

Alabama Retired Education  
Employees' Health Care Trust  
(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Public Educations Employees'  
Health Insurance Board

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which comprise the Alabama Retired Education Employees' Health Care Trust's basic financial statements as presented on pages 6 – 19.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Alabama Retired Education Employees' Health Care Trust, as of September 30, 2014, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alabama Retired Education Employees' Health Care Trust's financial statements for the year ended September 30, 2013, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 and the schedules of funding progress and contributions made from the employers and other contributing entities on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on Alabama Retired Education Employees' Health Care Trust's basic financial statements. The claims development information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The claims development information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Caru, Riggs & Ingram, L.L.C.*

January 28, 2015  
Montgomery, Alabama

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Management's Discussion and Analysis**  
**September 30, 2014**

The Alabama Retired Education Employees' Health Care Trust (Trust) is a multiple-employer cost-sharing defined benefit postemployment healthcare plan. The Trust was established in 2007 to provide healthcare benefits to retirees of state and local educational institutions. The contributions and benefit payments related to retirees that are processed through the Public Education Employees' Health Insurance Fund (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 fiscal year ended September 30, 2014. 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.

**Overview of the Financial Statements**

The financial statements include the Statement of Plan Net Position and the Statement of Changes in Plan Net Position. The Notes to the Financial Statements are considered an integral part of the financial statements and should be read in conjunction with the financial statements. The financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. 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.

The Statement of Plan Net Position includes the assets and liabilities of the Trust and provides a snapshot of the Trust's financial position as of the end of the fiscal year. The Trust's assets primarily consist of investments and receivables. Liabilities are primarily made up of claims-related payables.

The Statement of Changes in Plan Net Position includes the additions and deductions of the Trust for the fiscal year. Additions primarily consist of employer contributions, employee contributions, investment income, and monies received as a result of participating in the Employer Group Waiver Plan (EGWP). Deductions are primarily made up of claims.

The Notes to the Financial Statements include a description of the Trust, a summary of significant accounting policies, a description of contract administrators and their respective fees, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, actuarial valuation information, and disclosures related to unpaid claim 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 contributed during the fiscal year.

The Supplementary Information following the Required Supplementary Information provides a claims development table illustrating historical trend information on how the Trust's earned revenues and interest income compare to the related costs of claims and other expenses assumed by the Trust as of the end of the fiscal year.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Management's Discussion and Analysis**  
**September 30, 2014**

**Comparative Financial Statements**

**Summary Comparative Statement of Plan Net Position**  
**As of September 30, 2014 and 2013**  
(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Assets</i>				
Receivables	\$ 60,760	\$ 31,977	\$ 28,783	90.01
Deposit with Claims-Paying Agent	539	684	(145)	(21.20)
Investments	1,184,901	1,073,575	111,326	10.37
Invested Securities Lending Collateral	72,522	71,200	1,322	1.86
Total Assets	<u>1,318,722</u>	<u>1,177,436</u>	<u>141,286</u>	12.00
<i>Liabilities</i>				
Payables	14,750	10,319	4,431	42.94
Claims Incurred but Not Reported	23,049	20,977	2,072	9.88
Securities Lending Collateral	72,522	71,200	1,322	1.86
Total Liabilities	<u>110,321</u>	<u>102,496</u>	<u>7,825</u>	7.63
<i>Net Position Restricted for Other Postemployment Benefits</i>	<u>\$ 1,208,401</u>	<u>\$ 1,074,940</u>	<u>\$ 133,461</u>	<u>12.42</u>

**Summary Comparative Statement of Changes in Plan Net Position**  
**For the Fiscal Years Ended September 30, 2014 and 2013**  
(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Additions</i>				
Contributions	\$ 472,451	\$ 443,275	\$ 29,176	6.58
Net Increase in Fair Value of Investments	81,960	83,994	(2,034)	(2.42)
Interest and Dividend Income	27,653	24,739	2,914	11.78
Securities Lending Income, Net	596	533	63	11.82
Total Additions	<u>582,660</u>	<u>552,541</u>	<u>30,119</u>	5.45
<i>Deductions</i>				
Benefits	447,312	407,879	39,433	9.67
Fees and Assessments	1,887	-	1,887	100.00
Total Deductions	<u>449,199</u>	<u>407,879</u>	<u>41,320</u>	10.13
<i>Change in Net Position</i>	133,461	144,662	(11,201)	(7.74)
<i>Net Position Restricted for Other Postemployment Benefits</i>				
Beginning of Year	1,074,940	930,278	144,662	15.55
End of Year	<u>\$ 1,208,401</u>	<u>\$ 1,074,940</u>	<u>\$ 133,461</u>	<u>12.42</u>

