

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

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# 1992 Annual Financial Review

## Creation and Purpose

The Public Employees' Retirement System Trust Fund (Fund) is established by Alaska Statute 39.35.010. The Fund holds the assets of the Public Employees' Retirement System (PERS). These assets are comprised of investments of various kinds, predominantly stocks and bonds. The Fund was created to pay retirement benefits to employees participating in the retirement plan administered under the PERS. The retirement plan is a defined-benefit plan in which benefit levels for each employee are determined by length of employment and highest average salary. The plan is a joint-contributory plan in which both the employee and the employer make continuing contributions, calculated as a percentage of current salary. Employee contribution percentages are fixed by statute. Employer contributions are determined annually by the PERS board based on evaluations of the Fund by a consulting actuary. The plan is considered to be perpetual because it applies to future as well as current employees and because the employers (State and municipal governments or political subdivisions) are perpetual in nature.

Participating employers are bound by the Alaska Constitution to pay the plan's benefits. Although benefits could be paid on a pay-as-you-go basis, the existence of a Fund serves two purposes. For the employer, it distributes contributions over an employee's years of service. For the employee, it provides a form of assurance that employers will meet their obligations.

## Fiscal 1992 Annual Financial Results

### Market Environment

After the United States' success in the Gulf War, fiscal year 1992 started out with signs of a strong economic recovery. However, as the year progressed, certain economic conditions continued to hinder the strength of this upturn. Money supply continued to increase at a slow rate of 2% a year, the housing sector was only able to post a modest recovery and the reluctance of financial institutions to extend credit continued to impede economic growth.

The recovery had clearly stalled by December 1991. In a desperate move, the Federal Reserve Bank cut the discount rate a full percentage point during that month in order to prevent the economy from sliding back into a recession. Prompt actions by the Federal Reserve Bank improved market psychology. As a result, consumer spending increased by a 4.9% annual rate during the third quarter of fiscal year 1992. In turn, Gross Domestic Product grew at a 2.7% annual rate during the same quarter.

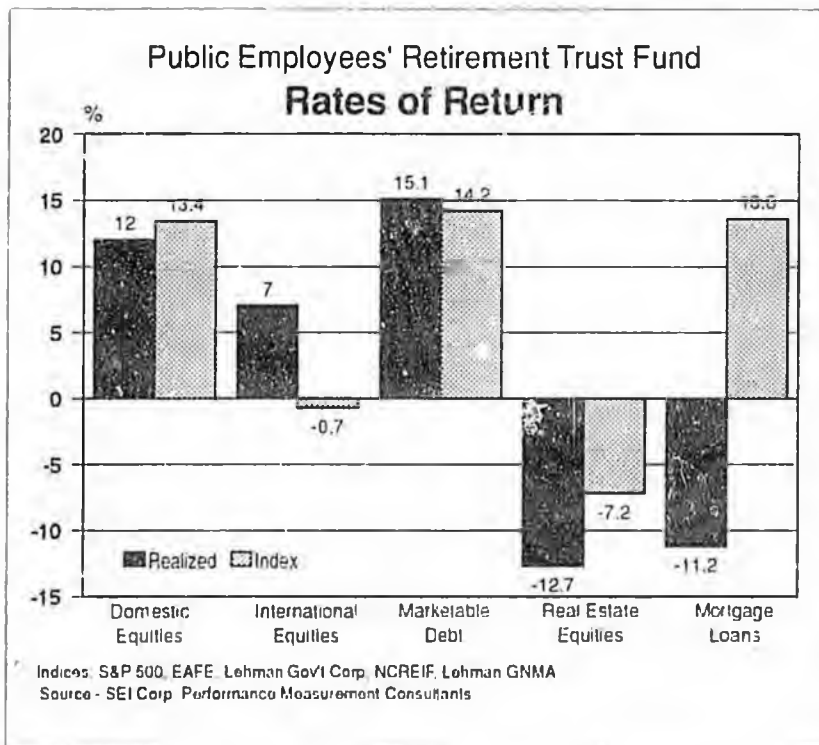
During the fourth quarter, however, economic signs again pointed toward a lackluster recovery. The strength in consumer spending that was seen in January and February faded as consumers turned cautious. Industrial production only improved slightly and employment reports continued to signify a bleak employment situation. This prompted the Federal Reserve Bank to lower the discount rate from 5.5% to 3.5%.

An accommodating monetary policy such as this typically results in a vigorous economic recovery, along with strong growth in money and credit. However, even with the economic throttle wide open, the economy was slow to accelerate. This may be due to the significant increase in the assets outside the banking system and structural problems such as the large Federal deficit.

The weak economy and an accommodating Federal Reserve Bank enabled marketable debt investments to provide returns higher than those achieved by equities. In FY 1992, the Lehman Brothers Government/Corporate Index posted a 14.20% return. A low interest rate environment, coupled with an anticipated strong economic recovery, resulted in a lower, but still strong, performance from the equity market. The Standard & Poor's 500 Index posted a 13.4% return for the fiscal year.

### Total Fund Returns

The Fund earned \$272.9 million in realized net income in FY 1992 versus \$202.9 million in FY 1991. Realized net income is cash actually received by the Fund, such as dividends paid on stocks, interest paid on bonds, fees and other income earned on equity real estate and realized capital gains. Realized capital gains were \$96.7 million in FY 1992 and \$22.3 million in FY 1991.



Total return measures realized net income plus the net change in unrealized gains and losses. On a total return basis, the Fund earned \$356.5 million in FY 1992 as compared to \$203.1 million in FY 1991. This amount includes both the realized income of \$272.9 million and a \$83.6 million net increase in unrealized gains.

The rate of return for the Fund for FY 1992 was 11.6%. Of the Fund's major asset classes, marketable debt securities contributed the highest economic rate of return, followed by domestic equities and then international equities. Mortgage loans and real estate

equities had negative returns for the fiscal year. The five year rate of return (annualized, time-weighted, rolling average) as of June 30, 1992 was 8.9%. This compares favorably to the actuarial assumption of a long-term rate of return of 8.75% for future periods.

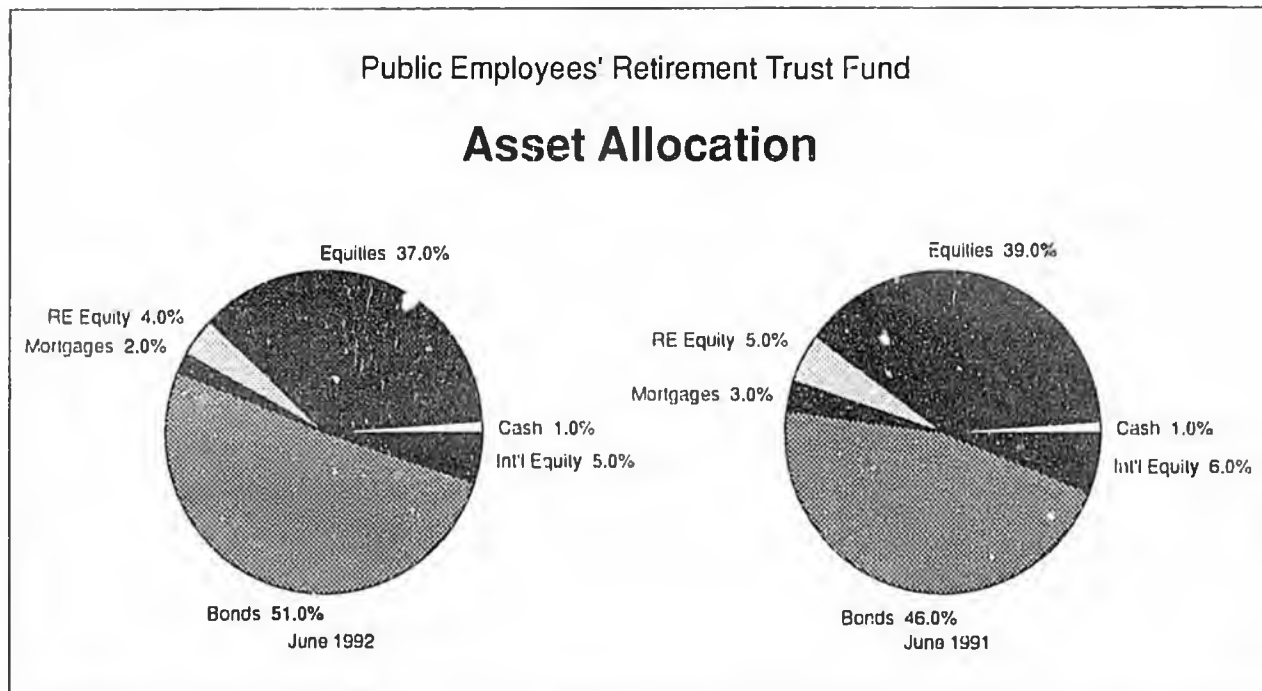
## Asset Allocation

### Marketable Debt Securities

Marketable debt securities, consisting of high quality investment grade securities, accounted for 51% of the total Fund assets at fiscal year-end. This allocation was comprised of 50% Federal Government and Agency securities and 50% high grade corporate bonds. Over 98% of the Fund's debt securities have an "A" rating or better. The weighted average life of the debt portfolio at fiscal year-end was just under 10 years. Investment management emphasized the 6 - 10 year maturity range because securities in this range tended to provide higher rates of return while protecting against the price volatility typical of longer maturities. At the end of FY 1992, the Fund had 44% of its debt securities in this maturity sector.

During the fiscal year, the yield of the 30 year U.S. Treasury bond declined from 8.41% to 7.78%. In a period of declining interest rates, a strategy of investing in longer maturities has a positive effect on investment results. For this reason, investment management structured a portfolio of debt securities with an average maturity which is moderately longer than many corporate or state portfolios. The portfolio earned a total return of 15.1% in FY 1992 which is .90% above the benchmark index return of 14.2%.

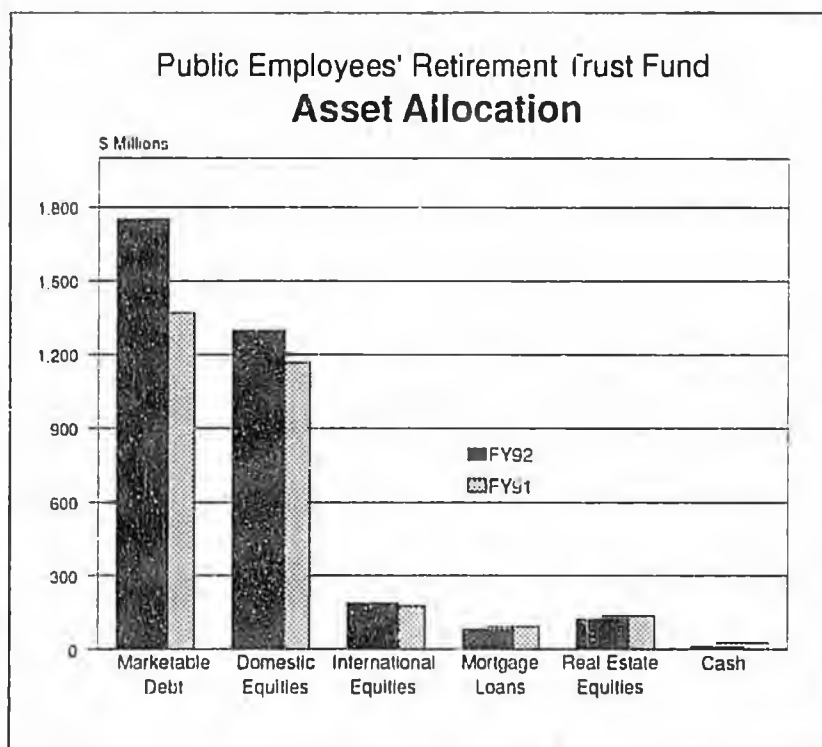
Interest earned on debt securities in fiscal year 1992 totaled \$131 million. The fiscal year ended with realized gains of \$28.4 million and unrealized gains of \$63 million. Investment management was a net buyer of \$260 million of debt securities during the fiscal year.



## Domestic Equities

The calendar year closed seeing the Dow Jones Industrial Average (3,168) and the S & P 500 Index (417) rallying to all time highs from the six month low on December 10, 1991 (2,863). This 305 point rally over a three month period illustrates the need to be fully invested at all times. Uncertainty about the economic environment during the last six months of the fiscal year produced mixed results for the domestic equity market. For the fiscal year, the Dow Jones Industrial Average had a positive return of 17.7% and the broader based S & P 500 Index returned 13.4%.

The structure of the Fund's domestic equities changed in December with the dismissal of United Capital Management as an equity manager. The funds were transferred to Invesco Capital Management. The indexed portion of the domestic equities was also restructured from an S & P 100 emphasis to an S & P 500 weighting. During FY 1992, the domestic equity portion of the Fund increased by \$131 million to \$1.3 billion. This asset class represented 37.5% of the total Fund and provided a return of 12% for the fiscal year compared to the S & P 500 index return of 13.4%. Investment management believes that the changes outlined above, along with anticipated changes in FY 1993, will improve the Fund's domestic equity performance.



## International Equities

Despite the 21% drop in the Japanese stock market during the fiscal year, the Fund's international equity allocation had a rate of return of 7.0%. The overall EAFE index ended the fiscal year with a return of -.7%. The Fund's favorable performance was due to the managers' under-weighting of the Japanese market.

For the fiscal year, international equities increased \$10.8 million to a total of \$187.6 million, representing 5.4% of the total portfolio.

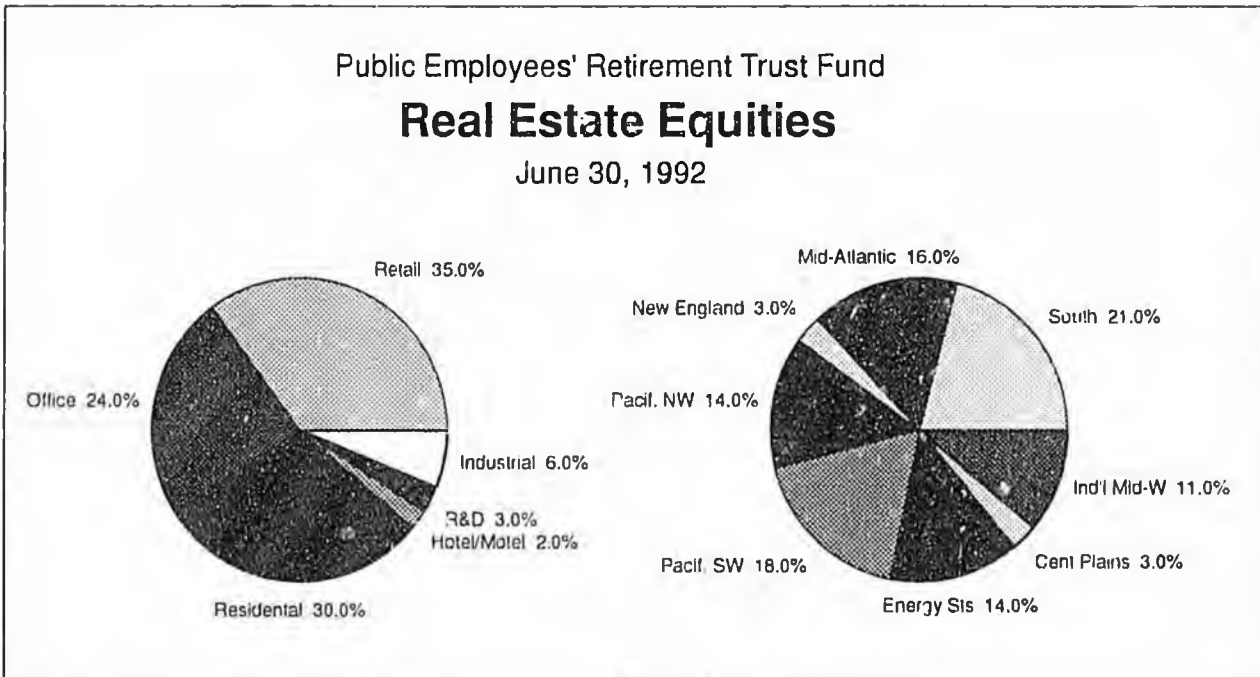
## Real Estate Equities

The real estate equity allocation is a holding of commingled funds consisting of diversified properties. The market value of real estate equities decreased during the fiscal year by \$16.5 million to total \$118 million, providing a return of -12.7% compared to the NCREIF index return of -7.2%. The real estate equity allocation comprised 3.6% of the Fund as of fiscal year-end.

