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Retirement Systems
of Alabama

GASB STATEMENT NO. 68 REPORT

FOR THE

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA

PREPARED AS OF SEPTEMBER 30, 2015





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

September 29, 2016

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

Members of the Board:

Presented in this report is information to assist the Employees' Retirement System of Alabama (ERS) in meeting the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 68 and to identify the information to be provided by the actuary, Cavanaugh Macdonald Consulting (CMC). The information is presented for the period ending September 30, 2015 (the Measurement Date).

GASB Statement No. 68 establishes accounting and financial reporting requirements for governmental employers who provide pension benefits to their employees through a trust.

The annual actuarial valuation used as a basis for much of the information presented in this report, including the Net Pension Liability, was performed as of September 30, 2014. The valuation was based on data, provided by the Retirement System staff, for active, inactive and retired members along with pertinent financial information.

The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the System, and on actuarial assumptions that are, individually and in the aggregate, internally consistent and reasonably based on the actual experience of the System. In addition, the calculations were completed in compliance with the laws governing the System and, in our opinion, meet the requirements of GASB 68. Ed Macdonald and John Garrett are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Phone (678) 388-1700 • Fax (678) 388-1730

www.CavMacConsulting.com

Offices in Englewood, CO • Kennesaw, GA • Bellevue, NE



Pension Board
September 29, 2016
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These results are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB 67 and GASB 68 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in the report due to such factors as changes in plan experience or changes in economic or demographic assumptions.

Sincerely yours,

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 'John J. Garrett'.

John J. Garrett, ASA, FCA, MAAA
Principal and Consulting Actuary



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**REPORT OF THE ANNUAL GASB STATEMENT NO. 68
REQUIRED INFORMATION FOR THE
EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

PREPARED AS OF SEPTEMBER 30, 2015

SECTION I – INTRODUCTION

The Governmental Accounting Standards Board issued Statement No. 68 (GASB 68), *“Accounting and Financial Reporting For Pensions”* in June 2012. GASB 68’s effective date is for an employer’s fiscal year beginning after June 15, 2014. The Employees’ Retirement System of Alabama is an agent multiple-employer defined benefit pension plan.

This report, prepared as of September 30, 2015 (the Measurement Date), presents information to assist the Employees’ Retirement System of Alabama (System) in meeting the requirements of GASB 68 for the fiscal year ending September 30, 2016 (Reporting Date). Much of the material provided in this report is based on the data, assumptions and results of the annual actuarial valuation of the System as of September 30, 2014. The results of that valuation were detailed in a report dated July 22, 2015.

The NPL shown in the GASB Statement No. 67 Schedules for the Employees' Retirement System of Alabama Prepared as of September 30, 2015 and submitted February 1, 2016 is the total NPL used for purposes of GASB 68. The NPL for each local employer was submitted in separate individual reports.

Pension Expense (PE) includes amounts for service cost (the Normal Cost under the Entry Age Normal actuarial cost method for the year), interest on the Total Pension Liability (TPL), changes in benefit structure, recognition of increases/decreases in liability due to actuarial experience and actuarial assumption changes, and recognition of investment gains/losses. The actuarial experience and assumption change impacts are recognized over the average expected remaining service life of the employer’s membership as of the beginning of the measurement period, and investment gains/losses are recognized over five years. The development of the PE is shown in Section IV.

The unrecognized portions of each year’s experience, assumption changes and investment gains/losses are used to develop deferred inflows and outflows, which also must be included on each employer’s balance sheet. The development of the deferred inflows and outflows is shown in Section III.



Section II of this report is a summary of the principal results of the amounts under GASB 68. Section III provides the results of all the necessary calculations, presented in the order presented in GASB 68 for note disclosure. Schedule A of this report shows the Required Supplementary Information (RSI) for state employees and state police.

The required GASB 68 information has been prepared separately for each employer participating in ERS. This report shows all required tables for state employees, state policemen and in the aggregate for the participating local employers. The required information for the participating local employers has been reported on an individual basis.



SECTION II – SUMMARY OF PRINCIPAL RESULTS
AS OF THE MEASUREMENT DATE
(\$ IN THOUSANDS)

