

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

8109 HOUSE STATE AFFAIRS

374

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	(258,955)	(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.

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.

Notes to Financial Statements (continued)

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:

	<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>

Notes to Financial Statements (continued)

(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>

(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	11,300
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>

Notes to Financial Statements (continued)

(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.
 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.

STATISTICAL SECTION

**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer	Percentage
Adak Region School District	18.90
Akutan, City of	9.98
Alaska, State of	
Policemen, Firemen	16.97
All Other Employees, MM&P, IBU	15.64
Alaska Gateway School District	12.00
Alaska Housing Finance Corporation	5.23
Alaska Municipal League	5.00
Alaska State Housing Authority	13.86
Alaska, University of	9.03
Alaska Geophysical Institute, University of	9.03
Aleutian Region School District	0.00
Aleutians East Borough	5.00
Aleutians East Borough School District	5.24
Aleutians West Coastal Resource Service Area	12.00
Allakaket, City of	12.00
Anchorage, Municipality of	12.67
Anchorage Parking Authority, Municipality of	5.31
Anchorage School District	15.52
Annette Island School District	13.30
Atka, City of	12.00
Barrow, City of	0.52
Bartlett Memorial Hospital	10.97
Bering Straits Coastal Resource Service Area	5.37
Bering Strait School District	11.50
Bethel, City of	10.18
Bristol Bay Borough	12.52
Bristol Bay Borough School District	17.69
Bristol Bay Coastal Resource Service Area	12.20
Bristol Bay Housing Authority	9.44
Chatham School District	11.50
Chugach Regional School District	4.39
Cook Inlet Housing Authority	15.87
Copper River Basin Regional Housing Authority	14.31
Copper River School District	8.57
Cordova, City of	14.88
Cordova Community Hospital	3.65
Cordova Public Schools	17.91
Craig, City of	12.33
Craig City School District	15.08

**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer (continued)	Percentage
Delta/Greely School District	12.00
Denali Borough	12.00
Denali Borough School District	0.00
Dillingham, City of	4.63
Dillingham City School District	18.62
Elim, City of	15.37
Fairbanks, City of	20.30
Fairbanks Municipal Utility System	20.30
Fairbanks North Star Borough	3.81
Fairbanks North Star Borough School District	3.81
Fort Yukon, City of	0.00
Galena, City of	1.70
Galena City School District	0.00
Grayling, City of	12.00
Haines Borough	5.67
Haines Borough School District	12.00
Haines, City of	0.00
Homer, City of	13.51
Hoonah, City of	3.94
Hoonah City School District	22.83
Hooper Bay, City of	12.31
Huslia, City of	12.02
Hydaburg City School District	13.69
Iditarod Area School District	10.08
Juneau Borough School District	13.93
Juneau, City and Borough of	12.39
Kachemak, City of	12.00
Kaltag, City of	12.00
Kashunamuit School District	10.75
Kenai, City of	3.73
Kenai Peninsula Borough	13.38
Kenai Peninsula Borough School District	16.36
Ketchikan, City of	21.99
Ketchikan Gateway Borough	12.81
Ketchikan Gateway Borough School District	18.69
King Cove, City of	5.12
Kivalina, City of	10.17

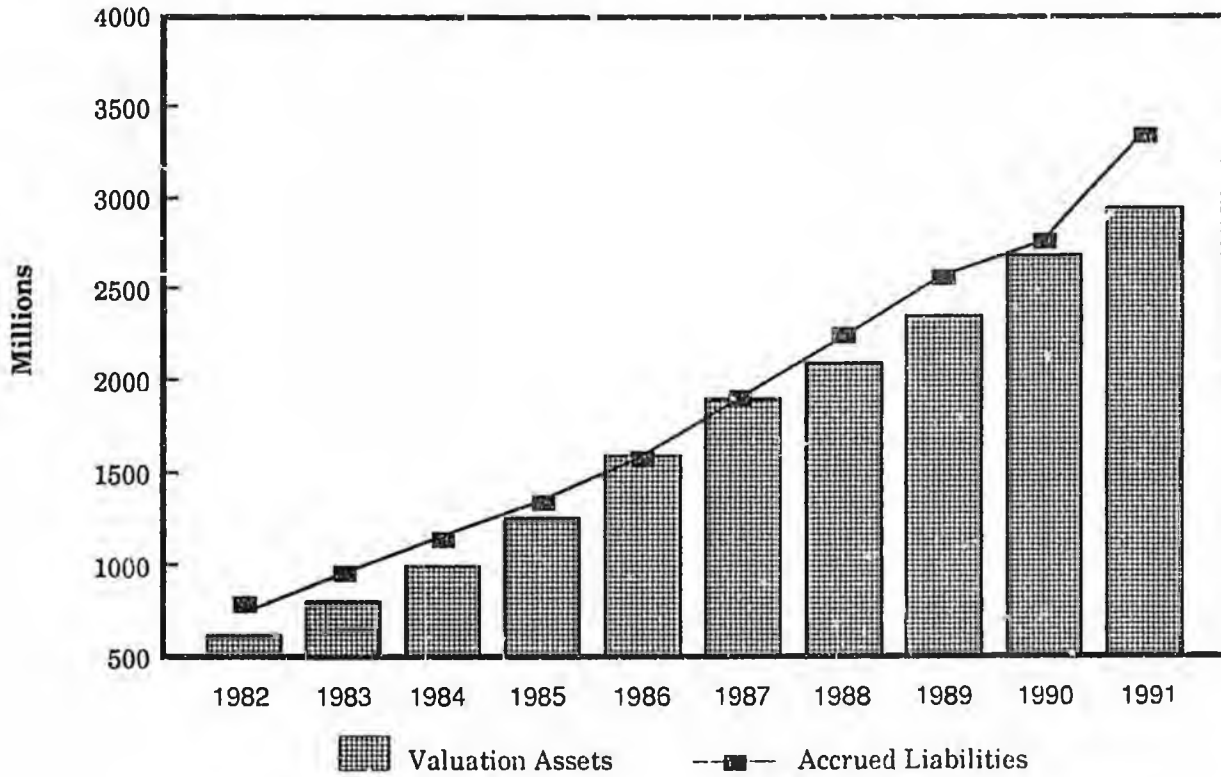
**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer (continued)	Percentage
Klawock, City of	23.57
Klawock City School District	12.00
Kodiak, City of	14.93
Kodiak Island Borough	10.25
Kodiak Island Borough School District	8.25
Kotzebue, City of	0.00
Koyuk, City of	12.00
Kuspuk School District	6.69
Lake and Peninsula Borough	12.00
Lake and Peninsula School District	7.33
Lower Kalskag, City of	12.00
Lower Kuskokwim School District	9.24
Lower Yukon School District	12.16
Matanuska-Susitna Borough	9.59
Matanuska-Susitna Borough School District	9.59
Mekoryuk, City of	12.00
Mountain Village, City of	11.68
Nenana, City of	0.00
Nenana City Public Schools	6.20
Nome, City of	10.87
Nome Public Utilities	0.00
Nome City Public Schools	9.05
Noorvik, City of	12.00
North Pacific Fisheries Management Council	1.14
North Pole, City of	2.94
North Slope Borough	3.92
North Slope Borough School District	11.57
Northwest Arctic Borough	5.94
Northwest Arctic Borough School District	0.00
Nuiqsut, City of	23.83
Old Harbor, City of	12.00
Palmer, City of	16.04
Pelican, City of	10.65
Pelican School District	17.96
Petersburg, City of	17.87
Petersburg General Hospital	17.87
Petersburg Public Schools	17.87
Pribilof Regional School District	4.84

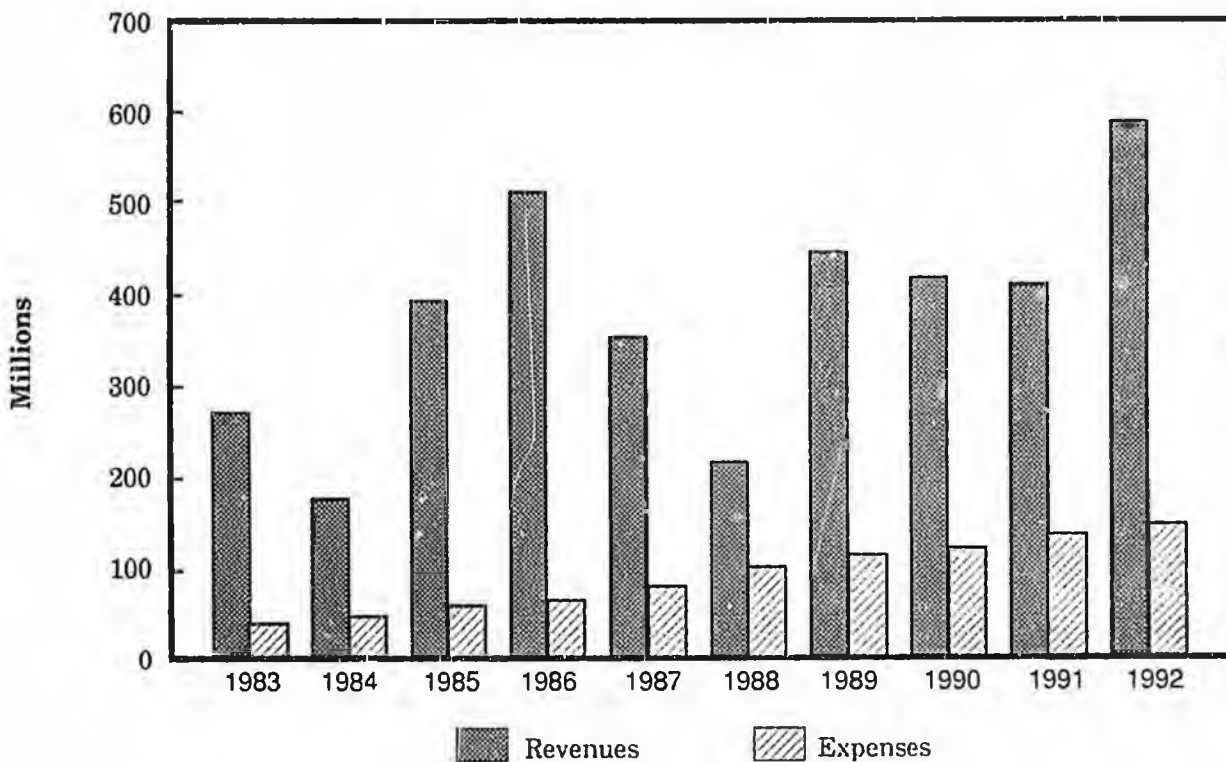
**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer (continued)	Percentage
Ruby, City of	5.37
Saint George, City of	38.92
Saint Mary's, City of	13.23
Saint Mary's School District	17.73
Saint Paul, City of	5.54
Sand Point, City of	11.96
Saxman, City of	19.43
Selawik, City of	5.00
Seward, City of	5.37
Seward General Hospital	19.34
Shishmaref, City of	12.67
Sitka, City and Borough of	16.83
Sitka Community Hospital	7.76
Sitka School District	6.94
Skagway, City of	0.00
Skagway City School District	25.29
Soldotna, City of	16.84
Southeast Islands School District	4.03
South East Regional Resource Center	0.00
Southwest Region Schools	7.92
Special Education Service Agency	11.70
Tanana, City of	1.96
Tanana City School District	13.37
Thorne Bay, City of	8.40
Unalakleet, City of	12.00
Unalaska, City of	0.00
Unalaska City School District	6.19
Valdez, City of	11.94
Valdez City Schools	12.22
Wainwright, City of	16.61
Wasilla, City of	7.78
Whittier, City of	9.49
Wrangell, City of	12.17
Wrangell City Schools	15.86
Yakutat, City of	19.74
Yukon Flats School District	0.00
Yukon-Koyukuk School District	0.00

