



Component Units of the State of Alabama  
**Comprehensive Annual  
Financial Report**

*For the Fiscal Year Ended September 30, 2013*





# The Retirement Systems of Alabama

Component Units of the State of Alabama

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2013

The Retirement Systems of Alabama  
Consists of:

TEACHERS' RETIREMENT SYSTEM of ALABAMA  
EMPLOYEES' RETIREMENT SYSTEM of ALABAMA  
JUDICIAL RETIREMENT FUND

(Each a Component Unit of the State of Alabama)

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David G. Bronner, Ph.D., J.D., Chief Executive Officer

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Component Units of the State of Alabama  
**Comprehensive Annual Financial Report**

# INTRODUCTORY SECTION



**Teachers**  
Sarah S. Swindle, Chair  
Susan W. Brown, Vice Chair



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**Employees**  
State State Police Public Judicial  
Robert J. Bentley, Chair  
Jacqueline B. Graham, Vice Chair

# THE RETIREMENT SYSTEMS OF ALABAMA

David G. Bronner, CEO  
Donald L. Yancey, Deputy Director

January 17, 2014

The Boards of Control  
Teachers' Retirement System of Alabama  
Employees' Retirement System of Alabama  
201 South Union Street  
Montgomery, AL 36130

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Retirement Systems of Alabama (RSA or Systems) for the fiscal year ended September 30, 2013. The Retirement Systems of Alabama includes the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), and the Judicial Retirement Fund (JRF). Each system is considered a component unit of the State of Alabama for financial reporting purposes, and, as such, the financial statements contained in this report are also included in the State of Alabama Comprehensive Annual Financial Report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. We trust that you and the members of the Systems will find this report helpful in understanding your retirement system.

## **Administration and Plan History**

The TRS, ERS, and JRF operate under common management and are collectively referred to as the Retirement Systems of Alabama. In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis. The TRS was established under the provisions of Act 419 of the Legislature of 1939 to provide benefits to qualified persons employed by State-supported educational institutions. The ERS was established under the provisions of Act 515 of the Legislature of 1945 to provide benefits to State employees, State police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The JRF was established under the provisions of Act 1163 of the Legislature of 1973 to provide benefits to qualified judges and justices. Additional information regarding the administration and history of each system, including laws establishing each plan and services provided, can be found in the *Financial Section - Notes to the Combined Financial Statements* portion of this report.

## **Financial Information**

*Accounting Method* - As required by Generally Accepted Accounting Principles (GAAP), the financial information of the TRS, ERS, and JRF is reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the corresponding liability is incurred. Investments are reported at fair value.

*Internal Controls* - The management of the RSA is responsible for maintaining the system of internal controls (system). The system provides management with reasonable, but not absolute, assurance regarding the safeguarding of assets against loss or unauthorized disposition and the reliability of the financial records from which the financial reports are prepared. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

*Summary Comparative Data* – Management’s Discussion and Analysis (MD&A) includes a narrative introduction, an overview of the financial statements, including the notes and required supplementary information, and summary comparative data for fiscal years 2013 and 2012. Also, an analysis of significant variances between fiscal years 2013 and 2012 is provided in the MD&A.

**Plan Financial Condition**

The funding objective of the RSA pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Historical information concerning funding progress is presented in the *Required Supplementary Information* - “Schedule of Funding Progress” on page 46.

At the date of the latest actuarial valuations (9/30/2012), the number of participants in the TRS was 235,165, ERS participants totaled 137,820, and JRF participants totaled 729. The following table compares the funded status as of September 30, 2012 and 2011:

	<b>Funded Status (%)</b>		
<u>System</u>	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>% Increase/ (Decrease)</u>
TRS	66.5	67.5	(1.0)
ERS	65.7	65.8	(0.1)
JRF	61.6	59.9	1.7

**Investment Activity**

Total investments for the RSA increased in fiscal year 2013, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2013, were \$20.6 billion, \$10.0 billion, and \$253.0 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2012, of \$18.7 billion, \$9.1 billion, and \$233.1 million, respectively. Total pension fund investments managed by the RSA increased from \$28.0 billion at September 30, 2012, to \$31.2 billion at September 30, 2013, an 11.4% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2013, was \$638.8 million, \$310.2 million, and \$6.9 million, respectively, compared to \$634.7 million, \$310.7 million, and \$6.7 million, respectively, for the fiscal year ended September 30, 2012. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2013, was \$2.1 billion, \$984.7 million, and \$25.2 million, respectively, compared to the increase in fair value of investments of \$2.3 billion, \$1.1 billion, and \$32.1 million, respectively, for the fiscal year ended September 30, 2012. Additional information concerning investments, including investment policies and procedures, is located in the Investment Section.

**Management’s Discussion and Analysis**

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Financial Statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors’ Report.

**Professional Services**

Professional consultants are appointed by the Boards of Control to perform professional services that are essential to the effective operation of the TRS, ERS, and JRF. The certification letters from the independent actuary are included in this report. The professional consultants appointed by the Boards of Control are listed on page 10 of this report.

#### **Financial Statement Audit**

Carr, Riggs and Ingram, LLC, Certified Public Accountants, issued an unqualified (“clean”) opinion on the RSA’s financial statements for the fiscal year ended September 30, 2013. The independent auditors’ report is located at the front of the financial section of this report.

#### **Highlights and Initiatives**

Market performance during fiscal year 2013 was fairly stable, with equity markets performing well over the course of the year; domestic and international equities returned over 21% during this time period. Fixed income markets did not experience the significant gains of the past three years as interest rates were somewhat volatile. Returns within this sector were essentially flat for the fiscal year. Markets have continued to be somewhat reactionary around macroeconomic events as they have been the last few years, but we continue to see fundamentals influencing performance as well as the improvement of company earnings and balance sheets.

Last fiscal year, the Robert Trent Jones Golf Trail celebrated its 20<sup>th</sup> anniversary. Now, this year, 55 Water Street, New York City’s largest office tower, will celebrate its 20<sup>th</sup> anniversary with the RSA. This anniversary is particularly meaningful as the effects of Hurricane Sandy and the flooding that ensued are still being felt throughout the area. The New York City staff worked tirelessly in the weeks after “Sandy” to get the building reopened.

Since 1993, 55 Water has been one of the RSA’s strongest performing assets. This investment is currently valued at \$1.4 billion and generated roughly \$70 million in net profit during 2012, prior to “Sandy.” There is no debt on the building and is currently 93.3% leased. 55 Water is the second largest private office building in America.

Renovation continues on the historic Van Antwerp Building in Mobile, which the RSA purchased early in the fiscal year. This building is ten stories high and over 58,000 square feet. BBVA Compass will relocate its Mobile headquarters to the 105-year-old building in mid-2014, occupying three floors. The Van Antwerp Building is one of Mobile’s oldest structures and joins RSA’s stable of Port City holdings that include the RSA Battle House Tower, the RSA Bank Trust Building, the Renaissance Mobile Riverview Plaza Hotel & Spa, and The Battle House Renaissance Mobile Hotel & Spa.

Lastly, several of the RSA’s properties were honored again this year by earning national recognition for guest satisfaction. Marriott International, *Travel + Leisure* magazine, and *U.S News and World Report* all ranked several of the RSA hotels and resorts at or near the top of the list in their respective annual surveys.

#### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement Systems of Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2012. The Certificate of Achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

The Retirement Systems received the Public Pension Coordinating Council (PPCC) Recognition Award for Funding 2013. The award recognizes organizations that meet professional standards for plan funding as set forth in the Public Pension Standards.

#### **Acknowledgments**

The compilation of this report reflects the combined effort of the staff under the leadership of the Boards of Control. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the funds of the TRS, ERS, and JRF.

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We would like to take this opportunity to express our gratitude to the staff, the Boards of Control, the consultants, the Legislature, and to the many people who have worked so diligently through continued cooperative efforts to assure the successful operation and financial soundness of the TRS, ERS, and JRF.

Sincerely,

***Diane E. Scott***

Diane E. Scott, CPA, CGMA  
Chief Accountant & Fiscal Officer

***David G. Bronner***

David G. Bronner, Ph.D., J.D.  
Chief Executive Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**The Retirement Systems  
of Alabama**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2012**

Executive Director/CEO



Public Pension Coordinating Council

***Recognition Award for Funding  
2013***

Presented to

***Retirement Systems of Alabama***

In recognition of meeting professional standards for  
plan funding as  
set forth in the Public Pension Standards.

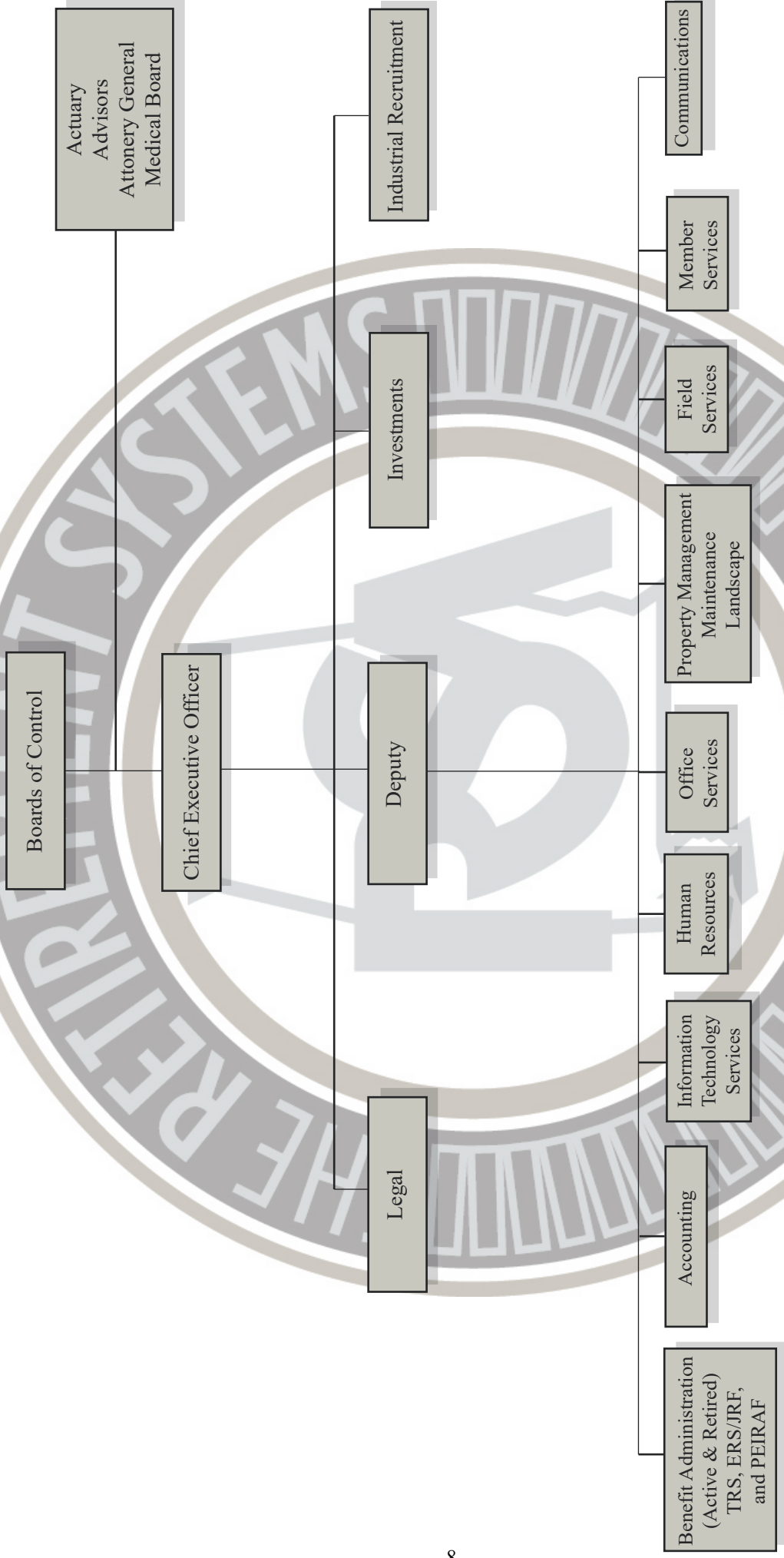
*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, stylized 'A' and 'W'.

Alan H. Winkle  
Program Administrator

# Retirement Systems of Alabama



**Teachers' Retirement System Board of Control**

**Ex Officio Members**

Mr. Bill Newton, Acting State Finance Director  
Mr. Young Boozer, State Treasurer  
Dr. Thomas R. Bice, State Superintendent of Education

**Elected Members**

Chair, Mrs. Sarah S. Swindle, Retired Position  
Vice Chair, Dr. Susan Williams Brown, Postsecondary Position  
Mrs. Sallie B. Cook, Retired Position  
Mr. Luther P. Hallmark, Superintendent Position  
Mrs. Teresa Harbison Swindall, Teacher Position  
Mr. C. Ray Hayes, Higher Education Position  
Mrs. Susan Lockridge, Support Personnel Position  
Ms. Charlene McCoy, Teacher Position  
Mr. Robbie Owen, Principal Position  
Mr. Russell J. Twilley, Support Personnel Position  
Mr. John R. Whaley, Teacher Position

**Employees' Retirement System Board of Control\*\***

**Ex Officio Members**

Chair, Dr. Robert Bentley, Governor  
Mr. Bill Newton, Acting State Finance Director  
Mr. Young Boozer, State Treasurer  
Vice Chair, Mrs. Jackie B. Graham, State Personnel Director

**Elected Members**

Mr. James Fibbe, Retired Local Employee  
Mr. Steven W. Williams, Active Local Employee  
Mr. Ben Powell, Active Local Employee  
Mr. James H. Rowell, Retired State Employee  
Mr. David Bollie, Active State Employee  
Mr. Stephen C. Walkley, Active State Employee

**Appointed Members**

Mr. Curtis E. Stewart  
Ms. Wendy S. Hester  
Mr. Christopher Blankenship

\*\* The Employees' Retirement System Board of Control is responsible for the administration of both the Employees' Retirement System and the Judicial Retirement Fund.

*Introductory Section*

Staff, Advisors, and Medical Board

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**Staff, Advisors, and Medical Board**

David G. Bronner, Ph.D., J.D., Chief Executive Officer

Donald L. Yancey, M.P.A., J.D., Deputy Director

**Administrative Staff**

Communications, Michael E. Pegues, M.A.

Chief Accountant and Fiscal Officer, Diane E. Scott, B.S., C.P.A., C.G.M.A.

Employees' & Judicial Retirement Executive, William F. Kelley, Jr., J.D.

Field Services, Robert J. Crowe, BBA

Information Technology Services, Michael T. Baker, B.S.

General Counsel, Leura G. Canary, J.D.

Legislative Counsel, Neah L. Mitchell, J.D.

Member Services, Penny K. Wilson, B.S.

Teachers' Retirement Executive, Christopher P. Townes, M.B.A.

**Investment Staff**

Director of Investments, R. Marc Green, M.B.A., C.F.A.

Director of Private Placements, M. Hunter Harrell, M.B.A., J.D., C.F.A.

Assistant Director of Fixed Income/Private Placements, Taylor P. Fendley, J.D.

Assistant Director of Equities, Steven R. Lambdin, M.B.A., C.F.A., C.P.A.

Director of Fixed Income, Julie S. Barranco, M.B.A., C.F.A.

Assistant Director of Fixed Income/Public Sector, C. Lance Lachney, M.B.A., C.F.A.

Equity Analyst, Bobby Long, M.B.A, C.F.A.

Equity Analyst, Michael McNair, M.B.A., C.F.A.

Equity Analyst, G. Allan Carr Jr., M.B.A., C.F.A.

Equity Analyst, Kevin W. Gamble, M.B.A., C.F.A.

Equity Analyst, Keith Buchanan, M.B.A., C.F.A.

Equity Analyst, Adam Rogers, M.A., C.F.A.

Equity Analyst, Hunter Bronson, M.S.

Fixed Income Analyst, Nick Prillaman, M.S., C.F.A.

Cash Management & Operations, Catherine S. Ray, B.A.

**Advisors**

Independent Certified Public Accountants, Carr, Riggs, & Ingram, LLC

Regions Bank N.A., Mr. Brian Sullivan, Investment Consultant

State Street Bank and Trust Company, Investment Custodian

Cavanaugh Macdonald Consulting, LLC, Mr. Edward A. Macdonald, Consulting Actuary

Attorney General, Honorable Luther Strange

Chief Examiner, Mr. Ronald L. Jones

**Medical Board**

Chair, Glenn Yates, M.D.

Gregory Borg, M.D.

Malcolm Brown, M.D.



Component Units of the State of Alabama  
**Comprehensive Annual Financial Report**

# FINANCIAL SECTION



## **INDEPENDENT AUDITORS' REPORT**

Boards of Control  
Teachers' Retirement System of Alabama  
Employees' Retirement System of Alabama  
Judicial Retirement Fund

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

We have audited the accompanying combined financial statements of the Retirement Systems of Alabama (consisting of the Teachers' Retirement System of Alabama, the Employees' Retirement System of Alabama, and the Judicial Retirement Fund, component units of the State of Alabama), as of and for the year ended September 30, 2013, and the related notes to the combined financial statements, which collectively comprise the Retirement System of Alabama's basic financial statements as listed in the table of contents.

### **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 combined 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 combined financial statements referred to above present fairly, in all material respects, the net position of the Retirement System of Alabama, as of September 30, 2013, 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 Retirement System of Alabama's financial statements for the year ended September 30, 2012, 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 and the schedules of funding progress and employer contributions on pages 14 – 18 and 46 – 48 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.

### *Supplemental and Other Information*

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the Retirement System of Alabama's basic financial statements. The introductory section, investment section, actuarial section, statistical section, and supplemental information included on pages 49 – 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information included on pages 49 – 51 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information included on pages 49 – 51 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have 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 them.

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

January 15, 2014  
Montgomery, Alabama

The Retirement Systems of Alabama (RSA) is comprised of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF). The following discussion provides an overview of the financial position and results of operation for the RSA as of and for the year ended September 30, 2013. For more detailed information, please refer to the financial statements, including the Notes to the Combined Financial Statements and the Required Supplementary Information.

#### **Financial Statements and Required Supplementary Information**

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

Combining Statement of Fiduciary Net Position – Includes all assets and liabilities of the RSA and provides a snapshot of the financial position of the RSA as of the end of the fiscal year. Assets less liabilities results in the net position restricted for pension benefits at the end of the fiscal year.

Combining Statement of Changes in Fiduciary Net Position – Reports all additions and deductions of the RSA for the fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are principally made up of retirement allowance payments. Additions minus deductions provide the change in fiduciary net position for the fiscal year. The change in fiduciary net position plus the beginning fiduciary net position results in the fiduciary net position at the end of the fiscal year.

The Notes to the Combined Financial Statements include plan descriptions, a summary of significant accounting policies, a description of legally required reserves and corresponding reserve balances at year-end, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, and additional actuarial information relevant to the latest actuarial valuations.

The Required Supplementary Information following the Notes to the Combined 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 TRS, ERS, and JRF plans. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed.

**Comparative Summary Statements****Summary Comparative Combining Statement of Fiduciary Net Position  
As of September 30, 2013 and 2012**

(Amounts in Thousands)

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b><i>Assets</i></b>				
Cash	\$ 32,582	\$ 24,643	\$ 7,939	32.22
Receivables	241,388	247,436	(6,048)	(2.44)
Investment Sales Receivable	22,218	46,355	(24,137)	(52.07)
Investments, at fair value	30,800,263	27,987,189	2,813,074	10.05
Invested Securities Lending Collateral	1,691,502	1,793,341	(101,839)	(5.68)
Property and Equipment, Net	143,831	149,443	(5,612)	(3.76)
Total Assets	<u>32,931,784</u>	<u>30,248,407</u>	<u>2,683,377</u>	8.87
<b><i>Liabilities</i></b>				
Accounts Payable and Other Liabilities	7,913	7,720	193	2.50
Investment Purchases Payable	57,333	67,535	(10,202)	(15.11)
Other Post-employment Benefit Obligations	6,364	5,108	1,256	24.59
Securities Lending Collateral	1,691,502	1,793,341	(101,839)	(5.68)
Total Liabilities	<u>1,763,112</u>	<u>1,873,704</u>	<u>(110,592)</u>	(5.90)
<b><i>Net Position</i></b>	<b><u>\$ 31,168,672</u></b>	<b><u>\$ 28,374,703</u></b>	<b><u>\$ 2,793,969</u></b>	<b>9.85</b>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

Summary Comparative Combining Statement of Changes in Fiduciary Net Position  
For the Fiscal Years Ended September 30, 2013 and 2012  
(Amounts in Thousands)

	2013	2012	Variance	% Increase/ (Decrease)
<b>Additions</b>				
Employee Contributions	\$ 699,741	\$ 674,968	\$ 24,773	3.67
Employer Contributions	980,614	946,573	34,041	3.60
Investment Income	4,061,411	4,456,031	(394,620)	(8.86)
Transfers Between Systems	5,410	4,117	1,293	31.41
Total Additions	<u>5,747,176</u>	<u>6,081,689</u>	<u>(334,513)</u>	(5.50)
<b>Deductions</b>				
Retirement Allowance Payments	2,817,908	2,676,452	141,456	5.29
Return of Contributions & Death Benefits	100,924	90,452	10,472	11.58
Transfers Between Systems	5,410	4,117	1,293	31.41
Administrative Expenses	22,638	22,428	210	0.94
Depreciation	6,327	6,325	2	0.03
Total Deductions	<u>2,953,207</u>	<u>2,799,774</u>	<u>153,433</u>	5.48
<b>Increase/(Decrease) in Fiduciary Net Position</b>	<u>2,793,969</u>	<u>3,281,915</u>	<u>(487,946)</u>	(14.87)
Net Position - Beginning of Year	<u>28,374,703</u>	<u>25,092,788</u>	<u>3,281,915</u>	13.08
<b>Net Position - End of Year</b>	<u><b>\$ 31,168,672</b></u>	<u><b>\$ 28,374,703</b></u>	<u><b>\$ 2,793,969</b></u>	<b>9.85</b>

Comparison of Individual Fiduciary Net Position  
As of September 30, 2013 and 2012  
(Amounts in Thousands)

	2013	2012	Variance	% Increase/ (Decrease)
<b>TRS</b>	\$ 20,820,372	\$ 18,950,126	\$ 1,870,246	9.87
<b>ERS</b>	10,091,940	9,188,696	903,244	9.83
<b>JRF</b>	256,360	235,881	20,479	8.68
<b>Total</b>	<u><b>\$ 31,168,672</b></u>	<u><b>\$ 28,374,703</b></u>	<u><b>\$ 2,793,969</b></u>	<b>9.85</b>

# RETIREMENT SYSTEMS OF ALABAMA

## Financial Section

### Management's Discussion and Analysis (Continued)

#### Financial Analysis

- Primarily all cash on hand at September 30, 2013, was held for administrative expenses.
- In the Summary Combining Comparative Statement of Fiduciary Net Position, receivables consist of employee contributions, employer contributions, interest, dividends, and real estate receivables at September 30, 2013.
- 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 2013 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 traded in the previous fiscal year but settled in the current fiscal year.
- The RSA's investment portfolio presented in percentages by investment type:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
<b>Equity</b>	65.46%	63.81%	72.76%
<b>Fixed</b>	24.99%	26.61%	26.03%
<b>Real Estate</b>	9.55%	9.58%	1.21%
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

- Employee contributions increased as a result of Act 2011-676 which increased employee contribution rates by an additional 0.25% of earnable compensation effective October 1, 2012. The employee contribution rate increased by a total of 2.50% of earnable compensation over the two year period ended September 30, 2013. ERS local participating employers have the option to adopt the new employee contribution rates.
- Employer contributions increased as a result of higher employer contribution rates for fiscal year 2013. The employer contribution rates for fiscal year 2013 are in the table below. ERS local participating employer contribution rates differ for each employer.

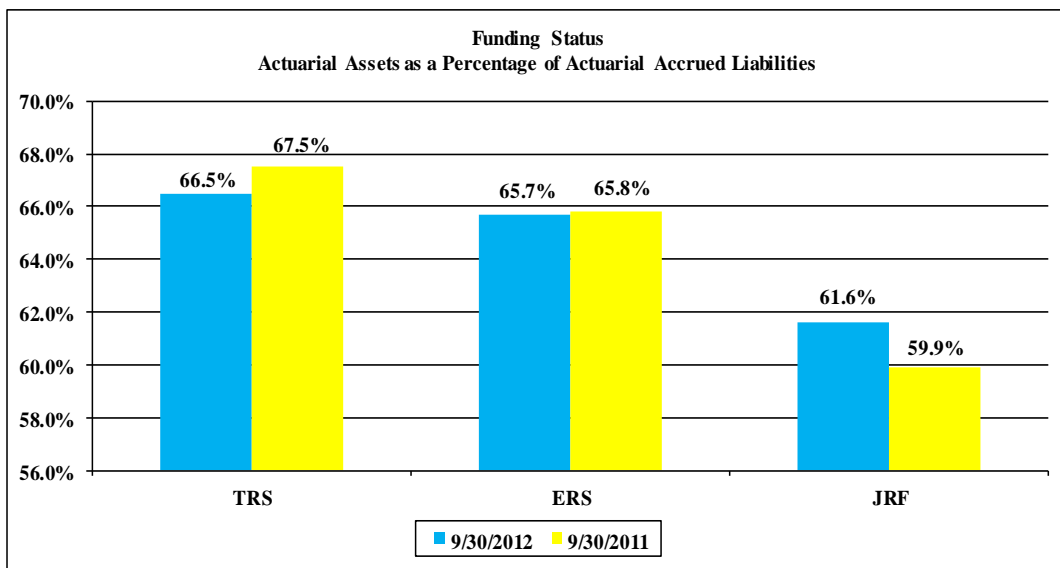
	<u>Tier 1</u>	<u>Tier 2</u>
<b>TRS</b>	10.08%	9.44%
<b>ERS - State Employees</b>	10.12%	10.04%
<b>ERS - State Police</b>	31.61%	25.32%
<b>JRF</b>	32.06%	-

- During fiscal year 2013, returns on investments of the TRS, ERS, and JRF were 14.93%, 14.60%, and 14.05%, respectively. The returns were calculated by State Street Bank.
- During fiscal year 2013, net securities lending income decreased by 9%. This was primarily driven by the lower yields on the collateral pools. Year over year the reinvestment spread on the collateral pools dropped approximately 15 basis points or 54%. Additionally, the loan balances for U.S. government and non-U.S. securities were lower by approximately \$308 million in fiscal year 2013. Also, in 2012 both Facebook and Groupon launched their Initial Public Offering (IPO) which created demand for securities lending; however, there were no large IPO's during fiscal 2013.
- Retirement allowance payments increased due to the addition of the members who retired in fiscal year 2013. There were no cost of living adjustments granted for fiscal year 2013.

**Funding Status**

The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets to limit fluctuations in the contributions from year to year. The actuarial value of assets was set equal to the market value of assets on September 30, 2012. Five-year smoothing will commence again in future years. Beginning with the actuarial valuations as of September 30, 2012, the valuation liabilities are calculated using a smoothed interest rate method. The Boards of Control adopted the valuation interest rate smoothing methodology in May 2013.

The ratio of actuarial assets to actuarial liabilities provides an excellent indication as to whether sufficient assets are being accumulated to pay benefits when due. The following bar graph provides comparisons of the funded ratio (actuarial assets to actuarial liabilities) as of the last two valuations for each System (September 30, 2012 and September 30, 2011). The funded ratios of TRS and ERS decreased slightly in the most recent valuations. The funded ratio of JRF increased. As reflected by the following graph, the TRS, ERS, and JRF continue to operate on an actuarially sound basis and accumulated funds are sufficient to continue to provide benefits as they become due.



**Financial Highlights**

- Net assets held in trust of \$31.2 billion at September 30, 2013, were available to meet future benefit payments.
- The funding level (actuarial value of assets as a percentage of actuarial accrued liabilities) as of the latest actuarial valuations was 66.5% for the TRS, 65.7% for the ERS, and 61.6% for the JRF.
- Act 2012-377 created a Tier 2 Defined Benefit plan for all TRS and ERS members hired on or after January 1, 2013. New members pay lower contribution rates, but will not be able to draw a retirement benefit until age 62. State Police, law enforcement, correctional officers, and firefighters will be able to draw a benefit at age 56. The Tier 2 Defined Benefit plan applies to all ERS local participating employers.



RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Combining Statement of Fiduciary Net Position  
September 30, 2013 with comparative figures for 2012

(Amounts in Thousands)

	2013			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
<b>Assets</b>				
Cash (Note 4)	\$ 26,140	\$ 4,461	\$ 1,981	\$ 32,582
Receivables				
Employee Contributions	37,717	17,997	168	55,882
Employer Contributions	50,937	29,798	481	81,216
Investment Sales Receivable	14,605	7,612	1	22,218
Real Estate Investment Receivable	1,038	519	-	1,557
Dividends and Interest	69,232	32,536	965	102,733
Total Receivables	<u>173,529</u>	<u>88,462</u>	<u>1,615</u>	<u>263,606</u>
Investments, at Fair Value (Note 5)				
Domestic Equity	10,514,970	5,056,820	144,746	15,716,536
Domestic Fixed Income	4,762,920	2,266,097	60,091	7,089,108
International Equities	2,951,446	1,309,366	39,348	4,300,160
Real Estate	1,963,274	955,067	3,062	2,921,403
Short-Term	378,156	389,145	5,755	773,056
Total Investments	<u>20,570,766</u>	<u>9,976,495</u>	<u>253,002</u>	<u>30,800,263</u>
Invested Securities Lending Collateral (Note 5)	1,166,230	500,085	25,187	1,691,502
Property and Equipment less				
Accumulated Depreciation (Note 8)	96,071	47,760	-	143,831
Total Assets	<u>22,032,736</u>	<u>10,617,263</u>	<u>281,785</u>	<u>32,931,784</u>
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	4,948	2,875	90	7,913
Investment Purchases Payable	38,095	19,122	116	57,333
Other Post-employment Benefits (Note 9)	3,091	3,241	32	6,364
Securities Lending Collateral (Note 5)	1,166,230	500,085	25,187	1,691,502
Total Liabilities	<u>1,212,364</u>	<u>525,323</u>	<u>25,425</u>	<u>1,763,112</u>
<b>Net Position Restricted for Pension Benefits (Notes 3 &amp; 6)</b>	<b><u>\$ 20,820,372</u></b>	<b><u>\$ 10,091,940</u></b>	<b><u>\$ 256,360</u></b>	<b><u>\$ 31,168,672</u></b>

See accompanying *Notes to the Combined Financial Statements*.