Valuation Date (VD):	September 30, 2014			
Measurement Date (MD):	September 30, 2015			
Reporting Date (RD):	September 30, 2016			
	State	State Police	Local	Total
Membership Data:	Employees		Employees	
Retirees and Survivors	22,739	890	22,211	45,840
Terminated Vested Employees	917	10	1,353	2,280
Terminated Non-vested Employees	21,324	3	5,451	26,778
Active Members	28,677	697	55,164	84,538
Post-DROP Retired Members Still in Active Service	<u>456</u>	<u>4</u>	<u>214</u>	<u>674</u>
Total	74,113	1,604	84,393	160,110
Single Equivalent Interest Rate (SEIR):				
Long-Term Expected Rate of Return	8.00%	8.00%	8.00%	8.00%
Municipal Bond Index Rate at Measurement Date	3.78%	3.78%	3.78%	3.78%
Fiscal Year in which Plan's Fiduciary Net Position is projected to be depleted from future benefit payments for current members	N/A	N/A	N/A	N/A
Single Equivalent Interest Rate	8.00%	8.00%	8.00%	8.00%
Net Pension Liability:				
Total Pension Liability (TPL)	\$7,253,190	\$560,192	\$8,147,350	\$15,960,732
Fiduciary Net Position (FNP)	<u>4,522,437</u>	<u>310,719</u>	<u>5,718,748</u>	<u>\$10,551,904</u>
Net Pension Liability (NPL= TPL–FNP)	\$2,730,753	\$249,473	\$2,428,602	\$5,408,828
FNP as a percentage of TPL	62.35%	55.47%	70.19%	66.11%
Pension Expense:	\$202,658	\$22,732	\$234,906	\$460,296
Deferred Outflows of Resources:	\$144,518	\$10,067	\$252,823	\$407,408
Deferred Inflows of Resources:	\$43,515	\$1,991	\$42,920	\$88,426



SECTION III – NOTES TO FINANCIAL STATEMENTS

The material presented herein will follow the order presented in GASB 68. Paragraph numbers are provided for ease of reference.

Paragraph 40 (c): The data required regarding the membership of the Employees’ Retirement System of Alabama were furnished by the System office. The following table summarizes the membership of the system as of September 30, 2015, the Measurement Date.

Membership

GROUP	State Employees	State Police	Local Employees	TOTAL
Retired participants and beneficiaries currently receiving benefits	22,739	890	22,211	45,840
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	917	10	1,353	2,280
Terminated participants entitled to a refund of contributions	21,324	3	5,451	26,778
Active Participants	28,677	697	55,164	84,538
Post-DROP participants still in active service	<u>456</u>	<u>4</u>	<u>214</u>	<u>674</u>
Total	74,113	1,604	84,393	160,110

Paragraph 41: This paragraph requires information regarding the actuarial assumptions used to measure the TPL. The TPL as of September 30, 2015 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2014. The complete set of actuarial assumptions utilized in developing the TPL are outlined in Schedule C. The key actuarial assumptions are summarized below:

Inflation	3.00 percent
Salary increases	3.75 – 7.25 percent for State and Local Employees and 5.00 percent for State Police, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation



Mortality rates were based on the RP-2000 Combined Mortality Table with Projection Scale AA to 2015 set forward three years for males and two years for females for the period after service retirement and for dependent beneficiaries. The rates of mortality for the period after disability retirement are based on the RP-2000 Disabled Mortality Table.

The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2005 – September 30, 2010.

Paragraph 42 (a)-(f): The discount rate used to measure the TPL at September 30, 2015 was the long term rate of return, 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the rates currently in effect and that employer contributions will be made in accordance with the funding policy adopted by the Board of Control. Projected future benefit payments for all current plan members were projected for all years.

Based on those assumptions, each employer's FNP was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL and a municipal bond rate was not used in determining the discount rate.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	25.00%	5.00%
Domestic Large Cap Equity	34.00%	9.00%
Domestic Mid Cap Equity	8.00%	12.00%
Domestic Small Cap Equity	3.00%	15.00%
International Developed Equity	15.00%	11.00%
Emerging Market Equity	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash Equivalents	2.00%	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Paragraph 42 (g): This paragraph requires disclosure of the sensitivity of the NPL to changes in the discount rate. The following presents NPL of the System, calculated using the discount rate of 8.00 percent, as well as what the System's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

(\$ in Thousands)

Net Pension Liability	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
State Employees	\$3,434,685	\$2,730,753	\$2,130,074
State Police	304,644	249,473	202,131
Local Employees	<u>3,351,760</u>	<u>2,428,602</u>	<u>1,647,869</u>
Total	<u>\$7,091,089</u>	<u>\$5,408,828</u>	<u>\$3,980,074</u>



Paragraph 44: This paragraph requires a schedule of changes in the NPL. The needed information is provided in the table below.

**CHANGES IN THE NET PENSION LIABILITY
STATE EMPLOYEES
(\$ in Thousands)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2014	<u>\$7,152,023</u>	<u>\$4,689,942</u>	<u>\$2,462,081</u>
Changes for the year:			
Service cost	152,160		152,160
Interest	549,795		549,795
Benefit changes			
Difference between expected and actual experience	(60,921)		(60,921)
Changes in assumptions	0		0
Contributions - employer		177,599	(177,599)
Contributions - employee		97,144	(97,144)
Other		68,898	(68,898)
Net investment income		54,772	(54,772)
Benefit payments, including refunds of employee contributions	(559,171)	(559,171)	0
Administrative expense		(13,182)	13,182
Transfers among employers*	<u>19,304</u>	<u>6,435</u>	<u>12,869</u>
Net changes	<u>101,167</u>	<u>(167,505)</u>	<u>268,672</u>
Balances at September 30, 2015	<u>\$7,253,190</u>	<u>\$4,522,437</u>	<u>\$2,730,753</u>

*Includes \$6,691 assets and \$19,304 liabilities transferred from 7 local units whose assets and liabilities were merged with State Employees. For fiscal year 2015 individual member transfers, the Plan Fiduciary Net Position reflects the transfer but liabilities will be accounted for in the subsequent GASB 68 report.



