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July 22, 2011

Ms. Diane Scott
Chief Accountant & Financial Officer
Retirement Systems of Alabama
201 South Union Street
Montgomery, AL 36104

Dear Ms. Scott:

Enclosed are 5 bound and 1 unbound copy of the "Report on the Actuarial Valuation of the Employees' Retirement System of Alabama prepared as of September 30, 2010".

Please let us know if you have any questions concerning the report.

Sincerely,

Edward A. Macdonald, ASA, FCA, MAAA
President

Cathy Turcot
Principal and Managing Director

Jonathan T. Craven, ASA, EA, FCA, MAAA
Senior Actuary

EAM/CT/JTC:jel

Enclosure

S:\Alabama Employees\Pension\Valuations\9-30-2010\Valuation Report ALERS 09-30-2010.doc

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July 22, 2011

Dr. David G. Bronner
Chief Executive Officer
Retirement Systems of Alabama
201 South Union Street
Montgomery, AL 36104

Dear Dr. Bronner:

Enclosed are 30 bound copies and one unbound copy of the "Report on the Actuarial Valuation of the Employees' Retirement System of Alabama prepared as of September 30, 2010".

Please let us know if you have any questions concerning the report.

Sincerely,

Edward A. Macdonald, ASA, FCA, MAAA
President

Cathy Turcot
Principal and Managing Director

Jonathan T. Craven, ASA, EA, FCA, MAAA
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Retirement Systems
of Alabama

**Report on the Actuarial Valuation of the
Employees' Retirement System of Alabama
Prepared as of September 30, 2010**





Cavanaugh Macdonald

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July 22, 2011

Board of Control
Employees' Retirement System of Alabama
Montgomery, Alabama

Members of the Board:

In this report are submitted the results of the annual actuarial valuation of the Employees' Retirement System of Alabama, prepared as of September 30, 2010 in accordance with Section 36-27-23(p) of the act governing the operation of the System.

The purpose of this report is to provide a summary of the funded status of the system as of September 30, 2010, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation reflects the impact of Act 2011-27, which closes the DROP program to new participants effective March 24, 2011. The valuation also reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

On the basis of the valuation, it is recommended that the State make contributions to the Retirement System for State employees (members other than State policemen) at the rate of 11.05% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 31.58% of payroll for the fiscal year ending September 30, 2013. The contribution rates for local employers for the fiscal year beginning October 1, 2012 will be submitted in a separate report and will include the impact of all employer-elected benefit improvements through September 30, 2010.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Five-year smoothed market value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 4.50% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

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July 22, 2011
Board of Control
Page 2

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald'.

Edward A. Macdonald, ASA, FCA, MAAA
President

A handwritten signature in blue ink, appearing to read 'Cathy Turcot'.

Cathy Turcot
Principal and Managing Director

A handwritten signature in blue ink, appearing to read 'Jonathan T. Craven'.

Jonathan T. Craven, ASA, EA, FCA, MAAA
Senior Actuary

EAM/CT/JTC:jel



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**REPORT ON THE ACTUARIAL VALUATION OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
PREPARED AS OF SEPTEMBER 30, 2010**

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results for State Employees, Local Employees and State Policemen are summarized below:

SUMMARY OF PRINCIPAL RESULTS FOR STATE EMPLOYEES

VALUATION DATE	September 30, 2010	September 30, 2009
Number of active members	32,447	32,659
Annual compensation*	\$ 1,386,014,318	\$ 1,407,374,913
Number of retired members and beneficiaries	18,959	18,498
Annual retirement allowances*	\$ 371,715,050	\$ 357,046,729
Number of DROP participants	1,812	1,697
Annual compensation*	\$ 108,425,996	\$ 102,782,509
Annual allowances	54,062,685	49,226,294
Assets:		
Actuarial value	\$ 4,649,566,749	\$ 4,817,987,132
Market value	3,848,845,856	3,674,852,062
Unfunded accrued liability	\$ 2,285,906,358	\$ 1,977,402,229
Funded Ratio	67.0%	70.9%
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2013	September 30, 2012**
Employer contribution rate:		
Normal	2.81%	4.99%
Accrued liability	7.91	6.99
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	11.05%	12.31%
Amortization period	30 years	30 years

* Amounts shown do not reflect any increase in effect after the valuation date.

** The employer contribution rate has been changed from 12.31% to 9.42% since the previous valuation to reflect Act 2011-27 and Act 2011-676.



SUMMARY OF PRINCIPAL RESULTS FOR STATE POLICEMEN

VALUATION DATE	September 30, 2010	September 30, 2009
Number of active members	859	814
Annual compensation*	\$ 54,547,049	\$ 51,139,984
Number of retired members and beneficiaries	789	772
Annual retirement allowances*	\$ 32,116,041	\$ 30,851,675
Number of DROP participants	29	30
Annual compensation*	\$ 2,718,893	\$ 2,565,142
Annual allowances	1,858,436	1,730,952
Assets:		
Actuarial value	\$ 334,177,906	\$ 345,246,095
Market value	276,225,329	263,215,762
Unfunded accrued liability	\$ 199,030,983	\$ 156,819,390
Funded Ratio	62.7%	68.8%
CONTRIBUTION FOR FISCAL YEAR ENDING	September 30, 2013	September 30, 2012**
Employer contribution rate:		
Normal	13.30%	13.24%
Accrued liability	17.95	17.00
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	31.58%	30.57%
Amortization Period	30 years	26 years

* Amounts shown do not reflect any increase in effect after the valuation date.

** The employer contribution rate has been changed from 30.57% to 29.92% since the previous valuation to reflect Act 2011-27 and Act 2011-676.



SUMMARY OF PRINCIPAL RESULTS FOR LOCAL EMPLOYEES

VALUATION DATE	September 30, 2010	September 30, 2009
Number of active members	53,661	54,174
Annual compensation*	\$ 2,024,351,664	\$ 2,020,120,505
Number of retired members and beneficiaries	17,823	17,143
Annual retirement allowances*	\$ 296,586,925	\$ 277,666,469
Number of DROP participants	752	644
Annual compensation*	\$ 43,612,022	\$ 36,260,056
Annual allowances	21,989,298	18,077,768
Assets:		
Actuarial value	\$ 4,755,586,161	\$ 4,764,870,832
Market value	3,977,913,272	3,660,992,684
Unfunded accrued liability	\$ 2,059,850,939	\$ 1,693,850,305
Funded Ratio	69.8%	73.8%
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2013***	September 30, 2012**
Employer contribution rate:		
Normal	Varies	Varies
Accrued liability	Varies	Varies
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	Varies	Varies
Amortization period	Varies	Varies

* Amounts shown do not reflect any increase in effect after the valuation date.

** Those employers that have elected to participate in DROP will have their employer contribution rate for FY 2012 revised to reflect the impact of Act 2011-27. In addition, all employers will have the option under Act 2011-676 to increase member contribution rates. For those that elect to do so, their employer contribution rate for FY 2012 will be revised.

*** The results of the valuation do not reflect the impact of Act 2011-676. All employers will have the option under Act 2011-676 to increase member contribution rates. For those that elect to do so, their employer contribution rate for FY 2012 will be revised.



