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Independent Auditors' Report

The Public Education Employees'
Health Insurance Board:

We have audited the accompanying statement of plan net assets of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama) as of September 30, 2007, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Alabama Retired Education Employees' Health Care Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama) as of September 30, 2007, and its changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 and 3 and the schedules of funding progress and contributions from the employers and other contributing entities on page 18 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 12, 2008

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The Alabama Retired Education Employees' Health Care Trust (Trust) is a multiple employer cost sharing defined benefit health care plan established in 2007 to provide health care benefits to state and local school system retirees. The contributions and benefit payments related to retirees that are processed through the PEEHIF are segregated from the PEEHIF and reported as part of the Trust. The following discussion provides an overview of the financial position and results of operation for the Trust as of and for the year ended September 30, 2007, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements, the Required Supplementary Information, and the Supplementary Information.

Financial Statements, Required Supplementary Information, and Supplementary Information

The financial statements include the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Statement of Plan Net Assets – Includes all assets and liabilities of the Trust and provides a snapshot of the financial position of the Trust as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for other postemployment benefits at fiscal year-end.

Statement of Changes in Plan Net Assets – Reports all additions and deductions of the Trust for the fiscal year. Additions primarily include employer contributions, employee contributions, transfers from PEEHIF, and investment income. Deductions are principally made up of claims. Additions minus deductions provide the change in plan net assets for the fiscal year. The change in plan net assets plus the beginning plan net assets results in the plan net assets at fiscal year-end.

The Notes to the Financial Statements include a description of the trust, a summary of significant accounting policies, a description of contract administrators including the methods in which fees are determined, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, additional actuarial information relevant to the latest actuarial valuations, and disclosures concerning unpaid claims liabilities.

The Required Supplementary Information following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the Trust. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed.

The Supplementary Information following the Required Supplementary Information includes a Schedule of Claims Development Information. It provides information pertaining to claims development. A table is used to illustrate the historical trend information on how the Trust's earned revenues and interest income compare to related costs of claims and other expenses assumed by the Trust as of the year-end.

Comparative Summary Statements and Financial Analysis

- Comparative summary statements and a financial analysis are not included since this is the first year of operation.

Financial Highlights

- The PEEHIB authorized a transfer of $417,000,000 from the PEEHIF to the Trust.
- The discount rate was changed from 4.0% for the 9/30/05 valuation to 5.0% for the 9/30/06 valuation as a result of contributions to the Trust. The change in the discount rate was primarily responsible for the significant decrease in the actuarial accrued liability.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

STATEMENT OF PLAN NET ASSETS

September 30, 2007

(Amounts in Thousands)

Assets	
Interest and Dividends Receivable	$ 2,512
Investments, at Fair Value (Note 7)	
Domestic Equity Securities	105,823
Domestic Fixed Income Securities	112,726
International Securities	20,512
Short-term Investments	186,466
Total Investments	425,527
Invested Securities Lending Collateral (Note 7)	102,044
Total Assets	530,083
Liabilities	
Reported Claims Payable	8,054
Claims Incurred but not Reported	19,202
Securities Lending Collateral (Note 7)	102,044
Total Liabilities	129,300
Net Assets Held in Trust for Other Postemployment Benefits	**$ 400,783**

See accompanying *Notes to the Financial Statements* .

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Year Ended September 30, 2007

(Amounts in Thousands)

Additions	
Contributions	
Employee (Note 2)	$ 56,782
Employer (Note 2)	221,064
Transfer from PEEHIF	417,000
Medicare Part D Retiree Drug Subsidy	23,368
Total Contributions	718,214
Investment Income (Note 7)	
From Investing Activities	
Net Increase in Fair Value of Investments	6,871
Interest and Dividends	4,010
Total Investment Income from Investing Activities	10,881
From Securities Lending Activities	
Securities Lending Income	2,796
Less Securities Lending Expenses:	
Borrower Rebates	2,609
Management Fees	29
Total Securities Lending Expenses	2,638
Net Income from Securities Lending Activities	158
Total Investment Income	11,039
Total Additions	729,253
Deductions	
Benefits	328,470
Net Increase	400,783
Net Assets Held in Trust for Other Postemployment Benefits	
Beginning of Year	-
End of Year	**$ 400,783**

See accompanying *Notes to the Financial Statements* .

1) Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a multiple employer cost sharing defined benefit health care plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. Constitutional amendment 798 provides further legal authority to the Trust as an irrevocable trust fund. The Trust provides health care benefits to state and local school system retirees. The assets of the Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses and provide post-employment health care benefits to or for retired employees and their dependents. The Legislature has no authority or power to appropriate the assets of the Trust. Responsibility for the general administration and operations of the Trust is vested in its trustees who consist of the Public Education Employees' Health Insurance Board (PEEHIB) members. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (PEEHIF), as described below. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and determines if excess funds are available. If excess funds are determined to be available in the PEEHIF, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. As of the latest actuarial valuation, there were 174 participating employers and 199,492 active members and retiree participants. In accordance with the Governmental Accounting Standards Board (GASB), the Trust is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

In order to comply with the reporting requirements as set out in GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the contributions (employer, plan member and Medicare Part D Retiree Drug Subsidy) and benefit payments related to retirees that are processed through the PEEHIF are segregated from the PEEHIF and reported as part of the Trust.

PEEHIF was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide a uniform plan of health insurance for employees and retired employees of state educational institutions which provide instruction at any combination of grades K-14 (collectively eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities are eligible and may elect to participate in the plan. At this time, Jacksonville State is the only university that has elected to participate in the plan. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a body corporate for purposes of management of the health insurance plan. All assets of the PEEHIF are held in trust for payment of health insurance benefits.

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of $1,000,000 for each covered individual.

Also available through the PEEHIP is an option to enroll in a health maintenance organization (HMO) in lieu of the basic hospital/medical plan. The HMO generally provides the same coverage as the basic hospital/medical plan.

Optional plans which may be selected in addition to or in lieu of the basic hospital/medical plan or HMO include: Hospital Indemnity, Cancer, Dental, and Vision. The Hospital Indemnity Plan provides a per day benefit for hospital confinement, maternity, intensive care, cancer and convalescent care. The Cancer Plan provides a per day benefit for each hospital confinement related to cancer only. The Dental Plan

1) Plan Description, Continued

covers diagnostic and preventive services as well as basic and major services based on reasonable and customary charges up to $1,000 per year per person with dependent coverage ($1,250 per year per person with employee coverage only). The Vision Plan covers annual eye examinations as well as the cost of either eyeglasses or contact lenses.

Act 2004-646 allows PEEHIP members to enroll in a supplemental coverage plan in lieu of coverage in the PEEHIP Hospital/Medical or HMO plans. The supplemental coverage plan provides secondary benefits to the member's primary coverage provided by another employer. Active and non-Medicare retiree members and their eligible dependents are eligible to participate in the PEEHIP Supplemental Coverage Plan. There is no premium. However the supplemental plan cannot be used as a supplement to the PEEHIP hospital/medical plan or state or local governmental plans administered by the State Employees' Insurance Board.

Code of Alabama 1975, Section 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan.

The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIF and, consequently, serves as the administrator of the Trust.

2) Summary of Significant Accounting Policies

A. Basis of Accounting

The Trust is an "other employee benefits trust fund" that operates under the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when earned, pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan.

B. Cash

Cash consists of deposits held by the State Treasurer in the Trust's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

C. Investments

The Trustees of the Trust have full power to invest and reinvest funds of the Trust in accordance with the Prudent Person Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The Trust will be governed by this Investment Policy Statement and by other applicable legislated restrictions.

C. Investments, Continued

It is the objective of the Trustees that funds be invested in such a manner as to maximize the total return of the Trust within prudent risk parameters. The Trustees have elected to have the Trust invested by the Investment Staff of the Teachers' System of Alabama under the direction of the System's Secretary-Treasurer. The performance evaluation of the Trust will be submitted to the Trustees on a semi-annual basis.

All plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

D. Medicare Part D Retiree Drug Subsidy

Medicare Part D reimbursements are the result of PEEHIP continuing prescription drug coverage for Medicare beneficiaries and qualifying for the Medicare subsidy.

