



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

*For the Fiscal Year Ended September 30, 2014*





# The Retirement Systems of Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2014

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



TM

**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 28, 2015

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, 2014. 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 2014 and 2013. Also, an analysis of significant variances between fiscal years 2014 and 2013 is provided in the MD&A.

In fiscal year 2014, RSA implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. This statement establishes standards for financial reporting by most state and local government pension plans and represents a major shift in emphasis from pension funding to pension accounting. As required, the Financial Section presents accounting information and measurements related to the net pension liability of the employers. Funding information is presented in the Actuarial Section.

**Plan Financial Condition**

The funding objective of the RSA pension trust funds is to accumulate sufficient assets during a member’s employment by requiring employer and member contributions to fully finance the benefits the member is expected to receive throughout retirement.

At the date of the latest actuarial valuations (9/30/2013), the number of participants in the TRS was 264,248, ERS participants totaled 155,497, and JRF participants totaled 767. The following table compares the funded status as of September 30, 2013 and 2012:

	<b>Funded Status (%)</b>		
<u>System</u>	<u>9/30/2013</u>	<u>9/30/2012</u>	<u>% Increase/ (Decrease)</u>
TRS	66.2	66.5	(0.3)
ERS	65.7	65.7	-
JRF	58.7	61.6	(2.9)

**Investment Activity**

Total investments for the RSA increased in fiscal year 2014, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2014, were \$22.2 billion, \$10.8 billion, and \$273.5 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2013, of \$20.6 billion, \$10.0 billion, and \$253.0 million, respectively. Total pension fund investments managed by the RSA increased from \$30.8 billion at September 30, 2013, to \$33.2 billion at September 30, 2014, a 7.77% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2014, was, \$618.9 million, \$298.0 million, and \$7.0 million, respectively, compared to \$638.8 million, \$310.2 million, and \$6.9 million, respectively, for the fiscal year ended September 30, 2013. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2014, was \$1.9 billion, \$888.3 million, and \$24.2 million, respectively, compared to the increase in fair value of investments of \$2.1 billion, \$984.7 million, and \$25.2 million, respectively, for the fiscal year ended September 30, 2013. Total Returns for the funds were well in excess of the actuarial assumptions for the fiscal year. Total returns were 12.13%, 12.02%, and 12.45% for TRS, ERS and JRF, respectively. This was a function of the strategic overweight in domestic stocks, as well as solid returns in all other asset classes. We will continue to invest in a diverse mix of assets to safeguard against idiosyncratic risk in any one asset class and remain focused on the long term goals as set forth by the Investment Policy Statement adopted by the Boards of Control. 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, 2014. The independent auditors' report is located at the front of the financial section of this report.

#### **Highlights and Initiatives**

In a remarkable decision in support of the RSA investing in Alabama, the Alabama Supreme Court ordered the dismissal of a lawsuit challenging the legality of RSA's investments in state projects that have greatly increased economic development and improved the image of the state of Alabama. On December 31, 2014, the Alabama Supreme Court issued an opinion in the *Denson v. Bronner* case which confirmed that RSA has ample discretion under the Prudent Man Rule and Alabama law to select its investments.

Market performance during fiscal year 2014 was fairly stable, with equity markets performing well over the course of the year; domestic and international equities returned over 14% during this time period. Fixed income markets experienced a solid positive return for the year as interest rates were a bit choppy early on, and then steadily moved lower. Returns within this sector were over 4% for the fiscal year. Markets have continued to be somewhat reactionary around macroeconomic and global events as they have been the last few years, but we continue to see fundamentals influencing performance as well as company earnings and strong balance sheets.

The Robert Trent Jones Golf Trail celebrated another milestone during the fiscal year when it announced its 10 millionth round of golf since opening 22 years ago. The original courses opened in 1992 and now include 468 holes of golf on 26 separate courses at 11 locations across Alabama. In other golf news, the Trail will hold its first PGA event in July 2015. The event, known as the "Barbasol Championship," will be held at the Lakes Course in Opelika. This event, the first in a four year contract, is the first PGA tournament held in Alabama since 1990. Additionally, the Trail also welcomed the LPGA tour back to Prattville after a year absence; Yokohama Tire was announced as the new title sponsor and makes the tournament an even larger international event.

Renovation continues on the historic Van Antwerp Building in Mobile, which the RSA purchased last fiscal year. This building is ten stories high with over 58,000 square feet. The Van Antwerp Building is one of Mobile's oldest structures and joins RSA's stable of Port City holdings that include 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, the RSA was repaid in full earlier this year on the \$593 million investment in Wise Metals initiated in 2006. The RSA still holds a 15% common equity interest at no cost to the RSA. Recently, Wise sold out to Constellation Aluminum for \$1.4 billion; the company plans to expand for the auto industry in the coming years - a huge win for Alabama and the Shoals area.

#### **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, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Retirement Systems received the Public Pension Coordinating Council (PPCC) Recognition Award for Funding 2014. 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.

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, 2013**

Executive Director/CEO



Public Pension Coordinating Council

***Recognition Award for Funding  
2014***

Presented to

***The Retirement Systems of Alabama***

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

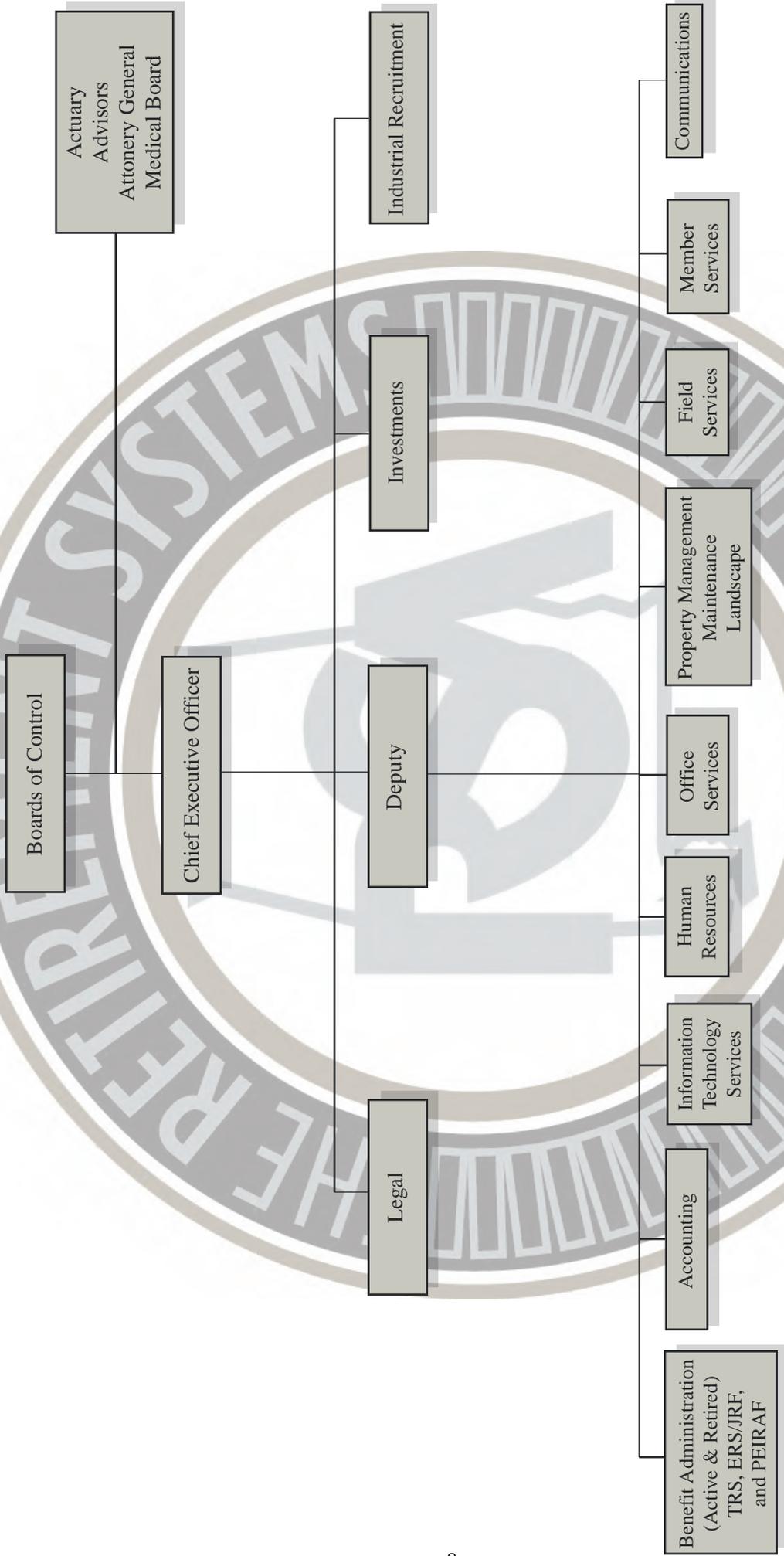
*Presented by the Public Pension Coordinating Council, a confederation of*

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  
Mr. Joseph E. Ward, 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. Richard Brown, 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 Financial 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 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, C. Lance Lachney, M.B.A., C.F.A.

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

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

Equity Analyst, Hunter Bronson, M.S. C.F.A.

Equity Analyst, Jeff Silverman, M.B.A., C.F.A.

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, 2014, and the related notes to the combined financial statements, which collectively comprise the Retirement Systems 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 fiduciary net position of the Retirement Systems of Alabama, as of September 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in note 2 to the basic financial statements, in 2014, the Retirement Systems of Alabama adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

## 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 Systems of Alabama's financial statements for the year ended September 30, 2013, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 – 17 and the schedule of changes in the net pension liability and related ratios, the schedules of employer contributions and the schedule of investment returns on pages 46 – 51 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 Systems of Alabama's basic financial statements. The introductory section, investment section, actuarial section, statistical section, and supplemental information included on pages 52 – 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information included on pages 52 – 54 is the responsibility of management and was derived from and relates 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 52 – 54 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.

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

January 28, 2015  
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, 2014. 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, net pension liability, contributions required and made, 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.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

Comparative Summary Statements

Summary Comparative Combining Statement of Fiduciary Net Position  
As of September 30, 2014 and 2013

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b>Assets</b>				
Cash	\$ 40,014	\$ 32,582	\$ 7,432	22.81
Receivables	253,467	241,388	12,079	5.00
Investment Sales Receivable	28,903	22,218	6,685	30.09
Investments, at fair value	33,192,008	30,800,263	2,391,745	7.77
Invested Securities Lending Collateral	1,645,768	1,691,502	(45,734)	(2.70)
Property and Equipment, Net	138,754	143,831	(5,077)	(3.53)
Total Assets	<u>35,298,914</u>	<u>32,931,784</u>	<u>2,367,130</u>	7.19
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	7,289	7,913	(624)	(7.89)
Investment Purchases Payable	35,948	57,333	(21,385)	(37.30)
Other Post-employment Benefit Obligations	7,554	6,364	1,190	18.70
Securities Lending Collateral	1,645,768	1,691,502	(45,734)	(2.70)
Total Liabilities	<u>1,696,559</u>	<u>1,763,112</u>	<u>(66,553)</u>	(3.77)
<b>Net Position</b>	<u><b>\$ 33,602,355</b></u>	<u><b>\$ 31,168,672</b></u>	<u><b>\$ 2,433,683</b></u>	<b>7.81</b>

Summary Comparative Combining Statement of Changes in Fiduciary Net Position  
For the Fiscal Years Ended September 30, 2014 and 2013

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b>Additions</b>				
Employee Contributions	\$ 704,116	\$ 699,741	\$ 4,375	0.63
Employer Contributions	1,146,518	980,614	165,904	16.92
Investment Income	3,691,025	4,061,411	(370,386)	(9.12)
Transfers Between Systems	6,513	5,410	1,103	20.39
Total Additions	<u>5,548,172</u>	<u>5,747,176</u>	<u>(199,004)</u>	(3.46)
<b>Deductions</b>				
Retirement Allowance Payments	2,975,899	2,817,908	157,991	5.61
Return of Contributions & Death Benefits	102,690	100,924	1,766	1.75
Transfers Between Systems	6,513	5,410	1,103	20.39
Administrative Expenses	22,996	22,638	358	1.58
Depreciation	6,391	6,327	64	1.01
Total Deductions	<u>3,114,489</u>	<u>2,953,207</u>	<u>161,282</u>	5.46
<b>Increase/(Decrease) in Fiduciary Net Position</b>	<u>2,433,683</u>	<u>2,793,969</u>	<u>(360,286)</u>	(12.90)
Net Position - Beginning of Year	<u>31,168,672</u>	<u>28,374,703</u>	<u>2,793,969</u>	9.85
<b>Net Position - End of Year</b>	<u><b>\$ 33,602,355</b></u>	<u><b>\$ 31,168,672</b></u>	<u><b>\$ 2,433,683</b></u>	<b>7.81</b>

**Comparison of Individual Fiduciary Net Position  
As of September 30, 2014 and 2013  
(Amounts in Thousands)**

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b>TRS</b>	\$ 22,441,307	\$ 20,820,372	\$ 1,620,935	7.79
<b>ERS</b>	10,883,952	10,091,940	792,012	7.85
<b>JRF</b>	277,096	256,360	20,736	8.09
<b>Total</b>	<u>\$ 33,602,355</u>	<u>\$ 31,168,672</u>	<u>\$ 2,433,683</u>	<u>7.81</u>

**Financial Analysis**

- Primarily all cash on hand at September 30, 2014, was held for administrative expenses.
- In the Summary Comparative Combining Statement of Fiduciary Net Position, receivables consist of employee contributions, employer contributions, interest, dividends, and real estate receivables at September 30, 2014.
- Investment sales receivable and investment purchases payable occur as a result of trade date accounting. The increase in the receivable for fiscal year 2014 was due to the value of securities sold in the current fiscal year and settling in the following fiscal year being larger than the value of the securities sold in the previous fiscal year but settled in the current fiscal year. The decrease in the payable for fiscal year 2014 was due to the value of securities purchased in the current fiscal year and settling in the following fiscal year being smaller than the value of the securities purchased 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>	66.82%	65.06%	70.54%
<b>Fixed</b>	23.73%	25.48%	28.22%
<b>Real Estate</b>	9.45%	9.46%	1.24%
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

- Employer contributions increased as a result of higher employer contribution rates for fiscal year 2014. The employer contribution rates for fiscal year 2014 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>	11.71%	11.08%
<b>ERS - State Employees</b>	12.02%	11.96%
<b>ERS - State Police</b>	35.81%	29.52%
<b>JRF</b>	35.24%	-

- During fiscal year 2014, returns on investments of the TRS, ERS, and JRF were 12.13%, 12.02%, and 12.45%, respectively. The returns were calculated by State Street Bank.
- During fiscal year 2014, net securities lending income decreased by 26%. This was primarily driven by the lower yields on the cash collateral pools. Year over year the reinvestment spread on the cash collateral pools dropped approximately 11 basis points or 28%. These factors have driven the net securities lending income down from the previous year despite a 24% increase in ending on-loan securities balances at the end of fiscal year 2014 over the end of fiscal year 2013. This increase in ending balances is attributable to non-cash collateral loans which do not provide the additional earnings associated with the reinvestment spread. Additionally, in previous years RSA has been able to capture increased earnings on the heels of Initial Public Offerings (IPOs) which created demand for securities lending; however, there were no large IPO's during fiscal 2014 to generate significant demand in the market.
- Retirement allowance payments increased due to the addition of the members who retired in fiscal year 2014. There were no cost of living adjustments granted for fiscal year 2014.

**Funding Status**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67, *Financial Reporting for Pension Plans*, which amends GASB Statement No. 25. GASB Statement No. 67 is effective for RSA for the fiscal year ended September 30, 2014. Under GASB Statement No. 67, the methodology for determining the net pension liability disclosed in the Notes to the Combined Financial Statements has shifted from a funding perspective to an accounting perspective.

At September 30, 2014, TRS and JRF employers' total pension liability was \$31.3 billion and \$420.1 million, respectively. The plan fiduciary net position of TRS and JRF employers was \$22.2 billion and \$275.0 million, respectively, resulting in a net pension liability of \$9.1 billion and \$145.1 million, respectively. The plan fiduciary net position as a percentage of the total pension liability for TRS and JRF employers was 71.01% and 65.46%, respectively, using GASB Statement No. 67 measurements.

Under the provisions of GASB Statement No. 67, agent-multiple employer plans such as ERS apply the measurements and recognition of net pension liability at the individual plan level for each retirement plan administered. Therefore, aggregate information for ERS related to the net pension liability has not been presented.

**Financial Highlights**

- Net assets held in trust of \$33.6 billion at September 30, 2014, 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 66.2% for the TRS, 65.7% for the ERS, and 58.7% for the JRF.

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Combining Statement of Fiduciary Net Position  
September 30, 2014 with comparative figures for 2013

(Amounts in Thousands)

	2014			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
<b>Assets</b>				
Cash (Note 4)	\$ 31,935	\$ 5,884	\$ 2,195	\$ 40,014
<b>Receivables</b>				
Employee Contributions	38,809	17,881	169	56,859
Employer Contributions	61,300	32,044	533	93,877
Investment Sales Receivable	18,787	10,116	-	28,903
Real Estate Investment Receivable	998	499	-	1,497
Dividends and Interest	68,125	32,187	922	101,234
Total Receivables	<u>188,019</u>	<u>92,727</u>	<u>1,624</u>	<u>282,370</u>
<b>Investments, at Fair Value (Note 5)</b>				
Domestic Equity	11,820,999	5,674,052	153,148	17,648,199
Domestic Fixed Income	4,736,010	2,250,969	60,695	7,047,674
International Equities	2,985,814	1,324,703	39,814	4,350,331
Real Estate	2,095,289	1,017,338	3,395	3,116,022
Short-Term	522,791	490,538	16,453	1,029,782
Total Investments	<u>22,160,903</u>	<u>10,757,600</u>	<u>273,505</u>	<u>33,192,008</u>
Invested Securities Lending Collateral (Note 5)	1,096,592	523,848	25,328	1,645,768
<b>Property and Equipment less</b>				
Accumulated Depreciation (Note 9)	92,633	46,121	-	138,754
Total Assets	<u>23,570,082</u>	<u>11,426,180</u>	<u>302,652</u>	<u>35,298,914</u>
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	4,731	2,520	38	7,289
Investment Purchases Payable	23,739	12,054	155	35,948
Other Post-employment Benefits (Note 10)	3,713	3,806	35	7,554
Securities Lending Collateral (Note 5)	1,096,592	523,848	25,328	1,645,768
Total Liabilities	<u>1,128,775</u>	<u>542,228</u>	<u>25,556</u>	<u>1,696,559</u>
<b>Net Position Restricted for Pension Benefits (Notes 3 &amp; 6)</b>	<u><b>\$ 22,441,307</b></u>	<u><b>\$ 10,883,952</b></u>	<u><b>\$ 277,096</b></u>	<u><b>\$ 33,602,355</b></u>

See accompanying *Notes to the Combined Financial Statements*.

