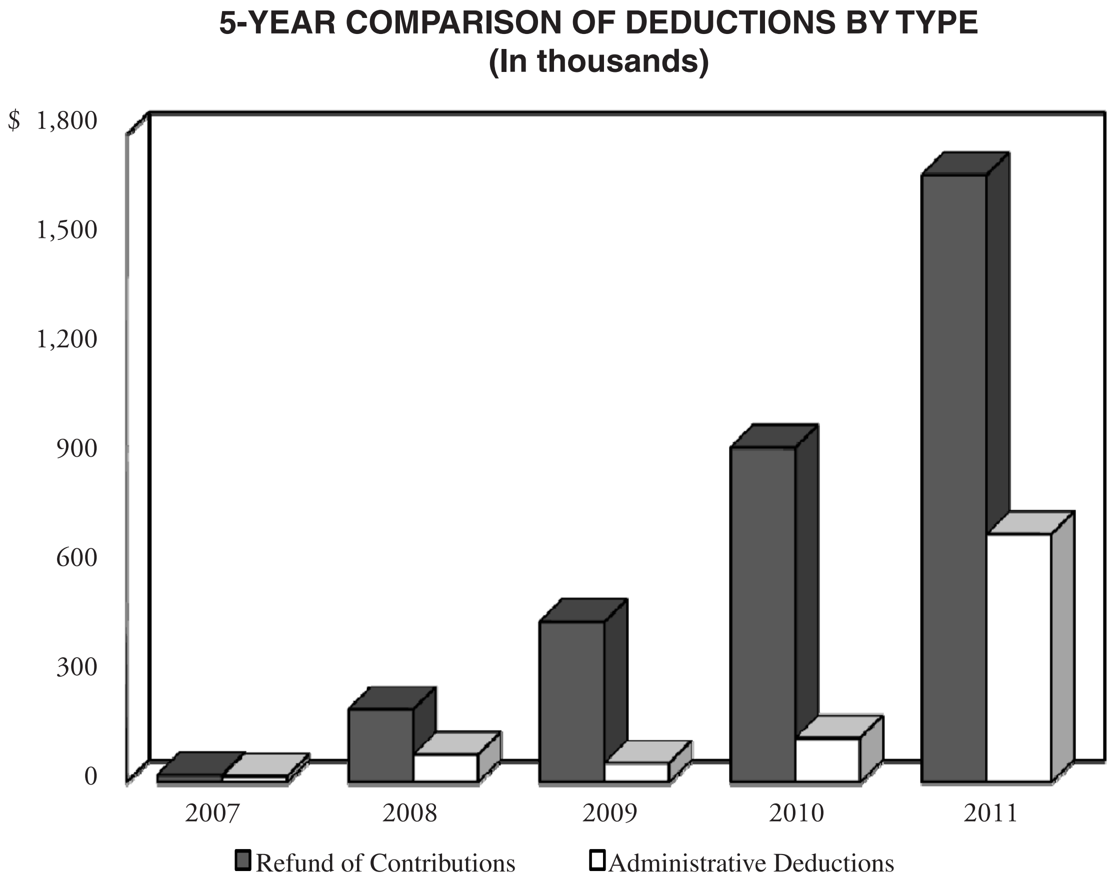


| Teachers' Retirement System<br>Defined Benefit Alaska Retiree Healthcare Trust<br>Deductions by Type<br>(In thousands) | | | | |
|---|---|---|---|---|
| Plan Ended June 30 | Healthcare | Administrative Deductions | Legal Settlement Fees | Total |
| 2008 | $ 29,494 | $ 798 | $ - | $ 30,292 |
| 2009 | 89,571 | 5,812 | - | 95,383 |
| 2010 | 110,313 | 3,228 | 10,592 | 124,133 |
| 2011 | 103,405 | 3,080 | - | 106,485 |

## 4-YEAR COMPARISON OF DEDUCTIONS BY TYPE
## (In thousands)



| Teachers' Retirement System<br>Defined Contribution Retirement Participant Directed<br>Deductions by Type<br>(In thousands) | | | |
|---|---|---|---|
| Plan Ended June 30 | Refund of Contributions | Administrative Deductions | Total |
| 2007 | $ 20 | $ 16 | $ 36 |
| 2008 | 202 | 76 | 278 |
| 2009 | 445 | 53 | 498 |
| 2010 | 930 | 123 | 1,053 |
| 2011 | 1,688 | 689 | 2,377 |