	2012			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<b>Assets</b>				
Cash	\$ 19,611	\$ 3,320	\$ 1,712	\$ 24,643
Receivables				
Employee Contributions	36,553	18,178	161	54,892
Employer Contributions	50,397	27,392	369	78,158
Investment Sales Receivable	30,786	15,341	228	46,355
Real Estate Investment Receivable	1,072	536	-	1,608
Dividends and Interest	75,943	35,810	1,025	112,778
Total Receivables	<u>194,751</u>	<u>97,257</u>	<u>1,783</u>	<u>293,791</u>
Investments, at Fair Value				
Domestic Equity	8,784,801	4,245,713	122,145	13,152,659
Domestic Fixed Income	4,809,707	2,306,928	64,947	7,181,582
International Equities	2,504,647	1,112,997	33,357	3,651,001
Real Estate	1,919,222	933,431	3,016	2,855,669
Short-Term	669,681	467,012	9,585	1,146,278
Total Investments	<u>18,688,058</u>	<u>9,066,081</u>	<u>233,050</u>	<u>27,987,189</u>
Invested Securities Lending Collateral	1,211,112	557,759	24,470	1,793,341
Property and Equipment less Accumulated Depreciation	<u>99,848</u>	<u>49,595</u>	<u>-</u>	<u>149,443</u>
Total Assets	<u>20,213,380</u>	<u>9,774,012</u>	<u>261,015</u>	<u>30,248,407</u>
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	4,619	2,999	102	7,720
Investment Purchases Payable	45,064	21,936	535	67,535
Other Post-employment Benefits	2,459	2,622	27	5,108
Securities Lending Collateral	<u>1,211,112</u>	<u>557,759</u>	<u>24,470</u>	<u>1,793,341</u>
Total Liabilities	<u>1,263,254</u>	<u>585,316</u>	<u>25,134</u>	<u>1,873,704</u>
<b>Net Position Restricted for Pension Benefits</b>	<u><b>\$ 18,950,126</b></u>	<u><b>\$ 9,188,696</b></u>	<u><b>\$ 235,881</b></u>	<u><b>\$ 28,374,703</b></u>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Combining Statement of Changes in Fiduciary Net Position

September 30, 2013 with comparative figures for 2012

(Amounts in Thousands)

	2013			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
<b>Additions</b>				
Contributions				
Employee	\$ 474,241	\$ 221,823	\$ 3,677	\$ 699,741
Employer	627,892	338,819	13,903	980,614
Transfers from Teachers' Retirement System	-	1,823	-	1,823
Transfers from Employees' Retirement System	3,345	-	242	3,587
Total Contributions	<u>1,105,478</u>	<u>562,465</u>	<u>17,822</u>	<u>1,685,765</u>
Investment Income (Note 5)				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	2,090,646	984,714	25,207	3,100,567
Interest and Dividends	638,766	310,220	6,912	955,898
Total Investment Income from Investing Activities	2,729,412	1,294,934	32,119	4,056,465
Less: Investment Expenses, Net	5,712	2,549	-	8,261
Net Investment Income from Investing Activities	<u>2,723,700</u>	<u>1,292,385</u>	<u>32,119</u>	<u>4,048,204</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	12,753	5,780	184	18,717
Less Securities Lending Expenses:				
Borrower Rebates	401	186	10	597
Management Fees	3,346	1,519	48	4,913
Total Securities Lending Expenses	<u>3,747</u>	<u>1,705</u>	<u>58</u>	<u>5,510</u>
Net Income from Securities Lending Activities	<u>9,006</u>	<u>4,075</u>	<u>126</u>	<u>13,207</u>
Total Net Investment Income	<u>2,732,706</u>	<u>1,296,460</u>	<u>32,245</u>	<u>4,061,411</u>
Total Additions	<u>3,838,184</u>	<u>1,858,925</u>	<u>50,067</u>	<u>5,747,176</u>
<b>Deductions</b>				
Retirement Allowance Payments	1,893,321	895,475	29,112	2,817,908
Return of Contributions and Death Benefits	55,891	44,837	196	100,924
Transfers to Employees' Retirement System	1,823	-	-	1,823
Transfers to Teachers' Retirement System	-	3,345	-	3,345
Transfers to Judicial Retirement Fund	-	242	-	242
Administrative Expenses	12,591	9,767	280	22,638
Depreciation (Note 8)	4,312	2,015	-	6,327
Total Deductions	<u>1,967,938</u>	<u>955,681</u>	<u>29,588</u>	<u>2,953,207</u>
<b>Net Increase</b>	<b><u>1,870,246</u></b>	<b><u>903,244</u></b>	<b><u>20,479</u></b>	<b><u>2,793,969</u></b>
<b>Net Position Restricted for Pension Benefits (Notes 3 &amp; 6)</b>				
Beginning of Year	18,950,126	9,188,696	235,881	28,374,703
End of Year	<u>\$ 20,820,372</u>	<u>\$ 10,091,940</u>	<u>\$ 256,360</u>	<u>\$ 31,168,672</u>

See accompanying Notes to the Combined Financial Statements.

	2012			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<b>Additions</b>				
Contributions				
Employee	\$ 456,518	\$ 214,933	\$ 3,517	\$ 674,968
Employer	618,306	317,520	10,747	946,573
Transfers from Teachers' Retirement System	-	1,937	-	1,937
Transfers from Employees' Retirement System	2,016	-	164	2,180
Total Contributions	<u>1,076,840</u>	<u>534,390</u>	<u>14,428</u>	<u>1,625,658</u>
Investment Income				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	2,349,955	1,114,737	32,112	3,496,804
Interest and Dividends	634,695	310,748	6,748	952,191
Total Investment Income from Investing Activities	2,984,650	1,425,485	38,860	4,448,995
Less: Investment Expenses, Net	5,260	2,256	-	7,516
Net Investment Income from Investing Activities	<u>2,979,390</u>	<u>1,423,229</u>	<u>38,860</u>	<u>4,441,479</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	13,670	6,445	215	20,330
Less Securities Lending Expenses:				
Borrower Rebates	433	174	12	619
Management Fees	3,465	1,642	52	5,159
Total Securities Lending Expenses	<u>3,898</u>	<u>1,816</u>	<u>64</u>	<u>5,778</u>
Net Income from Securities Lending Activities	<u>9,772</u>	<u>4,629</u>	<u>151</u>	<u>14,552</u>
Total Net Investment Income	<u>2,989,162</u>	<u>1,427,858</u>	<u>39,011</u>	<u>4,456,031</u>
Total Additions	<u>4,066,002</u>	<u>1,962,248</u>	<u>53,439</u>	<u>6,081,689</u>
<b>Deductions</b>				
Retirement Allowance Payments	1,800,805	848,464	27,183	2,676,452
Return of Contributions and Death Benefits	49,453	40,746	253	90,452
Transfers to Employees' Retirement System	1,937	-	-	1,937
Transfers to Teachers' Retirement System	-	2,016	-	2,016
Transfers to Judicial Retirement Fund	-	164	-	164
Administrative Expenses	11,555	10,616	257	22,428
Depreciation	4,344	1,981	-	6,325
Total Deductions	<u>1,868,094</u>	<u>903,987</u>	<u>27,693</u>	<u>2,799,774</u>
<b>Net Increase</b>	<b><u>2,197,908</u></b>	<b><u>1,058,261</u></b>	<b><u>25,746</u></b>	<b><u>3,281,915</u></b>
<b>Net Position Restricted for Pension Benefits</b>				
Beginning of Year	16,752,218	8,130,435	210,135	25,092,788
End of Year	<u>\$ 18,950,126</u>	<u>\$ 9,188,696</u>	<u>\$ 235,881</u>	<u>\$ 28,374,703</u>

# RETIREMENT SYSTEMS OF ALABAMA

## *Financial Section*

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

#### 1) PLAN DESCRIPTION

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA or Systems). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis.

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act 1205 of the Legislature of 1975 supplemented the provisions of Act 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS.

At September 30, 2013, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Cities	-	290	-
Counties	-	65	67
Other Public Entities	-	518	-
Universities	13	-	-
Post-Secondary Institutions	31	-	-
City and County Boards of Education	133	-	-
State Agencies & Other	32	1	1
<b>Totals</b>	<u><b>209</b></u>	<u><b>874</b></u>	<u><b>68</b></u>

At the date of the latest actuarial valuation as presented in the Notes to the Required Supplementary Information, membership consisted of:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Retirees and beneficiaries currently receiving benefits:			
General	78,370	20,618	347
State Police	-	839	-
Employees of Local Employers	-	19,519	-
Deferred Retirement Option Plan (DROP)	4,436	2,121	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	18,568	3,197	45
State Police	-	16	-
Employees of Local Employers	-	7,341	-
Active Employees:			
General	133,791	29,548	337
State Police	-	777	-
Employees of Local Employers	-	53,844	-
<b>Totals</b>	<b><u>235,165</u></b>	<b><u>137,820</u></b>	<b><u>729</u></b>

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS, ERS, and JRF. Benefits for TRS and ERS members vest after 10 years of credited service. Teachers and state employees who retire after age 60 (52 for State Police) with 10 years or more of credited service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of credited service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS and ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS and ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of credited service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS and ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

The JRF benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of credited service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining age 60. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of credited service (regardless of age), (2) completed 12 years of credited service and has attained age 65, (3) completed 15 years of credited service and whose age plus service equals or exceeds 77, (4) completed 10 years of credited service and has attained age 70 or (5) been elected prior to July 30, 1979, and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her

(Dollar Amounts in Thousands)

retirement benefit to commence at the end of the term in which the member's 70th birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of credited service). The service retirement benefit for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

Covered members of the TRS and ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contributed 5% of earnable compensation to the TRS and ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS and ERS (except State Police and certified law enforcement, correctional officers, and firefighters) were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS and ERS (except State Police and certified law enforcement, correctional officers, and firefighters) are required by statute to contribute 7.50% of earnable compensation. JRF members and certified law enforcement, correctional officers, and firefighters of the TRS and ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, JRF members and certified law enforcement, correctional officers, and firefighters of the TRS and ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, JRF members and certified law enforcement, correctional officers, and firefighters of the TRS and ERS are required by statute to contribute 8.50% of earnable compensation. State Police members of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the TRS and ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contribute 6% of earnable compensation to the TRS and ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS and ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

## **2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Basis of Accounting**

The TRS, ERS, and JRF financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. The accompanying financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the TRS, ERS, and JRF are considered component units of the State of Alabama and are included in the State's Comprehensive Annual Financial Report. Subsequent events were evaluated by management through the date the financial statements were issued.

### **B. Investments**

The Boards of Control of the Systems have the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer (CEO) 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

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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.

### **C. Comparative Combining Statements**

The basic financial statements include the prior year Combining Statement of Fiduciary Net Position and Combining Statement of Changes in Fiduciary Net Position (Statements) for comparative purposes only. Prior year Note Disclosures are not included. Therefore, the prior 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 year Statements should be read in conjunction with the RSA's prior year financial report from which the prior year Statements were derived.

### **D. Interfund Transfers**

Interfund transfers result from transfers of members between retirement systems.

### **E. 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 disclosure in the financial statements. Actual results may differ from these estimates.

## **3) LEGALLY REQUIRED RESERVES**

### **A. Annuity Savings**

Member contributions are credited to the Annuity Savings account. Interest at 4% per annum is credited to the annuity savings account of each member on the basis of the average of the beginning and end of year balances (as of June 30 for the TRS and September 30 for the ERS and JRF).

When a member withdraws from service prior to becoming vested, the member's accumulated contributions and a portion of accumulated interest credited to the Annuity Savings account are returned to the member. The portion of accumulated interest that, by law, is not payable to the member is transferred to the Expense fund.

When a TRS or ERS member dies prior to becoming eligible for retirement, the member's accumulated contributions and accumulated interest credited to the Annuity Savings account are returned to the member's designated beneficiary. If the pre-retirement death benefit defined below is not payable, an additional death benefit equal to the member's accumulated contributions, up to five thousand dollars, is paid from the Pension Accumulation account to the member's beneficiary.

When a member retires or when a survivor allowance becomes payable, the amount of the member's accumulated contributions and accumulated interest is transferred from the Annuity Savings account to the Pension Accumulation account.

(Dollar Amounts in Thousands)

**B. Pension Accumulation**

The Pension Accumulation account is credited with contributions made by the employer and net investment income. The lump sum death benefit is paid from this account when a TRS or ERS member dies prior to becoming eligible for the pre-retirement death benefit or retirement. Periodic interest representing member's earnings is transferred from the Pension Accumulation account to the Annuity Savings account. When a TRS, ERS, or JRF member retires or when a survivor allowance becomes payable, the member's accumulated contributions and accumulated interest is credited to the Pension Accumulation account, and all monthly benefit payments are paid from this account.

**C. Pre-retirement Death Benefit**

The Pre-retirement Death Benefit (PRDB) account (established October 1, 1983, under the provisions of Act 616 of the Legislature of 1983) is credited with contributions made by TRS and ERS employers and investment income on such funds. The pre-retirement death benefit (in the form of group term life insurance) is paid in addition to the return of member contributions upon the death of an active TRS or ERS member who has completed at least one year of active membership in the system and whose date of death was within 180 days of such member's last date of actual service. However, a surviving spouse beneficiary of a deceased member who was eligible for service retirement may elect a survivor allowance in lieu of this benefit. The pre-retirement death benefit is equal to the annual earnable compensation of the member as reported to the System for the preceding year ending June 30 for the TRS and September 30 for the ERS. There is no PRDB available for JRF members.

**D. Term Life Insurance**

The Alabama Teacher's Group Term Life Insurance Plan (established October 1, 1987) is credited with a portion of the employer contributions. All active contributing members of the TRS are covered by this plan. Contingent on availability of funds, upon death, a benefit is paid to the designated beneficiary of an insured member of the TRS. Beneficiaries of full-time employees receive fifteen thousand dollars while beneficiaries of part-time employees receive a prorated amount of fifteen thousand dollars.

**E. Expense**

The Expense fund is used to pay the administrative expenses of the RSA. A portion of the employer contributions and the interest not payable upon member withdrawal provide the funding of the expense fund. The majority of expenses are directly identifiable as expenses of the TRS, ERS, or JRF. As discussed in Note 1, certain administrative salaries and other expenses are shared on an equitable basis between the TRS and ERS.

**F. Deferred Retirement Option Plan (DROP)**

The DROP was established for election to participate on or after June 1, 2002, under the provisions of Act 23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal from service, continue employment for a period of three to five years. The retirement allowance, employee contributions, and interest earned are accumulated in an account for the benefit of the member. At the end of participation, the account balance is paid to the member. DROP participation is an option available to eligible members that have at least 25 years of service (exclusive of sick leave), are at least 55 years of age, and are eligible for retirement. See the actuarial section for additional information.

The DROP was repealed effective March 24, 2011, by Act 27 of the Legislature of 2011. Applications received by the RSA or postmarked by March 24, 2011, were accepted for DROP participation if the member was age and service eligible. The effect of Act 27 is that no new participants were allowed to enter the DROP with an effective participation date after June 1, 2011.

## G. Reserves

The reserves of the RSA are included as part of the net position restricted for pension benefits in the accompanying Combining Statement of Fiduciary Net Position and are funded to the full extent required by statute. The reserve balances as of September 30, 2013, are as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Annuity Savings	\$ 4,261,269	\$ 2,363,600	\$ 37,366
Pension Accumulation	15,643,908	7,320,496	217,136
Pre-retirement Death Benefit	43,035	29,649	-
Term Life Insurance	14,453	-	-
Deferred Retirement Option Plan	736,562	328,871	-
Plant Fund	96,071	47,760	-
Expense	25,074	1,564	1,858
<b>Net Position at 9/30/2013</b>	<b><u>\$ 20,820,372</u></b>	<b><u>\$ 10,091,940</u></b>	<b><u>\$ 256,360</u></b>

## 4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement systems' 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. Virtually all cash on hand at September 30, 2013, was held for administrative expenses.

## 5) INVESTMENTS

### A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks and the RSA'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 fair value of those instruments. There is no stated limitation on the duration level of the fixed income portfolio; however, this level is assessed on a regular basis to determine if adjustments are needed. 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

(Dollar Amounts in Thousands)

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 RSA’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 RSA, 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 RSA’s safekeeping agent holds all investments of the RSA in the RSA’s name with the exception of securities purchased with securities lending cash collateral.

*Credit Quality Risk* – 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. There are no stated limitations on the credit quality of the fixed income portfolio; however, ratings are assessed on a regular basis. The Systems may hedge against the possible adverse effects of currency fluctuations on each System’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. In order for an international security to be eligible for purchase by the Systems, the issuing company must be incorporated in a country whose debt securities are eligible for purchase 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 aggregate portfolio for each System.
- International Fixed Income – Limited to 10% of the fair value of each System’s total portfolio.
- Domestic Equity – Limited to 65% of the fair value of each System’s aggregate portfolio.
- International Equity – The aggregate fair value of international equities is limited to 25% of the aggregate fair value of each System’s total portfolio. Also, each System may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – The range may not exceed 15% of the book value of each System’s portfolio.
- Alternative Investments (mezzanine financing, LBO’s, venture capital, limited partnerships, futures, commodities and derivative investments) – Limited to 10% of the book value of each System’s aggregate portfolio.
- Short-term Investments – Limited to 20% of the fair value of each System’s aggregate portfolio.

The following tables provide information as of September 30, 2013, concerning the fair value of investments, interest rate risk, and foreign currency risk:

<b>INVESTMENTS</b>						
<b>TRS</b>						
<b>Maturity in Years at Fair Value</b>						
<b>Type of Investment</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>	<b>Total Fair Value</b>	<b>Cost</b>
<i>Fixed Maturity</i>						
<i>Domestic</i>						
Money Market Funds	\$ 142,161	\$ -	\$ -	\$ -	\$ 142,161	\$ 142,161
Commercial Paper	235,995	-	-	-	235,995	235,994
U.S. Agency	9,302	100,061	97,995	12,385	219,743	214,120
U.S. Govt Guaranteed	-	149,195	471,215	30,346	650,756	638,864
Corporate Bonds	23,920	594,120	269,942	234,286	1,122,268	1,041,124
Private Placements	20,319	352,131	58,380	1,951,797	2,382,627	2,342,578
GNMAs	3	129	744	61,026	61,902	61,959
CMOs	-	11,120	919	313,585	325,624	325,378
Total Domestic Fixed Maturity	<u>\$ 431,700</u>	<u>\$ 1,206,756</u>	<u>\$ 899,195</u>	<u>\$ 2,603,425</u>	<u>5,141,076</u>	<u>5,002,178</u>
<i>Equities</i>						
<i>Domestic</i>						
Private					<u>10,003,192</u>	<u>6,415,107</u>
<i>International</i>						
Emerging Markets					298,419	288,779
United Kingdom - Pound Sterling					576,778	454,206
Japan - Yen					571,424	492,196
France - Euro					259,500	197,844
Germany - Euro					231,990	158,654
Switzerland - Franc					243,993	126,978
Netherlands - Euro					70,786	59,966
Italy - Euro					56,846	76,884
Ireland - Euro					7,685	7,035
Spain - Euro					84,807	83,824
Australia - Dollar					212,887	123,075
Singapore - Dollar					41,141	30,846
Belgium - Euro					33,167	28,040
Finland - Euro					23,290	24,790
Hong Kong - Dollar					79,529	51,295
Sweden - Krona					82,669	44,289
Denmark - Krone					31,262	13,705
Israel - Shekel					12,552	15,301
Norway - Krone					22,043	12,836
Austria - Euro					8,460	7,426
New Zealand - Dollar					2,218	2,168
Total International Equities					<u>2,951,446</u>	<u>2,300,137</u>
Total Equities					<u>13,466,416</u>	<u>9,196,706</u>
Real Estate					<u>1,963,274</u>	<u>1,879,062</u>
<b>Total Investments</b>					<u><b>\$ 20,570,766</b></u>	<u><b>\$ 16,077,946</b></u>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

Type of Investment	INVESTMENTS ERS Maturity in Years at Fair Value				Total Fair Value	Cost
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Money Market Funds	\$ 109,155	\$ -	\$ -	\$ -	\$ 109,155	\$ 109,156
Commercial Paper	279,990	-	-	-	279,990	279,989
U.S. Agency	4,295	42,959	44,507	5,752	97,513	95,266
U.S. Govt Guaranteed	-	67,944	214,354	13,816	296,114	290,662
Corporate Bonds	10,943	273,012	123,260	107,252	514,467	477,495
Private Placements	11,176	172,235	28,754	970,918	1,183,083	1,165,190
GNMAs	2	140	199	26,596	26,937	26,981
CMOs	-	5,037	164	142,782	147,983	147,920
Total Domestic Fixed Maturity	<u>\$ 415,561</u>	<u>\$ 561,327</u>	<u>\$ 411,238</u>	<u>\$ 1,267,116</u>	<u>2,655,242</u>	<u>2,592,659</u>
<i>Equities</i>						
Domestic						
Private					4,723,250	3,046,225
International						
Emerging Markets					142,508	137,904
United Kingdom - Pound Sterling					253,697	198,740
Japan - Yen					251,332	216,948
France - Euro					114,282	86,899
Germany - Euro					102,041	69,599
Switzerland - Franc					107,287	55,154
Netherlands - Euro					30,999	25,847
Italy - Euro					25,005	33,618
Ireland - Euro					3,380	3,095
Spain - Euro					37,304	36,196
Australia - Dollar					93,637	54,150
Singapore - Dollar					18,081	13,517
Belgium - Euro					14,589	12,274
Finland - Euro					10,244	11,036
Hong Kong - Dollar					34,953	22,640
Sweden - Krona					36,366	19,585
Denmark - Krone					13,746	5,989
Israel - Shekel					5,523	6,733
Norway - Krone					9,694	5,725
Austria - Euro					3,721	3,313
New Zealand - Dollar					977	967
Total International Equities					<u>1,309,366</u>	<u>1,019,929</u>
Total Equities					<u>6,366,186</u>	<u>4,379,663</u>
Real Estate					<u>955,067</u>	<u>936,168</u>
<b>Total Investments</b>					<b><u>\$ 9,976,495</u></b>	<b><u>\$ 7,908,490</u></b>

<b>INVESTMENTS</b>						
<b>JRF</b>						
<b>Maturity in Years at Fair Value</b>						
<b>Type of Investment</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>	<b>Total Fair Value</b>	<b>Cost</b>
<i>Fixed Maturity</i>						
Domestic						
Money Market Funds	\$ 2,756	\$ -	\$ -	\$ -	\$ 2,756	\$ 2,756
Commercial Paper	2,999	-	-	-	2,999	2,999
U.S. Agency	214	4,227	2,229	278	6,948	6,567
U.S. Govt Guaranteed	-	3,536	11,040	689	15,265	14,975
Corporate Bonds	535	14,101	6,748	4,695	26,079	24,184
Private Placements	2,032	-	-	1,228	3,260	4,041
GNMAs	-	3	-	1,134	1,137	1,161
CMOs	-	255	14	7,133	7,402	7,405
Total Domestic Fixed Maturity	<u>\$ 8,536</u>	<u>\$ 22,122</u>	<u>\$ 20,031</u>	<u>\$ 15,157</u>	<u>65,846</u>	<u>64,088</u>
<i>Equities</i>						
Domestic						
					<u>144,746</u>	<u>76,430</u>
Private						
					<u>-</u>	<u>-</u>
International						
Emerging Markets					4,425	4,282
United Kingdom - Pound Sterling					7,574	6,547
Japan - Yen					7,584	6,901
France - Euro					3,413	3,021
Germany - Euro					3,048	2,342
Switzerland - Franc					3,186	2,237
Netherlands - Euro					926	846
Italy - Euro					747	951
Ireland - Euro					101	92
Spain - Euro					1,114	1,206
Australia - Dollar					2,795	2,198
Singapore - Dollar					538	437
Belgium - Euro					435	367
Finland - Euro					306	323
Hong Kong - Dollar					1,057	793
Sweden - Krona					1,086	754
Denmark - Krone					419	260
Israel - Shekel					164	200
Norway - Krone					290	226
Austria - Euro					111	109
New Zealand - Dollar					29	22
Total International Equities					<u>39,348</u>	<u>34,114</u>
Total Equities					<u>184,094</u>	<u>110,544</u>
Real Estate					<u>3,062</u>	<u>1,067</u>
<b>Total Investments</b>					<u><b>\$ 253,002</b></u>	<u><b>\$ 175,699</b></u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

The following tables provide information as of September 30, 2013, concerning credit risk:

RATINGS OF FIXED MATURITIES

TRS

<u>Moody's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± Aaa	\$ 1,230,498	\$ 1,247,338	24.262
Aa1	6,392	7,066	0.137
Aa2	9,029	9,529	0.185
Aa3	28,769	37,536	0.730
P-1	152,161	152,161	2.960
P-2	225,995	225,995	4.396
A1	97,021	105,054	2.043
A2	96,503	104,080	2.024
A3	165,878	184,159	3.582
Baa1	219,536	236,736	4.605
Baa2	247,993	264,827	5.151
Baa3	93,573	93,722	1.823
Ba1	46,991	49,650	0.966
Ba2	13,054	11,605	0.226
B1	11,820	13,991	0.272
Caa2	7,071	5,782	0.112
‡ Not Rated	2,349,894	2,391,845	46.526
<b>Total Fixed Maturity</b>	<b>\$ 5,002,178</b>	<b>\$ 5,141,076</b>	<b>100.000</b>

<u>Standard &amp; Poor's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± AA+	\$ 1,281,452	\$ 1,303,544	25.355
AA	24,634	27,785	0.540
AA-	37,895	46,982	0.914
A-1	142,161	142,161	2.765
A-2	235,994	235,994	4.590
A+	13,250	12,948	0.252
A	148,421	161,621	3.144
A-	250,915	276,372	5.376
BBB+	192,928	202,333	3.936
BBB	236,263	250,466	4.872
BBB-	52,466	56,038	1.090
BB+	21,451	23,921	0.465
BB-	13,054	11,605	0.226
CCC-	7,071	5,782	0.112
‡ Not Rated	2,344,223	2,383,524	46.363
<b>Total Fixed Maturity</b>	<b>\$ 5,002,178</b>	<b>\$ 5,141,076</b>	<b>100.000</b>

± Includes securities guaranteed by the U.S. Gov't

‡ Primarily consists of private placements

**RATINGS OF FIXED MATURITIES  
ERS**

<u>Moody's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± Aaa	\$ 556,542	\$ 563,861	21.237
Aa1	2,723	3,037	0.114
Aa2	4,142	4,372	0.165
Aa3	13,154	17,165	0.646
P-1	119,153	119,153	4.487
P-2	269,992	269,992	10.168
A1	44,524	48,223	1.816
A2	44,029	47,424	1.786
A3	76,670	84,854	3.196
Baa1	100,445	108,331	4.080
Baa2	113,607	121,318	4.569
Baa3	42,595	42,690	1.608
Ba1	23,279	24,521	0.924
Ba2	5,921	5,263	0.198
B1	5,394	6,385	0.240
Caa2	3,226	2,638	0.099
‡ Not Rated	1,167,263	1,186,015	44.667
<b>Total Fixed Maturity</b>	<b>\$ 2,592,659</b>	<b>\$ 2,655,242</b>	<b>100.000</b>

<u>Standard &amp; Poor's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± AA+	\$ 580,057	\$ 589,810	22.213
AA	11,239	12,674	0.477
AA-	17,249	21,402	0.806
A-1	109,156	109,156	4.111
A-2	279,989	279,989	10.545
A+	6,033	5,896	0.222
A	67,848	73,813	2.780
A-	114,322	125,841	4.739
BBB+	89,511	93,714	3.529
BBB	108,729	115,340	4.344
BBB-	23,697	25,318	0.954
BB+	9,777	10,904	0.411
BB-	5,921	5,263	0.198
CCC-	3,226	2,638	0.099
‡ Not Rated	1,165,905	1,183,484	44.572
<b>Total Fixed Maturity</b>	<b>\$ 2,592,659</b>	<b>\$ 2,655,242</b>	<b>100.000</b>

± Includes securities guaranteed by the U.S. Gov't

‡ Primarily consists of private placements

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Combined Financial Statements  
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(Dollar Amounts in Thousands)

**RATINGS OF FIXED MATURITIES**  
**JRF**

<u>Moody's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± Aaa	\$ 28,310	\$ 28,695	43.579
Aa1	1,713	1,968	2.989
Aa2	199	210	0.319
Aa3	398	501	0.761
P-1	2,756	2,756	4.185
P-2	2,999	2,999	4.555
A1	3,177	3,483	5.290
A2	1,663	1,797	2.730
A3	4,187	4,645	7.054
Baa1	5,692	6,157	9.351
Baa2	5,075	5,414	8.223
Baa3	2,161	2,178	3.308
Ba1	2,617	2,703	4.105
Ba2	297	264	0.401
B1	278	330	0.500
Caa2	176	144	0.219
‡ Not Rated	2,390	1,602	2.431
<b>Total Fixed Maturity</b>	<b>\$ 64,088</b>	<b>\$ 65,846</b>	<b>100.000</b>

<u>Standard &amp; Poor's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
± AA+	\$ 30,402	\$ 31,027	47.121
AA	570	644	0.978
AA-	639	752	1.142
A-1	2,756	2,756	4.185
A-2	2,999	2,999	4.555
A+	298	291	0.443
A	3,560	3,899	5.921
A-	5,640	6,170	9.370
BBB+	4,269	4,495	6.827
BBB	5,086	5,404	8.207
BBB-	1,012	1,079	1.639
BB+	499	557	0.845
BB-	297	264	0.401
CCC-	176	144	0.219
‡ Not Rated	5,885	5,365	8.147
<b>Total Fixed Maturity</b>	<b>\$ 64,088</b>	<b>\$ 65,846</b>	<b>100.000</b>

± Includes securities guaranteed by the U.S. Gov't

‡ Primarily consists of private placements

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## **B. Concentration of Investments**

As of September 30, 2013, the TRS and ERS owned debt and equity securities of Raycom Media Corporation which represented approximately 8.10% of the TRS investments and 8.91% of the ERS investments.

## **C. Securities Lending Program**

The TRS, ERS, and JRF are authorized by the Boards of Control to participate in a securities lending program. The Systems' custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the TRS, ERS, and JRF are loaned to borrowers approved by the Systems for collateral that will be returned for the same type of securities. Approved borrowers of securities provide acceptable collateral in the form of cash (U. S. and foreign currency), any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, 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 TRS, ERS, JRF, 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, but 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 the business day 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 TRS, ERS, and JRF 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. 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 QDF's guidelines. The QDF's Investment Manager (State Street Bank) shall maintain the dollar-weighted average maturity of 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 the QDF 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. The QDF may invest up to 10% of its assets at a time of purchase in commingled vehicles managed by State Street Global Advisors or its affiliates that conform to the Investment Policy Guidelines. 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.

As of September 30, 2013, the average term of the loans secured by QDF was 24, 17, and 20 days, respectively for the TRS, ERS, and JRF. 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.

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

At September 30, 2013, the fair value of the securities on loan was \$2,525,183, \$1,170,527, and \$37,183 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was \$2,694,577, \$1,249,957, and \$38,754 for the TRS, ERS, and JRF, respectively. Since the amounts owed by the TRS, ERS, and JRF exceeded the amounts the borrowers owed to the TRS, ERS, and JRF, there was no credit risk exposure as of September 30, 2013. 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 Systems. Securities pledged as collateral are held by the custodial agent, but not in the name of the Systems. 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, 2013, concerning securities lent:

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

<u>Type of Investment Lent</u>	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>	<u>Totals</u>
<i>For Cash Collateral</i>				
Domestic Fixed Maturities	\$ 212,873	\$ 76,344	\$ 4,307	\$ 293,524
Domestic Equity	729,078	362,599	17,788	1,109,465
International Equity	190,824	47,971	2,411	241,206
Total Lent for Cash Collateral	<u>1,132,775</u>	<u>486,914</u>	<u>24,506</u>	<u>1,644,195</u>
<i>For Non-Cash Collateral</i>				
Domestic Fixed Maturities	470,830	212,548	5,936	689,314
Domestic Equity	668,189	340,943	4,541	1,013,673
International Equity	253,389	130,122	2,200	385,711
Total Lent for Non-Cash Collateral	<u>1,392,408</u>	<u>683,613</u>	<u>12,677</u>	<u>2,088,698</u>
<b>Total Securities Lent</b>	<b><u>\$ 2,525,183</u></b>	<b><u>\$ 1,170,527</u></b>	<b><u>\$ 37,183</u></b>	<b><u>\$ 3,732,893</u></b>
<u>Type of Collateral Received</u>				
<i>Cash Collateral - Invested in State Street Quality D Fund</i>				
	\$ 1,166,230	\$ 500,085	\$ 25,187	\$ 1,691,502
<i>Non-Cash Collateral</i>				
Domestic Fixed Securities	422,745	184,719	6,072	613,536
Domestic Equity Securities				
Canadian Dollars	11,360	7,748	-	19,108
U.S. Dollar	727,383	367,461	5,141	1,099,985
International Fixed Maturities & Equity				
CAD	1,999	1,496	25	3,520
EURO	75,185	38,193	301	113,679
GBP	137,247	70,885	254	208,386
U.S. Dollar	152,428	79,370	1,774	233,572
Total Non-Cash Collateral	<u>1,528,347</u>	<u>749,872</u>	<u>13,567</u>	<u>2,291,786</u>
<b>Total Collateral Received</b>	<b><u>\$ 2,694,577</u></b>	<b><u>\$ 1,249,957</u></b>	<b><u>\$ 38,754</u></b>	<b><u>\$ 3,983,288</u></b>

## D. Mortgage-backed Securities

As of September 30, 2013, the TRS, ERS, and JRF had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees 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.

