Alabama Retired Education Employees' Health Care Trust

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Public Education Employees'
Health Insurance Board

We have audited the accompanying statement of plan net assets of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama) as of September 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Alabama Retired Education Employees' Health Care Trust. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Alabama Retired Education Employees' Health Care Trust's 2010 financial statements and, in our report dated January 28, 2011, we expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama) as of September 30, 2011, and its changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 4 and the schedules of funding progress and contributions from the employers and other contributing entities on page 21 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. The claims development information included on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram, L.L.C.

January 31, 2012
Montgomery, Alabama

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Management's Discussion and Analysis

The Alabama Retired Education Employees' Health Care Trust (the Trust) is a multiple-employer cost-sharing defined benefit health care plan established in 2007 to provide health care 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 (the PEEHIF) are segregated from the PEEHIF and reported as part of the Trust. The following discussion provides an overview of the financial position and results of operation for the Trust as of and for the year ended September 30, 2011, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements, the Required Supplementary Information, and the Supplementary Information.

Financial Statements, Required Supplementary Information, and Supplementary Information

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

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

The *Statement of Changes in Plan Net Assets* includes all of the additions and deductions of the Trust for the fiscal year. Additions primarily consist of employer contributions, employee contributions, subsidies from the Federal government, and investment income. 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 includes a Schedule of Claims Development Information. It provides a ten-year historical trend table which provides information on how the Trust's earned revenues and interest income compare to related costs of claims and other expenses assumed by the Trust as of the year-end.

Comparative Summary Statements

Summary Comparative Statement of Plan Net Assets
As of September 30, 2011 and 2010
(Amounts in Thousands)

	2011	2010	Variance	% Increase (Decrease)
Assets				
Receivables	$ 10,555	$ 14,546	$ (3,991)	-27.44%
Investments	802,688	768,068	34,620	4.51
Invested Securities Lending Collateral	70,207	54,194	16,013	29.55
Deposits with Claims-Paying Agent	667	3,231	(2,564)	(79.36)
Total Assets	$ 884,117	$ 840,039	$ 44,078	5.25
Liabilities				
Payables	$ 17,715	$ 12,133	$ 5,582	46.01
Securities Lending Collateral	70,207	54,194	16,013	29.55
Claims Incurred but Not Reported	18,262	23,328	(5,066)	(21.72)
Total Liabilities	106,184	89,655	16,529	18.44
Net Assets Held in Trust for Other Postemployment Benefits	**$ 777,933**	**$ 750,384**	**$ 27,549**	**3.67**

Summary Comparative Statement of Changes in Plan Net Assets
For the Fiscal Years Ended September 30, 2011 and 2010
(Amounts in Thousands)

	2011	2010	Variance	% Increase (Decrease)
Additions				
Contributions	$ 392,332	$ 428,626	$ (36,294)	-8.47%
Interest and Dividend Income	19,739	17,937	1,802	10.05
Net (Decrease)/ Increase in Fair Value of Investments	(12,814)	39,820	(52,634)	(132.18)
Securities Lending Income, Net	533	216	317	146.76
Total Additions	399,790	486,599	(86,809)	(17.84)
Deductions				
Benefits	372,241	406,219	(33,978)	(8.36)
Net Increase	27,549	80,380	(52,831)	(65.73)
Net Assets Held in Trust for Other Postemployment Benefits				
Beginning of Year	750,384	670,004	80,380	12.00
End of Year	**$ 777,933**	**$ 750,384**	**$ 27,549**	**3.67**

Financial Highlights

- For the fiscal year ending September 30, 2011, the highest percentage of investments held in trust for the payment of postemployment health care benefits was in common stocks (38%), commercial paper (14%), and corporate bonds (13%).

- The PEEHIF received over $32 million in reimbursements due to its participation in the Early Retiree Reinsurance Program. Of this $32 million, $10 million was allocated to the Trust for providing benefits to retirees.