	2013			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<b>Assets</b>				
Cash	\$ 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				
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	1,166,230	500,085	25,187	1,691,502
Property and Equipment less Accumulated Depreciation	<u>96,071</u>	<u>47,760</u>	<u>-</u>	<u>143,831</u>
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	3,091	3,241	32	6,364
Securities Lending Collateral	<u>1,166,230</u>	<u>500,085</u>	<u>25,187</u>	<u>1,691,502</u>
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</b>	<u><u>\$ 20,820,372</u></u>	<u><u>\$ 10,091,940</u></u>	<u><u>\$ 256,360</u></u>	<u><u>\$ 31,168,672</u></u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended September 30, 2014 with comparative figures for 2013

(Amounts in Thousands)

	2014			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<b>Additions</b>				
Contributions				
Employee	\$ 477,300	\$ 223,135	\$ 3,681	\$ 704,116
Employer	739,547	391,181	15,790	1,146,518
Transfers from Teachers' Retirement System	-	2,880	-	2,880
Transfers from Employees' Retirement System	3,549	-	83	3,632
Transfers from Judicial Retirement Fund	-	1	-	1
Total Contributions	<u>1,220,396</u>	<u>617,197</u>	<u>19,554</u>	<u>1,857,147</u>
Investment Income (Note 5)				
From Investing Activities				
Net Increase in Fair Value of Investments	1,853,288	888,303	24,197	2,765,788
Interest and Dividends	618,861	298,049	7,030	923,940
Total Investment Income from Investing Activities	2,472,149	1,186,352	31,227	3,689,728
Less: Investment Expenses, Net	5,732	2,766	-	8,498
Net Investment Income from Investing Activities	<u>2,466,417</u>	<u>1,183,586</u>	<u>31,227</u>	<u>3,681,230</u>
From Securities Lending Activities				
Securities Lending Income	9,629	4,199	167	13,995
Less Securities Lending Expenses:				
Borrower Rebates	65	21	1	87
Management Fees	2,829	1,235	49	4,113
Total Securities Lending Expenses	<u>2,894</u>	<u>1,256</u>	<u>50</u>	<u>4,200</u>
Net Income from Securities Lending Activities	<u>6,735</u>	<u>2,943</u>	<u>117</u>	<u>9,795</u>
Total Net Investment Income	<u>2,473,152</u>	<u>1,186,529</u>	<u>31,344</u>	<u>3,691,025</u>
Total Additions	<u>3,693,548</u>	<u>1,803,726</u>	<u>50,898</u>	<u>5,548,172</u>
<b>Deductions</b>				
Retirement Allowance Payments	1,997,595	948,478	29,826	2,975,899
Return of Contributions and Death Benefits	54,699	47,937	54	102,690
Transfers to Employees' Retirement System	2,880	-	1	2,881
Transfers to Teachers' Retirement System	-	3,549	-	3,549
Transfers to Judicial Retirement Fund	-	83	-	83
Administrative Expenses	13,103	9,612	281	22,996
Depreciation (Note 9)	4,336	2,055	-	6,391
Total Deductions	<u>2,072,613</u>	<u>1,011,714</u>	<u>30,162</u>	<u>3,114,489</u>
<b>Net Increase</b>	<b>1,620,935</b>	<b>792,012</b>	<b>20,736</b>	<b>2,433,683</b>
<b>Net Position Restricted for Pension Benefits (Notes 3 &amp; 6)</b>				
Beginning of Year	20,820,372	10,091,940	256,360	31,168,672
End of Year	<u>\$ 22,441,307</u>	<u>\$ 10,883,952</u>	<u>\$ 277,096</u>	<u>\$ 33,602,355</u>

See accompanying Notes to the Combined Financial Statements.

	2013			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
<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				
<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	<u>2,729,412</u>	<u>1,294,934</u>	<u>32,119</u>	<u>4,056,465</u>
Less: Investment Expenses, Net	<u>5,712</u>	<u>2,549</u>	<u>-</u>	<u>8,261</u>
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	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</b>				
Beginning of Year	18,950,126	9,188,696	235,881	28,374,703
End of Year	<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>

(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 TRS Board of Control consists of 15 trustees as follows:

- 1) The State Superintendent of Education, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Director of Finance, ex officio.
- 4) Twelve members of TRS who are elected by members from the same category of TRS for a term of three years as follows:
  - a. Teacher Place #1.
  - b. Teacher Place #2.
  - c. Teacher Place #3.
  - d. Educational Support Personnel Place #1.
  - e. Educational Support Personnel Place #2.
  - f. Retired Place #1.
  - g. Retired Place #2.
  - h. Superintendents' Place.
  - i. Principals' Place.
  - j. Postsecondary Place for a term beginning July 1, 2016, to be filled by a member elected from an institution of postsecondary education that is part of the Alabama Community College System.
  - k. Higher Education Place #1.
  - l. Higher Education Place #2 for a term beginning July 1, 2015, to be filled by a member elected from a public four-year institution of higher education.

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. Assets of the ERS are pooled for investment purposes. However, separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of its employees only. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

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, 2014, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Cities	-	292	-
Counties	-	65	67
Other Public Entities	-	513	-
Universities	13	-	-
Postsecondary			
Institutions	27	-	-
City and County			
Boards of Education	138	-	-
State Agencies & Other	31	1	1
<b>Totals</b>	<u><b>209</b></u>	<u><b>871</b></u>	<u><b>68</b></u>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

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	81,745	21,368	375
State Police	-	858	-
Employees of Local Employers	-	20,453	-
Deferred Retirement Option Plan (DROP)	4,436	1,514	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	17,643	2,894	54
State Police	-	12	-
Employees of Local Employers	-	6,667	-
Non-vested inactive members who have not contributed for more than 5 years	26,633	17,696	-
Active Employees:			
General	133,791	28,873	338
State Police	-	745	-
Employees of Local Employers	-	54,417	-
<b>Totals</b>	<b><u>264,248</u></b>	<b><u>155,497</u></b>	<b><u>767</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 creditable service. Teachers and state employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable 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 creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS 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 creditable 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 creditable service (regardless of age), (2) completed 12 years of creditable service and has attained age 65, (3) completed 15 years of creditable service and whose age plus service equals or exceeds 77, (4) completed 10 years of creditable service and has attained age 70 or (5) been elected prior to July 30,

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1979, and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her 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 creditable 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 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

(Dollar Amounts in Thousands)

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.

### **F. New Accounting Pronouncements**

In fiscal year 2014, the Systems implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, which had no material financial effect on the basic financial statements of the Systems. However, significant changes have been made in note disclosures to the basic financial statements and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability, as well as broad note disclosures with respect to the pension liability, sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures for the defined benefit pension plans.

## **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.

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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.

#### **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. These assets are not included in the actuarial valuation and the liabilities associated with these death benefits are not included in the actuarial valuation.

#### **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. These assets are not included in the actuarial valuation and the liabilities associated with these life insurance benefits are not included in the valuation.

#### **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. These assets are not included in the actuarial valuation.

#### **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

# RETIREMENT SYSTEMS OF ALABAMA

## *Financial Section*

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

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 included in the Net Position Restricted for Pension Benefits in the accompanying Combining Statement of Fiduciary Net Position are funded to the full extent required by statute. The reserve balances as of September 30, 2014, are as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Annuity Savings	\$ 4,589,021	\$ 2,484,050	\$ 40,981
Pension Accumulation	17,037,952	8,023,947	233,995
Deferred Retirement Option Plan	626,845	295,113	-
Total of Components of Net Position reserved to fund Total Pension Liability	<u>22,253,818</u>	<u>10,803,110</u>	<u>274,976</u>
Pre-retirement Death Benefit	49,166	32,534	-
Term Life Insurance	15,312	-	-
Plant Fund	92,633	46,121	-
Expense	30,378	2,187	2,120
<b>Net Position at 9/30/2014</b>	<b><u><u>\$ 22,441,307</u></u></b>	<b><u><u>\$ 10,883,952</u></u></b>	<b><u><u>\$ 277,096</u></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, 2014, was held for administrative expenses.

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## 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 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.

# RETIREMENT SYSTEMS OF ALABAMA

## Financial Section

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

The following tables provide information as of September 30, 2014, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	INVESTMENTS					Total Fair Value	Cost
	TRS						
	Maturity in Years at Fair Value						
	Less Than 1	1-5	6-10	More Than 10			
<i>Fixed Maturity</i>							
Domestic							
Money Market Funds	\$ 113,801	\$ -	\$ -	\$ -	\$ 113,801	\$ 113,801	
Commercial Paper	408,990	-	-	-	408,990	408,990	
U.S. Agency	5,514	121,859	58,474	11,903	197,750	192,646	
U.S. Govt Guaranteed	73,697	109,032	445,301	33,246	661,276	653,135	
Corporate Bonds	87,465	600,241	225,660	260,749	1,174,115	1,087,682	
Private Placements	4,749	94,095	91,354	2,107,101	2,297,299	2,099,087	
GNMAs	2	99	2,791	50,141	53,033	52,807	
CMOs	-	11,056	706	340,775	352,537	350,283	
Total Domestic Fixed Maturity	<u>\$ 694,218</u>	<u>\$ 936,382</u>	<u>\$ 824,286</u>	<u>\$ 2,803,915</u>	<u>5,258,801</u>	<u>4,958,431</u>	
<i>Equities</i>							
Preferred							
Domestic							
Private					23,889	24,441	
International					11,350,858	6,877,568	
Emerging Markets					446,252	356,293	
United Kingdom - Pound Sterling					304,399	288,905	
Japan - Yen					585,015	465,946	
France - Euro					566,662	492,198	
Germany - Euro					252,764	195,407	
Switzerland - Franc					228,767	157,361	
Netherlands - Euro					254,110	126,978	
Italy - Euro					78,389	62,403	
Ireland - Euro					65,417	76,884	
Spain - Euro					7,422	6,787	
Australia - Dollar					92,777	83,661	
Singapore - Dollar					201,697	122,848	
Belgium - Euro					40,621	30,767	
Finland - Euro					36,173	28,040	
Hong Kong - Dollar					25,102	24,790	
Sweden - Krona					80,298	51,245	
Denmark - Krone					79,585	43,000	
Israel - Shekel					39,499	13,705	
Norway - Krone					15,629	15,301	
Austria - Euro					23,156	12,836	
New Zealand - Dollar					6,107	6,029	
Total International Equities					<u>2,225</u>	<u>2,168</u>	
Total Equities					<u>2,985,814</u>	<u>2,307,259</u>	
Real Estate					<u>14,806,813</u>	<u>9,565,561</u>	
<b>Total Investments</b>					<u><b>\$ 22,160,903</b></u>	<u><b>\$ 16,274,015</b></u>	

INVESTMENTS						
ERS						
Maturity in Years at Fair Value						
Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
<i>Fixed Maturity</i>						
Domestic						
Money Market Funds	\$ 70,660	\$ -	\$ -	\$ -	\$ 70,660	\$ 70,660
Commercial Paper	419,878	-	-	-	419,878	419,878
U.S. Agency	2,527	52,806	26,635	5,526	87,494	85,398
U.S. Govt Guaranteed	33,477	49,611	202,720	15,131	300,939	297,204
Corporate Bonds	39,302	276,338	102,873	119,375	537,888	498,431
Private Placements	2,092	45,958	44,995	1,048,413	1,141,458	1,044,665
GNMAs	4	118	611	22,240	22,973	22,879
CMOs	-	5,020	95	155,102	160,217	159,227
Total Domestic Fixed Maturity	<u>\$ 567,940</u>	<u>\$ 429,851</u>	<u>\$ 377,929</u>	<u>\$ 1,365,787</u>	<u>2,741,507</u>	<u>2,598,342</u>
<i>Equities</i>						
Preferred						
					10,861	11,112
Domestic						
					5,355,408	3,261,302
Private						
					307,783	251,732
International						
Emerging Markets						
					145,364	137,964
United Kingdom - Pound Sterling						
					257,319	203,905
Japan - Yen						
					249,227	216,950
France - Euro						
					113,543	86,899
Germany - Euro						
					100,626	69,031
Switzerland - Franc						
					111,733	55,154
Netherlands - Euro						
					32,119	25,847
Italy - Euro						
					28,775	33,618
Ireland - Euro						
					3,265	2,985
Spain - Euro						
					40,810	36,124
Australia - Dollar						
					88,721	54,052
Singapore - Dollar						
					17,853	13,482
Belgium - Euro						
					15,912	12,274
Finland - Euro						
					11,041	11,036
Hong Kong - Dollar						
					35,295	22,621
Sweden - Krona						
					35,009	19,018
Denmark - Krone						
					17,368	5,989
Israel - Shekel						
					6,875	6,731
Norway - Krone						
					10,183	5,725
Austria - Euro						
					2,686	2,698
New Zealand - Dollar						
					979	967
Total International Equities					<u>1,324,703</u>	<u>1,023,070</u>
Total Equities					<u>6,998,755</u>	<u>4,547,216</u>
Real Estate					<u>1,017,338</u>	<u>872,612</u>
<b>Total Investments</b>					<b><u>\$ 10,757,600</u></b>	<b><u>\$ 8,018,170</u></b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

<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	\$ 4,156	\$ -	\$ -	\$ -	\$ 4,156	\$ 4,156
Commercial Paper	12,298	-	-	-	12,298	12,297
U.S. Agency	121	4,658	1,367	267	6,413	6,111
U.S. Govt Guaranteed	1,785	2,657	10,965	755	16,162	15,967
Corporate Bonds	1,808	14,842	5,753	5,287	27,690	25,686
Private Placements	-	-	-	1,305	1,305	2,039
GNMAs	1	-	-	979	980	991
CMOs	-	263	-	7,881	8,144	8,099
Total Domestic Fixed Maturity	<u>\$ 20,169</u>	<u>\$ 22,420</u>	<u>\$ 18,085</u>	<u>\$ 16,474</u>	<u>77,148</u>	<u>75,346</u>
<i>Equities</i>						
Domestic						
					<u>153,148</u>	<u>75,563</u>
International						
Emerging Markets					4,514	4,284
Hong Kong - Dollar					1,067	792
Japan - Yen					7,530	6,902
Australia - Dollar					2,650	2,196
Singapore - Dollar					531	436
Germany - Euro					3,005	2,324
Belgium - Euro					475	367
Switzerland - Franc					3,314	2,237
Netherlands - Euro					959	846
Sweden - Krona					1,045	737
Spain - Euro					1,218	1,205
United Kingdom - Pound Sterling					7,683	6,701
France - Euro					3,391	3,021
Italy - Euro					859	951
Israel - Shekel					204	200
Finland - Euro					330	323
Denmark - Krone					529	260
Ireland - Euro					97	89
Norway - Krone					304	225
Austria - Euro					80	92
New Zealand - Dollar					29	22
Total International Equities					<u>39,814</u>	<u>34,210</u>
Total Equities					<u>192,962</u>	<u>109,773</u>
Real Estate					<u>3,395</u>	<u>1,067</u>
<b>Total Investments</b>					<u><b>\$ 273,505</b></u>	<u><b>\$ 186,186</b></u>

The following tables provide information as of September 30, 2014, 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	\$ 1,239,066	\$ 1,254,395	23.854
Aa1	19,123	19,673	0.374
Aa2	12,058	13,014	0.247
Aa3	28,774	36,234	0.689
P-1	140,801	140,801	2.677
P-2	381,990	381,990	7.264
A1	85,765	94,101	1.789
A2	83,281	88,791	1.688
A3	149,660	166,744	3.171
Baa1	256,824	270,936	5.152
Baa2	296,946	322,703	6.136
Baa3	74,554	75,890	1.443
Ba1	27,003	29,230	0.556
Ba2	13,060	11,818	0.225
Ba3	11,823	13,873	0.264
Caa2	7,073	6,888	0.131
‡ Not Rated	2,130,630	2,331,720	44.340
<b>Total Fixed Maturity</b>	<b>\$ 4,958,431</b>	<b>\$ 5,258,801</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+	\$ 1,306,637	\$ 1,327,539	25.243
AA	24,636	27,663	0.526
AA-	38,068	45,780	0.871
A-1	155,825	155,825	2.963
A-2	366,966	366,966	6.978
A+	16,455	17,565	0.334
A	121,927	131,708	2.505
A-	287,028	311,535	5.924
BBB+	196,927	212,647	4.044
BBB	221,399	235,008	4.469
BBB-	74,118	79,138	1.505
BB+	9,636	9,869	0.188
BB	11,823	13,873	0.264
BB-	13,060	11,818	0.225
CCC-	7,073	6,888	0.131
‡ Not Rated	2,106,853	2,304,979	43.830
<b>Total Fixed Maturity</b>	<b>\$ 4,958,431</b>	<b>\$ 5,258,801</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  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

RATINGS OF FIXED MATURITIES  
ERS

Moody's Ratings	Cost	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
± Aaa	\$ 560,420	\$ 567,141	20.687
Aa1	8,516	8,779	0.320
Aa2	5,517	5,955	0.217
Aa3	13,154	16,567	0.604
P-1	123,155	123,155	4.492
P-2	367,383	367,383	13.401
A1	39,341	43,182	1.575
A2	37,868	40,381	1.473
A3	69,440	77,061	2.811
Baa1	117,220	123,667	4.511
Baa2	135,919	147,744	5.389
Baa3	33,922	34,521	1.259
Ba1	12,279	13,295	0.485
Ba2	5,921	5,357	0.195
Ba3	5,394	6,330	0.231
Caa2	3,226	3,143	0.115
‡ Not Rated	1,059,667	1,157,846	42.235
<b>Total Fixed Maturity</b>	<b>\$ 2,598,342</b>	<b>\$ 2,741,507</b>	<b>100.000</b>

Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
± AA+	\$ 591,485	\$ 600,791	21.915
AA	11,239	12,618	0.460
AA-	17,370	20,898	0.762
A-1	131,657	131,657	4.802
A-2	358,881	358,881	13.091
A+	7,433	7,930	0.289
A	55,791	60,277	2.199
A-	130,723	141,794	5.172
BBB+	91,311	98,419	3.590
BBB	101,910	108,243	3.948
BBB-	33,535	35,821	1.307
BB+	4,383	4,489	0.164
BB	5,394	6,330	0.231
BB-	5,921	5,357	0.195
CCC-	3,226	3,143	0.115
‡ Not Rated	1,048,083	1,144,859	41.760
<b>Total Fixed Maturity</b>	<b>\$ 2,598,342</b>	<b>\$ 2,741,507</b>	<b>100.000</b>

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

‡ Primarily consists of private placements.