SUMMARY OF PRINCIPAL RESULTS FOR ALL GROUPS

VALUATION DATE	September 30, 2010	September 30, 2009
Number of active members	86,967	87,647
Annual compensation*	\$ 3,464,913,031	\$ 3,478,635,402
Number of retired members and beneficiaries	37,571	36,413
Annual retirement allowances*	\$ 700,418,016	\$ 665,564,873
Number of DROP participants	2,593	2,371
Annual compensation*	\$ 154,756,911	\$ 141,607,707
Annual allowances	77,910,419	69,035,014
Assets:		
Actuarial value	\$ 9,739,330,816	\$ 9,928,104,059
Market value	8,102,984,457	7,599,060,508
Unfunded accrued liability	\$ 4,544,788,280	\$ 3,828,071,924
Funded Ratio	68.2%	72.2%

* Amounts shown do not reflect any increase in effect after the valuation date.

- Comments on the valuation results as of September 30, 2010 are given in Section IV and further discussion of the contribution levels is set out in Section V. The valuation results for local employees do not include the impact of any changes elected by local employers after the valuation date. The contribution rates for local employers for fiscal year beginning October 1, 2012 will be submitted in a separate report.
- Schedule B shows the development of the actuarial value of assets. Schedule D of this report outlines the full set of actuarial assumptions and methods used in the current valuation. Since the previous valuation, the assumed rates of retirement have been changed.
- The valuation takes into account the effect of amendments to the System through the valuation date. Provisions of the System, as summarized in Schedule F, were taken into account in the current valuation. The valuation reflects the impact of Act 2011-676, which increases the member contribution rates for State Employees by 2.25% beginning October 1, 2011 and an additional 0.25% beginning October 1, 2012. These increases are optional for local employers. In addition, Act 2011-676 specifies that if positive investment performance results in a decrease in the total



contribution rate paid by employers and employees participating in the System, the Retirement System of Alabama shall first reduce the employee contribution rate.

5. The valuation indicates that employer contributions at the rate of 11.05% of payroll for State employees and 31.58% for State policemen and varying rates for local employees, along with expected member contributions are sufficient to support the benefits of the System.

SECTION II – MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual compensation as of September 30, 2010 on the basis of which the valuation was prepared.

TABLE 1

**THE NUMBER AND ANNUAL COMPENSATION OF
ACTIVE MEMBERS AS OF SEPTEMBER 30, 2010**

GROUP	NUMBER	COMPENSATION*
State Employees	32,447	\$ 1,386,014,318
State Policemen	859	54,547,049
Local Employees	<u>53,661</u>	<u>2,024,351,664</u>
Total	86,967	\$ 3,464,913,031

*Does not include pay increases effective after the valuation date.

The table reflects the active membership for whom complete valuation data were submitted. The results of the valuation include an estimated liability for an additional 11,445 non-contributing inactive members and members for whom incomplete data were submitted. In addition, there were 2,593 members with annual compensation of \$154,756,911 who were participating in the DROP program as of September 30, 2010.



2. The following table shows a six-year history of active member valuation data.

TABLE 2
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
9/30/2010 ¹	86,967	\$ 3,464,913,031	\$ 39,842	0.38%
9/30/2009 ²	87,647	3,478,635,402	39,689	3.65
9/30/2008 ³	88,002	3,369,696,707	38,291	4.71
9/30/2007 ⁴	86,668	3,169,432,161	36,570	4.65
9/30/2006 ⁵	84,482	2,952,186,813	34,945	3.05
9/30/2005 ⁶	82,830	2,808,823,045	33,911	4.94

¹In addition, there are 2,593 members with compensation of \$154,756,911 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

²In addition, there are 2,371 members with compensation of \$141,607,707 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

³In addition, there are 2,184 members with compensation of \$130,111,885 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

⁴In addition, there are 2,039 members with compensation of \$118,877,383 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

⁵In addition, there are 1,905 members with compensation of \$115,812,131 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

⁶In addition, there are 1,753 members with compensation of \$95,585,173 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.



3. The following table shows the number and annual retirement allowances payable to retired members and their beneficiaries on the roll of the Retirement System as of the valuation date.

TABLE 3
THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES¹
OF RETIRED MEMBERS AND BENEFICIARIES OF
DECEASED MEMBERS ON THE ROLL AS OF SEPTEMBER 30, 2010

TYPE OF RETIREMENT	GROUP			
	STATE EMPLOYEES	STATE POLICEMEN	LOCAL EMPLOYEES ²	TOTAL
Service:				
Number	15,522	647	14,458	30,627
Annual Allowances	\$ 330,876,858	\$ 29,137,446	\$ 262,851,076	\$ 622,865,380
Disability:				
Number	1,931	37	1,588	3,556
Annual Allowances	\$ 24,255,940	\$ 970,606	\$ 18,713,801	\$ 43,940,347
Beneficiaries:				
Number	1,506	105	1,777	3,388
Annual Allowances	\$ 16,582,252	\$ 2,007,989	\$ 15,022,048	\$ 33,612,289
DROP participants:				
Number	1,812	29	752	2,593
Annual Allowances	\$ 54,062,685	\$ 1,858,436	\$ 21,989,298	\$ 77,910,419
Total:				
Number	20,771	818	18,575	40,164
Annual Allowances	\$ 425,777,735	\$ 33,974,477	\$ 318,576,223	\$ 778,328,435

¹ Amounts shown do not reflect any increase in effect after the valuation date.

² In addition, there are 45 terminated vested members with annual deferred allowances totaling \$257,513.

4. Tables in Schedule G show the distribution by age and service of the number and average annual compensation of active members included in the valuation. In addition, tables in Schedule G show the distribution by age and benefit type of the number, annual benefits, and average annual benefits of retired members included in the valuation.



SECTION III - ASSETS

1. The current retirement law provides for the maintenance of four funds for the purpose of recording the fiscal transactions of the System, namely, the Annuity Savings Fund, the Pension Accumulation Fund, the Pre-Retirement Death Benefit Fund, and the Deferred Retirement Option Plan Fund.

- (a) Annuity Savings Fund

The Annuity Savings Fund is the fund to which are credited all contributions made by members, except those contributions made by members who are participating in DROP, together with regular interest thereon. When a member retires or when a survivor allowance becomes payable or a member enters DROP, the amount of the member's accumulated contributions are transferred from the Annuity Savings Fund to the Pension Accumulation Fund. On September 30, 2010, the market value of assets credited to this Fund amounted to \$2,050,050,783 which represent the contributions of members to this date.

- (b) Pension Accumulation Fund

The Pension Accumulation Fund is the fund to which are credited all contributions made by the employers, except those contributions made to the Pre-Retirement Death Benefit Fund which was created October 1, 1983. When a member retires or when a survivor allowance becomes payable, the pension is paid from this fund. When a members enters DROP, the deferred pension is transferred from this fund to the DROP Fund. On September 30, 2010 the market value of assets credited to this fund amounted to \$5,759,516,674.

- (c) DROP Fund

The DROP Fund is the fund to which are credited deferred retirement benefits on behalf of members who elect to participate in the DROP, together with regular interest thereon. In addition, member contributions while participating in the DROP, together with regular interest therein, are credited to the Fund. At the end of the DROP deferral period, the member receives the amount of the deferred retirement benefits and contributions plus interest in the member's DROP account. On September 30, 2010, the market value of assets credited to this Fund amounted to \$293,417,000.

- (d) Pre-Retirement Death Benefit Fund

The Pre-Retirement Death Benefit Fund is the fund to which are credited contributions made by the employer for the special pre-retirement death benefit which became effective October 1, 1983. On September 30, 2010, the market value of assets credited to this fund amounted to \$18,883,172.



2. As of September 30, 2010 the total market value of assets exclusive of the Pre-Retirement Death Benefit Fund amounted to \$8,102,984,457 as shown in the following table.

