Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Control
Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan

We have audited the accompanying financial statements of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which comprise the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's basic financial statements.

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 Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan, as of September 30, 2016, 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 Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's financial statements for the year ended September 30, 2015, 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 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.

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

March 27, 2017
Montgomery, Alabama

Public Employees' Individual Retirement Account/Deferred Compensation Plan
Management's Discussion and Analysis
September 30, 2016

The Public Employees' Individual Retirement Account/Deferred Compensation Plan (PEIRAF/DCP) operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States. The following discussion provides an overview of the financial position and results of operation for the PEIRAF/DCP as of and for the fiscal year ended September 30, 2016. For more detailed information, please refer to the financial statements, including the *Notes to the Financial Statements*.

Overview of the Financial Statements

The financial statements of the PEIRAF/DCP include the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary 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 Fiduciary Net Position* includes all assets and liabilities of the PEIRAF/DCP and provides a snapshot of the financial position of the PEIRAF/DCP as of the fiscal year-end. Assets are reduced by liabilities resulting in the fiduciary net position restricted for the PEIRAF/DCP's members as of the fiscal year-end.

The *Statement of Changes in Fiduciary Net Position* reports all of the additions and deductions in the fiscal year for the PEIRAF/DCP. Additions are primarily comprised of member contributions and investment income. Deductions primarily consist of distributions made to participants during the fiscal year. The change in fiduciary net position plus the beginning fiduciary net position results in the fiduciary net position restricted for members at fiscal year-end.

The *Notes to the Financial Statements* include a description of the PEIRAF/DCP, a summary of significant accounting policies, and notes and disclosures regarding the PEIRAF/DCP's investments.

Comparative financial statements for the fiscal years ended September 30, 2016, and September 30, 2015, have been included below.

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2016 and 2015

	2016	2015	Variance	% Increase/ (Decrease)
Assets				
Cash	$ 207,915	$ 5	$ 207,910	4,158,200.00
Investment Sales Receivable	32,296	-	32,296	100.00
Interest and Dividends Receivable	10,525,597	10,491,464	34,133	0.33
Investments	1,964,539,708	1,830,563,472	133,976,236	7.32
Invested Securities Lending Collateral	159,267,125	124,828,997	34,438,128	27.59
Total Assets	**2,134,572,641**	**1,965,883,938**	**168,688,703**	8.58
Liabilities				
Accounts Payable	-	220	(220)	(100.00)
Investment Purchases Payable	46,826	6,818,261	(6,771,435)	(99.31)
Securities Lending Collateral	159,267,125	124,828,997	34,438,128	27.59
Total Liabilities	**159,313,951**	**131,647,478**	**27,666,473**	21.02
Net Position Restricted for Deferred Compensation Benefits	**$ 1,975,258,690**	**$ 1,834,236,460**	**$ 141,022,230**	7.69

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2016 and 2015

	2016	2015	Variance	% Increase/ (Decrease)
Additions				
Member Contributions	$ 131,841,115	$ 142,674,343	$ (10,833,228)	(7.59)
Interest & Dividend Income	56,760,752	54,321,044	2,439,708	4.49
Net Change in Fair Value of Investments	96,630,403	(21,288,721)	117,919,124	(553.90)
Net Income from Securities Lending Activities	1,103,864	1,227,619	(123,755)	(10.08)
Total Additions	**286,336,134**	**176,934,285**	**109,401,849**	61.83
Deductions				
Normal Distributions	144,751,597	132,548,655	12,202,942	9.21
Emergency Withdrawals	562,307	430,311	131,996	30.67
Total Deductions	**145,313,904**	**132,978,966**	**12,334,938**	9.28
Change in Net Position	**141,022,230**	**43,955,319**	**97,066,911**	220.83
Net Position Restricted for Deferred Compensation Benefits at Beginning of Year	**1,834,236,460**	**1,790,281,141**	**43,955,319**	2.46
Net Position Restricted for Deferred Compensation Benefits at End of Year	**$ 1,975,258,690**	**$ 1,834,236,460**	**$ 141,022,230**	7.69

Financial Highlights

- Investment sales receivable and investment purchases payable occur as a result of trade date accounting. The increased sales receivable for fiscal year 2016 was due to securities sold in the current fiscal year and settling the following fiscal year having greater value compared to prior fiscal year trade date accounting sales. The decreased purchase payable for fiscal year 2016 was due to securities purchased in the current fiscal year and settling the following fiscal year having lower value compared to the value of securities purchased using trade date accounting in the previous fiscal year.