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Management's Discussion and Analysis**  
**September 30, 2014**

**Financial Highlights**

- Investment sales receivable and investment purchases payable occur as a result of trade date accounting. The decrease in the receivable and payable for fiscal year 2014 was due to the value of securities traded in the current fiscal year and settling in the following fiscal year being smaller than the value of the securities accounted for using trade date accounting in the previous fiscal year.
- The Trust's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Trust's investment custodian, was 10.21% for fiscal year 2014.
- The Trust's benefit expenses increased slightly during the fiscal year, primarily as a result of increases in the number of retirees participating in the healthcare plan.
- The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2014, the Trust was subject to the Transitional Reinsurance Fee and the Patient-Centered Outcomes Research Institute Fee. The expense for these items is included in Fees and Assessments in the Statement of Changes in Plan Net Position and the corresponding liability is included in Due to Other Governments in the Statement of Plan Net Position.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Statement of Plan Net Position**  
**September 30, 2014 with comparative amounts shown for 2013**

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>
<i>Assets</i>		
Receivables		
Rebates - Prescription Drug Plan Manufacturer Rebates	\$ 10,813	\$ 7,778
Medicare Part D Subsidy	33	-
Interest and Dividends	3,915	3,487
Investment Sales Receivable	1	3
Employer Group Waiver Plan (EGWP)	45,998	20,709
Total Receivables	<u>60,760</u>	<u>31,977</u>
Deposit with Claims-Paying Agent	539	684
Investments, at Fair Value (Note 7)		
Commercial Paper	87,989	124,993
Money Market Funds	42,207	27,139
U.S. Government Guaranteed Bonds	99,371	95,006
U.S. Agency Securities	31,930	33,904
Mortgage-backed Securities	52,964	47,682
Corporate Bonds	146,349	132,449
International Securities	118,507	117,241
Common Stocks	601,740	495,161
Preferred Stocks	3,844	-
Total Investments	<u>1,184,901</u>	<u>1,073,575</u>
Invested Securities Lending Collateral (Note 7)	<u>72,522</u>	<u>71,200</u>
Total Assets	<u>1,318,722</u>	<u>1,177,436</u>
<i>Liabilities</i>		
Reported Claims Payable	11,756	9,625
Investment Purchases Payable	1,139	439
Due to Other Governments	1,855	255
Claims Incurred but Not Reported	23,049	20,977
Securities Lending Collateral (Note 7)	72,522	71,200
Total Liabilities	<u>110,321</u>	<u>102,496</u>
<i>Net Position Restricted for Other Postemployment Benefits</i>	<u>\$ 1,208,401</u>	<u>\$ 1,074,940</u>

See accompanying Notes to the Financial Statements.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Statement of Changes in Plan Net Position**  
**For the Fiscal Year Ended September 30, 2014 with comparative amounts shown for 2013**

(Amounts in Thousands)

	2014	2013
<b><i>Additions</i></b>		
Contributions		
Employee (Note 3)	\$ 101,356	\$ 98,215
Employer (Note 3)	323,753	310,444
Employer Group Waiver Plan (EGWP)	46,210	28,340
Medicare Part D Retiree Drug Subsidy	1,132	6,276
Total Contributions	472,451	443,275
Investment Income (Note 7)		
<i>From Investing Activities</i>		
Net Increase in Fair Value of Investments	81,960	83,994
Interest and Dividends	27,653	24,739
Total Investment Income from Investing Activities	109,613	108,733
<i>From Securities Lending Activities</i>		
Securities Lending Income	851	756
Less Securities Lending Expenses:		
Borrower Rebates	3	24
Management Fees	252	199
Total Securities Lending Expenses	255	223
Income from Securities Lending Activities, Net	596	533
Total Investment Income	110,209	109,266
Total Additions	582,660	552,541
<b><i>Deductions</i></b>		
Benefits	447,312	407,879
Fees and Assessments	1,887	-
Total Deductions	449,199	407,879
<b><i>Change in Net Position</i></b>	<b>133,461</b>	<b>144,662</b>
<b><i>Net Position Restricted for Other Postemployment Benefits</i></b>		
Beginning of Year	1,074,940	930,278
End of Year	\$ 1,208,401	\$ 1,074,940

See accompanying Notes to the Financial Statements.



# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

### 1) Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (PEEHIF). In order to comply with the reporting requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, 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. 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.