**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	\$ 29,373	\$ 29,716	38.519
Aa1	2,021	2,212	2.867
Aa2	274	295	0.383
Aa3	398	485	0.629
P-1	4,156	4,156	5.387
P-2	12,297	12,297	15.940
A1	2,903	3,229	4.185
A2	1,787	1,937	2.511
A3	3,604	3,984	5.164
Baa1	6,620	7,014	9.091
Baa2	6,309	6,821	8.841
Baa3	1,749	1,785	2.313
Ba1	617	668	0.866
Ba2	297	268	0.348
Ba3	278	327	0.423
Caa2	176	172	0.223
‡ Not Rated	2,487	1,782	2.310
<b>Total Fixed Maturity</b>	<b>\$ 75,346</b>	<b>\$ 77,148</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+	\$ 31,869	\$ 32,474	42.093
AA	570	641	0.830
AA-	622	715	0.927
A-1	7,955	7,955	10.312
A-2	8,498	8,498	11.015
A+	398	428	0.554
A	3,276	3,577	4.637
A-	6,347	6,830	8.853
BBB+	4,601	4,981	6.456
BBB	4,846	5,101	6.612
BBB-	1,513	1,619	2.099
BB+	220	225	0.292
BB	278	327	0.423
BB-	297	268	0.348
CCC-	176	172	0.223
‡ Not Rated	3,880	3,337	4.326
<b>Total Fixed Maturity</b>	<b>\$ 75,346</b>	<b>\$ 77,148</b>	<b>100.000</b>

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

‡ Primarily consists of private placements.

(Dollar Amounts in Thousands)

**B. Concentration of Investments**

As of September 30, 2014, the TRS and ERS owned debt and equity securities of Raycom Media Corporation which represented approximately 8.06% of the TRS investments and 8.86% 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, 2014, the average term of the loans secured by QDF was 20, 22, and 35 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.

At September 30, 2014, the fair value of the securities on loan was \$3,178,748, \$1,420,638, and \$41,410 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was \$3,381,487, \$1,505,491, and \$43,312 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, 2014. 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, 2014, 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	\$ 139,339	\$ 51,745	\$ 5,296	\$ 196,380
Domestic Equity	748,861	393,936	17,945	1,160,742
International Equity	173,411	61,577	1,372	236,360
Total Lent for Cash Collateral	<u>1,061,611</u>	<u>507,258</u>	<u>24,613</u>	<u>1,593,482</u>
<i>For Non-Cash Collateral</i>				
Domestic Fixed Maturities	541,820	266,029	9,241	817,090
Domestic Equity	1,225,573	550,484	4,499	1,780,556
International Equity	349,744	96,867	3,057	449,668
Total Lent for Non-Cash Collateral	<u>2,117,137</u>	<u>913,380</u>	<u>16,797</u>	<u>3,047,314</u>
<b>Total Securities Lent</b>	<b><u>\$ 3,178,748</u></b>	<b><u>\$ 1,420,638</u></b>	<b><u>\$ 41,410</u></b>	<b><u>\$ 4,640,796</u></b>
<u>Type of Collateral Received</u>				
<i>Cash Collateral - Invested in State Street</i>				
<i>Quality D Fund</i>	<u>\$ 1,096,592</u>	<u>\$ 523,848</u>	<u>\$ 25,328</u>	<u>\$ 1,645,768</u>
<i>Non-Cash Collateral</i>				
<i>Domestic Fixed Securities</i>				
U.S. Dollar	505,556	257,395	8,360	771,311
GBP	73,331	26,559	1,618	101,508
<i>Domestic Equity Securities</i>				
U.S. Dollar	1,334,350	594,765	4,759	1,933,874
<i>International Fixed Maturities &amp; Equity</i>				
Canadian Dollar	4,295	170	-	4,465
EURO	100,138	16,607	405	117,150
GBP	43,630	13,778	219	57,627
U.S. Dollar	223,595	72,369	2,623	298,587
Total Non-Cash Collateral	<u>2,284,895</u>	<u>981,643</u>	<u>17,984</u>	<u>3,284,522</u>
<b>Total Collateral Received</b>	<b><u>\$ 3,381,487</u></b>	<b><u>\$ 1,505,491</u></b>	<b><u>\$ 43,312</u></b>	<b><u>\$ 4,930,290</u></b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Notes to the Combined Financial Statements  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

**D. Mortgage-backed Securities**

As of September 30, 2014, the TRS, ERS, and JRF had investments in mortgaged-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, 2014, as reported in the System's Combining Statement of Fiduciary Net Position and Combining Statement of Changes in Fiduciary Net Position:

**INVESTMENT DERIVATIVE INSTRUMENTS**

	<b>Changes in Fair Value</b>		<b>Fair Value as of September 30, 2014</b>		
	<b>Classification</b>	<b>Amount</b>	<b>Classification</b>	<b>Amount</b>	<b>Notional</b>
<b>TRS</b>					
International Options Written	Investment Income	62	International Equity	(261)	(43,636)
<b>Total TRS Options</b>		<b>\$ 62</b>		<b>\$ (261)</b>	<b>\$ (43,636)</b>
<b>ERS</b>					
International Options Written	Investment Income	30	International Equity	(125)	(20,850)
<b>Total ERS Options</b>		<b>\$ 30</b>		<b>\$ (125)</b>	<b>\$ (20,850)</b>
<b>JRF</b>					
International Options Written	Investment Income	1	International Equity	(4)	(635)
<b>Total JRF Options</b>		<b>\$ 1</b>		<b>\$ (4)</b>	<b>\$ (635)</b>
<b>Total</b>					
International Options Written	Investment Income	93	International Equity	(390)	(65,121)
<b>Grand Total Options</b>		<b>\$ 93</b>		<b>\$ (390)</b>	<b>\$ (65,121)</b>

## F. Money-Weighted Rate of Return

The annual money-weighted rates of return for TRS, ERS, and JRF are 12.17%, 12.05%, and 12.55%, respectively. A money-weighted rate of return expresses investment performance, which is net of investment expense and is adjusted for the changing amounts actually invested. The annual money-weighted rate of return on investments is calculated as the internal rate of return on plan investments, net of plan investment expense.

## 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 and determine 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 (dollar amounts in thousands):

### FUNDED STATUS

	Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAAL) (B-A)	Percentage Funded (A/B)	Annual Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
TRS	9/30/2013	\$19,629,816	\$29,665,843	\$10,036,027	66.2%	\$6,263,364	160.2%
ERS	9/30/2013	\$ 9,546,459	\$14,536,600	\$ 4,990,141	65.7%	\$3,400,596	146.7%
JRF	9/30/2013	\$ 243,316	\$ 414,200	\$ 170,884	58.7%	\$ 41,887	408.0%

Additional information as of the latest actuarial valuation follows:

### ACTUARIAL ASSUMPTIONS

	TRS	ERS	JRF
Valuation date	9/30/2013	9/30/2013	9/30/2013
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 closed	Level percent closed	Level percent closed
Remaining amortization period	29.9 years	Within 29.9 years - varies by employer	26.5 years
Actuarial assumptions:			
Investment rate of return ‡	8.00%	8.00%	8.00%
Projected salary increases ‡	3.50%-8.25%	3.75%-7.25%	4.00%
Cost of living adjustments	None	None	3.25%†

‡ Includes inflation at 3.00%.

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

# RETIREMENT SYSTEMS OF ALABAMA

## Financial Section

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2014

(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 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) NET PENSION LIABILITY

The components of the net pension liability related to the cost-sharing retirement plans determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans*, as of September 30, 2014, were as follows:

	<u>TRS</u>	<u>JRF</u>
Total Pension Liability	\$ 31,338,446	\$ 420,069
Less: Plan Net Position (see Note 3G)	<u>(22,253,818)</u>	<u>(274,976)</u>
<b>Net Pension Liability</b>	<b><u>\$9,084,628</u></b>	<b><u>\$ 145,093</u></b>
<b>Plan Net Position as a Percentage of the Total Pension Liability</b>	<b>71.01%</b>	<b>65.46%</b>

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

	<u>TRS</u>	<u>JRF</u>
Inflation	3.00%	3.00%
Projected Salary Increases	3.50% - 8.25%	4.00%
Investment Rate of Return*	8.00%	8.00%

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS, ERS, and JRF based upon participant data as of September 30, 2010, completed by the RSA and its actuaries. 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.

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

The total pension liability related to the cost-sharing retirement plans is based on the actuarial valuation as of September 30, 2013. The expected total pension liability is determined as of September 30, 2014, using standard roll-forward techniques as shown in the following table (dollar amounts in thousands):

	<u>TRS</u>	<u>JRF</u>
Total Pension Liability as of September 30, 2013 (a)	\$ 30,437,059	\$ 408,949
Entry Age Normal Cost* for October 1, 2013 - September 30, 2014 (b)	\$ 602,605	\$ 9,482
Actual Benefit Payments for October 1, 2013 - September 30, 2014 (c)	\$ 2,054,022	\$ 29,883
Total Pension Liability as of September 30, 2014 [(a) x (1.08)] + (b) - [(c) x (1.04)]	\$ 31,338,446	\$ 420,069

\*Also called the Service Cost.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

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

\*Includes assumed rate of inflation of 2.50%.

# RETIREMENT SYSTEMS OF ALABAMA

## Financial Section

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability of the TRS and JRF calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
<b>TRS</b>	\$ 12,375,992	\$ 9,084,628	\$ 6,294,849
<b>JRF</b>	\$ 190,495	\$ 145,093	\$ 105,898

#### 8) 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 on the projected benefit basis utilizing the entry age normal 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 2014 retirement contributions were made in accordance with actuarially determined contribution requirements.

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.

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## 9) 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, 2014 (dollar amounts in thousands):

	<u>TRS</u>	<u>ERS</u>
Land	\$ 5,085	\$ 2,535
Building and Improvements	107,886	53,942
Furniture and Equipment	<u>5,962</u>	<u>2,355</u>
Total Property and Equipment	118,933	58,832
Less: Accumulated Depreciation	<u>(26,300)</u>	<u>(12,711)</u>
<b>Net Property and Equipment</b>	<b><u>\$ 92,633</u></b>	<b><u>\$ 46,121</u></b>

## 10) 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 2014 rate set by the State Employees' Insurance Board was \$825 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 2014 were as follows (the following dollar amounts are not in thousands):

### *Required Member Rates*

- Individual Coverage/Non-Medicare Eligible – \$276
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$578
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – \$407
- Individual Coverage/Medicare Eligible Retired Member – \$50
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – \$352
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – \$171
- 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.

# RETIREMENT SYSTEMS OF ALABAMA

## *Financial Section*

### Notes to the Combined Financial Statements For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

#### *Surviving Spouse Rates*

- Surviving Spouse Non-Medicare Eligible – \$397
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – \$644
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – \$553
- Surviving Spouse Medicare Eligible – \$216
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – \$463
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – \$372

RSA employees participate in the SEHIP, which is a single employer health insurance plan for the State of Alabama. As a component unit, RSA employees participating in the SEHIP 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:

	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
<b>TRS</b>	2014	\$ 996	38.20%
	2013	\$ 1,110	42.32%
	2012	\$ 1,052	38.84%
<b>ERS</b>	2014	\$ 904	38.20%
	2013	\$ 1,088	42.32%
	2012	\$ 1,123	38.84%
<b>JRF</b>	2014	\$ 5	38.20%
	2013	\$ 8	42.32%
	2012	\$ 8	38.84%

These amounts are calculated before the final Total Group Health Insurance Expense for all state agencies is known. Therefore, they are subject to change.

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### 11) 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 (dollar amounts in thousands):

	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
<b>TRS</b>	2014	\$ 1,204	100%
	2013	\$ 996	100%
	2012	\$ 930	100%
<b>ERS</b>	2014	\$ 829	100%
	2013	\$ 731	100%
	2012	\$ 719	100%

### 12) 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 \$29,055,966 (dollar amount not in thousands) during the 2014 fiscal year.

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Required Supplementary Information  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
& RELATED RATIOS**

TRS

For the Fiscal Year Ended September 30, 2014

<b>Total Pension Liability</b>	
Service Cost*	\$ 602,605
Interest	2,352,804
Benefit Changes	-
Difference Between Expected & Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(1,997,877)
Refunds of Contributions	(56,145)
<b>Net Change in Total Pension Liability</b>	<b>901,387</b>
<b>Total Pension Liability - Beginning</b>	<b>30,437,059</b>
<b>Total Pension Liability - Ending (A)</b>	<b>\$ 31,338,446</b>
<b>Components of Plan Fiduciary Net Position reserved to fund Total Pension Liability</b>	
Contributions - Employer	\$ 716,753
Contributions - Member	480,849
Net Investment Income	2,468,499
Benefit Payments	(1,997,877)
Refunds of Contributions	(56,145)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,612,079</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>20,641,739</b>
<b>Plan Fiduciary Net Position - Ending (B)</b>	<b>\$ 22,253,818</b>
<b>Net Pension Liability - Ending (A - B)</b>	<b>\$ 9,084,628</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>71.01%</b>
<b>Covered Employee Payroll</b>	<b>\$ 6,466,923</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>140.48%</b>

Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.

\*Also called the Entry Age Normal Cost.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
& RELATED RATIOS**

**JRF**

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

<b>Total Pension Liability</b>	
Service Cost*	\$ 9,482
Interest	31,521
Benefit Changes	-
Difference Between Expected & Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(29,838)
Refunds of Contributions	(45)
<b>Net Change in Total Pension Liability</b>	<b>11,120</b>
<b>Total Pension Liability - Beginning</b>	<b>408,949</b>
<b>Total Pension Liability - Ending (A)</b>	<b>\$ 420,069</b>
<b>Components of Plan Fiduciary Net Position reserved to fund Total Pension Liability</b>	
Contributions - Employer	\$ 15,250
Contributions - Member	3,764
Net Investment Income	31,343
Benefit Payments	(29,838)
Refunds of Contributions	(45)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>20,474</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>254,502</b>
<b>Plan Fiduciary Net Position - Ending (B)</b>	<b>\$ 274,976</b>
<b>Net Pension Liability - Ending (A - B)</b>	<b>\$ 145,093</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>65.46%</b>
<b>Covered Employee Payroll</b>	<b>\$ 43,275</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>335.28%</b>

Schedule is intended to show information for 10 years.  
Additional years will be displayed as they become available.

\*Also called the Entry Age Normal Cost.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information  
For the Fiscal Year Ended September 30, 2014

(Dollar Amounts in Thousands)

**SCHEDULES OF EMPLOYER CONTRIBUTIONS**

For the Ten Years Ended September 30, 2014

**TEACHERS' RETIREMENT SYSTEM §**

<b>Fiscal Year</b>	<b>Actuarially Determined Employer Contributions</b>	<b>Actual Employer Contributions</b>	<b>Annual Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll*</b>	<b>Actual Contributions as a % of Covered Employee Payroll**</b>
2014	\$ 716,753	\$ 716,753	\$ -	\$ 6,331,740	11.32
2013	605,465	605,465	-	6,241,907	9.70
2012	594,771	594,771	-	6,182,651	9.62
2011	755,944	755,944	-	6,232,020	12.13
2010	753,213	753,213	-	6,209,505	12.13
2009	728,822	728,822	-	6,234,577	11.69
2008	706,491	706,491	-	6,213,641	11.37
2007	519,247	519,247	-	5,782,261	8.98
2006	413,975	413,975	-	5,314,185	7.79
2005	329,193	329,193	-	4,950,271	6.65

**JUDICIAL RETIREMENT FUND ¥**

<b>Fiscal Year</b>	<b>Actuarially Determined Employer Contributions</b>	<b>Actual Employer Contributions</b>	<b>Annual Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll*</b>	<b>Actual Contributions as a % of Covered Employee Payroll</b>
2014	\$ 15,250	\$ 15,250	\$ -	\$ 43,275	35.24
2013	13,903	13,903	-	43,366	32.06
2012	10,747	10,747	-	44,136	24.35
2011	10,906	10,906	-	45,066	24.20
2010	10,814	10,814	-	44,686	24.20
2009	10,326	10,326	-	44,798	23.05
2008	9,880	9,880	-	42,863	23.05
2007	9,307	9,307	-	41,364	22.50
2006	8,916	8,916	-	40,657	21.93
2005	8,943	8,943	-	40,780	21.93

§ There are no nonemployer contributing entities in TRS.

\*Estimated based on employer contribution rate.

\*\*Act No. 2012-377 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013.

Therefore, this percentage represents a blended rate based on separate Tier 1 and Tier 2 contribution rates.

¥ The State of Alabama is a nonemployer contributing entity in JRF. The State pays the employer portion of the Probate Judges' contributions.

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**SCHEDULE OF INVESTMENT RETURNS**  
**For the Ten Years Ended September 30, 2014**

<u>Fiscal Year</u>	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
2014	12.17%	12.05%	12.55%
2013	14.85%	14.53%	14.05%
2012	18.32%	18.05%	19.17%
2011	2.04%	2.39%	0.89%
2010	8.34%	8.40%	10.66%
2009	-8.20%	-10.16%	0.18%
2008	-15.31%	-15.18%	-14.61%
2007	17.46%	17.90%	14.31%
2006	8.77%	8.32%	9.08%
2005	11.25%	10.95%	9.91%

**1) SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY & RELATED RATIOS**

The total pension liabilities presented in these schedules were provided by the Systems' actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the components of the plan net position reserved to fund the total pension liability for TRS and JRF. Those components are Annuity Savings, Pension Accumulation, and Deferred Retirement Option Plan (TRS only). The related ratios show plan net position as a percentage of the total pension liability and the net pension liability as a percentage of covered employee payroll.

