State of Alaska
Judicial Retirement System

Actuarial Valuation Report as of June 30, 2004

MERCER
Human Resource Consulting

Contents

Report Highlights

This report has been prepared by Mercer Human Resource Consulting for the State of Alaska Judicial Retirement System to:

- Present the results of a valuation of the State of Alaska Judicial Retirement System as of June 30, 2004;
- Review experience under the Plan for the period July 1, 2002 to June 30, 2004;
- Determine the contribution rate for the System for Fiscal Years 2007 and 2008;
- Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into three sections. Section 1 contains the results of the valuation. It includes the experience of the Plan during the 2002/2003 and 2003/2004 plan years, the current annual costs, and reporting and disclosure information.

Section 2 provides reporting and disclosure information for financial statements, governmental agencies and other interested parties.

Section 3 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 principal results are as follows:

Funding Status as of June 30		**2002**	**2004**
(a)	Valuation assets	$ 63,683,909	$ 70,455,634
(b)	Accrued liability	71,843,615	80,052,559
(c)	Funding Ratio, (a) / (b)	88	88.

Recommended Contribution Rates:		**FY05 - FY06**	**FY07 - FY08**
(a)	Normal Cost Rate	25.08%	27.92%
(b)	Past Service Cost Rate	8.45%	9.45%
(c)	Total Employer Cost Rate	33.53%	37.37%

Report Highlights *(continued)*

We have prepared an actuarial valuation of the State of Alaska Judicial Retirement System as of June 30, 2004. The results of the valuation are set forth in this report, which reflects the provisions of the Plan as amended and effective through June 30, 2004.

The valuation is based on employee and financial data, which were provided by the System and which are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the Plan. This report fully and fairly discloses the actuarial position of the Plan on an ongoing basis.

There have been no changes in plan provisions, actuarial assumptions, valuation procedures or actuarial cost method since the last valuation of the plan as of June 30, 2002.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. Collectively, the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion in this report.

Samuel G. Martin, ASA, MAAA	September 9, 2005 **Date**
Christopher Byrnes, EA	September 9, 2005 **Date**

Mercer Human Resource Consulting
One Union Square
600 University Street, Suite 3200
Seattle, WA 98101-3137
206 808 8800

CMB/MAG/SGM/ws:kmp

Analysis of Valuation

(1) Actuarial Method and Assumptions

The actuarial method and assumptions are the same as those used in the June 30, 2002 valuation.

(2) Salary Increases

Salaries for active judges did not change between June 30, 2002, and June 30, 2004. The following table presents the annual base salaries for the different court appointments:

	June 30, 2002	June 30, 2004
District Court	$ 92,424	$ 92,424
Superior Court	109,032	109,032
Appellate Court	111,384	111,384
Supreme Court	117,900	117,900
Administrative Director	118,476	118,476

The average annual base salary for the 53 continuing active judges increased from $105,939 at June 30, 2002, to $106,252 at June 30, 2004, an average annual increase of 0.15%. Since we assumed an average annual salary increase of 4% in the valuation as of June 30, 2002, an actuarial gain occurred due to salary experience.

(3) Investment Experience

The estimated rate of return on investments during fiscal year 2003 was 3.31% and the estimated rate of return during fiscal year 2004 was 14.78%, net of expenses. Our actuarial calculations were based upon the assumption that the System's assets would earn 8.25% in FY03 and FY04, net of expenses. The compound average annual rate of return during the two-year period was 8.89%, which resulted in an actuarial gain to the System.

Analysis of Valuation *(continued)*

(4) Health Premiums

The blended monthly premium increased from $720 for the January 1, 2003, to December 31, 2003 time period to $850 for the January 1, 2005, to December 31, 2005, time period, an average annual increase of 8.65%.

Effective June 30, 2002, the health cost trend assumption was adopted which varies by year, declining to an ultimate rate equal to the inflation assumption plus 1.5%, or 5.0% for FY17 and later. If the long-term assumption remains reasonable, short-term gains and losses from the annually determined medical premium rate will offset each other over time.