TABLE 4
MARKET VALUE OF ASSETS BY FUND
AS OF SEPTEMBER 30, 2010

FUND	MARKET VALUE OF ASSETS
Annuity Savings Fund	\$ 2,050,050,783
Pension Accumulation Fund	5,759,516,674
DROP Fund	<u>293,417,000</u>
Total Market Value of Assets	\$ 8,102,984,457

3. The five-year market related actuarial value of assets used for the current valuation was \$9,739,330,816. Schedule B shows the development of the actuarial value of assets as of September 30, 2010. The following table shows the actuarial value of assets allocated among State employees, State policemen and local employees.

TABLE 5
COMPARISON OF ACTUARIAL VALUE OF ASSETS
AT SEPTEMBER 30, 2010 AND SEPTEMBER 30, 2009

GROUP	SEPTEMBER 30, 2010 ACTUARIAL VALUE	SEPTEMBER 30, 2009 ACTUARIAL VALUE
State Employees	\$ 4,649,566,749	\$ 4,817,987,132
State Policemen	334,177,906	345,246,095
Local Employees	<u>4,755,586,161</u>	<u>4,764,870,832</u>
Total Assets	\$ 9,739,330,816	\$ 9,928,104,059

4. Schedule C shows the receipts and disbursements of the System for the year preceding the valuation date and a reconciliation of the fund balances at market value.



SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report contains the valuation balance sheets which show the present and prospective assets and liabilities of the System as of September 30, 2010. Separate balance sheets are shown for each employee group as well as in total for all groups.
2. The total valuation balance sheet shows that the System has total prospective liabilities of \$17,145,483,178. Of this amount, \$7,130,938,134 is for the prospective benefits payable on account of present retired members, beneficiaries of deceased members, and DROP participants, \$244,691,425 is for the prospective benefits payable on account of present inactive members and \$9,769,853,619 is for the prospective benefits payable on account of present active members. Against these liabilities the System has total actuarial value of assets of \$9,739,330,816 as of September 30, 2010. The difference of \$7,406,152,362 between the total liabilities and the total present actuarial value of assets represents the present value of contributions to be made in the future. Of this amount, \$1,717,075,889 is the present value of future contributions expected to be made by members to the Annuity Savings Fund, and the balance of \$5,689,076,473 represents the present value of future contributions payable by the employers.
3. The employers' contributions to the System consist of normal contributions, accrued liability contributions and current disbursement cost-of-living benefit increase contributions. The valuation indicates that employer normal contributions at the rate of 2.81% of payroll are required to provide the benefits of the System for the average new member of the State employees system. For State policemen, employer normal contributions at the rate of 13.30% of payroll are required. For local employees, varying rates of employer normal contributions are required.
4. Prospective employer normal contributions at the above rates have a present value of \$1,144,288,193. When this amount is subtracted from \$5,689,076,473, which is the present value of the total future contributions to be made by the employers, there remains \$4,544,788,280 as the amount of future cost-of-living and accrued liability contributions.
5. For State employees, it is recommended that the accrued liability contribution rate payable by the State be set at 7.91% of payroll. For State policemen, it is recommended that the accrued liability



contribution rate payable by the State be set at 17.95% of payroll. These rates are sufficient to amortize the unfunded accrued liability of \$2,285,906,358 for State employees and \$199,030,983 for State policemen within 30 years on the assumption that the aggregate amount of accrued liability contribution will increase by 4.50% each year.

6. For all employers, an additional contribution of 0.15% of payroll will be required to meet the cost of the pre-retirement death benefit program established under Act No. 83-616.
7. For all employers, an additional contribution of 0.18% is required to cover the expenses of administering the System.

SECTION V - CONTRIBUTIONS PAYABLE BY EMPLOYERS

1. The retirement act provides that the Board of Control shall certify to the chief fiscal officer of each employer the rates of contribution required to be paid by the employer.
2. On the basis of the actuarial valuation prepared as of September 30, 2010 it is recommended that the State make contributions at the following rates for the fiscal year beginning October 1, 2012:

TABLE 6

RECOMMENDED CONTRIBUTION RATES

CONTRIBUTION	PERCENTAGE OF MEMBERS' COMPENSATION FOR FISCAL YEAR ENDING SEPTEMBER 20, 2013	
	STATE EMPLOYEES	STATE POLICEMEN
Normal	2.81%	13.30%
Accrued liability	7.91	17.95
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	11.05%	31.58%

3. Contribution rates for Local Employers will be submitted in a separate report. The rates for the fiscal year beginning October 1, 2012 will be determined as of September 30, 2010, but do not reflect any elections made pursuant to Act 2011-676.



SECTION VI – ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase in the unfunded accrued liability during the year ending September 30, 2010. For State employees, the unfunded accrued liability increased \$308,504,129; for State policemen, the unfunded accrued liability increased \$42,211,593. Since the benefits, assumptions and accrued liability rates vary by location for the Local employees, we do not develop an analysis of financial experience for this group.

ANALYSIS OF FINANCIAL EXPERIENCE (in millions of dollars)

ITEM	AMOUNT OF INCREASE / (DECREASE)	
	<u>STATE EMPLOYEES</u>	<u>STATE POLICEMEN</u>
Interest (8.00%) added to previous unfunded accrued liability	\$ 158.2	\$ 12.5
Accrued liability contribution	(95.8)	(11.1)
Experience:		
Valuation asset growth	384.3	27.4
Pensioners' mortality	12.5	1.6
Turnover and retirements	10.5	0.7
New entrants	5.3	4.7
Salary increases	(167.3)	(4.3)
Method changes	0.0	0.0
Amendments	(124.1)	0.0
Assumption changes	0.0	0.0
Miscellaneous	<u>124.9</u>	<u>10.7</u>
Total	\$ 308.5	\$ 42.2



SECTION VII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED MEMBERS
AS OF SEPTEMBER 30, 2010**

GROUP	NUMBER			
	State Employees	State Police	Local Employees	Total
Retirees and beneficiaries currently receiving benefits	18,959	789	17,823	37,571
DROP participants	1,812	29	752	2,593
Terminated employees entitled to benefits but not yet receiving benefits	3,570	19	7,901	11,490
Active Members	<u>32,447</u>	<u>859</u>	<u>53,661</u>	<u>86,967</u>
Total	56,788	1,696	80,137	138,621