**Teachers' Retirement System**
**Schedule of Average Pension Benefit Payments**
**New Benefit Recipients**

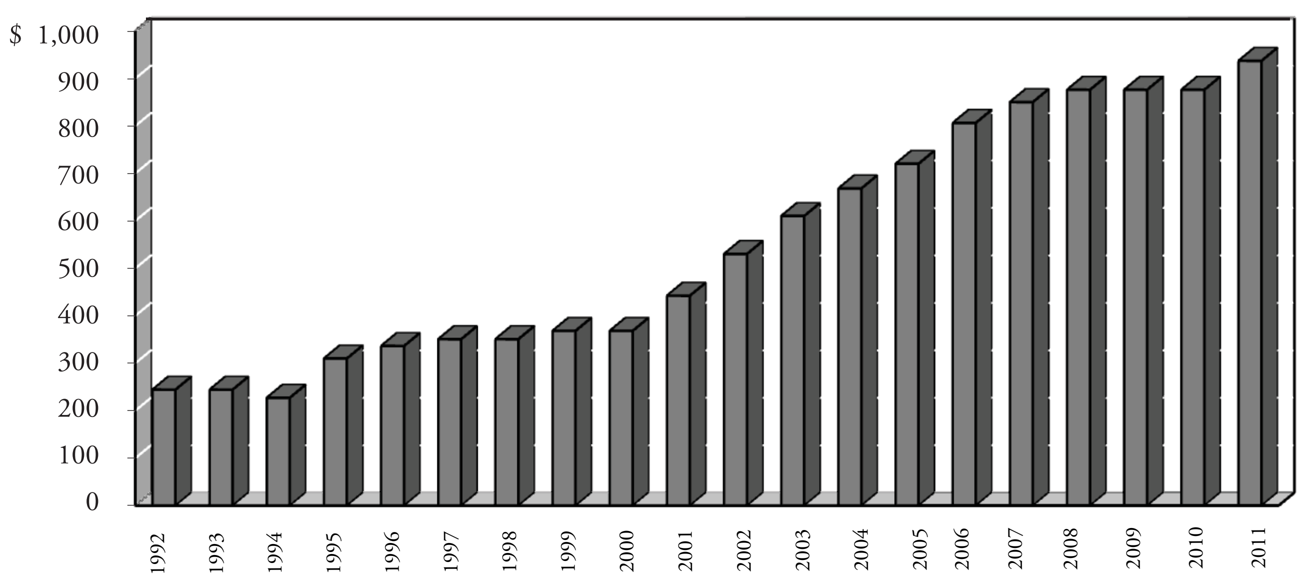
| | Years of Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | **0 - 4** | **5 - 9** | **10 - 14** | **15 - 19** | **20 - 24** | **25 - 29** | **30+** |
| Period 7/1/03 - 6/30/04: | | | | | | | |
| Average Monthly Benefit | $ 251 | $ 896 | $1,243 | $2,044 | $2,782 | $3,640 | $4,860 |
| Number of Recipients | 21 | 51 | 75 | 85 | 178 | 64 | 17 |
| Period 7/1/04 - 6/30/05(1): | | | | | | | |
| Average Monthly Benefit | $1,287 | $1,106 | $1,575 | $2,255 | $2,932 | $3,534 | $4,018 |
| Number of Recipients | 119 | 24 | 33 | 69 | 105 | 31 | 16 |
| Period 7/1/05 - 6/30/06(1): | | | | | | | |
| Average Monthly Benefit | $1,078 | $ 960 | $1,110 | $1,982 | $2,695 | $3,388 | $4,563 |
| Number of Recipients | 9 | 50 | 63 | 90 | 124 | 68 | 26 |
| Period 7/1/06 - 6/30/07(1): | | | | | | | |
| Average Monthly Benefit | $ 214 | $ 798 | $1,249 | $2,250 | $2,909 | $3,709 | $5,109 |
| Number of Recipients | 9 | 41 | 54 | 69 | 102 | 68 | 28 |
| Period 7/1/07 - 6/30/08(1): | | | | | | | |
| Average Monthly Benefit | $ 209 | $ 945 | $1,248 | $2,226 | $2,966 | $3,832 | $5,057 |
| Number of Recipients | 13 | 44 | 62 | 92 | 95 | 87 | 33 |
| Period 7/1/08 - 6/30/09(1): | | | | | | | |
| Average Monthly Benefit | $ 230 | $ 950 | $1,168 | $2,239 | $2,957 | $3,897 | $4,860 |
| Number of Recipients | 13 | 35 | 64 | 52 | 67 | 54 | 18 |
| Period 7/1/09 - 6/30/10(1): | | | | | | | |
| Average Monthly Benefit | $ 482 | $1,020 | $1,343 | $2,263 | $2,992 | $4,120 | $6,263 |
| Number of Recipients | 14 | 50 | 63 | 85 | 109 | 79 | 49 |