E. Unpaid Claims Liability

Claims liabilities are established based on the actual cost of claims reported but not settled and estimates of claims that have been incurred but not reported. Actual claims costs ultimately incurred may vary from estimated claims liabilities should the nature and frequency of actual claims vary from historical claims experience on which the estimates are based. Adjustments to claims liabilities are charged to expense in the periods in which they are made.

3) Contributions

Code of Alabama, Section 16-25A-8 provides the authority to set the contribution requirements for plan members and employers. The code section provides the PEEHIB explicit authority to set the plan member contribution rate. Additionally, the code section requires that on or before January 1 preceding each regular meeting of the Legislature, the PEEHIB shall certify to the Governor and the Legislature the amount or amounts necessary to fund coverage for benefits for the following fiscal year for employees and retired employees as a monthly premium per active member per month. The Legislature then sets the premium rate in the annual appropriation bill.

Code of Alabama, Section, 16-25A-8.1 provides that the board shall set forth the employer contribution to the health insurance premium for each retiree class. For employees who retire other than for disability after September 30, 2005, the employer contribution of the health insurance premium set forth by the board for each retiree class shall be reduced by two percent for each year of service less than 25 and increased by two percent for each year of service over 25 subject to adjustment by the board for changes in Medicare premium costs required to be paid by a retiree. In no case shall the employer contribution of the health insurance premium exceed 100 percent of the total health insurance premium cost for the retiree.

Employer contributions reported on the financial statements include transfers of $417,000,000 from the Public Education Employees' Health Insurance Fund authorized by the PEEHIP board.

3) Contributions, Continued

Each year, the State specifies the amount (the employer rate) that participating school systems must contribute monthly for each active employee. The fiscal year 2007 rate was $717 per active participant per month. Approximately 30% of the employer contributions are used to assist in funding retiree benefit payments. In addition to the employer payments each month, the employee pays certain premium amounts. Participants should refer to the PEEHIP's contracts for a more complete description of the PEEHIP's provisions. During fiscal year 2003, the Legislature passed Act 2003-473 (effective October 1, 2003) which requires universities that do not participate in PEEHIP to pay the health insurance costs of their university retirees to the PEEHIF.

The monthly employer premium established by the Legislature in the 2007 Budget was paid in accordance with the recommendation by the PEEHIP management. The recommendation was based on the determination made by the third party actuary.

Required monthly contribution rates for FY2006-07 are as follows:

Retired Member Rates
-Individual Coverage/Non-Medicare Eligible - $90.00
-Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $222.00
-Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - $181.00
-Individual Coverage/Medicare Eligible Retired Member - $1.14
-Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – $133.14
-Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - $92.14
-For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

Surviving Spouse Rates
-Surviving Spouse Non-Medicare Eligible - $581.00
-Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - $713.00
-Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - $672.00
-Surviving Spouse Medicare Eligible - $299.00
-Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - $431.00
-Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - $390.00

4) Funding Status and Funding Progress

As of the most recent actuarial valuation, the funded status of the plan was as follows:

FUNDED STATUS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) § (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09/30/06	$ -	$ 12,532,330	$ 12,532,330	-	$ 5,458,443	229.6

§ Projected Unit Credit

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

5) Actuarial Method and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Therefore, the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The valuation does not anticipate future changes in the pattern of sharing of costs between employers and plan members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. As of the most recent valuation, no assets had been accumulated, and, therefore, such methods were not applicable to the actuarial assets.

5) Actuarial Method and Assumptions, Continued

Information related to the most recent actuarial valuation, including the actuarial method and assumptions was as follows:

Valuation Date	9/30/2006
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	12.00%
Ultimate Trend Rate	5.00%
Year of Ultimate Trend Rate	2013
Dental Trend Rate	5.00%

* Includes inflation at 4.50%

6) Contract Administrators

Blue Cross and Blue Shield of Alabama (BCBS), under contract with the PEEHIB, administered medical claims incurred in accordance with the plan. BCBS administrative fee was $8.00 per month per contract subject to a maximum of 2.55 percent of paid claims.