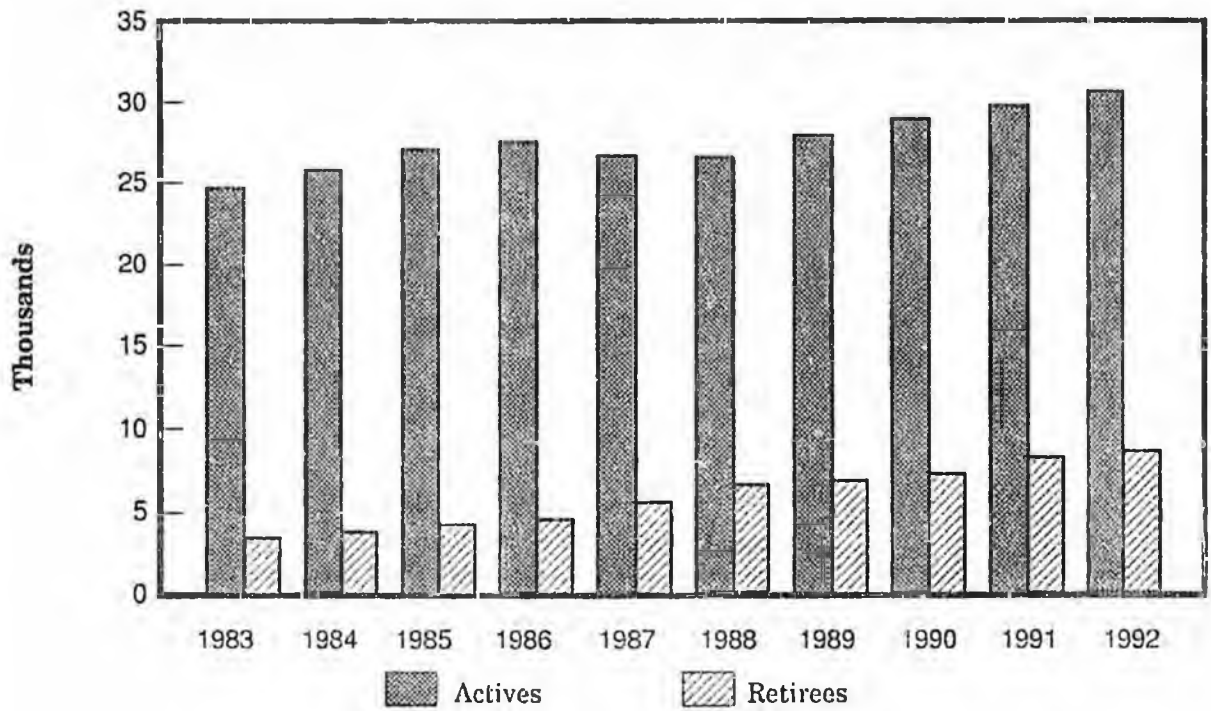
10-YEAR COMPARISON OF VALUATION ASSETS VS. ACCRUED LIABILITIES



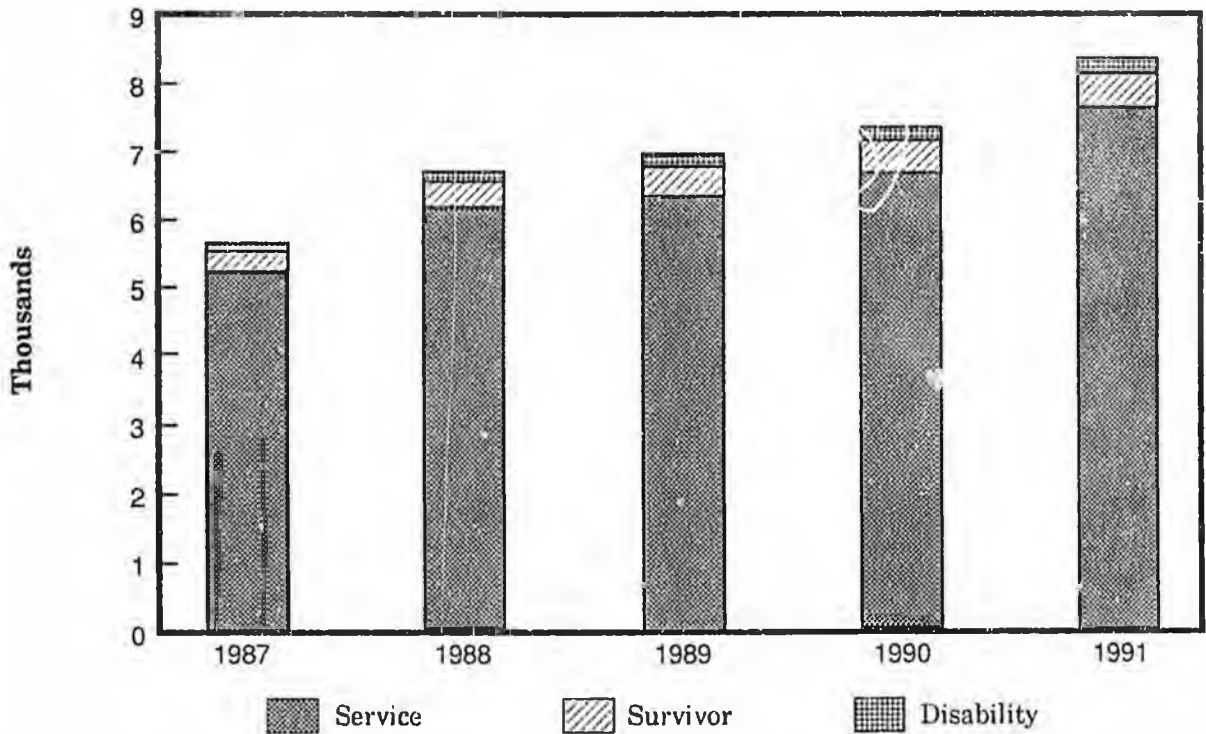
10-YEAR COMPARISON OF REVENUES AND EXPENSES



10-YEAR COMPARISON OF ACTIVE VS. RETIRED MEMBERS



5-YEAR BREAKDOWN OF TYPES OF RETIREMENTS

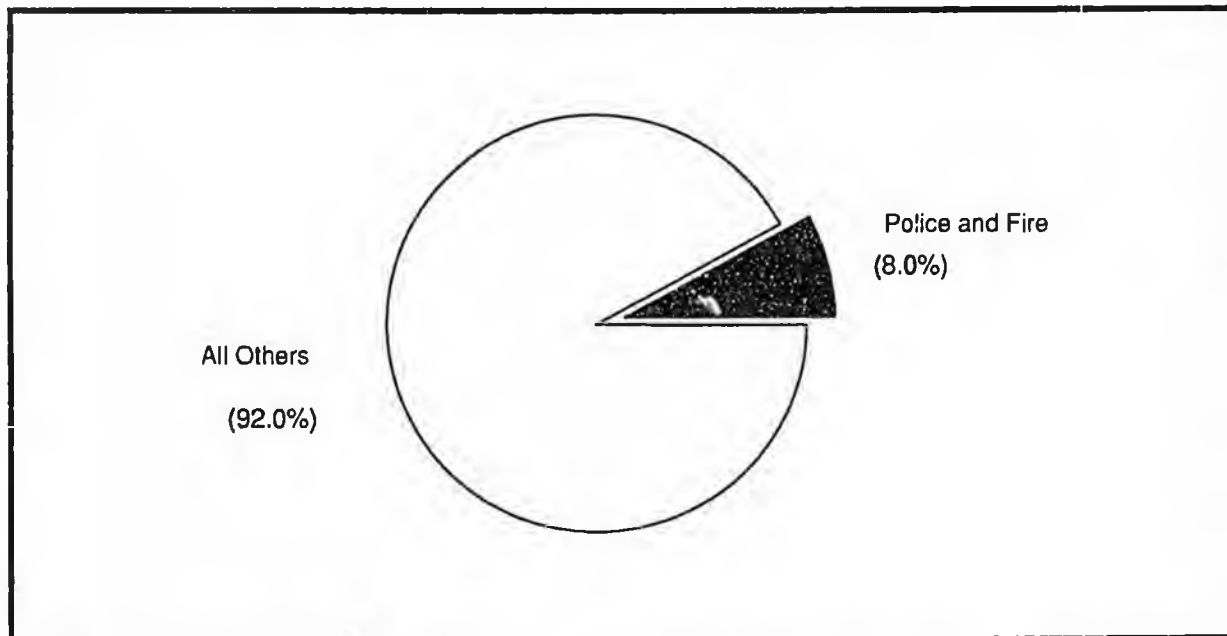


**Benefit Payments By Occupation
Fiscal Year 1992**

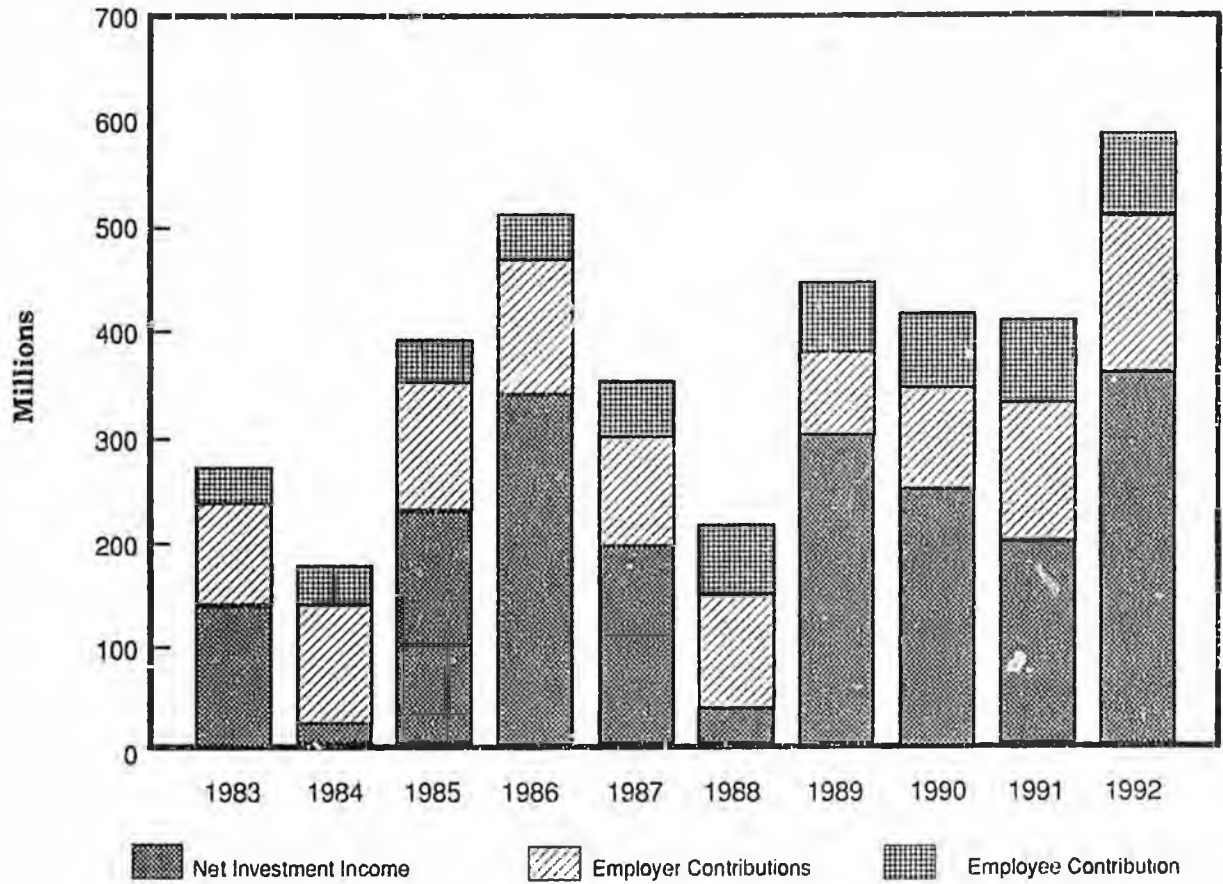
<u>Benefit Type</u>	<u>Regular Retirees</u>	<u>Peace Officer Retirees</u>	<u>Fireman Retirees</u>	<u>* Elected Off. Retirees</u>	<u>Total By Type</u>
Base	\$ 70,716,492	\$ 8,672,911	\$ 1,942,262	\$ 141,578	\$ 81,473,243
Cost of Living Allowance	5,754,676	681,260	221,906	27,112	6,684,954
Non-Occupational Death	2,595,030	102,993	77,088	11,016	2,786,127
Occupational Death	170,518	189,203	19,729	- 0 -	379,450
Disability	2,188,749	676,454	346,544	- 0 -	3,211,747
Post Retirement Pension Adjustment	11,966,273	1,040,521	265,364	22,505	13,294,663
Voluntary Annuity	3,277	- 0 -	- 0 -	- 0 -	3,277
Lump Sum	445,848	3,161	19,466	4,231	472,706
Recalculation Adjustments	48,211	5,030	686	- 0 -	53,927
Occupation Subtotal	\$93,889,074	\$ 11,371,533	\$ 2,893,045	\$206,442	\$ 108,360,094
Medical					\$ 23,120,301
Total All Benefits					\$131,480,395

* Active and Retired Elected Public Officers as of October 13, 1976, were mandatorily transferred to the Elected Public Officers Retirement System (EPORS), which was established by legislation on January 1, 1976. Under current legislation, all other elected officials may participate in the PERS or the TRS, or do not participate at their option.