## E. Investment Derivatives

Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. From time to time, the RSA enters into certain derivative transactions, specifically call options and put options. The RSA uses these derivative instruments to make an investment, control risk with certain investment positions, or as a yield enhancement strategy. During the fiscal year, these investment derivative instruments were used exclusively within the RSA's domestic and international equity portfolios and are presented in the financial statements in their respective equity classifications. These derivative instruments are either listed options or executed in the over-the-counter (OTC) market using only credit worthy counterparties. The fair value of the investment derivative instruments is based on market prices. Investment risks related to investment derivatives have been considered and included in the Investment Risk note (Note 5A) in the preceding pages.

The following table presents the investment derivative instruments outstanding as of September 30, 2013, as reported in the System's Combining Statement of Fiduciary Net Position and Combining Statement of Changes in Fiduciary Net Position (dollar amounts in thousands):

INVESTMENT DERIVATIVE INSTRUMENTS					
	Changes in Fair Value		Fair Value as of September 30, 2013		
	Classification	Amount	Classification	Amount	Notional
<b>TRS</b>					
Domestic Options Written	Investment Income	\$ (40)	Domestic Equity	\$ -	\$ -
Domestic Options Purchased	Investment Income	-	Domestic Equity	-	-
Total Domestic Options		(40)		-	-
International Options Written	Investment Income	(184)	International Equity	(449)	(50,259)
<b>Grand Total TRS Options</b>		<b><u>\$ (224)</u></b>		<b><u>\$ (449)</u></b>	<b><u>\$ (50,259)</u></b>
<b>ERS</b>					
Domestic Options Written	Investment Income	\$ (21)	Domestic Equity	\$ -	\$ -
Domestic Options Purchased	Investment Income	-	Domestic Equity	-	-
Total Domestic Options		(21)		-	-
International Options Written	Investment Income	(88)	International Equity	(215)	(24,004)
<b>Grand Total ERS Options</b>		<b><u>\$ (109)</u></b>		<b><u>\$ (215)</u></b>	<b><u>\$ (24,004)</u></b>
<b>JRF</b>					
Domestic Options Written	Investment Income	\$ -	Domestic Equity	\$ -	\$ -
Domestic Options Purchased	Investment Income	-	Domestic Equity	-	-
Total Domestic Options		-		-	-
International Options Written	Investment Income	(3)	International Equity	(7)	(757)
<b>Grand Total JRF Options</b>		<b><u>\$ (3)</u></b>		<b><u>\$ (7)</u></b>	<b><u>\$ (757)</u></b>
<b>Total</b>					
Domestic Options Written	Investment Income	\$ (61)	Domestic Equity	\$ -	\$ -
Domestic Options Purchased	Investment Income	-	Domestic Equity	-	-
Total Domestic Options		(61)		-	-
International Options Written	Investment Income	(275)	International Equity	(671)	(75,020)
<b>Grand Total Options</b>		<b><u>\$ (336)</u></b>		<b><u>\$ (671)</u></b>	<b><u>\$ (75,020)</u></b>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

**6) FUNDED STATUS AND FUNDING PROGRESS**

State law provides that the Boards of Control engage an actuary to prepare an annual valuation of the assets and liabilities of the various retirement plans. Under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, the actuary determines the “unfunded actuarial liability.” The “unfunded actuarial liability” is the difference between the actuarial value of assets and the actuarial accrued liability.

The funded status of each plan as of the latest actuarial valuation is as follows:

<b>FUNDED STATUS</b>							
	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Percentage Funded (A/B)</b>	<b>Annual Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll (B-A)/C</b>
		(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
<b>TRS</b>	9/30/2012	\$18,786,008	\$28,251,367	\$9,465,359	66.5%	\$6,222,316	152.1%
<b>ERS</b>	9/30/2012	\$ 9,116,551	\$13,884,995	\$4,768,444	65.7%	\$3,252,003	146.6%
<b>JRF</b>	9/30/2012	\$ 234,300	\$ 380,470	\$ 146,170	61.6%	\$ 42,446	344.4%

The schedules of funding progress, presented as Required Supplementary Information (RSI) following the Notes to the Combined Financial Statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

	<b>ACTUARIAL ASSUMPTIONS</b>		
	<b>TRS</b>	<b>ERS</b>	<b>JRF</b>
Valuation date	September 30, 2012	September 30, 2012	September 30, 2012
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset valuation method*	5-year market-related value	5-year market-related value	5-year market-related value
Amortization method	Level percent open	Level percent open	Level percent open
Remaining amortization period	30 years	Within 30 years - varies by employer	27 years
Actuarial assumptions:			
Investment rate of return ‡	8%	8%	8%
Projected salary increases ‡	3.50%-8.25%	3.75%-7.25%	4%
Cost of living adjustments	None	None	3.25%†

\*Actuarial value of assets was set equal to the market value of assets on September, 30, 2012. Smoothing will commence again in future years.

‡ Includes inflation at 3.0%.

† Per year for certain members hired prior to July 30, 1979 and for spouses benefits subject to increase.

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The RSA and its actuaries completed an investigation of the economic and demographic experience for the TRS, ERS, and JRF based upon participant data as of September 30, 2010. The purpose of the investigation was to assess the reasonableness of the actuarial assumptions and methods currently used by the RSA. This investigation resulted in changes to the following actuarial assumptions: reduced price inflation from 4.50% to 3.00%; increased the real rate of investment return from 3.50% to 5.00%; increased the real rate of wage inflation from 0.00% to 0.25%; decreased wage inflation from 4.50% to 3.25%; and reduced payroll growth from 4.50% to 3.25%. The demographic assumptions for rates of withdrawal, rates of disability retirement, rates of service retirement, rate of mortality, and rates of salary increase were updated based upon results for the previous 5 years.

The boards of control of the TRS, ERS, and JRF accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Beginning with the actuarial valuations as of September 30, 2012, the valuation liabilities are calculated using a smoothed interest rate method. The interest rate assumed during the look forward period (currently 25 years from the valuation date) is the investment rate of return expected to be earned during the look forward period based on the actual rate of return earned during the look back period (currently 5 years) such that the average assumed rate of return over the combined 30-year period is equivalent to the assumed ultimate investment rate of return (currently 8.00%). The interest rate after the 25-year look forward period is the ultimate investment rate of return of 8.00%. The smoothed interest rate used during the 25-year look forward period is limited to a corridor of 0.50% around the ultimate investment rate of return.

The board of control of the TRS adopted the valuation interest rate smoothing methodology on May 7, 2013. The board of control of the ERS and JRF adopted the methodology on May 9, 2013.

## **7) CONTRIBUTIONS REQUIRED AND MADE**

The actuary has computed, as of the date of the latest available actuarial valuations, the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuations for the TRS, ERS, and JRF are prepared using the entry age method. The present value of all expected benefits payable from each system to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the TRS, ERS, and JRF provide for employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll) that accumulate sufficient assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, and a portion to finance administrative costs. Additionally, a portion of the TRS and ERS employer contributions fund a pre-retirement death benefit. Also, a portion of the TRS employer contributions fund a term-life benefit.

For the TRS, ERS, and JRF, the normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

The 2013 retirement contributions were made in accordance with actuarially determined contribution requirements.

# RETIREMENT SYSTEMS OF ALABAMA

## *Financial Section*

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

The RSA and its actuaries completed an investigation of the economic and demographic experience for the TRS, ERS, and JRF based upon participant data as of September 30, 2010. The purpose of the investigation was to assess the reasonableness of the actuarial assumptions and methods currently used by the RSA. This investigation resulted in changes to actuarial assumptions which are outlined in Note 6. The boards of control for each accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

#### **8) PROPERTY AND EQUIPMENT**

Plan assets used in plan operations are reported at historical cost less accumulated depreciation. Depreciation is determined on the straight-line basis using estimated useful lives of 30 years for buildings and 3 to 10 years for furniture and equipment.

Property and equipment was comprised of the following amounts as of September 30, 2013:

	<u>TRS</u>	<u>ERS</u>
Land	\$ 5,085	\$ 2,535
Building and Improvements	107,535	53,767
Furniture and Equipment	5,879	2,212
Total Property and Equipment	118,499	58,514
Less Accumulated Depreciation	(22,428)	(10,754)
<b>Net Property and Equipment</b>	<b><u>\$ 96,071</u></b>	<b><u>\$ 47,760</u></b>

#### **9) OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 1, the TRS, ERS, and JRF (as agencies of the State of Alabama) participate in the State Employees' Health Insurance Plan (SEHIP) administered by the State Employees' Health Insurance Board (Board). The State Employees' Insurance Fund (SEIF) was established in 1965 under the provisions of Act 833 of the Legislature to provide health insurance benefits for employees and retired employees of the State of Alabama. In addition, the *Code of Alabama 1975, Section 36-36-1* established the Alabama Retired State Employees' Health Care Trust (Trust) for the purpose of accumulating assets to fund retiree benefits.

The Trust is a single-employer plan. The Trust issues financial statements that may be obtained by writing to:

State Employees' Insurance Board  
P.O. Box 304900  
Montgomery, AL 36130

The *Code of Alabama 1975, Section 36-29-7* authorizes the employer contributions to the plan. Each year, the Legislature sets the appropriation in the annual appropriation bill required to be paid by employers on behalf of each active member. A portion of the premium is used to assist in funding retiree benefits. The fiscal year 2013 rate set by the State Employees' Insurance Board was \$765 per active member per month (dollar amount not in thousands).

The *Code of Alabama 1975, Section 36-29-19.7* authorizes the retiree contributions to the plan. Required monthly contribution rates for fiscal year 2013 were as follows (the following dollar amounts are not in thousands):

#### *Required Member Rates*

-Individual Coverage/Non-Medicare Eligible – \$261

-Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$503

-Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – \$382

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*Required Member Rates (continued)*

-Individual Coverage/Medicare Eligible Retired Member – \$45

-Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$287

-Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – \$166

-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.

*Surviving Spouse Rates (the following dollar amounts are not in thousands)*

-Surviving Spouse Non-Medicare Eligible – \$377

-Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – \$619

-Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – \$528

-Surviving Spouse Medicare Eligible – \$196

-Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – \$438

-Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – \$347

RSA employees participate in the State Employees' Health Insurance Plan, which is a single employer health insurance plan for the State of Alabama. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit. The following table details the annual required contributions and the percentage contributed (dollar amounts in thousands):

	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
<b>TRS</b>	2013	\$ 1,104	42.63%
	2012	\$ 1,052	38.84%
	2011	\$ 740	53.18%
<b>ERS</b>	2013	\$ 1,083	42.63%
	2012	\$ 1,123	38.84%
	2011	\$ 815	53.18%
<b>JRF</b>	2013	\$ 8	42.63%
	2012	\$ 8	38.84%
	2011	\$ 6	53.18%

(Dollar Amounts in Thousands)

**10) PENSION PLAN FOR RSA EMPLOYEES**

A portion of the RSA employees participates in the TRS pension plan, which is a cost sharing plan, and a portion of the RSA employees participates in the ERS pension plan, which is an agent multiple-employer pension plan. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit.

Contributions were made to each plan in accordance with actuarially determined contribution requirements. A schedule of Employer Contributions is shown below:

	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
<b>TRS</b>	2013	\$ 996	100%
	2012	\$ 930	100%
	2011	\$ 1,155	100%
<b>ERS</b>	2013	\$ 731	100%
	2012	\$ 719	100%
	2011	\$ 918	100%

**11) RELATED PARTY TRANSACTIONS**

The TRS and ERS jointly own office buildings in Montgomery and Mobile and lease office space to agencies of the State of Alabama. These agencies are obligated to the TRS and ERS to lease space for varying terms through the year 2029. Rental payments and other agreed upon payments (reported as investment income) from leases with state agencies totaled \$28,864,435 (dollar amount not in thousands) during the 2013 fiscal year.

**12) FUTURE ACCOUNTING PRONOUNCEMENTS**

GASB approved Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB Statement No. 67 addresses reporting by pension plans that administer benefits for governments, and is effective for financial statements for periods beginning after June 15, 2013. GASB Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014. Key changes include:

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies to: (a) the expected long-term rate of return on pension plan investments to projected benefit payments for which plan assets are expected to be available to make projected benefit payments; and (b) the interest rate on a tax-exempt 20-year AA/Aa-or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Requiring more extensive note disclosures and required supplementary information.

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The Systems will be subject to the provisions of GASB Statement No. 67 beginning with the fiscal year ending September 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trust or similar arrangements meeting certain criteria. GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, it requires the presentation of new information about the annual money-weighted rates of return on pension plan investments in the notes to the financial statements and in 10-year required supplementary information schedules.

(Dollar Amounts in Thousands)

**1) CONTRIBUTIONS**

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience.

The employer cost rates for the fiscal year 2012 - 2013 are 10.08% for the TRS Tier 1 employees, 9.44% for the TRS Tier 2 employees, 10.12% for the ERS – Tier 1 State Employees, 10.04% for the ERS – Tier 2 State Employees, 31.61% for the ERS – Tier 1 State Police, 25.32% for the ERS – Tier 2 State Police, and 32.06% for the JRF. Local agency rates differ for each agency.

**2) ANALYSIS OF FUNDING PROGRESS**

Analysis of the dollar amounts of the actuarial value of assets, the actuarial accrued liability, and the unfunded actuarial accrued liability in isolation may be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (assets to liabilities percentage) provides one indication of the respective retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the respective system is becoming financially stronger or weaker. Generally, the strength of a retirement system is considered to increase as the assets to liabilities percentage increases. Trends in the actuarial accrued liability and the annual covered payroll are affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll (liabilities to payroll percentage) approximately adjusts for the effects of inflation and aids analysis of the respective retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the strength of a retirement system is considered to increase as the liabilities to payroll percentage decreases.

The RSA and its actuaries completed an investigation of the economic and demographic experience for the TRS, ERS, and JRF based upon participant data as of September 30, 2010. The purpose of the investigation was to assess the reasonableness of the actuarial assumptions and methods currently used by the RSA. This investigation resulted in changes to actuarial assumptions which are outlined in Note 6. The boards of control for each accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information  
For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

The following schedules provide information concerning funding progress through September 30, 2012, employer contributions, and actuarial assumptions:

SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Percentage Funded (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A)/C
<b>TRS</b>							
	9/30/2012	\$ 18,786,008	\$ 28,251,367	\$ 9,465,359	66.5%	\$ 6,222,316	152.1%
	9/30/2011	\$ 19,430,135	\$ 28,776,316	\$ 9,346,181	67.5%	\$ 6,159,562	151.7%
	9/30/2010	\$ 20,132,779	\$ 28,299,523	\$ 8,166,744	71.1%	\$ 6,183,204	132.1%
	9/30/2009	\$ 20,582,348	\$ 27,537,400	\$ 6,955,052	74.7%	\$ 6,236,922	111.5%
	9/30/2008	\$ 20,812,477	\$ 26,804,117	\$ 5,991,640	77.6%	\$ 6,294,341	95.2%
**	9/30/2007	\$ 20,650,916	\$ 25,971,534	\$ 5,320,618	79.5%	\$ 6,310,616	84.3%
<b>ERS</b>							
	9/30/2012	\$ 9,116,551	\$ 13,884,995	\$ 4,768,444	65.7%	\$ 3,252,003	146.6%
	9/30/2011	\$ 9,456,158	\$ 14,366,796	\$ 4,910,638	65.8%	\$ 3,540,681	138.7%
	9/30/2010	\$ 9,739,331	\$ 14,284,119	\$ 4,544,788	68.2%	\$ 3,619,670	125.6%
	9/30/2009	\$ 9,928,104	\$ 13,756,176	\$ 3,828,072	72.2%	\$ 3,620,243	105.7%
	9/30/2008	\$ 9,905,766	\$ 13,078,687	\$ 3,172,921	75.7%	\$ 3,553,330	89.3%
	9/30/2007	\$ 9,770,897	\$ 12,370,342	\$ 2,599,445	79.0%	\$ 3,389,156	76.7%
<b>JRF</b>							
	9/30/2012	\$ 234,300	\$ 380,470	\$ 146,170	61.6%	\$ 42,446	344.4%
	9/30/2011	\$ 235,870	\$ 393,635	\$ 157,765	59.9%	\$ 41,826	377.2%
	9/30/2010	\$ 246,197	\$ 358,459	\$ 112,262	68.7%	\$ 43,061	260.7%
	9/30/2009	\$ 252,646	\$ 340,978	\$ 88,332	74.1%	\$ 43,234	204.3%
	9/30/2008	\$ 259,071	\$ 323,428	\$ 64,357	80.1%	\$ 41,167	156.3%
	9/30/2007	\$ 265,189	\$ 315,941	\$ 50,752	83.9%	\$ 41,318	122.8%

\*\*Covered payroll includes the pay increase granted by Act 2007 -296.

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Required Supplementary Information

For the Fiscal Year Ended September 30, 2013

(Dollar Amounts in Thousands)

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

	<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
<b>TRS</b>			
	9/30/2013	\$ 627,892	100%
	9/30/2012	\$ 618,306	100%
	9/30/2011	\$ 779,644	100%
	9/30/2010	\$ 776,421	100%
	9/30/2009	\$ 753,518	100%
	9/30/2008	\$ 729,995	100%
<b>ERS</b>			
	9/30/2013	\$ 338,819	100%
	9/30/2012	\$ 317,520	100%
	9/30/2011	\$ 394,998	100%
	9/30/2010	\$ 377,898	100%
	9/30/2009	\$ 451,139	100%
	9/30/2008	\$ 329,339	100%
<b>JRF</b>			
	9/30/2013	\$ 13,903	100%
	9/30/2012	\$ 10,747	100%
	9/30/2011	\$ 10,906	100%
	9/30/2010	\$ 10,814	100%
	9/30/2009	\$ 10,326	100%
	9/30/2008	\$ 9,880	100%

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Administrative Expenses

For the Fiscal Year Ended September 30, 2013

(Amounts in Thousands)

	<b>Teachers' Retirement System</b>	<b>Employees' Retirement System</b>	<b>Judicial Retirement Fund</b>	<b>Totals</b>
<b>Personnel Services:</b>				
Salaries	\$ 5,837	\$ 4,908	\$ 146	\$ 10,891
Employee Fringe Benefits	2,328	2,205	37	4,570
Total Personnel Services	<u>8,165</u>	<u>7,113</u>	<u>183</u>	<u>15,461</u>
<b>Professional Services:</b>				
Actuarial	239	538	73	850
Accounting and Auditing	81	40	13	134
Information Technology	1,162	435	-	1,597
Education & Training	30	21	-	51
Mailing Services	103	82	-	185
Legal Services	43	30	-	73
Personnel Services	69	-	-	69
Other Professional Services and Fees	108	21	-	129
Total Professional Services	<u>1,835</u>	<u>1,167</u>	<u>86</u>	<u>3,088</u>
<b>Communications and Travel:</b>				
Telecommunications	107	57	-	164
Postage	1,001	601	-	1,602
Travel	72	61	-	133
Total Communications and Travel	<u>1,180</u>	<u>719</u>	<u>-</u>	<u>1,899</u>
<b>Rentals:</b>				
Office Space	125	83	7	215
Equipment Leasing	12	10	-	22
Total Rentals	<u>137</u>	<u>93</u>	<u>7</u>	<u>237</u>
<b>Miscellaneous:</b>				
Supplies	1,157	614	4	1,775
Maintenance	117	61	-	178
Total Miscellaneous	<u>1,274</u>	<u>675</u>	<u>4</u>	<u>1,953</u>
<b>Total Administrative Expenses</b>	<b><u>\$ 12,591</u></b>	<b><u>\$ 9,767</u></b>	<b><u>\$ 280</u></b>	<b><u>\$ 22,638</u></b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2013

(Amounts in Thousands)

	<b>Teachers' Retirement System</b>	<b>Employees' Retirement System</b>	<b>Judicial Retirement Fund</b>	<b>Totals</b>
<i>Investment Activity</i>				
<b>Investment Management Fees:</b>				
Salaries and Benefits	\$ 4,578	\$ 2,047	\$ -	\$ 6,625
Dues, Subscriptions and Supplies	561	358	-	919
Travel	29	9	-	38
<b>Professional Services:</b>				
Investment Advisor	60	30	-	90
Appraisal of Private Placements and Real Estate	489	278	-	767
<b>Investment Activity Expenses before Reimbursement</b>	<b>5,717</b>	<b>2,722</b>	<b>-</b>	<b>8,439</b>
Less: Reimbursement for Investment Management Fees	5	173	-	178
<b>Total Investment Activity Expenses</b>	<b>5,712</b>	<b>2,549</b>	<b>-</b>	<b>8,261</b>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	401	186	10	597
Securities Lending Management Fees	3,346	1,519	48	4,913
Total Securities Lending Activity Expenses	3,747	1,705	58	5,510
<b>Total Investment Expenses</b>	<b>\$ 9,459</b>	<b>\$ 4,254</b>	<b>\$ 58</b>	<b>\$ 13,771</b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Professional/Consultant Fees

For the Fiscal Year Ended September 30, 2013

(Amounts in Thousands)

<b>Professional/Consultant</b>	<b>Nature of Service</b>	<b>Teachers' Retirement System</b>	<b>Employees' Retirement System</b>	<b>Judicial Retirement Fund</b>	<b>Totals</b>
Cavanaugh MacDonald	Actuary	\$ 239	\$ 538	\$ 73	\$ 850
Carr, Riggs & Ingram	Auditor	81	40	13	134
FTI Consulting	Legal	16	10	-	26
Groom Law Group	Legal	6	4	-	10
Step toe & Johnson LLP	Legal	15	10	-	25
Wells Mailing Inc.	Mail	69	61	-	130
Alabama Department of Finance	Mail	34	21	-	55
State Personnel Department	Personnel	69	-	-	69
Fine & Geddie	Consultant	75	-	-	75
Alabama Department of Finance	Information Technology	46	31	-	77
Auburn Montgomery	Information Technology	1,019	340	-	1,359
Various	Other	166	112	-	278
<b>Total Professional/Consultant Fees - Administrative Services</b>		<b>1,835</b>	<b>1,167</b>	<b>86</b>	<b>3,088</b>
Regions Bank	Investment Advisor	60	30	-	90
Pearson Realty Services	Real Estate Appraiser	150	100	-	250
Houlihan Lokey	Investment Appraiser	377	203	-	580
<b>Total Professional/Consultant Fees - Investment Services</b>		<b>587</b>	<b>333</b>	<b>-</b>	<b>920</b>
<b>Total Professional/Consultant Fees</b>		<b>\$ 2,422</b>	<b>\$ 1,500</b>	<b>\$ 86</b>	<b>\$ 4,008</b>





Component Units of the State of Alabama  
**Comprehensive Annual Financial Report**

# INVESTMENT SECTION



# RETIREMENT SYSTEMS OF ALABAMA

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## *Investment Section*

### Report on Investment Activity

For the Fiscal Year Ended September 30, 2013

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Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2013. The report provides investment highlights in general as well as specific information on the Retirement Systems' investment activity for the fiscal year. The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

The fiscal year just passed was similar to what we have seen most every year since the "great recession." Growth as measured by GDP was slow relative to history, macro developments were the short term driver of market trends, and investors for the most part remained skeptical that equity markets could move higher. The number one macro issue in 2012 was the European sovereign debt issue, and this year the award should probably go to "tapering." After several winks and nods, followed by a telegraphed message that a tapering of asset purchases was inevitable, the Fed reversed course after a series of disappointing economic data points convinced them that the economy was still weak kneed. Both bonds and stocks had wild swings as uncertainty was again introduced into what the markets thought was a done deal. The Fed is in the precarious position, along with many other central banks, of having pumped tons of liquidity into the system. One goal of this was to push up asset prices, and they have succeeded on that count. The problem they are dealing with is slower than expected economic growth and continued weak employment numbers. There remains a disconnect between main street and wall street and what changes that in the near future we are not sure of.

We have been slowly lowering the portfolio's allocation to fixed income as we have been expecting a backup in rates. All things being relative, we are still leaning on stocks to drive performance in the portfolio. Valuations are about average at this point, and barring a recession, war or some other exogenous shock, we see stocks returns at to slightly above long term run rates. Some of the dynamics that we think make this possible are: cash rich balance sheets, low current payout ratios, and managements getting the message that returning cash to shareholders has been a winning strategy for their share price. One of the consequences of the "great recession" is that it really scared corporate America. They have hoarded cash and have been delinquent in redeploying that cash back into capital expenditures. This has resulted in a lethargic but lengthy recovery, and we don't see the bust side of this cycle in the immediate future as we have not really seen the boom. Within equities, we think the biggest valuation disconnect is between large cap and small, with small being overvalued. We have been paring back our smallcap exposure into the relative outperformance they have displayed. Our real asset portfolio has again had another good performance year, and we have started to see some investments payoff as cheaper financing is available in the public markets. This is a two edged sword as it means the investments have worked out well, but we are being forced to redeploy cash when there is much uncertainty. Having said that, we have built a larger than normal cash position, and will look for opportunities as they arise. As always, we will continue to demand the best execution from all our counterparts, and will strive to produce results that strengthen the Retirement Systems of Alabama.

### **RSA Performance Summary**

As of September 30, 2013, aggregate defined benefit assets under management totaled \$30.8 billion. During fiscal year 2013, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and the Judicial Retirement Fund were 14.93%, 14.60%, and 14.05% respectively.

### **Equities**

Looking back at the stock market the past 12 months, one could conclude that investors have been pleasantly surprised by the returns. 2013 was not dissimilar to the past couple of years where there were a handful of macro events that kept investor sentiment in check. Global growth has cooled, with noticeable slowdowns in some of the emerging markets countries, and continued sluggishness in Europe. We had geopolitical issues (Syria, Iran), continued bipartisan feuding in Washington, not to mention the prospect of the Fed winding down QE3. Through all of this, the market continued to grind higher. We had a couple of growth scares, one in the spring and another in late summer, yet corporate profitability has continued to grow. One of the noticeable aspects of this has been the somewhat dour tone that managements have displayed around the quarterly earnings reports. It has become somewhat systematic of managements to reset the bar on forward guidance and then slightly beat numbers. This has been good as it has tempered Wall Street expectations, as well as it has weighed on investor sentiment.

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What lies ahead is especially interesting at this point. Inflation remains below most central bank targets, and on the whole, we are still experiencing global central bank easing. Most recessions are caused or coincide with Fed tightening, and the prospect of Fed tightening in the near future is pretty remote. Valuations on stocks are not as attractive as this time last year, as P/E multiples have expanded a couple of points, but on a relative basis, stocks are attractive vs. bonds. We have continued to be a net seller and maintain roughly the same equity weighting, which is at the high end of our allocation range. We have also continued to put in place some hedges on parts of the portfolio to protect gains we have experienced. We have been underweight emerging markets for years, and that underweighting paid off this year as emerging markets on average severely lagged returns in developed markets. Recently, we have seen less correlation in stocks, which bodes well for stock picking. The past few years have definitely benefited indexing strategies, which we employ widely within the equity portfolio. Looking ahead, we look to shift some money from index to active strategies if correlations remain low.

For the year, the RSA domestic equity portfolios increased 21.46%, 21.38%, and 20.40% for TRS, ERS, and JRF funds, respectively. International equity returns were a mixed bag with developed markets doing very well and emerging markets lagging. Total international equity returns were positive with TRS up 21.54%, ERS up 21.33%, and JRF up 21.29%. The combined total return for the overall equity portfolios were 21.50%, 21.39%, and 20.61% for TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 14.21%, 9.36%, and 8.15% for TRS, 14.24%, 9.38%, and 8.15% for ERS, and 14.57%, 9.78%, and 7.72% for JRF, respectively.

### **Fixed Income**

At the beginning of fiscal year 2013, the Federal Open Market Committee had recently announced its third round of quantitative easing (QE3), an open-ended commitment to purchase agency mortgage-backed securities until economic conditions warrant otherwise. Spreads within the mortgage-backed sector tightened dramatically and risk assets in general performed very well during this time. In October, the risk-taking trend continued with positive economic data and marked improvement within the housing sector. Mortgage investors did take some money off the table after the massive spread tightening in September, pushing mortgage-backed securities (MBS) spreads 30bps wider in the month. It appears these profits were reinvested into corporate debt as the asset class outperformed by approximately 150bps during the month.

During the first few weeks of November, market sentiment shifted and risk aversion prevailed. Political uncertainty in regards to the election and fiscal cliff, coupled with third quarter revenue misses encouraged investors to deploy capital into safer assets. However, the rally in government debt proved to be short-lived with the increasing probability of a fiscal cliff compromise. Policymakers also enacted a \$45 billion treasury program to go along with the \$40bn in mortgages being purchased on a monthly basis. Spread product across all sectors outperformed treasuries during the month of December.

Interest rates continued to increase into the new calendar year, with the 10yr treasury hitting 2% for the first time since last April. This move came on the heels of better economic data and a favorable solution to the major parts of the fiscal cliff. This environment produced solid returns in equities and sizable outperformance within the high-yield market. Corporate supply in January was fairly robust, reaching \$115 billion in high grade issuance. Financials, once again, outgained its industrial and utility counterparts within the corporate sector.

Rising political risks in Europe, magnified by the Italian election results, provided a brief pause in investor optimism in the following weeks. Investment grade debt marginally outperformed government securities during this period, but returns for the most part were rate-driven with little spread movement. Agency and mortgage-backed securities underperformed due to their smaller interest rate sensitivities.

In mid-March, after being downgraded by Moody's to junk status, the Cypriot Government agreed to a deal with European policymakers and the International Monetary Fund. This agreement allowed the country to restructure its much-maligned banking sector and save it from a disorderly bankruptcy. On the domestic front, a weak payroll report for the month of March and lower than expected growth for the first quarter provided a perfect storm for a dramatic drop in treasury yields. The intermediate and long-end of the curve rallied approximately 40bps in short order, resulting in April becoming the best performing month of the fiscal year.

During the month of May, the Chairman of the Federal Reserve, Ben Bernanke, caught investors by surprise stating the “Fed could reduce bond purchases in the next few meetings if data supports it” in his testimony to Congress. This idea of tapering was interpreted as the first signal of a possible change in monetary policy. This action led to an abrupt increase in interest rates and a roughly 30bps backup in mortgage spreads as the largest player in the MBS market appeared to be stepping away from the table. The bearish trend continued in June as the head of the Federal Reserve reinforced this notion that if the data is consistent with policymakers’ forecasts then it “would be appropriate to moderate the monthly pace of purchases later this year”. Corporate supply volumes came to a halt as higher yields and elevated volatility kept issuers at bay. Agency and mortgage-backed investors fared better than corporate debt holders during this sell-off due to their lower duration profiles. Consensus had become that the 33yr bull market in fixed income that produced high-single digit returns annually was finally coming to an end.

By early September, the 10yr treasury yield had eclipsed 3% from the 1.60% area reached just four months earlier. It appears that the Federal Reserve took notice of the damage it had inflicted on the fixed income market over the last couple of months and opted to stay the course in its current easing program. The decision not to taper its purchases of treasury and mortgage-backed securities at the September meeting further confused economists and investors alike. The inaction by policymakers came in the midst of an uninspiring payroll report, coupled with uncertainties surrounding the debt ceiling and a potential government shutdown. At the end of the day, these concerns and a still fragile housing recovery carried more weight at the Fed than the market had anticipated. The bond market received the news favorably, resulting in positive returns across all asset classes. The mortgage market benefited the most unsurprisingly, posting an excess return of 70bps.