- The PEIRAF/DCP’s annual rate of return on investment options as calculated by State Street Bank and Trust Company, the PEIRAF/DCP’s investment custodian, was 0.42% for the short-term investment fund, 6.01% for the bond fund, and 15.31% for the stock fund. The positive returns on investments resulted in a significant increase in net position during the fiscal year.

- Member contributions decreased by 7.59% during the fiscal year as a result of decreases in the amount of transfers in from the Deferred Retirement Option Program and other Section 457 plans received during the year.

- Normal member distributions increased by 9.21% primarily as a result of increases in transfers out to other Section 457 plans.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Fiduciary Net Position
September 30, 2016 with comparative amounts at September 30, 2015

	2016	2015
Assets		
Cash	**$ 207,915**	$ 5
Investment Sales Receivable	**32,296**	-
Interest and Dividends Receivable	**10,525,597**	10,491,464
Investments, at Fair Value (Note 2)		
Commercial Paper	**15,999,727**	36,994,033
Money Market Funds	**90,824,477**	74,265,930
U.S. Government Guaranteed Bonds	**388,237,903**	370,702,254
U.S. Agency Securities	**76,051,455**	86,754,968
Mortgage-backed Securities	**213,671,730**	202,917,463
Corporate Bonds	**601,134,535**	551,892,527
Private Placements	**4,564,648**	4,672,272
Common and Preferred Stocks	**574,055,233**	502,364,025
Total Investments	**1,964,539,708**	1,830,563,472
Invested Securities Lending Collateral	**159,267,125**	124,828,997
Total Assets	**2,134,572,641**	1,965,883,938
Liabilities		
Accounts Payable	**-**	220
Investment Purchases Payable	**46,826**	6,818,261
Securities Lending Collateral	**159,267,125**	124,828,997
Total Liabilities	**159,313,951**	131,647,478
Net Position Restricted for Deferred Compensation Benefits	**$ 1,975,258,690**	$ 1,834,236,460

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2016 with comparative amounts shown for 2015

	2016	2015
Additions		
Member Contributions	**$ 131,841,115**	$ 142,674,343
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**56,760,752**	54,321,044
Net Increase/(Decrease) in Fair Value of Investments	**96,630,403**	(21,288,721)
Total Investment Income from Investing Activities	**153,391,155**	33,032,323
From Securities Lending Activities		
Securities Lending Income	**1,901,093**	1,712,237
Less Securities Lending Expenses:		
Borrower Rebates	**456,889**	64,647
Management Fees	**340,340**	419,971
Total Securities Lending Expenses	**797,229**	484,618
Income from Securities Lending Activities, Net	**1,103,864**	1,227,619
Net Investment Income	**154,495,019**	34,259,942
Total Additions	**286,336,134**	176,934,285
Deductions		
Normal Distributions	**144,751,596**	132,548,655
Emergency Withdrawals	**562,308**	430,311
Total Deductions	**145,313,904**	132,978,966
Change in Net Position	**141,022,230**	43,955,319
Net Position Restricted for Deferred Compensation Benefits:		
Beginning of Year	**1,834,236,460**	1,790,281,141
End of Year	**$ 1,975,258,690**	$ 1,834,236,460

See accompanying Notes to the Financial Statements.

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF) Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provisions of the *Code of Alabama 1975, Title 36, Chapter 27A* (Act 1986-685 of the Alabama Legislature) to afford the PEIRAF members the greatest possible tax benefits under the federal income tax laws. The PEIRAF/DCP operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States and began receiving deferred portions of employees' income on January 1, 1987. The responsibility for the general administration and operation of the PEIRAF/DCP is vested in its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB) pronouncements, the PEIRAF/DCP is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

Each member may defer a maximum of $18,000 for calendar year 2016. Any member, age 50 and older, may make additional deferrals of $6,000 for calendar year 2016. A member may "catch-up" unused eligible amounts for one to three years if the member did not defer the maximum deferral amount in the years beginning with 1986 and was eligible to participate. In order to make these additional deferrals ("catch-up" deferrals), a member must be within three years of normal retirement and be eligible for an unreduced pension.

PEIRAF/DCP investments are participant-directed in either a short-term investment fund, an S&P 500 Index Fund, or fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

All members of the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), the Judicial Retirement Fund (JRF), and employees of employers eligible to participate in the ERS pursuant to provisions of the *Code of Alabama 1975, Section 36-27-6*, and public officials and employees of the State of Alabama or any political subdivision thereof (collectively, participating employers) are members of the PEIRAF/DCP and are eligible to participate. As of September 30, 2016, there were 35,886 participants.

