

## **Illustration 3—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement.]*

### **School System XXX (System) Notes to the Financial Statements for the Year Ended September 30, 2015**

(Dollar amounts in thousands)

#### ***Summary of Significant Accounting Policies***

##### ***Pensions***

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

##### **Note X**

[If the System's employees were provided with benefits through more than one defined benefit pension plan, the System should disclose information required by paragraph 74 of this Statement and should apply the requirements of paragraph 75 of this Statement.]

#### ***General Information about the Pension Plan***

##### ***Plan description***

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

##### ***Benefits provided***

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are

entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

***Contributions.***

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$[See System general ledger for FY2015] for the year ended September 30, 2015.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At September 30, 2015 the System reported a liability of \$[See Detail Report Page 1] for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. The System's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014 the System's proportion was [See Detail Report Page 1]%, which was an increase (decrease) of [See Detail Report Page 1]% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the System recognized pension expense of \$[See System general ledger]. At September 30, 2015 the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	See Detail Table Pg 1	See Detail Table Pg 1
Changes of assumptions	See Detail Table Pg 1	See Detail Table Pg 1
Net difference between projected and actual earnings on pension plan investments	See Detail Table Pg 1	See Detail Table Pg 1
Changes in proportion and differences between Employer contributions and proportionate share of contributions	See Detail Table Pg 1	See Detail Table Pg 1
Employer contributions subsequent to the measurement date	*	See Detail Table Pg 1
<b>Total</b>	<b>Total of above</b>	<b>Total of above</b>

\*Enter FY 2015 employer contributions applied to pension liability and add for total Deferred Outflows of Resources

\$\*[FY 2015 Employer Contributions applied to pension liability (see amount \* above)] reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended September 30:</b>	
2016	[See Detail Report Page 1]
2017	[See Detail Report Page 1]
2018	[See Detail Report Page 1]
2019	[See Detail Report Page 1]
2020	[See Detail Report Page 1]
Thereafter	[See Detail Report Page 1]

### **Actuarial assumptions**

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% - 8.25%

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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 as follows:

	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
<b>Total</b>	<b><u>100.00%</u></b>	

\*Includes assumed rate of inflation of 2.50%.

#### ***Discount rate***

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan 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 total pension liability.

#### ***Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate***

The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<b>1% Decrease <u>(7.00%)</u></b>	<b>Current Rate <u>(8.00%)</u></b>	<b>1% Increases <u>(9.00%)</u></b>
System's proportionate share of collective net pension liability	[See Detail Report Page 2]		

(Dollar amounts in thousands)

#### ***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**Schedules of Required Supplementary Information**

**Schedule of the System's Proportionate Share of the Net Pension Liability**

**Teachers' Retirement Plan of Alabama**

**Last 10 Fiscal Years\***

*(Dollar amounts in thousands)*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	Source or Note
System's proportion of the net pension liability	%	%	%	%	%	%	%	%	%	%	B
System's proportionate share of the net pension liability											B
System's covered-employee payroll	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	A
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	%	%	%	%	%	%	%	%	%	%	
Plan fiduciary net position as a percentage of the total pension liability	%	%	%	%	%	%	%	%	%	%	B

\* The amounts presented for each fiscal year were determined as of 9/30.

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

Notes to schedule:

A: Per question and answer 210 of the GASB 68 Implementation Guide, covered employee payroll IS NOT pensionable payroll of covered employees, but the total payroll of those employees who are participating in the pension plan. Also, per question and answer 211, the covered-employee payroll for this RSI schedule (GASB 68 paragraph 81a) is for the measurement period, which for the 9/30/2015 year is 10/1/2013--9/30/2014.

B: From Detail Report Page 2

**Schedule of System Contributions**  
**Teachers' Retirement System of Alabama**  
**Last 10 Fiscal Years**  
*(Dollar amounts in thousands)*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	
Contractually Required Contribution	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	B
Contributions in relation to the contractually required contribution	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	B
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	
System's covered-employee payroll	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	A
Contributions as a percentage of covered-employee payroll		%	%	%	%	%	%	%	%	%	%

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

Notes to schedule:

A: Per question and answer 210 of the GASB 68 Implementation Guide, covered employee payroll IS NOT pensionable payroll of covered employees, but the total payroll of those employees who are participating in the pension plan. Also, per question and answer 211, the covered-employee payroll for this RSI schedule (GASB 68 paragraph 81b) is for the reporting fiscal year, which for the 9/30/2015 year is 10/1/2014--9/30/2015.

B: Per question and answer 212 of the GASB 68 Implementation Guide, the amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year. For participation in the TRS, this WOULD NOT include amounts paid to TRS for the Pre-retirement Death Benefit, Term Life Insurance or Administrative Expenses. It does include the amounts paid to TRS for the Employer's portion of the Normal Cost and Accrued Liability