In actuality, none of the things that have transpired over the course of this fiscal year should come as a total surprise. The unwinding of the Fed’s multi-year quantitative easing programs will come to fruition at some point in time despite the delay. Regardless, short term rates will remain low for an extended amount of time to ensure that economic growth stays on a positive trajectory. If there is any doubt, there shouldn’t be, as one of the more dovish board members of the Federal Reserve, current Vice Chair Janet Yellen, is set to take the reins early next year.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were (.62%) for the TRS and (.65%) for the ERS and (.33%) for the JRF. The five-year annualized returns were 7.09% for the TRS and 7.09% for the ERS and 7.19% for the JRF. The ten-year annualized returns were 5.89% for the TRS and 5.89% for the ERS and 5.77% for the JRF.

Sincerely,



Marc Green  
Director of Investments

## **I. Board Objectives**

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds 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." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

## **II. Asset Allocation**

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following 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, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

### **A. Domestic Fixed Income**

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 50% of the market value of the aggregate portfolio of each System.

### **B. International Fixed Income**

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries 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 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

*Investment Section*

Investment Policies and Procedures (Continued)

For the Fiscal Year Ended September 30, 2013

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C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 25% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 15% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 10% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

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### III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2013

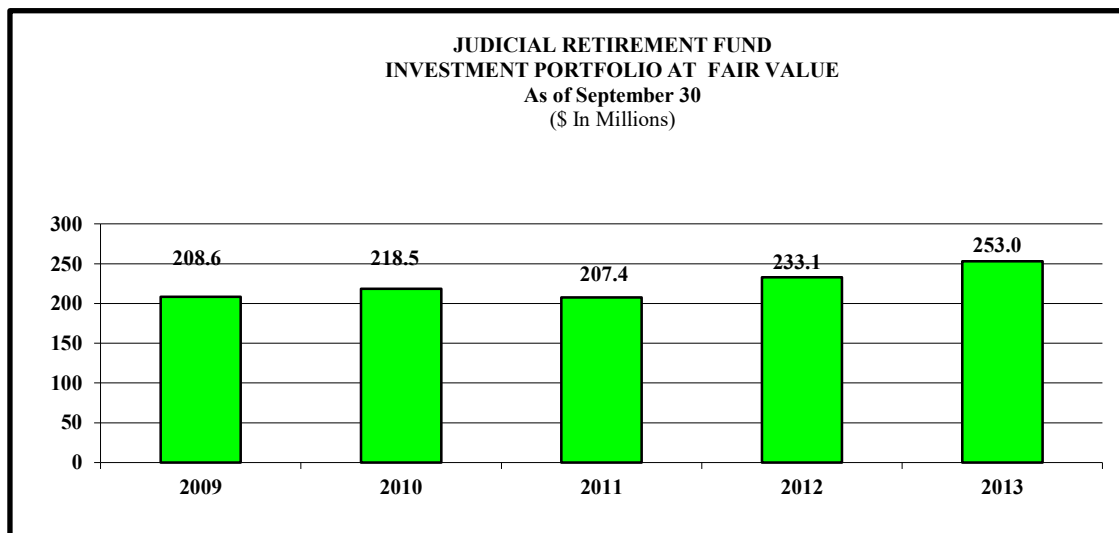
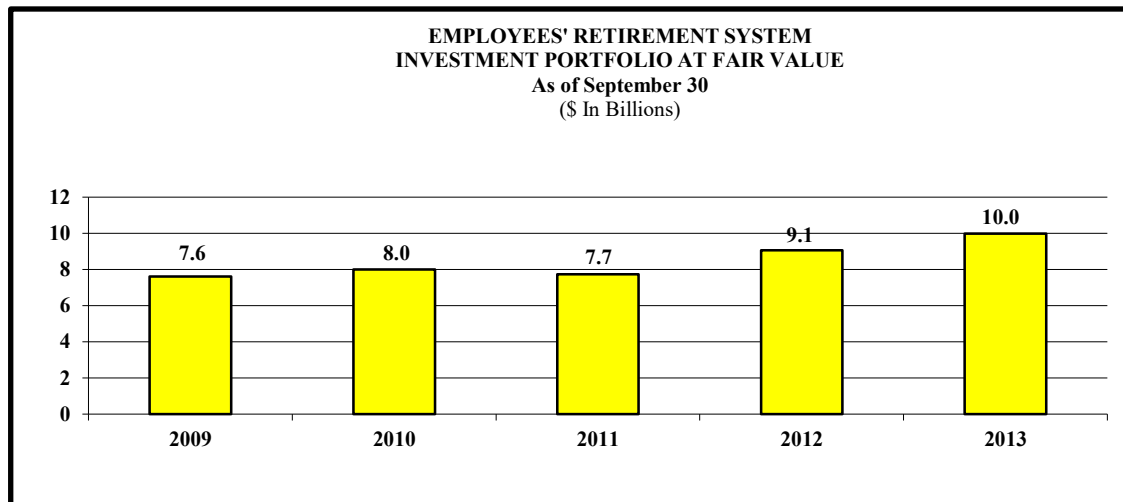
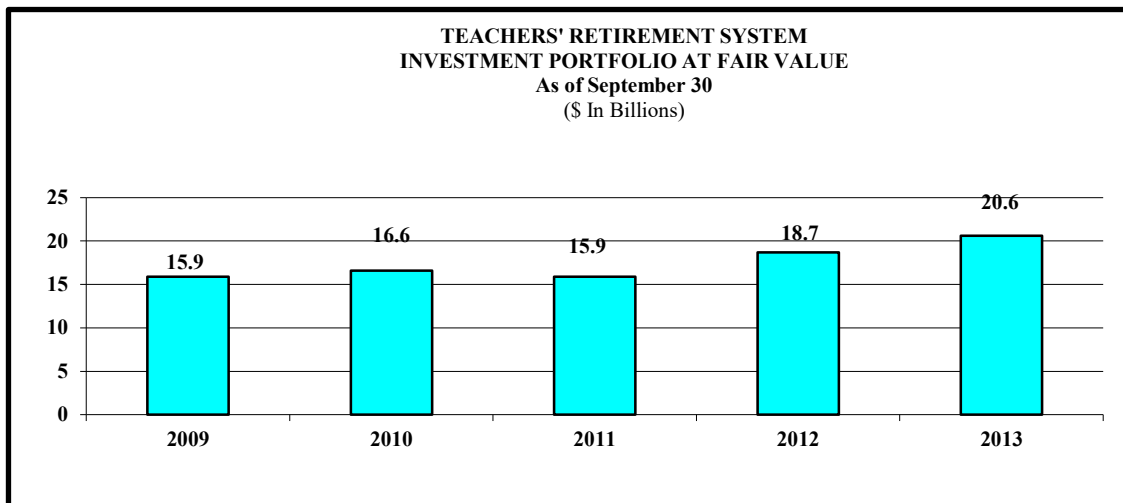
	<b>Annualized</b>			
	<b>1 Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Total Portfolio</b>				
TRS	14.93%	11.45%	6.68%	6.29%
ERS	14.60%	11.40%	6.17%	5.97%
JRF	14.05%	10.89%	8.74%	7.06%
<b>Total Domestic Equity</b>				
TRS	21.46%	16.24%	10.24%	8.09%
ERS	21.38%	16.16%	10.21%	8.08%
JRF	20.40%	16.54%	10.53%	8.10%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	19.34%	16.27%	10.02%	7.57%
Dow Jones Industrial Average	15.59%	14.94%	9.93%	7.74%
S&P MidCap 400	27.68%	17.45%	13.08%	10.84%
S & P 600 Smallcap	31.51%	20.68%	12.40%	11.14%
<b>Total International Equity</b>				
TRS	21.54%	8.04%	6.55%	8.52%
ERS	21.33%	7.98%	6.54%	8.51%
JRF	21.29%	7.88%	6.89%	n/a
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	23.77%	8.47%	6.35%	8.01%
MSCI Emerging Markets (Unhedged)	0.98%	-0.33%	7.22%	12.80%
<b>Total Fixed Income and Alternatives</b>				
TRS	5.63%	7.72%	3.19%	4.08%
ERS	5.82%	7.88%	2.41%	3.68%
JRF	0.52%	3.74%	6.12%	5.61%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	-1.67%	2.85%	5.41%	4.72%
Barclays Aggregate	-1.68%	2.86%	5.41%	4.59%

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Investment Portfolio at Fair Value

#### Five-Year Comparison

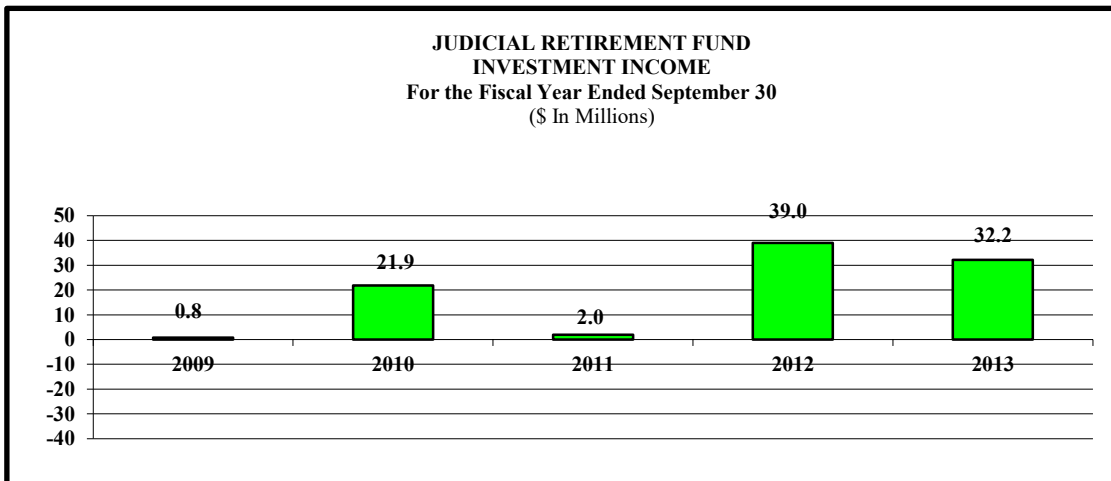
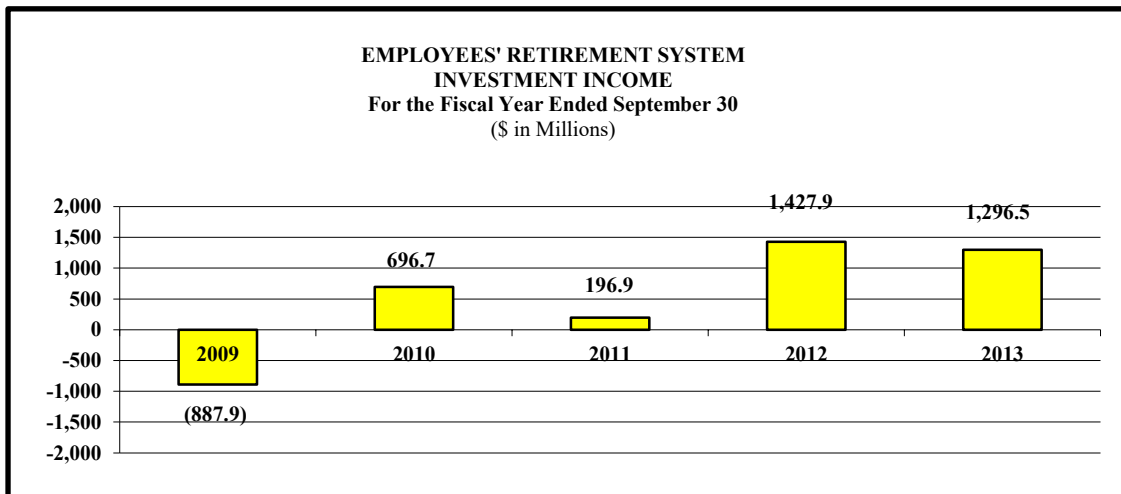
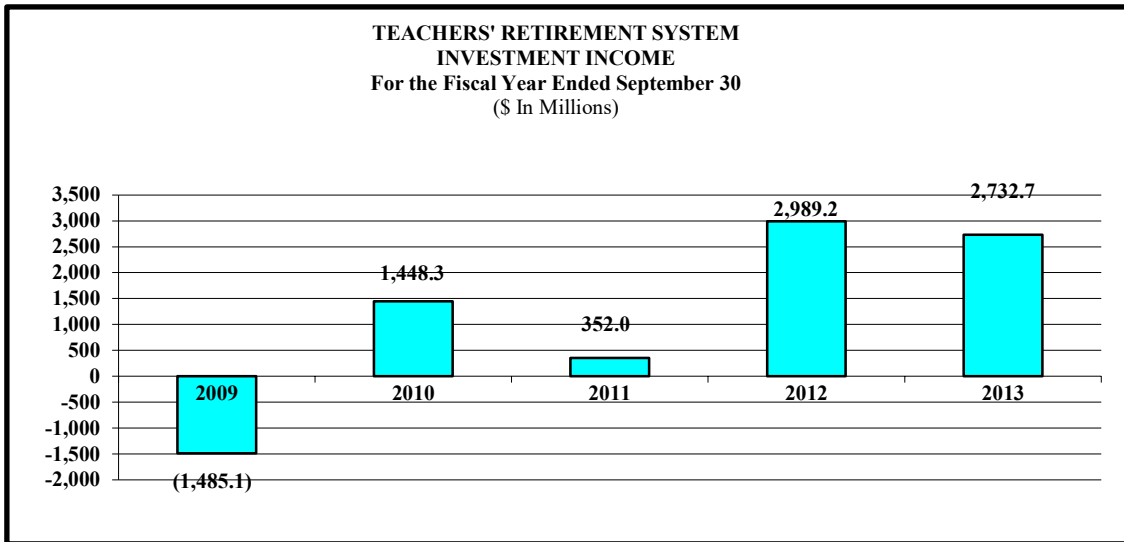


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

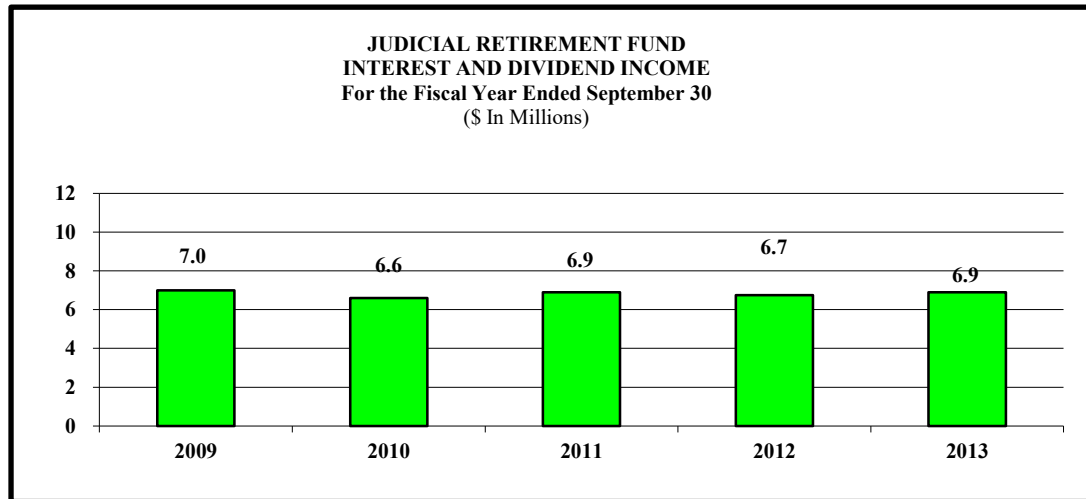
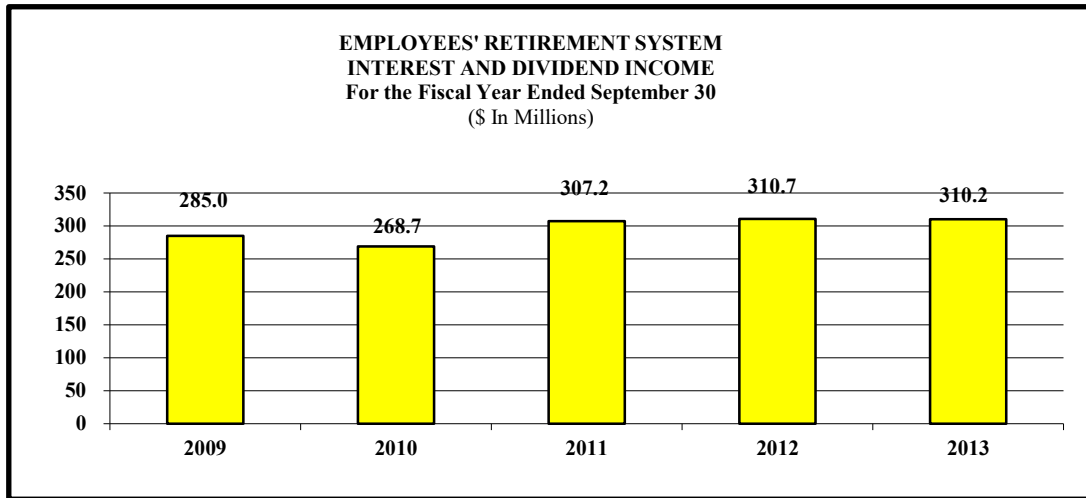
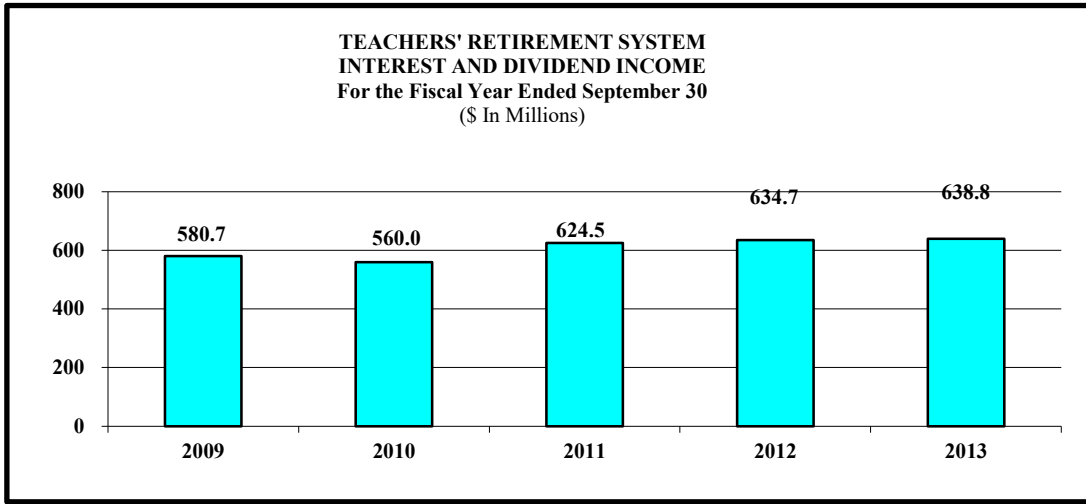


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividends

Five-Year Comparison

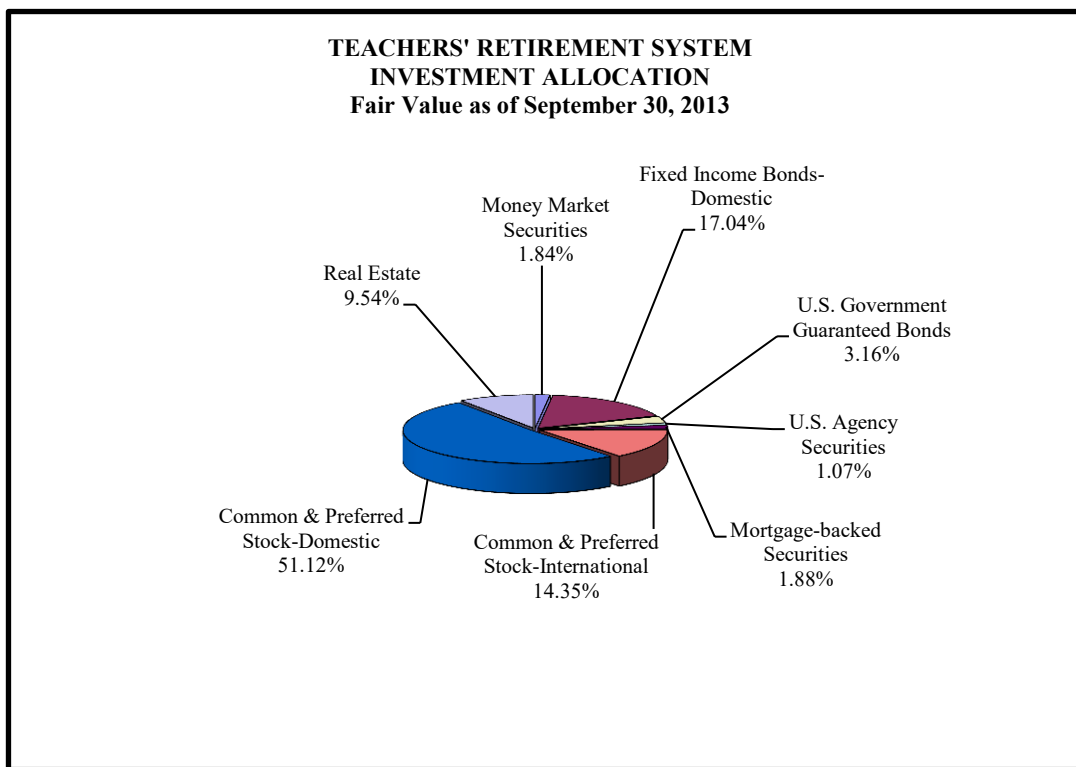


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



**TEACHERS' RETIREMENT SYSTEM  
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2013

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 378,156	1.84
U.S. Government Guaranteed	650,756	3.16
U.S. Agency Securities	219,743	1.07
Mortgage-backed Securities	387,526	1.88
Fixed Income Bonds - Domestic	3,504,895	17.04
Common and Preferred Stocks		
Domestic	10,514,970	51.12
International	2,951,446	14.35
Real Estate	1,963,274	9.54
<b>Total Investments</b>	<b>\$ 20,570,766</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

---

### *Investment Section*

#### Teachers' Retirement System

#### Largest Stock and Bond Holdings

---

### TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2013

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	13	New Water Street Corporation	\$ 945,550
2)	975	Goldman Sachs Small Cap Equity Linked Note	722,821
3)	7,331	ISHARES MSCI Emerging Markets	298,869
4)	445	Apple, Inc.	212,377
5)	2,032	Exxon Mobile Corporation	174,792
6)	4,447	Microsoft Corporation	148,113
7)	5,444	General Electric Company	130,055
8)	1,015	Chevron Corporation	123,264
9)	97	Raycom Preferred 10% Non-Cumulative	122,690
10)	135	Google, Inc.	118,552

### TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2013

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	1,223,262	Raycom Media, 8%, Due 9/30/2032	\$ 1,542,581
2)	538,882	Community News, 8%, due 12/31/2032	316,066
3)	285,090	Wise Metals Group LLC, 9%, Due 11/15/2015	285,090
4)	107,664	U.S. Treasury, 2.125%, Due 8/15/2021	106,757
5)	108,470	U.S. Treasury, 1.375%, Due 1/31/2020	105,445
6)	104,205	Wise Metals Group LLC, 10%, Due 11/15/2065	104,205
7)	81,516	U.S. Treasury, 4.25%, Due 8/15/2015	87,519
8)	72,455	U.S. Treasury, 3.75%, Due 11/15/2018	80,853
9)	77,640	U.S. Treasury, 1.75%, Due 5/15/2023	71,941
10)	54,084	U.S. Treasury, 3.125%, Due 4/30/2017	58,349

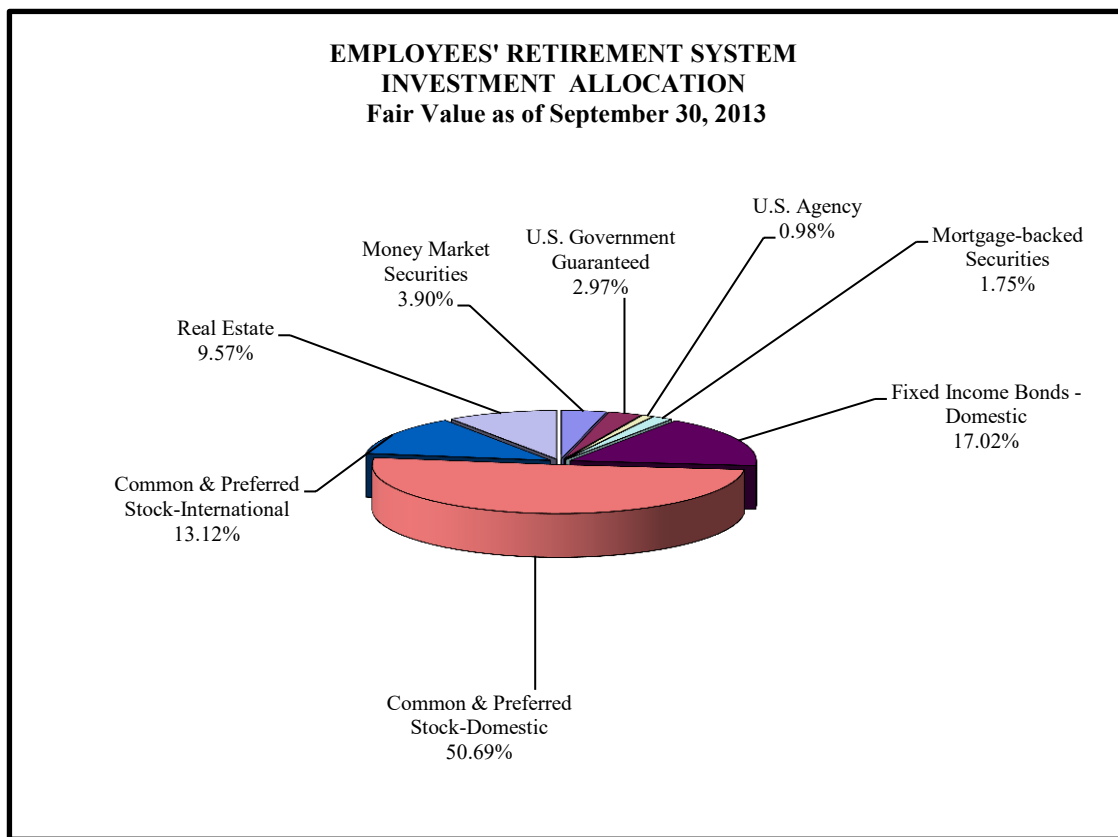
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



**EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2013

(\$ In Thousands)

	<b>Fair Value</b>	<b>% of Fair Value</b>
Money Market Securities and Mutual Funds	\$ 389,145	3.90
U.S. Government Guaranteed	296,114	2.97
U.S. Agency Securities	97,513	0.98
Mortgage-backed Securities	174,919	1.75
Fixed Income Bonds - Domestic	1,697,551	17.02
Common and Preferred Stocks		
Domestic	5,056,820	50.69
International	1,309,366	13.12
Real Estate	955,067	9.57
<b>Total Investments</b>	<b>\$ 9,976,495</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

---

### *Investment Section*

#### Employees' Retirement System

#### Largest Stock and Bond Holdings

---

### EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2013

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	6	New Water Street Corporation	\$434,453
2)	401	Goldman Sachs Small Cap Equity Linked Note	297,268
3)	3,501	ISHARES MSCI Emerging Markets	142,723
4)	97	Raycom Preferred 10% Non-Cumulative	122,690
5)	212	Apple, Inc.	101,093
6)	960	Exxon Mobile Corporation	82,631
7)	2,162	Microsoft Corporation	72,027
8)	2,623	General Electric Company	62,655
9)	488	Chevron Corporation	59,253
10)	64	Google, Inc.	56,303

### EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2013

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	607,691	Raycom Media, 8%, Due 9/30/2032	\$ 766,322
2)	272,043	Community News, 8%, Due 12/31/2032	159,559
3)	140,418	Wise Metals Group LLC, 9%, Due 11/15/2015	140,418
4)	51,325	Wise Metals Group LLC, 10%, Due 11/15/2065	51,325
5)	49,001	U.S. Treasury, 2.125%, Due 8/15/2021	48,588
6)	49,146	U.S. Treasury, 1.375%, Due 1/31/2020	47,775
7)	37,117	U.S. Treasury, 4.25%, Due 8/15/2015	39,850
8)	32,982	U.S. Treasury, 3.75%, Due 11/15/2018	36,805
9)	35,320	U.S. Treasury, 1.75%, Due 5/15/2023	32,728
10)	32,798	American Spirit Media LLC, 8%, Due 12/31/2032	26,865

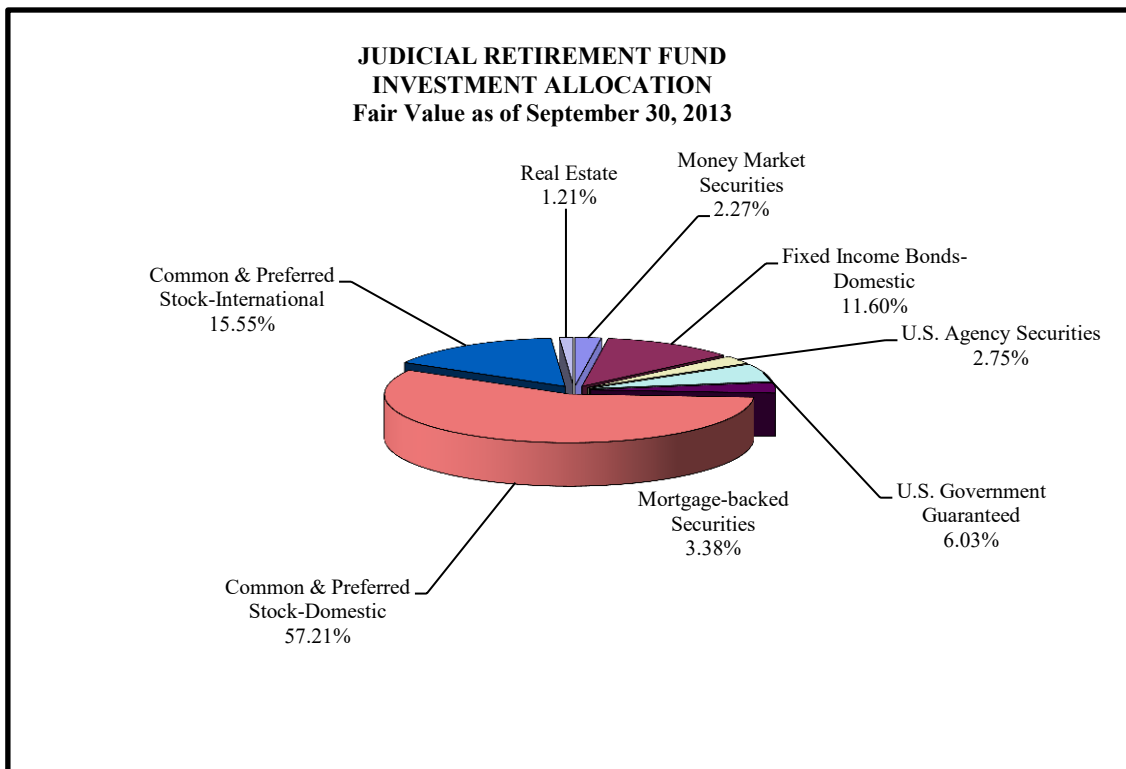
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND  
INVESTMENT SUMMARY AT FAIR VALUE  
As of September 30, 2013**

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 5,755	2.27
U.S. Government Guaranteed	15,266	6.03
U.S. Agency Securities	6,948	2.75
Mortgage-backed Securities	8,539	3.38
Fixed Income Bonds - Domestic	29,338	11.60
Common and Preferred Stocks		
Domestic	144,746	57.21
International	39,348	15.55
Real Estate	3,062	1.21
<b>Total Investments</b>	<b>\$ 253,002</b>	<b>100.00</b>

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Judicial Retirement Fund

#### Largest Stock and Bond Holdings

### JUDICIAL RETIREMENT FUND LARGEST STOCK HOLDINGS

September 30, 2013

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	9	Goldman Sachs Small Cap Equity Linked Note	\$ 6,510
2)	109	ISHARES MSCI Emerging Markets	4,432
3)	7	Apple, Inc.	3,575
4)	36	Exxon Mobil Corporation	3,126
5)	*	New Water Street Corporation	3,062
6)	63	Microsoft Corporation	2,084
7)	2	Google, Inc.	2,022
8)	23	Johnson & Johnson	2,018
9)	84	General Electric Company	2,008
10)	16	Chevron Corporation	1,938

\* Less than 1,000 shares

### JUDICIAL RETIREMENT FUND LARGEST BOND HOLDINGS

September 30, 2013

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	2,676	U.S. Treasury, 1.375%, Due 1/31/2020	\$ 2,601
2)	2,385	U.S. Treasury, 2.125%, Due 8/15/2021	2,365
3)	1,894	U.S. Treasury, 4.25%, Due 8/15/2015	2,033
4)	2,000	LMB Funding Ltd. (PPL Energy), 8.05%, 12/21/2013	2,032
5)	1,727	Farmer Mac Gtd, 5.125%, Due 4/19/2017	1,968
6)	1,703	U.S. Treasury, 3.75%, Due 11/15/2018	1,900
7)	1,588	General Electric Capital Corp, 5.55%, Due 5/4/2020	1,796
8)	1,905	U.S. Treasury, 1.75%, Due 5/15/2023	1,765
9)	1,327	U.S. Treasury, 3.125%, Due 4/30/2017	1,432
10)	2,041	Community News, 4%, Due 12/31/2032	1,228

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2013

	Stock				Fixed		Total Commissions (000's)
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Commission Sharing Agreements	Securities Commissions (000's)		
Banc of America/Merrill Lynch	\$ 0.0367	3,140	\$ 115	\$ -	\$ 95	\$ 210	
Barclays	0.0365	7,097	259	-	24	283	
Barclays-Soft Dollar	0.0500	712	36	-	-	36	
Bernstein	0.0251	11,680	293	-	-	293	
BNP Paribas	-	-	-	-	25	25	
Buckingham	-	-	-	17	-	17	
Cantor Fitzgerald	-	-	-	-	19	19	
Caris	0.0500	260	13	-	-	13	
Citigroup	0.0390	12,292	479	-	75	554	
ConvergEx	0.0442	7,457	329	(37)	-	292	
Cowen	0.0384	1,367	53	-	-	53	
Credit Suisse	0.0500	1,800	90	-	118	208	
Deutsche Bank	0.0267	9,828	263	-	4	267	
Empirical Research	0.0500	509	25	10	-	35	
First Discount	0.0500	260	13	-	-	13	
Goldman Sachs	0.0095	9,100	86	-	184	270	
Harbor Financial	0.0500	255	13	-	-	13	
Howard Weil	0.0454	1,229	56	-	-	56	
Iberia	0.0500	809	40	-	-	40	
ISI	0.0462	9,257	428	-	-	428	
Issuer Designated	-	-	-	-	99	99	
Jefferies	0.0331	926	31	-	-	31	
JP Morgan Chase	0.0464	4,667	217	-	116	333	
Keybank Capital Markets	0.0500	1,190	60	-	26	86	
Leerwink Swann	0.0454	830	38	-	-	38	
Montrose	0.0500	250	12	-	-	12	
Morgan Stanley	0.0253	34,992	887	-	53	940	
Myers & Associates	0.0500	200	10	-	-	10	
NBC Securities	0.0500	1,026	51	-	-	51	
Oppenheimer	0.0462	2,214	102	-	-	102	
Raymond James	0.0500	1,889	94	-	10	104	
RBC Bank	0.0440	652	29	-	-	29	
Renmac	0.0400	186	7	10	-	17	
Sandler O'Neil	0.0500	1,101	55	-	-	55	
Securities Capital	0.0500	250	13	-	-	13	
Southcoast	0.0500	250	13	-	-	13	
Southwest Securities	0.0500	200	10	-	-	10	
Sterne, Agee & Leach	0.0479	3,934	188	-	10	198	
Stifel Nicolaus	0.0466	2,368	110	-	116	226	
Strategas	0.0422	4,862	205	-	-	205	
UBS Warburg	0.0500	398	20	-	-	20	
Wells Fargo	0.0299	8,818	264	-	98	362	

<b>Totals</b>	<b>148,255</b>	<b>\$ 5,007</b>	<b>\$ -</b>	<b>\$ 1,072</b>	<b>\$ 6,079</b>
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Average Commission Per  
Share of Stock =

\$ 0.0338



Component Units of the State of Alabama  
**Comprehensive Annual Financial Report**

# ACTUARIAL SECTION





# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

July 9, 2013

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

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Teachers' Retirement System of Alabama, prepared as of September 30, 2012 in accordance with Section 367(15) of the act governing the operation of the System.