These institutional-grade funds are managed by seven professional real estate investment firms. PERS invested in these funds principally in 1980 and 1984. No new investments have been made since 1987.

The real estate industry is in one of the most difficult periods in decades. In general, real estate markets are suffering from over-building in virtually all market sectors. The good news is that new construction across the country is virtually at a standstill.

As the economy improves and excess capacity is absorbed, this investment class of assets should improve in overall performance. Investment management believes the real estate equity allocation is positioned to realize future returns more quickly than the benchmark NCREIF index because of the Fund's bias toward retail and multifamily sectors.



## Real Estate Mortgages

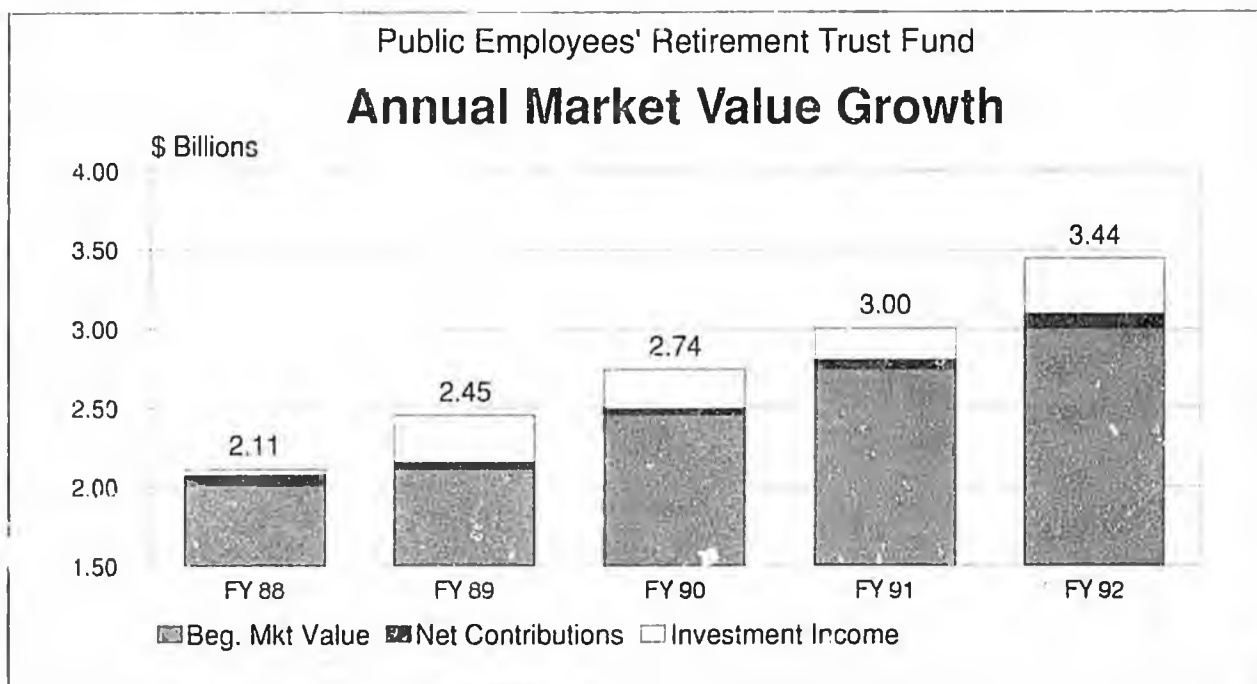
The Fund continued its investment policy of not making direct residential and commercial real estate loans, due to the low liquidity, high risk, and administrative expense of this type of investment. The market value of real estate loans totaled \$76.2 million at year-end representing 2.0% of the total Fund. This allocation returned -11.2% for the year ending June 30, 1992. A

major reason for this performance was management's decision to increase the allowance for loan loss to reflect an estimated market value. This presentation of a net realizable market value is consistent with the presentation of other asset allocations in the Fund.

## Conclusion

The assets of the Fund came into being and have grown because employers and employees have paid more into the Fund in the form of contributions and earnings on those contributions than has been paid out in benefits. Investment returns have significantly increased the Fund's assets. Contributions from participants approximately match benefits by design in order to provide reasonable assurance that sufficient assets will be available to make benefit payments when they are needed.

The Fund continues to be a well diversified, prudently managed portfolio to insure the growth and stability of the Fund for current and future participants.



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## Independent Auditors' Report

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State of Alaska  
Department of Revenue  
Treasury Division

We have audited the accompanying balance sheets of the Public Employees' Retirement Trust Fund (Fund) as of June 30, 1992 and 1991, and the related statements of investment income and changes in fund balance restricted for beneficiaries, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in note 1, the financial statements of the Public Employees' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Public Employees' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Trust Fund as of June 30, 1992 and 1991, and the results of its investment operations and changes in fund balance, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*KPMG Peat Marwick*

September 4, 1992

KPMG Peat Marwick  
Certified Public Accountants  
601 West Fifth Avenue, Suite 700  
Anchorage, Alaska 99501-2258

Member Firm of Klynveld Peat Marwick Goerdeler

## Balance Sheets

June 30, 1992 and 1991  
(000's omitted)

<u>ASSETS</u>	<u>1992</u>	<u>1991</u>
Investments, at market		
Marketable securities:		
U.S. Government debt	\$ 804,158	\$ 779,480
Federal agency debt	57,766	-
Mortgage backed federal securities	5,848	-
Corporate bonds	852,468	590,191
Domestic equity pool	1,296,970	1,165,967
International equity pool	<u>187,632</u>	<u>176,812</u>
Total marketable securities	<u>3,204,842</u>	<u>2,712,450</u>
Mortgage loans	90,826	98,495
Allowance for loan losses	<u>(14,590)</u>	<u>(4,851)</u>
Net mortgages	<u>76,236</u>	<u>93,644</u>
Real estate equities	<u>118,049</u>	<u>134,468</u>
Total investments	<u>3,399,127</u>	<u>2,940,562</u>
Receivables:		
Interest	34,685	9,942
Due from (to) general investment fund	<u>(2,050)</u>	<u>780</u>
Total receivables	<u>32,635</u>	<u>30,722</u>
Cash and cash equivalents	<u>10,248</u>	<u>28,148</u>
Total assets	<u>\$3,442,010</u>	<u>\$2,999,432</u>
 <u>FUND BALANCE</u>		
Fund balance restricted for beneficiaries	<u>\$3,142,010</u>	<u>\$2,999,432</u>

See accompanying notes to financial statements.

## Statements of Investment Income and Changes in Fund Balance Restricted for Beneficiaries

Years Ended June 30, 1992 and 1991  
(000's omitted)

	<u>1992</u>	<u>1991</u>
Investment income:		
Income:		
Interest:		
Marketable securities	\$ 131,451	\$ 121,241
Mortgage loans	<u>7,086</u>	<u>8,601</u>
Total interest	<u>138,537</u>	<u>129,842</u>
Dividends:		
Domestic equity pool	34,139	35,778
International equity pool	6,834	6,032
Real estate equities	<u>6,504</u>	<u>7,611</u>
Total dividends	<u>47,477</u>	<u>49,421</u>
Total income	186,014	179,263
Reduction (increase) of allowance for loan losses	<u>(9,739)</u>	<u>1,340</u>
Net income	<u>176,275</u>	<u>180,603</u>
Net realized and unrealized gains on investments:		
Realized:		
Marketable debt securities	28,410	3,162
Domestic equity pool	67,265	17,850
International equity pool	<u>984</u>	<u>1,311</u>
Net realized gains	<u>96,659</u>	<u>22,323</u>
Increase in unrealized market appreciation	<u>83,615</u>	<u>178</u>
Net realized and unrealized gains	<u>180,274</u>	<u>22,501</u>
Total investment income	356,549	203,104
Beginning fund balance restricted for beneficiaries	2,999,432	2,741,196
Net contributions	<u>86,029</u>	<u>55,132</u>
Ending fund balance restricted for beneficiaries	<u>\$3,442,010</u>	<u>\$2,999,432</u>

See accompanying notes to financial statements.

## Statements of Cash Flows

Years Ended June 30, 1992 and 1991  
(000's omitted)

	<u>1992</u>	<u>1991</u>
Investment operations:		
Total investment income	\$ 356,549	\$ 203,104
Adjustments to reconcile investment income to net cash provided by investment operations:		
Net realized gain	(96,659)	(22,323)
Increase in unrealized market appreciation	(83,615)	(178)
Amortization	1,853	2,547
Increase in interest receivables	(4,743)	(5)
Increase (reduction) of allowance for loan losses	<u>9,739</u>	<u>(1,340)</u>
Net cash provided by investment operations	<u>183,124</u>	<u>181,805</u>
Investing activities:		
Purchase of marketable securities	(858,955)	(871,032)
Sales and maturities of marketable securities	598,226	823,735
Acquisition of mortgage loans and real estate equities	(15,270)	(15,895)
Net increase in book value of domestic equity pool	(30,064)	(251,720)
Net increase in book value of international equity pool	(5,243)	-
Mortgage loan principal payments and proceeds from real estate equities	<u>21,424</u>	<u>18,293</u>
Net cash used in investing activities	<u>(289,882)</u>	<u>(296,619)</u>
Financing activities - net contributions from benefit system	<u>88,859</u>	<u>60,145</u>
Net decrease in cash and cash equivalents	(17,900)	(54,669)
Cash and cash equivalents at beginning of year	<u>28,148</u>	<u>82,817</u>
Cash and cash equivalents at end of year	<u>\$ 10,248</u>	<u>\$ 28,148</u>

See accompanying notes to financial statements.

# Notes to Financial Statements

June 30, 1992 and 1991  
(000's omitted)

## (1) The Accounting Entity

The Public Employees Retirement Trust Fund (Fund) is the investment portfolio of the State of Alaska Public Employees' Retirement System (PERS). PERS is a multiple-employer agent, defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified employees of the state or a political subdivision within the state. These financial statements are those of the Fund and not PERS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund.

Alaska Statutes 14.25.180, 39.35.080, and 37.10.071 provide 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 trust portfolios. The Department of Revenue has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equity pool and real estate equities are managed by external management companies.

## (2) Summary of Significant Accounting Policies

### Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the Mortgage Guarantee Insurance Corporation. A mortgage loan loss provision has been provided as described below. The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, the cost of securities sold is determined on the specific identification basis. Interest income, including amortization of premium and discount, is accrued monthly. Dividend income on domestic equity securities is accrued on ex-dividend date. Dividend income on international equity securities is recognized upon notification from the custodian.

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## Notes to Financial Statements (continued)

### Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to PERS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

### Administrative and Other Expenses

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

### Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in the change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

### Allowance for Loan Losses

Historically, management of the Fund has provided an estimated allowance for loan losses to provide for potential credit losses in its loan portfolio. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded as an allowance an amount considered sufficient to reflect the portfolio's net realizable value.

## (3) Domestic Equity Pool

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income and realized gains and losses are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income. At June 30, 1992 and 1991, the Fund's investment in the domestic equity pool is comprised of the following:

Notes to Financial Statements (continued)

	<u>1992</u>	<u>1991</u>
June 30 pool ownership percentage	61.7%	60.6%
Domestic equities, at market	\$1,204,110	\$1,162,408
Interest and dividends receivable	3,037	3,359
Cash and cash equivalents	<u>89,823</u>	<u>200</u>
Total	<u>\$1,296,970</u>	<u>\$1,165,967</u>

(4) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following at June 30, 1992 and 1991:

	<u>1992</u>	<u>1991</u>
Interest-bearing deposits	\$ 8,254	\$ 23
Unsettled investment transactions	1,994	1,825
Repurchase agreement	<u>0</u>	<u>26,300</u>
Total cash and cash equivalents	<u>\$ 10,248</u>	<u>\$ 28,148</u>

(5) International Equity Pool

The Fund, along with the Teachers Retirement Trust Fund, formed an international equity pool during 1992. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses and income received are allocated monthly to the two participating funds on a pro rata ownership basis. At June 30, 1992 and 1991, the Fund's investment in the international equity pool is comprised of the following:

	<u>1992</u>	<u>1991</u>
June 30 pool ownership percentage	61.7%	0%
International equities, at market	\$ 171,817	\$164,114
Cash and cash equivalents	<u>15,815</u>	<u>12,698</u>
Total	<u>\$187,632</u>	<u>\$ 176,812</u>

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Notes to Financial Statements (continued)

(6) Real Estate Mortgages

Real estate mortgages are comprised of the following at June 30, 1992 and 1991:

	<u>1992</u>	<u>1991</u>
Outstanding Principal:		
Real estate loans current or less than 90 days past due	\$ 63,911	\$ 70,178
Real estate loans past due 90 days	6,071	11,360
Real estate acquired by foreclosure	<u>12,150</u>	<u>12,384</u>
Total Outstanding Principal	\$ 82,132	\$ 93,922
Unrealized Appreciation	<u>8,694</u>	<u>4,573</u>
Total Market Value	90,826	98,495
Allowance for Real Estate Loan Losses	<u>(14,590)</u>	<u>(4,851)</u>
Net Mortgages	\$ <u>76,236</u>	\$ <u>93,644</u>

(7) Safekeeping Risk

The Public Employees Retirement Trust Fund's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin Number 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

- Deposits:**
1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
  2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
  3. Uncollateralized.
- Investments:**
1. Insured or registered for which the securities are held by the State or its custodian in the State's name.

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Notes to Financial Statements (continued)

2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.
3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At June 30, 1992 and 1991, all of the Fund's deposits and investments were considered to be Category 1 with respect to safekeeping risk.