**CHANGES IN THE NET PENSION LIABILITY
STATE POLICE
(\$ in Thousands)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2014	<u>\$555,253</u>	<u>\$329,832</u>	<u>\$225,421</u>
Changes for the year:			
Service cost	8,394		8,394
Interest	42,677		42,677
Benefit changes			
Difference between expected and actual experience	(2,544)		(2,544)
Changes in assumptions			0
Contributions - employer		16,463	(16,463)
Contributions - employee		4,374	(4,374)
Net investment income		3,776	(3,776)
Benefit payments, including refunds of employee contributions	(43,588)	(43,588)	0
Administrative expense		0	0
Transfers among employers	<u>0</u>	<u>(138)</u>	<u>138</u>
Net changes	<u>4,939</u>	<u>(19,113)</u>	<u>24,052</u>
Balances at September 30, 2015	<u>\$560,192</u>	<u>\$310,719</u>	<u>\$249,473</u>



**CHANGES IN THE NET PENSION LIABILITY
LOCAL EMPLOYEES
(\$ in Thousands)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2014	<u>\$7,818,015</u>	<u>\$5,783,336</u>	<u>\$2,034,679</u>
Changes for the year:			
Service cost	185,994		185,994
Interest	606,608		606,608
Benefit changes			
Difference between expected and actual experience	26,250		26,250
Changes in assumptions			0
Contributions - employer		217,025	(217,025)
Contributions - employee		127,735	(127,735)
Net investment income		67,787	(67,787)
Benefit payments, including refunds of employee contributions	(470,838)	(470,838)	0
Administrative expense		0	0
Transfers among employers*	(18,679)	(6,297)	(12,382)
Net changes	<u>329,335</u>	<u>(64,588)</u>	<u>393,923</u>
Balances at September 30, 2015	<u>\$8,147,350</u>	<u>\$5,718,748</u>	<u>\$2,428,602</u>

* Includes \$6,691 assets and \$19,304 liabilities transferred from 7 local units whose assets and liabilities were merged with State Employees. For new local employers in fiscal year 2015 where existing members transferred from other employers, both the assets and liabilities reflect the transfer. For all other fiscal year 2015 individual member transfers, the assets reflect the transfer but liabilities will be accounted for in the subsequent GASB 68 report.



**CHANGES IN THE NET PENSION LIABILITY
TOTAL
(\$ in Thousands)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2014	<u>\$15,525,291</u>	<u>\$10,803,110</u>	<u>\$4,722,181</u>
Changes for the year:			
Service cost	346,548		346,548
Interest	1,199,080		1,199,080
Benefit changes			
Difference between expected and actual experience	(37,215)		(37,215)
Changes in assumptions			0
Contributions - employer		411,087	(411,087)
Contributions - employee		229,253	(229,253)
Other		68,898	(68,898)
Net investment income		126,335	(126,335)
Benefit payments, including refunds of employee contributions	(1,073,597)	(1,073,597)	0
Administrative expense	0	(13,182)	13,182
Transfers among employers*	<u>625</u>	<u>0</u>	<u>625</u>
Net changes	<u>435,441</u>	<u>(251,206)</u>	<u>686,647</u>
Balances at September 30, 2015	<u>\$15,960,732</u>	<u>\$10,551,904</u>	<u>\$5,408,828</u>

* Includes \$6,691 assets and \$19,304 liabilities transferred from 7 local units whose assets and liabilities were merged with State Employees. For new local employers in fiscal year 2015 where existing members transferred from other employers, both the assets and liabilities reflect the transfer. For all other fiscal year 2015 individual member transfers, the assets reflect the transfer but liabilities will be accounted for in the subsequent GASB 68 report.



Paragraph 45 (a): September 30, 2014 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of September 30, 2015 using standard roll forward techniques.

Paragraph 45 (c): There was no change in the actuarial assumptions that affected the measurement of the TPL since the prior measurement date.

Paragraph 45 (d): There was no change in the benefit terms that affected the measurement of the TPL since the prior measurement date.

Paragraph 45 (g): See Section IV for the annual Pension Expense.

Paragraph 45 (h): Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce Pension Expense they are labeled deferred inflows. If they will increase Pension Expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive members of each employer at the beginning of the measurement period. Investment gains and losses are amortized over a fixed five year period.