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

(1) Does not include beneficiaries

| Teachers' Retirement System<br>Schedule of Pension and Healthcare Benefits Deductions by Type<br>(In thousands) | | | | | | |
|---|---|---|---|---|---|---|
| Year Ended June 30 | Service | Disability | Survivor | Dependent | Healthcare | Total |
| 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 |
| 2006 | 270,504 | 2,342 | 8,353 | 6 | 92,462 | 373,667 |
| 2007 | 281,879 | 2,193 | 9,146 | 6 | 96,544 | 389,768 |
| 2008 | 294,807 | 1,889 | 9,974 | 18 | 99,583 | 406,271 |
| 2009 | 306,748 | 1,692 | 10,688 | 20 | 103,093 | 422,241 |
| 2010 | 319,109 | 1,757 | 11,787 | 37 | 117,556 | 450,246 |
| 2011 | 329,308 | 1,337 | 12,499 | 47 | 133,152 | 476,343 |

**20-YEAR COMPARISON OF RETIREE MONTHLY HEALTHCARE PREMIUMS**
**(In thousands)**



## Teachers' Retirement System
## Schedule of Pension Benefit Recipients by Type
## Valuation as of June 30, 2010

| Amount of Monthly Pension Benefit | Number of Recipients | Type of Pension Benefit: Service | Survivor/QDRO | Disability |
|---|---|---|---|---|
| $ 1 - 300 | 188 | 142 | 46 | 0 |
| 301 - 600 | 345 | 260 | 85 | 0 |
| 601 - 900 | 615 | 497 | 118 | 0 |
| 901 - 1,200 | 665 | 551 | 114 | 0 |
| 1,201 - 1,500 | 611 | 482 | 129 | 0 |
| 1,501 - 1,800 | 606 | 498 | 106 | 2 |
| 1,801 - 2,100 | 662 | 565 | 96 | 1 |
| 2,101 - 2,400 | 855 | 793 | 55 | 7 |
| 2,401 - 2,700 | 977 | 931 | 38 | 8 |
| 2,701 - 3,000 | 951 | 915 | 25 | 11 |
| 3,001 - 3,300 | 856 | 840 | 13 | 3 |
| 3,301 - 3,600 | 752 | 734 | 12 | 6 |
| 3,601 - 3,900 | 623 | 618 | 2 | 3 |
| 3,901 - 4,200 | 499 | 491 | 6 | 2 |
| over 4,200 | 1,393 | 1,390 | 2 | 1 |
| Totals | 10,598 | 9,707 | 847 | 44 |