## Outside Managers

### Domestic Equities

(Fred) Alger Management  
*New York, New York*  
IDS Equity Advisors  
*Minneapolis, Minnesota*  
Invesco Capital Management, Inc.  
*Atlanta, Georgia*  
Lehman Ark Management  
*New York, New York*  
Miller, Anderson & Sherrerd  
*West Conshohocken, Pennsylvania*  
State Street Bank & Trust Co.  
*N. Quincy, Massachusetts*

### Equity Real Estate Managers/ Advisors

Aetna Capital Management  
*Hartford, Connecticut*  
Equitable Real Estate Investment  
Management, Inc.  
*Irvine, California*  
John Hancock Properties, inc.  
*Boston, Massachusetts*  
JMB Institutional Realty Corporation  
*Chicago, Illinois*  
Karsten Realty Advisors  
*Los Angeles, California*  
J.P. Morgan Investment Management, Inc.  
*New York, New York*  
Sentinel Real Estate Corporation  
*Bellevue, Washington*

### International Equities

Citibank Investment Management  
*London, England*  
J.P. Morgan Investment  
*London, England*

## Consultants

### Investment Advisor

Dorn & Helliesen, Inc.  
*Berkeley, California*  
*Boise, Idaho*

### Performance Measurement

SEI Funds Evaluation Services  
*San Francisco, California*

### Real Estate Consultants

Institutional Property Consultants, Inc.  
*Atlanta, Georgia*  
*San Diego, California*

### Domestic Equity Evaluation

SEI Funds Evaluation Services  
*San Francisco, California*

### International Equity Evaluation

The WM Company  
*Edinburgh, Scotland*

## Independent Auditors

KPMG Peat Marwick  
*Anchorage, Alaska*

## Global Master Custodian

State Street Bank & Trust Co.  
*N. Quincy, Massachusetts*

*This publication was released by the Department of Revenue, produced at a cost of \$3.96 per copy, to provide information on retirement asset management to interested parties. This publication is required by AS 37.10.071.*

# ALASKA



PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
TEACHERS' RETIREMENT SYSTEM

COMPONENT UNIT  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 1992

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Walter J. Hickel, Governor

# ALASKA



PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
TEACHERS' RETIREMENT SYSTEM

COMPONENT UNIT  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 1992

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Walter J. Hickel, Governor



# STATE OF ALASKA

For the Fiscal Year  
July 1, 1991 - June 30, 1992

PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
TEACHERS' RETIREMENT SYSTEM

## COMPONENT UNIT ANNUAL FINANCIAL REPORT

Prepared by  
Department of Administration  
Division of Retirement and Benefits

COVER PHOTO: "Mendenhall Glacier" Courtesy of Alaska Department of Commerce and Economic Development, Division of Tourism



# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

December 18, 1992

The Honorable Walter J. Hickel  
Governor of Alaska  
P.O. Box 110001  
Juneau, AK 99811-0001

Dear Governor Hickel:

It is my pleasure to submit to you the Annual Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1992. It has been prepared on the basis of standards set forth by the Governmental Accounting Standards Board and Financial Accounting Standards Board and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,



Nancy Bear Usera  
Commissioner

NBU/tz  
19/6/AFR92GOV.PM4  
Enclosure



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## INTRODUCTORY SECTION

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# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

### DIVISION OF RETIREMENT AND BENEFITS

WALTER J. HICKEL, GOVERNOR

PLEASE REPLY TO:

- P.O. BOX 110203  
JUNEAU, AK 99811-0203  
PHONE: (907) 465-4460  
FAX: (907) 465-3086
- 701 EAST TUDOR RD., SUITE 240  
ANCHORAGE, AK 99503-7445  
PHONE: (907) 563-5885  
FAX: (907) 561-6048

December 18, 1992

Commissioner Nancy Bear Usera  
Department of Administration  
P. O. Box 110200  
Juneau, AK 99811-0200

Dear Commissioner Usera:

The component unit annual financial report of the Public Employees' and Teachers' Retirement Systems (Systems) for the fiscal year ended June 30, 1992, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. To the best of my knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Systems. All disclosures necessary to enable the reader to gain an understanding of the Systems' financial activities have been included.

In addition to the introductory section, the report contains two components, one for the Public Employees' Retirement System (PERS) and the other for the Teachers' Retirement System (TRS). Each of these components contains a financial section, an actuarial section, an investment section and a statistical section. The introductory section includes this transmittal letter, along with information about the administrative organization and consulting services utilized by the Systems. The financial section of each component includes the independent auditors' report, the financial statements of the System and the required supplementary financial information. The actuarial section of each component contains the results of the latest actuarial valuation. The investment section of each component contains a review of investment activity for the fiscal year. Each component also contains a statistical section which includes statistical tables of significant data pertaining to each System.

The Alaska State Legislature established the TRS, a cost sharing, multiple employer retirement system, on July 1, 1955, and the PERS, an agent, multiple employer retirement system on January 1, 1961 to attract and retain qualified people into public service employment. The Systems currently provide service, disability, and survivor retirement benefits, as well as a health care plan.

	FY92	PERS FY91	FY90	FY92	TRS FY91	FY90
Number of participating employers	150	145	143	62	62	60
Number of active members	30,721	29,840	29,086	9,238	8,903	8,586
Number of retired members	8,704	8,358	7,365	3,602	3,544	3,184
Average Annual Retirement Benefit	\$12,900	\$12,456	\$11,628	\$24,000	\$23,160	\$22,236
Average Annual Retiree Medical Premium	\$ 2,723	\$ 2,928	\$ 2,990	\$ 2,723	\$ 2,928	\$ 2,990

The Systems are considered a component unit of the State of Alaska for financial reporting purposes and are included in the comprehensive annual financial report of the State.

## MAJOR INITIATIVES

### For the Year

Eligible retirees of the Systems received an automatic Post Retirement Pension Adjustment (PRPA) effective July 1, 1991 due to an increase of 7.2% in the Anchorage consumer price index (CPI) during 1990.

Chapter 31, SLA 1992, established the Alaska State Pension Investment Board in the Department of Revenue. The purpose of the board is to provide prudent and productive management and investment of the pension funds. Chapter 24, SLA 1992, removed the deadline for PERS members to claim their Alaska Bureau of Indian Affairs (BIA) service. It also allows members to claim their BIA service even though they may be eligible for a federal benefit. However, PERS benefits for service under this provision will be reduced when members are eligible for federal pensions for their BIA service.

The Systems' actuary, William M. Mercer, Inc., completed a Study of Actuarial Assumptions in October 1991 which proposed a revised set of valuation assumptions using the actual experience of the Systems during the five year period 1986-1990. The analysis resulted in revisions to the assumptions for the investment return (PERS only), the future health premium trend, mortality, turnover, disability, retirement and the percentage of benefit recipients expected to remain in Alaska.

As in past years, we continue to focus our attention on services to the members. During the year, staff members counseled a total of 2,434 members on 23 field trips throughout the State and 12,974 more members that visited our offices. The staff also responded to over 25,000 pieces of correspondence and more than 85,000 phone calls. In addition, the Systems' auditor completed 65 audits during 16 field trips.

### For the Future

The largest project currently underway is the procurement of a new, more technologically advanced data processing system. The overall goal of the project is to improve productivity, responsiveness, flexibility, functionality and effectiveness while minimizing operating expenses and staff growth rate and thereby enhancing service to our membership. Our goal is to select a proposer and begin work by February 1993.

A new telephone system should be implemented at the division's main office in Juneau by December 31, 1992. Members should encounter faster service when calling. This system also includes a voice mail feature, providing members with the ability to leave a detailed message for staff members.

## FINANCIAL INFORMATION

### Accounting System and Reports

The Report has been prepared in accordance with generally accepted accounting principles as pronounced by the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements are presented in accordance with FASB Statement No. 35, **Accounting and Reporting by Defined Benefit Pension Plans**. The notes to financial statements are presented in accordance with GASB Statement No. 5, **Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers**.

The accrual basis of accounting is used in recording financial transactions. Revenues are recognized in the accounting period in which they are earned and become measurable without regard to the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Contributions to the Systems are based on the principles of level cost funding with current service financed on a current basis and unfunded prior service amortized over a twenty five year period.

Management of the Systems is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Systems are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met.

### Assets

At June 30, 1992, the market value of PERS net assets totalled \$3,454,104,000 and those of the TRS totalled \$2,031,938,000. This was an increase of 14.5% for PERS and 11.4% for TRS over the prior year.

### Revenues

Funding for the Systems' benefits is provided through investment income and the collection of employer and employee contributions. The revenue sources for the years ended June 30, 1992 and 1991 are shown as follows:

	PERS (in millions)				TRS (in millions)			
	1992	1991	Amt	Inc/Dec	1992	1991	Amt	Inc/Dec
Employee Contributions	\$ 77.7	\$ 76.5	\$ 1.2	1.6%	\$ 44.3	\$ 40.1	\$ 4.2	10.5%
Employer Contributions	149.2	132.4	16.8	12.7%	57.1	58.0	(.9)	(1.6)%
Investment Income	361.1	202.1	159.0	78.7%	212.9	122.8	90.1	73.4%
Total	\$588.0	\$411.0	\$177.0	43.1%	\$314.3	\$220.9	\$93.4	42.3%

### Expenses

The primary expense of a retirement system is the payment of benefits. These recurring benefit payments, along with refunds of contributions to terminated employees and the cost of administering the Systems comprise the total expenses of the Systems. The expenses for the years 1992 and 1991 are reflected below:

	PERS (in millions)				TRS (in millions)			
	1992	1991	Amt	Inc/Dec	1992	1991	Amt	Inc/Dec
Benefits	\$131.5	\$123.0	\$8.5	6.9%	\$98.8	\$95.1	\$3.7	3.9%
Refunds	11.9	12.0	(.1)	(.8)%	2.6	3.5	(.9)	(25.7)%
Administration	8.0	5.0	3.0	60.0%	5.6	4.0	1.6	40.0%
Total	\$151.4	\$140.0	\$11.4	8.1%	\$107.0	\$102.6	\$4.4	4.3%

### Investments

For fiscal year 1992, the Funds achieved rates of return significantly above the long-term rate assumptions of the Funds' actuary. PERS earned a rate of return of 11.6% while TRS achieved 11.4%. The variation in the rates of return between the two funds is due to differences in asset allocation. Both rates compare favorably to the actuarial rates of 8.75% and 9.0% for PERS and TRS respectively.

Of the Funds' major asset classes, marketable debt securities provided the highest rate of return, yielding a total return of 15.1% for both PERS and TRS. This is .9% above a standard industry benchmark index return of 14.2%. These securities are managed in-house by investment professionals within the Treasury Division of the Department of Revenue.

Following the return of debt securities was domestic equities (12% PERS and TRS) and international equities (7% PERS, 7.1% TRS). Real estate equity investments and mortgage loans, both of which were purchased prior to 1987, had negative rates of return. Real estate equities returned a negative 12.7% for PERS and a negative 13.0% for TRS while PERS mortgage loans returned a negative 11.2% and TRS a negative 11.0%. However, these negative returns had a low impact on the Funds as a whole because they comprise only 6% of the total PERS assets and 7% of TRS assets.

### **Funding**

The bottom line for a retirement system is its level of funding. Funds are accumulated from the excess of revenues over expenses in order to meet current and future benefit obligations. The percentage computed by dividing the valuation assets by the accrued liabilities is generally referred to as the "funding ratio". This ratio provides an indication of the funding status of the Systems on a going-concern basis and generally, the greater this percentage, the stronger the system. The higher the level of funding, the larger the ratio of assets accumulated and the greater the level of investment income potential. A high level of funding gives the members a greater degree of assurance that pension benefits are secure.

Although the historical level of funding for the Systems is good, constant effort will continue to be directed at improving funding levels, thereby assuring the members of a financially sound retirement system. The current funding ratio, as of June 30, 1991, is 88.1% for PERS and 85.7% for TRS.

### **PROFESSIONAL SERVICES**

Professional consultants are hired to perform services essential to the efficient operation of the Systems. Actuarial services are provided by William M. Mercer, Incorporated. The annual financial audit of the Systems was conducted by the accounting firm of KPMG Peat Marwick. The Systems' investment function is managed by the Alaska Department of Revenue, Division of Treasury.

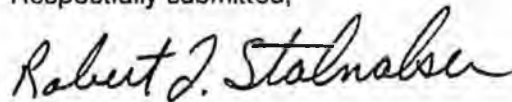
### **ACKNOWLEDGEMENTS**

The compilation of this report reflects the combined effort of the Systems' staff. 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 for determining responsible stewardship for the assets contributed by the members and their employers.

The report is being mailed to all employer members of the Systems. They form the link between the Systems and the membership. Their cooperation contributes significantly to the success of the Systems. Hopefully, the employers and their employees will find this report both informative and helpful.

I would like to take this opportunity to express my gratitude to the staff and to the many people who have worked so diligently to assure the successful operation of the Systems.

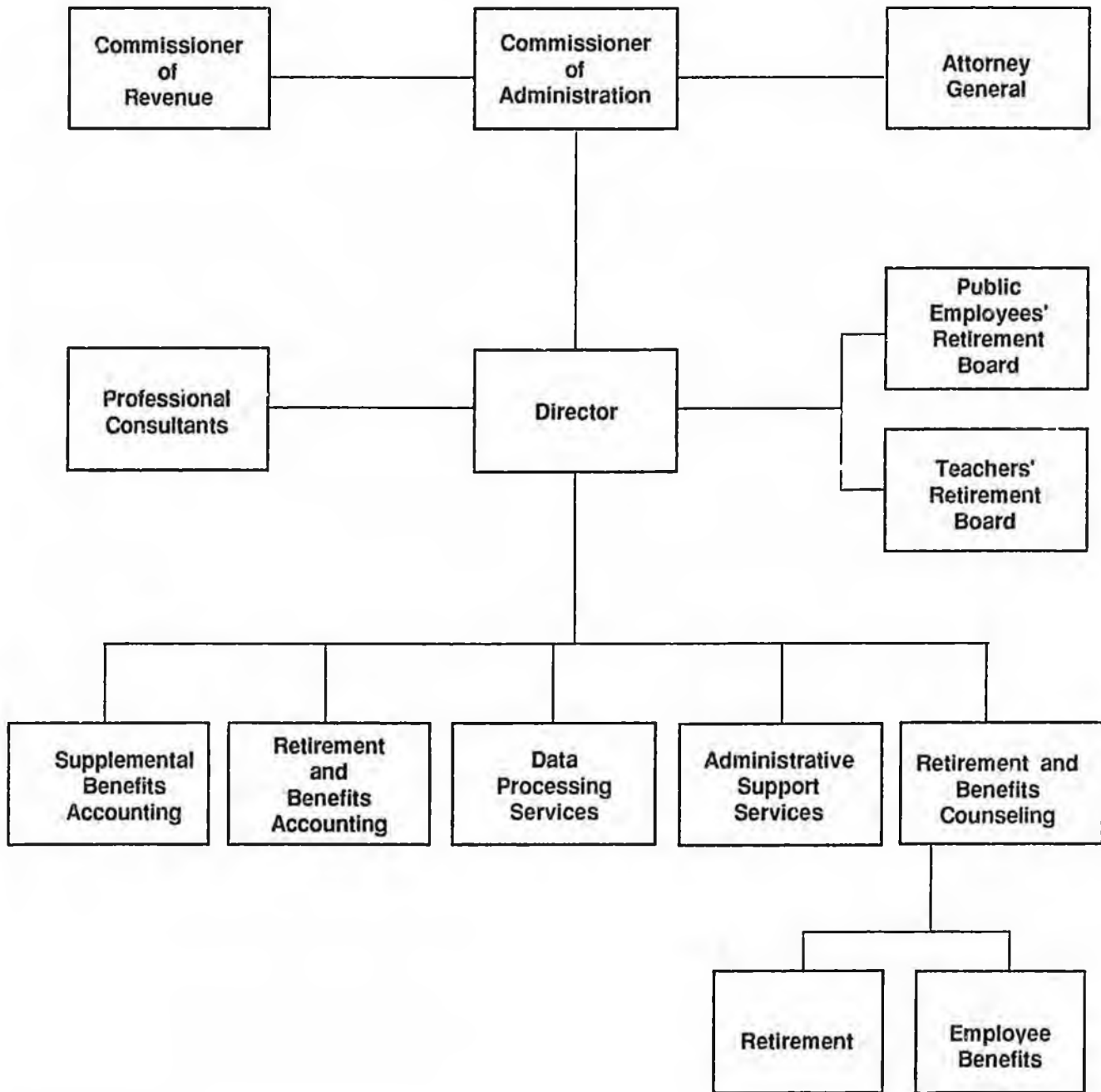
Respectfully submitted,



Robert F. Stalnaker  
Director

RFS/tz  
19/6/AFR92ILT.PM4  
Enclosure

# ORGANIZATIONAL CHART



**ADMINISTRATIVE STAFF**

Director ..... Robert Stalnaker  
Retirement and Benefits Counseling Manager ..... Michael Coughlin  
Administrative Support Supervisor ..... David Thomson  
Retirement and Benefits Accounting Supervisor ..... Jerome Walkush  
Retirement and Benefits Counseling Supervisor ..... Bill Church  
Supplemental Benefits Supervisor ..... Anselm Staack  
Active Employee Benefits Supervisor ..... Janet Parker  
Data Processing Manager ..... William Greeson