The PEEHIF was established in 1983 by the Alabama Legislature under the provisions of Act 83-455 to provide a uniform plan of health insurance for active and retired employees of state and local 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 University is the only university with active and retired members 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 Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIF are held in trust for the payment of health insurance benefits. 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.

The assets of the Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses, and provide postemployment healthcare benefits to or for retired employees and their dependents. The Alabama Legislature has no authority or power to appropriate the assets of the Trust. The Board 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 Board authorizes a transfer of funds from the PEEHIF to the Trust.

As of September 30, 2014, there were 187 participating employers and 11 participating universities, and as of the latest actuarial valuation, there were 133,919 active members, 3,029 DROP members, 74,587 retired members, 23,305 spouses of retirees, and 1,821 survivors.

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

### 1) Plan Description, Continued

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

### 2) Summary of Significant Accounting Policies

#### A. Basis of Accounting

The Trust's financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

#### B. Cash

Cash consists of deposits held by the State Treasurer in the Trust's name. Deposits are entirely insured by the Federal Deposit Insurance Corporation or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975*, as amended, 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.

# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

### C. Investments

The Board has elected to have the Trust's assets invested by the Investment Staff of the TRS under the direction of the Secretary-Treasurer of the TRS. The Board has the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use. 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. The fair value of real estate investments is based on independent appraisals or cost, when cost approximates fair value. 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 independent appraisal is performed to determine the fair value of the private placements.

### D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from these estimates.

### E. Medicare Part D Retiree Drug Subsidy (RDS) and Employer Group Waiver Plan (EGWP)

The PEEHIF received funds for its participation in the Medicare Part D Retiree Drug Subsidy (RDS) program and the Employer Group Waiver Plan (EGWP) during fiscal year 2014. The RDS program was replaced with the EGWP beginning January 1, 2013. The amounts received from these programs are a result of the PEEHIF continuing prescription drug coverage for Medicare eligible retirees and dependents. The EGWP payments not received by the end of the coverage period are recorded on the Statement of Plan Net Position as an Employer Group Waiver Plan (EGWP) receivable and are as follows:

<b>Employer Group Waiver Plan (EGWP) Receivable</b>	
(Amounts in Thousands)	
Coverage Gap Discount	\$ 13,083
Federal Catastrophic Reinsurance Subsidy	30,500
Federal Low Income Cost Subsidy (LICS)	2,415
<b>Total Employer Group Waiver Plan (EGWP) Receivable</b>	<b><u>\$ 45,998</u></b>

### F. Fees and Assessments

The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2014, the Trust was subject to the Patient-Centered Outcomes Research Institute fee (PCORI Fee) and the Transitional Reinsurance Program fee (Reinsurance Fee). These fees are calculated based on the number of covered lives under the plan. The expense for these items is included in Fees and Assessments in the Statement of Changes in Plan Net Position. The total fees due but not yet paid by the Trust as of September 30, 2014, were recorded as Due to Other Governments in the Statement of Plan Net Position and amounted to \$1,855,085.

# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

### For the Fiscal Year Ended September 30, 2014

#### G. Unpaid Claims Liabilities

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.

Unpaid claims liabilities are material estimates that are particularly susceptible to changes in the near term. Management believes the liabilities established for unpaid claims at September 30, 2014, are adequate to cover the ultimate net cost of claims, but the liabilities are necessarily based on estimates and accordingly, the amount ultimately paid will be more or less than such estimates.

#### H. Comparative Statements

The basic financial statements include the prior fiscal year Statement of Plan Net Position and the Statement of Changes in Plan Net Position for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the Trust's prior fiscal year financial report from which the prior fiscal year statements were derived.

#### 3) Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% 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 does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. The monthly employer rate for fiscal year 2014 was \$714 per active participant. In accordance with the 2014 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of \$714 on behalf of each active employee. Approximately, 30.83% of the employer contributions were used to assist in funding retiree benefit payments in 2014. Act 2003-473 requires universities that do not participate in the PEEHIP to pay the required monthly rate for each university retiree who participates in the plan. The required monthly employer rate for fiscal year 2014 was \$356 per university retiree. In addition to the employer payments each month, retirees are required to pay certain premium amounts. The required monthly contribution rates for fiscal year 2014 are as follows:

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2014**

**3) Contributions, Continued**

*Retired Member Rates*

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250
- Individual Coverage/Medicare Eligible Retired Member - \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109
- Tobacco surcharge - \$28 per month
- PEEHIP Supplemental Plan - \$0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) – up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38 or \$45 for family dental.
- Members who retired on or after October 1, 2005, and before January 1, 2012, pay 2% of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%.
- Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premiums no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five-year period.