The purpose of this report is to provide a summary of the funded status of the System as of September 30, 2012, to recommend rates of State contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The System was amended to provide a new benefit structure for members initially joining the System on and after January 1, 2013 (Tier II). There are no Tier II members included in the valuation as of September 30, 2012. However, we have received data from the Retirement System for Tier II members who joined during the first four months of 2013 and have used this data to determine the Tier II employer contribution rates for the fiscal year ending September 30, 2015.

On the basis of the valuation, we have determined employer contribution rates of 11.71% of payroll for Tier I members and 11.05% of payroll for Tier II members for the fiscal year ending September 30, 2015.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the Entry Age Normal cost method. Since the previous valuation, the Board has adopted a valuation interest rate smoothing methodology. Five-year smoothed market value of assets is used for actuarial valuation purposes. However, the actuarial value of assets was set equal to the market value of assets on September 30, 2012; five-year smoothing will commence again in future years. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 3.25% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

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

[www.CavMacConsulting.com](http://www.CavMacConsulting.com)

Offices in Englewood, CO • Kennesaw, GA • Bellevue, NE • Hilton Head Island, SC



July 9, 2013  
Board of Control  
Page 2

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald', with a stylized flourish at the end.

Edward A. Macdonald, ASA, FCA, MAAA  
President

A handwritten signature in blue ink, appearing to read 'Cathy Turcot', with a stylized flourish at the end.

Cathy Turcot  
Principal and Managing Director

A handwritten signature in blue ink, appearing to read 'John J. Garrett', with a stylized flourish at the end.

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

EAM/mjn

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods

**Summary of Actuarial Assumptions and Methods**

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

**Ultimate Investment Rate of Return:** 8.00% per annum, compounded annually, including price inflation at 3%.

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

Years of Service	Annual Rate (%)
0	8.25
1	6.50
2	5.75
3	5.50
4	5.25
5	5.00
6	5.00
7	4.75
8 to 13	4.50
14 to 18	4.00
19 & Over	3.50

**Separations Before Service Retirement:** Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

Male							
Annual Rate (%) of							
Age	Death †	Disability		Withdrawal			
		Years of Service		Years of Service			
		0-24	25+	0-4	5-9	10-20	20+
20	0.02	0.04		30.00			
25	0.02	0.05		15.68	10.00		
30	0.03	0.05		14.25	5.40	5.00	
35	0.05	0.10		14.25	5.40	3.00	
40	0.07	0.18		14.00	5.40	2.50	1.00
45	0.09	0.31	0.10	14.00	5.00	2.50	1.00
50	0.12	0.51	0.10	12.50	4.50	2.50	1.00
55	0.20	0.96	0.10	12.00	4.00	2.50	1.00
60	0.40	0.50	0.10	12.00	4.00		
65	0.77			12.00	6.00		
69	1.20			12.00	6.00		

† Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females with an adjustment factor of 0.75% for males and 0.50% for females.

<b>Female</b>							
<b>Annual Rate (%) of</b>							
<b>Age</b>	<b>Death †</b>	<b>Disability</b>		<b>Withdrawal</b>			
		<b>Years of Service</b>		<b>Years of Service</b>			
		<b>0-24</b>	<b>25+</b>	<b>0-4</b>	<b>5-9</b>	<b>10-20</b>	<b>20+</b>
20	0.01	0.10		28.50			
25	0.01	0.10		14.00	8.00		
30	0.01	0.10		14.00	5.80	4.00	
35	0.02	0.15		14.00	5.00	3.00	
40	0.03	0.16		12.00	4.50	2.10	1.10
45	0.04	0.33	0.15	11.50	3.75	2.10	0.75
50	0.06	0.63	0.15	11.00	3.75	2.10	0.75
55	0.11	0.99	0.15	11.00	3.75	2.50	0.75
60	0.21	0.25	0.25	12.00	4.50		
65	0.40			14.00	6.00		
69	0.62			14.00	6.00		

† Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females with an adjustment factor of 0.75% for males and 0.50% for females.

**Service Retirement:**

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

For members first eligible for unreduced benefits upon attaining 25 years of service but before age 65, rates are as follows:

<b>Age</b>	<b>Annual Rate (%)</b>	
	<b>Male §</b>	<b>Female *</b>
47 & Under	20.0	25.0
48	20.0	17.0
49	20.0	16.0
50 to 52	15.0	16.0
53 to 54	14.0	16.0
55 to 59	15.0	20.0
60	15.0	15.0
61	20.0	25.0
62	35.0	35.0
63	30.0	25.0
64	25.0	30.0

§ Retirement rates are increased by 7% in the year first eligible for unreduced retirement from age 50 through age 54 and by 10% from age 55 through age 60.

\* Retirement rates are increased by 7% in the year first eligible for unreduced retirement from age 50 through age 54 and by 20% from age 55 through age 60.

RETIREMENT SYSTEMS OF ALABAMA

*Actuarial Section*

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods (Continued)

For members first eligible for unreduced benefits before attaining 25 years of service and all members age 65 and over, the rates are as follows:

Age	Annual Rate (%)	
	Male	Female
60	13.0	20.0
61	12.0	15.0
62	28.0	25.0
63	20.0	20.0
64	15.0	18.0
65	30.0	30.0
66	28.0	30.0
67	20.0	25.0
68	20.0	28.0
69	20.0	22.0
70	20.0	25.0
71 to 74	20.0	22.0
75 & Above	100.0	100.0

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

Age	Annual Rate (%)			
	Male		Female	
	Less than 25 years of service	25 or more years of service	Less than 25 years of service	25 or more years of service
62	50.0	60.0	50.0	65.0
63	20.0	30.0	20.0	25.0
64	15.0	25.0	18.0	30.0
65	30.0	30.0	30.0	30.0
66	28.0	28.0	30.0	30.0
67	20.0	20.0	25.0	25.0
68	20.0	20.0	28.0	28.0
69	20.0	20.0	20.0	20.0
70	20.0	20.0	20.0	20.0
71 to 74	20.0	20.0	22.0	22.0
75 & Above	100.0	100.0	100.0	100.0

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**Deaths after Retirement:** Rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females. Rates of mortality for the period after disability retirement are according to the RP-2000 Disabled Mortality Table, adjusted for males by a factor of 0.85. Representative values of the assumed annual rates of death after retirement are as follows:

<u>Age</u>	<u>Annual Rate (%) of Death After</u>			
	<u>Service Retirement</u>		<u>Disability Retirement</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
35	0.07	0.04	1.92	0.75
40	0.10	0.05	1.92	0.75
45	0.12	0.08	1.92	0.75
50	0.16	0.12	2.46	1.15
55	0.27	0.21	3.01	1.65
60	0.53	0.41	3.57	2.18
65	1.03	0.80	4.26	2.80
70	1.77	1.38	5.32	3.76
75	3.06	2.26	6.98	5.22
80	5.54	3.74	9.30	7.23
85	9.97	6.35	12.04	10.02
90	17.27	11.39	15.59	14.00
95	25.96	17.74	22.74	19.45

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Teachers' Retirement System

#### Summary of Actuarial Assumptions and Methods (Continued)

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**Spousal Benefits:** For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit payable from the death benefit fund and 25% will elect the spousal benefit payable from the pension accumulation fund and included in the liabilities of the System.

**Benefits Payable Upon Separation from Service:** For active members who separate from service prior to eligibility for a service retirement allowance, the liability is assumed to be the greater of the value of the refund of contributions and the value of the deferred annuity. Assumed refunds are reduced by 10% to account for interest accumulation adjustments which are less than the "regular" 4% rate adopted by the Board.

**Unused Sick Leave:** 3% load on service retirement liabilities for active members. (No load for Tier II members)

**Percentage Married:** 100% of active members are assumed to be married with the husband 3 years older than the wife.

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

**Assets Method:** Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected value of assets, based on the assumed valuation rate of return. Each year, 20% of the difference between market value and expected actuarial value is recognized. The actuarial value of assets was set equal to the market value on September 30, 2012. Smoothing will commence again in future years.

**Liability for Current Inactive Members:** Member Contribution Balance is multiplied by a factor of 2.0.

**Valuation Interest Rate Smoothing:** The valuation liabilities are calculated using a smoothed interest rate method. The interest rate assumed during the look forward period (currently 25 years from the valuation date) is the investment rate of return expected to be earned during the look forward period based on the actual rate of return earned during the look back period (currently 5 years) such that the average assumed rate of return over the combined 30 year period is equivalent to the assumed ultimate investment rate of return (currently 8.00%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8.00%.

**Corridor Limit on Interest Smoothing:** The smoothed interest rate used during the 25 year look forward period is limited to a corridor of 0.50% around the ultimate investment rate of return.

### **Actuarial Cost Method**

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "individual entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of each new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability contributions are determined by subtracting the current assets held by the System and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System.

### **Summary of Plan Provisions as Interpreted for Valuation Purposes**

The Teachers' Retirement System of Alabama (TRS) was established on September 15, 1939 and became effective September 30, 1941. The valuation considered amendments to the System through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

#### **Definitions**

**Average Final Compensation** – The average compensation of a Tier I member is calculated using compensation for the 3 highest years in the last 10 years of creditable service. The average compensation of a Tier II member is calculated using compensation for the 5 highest years in the last 10 years of creditable service.

**Membership Service** – all service rendered while a member of the System and for which contributions are made.

**Creditable Service** – the sum of membership service, prior service, and any other service established as creditable in accordance with the provisions of the retirement law.

**Annuity** – payments for life derived from accumulated contributions of a member.

**Pension** – payments for life derived from employer contributions.

**Retirement Allowance** – the sum of the annuity and pension payments.

# RETIREMENT SYSTEMS OF ALABAMA

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## *Actuarial Section*

### Teachers' Retirement System

#### Summary of Plan Provisions (Continued)

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#### **Benefits**

##### Service Retirement Allowance

###### Condition for Allowance

Tier I - The retirement allowance is payable upon the request of a member who has completed 25 years of creditable service or who has attained age 60 and completed at least 10 years of creditable service.

Tier II - The retirement allowance is payable upon the request of a member who has completed 10 years of creditable service and who has attained age 62 (age 56 with 10 years of creditable service for full-time certified firefighters, police officers, and correctional officers).

###### Amount of Allowance

Tier I - Upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

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

Tier I & II - Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement").

##### Disability Retirement Allowance

###### Condition for Allowance

A disability retirement allowance may be granted to a member who has 10 or more years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.

###### Amount of Allowance

Tier I - Upon disability retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

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

Tier I & II- Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement").

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Benefits Payable on  
Separation of Service

A member who withdraws from service is entitled to receive his or her contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue membership in the System and file for service retirement after reaching age 60 (age 62 for Tier II members).

Benefits Payable upon  
Death In Active Service

In the event of the death of a member eligible for service retirement, the designated beneficiary may elect (1) to exercise Option 3 as defined under “Special Privileges at Retirement” or (2) to receive a return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the salary on which retirement contributions were made for the previous scholastic year (July 1-June 30).\*

In the event of the death of a member with more than one year of service who is not eligible to retire, the designated beneficiary shall receive the return of member contributions and total earned interest. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which retirement contributions were made for the previous scholastic year (July 1-June 30).\*

In the event of a job-related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the annual earnable compensation of the member at the time of death.\*

In the event of a non –job-related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a matching death benefit, which is limited to a maximum of \$5,000.

\* However, if the death occurred more than 180 calendar days after the member’s last day in pay status, or if the deceased member had applied for a refund of member contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Teachers' Retirement System

#### Summary of Plan Provisions (Continued)

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##### Special Privileges at Retirement

In lieu of the full retirement allowance, a member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full allowance, with the provision that:

Option 1 - If the member dies before the annuity payments equal the present value of the annuity at the date of retirement, the balance is paid to a designated beneficiary or to the member's estate, or

Option 2 - After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or

Option 3 - After the member's death, one-half of the member's allowance is continued throughout the life of the designated beneficiary, or

Option 4 - Some other benefit is paid either to the member or to such other person as the member shall designate provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

##### Deferred Retirement Option Plan (DROP)

Prior to March 25, 2011, a member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit calculated at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits and employee contributions while participating in the DROP and interest earned on DROP deposits.

The effect of Act 2011-27 is that no new participants will be allowed to enter DROP with an effective participation date after June 1, 2011.

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Term Life Insurance

Upon the death of a contributing member, there is paid a term life insurance benefit of \$15,000 (pro-rated for part-time members).

Member Contributions

Tier I - Prior to October 1, 2011, regular members contributed 5.0% of salary and certified police officers, firefighters, and correctional officers contributed 6.0% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and regular interest upon retirement. Beginning October 1, 2011, the contribution rates were increased to 7.25% for regular members and 8.25% for certified police officers, firefighters, and correctional officers. Beginning October 1, 2012, the contribution rates were increased to 7.50% for regular members and 8.50% for certified police officers, firefighters, and correctional officers.

Tier II – Regular members contribute 6.00% of salary and full-time certified firefighters, police officers, and correctional officers contribute 7.00% of salary.

Tier I & II - If positive investment performance results in a decrease in the total contribution rate paid by employers and employees participating in the System, the Retirement System of Alabama shall first reduce the employee contribution rate. “Regular Interest” is 4.00% which is the rate adopted by the Board and applied to the balance in each member’s account every year; however, if a member receives a refund of contributions, the interest rate applied to the refund is lower than the 4% regular rate (Based on Section 16-25-14-(g)(1)).

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Supporting Schedules

**Supporting Schedules**

The following table reflects a six-year history of active member valuation data:

**TEACHERS' RETIREMENT SYSTEM  
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase (Decrease) in Average Pay</u>
09/30/12	§ 133,791	\$ 5,936,831,043	\$ 44,374	3.74
09/30/11	† 135,768	5,807,655,862	42,776	(0.12)
09/30/10	‡ 136,290	5,836,902,762	42,827	(0.01)
09/30/09	φ 137,935	5,908,098,156	42,832	1.55
09/30/08	£ 141,528	5,969,302,850	42,178	6.56
09/30/07	* 141,217	5,589,726,297	39,583	7.41

§ In addition, there are 4,436 employees with annual compensation of \$285,484,977 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

† In addition, there are 5,625 employees with annual compensation of \$351,906,404 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

‡ In addition, there are 5,737 employees with annual compensation of \$346,301,313 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

φ In addition, there are 5,340 employees with annual compensation of \$328,823,442 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

£ In addition, there are 5,169 employees with annual compensation of \$325,038,414 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

\* In addition, there are 5,071 employees with annual compensation of \$308,045,402 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.

The following table presents a six-year history of a solvency test:

**TEACHERS' RETIREMENT SYSTEM  
SOLVENCY TEST  
(\$ in Thousands)**

<u>Valuation Date</u>	<u>Aggregate Accrued Liabilities For</u>			<u>Reported Assets</u>	<u>% of Accrued Liabilities Covered by Reported Assets</u>		
	<u>(1) Active Member Contributions</u>	<u>(2) Retirants and Beneficiaries</u>	<u>(3) Active Members (Employer Financed Portions)</u>		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
09/30/12 &	\$ 3,921,179	\$ 17,085,972	\$ 7,244,216	\$ 18,786,008	100	87	0.0
09/30/11 #	3,620,301	17,245,088	7,910,927	19,430,135	100	92	0.0
09/30/10	3,498,959	16,083,293	8,717,271	20,132,779	100	100	6.3
09/30/09	3,233,664	15,328,508	8,975,228	20,582,348	100	100	22.5
09/30/08	3,153,859	14,678,975	8,971,283	20,812,477	100	100	33.2
09/30/07 ‡	3,038,296	14,048,525	8,884,713	20,650,916	100	100	40.1

& Reflects change in methods

# Reflects changes in actuarial assumptions.

‡ Reflects pay increase payable under Act 2007-296.

The following table presents a six-year history of retirants and beneficiaries:

**TEACHERS' RETIREMENT SYSTEM  
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

<b>Fiscal Year Ended</b>	<b>Retirees Added § *</b>		<b>Retirees Removed</b>		<b>Retirees - Year-end *</b>		<b>% Increase in Annual Allowances</b>	<b>Average Annual Allowance</b>
	<b>Annual</b>		<b>Annual</b>		<b>Annual</b>			
	<b>Number</b>	<b>Allowances (000s)</b>	<b>Number</b>	<b>Allowances (000s)</b>	<b>Number</b>	<b>Allowances (000s)</b>		
2012	5,042	\$ 111,231	1,131	\$ 23,786	77,295	\$ 1,442,954	6.45	\$ 18,668
2011	4,088	87,692	1,212	25,189	73,384	1,355,509	4.83	18,471
2010	3,447	71,293	1,104	22,736	70,508	1,293,006	3.90	18,338
2009	3,188	63,584	1,180	24,121	68,165	1,244,449	3.27	18,256
2008	3,390	68,131	1,289	26,928	66,157	1,204,986	3.54	18,214
2007	3,709	77,421	1,359	27,397	64,056	1,163,783	4.49	18,168

§ Includes retirees completing DROP participation and entering regular retirement.

\* Does not include active DROP participants.

The following table provides an analysis of actuarial gains and losses:

**TEACHERS' RETIREMENT SYSTEM  
ANALYSIS OF ACTUARIAL GAINS AND LOSSES  
(Amounts in Thousands)**

	<b>Amount</b>
Unfunded Actuarial Liability as of September 30, 2011	\$ 9,346,182
Normal Cost for 2012 Plan Year	93,904
Contributions Received During the Year	(594,771)
Interest to Year End	731,416
Expected Unfunded Actuarial Liability as of September 30, 2012	<u>9,576,731</u>
Actuarial Losses During the Year	
From Investments	1,635,629
From Actuarial Liabilities	(1,747,000)
Total Actuarial Losses During the Year	<u>(111,371)</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2012</b>	<b><u>\$ 9,465,360</u></b>



# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

July 9, 2013

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

Members of the Board:

In this report are submitted the results of the annual actuarial valuation of the Employees' Retirement System of Alabama, prepared as of September 30, 2012 in accordance with Section 36-27-23(p) of the act governing the operation of the System.

The purpose of this report is to provide a summary of the funded status of the system as of September 30, 2012, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The System was amended to provide a new benefit structure for members initially joining the System on or after January 1, 2013 (Tier II). There are no Tier II members included in the valuation as of September 30, 2012. However, for State employees we have received data from the Retirement System for Tier II members who joined during the first four months of 2013 and have used this data to determine the Tier II employer contribution rate for fiscal year ending September 30, 2015. For State policemen the Tier II employer contribution rates shown in this report have been estimated based on recent hires in Tier I.

On the basis of the valuation, it is recommended that the State make contributions to the Retirement System for State employees (members other than State policemen) at the rate of 13.45% of payroll for Tier I members and 13.31% for Tier II members. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 38.37% of payroll for Tier I members and 32.45% for Tier II members for the fiscal year ending September 30, 2015. The contribution rates for local employers for the fiscal year beginning October 1, 2014 will be submitted in a separate report and will include the impact of all assumption changes and employer-elected changes through September 30, 2012.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Since the previous valuation the Board has adopted a valuation interest smoothing methodology. Five-year smoothed market value of assets is used for actuarial valuation purposes. However, the actuarial value of assets was set equal to the market value of assets as of September 30, 2012; five-year smoothing will commence again in future years. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 3.25% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

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We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald'.

Edward A. Macdonald, ASA, FCA, MAAA  
President

A handwritten signature in blue ink, appearing to read 'Cathy Turcot'.

Cathy Turcot  
Principal and Managing Director

A handwritten signature in blue ink, appearing to read 'John Garrett'.

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

EAM/CT/JJG:cyj

**Summary of Actuarial Assumptions and Methods**

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

**Ultimate Investment Rate of Return:** 8% per annum, compounded annually, including price inflation at 3%.

**Salary Increases:** Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 3.25% per annum:

Years of Service	Annual Rate (%)
0	7.25
1	7.25
2	6.00
3	5.50
4	5.25
5	5.25
6	5.25
7	5.00
8	5.00
9 to 13	4.75
14 to 16	4.50
17	4.00
18 & Over	3.75

The assumed annual rate of future salary increases for State Policemen is 5% per year for all years of service.

**Separations Before Service Retirement:** Representative values of the assumed annual rates of death, disability and withdrawal are shown in the following tables:

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

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

**State and Local Employees - Female**  
**Annual Rate (%) of**

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

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

**State Policemen**

**Annual Rate (%) of**

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

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

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

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods (Continued)

**Service Retirement:** The assumed annual rates of service retirement for Tier I and Tier II members are as follows:

<b>Tier I State and Local Employees</b>				
<b>Annual Rate (%) of Service Retirement</b>				
<u>Age</u>	<u>Under age 65 with 25 or more years of service</u>		<u>Under age 65 with less than 25 years of service &amp; All over age 65</u>	
	<u>Male §</u>	<u>Female *</u>	<u>Male</u>	<u>Female</u>
47 & Under	16.00	13.00		
48 to 51	11.00	11.00		
52 to 54	10.00	10.00		
55 to 59	16.00	16.00		
60	16.00	25.00	12.00	16.00
61	20.00	16.00	11.00	13.00
62	42.00	32.00	28.00	26.00
63	35.00	28.00	23.00	20.00
64	30.00	25.00	18.00	15.00
65			30.00	28.00
66			30.00	28.00
67			25.00	23.00
68 to 74			23.00	23.00
75 & Above			100.00	100.00

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

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

<b>Tier II State and Local Employees</b>				
<b>Annual Rate (%) of Service Retirement</b>				
<u>Age</u>	<u>Less than 25 years of service</u>		<u>25 or more years of service</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
62	40.00	45.00	55.00	60.00
63	23.00	20.00	35.00	28.00
64	18.00	15.00	30.00	25.00
65	30.00	28.00	30.00	28.00
66	30.00	28.00	30.00	28.00
67	25.00	28.00	25.00	28.00
68 to 74	23.00	23.00	23.00	23.00
75 & Above	100.00	100.00	100.00	100.00

**Tier I State Policemen**  
**Annual Rate (%) of Service Retirement**

<u>Age</u>	<b>Under age 60 with</b>		
	<b>less than 20 years of service &amp; All over age 60</b>	<b>Under age 60 with between 20 and 24 years of service</b>	<b>Under Age 60 with 25 or more years of service</b>
< 52			25.00
52	10.00	25.00	25.00
53	10.00	25.00	25.00
54	10.00	25.00	25.00
55	10.00	15.00	25.00
56	10.00	15.00	25.00
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		

**Tier II State Policemen**  
**Annual Rate (%) of Service Retirement**

<u>Age</u>	<b>Under age 60 with</b>		
	<b>less than 20 years of service &amp; All over age 60</b>	<b>Under age 60 with between 20 and 24 years of service</b>	<b>Under Age 60 with 25 or more years of service</b>
56	40.00	60.00	75.00
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Employees' Retirement System

#### Summary of Actuarial Assumptions and Methods (Continued)

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

**Death in Active Service Benefit:** For those eligible for service retirement who die in active service, it is assumed that 75% of beneficiaries will elect the lump sum death benefit and 25% will elect the Option 3 allowance.

**Benefits Payable Upon Separation from Service:** For active members who separate from service prior to eligibility for a service retirement allowance, the liability is assumed to be the greater of the value of the refund of contributions and the value of the deferred annuity.

**Unused Sick Leave:** 2.25% load on service retirement liabilities for active members (No load for Tier II members).

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

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

**Asset Method:** Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected value of assets, based on the assumed valuation rate of return. Each year, 20% of the difference between market value and expected actuarial value is recognized. The actuarial value of assets was set equal to the market value on September 30, 2012. Smoothing will commence in future years.

**Liability for Current Inactive Members:** Member Contribution Balance is multiplied by a factor of 2.5 for State Employees and 3.0 for Local Employees and State Policemen.

**Valuation Interest Rate Smoothing:** The valuation liabilities are calculated using a smoothed interest rate method. The interest rate assumed during the look forward period (currently 25 years from the valuation date) is the investment rate of return expected to be earned during the look forward period based on the actual rate of return earned during the look back period (currently 5 years) such that the average assumed rate of return over the combined 30 year period is equivalent to the assumed ultimate investment rate of return (currently 8.00%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8.00%.

**Corridor Limit on Interest Smoothing:** The smoothed interest rate used during the 25 year look forward period is limited to a corridor of 0.50% around the ultimate investment rate of return.

### **Actuarial Cost Method**

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "individual entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of each new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability contributions are determined by subtracting the current assets held by the System and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System.

### **Summary of Plan Provisions as Interpreted for Valuation Purposes**

The Employees' Retirement System of Alabama (ERS) was established on October 1, 1945. The valuation considered amendments to the System effective through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

#### **Definitions**

**Average Final Compensation** – The average compensation of a Tier I member is calculated using compensation for the 3 highest years in the last 10 years of creditable service. The average compensation of a Tier II member is calculated using compensation for the 5 highest years in the last 10 years of creditable service.

**Membership Service** – all service rendered while a member of the System and for which contributions are made.

**Creditable Service** – the sum of membership service, prior service, and any other previous service established as creditable in accordance with the provisions of the retirement law.

**Annuity** – payments for life derived from accumulated contributions of a member.

**Pension** – payments for life derived from the accumulated contributions of an employer.

**Retirement Allowance** – the sum of the annuity and pension payments.

# RETIREMENT SYSTEMS OF ALABAMA

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## *Actuarial Section*

### Employees' Retirement System

#### Summary of Plan Provisions (Continued)

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#### **Benefits – Members Classified as Other Than State Policemen**

##### Service Retirement Allowance

###### Condition for Allowance

Tier I - The retirement allowance is payable upon the request of a member who has completed 25 years of creditable service or who has attained age 60 and completed at least 10 years of creditable service.

Tier II - The retirement allowance is payable upon the request of a member who has completed 10 years of creditable service and who has attained age 62. (age 56 with 10 years of creditable service for full-time certified firefighters, police officers, and correctional officers).

###### Amount of Allowance

Tier I - Upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

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

Tier I & II - Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement").

##### Disability Retirement Allowance

###### Condition for Allowance

A disability retirement allowance may be granted to a member who has 10 or more years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.

###### Amount of Allowance

Tier I - Upon disability retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

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

Tier I & II - Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement").

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Benefits Payable on  
Separation of Service

A member who withdraws from service is entitled to receive his or her contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue membership in the System and file for service retirement after reaching age 60 (age 62 for Tier II members).

Benefits Payable upon  
Death in Active Service

In the event of the death of a member eligible for service retirement, the designated beneficiary may elect: (1) to exercise Option 3 as defined under “Special Privileges at Retirement – All Members” or (2) to receive a return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the salary on which retirement contributions were made for the previous fiscal year (October 1 – September 30).\*

In the event of the death of a member with more than one year of service who is not eligible to retire, the designated beneficiary shall receive the return of member contributions and total earned interest. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which retirement contributions were made for the previous fiscal year (October 1 – September 30).\*

In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the annual earnable compensation of the member at the time of death.\*

In the event of a non- job-related death of a member with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a matching death benefit, which is limited to a maximum of \$5,000.

\* However, if the death occurred more than 180 calendar days after the member’s last day in pay status or if the deceased member had applied for a refund of member contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan  
(DROP)

Prior to March 25, 2011, a member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit calculated at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits and employee contributions while participating in the DROP and interest earned on DROP deposits. The effect of Act 2011-27 is that no new participants will be allowed to enter DROP with an effective participation date after June 1, 2011.