**PROFESSIONAL CONSULTANTS**

Actuary ..... William M. Mercer, Inc.  
Auditor ..... KPMG Peat Marwick, CPA  
Benefits Advisor ..... Deloitte-Touche  
Insurance Carrier ..... Aetna Life Insurance Co.  
Legal Advisor ..... John Gaguine, Assistant Attorney General  
Legal Advisor - Boards ..... Robert Johnson, Attorney  
Medical Advisor ..... Dr. Mike Franklin



**PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM**

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# PUBLIC EMPLOYEES' RETIREMENT BOARD



**James "Pat" Wellington, Chair**  
Term Expires: 4/5/96



**Michael Andrews, Vice Chair**  
Term Expires: 6/20/94



**S. J. Buckalew**  
Term Expires: 6/20/96



**Mary A. Notar**  
Term Expires: 4/5/96



**Gary P. Bader**  
Term Expires: 6/20/98

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**FINANCIAL SECTION**

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**KPMG** Peat Marwick

Certified Public Accountants

601 West Fifth Avenue  
Suite 700  
Anchorage, AK 99501-2258

Independent Auditors' Report

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

We have audited the accompanying statement of net assets available for plan benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Alaska Public Employees' Retirement System as of June 30, 1991 were audited by other auditors whose report thereon dated September 14, 1991 expressed an unqualified opinion on those statements.

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

In our opinion, the 1992 financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit for the year ended June 30, 1992 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the year ended June 30, 1992, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended June 30, 1992.

The report of the other auditors referred to above, dated September 14, 1991, stated that they applied certain limited procedures to the supplementary information for the years ended June 30, 1991 and prior, included in Schedules 1 and 2. However, they did not audit this information and expressed no opinion on it.

*KPMG Peat Marwick*

September 17, 1992



Member Firm of  
Klynveld Peat Marwick Goerdeler

**STATE OF ALASKA**  
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**Statements of Net Assets Available for Plan Benefits**  
**June 30, 1992 and 1991**  
**(000's omitted)**

	<u>1992</u>	<u>1991</u>
<b>Assets:</b>		
Investments, at fair value:		
United States Government debt	\$ 804,158	779,480
Federal agency debt	57,766	-
Mortgage backed federal securities	5,848	-
Corporate bonds, notes and debentures	852,468	590,191
Domestic equity pool	1,296,970	1,165,967
International equity pool	187,632	176,812
Real estate equities	<u>118,049</u>	<u>134,468</u>
Total investments	<u>3,322,891</u>	<u>2,846,918</u>
Loans and mortgages, at fair market value in 1992 and cost in 1991, net of allowance for loan losses of \$14,590 in 1992 and \$4,851 in 1991	          <u>76,236</u>	          <u>89,065</u>
Receivables:		
Contributions	13,113	12,313
Retirement incentive program	6,286	15,003
Accrued interest and dividends	<u>34,684</u>	<u>29,711</u>
Total receivables	<u>54,083</u>	<u>57,027</u>
Due from General Fund	-	1,386
Cash and cash equivalents	<u>10,248</u>	<u>28,147</u>
Total assets	<u>3,463,458</u>	<u>3,022,543</u>
Liabilities:		
Accrued expenses	2,730	5,002
Due to General Fund	<u>6,624</u>	-
Total liabilities	<u>9,354</u>	<u>5,002</u>
Net assets available for plan benefits	<u><u>\$ 3,454,104</u></u>	<u><u>3,017,541</u></u>

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Statements of Changes in Net Assets Available for Plan Benefits**

**Years ended June 30, 1992 and 1991**

**(000's omitted)**

	<u>1992</u>	<u>1991</u>
<b>Additions:</b>		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ 88,189	(823)
Interest	138,538	129,804
Dividends	47,477	49,422
Net realized gains on sales	<u>96,658</u>	<u>22,323</u>
Total investment income before provision for losses on loans and mortgages	370,862	200,726
Provision for losses on loans and mortgages	<u>(9,739)</u>	<u>1,339</u>
Net investment income	<u>361,123</u>	<u>202,065</u>
Contributions:		
State of Alaska and other employers	147,961	116,404
Employees	77,602	75,767
Retirement incentive program:		
State of Alaska and other employers	1,231	15,998
Employees	<u>72</u>	<u>719</u>
Total contributions	<u>226,866</u>	<u>208,888</u>
Total additions	<u>587,989</u>	<u>410,953</u>
<b>Deductions:</b>		
Benefits paid:		
Retirement	108,360	99,651
Medical	<u>23,120</u>	<u>23,332</u>
Total benefits paid	131,480	122,983
Refunds to terminated employees	11,901	11,965
Administrative expenses	<u>8,045</u>	<u>5,019</u>
Total deductions	<u>151,426</u>	<u>139,967</u>
Net increase	436,563	270,986
Net assets available for plan benefits at beginning of year	<u>3,017,541</u>	<u>2,746,555</u>
Net assets available for plan benefits at end of year	<u>\$ 3,454,104</u>	<u>3,017,541</u>

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**June 30, 1992 and 1991**

**(1) Description**

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

**General**

The Plan is the administrator of a defined benefit, agent multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1992, the number of participating local government employers was:

Municipalities	78
School districts	51
Other	<u>21</u>
Total employers	<u>150</u>

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges and elected officers. Any local government in the State may elect to have its permanent general, police and fire department employees covered by the Plan. At June 30, 1991, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	<u>11,373</u>
Current employees:	
General	27,307
Police and fire	<u>2,533</u>
	<u>29,840</u>
	<u>41,213</u>
Current employees:	
Vested:	
General	14,234
Police and fire	1,795
Nonvested:	
General	13,073
Police and fire	<u>738</u>
	<u>29,840</u>

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**Pension Benefits**

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement at age fifty. For employees hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based upon the employee's three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for over ten years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

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

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age sixty-five by paying premiums.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**Death Benefits**

If an active employee dies from occupational or nonoccupational causes, the spouse may receive a monthly pension equal to 40% of the employee's salary. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of death and the credited service, including service that would have accrued if the employee had lived and continued to work until normal retirement.

**Disability Benefits**

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive nonoccupational disability benefits. The monthly disability benefit is equal to 40% of the employee's salary at the time of the disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

**Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

**(2) Summary of Significant Accounting Policies**

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

**Valuation of Investments**

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1992 and 1991.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased.

At June 30, 1992, loans and mortgages are stated at estimated market value determined by adjusting purchase yields to the current secondary mortgage market conditions established by the Mortgage Guaranty Investment Corporation. At June 30, 1991, loans and mortgages are stated at cost. Due to the immaterial effect on the financial statements as a whole, a prior period adjustment to correct the valuation of loans and mortgages at June 30, 1991 has not been made. Instead, the accumulated unrealized net gains and losses from past years have been recognized at June 30, 1992. The following summarizes the total net unrealized gain at June 30, 1992 (000's omitted):

Net unrealized gain, June 30, 1992	\$ 4,088
Net unrealized gain, from prior years	<u>4,574</u>
	<u>\$ 8,662</u>

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded the amount above to reflect the portfolio's net realizable value.

Loans and mortgages include approximately \$12,150,000 and \$12,384,000 for 1992 and 1991, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity pool. The activity and the June 30, 1992 and 1991 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating pool on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1992 and 1991, the Plan's investment in the domestic equity pool is comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
Domestic equity pool	\$ 1,204,110	1,162,408
Interest and dividends receivable	3,037	3,359
Cash and cash equivalents	<u>89,823</u>	<u>200</u>
	<u>\$ 1,296,970</u>	<u>1,165,967</u>

The international equity pool at June 30, 1992 and 1991 is comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
International equity pool	\$ 171,817	164,114
Cash and cash equivalents	<u>15,815</u>	<u>12,698</u>
	<u>\$ 187,632</u>	<u>176,812</u>

**Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 1992 and 1991 are comprised of the (000's omitted):

	<u>1992</u>	<u>1991</u>
Repurchase agreement	\$ -	26,300
Investment maturities in transit	1,994	1,825
Interest-bearing deposits	<u>8,254</u>	<u>22</u>
	<u>\$ 10,248</u>	<u>28,147</u>

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**Contributions Receivable**

Contributions from employees 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.

**Accrued Interest and Dividends**

Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables has been reflected in the financial statements. Accrued interest on loans and mortgages is not recorded until received.

**(3) Investments**

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1992, the Plan's deposits and investments are categorized as follows:

**Deposits**

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

**Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name (000's omitted):

	<u>Category</u>			<u>Market value and carrying value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits - cash	\$ 10,248	-	-	10,248
Investments:				
United States Government debt	804,158	-	-	804,158
Federal agency debt	57,766	-	-	57,766
Mortgage backed federal securities	5,848	-	-	5,848
Corporate bonds, notes and debentures	852,468	-	-	852,468
Domestic equity pool	1,296,970	-	-	1,296,970
International equity pool	187,632	-	-	187,632
Real estate equities	<u>118,049</u>	<u>-</u>	<u>-</u>	<u>118,049</u>
	<u>\$ 3,333,139</u>	<u>-</u>	<u>-</u>	<u>3,333,139</u>

During 1992 and 1991, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (000's omitted):

	<u>1992</u>	<u>1991</u>
United States Government debt	\$ 21,819	3,952
Federal agency debt	1,130	-
Mortgage backed federal securities	87	-
Corporate bonds, notes and debentures	40,248	2,399
Domestic equity pool	33,673	42,269
International equity pool	4,592	(23,094)
Real estate equities	(22,022)	(26,349)
Loans and mortgages	<u>(1,077)</u>	<u>-</u>
	<u>\$ 78,450</u>	<u>(823)</u>

(Continued)

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

The cost, market and carrying values of the Plan's investments at June 30, 1992 and 1991 are as follows (000's omitted):

	<u>Cost</u>	<u>Market</u>	<u>Carrying value</u>
<b>1992:</b>			
United States Government debt	\$ 715,943	804,158	804,158
Federal agency debt	56,636	57,766	57,766
Mortgage backed federal securities	5,762	5,848	5,848
Corporate bonds, notes and debentures	803,736	852,468	852,468
Domestic equity pool	1,125,674	1,296,970	1,296,970
International equity pool	191,441	187,632	187,632
Real estate equities	152,285	118,049	118,049
Loans and mortgages, net of allowance for loan losses of \$14,590	<u>67,575</u>	<u>76,236</u>	<u>76,236</u>
	<u><u>\$ 3,119,052</u></u>	<u><u>3,399,127</u></u>	<u><u>3,399,127</u></u>
<b>1991:</b>			
United States Government debt	712,544	779,480	779,480
Corporate bonds, notes and debentures	581,707	590,191	590,191
Domestic equity pool	1,028,345	1,165,967	1,165,967
International equity pool	185,214	176,812	176,812
Real estate equities	146,681	134,468	134,468
Loans and mortgages, net of allowance for loan losses of \$4,851	<u>89,065</u>	<u>93,644</u>	<u>89,065</u>
	<u><u>\$ 2,743,556</u></u>	<u><u>2,940,562</u></u>	<u><u>2,935,983</u></u>

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(Continued)

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**(4) Funding Status and Progress**

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 5 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1991 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male and police/fire members, and set backward four years for females.
- c. Retirement age - retirement rates based on actual experience.
- d. Discount rate - 8.75% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation:

<u>Year</u>	<u>Per annum</u>
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

- f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.
- g. Cost of living allowance (domicile in Alaska) - 71% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds - 100% of those employees terminating after age thirty-five with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation - five-year average ratio of actuarial and book values of the Plan assets. The actuarial value of the assets equals the market value of the Plan's assets, except that fixed income investments are carried at book value. Valuation assets cannot be outside of the range of book and actuarial values.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1991, the unfunded pension benefit obligation was \$321.6 million, as follows (in millions):

Net assets available for benefits as of June 30, 1991, at market	<u>\$ 3,017.5</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,621.6
Current employees:	
Accumulated employee contributions including allocated investment income	417.0
Employer-financed, vested	1,193.0
Employer-financed, nonvested	<u>107.5</u>
Total pension benefit obligation as of June 30, 1991	<u>3,339.1</u>
Unfunded pension benefit obligation as of June 30, 1991	<u><u>\$ 321.6</u></u>

Due to changes in the mortality basis, discount rate, health cost inflation rate and cost of living allowance actuarial assumptions, the pension benefit obligation at June 30, 1991 decreased \$5.084 million.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

**(5) Contributions**

**Employee Contributions**

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan. Present employee accumulated contributions at June 30, 1992 and 1991 were \$593,574,000 and \$497,789,000, respectively. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

**Employer Contributions**

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

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
State and other:		
Employer	\$ 147,961	116,404
Employee	<u>77,602</u>	<u>75,767</u>
	<u>\$ 225,563</u>	<u>192,171</u>
Normal cost	190,617	166,074
Amortization of unfunded actuarial accrued liability	<u>34,946</u>	<u>26,097</u>
	<u>\$ 225,563</u>	<u>192,171</u>

Actuarial valuations for 1992 and 1991 were performed as of June 30, 1991 and 1990, respectively.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

Significant actuarial assumptions used to compute contribution requirements are as of June 30, 1989. Several actuarial assumptions at June 30, 1989 are different from those used to compute the standardized measure of the pension benefit obligation discussed in note 4. The overall effect on the financial status of the Plan due to the revised assumptions is no change in the funding ratio and a 0.55% payroll increase in the employer contribution rate.