2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
<u>TOTAL ALL GROUPS</u>						
9/30/2005	\$8,935,358	\$10,634,976	\$ 1,699,618	84.0%	\$2,982,122	57.0%
9/30/2006	9,287,531	11,457,564	2,170,033	81.1	3,070,146	70.7
9/30/2007	9,770,897	12,370,342	2,599,445	79.0	3,389,156	76.7
9/30/2008	9,905,766	13,078,687	3,172,921	75.7	3,553,330	89.3
9/30/2009	9,928,104	13,756,176	3,828,072	72.2	3,620,243	105.7
9/30/2010	9,739,331	14,284,119	4,544,788	68.2	3,619,670	125.6
<u>STATE EMPLOYEES</u>						
9/30/2005	\$4,683,805	\$5,631,264	\$ 947,459	83.2%	\$1,276,902 ¹	74.2%
9/30/2006	4,765,294	5,884,307	1,119,013	81.0	1,289,743	86.8
9/30/2007	4,922,133	6,377,127	1,454,994	77.2	1,490,522 ³	97.6
9/30/2008	4,912,248	6,613,798	1,701,550	74.3	1,531,217 ³	111.1
9/30/2009	4,817,987	6,795,389	1,977,402	70.9	1,510,157	130.9
9/30/2010	4,649,567	6,935,473	2,285,906	67.0	1,494,440	153.0
<u>STATE POLICEMEN</u>						
9/30/2005	\$ 336,068	\$ 436,335	\$ 100,267	77.0%	\$ 45,861 ²	218.6%
9/30/2006	342,051	451,702	109,651	75.7	45,304 ²	242.0
9/30/2007	350,437	475,409	124,972	73.7	50,987 ³	245.1
9/30/2008	350,686	489,058	138,372	71.7	51,495 ³	268.7
9/30/2009	345,246	502,065	156,819	68.8	53,705	292.0
9/30/2010	334,178	533,209	199,031	62.7	57,266	347.6
<u>LOCAL EMPLOYEES</u>						
9/30/2005	\$3,915,485	\$4,567,377	\$ 651,892	85.7%	\$1,659,359	39.3%
9/30/2006	4,180,186	5,121,555	941,369	81.6	1,735,099	54.3
9/30/2007	4,498,327	5,517,806	1,019,479	81.5	1,847,647	55.2
9/30/2008	4,642,832	5,975,831	1,332,999	77.7	1,970,618	67.6
9/30/2009	4,764,871	6,458,721	1,693,850	73.8	2,056,381	82.4
9/30/2010	4,755,586	6,815,437	2,059,851	69.8	2,067,964	99.6

¹ Includes pay increases granted under Act 2005-316.

² Includes pay increases granted under Act 2006-231.

³ Includes pay increases granted under Act 2007-297.



3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2010. Additional information as of the latest actuarial valuation follows.

	<u>State Employees</u>	<u>State Policemen</u>	<u>Local Employees</u>
Valuation date	9/30/2010	9/30/2010	9/30/2010
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent Open	Level percent Open	Level percent Open
Remaining amortization period	30 years	30 years	Within 30 years - Varies by employer
Asset valuation method	5 year smoothed Market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Investment rate of return*	8.00%	8.00%	8.00%
Projected salary increases*	4.61 – 7.75%	4.61 – 7.75%	4.61 – 7.75%
Cost-of-living adjustment	None	None	None
*Includes inflation at	4.50%	4.50%	4.50%

TREND INFORMATION

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
<u>State Employees</u>			
9/30/2008	\$ 138,343,938	100%	\$0
9/30/2009	171,097,038	100	0
9/30/2010	162,718,309	100	0
<u>State Policemen</u>			
9/30/2008	\$ 16,271,620	100%	\$0
9/30/2009	16,912,176	100	0
9/30/2010	17,281,367	100	0
<u>Local Employees</u>			
9/30/2008	Varies	Varies	Varies
9/30/2009	Varies	Varies	Varies
9/30/2010	Varies	Varies	Varies



SCHEDULE A

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

STATE EMPLOYEES

	SEPTEMBER 30, 2010
<u>ASSETS</u>	
Actuarial Value of Assets	\$ 4,649,566,749
Present value of future members' contributions to the Annuity Savings Fund	\$ 823,279,779
Present value of future employer contributions to the Pension Accumulation Fund	
Normal contributions	\$ 306,054,082
Unfunded accrued liability contributions	<u>2,285,906,358</u>
Total prospective employer contributions	\$ 2,591,960,440
Total Assets	<u>\$ 8,064,806,968</u>
<u>LIABILITIES</u>	
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	
Service Retirements	\$ 3,397,110,787
Disability Retirements	190,278,161
Beneficiaries of Deceased Members	120,266,394
DROP Participant Accounts	<u>219,603,909</u>
Total	\$ 3,927,259,251
Inactive Members	\$ 97,354,840
Present value of prospective benefits payable on account of present active members:	
Service retirement allowances	\$ 3,461,461,144
Disability retirement allowances	156,885,233
Death Benefits	61,297,440
Termination Benefits	<u>360,549,060</u>
Total	\$ 4,040,192,877
Total Liabilities	<u>\$ 8,064,806,968</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

STATE POLICEMEN

	SEPTEMBER 30, 2010
<u>ASSETS</u>	
Actuarial Value of Assets	\$ 334,177,906
Present value of future members' contributions to the Annuity Savings Fund	\$ 51,197,085
Present value of future employer contributions to the Pension Accumulation Fund	
Normal contributions	\$ 70,057,749
Unfunded accrued liability contributions	<u>199,030,983</u>
Total prospective employer contributions	\$ 269,088,732
Total Assets	<u>\$ 654,463,723</u>
<u>LIABILITIES</u>	
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	
Service Retirements	\$ 278,613,739
Disability Retirements	6,810,946
Beneficiaries of Deceased Members	15,043,594
DROP Participant Accounts	<u>8,291,478</u>
Total	\$ 308,759,757
Inactive Members	\$ 1,894,764
Present value of prospective benefits payable on account of present active members:	
Service retirement allowances	\$ 318,671,822
Disability retirement allowances	6,083,598
Death Benefits	2,497,662
Termination Benefits	<u>16,556,120</u>
Total	\$ 343,809,202
Total Liabilities	<u>\$ 654,463,723</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

LOCAL EMPLOYEES

	SEPTEMBER 30, 2010
<u>ASSETS</u>	
Actuarial Value of Assets	\$ 4,755,586,161
Present value of future members' contributions to the Annuity Savings Fund	\$ 842,599,025
Present value of future employer contributions to the Pension Accumulation Fund	
Normal contributions	\$ 768,176,362
Unfunded accrued liability contributions	<u>2,059,850,939</u>
Total prospective employer contributions	\$ 2,828,027,301
Total Assets	<u>\$ 8,426,212,487</u>
<u>LIABILITIES</u>	
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	
Service Retirements	\$ 2,563,697,061
Disability Retirements	150,254,344
Beneficiaries of Deceased Members	115,452,676
DROP Participant Accounts	<u>65,515,045</u>
Total	\$ 2,894,919,126
Inactive Members	\$ 145,441,821
Present value of prospective benefits payable on account of present active members:	
Service retirement allowances	\$ 4,493,447,060
Disability retirement allowances	195,621,187
Death Benefits	86,229,996
Termination Benefits	<u>610,553,297</u>
Total	\$ 5,385,851,540
Total Liabilities	<u>\$ 8,426,212,487</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

TOTAL - ALL GROUPS

	SEPTEMBER 30, 2010
<u>ASSETS</u>	
Actuarial Value of Assets	\$ 9,739,330,816
Present value of future members' contributions to the Annuity Savings Fund	\$ 1,717,075,889
Present value of future employer contributions to the Pension Accumulation Fund	
Normal contributions	\$ 1,144,288,193
Unfunded accrued liability contributions	<u>4,544,788,280</u>
Total prospective employer contributions	\$ 5,689,076,473
Total Assets	<u>\$ 17,145,483,178</u>
<u>LIABILITIES</u>	
Present value of benefits payable on account of retired members, beneficiaries of deceased members now drawing retirement allowances, and DROP participants	
Service Retirements	\$ 6,239,421,587
Disability Retirements	347,343,451
Beneficiaries of Deceased Members	250,762,664
DROP Participant Accounts	<u>293,410,432</u>
Total	\$ 7,130,938,134
Inactive Members	\$ 244,691,425
Present value of prospective benefits payable on account of present active members:	
Service retirement allowances	\$ 8,273,580,026
Disability retirement allowances	358,590,018
Death Benefits	150,025,098
Termination Benefits	<u>987,658,477</u>
Total	\$ 9,769,853,619
Total Liabilities	<u>\$ 17,145,483,178</u>



SCHEDULE A (continued)

SOLVENCY TEST
(\$1000's)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Asset		
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
9/30/2010	\$2,050,051	\$7,130,938	\$5,103,130	\$9,739,331	100%	100%	10.9%
9/30/2009	1,973,511	6,707,240	5,075,425	9,928,104	100	100	24.6
9/30/2008 ¹	1,860,095	6,275,136	4,943,455	9,905,766	100	100	35.8
9/30/2007 ¹	1,777,331	5,911,861	4,681,149	9,770,897	100	100	44.5
9/30/2006 ²	1,705,372	5,540,766	4,211,426	9,287,531	100	100	48.5
9/30/2005 ³	1,616,410	5,076,621	3,941,945	8,935,358	100	100	56.9

¹ Reflects pay increases payable under Act 2007-297.