The tables below provide a summary of the deferred inflows and outflows as of September 30, 2015.



SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES
STATE EMPLOYEES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$43,515
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	144,518	0
Employer contributions subsequent to the Measurement Date	<u>See Note*</u>	<u>0</u>
Total	<u><u>\$-----</u></u>	<u><u>\$43,515</u></u>

STATE POLICE

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$1,991
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	10,067	0
Employer contributions subsequent to the Measurement Date	<u>See Note*</u>	<u>0</u>
Total	<u><u>\$-----</u></u>	<u><u>\$1,991</u></u>

*Enter FY 2016 employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments and add for total Deferred Outflows of Resources.



SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES
(continued)
LOCAL EMPLOYEES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$65,785	\$42,920
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	187,038	0
Employer contributions subsequent to the Measurement Date	<u>See Note*</u>	<u>0</u>
Total	<u>\$-----</u>	<u>\$42,920</u>

TOTAL

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$65,785	\$88,426
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	341,623	0
Employer contributions subsequent to the Measurement Date	<u>See Note*</u>	<u>0</u>
Total	<u>\$-----</u>	<u>\$88,426</u>

*Enter FY 2016 employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments and add for total Deferred Outflows of Resources. Prepared on an individual employer basis

SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

(continued)

STATE EMPLOYEES



Total Deferred Outflows and Inflows between Expected and Actual Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Recognized in Pension Expense / Deferred Outflow	Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$0	\$60,921	3.5	\$0	\$0	\$0	\$60,921	\$0	\$17,406	\$0	\$43,515
2014	0	0	0	0	0	0	0	0	0	0	\$0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$60,921</u>			<u>\$0</u>	<u>\$43,515</u>

Total Deferred Outflows and Inflows for Differences From Assumption Changes											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$0	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2014	\$0	\$0		0	0	0	0	\$0	\$0	\$0	\$0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>			<u>\$0</u>	<u>\$0</u>

Total Deferred Outflows and Inflows for Differences in Investment Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	314,548	\$0	5	\$0	\$0	\$314,548	\$0	\$62,910	\$0	\$251,638	\$0
2014	-	178,261	5	-	142,609	-	-		35,489		107,120
Total				<u>\$0</u>	<u>\$142,609</u>	<u>\$314,548</u>	<u>\$0</u>			<u>\$251,638</u>	<u>\$107,120</u>
Net difference between projected and actual earnings on investments										\$144,518	\$0

SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

(continued)

STATE POLICE



Total Deferred Outflows and Inflows between Expected and Actual Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Recognized in Pension Expense / Deferred Outflow	Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$0	\$2,544	4.6	\$0	\$0	\$0	\$2,544	\$0	\$553	\$0	\$1,991
2014	0	0	0	0	0	0	0	0	0	0	0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,544</u>			<u>\$0</u>	<u>\$1,991</u>

Total Deferred Outflows and Inflows for Differences From Assumption Changes											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$0	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2014	\$0	\$0		0	0	0	0	\$0	\$0	\$0	\$0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>			<u>\$0</u>	<u>\$0</u>

Total Deferred Outflows and Inflows for Differences in Investment Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$21,685	\$0	5	\$0	\$0	\$21,685	\$0	\$4,337	\$0	\$17,348	\$0
2014	-	12,135	5	-	9,708	-	-	-	2,427	\$0	7,281
Total				<u>\$0</u>	<u>\$9,708</u>	<u>\$21,685</u>	<u>\$0</u>			<u>\$17,348</u>	<u>\$7,281</u>
Net difference between projected and actual earnings on investments										\$10,067	\$0

SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

(continued)

LOCAL EMPLOYEES



Total Deferred Outflows and Inflows between Expected and Actual Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(a) + (c) - (e)	(b) + (d) - (f)
2015	\$78,729	\$52,479	Varies	\$0	\$0	\$78,729	\$52,479	\$12,944	\$9,559	\$65,785	\$42,920
2014	0	0	0	0	0	0	0	0	0	\$0	\$0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$78,729</u>	<u>\$52,479</u>			<u>\$65,785</u>	<u>\$42,920</u>

Total Deferred Outflows and Inflows for Differences From Assumption Changes											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(a) + (c) - (e)	(b) + (d) - (f)
2015	\$0	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2014	\$0	\$0		0	0	0	0	\$0	\$0	\$0	\$0
Total				<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>			<u>\$0</u>	<u>\$0</u>

Total Deferred Outflows and Inflows for Differences in Investment Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(a) + (c) - (e)	(b) + (d) - (f)
2015	\$389,335	\$0	5	\$0	\$0	\$389,335	\$0	\$77,867	\$0	\$311,468	\$0
2014	-	207,674	5	-	166,139	-	-	-	\$41,709	\$0	124,430
Total				<u>\$0</u>	<u>\$166,139</u>	<u>\$389,335</u>	<u>\$0</u>			<u>\$311,468</u>	<u>\$124,430</u>
Net difference between projected and actual earnings on investments										\$187,038	\$0

SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

(continued)

TOTAL



Total Deferred Outflows and Inflows between Expected and Actual Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Recognized in Pension Expense / Deferred Outflow	Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$78,729	\$115,944	Varies	\$0	\$0	\$78,729	\$115,944	\$12,944	\$27,518	\$65,785	\$88,426
2014	0	0	0	0	0	0	0	0	0	0	0
Total				\$0	\$0	\$78,729	\$115,944			\$65,785	\$88,426
Net difference between expected and actual experience										\$0	\$22,641

Total Deferred Outflows and Inflows for Differences From Assumption Changes											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$0	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2014	\$0	\$0		0	0	0	0	\$0	\$0	\$0	\$0
Total				\$0	\$0	\$0	\$0			\$0	\$0

Total Deferred Outflows and Inflows for Differences in Investment Experience											
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Beginning Balance				Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	Ending Balance	
				Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows	Deferred Inflows
				(a)	(b)	(c)	(d)			(e)	(f)
2015	\$725,568	\$0	5	\$0	\$0	\$725,568	\$0	\$145,114	\$0	\$580,454	\$0
2014	\$0	\$398,070	5	\$0	\$318,456	\$0	\$0	\$0	\$79,625	\$0	\$238,831
Total				\$0	\$318,456	\$725,568	\$0			\$580,454	\$238,831
Net difference between projected and actual earnings on investments										\$341,623	\$0



Paragraph 45 (i): Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in Pension Expense as follows:

Deferred Amounts to be Recognized in Fiscal Years Following the Reporting Date

Year	State Employees	State Police	Local Employees	Total
2017	9,797	1,357	40,047	51,201
2018	9,797	1,357	40,147	51,301
2019	18,499	1,357	40,194	60,050
2020	62,910	4,005	82,005	148,920
2021	0	0	4,915	4,915
Thereafter	0	0	2,595	2,595



SECTION IV – PENSION EXPENSE

As noted earlier, the Pension Expense (PE) consists of a number of different items. GASB 68 refers to the first as Service Cost which is the Normal Cost using the Entry Age Normal (EAN) actuarial funding method. The second item is interest on the beginning of year TPL and the cash flows during the year at the 8.00% rate of return in effect as of the previous measurement date.

The next three items refer to any changes that occurred in the TPL due to:

- benefit changes,
- actual versus expected experience or
- changes in actuarial assumptions.

Benefit changes, which are reflected immediately in PE, can be positive, if there is a benefit enhancement for existing Plan members, or negative if there is a benefit reduction. For the year ended September 30, 2015 there were no benefit changes to be recognized.

The next item to be recognized is the portion of current year changes in TPL due to actual versus expected experience for the year. The portion to recognize in the current year is determined by spreading the total change over the average expected remaining service life of the entire membership of the employer. The remaining service life of active members is the average number of years the active members are expected to remain active. For the year ended September 30, 2015 the average remaining service life is 9.0 years for state employees and 10.5 years for state police. The remaining service life of the inactive members is zero. Therefore, the figure to use for the amortization is the weighted average of these two amounts, or 3.5 years for state employees and 4.6 years for state police. The amortization period varies for each local employer.

The last item under changes in TPL are changes in actuarial assumptions. There were no changes in assumptions during the current year. If there was a change in TPL due to changes in actuarial assumptions, recognition of the change would be spread over the remaining service life of the entire membership of the employer.

Member contributions for the year and projected earnings on the FNP, again at the rate used to calculate the liabilities, are subtracted from the amount determined thus far. One-fifth of current period differences between actual and projected earnings on the FNP are recognized in the pension expense.

The current year portions of previously determined experience, assumption, and earnings amounts, recognized as deferred inflows and outflows (see Section IV) are included next. Deferred inflows



are subtracted from the PE while deferred outflows are added to the PE. Transfers among employers are also included in PE.

The calculation of the Pension Expense is shown in the following table.

Pension Expense
Determined as of the Measurement Date
(\$ thousands)

	State Employees	State Police	Local Employees	Total
Service Cost	\$152,160	\$8,394	\$185,994	\$346,548
Interest	549,795	42,677	606,608	1,199,080
Current-period benefit changes	0	0	0	0
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(17,406)	(553)	3,385	(14,574)
Expensed portion of current-period changes of assumptions	0	0	0	0
Member contributions	(97,144)	(4,374)	(127,735)	(229,253)
Other	(68,898)	0	0	(68,898)
Projected earnings on plan investments	(369,321)	(25,460)	(457,122)	(851,903)
Expensed portion of current-period differences between actual and projected earnings on plan investments	62,910	4,337	77,867	145,114
Administrative expense	13,182	0	0	13,182
Transfers among employers	12,869	138	(12,382)	625
Recognition of beginning deferred outflows of resources as pension expense	0	0	0	0
Recognition of beginning deferred inflows of resources as pension expense	(35,489)	(2,427)	(41,709)	(79,625)
Pension Expense	<u>\$202,658</u>	<u>\$22,732</u>	<u>\$234,906</u>	<u>\$460,296</u>