**(6) Retirement Incentive Program**

Legislation passed in May 1986 established a retirement incentive program (RIP) designed to encourage eligible employees to voluntarily retire in order to reduce personal services costs. The program was available to eligible State employees until June 30, 1987, University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees from January 1, 1987 to December 31, 1987.

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a second retirement incentive program. The second program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the programs and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage of their annual compensation for the calendar year in which the employee terminated employment to participate in the program:

	<u>Retirement incentive program</u>	
	<u>1986</u>	<u>1989</u>
Police and fire members	15.00%	22.50%
Other members	12.75	20.25

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

*(Continued)*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Financial Statements**

The effect of the 1986 retirement incentive program on the pension benefit obligation was fully accounted for in the June 30, 1988 actuarial valuation. The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

**(7) Ten-year Historical Trend Information**

Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Required Supplementary Information  
Analysis of Funding Progress**

(000's omitted)

<u>Year ended June 30</u>	<u>Net assets available</u>	<u>Pension benefit obligation</u>	<u>Perce- tage funded</u>	<u>Unfunded (assets in excess of) pension benefit obligation</u>	<u>Annual covered payroll (unaudited)</u>	<u>Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll</u>
1985	\$ 1,295,536	\$ 1,446,672	89.6%	\$ 151,136	\$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	2,010,196	1,905,005	105.5	(105,191)	891,302	(11.8)
1988	2,123,695	2,246,585	94.5	122,888	908,363	13.5
1989	2,452,962	2,563,268	95.7	110,306	912,834	12.1
1990	2,746,555	2,753,518	99.7	6,963	952,070	.7
1991	3,017,541	3,339,145	90.4	321,604	1,027,807	31.3

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Required Supplementary Information  
Revenues by Source and Expenses by Type**

(000's omitted)

**Revenues by source**

Year ended June 30	Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value	Total
1983	\$ 32,595	\$ 99,727	\$ 86,002	\$ 53,099	\$ 271,423
1984	36,765	114,245	101,371	(74,541)	177,840
1985	39,577	123,466	112,261	117,733	393,037
1986	42,626	127,727	182,140	159,873	512,366
1987	51,879	103,719	225,792	(27,799)	353,591
1988	66,732	108,767	154,468	(112,755)	217,212
1989	65,104	78,932	194,653	108,088	446,777
1990	69,720	96,418	233,750	17,469	417,397
1991	76,486	132,402	202,888	(823)	410,953
1992	77,674	149,192	282,673	78,450	587,989

**Expense by type**

	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1983	\$ 28,401	\$ 4,541	\$ 7,683	\$ 2,342	\$ 42,967
1984	33,060	6,939	8,923	1,776	50,698
1985	39,487	9,350	9,553	3,813	62,203
1986	45,916	9,411	9,165	3,567	68,059
1987	57,473	10,256	10,524	4,985	83,238
1988	73,964	11,376	11,409	6,964	103,713
1989	82,389	18,065	11,188	5,868	117,510
1990	85,301	22,142	11,237	5,124	123,804
1991	99,651	23,332	11,965	5,019	139,967
1992	108,360	23,120	11,901	8,045	151,426

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Notes to Required Supplementary Information**

**Years ended June 30, 1992  
1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984 and 1983**

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

The Plan's actuarial funding method for the years ended June 30, 1979 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

<u>Year</u>	<u>Per annum</u>
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The assumed rate of interest was lowered to 8.75%. The mortality tables were set forward one year for male members and set backward four years for female members; previously the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 69% to 71%.

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**ACTUARIAL SECTION**

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## Highlights

This report has been prepared by William M. Mercer, Incorporated to:

- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1991;
- (2) review experience under the plan for the year ended June 30, 1991;
- (3) determine the appropriate contribution rates for the State and for each political subdivision in the system;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1990-91 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

Funding Status as of June 30:	<u>1990</u>	<u>1991</u>
(a) Valuation Assets*	\$ 2,677,486	\$ 2,942,121
(b) Accrued Liability*	2,753,518	3,339,145
(c) Funding Ratio, (a) / (b)	97.2%	88.1%

\* In thousands.

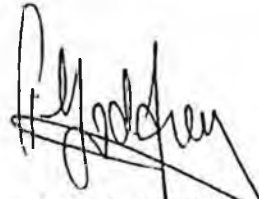
Employer Contribution Rates for Fiscal Year:	<u>1993</u>	<u>1994</u>
(a) Consolidated Rate	12.83%	10.18%
(b) Average Past Service Rate	.75%	3.54%
(c) Average Total Contribution Rate	13.58%	13.72%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,



Brian R. McGee, FSA  
Principal



Peter L. Godfrey, FIA  
Associate

BRM/PLG/jls

April 29, 1992

William M. Mercer, Incorporated

## ANALYSIS OF THE VALUATION

As shown in the Highlights section of the report, the funding ratio as of June 30, 1991 has decreased from 97.2% to 88.1%, a reduction of 9.1%. The average employer contribution rate has increased from 13.58% of payroll for FY93 to 13.72% for FY94, an increase of 0.14% of payroll. The reasons for the change in the funded status and contribution rate are explained below.

### 1. Retiree Medical Insurance

As you are aware, retiree medical premium experience has, in recent years, caused large fluctuations in the employer contribution rate. The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS and TRS.

Fiscal Year	Monthly Premium Per Retiree For Health Coverage	Annual Percentage Increase	Average Annual Increase Since 1978
1977	\$ 34.75	—	—
1978	57.64	66%	—
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%
1993	226.90	- 7%	10%

As you can see from the above table, the monthly retiree medical premium remained unchanged during the year, at \$243.98. The premium for the 1993 fiscal year has reduced to \$226.90, a decrease of 7%.

In years prior to FY92, the post-65 premium rates were increasing faster than pre-65 rates. The FY92 rates remained unchanged and the trend reversed in FY93. The post-65 FY93 rate reduced by 10.8% while the pre-65 FY93 rate reduced by 2.6%. The combined effects of a reduction in the FY93 rate and the FY92 rate remaining unchanged resulted in an actuarial gain to the System from retiree medical premiums.

Fluctuations in the health premium affect not only the past service contribution rate (due to actuarial gains and losses) but also the normal cost rate. Last year's medical premium experience resulted in a reduction in the consolidated rate of 1.87% and a reduction in the past service rate of 1.30%.

## **2. Investment Performance**

Investment return was less than expected during the year resulting in an actuarial loss to the System. The approximate rate of return based on market values was 7.08%. The effect of the five-year smoothing technique was a rate of return based on valuation assets of 7.03%. As this rate was lower than the assumed rate of return of 9%, the System experienced an actuarial loss from investment performance equal to \$53,425,000 which had the effect of increasing the average employer contribution rate by 0.48%.

## **3. Salary Increases**

Last year, salary increases were slightly higher than anticipated in the valuation assumptions. Salary experience resulted in a small actuarial loss which generated an increase in the average employer contribution rate equal to 0.26%.

## **4. Employee Data**

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 2.6% from 29,086 at June 30, 1990 to 29,840 at June 30, 1991. The average age of active participants increased from 40.37 to 40.68 and average credited service increased from 6.82 to 6.91 years.

The number of retirees and beneficiaries increased 13.5% from 7,365 to 8,358, and their average age decreased from 63.62 to 63.15. There was a 9.8% increase in the number of vested terminated participants from 2,745 to 3,015. Their average age increased from 42.96 to 43.20.

The overall effect of these participant data changes was an actuarial loss to the System, resulting in an increase in the past service rate equal to 1.33%. These demographic changes also had the effect of increasing the consolidated rate by 0.69%.

## **5. Retirement Incentive Program**

The second Retirement Incentive Program has been available to University of Alaska participants since June 30, 1989 and to other participants since October 1, 1989. University of Alaska participants had until August 1, 1990 to retire and other PERS participants had to retire by November 1, 1990 to qualify for the RIP. The retirement deadline was later extended to November 1, 1991 for all PERS participants except State and University of Alaska employees. The effects of the RIP can be seen in the increase in the number of new service retirees between June 30, 1989 and June 30, 1991. There were 456 new retirees during the year ending June 30, 1990 and 925 new retirees during the year ending June 30, 1991. Furthermore, the average age of all retirees decreased from 63.62 to 63.15 during the year ending June 30, 1991 reflecting the younger average age of members retiring under the RIP.

As with the first RIP, the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the RIP are met, the total cost to the System will be equal to the employers' payments.

## **6. Change in Actuarial Assumptions**

The report on the Study of Actuarial Assumptions in October 1991 proposed a revised set of valuation assumptions using the actual experience of the System during the five-year period 1986-90. The analysis resulted in revisions to the assumptions for the investment return, the future health premium trend, mortality, turnover, disability, retirement and the percentage of benefit recipients expected to remain in Alaska. All assumptions are described in detail in Section 2.3 of the report.

You will note that the mortality table used in this report for police/fire members is the same as the table used for "other" male members. This is different from the Study of Actuarial Assumptions, where we proposed using the 1984 Unisex Pension Mortality Table, set forward 19 years, for police/fire members. Upon further review of the data, we believe that number of exposures was insufficient to support this conclusion, and we recommend that the Board retain the "others" mortality table for police/fire members until more data emerges to support a change. This will add approximately .76% to the total contribution rate.

The overall effect on the financial status of the System due to the revised assumptions is no change in the funding ratio and a 0.55% of payroll increase in the contribution rate.

## **7. Actuarial Projections**

At the Spring 1991 Board Meetings, the PERS Board approved the use of an enhanced actuarial projection system in the valuation report this year. The same actuarial cost method is used, but the enhanced system projects population growth patterns and their associated liabilities 25 years into the future. By also projecting plan assets, this report in effect produces an actuarial valuation for each of the next 25 years. Section 1.5, Actuarial Projections, contains the results of this analysis.

This type of information can be especially useful to two-tiered systems, such as PERS. All of the projected new entrants will be covered under the cost savings provisions of the second tier, so that the ultimate effect of the second tier on plan liabilities can be anticipated. As you can see in Section 1.5, based on the actuarial assumptions and cost method, future contribution rates are expected to increase slightly over the next 15 years and then decline. This reflects the fact that many of the second tier employees are already in PERS and affecting the rate. Also, health premiums are expected to increase faster than salaries, putting upward pressure on the costs.

Sometimes, when second tiers are phasing in to a system, sound actuarial principles would support leveling out this contribution pattern to more quickly anticipate the second tier provisions coming into effect. In this way, a more stable contribution pattern could be adopted to help the State and political subdivisions better budget retirement expenses. This enhanced projection technique would be used annually so that a continuous tracking of the contribution rate to the requirements could be made. Appropriate adjustments to the rate would still be proposed annually, but they should be much smaller than some seen in the past.

For your information, we have included in Section 1.5 graphs and charts showing the effect of a smoothed 13.25% rate over 20 years. This rate includes a degree of conservatism for the following reasons:

1. Actuarial valuations are based on several assumptions, and the projection technique adds more. Actual system experience will vary from that assumed, so a degree of margin is appropriate when adopting a longer term rate.
2. Sound actuarial principles also suggest that retirement systems should fund employees' benefits while they are working. By leveling out the two-tier phenomenon, intergenerational inequities could occur. Since current contribution requirements are higher, the level rate is set higher than it theoretically needs to be, to allocate proportionately more of the cost to current generations and thus reduce the inequities.

The effect of the second tier is already being felt in PERS because second tier participants began entering the System in 1986. Over 50% of current active participants are already second tier. For this reason, contribution rates are already reflecting some of the cost savings provisions of tier 2 and are not expected to decline in the short run. Another factor which retards the expected decline in contribution rates is the anticipated increases in future health premiums.

As contribution rates are not expected to decline significantly for about 20 years, we recommend the Board adopt the calculated rate of 13.72%, instead of the smoothed rate of 13.25%, for FY94. We will continue to monitor the expected pattern of future rates to take into account actual tier 2 patterns, System experience and changes in the Statute. Some smoothing of the contribution rate may be appropriate in the future, depending on how these factors affect projected contribution rates.

**Summary**

The following table summarizes the sources of change in the total employer contribution rate:

(1)	Last year's average employer contribution rate	13.58%
(2)	Decrease in past service rate due to retiree medical insurance	(1.30%)
(3)	Decrease in consolidated rate due to retiree medical insurance	(1.87%)
(4)	Increase due to investment performance	0.48%
(5)	Increase due to salary increases	0.26%
(6)	Increase in past service rate due to employee data	1.33%
(7)	Increase in consolidated rate due to employee data	0.69%
(8)	Increase in average employer contribution rate due to change in actuarial assumptions	<u>0.55%</u>
(9)	Average employer contribution rate this year	13.72%

## ACTUARIAL BASIS

### Valuation of Liabilities

- A. **Actuarial Method - Projected Unit Credit (no change).** Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over 25 years. Any funded surpluses are amortized over five years.

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

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

The **Unfunded Liability** at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the **Past Service Cost**.

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

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

### B. Actuarial Assumptions -

1. Interest 8.75% per year, compounded annually, net of expenses.
2. Salary Scale 6.5% per year for the first five years of employment and 5.5% per year thereafter.
3. Total Inflation Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 5% annually.
4. Health Cost Trend

1992	-	12.5%
1993	-	11.5%
1994	-	10.5%
1995	-	9.5%
1996	-	8.5%
1997 and later	-	7.5%
5. Mortality 1984 Unisex Pension Mortality Table, set forward one year for male and police/fire members, and set backward four years for female members. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others".

- |              |                      |   |              |             |         |             |             |             |
|--------------|----------------------|---|--------------|-------------|---------|-------------|-------------|-------------|
| 6.           | Turnover             | Based upon the 1986-90 actual total turnover experience. (See Table 1).   |              |             |         |             |             |             |
| 7.           | Disability           | Incidence rates, based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others". |              |             |         |             |             |             |
| 8.           | Retirement Age       | Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.   |              |             |         |             |             |             |
| 9.           | Spouse's Age         | Wives are assumed to be four years younger than husbands.   |              |             |         |             |             |             |
| 10.          | Dependent Children   | Benefits to dependent children have been valued assuming members who are not single have one dependent child.   |              |             |         |             |             |             |
| 11.          | Contribution Refunds | 100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.   |              |             |         |             |             |             |
| 12.          | C.O.L.A.             | Of those benefit recipients who are eligible for the C.O.L.A., 71% are assumed to remain in Alaska and receive the C.O.L.A.   |              |             |         |             |             |             |
| 13.          | New Entrants         | Growth projections were made for the active PERS population under three scenarios:<br><br><table border="0" style="margin-left: 40px;"> <tr> <td>Pessimistic:</td> <td>1% per year</td> </tr> <tr> <td>Median:</td> <td>3% per year</td> </tr> <tr> <td>Optimistic:</td> <td>5% per year</td> </tr> </table>  | Pessimistic: | 1% per year | Median: | 3% per year | Optimistic: | 5% per year |
| Pessimistic: | 1% per year          |   |              |             |         |             |             |             |
| Median:      | 3% per year          |   |              |             |         |             |             |             |
| Optimistic:  | 5% per year          |   |              |             |         |             |             |             |
| 14.          | Expenses             | Expenses are covered in the interest assumption.  |              |             |         |             |             |             |

### Valuation of Assets

Based upon the five-year average ratio between actuarial and book values of the System's assets. The actuarial value of assets equals the market value, except that fixed income investments are carried at book value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by Coopers & Lybrand. Valuation assets cannot be outside the range of book and actuarial values.