² Reflects changes in actuarial assumptions.

³ Reflects pay increases payable under Act 2005-316 and Act 2006-231 and COLA granted effective October 1, 2006 under Act 2006-510.



SCHEDULE B

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2010**

STATE EMPLOYEES

(1)	Actuarial Value Beginning of Year	
	a. Actuarial Value Beginning of Year	\$ 4,817,987,132
	b. Adjustment	<u>(1,045,328)</u>
	c. Adjusted Actuarial Value Beginning of Year	\$ 4,816,941,804
(2)	Market Value End of Year	\$ 3,848,845,856
(3)	Market Value Beginning of Year	
	a. Market Value Beginning of Year	\$ 3,674,852,062
	b. Adjustment	<u>(524,693)</u>
	c. Adjusted Market Value Beginning of Year	\$ 3,674,327,369
(4)	Cash Flow	
	a. Contributions	\$ 240,353,878
	b. Benefit Payments	<u>(403,387,164)</u>
	c. Net	\$ (163,033,286)
(5)	Investment Income	
	a. Market total: (2) – (3)c – (4)c	\$ 337,551,773
	b. Assumed Rate	8.00%
	c. Amount of Immediate Recognition [(3)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 287,424,858
	d. Amount for Phased-in Recognition (5)a – (5)c	\$ 50,126,915
(6)	Phased-In Recognition of Investment Income	
	a. Current Year: 0.20*(5)d	\$ 10,025,383
	b. First Prior Year	(152,153,596)
	c. Second Prior Year	(239,770,134)
	d. Third Prior Year	90,734,650
	e. Fourth Prior Year	<u>(602,930)</u>
	f. Total Recognized Investment Gain	\$ (291,766,627)
(7)	Actuarial Value End of Year: (1)c + (4)c + (5)c + (6)f	\$ 4,649,566,749



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2010**

STATE POLICEMEN

(1)	Actuarial Value Beginning of Year	\$	345,246,095
(2)	Market Value End of Year	\$	276,225,329
(3)	Market Value Beginning of Year	\$	263,215,762
(4)	Cash Flow		
	a. Contributions	\$	23,001,855
	b. Benefit Payments		(33,838,550)
	c. Net	\$	(10,836,695)
(5)	Investment Income		
	a. Market total: (2) – (3) – (4)c	\$	23,846,262
	b. Assumed Rate		8.00%
	c. Amount of Immediate Recognition [(3) x (5)b] + [(4)c * (5)b * 0.5]	\$	20,623,793
	d. Amount for Phased-in Recognition (5)a – (5)c	\$	3,222,469
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20*(5)d	\$	644,494
	b. First Prior Year		(11,068,040)
	c. Second Prior Year		(16,949,719)
	d. Third Prior Year		6,573,000
	e. Fourth Prior Year		(55,022)
	f. Total Recognized Investment Gain	\$	(20,855,287)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)c + (6)f	\$	334,177,906



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2010**

LOCAL EMPLOYEES

(1)	Actuarial Value Beginning of Year	
	a. Actuarial Value Beginning of Year	\$ 4,764,870,832
	b. Adjustment	<u>1,045,328</u>
	c. Adjusted Actuarial Value Beginning of Year	\$ 4,765,916,160
(2)	Market Value End of Year	\$ 3,977,913,272
(3)	Market Value Beginning of Year	
	a. Market Value Beginning of Year	\$ 3,660,992,684
	b. Adjustment	<u>524,693</u>
	c. Adjusted Market Value Beginning of Year	\$ 3,661,517,377
(4)	Cash Flow	
	a. Contributions	\$ 299,607,700
	b. Benefit Payments	<u>(320,888,858)</u>
	c. Net	\$ (21,281,158)
(5)	Investment Income	
	a. Market total: (2) – (3)c – (4)c	\$ 337,677,053
	b. Assumed Rate	8.00%
	c. Amount of Immediate Recognition [(3)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 292,070,144
	d. Adjustment for Employer Lump Sums	\$ (25,058)
	e. Adjusted Amount for Immediate Recognition (5)c + (5)d	\$ 292,045,086
	f. Amount for Phased-In Recognition (5)a – (5)e	\$ 45,631,967
(6)	Phased-In Recognition of Investment Income	
	a. Current Year: 0.20*(5)f	\$ 9,126,393
	b. First Prior Year	(150,627,609)
	c. Second Prior Year	(221,373,757)
	d. Third Prior Year	81,050,494
	e. Fourth Prior Year	<u>730,552</u>
	f. Total Recognized Investment Gain	\$ (281,093,927)
(7)	Actuarial Value End of Year: (1)c + (4)c + (5)e + (6)f	\$ 4,755,586,161



SCHEDULE B (Continued)

SEPTEMBER 30, 2010
DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

TOTAL - ALL GROUPS

(1)	Actuarial Value Beginning of Year	\$	9,928,104,059
(2)	Market Value End of Year	\$	8,102,984,457
(3)	Market Value Beginning of Year	\$	7,599,060,508
(4)	Cash Flow		
	a. Contributions	\$	562,963,433
	b. Benefit Payments	\$	(758,114,572)
	c. Net	\$	(195,151,139)
(5)	Investment Income		
	a. Market total: (2) – (3) – (4)c	\$	699,075,088
	b. Assumed Rate		8.00%
	c. Amount for Immediate Recognition [(3) x (5)b] + [(4)c * (5)b * 0.5]	\$	600,118,795
	d. Adjusted for Employer Lump Sums	\$	(25,058)
	e. Adjusted Amount for Immediate Recognition (5)c + (5)d	\$	600,093,737
	f. Amount for Phased-In Recognition (5)a – (5)e	\$	98,981,351
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20*(5)f	\$	19,796,270
	b. First Prior Year		(313,849,245)
	c. Second Prior Year		(478,093,610)
	d. Third Prior Year		178,358,144
	e. Fourth Prior Year		72,600
	f. Total Recognized Investment Gain	\$	(593,715,841)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)e + (6)f	\$	9,739,330,816



SCHEDULE C

**SUMMARY OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2010**

Receipts for the Year

Contributions:		
Members	\$ 196,757,338	
Employers	<u>366,206,095</u>	
Total		\$ 562,963,433
Net Investment Income		<u>699,075,088</u>
TOTAL		\$ 1,262,038,521

Disbursements for the Year

Benefit Payments	\$ 725,734,309	
Refunds to Members	28,551,544	
Miscellaneous	<u>3,828,719</u>	
TOTAL		\$ 758,114,572

Excess of Receipts Over Disbursements \$ 503,923,949

Reconciliation of Asset Balances

Market Value of Assets as of September 30, 2009	\$ 7,599,060,508
Excess of Receipts Over Disbursements	503,923,949
Market Value of Assets as of September 30, 2010	<u>\$ 8,102,984,457</u>



SCHEDULE D

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were based on the actuarial experience study prepared as of September 30, 2005, submitted to and adopted by the Board on May 30, 2007. The retirement rates were since revised.