SCHEDULE A
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Last 10 Fiscal Years Ending September 30
STATE EMPLOYEES
(\$ in thousands)



	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total pension liability										
Service Cost	\$ 152,160	\$ 107,776								
Interest	549,795	541,492								
Benefit changes	-	-								
Difference between expected and actual experience	(60,921)	-								
Changes of assumptions	-	-								
Benefit payments, including refunds of employee contributions	(559,171)	(531,786)								
Transfers among employers	19,304	-								
Net change in total pension liability	101,167	117,482								
Total pension liability - beginning	\$ 7,152,023	\$ 7,034,541								
Total pension liability - ending (a)	\$ 7,253,190	\$ 7,152,023								
Components of Plan Fiduciary Net Position reserved to fund Total Pension Liability										
Contributions - employer	\$ 177,599	\$ 146,752								
Contributions - member	97,144	96,585								
Other	68,898									
Net investment income	54,772	523,129								
Benefit payments, including refunds of employee contributions	(559,171)	(531,786)								
Transfers among employers	6,435	410								
Administrative Expenses	(13,182)	-								
Net change in plan fiduciary net position	(167,505)	235,090								
Plan fiduciary net position - beginning	\$ 4,689,942	\$ 4,454,852								
Plan fiduciary net position - ending (b)	\$ 4,522,437	\$ 4,689,942								
Net pension liability (asset) - ending (a) - (b)	\$ 2,730,752	\$ 2,462,081								
Plan fiduciary net position as a percentage of the total pension liability	62.35%	65.58%								
Covered payroll*	\$X,XXX	\$X,XXX								
Net pension liability (asset) as a percentage of covered payroll	X.XX%	X.XX%								

*Employer's covered payroll during the measurement period is the total covered payroll. For FY2016 the measurement period is October 1, 2014 – September 30, 2015. GASB issued a statement "Pension Issues" in March, 2016 to redefine covered payroll for FY2016.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE A
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Last 10 Fiscal Years Ending September 30
STATE POLICE
(\$ in thousands)



	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total pension liability										
Service Cost	\$ 8,394	\$ 8,654								
Interest	42,677	41,950								
Benefit changes	-	-								
Difference between expected and actual experience	(2,544)	-								
Changes of assumptions	-	-								
Benefit payments, including refunds of employee contributions	(43,588)	(39,451)								
Net change in total pension liability	4,939	11,153								
Total pension liability - beginning	\$ 555,253	\$ 544,100								
Total pension liability - ending (a)	\$ 560,192	\$ 555,253								
Components of Plan Fiduciary Net Position reserved to fund Total Pension Liability										
Contributions - employer	\$ 16,463	\$ 15,347								
Contributions - member	4,374	4,454								
Other	-	-								
Net investment income	3,776	36,410								
Benefit payments, including refunds of employee contributions	(43,588)	(39,451)								
Transfers among employers	(138)	(384)								
Administrative Expenses	-	-								
Net change in plan fiduciary net position	(19,113)	16,376								
Plan fiduciary net position - beginning	\$ 329,832	\$ 313,456								
Plan fiduciary net position - ending (b)	\$ 310,719	\$ 329,832								
Net pension liability (asset) - ending (a) - (b)	\$ 249,473	\$ 225,421								
Plan fiduciary net position as a percentage of the total pension liability	55.47%	59.40%								
Covered payroll*	\$X,XXX	\$X,XXX								
Net pension liability (asset) as a percentage of covered payroll	X.XX%	X.XX%								

*Employer's covered payroll during the measurement period is the total covered payroll. For FY2016 the measurement period is October 1, 2014 – September 30, 2015. GASB issued a statement "Pension Issues" in March, 2016 to redefine covered payroll for FY2016.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years Ending September 30
STATE EMPLOYEES

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution*	\$X,XXX	\$X,XXX								
Contributions in relation to the actuarially determined contribution*	X,XXX	X,XXX								
Contribution deficiency (excess)	\$0	\$0								
Covered payroll**	\$X,XXX	\$X,XXX								
Contributions as a percentage of covered payroll	X.XX%	X.XX%								

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

**Employer's covered payroll for FY2016 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2015 to September 30, 2016*:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	29 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

*If the employer's financial reporting period end is other than September 30, 2016, additional assumptions should be reported for the basis of determining the portion of the contribution prior to or subsequent to this period.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years Ending September 30
STATE POLICE