To help avoid the volatility in the funding and solvency of the System from bringing large health-related gains and losses into the System every year, we have been using the health cost trend assumption to determine the premiums used to develop actuarial liabilities for retiree medical benefits. On June 30, 2002, the assumed total blended premium was reset to the actual total blended premium for FY03. The difference between the assumed rate and the actual rate is tracked annually and reset if the gap becomes too wide. Also, adjustments will be made, if necessary, to the assumed medical premium rate whenever experience and current trends indicate a change is appropriate.

(5) Membership Statistics

The number of active members increased from 56 to 62 for the two year period. The average age of active members increased by 1.31 years and the average past service decreased by 0.17 years. There were small changes in the inactive statistics as well. The membership statistics are found on pages 20 through 22 of this report. The changes in member averages produced a small actuarial loss.

(6) Vested Terminated Members

As the result of an asset allocation and liability study performed during 2004 it was discovered that four vested terminated members were not being valued in the June 30, 2002 Actuarial Valuation Report. These four members account for approximately $3.6 million in both pension and medical liability as of June 30, 2004.

(7) Summary

The overall effect of system experience during the two-year period resulted in a decrease in the funding ratio from 88.64% to 88.01%. The total contribution rate increased from 33.53% to 37.37%.

Section 1

This section sets forth the results of the actuarial valuation.

Section 1.1	Shows the transactions of the System's fund during FY03 and FY04.
Section 1.2	Shows the actuarial present values as of June 30, 2004.
Section 1.3	Calculates the actuarial gain or loss for FY03 and FY04.
Section 1.4	Develops the total contribution rate.
Section 1.5	Schedule of Past Service Cost Amortizations.

1.1(a) Statement of Changes in Net Assets

Fiscal Year 2003		Pension	Postemployment Healthcare	Total Market Value
(1)	Net Assets, June 30, 2002 (market value)	$ 61,731,2!	$ 1,952,655	$ 63,683,909
(2)	Additions:			
	(a) Plan Member Contributions	312,870	20,874	333,744
	(b) Employer Contributions	1,637,032	109,219	1,746,251
	(c) Interest and Dividend Income	1,857,405	123,920	1,981,325
	(d) Net Appreciation (Depreciation) in Fair Value of Investments	234,549	15,650	250,199
	(e) Total Additions	4,041,8!	269,663	4,311,519
(3)	Deductions:			
	(a) Medical Benefits		548,416	548,416
	(b) Retirement Benefits	3,745,149	0	3,745,149
	(c) Investment Expenses	126,139	8,416	134,555
	(d) Administrative Expenses	24,545	1,638	26,183
	(e) Total Deductions	3,895,833	558,470	4,454,303
(4)	Net Assets, June 30, 2003 (market value)	$ 61,877,2:	$ 1,663,848	$ 63,541,125

Approximate Market Value Investment Return Rate During FY03 Net of Expenses	3.31%

1.1(b) Statement of Net Assets

As of June 30, 2003	Pension	Postemployment Healthcare	Total Market Value
Cash and Cash Equivalents	$ 50,665	$ 3,380	$ 54,04
Domestic Equity Pool	26,742,568	717,692	27,460,26
Retirement Fixed Income Pool	7,077,360	189,935	7,267,29
International Equity Pool	10,201,165	273,769	10,474,93
Real Estate Pool	4,958,631	133,074	5,091,70
International Fixed Income Pool	2,043,108	54,831	2,097,93
External Domestic Fixed Income Pool	10,773,083	289,118	11,062,20
Net Receivables	30,697	2,049	32,74
Total Assets	$ 61,877,277	$ 1,663,848	$ 63,541,12

1.1(c) Statement of Changes in Net Assets

Fiscal Year 2004	Pension	Postemployment Healthcare	Total Market Value
(1) Net Assets, June 30, 2003 (market value)	$ 61,877,277	$ 1,663,848	$ 63,541,125
(2) Additions:			
(a) Plan Member Contributions	324,629	21,658	346,287
(b) Employer Contributions	1,675,077	111,758	1,786,835
(c) Interest and Dividend Income	1,877,335	125,252	2,002,587
(d) Net Appreciation/(Depreciation) in Fair Value of Investments	6,923,600	461,927	7,385,527
(e) Transfer in from Retiree Health Fund	0	50,000	50,000
(f) Total Additions	10,800,641	770,595	11,571,236
(3) Deductions:			
(a) Medical Benefits	0	617,568	617,568
(b) Retirement Benefits	3,823,550	0	3,823,550
(c) Investment Expenses	175,969	11,740	187,709
(d) Administrative Expenses	26,155	1,745	27,900
(e) Total Deductions	4,025,674	631,053	4,656,727
(4) Net Assets, June 30, 2004, (market value)	$ 68,652,244	$ 1,803,390	$ 70,455,634
Approximate Market Value Investment Return Rate During FY04 Net of Expenses			14.78%