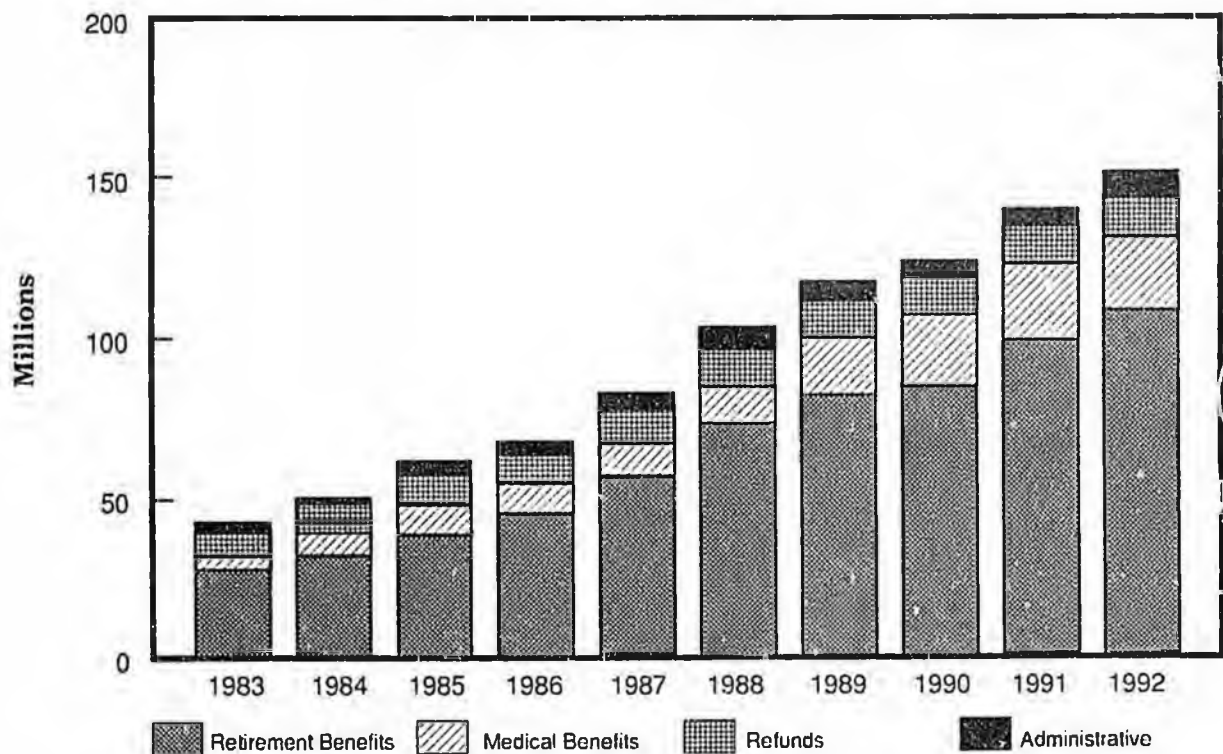
ALL RETIREES AS OF JUNE 30, 1991 BY OCCUPATION



10-YEAR BREAKDOWN OF REVENUE BY SOURCES



10-YEAR BREAKDOWN OF EXPENSES BY TYPE





**TEACHERS'
RETIREMENT SYSTEM**

TEACHERS' RETIREMENT BOARD



Charles M. Arteaga, Chair
Term Expires: 1/31/93



Dorothy Wells, Vice Chair
Term Expires: 6/30/93



Stephanie Winsor
Term Expires: 6/30/93



Cliff Koivisto,
Term Expires: 1/31/94



Roger Aldrich
Term Expires: 1/31/95

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FINANCIAL SECTION

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 Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying statement of net assets available for plan benefits of the State of Alaska Teachers' 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 Teachers' 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 Teachers' 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
TEACHERS' RETIREMENT SYSTEM**

Statements of Net Assets Available for Plan Benefits

June 30, 1992 and 1991

(000's omitted)

	<u>1992</u>	<u>1991</u>
Assets:		
Investments, at fair value:		
United States Government debt	\$ 424,620	420,898
Federal agency debt	22,846	-
Corporate bonds, notes and debentures	493,450	372,433
Domestic equity pool	795,659	715,287
International equity pool	116,680	109,947
Real estate equities	<u>70,478</u>	<u>80,828</u>
Total investments	<u>1,923,733</u>	<u>1,699,393</u>
 Loans and mortgages, at fair market value in 1992 and cost in 1991, net of allowance for loan losses of \$12,598 in 1992 and \$4,574 in 1991	 <u>66,053</u>	 <u>74,471</u>
 Receivables:		
Contributions	12,998	10,075
Retirement incentive program	2,450	9,283
Accrued interest and dividends	<u>19,116</u>	<u>17,203</u>
Total receivables	<u>34,564</u>	<u>36,561</u>
 Cash and cash equivalents	 <u>12,498</u>	 <u>17,200</u>
Total assets	<u>2,036,848</u>	<u>1,827,625</u>
 Liabilities:		
Accrued expenses	1,840	2,667
Due to General Fund	<u>3,070</u>	<u>295</u>
Total liabilities	<u>4,910</u>	<u>2,962</u>
 Net assets available for plan benefits	 <u>\$ 2,031,938</u>	 <u>1,824,663</u>

See accompanying notes to financial statements.

**STATE OF ALASKA
TEACHERS' 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>
Additions:		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ 54,770	(4,675)
Interest	80,606	79,202
Dividends	29,180	30,226
Net realized gains on sales	<u>56,346</u>	<u>17,499</u>
Total investment income before provision for losses on loans and mortgages	220,902	122,252
Provision for losses on loans and mortgages	<u>(8,024)</u>	<u>597</u>
Net investment income	<u>212,878</u>	<u>122,849</u>
Contributions:		
Employers	55,953	46,056
Employees	44,338	38,687
Retirement incentive program:		
Employers	1,118	11,926
Employees	<u>-</u>	<u>1,372</u>
Total contributions	<u>101,409</u>	<u>98,041</u>
Total additions	<u>314,287</u>	<u>220,890</u>
Deductions:		
Benefits paid:		
Retirement	88,648	84,443
Medical	<u>10,111</u>	<u>10,654</u>
Total benefits paid	98,759	95,097
Refunds to terminated employees	2,641	3,510
Administrative expenses	<u>5,612</u>	<u>3,966</u>
Total deductions	<u>107,012</u>	<u>102,573</u>
Net increase	207,275	118,317
Net assets available for plan benefits at beginning of year	<u>1,824,663</u>	<u>1,706,346</u>
Net assets available for plan benefits at end of year	<u><u>\$ 2,031,938</u></u>	<u><u>1,824,663</u></u>

See accompanying notes to financial statements.

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 1992 and 1991

(1) Description

The following brief description of the State of Alaska Teachers' 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, cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a 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:

School districts	54
Other	<u>8</u>
Total employers	<u><u>62</u></u>

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1991, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	<u>4,189</u>
Current employees:	
Vested	5,069
Nonvested	<u>3,834</u>
	<u><u>8,903</u></u>
	<u><u>13,092</u></u>

Pension Benefits

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

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

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

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

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

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or 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, 1990 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age sixty-five by paying premiums.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse pension. If there is no spouse, a survivor's allowance may be payable to the employee's dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982 are not eligible to participate in this provision.

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

Disability Benefits

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

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
Notes to Financial Statements**

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 participants' 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.

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	\$ 3,454
Net unrealized gain, from prior years	<u>4,104</u>
	<u>\$ 7,558</u>

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

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 \$8,303,000 and \$11,375,000 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.

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 from October 1, 1987 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 equities	\$ 738,692	672,784
Interest and dividends receivable	1,863	2,061
Cash and cash equivalents	<u>55,104</u>	<u>40,442</u>
	<u>\$795,659</u>	<u>715,287</u>

International equities at June 30, 1992 and 1991 are comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
International equities	\$ 106,846	102,830
Cash and cash equivalents	<u>9,834</u>	<u>7,117</u>
	<u>\$ 116,680</u>	<u>109,947</u>

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

	<u>1992</u>	<u>1991</u>
Interest-bearing deposits	\$ 8,565	88
Investment maturities in transit	3,928	912
Repurchase agreements	<u>5</u>	<u>16,200</u>
	<u>\$ 12,498</u>	<u>17,200</u>

**STATE OF ALASKA
TEACHERS' 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
TEACHERS' 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	\$ 12,498	-	-	12,498
Investments:				
United States Government debt	424,620	-	-	424,620
Federal agency debt	22,846	-	-	22,846
Corporate bonds, notes and debentures	493,450	-	-	493,450
Domestic equity pool	795,659	-	-	795,659
International equity pool	116,680	-	-	116,680
Real estate equities	<u>70,478</u>	-	-	<u>70,478</u>
	<u>\$ 1,936,231</u>	<u>-</u>	<u>-</u>	<u>1,936,231</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	\$ 14,294	(1,060)
Federal agency debt	(277)	-
Corporate bonds, notes and debentures	23,492	2,039
Domestic equity pool	20,663	23,702
International equity pool	2,695	(14,801)
Real estate equities	(13,655)	(14,555)
Loans and mortgages	<u>(592)</u>	<u>-</u>
	<u>\$ 46,620</u>	<u>(4,675)</u>

(Continued)

**STATE OF ALASKA
TEACHERS' 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>
1992:			
United States Government debt	\$ 371,996	424,620	424,620
Federal agency debt	23,123	22,846	22,846
Corporate bonds, notes and debentures	464,286	493,450	493,450
Domestic equity pool	690,855	795,659	795,659
International equity pool	119,088	116,680	116,680
Real estate equities	89,908	70,478	70,478
Loans and mortgages	<u>58,369</u>	<u>65,927</u>	<u>65,927</u>
	<u>\$ 1,817,625</u>	<u>1,989,660</u>	<u>1,989,660</u>
1991:			
United States Government debt	381,487	420,898	420,898
Corporate bonds, notes and debentures	366,760	372,433	372,433
Domestic equity pool	631,146	715,287	715,287
International equity pool	115,049	109,947	109,947
Real estate equities	86,603	80,828	80,828
Loans and mortgages, net of allowance for loan losses of \$4,574	<u>74,471</u>	<u>78,367</u>	<u>74,471</u>
	<u>\$ 1,655,516</u>	<u>1,777,760</u>	<u>1,773,864</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.

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

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.

(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 members and set backward four years for female members.
- c. Retirement age - retirement rates based on actual experience.
- d. Discount rate - 9% per annum, compounded annually, net of investment expenses.

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

- 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

- 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) - 66% 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 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- 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.

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

At June 30, 1991, the unfunded pension benefit obligation was \$250.7 million, as follows (in millions):

Net assets available for benefits as of June 30, 1991, at market	<u>\$ 1,824.7</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,056.5
Current employees:	
Accumulated employee contributions including allocated investment income	293.1
Employer-financed, vested	598.5
Employer-financed, nonvested	<u>127.3</u>
Total pension benefit obligation as of June 30, 1991	<u>2,075.4</u>
Unfunded pension benefit obligation as of June 30, 1991	<u><u>\$ 250.7</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 \$68.666 million.

(5) Contributions

Employee Contributions

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan. Present employee accumulated contributions at June 30, 1992 and 1991 were \$364,695,000 and \$298,447,000, respectively. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

(Continued)

**STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM**

Notes to Financial Statements

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>	
	Contributions	As a percentage of covered payroll	Contributions	As a percentage of covered payroll
Employer	\$55,953	12.20%	\$46,056	10.90%
Employer	<u>44,338</u>	<u>9.67</u>	<u>38,687</u>	<u>9.15</u>
	<u>\$100,291</u>	<u>21.87%</u>	<u>\$84,743</u>	<u>20.05%</u>
Normal Cost	87,724	19.13	81,913	19.38
Amortization of unfunded actuarial accrued liability	<u>12,567</u>	<u>2.74</u>	<u>2,830</u>	<u>.67</u>
	<u>\$ 100,291</u>	<u>21.87%</u>	<u>\$ 84,743</u>	<u>20.05%</u>

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

(Continued)

**STATE OF ALASKA
TEACHERS' 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 a 2.7% increase in the funding ratio and a 2.51% payroll reduction 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 University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees until June 30, 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, and all other employees from July 1, 1989 through December 31, 1989.