Effective October 1, 1997, the PEIRAF/DCP adopted Trust status in compliance with The Small Business Job Protection Act of 1996. Deferred income and investment earnings are held in trust for the exclusive benefit of the PEIRAF/DCP's participants and their beneficiaries.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP'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.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates 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 the timing of the cash flows in accordance with standards of the GASB. Subsequent events were evaluated by management through the date the financial statements were issued.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the Secretary-Treasurer of the ERS, in bonds, mortgage-backed securities, common and preferred stocks, 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 investments are carried at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national 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 independent appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income was posted to member accounts at an annual rate of 0.41% for the short-term investment option. Income was posted to member accounts at an annual rate of 6.09% for the bond investment option. Income was posted to member accounts at an annual rate of 15.39% for the stock investment option.

F. Administrative Costs

Pursuant to the provisions of the *Code of Alabama 1975, Section 36-27A*-7 (Act 2001-1061 of the Alabama Legislature), the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the TRS and the ERS.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. The Internal Revenue Code and Regulations require that distributions to the member begin no later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service. Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

H. Comparative Statements

The basic financial statements include the prior fiscal year *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary 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 U.S. generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the PEIRAF/DCP's prior fiscal year financial report from which the prior fiscal year statements were derived.

I. Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes 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 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 PEIRAF/DCP's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the PEIRAF/DCP, 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 PEIRAF/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP'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. 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.

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S & P index fund is determined by member elections.

A. Investment Risks, Continued

The following table provides information as of September 30, 2016, concerning the fair value of investments and interest rate risk:

INVESTMENTS

Type of Investment	Maturity in Years at Fair Value: Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Money Market Funds	$ 90,824,477	$ -	$ -	$ -	$ 90,824,477	$ 90,824,477
Commercial Paper	15,999,727	-	-	-	15,999,727	15,999,727
U.S. Agency	8,640,418	36,843,637	30,567,400	-	76,051,455	74,333,120
U.S. Government Guaranteed	31,292,411	161,453,732	141,436,710	54,055,050	388,237,903	373,221,559
Corporate Bonds	151,220,256	157,667,690	153,464,083	138,782,506	601,134,535	573,385,743
Private Placements	-	-	-	4,564,648	4,564,648	4,564,648
GNMAs	-	-	271,679	13,073,865	13,345,544	13,180,240
CMO	-	4,681,440	3,187,706	192,457,040	200,326,186	196,155,552
Total Domestic Fixed Maturity	$ 297,977,289	$ 360,646,499	$ 328,927,578	$ 402,933,109	1,390,484,475	1,341,665,066
Equities						
Preferred					13,402,191	11,251,000
Domestic					560,653,042	375,365,427
Total Equities					574,055,233	386,616,427
Total Investments					**$ 1,964,539,708**	**$ 1,728,281,493**

A. Investment Risks, Continued

The following table provides information as of September 30, 2016, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's	Cost	Fair Value	Fair Value as a Percentage of Total
Aaa [1]	$ 661,330,569	$ 682,876,483	49.11
Aa1	11,192,491	11,909,180	0.86
Aa2	3,334,975	3,945,117	0.28
Aa3	7,063,130	7,838,001	0.56
P-2	15,999,727	15,999,727	1.15
A1	43,297,758	45,392,180	3.26
A2	22,382,723	21,874,221	1.57
A3	72,195,886	78,087,461	5.62
Baa1	111,681,733	118,016,077	8.49
Baa2	81,579,406	86,141,178	6.20
Baa3	61,428,132	63,094,116	4.54
Ba1	28,716,787	29,872,686	2.15
Ba2	15,117,153	15,716,243	1.13
B1	10,493,716	10,006,239	0.72
B2	3,615,731	2,973,785	0.21
B3	2,114,803	2,288,385	0.16
Not Rated [2]	190,120,346	194,453,396	13.99
Total Fixed Maturities	$ 1,341,665,066	$ 1,390,484,475	100.00

Standard & Poor's	Cost	Fair Value	Fair Value as a Percentage of Total
AAA	$ 7,951,706	$ 8,442,544	0.61
AA+ [1]	659,264,574	680,754,888	48.96
AA	3,334,975	3,945,117	0.28
AA-	42,245,335	45,242,959	3.25
A-2	15,999,727	15,999,727	1.15
A+	7,421,904	8,329,527	0.60
A	48,091,538	49,632,136	3.57
A-	64,537,354	69,343,755	4.99
BBB+	107,215,420	112,954,196	8.12
BBB	110,147,651	114,251,978	8.22
BBB-	59,740,283	61,740,309	4.44
BB+	4,338,981	4,760,525	0.34
BB	4,159,532	4,173,780	0.30
BB-	12,272,602	11,343,400	0.82
B-	2,114,803	2,288,385	0.16
Not Rated [2]	192,828,681	197,281,249	14.19
Total Fixed Maturities	$ 1,341,665,066	$ 1,390,484,475	100.00

[1] Includes securities guaranteed by the U.S. Government.