- The Trust received over $25 million in 2011from the Medicare Part D Retiree Drug Subsidy Program and expects to continue receiving funds from this program in the future

- The Trust's fiscal year 2011 annual rate of return on investments as calculated by State Street Bank and Trust Company, the Trust's investment custodian, was 1.09 %.

- During the fiscal year, net securities lending income increased by 147%. This was primarily the result of a 71% increase in securities lending revenue and a 71% decrease in borrower rebates, a component of securities lending expense. The increase in securities lending revenue was driven by the demand for securities lending throughout the market and an effort by the State Street lending team to lock in some longer term loans and to focus more on the fee based non-cash collateral loans. Borrower rebates declined due to a decline in short-term interest rates and an aforementioned shift to non-cash collateral over cash collateral where the borrower rebates are derived. The other component of securities lending expense, management fee expense, increased 87% this fiscal year as a direct result of the increase in securities lending revenue.

- The claims costs for retiree benefits decreased by 8.36% during the fiscal year as a result of increases in the amounts charged to members for medical and prescription drug co-pays and deductibles and as a result of the changes the PEEHIF made in its pharmacy benefit manager (PBM). The change in PBM allowed the PEEHIF to realize significant cost savings from cost improvements in pharmacy network negotiations.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

STATEMENT OF PLAN NET ASSETS

September 30, 2011 with comparative amounts shown for 2010

(Amounts in Thousands)

	2011	2010
Assets		
Receivables		
Rebates - Prescription Drug Plan Manufacturer Rebates	**$ 3,474**	$ 6,867
Medicare Part D Subsidy	**3,429**	4,529
Interest and Dividends	**3,644**	3,093
Investment Sales Receivable	**8**	57
Total Receivables	**10,555**	14,546
Deposit with Claims-Paying Agents	**667**	3,231
Investments, at Fair Value (Note 7)		
Commercial Paper	**112,996**	114,326
Money Market Funds	**35,339**	46,923
U.S. Government Guaranteed Bonds	**87,124**	59,930
U.S. Agency Securities	**31,077**	35,191
Mortgage-backed Securities	**37,762**	23,492
Corporate Bonds	**103,426**	78,802
Private Placements	**-**	1,729
International Securities	**89,275**	101,970
Common Stocks	**305,689**	305,705
Total Investments	**802,688**	768,068
Invested Securities Lending Collateral (Note 7)	**70,207**	54,194
Total Assets	**884,117**	840,039
Liabilities		
Reported Claims Payable	**16,148**	12,055
Investment Purchases Payable	**1,567**	78
Claims Incurred but not Reported	**18,262**	23,328
Securities Lending Collateral (Note 7)	**70,207**	54,194
Total Liabilities	**106,184**	89,655
Net Assets Held in Trust for Other Postemployment Benefits	**$ 777,933**	**$ 750,384**

See accompanying Notes to the Financial Statements.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended September 30, 2011 with comparative amounts shown for 2010

(Amounts in Thousands)

	2011	2010
Additions		
Contributions		
Employee (Note 3)	**$ 91,351**	$ 69,136
Employer (Note 3)	**265,062**	331,531
Early Retiree Reinsurance Program	**10,844**	-
Medicare Part D Retiree Drug Subsidy	**25,075**	27,959
Total Contributions	**392,332**	428,626
Investment Income/(Loss) (Note 7)		
From Investing Activities		
Net (Decrease)/ Increase in Fair Value of Investments	**(12,814)**	39,820
Interest and Dividends	**19,739**	17,937
Total Investment Income from Investing Activities	**6,925**	57,757
From Securities Lending Activities		
Securities Lending Income	**743**	434
Less Securities Lending Expenses:		
Borrower Rebates	**36**	125
Management Fees	**174**	93
Total Securities Lending Expenses	**210**	218
Income from Securities Lending Activities, Net	**533**	216
Total Investment Income	**7,458**	57,973
Total Additions	**399,790**	486,599
Deductions		
Benefits	**372,241**	406,219
Total Deductions	**372,241**	406,219
Net Increase	**27,549**	80,380
Net Assets Held in Trust for Other Postemployment Benefits		
Beginning of Year	**750,384**	670,004
End of Year	**$ 777,933**	$ 750,384

See accompanying Notes to the Financial Statements.