1.1(d) Statement of Net Assets

As of June 30, 2004	Pension	Postemployment Healthcare	Total Market Value
Cash and Cash Equivalents	$ 46,687	$ 3,115	$ 49,802
Domestic Equity Pool	29,545,210	774,826	30,320,036
Retirement Fixed Income Pool	7,003,102	183,657	7,186,759
International Equity Pool	13,498,393	353,997	13,852,390
Real Estate Pool	5,966,829	156,480	6,123,309
International Fixed Income Pool	2,197,973	57,642	2,255,615
External Domestic Fixed Income Pool	10,367,192	271,881	10,639,073
Net Receivables	26,858	1,792	28,650
Total Assets	$ 68,652,244	$ 1,803,390	$ 70,455,634

1.2 Breakdown of Present Value of Benefits

At June 30, 2004	Normal Cost	Accrued Liability
Active Participants		
Retirement Benefits	$ 1,610,894	$ 16,951,356
Disability Benefits	16,824	156,569
Death Benefits	126,212	1,427,960
Deferred Benefits	137,407	2,117,187
Health Benefits	280,152	2,792,811
Subtotal	$ 2,171,489	$ 23,445,883
Benefit Recipients		
Retiree Benefits		$ 35,466,598
Survivor Benefits		4,434,050
Disability Benefits		817,493
QDRO Alternate Payee Benefits		1,897,405
Health Benefits for All Recipients		6,225,236
Subtotal		$ 48,840,782
Vested Terminations		
Deferred Retirement Benefits		$ 6,124,124
Health Benefits		1,641,770
Subtotal		$ 7,765,894
Total		**$ 80,052,559**

1.3 Development of Actuarial Gain/(Loss) for FY03 and FY04

1.	Unfunded Liability, June 30, 2002	$ 8,159,706
2.	Normal Cost for FY03	1,813,227
3.	Normal Cost for FY04	1,962,818
4.	Interest on (1), (2) and (3) at 8.25%	1,875,345
5.	Employee Contributions for FY03 and FY04	680,031
6.	Employer Contributions for FY03 and FY04	3,533,086
7.	Interest on (5) and (6) at 8.25%	348,885
8.	Expected Unfunded Liability, June 30, 2004 (1) + (2) + (3) + (4) - (5) - (6) - (7)	9,249,094
9.	Actual Unfunded Liability, June 30, 2004	9,596,925
10.	Actuarial Gain/ (Loss) for the Period, (8) - (9)	$ (347,831)

1.4 Calculation of Total Contribution Rate

1.	Total Normal Cost	$ 2,171,489
2.	Total Base Salaries	6,529,608
3.	Total Normal Cost Rate, (1) / (2)	33.26%
4.	Average Employee Contribution Rate	5.34%
5.	Employer Normal Cost Rate, (3) - (4)	27.92%
6.	Accrued Liability	$ 80,052,559
7.	Assets	70,455,634
8.	Total Unfunded Liability, (6) - (7)	9,596,925
9.	Past Service Cost Amortization Payment (See Section 1.5)	617,344
10.	Past Service Rate, (9) / (2)	9.45%
11.	Total Employer Contribution Rate, (5) + (10)	37.37%

1.5 Schedule of Past Service Cost Amortizations

	Amortization Period		Balances		
Charge	**Date Created**	**Years Left**	**Initial**	**Outstanding**	**Beginning-of-Year Payment**
Initial Unfunded Liability	6/30/2002	23	$ 8,159,706	$ 8,407,197	$ 544,116
FY03/04 Loss	6/30/2004	25	1,189,728	1,189,728	73,228
Total				**$ 9,596,925**	**$ 617,344**

	Amortization Period		Balances		
Credit	**Date Created**	**Years Left**	**Initial**	**Outstanding**	**Beginning-of-Year Payment**
Total				**$ 0**	**$ 0**

Total	**$ 9,596,925**	**$ 617,344**

Section 2

This section contains supplementary information on retirement benefits that is required to be disclosed in financial statements to comply with Statements No. 25 and 26 of the Governmental Accounting Standards Board (GASB Nos. 25 and 26). Since paragraph 8 of Statement 26 states that these supplementary schedules are not required for post-employment healthcare plans, these exhibits were not prepared separately for the healthcare benefits.