INVESTMENT RATE OF RETURN: 8% per annum, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate</u>
20	7.66%
25	7.75
30	7.61
35	7.25
40	6.98
45	6.60
50	6.32
55	5.84
60	5.49
65	5.05



STATE AND LOCAL EMPLOYEES WITH PRIOR DROP COVERAGE

SEPARATIONS BEFORE SERVICE RETIREMENT: Representative values of the assumed annual rates of death, disability and withdrawal are shown in the following tables:

Age	Annual Rate of							
	Death		Disability		Withdrawal			
	Male	Female	Male	Female	Male		Female	
					Years of Service		Years of Service	
				0-4	5+	0-4	5+	
20	.06%	.03%	.05%	.08%	35.00%		37.00%	
25	.08	.03	.08	.09	19.50	10.00%	22.50	12.00%
30	.08	.04	.10	.12	17.00	8.00	18.50	10.00
35	.09	.06	.12	.24	16.00	6.00	18.00	7.50
40	.14	.08	.32	.38	16.00	4.50	15.00	5.00
45	.21	.11	.60	.58	14.00	3.50	13.00	4.00
50	.36	.17	1.00	.98	13.00	2.50	13.00	3.50
55	.63	.29	1.65	1.50	11.50	2.50	14.00	3.00
60	1.15	.58			12.00	3.00	12.00	3.00
62	1.45	.76			13.20	4.20	12.20	4.60
65	1.99	1.08			15.00	6.00	12.50	7.00
69	2.85	1.50			15.00	6.00	12.50	7.00

SERVICE RETIREMENT: Representative values of the assumed annual rates of service retirement are as follows:

Age	Annual Rate			
	Under age 65 with 25 or more years of service		Under age 65 with less than 25 years of service & All over age 65	
	Male ¹	Female ²	Male	Female
45	15.00%	15.00%		
50	10.00	10.00		
55	14.00	20.00		
60	13.00	19.00	16.00%	22.00%
62	28.00	38.00	32.00	31.00
64	14.00	38.00	25.00	24.00
65			36.00	36.00
70			27.00	30.00
72			23.00	30.00
75			100.00	100.00

¹Rates are increased by 12% in year when member attains 25 years of service.

²Rates are increased in year when member attains 25 years of service by 10% for ages less than 55 and by 17% for ages 55 and older.



STATE POLICEMEN

Annual Rate of

<u>Age</u>	<u>Death</u>		<u>Disability</u>	<u>Withdrawal</u> ¹	<u>Service</u>	
	<u>Male</u>	<u>Female</u>			<u>< 25 Years</u>	<u>25+ Years</u>
20	.06%	.03%	.08%	2.00%		
25	.08	.03	.10	2.00		
30	.08	.04	.14	2.00		
35	.09	.06	.22	2.00		
40	.14	.08	.34	2.00		19.00%
45	.21	.11	.46	2.00		19.00
50	.36	.17	.60			18.00
55	.63	.29			20.00%	32.50
60	1.15	.58			20.00	100.00
62	1.45	.76			20.00	100.00
65	1.99	1.08			100.00	100.00

¹ A rate of 3.50% is assumed during the first four years of employment.



LOCAL EMPLOYEES WITH NO PRIOR DROP COVERAGE

SEPARATIONS BEFORE SERVICE RETIREMENT: Representative values of the assumed annual rates of death, disability and withdrawal are shown in the following tables:

Age	Annual Rate of							
	<u>Death</u>		<u>Disability</u>		<u>Withdrawal</u>			
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>		<u>Female</u>	
					Years of Service		Years of Service	
				<u>0-4</u>	<u>5+</u>	<u>0-4</u>	<u>5+</u>	
20	.06%	.03%	.06%	.06%	26.00%		37.00%	
25	.08	.03	.08	.13	21.00	11.00%	30.00	15.00%
30	.08	.04	.11	.19	19.00	8.50	25.00	12.00
35	.09	.06	.13	.25	17.00	6.50	22.00	9.50
40	.14	.08	.20	.28	16.00	4.50	19.00	7.50
45	.21	.11	.42	.36	15.00	4.25	18.00	6.50
50	.36	.17	.77	.43	13.00	4.00	17.00	6.00
55	.63	.29	1.41	.82	13.00	4.25	16.00	6.00
60	1.15	.58			13.00	5.00	16.00	5.50
62	1.45	.76			15.00	6.20	16.00	7.30
65	1.99	1.08			18.00	8.00	16.00	10.00
69	2.85	1.50			18.00	8.00	16.00	10.00

SERVICE RETIREMENT: Representative values of the assumed annual rates of service retirement are as follows:

Age	Annual Rate			
	Under age 65 with 25 or more years of service		Under age 65 with less than 25 years of service & All over age 65	
	<u>Male</u> ¹	<u>Female</u> ²	<u>Male</u>	<u>Female</u>
45	15.00%	17.00%		
50	12.00	16.00		
55	16.00	23.00		
60	19.00	30.00	7.50%	18.00%
62	49.00	34.00	31.00	28.00
64	28.00	26.00	14.00	15.00
65			28.00	29.00
70			20.00	17.00
72			20.00	24.00
75			100.00	100.00

¹Rates are increased by 12% in year when member attains 25 years of service.

²Rates are increased in year when member attains 25 years of service by 10% for ages less than 55 and by 17% for ages 55 and older.



DEATH AFTER RETIREMENT: The rates of mortality for the period after service retirement are according to the 1994 Group Annuity Mortality Table set forward three years for males and set forward two years for females. Special tables are used for the period after disability retirement.

DEATH IN ACTIVE SERVICE BENEFIT: For those eligible for service retirement who die in active service, it is assumed that 75% of beneficiaries will elect the lump sum death benefit and 25% will elect the Option 3 allowance.

BENEFITS PAYABLE UPON SEPARATION FROM SERVICE: For members who terminate with less than 10 years of service, assumed refunds are reduced by 10% to account for interest rates lower than the "regular" 4% rate adopted by the Board (See Section 16-25-14(g)).

UNUSED SICK LEAVE: 2% load on service retirement, disability retirement and death in active service allowance liabilities for active members.

PERCENT MARRIED: 100% of employees are assumed to be married, with the wife 3 years younger than the husband.

ACTUARIAL METHOD: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

ASSET METHOD: Actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected value.

LIABILITY FOR CURRENT INACTIVE MEMBERS: Member Contribution Balance is multiplied by a factor of 2.5 for State Employees, and 3.0 for Local Employees and State Policemen.



SCHEDULE E

ACTUARIAL COST METHOD

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the current assets and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System. The accrued liability contribution amortizes the balance of the unfunded accrued liability over a period of years from the valuation date.



SCHEDULE F

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

The Employees' Retirement System of Alabama was established on October 1, 1945. The valuation took into account amendments to the System effective through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1 – DEFINITIONS

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

Membership Service – all service rendered while a member of the Retirement System and for which contributions are made.

Creditable Service – the sum of membership service, prior service, and any other previous service established as creditable in accordance with the provisions of the retirement law.

Annuity – payments for life derived from accumulated contributions of a member.

Pension – payments for life derived from the accumulated contributions of an employer.

Retirement Allowance – the sum of the annuity and pension payments.

2 - BENEFITS

MEMBERS CLASSIFIED OTHER THAN STATE POLICEMEN

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service, (except for employees of local employers who did not elect 25-year retirement), or who has attained age 60 and completed at least 10 years of creditable service.