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 21% of their annual compensation for the school year in which they terminated employment to participate in the programs. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

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
TEACHERS' RETIREMENT SYSTEM**

**Required Supplementary Information
Analysis of Funding Progress**

(000's omitted)

Year ended June 30	Net assets available	Pension benefit obligation	Percen- tage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll
1985	\$ 866,333	\$ 1,042,551	83.1%	\$ 176,218	\$ 358,110	49.2%
1986	1,141,650	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	1,303,464	1,210,909	107.6	(92,555)	348,606	(26.6)
1988	1,356,575	1,347,859	100.6	8,716	361,310	2.4
1989	1,545,877	1,557,643	99.2	11,766	431,445	2.7
1990	1,706,346	1,895,030	90.0	188,684	449,838	41.9
1991	1,824,663	2,075,405	87.9	250,742	422,655	59.3

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
TEACHERS' RETIREMENT SYSTEM**

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

(000's omitted)

Year ended June 30	Revenues by source				Total	Employer contribution as a percentage of annual covered payroll
	Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value		
1983	\$ 24,546	\$ 54,718	\$ 62,846	\$ 36,218	\$ 178,328	18.6%
1984	27,257	63,316	61,559	(48,194)	103,938	19.4
1985	29,176	68,826	74,171	78,418	250,591	19.2
1986	32,039	69,276	119,173	103,643	324,131	17.7
1987	34,159	58,177	143,692	(15,677)	220,351	16.7
1988	33,104	69,363	100,239	(75,566)	127,140	19.2
1989	31,888	47,348	125,170	65,243	269,649	11.0
1990	35,224	53,670	146,612	12,129	247,635	11.9
1991	40,059	57,982	127,524	(4,675)	220,890	14.1
1992	44,338	57,071	166,132	46,620	314,161	12.4

	Expense by type				Total
	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	
1983	\$ 24,053	\$ 2,307	\$ 2,509	\$ 1,606	\$ 30,475
1984	27,792	3,257	3,094	1,605	35,748
1985	33,360	4,393	3,126	2,951	43,830
1986	38,476	4,424	3,311	2,603	48,814
1987	46,183	4,613	4,239	3,502	58,537
1988	60,939	5,040	3,798	4,252	74,029
1989	65,328	8,073	2,953	3,993	80,347
1990	71,134	9,713	2,896	3,423	87,166
1991	84,443	10,654	3,510	3,966	102,573
1992	88,648	10,111	2,641	5,612	107,012

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

See accompanying notes to required supplementary information.

**STATE OF ALASKA
TEACHERS' 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, 1978 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 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 54% to 66%.

ACTUARIAL SECTION

Highlights

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

- (1) present the results of a valuation of the Alaska Teachers' 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 rate for the State and each school district 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*	\$1,662,242	\$1,779,579
(b) Accrued Liability*	1,895,030	2,075,405
(c) Funding Ratio, (a) / (b)	87.7%	85.7%

* In thousands.

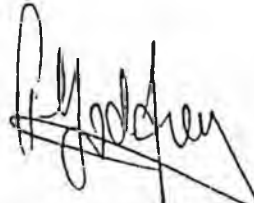
Employer Contribution Rates for Fiscal Year:	<u>1993</u>	<u>1994</u>
(a) Normal Cost Rate	14.07%	9.05%
(b) Past Service Rate	5.58%	6.54%
(c) Total Contribution Rate	19.65%	15.59%
(d) Three-year Average Rate	15.69%	16.80%
(e) Actuarial Projection Rate	N/A	12.00%

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 the audited report from 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 3, 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 87.7% to 85.7%, a reduction of 2.0%. The total employer contribution rate has reduced from 19.65% of payroll for FY93 to 15.59% for FY94, a reduction of 4.06% of payroll. The three-year average rate has increased from 15.69% of payroll for FY93 to 16.80% for FY94, a 1.11% increase. The increase in the three-year average rate reflects the increase in the total rate for FY93 to 19.65% 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 normal cost rate of 1.76% and a reduction in the past service rate of 1.25%.

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 6.97%. The effect of the five-year smoothing technique was a rate of return based on valuation assets of 7.09%. As this rate was lower than the assumed rate of return of 9%, the System experienced an actuarial loss from investment performance equal to \$31,706,000 which had the effect of increasing the total employer contribution rate by 0.70%.

3. Salary Increases

In recent years salary increases have been less than anticipated in the valuation assumptions. This was again true last year but to a much less extent than in prior years. Salary experience resulted in a small actuarial gain which generated a reduction in the total employer contribution rate equal to 0.20%.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7% from 8,586 at June 30, 1990 to 8,903 at June 30, 1991. The average age of active participants increased from 42.21 to 42.28 and average credited service reduced from 10.62 to 10.48 years.

The number of retirees and beneficiaries increased 11.3% from 3,184 to 3,544, and their average age decreased from 62.45 to 61.64. There was a 21.0% reduction in the number of vested terminated participants from 816 to 645. Their average age fell from 46.75 to 45.57.

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 0.72%. These demographic changes also had the effect of increasing the normal cost rate by 0.24%.

5. Retirement Incentive Program

The second Retirement Incentive Program has been available to participants since June 30, 1989. State employees had until November 1, 1990 to retire and other TRS participants had to retire by August 1, 1990 to qualify for the RIP. 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 199 new retirees during the year ending June 30, 1990 and 507 new retirees during the year ending June 30, 1991. Furthermore, the average age of all retirees decreased from 62.45 to 61.64 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 future health premium trend, mortality, turnover, disability, retirement and the percentage of benefit recipients expected to remain in Alaska. The investment return assumption remained the same at 9% per year. All assumptions are described in detail in Section 2.3 of the report.

The Study of Actuarial Assumptions disclosed that the overall effect on the financial status of the System due to the revised assumptions is a 2.7% increase in the funding ratio and a 2.51% of payroll reduction in the contribution rate.

7. Actuarial Projections

At the Fall 1991 Board Meetings, the TRS 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 1.6, Actuarial Projections, contains the results of this analysis.

This type of information can be especially useful to two-tiered systems, such as TRS. 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 1.6, based on the actuarial assumptions and cost method, future contribution rates are expected to decline, and then level out in 15 to 20 years.

We are proposing to the Board that sound actuarial principles would support leveling out this contribution pattern to anticipate the second tier provisions coming into effect. In this way, a more stable contribution pattern could be adopted to help the State and school districts 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.

This enhanced projection and smoothing would replace the three-year smoothing of the contribution rates currently employed by TRS. We recommend that the employer contribution rate adopted for FY94 be 12.00% under this approach.

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.

Summary

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

(1)	Last year's total employer contribution rate (before smoothing)	19.65%
(2)	Decrease in past service rate due to retiree medical insurance	(1.25%)
(3)	Decrease in normal cost rate due to retiree medical insurance	(1.76%)
(4)	Increase due to investment performance	0.70%
(5)	Decrease due to salary increases	(0.20%)
(6)	Increase in past service rate due to demographic experience	0.72%
(7)	Increase in normal cost rate due to demographic experience	0.24%
(8)	Decrease in total employer contribution rate due to change in actuarial assumptions	(2.51%)
(9)	Total employer contribution rate this year (before smoothing)	15.59%
(10)	Effect of three-year smoothing	1.21%
(11)	Smoothed rate	16.80%
(12)	Effect of enhanced Actuarial Projection system	(4.80%)
(13)	Proposed employer contribution rate	12.00%

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 9% 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 members and set backward four years for female members. All deaths are assumed to result from nonoccupational causes.

- | | | |
|-----|----------------------|---|
| 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. |
| 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 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 12. | C.O.L.A. | Of those benefit recipients who are eligible for the C.O.L.A., 66% are assumed to remain in Alaska and receive the C.O.L.A. |
| 13. | New Entrants | Growth projections were made for the active TRS population under three scenarios:

Pessimistic: 0% per year
Median: 1% per year
Optimistic: 2% per year |
| 14. | Sick Leave | 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired. |
| 15. | 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 TRS
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	
Year of Employment	Rate	Ages	Rate
1	.26	20-39	.03
2	.24	40+	.02
3	.16		
4	.12		
5	.11		
6	.10		
7	.09		
8	.09		
9	.09		
10	.09		

Table 2**Alaska TRS Disability Rates
Annual Rates Per 1,000 Employees**

Age	Rate
20	.14
21	.14
22	.14
23	.15
24	.15
25	.15
26	.15
27	.15
28	.16
29	.16
30	.16
31	.17
32	.17
33	.25
34	.34
35	.44
36	.53
37	.64
38	.75
39	.87
40	.99
41	1.12
42	1.25
43	1.39
44	1.53
45	1.68
46	1.84
47	2.00
48	2.17
49	2.34
50	2.52
51	2.70
52	2.89
53	3.08
54	3.29
55	3.49
56	3.70
57	3.92
58	4.14
59	4.37
60	4.61
61	4.84
62	5.09
63	5.34
64	5.60

Table 3

**Alaska TRS
Retirement Rates**

Age at Retirement	Retirement Rate
50	.10
51	.07
52	.07
53	.07
54	.07
55	.16
56	.16
57	.16
58	.16
59	.13
60	.13
61	.13
62	.13
63	.13
64	.10
65	.47
66	.82
67	1.00

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

**PARTICIPANT CENSUS INFORMATION
AS OF JUNE 30**

Active Members	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
(1) Number	7,797	8,218	8,527	8,586	8,903
(2) Number Vested	4,196	4,053	4,787	4,890	5,069
(3) Average Age	41.09	41.34	41.82	42.21	42.28
(4) Average Credited Service	10.45	10.46	10.61	10.62	10.48
(5) Average Annual Salary	\$ 44,710	\$ 43,966	\$ 44,596	\$ 45,388	\$ 47,473
Retirees and Beneficiaries					
(1) Number	2,376	2,972	3,098	3,184	3,544
(2) Average Age	62.83	61.41	61.85	62.45	61.64
(3) Average Monthly Benefit:					
Base	\$1,304	\$1,460	\$1,476	\$1,491	\$1,587
C.O.L.A.	\$87	\$102	\$102	\$100	\$105
P.R.P.A.	\$268	\$208	\$234	\$262	\$238
Total	\$1,659	\$1,770	\$1,812	\$1,853	\$1,930
Vested Terminations					
(1) Number	777	408	508	816	645
(2) Average Age	47.92	44.26	45.11	46.75	45.57
(3) Average Monthly Benefit	\$1,391	\$847	\$957	\$1,244	\$897
Non-Vested Terminations With Account Balances					
(1) Number	1,529	938	943	985	1,003
(2) Average Account Balance	\$9,421	\$9,773	\$9,765	\$10,244	\$10,270

STATISTICS ON ALL RETIREES AS OF JUNE 30

Service Retirements	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
(1) Number, Prior Year	1,922	2,194	2,760	2,870	2,948
(2) Net Change During Year	272	566	110	78	374
(3) Number, This Year	2,194	2,760	2,870	2,948	3,322
(4) Average Age At Retirement	56.06	55.11	54.91	54.80	54.14
(5) Average Age Now	63.52	61.84	62.25	62.84	61.82
(6) Average Monthly Benefit	\$1,672	\$1,793	\$1,834	\$1,879	\$1,950
Surviving Spouse's Benefits					
(1) Number, Prior Year	69	70	85	103	108
(2) Net Change During Year	1	15	18	5	17
(3) Number, This Year	70	85	103	108	125
(4) Average Age At Retirement	53.93	55.83	55.56	55.76	54.44
(5) Average Age Now	63.49	66.74	67.26	67.79	65.95
(6) Average Monthly Benefit	\$750	\$708	\$738	\$794	\$1,093
Survivor's Benefits (other than spouses)					
(1) Number, Prior Year	34	32	36	31	31
(2) Net Change During Year	(2)	4	(5)	0	(30)
(3) Number, This Year	32	36	31	31	1
(4) Average Age At Retirement	39.04	36.15	35.42	35.42	23.81
(5) Average Age Now	46.77	44.66	43.73	44.73	41.68
(6) Average Monthly Benefit	\$1,746	\$1,513	\$1,652	\$1,661	\$544
Disabilities					
(1) Number, Prior Year	73	80	91	94	97
(2) Net Change During Year	7	11	3	3	(1)
(3) Number, This Year	80	91	94	97	96
(4) Average Age At Retirement	44.00	44.39	44.22	44.18	44.15
(5) Average Age Now	49.93	49.87	49.71	50.14	50.33
(6) Average Monthly Benefit	\$2,075	\$2,125	\$2,267	\$2,304	\$2,358
Total Number of Retirees	2,376	2,972	3,098	3,184	3,544

SUMMARY OF THE ALASKA TEACHERS' RETIREMENT SYSTEM

(1) Effective Date

June 30, 1955, with amendments through June 30, 1991. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. New members who are first hired under the TRS after June 30, 1990 are entitled to different benefits than those members who were hired before July 1, 1990.

(2) Administration of Plan

The Commissioner of Administration is responsible for administration of the system; the Alaska Teachers' 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) Membership

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

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- the Commissioner of the Alaska Department of Education and certificated supervisors employed by the Department of Education in permanent positions requiring teaching certificates;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator (employees who elect to participate in the University of Alaska's optional retirement plan are excluded);
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310; and
- certain State legislators who have elected to be covered under the TRS.

TRS members who receive TRS disability benefits are also covered under the TRS and earn membership service while they are on disability.

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

(4) Credited Service

A year of membership service is defined to be the same as a school term which is currently a minimum of 172 days, and fractional service credit is on a daily rate basis. Credit is granted for all Alaskan public school service.