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Employees' Retirement System

#### Summary of Plan Provisions (Continued)

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##### Member Contributions

Tier I - Prior to October 1, 2011, regular members contributed 5.0% of salary and certified police officers, firefighters, and correctional officers contributed 6.0% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and regular interest upon retirement. Beginning October 1, 2011, the contribution rates were increased to 7.25% for regular members and 8.25% for certified police officers, firefighters, and correctional officers, for all State employees, and for local employees whose employers elected to do so. Beginning October 1, 2012, the contribution rates were increased to 7.50% for regular members and 8.50% for certified police officers, firefighters, and correctional officers, for all State employees, and for local employees whose employers elected to do so.

Tier II – Regular members contribute 6.00% of salary and full-time certified firefighters, police officers, and correctional officers contribute 7.00% of salary.

Tier I & II - If positive investment performance results in a decrease in the total contribution rate paid by employers and employees participating in the System, the Retirement System of Alabama shall first reduce the employee contribution rate. "Regular Interest" is 4.00% which is the rate adopted by the Board and applied to the balance in each member's account every year; however, if a member receives a refund of contributions, the interest rate applied to the refund is lower than the 4% regular rate (Based on Section 36-27-16.3(c)(1)).

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## Benefits – Members Classified as State Policemen

### Service Retirement Allowance

Condition of Allowance Tier I - A retirement allowance is payable upon the request of a member who has completed 25 years of creditable service or who has attained age 52 and completed at least 10 years of creditable service.

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

Amount of Allowance Tier I - Upon service retirement, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of creditable service.

A member who has attained 20 or more years of creditable service and retires prior to age 60 is eligible to receive a “bonus service credit” up to 4 years as follows:

- Age 56 or older – bonus service of 4 years reduced by 1 month for each month over the age of 56.
- Age 52 to 56 – bonus service of 4 years.
- Age 52 or less (disability retirement only) – bonus service of 4 years.
- Age 52 or less with 25 or more years of service – bonus service of 4 years.

Tier II - Upon service retirement, a member receives a retirement allowance equal to 2.375% of the member’s average final compensation multiplied by the number of years of creditable service. The benefit is capped at 80.0% of the member’s average final compensation.

### Disability Retirement Allowance

Condition for Allowance A disability retirement allowance may be granted to a member who has 10 or more years of creditable service or who becomes disabled as a result of employment in the line of duty without regard to years of creditable service, and who becomes permanently incapacitated, mentally or physically, for the further performance of duty before reaching the minimum age for service retirement.

Amount of Allowance Tier I - Upon disability retirement, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of creditable service.

Tier II- Upon disability retirement, a member receives a retirement allowance equal to 2.375% of the member’s average final compensation multiplied by the number of years of creditable service.

### Benefits Payable upon Separation from Service

A member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 52 (age 56 for Tier II members).

# RETIREMENT SYSTEMS OF ALABAMA

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## *Actuarial Section*

### Employees' Retirement System

#### Summary of Plan Provisions (Continued)

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##### Benefits Payable upon Death in Active Service

In the event of the death of a member who is eligible for service retirement, the designated beneficiary may elect: (1) to exercise Option 3 as defined below under "Special Privileges at Retirement – All Members" or (2) to receive a return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30).\*

In the event of the death of a member with more than one year of service who is not eligible to retire, the designated beneficiary shall receive the return of member contributions and total earned interest. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30).\*

In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit payable from the pre-retirement death benefit fund equal to the annual earnable compensation of the member at the time of death.\*

In the event of a non- job-related death of a member with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a matching death benefit which is limited to a maximum of \$5,000.

\*However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased member had applied for a refund of member contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

##### Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 52 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based upon the retirement benefit calculated at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits and employee contributions while participating in the DROP and interest earned on DROP deposits. The effect of Act 2011-27 is that no new participants will be allowed to enter DROP with an effective participation date after June 1, 2011.

##### Member Contributions

Each member contributes 10% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions with interest upon retirement.

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### Special Privileges at Retirement – All Members

In lieu of the full retirement allowance, a member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full retirement allowance, with the provision that:

- Option 1: If the member dies before the annuity payments equal or exceed the present value of the member's annuity at the date of retirement, the balance is paid to the designated beneficiary or to the member's estate, or
- Option 2: After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or
- Option 3: After the member's death, one-half of the member's retirement allowance is continued throughout the life of the designated beneficiary, or
- Option 4: Some other benefit is paid either to the member or the designated beneficiary, provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Supporting Schedules

**Supporting Schedules**

The following schedule provides a six-year history on active member valuation data:

**EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>		<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
09/30/12	§	84,169	\$ 3,124,791,422	\$ 37,125	(5.88)
09/30/11	†	85,633	3,377,717,419	39,444	(1.00)
09/30/10	‡	86,967	3,464,913,031	39,842	0.38
09/30/09	ϕ	87,647	3,478,635,402	39,689	3.65
09/30/08	£	88,002	3,369,696,707	38,291	4.71
09/30/07	*	86,668	3,169,432,161	36,570	4.65

§ In addition, there are 2,121 members with compensation of \$127,211,439 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

† In addition, there are 2,708 members with compensation of \$162,963,178 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

‡ In addition, there are 2,593 members with compensation of \$154,756,911 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

ϕ In addition, there are 2,371 members with compensation of \$141,607,707 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

£ In addition, there are 2,184 members with compensation of \$130,111,885 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

\* In addition, there are 2,039 members with compensation of \$118,877,383 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

The following table provides a six-year history of solvency tests:

**EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA  
SOLVENCY TEST  
(\$ in Thousands)**

<u>Valuation Date</u>	<u>Aggregate Accrued Liabilities For</u>				<u>Reported Assets</u>	<u>% of Accrued Liabilities Covered by Assets</u>		
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(1)</u>		<u>(2)</u>	<u>(3)</u>	
	<u>Active Member Contributions</u>	<u>Retirants and Beneficiaries</u>	<u>Active (Employer Financed Portion)</u>					
09/30/12 &	\$ 2,218,478	\$ 7,781,431	\$ 3,885,086	\$9,116,551	100	89	0.0	
09/30/11 #	2,112,356	7,722,942	4,531,498	9,456,158	100	95	0.0	
09/30/10	2,050,051	7,130,938	4,535,113	9,739,331	100	100	12.3	
09/30/09	1,973,511	6,707,240	5,075,425	9,928,104	100	100	24.6	
09/30/08 ‡	1,860,095	6,275,136	4,943,455	9,905,766	100	100	35.8	
09/30/07 ‡	1,777,331	5,911,861	4,681,149	9,770,897	100	100	44.5	

# Reflects changes in actuarial assumptions.

‡ Reflects pay increases payable under Act 2007-297.

& Reflects change in methods.

The following table presents a six-year history of data concerning retirants and beneficiaries:

**EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

Fiscal Year Ended	Retirees Added § *		Retirees Removed		Retirees - Year-end *		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)		
2012	2,846	64,987	977	18,759	40,451	689,864	7.18	17,054
2011	2,444	53,821	921	17,227	38,582	643,636	6.03	16,682
2010	2,030	43,341	958	17,571	37,059	607,042	4.43	16,380
2009	1,942	40,446	619	11,290	35,987	581,272	5.28	16,152
2008	1,830	37,593	867	15,568	34,664	552,116	4.15	15,928
2007	2,128	40,084	1,056	18,365	33,701	530,091	4.27	15,729

§ Includes retirees completing DROP participation and entering regular retirement.

\* Does not include active DROP participants.

The following table provides an analysis of actuarial gains and losses:

**EMPLOYEES' RETIREMENT SYSTEM  
ANALYSIS OF ACTUARIAL GAINS AND LOSSES  
(Amounts in Thousands)**

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2011	\$ 4,910,638
Normal Cost for 2012 Plan Year	75,771
Contributions Received During the Year	(306,436)
Interest to Year End	<u>386,655</u>
Expected Unfunded Actuarial Liability as of September 30, 2012	<u>5,066,628</u>
Actuarial Losses During the Year	
From Investments	812,690
From Actuarial Liabilities	<u>(1,110,875)</u>
Total Actuarial Losses During the Year	<u>(298,185)</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2012</b>	<b><u>\$ 4,768,443</u></b>



# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

July 9, 2013

Board of Control  
Alabama Judicial Retirement Fund  
Montgomery, Alabama

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Alabama Judicial Retirement Fund, prepared as of September 30, 2012 in accordance with Section 36-27-23(p) of the act governing the operation of the Fund.

The purpose of this report is to provide a summary of the funded status of the Fund as of September 30, 2012, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). Data regarding the membership of the Fund for use as a basis of the valuation was furnished by the Retirement Fund office. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

On the basis of the valuation, we have determined an employer contribution rate of 35.24% of payroll based on a 27 year amortization period for the fiscal year ending September 30, 2015.

The promised benefits of the Fund are included in the actuarially calculated contribution rates which are developed using the Entry Age Normal cost method. Since the previous valuation, the Board has adopted a valuation interest rate smoothing methodology. Five-year smoothed market value of assets is used for actuarial valuation purposes. However, the actuarial value of assets was set equal to the market value of assets on September 30, 2012; five-year smoothing will commence again in future years. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 3.25% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Annual Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Annual Report.

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July 9, 2013  
Board of Control  
Page 2

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Retirement Fund and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Fund.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion the Fund is operating on an actuarially sound basis. Assuming that contributions to the Fund are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the Fund may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald'.

Edward A. Macdonald, ASA, FCA, MAAA  
President

A handwritten signature in blue ink, appearing to read 'Cathy Turcot'.

Cathy Turcot  
Principal and Managing Director

A handwritten signature in blue ink, appearing to read 'John J. Garrett'.

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

EAM:dmw

**Summary of Actuarial Assumptions and Methods**

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

**Ultimate Investment Rate of Return:** 8% per annum, compounded annually, including inflation at 3%.

**Salary Increases:** 4% per annum, compounded annually, including wage inflation at 3.25%.

**Separations Before Retirement:** Representative values of the assumed annual rates of withdrawal, death and disability are as follows:

Age	Annual Rate (%) of			
	Withdrawal	Death †		Disability ‡
		Male	Female	
30	2.50	0.03	0.02	0.04
35	2.50	0.05	0.03	0.08
40	2.50	0.07	0.04	0.14
45	2.50	0.09	0.07	0.22
50	2.50	0.12	0.10	0.33
55	2.50	0.20	0.19	0.50
60	2.50	0.40	0.38	0.79
64	2.50	0.69	0.63	1.14

† Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward one year for females with an adjustment factor of 0.75% for males and 0.70% for females.

‡ Disability rates turn off at retirement eligibility.

**Rates of Retirement:** Before age 70, 30% of members are assumed to retire in the first year of eligibility and 10% in each year thereafter. 50% of the remaining members are assumed to retire each year between age 70 and 74, and all remaining members are assumed to retire at age 75.

**Deaths after Retirement:** Rates of mortality for the period after service retirement are according to the RP-2000 Mortality Table with projection scale AA to 2015 set forward one year for females. The RP-2000 Disabled Mortality Table adjusted for males by a factor of 0.85 is used for the period after disability retirement. Representative values of assumed mortality are as follows:

Age	Annual Rate (%) of Death After			
	Service Retirement		Disability Retirement	
	Male	Female	Male	Female
55	0.27	0.27	3.01	1.65
60	0.53	0.54	3.57	2.18
65	1.03	1.02	4.27	2.80
70	1.77	1.72	5.32	3.76
75	3.06	2.75	6.98	5.22
80	5.54	4.57	9.30	7.23
85	9.97	7.89	12.04	10.02
90	17.27	13.82	15.59	14.01

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**Percent Married:** 85% of active members are assumed to be married with the husband 4 years older than the wife.

**Actuarial Method:** Individual Entry age normal. Gains and losses are reflected in the unfunded accrued liability.

**Assets:** Actuarial Value. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected value of assets, based on the assumed valuation rate of return. Each year 20% of the difference between market value and expected actuarial value is recognized.

**Liability for Current Inactive Members:** Member Contribution Balance is multiplied by a factor of 3.0.

**Post Retirement Increases:** Allowances of retired members and spouses who receive benefits based on the salaries prescribed by law for the position are assumed to increase by 3.25% per year. The members' actual salaries at retirement are assumed to be equal to the salary prescribed by law for their position.

For district judges, a factor of 1.5% is applied to the liability for prospective spouses benefits to account for salary increases expected to occur between the member's retirement and death.

**Benefits Payable upon Separation from Service:** Active members who terminated from service prior to becoming eligible for a benefit are assumed to receive a refund of contributions with interest assumed to be 4% per year.

**Valuation Interest Rate Smoothing:** The valuation liabilities are calculated using a smoothed interest rate method. The interest rate assumed during the look forward period (currently 25 year from the valuation date) is the investment rate of return expected to be earned during the look forward period based on the actual rate of return earned during the look back period (currently 5 years) such that the average assumed rate of return over the combined 30 year period is equivalent to the assumed ultimate investment rate of return (currently 8.00%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8.00%.

**Corridor Limit on Interest Smoothing:** The smoothed interest rate used during the 25 year look forward period is limited to a corridor of 0.50% around the ultimate investment rate of return.

## Summary of Plan Provisions as Interpreted for Valuation Purposes

The Judicial Retirement Fund (JRF) was established September 18, 1973. The valuation considered amendments to the JRF through the valuation date. The following summary describes the main benefit and contribution provisions of the JRF as interpreted for the valuation.

### Membership

Any justice of the Supreme Court, judge of the Court of Civil Appeals, judge of the Court of Criminal Appeals, judge of the Circuit Court, or officeholder of any newly created judicial office receiving compensation from the State Treasury became a member of the JRF if the member was holding office on the effective date of the Act and elected to come under its provisions. Any such justice or judge elected or appointed to office after the effective date of the Act or any district or probate judge elected or appointed to office after October 10, 1975 or October 1, 1976, respectively, automatically becomes a member. Certain other district and probate judges as well as certain former county court judges, district attorneys, or assistant district attorneys serving as circuit judges and certain supernumerary judges and justices may also elect to become a member.

### Credited Service

Credited service is service as a member plus certain periods of previous service credited in accordance with the provisions of the Act.

### Benefits

#### Service Retirement Benefit

##### Condition of Benefit

A retirement benefit is payable upon request of a member who has:

- Completed 12 years of credited service and has attained age 65, or
- Completed 15 years of credited service and whose age plus service equals or exceeds 77, or
- Completed at least 18 years of credited service or three full terms as a judge or justice, or
- Completed 10 years of credited service and has attained age 70

However, a judge who became a member on or after July 30, 1979 or who is a district or probate judge must meet the following age and service requirement combinations in order to be eligible to retire:

- Completed 12 years of credited service and attained age 65, or
- Completed at least 15 years of credited service and attained age 60, and whose age plus service equals or exceeds 77, or
- Completed 10 years of credited service and attained age 70, or
- Completed 25 years of service or 24 years of service provided the member purchases one year of service prior to retirement, regardless of age.

Amount of Benefit	<p>The service retirement benefit for a member is equal to:</p> <ul style="list-style-type: none"> <li>(a) For circuit or appellate judges who were members prior to July 30, 1979, 75% of the salary prescribed by law for the position from which the member retires.</li> <li>(b) For circuit and appellate judges who assumed office on or after July 30, 1979, 75% of the member's salary at the time of separation from service.</li> <li>(c) For district judges, 75% of the position's salary immediately prior to retirement.</li> <li>(d) For probate judges, 75% of the member's salary at the time of separation from service.</li> </ul>
<b>Disability Retirement Benefit</b>	
Condition of Benefit	<p>A disability retirement benefit is payable to a member who becomes permanently, physically or mentally, unable to carry out his duties on a full-time basis, provided the member has completed five or more years of credited service.</p>
Amount of Benefit	<p>The disability retirement benefit for a member other than a district or probate judge who was a member prior to July 30, 1979 is equal to 25% of the salary prescribed by law for the position from which the member retires on disability plus 10% of such salary for each year of credited service in excess of five years. The disability retirement benefit is subject to a minimum of 30% and a maximum of 75% of such salary.</p> <p>The disability retirement benefit for a judge who became a member on or after July 30, 1979 or who is a district or probate judge is equal to 25% of his salary immediately prior to retirement plus 10% of such salary for each year of credited service in excess of five years. The disability retirement benefit is subject to a minimum of 30% and a maximum of 75% of such salary.</p>
<b>Spousal Benefits</b>	
Condition of Benefit	<p>Upon the death of an active, inactive or retired member with at least 5 years of creditable service, a death benefit is payable to the member's spouse.</p>
Amount of Benefit	<p>The death benefit for the spouse of a judge other than a district or probate judge consists of a yearly benefit equivalent to 3% of the salary prescribed by law for the position of the former member for each year of service, not to exceed 30% of such salary.</p> <p>The death benefit payable to the spouse of a district judge consists of a yearly benefit equal to 3% of the position's salary prescribed by law at the time of death for each year of service not to exceed 30% of such salary.</p> <p>The death benefit for the spouse of a probate judge is a yearly benefit equal to the greater of \$480 for each year of credited service to a maximum of 10 years, or 3% of the member's salary at the time of separation from service for each year of credited service not to exceed 30% of such salary.</p> <p>The benefit is payable for the spouse's life or until his or her remarriage.</p>

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Judicial Retirement Fund

#### Summary of Plan Provisions (Continued)

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##### Benefit Payable on Separation from Service

If a member terminates service and elects not to withdraw his or her contributions and accrued interest from the JRF, the member is eligible to receive any of the benefits for which the member has sufficient creditable service upon reaching an eligible retirement age.

A member terminating service prior to reaching eligibility for retirement benefits may elect to receive a return of contributions and accrued interest. "Regular Interest" is 4% which is the rate adopted by the Board and applied to the balance in each member's account every year; however, if a member receives a refund of contributions, the interest rate applied to the refund is lower than the 4% regular rate (Based on Section 36-27-16.3(c)(1)).

##### Member Contributions

Prior to October 1, 2011, each member contributes 6% of salary.

Beginning October 1, 2011, each member will contribute 8.25% of salary.

Beginning October 1, 2012, each member will contribute 8.50% of salary.

If a positive investment performance results in a decrease in the total contribution rate paid by employers and employees participating in the System, the Retirement Systems of Alabama shall first reduce the employee contribution rate.

##### State Contributions

The State makes contributions, which, in addition to the members' contributions, are sufficient to carry out the provisions of the Act.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules

**Supporting Schedules**

The following schedule presents six years of active member valuation data:

**JUDICIAL RETIREMENT FUND  
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date	Number	Annual † Payroll	Annual Average Pay	% Increase (Decrease) in Average Pay
09/30/12	337	\$ 42,446,426	\$ 125,954	0.58
09/30/11	334	41,826,338	125,229	(1.70)
09/30/10	338	43,060,614	127,398	0.78
09/30/09	342	43,234,239	126,416	3.18
09/30/08	336	41,167,248	122,522	3.19
09/30/07	348	41,318,229	118,731	0.60

† Does not include salary increases effective after the valuation date.

The following schedule presents six years of solvency tests:

**JUDICIAL RETIREMENT FUND  
SOLVENCY TEST**

(\$ in Thousands)

**Aggregate Accrued Liabilities For**

Valuation Date	(1)	(2)	(3)	Reported Assets	Portion (%) of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
09/30/12 &	\$ 38,341	\$ 237,197	\$ 104,932	\$ 234,300	100	83	0.0
09/30/11	32,898	250,731	110,006	235,870	100	81	0.0
09/30/10	33,950	218,969	105,540	246,197	100	97	0.0
09/30/09	32,533	215,730	92,715	252,646	100	100	4.7
09/30/08	32,585	203,062	87,781	259,071	100	100	26.7
09/30/07	30,286	202,835	82,820	265,189	100	100	38.7

& Reflects a change in methods

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules (Continued)

The following schedule presents six years of retirant and beneficiary data:

**JUDICIAL RETIREMENT FUND  
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

Fiscal Year Ended	Retirees Added		Retirees Removed		Retirees - Year-end		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual	Number	Annual	Number	Annual		
		(000s)		(000s)		(000s)		
2012	6	474	3	197	346	24,900	1.12	71,965
2011	28	2,448	10	655	343	24,623	7.85	71,787
2010	15	1,205	11	698	325	22,830	2.27	70,246
2009	19	1,541	10	624	321	22,323	4.28	69,542
2008	12	897	6	365	312	21,406	2.55	68,609
2007	35	2,481	3	180	306	20,874	12.39	68,216

The following table provides an analysis of actuarial gains and losses:

**JUDICIAL RETIREMENT FUND  
ANALYSIS OF ACTUARIAL GAINS AND LOSSES  
(Amounts in Thousands)**

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2011	\$ 157,765
Normal Cost for 2012 Plan Year	4,923
Contributions Received During the Year	(10,327)
Interest to Year End	<u>12,602</u>
Expected Unfunded Actuarial Liability as of September 30, 2012	<u>164,963</u>
Actuarial Losses During the Year	
From Investments	14,677
From Actuarial Liabilities	<u>(33,469)</u>
Total Actuarial Losses During the Year	<u>(18,792)</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2012</b>	<b><u>\$ 146,171</u></b>



Component Units of the State of Alabama  
**Comprehensive Annual Financial Report**

# STATISTICAL SECTION



The Statistical Section of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Retirement Systems' overall financial health.

### **Financial Trends**

These schedules contain trend information to help the reader understand how the Retirement Systems' financial performance has changed over time.

Additions by Source – Ten-Year History – page 113

Deductions by Type – Ten-Year History – page 114

Benefits by Type – Ten-Year History – page 115

Ten-Year History of Additions, Reductions, and Changes in Net Position – page 124

### **Retirees and Beneficiaries**

These schedules provide information concerning the retirees and beneficiaries receiving benefits.

Retired Members by Type of Benefit – page 116

Ten-Year History of Average Monthly Benefit Payments – page 119

### **Participating Units**

These schedules provide information concerning units participating in the Employees' Retirement System.

Largest Employers – Ten-Year History – page 122

Local Participating Employers – page 130

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Additions by Source

Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
ADDITIONS BY SOURCE**

Fiscal Year	Member Contributions \$	Employer Contributions		Investment Income	Total
		Amount	Employer Rate (%)		
2013	\$ 477,586	\$ 627,892	10.08	\$2,732,706	\$ 3,838,184
2012	458,534	618,306	10.00	2,989,162	4,066,002
2011	323,196	779,644	12.51	351,965	1,454,805
2010	321,403	776,421	12.51	1,448,312	2,546,136
2009	323,706	753,518	12.07	(1,485,126)	(407,902)
2008	327,004	729,995	11.75	(3,336,697)	(2,279,698)
2007	305,086	540,847	9.36	3,312,796	4,158,729
2006	281,455	434,195	8.17	1,582,359	2,298,009
2005	262,856	347,862	7.03	1,846,398	2,457,116
2004	253,860	312,474	6.56	1,634,314	2,200,648

**EMPLOYEES' RETIREMENT SYSTEM  
ADDITIONS BY SOURCE**

Fiscal Year	Member Contributions \$	Employer Contributions				Investment Income	Total
		Amount	Employer Rate (%)		Local		
			Regular	Law			
2013	\$ 223,646	\$ 338,819	10.12	31.61	*	\$ 1,296,460	\$ 1,858,925
2012	216,870	317,520	9.42	29.92	*	1,427,858	1,962,248
2011	195,709	394,998	11.94	30.57	*	196,939	787,646
2010	196,758	377,898	11.94	30.57	*	696,677	1,271,333
2009	210,281	451,139	11.88	30.99	*	(887,881)	(226,461)
2008	191,654	329,339	10.26	30.42	*	(1,574,094)	(1,053,101)
2007	184,140	277,254	7.78	24.12	*	1,596,592	2,057,986
2006	187,126	241,750	6.77	21.36	*	703,604	1,132,480
2005	160,313	195,846	5.57	18.03	*	841,013	1,197,172
2004	168,548	170,713	4.19	13.87	*	725,758	1,065,019

**JUDICIAL RETIREMENT FUND  
ADDITIONS BY SOURCE**

Fiscal Year	Member Contributions \$	Employer Contributions		Investment Income	Total
		Amount	Employer Rate (%)		
2013	\$ 3,919	\$ 13,903	32.06	\$ 32,245	\$ 50,067
2012	3,681	10,747	24.35	39,011	53,439
2011	2,654	10,906	24.20	2,022	15,582
2010	2,566	10,814	24.20	21,925	35,305
2009	2,701	10,326	23.23	758	13,785
2008	2,707	9,880	23.05	(38,322)	(25,735)
2007	2,636	9,307	22.50	34,581	46,524
2006	2,497	8,916	21.93	20,851	32,264
2005	2,398	8,943	21.93	19,347	30,688
2004	2,434	8,994	21.93	21,964	33,392

§ Includes transfers from other systems.

\* Local agency rates differ for each participating agency.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Deductions by Type

Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Contribution Refunds &amp; Death Benefits</b>	<b>Service Transfers</b>	<b>Administrative Expenses</b>	<b>Depreciation</b>	<b>Total</b>
2013	\$ 1,893,321	\$ 55,891	\$ 1,823	\$ 12,591	\$ 4,312	\$ 1,967,938
2012	1,800,805	49,453	1,937	11,555	4,344	1,868,094
2011	1,673,881	49,304	2,012	10,820	4,243	1,740,260
2010	1,567,790	43,628	1,790	11,979	4,264	1,629,451
2009	1,512,260	42,337	1,767	11,005	4,128	1,571,497
2008	1,486,871	37,317	1,683	12,216	578	1,538,665
2007	1,397,808	37,474	2,406	9,614	480	1,447,782
2006	1,207,251	36,683	3,008	11,325	462	1,258,729
2005	1,092,723	36,350	1,829	10,372	468	1,141,742
2004	987,761	35,983	1,575	7,361	439	1,033,119

**EMPLOYEES' RETIREMENT SYSTEM  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Contribution Refunds &amp; Death Benefits</b>	<b>Unit Withdrawals &amp; Service Transfers</b>	<b>Administrative Expenses</b>	<b>Depreciation</b>	<b>Total</b>
2013	\$ 895,475	\$ 44,837	\$ 3,587	\$ 9,767	\$ 2,015	\$ 955,681
2012	848,464	40,746	2,180	10,616	1,981	903,987
2011	782,957	36,798	2,157	10,002	2,029	833,943
2010	725,660	33,868	1,633	10,334	2,111	773,606
2009	695,430	32,640	2,718	9,413	2,038	742,239
2008	655,467	31,387	3,355	9,892	311	700,412
2007	615,661	31,829	3,034	7,813	298	658,635
2006	551,793	31,780	3,368	7,850	337	595,128
2005	487,348	30,960	2,755	6,898	294	528,255
2004	448,658	31,406	6,008	5,892	269	492,233

**JUDICIAL RETIREMENT FUND  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Contribution Refunds &amp; Death Benefits</b>	<b>Service Transfers</b>	<b>Administrative Expenses</b>	<b>Depreciation</b>	<b>Total</b>
2013	\$ 29,112	\$ 196	\$ -	\$ 280	\$ -	\$ 29,588
2012	27,183	253	-	257	-	27,693
2011	26,379	34	-	276	-	26,689
2010	24,526	235	-	317	-	25,078
2009	23,821	145	68	552	-	24,586
2008	22,587	83	186	526	-	23,382
2007	21,356	183	-	474	-	22,013
2006	18,777	45	-	432	-	19,254
2005	18,201	51	356	381	-	18,989
2004	17,903	103	-	344	-	18,350

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Benefits by Type

Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
BENEFITS BY TYPE**

Fiscal Year	Age & Service Benefits		Disability Benefits	Death Benefits & Refunds	
	Retirants	Survivors		Death	Resignation
2013	\$ 1,778,541	\$ 58,669	\$ 56,111	\$ 11,684	\$ 44,207
2012	1,692,169	55,109	53,527	11,269	38,184
2011	1,571,682	51,873	50,326	13,174	36,130
2010	1,469,928	49,287	48,576	13,032	30,596
2009	1,419,727	46,085	46,448	12,293	30,044
2008	1,395,060	44,628	47,183	12,007	25,310
2007	1,313,092	40,432	44,284	11,695	25,779
2006	1,131,936	35,228	40,087	10,523	26,160
2005	1,024,372	31,482	36,869	11,931	24,419
2004	923,893	29,066	34,802	10,240	25,743

**EMPLOYEES' RETIREMENT SYSTEM  
BENEFITS BY TYPE**

Fiscal Year	Age & Service Benefits		Disability Benefits	Death Benefits & Refunds	
	Retirants	Survivors		Death	Resignation
2013	\$ 806,846	\$ 37,730	\$ 50,899	\$ 7,889	\$ 36,948
2012	763,881	36,161	48,422	8,969	31,777
2011	703,128	34,538	45,291	7,806	28,992
2010	649,532	33,009	43,119	8,994	24,874
2009	621,519	32,167	41,744	9,032	23,608
2008	584,391	30,827	40,249	9,188	22,199
2007	548,425	28,595	38,641	7,779	24,050
2006	490,553	25,729	35,511	7,158	24,622
2005	431,179	23,689	32,480	7,505	23,455
2004	395,467	22,772	30,419	7,696	23,710

**JUDICIAL RETIREMENT FUND  
BENEFITS BY TYPE**

Fiscal Year	Age & Service Benefits		Disability Benefits	Death Benefits & Refunds	
	Retirants	Survivors		Death	Resignation
2013	\$ 25,022	\$ 3,715	\$ 375	\$ -	\$ 196
2012	23,307	3,501	375	-	253
2011	22,773	3,231	375	-	34
2010	20,763	3,388	375	-	235
2009	19,856	3,589	376	-	145
2008	18,807	3,387	393	-	83
2007	17,918	3,093	345	-	183
2006	15,367	3,093	317	-	45
2005	14,911	2,972	318	-	51
2004	14,722	2,864	317	-	103

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Retired Members by Type of Benefit as of September 30, 2012

Amount of Monthly Benefit	Number of Retirants	Type of Retirement <sup>1</sup>			Option Selected <sup>2</sup>				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	1,263	789	346	128	249	297	367	349	1
251 - 500	8,507	6,339	813	1,355	2,570	3,621	1,303	1,009	4
501 - 750	7,825	6,279	607	939	2,204	3,411	1,280	924	6
751 - 1,000	6,405	5,209	503	693	1,633	2,783	1,071	913	5
1,001 - 1,250	5,490	4,552	375	563	1,238	2,356	1,076	815	5
1,251 - 1,500	5,306	4,528	332	446	1,137	2,185	1,213	770	1
1,501 - 1,750	6,684	6,092	240	352	1,226	3,031	1,544	880	3
1,751 - 2,000	8,504	8,097	183	224	1,516	4,165	1,664	1,154	5
2,001 - 2,250	8,013	7,767	144	102	1,289	4,103	1,542	1,076	3
2,251 - 2,500	6,248	6,096	93	59	995	3,281	1,172	796	4
2,501 - 2,750	4,433	4,324	72	37	690	2,252	919	571	1
2,751 - 3,000	3,226	3,133	69	24	490	1,558	696	480	2
3,001 - 3,250	2,457	2,396	51	10	361	1,149	583	359	5
3,251 - 3,500	1,792	1,741	47	4	264	798	455	274	1
3,501 - 3,750	1,416	1,381	31	4	214	646	367	186	3
3,751 - 4,000	1,092	1,066	23	3	159	492	267	169	5
4,001 - 4,250	929	910	18	1	130	432	216	149	2
4,251 - 4,500	700	684	15	1	97	303	178	119	3
4,501 - 4,750	519	507	12	-	67	212	138	101	1
4,751 - 5,000	385	376	9	-	52	161	112	58	2
Over 5,000	1,612	1,571	37	4	208	559	508	322	15
<b>Totals <sup>3</sup></b>	<b>82,806</b>	<b>73,837</b>	<b>4,020</b>	<b>4,949</b>	<b>16,789</b>	<b>37,795</b>	<b>16,671</b>	<b>11,474</b>	<b>77</b>

<sup>1</sup> Type of Retirement

A - Service  
 B - Survivor benefit  
 C - Disability

<sup>2</sup> Option

Maximum - Life Annuity  
 Opt-1 - Cash Refund  
 Opt-2 - 100% Joint Survivorship  
 Opt-3 - 50% Joint Survivorship  
 Opt-4 - Other

<sup>3</sup> This includes 4,436 DROP

participants as of September 30, 2012.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Retired Members by Type of Benefit as of September 30, 2012

Amount of Monthly Benefit	Number of Retirants	Type of Retirement <sup>1</sup>			Option Selected <sup>2</sup>				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	416	181	210	25	79	55	76	191	15
251 - 500	3,676	2,262	1,008	406	966	921	777	947	65
501 - 750	4,846	3,319	722	805	1,550	1,590	765	828	113
751 - 1,000	4,536	3,193	479	864	1,479	1,626	602	727	102
1,001 - 1,250	4,884	3,917	346	621	1,224	1,947	790	784	139
1,251 - 1,500	4,244	3,606	233	405	1,002	1,747	752	641	102
1,501 - 1,750	3,948	3,522	159	267	868	1,638	705	659	78
1,751 - 2,000	3,446	3,201	96	149	708	1,508	531	622	77
2,001 - 2,250	2,808	2,646	56	106	597	1,155	491	509	56
2,251 - 2,500	2,252	2,116	59	77	457	963	402	392	38
2,501 - 2,750	1,797	1,720	35	42	343	787	311	315	41
2,751 - 3,000	1,402	1,346	33	23	274	608	223	276	21
3,001 - 3,250	1,149	1,110	29	10	226	515	163	223	22
3,251 - 3,500	816	797	11	8	149	379	130	144	14
3,501 - 3,750	668	657	6	5	134	301	98	124	11
3,751 - 4,000	445	437	4	4	81	214	53	89	8
4,001 - 4,250	373	370	2	1	63	176	50	73	11
4,251 - 4,500	293	286	3	4	55	135	48	53	2
4,501 - 4,750	231	229	2	-	49	100	33	42	7
4,751 - 5,000	185	181	2	2	42	70	25	44	4
Over 5,000	682	677	3	2	145	300	82	146	9
<b>Totals <sup>3</sup></b>	<b>43,097</b>	<b>35,773</b>	<b>3,498</b>	<b>3,826</b>	<b>10,491</b>	<b>16,735</b>	<b>7,107</b>	<b>7,829</b>	<b>935</b>

<sup>1</sup> Type of Retirement

A - Service  
 B - Survivor benefit  
 C - Disability

<sup>2</sup> Option

Maximum - Life Annuity  
 Opt-1 - Cash Refund  
 Opt-2 - 100% Joint Survivorship  
 Opt-3 - 50% Joint Survivorship  
 Opt-4 - Other

<sup>3</sup> Includes 2,121 DROP participants as of September 30, 2012.