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution*	\$X,XXX	\$X,XXX								
Contributions in relation to the actuarially determined contribution*	X,XXX	X,XXX								
Contribution deficiency (excess)	\$0	\$0								
Covered payroll**	\$X,XXX	\$X,XXX								
Contributions as a percentage of covered payroll	X.XX%	X.XX%								

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

**Employer's covered payroll for FY2016 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2015 to September 30, 2016*:

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Asset valuation method	Five year smoothed market
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Salary increases	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

*If the employer's financial reporting period end is other than September 30, 2016, additional assumptions should be reported for the basis of determining the portion of the contribution prior to or subsequent to this period.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



SCHEDULE B
SUMMARY OF BENEFIT PROVISIONS EVALUATED

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:

- Tier 1 - the 3 highest years in the last 10 years of creditable service
- Tier 2 - the 5 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

- | | |
|---------|--|
| Tier I | 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. |
| Tier II | A retirement allowance is payable upon the request of any member who has attained age 62 and completed at least 10 years of creditable service (age 56 with 10 years of creditable service for a full-time certified firefighter, police officer or correctional officer). |



Amount of Allowance

Tier I

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.

Tier II

Upon service retirement a member receives a retirement allowance equal to 1.65% of the member's average final compensation multiplied by the number of years of creditable service. The benefit is capped at 80% of the member's average final compensation.

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

Tier I

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.

Tier II

Upon disability retirement a member receives a retirement allowance equal to 1.65% of the member's average final compensation multiplied by the number of years of creditable service. The benefit is capped at 80% of the member's average final compensation.

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 (age 62 for Tier II members).

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.

As a result of Act 2011-27 no new participants were allowed to enter DROP with an effective participation date after June 1, 2011.

Member Contributions

Tier I

Prior to October 1, 2011, regular members contributed 5.0% of salary. Full-time certified police officers, firefighters and correctional officers contributed 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.

Beginning October 1, 2011, the contribution rates were increased to 7.25% for regular members and 8.25% for full-time certified police officers, firefighters and correctional officers, for all State employees and for local employees whose employers elect to do so.

Beginning October 1, 2012, the contribution rates were increased to 7.50% for regular members and 8.50% for full-time certified police officers, firefighters and correctional officers, for all State employees and for local employees whose employers elect to do so.

Tier II

Regular members contribute 6% of salary and full-time certified firefighters, police officers and correctional officers contribute 7% of salary.

Both

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.

“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 36-27-16.3(c)(1)).



MEMBERS CLASSIFIED AS STATE POLICEMEN

Service Retirement Allowance

Condition for Allowance

- Tier I 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.
- Tier II A retirement allowance is payable upon the request of any member who has attained age 56 and completed at least 10 years of creditable service.

Amount of Allowance

- Tier I 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.
- Tier II Upon service retirement a member receives a retirement allowance equal to 2.375% of the member's average final compensation multiplied by the number of years of his creditable service. The benefit is capped at 80% of the member's average final compensation.



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

Tier I

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.

Tier II

Upon retirement for disability, a member receives a retirement allowance equal to 2.375% of the member's average final compensation multiplied by the number of years of his creditable service. The benefit is capped at 80% of the member's average final compensation.

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 (age 56 for Tier II members).

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 C

STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2010, submitted to and adopted by the Board on January 27, 2012.

ULTIMATE INVESTMENT RATE OF RETURN: 8.00% per annum, compounded annually, including price inflation at 3.00%.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include wage inflation at 3.25% per annum:

STATE AND LOCAL EMPLOYEES

Service	Annual Rate	Service	Annual Rate
0	7.25 %	6	5.00 %
1	6.00	7	5.00
2	5.50	8 to 12	4.75
3	5.25	13 to 15	4.50
4	5.25	16	4.00
5	5.25	17 & Over	3.75

STATE POLICEMEN

5% per year for all years of service

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



STATE AND LOCAL EMPLOYEES

Age	Death*	Annual Rate of					
		Disability		Withdrawal			
		Years of Service		Years of Service			
		<u>0-24</u>	<u>25+</u>	<u>0-4</u>	<u>5-9</u>	<u>10-20</u>	<u>20+</u>
<u>Male</u>							
20	0.03%	0.04%		28.00%			
25	0.03	0.06		19.50	10.00%		
30	0.05	0.08		17.50	7.00	5.00%	
35	0.08	0.10		16.00	6.00	4.75	
40	0.10	0.27		15.50	4.50	3.50	2.50%
45	0.14	0.42	0.25%	14.00	4.00	3.00	2.25
50	0.20	0.77	0.25	13.00	4.00	2.75	2.00
55	0.36	1.53	0.25	12.00	3.75	2.75	2.00
60	0.71	0.25	0.25	12.00	4.25		
65	1.30			16.00	7.00		
69	1.99			17.00	7.00		