[2] Primarily consists of private placements.

B. Fair Value Measurement

The PEIRAF/DCP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities.

Level 2: Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.

Level 3: Valuations derived from valuation techniques using significant unobservable inputs for the asset or liabilities.

The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments in equity securities classified as Level 1 are valued using quoted prices in an active market for those securities.

Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features, and ratings.

Investments in private equity, debt, and direct investments in Real Estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows.

B. Fair Value Measurement, Continued

The following table provides information as of September 30, 2016, concerning fair value measurement:

		Fair Value Measurements Using		
	9/30/2016	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Maturity				
Domestic				
Money Market Funds	$ 90,824,477	$ -	$ 90,824,477	$ -
Commercial Paper	15,999,727	-	15,999,727	-
U.S. Agency	76,051,455	-	76,051,455	-
U.S. Government Guaranteed	388,237,903	-	388,237,903	-
Corporate Bonds	601,134,535	93,786,994	507,347,541	-
Private Placements	4,564,648	-	-	4,564,648
GNMAs	13,345,545	-	13,345,545	-
CMOs	200,326,185	-	200,326,185	-
Total Domestic Fixed Maturity	1,390,484,475	93,786,994	1,292,132,833	4,564,648
Equities				
Preferred	13,402,191	13,402,191	-	-
Domestic	560,653,042	560,653,042	-	-
Total Equities	574,055,233	574,055,233	-	-
Total Investments	**1,964,539,708**	**667,842,227**	**1,292,132,833**	**4,564,648**
Securities Lending Collateral	159,267,125	-	159,267,125	-
Total Fair Value	**$ 2,123,806,833**	**$ 667,842,227**	**$ 1,451,399,958**	**$ 4,564,648**

C. Concentration of Investments

As of September 30, 2016, the PEIRAF/DCP owned debt securities of the Federal National Mortgage Association (Fannie Mae), which represented approximately, 8.34% of the total fair value of investments.

D. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The PEIRAF/DCP's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the PEIRAF/DCP for collateral that will be returned for the same securities 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 of 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 PEIRAF/DCP 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 PEIRAF/DCP cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-Term Investments Fund (QDF). 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 in the investment in the fund and the outstanding balance of securities on loan.

The following describes the QDF's guidelines for the liquidity pool: The QDF's Investment Manager shall maintain the dollar-weighted average maturity of the QDF in a manner that the Investment Manager believes is appropriate to the objective of QDF, 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 QDF not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of QDF 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 QDF 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 QDF's guidelines for the duration pool: The QDF duration pool includes all asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The QDF duration pool will not make additional investments.

D. Securities Lending Program, Continued

As of September 30, 2016, the average loan term was 34 days. Cash collateral investments in the QDF 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.

The fair value of the securities on loan was $461,759,204, and the fair value of the collateral pledged by the borrowers was $480,876,475, as of September 30, 2016. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2016. 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 PEIRAF/DCP. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. 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. State Street may instruct the third party bank to establish and maintain a borrower's account and a State Street account wherein all collateral including cash shall be maintained by the third party bank in accordance with the terms of the agreement.

The following table provides information as of September 30, 2016, concerning securities lent:

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

Type of Investment Lent		Amounts
For Cash Collateral		
Domestic Fixed Maturities	$	100,399,085
Domestic Equity		55,396,749
Total Lent for Cash Collateral		155,795,834
For Non-cash Collateral		
Domestic Fixed Maturities		270,247,017
Domestic Equity		35,716,353
Total Lent for Non-cash Collateral		305,963,370
Total Securities Lent	$	461,759,204
Type of Collateral Received		
Cash Collateral - Invested in State Street Quality D Fund	$	159,267,125
Non-cash Collateral		
Domestic Fixed Securities		
Canadian Dollar		4,610,379
U.S. Dollar		107,460,347
Domestic Equity Securities		
EURO		620,375
U.S. Dollar		37,041,797
International Fixed Maturities & Equity		
U.S. Dollar		171,876,452
Total Non-Cash Collateral		321,609,350
Total Collateral Received	$	480,876,475

E. Mortgage-backed Securities

As of September 30, 2016, the PEIRAF/DCP had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.