1) Plan Description

The Alabama Retired Education Employees' Health Care Trust (the Trust) is a cost-sharing multiple-employer defined benefit healthcare plan. The Trust was established in 2007 under the provisions of Act 2007-16. Constitutional amendment 798 provides further legal authority to the Trust as an irrevocable trust. The assets of the Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses and provide post-employment health care benefits to or for retired employees and their dependents. The Legislature has no authority or power to appropriate the assets of the Trust. The responsibility for the general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (the Board). *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.

The Trust administers healthcare benefits to the retirees of state and local educational institutions. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (the PEEHIF). The PEEHIF was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide a uniform plan of health insurance for employees and retired employees of state 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 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 body corporate for purposes of management of the health insurance plan. 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. All assets of the PEEHIF are held in trust for payment of health insurance benefits

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

As of September 30, 2011, there were 185 participating employers and 12 participating universities, and as of the latest actuarial valuation, there were 209,004 active members and retiree participants. In accordance with the Governmental Accounting Standards Board (GASB), the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's *Comprehensive Annual Financial Report*.

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

Plan members also can enroll in a health maintenance organization (HMO) in lieu of the basic hospital/medical plan. The HMO generally provides the same coverage as the basic hospital/medical plan.

1) Plan Description, continued

Optional plans which may be selected in addition to or in lieu of the basic hospital/medical plan or HMO include: Hospital Indemnity, Cancer, Dental, and Vision. The Hospital Indemnity Plan provides a per day benefit for hospital confinement, maternity, intensive care, cancer and convalescent care. The Cancer Plan provides a per day benefit for each hospital confinement related to cancer only. The Dental Plan covers diagnostic and preventive services as well as basic and major services based on reasonable and customary charges up to $1,000 per year per person with dependent coverage ($1,250 per year per person with employee coverage only). The Vision Plan covers annual eye examinations as well as the cost of either eyeglasses or contact lenses.

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

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

2) Summary of Significant Accounting Policies

A. Basis of Accounting

The Trust is considered an "other post-employment benefit" plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which 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.

B. Cash

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

C. Investments

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

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

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

D. 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

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

F. Early Retiree Reinsurance Program Reimbursement

The PEEHIF received funds during fiscal year 2011 from its participation in the Early Retiree Reinsurance Program (ERRP) which was established as part of the Patient Protection and Affordable Care Act. ERRP is a temporary program whereby Congress has appropriated $5 billion to provide reimbursements to sponsors for 80% of the claims costs associated with providing health coverage to qualifying early retirees under the age of 65 (and their eligible dependents). While funds can only be received for the claims of qualifying early retirees (and dependents), reimbursements can be used for all plan participants, therefore, a portion of the reimbursements has been allocated to retired members and reported in the Alabama Retired Education Employees' Health Care Trust.

G. Unpaid Claims Liability

Claims liabilities are established based on the actual cost of claims reported but not settled and estimates of claims that have been incurred but not reported. Actual claims costs ultimately incurred may vary from estimated claims liabilities should the nature and frequency of actual claims vary from historical claims

G. Unpaid Claims Liability, continued

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, 2011, 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.

3) Contributions

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

Code of Alabama, Section, 16-25A-8.1 provides that the Board shall set forth the employer contribution to the health insurance premium for each retiree class. For employees who retire other than for disability after September 30, 2005, the employer contribution of the health insurance premium set forth by the board for each retiree class shall be reduced by 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. During the 2011 fiscal year, the Alabama Legislature signed into law Act 2011-704 which modified the existing retiree sliding scale. The new law requires employees who retire after December 31, 2011 with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium). The new law also requires employees who retire before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium).