Section 2.1 Shows the Schedule of Employer Contributions.

Section 2.2 Shows the Schedule of Funding Progress.

2.1 Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution (ARC)	Annual Actual Contribution	Percentage of ARC Contributed
June 30, 1998	$ 2,204,026	2,204,026	100.0%
June 30, 2000	1,510,516	1,510,516	100.0%
June 30, 2002	1,005,968	1,005,968	100.0%
June 30, 2004	1,786,835	1,786,835	100.0%

The ARC is assumed to be equal to 27.37% of actual payroll during FY04, since 27.37% is the calculated contribution rate for FY04. According to footnote 27 in GASB 25, the ARC is equal to the employer contributions for the fiscal year. Prior to adoption of GASB Statement No. 25 and 26 in 1997, an ARC was not determined pursuant to the parameters of the statements. Therefore, history prior to 1997 has not been shown.

2.2 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1998	$ 64,689,972	$ 61,483,386	N/A	105.22%	$ 5,716,092	N/A
June 30, 2000	72,660,197	73,483,475	823,278	98.88%	5,701,980	14.44%
June 30, 2002	63,683,909	71,843,615	8,159,706	88.64%	5,941,860	137.33%
June 30, 2004	70,455,634	80,052,559	9,596,925	88.01%	6,529,608	146.98%

Note: Prior to adoption of GASB Statements No. 25 and 26 in 1997, information which does not meet the parameters of GASB 25 was used to determine funding requirements. Therefore, the history prior to 1997 has not been show.

Section 3

In this section, the basis of the valuation is presented and described. This information – the provisions of the System and the census of participants – is the foundation of the valuation, since these are the present facts upon which benefit payments will depend.

A summary of the System's provisions is provided in Section 3.1 and participant census information is shown in Section 3.2 to Section 3.4.

The valuation is based upon the premise that the Plan will continue in existence, so that future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the fund; the number of participants who will retire, die or terminate their services; their ages at such termination and their expected benefits.

The actuarial assumptions and the actuarial cost method, or funding method, which have been adopted to guide the sponsor in funding the System in a reasonable and acceptable manner, are described in Section 3.5.

3.1 Summary of Plan Provisions

(1) Effective Date

May 4, 1963, with amendments through June 30, 2004.

(2) Administration of Plan

The Commissioner of Administration is responsible for administering the Judicial Retirement System (JRS). The Alaska State Pension Investment Board is responsible for managing and investing the fund (Ch 31, SLA 1992).

(3) Employees Included

JRS membership is mandatory for all Supreme Court justices and Superior, District and Appellate Court judges. The administrative director of the Court System may elect to participate in either the JRS or the Public Employees' Retirement System (PERS).

(4) Credited Service

Members receive credit for each day of JRS employment. Earlier service as a magistrate or deputy magistrate before July 1, 1967 is covered under the JRS.

(5) Employee Contributions

Employees hired after July 1, 1978, are required to contribute 7% of their base annual salaries. Contributions are required for a maximum of 15 years. Employees hired before July 1, 1978 are not required to contribute.

<u>Interest Credited</u>: 4.5% compounded semiannually on June 30 and December 31.

<u>Refund of Contributions</u>: Nonvested employees may receive a refund of their contributions and interest earned if they terminate employment. Refunded contributions, plus 7% indebtedness interest, must be repaid within one year of JRS reemployment.

JRS contributions for terminated members may be attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levies. Contributions that are attached to satisfy claims or tax levies may be reinstated at any time. The member is not required to return to JRS employment.

3.1 Summary of Plan Provisions *(continued)*

(6) Retirement Eligibility and Benefits

Normal Retirement: Members are eligible for normal retirement at age 60 if they have at least five years of JRS service. Terminated, vested members may defer retirement and begin receiving benefits when they reach age 60.