**2) SCHEDULES OF EMPLOYER CONTRIBUTIONS**

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution 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 contribution rates for fiscal year 2014 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>	11.71%	11.08%
<b>ERS - State Employees</b>	12.02%	11.96%
<b>ERS - State Police</b>	35.81%	29.52%
<b>JRF</b>	35.24%	-

**3) SCHEDULE OF INVESTMENT RETURNS**

The annual money-weighted rate of return on investments is calculated as the internal rate of return on plan investments, net of plan investment expense. A money-weighted rate of return expresses investment performance, net of plan investment expense, adjusted for the changing amounts actually invested.

**4) ACTUARIAL ASSUMPTIONS**

The actuarially determined contribution rates in the schedules of employer contributions are calculated as of September 30, 2011, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

	<u>TRS</u>	<u>JRF</u>
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	5-year smoothed market	5-year smoothed market
Amortization Method	Level percent open	Level percent open
Remaining Amortization Period	30 years	30 years
Actuarial Assumptions:		
Investment Rate of Return* ‡	8.00%	8.00%
Projected Salary Increases ‡	3.50%-8.25%	4.00%
Cost of Living Adjustments	None	3.25%†

\*Net of pension plan investment expense.

‡ Includes inflation at 3.00%.

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

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*Changes to Benefit Terms*

- TRS's member contribution rates increased from 5.00% (6.00% for certified law enforcement, correctional officers, and firefighters) of earnable compensation to 7.25% (8.25%) of earnable compensation effective October 1, 2011, and to 7.50% (8.50%) of earnable compensation effective October 1, 2012.
- TRS members hired on or after January 1, 2013, are covered under a new benefit structure.
- JRF's member contribution rate increased from 6.00% of earnable compensation to 8.25% of earnable compensation on October 1, 2011, and to 8.50% of earnable compensation on October 1, 2012.

*Changes to Assumptions*

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Administrative Expenses

For the Fiscal Year Ended September 30, 2014

(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	\$ 6,283	\$ 4,526	\$ 89	\$ 10,898
Employee Fringe Benefits	2,566	2,185	26	4,777
Total Personnel Services	<u>8,849</u>	<u>6,711</u>	<u>115</u>	<u>15,675</u>
<b>Professional Services:</b>				
Actuarial	155	358	63	576
Accounting and Auditing	79	57	15	151
Information Technology	925	375	64	1,364
Education & Training	28	12	-	40
Mailing Services	143	80	-	223
Legal Services	176	335	-	511
Personnel Services	76	-	-	76
Other Professional Services and Fees	108	23	8	139
Total Professional Services	<u>1,690</u>	<u>1,240</u>	<u>150</u>	<u>3,080</u>
<b>Communications and Travel:</b>				
Telecommunications	131	69	-	200
Postage	925	652	-	1,577
Travel	61	52	2	115
Total Communications and Travel	<u>1,117</u>	<u>773</u>	<u>2</u>	<u>1,892</u>
<b>Rentals:</b>				
Office Space	192	128	12	332
Equipment Leasing	16	9	-	25
Total Rentals	<u>208</u>	<u>137</u>	<u>12</u>	<u>357</u>
<b>Miscellaneous:</b>				
Supplies	1,015	640	2	1,657
Maintenance	224	111	-	335
Total Miscellaneous	<u>1,239</u>	<u>751</u>	<u>2</u>	<u>1,992</u>
<b>Total Administrative Expenses</b>	<b><u>\$ 13,103</u></b>	<b><u>\$ 9,612</u></b>	<b><u>\$ 281</u></b>	<b><u>\$ 22,996</u></b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2014

(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	\$ 4,394	\$ 2,098	\$ -	\$ 6,492
Dues, Subscriptions and Supplies	720	473	-	1,193
Travel	24	7	-	31
<b>Professional Services:</b>				
Investment Advisor	60	30	-	90
Appraisal of Private Placements and Real Estate	540	315	-	855
<b>Investment Activity Expenses before Reimbursement</b>	<b>5,738</b>	<b>2,923</b>	<b>-</b>	<b>8,661</b>
Less: Reimbursement for Investment Management Fees	6	157	-	163
<b>Total Investment Activity Expenses</b>	<b>5,732</b>	<b>2,766</b>	<b>-</b>	<b>8,498</b>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	65	21	1	87
Securities Lending Management Fees	2,829	1,235	49	4,113
Total Securities Lending Activity Expenses	2,894	1,256	50	4,200
<b>Total Investment Expenses</b>	<b>\$ 8,626</b>	<b>\$ 4,022</b>	<b>\$ 50</b>	<b>\$ 12,698</b>

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Professional/Consultant Fees

For the Fiscal Year Ended September 30, 2014

(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 Consulting, LLC	Actuary	\$ 155	\$ 358	\$ 63	\$ 576
Carr, Riggs & Ingram, LLC	Auditor	67	33	11	111
A-lign CPA's, LLC	Auditor	12	24	4	40
Balch & Bingham LLP	Legal	-	178	-	178
Chason & Chason PC	Legal	-	40	-	40
FTI Consulting	Legal	117	78	-	195
Ice Miller LLP	Legal	28	18	-	46
Jackson Walker LLP	Legal	18	13	-	31
Wells Mailing, Inc.	Mail	106	55	-	161
Alabama Department of Finance	Mail	37	25	-	62
State Personnel Department	Personnel	76	-	-	76
Fine Geddie & Associates, LLC	Consultant	75	-	-	75
Alabama Department of Finance	Comptroller's Accounting Services	51	25	8	84
Alabama Department of Finance	Information Technology	43	29	-	72
Alabama Department of Finance	State of Alabama Accounting & Resource System (STAARS)	417	161	64	642
Auburn Montgomery	Information Technology	348	116	-	464
Stamp Idea Group, LLC	Information Technology	49	32	-	81
Various	Other	91	55	-	146
<b>Total Professional/Consultant Fees - Administrative Services</b>		<b>1,690</b>	<b>1,240</b>	<b>150</b>	<b>3,080</b>
Regions Bank	Investment Advisor	60	30	-	90
Pearson Realty Services	Real Estate Appraiser	192	128	-	320
Houlihan Lokey	Investment Appraiser	348	187	-	535
<b>Total Professional/Consultant Fees - Investment Services</b>		<b>600</b>	<b>345</b>	<b>-</b>	<b>945</b>
<b>Total Professional/Consultant Fees</b>		<b>\$ 2,290</b>	<b>\$ 1,585</b>	<b>\$ 150</b>	<b>\$ 4,025</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, 2014

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Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2014. 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 are based on the standards set forth by the Global Investment Performance Standards (GIPS®).

Not to sound like a broken record, but the past year has only been a shade different than most other years since the financial crisis in the late 2000's. U.S. GDP growth was all over the map, macro issues caused wide swings in investor sentiment, and most investors have remained non-believers in the equity market. Despite the continued lackluster growth in the economy, we have seen a fairly steady recovery in the job market, and merger and acquisition activity has also accelerated. The lower for longer interest rate environment has been much stickier than we had imagined, and that partly explains why P/E multiples reversed course and headed higher. As earnings continued to climb, the earnings yield gap between the stock market and bonds grew too wide, and finally market multiples started going up. Although valuations are above long term averages, they are not at egregious levels that signal complacency on the part of investors. We are not as comfortable now as when the market was at 11X earnings, but we think there is marginal room for further P/E expansion.

We have remained closer to the upper end of our allocation guidelines in the stock market. Within the equity asset class we have been overweight large capitalization domestic equities and underweight emerging markets. With Europe teetering back and forth in a recession, and emerging market economies still struggling, U.S. equities continue to be the best option. We are concerned that the lagged effect of the Fed ending the taper program, and the prospect of higher Fed Funds rates will cause a hiccup sometime in our fiscal year, but we don't view it as causative of an earnings recession. We remain underweight fixed income vs. target, and also somewhat short duration relative to benchmark. We have maintained an overweight in corporate credit, an underweight in treasuries, but longer in duration within treasuries relative to benchmark. The new issue market has been very active in corporate credit, and the demand side has been there to gobble it up. Allocations have been hard to get as the street has seen most credit deals several times oversubscribed. This is another example of the skittishness of investors, as fund flows have continued to favor bonds over stocks.

Other asset classes have performed well this year as well. After Superstorm Sandy swept through downtown New York, 55 Water Street was knocked for a loop. Interestingly, downtown Manhattan has seen quite a recovery since the storm. A new wave of tenants has been migrating to downtown, which led to a revival in the residential market there as well. The building is nearly fully leased, and has seen a nice turnaround in performance numbers. We continue to expect good things there. The private placement portfolio had a good year as well, though new investment opportunities seem to be harder to find. We continue to maintain a slightly larger than normal cash allocation, both as a buffer to a market setback, and to be ready to deploy it in that event. 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 and all its beneficiaries.

### **RSA Performance Summary**

As of September 30, 2014, aggregate defined benefit assets under management totaled \$33.19 billion. During fiscal year 2014, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and the Judicial Retirement Fund were 12.13%, 12.02%, and 12.45% respectively.

### **Equities**

After a choppy end to the last quarter of the past fiscal year, the market came out with guns blazing in the first fiscal quarter of 2014. Some of this can be attributed to continued market friendly actions by the various central banks around the world, and especially the Federal Reserve. As we have talked about previously, there has been a noticeable dichotomy between main street and Wall Street. The past several years have seen continued fiscal tightening which has been a drag on GDP, as well as reluctance on the part of the private sector to ramp up their capital spending. The markets were very nervous on the direction being taken by the Federal Reserve regarding the taper program, and the extension, if you will, of the taper was well received. The March quarter of the year was

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basically written off, as the weather impact of the unrelenting polar vortexes (thanks Weather Channel), basically shut down commerce. The market and earnings did rebound in the June quarter as things normalized and we saw a pop in inventory restocking. The summer months were basically a chop sideways, with a big drawdown at the end of July related to Chairwoman Yellen's speech, which caused a quick but short-lived rise in credit spreads.

What we expect looking forward isn't materially different than what we have talked about in prior reports. Inflation remains in check, budget deficits have greatly improved, and Washington remains in gridlock which usually works out well for the equity market. Valuations are up but not to levels that are signaling a must sell sign. Public companies are still onto the gig that returning capital to shareholders has been rewarding to their share prices. We continue to see share shrinkage at about a 3% annual run rate, which provides a boost to earnings growth. Merger and acquisition activity has really picked up, but not to frothy levels either. The U.S. equity markets have done relatively well versus other markets, and we are evaluating when to reallocate some money overseas. The valuation difference is getting close to warranting that shift, though continued dollar strength complicates the decision.

For the year, the RSA domestic equity portfolios increased 17.18%, 17.27%, and 18.44% for TRS, ERS, and JRF funds, respectively. International equity returns were positive but meager relative to that of the U.S. There was little difference between developed and emerging market returns within the portfolio. Total international equity returns were 4.89% for TRS, 4.88% for ERS, and 4.90% for JRF. The combined total return for the overall equity portfolios was 14.37%, 14.57%, and 15.48% for TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 20.21%, 13.32%, and 7.98% for TRS, 20.25%, 13.39%, and 8.01% for ERS, and 20.90%, 14.17%, and 7.81% for JRF, respectively.

### **Fixed Income**

At the beginning of fiscal year 2014, the Federal Reserve had just made the decision not to alter the pace of its purchases of treasury and mortgage-backed securities. Fixed income investors, who were expecting a \$10-15bn reduction at the September meeting, were delighted as the inaction produced positive returns across all asset classes. With Washington passing a continuing resolution and a debt ceiling showdown shelved for another day, risk assets rallied once again during the month of October. As expected, high yield debt was the best performing sector within fixed income, highlighting the benefits of moving down the credit spectrum during this time. After the post-taper rally that resulted in a 50 basis point drop in 10yr yields, an upward trend in interest rates reasserted itself in the following weeks. Minutes from the Federal Open Market Committee's October meeting revealed that policymakers expected the upcoming data to "warrant trimming the pace of purchases in coming months". With the economy growing 2.8% in the third quarter and the continuing presence of encouraging data, the Fed began its long anticipated tapering program in December.

There was quite a reversal in investor sentiment as the new calendar year began. A weak employment report for the month of December and economic weakness caused in part by poor weather, had market participants seeking safety within the treasury market. The substantial downward move in interest rates led to positive returns across all sectors of fixed income. Investment grade debt managed to outperform due to its longer duration profile, despite spreads drifting slightly wider. The Federal Reserve announced another \$10 billion reduction in asset purchases at its January meeting, the last one under the authority of Chairman Ben Bernanke. Janet Yellen, in her opening testimony to Congress, acknowledged the recent weakness in economic data and stated that the recovery in the labor market was "far from complete".

Interest rates were a little choppy during March due to the uncertainty surrounding the events in Ukraine. Mid-month, the belly of the treasury curve came under pressure as the new Fed Chair Janet Yellen stated that "the central bank's stimulus program could end this fall and benchmark interest rates could rise six months later". Market expectations at the time were that the first rate hike would come in late summer/early fall of 2015. This statement caught investors off guard as it implied that the initial rate hike could come as early as March of next year. While the middle portion of the curve experienced weakness, the long end remained unchanged, causing the entire curve to flatten. Over the next several weeks, confidence grew as optimism over the future prospects of the economy started to percolate. The minutes of the Federal Reserve's meeting also eased concern about the timing of future rate hikes.

Interest rates moved swiftly higher in late May as the European Central Bank lowered its main refinancing rate and took its deposit rate into negative territory. These actions, in concert with additional bank liquidity measures, were made to encourage lending and help a struggling European economy. Riskier sectors within fixed income outperformed during this time. However, the longer end of the curve held in relatively well with the help of tame inflation readings and foreign buying. European weakness remained a key obstacle with continued anemic growth and relatively high unemployment. Despite stability at home, this theme pushed yields lower across the globe during the summer months.

Towards the end of July, sentiment changed rather quickly within credit markets. Possibly driven by the strength in the 4% 2Q GDP print, expectations on the timing of the Fed's first rate hike were pulled forward once again. This resulted in a mass exodus from the high yield market as spreads backed up approximately 50bps. Roughly \$10bn of capital exited the space and the asset class lost over 1.30% in July. However, institutional investors did rush back in to pick up the pieces in the following weeks. As expected, the long end of the curve offered safety during this time. Looking abroad, flat to negative growth continued within the three most influential countries in Europe. All the while, the Federal Reserve systematically reduced its asset purchases with October set for QE3 expiration.

September, as is historically the case, was pretty eventful. Strong economic data and the perception of earlier future rate hikes led to an abrupt increase in interest rates. Risk assets struggled in this fast moving rate environment. High yield securities lost approximately 2% during the month, while investment grade debt gave up over 1.25%. July and September now represent the two worst months of high yield performance in the last three years. The fear, in relation to rising rates, is the unknown reaction of the retail investor base that now owns a larger proportion of the market than in previous cycles. This, coupled with diminished liquidity due to regulatory requirements, has resulted in a very skittish credit market. Despite the recent hiccup in credit, much of 2014 can be summed up by the continued rally in government yields. Economic weakness abroad, coupled with the lack of inflationary pressures, led to a flattening trend of the yield curve. As a result, duration trumped all other factors in determining performance. Going forward, the divergence of growth rates and policy decisions among global powers will leave outcomes as uncertain as ever.

For the fiscal year, the total annual returns for the public domestic fixed income portfolios were 4.31% for the TRS and 4.32% for the ERS and 4.10% for the JRF. The five-year annualized returns were 5.18% for the TRS and 5.17% for the ERS and 5.25% for the JRF. The ten-year annualized returns were 5.72% for the TRS and 5.74% for the ERS and 5.52% 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, 2014

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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, 2014

	<b>1 Year</b>	<b>Annualized</b>		
		<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Total Portfolio</b>				
TRS	12.13%	15.09%	10.97%	6.43%
ERS	12.02%	14.85%	10.93%	6.15%
JRF	12.45%	15.14%	11.17%	7.17%
<b>Total Domestic Equity</b>				
TRS	17.18%	22.22%	15.45%	8.32%
ERS	17.27%	22.16%	15.41%	8.33%
JRF	18.44%	22.96%	15.87%	8.46%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	19.73%	22.99%	15.70%	8.11%
Dow Jones Industrial Average	15.29%	19.02%	14.85%	8.15%
S&P MidCap 400	11.82%	22.43%	16.37%	10.29%
S&P 600 Smallcap	5.74%	22.86%	16.24%	9.33%
<b>Total International Equity</b>				
TRS	4.89%	13.60%	6.70%	6.84%
ERS	4.88%	13.55%	6.68%	6.85%
JRF	4.90%	13.49%	6.85%	n/a
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	4.25%	13.65%	6.56%	6.32%
MSCI Emerging Markets (Unhedged)	4.30%	7.19%	4.42%	10.68%
<b>Total Fixed Income and Alternatives</b>				
TRS	8.42%	8.04%	7.61%	4.36%
ERS	8.18%	8.04%	7.70%	4.00%
JRF	4.37%	3.45%	4.94%	5.37%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	3.90%	2.41%	4.03%	4.73%
Barclays Aggregate	3.96%	2.43%	4.12%	4.62%