*Surviving Spouse Rates*

- Surviving Spouse Non-Medicare Eligible - \$679
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$870
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$839
- Surviving Spouse Medicare Eligible - \$318
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$516
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$485

**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)
9/30/2013	\$ 1,074,940	\$ 8,993,967	\$ 7,919,027	12.0%	\$ 6,263,364	126.4%

§ Projected Unit Credit

The required schedule of funding progress immediately following the Notes to the Financial Statements presents multi-year trend information related to the changes in the actuarial value of plan assets over time relative to the actuarial accrued liability for benefits.

# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

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

Valuation Date	9/30/2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	29 years, closed
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	7.75%
Medicare Eligible	6.00%
Ultimate Trend Rate*	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019
Optional Plans Trend Rate	5.00%

\* Includes inflation at 3.00%

### 6) Contract Administrators

Blue Cross and Blue Shield of Alabama (BCBS), under contract with the Board, administered medical claims incurred in accordance with the plan. The BCBS administrative fee was \$11.50 per month per contract.

MedImpact, under contract with the Board, administered claims under the prescription drug plan. The MedImpact administrative fee was \$0.75 per prescription.

Southland Benefit Solutions, LLC (Southland) under contract with the Board, administered claims under the optional plans. The processing fees per month per contract were \$0.78 for Group Hospital Indemnity, \$0.63 for Group Cancer, \$1.12 for Group Vision, and \$1.45 for Group Dental.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended September 30, 2014**

**7) 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 and the Trust's policies regarding those risks:

*Interest Rate Risk* – The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in the 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.

*Custodial Credit Risk* – 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 sub custodians 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 with the exception of securities purchased with securities lending cash collateral.

*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. The Trust may hedge against the possible adverse effects of currency fluctuations on its 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* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international security to be eligible for purchase by the Trust, the issuing company must be incorporated in a country whose debt securities are eligible for purchase as discussed above, and the fair value of the aggregate outstanding equity of the issuing company must be at least \$100 million.

*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 Trust's aggregate portfolio.
- 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.
- International Equity – Limited to 25% of the aggregate fair value of the Trust's total portfolio. The Trust may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – Limited to 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 5% 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.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended September 30, 2014**

**A. Investment Risks, Continued**

The following table provides information concerning the fair value and interest rate risk of the Trust's investments as of September 30, 2014.

<b>INVESTMENTS</b>						
(Amounts in Thousands)						
<b>Type of Investment</b>	<b>Maturity in Years at Fair Value</b>				<b>Total Fair Value</b>	<b>Cost</b>
	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>		
<i>Fixed Maturity</i>						
Money Market Funds	\$ 42,207	\$ -	\$ -	\$ -	\$ 42,207	\$ 42,207
Commercial Paper	87,989	-	-	-	87,989	87,989
U.S. Agency	455	21,942	8,363	1,170	31,930	31,096
U.S. Government Guaranteed	6,055	17,770	71,009	4,537	99,371	99,567
Corporate Bonds	38,723	60,035	25,772	21,819	146,349	140,662
GNMAs	-	-	-	5,794	5,794	5,884
Collateralized Mortgage Obligations	-	1,448	-	45,722	47,170	47,109
Total Fixed Maturity	\$ 175,429	\$ 101,195	\$ 105,144	\$ 79,042	460,810	454,514
<i>Equities</i>						
Preferred					3,844	3,476
Domestic					601,740	395,158
International						
United Kingdom - Pound Sterling					25,864	23,920
Japan - Yen					25,047	23,694
France - Euro					11,413	11,475
Germany - Euro					10,114	9,443
Switzerland - Franc					11,213	7,940
Netherlands - Euro					3,230	3,117
Italy - Euro					2,893	3,693
Ireland - Euro					328	300
Spain - Euro					4,102	4,948
Australia - Dollar					8,920	8,095
Singapore - Dollar					1,793	1,535
Belgium - Euro					1,600	1,198
Finland - Euro					1,111	1,631
Hong Kong - Dollar					3,532	2,914
Sweden - Krona					3,518	2,449
Denmark - Krone					1,746	883
Israel - Shekel					690	676
Norway - Krone					1,024	893
Austria - Euro					271	347
New Zealand - Dollar					98	84
Total International Equities					118,507	109,235
Total Equities					724,091	507,869
<b>Total Investments</b>					<b>\$ 1,184,901</b>	<b>\$ 962,383</b>



**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended September 30, 2014**

**A. Investment Risks, Continued**

The following table provides information concerning the credit risk of the Trust's investments as of September 30, 2014.