Each year, the State specifies the amount (the employer rate) that participating school systems must contribute monthly for each active employee. The fiscal year 2011 rate was $752 per active participant per month. Approximately 26.45% of the employer contributions are used to assist in funding retiree benefit payments. In addition to the employer payments each month, the employee pays certain premium amounts. Participants should refer to the PEEHIP's contracts for a more complete description of the PEEHIP's provisions. During fiscal year 2003, the Legislature passed Act 2003-473 (effective October 1, 2003) which requires universities that do not participate in PEEHIP to pay the health insurance costs of their university retirees to the PEEHIF.

The monthly employer premium established by the Legislature in the 2011 Budget was paid in accordance with the recommendation by the PEEHIP management. The recommendation was based on the determination made by the third party actuary.

3) Contributions, continued

Required monthly contribution rates for FY2010-11 are as follows:

Retired Member Rates
-Individual Coverage/Non-Medicare Eligible – $ 146.00
-Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $381.00
-Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - $245.00
-Individual Coverage/Medicare Eligible Retired Member - $10.00
-Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $245.00
-Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - $109.00
-For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.
-Tobacco surcharge - $27.00 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. The combining allocation program is being phased out over three years beginning October 1, 2010. When a couple combines allocations, they are required to use both allocations to pay for the PEEHIP Hospital Medical Plan and cannot use one of the allocations towards the Optional Plans. They can purchase the Optional Plans at the normal monthly rate of $38.00 or $45.00 for family dental.

Surviving Spouse Rates
-Surviving Spouse Non-Medicare Eligible - $ 701.00
-Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - $890.00
-Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - $859.00
-Surviving Spouse Medicare Eligible - $369.00
-Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - $558.00
-Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - $527.00

4) Funding Status and Funding Progress

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

FUNDED STATUS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) §	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09/30/2010	$ 750,384	$ 11,584,965	$ 10,834,581	6.5%	$ 6,183,204	175.2%

§ Projected Unit Credit

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

5) Actuarial Method and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Therefore, the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The valuation does not anticipate future changes in the pattern of sharing of costs between employers and plan members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. Information related to the most recent actuarial valuation, including the actuarial method and assumptions was as follows:

Valuation Date	9/30/2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	10.50%
Medicare Eligible	8.50%
Ultimate Trend Rate	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2017
Dental Trend Rate	5.00%

* Includes inflation at 4.50%

6) Contract Administrators

Blue Cross and Blue Shield of Alabama (BCBS), under contract with the Board, administered medical claims incurred in accordance with the plan. The BCBS administrative fee was $10.45 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 PEEHIF paid Southland an amount equal to covered charges plus processing fees. The processing fees per month per contract were $0.75 for Group Hospital Indemnity, $0.61 for Group Cancer, $1.08 for Group Vision, and $1.40 for Group Dental.

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:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods.

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

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

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

A. Investment Risks, continued

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The asset allocation decisions are determined by the set limits along with the following three factors:

1) The actuarial projected liability stream of benefits and their cost

2) The perception of the prospective risks and returns of eligible asset classes

3) Judgments regarding future economic and financial conditions

The policy limits are as follows:

- Domestic Fixed Income – Limited to 50% of the fair value of the aggregate portfolio for the Trust.
- International Fixed Income – Limited to 10% of the fair value of the Trust's total portfolio.
- Domestic Equity – Limited to 65% of the fair value of the Trust's aggregate portfolio.
- International Equity – The aggregate fair value of international equities is limited to 25% of the aggregate fair value of the Trust's total portfolio. Also, the Trust may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – Limited to 15% of the fair 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 in order to maintain adequate liquidity for payment of member health care benefits.