### Valuation of Medical Benefits

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

For FY92, the pre-65 monthly premium is \$318.94 and the post-65 premium is \$121.50, based on a total blended premium of \$243.98. For FY93, the pre-65 monthly premium is \$310.80 and the post-65 premium is \$108.37, based on a total blended premium of \$226.90. These rates and the pre-65/post-65 split were provided by Deloitte & Touche.

**TABLE 1**

**ALASKA PERS  
TOTAL TURNOVER ASSUMPTIONS**

**Select Rates of Turnover  
During the First 10 Years  
of Employment**

**Ultimate Rates of Turnover  
After the First 10 Years  
of Employment**

**Police and Fire:**

Year of Employment	----- Age at Hire -----			Age	Rate
	20-29	30-39	40+		
1	.22	.18	.10	20-39	.03
2	.19	.13	.10	40+	.01
3	.13	.12	.10		
4	.12	.12	.10		
5	.10	.10	.10		
6	.08	.08	.08		
7	.07	.07	.07		
8	.06	.06	.06		
9	.05	.05	.05		
10	.04	.04	.04		

**Others:**

Year of Employment	--- Age at Hire ---		Age	Rate
	20-29	30+		
1	.30	.23	20-29	.065
2	.23	.18	30-34	.060
3	.20	.14	35-44	.055
4	.16	.13	44+	.050
5	.16	.13		
6	.14	.13		
7	.12	.12		
8	.11	.11		
9	.09	.09		
10	.08	.08		

**TABLE 2**  
**ALASKA PERS DISABILITY RATES**  
**ANNUAL RATES PER 1,000 EMPLOYEES**

Age	Police & Fire Rate	"Other" Member Rate
20	.85	.14
21	.87	.14
22	.90	.14
23	.94	.15
24	.98	.15
25	1.03	.15
26	1.08	.15
27	1.13	.15
28	1.19	.16
29	1.25	.16
30	1.31	.16
31	1.37	.17
32	1.43	.17
33	1.44	.25
34	1.48	.34
35	1.55	.44
36	1.65	.53
37	1.76	.64
38	1.94	.75
39	2.13	.87
40	2.35	.99
41	2.60	1.12
42	2.88	1.25
43	3.19	1.39
44	3.53	1.53
45	3.90	1.68
46	4.30	1.84
47	4.73	2.00
48	5.19	2.17
49	5.68	2.34
50	6.20	2.52
51	6.75	2.70
52	7.33	2.89
53	7.94	3.08
54	8.58	3.29
55	9.25	3.49
56	9.95	3.70
57	10.68	3.92
58	11.44	4.14
59	12.23	4.37
60	13.05	4.61
61	13.90	4.84
62	14.78	5.09
63	15.69	5.34
64	16.63	5.60

**TABLE 3****ALASKA PERS  
RETIREMENT RATES**

<b>Age</b>	<b>Police &amp; Fire Rate</b>	<b>"Other" Member Rate</b>
50	.25	.11
51	.14	.08
52	.14	.08
53	.15	.08
54	.15	.08
55	.30	.19
56	.25	.16
57	.21	.13
58	.21	.12
59	.20	.11
60	.20	.17
61	.40	.14
62	1.00	.21
63	1.00	.22
64	1.00	.22
65	1.00	.31
66	1.00	.61
67 & Up	1.00	1.00

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

**PARTICIPANT CENSUS INFORMATION -  
TOTAL PERS AS OF JUNE 30**

<b>Active Members</b>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
(1) Number	26,762	26,676	28,044	29,086	29,840
(2) Average Age	39.53	39.67	40.17	40.37	40.68
(3) Average Credited Service	6.32	6.45	6.66	6.82	6.91
(4) Average Annual Salary	\$ 33,305	\$ 34,052	\$ 32,550	\$ 32,733	\$ 34,444

**Retirees and Beneficiaries**

(1) Number	5,651	6,702	6,967	7,365	8,358
(2) Average Age	60.39	62.82	63.28	63.62	63.15
(3) Average Monthly Benefit:					
Base	\$ 753	\$ 791	\$ 795	\$ 797	\$ 864
C.O.L.A.	62	64	64	61	66
P.R.P.A.	110	90	98	110	108
TOTAL	925	945	957	968	1,038

**Vested Terminations**

(1) Number	1,921	1,898	2,314	2,745	3,015
(2) Average Age	45.33	42.77	42.97	42.96	43.20
(3) Average Monthly Benefit	\$425	\$504	\$519	\$536	\$556

**Non-Vested Terminations With Account Balances**

(1) Number	3,965	3,101	3,365	3,695	4,108
(2) Average Account Balance	\$1,114	\$2,100	\$1,891	\$2,045	\$2,124

**ADDITIONAL INFORMATION**  
**ACTIVE MEMBERS BY TYPE OF STATUS AS OF JUNE 30**

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<b>Active Police &amp; Fire</b>					
(1) Number	2,319	2,327	2,414	2,419	2,533
(2) Average Age	37.86	38.35	39.31	39.70	40.35
(3) Average Credited Service	8.05	8.16	8.60	9.05	9.38
(4) Average Annual Salary	\$ 43,484	\$ 43,947	\$ 43,082	\$ 43,462	\$ 47,470
(5) Number Vested	1,433	1,505	1,598	1,683	1,795
(6) Percent Who Are Vested	61.8%	64.7%	66.2%	69.6%	70.9%
<b>Active "Other" Members</b>					
(1) Number	24,443	24,349	25,630	26,667	27,307
(2) Average Age	39.69	39.80	40.25	40.43	40.71
(3) Average Credited Service	6.16	6.29	6.48	6.62	6.68
(4) Average Annual Salary	\$32,339	\$33,106	\$31,558	\$31,760	\$33,236
(5) Number Vested	11,664	12,191	13,345	14,109	14,234
(6) Percent Who Are Vested	47.7%	50.1%	52.1%	52.9%	52.1%

**ADDITIONAL INFORMATION**  
**ACTIVE MEMBERS BY TYPE OF STATUS AS OF JUNE 30**

	<u>Police &amp; Fire</u>	<u>"Other"</u>
<b>Service Retirement</b>		
(1) Number, June 30, 1990	474	6,211
(2) Net Change During FY91	126	838
(3) Number, June 30, 1991	600	7,049
(4) Average Age at Retirement	50.53	57.56
(5) Average Age Now	56.32	64.35
(6) Average Monthly Benefit	\$ 2,073.50	\$ 965.10
<b>Surviving Spouse's Benefits</b>		
(1) Number, June 30, 1990	19	433
(2) Net Change During FY91	12	34
(3) Number, June 30, 1991	31	467
(4) Average Age at Retirement	39.65	52.83
(5) Average Age Now	50.49	61.90
(6) Average Monthly Benefit	\$ 1,443.31	\$ 685.53
<b>Survivor's Benefits</b>		
(1) Number, June 30, 1990	14	23
(2) Net Change During FY91	(14)	(21)
(3) Number, June 30, 1991	0	2
(4) Average Age at Retirement	--	58.23
(5) Average Age Now	--	60.68
(6) Average Monthly Benefit	--	\$ 1,594.33
<b>Disabilities</b>		
(1) Number, June 30, 1990	40	151
(2) Net Change During FY91	1	17
(3) Number, June 30, 1991	41	168
(4) Average Age at Retirement	38.77	43.18
(5) Average Age Now	43.58	47.61
(6) Average Monthly Benefit	\$ 1,899.08	\$ 1,081.76
<b>Total Number of Retirees</b>	<b>672</b>	<b>7,686</b>

## **SUMMARY OF THE ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

### **(1) Effective Date**

January 1, 1961, with amendments through June 30, 1991. Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. New members who are first hired under the PERS after June 30, 1986 are entitled to different benefits than those members who were hired before July 1, 1986.

### **(2) Administration of Plan**

The Commissioner of Administration is responsible for administration of the system; the Public Employees' Retirement Board prescribes policies and adopts regulations to carry out provisions of the system; and the Commissioner of Revenue invests the funds. The Attorney General represents the system in legal proceedings.

### **(3) Employers Included**

State of Alaska, political subdivisions, and public organizations who have elected to join the system.

### **(4) Employees Included**

Membership in the Alaska PERS is compulsory for all full-time and part-time employees of the State and designated departments, groups or other classifications of employees of participating political subdivisions or public organizations, and elected officials unless they have waived participation.

University of Alaska employees who elect to participate in the University's optional retirement plan and employees who are participating in other retirement plans that are funded by the State are not covered by the PERS. However, certain members of the Alaska Teachers' Retirement System (TRS) are eligible for PERS retirement benefits for their elected public official service with municipalities. Additionally, employees who work half-time in the PERS and the TRS simultaneously are eligible for half-time PERS and TRS credit.

PERS members who receive PERS occupational disability benefits are also covered under the PERS and earn service credit while they are on disability.

### **(5) Credited Service**

Members receive credit for each day of PERS-covered employment.

Permanent part-time employees who work at least 15 hours per week, but less than 30 hours, receive service credit on a proportionate basis.

PERS members may claim PERS credit for the following service:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976.
- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;

- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;
- military service (not more than five years may be claimed);
- temporary service after December 31, 1960;
- elected official service before January 1, 1981;
- Alaska Bureau of Indian Affairs service;
- half-time service that was rendered to PERS employers by employees who were also working in half-time positions covered by the Teachers' Retirement System; and
- leave without pay service after June 13, 1987, while the members were receiving Workers' Compensation.

Except for service before January 1, 1961, with the State, former Territory of Alaska, or U.S. Government in Alaska, contributions are required for all past service.

Past service rendered by employees of participating political subdivisions that occurred before the employers joined the PERS may be creditable if the employers agree to the pay required contributions.

**(6) Computation of Average Monthly Compensation**

A member's average monthly compensation is determined by averaging the highest salaries that the member received for any three consecutive payroll years. A member must have a minimum of 115 days of credited service in the last year worked to include it as one of the three highest.

**(7) Employer Contributions**

Separate contribution rates are established for each employer equal to the sum of:

(a) Consolidated Rate

A uniform rate for all participating employers sufficient to amortize all future service liabilities (less value of employee contributions) over the future working lifetimes of the covered group.

(b) Past Service Rate

A rate determined separately for each employer sufficient to amortize such employer's unfunded past service liability with level payments over 25 years. Any funding surplus is amortized over five years.

**(8) Employee Contributions**

**Mandatory Employee Contributions:** 7.5% of compensation for police and fire members; 6.75% of compensation for all other members. Employee contributions are deducted from the gross salary before federal income tax is withheld.

*Note:* Prior to January 1, 1987, rates were 5% for police and fire and 4.25% for all other members. Employee contributions were deducted from the gross salary after federal income tax was withheld.

**Interest Credited:** 4.5% compounded semiannually on June 30 and December 31.

**Refund of Contributions:** If a member terminates PERS employment, the balance of the member's account (mandatory and voluntary contributions, indebtedness payments and interest earned) may be withdrawn by the member.

*Note:* The contribution accounts of terminated members may be attached to satisfy claims made under Alaska Statute 09.38.065, federal income tax levies and valid Qualified Domestic Relations Orders.

**Reinstatement of Contributions:** If mandatory contributions are refunded or withdrawn, the member must return to PERS employment in order to reinstate the refunded service. Upon reemployment, an indebtedness may be established for the amount of the refund. Contributions that are attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time; the member is not required to return to PERS employment. The indebtedness will accrue interest until it is paid in full or the member retires, whichever occurs first.

**Refund at Death:** If no survivor's pension is payable upon the member's death, the member's contribution account balance, including mandatory and voluntary contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. When the member has more than one year of PERS credit, the beneficiary will also receive an additional \$1,000 plus \$100 for each year of PERS credit.

**(9) Normal Retirement Benefit**

**Eligibility:**

- (a) Upon attaining age 60 (age 55 for members who participated before July 1, 1986) and meeting one of the following service requirements:
  - (i) Five years of paid-up PERS service; or
  - (ii) 60 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS before May 30, 1987; or
  - (iii) 80 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS after May 29, 1987; or
  - (iv) two years of paid-up PERS service if the member is vested in the Teachers' Retirement System; or
  
- (b) At any age after meeting one of the following service requirements:
  - (i) 20 years of paid-up PERS service as a peace officer or fire fighter; or
  - (ii) 30 years of paid-up PERS service for "all other" members.

**Type:**

Life only, level income, or optional joint and survivor benefit (actuarially reduced).

**Amount:**

Others

2% of average monthly compensation for the first ten years of service, 2.25% for the next ten years, and 2.5% for all remaining years. Service before July 1, 1986 is credited at 2%.

Police & Fire

2% of average monthly compensation for the first ten years of service plus 2.5% for years of service in excess of ten.

Minimum Benefit

\$25.00 per month for each year of credited service.

**(10) Early Retirement Benefit**

**Eligibility:**

Upon attaining age 55 (age 50 for members who participated before July 1, 1986) and meeting one of the following service requirements:

- (i) Five years of paid-up PERS service; or
- (ii) 60 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS before May 30, 1987; or
- (iii) 80 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS after May 29, 1987; or
- (iv) two years of paid-up PERS service if the member is vested in the Teachers' Retirement System.

**Type:**

Life only, level income, or optional joint and survivor benefit (actuarially reduced).

**Amount:**

Actuarial equivalent of normal retirement benefit (see 9 above) based on service and compensation to early retirement date.

**(11) Deferred Benefit**

**Eligibility:**

Refer to (9) *Normal Retirement Benefit* and (10) *Early Retirement Benefit*, above. Withdrawal of employee contributions voids rights to benefits.

**Type:**

Life only, level income, or joint and survivor benefit (actuarially reduced).

**Amount:**

Refer to (9) *Normal Retirement Benefit* and (10) *Early Retirement Benefit*, above.

**(12) Indebtedness Owing At Retirement**

If on the date of appointment to retirement, a member has not paid the full indebtedness amount including interest to the retirement fund, the member's retirement benefit will be reduced for life by an amount equal to the actuarial equivalent of the outstanding indebtedness at the time of retirement.

**(13) Re-employment of a Retired Member**

If a retired member is reemployed in a position covered under the system, the retirement benefit will be suspended during the period of reemployment. During such period of reemployment, retirement contributions are mandatory.