Early Retirement: Members are eligible for early retirement at any age if they have at least 20 years of service. Terminated, vested members may defer retirement and begin receiving benefits when they reach age 55. Under early retirement, members receive reduced benefits equal to the actuarial equivalent of their normal retirement benefits. Early benefits are based on the member's service and early retirement date.

Type of Benefit: Lifetime monthly benefits are paid to the member. Upon the member’s death, a survivor’s benefit (below) may be payable if the member has an eligible spouse or dependent children.

Computation of Normal Retirement Benefit: 5% of authorized monthly base salary for each year of JRS service up to a maximum of 15 years. JRS benefits are recalculated when the salary for the office held changes. The maximum JRS benefit payable to a member is 75% of the authorized salary.

(7) Survivor’s Benefits

Survivor’s benefits are payable to the spouse of a member if they have been married for at least one year immediately preceding the member’s death and the member has at least two years of JRS service. The monthly survivor’s benefit is equal to:

(a) one-half of the monthly benefit that the member would have received if retired at the time of death; or

(b) 30% of the authorized monthly base salary if the member was not eligible to retire, or was entitled to less than 60% of the authorized monthly base salary.

If there is no eligible surviving spouse, the member’s dependent children receive, in equal shares, 50% of the benefit under (a) or (b).

When there is both an eligible surviving spouse and dependent children residing in separate households, the spouse and children share equally the benefit under (a) or (b).

When there is no surviving spouse or dependent children, the members’ contribution account balance, including interest earned, will be paid to the designated beneficiary.

3.1 Summary of Plan Provisions *(continued)*

(8) Disability Benefits

Members are eligible to receive monthly disability benefits at any age if they become incapacitated and they have at least two years of JRS service. Disability benefits are calculated the same as normal retirement benefits.

(9) Medical Benefits

Medical benefits are provided at no cost to JRS members, their spouses and dependents while monthly retirement, disability and survivor benefits are being paid.

3.2 Changes in System Participation from June 30, 2002 to June 30, 2004

Active Participants

Total at June 30, 2002	56
New Entrants	9
Returned From Non-Vested Status	0
Returned From Vested Status	0
Non-Vested Terminations	0
Vested Terminations	(2)
Retirements	0
Deaths	(1)
Total at June 30, 2004	62

Vested Terminations

Total at June 30, 2002	11
New Vested Terminations	2
Retirements	(3)
Returned to Active Status	0
Deaths	0
Data Corrections	1
Total at June 30, 2004	11

Benefit Recipients

Total at June 30, 2002	71
New Retirements	5
New Survivors	1
QDRO Adjustments	0
Deaths	(2)
Total at June 30, 2004	75

3.3 Participant Census Information

As of June 30	1996	1998	2000	2002	2004
Active Members					
1. Number	54	58	57	56	62
2. Average Age	50.84	50.93	52.05	52.88	54.19
3. Average Service	9.92	9.07	10.22	10.85	10.68
4. Average Annual Base Pay	$ 97,946	$ 98,553	$ 100,035	$ 106,105	$ 105,316
Vested Terminated Members					
1. Number	14	13	13	11	11
2. Average Age	51.07	53.05	55.05	54.97	54.94
3. Average Service	7.99	8.66	8.66	9.65	10.08
4. Average Monthly Benefit	$ 3,025	$ 3,386	$ 3,386	$ 3,879	$ 3,911
Benefit Recipients					
1. Number	56	63	59	71	75
2. Average Age	69.70	69.36	71.02	69.91	70.35
3. Average Monthly Benefit	$ 4,213	$ 4,272	$ 4,693	$ 4,354	$ 4,255

3.4 Distributions of Active Participants

Annual Earnings By Age

Age Groups	Number of People	Total Earnings	Average Earnings
0-19	0	$ 0	$ 0
20-24	0	0	0
25-29	0	0	0
30-34	0	0	0
35-39	1	92,424	92,424
40-44	2	201,456	100,728
45-49	10	1,023,888	102,389
50-54	16	1,686,948	105,434
55-59	22	2,329,236	105,874
60-64	9	985,332	109,481
65-69	2	210,324	105,162
70-74	0	0	0
75-79	0	0	0
80 +	0	0	0
Total	62	$ 6,529,608	$105,316