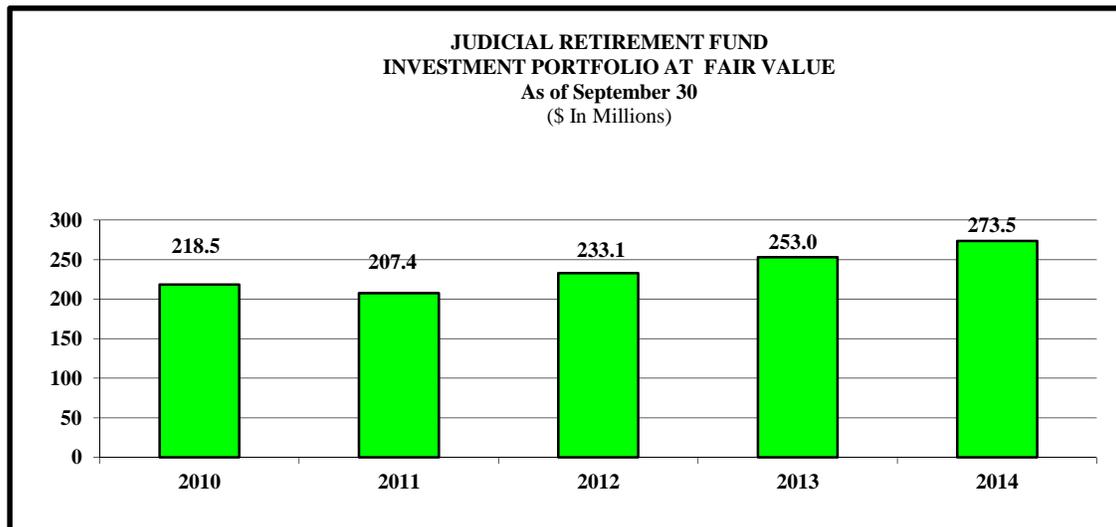
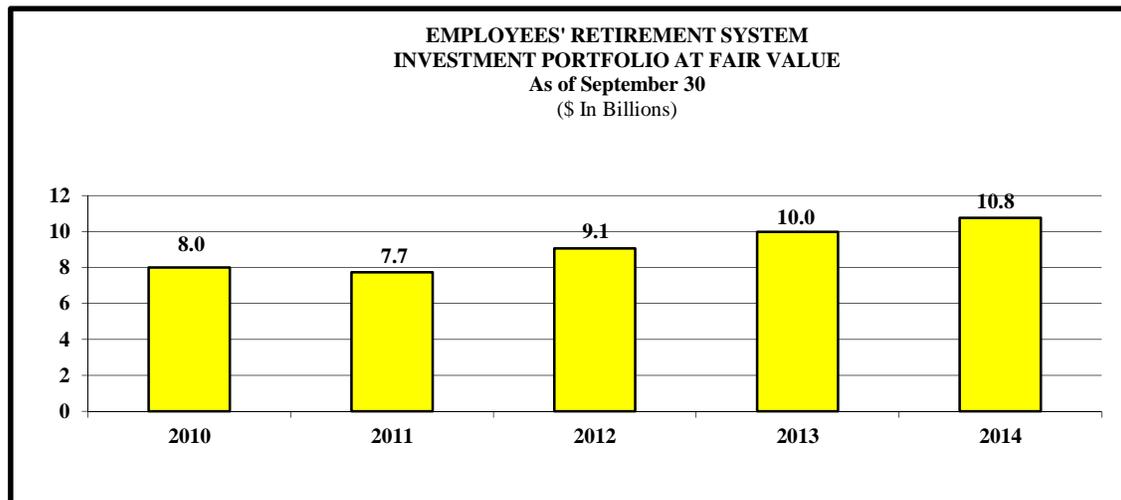
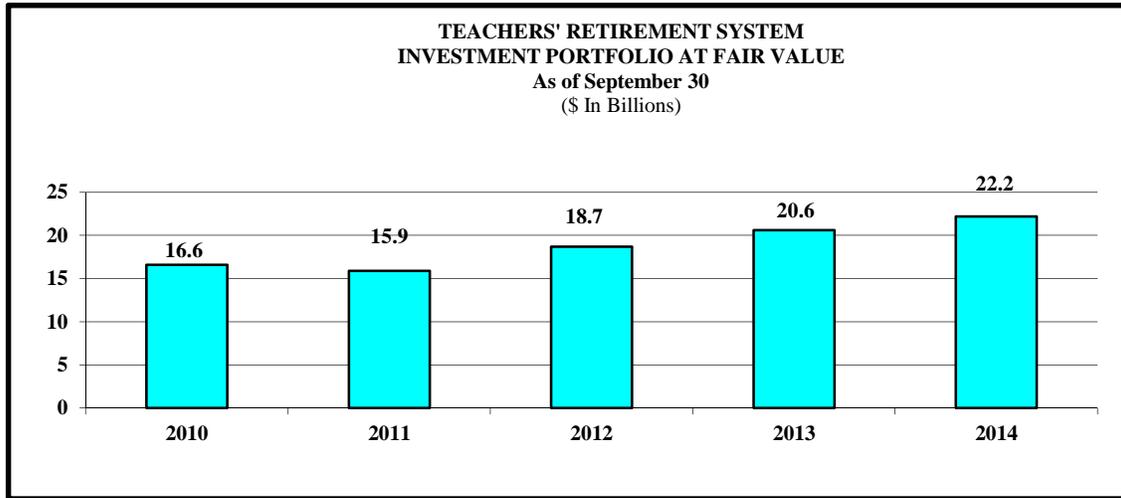
Note: Calculations are prepared using the time-weighted rate-of-return methodology based upon market values.

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Investment Portfolio at Fair Value

#### Five-Year Comparison

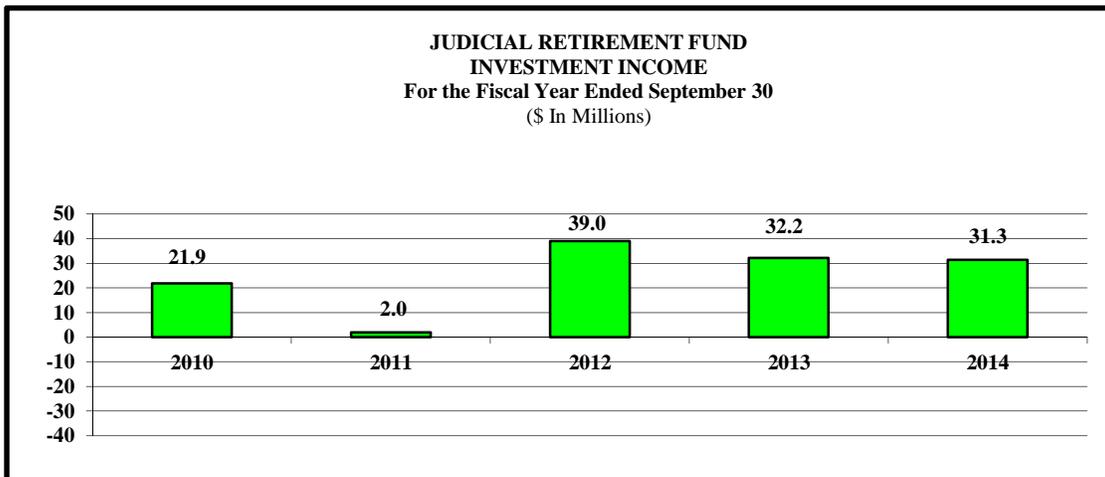
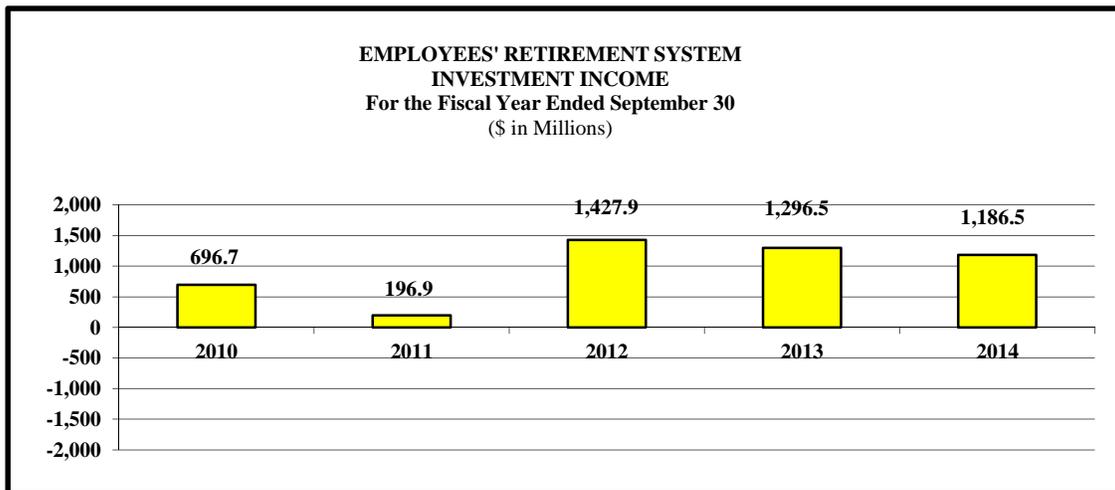
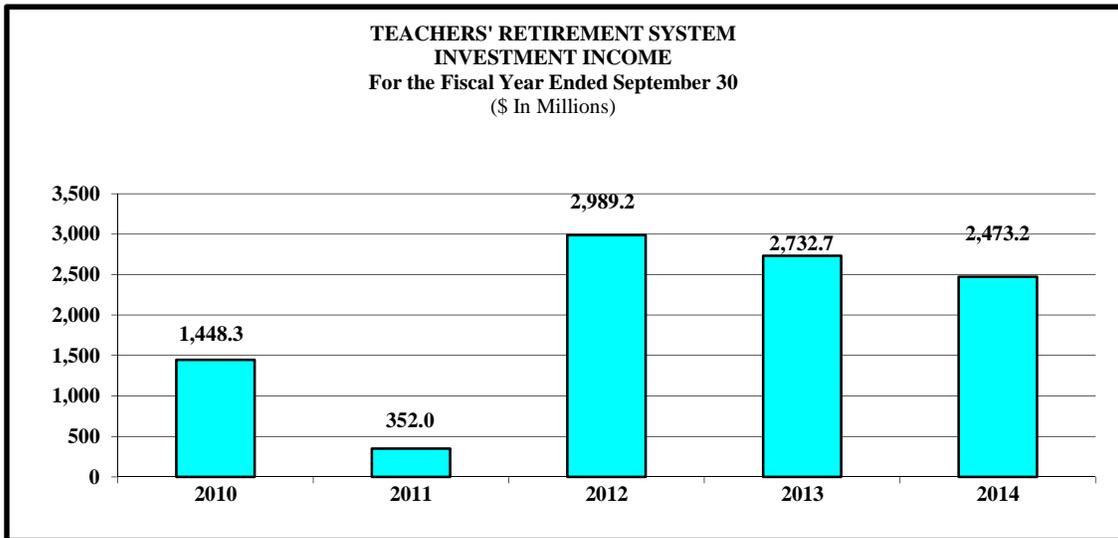


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

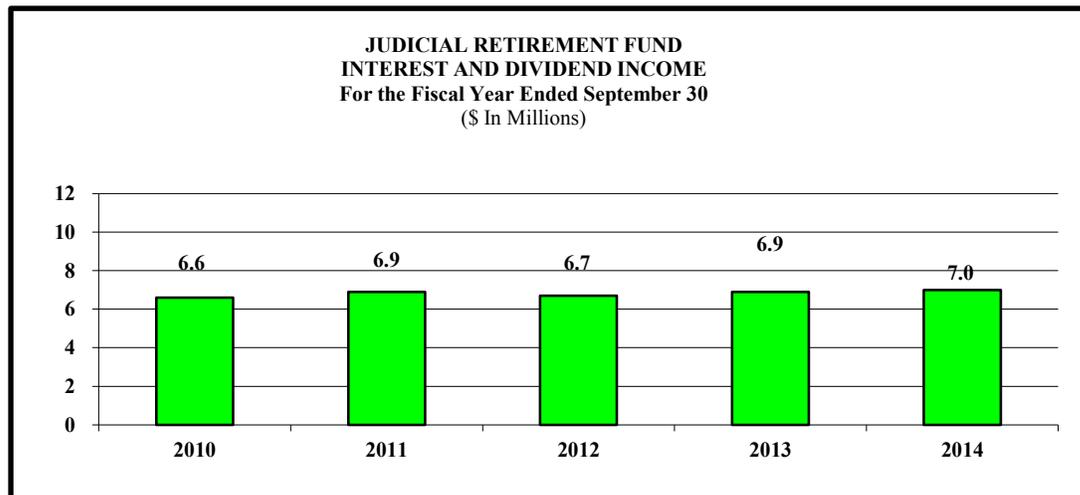
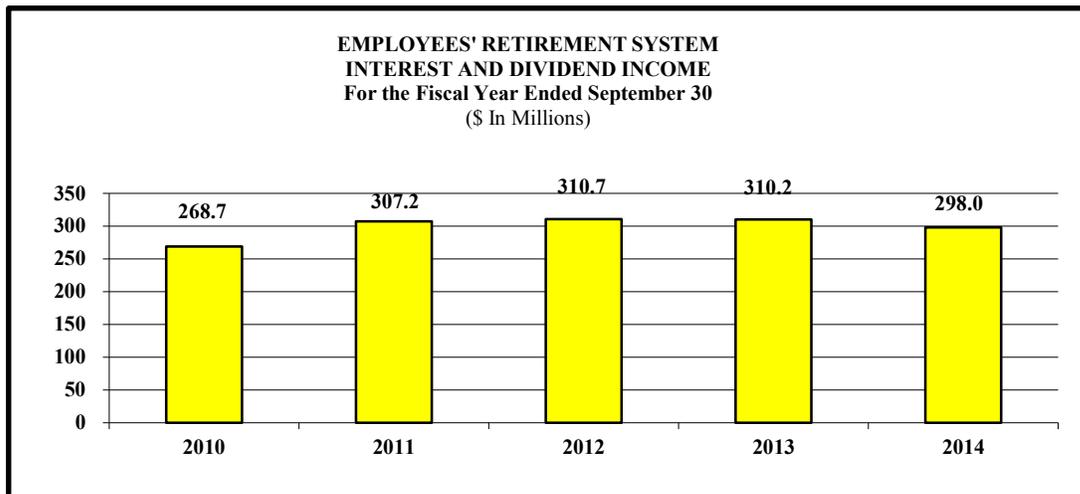
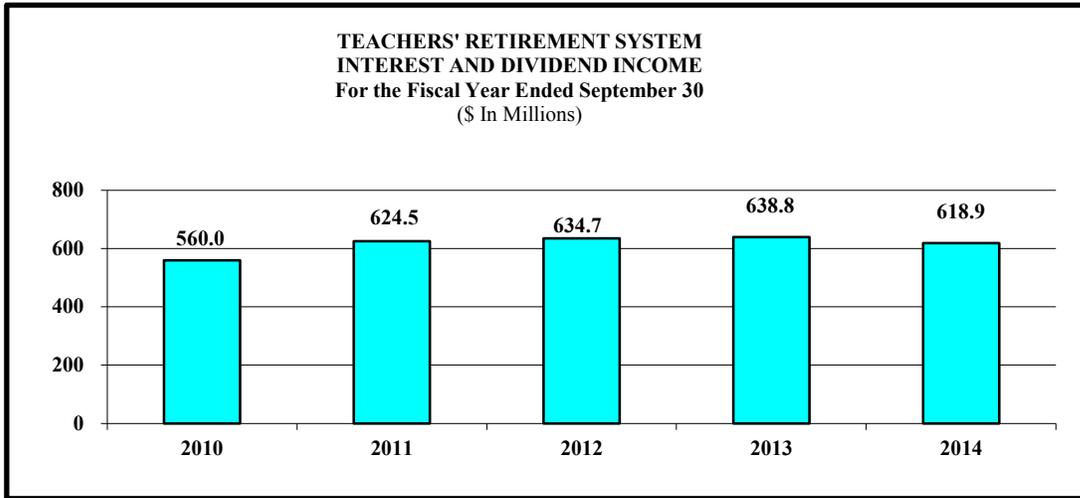


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividend Income

Five-Year Comparison

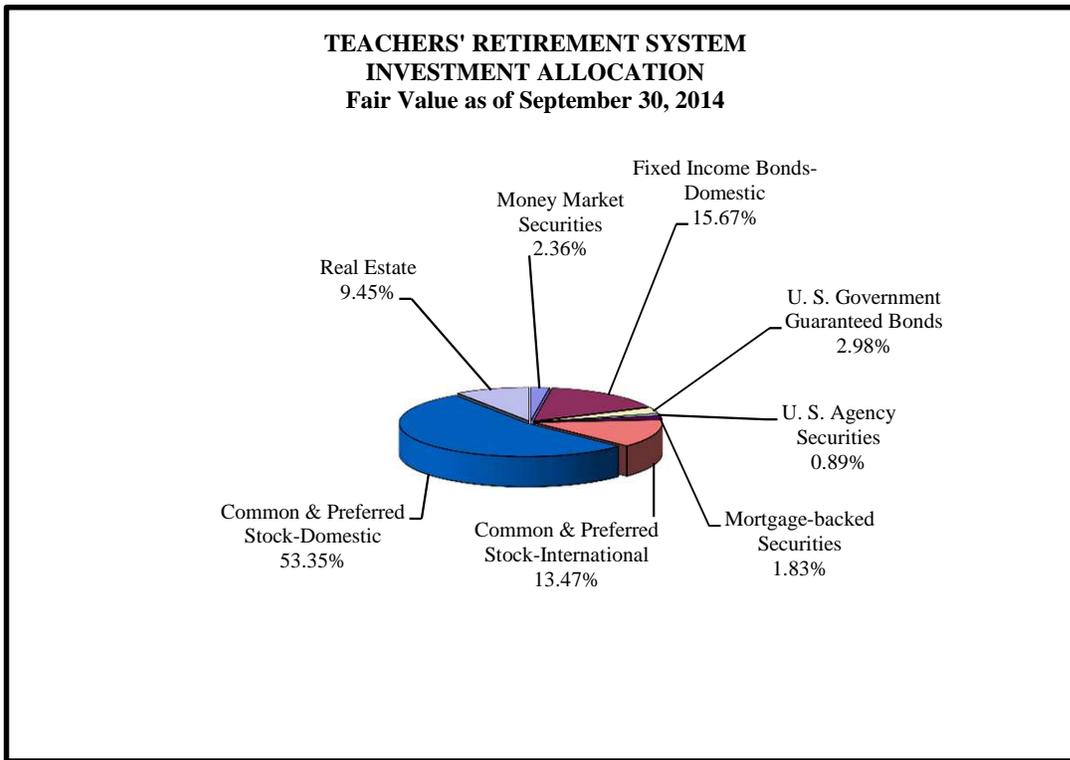


**RETIREMENT SYSTEMS OF ALABAMA**

*Investment Section*

Teachers' Retirement System

Investment Allocation and Summary



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

As of September 30, 2014

(\$ In Thousands)

	<b>Fair Value</b>	<b>% of Fair Value</b>
Money Market Securities and Mutual Funds	\$ 522,791	2.36
U.S. Government Guaranteed	661,275	2.98
U.S. Agency Securities	197,750	0.89
Mortgage-backed Securities	405,569	1.83
Fixed Income Bonds		
Domestic	3,471,416	15.67
Common and Preferred Stocks		
Domestic	11,820,998	53.35
International	2,985,814	13.47
Real Estate	2,095,289	9.45
<b>Total Investments</b>	<b>\$ 22,160,902</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