TRS members may claim TRS credit for the following service:

- **Outside teaching service.** Members may claim up to ten years of outside service for their employment in out-of-state schools or Alaska private schools. Outside service includes employment as:
 - (a) certificated full-time elementary and secondary teachers and certificated full-time employees in positions which require teaching certificates as a condition of employment with out-of-state public schools and approved or accredited nonpublic schools either inside or outside of the United States supported by U.S. funds;
 - (b) full-time employees in out-of-state institutions of higher learning requiring academic standing and accreditation; or
 - (c) full-time teachers in approved or accredited nonpublic institutions of higher learning in Alaska.

Contributions are required for service which is claimed. For members first hired after June 30, 1978, the full actuarial cost of providing benefits for the service will be borne by the member. Credit for fractional years of outside service is not allowed.

- **Part-time teaching service.** Members receive one-half year of membership service for each year as a part-time teacher.
- **Military service.** Members may claim up to five years of military service; however, the combined total of outside and military service may not exceed ten years, unless entry into the military is immediately preceded by TRS service and following discharge is continued by TRS service within one year. Contributions are required for service which is claimed. Credit for fractional years of military service is allowed.
- **Bureau of Indian Affairs (BIA) service in Alaska.** Members may claim their Alaska BIA service as professional educators and certificated full-time teachers in positions requiring teaching certificates. Contributions are required for service which is claimed. Credit for fractional years of BIA service is allowed.
- **Retroactive service.** Members may claim their earlier Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change. Retroactive contributions are required for earlier service that occurred after June 30, 1955. Contributions are not required for service before July 1, 1955.
- **Unused sick leave.** Members may claim their unused sick leave after they retire. Contributions are not required.
- **Leave of absence without pay.** Members may receive credit for their employer-approved leave of absence without pay. Contributions are required.

(5) **Computation of Average Base Salary**

A member's average base salary is determined by averaging the highest base salaries that the member received for any three years of membership service during which the member received compensation for at least two-thirds of each school year.

(6) Employer Contributions

The employer contributes an amount required, in addition to member contributions, to finance the benefits of the system.

(7) Employee Contributions

Mandatory Employee Contributions: 8.65% of base salary. Employee contributions are deducted from the gross salary before federal income tax is withheld.

Note: Prior to January 1, 1991, the rate was 7%. Employee contributions were deducted from the gross salary after federal income tax was withheld.

Interest Credited: 4.5% compounded annually on June 30.

Refund of Contributions: If a member terminates TRS employment, the balance of the member's account (mandatory 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 withdrawn, the member must return to TRS employment in order to reinstate the refunded service. Upon reemployment, an indebtedness will 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 TRS employment. The indebtedness will accrue interest until it is paid in full or the member retires, whichever occurs first.

Refund at Death: If monthly survivor's benefits are not payable upon the member's death, the member's contribution account balance, including mandatory and supplemental contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. When the member has more than one year of TRS service, the beneficiary will also receive \$1,000 plus \$100 for each year of membership service (not to exceed \$3,000). An additional \$500 may be payable if the member is survived by dependent children.

(8) 1% Supplemental Contributions

If a member first joined the system before July 1, 1982 and elected to participate in the supplemental contributions provision, a spouse's pension and/or survivor's allowance may be payable to his or her spouse and dependent children. To participate, the member must contribute an additional 1% of his or her base salary. An election to participate must be made no later than 90 days after marriage, the birth or adoption of a child, or reemployment in the system if there was at least a twelve (12) month break in service.

(9) Normal Retirement Eligibility

The first of the month following the earlier of (a) or (b) below:

- (a) Upon attaining age 60 (age 55 for members who participated before July 1, 1990) and meeting one of the following service requirements:
 - (i) Eight years of fully-paid membership service; or
 - (ii) 15 years of fully-paid creditable service, the last five of which have been membership service; (if hired after June 30, 1975 a member needs eight years of fully-paid membership service); or
 - (iii) Five years of fully-paid membership service and three years of fully-paid Alaska B.I.A. service; or
 - (iv) 12 years of combined part-time and full-time fully-paid membership service (at least one-half year each); or
 - (v) two years of fully-paid membership service if the member is vested in the Public Employees' Retirement System;

or;

- (b) At any age after meeting one of the following service requirements:
 - (i) 25 years of fully-paid creditable service, the last five of which are membership service; or
 - (ii) 20 years of fully-paid membership service; or
 - (iii) 20 years of fully-paid combined membership service and Alaska B.I.A. service, the last five of which are membership service.
 - (iv) 20 years of combined part-time and full-time fully-paid membership service (at least one-half year each).

A member who has been receiving TRS disability benefits is eligible for a service retirement benefit upon satisfying normal retirement eligibility.

(10) Normal Retirement Benefit

Two percent of average base salary for the first twenty years of service, and 2.5% for all remaining years. Service before July 1, 1990 is credited at 2%.

Minimum Benefit: \$25 per month for each year of credited service.

(11) Early Retirement Eligibility

Upon attaining age 55 (age 50 for members who participated before July 1, 1990) and meeting one of the following service requirements:

- (a) Eight years of fully-paid membership service; or
- (b) 15 years of fully-paid creditable service, the last five of which have been membership service; (if hired after June 30, 1975 a member needs eight years of fully-paid membership service); or
- (c) Five years of fully-paid membership service and three years of fully-paid Alaska B.I.A. service; or
- (d) 12 years of combined part-time and full-time membership service (at least one-half year each); or
- (e) two years of fully-paid membership service if the member is vested in the Public Employees' Retirement System.

(12) Early Retirement Benefit

Actuarial equivalent of the normal retirement benefit based on service and salary to early retirement date.

(13) Deferred Benefit

Eligibility:

Refer to (9) *Normal Retirement Eligibility* and (11) *Early Retirement Eligibility* (page 25 - 26).

Withdrawal of employee contributions voids rights to benefits.

Amount: Refer to (10) *Normal Retirement Benefit* and (12) *Early Retirement Benefit*, above.

(14) 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.

(15) Re-employment of a Retired Teacher

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 TRS 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.

(16) Disability Retirement Benefits

A disability retirement benefit may be paid if a member becomes permanently disabled before the normal retirement date and has at least five years of fully-paid membership service.

The benefit is equal to 50% of the disabled member's base salary immediately prior to becoming disabled. This benefit will be increased by 10% of the member's base salary for each minor child up to a maximum of 40%.

When the disabled member becomes eligible for normal retirement, the 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 in membership service during the period of disability.

(17) Death Benefit Before Retirement

Nonoccupational Death

Upon a nonoccupational death of a member who has made no supplemental contributions or who made supplemental contributions for less than one year and has completed less than one year of membership service, a lump-sum benefit shall be paid to the designated beneficiary.

The lump-sum benefit is the member's contribution account balance, including mandatory and supplemental contributions, indebtedness payments and interest earned.

If the member is in active service at the time of death and has completed at least one year of membership service, but is not vested, the beneficiary will also receive \$1,000 plus \$100 for each year of membership service (not to exceed \$3,000). An additional \$500 may be payable if the member is survived by dependent children.

Upon a nonoccupational death of a vested member or deferred vested member who has not made the required supplemental contributions, the surviving spouse may elect to receive the benefits described in the previous paragraph or a 50% joint and survivor option based on the member's average base salary and credited service at the time of death.

Occupational Death

Upon an occupational death of a member who has not made the required supplemental contributions, a monthly survivor's pension equal to 40% of the base salary at the time of death or disability, if earlier, may be paid to the spouse. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's average base 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.

(18) 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.

(19) Survivor's Allowance - Supplemental Contributions

If a member has made supplemental contributions for at least one year and dies while in membership service, or while receiving TRS disability benefits, or if the member has made supplemental contributions for at least five years and dies while on retirement or in deferred vested status, and is survived by dependent children, the surviving spouse and/or dependent children are entitled to a survivor's allowance.

The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The survivor's allowance commences the month following the member's death. When there is no longer an eligible dependent child, the survivor's allowance ceases and a spouse's pension becomes payable.

(20) Spouse's Pension - Supplemental Contributions

If a member has made supplemental contributions for at least one year and dies while in membership service, or while receiving TRS disability benefits, or if the member has made supplemental contributions for at least five years and dies while on retirement or in deferred vested status, the surviving spouse is entitled to receive a spouse's pension.

The pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if the member had been retired at the time of death. The spouse's pension commences the month following the member's death or cessation of the survivor's allowance. The pension ceases when the spouse dies.

(21) 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 TRS 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 eight 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, 1990 if the CPI has increased and the financial condition of the fund will permit an adjustment).

(22) 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. Members who were first hired before July 1, 1990 or who are receiving disability benefits are eligible for COLA, regardless of age.

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INVESTMENT SECTION

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. HICKEL, 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 Teachers' Retirement Trust Fund (Fund) Report of Assets. 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 \$2.0 billion dollars. This growth was established by investment earnings of \$208.8 million and net contributions of \$2.1 million. My responsibility for the continued positive investment performance of the Fund is one which I take very seriously.

The \$208.8 million dollars of investment income represents an investment return to the Fund of 11.2%. The actuarial rate of return assumption adopted by the Teachers' Retirement System (TRS) board is 9.0%. The investment rate of return assumption is used by the actuary to calculate the funding requirements of the TRS. 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 TRS fell by 2% to 88%. The primary reason for this decrease was the actuarial change to the TRS demographics. At 88% TRS would still be considered financially sound. Fiscal year 1992's positive investment performance will help achieve a higher "funding ratio" for TRS. 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 Teachers' Retirement System and Public Employees' Retirement System will be elected. Three members will be appointed by the Governor. One of these members will represent participating employers of the TRS. 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" TRS 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 Teachers' Retirement System Trust Fund (Fund) is established by Alaska Statute 14.25.010. The Fund holds the assets of the Teachers' Retirement System (TRS). 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 TRS. 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 TRS 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.

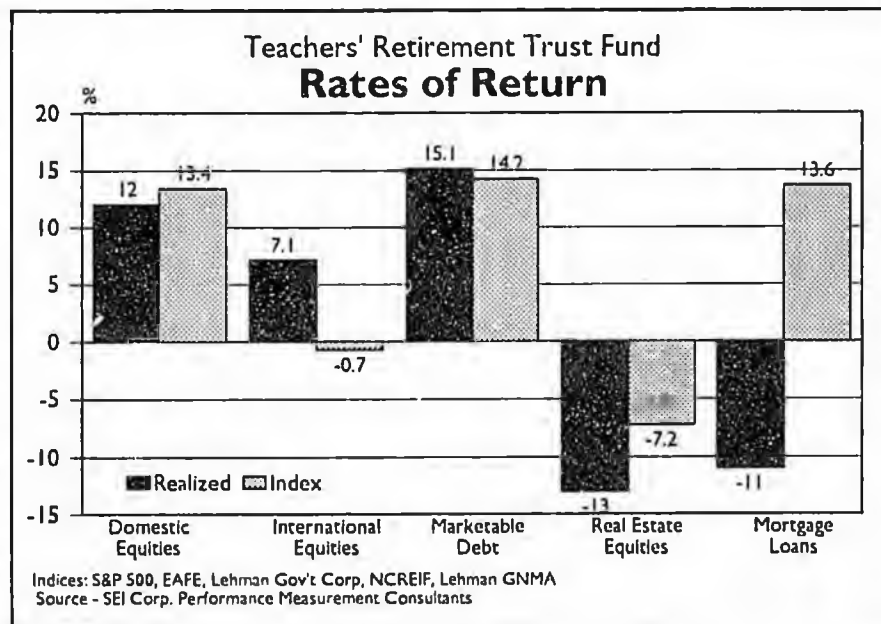
Total Fund Returns

The Fund earned \$158.1 million in realized net income in FY 1992 versus \$127.6 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 \$56.3 million in FY 1992 and \$17.5 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 \$208.8 million in FY 1992 as compared to \$124.1 million in FY 1991. This amount includes both the realized income of \$158.1 million and a \$50.7 million net increase in unrealized gains.

The rate of return for the Fund for FY 1992 was 11.2%. 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 8.8%. This is near the actuarial assumption of a long-term rate of return of 9.0% for future periods.