Amount of Allowance

Upon service retirement a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of his creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer or correctional officer.

Disability Retirement Allowance

Condition for Allowance

A disability retirement allowance may be granted to a member who has 10 or more years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.

Amount of Allowance

Upon retirement for disability, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of his creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer or correctional officer.

Benefits Payable on
Separation from Service

Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 60.

Benefits Payable upon
Death in Active Service

In the event of the death of a member eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit payable from the pre-retirement death benefit fund equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30).*



In the event of the death of a member with more than one year of service who is not eligible for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which their retirement contributions were made for the previous fiscal year (October 1 – September 30).*

In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the annual earnable compensation of the member at the time death occurs.*

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit which is limited to a maximum of \$5,000.

* However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of service (at least 30 years for employers that did not elect 25 year retirement) of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of this period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

The effect of Act 2011-27 is that no new participants will be allowed to enter DROP with an effective participation date after June 1, 2011.





Member Contributions

Regular members contribute 5.0% of salary. Certified police officers and firefighters contribute 6.0% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and regular interest upon retirement.

“Regular Interest” is 4% which is the rate adopted by the Board and applied to the balance in each member’s account every year; however, if a member receives a refund of contributions, the interest rate applied to the refund is lower than the 4% regular rate (Based on Section 16-25-12(g)).

Beginning October 1, 2011, the contribution rates will increase to 7.25% for regular members and 8.25% for police officers and firefighters.

Beginning October 1, 2012, the contribution rates will increase to 7.50% for regular members and 8.50% for police officers and firefighters.

If positive investment performance results in a decrease in the total contribution rate paid by employers and employees participating in the System, the Retirement System of Alabama shall first reduce the employee contribution rate.

MEMBERS CLASSIFIED AS STATE POLICEMEN

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 52 and completed at least 10 years of creditable service.

Amount of Allowance

Upon service retirement a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of his creditable service.

A member who has attained 20 or more years of creditable service and retires prior to age 60 is eligible to receive a “bonus service credit” up to 4 years as follows:

- Age 56 or older – bonus service of 4 years reduced by 1 month for each month over the age of 56.
- Age 52 to 56 – bonus service of 4 years.
- Age 52 or less (disability retirement only) – bonus service of 4 years.



- Age 52 or less with 25 or more years of service – bonus service of 4 years.

Disability Retirement Allowance

Condition for Allowance

A disability retirement allowance may be granted to a member who has 10 or more years of creditable service or who becomes disabled as a result of his employment in line of duty without regard to his years of creditable service, and who becomes permanently incapacitated, mentally or physically, for the further performance of duty before reaching the minimum age for service retirement.

Amount of Allowance

Upon retirement for disability, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of his creditable service.

Benefits Payable on Separation from Service

Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 52.

Benefits Payable upon Death in Active Service

In the event of the death of a member who is eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit payable from the pre-retirement death benefit fund equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30).*

In the event of the death of a member with more than one year of service who is not eligible for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which their retirement contributions were made for the previous fiscal year (October 1 – September 30).*

In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit payable from the pre-



retirement death benefit fund equal to the annual earnable compensation of the member at the time death occurs.*

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit which is limited to a maximum of \$5,000.

- * However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 52 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of this period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

The effect of Act 2011-27 is that no new participants will be allowed to enter DROP with an effective participation date after June 1, 2011.

Member Contributions

Each member contributes 10% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions with interest upon retirement.

3 - SPECIAL PRIVILEGES AT RETIREMENT – ALL MEMBERS

In lieu of the full retirement allowance, any member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full allowance, with the provision that:

Option 1. If the member dies before the annuity payments equal or exceed the present value of the member's annuity



at the date of retirement, the balance is paid to a designated beneficiary or to the estate, or

Option 2. After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or

Option 3. After the member's death, one half of the member's allowance is continued throughout the life of the designated beneficiary, or

Option 4. Some other benefit is paid either to the member or to the designated beneficiary provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to his retirement allowance and is approved by the Board of Control.



SCHEDULE G

**SCHEDULE OF MEMBERSHIP DATA
AS OF SEPTEMBER 30, 2010**

ACTIVE STATE EMPLOYEES

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	428	555	12								995
Avg. Pay	\$27,123	\$29,087	\$25,127								\$28,195
25 to 29	579	1,820	472	5							2,876
Avg. Pay	\$29,861	\$32,864	\$33,415	\$31,839							\$32,348
30 to 34	368	1,427	1,538	290	3						3,626
Avg. Pay	\$29,967	\$34,322	\$38,818	\$39,976	\$38,026						\$36,242
35 to 39	265	1,160	1,208	855	211	5					3,704
Avg. Pay	\$30,636	\$35,210	\$41,285	\$44,886	\$46,731	\$49,754					\$39,773
40 to 44	228	916	976	772	928	412	6				4,238
Avg. Pay	\$30,609	\$34,241	\$39,771	\$45,823	\$53,587	\$50,563	\$52,450				\$43,278
45 to 49	199	825	848	634	892	1,256	308	6			4,968
Avg. Pay	\$28,927	\$33,626	\$38,782	\$45,404	\$51,245	\$55,465	\$53,306	\$45,133			\$45,740
50 to 54	139	734	791	592	706	1,031	787	307	16		5,103
Avg. Pay	\$31,886	\$34,568	\$38,249	\$43,159	\$49,877	\$55,190	\$59,204	\$55,075	\$55,310		\$47,445
55 to 59	112	536	629	511	591	777	223	161	45		3,585
Avg. Pay	\$31,178	\$34,828	\$39,056	\$41,289	\$48,317	\$53,388	\$61,544	\$63,606	\$54,452		\$45,823
60 to 64	200	491	449	310	433	426	73	23	17	2	2,424
Avg. Pay	\$57,236	\$53,434	\$42,056	\$43,780	\$48,748	\$51,239	\$57,654	\$65,112	\$70,305	\$76,387	\$49,558
65 to 69	29	161	127	108	108	114	18	7	5	1	678
Avg. Pay	\$64,005	\$61,375	\$42,396	\$43,935	\$52,894	\$52,803	\$54,656	\$41,550	\$123,085	\$100,200	\$52,492
70 & up	6	51	47	40	48	40	7	3	2	6	250
Avg. Pay	\$52,771	\$60,823	\$48,158	\$47,343	\$54,468	\$52,670	\$61,400	\$70,139	\$53,712	\$65,953	\$53,761
Total	2,553	8,676	7,097	4,117	3,920	4,061	1,422	507	85	9	32,447
Avg. Pay	\$32,246	\$35,517	\$39,271	\$44,001	\$50,668	\$53,948	\$58,139	\$58,024	\$61,804	\$72,077	\$42,716

In addition there are 1,812 employees with annual compensation of \$108,425,996 participating in the DROP as of September 30, 2010.

Amounts shown do not reflect any increase in effect after the valuation date.