Does not include 43 members entitled to deferred benefits, but not currently in receipt.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Retired Members by Type of Benefit as of September 30, 2012

Amount of Monthly Benefit	Number of Retirants	Type of Retirement †			Option	
		A	B	C	Maximum	Joint Survivorship
\$ 1 - 250	1	-	1	-	-	1
251 - 500	2	-	2	-	-	2
501 - 750	1	-	1	-	-	1
751 - 1,000	6	-	5	1	1	5
1,001 - 1,250	3	-	3	-	-	3
1,251 - 1,500	7	-	7	-	-	7
1,501 - 1,750	7	1	6	-	-	7
1,751 - 2,000	7	-	7	-	-	7
2,001 - 2,250	2	-	2	-	-	2
2,251 - 2,500	2	1	1	-	-	2
2,501 - 2,750	2	-	2	-	-	2
2,751 - 3,000	5	1	3	1	2	3
3,001 - 3,250	7	4	3	-	2	5
3,251 - 3,500	19	4	15	-	-	19
3,501 - 3,750	40	2	38	-	1	39
3,751 - 4,000	4	2	1	1	1	3
4,001 - 4,250	6	6	-	-	3	3
4,251 - 4,500	6	5	1	-	2	4
4,501 - 4,750	9	5	2	2	2	7
4,751 - 5,000	11	6	5	-	-	11
Over 5,000	200	198	-	2	34	166
<b>Totals</b>	<b>347</b>	<b>235</b>	<b>105</b>	<b>7</b>	<b>48</b>	<b>299</b>

† Type of Retirement

A - Service

B - Survivor benefit

C - Disability

# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section

### Teachers' Retirement System

#### Ten-Year History of Average Monthly Benefit Payments as of September 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
<b>2012</b>					
Average monthly benefit	\$ 733	\$ 1,151	\$ 1,644	\$ 2,288	\$ 2,896
Average final average salary	\$ 37,417	\$ 41,518	\$ 46,432	\$ 53,707	\$ 54,443
Number of active retirants	951	643	638	1,411	493
<b>2011</b>					
Average monthly benefit	\$ 721	\$ 1,230	\$ 1,660	\$ 2,448	\$ 3,362
Average final average salary	\$ 36,580	\$ 43,817	\$ 47,340	\$ 58,430	\$ 64,558
Number of active retirants	797	595	632	1,674	732
<b>2010</b>					
Average monthly benefit	\$ 691	\$ 1,140	\$ 1,596	\$ 2,309	\$ 3,206
Average final average salary	\$ 36,194	\$ 41,368	\$ 45,033	\$ 55,481	\$ 61,883
Number of active retirants	721	499	520	1,701	847
<b>2009</b>					
Average monthly benefit	\$ 693	\$ 1,099	\$ 1,533	\$ 2,229	\$ 3,089
Average final average salary	\$ 35,464	\$ 39,601	\$ 43,549	\$ 53,066	\$ 59,139
Number of active retirants	632	476	432	1,726	770
<b>2008</b>					
Average monthly benefit	\$ 687	\$ 1,063	\$ 1,463	\$ 2,124	\$ 3,010
Average final average salary	\$ 34,769	\$ 38,493	\$ 41,345	\$ 50,504	\$ 57,764
Number of active retirants	699	504	443	1,538	843
<b>2007</b>					
Average monthly benefit	\$ 650	\$ 1,044	\$ 1,490	\$ 2,001	\$ 2,791
Average final average salary	\$ 32,988	\$ 37,638	\$ 42,325	\$ 47,239	\$ 53,602
Number of active retirants	589	533	407	1,539	798
<b>2006</b>					
Average monthly benefit	\$ 634	\$ 982	\$ 1,349	\$ 1,917	\$ 2,839
Average final average salary	\$ 31,362	\$ 34,986	\$ 38,264	\$ 45,351	\$ 54,489
Number of active retirants	498	372	339	1,763	860
<b>2005</b>					
Average monthly benefit	\$ 594	\$ 960	\$ 1,389	\$ 1,995	\$ 2,783
Average final average salary	\$ 28,010	\$ 32,773	\$ 36,774	\$ 44,703	\$ 51,621
Number of active retirants	728	624	443	2,003	894
<b>2004*</b>					
Average monthly benefit	\$ 601	\$ 918	\$ 1,325	\$ 2,058	\$ 2,961
Average final average salary	\$ 28,825	\$ 32,049	\$ 35,474	\$ 46,274	\$ 54,194
Number of active retirants	742	591	498	2,964	1,476
<b>2003**</b>					
Average monthly benefit	\$ 535	\$ 798	\$ 1,133	\$ 1,905	\$ 2,984
Average final average salary	\$ 27,372	\$ 28,531	\$ 31,559	\$ 44,478	\$ 56,593
Number of active retirants	569	424	437	2,420	1,464

\*Reflects retirements July 1, 2003 through September 30, 2004.

\*\*As of June 30. Beginning with the 2004 plan year, the valuation date was changed from June 30 to September 30.

RETIREMENT SYSTEMS OF ALABAMA

*Statistical Section*

Employees' Retirement System

Ten-Year History of Average Monthly Benefit Payments as of September 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
<b>2012</b>					
Average monthly benefit	\$ 723	\$ 1,214	\$ 1,856	\$ 2,475	\$ 3,170
Average final average salary	\$ 38,160	\$ 43,479	\$ 49,415	\$ 54,904	\$ 58,675
Number of active retirants	566	370	486	757	283
<b>2011</b>					
Average monthly benefit	\$ 728	\$ 1,230	\$ 1,871	\$ 2,423	\$ 3,207
Average final average salary	\$ 38,584	\$ 43,878	\$ 49,583	\$ 55,598	\$ 59,990
Number of active retirants	529	341	434	975	459
<b>2010</b>					
Average monthly benefit	\$ 667	\$ 1,144	\$ 1,819	\$ 2,386	\$ 3,054
Average final average salary	\$ 35,383	\$ 41,444	\$ 48,399	\$ 55,257	\$ 57,575
Number of active retirants	399	316	366	954	420
<b>2009</b>					
Average monthly benefit	\$ 1,399	\$ 1,449	\$ 1,661	\$ 2,064	\$ 2,764
Average final average salary	\$ 40,605	\$ 39,986	\$ 37,807	\$ 47,298	\$ 46,613
Number of active retirants	700	436	345	772	428
<b>2008</b>					
Average monthly benefit	\$ 1,443	\$ 1,389	\$ 1,765	\$ 1,982	\$ 2,767
Average final average salary	\$ 43,159	\$ 42,731	\$ 44,673	\$ 47,099	\$ 53,152
Number of active retirants	566	346	262	670	322
<b>2007</b>					
Average monthly benefit	\$ 1,331	\$ 1,288	\$ 1,592	\$ 1,975	\$ 2,650
Average final average salary	\$ 40,544	\$ 41,247	\$ 43,439	\$ 46,209	\$ 51,484
Number of active retirants	601	318	230	761	334
<b>2006</b>					
Average monthly benefit	\$ 1,285	\$ 1,095	\$ 1,558	\$ 1,779	\$ 2,543
Average final average salary	\$ 39,200	\$ 36,950	\$ 41,455	\$ 43,714	\$ 48,532
Number of active retirants	508	281	204	878	349
<b>2005</b>					
Average monthly benefit	\$ 1,271	\$ 1,008	\$ 1,482	\$ 1,848	\$ 2,592
Average final average salary	\$ 38,257	\$ 34,812	\$ 38,980	\$ 43,707	\$ 49,007
Number of active retirants	621	379	280	1,151	307
<b>2004</b>					
Average monthly benefit	\$ 1,406	\$ 1,176	\$ 1,472	\$ 1,834	\$ 2,761
Average final average salary	\$ 38,630	\$ 36,939	\$ 38,336	\$ 41,807	\$ 51,146
Number of active retirants	734	320	263	846	343
<b>2003</b>					
Average monthly benefit	\$ 1,195	\$ 1,079	\$ 1,285	\$ 1,849	\$ 2,749
Average final average salary	\$ 36,391	\$ 35,075	\$ 34,952	\$ 43,008	\$ 52,337
Number of active retirants	552	251	240	684	296

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Ten-Year History of Average Monthly Benefit Payments as of September 30

	Years of Credited Service				
	10-14	15-19	20-24	25-29	30+
<b>2012</b>					
Average monthly benefit	\$ 6,993	\$ 9,184	\$ 9,371	\$ 7,230	\$ -
Average final average salary	\$ 111,884	\$ 146,937	\$ 149,936	\$ 115,676	\$ -
Number of active retirants	1	1	1	3	-
<b>2011</b>					
Average monthly benefit	\$ 7,940	\$ 8,658	\$ 8,381	\$ 9,170	\$ 10,897
Average final average salary	\$ 127,032	\$ 138,522	\$ 134,096	\$ 146,720	\$ 174,352
Number of active retirants	7	9	5	8	2
<b>2010</b>					
Average monthly benefit	\$ 6,796	\$ 8,819	\$ 9,319	\$ 7,147	\$ -
Average final average salary	\$ 108,736	\$ 141,102	\$ 149,104	\$ 114,352	\$ -
Number of active retirants	3	2	3	2	-
<b>2009</b>					
Average monthly benefit	\$ 7,247	\$ 7,899	\$ 8,020	\$ 9,899	\$ 10,750
Average final average salary	\$ 115,950	\$ 126,376	\$ 128,320	\$ 158,384	\$ 172,000
Number of active retirants	6	2	5	5	1
<b>2008</b>					
Average monthly benefit	\$ 7,189	\$ 5,741	\$ 9,054	\$ 8,993	\$ -
Average final average salary	\$ 115,028	\$ 91,863	\$ 144,864	\$ 143,888	\$ -
Number of active retirants	3	2	1	4	-
<b>2007</b>					
Average monthly benefit	\$ 6,761	\$ 8,167	\$ 7,786	\$ 6,486	\$ 7,507
Average final average salary	\$ 108,168	\$ 130,679	\$ 124,576	\$ 103,776	\$ 120,112
Number of active retirants	5	9	6	6	11
<b>2006</b>					
Average monthly benefit	\$ 7,824	\$ 8,223	\$ 7,642	\$ -	\$ -
Average final average salary	\$ 125,190	\$ 131,568	\$ 122,272	\$ -	\$ -
Number of active retirants	2	1	5	-	-
<b>2005</b>					
Average monthly benefit	\$ 8,611	\$ 8,990	\$ 10,434	\$ 8,040	\$ 12,454
Average final average salary	\$ 137,776	\$ 143,840	\$ 166,944	\$ 128,640	\$ 199,264
Number of active retirants	1	3	3	3	1
<b>2004</b>					
Average monthly benefit	\$ 1,568	\$ -	\$ 6,367	\$ 8,696	\$ -
Average final average salary	\$ 25,088	\$ -	\$ 101,878	\$ 139,135	\$ -
Number of active retirants	1	-	3	3	-
<b>2003</b>					
Average monthly benefit	\$ 5,778	\$ 8,339	\$ 8,726	\$ 6,594	\$ -
Average final average salary	\$ 92,448	\$ 133,424	\$ 139,616	\$ 105,504	\$ -
Number of active retirants	2	4	4	4	-

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Largest Employers

Ten-Year History

	2012	2011	2010	2009	2008
<b>1) Unit</b>	State of Alabama	State of Alabama	State of Alabama	State of Alabama	State of Alabama
# of Active Members	31,795	33,885	35,147	35,200	35,767
% of Total Active Members	36.85%	38.36%	39.24%	39.10%	39.53%
<b>2) Unit</b>	Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of
# of Active Members	2,192	2,195	2,175	2,227	2,293
% of Total Active Members	2.54%	2.48%	2.43%	2.47%	2.53%
<b>3) Unit</b>	Mobile County	Mobile County	Mobile County	Mobile County	Mobile County
# of Active Members	1,657	1,672	1,678	1,699	1,664
% of Total Active Members	1.92%	1.89%	1.87%	1.89%	1.84%
<b>4) Unit</b>	Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of
# of Active Members	1,254	1,310	1,335	1,421	1,337
% of Total Active Members	1.45%	1.48%	1.49%	1.58%	1.48%
<b>5) Unit</b>	Madison County	Madison County	Madison County	Madison County	Madison County
# of Active Members	1,154	1,162	1,133	1,060	1,102
% of Total Active Members	1.34%	1.32%	1.27%	1.18%	1.22%
<b>6) Unit</b>	Hellen Keller Hosp	Dothan, City of	Hellen Keller Hosp	Hellen Keller Hosp	Hellen Keller Hosp
# of Active Members	1,002	957	984	1,034	1,023
% of Total Active Members	1.16%	1.08%	1.10%	1.15%	1.13%
<b>7) Unit</b>	Dothan, City of	Helen Keller Hosp	Dothan, City of	Dothan, City of	Dothan, City of
# of Active Members	966	956	961	970	972
% of Total Active Members	1.12%	1.08%	1.07%	1.08%	1.07%
<b>8) Unit</b>	*Altapointe Health	Montgomery County	Montgomery County	Montgomery County	Tuscaloosa, City of
# of Active Members	911	794	848	806	710
% of Total Active Members	1.06%	0.90%	0.95%	0.89%	0.78%
<b>9) Unit</b>	Montgomery County	*Altapointe Health	Tuscaloosa, City of	Tuscaloosa, City of	*Altapointe Health
# of Active Members	771	762	745	732	674
% of Total Active Members	0.89%	0.86%	0.83%	0.81%	0.74%
<b>10) Unit</b>	Tuscaloosa, City of	Tuscaloosa, City of	*Altapointe Health	*Altapointe Health	Baldwin County
# of Active Members	763	757	668	685	655
% of Total Active Members	0.88%	0.86%	0.75%	0.76%	0.72%
<b>Total # of Active Members</b>	<b>86,290</b>	<b>88,341</b>	<b>89,560</b>	<b>90,018</b>	<b>90,472</b>

\* Formerly Mobile-Wash MHB

Source: Retirement Systems of Alabama records

2007	2006	2005	2004	2003
State of Alabama	State of Alabama	State of Alabama	State of Alabama	State of Alabama
35,566	34,429	33,756	33,741	34,659
40.03%	39.63%	39.87%	40.80%	41.54%
Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of
2,185	2,188	2,174	2,050	2,124
2.46%	2.52%	2.57%	2.48%	2.55%
Mobile County	Mobile County	Mobile County	Mobile County	Mobile County
1,614	1,589	1,626	1,622	1,658
1.82%	1.83%	1.92%	1.96%	1.99%
Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of
1,288	1,278	1,272	1,297	1,334
1.45%	1.47%	1.50%	1.57%	1.60%
Madison County	Madison County	Madison County	Madison County	Madison County
1,068	1,073	1,071	1,055	1,035
1.20%	1.24%	1.26%	1.28%	1.24%
Dothan, City of	Dothan, City of	Dothan, City of	Helen Keller Hosp	Helen Keller Hosp
962	955	923	785	766
1.08%	1.10%	1.09%	0.95%	0.92%
Helen Keller Hosp	Helen Keller Hosp	Helen Keller Hosp	Tuscaloosa, City of	Jefferson Co Health
893	817	816	684	668
1.01%	0.94%	0.96%	0.83%	0.80%
Tuscaloosa, City of	Tuscaloosa, City of	Tuscaloosa, City of	Jefferson Co Health	Tuscaloosa, City of
710	695	680	599	655
0.79%	0.80%	0.80%	0.72%	0.79%
Hoover, City of	Hoover, City of	Hoover, City of	Gadsden, City of	Gadsden, City of
636	633	616	587	613
0.72%	0.73%	0.73%	0.71%	0.73%
Mobile-Wash MHB	Mobile-Wash MHB	Mobile-Wash MHB	Mobile-Wash MHB	Hoover, City of
631	704	713	611	602
0.70%	0.81%	0.84%	0.74%	0.72%
88,849	86,874	84,674	82,708	83,429

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Ten-Year History of Additions, Reductions, and Changes in Net Position

(Amounts in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Additions</b>					
Contributions					
Employee	\$ 474,241	\$ 456,518	\$ 321,137	\$ 319,770	\$ 321,100
Employer	627,892	618,306	779,644	776,421	753,518
Transfers from Employees' Retirement System	3,345	2,016	2,059	-	2,606
Transfers from Judicial Retirement Fund	-	-	-	1,633	-
Total Contributions	<u>1,105,478</u>	<u>1,076,840</u>	<u>1,102,840</u>	<u>1,097,824</u>	<u>1,077,224</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	2,090,646	2,349,955	(278,407)	886,997	(2,083,048)
Interest and Dividends	<u>638,766</u>	<u>634,695</u>	<u>624,546</u>	<u>559,941</u>	<u>580,656</u>
Total Investment Income from Investing Activities	2,729,412	2,984,650	346,139	1,446,938	(1,502,392)
Less: Investment Expenses, Net	<u>5,712</u>	<u>5,260</u>	<u>5,305</u>	<u>5,415</u>	<u>5,419</u>
Net Investment Income from Investing Activities	<u>2,723,700</u>	<u>2,979,390</u>	<u>340,834</u>	<u>1,441,523</u>	<u>(1,507,811)</u>
From Securities Lending Activities					
Securities Lending Income	12,753	13,670	15,643	12,519	33,782
Less Securities Lending Expenses:					
Borrower Rebates	401	433	1,261	2,820	6,685
Management Fees	<u>3,346</u>	<u>3,465</u>	<u>3,251</u>	<u>2,910</u>	<u>4,412</u>
Total Securities Lending Expenses	<u>3,747</u>	<u>3,898</u>	<u>4,512</u>	<u>5,730</u>	<u>11,097</u>
Net Income from Securities Lending Activities	<u>9,006</u>	<u>9,772</u>	<u>11,131</u>	<u>6,789</u>	<u>22,685</u>
Total Investment Income	<u>2,732,706</u>	<u>2,989,162</u>	<u>351,965</u>	<u>1,448,312</u>	<u>(1,485,126)</u>
Total Additions	<u>3,838,184</u>	<u>4,066,002</u>	<u>1,454,805</u>	<u>2,546,136</u>	<u>(407,902)</u>
<b>Deductions</b>					
Retirement Allowance Payments	1,893,321	1,800,805	1,673,881	1,567,790	1,512,260
Return of Contributions and Death Benefits	55,891	49,453	49,304	43,628	42,337
Transfers to Employees' Retirement System	1,823	1,937	2,012	1,790	1,767
Transfers to Judicial Retirement Fund	-	-	-	-	-
Administrative Expenses	12,591	11,555	10,820	11,979	11,005
Depreciation	<u>4,312</u>	<u>4,344</u>	<u>4,243</u>	<u>4,264</u>	<u>4,128</u>
Total Deductions	<u>1,967,938</u>	<u>1,868,094</u>	<u>1,740,260</u>	<u>1,629,451</u>	<u>1,571,497</u>
<b>Net Increase/(Decrease)</b>	1,870,246	2,197,908	(285,455)	916,685	(1,979,399)
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	18,950,126	16,752,218	17,037,673	16,120,988	18,100,387
End of Year	<u>\$ 20,820,372</u>	<u>\$ 18,950,126</u>	<u>\$ 16,752,218</u>	<u>\$ 17,037,673</u>	<u>\$ 16,120,988</u>

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Additions</b>					
Contributions					
Employee	\$ 323,822	\$ 302,272	\$ 278,220	\$ 260,149	\$ 251,714
Employer	729,995	540,847	434,195	347,862	312,474
Transfers from Employees' Retirement System	3,182	2,814	3,235	2,707	2,146
Transfers from Judicial Retirement Fund	-	-	-	-	-
Total Contributions	<u>1,056,999</u>	<u>845,933</u>	<u>715,650</u>	<u>610,718</u>	<u>566,334</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	(4,057,823)	2,589,858	878,743	1,221,059	1,055,525
Interest and Dividends	705,555	719,910	703,189	624,397	580,000
Total Investment Income from Investing Activities	(3,352,268)	3,309,768	1,581,932	1,845,456	1,635,525
Less: Investment Expenses, Net	5,990	5,105	4,947	4,278	4,079
Net Investment Income from Investing Activities	<u>(3,358,258)</u>	<u>3,304,663</u>	<u>1,576,985</u>	<u>1,841,178</u>	<u>1,631,446</u>
From Securities Lending Activities					
Securities Lending Income	83,588	136,869	84,052	40,399	10,704
Less Securities Lending Expenses:					
Borrower Rebates	57,695	126,966	77,407	33,559	7,206
Management Fees	4,332	1,770	1,271	1,620	630
Total Securities Lending Expenses	<u>62,027</u>	<u>128,736</u>	<u>78,678</u>	<u>35,179</u>	<u>7,836</u>
Net Income from Securities Lending Activities	<u>21,561</u>	<u>8,133</u>	<u>5,374</u>	<u>5,220</u>	<u>2,868</u>
Total Investment Income	<u>(3,336,697)</u>	<u>3,312,796</u>	<u>1,582,359</u>	<u>1,846,398</u>	<u>1,634,314</u>
Total Additions	<u>(2,279,698)</u>	<u>4,158,729</u>	<u>2,298,009</u>	<u>2,457,116</u>	<u>2,200,648</u>
<b>Deductions</b>					
Retirement Allowance Payments	1,486,871	1,397,808	1,207,251	1,092,723	987,761
Return of Contributions and Death Benefits	37,317	37,474	36,683	36,350	35,983
Transfers to Employees' Retirement System	1,683	2,406	2,982	1,829	1,575
Transfers to Judicial Retirement Fund	-	-	26	-	-
Administrative Expenses	12,216	9,614	11,325	10,372	7,361
Depreciation	578	480	462	468	439
Total Deductions	<u>1,538,665</u>	<u>1,447,782</u>	<u>1,258,729</u>	<u>1,141,742</u>	<u>1,033,119</u>
<b>Net Increase/(Decrease)</b>	<u>(3,818,363)</u>	<u>2,710,947</u>	<u>1,039,280</u>	<u>1,315,374</u>	<u>1,167,529</u>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	<u>21,918,750</u>	<u>19,207,803</u>	<u>18,168,523</u>	<u>16,853,149</u>	<u>15,685,620</u>
End of Year	<u>\$ 18,100,387</u>	<u>\$ 21,918,750</u>	<u>\$ 19,207,803</u>	<u>\$ 18,168,523</u>	<u>\$ 16,853,149</u>

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Ten-Year History of Additions, Reductions, and Changes in Net Position

(Amounts in Thousands)

	2013	2012	2011	2010	2009
<b>Additions</b>					
Contributions					
Employee	\$ 221,823	\$ 214,933	\$ 193,697	\$ 194,968	\$ 208,446
Employer	338,819	317,520	394,998	377,898	451,139
Transfers from Teachers' Retirement System	1,823	1,937	2,012	1,790	1,767
Transfers from Judicial Retirement Fund	-	-	-	-	68
Total Contributions	562,465	534,390	590,707	574,656	661,420
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	984,714	1,114,737	(112,758)	427,365	(1,180,523)
Interest and Dividends	310,220	310,748	307,152	268,667	285,022
Total Investment Income from Investing Activities	1,294,934	1,425,485	194,394	696,032	(895,501)
Less: Investment Expenses, Net	2,549	2,256	2,308	2,398	2,651
Net Investment Income from Investing Activities	1,292,385	1,423,229	192,086	693,634	(898,152)
<i>From Securities Lending Activities</i>					
Securities Lending Income	5,780	6,445	6,891	5,619	15,335
Less Securities Lending Expenses:					
Borrower Rebates	186	174	517	1,271	3,070
Management Fees	1,519	1,642	1,521	1,305	1,994
Total Securities Lending Expenses	1,705	1,816	2,038	2,576	5,064
Net Income from Securities Lending Activities	4,075	4,629	4,853	3,043	10,271
Total Investment Income	1,296,460	1,427,858	196,939	696,677	(887,881)
Total Additions	1,858,925	1,962,248	787,646	1,271,333	(226,461)
<b>Deductions</b>					
Retirement Allowance Payments	895,475	848,464	782,957	725,660	695,430
Return of Contributions and Death Benefits	44,837	40,746	36,798	33,868	32,640
Unit Withdrawals	-	-	-	-	14
Transfers to Teachers' Retirement System	3,345	2,016	2,059	1,633	2,606
Transfers to Judicial Retirement Fund	242	164	98	-	98
Administrative Expenses	9,767	10,616	10,002	10,334	9,413
Depreciation	2,015	1,981	2,029	2,111	2,038
Total Deductions	955,681	903,987	833,943	773,606	742,239
Net Increase/(Decrease)	903,244	1,058,261	(46,297)	497,727	(968,700)
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	9,188,696	8,130,435	8,176,732	7,679,005	8,647,705
End of Year	<b>\$ 10,091,940</b>	<b>\$ 9,188,696</b>	<b>\$ 8,130,435</b>	<b>\$ 8,176,732</b>	<b>\$ 7,679,005</b>

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Additions</b>					
Contributions					
Employee	\$ 189,785	\$ 181,734	\$ 184,144	\$ 158,128	\$ 166,973
Employer	329,339	277,254	241,750	195,846	170,713
Transfers from Teachers' Retirement System	1,683	2,406	2,982	1,829	1,575
Transfers from Judicial Retirement Fund	186	-	-	356	-
Total Contributions	<u>520,993</u>	<u>461,394</u>	<u>428,876</u>	<u>356,159</u>	<u>339,261</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(1,919,746)	1,249,495	375,025	545,826	457,981
Interest and Dividends	339,578	347,272	329,459	295,631	268,876
Total Investment Income from Investing Activities	(1,580,168)	1,596,767	704,484	841,457	726,857
Less: Investment Expenses, Net	3,747	3,725	3,216	2,652	2,390
Net Investment Income from Investing Activities	<u>(1,583,915)</u>	<u>1,593,042</u>	<u>701,268</u>	<u>838,805</u>	<u>724,467</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	38,458	58,925	35,407	17,604	4,892
Less Securities Lending Expenses:					
Borrower Rebates	26,649	54,648	32,567	14,948	3,318
Management Fees	1,988	727	504	448	283
Total Securities Lending Expenses	<u>28,637</u>	<u>55,375</u>	<u>33,071</u>	<u>15,396</u>	<u>3,601</u>
Net Income from Securities Lending Activities	<u>9,821</u>	<u>3,550</u>	<u>2,336</u>	<u>2,208</u>	<u>1,291</u>
Total Investment Income	<u>(1,574,094)</u>	<u>1,596,592</u>	<u>703,604</u>	<u>841,013</u>	<u>725,758</u>
Total Additions	<u>(1,053,101)</u>	<u>2,057,986</u>	<u>1,132,480</u>	<u>1,197,172</u>	<u>1,065,019</u>
<b>Deductions</b>					
Retirement Allowance Payments	655,467	615,661	551,793	487,348	448,658
Return of Contributions and Death Benefits	31,387	31,829	31,780	30,960	31,406
Unit Withdrawals	-	-	-	-	3,798
Transfers to Teachers' Retirement System	3,182	2,814	3,235	2,707	2,146
Transfers to Judicial Retirement Fund	173	220	133	48	64
Administrative Expenses	9,892	7,813	7,850	6,898	5,892
Depreciation	311	298	337	294	269
Total Deductions	<u>700,412</u>	<u>658,635</u>	<u>595,128</u>	<u>528,255</u>	<u>492,233</u>
<b>Net Increase/(Decrease)</b>	<u>(1,753,513)</u>	<u>1,399,351</u>	<u>537,352</u>	<u>668,917</u>	<u>572,786</u>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	<u>10,401,218</u>	<u>9,001,867</u>	<u>8,464,515</u>	<u>7,795,598</u>	<u>7,222,812</u>
End of Year	<u>\$ 8,647,705</u>	<u>\$ 10,401,218</u>	<u>\$ 9,001,867</u>	<u>\$ 8,464,515</u>	<u>\$ 7,795,598</u>

# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section

### Judicial Retirement Fund

#### Ten-Year History of Additions, Reductions, and Changes in Net Position

(Amounts in Thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Additions</b>					
Contributions					
Employee	\$ 3,677	\$ 3,517	\$ 2,556	\$ 2,566	\$ 2,603
Employer	13,903	10,747	10,906	10,814	10,326
Transfers from Teachers' Retirement System	-	-	-	-	-
Transfers from Employees' Retirement System	<u>242</u>	<u>164</u>	<u>98</u>	<u>-</u>	<u>98</u>
Total Contributions	<u>17,822</u>	<u>14,428</u>	<u>13,560</u>	<u>13,380</u>	<u>13,027</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	25,207	32,112	(4,961)	15,287	(6,612)
Interest and Dividends	<u>6,912</u>	<u>6,748</u>	<u>6,853</u>	<u>6,551</u>	<u>7,026</u>
Total Investment Income from Investing Activities	32,119	38,860	1,892	21,838	414
Less: Investment Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11</u>
Net Investment Income from Investing Activities	<u>32,119</u>	<u>38,860</u>	<u>1,892</u>	<u>21,838</u>	<u>403</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	184	215	201	169	543
Less Securities Lending Expenses:					
Borrower Rebates	10	12	22	45	119
Management Fees	<u>48</u>	<u>52</u>	<u>49</u>	<u>37</u>	<u>69</u>
Total Securities Lending Expenses	<u>58</u>	<u>64</u>	<u>71</u>	<u>82</u>	<u>188</u>
Net Income from Securities Lending Activities	<u>126</u>	<u>151</u>	<u>130</u>	<u>87</u>	<u>355</u>
Total Investment Income	<u>32,245</u>	<u>39,011</u>	<u>2,022</u>	<u>21,925</u>	<u>758</u>
Total Additions	<u>50,067</u>	<u>53,439</u>	<u>15,582</u>	<u>35,305</u>	<u>13,785</u>
<b>Deductions</b>					
Retirement Allowance Payments	29,112	27,183	26,379	24,526	23,821
Return of Contributions and Death Benefits	196	253	34	235	145
Transfers to Employees' Retirement System	-	-	-	-	68
Transfers to Teachers' Retirement System	-	-	-	-	-
Administrative Expenses	<u>280</u>	<u>257</u>	<u>276</u>	<u>317</u>	<u>552</u>
Total Deductions	<u>29,588</u>	<u>27,693</u>	<u>26,689</u>	<u>25,078</u>	<u>24,586</u>
<b>Net Increase/(Decrease)</b>	20,479	25,746	(11,107)	10,227	(10,801)
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	<u>235,881</u>	<u>210,135</u>	<u>221,242</u>	<u>211,015</u>	<u>221,816</u>
End of Year	<u>\$ 256,360</u>	<u>\$ 235,881</u>	<u>\$ 210,135</u>	<u>\$ 221,242</u>	<u>\$ 211,015</u>