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### Investment Section

#### Teachers' Retirement System

#### Largest Stock and Bond Holdings

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### TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2014

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	13	New Water Street Corporation	\$ 1,048,205
2)	980	Goldman Sachs Small Cap Equity Linked Note	768,155
3)	7,331	ISHARES MSCI Emerging Markets	304,660
4)	2,760	Apple, Inc.	278,032
5)	4,689	Microsoft Corporation	217,386
6)	1,977	Exxon Mobil Corporation	185,954
7)	5,432	General Electric Company	139,168
8)	1,239	Johnson & Johnson	132,086
9)	97	Raycom Preferred 10% Non-Cumulative	131,270
10)	2,110	J P Morgan Chase & Co.	127,130

### TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2014

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	1,222,040	Raycom Media, 8%, Due 9/30/2032	\$ 1,653,993
2)	585,103	Community News, 8%, Due 12/31/2032	374,404
3)	81,232	U.S. Treasury, 2.125%, Due 8/15/2021	80,832
4)	77,162	U.S. Treasury, 2.75%, Due 2/15/2024	78,978
5)	71,137	U.S. Treasury, 4.25%, Due 8/15/2015	73,697
6)	72,831	U.S. Treasury, 2.50%, Due 5/15/2024	72,875
7)	54,104	U.S. Treasury, 3.125%, Due 4/30/2017	57,163
8)	56,926	U.S. Treasury, 1.375%, Due 1/31/2020	55,467
9)	63,003	American Spirit Media, LLC, 8%, Due 12/31/2032	54,825
10)	55,694	U.S. Treasury, 1.75%, Due 5/15/2023	52,789

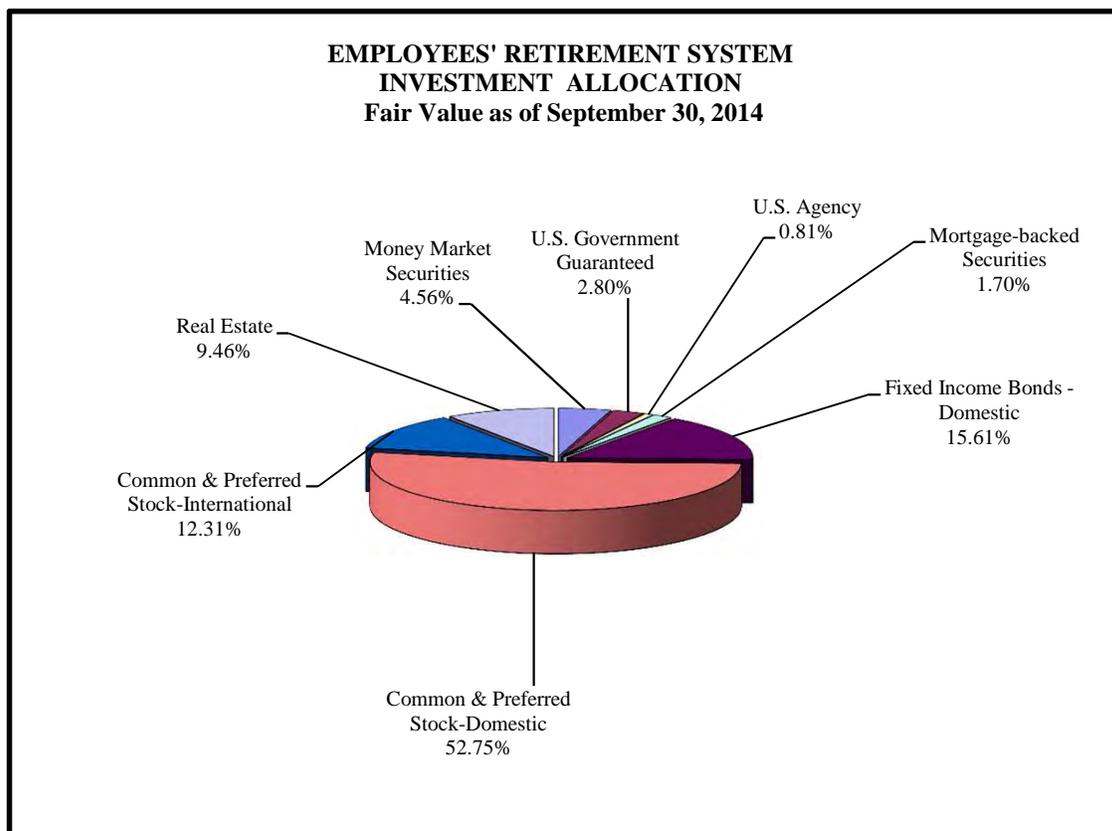
A complete list of portfolio holdings is available upon request.

**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, 2014**

(\$ In Thousands)

	<b>Fair Value</b>	<b>% of Fair Value</b>
Money Market Securities and Mutual Funds	\$ 490,538	4.56
U.S. Government Guaranteed	300,938	2.80
U.S. Agency Securities	87,494	0.81
Mortgage-backed Securities	183,190	1.70
Fixed Income Bonds		
Domestic	1,679,347	15.61
Common and Preferred Stocks		
Domestic	5,674,052	52.75
International	1,324,703	12.31
Real Estate	1,017,338	9.46
<b>Total Investments</b>	<b>\$ 10,757,600</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

### Employees' Retirement System

### Largest Stock and Bond Holdings

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#### EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2014

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	6	New Water Street Corporation	\$ 481,620
2)	403	Goldman Sachs Small Cap Equity Linked Note	315,912
3)	3,501	ISHARES MSCI Emerging Markets	145,489
4)	97	Raycom Preferred 10% Non-Cumulative	131,270
5)	1,298	Apple, Inc.	130,778
6)	2,266	Microsoft Corporation	105,067
7)	933	Exxon Mobil Corporation	87,740
8)	2,617	General Electric Company	67,053
9)	582	Johnson & Johnson	62,071
10)	1,021	J P Morgan Chase & Co.	61,529

#### EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2014

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	607,084	Raycom Media, 8%, Due 9/30/2032	\$ 821,669
2)	294,801	Community News, 8%, Due 12/31/2032	188,641
3)	37,001	U.S. Treasury, 2.125%, Due 8/15/2021	36,819
4)	35,101	U.S. Treasury, 2.75%, Due 2/15/2024	35,927
5)	32,314	U.S. Treasury, 4.25%, Due 8/15/2015	33,477
6)	33,131	U.S. Treasury, 2.5%, Due 5/15/2024	33,151
7)	32,798	American Spirit Media, LLC, 8%, Due 12/31/2032	28,541
8)	24,602	U.S. Treasury, 3.125%, Due 4/30/2017	25,993
9)	25,877	U.S. Treasury, 1.375%, Due 1/31/2020	25,214
10)	24,255	Signal International, Inc., 8.25%, Due 2/1/2021	24,255

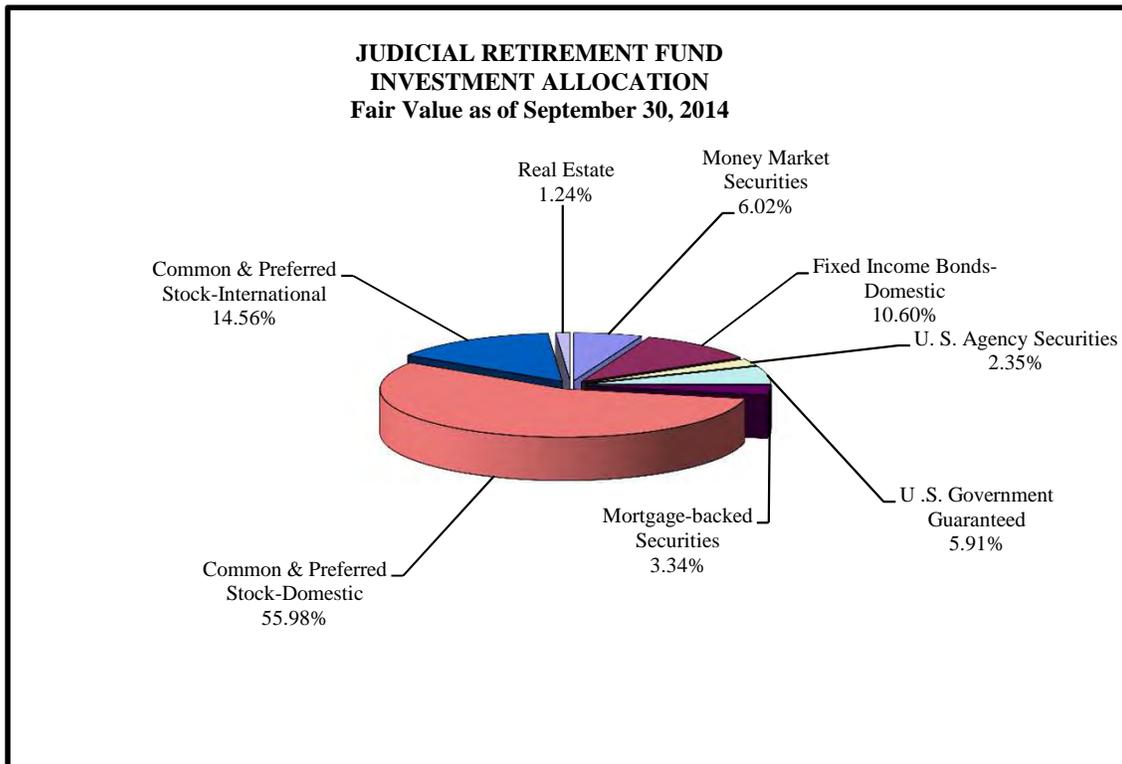
A complete list of portfolio holdings is available upon request.

**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, 2014**

(\$ In Thousands)

	<b>Fair Value</b>	<b>% of Fair Value</b>
Money Market Securities and Mutual Funds	\$ 16,453	6.02
U.S. Government Guaranteed	16,162	5.91
U.S. Agency Securities	6,414	2.35
Mortgage-backed Securities	9,124	3.34
Fixed Income Bonds, Domestic	28,995	10.60
Common and Preferred Stocks		
Domestic	153,148	55.98
International	39,814	14.56
Real Estate	3,395	1.24
<b>Total Investments</b>	<b>\$ 273,505</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, 2014**

(Amounts in Thousands)

	<b>Shares</b>	<b>Stock</b>	<b>Fair Value</b>
1)	9	Goldman Sachs Small Cap Equity Linked Note	\$ 6,919
2)	45	Apple, Inc.	4,532
3)	109	ISHARES MSCI Emerging Markets	4,518
4)	*	New Water Street Corporation	3,395
5)	32	Exxon Mobil Corporation	2,968
6)	61	Microsoft Corporation	2,850
7)	20	Johnson & Johnson	2,181
8)	74	General Electric Company	1,892
9)	13	Berkshire Hathaway, Inc.	1,821
10)	34	Wells Fargo & Co.	1,780

\* Less than 1,000 shares

**JUDICIAL RETIREMENT FUND****LARGEST BOND HOLDINGS****September 30, 2014**

(\$ In Thousands)

	<b>Par</b>	<b>Bonds</b>	<b>Fair Value</b>
1)	2,268	U.S. Treasury, 2.125%, Due 8/15/2021	\$ 2,257
2)	1,872	U.S. Treasury, 2.75%, Due 2/15/2024	1,916
3)	1,727	Farmer Mac Gtd, 5.125%, Due 4/19/2017	1,901
4)	1,588	General Electric Capital Corp., 5.55%, Due 5/4/2020	1,820
5)	1,723	U.S. Treasury, 4.25%, Due 8/15/2015	1,785
6)	1,767	U.S. Treasury, 2.5%, Due 5/15/2024	1,768
7)	1,327	U.S. Treasury, 3.125%, Due 4/30/2017	1,402
8)	1,415	U.S. Treasury, 1.375%, Due 1/31/2020	1,379
9)	2,039	Community News, 8%, Due 12/31/2032	1,305
10)	1,351	U.S. Treasury, 1.75%, Due 5/15/2023	1,281

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, 2014

	Stock			Fixed		Total Commissions (000's)
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Commission Sharing Agreements	Securities Commissions (000's)	
Avondale	\$ -	-	\$ -	\$ 8	\$ -	\$ 8
Bank of America Merrill Lynch	0.0345	3,852	133	-	109	242
Barclays	0.0338	8,340	282	-	19	301
BTIG	0.0357	1,234	44	-	-	44
Bernstein	0.0337	8,127	274	-	-	274
Citigroup	0.0329	15,121	498	-	135	633
Convergex	0.0323	11,704	378	(52)	-	326
Cornerstone	-	-	-	27	-	27
Cowen	0.0491	1,140	56	-	-	56
Credit Suisse	0.0419	788	33	-	110	143
Deutsche Bank	0.0330	9,636	318	-	45	363
Empirical Research	-	-	-	17	-	17
First Discount	0.0489	348	17	-	-	17
Goldman Sachs	0.0033	6,759	22	-	117	139
Harbor Financial	0.0497	302	15	-	-	15
Howard Weil	0.0494	607	30	-	-	30
Iberia	0.0493	467	23	-	-	23
International Strategy and Investment-ISI	0.0460	9,515	438	-	-	438
Issuer Designated	-	-	-	-	170	170
Janney Capital Markets	0.0491	1,465	72	-	-	72
Jefferies	0.0247	4,215	104	-	-	104
JP Morgan Chase	0.0266	4,288	114	-	41	155
Keybank Capital Markets	0.0501	1,237	62	-	16	78
Montrose	0.0400	150	6	-	-	6
Morgan Stanley	0.0375	21,768	817	-	78	895
Myers & Associates	0.0463	108	5	-	-	5
National Bank of Commerce - NBC Securities	0.0497	1,589	79	-	-	79
Oppenheimer	0.0461	1,129	52	-	-	52
Raymond James	0.0503	1,510	76	-	6	82
Royal Bank of Canada - RBC	0.0506	811	41	-	-	41
Renaissance Macro Securities - Renmac	0.0476	1,535	73	-	-	73
Sandler O'Neil	0.0430	1,372	59	-	-	59
Securities Capital	0.0500	340	17	-	-	17
Southwest Securities	0.0489	225	11	-	-	11
Sterne, Agee & Leach	0.0493	4,018	198	-	-	198
Stifel Nicolaus	0.0500	4,698	235	-	47	282
Strategas	0.0393	5,877	231	-	-	231
Union Bank of Switzerland - UBS	0.0496	665	33	-	-	33
Wells Fargo	0.0334	12,054	403	-	77	480
<b>Totals</b>		<b>146,994</b>	<b>\$ 5,249</b>	<b>\$ -</b>	<b>\$ 970</b>	<b>\$ 6,219</b>
<b>Average Commission Per Share of Stock =</b>			<b>\$ 0.0357</b>			



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

# ACTUARIAL SECTION





# Cavanaugh Macdonald

CONSULTING, LLC

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July 18, 2014

Board of Control  
Teachers' Retirement System  
of Alabama

Dear Board Members:

The basic funding objectives of the Teachers' Retirement System of Alabama (TRS) is to accumulate sufficient assets during a member's employment to fully finance the benefits the member is expected to receive throughout retirement.

TRS maintains a funding policy that was effective September 30, 2012. In order to meet the objectives listed above, the System will strive to meet the following funding objectives:

- To maintain an increasing funded ratio (ratio of system actuarial value of assets to actuarial accrued liabilities) that reflects a trend of improved actuarial condition. The long-term objective is to attain a funded ratio which is consistent with the fiscal health and long-term stability of the System.
- To maintain adequate asset levels to finance the benefits promised to members and monitor the future demands for liquidity.
- To develop a pattern of contribution rates expressed as a percentage of member payroll as measured by valuations prepared in accordance with applicable State laws and the principles of practice prescribed by the Actuarial Standards Board. In no event will the employer contribution rate be negative.
- To provide intergenerational equity for taxpayers with respect to System costs.

To track progress in achieving the funding objectives, the following benchmarks are measured annually as of the valuation date:

- **Funded ratio** – The funded ratio, defined as the actuarial value of assets divided by the actuarial accrued liability, should increase over time, before adjustments for changes in benefits, actuarial, methods, and/or actuarial assumptions.
- **Unfunded Actuarial Accrued Liability (UAAL)**
  - **Transitional UAAL** – The UAAL established as of the initial valuation date for which this funding policy is adopted.
  - **New Incremental UAAL** – Each subsequent valuation will produce a New Incremental UAAL consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation.
- **UAAL Amortization Period and Contribution Rates**
  - In each valuation 1/15<sup>th</sup> of the Transitional UAAL will be amortized over a closed period. The closed period shall be the amortization period for the valuation preceding the adoption of the funding policy not to exceed 30 years. The remaining Transitional UAAL each year will be amortized over an open period. The open period shall be the amortization period for the valuation preceding the adoption of the funding policy not to exceed 30 years. After 15 years the entire Transitional UAAL will be closed.
  - Each New Incremental UAAL shall be amortized over a closed 30 year period.
  - Employer Normal Contribution Rate – the contribution rate determined as of the valuation date each year based on the provisions of Alabama Code Section 16-25-21.

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Board of Control  
July 18, 2014  
Page 2

- In each valuation subsequent to the adoption of this funding policy the required employer contribution rate will be determined by the summation of the employer Normal Contribution Rate, a contribution rate for administrative expenses, a contribution rate for the pre-retirement death benefit fund, a contribution rate for the term life insurance fund, individual amortization rate for each of the New Incremental UAAL bases, the individual amortization rate for each of the 15 closed periods for the Transitional UAAL and the amortization of any remaining open portion of the Transitional UAAL.

In order to measure progress toward this fundamental objective and funding policy, TRS has an annual actuarial valuation performed. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the normal cost and level percent of payroll amortization of unfunded actuarial accrued liability in accordance with the funding policy. The latest completed actuarial valuation was based upon data and assumptions as of September 30, 2013. This valuation indicates that the current employer contribution rates of 11.94% of payroll for Tier I members and 10.84% of payroll for Tier II members, for benefits then in effect, meet the basic financial objective and the goals of the funding policy as listed above. There are 133,919 active members as of September 30, 2013.

The actuarial valuation is based upon financial and participant data which is prepared by the retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death and disability among TRS members and their beneficiaries. The data are reviewed by us for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuation. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Control and were based upon actual experience of TRS during the years October 1, 2005 to September 30, 2010. Assets are valued according to a market related method that recognizes 20% of the difference between market value and expected value each year. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by the Actuarial Standards of Practice.