SCHEDULE G (Continued)

**SCHEDULE OF MEMBERSHIP DATA
AS OF SEPTEMBER 30, 2010**

ACTIVE STATE POLICE

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25		8									8
Avg. Pay		\$48,379									\$48,379
25 to 29	2	55	16								73
Avg. Pay	\$46,973	\$47,747	\$46,818								\$47,522
30 to 34	1	38	59	29							127
Avg. Pay	\$50,349	\$46,940	\$52,282	\$58,892							\$52,178
35 to 39	2	25	43	81	23						174
Avg. Pay	\$47,133	\$48,520	\$53,958	\$59,998	\$64,719						\$57,332
40 to 44	1	19	33	54	64	26	2				199
Avg. Pay	\$40,239	\$49,237	\$52,483	\$63,816	\$71,751	\$82,231	\$101,996				\$65,768
45 to 49		13	10	21	39	67	18				168
Avg. Pay		\$52,857	\$55,923	\$62,652	\$75,585	\$81,708	\$85,368				\$74,529
50 to 54	1	7	5	2	7	32	12	4			70
Avg. Pay	\$50,755	\$58,363	\$58,525	\$67,774	\$77,805	\$80,601	\$81,360	\$100,716			\$77,007
55 to 59	4	6	3	1	6	6	1				27
Avg. Pay	\$100,794	\$66,915	\$63,819	\$84,950	\$66,483	\$82,643	\$69,239				\$75,743
60 to 64	4	4			3	1					12
Avg. Pay	\$87,219	\$74,137			\$74,735	\$86,976					\$79,717
65 to 69											
Avg. Pay											
70 & up				1							1
Avg. Pay				\$87,594							\$87,594
Total	15	175	169	189	142	132	33	4			859
Avg. Pay	\$72,107	\$49,938	\$52,835	\$61,574	\$71,804	\$81,625	\$84,429	\$100,716			\$63,501

In addition there are 29 employees with annual compensation of \$2,718,893 participating in the DROP as of September 30, 2010.

Amounts shown do not reflect any increase in effect after the valuation date.



SCHEDULE G (Continued)

**SCHEDULE OF MEMBERSHIP DATA
AS OF SEPTEMBER 30, 2010**

ACTIVE LOCAL EMPLOYEES

Attained Age	Completed Years of Service										Total	
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up		
Under 25	928	1,445	42									2,415
Avg. Pay	\$19,950	\$26,916	\$33,348									\$24,351
25 to 29	910	3,003	987	22								4,922
Avg. Pay	\$22,634	\$30,298	\$36,335	\$41,815								\$30,143
30 to 34	626	2,416	1,917	755	16							5,730
Avg. Pay	\$23,661	\$31,547	\$38,730	\$42,516	\$44,459							\$34,570
35 to 39	592	2,103	1,836	1,694	607	22						6,854
Avg. Pay	\$24,087	\$31,973	\$39,234	\$45,345	\$51,249	\$58,501						\$38,334
40 to 44	492	1,794	1,581	1,614	1,359	601	21					7,462
Avg. Pay	\$25,382	\$31,220	\$38,048	\$44,479	\$50,329	\$52,605	\$65,553					\$40,449
45 to 49	427	1,725	1,474	1,376	1,135	1,137	433	24				7,731
Avg. Pay	\$24,402	\$30,689	\$35,966	\$42,045	\$48,620	\$53,668	\$56,138	\$61,053				\$40,901
50 to 54	371	1,417	1,322	1,220	1,015	1,015	689	311	19			7,379
Avg. Pay	\$23,864	\$30,610	\$35,141	\$39,518	\$44,810	\$51,824	\$55,800	\$59,315	\$55,600			\$41,053
55 to 59	222	1,064	1,164	1,041	864	786	349	244	61	1		5,796
Avg. Pay	\$25,521	\$29,808	\$34,904	\$39,218	\$44,263	\$47,936	\$52,690	\$60,270	\$61,750	\$71,063		\$39,974
60 to 64	130	619	796	700	518	452	165	90	55	22		3,547
Avg. Pay	\$31,363	\$31,545	\$33,550	\$40,486	\$42,987	\$46,809	\$50,100	\$50,326	\$61,052	\$65,560		\$39,377
65 to 69	48	227	276	224	162	125	42	22	17	6		1,149
Avg. Pay	\$27,110	\$32,247	\$31,823	\$37,459	\$44,716	\$46,744	\$43,033	\$56,622	\$49,666	\$75,155		\$37,625
70 & up	20	164	170	113	80	74	33	13	3	6		676
Avg. Pay	\$26,532	\$24,953	\$25,296	\$31,650	\$39,784	\$38,545	\$40,328	\$39,246	\$41,927	\$40,055		\$30,683
Total	4,766	15,977	11,565	8,759	5,756	4,212	1,732	704	155	35		53,661
Avg. Pay	\$23,399	\$30,563	\$36,626	\$42,108	\$47,224	\$50,820	\$54,229	\$58,101	\$59,040	\$62,990		\$37,724

In addition there are 752 employees with annual compensation of \$43,612,022 participating in the DROP as of September 30, 2010.

Amounts shown do not reflect any increase in effect after the valuation date.



SCHEDULE G (Continued)

**SCHEDULE OF MEMBERSHIP DATA
AS OF SEPTEMBER 30, 2010**

**NUMBER OF RETIRED MEMBERS
AND THEIR BENEFITS BY AGE**

Age	Number of Members	Total Annual Benefits	Average Annual Benefits
Under 50	330	\$ 9,465,316	\$ 28,683
50 – 54	1613	43,045,211	26,686
55 – 59	2913	75,665,296	25,975
60 – 64	6131	144,760,494	23,611
65 – 69	5970	121,577,889	20,365
70 – 74	5155	97,363,390	18,887
75 – 79	3904	65,291,379	16,724
80 – 84	2628	40,036,276	15,235
85 – 89	1373	18,467,601	13,451
90 – 94	484	5,813,770	12,012
95 & Over	126	1,378,758	10,943
Total	30,627	\$ 622,865,380	\$ 20,337

**NUMBER OF DROP PARTICIPANTS
AND THEIR BENEFITS BY AGE**

Age	Number of Members	Total Annual Benefits	Average Annual Benefits
Under 60	1701	\$ 53,315,937	\$ 31,344
60 – 64	745	20,796,167	27,914
65 – 69	110	2,876,655	26,151
70 – 74	26	644,456	24,787
75 & Over	11	277,204	25,200
Total	2,593	\$ 77,910,419	\$ 30,046



SCHEDULE G (Continued)

**SCHEDULE OF MEMBERSHIP DATA
AS OF SEPTEMBER 30, 2010**

**NUMBER OF BENEFICIARIES
AND THEIR BENEFITS BY AGE**

Age	Number of Members	Total Annual Benefits	Average Annual Benefits
Under 50	122	\$ 1,051,635	\$ 8,620
50 – 54	104	1,082,806	10,412
55 – 59	175	1,979,578	11,312
60 – 64	265	3,056,444	11,534
65 – 69	369	4,064,655	11,015
70 – 74	523	6,265,367	11,980
75 – 79	584	5,783,166	9,903
80 – 84	575	5,509,798	9,582
85 – 89	429	3,350,630	7,810
90 – 94	187	1,178,388	6,302
95 & Over	55	289,822	5,269
Total	3,388	\$ 33,612,289	\$ 9,921

**NUMBER OF DISABLED RETIREES
AND THEIR BENEFITS BY AGE**

Age	Number of Members	Total Annual Benefits	Average Annual Benefits
Under 50	317	\$ 3,824,437	\$ 12,064
50 – 54	483	6,184,358	12,804
55 – 59	765	10,194,864	13,327
60 – 64	826	10,386,027	12,574
65 – 69	545	6,285,107	11,532
70 – 74	292	3,377,559	11,567
75 – 79	197	2,256,032	11,452
80 – 84	84	998,601	11,888
85 – 89	34	326,605	9,606
90 – 94	12	88,089	7,341
95 & Over	1	18,668	18,668
Total	3,556	\$ 43,940,347	\$ 12,357