Age	Death*	Annual Rate of					
		Disability		Withdrawal			
		Years of Service		Years of Service			
		<u>0-24</u>	<u>25+</u>	<u>0-4</u>	<u>5-9</u>	<u>10-20</u>	<u>20+</u>
<u>Female</u>							
20	0.01%	0.04%		34.00%			
25	0.01	0.06		24.00	12.00%		
30	0.02	0.08		20.00	8.25	6.50%	
35	0.03	0.14		18.00	7.25	6.00	
40	0.04	0.29		16.00	6.00	4.00	3.00%
45	0.07	0.43	0.25%	14.75	5.25	3.75	2.50
50	0.10	0.69	0.25	14.00	4.50	3.50	2.50
55	0.19	1.24	0.25	14.00	4.00	3.00	2.50
60	0.38	0.25	0.25	14.00	4.00		
65	0.71			14.00	8.50		
69	1.09			14.00	8.50		

* Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and set forward one year for females with an adjustment factor of 0.90 for males and 0.70 for females.



SERVICE RETIREMENT: The assumed annual rates of service retirement for Tier I members 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
47 & Under	16.00%	13.00%		
48 to 51	11.00	11.00		
52 to 54	10.00	10.00		
55 to 59	16.00	16.00		
60	16.00	25.00	12.00%	16.00%
61	20.00	16.00	11.00	13.00
62	42.00	32.00	28.00	26.00
63	35.00	28.00	23.00	20.00
64	30.00	25.00	18.00	15.00
65			30.00	28.00
66			30.00	28.00
67			25.00	23.00
68 to 74			23.00	23.00
75 & Above			100.00	100.00

¹Rates are increased by 10% in year when member attains 25 years of service at or before age 60.

²Rates are increased by 7% in year when member attains 25 years of service at or before age 60.

The assumed annual rates of service retirement for Tier II members are as follows:

GENERAL EMPLOYEES

Age	Annual Rate			
	Less than 25 years of service		25 or more years of service	
	Male	Female	Male	Female
	40%	45%	55%	60%
62	23	20	35	28
63	18	15	30	25
64	30	28	28	28
65	30	28	30	28
66	25	23	25	23
67	23	23	23	23
68 to 74	100	100	100	100
75 & Above				



**CERTIFIED FIREFIGHTERS, POLICE OFFICERS, OR
CORRECTIONAL OFFICERS**

Annual Rate

<u>Age</u>	<u>Less than 25 years of service</u>		<u>25 or more years of service</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u> ¹	<u>Female</u> ²
	16%	16%	16%	16%
56	12	16	16	25
60	11	13	20	16
61	28	26	42	32
62	23	20	35	28
63	18	15	30	25
64	30	28	28	28
65	30	28	30	28
66	25	23	25	23
67	23	23	23	23
68 to 74	100	100	100	100
75 & Above				

¹Rates are increased by 10% in year when member attains 25 years of service at or before age 60.

²Rates are increased by 7% in year when member attains 25 years of service at or before age 60.

STATE POLICEMEN

Annual Rate of

<u>Age</u>	<u>Death</u> ¹		<u>Disability</u>	<u>Withdrawal</u> ²
	<u>Male</u>	<u>Female</u>		
20	0.03%	0.01%	0.08%	3.00%
25	0.03	0.01	0.10	3.00
30	0.05	0.02	0.14	2.50
35	0.08	0.03	0.22	1.75
40	0.10	0.04	0.34	1.75
45	0.14	0.07	0.46	1.75
50	0.20	0.10	0.60	
55	0.36	0.19		
60	0.71	0.38		
62	0.91	0.50		
65	1.30	0.71		

¹ Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and set forward one year for females with an adjustment factor of 0.90 for males and 0.70 for females.

² A rate of 4.00% is assumed during the first four years of employment.



Annual Rate of Service Retirement for Tier I Members

<u>Age</u>	<u>Under Age 60 with <20 years of service and all over age 60</u>	<u>Under Age 60 with between 20 and 24 years of service</u>	<u>Under Age 60 with 25 or more years of service</u>
< 52			25.00%
52	10.00%	25.00%	25.00
53	10.00	25.00	25.00
54	10.00	25.00	25.00
55	10.00	15.00	25.00
56	10.00	15.00	25.00
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		

Annual Rate of Service Retirement for Tier II Members

<u>Age</u>	<u>Under Age 60 with <20 years of service and all over age 60</u>	<u>Under Age 60 with between 20 and 24 years of service</u>	<u>Under Age 60 with 25 or more years of service</u>
55			
56	40.00%	60.00%	75.00%
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		

DEATH AFTER RETIREMENT: The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Mortality Table.

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 active members who separate from service prior to eligibility for a service retirement allowance, the liability is assumed to be the greater of the value of the refund of contributions and the value of the deferred annuity.



UNUSED SICK LEAVE: 2.25% load on service retirement liabilities for active members (No load for Tier II members).

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

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

ASSET METHOD: Market 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.