Express Scripts, Inc., under contract with the PEEHIB, administered claims under the prescription drug plan. Express Scripts administrative fee was $.74 per prescription. Certain additional fees are based on specific services directed by PEEHIP.

Southland National Corporation (Southland), under contract with the PEEHIB, administered claims under the optional plans. The PEEHIF paid Southland an amount equal to covered charges plus processing fees. The processing fees per month per contract were $.80 for Group Hospital Indemnity, $.65 for Group Cancer, $1.15 for Group Vision, and $1.49 for Group Dental.

The retiree benefit expense includes the applicable fees.

7) Facilities

The Trust operates in facilities provided at no cost by the Retirement Systems of Alabama.

8) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Trust's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they were held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The Trust's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the Trust all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The Trust's safekeeping agent holds all investments of the Trust in the Trust's name.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of the Fund's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Trust may hedge against the possible adverse effects of currency fluctuations on the Trust's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. The Trust may hedge against the possible adverse effects of currency fluctuations on the portfolio when it is considered appropriate.

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

- Domestic Fixed Income – Limited to 50% of the fair value of the aggregate portfolio for the Trust.
- International Fixed Income – Limited to 10% of the fair value of the Trust's total portfolio.
- Domestic Equity – Limited to 65% of the fair value of the Trust's aggregate portfolio.

A. Investment Risks, Continued

- International Equity – The aggregate fair value of international equities is limited to 25% of the aggregate fair value of the Trust's total portfolio. Also, the Trust may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – The suggested limit is 15% of the book value of the Trust's portfolio.
- Alternative Investments (mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities and derivative investments) – Limited to 10% of the book value of the Trust's aggregate portfolio.
- Short-term Investments – Limited to 20% of the fair value of the Trust's aggregate portfolio in order to maintain adequate liquidity for payment of member health care benefits.

The following table provides information as of September 30, 2007, concerning the fair value of investments and interest rate risk:

INVESTMENTS

(Amounts in Thousands)

	Maturity in Years at Fair Value					
Type of Investment	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Total Fair Value**	**Cost**
Fixed Maturity						
Commercial Paper	$ 31,098	$ -	$ -	$ -	$ 31,098	$ 31,098
U.S. Agency	-	23,359	23,686	483	47,528	47,235
U.S. Government	-	16,529	12,534	-	29,063	28,789
Corporate Bonds	-	6,196	24,284	5,655	36,135	36,196
Money Market Funds	155,368	-	-	-	155,368	155,369
Total Fixed Maturity	$ 186,466	$ 46,084	$ 60,504	$ 6,138	299,192	298,687
Equities						
Domestic					105,823	100,775
International - MSCI EAFA - Index Equity Linked Note					20,512	19,196
Total Investments					**$ 425,527**	**$ 418,658**

(Continued)

A. Investment Risks, Continued

The following table provides information as of September 30, 2007, concerning credit risk:

Moody's Ratings	Fair Value	Cost	Fair Value as a Percent (%) of Total Fixed Maturity Fair Value
AAA	$ 50,588	$ 50,332	16.92
AA1	768	762	0.26
AA2	2,096	2,102	0.70
AA3	4,015	3,994	1.34
A1	6,191	6,168	2.07
A2	2,478	2,505	0.83
A3	1,899	1,897	0.63
BAA1	6,984	6,999	2.33
BAA2	4,409	4,446	1.47
BAA3	4,234	4,226	1.42
P-1	155,369	155,369	51.93
P-2	31,098	31,098	10.39
U.S. Government Guaranteed Securities	29,063	28,789	9.71
Totals	**$ 299,192**	**$ 298,687**	**100.00**

B. Concentration of Investments

As of September 30, 2007, the Trust owned debt securities of Federal Home Loan Mortgage Corporation, which represented approximately 5.04%, of the total fair value of investments.

C. Securities Lending Program

The Trust is authorized to participate in a securities lending program. The Trust's custodian, State Street Bank and Trust Company, administers the program. Certain securities from the Trust are loaned to borrowers approved by the Trust. Approved borrowers of securities provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the Trust, or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a value of 102% of the fair value of the loaned securities, or (ii) in the case of loaned securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5%

C. Securities Lending Program, Continued

of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The Trust cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Global Securities Lending Trust (SSGSLT).