The current benefit structure is outlined in the Actuarial Section. Since the previous valuation, TRS was amended to provide a new benefit structure for members initially joining the System on and after January, 1 2013 (Tier II).

We provided most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section.

**Based upon the valuation results and the presumption that future contributions will be made at the necessary level to ensure adequate funding and to meet accounting standards, it is our opinion that the Teachers' Retirement System of Alabama continues in sound condition in accordance with the actuarial principles of level percent of payroll financing.**

Respectfully submitted,

Edward A. Macdonald, ASA, FCA, MAAA  
President

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

# 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% 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:

Age	Male						
	Death*	Annual % Rate of					
		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.

Female							
Age	Annual % Rate of						
	Death*	Disability		Withdrawal			
		Years of Service		Years of Service			
		0-24	25+	0-4	5-9	10-20	20+
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 1 members first eligible for unreduced benefits upon attaining 25 years of service but before age 65 are as follows:

Age Group	Annual % Rate	
	Male*	Female **
47 & Under	20.00	25.00
48	20.00	17.00
49	20.00	16.00
50 to 52	15.00	16.00
53 to 54	14.00	16.00
55 to 59	15.00	20.00
60	15.00	15.00
61	20.00	25.00
62	35.00	35.00
63	30.00	25.00
64	25.00	30.00

\*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)

The assumed annual rates of service retirement for Tier 1 members first eligible for unreduced benefits before attaining 25 years of service and all members age 65 and over are as follows:

Age	Annual % Rate	
	Male	Female
60	13.00	20.00
61	12.00	15.00
62	28.00	25.00
63	20.00	20.00
64	15.00	18.00
65	30.00	30.00
66	28.00	30.00
67	20.00	25.00
68	20.00	28.00
69	20.00	22.00
70	20.00	25.00
71 to 74	20.00	22.00
75 & Above	100.00	100.00

The assumed annual rates of service retirement for Tier 2 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	50.00	60.00	50.00	65.00
63	20.00	30.00	20.00	25.00
64	15.00	25.00	18.00	30.00
65	30.00	30.00	30.00	30.00
66	28.00	28.00	30.00	30.00
67	20.00	20.00	25.00	25.00
68	20.00	20.00	28.00	28.00
69	20.00	20.00	22.00	22.00
70	20.00	20.00	25.00	25.00
71 to 74	20.00	20.00	22.00	22.00
75 & Above	100.00	100.00	100.00	100.00

**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 with an adjustment factor of 0.85 for males. Representative values of the assumed annual rates of death after retirement are as follows:

Age	Annual % Rate of Death After			
	Service Retirement		Disability Retirement	
	Male	Female	Male	Female
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

**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 or 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 Tier 1 active members. No load for Tier 2 active 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 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.

**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%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8%.

**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 took into account 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 1 member is calculated using compensation for the 3 highest years in the last 10 years of creditable service. The average compensation of a Tier 2 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 the 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.

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## Benefits

### Service Retirement Allowance

Condition for Allowance Tier 1 - The service 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 2 - The service retirement allowance is payable upon the request of a member who has completed at least 10 years of creditable service and who has attained age 62 (age 56 with 10 years of creditable service for certified law enforcement, correctional officers, and firefighters).

Amount of Allowance Tier 1 - 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 certified law enforcement, correctional officer, or firefighter.

Tier 2 - 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 1 & 2 - 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 completed at least 10 years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for a service retirement.

Amount of Allowance Tier 1 - 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 certified law enforcement, correctional officer, or firefighter.

Tier 2 - 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 1 & 2 - 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").

### Benefits Payable upon 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 for Tier 1 members and age 62 for Tier 2 members.

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Teachers' 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 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 the death of a member which is not job-related and who has 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.

##### 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.

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Deferred Retirement Option Plan (DROP)

Prior to March 25, 2011, a member could 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 deferred receipt of a retirement allowance and continued employment for a period of three to five years. At the end of the period, the member withdrew from active service and received the retirement benefit calculated at the time of enrollment in the DROP, and also received 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 was that no new participants were allowed to enter the DROP with an effective participation date after June 1, 2011.

Term Life Insurance

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

Member Contributions

Tier 1 - Prior to October 1, 2011, covered members contributed 5% of earnable compensation. From October 1, 2011, to September 30, 2012, covered members contributed 7.25% of earnable compensation. Beginning October 1, 2012, covered members contribute 7.50% of earnable compensation. Prior to October 1, 2011, certified law enforcement, correctional officers, and firefighters contributed 6% of earnable compensation. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters contributed 8.25% of earnable compensation. Beginning October 1, 2012, certified law enforcement, correctional officers, and firefighters contribute 8.50% of earnable compensation. DROP participants continue to contribute during the DROP period but receive a refund of these contributions and regular interest upon retirement.

Tier 2 – Covered members contribute 6% of earnable compensation. Certified law enforcement, correctional officers, and firefighters contribute 7% of earnable compensation.

Tier 1 & 2 - If 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. "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 *Code of Alabama 1975, Section 16-25-20(b)*).

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Supporting Schedules

**Supporting Schedules**

The following table presents a six-year history of funding progress:

**SCHEDULE OF FUNDING PROGRESS**

(Dollar Amounts in Thousands)

Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	% Funded (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
9/30/2013	\$ 19,629,816	\$ 29,665,843	\$ 10,036,027	66.2	\$ 6,263,364	160.2
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

\*\*Reflects changes in methods.

\*Reflects changes in assumptions.

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

**SOLVENCY TEST**

(Dollar Amounts in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	% of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)				
9/30/2013	\$ 4,261,269	\$ 17,666,932	\$ 7,737,642	\$ 19,629,816	100	87	0.0
9/30/2012 &	3,921,179	17,085,972	7,244,216	18,786,008	100	87	0.0
9/30/2011 #	3,620,301	17,245,088	7,910,927	19,430,135	100	92	0.0
9/30/2010	3,498,959	16,083,293	8,717,271	20,132,779	100	100	6.3
9/30/2009	3,233,664	15,328,508	8,975,228	20,582,348	100	100	22.5
9/30/2008	3,153,859	14,678,975	8,971,283	20,812,477	100	100	33.2

& Reflects change in methods.

# Reflects changes in actuarial assumptions.

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

**ANALYSIS OF ACTUARIAL GAINS AND LOSSES**

(Dollar Amounts in Thousands)

Unfunded Actuarial Liability as of September 30, 2012	\$ 9,465,360
Normal Cost for 2013 Plan Year	57,604
Contributions Received During the Year	(605,465)
Interest to Year End	783,719
Expected Unfunded Actuarial Liability as of September 30, 2013	<u>9,701,218</u>
Actuarial (Gains)/Losses During the Year	
From Investments	(161,243)
From Actuarial Liabilities	496,052
Total Actuarial (Gains)/Losses During the Year	<u>334,809</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2013</b>	<b><u>\$ 10,036,027</u></b>

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

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**  
(Dollar Amounts Not in Thousands)

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase/ (Decrease) in Average Pay</u>
9/30/2013 A	133,919	\$ 6,065,042,345	\$ 45,289	2.06
9/30/2012 B	133,791	5,936,831,043	44,374	3.74
9/30/2011 C	135,768	5,807,655,862	42,776	(0.12)
9/30/2010 D	136,290	5,836,902,762	42,827	(0.01)
9/30/2009 E	137,935	5,908,098,156	42,832	1.55
9/30/2008 F	141,528	5,969,302,850	42,178	6.55

A - In addition, there are 3,029 employees with annual compensation of \$198,322,151 who are currently in the DROP program. Employers of the Retirement System contribute on this payroll.  
 B - 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.  
 C - 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.  
 D - 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.  
 E - 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.  
 F - 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.

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

**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

<u>Fiscal Year Ended</u>	<u>Retirees Added §*</u>		<u>Retirees Removed</u>		<u>Retirees - Year-end*</u>		<u>% Increase/ (Decrease) in Annual Allowances</u>	<u>Average Annual Allowance</u>
	<u>Number</u>	<u>Annual Allowances (000s)</u>	<u>Number</u>	<u>Annual Allowances (000s)</u>	<u>Number</u>	<u>Annual Allowances (000s)</u>		
2013	4,627	\$ 104,280	1,369	\$ 29,107	80,553	\$ 1,524,445	5.19	\$ 18,925
2012	5,043	111,252	1,132	18,234	77,295	1,449,272	6.86	18,750
2011	4,088	87,692	1,212	25,189	73,384	1,356,254	4.83	18,482
2010	3,447	71,293	1,104	22,736	70,508	1,293,751	3.90	18,349
2009	3,188	63,583	1,180	24,121	68,165	1,245,194	3.27	18,267
2008	3,390	68,131	1,289	26,182	66,157	1,205,732	3.60	18,225

§ Includes retirees completing DROP participation and entering regular retirement.

\*Does not include active DROP participants.



# Cavanaugh Macdonald

CONSULTING, LLC

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July 18, 2014

Board of Control  
Employees' Retirement System  
of Alabama

Dear Board Members:

The basic funding objectives of the Employees' Retirement System of Alabama (ERS) is to accumulate sufficient assets during a member's employment to fully finance the benefits the member is expected to receive throughout retirement.

ERS maintains a funding policy that was effective September 30, 2012. In order to meet the objectives listed above, the System will strive to meet the following funding objectives:

- To maintain an increasing funded ratio (ratio of system actuarial value of assets to actuarial accrued liabilities) that reflects a trend of improved actuarial condition. The long-term objective is to attain a funded ratio which is consistent with the fiscal health and long-term stability of the System.
- To maintain adequate asset levels to finance the benefits promised to members and monitor the future demands for liquidity.
- To develop a pattern of contribution rates expressed as a percentage of member payroll as measured by valuations prepared in accordance with applicable State laws and the principles of practice prescribed by the Actuarial Standards Board. In no event will the employer contribution rate be negative.
- To provide intergenerational equity for taxpayers with respect to System costs.

To track progress in achieving the funding objectives, the following benchmarks are measured annually as of the valuation date:

- **Funded ratio** – The funded ratio, defined as the actuarial value of assets divided by the actuarial accrued liability, should increase over time, before adjustments for changes in benefits, actuarial, methods, and/or actuarial assumptions.
- **Unfunded Actuarial Accrued Liability (UAAL)**
  - **Transitional UAAL** – The UAAL established as of the initial valuation date for which this funding policy is adopted.
  - **New Incremental UAAL** – Each subsequent valuation will produce a New Incremental UAAL consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation.
- **UAAL Amortization Period and Contribution Rates**
  - For those employers with a funded percentage less than 100% in the valuation prior to the adoption of the funding policy: In each valuation 1/15<sup>th</sup> of the Transitional UAAL will be amortized over a closed period. The closed period shall be the amortization period for the valuation preceding the adoption of the funding policy not to exceed 30 years. The remaining Transitional UAAL each year will be amortized over an open period. The open period shall be the amortization period for the valuation preceding the adoption of the funding policy not to exceed 30 years. After 15 years the entire Transitional UAAL will be closed.

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Board of Control  
July 18, 2014  
Page 2

- For those employers with a funded percentage 100% or greater in the valuation prior to the adoption of the funding policy: In each valuation 1/15<sup>th</sup> of the Transitional UAAL will be amortized over a 30 year closed period. The remaining Transitional UAAL each year will be amortized over a 30 year open period. After 15 years the entire Transitional UAAL will be closed.
- Each New Incremental UAAL shall be amortized over a closed 30 year period.
- Employer Normal Contribution Rate – the contribution rate determined as of the valuation date each year based on the provisions of Alabama Code Section 36-27-24.
- In each valuation subsequent to the adoption of this funding policy the required employer contribution rate will be determined by the summation of the employer Normal Contribution Rate, a contribution rate for administrative expenses, a contribution rate for the pre-retirement death benefit fund, the individual amortization rate for each of the New Incremental UAAL bases, the individual amortization rate for each of the 15 closed periods for the Transitional UAAL and the amortization of any remaining open portion of the Transitional UAAL. If the resulting contribution rate will not support the cash flow and projected benefit payment needs of a particular unit or employer then the RSA staff may approve a more aggressive funding policy for these units or employers.

In order to measure progress toward this fundamental objective and funding policy, ERS has an annual actuarial valuation performed. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the normal cost and level percent of payroll amortization of unfunded actuarial accrued liability in accordance with the funding policy. The latest completed actuarial valuation was based upon data and assumptions as of September 30, 2013. This valuation indicates that the current employer contribution rates for State employees (other than State policemen) of 14.57% of payroll for Tier I members and 14.09% of payroll for Tier II members and employer contribution rates for State policemen of 42.61% if payroll for Tier I members and 38.98% of payroll for Tier II members, for benefits then in effect, meet the basic financial objective and the goals of the funding policy as listed above. In addition, there are varying employer contribution rates for each participating Local employer actuarially determined in accordance with the funding policy. There are 84,035 total active members as of September 30, 2013.

The actuarial valuation is based upon financial and participant data which is prepared by the retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death and disability among ERS members and their beneficiaries. The data are reviewed by us for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuation. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Control and were based upon actual experience of ERS during the years October 1, 2005 to September 30, 2010. Assets are valued according to a market related method that recognizes 20% of the difference between market value and expected value each year. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by the Actuarial Standards of Practice.

The current benefit structure is outlined in the Actuarial Section. Since the previous valuation, ERS was amended to provide a new benefit structure for members initially joining the System on and after January, 1 2013 (Tier II).

We provided most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section.



Board of Control  
July 18, 2014  
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**Based upon the valuation results and the presumption that future contributions will be made at the necessary level to ensure adequate funding and to meet accounting standards, it is our opinion that the Employees' Retirement System of Alabama continues in sound condition in accordance with the actuarial principles of level percent of payroll financing.**

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald', written in a cursive style.

Edward A. Macdonald, ASA, FCA, MAAA  
President

A handwritten signature in blue ink, appearing to read 'John Garrett', written in a cursive style.

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

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# RETIREMENT SYSTEMS OF ALABAMA

## Actuarial Section

### Employees' 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% per annum, compounded annually, including price inflation at 3%.

**Salary Increases:** Representative values of the assumed annual rates of future salary increases for State and Local Employees 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 Police 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.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods (Continued)

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 Police				
Annual % Rate of				
Age	Death*		Disability	Withdrawal**
	Male	Female		
20	0.03	0.01	0.08	3.00
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% is assumed during the first four years of employment.

**Service Retirement:** The assumed annual rates of service retirement for Tier 1 and Tier 2 members are as follows:

<b>Tier 1 State and Local Employees</b>				
<b>Annual % Rate of Service Retirement</b>				
<b>Age</b>	<b>Under age 65 with 25 or more years of service</b>		<b>Under age 65 with less than 25 years of service &amp; All over age 65</b>	
	<b>Male*</b>	<b>Female**</b>	<b>Male</b>	<b>Female</b>
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

\*Retirement rates are increased by 10% in the year a member attains 25 years of service at or before age 60.

\*\*Retirement rates are increased by 7% in the year a member attains 25 years of service at or before age 60.

<b>Tier 2 State and Local Employees</b>				
<b>Annual % Rate of Service Retirement</b>				
<b>Age</b>	<b>Less than 25 years of service</b>		<b>25 or more years of service</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
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	23.00	25.00	23.00
68 to 74	23.00	23.00	23.00	23.00
75 & Above	100.00	100.00	100.00	100.00

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods (Continued)

<b>Tier 1 State Police</b>			
<b>Annual % Rate of Service Retirement</b>			
<b>Age</b>	<b>Under age 60 with 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		

<b>Tier 2 State Police</b>			
<b>Annual % Rate of Service Retirement</b>			
<b>Age</b>	<b>Under age 60 with 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		

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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 members 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 or the value of the deferred annuity.

**Unused Sick Leave:** 2.25% load on service retirement liabilities for Tier 1 active members. No load for Tier 2 active members.

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

**Actuarial Method:** Individual entry age normal 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.

**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 Police.

**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%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8%.

**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 took into account 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 1 member is calculated using compensation for the 3 highest years in the last 10 years of creditable service. The average compensation of a Tier 2 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 were 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 the 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.

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## Benefits – Members Classified as Other Than State Police

### Service Retirement Allowance

Condition for Allowance	<p>Tier 1 - The service 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.</p> <p>Tier 2 - The service retirement allowance is payable upon the request of a member who has completed at least 10 years of creditable service and who has attained age 62 or age 56 for certified law enforcement, correctional officers, and firefighters.</p>
Amount of Allowance	<p>Tier 1 - 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 certified law enforcement, correctional officer, or firefighter.</p> <p>Tier 2 - 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.</p> <p>Tier 1 &amp; 2 - 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 – All Members").</p>

### Disability Retirement Allowance

Condition for Allowance	<p>A disability retirement allowance may be granted to a member who has completed at least 10 years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.</p>
Amount of Allowance	<p>Tier 1 - 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 certified law enforcement, correctional officer, or firefighter.</p> <p>Tier 2 - 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.</p> <p>Tier 1 &amp; 2 - 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 – All Members").</p>

## 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 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 at least 10 years of creditable service may, after separation from service, continue membership in the System and file for service retirement after reaching age 60 for Tier 1 members or age 62 for Tier 2 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 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 the death of a member which is not job-related who has 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.

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Deferred Retirement Option Plan  
(DROP)

Prior to March 25, 2011, a member could 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 deferred receipt of a retirement allowance and continued employment for a period of three to five years. At the end of the period, the member withdrew from active service and received the retirement benefit calculated at the time of enrollment in the DROP, and also received 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 was that no new participants were allowed to enter the DROP with an effective participation date after June 1, 2011.

Member Contributions

Tier 1 - Prior to October 1, 2011, covered members contributed 5% of earnable compensation. From October 1, 2011, to September 30, 2012, covered members contributed 7.25% of earnable compensation. Beginning October 1, 2012, covered members contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters contributed 6% of earnable compensation until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters contributed 8.25% of earnable compensation. Beginning October 1, 2012, certified law enforcement, correctional officers, and firefighters contribute 8.50% of earnable compensation. DROP participants continue to contribute during the DROP period but receive a refund of these contributions and regular interest upon retirement.

Tier 2 – Covered members contribute 6% of earnable compensation. Certified law enforcement, correctional officers, and firefighters contribute 7% of earnable compensation.

Tier 1 & 2 - If 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. “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 *Code of Alabama 1975, Section 36-27-25(g)*).