**RATINGS OF FIXED MATURITIES**

(Amounts in Thousands)

Moody's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
Aaa <sup>1</sup>	\$ 177,297	\$ 177,370	38.49
Aa1	30,593	30,732	6.67
Aa2	1,218	1,300	0.28
Aa3	1,694	2,066	0.45
P-1	46,205	46,205	10.03
P-2	83,991	83,991	18.23
A1	9,730	10,544	2.28
A2	8,857	9,342	2.03
A3	12,650	13,368	2.90
Baa1	27,381	28,758	6.24
Baa2	23,593	24,937	5.41
Baa3	9,949	10,010	2.17
Ba1	3,756	3,995	0.87
Ba2	1,817	1,644	0.36
Ba3	788	925	0.20
Caa2	486	466	0.10
Not Rated <sup>2</sup>	14,509	15,157	3.29
<b>Total Fixed Maturity</b>	<b>\$ 454,514</b>	<b>\$ 460,810</b>	<b>100.00</b>

Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AA+ <sup>1</sup>	\$ 186,197	\$ 186,895	40.55
AA	24,082	23,841	5.17
AA-	3,119	3,527	0.77
A-1	72,199	72,199	15.67
A-2	57,997	57,997	12.59
A+	2,128	2,281	0.49
A	11,935	12,728	2.76
A-	22,118	22,941	4.98
BBB+	31,572	33,396	7.25
BBB	26,055	27,004	5.86
BBB-	6,142	6,497	1.41
BB+	1,245	1,276	0.28
BB	788	925	0.20
BB-	1,817	1,644	0.36
CCC-	486	466	0.10
Not Rated <sup>2</sup>	6,634	7,193	1.56
<b>Total Fixed Maturity</b>	<b>\$ 454,514</b>	<b>\$ 460,810</b>	<b>100.00</b>

<sup>1</sup> Includes securities guaranteed by the U.S. Gov't

<sup>2</sup> Primarily consists of private placements

# ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

### B. Concentration of Investments

As of September 30, 2014, the Trust had no securities that constituted more than 5% 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 (State Street), administers the program. Certain securities from the Trust are loaned to borrowers approved by the Trust for collateral that will be returned for the same security in the future. Approved borrowers provide acceptable collateral in the form of cash (U.S. dollar and foreign currency), U.S. and non U.S. equities, assets permissible under Rule 15c3-3 under the Exchange Act of 1934, and 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 (depending on the nature of the loaned securities and the collateral received), a value of 102% or 105% of the fair value of the loaned securities, or such other 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 business, employing the most recently available pricing information and shall 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 (GSLT). The collateral fund is separated into two pools, a liquidity pool and a duration pool. The split allows greater flexibility in managing the available liquidity of the investment in the fund and the outstanding balance of securities on loan.

The following describes the GSLT's guidelines for the liquidity pool: The GSLT's Investment Manager shall maintain the dollar-weighted average maturity of GSLT in a manner that the Investment Manager believes is appropriate to the objective of the GSLT, provided that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e. the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the GSLT not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of GSLT not to exceed 180 calendar days. Additionally, at the time of purchase, all eligible securities with maturities of 13 months or less shall be rated at least A1, P1, or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or be determined by the Investment Manager to be of comparable quality. Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A-, A3, or A- by at least two of the following nationally recognized statistical rating organizations: S & P, Moody's, or Fitch, or be determined by the Investment Manager to be of comparable quality. The GSLT may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

The following describes the GSLT's guidelines for the duration pool: The GSLT duration pool includes all GSLT asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each GSLT investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of September 30, 2014, the average loan term was 54 days. Cash collateral investments in the GSLT 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.

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended September 30, 2014**

**C. Securities Lending Program, Continued**

The fair value of the securities on loan was \$185,936,584, and the fair value of the collateral pledged by the borrowers was \$ 196,101,024, as of September 30, 2014. 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, 2014. Additionally, 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 fiscal year.

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. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower.