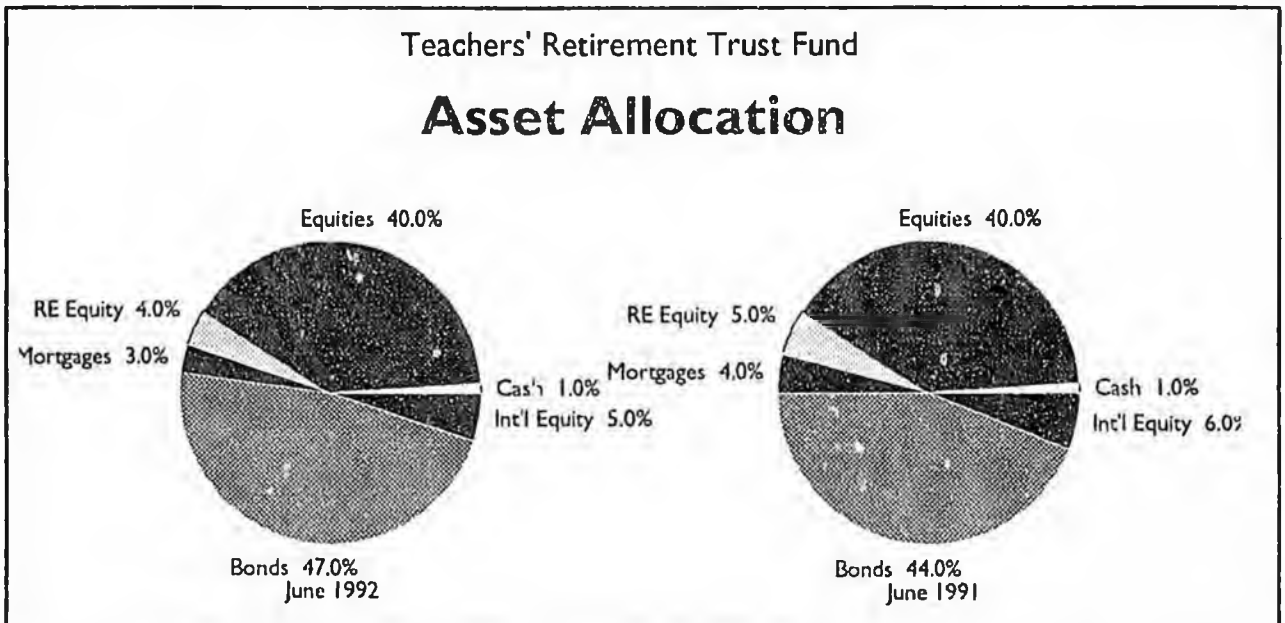


Asset Allocation

Marketable Debt Securities

Marketable debt securities, consisting of high quality investment grade securities, accounted for 47.5% of the total Fund assets at fiscal year-end. This allocation was comprised of 48% Federal Government and Agency securities and 52% 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

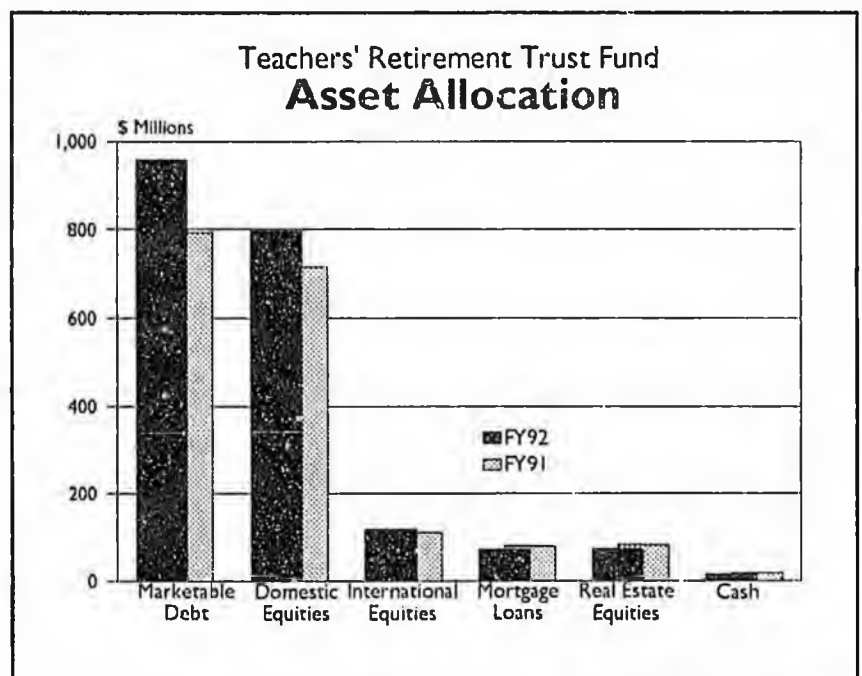


maturity which is moderately longer than many corporate or state portfolios. The portfolio earned a total return of 15.1% in FY 1992 which is .90% above the benchmark index return of 14.2%.

Interest earned on debt securities in fiscal year 1992 totaled \$74 million. The fiscal year ended with realized gains of \$15 million and unrealized gains of \$35 million. Investment management was a net buyer of \$95 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 \$80.4 million to \$795.7. This asset class represented 39% 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 7.1%. 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 \$6.8 million to total \$116.7 million, representing 5.8% of the total portfolio.

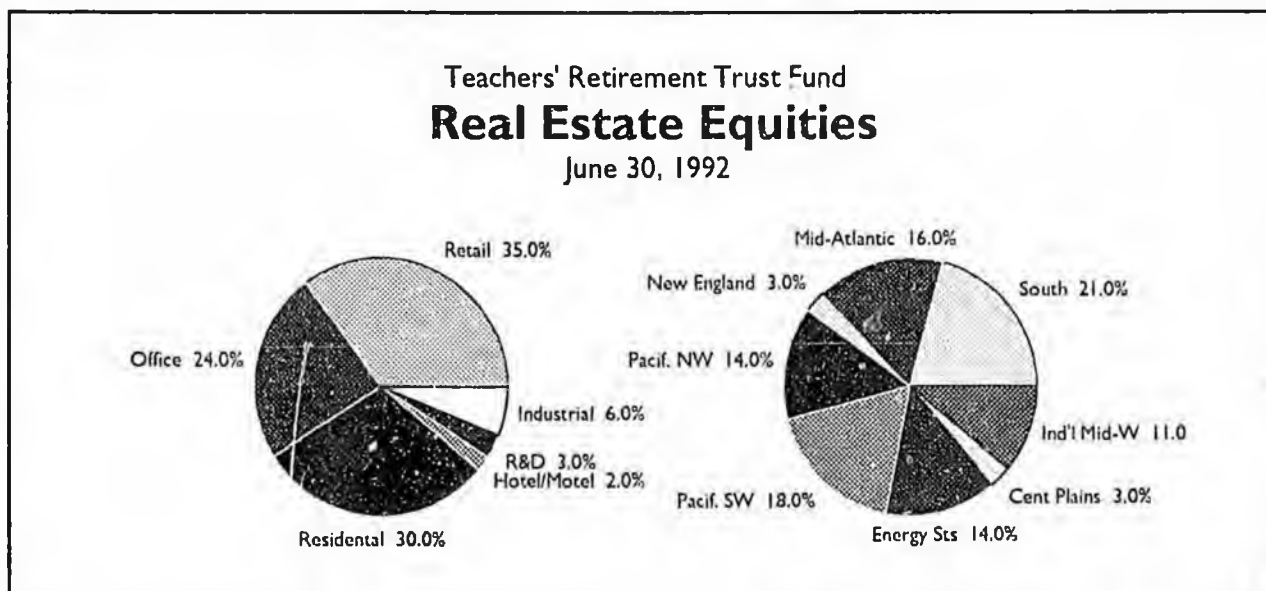
Real Estate Equities

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 \$10.3 million to total \$70.5 million, providing a return of -13.0% 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. TRS 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.



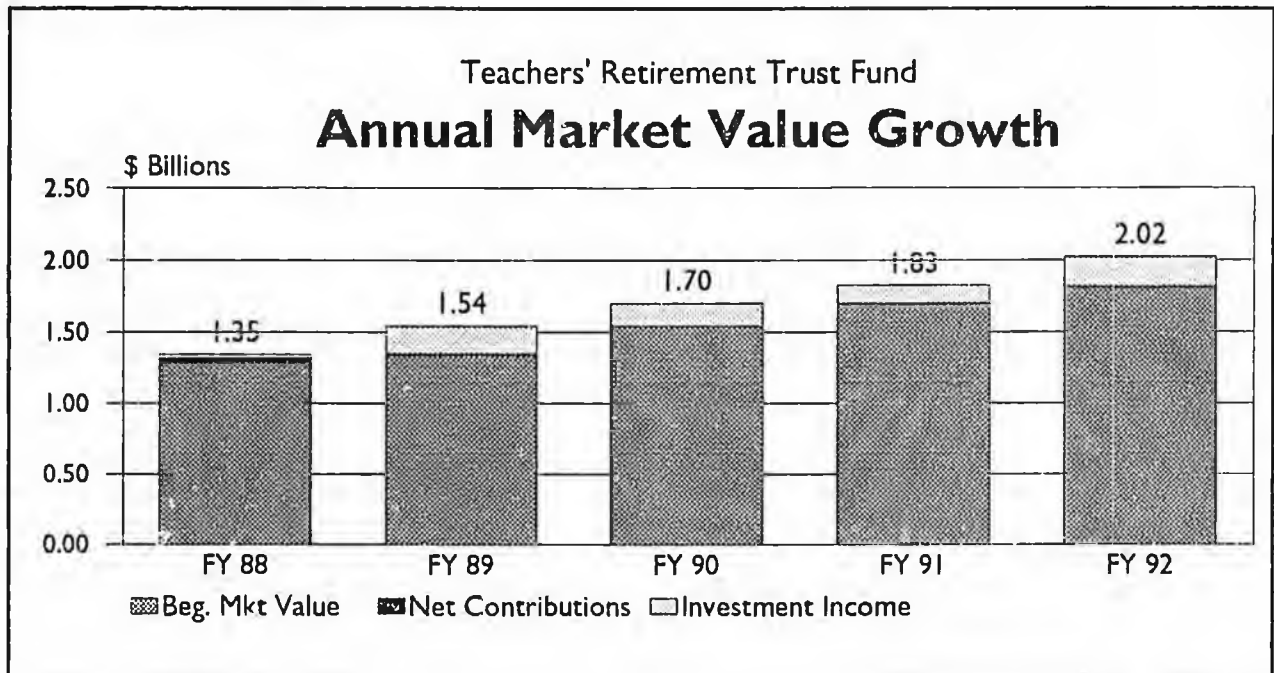
Real Estate Mortgages

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 \$66.0 million at year-end representing 2.9% of the total Fund. This allocation returned -11.0% 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 Teachers' 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 Teachers' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Teachers' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' 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	\$ 424,620	\$ 420,898
Federal agency debt	22,846	-
Corporate bonds	493,450	372,433
Domestic equity pool	795,659	15,287
International equity pool	<u>116,680</u>	<u>109,947</u>
Total marketable securities	1,853,255	1,618,565
Mortgage loans	78,525	82,941
Allowance for loan losses	(12,598)	(4,574)
Net mortgages	65,927	78,367
Real estate equities	<u>70,478</u>	<u>80,828</u>
Total investments	<u>1,989,660</u>	<u>1,777,760</u>
Receivables:		
Interest	19,168	17,507
Due from (to) general investment fund	<u>(1,022)</u>	<u>1,129</u>
Total receivables	<u>18,146</u>	<u>18,636</u>
Cash and cash equivalents	<u>12,498</u>	<u>17,200</u>
Total assets	<u><u>\$2,020,304</u></u>	<u><u>\$1,813,596</u></u>
FUND BALANCE		
Fund balance restricted for beneficiaries	<u><u>\$2,020,304</u></u>	<u><u>\$1,813,596</u></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	\$ 74,302	\$ 72,071
Mortgage loans	<u>6,304</u>	<u>7,252</u>
Total interest	<u>80,606</u>	<u>79,323</u>
Dividends:		
Domestic equity pool	20,943	22,098
International equity pool	4,460	3,717
Real estate equities	<u>3,778</u>	<u>4,412</u>
Total dividends	<u>29,181</u>	<u>30,227</u>
Total income	109,787	109,550
(Increase) reduction of allowance for loan losses	<u>(8,024)</u>	<u>596</u>
Net income	<u>101,763</u>	<u>110,146</u>
Net realized and unrealized gains on investments:		
Realized:		
Marketable debt securities	14,517	5,429
Domestic equity pool	41,265	10,955
International equity pool	<u>563</u>	<u>1,115</u>
Net realized gains	<u>56,345</u>	<u>17,499</u>
Change in unrealized market appreciation	<u>50,666</u>	<u>(3,577)</u>
Net realized and unrealized gains	<u>107,011</u>	<u>13,922</u>
Total investment income	208,774	124,068
Beginning fund balance restricted for beneficiaries	1,813,596	1,700,702
Net withdrawals	<u>(2,066)</u>	<u>(11,174)</u>
Ending fund balance restricted for beneficiaries	<u><u>\$2,020,304</u></u>	<u><u>\$1,813,596</u></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	\$ 2'	\$ 24,068
Adjustments to reconcile investment income to net cash provided by investment operations:		
Net realized gain	(56,345)	(17,499)
Change in unrealized market appreciation	(50,666)	3,577
Amortization	418	175
Increase in interest receivable	(1,661)	(583)
Increase (reduction) of allowance for loan losses	<u>8,024</u>	<u>(596)</u>
Net cash provided by investment operations	<u>108,544</u>	<u>109,142</u>
Investing activities:		
Purchase of marketable securities	(410,931)	(355,285)
Sales and maturities of marketable securities	314,954	367,273
Acquisition of mortgage loans and real estate equities	(11,885)	(10,373)
Net increase in book value of domestic equity pool	(18,444)	(140,946)
Net increase in book value of international equity pool	(3,475)	-
Mortgage loan principal payments and proceeds from real estate equities	<u>16,450</u>	<u>15,135</u>
Net cash used in investing activities	<u>(113,331)</u>	<u>(124,196)</u>
Financing activities - net contributions (withdrawals) from benefit system	<u>85</u>	<u>(11,472)</u>
Net decrease in cash and cash equivalents	(4,702)	(26,526)
Cash and cash equivalents at beginning of year	<u>17,200</u>	<u>43,726</u>
Cash and cash equivalents at end of year	<u>\$ 12,498</u>	<u>\$ 17,200</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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

(1) The Accounting Entity

The Teachers Retirement Trust Fund (Fund) is the investment portfolio of the State of Alaska Teachers' Retirement System (TRS). TRS is a multiple-employer cost-sharing, defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified teachers employed by the state, municipalities, school districts, or other political subdivisions within the state. These financial statements are those of the Fund and not TRS 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 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 and dividend income on domestic equity securities, is accrued monthly. Dividend income on international equity securities is recognized upon notification from the custodian.

Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to TRS 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.

Notes to Financial Statements (continued)

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 a 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:

	<u>1992</u>	<u>1991</u>
June 30 pool ownership percentage	37.8%	37.1%
Domestic equities, at market	\$ 738,692	\$ 672,784
Interest and dividends receivable	1,863	2,051
Cash and cash equivalents	<u>55,104</u>	<u>40,442</u>
Total	<u>\$ 795,659</u>	<u>\$ 715,287</u>

Notes to Financial Statements (continued)

(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	\$ 8,565	\$ 88
Unsettled investment transactions	3,928	912
Repurchase agreement	<u>5</u>	<u>16,200</u>
Total cash and cash equivalents	<u>\$12,498</u>	<u>\$17,200</u>

(5) International Equity Pool

The Fund, along with the Public Employees 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	38.3%	0%
International equities, at market	\$ 106,846	\$ 102,830
Cash and cash equivalents	<u>9,834</u>	<u>7,117</u>
	<u>\$116,680</u>	<u>\$109,947</u>

(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	\$ 54,295	\$ 55,849
Real estate loans past due 90 days	8,283	11,612
Real estate acquired by foreclosure	<u>8,303</u>	<u>11,375</u>
Total Outstanding Principal	70,881	78,836
Unrealized Appreciation	<u>7,644</u>	<u>4,105</u>
Total Market Value	78,525	82,941
Allowance For Real Estate Loan Losses	<u>(12,598)</u>	<u>(4,574)</u>
Net Mortgages	<u>\$ 65,927</u>	<u>\$ 78,367</u>

Notes to Financial Statements (continued)

(7) Safekeeping Risk

The Teachers Retirement Trust Fund's deposits and investments are categorized below pursuant to 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.
 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.

STATISTICAL SECTION

**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer	Percentage
Adak Region School District	11.87%
Alaska Department of Education	
Alaska Gateway School District	
Alaska, University of	
Alaska Geophysical Institute, University of	
Alaska State Legislature	
Aleutian Region School District	
Aleutians East Borough School District	
Anchorage School District	
Annette Island School District	
Association of Alaska School Boards	
Bering Strait School District	
Bristol Bay Borough School District	
Chatham School District	
Chugach School District	
Copper River School District	
Cordova Public Schools	
Craig City School District	
Delta-Greely School District	
Denali Borough School District	
Dillingham City School District	
Fairbanks North Star Borough School District	
Galena City School District	
Haines Borough School District	
Hoonah City School District	
Hydaburg School District	
Iditarod Area School District	
Juneau School District, City and Borough of	
Kake City School District	
Kashunamuit School District	
Kenai Peninsula Borough School District	
Ketchikan Gateway Borough School District	
Klawock City School District	
Kodiak Island Borough School District	
Kuspuk School District	

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**EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 1992**

Employer (continued)	Percentage
Lake and Peninsula School District	11.87%
Lower Kuskokwim School District	
Lower Yukon School District	
Matanuska-Susitna Borough School District	
National Education Association - Alaska	
Nenana Public Schools	
Nome Public School	
North Slope Borough School District	
Northwest Arctic Borough School District	
Pelican School District	
Petersburg Public Schools	
Pribilof School District	
Saint Mary's School District	
Sitka School District	
Skagway City School District	
Southeast Island School District	
Southeast Regional Resource Center	
Southwest Region Schools	
Special Education Service Agency	
Tanana City School District	
Unalaska School District	
Valdez City Schools	
Wrangell School District	
Yakutat City School District	
Yukon Flats School District	
Yukon-Koyukuk School District	
Yupit School District	

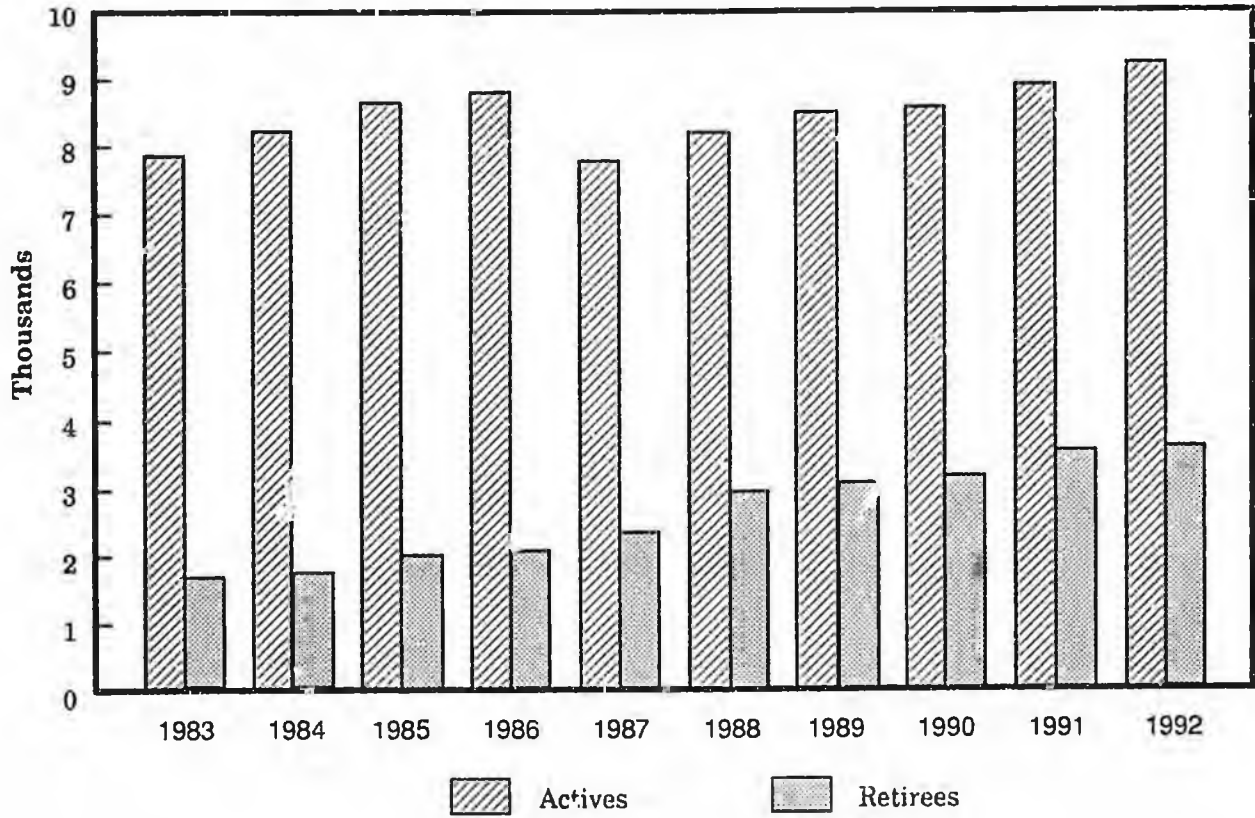
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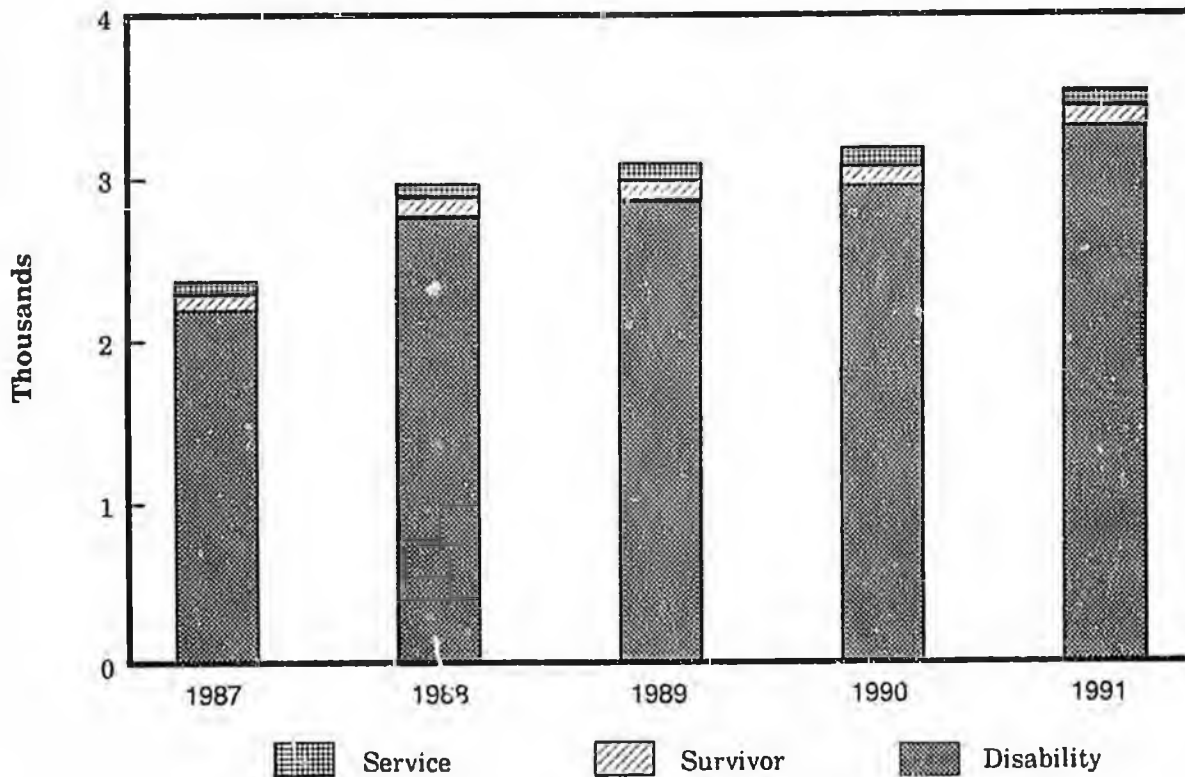
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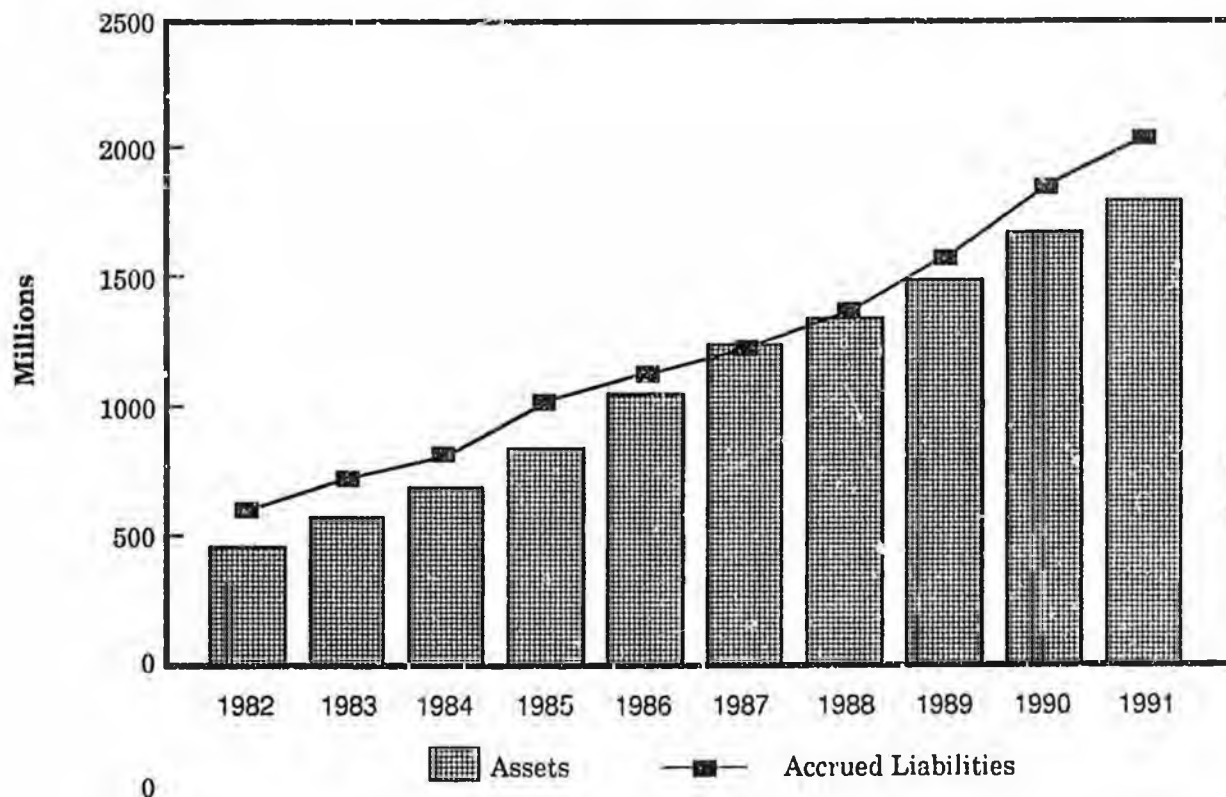
10-YEAR COMPARISON OF ACTIVES VS. RETIREES