A member who returns to PERS employment after retiring under the Retirement Incentive Program (RIP) will:

- (a) forfeit the three years of incentive credits that were granted; and
- (b) be indebted to the system in an amount equal to 110% of the benefits that were paid because of the member's participation in the RIP, including health insurance costs. The indebtedness is reduced by the amount that the member paid to participate.

**(14) Disability Benefit**

**Occupational Disability:**

**Eligibility:**

No age or service requirements.

**Type:**

Monthly benefit payable until death, recovery, or normal retirement.

**Amount:**

40% of gross monthly compensation (66-2/3% for police/fire members who participated before July 1, 1976, offset by any workers compensation) at date of disability. When the disabled member becomes eligible for normal retirement, the occupational disability benefit will terminate and the member will be appointed to normal retirement. The normal retirement benefit will be computed as if the member had been employed and had earned PERS credit during the period of occupational disability.

**Non-Occupational Disability:**

**Eligibility:**

Five or more years of credited service.

**Type:**

Monthly benefit payable until death, recovery, or normal retirement.

**Amount:**

Refer to (9) *Normal Retirement Benefits*. When the disabled member becomes eligible for normal retirement, the nonoccupational disability benefit will terminate. The period of time on nonoccupational disability is not included in the normal retirement benefit calculation.

**(15) Death Benefit Before Retirement**

**Occupational Death:**

**Eligibility:**

No age or service requirements.

**Benefit:**

40% (66-2/3% for police/fire members who participated before July 1, 1976) of gross monthly compensation at date of death or disability, if earlier, may be paid to the spouse or if there is no spouse, to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's salary on the date of disability or death and credited service, including the period from the date of disability or death to the normal retirement date.

**Non-Occupational Death:**

With less than one year of credited service, the member's contribution account balance, including mandatory and voluntary contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. With more than one, but less than five years of credited service, the beneficiary will also receive \$1,000 plus \$100 for each year of PERS service.

When the member is vested, the surviving spouse may elect to receive the benefits described above or a 50% joint and survivor option based on the member's average monthly compensation and credited service at the time of death.

**(16) Death Benefits After Retirement**

If a member had received retirement benefits prior to his or her death, the designated beneficiary will receive the member's contribution account balance, minus any benefits already paid. However, if the member elected one of the joint and survivor options (50%, 66-2/3% or 75%) at retirement, an eligible spouse would receive a continuing monthly benefit for the rest of his or her life.

**(17) Post-Retirement Pension Adjustment**

A post-retirement pension adjustment will be issued to an eligible benefit recipient each year if the consumer price index (CPI) increases during the prior calendar year. The adjustment to the benefit, excluding the cost-of-living allowance, will be:

- (a) 75% of the CPI increase (not to exceed 9%) for recipients who are at least age 65 or on PERS disability; or
- (b) 50% of the CPI increase (not to exceed 6%) for recipients who are at least age 60 but under 65, and for recipients who have been receiving benefits for at least five years who are under age 60.

(Ad hoc PRPA's of up to 4% may be issued to retirees who were first hired before July 1, 1986 if the CPI has increased and the financial condition of the fund will permit an increase).

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**(18) Cost-of-Living Allowance**

Starting at age 65, a retired member who remains in Alaska is eligible for a cost-of-living allowance (COLA) equal to 10% of the base retirement benefit or \$50 per month, whichever is greater. Members who were first hired before July 1, 1986 or who are receiving disability benefits are eligible for COLA, regardless of age.

**(19) Voluntary Contributions**

An employee can voluntarily contribute up to 5% of his or her salary. Voluntary contributions are recorded in a separate account and are payable to the:

- (a) member in a lump sum after termination of employment; or
- (b) member's beneficiary if the member dies; or
- (c) member when the member retires in a lump sum, life annuity, or payments over a designated period of time.

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**INVESTMENT SECTION**

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## ORGANIZATION

### STAFF

**Commissioner**  
Darrel J. Rexwinkel

**Chief Investment Officer**  
Robert D. Storer

**Investment Officers**  
Michael S. Chueung, Marketable Debt  
Martin W. Lentz, Real Estate

**Deputy Commissioner**  
Brian C. Andrews

**Comptroller**  
Mark W. Prussing, CPA

**Cash Management**  
Vernon B. Voss

### Outside Managers

#### Domestic Equities

(Fred) Alger Management  
*New York, New York*  
IDS Equity Advisors  
*Minneapolis, Minnesota*  
Invesco Capital Management, Inc.  
*Atlanta, Georgia*  
Lehman Ark Management  
*New York, New York*  
Miller, Anderson & Sherrerd  
*West Conshohocken, Pennsylvania*  
State Street Bank & Trust Co.  
*N. Quincy, Massachusetts*

#### Equity Real Estate Managers/Advisors

Aetna Capital Management  
*Hartford, Connecticut*  
Equitable Real Estate Investment  
Management, Inc.  
*Irvine, California*  
John Hancock Properties, Inc.  
*Boston, Massachusetts*  
JMB Institutional Realty Corporation  
*Chicago, Illinois*  
Karsten Realty Advisors  
*Los Angeles, California*  
J.P. Morgan Investment Management, Inc.  
*New York, New York*  
Sentinel Real Estate Corporation  
*Bellevue, Washington*

#### International Equities

Citibank Investment Management  
*London, England*  
J.P. Morgan Investment  
*London, England*

### Consultants

#### Investment Advisor

Dorn & Helliesen, Inc.  
*Berkeley, California*  
*Boise, Idaho*

#### Performance Measurement

SEI Funds Evaluation Services  
*San Francisco, California*

#### Real Estate Consultants

Institutional Property Consultants, Inc.  
*Atlanta, Georgia*  
*San Diego, California*

#### Domestic Equity Evaluation

SEI Funds Evaluation Services  
*San Francisco, California*

#### International Equity Evaluation

The WM Company  
*Edinburgh, Scotland*

#### Independent Auditors

KPMG Peat Marwick  
*Anchorage, Alaska*

#### Global Master Custodian

State Street Bank & Trust Co.  
*N. Quincy, Massachusetts*

### Investment Operations Advisory Committee

John W. English, Chairman  
*Ford Foundation, Vice-President & Chief  
Investment Officer*  
Mark T. Finn  
*Delta Financial, Inc., President*  
Ronald J. Surz  
*Centurion Trust Company*

# STATE OF ALASKA

WALTER J. NICKEL, GOVERNOR

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P. O. BOX 110400  
JUNEAU, AK 99811-0400  
PHONE: (907) 465-2300  
FAX: (907) 465-2389

I am pleased to present the Department of Revenue's second annual Public Employees' Retirement Trust Fund (Fund) Report. The successes of managing the Fund in fiscal year 1992 were many. The Treasury Division within the Department was instrumental in achieving the successes.

When we ended the 1992 fiscal year, the Fund had grown to \$3.4 billion dollars. This growth was established by investment earnings of \$356.5 million and net contributions of \$86.0 million. My responsibility for the continued positive investment performance of the Fund is one which I take very seriously.

The \$356.5 million dollars of investment income represents an investment return on the Fund of 11.6%. The actuarial rate of return assumption adopted by the Public Employees' Retirement System (PERS) board is 8.75%. The investment rate of return assumption is used by the actuary to calculate the funding requirements of the PERS. When the actual investment performance exceeds the investment assumption rate, a higher "funding ratio" will result.

The "funding ratio" (i.e. the ratio of plan assets to actuarial liabilities) is a measure of the financial health of retirement plans. A plan is said to be "fully funded" when its assets are equal to its actuarial liabilities. The differences in actuarial assumptions that underlie the calculations, however, make a precise measurement difficult.

For the 1991 fiscal year, the funding ratio for PERS fell by 9% to 86%. The primary reasons for this decrease are the actuarial change to PERS's demographics and the lower rate of return assumption. At 86% PERS should still be considered financially sound. Fiscal year 1992's positive investment performance will help achieve a higher "funding ratio" for PERS. My goal is to manage the Fund's investments so investment earnings continue to make positive contributions toward achieving a 100% "funding ratio."

To achieve this goal within the investment standards expected of a prudent investor, I authorized the following strategic management activities to take place:

- Dorn & Helliesen, an investment advisory firm, was selected to help us with the development and implementation of an asset allocation plan for the Fund. The asset allocation plan addresses further portfolio asset diversification to include small-cap domestic equity stocks and international fixed-income securities.
- We continued to use the Investment Operations Advisory Committee for investment management review and recommendations.
- I assisted with drafting legislation which created an eight member Alaska State Pension Investment Board (Board). This legislation was enacted and signed into law, becoming effective July 1, 1992. The eight member board will assume the fiduciary responsibility of the Fund's assets by July 1, 1993. Formation of the Board is underway with the first meeting slated for January 1993. Four members (two members each) from the Public Employees' Retirement System and Teachers' Retirement System will be elected. Three members will be appointed by the Governor. One of these members will represent participating employers of the PERS. The Commissioner of Revenue is statutorily named to the Board.

The Board represents a blending of plan sponsor and beneficiary interests. All Board members will be subject to the prudent investor standard. This standard requires all investments of the Fund be made with the care, skill and diligence of a prudent professional with investment expertise.

- The following people were hired during the past year: Brian C. Andrews as Deputy Commissioner, Treasury; Robert D. Storer as Chief Investment Officer; and Mark W. Prussing as Treasury Comptroller. Their experience and expertise have lent themselves well to the investment management of the Fund.

It is clear by the positive investment return for fiscal year 1992 that the above management activities will contribute positively to a "fully funded" PERS status and will lower the contribution rate requirement from the plan sponsors and participating employers in the years to come.

As fiduciary to the Fund, I pledge to continue the management of the Fund's assets in the best interest of the beneficiaries.

I welcome any comments or questions you may have regarding the report.



Darrel J. Rexwinkel  
Commissioner of Revenue

## 1992 ANNUAL FINANCIAL REVIEW

### Creation and Purpose

The Public Employees' Retirement System Trust Fund (Fund) is established by Alaska Statute 39.35.010. The Fund holds the assets of the Public Employees' Retirement System (PERS). These assets are comprised of investments of various kinds, predominantly stocks and bonds. The Fund was created to pay retirement benefits to employees participating in the retirement plan administered under the PERS. The retirement plan is a defined-benefit plan in which benefit levels for each employee are determined by length of employment and highest average salary. The plan is a joint-contributory plan in which both the employee and the employer make continuing contributions, calculated as a percentage of current salary. Employee contribution percentages are fixed by statute. Employer contributions are determined annually by the PERS board based on evaluations of the Fund by a consulting actuary. The plan is considered to be perpetual because it applies to future as well as current employees and because the employers (State and municipal governments or political subdivisions) are perpetual in nature.

Participating employers are bound by the Alaska Constitution to pay the plan's benefits. Although benefits could be paid on a pay-as-you-go basis, the existence of a Fund serves two purposes. For the employer, it distributes contributions over an employee's years of service. For the employee, it provides a form of assurance that employers will meet their obligations.

### Fiscal 1992 Annual Financial Results

#### Market Environment

After the United States' success in the Gulf War, fiscal year 1992 started out with signs of a strong economic recovery. However, as the year progressed, certain economic conditions continued to hinder the strength of this upturn. Money supply continued to increase at a slow rate of 2% a year, the housing sector was only able to post a modest recovery and the reluctance of financial institutions to extend credit continued to impede economic growth.

The recovery had clearly stalled by December 1991. In a desperate move, the Federal Reserve Bank cut the discount rate a full percentage point during that month in order to prevent the economy from sliding back into a recession. Prompt actions by the Federal Reserve Bank improved market psychology. As a result, consumer spending increased by a 4.9% annual rate during the third quarter of fiscal year 1992. In turn, Gross Domestic Product grew at a 2.7% annual rate during the same quarter.

During the fourth quarter, however, economic signs again pointed toward a lackluster recovery. The strength in consumer spending that was seen in January and February faded as consumers turned cautious. Industrial production only improved slightly and employment reports continued to signify a bleak employment situation. This prompted the Federal Reserve Bank to lower the discount rate from 5.5% to 3.5%.

An accommodating monetary policy such as this typically results in a vigorous economic recovery, along with strong growth in money and credit. However, even with the economic throttle wide open, the economy was slow to accelerate. This may be due to the significant increase in the assets outside the banking system and structural problems such as the large Federal deficit.

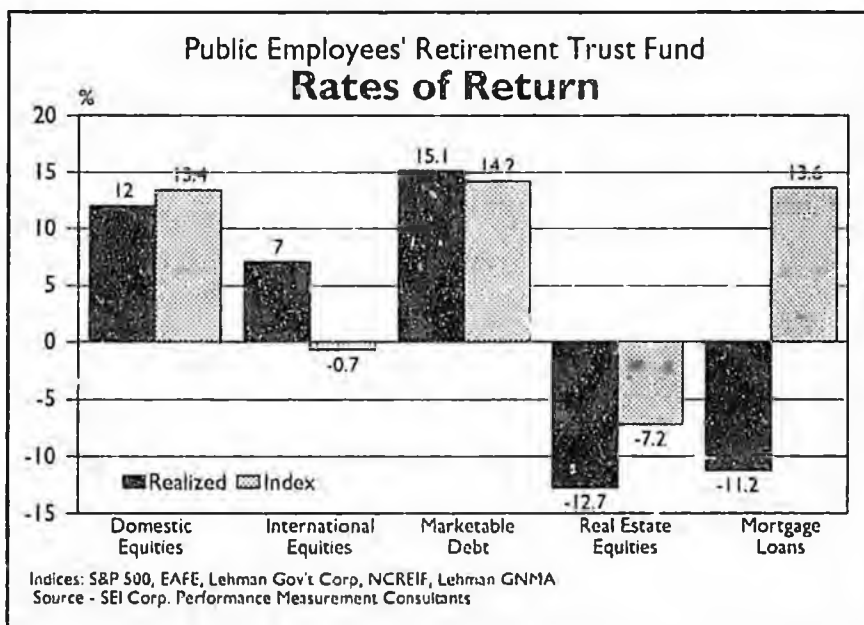
The weak economy and an accommodating Federal Reserve Bank enabled marketable debt investments to provide returns higher than those achieved by equities. In FY 1992, the Lehman Brothers Government Corporate Index posted a 14.20% return. A low interest rate environment, coupled with an anticipated strong economic recovery, resulted in a lower, but still strong, performance from the equity market. The Standard & Poor's 500 Index posted a 13.4% return for the fiscal year.

## Total Fund Returns

The Fund earned \$272.9 million in realized net income in FY 1992 versus \$202.9 million in FY 1991. Realized net income is cash actually received by the Fund, such as dividends paid on stocks, interest paid on bonds, fees and other income earned on equity real estate and realized capital gains. Realized capital gains were \$96.7 million in FY 1992 and \$22.3 million in FY 1991.

Total return measures realized net income plus the net change in unrealized gains and losses. On a total return basis, the Fund earned \$356.5 million in FY 1992 as compared to \$203.1 million in FY 1991. This amount includes both the realized income of \$272.9 million and a \$83.6 million net increase in unrealized gains.