The following table provides information as of September 30, 2014, concerning securities lent:

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

<b>Type of Investment Lent</b>	<b>Amounts</b>
<i>For Cash Collateral</i>	
Domestic Fixed Maturities	\$ 11,076
Domestic Equity	57,450
International Equity	2,089
Total Lent for Cash Collateral	70,615
<i>For Non-cash Collateral</i>	
Domestic Fixed Maturities	81,363
Domestic Equity	26,218
International Equity	7,740
Total Lent for Non-cash Collateral	115,321
<b>Total Securities Lent</b>	<b>\$ 185,936</b>
<b>Type of Collateral Received</b>	
<i>Cash Collateral - Invested in State Street Global Securities Lending Trust</i>	\$ 72,522
<i>Non-cash Collateral</i>	
Domestic Fixed Securities	
U.S. Dollar	83,015
GBP	4,447
Domestic Equity Securities	27,728
International Fixed Maturities & Equity	
EURO	1,032
GBP	1,126
U.S. Dollar	6,231
Total Non-cash Collateral	123,579
<b>Total Collateral Received</b>	<b>\$ 196,101</b>

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended September 30, 2014**

**8) Unpaid Claims Liabilities**

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured claims. This liability includes provisions for the future payment of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during fiscal year 2014.

**UNPAID CLAIMS LIABILITIES**

(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	<u>\$ 30,602</u>
Incurring Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	446,550
Decrease in Provision for Insured Events for Prior Years	<u>762</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>447,312</u>
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	411,745
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	<u>31,364</u>
Total Payments	443,109
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	<u><u>\$ 34,805</u></u>

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Required Supplementary Information**  
**For the Fiscal Year Ended September 30, 2014**

**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 Percentage of Covered Payroll ((b-a)/c)
9/30/2005	\$ -	\$ 14,611,991	\$ 14,611,991	-	\$4,733,416	308.7%
9/30/2006	-	12,532,330	12,532,330	-	5,458,443	229.6%
9/30/2007*	400,783	12,965,398	12,564,615	3.1%	5,897,772	213.0%
9/30/2008	579,813	13,224,411	12,644,598	4.4%	6,294,341	200.9%
9/30/2009	670,004	11,915,692	11,245,688	5.6%	6,236,922	180.3%
9/30/2010	750,384	11,584,965	10,834,581	6.5%	6,183,204	175.2%
9/30/2011	777,933	9,081,335	8,303,402	8.6%	6,159,562	134.8%
9/30/2012	930,278	8,957,154	8,026,876	10.4%	6,222,316	129.0%
9/30/2013	1,074,940	8,993,967	7,919,027	12.0%	6,263,364	126.4%

\* Restated assets as of 9/30/2007 are \$410,071,000.

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS  
AND OTHER CONTRIBUTING ENTITIES**

(Amounts in Thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
2014	\$ 669,569	48.5
2013	814,622	42.0
2012	864,503	38.6
2011	1,006,034	29.9
2010	970,330	37.0
2009	962,762	33.9
2008	1,086,442	46.3

**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**  
**Supplementary Information**  
**For the Fiscal Year Ended September 30, 2014**

**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 the related claims costs and other expenses assumed by the Trust as of the end of the fiscal year. (1) This line shows the total earned contribution and investment revenues for each fiscal year. (2) This line shows the other operating costs of the Trust including overhead and claims expenses not allocable to individual claims for each fiscal year. (3) This line shows the Trust's incurred claims and allocated claims adjustment expenses (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 (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 the incurred claims for each policy year increased or decreased as of the end of successive years. The annual re-estimated amount results from new information received on known claims, the re-evaluation of existing information on known claims as well as the emergence of previously unknown claims. (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether it is greater or less than originally thought. As data for each policy year matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of estimated incurred claims currently recognized.

	<b>Fiscal &amp; Policy Year Ended</b>							
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
1) Net Earned Required Contribution & Investment Revenue	582,660	552,541	557,225	399,790	486,599	445,826	506,402	729,253
2) Unallocated Expenses	-	-	-	-	-	-	-	-
3) Estimated Incurred Claims & Expense, End of Policy Year	446,550	408,943	405,257	371,964	405,082	358,293	335,601	328,470
4) Paid (Cumulative) as of:								
End of Policy Year	411,745	378,341	370,538	337,554	369,699	325,011	302,514	301,214
One Year Later		409,705	404,193	371,587	405,359	359,430	332,943	329,529
5) Re-estimated Incurred Claims & Expense:								
End of Policy Year	446,550	408,943	405,257	371,964	405,082	358,293	335,601	328,470
One Year Later		409,705	404,193	371,587	405,359	359,430	332,943	329,529
6) Increase/(Decrease) in Estimated Incurred Claims & Expenses								
End of Policy Year		762	(1,064)	(377)	277	1,137	(2,658)	1,059