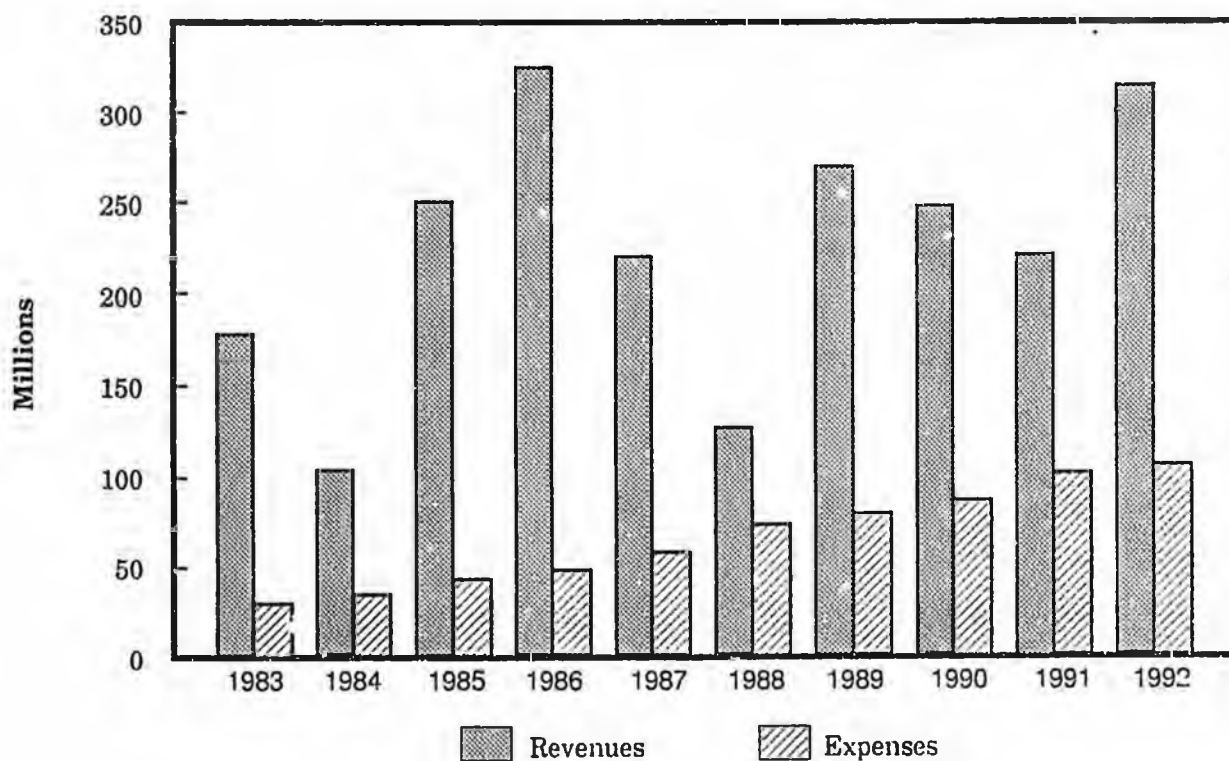
5-YEAR BREAKDOWN OF RETIREES BY TYPE



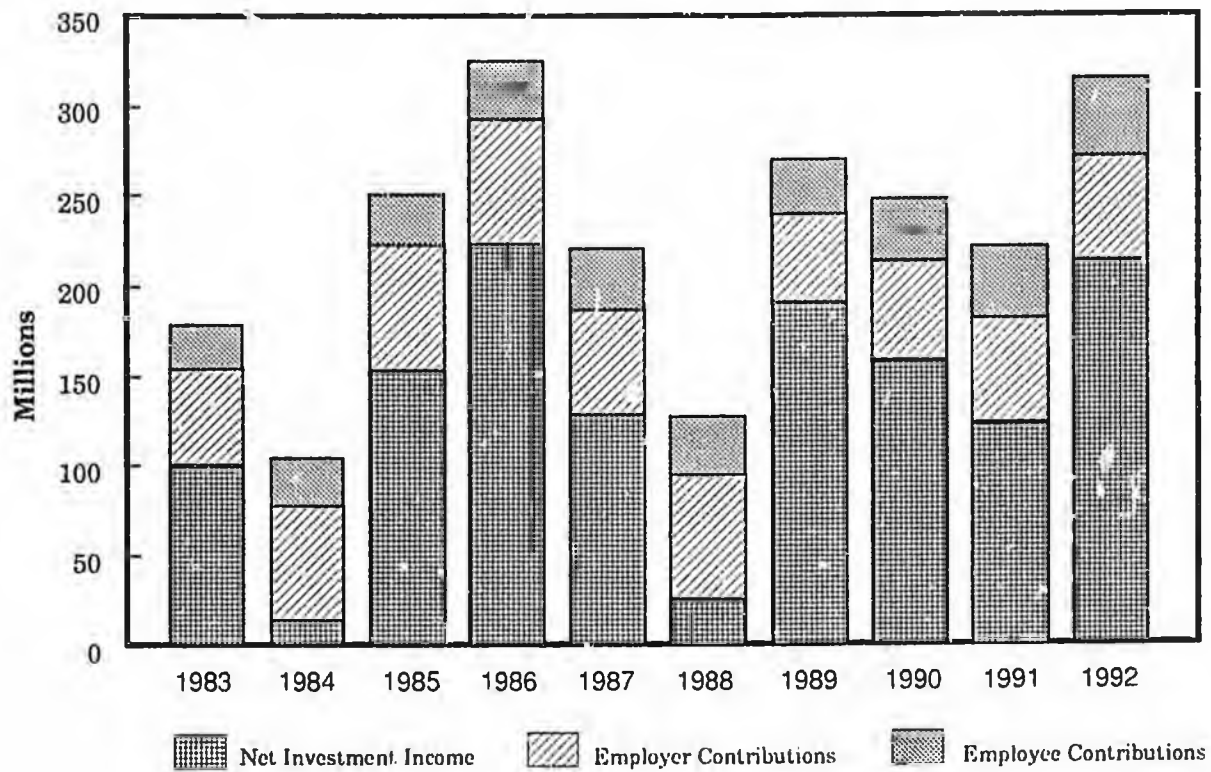
10-YEAR COMPARISON OF VALUATION ASSETS VS. ACCRUED LIABILITIES



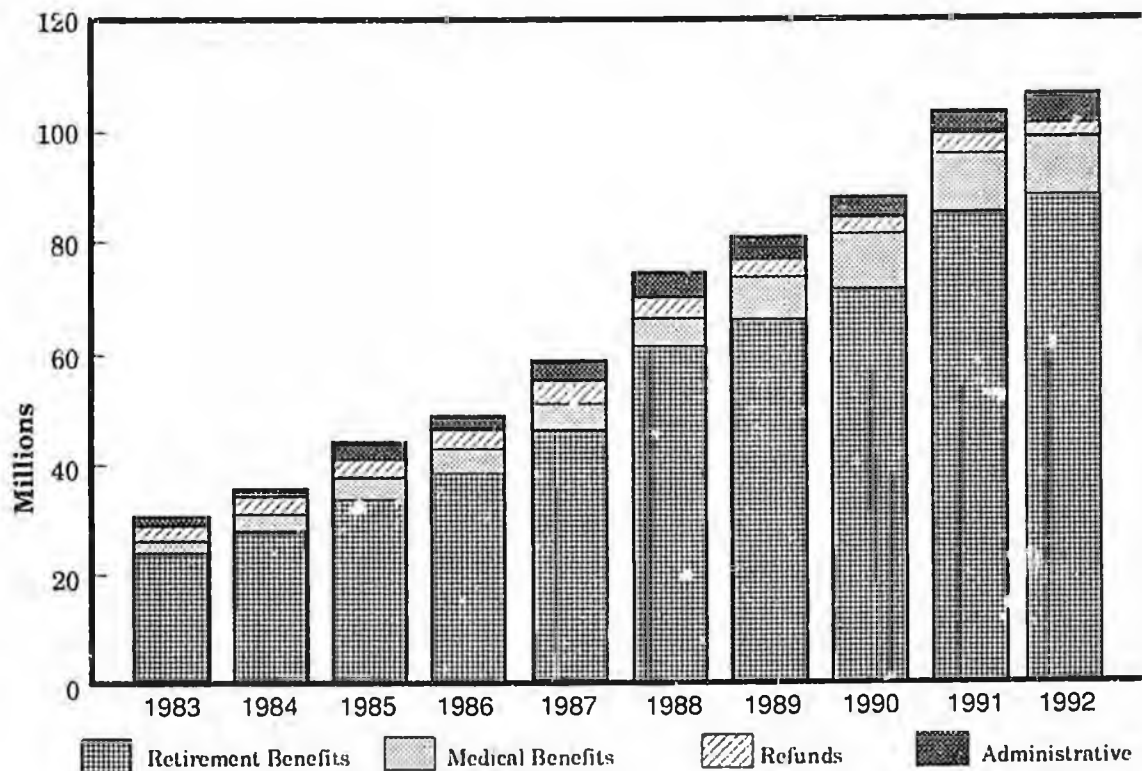
10-YEAR COMPARISON OF REVENUES AND EXPENSES



10-YEAR BREAKDOWN OF REVENUE BY SOURCE



10-YEAR BREAKDOWN OF EXPENSES BY TYPE



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FEB 11 1994

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2-20-94

Peter O. Kimzey
Box NKI
Ketchikan, AK 99950-0550
Ph. 629-4253, Fax 629-4121

Dear Representative Vezey,

I am writing you in regards to the Teacher's Retirement Incentive Bills which are being debated this session, in particular HB 36. I have been teaching for Southeast Island School District for the past 17 years. Our school district is facing some very serious financial problems. We need to reduce our budget by \$500,000.00 this coming year and \$300,000.00 next year. With these kind of drastic cuts we face the serious problem of trying to maintain the quality education our children deserve. There seems to be no question that there will be staff reductions this coming year. This will be very painful for those asked to give up their jobs.

A retirement incentive program would certainly help us deal with these cuts in staff and budget. By retiring some of our senior teachers we would simply not replace them, saving the jobs of the less senior teachers. There would also be a savings in the cost of salaries, in that our senior teachers are at the top of the pay schedule.

With these financial points taken into consideration, there are still good reasons to offer this bill. Because of the tight job market it is very hard for new teachers to find work and for other teachers to move to other positions.

My family has made our home in Port Alexander since 1975. Both my daughters were born in Southeast. Being a rural teacher has been a rewarding occupation for me, but it has had its drawback for my children. They have had their parents for their teachers most of their lives. My older daughter Molly is now going to Mt. Edgecombe School. Mt. Edgecombe meets our daughter's needs better than our rural high schools, so we made the choice to board her in Sitka.

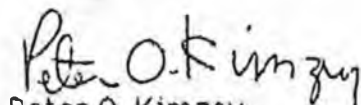
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We would prefer to have her at home and have been trying to find work in a larger SE community for the last two years with no success. Because of the tight job market there have not been many openings available. Our chances would improve with more job openings. A retirement incentive program would open the market.

It is my understanding that unless the State Affairs Committee releases one of these bills to the floor, there is no chance for action. Is it possible that you might support a retirement incentive bill this session? If there anything I might do to help influence your decision?

Your support on one of these bills would be greatly appreciated.

Thank you,


Peter O. Kimzey