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Additions</b>					
Contributions					
Employee	\$ 2,534	\$ 2,416	\$ 2,338	\$ 2,350	\$ 2,370
Employer	9,880	9,307	8,916	8,943	8,994
Transfers from Teachers' Retirement System	-	-	26	-	-
Transfers from Employees' Retirement System	<u>173</u>	<u>220</u>	<u>133</u>	<u>48</u>	<u>64</u>
Total Contributions	<u>12,587</u>	<u>11,943</u>	<u>11,413</u>	<u>11,341</u>	<u>11,428</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(46,910)	25,988	11,215	11,877	14,736
Interest and Dividends	<u>8,206</u>	<u>8,500</u>	<u>9,598</u>	<u>7,420</u>	<u>7,218</u>
Total Investment Income from Investing Activities	(38,704)	34,488	20,813	19,297	21,954
Less: Investment Expenses	<u>8</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>12</u>
Net Investment Income from Investing Activities	<u>(38,712)</u>	<u>34,486</u>	<u>20,811</u>	<u>19,295</u>	<u>21,942</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	1,765	1,945	908	422	109
Less Securities Lending Expenses:					
Borrower Rebates	1,298	1,832	861	362	83
Management Fees	<u>77</u>	<u>18</u>	<u>7</u>	<u>8</u>	<u>4</u>
Total Securities Lending Expenses	<u>1,375</u>	<u>1,850</u>	<u>868</u>	<u>370</u>	<u>87</u>
Net Income from Securities Lending Activities	<u>390</u>	<u>95</u>	<u>40</u>	<u>52</u>	<u>22</u>
Total Investment Income	<u>(38,322)</u>	<u>34,581</u>	<u>20,851</u>	<u>19,347</u>	<u>21,964</u>
Total Additions	<u>(25,735)</u>	<u>46,524</u>	<u>32,264</u>	<u>30,688</u>	<u>33,392</u>
<b>Deductions</b>					
Retirement Allowance Payments	22,587	21,356	18,777	18,201	17,903
Return of Contributions and Death Benefits	83	183	45	51	103
Transfers to Employees' Retirement System	186	-	-	356	-
Transfers to Teachers' Retirement System	-	-	-	-	-
Administrative Expenses	<u>526</u>	<u>474</u>	<u>432</u>	<u>381</u>	<u>344</u>
Total Deductions	<u>23,382</u>	<u>22,013</u>	<u>19,254</u>	<u>18,989</u>	<u>18,350</u>
<b>Net Increase/(Decrease)</b>	<b>(49,117)</b>	<b>24,511</b>	<b>13,010</b>	<b>11,699</b>	<b>15,042</b>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	<u>270,933</u>	<u>246,422</u>	<u>233,412</u>	<u>221,713</u>	<u>206,671</u>
End of Year	<b><u>\$ 221,816</u></b>	<b><u>\$ 270,933</u></b>	<b><u>\$ 246,422</u></b>	<b><u>\$ 233,412</u></b>	<b><u>\$ 221,713</u></b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Abbeville, City of  
Abbeville Water Works Board  
Adamsville, City of  
Addison, Town of  
Alabama Elk River Development Agency  
Alabama Historic Ironworks Commission  
Alabama League of Municipalities  
Alabama Municipal Electric Authority  
Alabama Music Hall of Fame  
Alabama Regional Communications System  
Alabama Rural Water Association  
Alabama Space Science Exhibit  
Commission  
Alabama Sports Hall of Fame Board  
Alabama Tombigbee Regional Commission  
Alabaster Water & Gas Board  
Alabaster, City of  
Albertville Housing Authority  
Albertville Municipal Utilities Board  
Albertville, City of  
Alexander City Housing Authority  
Alexander City, City of  
Aliceville Housing Authority  
Aliceville, City of  
AltaPointe Health Systems  
Altoona, Town of  
Andalusia Housing Authority  
Andalusia, City of  
Andalusia Utilities Board  
Anniston Housing Authority  
Anniston Water Works & Sewer Board  
Anniston, City of  
Anniston/Calhoun County Public Library  
Arab Housing Authority  
Arab Sewer Board  
Arab Water Works Board  
Arab, Town of  
Argo, Town of  
Arley, Town of  
Ashford Housing Authority  
Ashland Housing Authority  
Ashland, City of  
Ashland Water Works and Sewer Board  
Ashville Water & Gas Board  
Ashville, Town of  
Association of County Commissioners  
Athens, City of  
Athens/Limestone County Emergency  
Management Communication District  
Athens/Limestone Public Library Authority  
Athens Utilities Board  
Atmore, City of  
Atmore Housing Authority  
Atmore Utilities Board  
Attalla Housing Authority  
Attalla Water Works Board  
Attalla, City of  
Auburn Extension Service  
Auburn Housing Authority  
Auburn Water Works Board  
Auburn, City of  
Autauga County Commission  
Autauga County Emergency Management  
Communication District  
Autauga County Water Authority  
Autauga/Prattville Public Library  
B. B. Comer Memorial Library  
Bakerhill, Town of  
Bakerhill Water Authority  
Baldwin County Board of Revenue  
Baldwin County Emergency  
Communication District  
Baldwin County Mental Health Center  
Baldwin County Sheriff's Office Personnel  
System  
Baldwin County Soil & Water Conservation  
District  
Barbour County Commission  
Bay Minette Housing Authority  
Bay Minette, City of  
Bayou La Batre Water, Sewer and Gas  
Board  
Bayou La Batre, City of  
Bear Creek Development Authority  
Bear Creek, Town of  
Bear Creek Water Works Board  
Beatrice, Town of  
Beauregard Water & Fire Protection  
Authority  
Berry, Town of  
Bessemer, City of  
Bibb County Commissioners Court  
Bibb County Emergency Management  
Communication District

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Big Will's Water Authority	Calhoun County Economic Development Council
Billingsley, Town of	Camden, City of
Birmingham Racing Commission	Camp Hill, City of
Birmingham Regional Planning Commission	Carbon Hill Utilities Board
Black Warrior Solid Waste Disposal Authority	Carbon Hill, City of
Blount County Communication District	Carl Elliot Regional Library
Blount County Commissioners Court	Carroll's Creek Water Authority
Blount County Industrial Development Board	Carrollton, Town of
Blount Count Water Authority	Castleberry, Town of
Blountsville Utility Board	Cedar Bluff, Town of
Blountsville, Town of	Cedar Bluff Utilities Board and Solid Water Authority
Boaz Water & Sewer Commissioners Board	Center Point, City of
Boaz, City of	Center Point Fire District
Boldo Water & Fire Protection Authority	Central Alabama Aging Consortium
Boston Housing Authority	Central Alabama Regional Planning & Development Commission
Brantley Housing Authority	Central Alabama Youth Services
Brent Housing Authority	Central Elmore Water Authority
Brent, City of	Central Talladega County Water District
Brewton Housing Authority	Centre Water Works & Sewer Board
Brewton, City of	Centre, City of
Bridgeport Housing Authority	Centreville, City of
Bridgeport Utilities Board	Chambers County Commissioners Court
Bridgeport, City of	Chambers County Emergency Management Communications District
Brilliant, Town of	Chambers County Library Board
Brookwood, Town of	Chatom, City of
Brundidge, City of	Cheaha Regional Library
Buhl-Elrod-Holman Water Authority	Cheaha Regional Mental Health-Mental Retardation Board
Bullock County Commissioners Court	Chelsea, City of
Butler County Commissioners Court	Cherokee County Commission
Butler County Emergency Communication District	Cherokee County Water and Sewer Authority
Butler, City of	Cherokee Water Works & Gas Board
Cahaba Center for Mental Health & Mental Retardation	Cherokee, Town of
Cahaba Valley Fire & Emergency Medical Rescue District	Chickasaw Housing Authority
Calera, City of	Chickasaw Utilities Board
Calhoun County 911 District	Chickasaw, Town of
Calhoun County Commission	Childersburg Water, Sewer & Gas Board
Calhoun County Water & Fire Protection Authority	Childersburg, City of
Calhoun/Cleburne Mental Health Board	Chilton County Commission
Calhoun County Community Punishment and Corrections Authority	Chilton County Soil & Water Conservation District
	Chilton Water Authority

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Chilton/Clanton Public Library	Coosa Valley Youth Services
Chilton/Shelby Mental Health Center	Coosada, Town of
Choctaw County Emergency Communications District	Cordova Water & Gas Board
Citizenship Trust American Village	Cordova, City of
Clanton, City of	Cottonwood, City of
Clanton Housing Authority	Cottonwood Housing Authority
Clanton Water Works & Sewer Board	Courtland, Town of
Clarke County Commission	Covington County Board of Revenue
Clarke County Industrial Development Board	Covington County E-911 Board
Clarke County Soil and Water Conservation District	Covington County Water Authority
Clarke/Mobile County Gas District	Cowarts, Town of
Clay County Commission	Crenshaw County Court of Commissioners
Clay County E-911	Crenshaw County Emergency Management Communications District
Clay County Water Authority	Creola, City of
Clayton Housing Authority	Crossville, Town of
Clayton Water & Sewer Board	Cuba, Town of
Clayton, City of	Cullman Area Mental Health Authority
Cleburne County Commission	Cullman County Board of Revenue
Cleveland, Town of	Cullman County Center for the Developmentally Disabled
Coaling, Town of	Cullman County E-911
Coaling Water Authority	Cullman Power Board
Coffee County Commissioners Court	Cullman County Soil & Water Conservation District
Coffee County Water Authority	Cullman, City of
Coffeeville, Town of	Cullman/Jefferson County Gas District
Coker Water & Fire Protection Authority	Cumberland Mountain Water Authority
Colbert County Board of Revenue	Curry Water Authority
Colbert County Emergency Management Communications District	CWM Water Authority
Colbert County Tourism and Convention Bureau	Dadeville Housing Authority
Collinsville Water Works Board	Dadeville Water Supply & Gas Board
Collinsville, City of	Dadeville, City of
Columbia, Town of	Dale County Commissioners Court
Columbiana Housing Authority	Dale County Water Authority
Columbiana, Town of	Daleville Housing Authority
Columbiana Water Works Board	Daleville, City of
Concord Fire District	Dallas County Court of County Revenue
Conecuh County Board of Directors	Dallas County Water and Sewer Authority
Conecuh County E-911	Daphne Utility Board
Conecuh County Soil and Water Conservation District	Daphne, City of
Cook Springs Water Authority	Dauphin Island Park and Beach Board
Coosa County Commissioners Court	Dauphin Island Water & Sewer Authority
Coosa County Emergency Communications Management Board	Dauphin Island, Town of
	Decatur, City of
	Decatur Utilities
	DeKalb County Commission

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DeKalb County Economic Development Authority	Enterprise Housing Authority
DeKalb County Emergency Communications District	Enterprise Water Works Board
DeKalb County Hospital Association	Ernest F. Ladd Memorial Stadium
DeKalb County Mental Retardation Board	Escambia County Commission
DeKalb County Soil and Water Conservation District	Escambia County Cooperative Library System
DeKalb/Cherokee County Gas District	Escambia County Emergency Communications District
Dekalb/Jackson Water Supply District Board	Etowah County Board of Revenue
Demopolis Housing Authority	Etowah County Communications District
Demopolis, City of	Etowah County Community Punishment and Corrections
Demopolis Waterworks and Sewer Board	Etowah County Tourism Board
Dora Gas Board	Etowah Solid Waste Disposal Authority
Dora, City of	Eufaula Housing Authority
Dothan, City of	Eufaula Water Works & Sewer Board
Dothan/Houston County Mental Retardation Board	Eufaula, City of
Double Springs Water Works Board	Eutaw Medical Clinic Board
Double Springs, Town of	Eutaw, City of
Douglas Water & Fire Protection Authority	Evergreen Housing Authority
Douglas, Town of	Evergreen, City of
Dutton, Town of	Excel, Town of
East Alabama Mental Health-Mental Retardation Board	Fairfield, City of
East Alabama Regional Planning & Development Commission	Fairhope Public Library
East Alabama Water, Sewer, & Fire Protection District	Fairhope, City of
East Brewton Water Works & Sewer Board	Falkville, Town of
East Brewton, City of	Fayette County Commission
East Central Alabama Gas District	Fayette County E911 District
East Central Baldwin County Water and Fire Protection Authority	Fayette Gas Board
East Lauderdale County Water & Fire Protection Authority	Fayette Housing Authority
Eclectic Water Works & Sewer Board	Fayette Water Works Board
Eclectic, Town of	Fayette County Water Coordination & Fire Protection Authority
Elba Water & Electric Board	Fayette, City of
Elba, City of	Fayetteville Water Authority
Elberta, City of	Five Star Water Authority
Electric Cities of Alabama	Flomaton, Town of
Elmore County Commissioners Court	Florence Housing Authority
Elmore County Emergency Communications District	Florence/Lauderdale Tourism Board
Elmore Water Authority	Florence/Lauderdale County Port Authority
Enterprise, City of	Foley Utilities Board
	Foley, City of
	Forestdale Fire District
	Fort Deposit Water Works & Sewer Board
	Fort Deposit, Town of
	Fort Payne Housing Authority
	Fort Payne Improvement Authority
	Fort Payne Water Works Board

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Fort Payne, City of	Greenville, City of
Fosters-Ralph Water Authority	Grove Hill, City of
Franklin County Commission	Guin, City of
Franklin County Soil and Water Conservation	Guin Housing Authority
Franklin County Water Service Authority	Guin Water & Sewer Board
Fultondale, Town of	Gulf Shores, City of
Fultondale Gas Board	Gulf Shores Utilities Board
Fyffe, Town of	Guntersville Electric Board
Gadsden Water & Sewer Board	Guntersville Housing Authority
Gadsden, City of	Guntersville Water & Sewer Board
Garden City, Town of	Guntersville, City of
Gardendale, City of	Gurley, Town of
Geneva County Court of Commissioners	Hackleburg, Town of
Geneva County E-911 Board, Inc.	Hackleburg Housing Authority
Geneva Water Works & Sewer Board	Hackleburg Water Board
Geneva, City of	Hackneyville Water & Fire Protection Authority
Georgiana, City of	Hale County Commission
Georgiana Housing Authority	Hale County Soil and Water Conservation District
Georgiana Water Works and Sewer Board	Hale County Emergency Medical Service
Geraldine, Town of	Haleyville, City of
Gilbertown Utilities Board	Hamilton, City of
Gilbertown, Town of	Hamilton Housing Authority
Glencoe, City of	Hanceville, City of
Glencoe Water Works Board	Hanceville Waterworks & Sewer Board
Goodwater, City of	Harpersville, Town of
Gordo, City of	Hartford, City of
Governmental Utility Services Corp of the City of Bessemer	Hartselle Utilities Board
Grant, Town of	Hartselle, City of
Graysville Public Library	Harvest-Monrovia Water & Fire Protection Authority
Graysville, City of	Hayden, Town of
Greater Etowah Mental Retardation 310 Board	Hayneville, City of
Greene County Ambulance Service	Headland Housing Authority
Greene County Commission	Headland, City of
Greene County Economic & Industrial Development Board	Heflin, City of
Greene County E-911 Communications District	Heflin Water Works & Sewer Board
Greene County Hospital	Helen Keller Memorial Hospital
Greene County Housing Authority	Helena Utilities Board
Greene County Racing Commission	Helena, City of
Greenhill Water & Fire Protection Authority	Henry County Commissioners Court
Greensboro Housing Authority	Henry County Soil & Water Conservation District
Greensboro, City of	Henry County Water Authority
Greenville Housing Authority	Highland Water Authority
Greenville Water Works & Sewer Board	Hillsboro, Town of
	Historic Blakeley Authority

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Historic Chattahoochee Commission  
Hodges, Town of  
Hokes Bluff Sewer Board  
Hokes Bluff Water Works Board  
Hokes Bluff, Town of  
Holly Pond, Town of  
Hollywood, Town of  
Homewood, City of  
Hoover, City of  
Horseshoe Bend Regional Library  
Houston County Board of Revenue and  
Control  
Houston County Soil Conservation District  
Houston County Water Authority  
Houston/Love Memorial Library  
Hueytown, City of  
Huguley Water and Fire Protection  
Authority  
Huntsville Electric System  
Huntsville Gas System  
Huntsville Solid Waste Disposal Authority  
Huntsville Water System  
Huntsville, City of  
Huntsville/Madison County Airport  
Authority  
Huntsville/Madison County Convention &  
Visitor's Bureau  
Huntsville/Madison County Marina & Port  
Authority  
Huntsville/Madison County Mental Health  
Board  
Huntsville/Madison County Railroad  
Authority  
Indian Pines Recreation Authority  
Industrial Development Authority of  
Chambers County  
International Motorsports Hall of Fame  
Irondale, City of  
Jackson County Commission  
Jackson County Economic Development  
Authority  
Jackson County Emergency Management  
Communications District  
Jackson County Soil & Water Conservation  
District  
Jackson, City of  
Jackson County Water Authority  
Jackson's Gap Water Authority

Jackson's Gap, Town of  
Jacksonville Housing Authority  
Jacksonville, City of  
Jacksonville Water Works  
Jasper Water Works & Sewer Board  
Jasper, City of  
Jefferson County Housing Authority  
Jefferson County Department of Health  
Jefferson/Blount/St. Clair Mental Health  
Authority  
Jemison, Town of  
John Paul Jones Hospital  
Joppa Hulaco & Ryan Water Authority  
Killen, City of  
Kinsey, Town of  
Lafayette, City of  
Lamar County Commission  
Lamar County Communications District  
Lamar County Gas District  
Lamar County Water & Fire Protection  
Authority  
Lanett, City of  
Lauderdale County Commission  
Lauderdale County Community Corrections  
& Punishment Authority  
Lauderdale County Regional Library System  
Lawrence County Commission  
Lee County Commissioners Court  
Lee/Russell Council of Governments  
Leeds Housing Authority  
Leeds, City of  
Leeds Water Works Board  
Leesburg, Town of  
Leighton, Town of  
Leighton Water and Sewer Board  
Level Plains, Town of  
Lexington, Town of  
Limestone County Board of Revenue  
Limestone County Water Authority  
Lincoln, City of  
Linden, City of  
Lineville Housing Authority  
Lineville Water & Sewer Board  
Lineville, City of  
Littleville, Town of  
Livingston Housing Authority  
Livingston, City of  
Loachapoka Water Authority

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Locust Fork, Town of	Mentone, Town of
Lowndes County Board of Revenue	Mentone Water Works Board
Loxley, City of	Middle Alabama Area Agency on Aging
Luverne Housing Authority	Midfield Library Board
Luverne, City of	Midfield, City of
Lynn, Town of	Midway, Town of
Macon County Commission	Mildred B. Harrison Library
Macon County Racing Commission	Millbrook, City of
Madison County Commissioners Court	Millerville Water and Fire Prot. Authority
Madison County Communications District	Millport Housing Authority
Madison County Mental Retardation Board	Millport, Town of
Madison Water & Wastewater Board	Mobile Airport Authority
Madison, City of	Mobile County Commission
Magnolia Springs, Town of	Mobile County Communications District
Malvern, Town of	Mobile County Emergency Management Agency
Maplesville Waterworks & Gas Board	Mobile County Health Department
Maplesville, City of	Mobile County Housing Authority
Marengo County Commission	Mobile County Law Enforcement & Firefighters Pension Fund
Marengo County Economic & Industrial Development Authority	Mobile County Personnel Board
Marengo County Emergency Communications District	Mobile County Racing Commission
Marengo Nursing Home	Mobile County Water, Sewer & Fire Protection Authority
Margaret, Town of	Mobile Public Library
Marion County Board of Revenue	Mobile Water Service System
Marion County Emergency Communications District	Mobile, City of
Marion County Public Water Authority	Monroe County Commission
Marion Housing Authority	Monroeville Housing Authority
Marion, City of	Monroeville Water Board
Marshall County Commission on Government and Finance	Monroeville, City of
Marshall County Community Punishment and Corrections Authority	Montevallo, City of
Marshall County Emergency Telephone Service Board	Montevallo Water Works and Sewer Board
Marshall County Gas District	Montgomery Area Mental Health Authority
Marshall County Soil & Water Conservation District	Montgomery County Commission
Marshall-Jackson Mental Retardation Authority	Montgomery County Soil & Water Conservation District
McAdory Area Fire District	Montgomery Water Works Board
McIntosh, Town of	Moody, City of
Mental Health Center of North Central Alabama	Morgan County Commission
Mental Health Dev Disabilities Board	Morgan County Emergency Management Communications District
Mental Health/Mental Retardation Board of Bibb, Pickens, and Tuscaloosa Counties	Morgan County Soil & Water Conservation District
	Moulton Housing Authority
	Moulton, City of
	Moundville, City of
	Mountain Brook Library Board

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Mountain Brook Park & Recreation Board  
 Mountain Brook, City of  
 Mt. Vernon, Town of  
 Munford, Town of  
 Munford Water Authority  
 Muscle Shoals Electric Board  
 Muscle Shoals Utilities Board  
 Muscle Shoals, City of  
 Myrtlewood, Town of  
 Nauvoo, Town of  
 Nectar, Town of  
 New Hope, Town of  
 New London Water, Sewer & Fire  
   Protection Authority  
 New Site, Town of  
 North Alabama Gas District  
 North Baldwin Utilities  
 North Central Alabama Mental Retardation  
   Authority  
 North Central Alabama Regional Council of  
   Governments  
 North Dallas County Water Authority  
 North Jackson County Water & Fire  
   Protection Authority  
 North Marshall Utilities Board  
 North Shelby County Fire and Emergency  
   Medical District  
 North Shelby County Library  
 Northeast Alabama Mental Retardation-  
   Development Disability Authority  
 Northeast Alabama Water, Sewer & Fire  
   Protection District  
 Northeast Morgan County Water Authority  
 Northport Housing Authority  
 Northport, City of  
 Northwest Alabama Council of Local  
   Governments  
 Northwest Alabama Mental Health Center  
 Northwest Alabama Regional Airport  
 Notasulga, Town of  
 Oak Grove, Town of  
 Oakman Waterworks  
 Oakman, Town of  
 Odenville Utilities Board  
 Odenville, Town of  
 Ohatchee, Town of  
 Oneonta Housing Authority  
 Oneonta Utilities  
 Oneonta, City of  
 Opelika Housing Authority  
 Opelika Utilities Board  
 Opelika, City of  
 Opp Utilities Board  
 Opp, City of  
 Orange Beach Water, Sewer & Fire  
   Protection Authority  
 Orange Beach, Town of  
 Owens Cross Roads  
 Oxford, City of  
 Oxford Emergency Management Services,  
   Inc.  
 Ozark Utilities Board  
 Ozark, City of  
 Ozark/Dale E-911  
 Parrish, Town of  
 Parrish Water Works and Sewer Board  
 Pelham, City of  
 Pell City Housing Authority  
 Pell City, City of  
 Pennington, City of  
 Pennington Utilities Board  
 Perry County Capital Improvement  
   Cooperative District  
 Perry County Commissioners Court  
 Perry County Emergency Communications  
   District  
 Perry County Water Authority  
 Phenix City, City of  
 Phenix City Utilities  
 Phil Campbell Housing Authority  
 Phil Campbell Water Works Board  
 Phil Campbell, Town of  
 Pickens County Commission  
 Pickens County Cooperative Library  
 Pickens County E-911 Board  
 Pickens County Water Authority  
 Piedmont Housing Authority  
 Piedmont Water, Gas & Sewer  
 Piedmont, City of  
 Pike County Commissioners Court  
 Pike County Communications District  
 Pike County Soil & Water Conservation  
   District  
 Pike County Water Authority  
 Pike Road, Town of  
 Pine Bluff Water Authority

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Pine Hill, Town of  
Pine Level Water & Fire Protection Authority  
Pinson, City of  
Pisgah, Town of  
Pleasant Grove, City of  
Prattville Housing Authority  
Prattville Water Works Board  
Prattville, City of  
Priceville, Town of  
Prichard Housing Authority  
Quint-Mar Water & Fire Protection Authority  
Ragland, Town of  
Ragland Water Works Board  
Rainbow City Gas, Water & Sewer Board  
Rainbow City, City of  
Rainsville, City of  
Randolph County Commissioners Court  
Randolph County E-911  
Red Bay Housing Authority  
Red Bay Water & Gas Board  
Red Bay, City of  
Reform Housing Authority  
Reform, City of  
Regional Housing Authority of Lawrence, Cullman, and Morgan Counties  
Rehobeth, City of  
Remlap/Pine Mountain Water Authority  
Repton, Town of  
Riverbend Center for Mental Health  
Riverside, Town of  
Roanoke Utilities Board  
Roanoke, City of  
Robertsdale, City of  
Rockford Utilities Board  
Rocky Ridge Fire District  
Rogersville Water Works & Sewer Board  
Rogersville, Town of  
Russell County Commissioners Court  
Russell County Emergency Communications District  
Russell County Soil & Water Conservation District  
Russell County Utilities Board  
Russellville Electric Board  
Russellville Gas Board  
Russellville Housing Authority  
Russellville Water Works Board  
Russellville, City of  
Rutledge, Town of  
Saraland Water Service  
Saraland, City of  
Sardis City Water Board  
Sardis City, City of  
Satsuma Water Works Board  
Satsuma, City of  
Scottsboro Electric Power Board  
Scottsboro Housing Authority  
Scottsboro Public Library  
Scottsboro Public Park & Recreation Board  
Scottsboro Water Works, Sewer & Gas Board  
Scottsboro, City of  
Section, Town of  
Section Water Works Board  
Selma Housing Authority  
Selma Water Works & Sewer Board  
Selma, City of  
Sheffield Power, Water & Gas Department  
Sheffield, City of  
Shelby County Board of Revenue  
Shelby County Economic and Industrial Development Authority  
Shelby County Soil Conservation District  
Shelby County Community Corrections  
Shelby County Emergency Management Communications District  
Shoals Committee on Programs & Employment for the Mentally Retarded  
Shoals Economic Development Authority  
Shoals Solid Waste Disposal Authority  
Shorter, Town of  
Silas, Town of  
Silverhill, Town of  
Skyline, Town of  
Slocomb, Town of  
Slocomb Waterworks and Sewer Board  
Smiths Station, City of  
Snead, Town of  
Somerville, Town of  
South Alabama Gas District  
South Alabama Regional Planning Commission  
South Central Alabama Development Commission

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South Central Alabama Mental Health  
Center  
South Central Alabama Regional Housing  
Authority  
South Crenshaw County Water Authority  
South Marengo County Water & Fire  
Protection Authority  
Southeast Alabama Regional Planning &  
Development Commission  
Southeast Alabama Solid Waste Disposal  
Authority  
Southeast Alabama Youth Services  
Southern Alabama Regional Council on  
Aging  
Southside Water & Sewer Board  
Southside, City of  
Southwest Alabama Water Authority  
Spanish Fort, City of  
Spanish Fort Fire Rescue Dpt  
Spectracare  
Springville, Town of  
St. Clair County Commissioners Court  
St. Clair Co. Comm. Pun. & Corrs. Auth.  
St. Clair County Industrial Development  
Board  
St. Clair Regional Library  
St. Clair County Soil & Water Conservation  
District  
St. Florian, Town of  
Star-Mindingall Water & Fire Protection  
Authority  
Steele, Town of  
Stevenson Housing Authority  
Stevenson Utilities Board  
Stevenson, City of  
Stewartville Water Authority  
Sulligent, City of  
Sulligent Housing Authority  
Sumiton Housing Authority  
Sumiton Water Works Board  
Sumiton, City of  
Summerdale, Town of  
Sumter County Board of Commissioners  
Sumter County Industrial Development  
Authority  
Sumter County Soil & Water Cons District  
Sumter County Water Authority  
Sylacauga Recreation Authority

Sylacauga Utilities Board  
Sylacauga, City of  
Sylvan Springs, Town of  
Sylvania, Town of  
Talladega County Board of Revenue  
Talladega County Emergency Management  
Communications District  
Talladega County Soil & Water  
Conservation District  
Talladega Water & Sewer Board  
Talladega, City of  
Tallapoosa County Court of Commissioners  
Tallapoosa County Emergency Management  
Communications District  
Tallassee, City of  
Tarrant City Electric System  
Tarrant City, City of  
Tarrant City Housing Authority  
Taylor, Town of  
Tennessee Valley Exhibit Commission  
Thomaston, Town of  
Thomasville, City of  
Thorsby, Town of  
Top of Alabama Regional Council of  
Governments  
Town Creek, Town of  
Triana, City of  
Tri-County Mental Retardation-  
Development Disability Board  
Trinity, Town of  
Troy, City of  
Trussville Utilities Board  
Trussville, City of  
Turnerville Water and Fire Protection  
District  
Tuscaloosa, City of  
Tuscaloosa County Board of Revenue  
Tuscaloosa Housing Authority  
Tuscaloosa County Industrial Dev Auth  
Tuscaloosa County Park and Recreation  
Board  
Tuscaloosa County Parking & Transit  
Authority  
Tuscaloosa County Public Defenders Office  
Tuscaloosa County Soil & Water  
Conservation District  
Tuscaloosa County Special Tax Board  
Tuscaloosa Public Library

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Tuscumbia, City of	Wetumpka, City of
Tuskegee, City of	Wetumpka Water & Sewer Board
Tuskegee Utilities	Wilcox County Commission
Union Grove Utilities Board	Wilcox County Gas District
Union Springs Utilities Board	Wilsonville, Town of
Union Springs, City of	Wilton, Town of
Uniontown Housing Authority	Winfield Water Works Board
Uniontown Utilities Board	Winfield, City of
Uniontown, City of	Winston County Commission
USS Alabama Battleship Commission	Winston County E-911 Communications District
Valley Head, Town of	Woodstock, Town of
Valley Head Water Works Board	York Housing Authority
Valley Housing Authority	York, City of
Valley, City of	
Vance, Town of	
Vernon Housing Authority	
Vernon, City of	
Vestavia Hills, City of	
Vincent, City of	
Von Braun Civic Center	
Walker County Commission	
Walker County E911 District	
Walker County Housing Authority	
Walker County Mental Retardation Board	
Walker County Soil & Water Conservation District	
Wall Street Water Authority	
Walnut Hill Water Authority	
Warrior River Water & Fire Protection Authority	
Warrior, City of	
Washington County Commissioners Court	
Washington County E-911 District	
Washington County Soil & Water Conservation District	
Wattsville Water Authority	
Weaver, City of	
Webb, Town of	
Wedowee, City of	
Wedowee Water, Sewer, and Gas Board	
West Alabama Regional Commission	
West Autauga Water Authority	
West Etowah County Water Authority	
West Jefferson, Town of	
West Lauderdale County Water & Fire Protection Authority	
West Morgan/East Lawrence Water and Sewer Authority	





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