7) Investments, continued

The following table provides information as of September 30, 2011, concerning the fair value of investments and interest rate risk:

INVESTMENTS
Maturity in Years at Fair Value
(Amounts in Thousands)

Type of Investment	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Total Fair Value**	**Cost**
Fixed Maturity						
Money Market Funds	$ 35,339	$ -	$ -	$ -	$ 35,339	$ 35,339
Commercial Paper	112,996	-	-	-	112,996	112,996
U.S Agency	-	11,795	17,459	1,823	31,077	28,632
U.S. Government Guaranteed	-	23,110	53,664	10,350	87,124	81,495
Corporate Bonds	15,968	25,802	44,863	16,793	103,426	98,323
GNMAs	-	-	-	1,913	1,913	1,776
Collateralized Mortgage Obligations	-	-	855	34,994	35,849	34,888
Total Fixed Maturity	164,303	60,707	116,841	65,873	407,724	393,449
Equities						
Domestic					305,689	315,012
International						
Emerging Markets						
United Kingdom - Pound Sterling					19,807	24,009
Japan - Yen					20,611	24,661
France - Euro					7,987	11,730
Germany - Euro					6,934	9,719
Switzerland - Franc					7,658	8,099
Netherlands - Euro					2,293	3,292
Italy - Euro					2,077	4,197
Spain - Euro					3,049	4,717
Australia - Dollar					7,535	8,361
Singapore - Dollar					1,546	1,554
Belgium - Euro					874	1,225
Finland - Euro					798	1,767
Hong Kong - Dollar					2,384	2,811
Sweden - Krone					2,553	2,660
Denmark - Krone					881	998
Israel - Shekel					576	756
Portugal - Euro					214	384
Ireland - Euro					215	320
Norway - Krone					801	905
Greece - Euro					129	545
Austria - Euro					263	470
New Zealand - Dollar					90	102
Total International Equities					89,275	113,282
Total Equities					394,964	428,294
Total Investments					**$ 802,688**	**$ 821,743**

7) Investments, continued

The following table provides information as of September 30, 2011, concerning credit risk:

RATINGS OF FIXED MATURITIES
(Amounts in Thousands)

Moody's Ratings	Fair Value	Cost	Fair Value as a Percentage of Total Fixed Maturity Fair Value
Aaa	$ 57,694	$ 55,300	14.15%
Aa1	7,148	6,188	1.75
Aa2	7,353	6,833	1.80
Aa3	6,903	6,119	1.69
AA (SP)	14,061	14,058	3.45
P-1	35,339	35,339	8.67
P-2	112,996	112,996	27.71
A1	7,223	7,261	1.77
A2	11,258	10,240	2.76
A3	10,582	9,575	2.60
A (SP)	405	348	0.10
Baa1	19,306	17,624	4.74
Baa2	13,521	12,273	3.32
Baa3	9,110	8,930	2.23
BBB (SP)	379	334	0.09
Ba1	1,307	1,470	0.32
Ba3	1,667	1,748	0.41
Not Rated	2,435	3,542	0.60
U.S. Government Guaranteed †	89,037	83,271	21.84
Totals	**$ 407,724**	**$ 393,449**	**100.00%**

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when Moody's rating is not available. Standard and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

† Includes GNMA Securities

B. Concentration of Investments

As of September 30, 2011, 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 of securities provide acceptable collateral in the form of cash (U. S. and foreign currency) and any other assets permissible under Rule 15c3-3 of the Exchange Act of 1934 and U. S. and non U. S. equities and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the Trust or borrower. The initial collateral received shall have a value of 102% or 105% of the fair value of the loaned securities depending on the nature of the loaned securities and the collateral received, or such other value, not to be 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). Effective December 3, 2010, the collateral fund was restructured, separating the collateral fund into two pools, a liquidity pool and a duration pool. This split allows greater flexibility in managing the available liquidity in 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 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 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. At the time of purchase (i) all eligible securities with maturities of 13 months or less shall (x) be rated at least A1, P1 or F1 by at least any 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 (y) be determined by the investment manager to be of comparable quality and (ii) all eligible securities with maturities in excess of 13 months shall (x) be rated at least A-, A3 or A- by at least any two of S & P, Moody's or Fitch, or (y) be determined by the investment manager to be of comparable quality. GSLT may invest up to 10% of its assets a time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines. 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 as of December 3, 2010 owned 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, 2011, the average term of the loans was 55 days. Cash collateral investments in the GSLT are matured as needed to fulfill loan