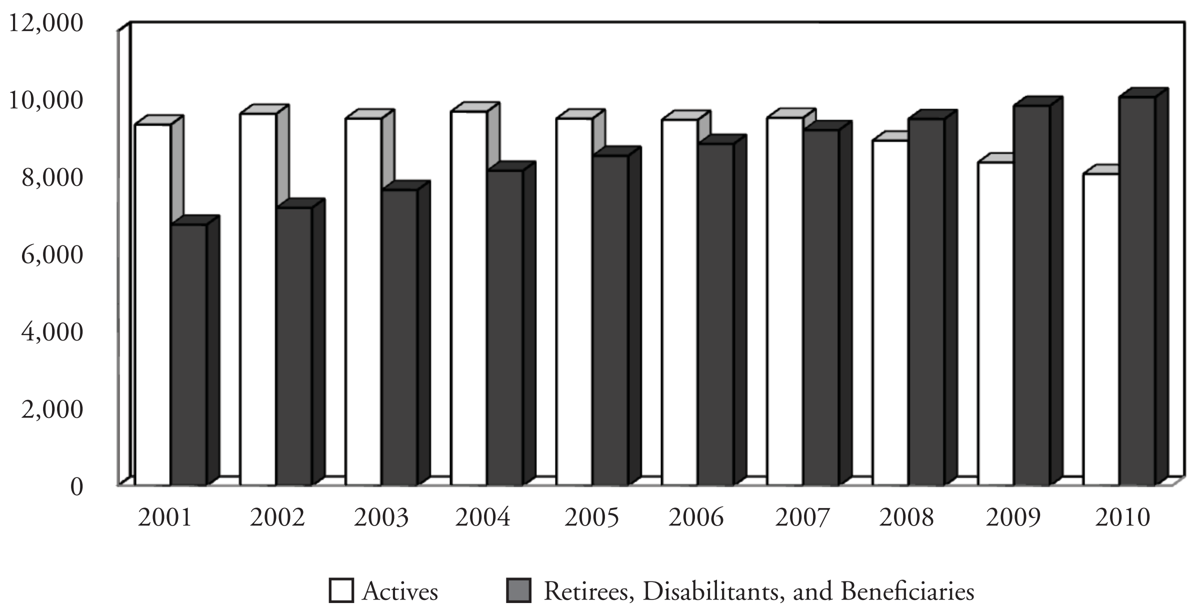
## Schedule of Pension Benefit Recipients by Option Selected
## Valuation as of June 30, 2010

| Amount of Monthly Benefit | Number of Recipients | Option Selected: 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| $ 1 - 300 | 188 | 110 | 38 | 31 | 9 |
| 301 - 600 | 345 | 185 | 74 | 69 | 17 |
| 601 - 900 | 615 | 324 | 133 | 128 | 30 |
| 901 - 1,200 | 665 | 374 | 143 | 118 | 30 |
| 1,201 - 1,500 | 611 | 333 | 133 | 123 | 22 |
| 1,501 - 1,800 | 606 | 344 | 126 | 120 | 16 |
| 1,801 - 2,100 | 662 | 338 | 143 | 158 | 23 |
| 2,101 - 2,400 | 855 | 430 | 191 | 201 | 33 |
| 2,401 - 2,700 | 977 | 473 | 218 | 261 | 25 |
| 2,701 - 3,000 | 951 | 483 | 189 | 257 | 22 |
| 3,001 - 3,300 | 856 | 425 | 149 | 260 | 22 |
| 3,301 - 3,600 | 752 | 405 | 123 | 206 | 18 |
| 3,601 - 3,900 | 623 | 344 | 94 | 172 | 13 |
| 3,901 - 4,200 | 499 | 258 | 66 | 169 | 6 |
| over 4,200 | 1,393 | 708 | 189 | 458 | 38 |
| Totals | 10,598 | 5,534 | 2,009 | 2,731 | 324 |

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

| Teachers' Retirement System<br>System Membership by Status | | | | | |
|---|---|---|---|---|---|
| Year Ended June 30 | Active | Retirees, Disabilitants & Beneficiaries | Vested Terminations | Nonvested Terminations w/Balance | Total |
| 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 | 9,656 | 9,020 | 826 | 2,874 | 22,376 |
| 2006 | 9,710 | 9,386 | 795 | 3,085 | 22,976 |
| 2007 | 9,107 | 9,678 | 846 | 3,044 | 22,675 |
| 2008 | 8,531 | 10,026 | 873 | 2,971 | 22,401 |
| 2009 | 8,226 | 10,255 | 884 | 2,830 | 22,195 |
| 2010 | 7,832 | 10,598 | 840 | 2,789 | 22,059 |

**10-YEAR COMPARISON OF ACTIVE MEMBERS, RETIREES, DISABILITANTS AND BENEFICIARIES**



**Teachers' Retirement System**
**Principal Participating Employers**
**June 30, 2011**

| Employer | Non-retired Members | Rank | Percentage of Total Non-retired Members |
|---|---|---|---|
| Anchorage School District | 4,858 | 1 | 32.81% |
| Matanuska-Susitna Borough School District | 1,303 | 2 | 8.80 |
| Fairbanks North Star Borough School District | 1,420 | 3 | 9.59 |
| **Total** | **7,581** | | **51.20%** |

## Teachers' Retirement System
## Participating Employers
## at June 30, 2011

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