The rate of return for the Fund for FY 1992 was 11.6%. Of the Fund's major asset classes, marketable debt securities contributed the highest economic rate of return, followed by domestic equities and then international equities. Mortgage loans and real estate equities had negative returns for the fiscal year. The five year rate of return (annualized, time-weighted, rolling average) as of June 30, 1992 was 8.9%. This compares favorably to the actuarial assumption of a long-term rate of return of 8.75% for future periods.



## Asset Allocation

### Marketable Debt Securities

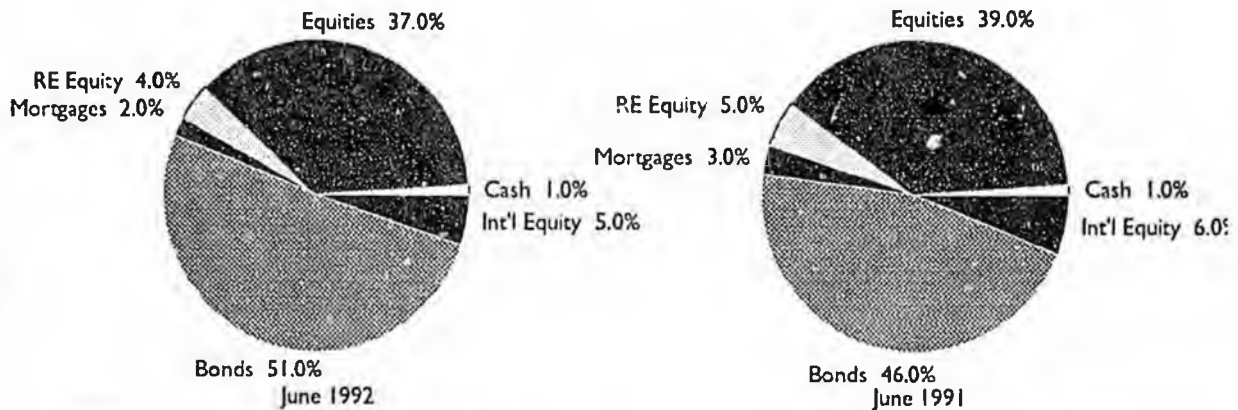
Marketable debt securities, consisting of high quality investment grade securities, accounted for 51% of the total Fund assets at fiscal year-end. This allocation was comprised of 50% Federal Government and Agency securities and 50% high grade corporate bonds. Over 98% of the Fund's debt securities have an "A" rating or better. The weighted average life of the debt portfolio at fiscal year-end was just under 10 years. Investment management emphasized the 6 - 10 year maturity range because securities in this range tended to provide higher rates of return while protecting against the price volatility typical of longer maturities. At the end of FY 1992, the Fund had 44% of its debt securities in this maturity sector.

During the fiscal year, the yield of the 30 year U.S. Treasury bond declined from 8.41% to 7.78%. In a period of declining interest rates, a strategy of investing in longer maturities has a positive effect on investment results. For this reason, investment management structured a portfolio of debt securities with an average maturity which is moderately longer than many corporate or state portfolios. The portfolio earned a total return of 15.1% in FY 1992 which is .30% above the benchmark index return of 14.2%.

Interest earned on debt securities in fiscal year 1992 totaled \$131 million. The fiscal year ended with realized gains of \$28.4 million and unrealized gains of \$63 million. Investment management was a net buyer of \$260 million of debt securities during the fiscal year.

### Public Employees' Retirement Trust Fund

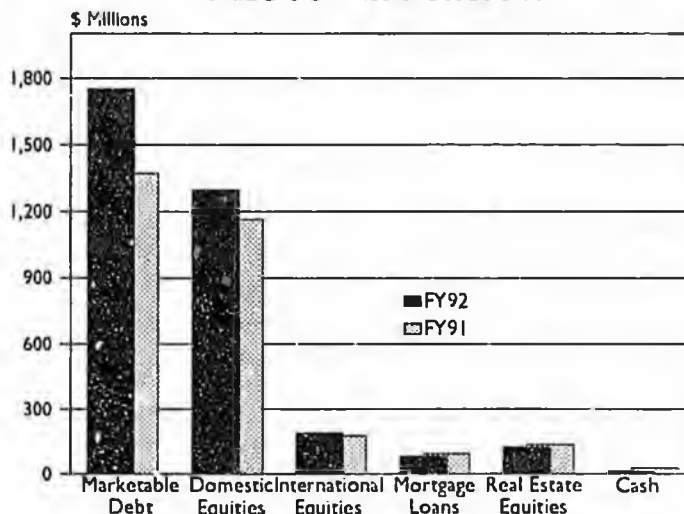
## Asset Allocation



### Domestic Equities

The calendar year closed seeing the Dow Jones Industrial Average (3,168) and the S & P 500 Index (417) rallying to all time highs from the six month low on December 10, 1991 (2,863). This 305 point rally over a three month period illustrates the need to be fully invested at all times. Uncertainty about the economic environment during the last six months of the fiscal year produced mixed results for the domestic equity market. For the fiscal year, the Dow Jones Industrial Average had a positive return of 17.7% and the broader based S & P 500 Index returned 13.4%.

### Public Employees' Retirement Trust Fund Asset Allocation



The structure of the Fund's domestic equities changed in December with the dismissal of United Capital Management as an equity manager. The funds were transferred to Invesco Capital Management. The indexed portion of the domestic equities was also restructured from an S & P 100 emphasis to an S & P 500 weighting. During FY 1992, the domestic equity portion of the Fund increased by \$131 million to \$1.3 billion. This asset class represented 37.5% of the total Fund and provided a return of 12% for the fiscal year compared to the S & P 500 index return of 13.4%. Investment management believes that the changes outlined above, along with anticipated changes in FY 1993, will improve the Fund's domestic equity performance.

### International Equities

Despite the 21% drop in the Japanese stock market during the fiscal year, the Fund's international equity allocation had a rate of return of 7.0%. The overall EAFE index ended the fiscal year with a return of -.7%. The Fund's favorable performance was due to the managers' under-weighting of the Japanese market.

For the fiscal year, international equities increased \$10.8 million to a total of \$187.6 million, representing 5.4% of the total portfolio.

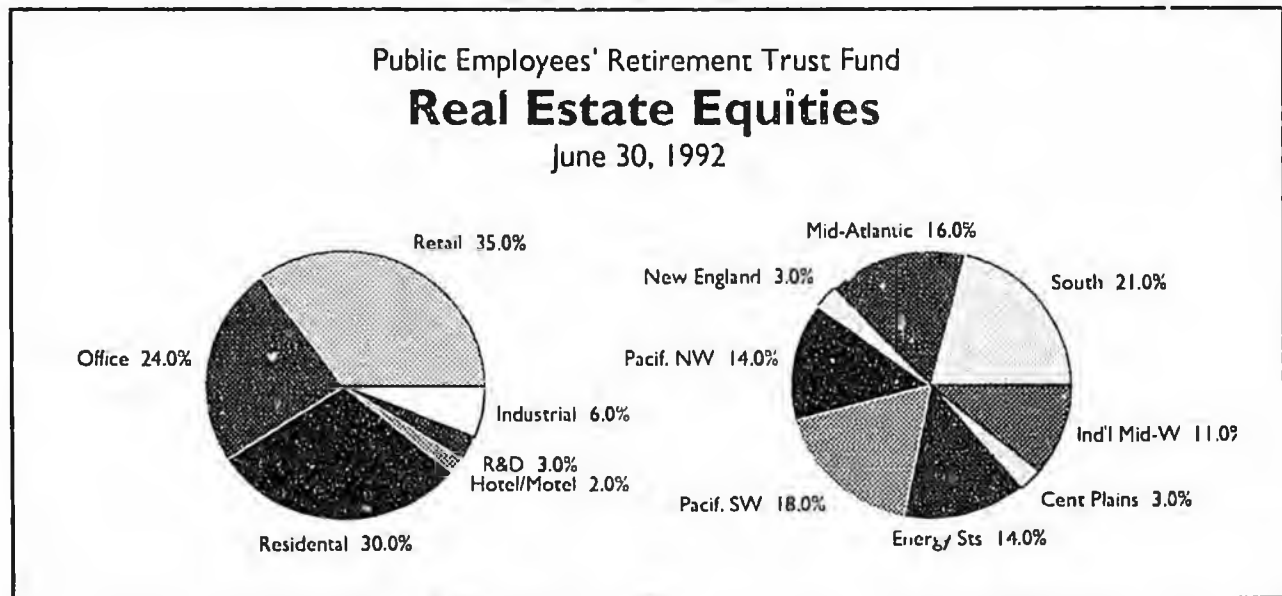
### Real Estate Equities

The real estate equity allocation is a holding of commingled funds consisting of diversified properties. The market value of real estate equities decreased during the fiscal year by \$16.5 million to total \$118 million, providing a return of -12.7% compared to the NCREIF index return of -7.2%. The real estate equity allocation comprised 3.6% of the Fund as of fiscal year-end.

These institutional-grade funds are managed by seven professional real estate investment firms. PERS invested in these funds principally in 1980 and 1984. No new investments have been made since 1987.

The real estate industry is in one of the most difficult periods in decades. In general, real estate markets are suffering from over-building in virtually all market sectors. The good news is that new construction across the country is virtually at a standstill.

As the economy improves and excess capacity is absorbed, this investment class of assets should improve in overall performance. Investment management believes the real estate equity allocation is positioned to realize future returns more quickly than the benchmark NCREIF index because of the Fund's bias toward retail and multifamily sectors.



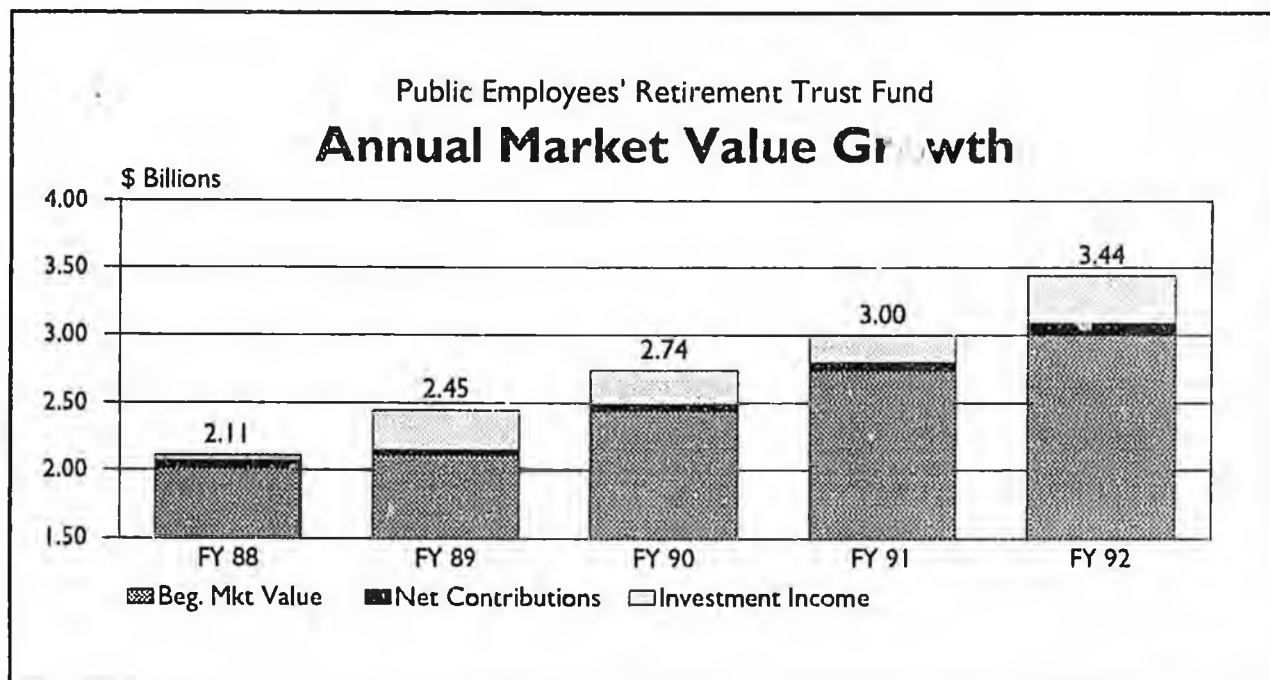
## Real Estate Mortgages

The Fund continued its investment policy of not making direct residential and commercial real estate loans, due to the low liquidity, high risk, and administrative expense of this type of investment. The market value of real estate loans totaled \$76.2 million at year-end representing 2.0% of the total Fund. This allocation returned -11.2% for the year ending June 30, 1992. A major reason for this performance was management's decision to increase the allowance for loan loss to reflect an estimated market value. This presentation of a net realizable market value is consistent with the presentation of other asset allocations of the Fund.

## Conclusion

The assets of the Fund came into being and have grown because employers and employees have paid more into the Fund in the form of contributions and earnings on those contributions than has been paid out in benefits. Investment returns have significantly increased the Fund's assets. Contributions from participants approximately match benefits by design in order to provide reasonable assurance that sufficient assets will be available to make benefit payments when they are needed.

The Fund continues to be a well diversified, prudently managed portfolio to insure the growth and stability of the Fund for current and future participants.



## INDEPENDENT AUDITORS' REPORT

State of Alaska  
Department of Revenue  
Treasury Division

We have audited the accompanying balance sheets of the Public Employees' Retirement Trust Fund (Fund) as of June 30, 1992 and 1991, and the related statements of investment income and changes in fund balance restricted for beneficiaries, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in note 1, the financial statements of the Public Employees' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Public Employees' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Trust Fund as of June 30, 1992 and 1991, and the results of its investment operations and changes in fund balance, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

September 4, 1992

KPMG Peat Marwick  
Certified Public Accountants  
601 West Fifth Avenue, Suite 700  
Anchorage, Alaska 99501-2258

Member Firm of Klynveld Peat Marwick Goerdeler

## BALANCE SHEETS

June 30, 1992 and 1991  
(000's omitted)

ASSETS	<u>1992</u>	<u>1991</u>
Investments, at market		
Marketable securities:		
U.S. Government debt	\$ 804,158	\$ 779,480
Federal agency debt	57,766	-
Mortgage backed federal securities	5,848	-
Corporate bonds	852,468	590,191
Domestic equity pool	1,296,970	1,165,967
International equity pool	<u>187,632</u>	<u>176,812</u>
Total marketable securities	<u>3,204,842</u>	<u>2,712,450</u>
Mortgage loans	90,826	98,495
Allowance for loan losses	<u>(14,590)</u>	<u>(4,851)</u>
Net mortgages	<u>76,236</u>	<u>93,644</u>
Real estate equities	<u>118,049</u>	<u>134,468</u>
Total investments	<u>3,399,127</u>	<u>2,940,562</u>
Receivables:		
Interest	34,685	9,942
Due from (to) general investment fund	<u>(2,050)</u>	<u>780</u>
Total receivables	<u>32,635</u>	<u>30,722</u>
Cash and cash equivalents	<u>10,248</u>	<u>28,148</u>
Total assets	<u>\$3,442,010</u>	<u>\$2,999,432</u>
 <b>FUND BALANCE</b>		
Fund balance restricted for beneficiaries	<u>\$3,442,010</u>	<u>\$2,999,432</u>

*See accompanying notes to financial statements*