The following describes the SSGSLT's fund guidelines. The SSGSLT invests non-qualified cash collateral from loans of securities. Its average effective duration is restricted to 120 days or less. The maximum remaining effective maturity of any instrument is five years. At the time of purchase all securities with maturities in first-tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if unrated, be of comparable quality. The Trust may invest in other State Street managed investment vehicles provided they conform to fund guidelines. The SSGSLT's guidelines allow for its management as an enhanced cash vehicle. Additionally, all debt instruments purchased by SSGSLT must have been issued after July 18, 1984, in order to meet IRS Code Sections 871 and 881.

As of September 30, 2007, the average term of the loans was 3 days. Cash collateral investments in the SSGSLT are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2007, the fair value of the securities on loan was $111,548,000. The fair value of the collateral pledged by the borrowers was $113,920,000. Since the amounts owed by the Trust exceeded the amounts the borrowers owed to the Trust, there was no credit risk exposure as of September 30, 2007. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

C. Securities Lending Program, Continued

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Trust. Securities pledged as collateral are held by the custodial agent, but not in the name of the Trust. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2007, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value - Amounts in Thousands)

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 37,940
Domestic Equity	61,966
Total Lent for Cash Collateral	99,906
For Non-cash Collateral	
Domestic Equity	11,642
Total Securities Lent	**$ 111,548**
Type of Collateral Received	
Cash Collateral - Invested in State Street Quality D Fund	$ 102,044
Non-cash Collateral	
For Lent Domestic Equity Securities	
Domestic Fixed Maturities	11,876
Total Collateral Received	**$ 113,920**

9) Unpaid Claims Liabilities

As discussed in note 1, the Trust establishes a liability for both reported and unreported insured claims, which includes provisions for both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust for 2007.

UNPAID CLAIMS LIABILITIES

(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	$ -
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	328,470
Decrease in Provision for Insured Events for Prior Years	-
Total Incurred Claims and Claim Ajustment Expenses	328,470
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	301,214
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	-
Total Payments	301,214
Total Unpaid Claims and Claim Ajustment Expenses at the End of the Year	$ 27,256

This was the first year that retirees were segregated from the active employees.
Unpaid claims liabilities will be presented prospectively.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEATLH CARE TRUST
Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) § (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentageof Covered Payroll ((b-a)/c)
09/30/06	$ -	$ 12,532,330	$ 12,532,330	-	$ 5,458,443	229.6
09/30/05	-	14,611,991	14,611,991	-	4,733,416	308.7

§ Projected Unit Credit
Funding progress will be presented prospectively until the required three years are presented.

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES
(Amounts in Thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed ‡
2007	$ 1,086,442	66.1

Presented prospectively until the required three years are presented.

‡ Payments in relation to the ARC include employer contributions, Medicare Part D Retiree Subsidy receipts, and transfers from the PEEHIP.

Notes to the Required Supplementary Information

The discount rate was changed from 4.0% for the 9/30/05 valuation to 5.0% for the 9/30/06 valuation as a result of contributions to the Trust. The change in the discount rate was primarily responsible for the significant decrease in the actuarial accrued liability.

Claims Development Information

(Amounts in Thousands)

The table below illustrates the historical trend information designed to provide information on how the Trust's earned revenues and interest income compare to related costs of claims and other expenses assumed by the Trust as of year end. The lines of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims. (3) This line shows the Trust's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This line shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for each policy year matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of estimated incurred claims currently recognized.

		Fiscal & Policy Year Ended 2007
1)	Net Earned Required Contribution & Investment Revenue	729,253
2)	Unallocated Expenses	-
3)	Estimated Incurred Claims & Expense, End of Policy Year	328,470
4)	Paid (Cumulative) As Of:	
	End of Policy Year	301,214
	One Year Later	-
5)	Reestimated Incurred Claims & Expense:	
	End of Policy Year	328,470
	One Year Later	-
6)	Increase (Decrease) in Estimated Incurred Claims & Expenses End of Policy Year	-

Presented prospectively until the required ten years are presented.