C. Securities Lending Program, continued

obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2011, the fair value of the securities on loan was $174,989,599. The fair value of the collateral pledged by the borrowers was $182,323,748. 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, 2011. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

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.

C. Securities Lending Program, continued

The following table provides information as of September 30, 2011, concerning securities lent:

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

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 15,604
Domestic Equity	38,965
International Equity	12,654
Total Lent for Cash Collateral	67,223
For Non-cash Collateral	
Domestic Fixed Maturities	83,410
Domestic Equity	12,637
International Equity	11,719
Total Lent for Non-cash Collateral	107,766
Total Securities Lent	**$ 174,989**
Type of Collateral Received	
Cash Collateral - Invested in State Street Global Securities Lending Trust	$ 70,207
Non-cash Collateral	
For Lent Domestic Fixed Securities	86,461
For Lent Domestic Equity Securities	
EURO	1,144
GBP	485
U.S. Dollar	11,693
For Lent International Equity Securities	
EURO	3,307
GBP	1,214
U.S. Dollar	7,813
Total Non-cash Collateral	112,117
Total Collateral Received	**$ 182,324**

8) Unpaid Claims Liabilities

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured claims, which includes provisions for both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust for 2011.

UNPAID CLAIMS LIABILITIES
(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	$	35,383
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Year		371,964
Increase in Provision for Insured Events for Prior Years		277
Total Incurred Claims and Claim Adjustment Expenses		372,241
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year		337,554
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years		35,660
Total Payments		373,214
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	$	34,410

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)
09/30/10	$ 750,384	$ 11,584,965	$ 10,834,581	6.5%	$ 6,183,204	175.2%
09/30/09	670,004	11,915,692	11,245,688	5.6%	6,236,922	180.3%
09/30/08	579,813	13,224,411	12,644,598	4.4%	6,294,341	200.9%
09/30/07	400,783	12,965,398	12,564,615	3.1%	5,897,772	213.0%
09/30/06	-	12,532,330	12,532,330	-	5,458,443	229.6%
09/30/05	-	14,611,991	14,611,991	-	4,733,416	308.7%

§ Projected Unit Credit

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(Amounts in Thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
2011	$ 1,006,034	29.9%
2010	970,330	37.0
2009	962,762	33.9

Notes to the Required Supplementary Information

The discount rate was changed from 4.0% for the 9/30/05 valuation to 5.0% for the 9/30/06 and subsequent valuations as a result of contributions to the Trust.

Claims Development Information

(Amounts in Thousands)

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

		Fiscal & Policy Year Ended				
		2011	**2010**	**2009**	**2008**	**2007**
1)	Net Earned Required Contribution & Investment Revenue	399,790	486,599	445,826	506,402	729,253
2)	Unallocated Expenses		-	-	-	-
3)	Estimated Incurred Claims & Expense, End of Policy Year	371,964	405,082	358,293	335,601	328,470
4)	Paid (Cumulative) As Of:					
	End of Policy Year	337,554	369,699	325,011	302,514	301,214
	One Year Later		405,359	359,430	332,943	329,529
5)	Reestimated Incurred Claims & Expense:					
	End of Policy Year	371,964	405,082	358,293	335,601	328,470
	One Year Later		405,359	359,430	332,943	329,529
6)	Increase/(Decrease) in Estimated Incurred Claims and Expenses End of Policy Year		277	1,137	(2,658)	1,059