Annual Earnings By Service

Years of Service	Number of People	Total Earnings	Average Earnings
0	0	$ 0	$ 0
1	9	898,248	99,805
2	3	327,096	109,032
3	3	310,488	103,496
4	1	109,032	109,032
0-4	16	1,644,864	102,804
5-9	12	1,258,560	104,880
10-14	18	1,876,500	104,250
15-19	8	864,516	108,065
20-24	5	539,772	107,954
25-29	2	226,932	113,466
30-34	1	118,464	118,464
35-39	0	0	0
40 +	0	0	0
Total	62	$ 6,529,608	$ 105,316

Years of Service By Age

	Years of Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
0-19	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0
35-39	1	0	0	0	0	0	0	0	0	1
40-44	1	1	0	0	0	0	0	0	0	2
45-49	6	3	1	0	0	0	0	0	0	10
50-54	5	4	3	3	1	0	0	0	0	16
55-59	3	3	9	4	2	1	0	0	0	22
60-64	0	1	4	1	2	0	1	0	0	9
65-69	0	0	1	0	0	1	0	0	0	2
70-74	0	0	0	0	0	0	0	0	0	0
75+	0	0	0	0	0	0	0	0	0	0
	16	12	18	8	5	2	1	0	0	62

3.5 Actuarial Basis

Summary of Actuarial Assumptions and Methods

Valuation of Liabilities

(A) Actuarial Method – Projected Unit Credit.

Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. Any funding surpluses or unfunded accrued liability is amortized over a rolling 25 years as a level percentage of expected payroll. However, in keeping with GASB requirements, the net amortization period will not exceed 30 years.

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

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

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The 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.

3.5 Actuarial Basis *(continued)*

Summary of Actuarial Assumptions and Methods *(continued)*

Investment Return	8.25% per year, compound annually, net of expenses	
Mortality	1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.	
Salary Scale	4% per year, compounded annually.	
Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.	
Health Cost Trend	FY05	12.0%
	FY06	11.5%
	FY07	11.0%
	FY08	10.5%
	FY09	10.0%
	FY10	9.5%
	FY11	9.0%
	FY12	8.5%
	FY13	8.0%
	FY14	7.5%
	FY15	7.0%
	FY16	6.0%
	FY17 and later	5.0%

3.5 Actuarial Basis *(continued)*

Summary of Actuarial Assumptions and Methods *(continued)*

Turnover and Early Retirement	Annual turnover and early retirement at each age and service is the greatest of the following amounts: a. 0% b. 3% if service is greater than 15 years c. 6% if vested and immediately eligible for full benefits based on retirement provision. d. 10% if vested and age is greater than 64.
Disability	In accordance with Table 1. 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.
Maximum Retirement Age	Age 70
Martial Status	Married inactive members are assumed to choose the 50% Joint and Survivor benefit option.

3.5 Actuarial Basis *(continued)*

Valuation of Assets

Market value based upon asset data as furnished by the Division of Retirement and Benefits.

Valuation of Medical Benefits

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

For FY05, the pre-65 monthly premium is $1,137.97 and the post-65 premium is $433.51, based on an assumed total blended premium of $870.55. For the time period January 1, 2005 to December 31, 2005, the actual blended premium as provided by the State of Alaska Division of Retirement and Benefits is $850.00.

3.5 Actuarial Basis *(continued)*

Table 1
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate	Age	Rate
20	.17	45	.41
21	.17	46	.44
22	.18	48	.48
23	.18	49	.52
24	.18	49	.56
25	.19	50	.60
26	.19	51	.65
27	.19	52	.72
28	.20	53	.80
29	.20	54	.89
30	.21	55	1.00
31	.21	56	1.15
32	.22	57	1.34
33	.22	58	1.53
34	.23	59	1.80
35	.24	60	2.11
36	.25	61	2.44
37	.26	62	2.83
38	.27	63	3.26
39	.28	64	3.73
40	.29		
41	.30		
42	.32		
43	.34		
44	.37		

MERCER

Human Resource Consulting

One Union Square
600 University Street, Suite 3200
Seattle, WA 98101-3137
206 808 8800