# 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 State Police**

##### Service Retirement Allowance

Condition of Allowance Tier 1 - 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 2 - 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 1 - 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 2 - 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% 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 completed at least 10 years of creditable service and who becomes permanently incapacitated for the further performance of duty before reaching the minimum age for service retirement or who becomes disabled as a result of employment in the line of duty without regard to years of creditable service.

Amount of Allowance Tier 1 - 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 2 - 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.

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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 at least 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 for Tier 1 members or age 56 for Tier 2 members.

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 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 the death of a member which is not job-related and who has 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*

#### Employees' Retirement System

#### Summary of Plan Provisions (Continued)

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

Prior to March 25, 2011, a member could 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 deferred receipt of a retirement allowance and continued employment for a period of three to five years. At the end of the period, the member withdrew from active service and received the retirement benefit calculated at the time of enrollment in the DROP, and also received 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 was that no new participants were allowed to enter the DROP with an effective participation date after June 1, 2011.

##### Member Contributions

Each member contributes 10% of earnable compensation. DROP participants continue to contribute during the DROP period but receive a refund of these contributions and regular interest upon retirement.

#### **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 retirement 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 table presents a six-year history of funding progress:

**SCHEDULE OF FUNDING PROGRESS**

(Dollar Amounts in Thousands)

Valuation Date	Actuarial Value of Assets (A)	Actuarial	Unfunded	Percentage Funded (A/B)	Covered Payroll (C)	UAAL as a
		Accrued Liability (AAL) (B)	AAL (UAAL) (B-A)			% of Covered Payroll ((B-A)/C)
9/30/2013	\$9,546,459	\$14,536,600	\$4,990,141	65.7	\$3,400,596	146.7
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

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

**SOLVENCY TEST**

(Dollar Amounts in Thousands)

Valuation Date	Aggregate Accrued Liabilities For				Reported Assets	% of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)	Reported Assets		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)					
9/30/2013	\$ 2,363,600	\$ 8,085,291	\$ 4,087,709	\$ 9,546,459	100	89	0.0	
9/30/2012 &	2,218,478	7,781,431	3,885,086	9,116,551	100	89	0.0	
9/30/2011 #	2,112,356	7,722,942	4,531,498	9,456,158	100	95	0.0	
9/30/2010	2,050,051	7,130,938	4,535,113	9,739,331	100	100	12.3	
9/30/2009	1,973,511	6,707,240	5,075,425	9,928,104	100	100	24.6	
9/30/2008 *	1,860,095	6,275,136	4,943,455	9,905,766	100	100	35.8	

& Reflects changes in methods.

# Reflects changes in actuarial assumptions.

\*Reflects pay increases payable under Act 2007-297.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Supporting Schedules (Continued)

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

**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

Fiscal Year Ended	Retirees Added §*		Retirees Removed		Retirees - Year-end*		% Increase/ (Decrease) in Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)		
2013	2,628	\$ 59,930	972	\$ 19,036	42,107	\$ 729,949	5.93	\$ 17,336
2012	2,846	64,800	977	18,759	40,451	689,055	7.16	17,034
2011	2,444	53,577	921	17,228	38,582	643,014	5.99	16,666
2010	2,030	42,920	958	17,571	37,059	606,665	4.36	16,370
2009	1,942	40,480	619	11,148	35,987	581,316	5.31	16,153
2008	1,830	37,278	867	15,385	34,664	551,984	4.13	15,924

§ Includes retirees completing DROP participation and entering regular retirement.

\*Does not include active DROP participants.

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

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

(Dollar Amounts Not in Thousands)

Valuation Date		Number	Annual Payroll	Annual Average Pay	% Increase/ (Decrease) in Average Pay
9/30/2013	A	84,035	\$ 3,307,511,468	\$39,359	6.02
9/30/2012	B	84,169	3,124,791,422	37,125	(5.88)
9/30/2011	C	85,633	3,377,717,419	39,444	(1.00)
9/30/2010	D	86,967	3,464,913,031	39,842	0.38
9/30/2009	E	87,647	3,478,635,402	39,689	3.65
9/30/2008	F	88,002	3,369,696,707	38,291	4.71

A - In addition, there are 1,514 members with compensation of \$93,084,090 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

B - 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.

C - 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.

D - 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.

E - 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.

F - 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.

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

**ANALYSIS OF ACTUARIAL GAINS AND LOSSES**  
(Dollar Amounts in Thousands)

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2012	\$ 4,768,444
Normal Cost for 2013 Plan Year	49,402
Contributions Received During the Year	(326,943)
Interest to Year End	<u>395,622</u>
Expected Unfunded Actuarial Liability as of September 30, 2013	<u>4,886,525</u>
Actuarial (Gains)/Losses During the Year	
From Investments	(72,048)
From Actuarial Liabilities	<u>175,664</u>
Total Actuarial (Gains)/Losses During the Year	<u>103,616</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2013</b>	<b><u><u>\$ 4,990,141</u></u></b>



# Cavanaugh Macdonald

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July 18, 2014

Board of Control  
Employees' Retirement System of  
Alabama for the Administration of  
the Judicial Retirement Fund

Dear Board Members:

The basic funding objectives of the Judicial Retirement Fund of Alabama (JRF) is to accumulate sufficient assets during a member's employment to fully finance the benefits the member is expected to receive throughout retirement.

JRF maintains a funding policy that was effective September 30, 2012. In order to meet the objectives listed above, the Fund will strive to meet the following funding objectives:

- To maintain an increasing funded ratio (ratio of fund actuarial value of assets to actuarial accrued liabilities) that reflects a trend of improved actuarial condition. The long-term objective is to attain a funded ratio which is consistent with the fiscal health and long-term stability of the Fund.
- To maintain adequate asset levels to finance the benefits promised to members and monitor the future demands for liquidity.
- To develop a pattern of contribution rates expressed as a percentage of member payroll as measured by valuations prepared in accordance with applicable State laws and the principles of practice prescribed by the Actuarial Standards Board. In no event will the employer contribution rate be negative.
- To provide intergenerational equity for taxpayers with respect to Fund costs.

To track progress in achieving the funding objectives, the following benchmarks are measured annually as of the valuation date:

- **Funded ratio** – The funded ratio, defined as the actuarial value of assets divided by the actuarial accrued liability, should increase over time, before adjustments for changes in benefits, actuarial, methods, and/or actuarial assumptions.
- **Unfunded Actuarial Accrued Liability (UAAL)**
  - **Transitional UAAL** – The UAAL established as of the initial valuation date for which this funding policy is adopted.
  - **New Incremental UAAL** – Each subsequent valuation will produce a New Incremental UAAL consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation.
- **UAAL Amortization Period and Contribution Rates**
  - The Transitional UAAL will be amortized over a closed period. The closed period shall be the amortization period for the valuation preceding the adoption of the funding policy not to exceed 30 years.
  - Each New Incremental UAAL shall be amortized over a closed 30 year period.
  - Employer Normal Contribution Rate – the contribution rate determined as of the valuation date each year based on the provisions of Alabama Code Sections 36-27-24 and 12-18-2.

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Board of Control  
July 18, 2014  
Page 2

- In each valuation subsequent to the adoption of this funding policy the required employer contribution rate will be determined by the summation of the employer Normal Contribution Rate, a contribution rate for administrative expenses, the individual amortization rate for each of the New Incremental UAAL bases and the amortization rate for the Transitional UAAL.

In order to measure progress toward this fundamental objective and funding policy, JRF has an annual actuarial valuation performed. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the normal cost and level percent of payroll amortization of unfunded actuarial accrued liability in accordance with the funding policy. The latest completed actuarial valuation was based upon data and assumptions as of September 30, 2013. This valuation indicates that the current employer contribution rate of 40.98% of payroll, for benefits then in effect, meet the basic financial objective and the goals of the funding policy as listed above. There are 338 active members as of September 30, 2013.

The actuarial valuation is based upon financial and participant data which is prepared by the retirement Fund staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death and disability among JRF members and their beneficiaries. The data are reviewed by us for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuation. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Control and were based upon actual experience of JRF during the years October 1, 2005 to September 30, 2010. Assets are valued according to a market related method that recognizes 20% of the difference between market value and expected value each year. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by the Actuarial Standards of Practice.

The current benefit structure is outlined in the Actuarial Section. There were no changes since the previous valuation.

We provided most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section.

**Based upon the valuation results and the presumption that future contributions will be made at the necessary level to ensure adequate funding and to meet accounting standards, it is our opinion that the Judicial Retirement Fund of Alabama continues in sound condition in accordance with the actuarial principles of level percent of payroll financing.**

Respectfully submitted,

Edward A. Macdonald, ASA, FCA, MAAA  
President

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

# RETIREMENT SYSTEMS OF ALABAMA

## Actuarial Section

### Judicial Retirement Fund

#### Summary of Actuarial Assumptions and Methods

### 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. Of the remaining members, 50% are assumed to retire each year between ages 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

---

**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 method. Actuarial gains and losses are reflected in the unfunded actuarial 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 spousal 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 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%). The interest rate after the 25 year look forward period is the ultimate investment rate of return of 8%.

**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 as of September 18, 1973. The valuation took into account amendments to the JRF effective 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 of Alabama, judge of the Alabama Court of Civil Appeals, judge of the Alabama Court of Criminal Appeals, judge of a 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 date that it was established and elected to come under its provisions. Any such justice or judge elected or appointed to office after September 18, 1973, or any district or probate judge elected or appointed to office after October 10, 1975, or October 1, 1976, respectively, automatically becomes a member by virtue of their position. 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.

### Creditable Service

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

### Benefits

#### Service Retirement Benefit

##### Condition of Benefit

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

- Completed 12 years of creditable service and attained age 65, or
- Completed 15 years of creditable service and whose age plus service equals or exceeds 77, or
- Completed at least 18 years of creditable service or three full terms as a judge or justice, or
- Completed 10 years of creditable service and 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 creditable service and attained age 65, or
- Completed at least 15 years of creditable service and attained age 60, and whose age plus service equals or exceeds 77, or
- Completed 10 years of creditable service and attained age 70, or
- Completed 25 years of creditable service or 24 years of creditable 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 creditable 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 creditable 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 creditable 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 payable to 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 creditable 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 creditable 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 creditable 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 creditable 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 upon 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 *Code of Alabama 1975, Section 36-27-25(g)*).

##### Member Contributions

Prior to October 1, 2011, each member contributed 6% of earnable compensation. From October 1, 2011, to September 30, 2012, each member will contribute 8.25% of earnable compensation. Beginning October 1, 2012, each member contributes 8.50% of earnable compensation.

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 provide the retirement allowances described.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules

**Supporting Schedules**

The following table presents a six-year history of funding progress:

**SCHEDULE OF FUNDING PROGRESS**

(Dollar Amounts in Thousands)

Valuation Date	Actuarial Value of Assets (A)	Actuarial	Unfunded	Percentage Funded (A/B)	Covered Payroll (C)	UAAL as a
		Accrued Liability (AAL) (B)	AAL (UAAL) (B-A)			% of Covered Payroll ((B-A)/C)
9/30/2013*	\$243,316	\$414,200	\$170,884	58.7	\$41,887	408.0
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

\*Reflects changes in methods

The following schedule presents six years of solvency tests:

**SOLVENCY TEST**

(Dollar Amounts in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	% of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
9/30/2013 *	\$ 37,366	\$ 270,430	\$ 106,404	\$ 243,315	100	76	0.0
9/30/2012 *	38,341	237,197	104,932	234,300	100	83	0.0
9/30/2011	32,898	250,731	110,006	235,870	100	81	0.0
9/30/2010	33,950	218,969	105,540	246,197	100	97	0.0
9/30/2009	32,533	215,730	92,715	252,646	100	100	4.7
9/30/2008	32,585	203,062	87,781	259,071	100	100	26.7

\*Reflects a change in methods.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules (Continued)

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

**ANALYSIS OF ACTUARIAL GAINS AND LOSSES**

(Dollar Amounts in Thousands)

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2012	\$ 146,170
Normal Cost for 2013 Plan Year	4,430
Contributions Received During the Year	(13,363)
Interest to Year End	<u>12,233</u>
Expected Unfunded Actuarial Liability as of September 30, 2013	<u>149,470</u>
Actuarial (Gains) Losses During the Year	
From Investments	(1,655)
From Actuarial Liabilities	<u>23,069</u>
Total Actuarial (Gains)/Losses During the Year	<u>21,414</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2013</b>	<b><u>\$ 170,884</u></b>

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

**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

Fiscal Year Ended	<u>Retirees Added</u>		<u>Retirees Removed</u>		<u>Retirees - Year-end</u>		% Increase/ (Decrease) in Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)		
2013	33	\$ 3,144	4	\$ 315	375	\$ 28,564	10.99	\$ 76,171
2012	6	569	3	236	346	25,735	1.31	74,379
2011	28	2,939	10	786	343	25,402	9.26	74,058
2010	15	1,446	11	838	325	23,249	2.69	71,535
2009	19	1,877	10	748	321	22,641	5.25	70,533
2008	12	1,076	6	438	312	21,512	3.06	68,949

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

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

(Dollar Amounts Not in Thousands)

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll*</u>	<u>Annual Average Pay</u>	<u>% Increase/ (Decrease) in Average Pay</u>
9/30/2013	338	\$ 41,887,006	\$ 123,926	(1.61)
9/30/2012	337	42,446,426	125,954	0.58
9/30/2011	334	41,826,338	125,229	(1.70)
9/30/2010	338	43,060,614	127,398	0.78
9/30/2009	342	43,234,239	126,416	3.18
9/30/2008	336	41,167,248	122,522	3.19

\*Does not include any salary increase effective after the valuation date.



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 115

Deductions by Type – Ten-Year History – page 116

Benefits by Type – Ten-Year History – page 117

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 118

Ten-Year History of Average Monthly Benefit Payments – page 121

**Participating Units**

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

Local Participating Employers – page 130

Largest Employers – Ten-Year History – page 140

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 (%)				
			Tier 1	Tier 2 ©			
2014	\$ 480,849	\$ 739,547	11.71	11.08	\$2,473,152	\$3,693,548	
2013	477,586	627,892	10.08	9.44	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	

EMPLOYEES' RETIREMENT SYSTEM  
ADDITIONS BY SOURCE

Fiscal Year	Member Contributions \$	Employer Contributions							Investment Income	Total
		Employer Rate (%)					Local			
		State								
		Tier 1		Tier 2 ©						
Regular	Law	Regular	Law	Local						
2014	\$ 226,016	\$ 391,181	12.02	35.81	11.96	29.52	*	\$1,186,529	\$ 1,803,726	
2013	223,646	338,819	10.12	31.61	10.04	25.32	*	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	

JUDICIAL RETIREMENT FUND  
ADDITIONS BY SOURCE

Fiscal Year	Member Contributions \$	Employer Contributions				Investment Income	Total
		Amount	Employer Rate (%)				
			Regular	Law			
2014	\$ 3,764	\$ 15,790	35.24		\$ 31,344	\$ 50,898	
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	

§ Includes transfers from other systems.

\* Local agency rates differ for each participating agency.

© A new tier of benefits was established for members hired on or after January 1, 2013, which included different contribution rates for the members and their employers.

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>
2014	\$ 1,997,595	\$ 54,699	\$ 2,880	\$ 13,103	\$ 4,336	\$ 2,072,613
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

**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>
2014	\$ 948,478	\$ 47,937	\$ 3,632	\$ 9,612	\$ 2,055	\$ 1,011,714
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

**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>
2014	\$ 29,826	\$ 54	\$ 1	\$ 281	\$ -	\$ 30,162
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

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
2014	\$ 1,876,615	\$ 62,674	\$ 58,306	\$ 11,225	\$ 43,474
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

**EMPLOYEES' RETIREMENT SYSTEM**

**BENEFITS BY TYPE**

Fiscal Year	Age & Service Benefits		Disability Benefits	Death Benefits & Refunds	
	Retirants	Survivors		Death	Resignation
2014	\$ 855,857	\$ 39,488	\$ 53,133	\$ 9,687	\$ 38,250
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

**JUDICIAL RETIREMENT FUND**

**BENEFITS BY TYPE**

Fiscal Year	Age & Service Benefits		Disability Benefits	Death Benefits & Refunds	
	Retirants	Survivors		Death	Resignation
2014	\$ 25,796	\$ 3,703	\$ 327	\$ -	\$ 54
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

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Retired Members by Type of Benefit as of September 30, 2013

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	1,295	814	351	130	253	308	382	351	1
251 - 500	8,544	6,327	836	1,381	2,576	3,562	1,359	1,042	5
501 - 750	8,025	6,418	610	997	2,223	3,478	1,376	944	4
751 - 1,000	6,658	5,412	533	713	1,690	2,847	1,167	949	5
1,001 - 1,250	5,670	4,689	397	584	1,250	2,406	1,168	842	4
1,251 - 1,500	5,428	4,613	348	467	1,134	2,216	1,288	789	1
1,501 - 1,750	6,756	6,123	268	365	1,236	3,019	1,594	904	3
1,751 - 2,000	8,552	8,113	197	242	1,521	4,149	1,715	1,162	5
2,001 - 2,250	8,170	7,901	152	117	1,300	4,126	1,649	1,092	3
2,251 - 2,500	6,439	6,266	109	64	1,018	3,340	1,261	816	4
2,501 - 2,750	4,610	4,488	81	41	709	2,326	987	587	1
2,751 - 3,000	3,322	3,229	69	24	506	1,588	736	490	2
3,001 - 3,250	2,479	2,412	58	9	354	1,153	608	359	5
3,251 - 3,500	1,856	1,805	47	4	267	815	481	292	1
3,501 - 3,750	1,469	1,430	34	5	216	648	406	196	3
3,751 - 4,000	1,138	1,111	24	3	173	509	285	166	5
4,001 - 4,250	968	945	22	1	136	443	232	155	2
4,251 - 4,500	710	691	18	1	98	300	187	122	3
4,501 - 4,750	537	525	12	-	69	218	144	105	1
4,751 - 5,000	409	400	9	-	54	165	125	63	2
Over 5,000	1,739	1,693	42	4	223	594	569	338	15
<b>Totals <sup>3</sup></b>	<b>84,774</b>	<b>75,405</b>	<b>4,217</b>	<b>5,152</b>	<b>17,006</b>	<b>38,210</b>	<b>17,719</b>	<b>11,764</b>	<b>75</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 3,029 DROP

participants as of September 30, 2013.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Retired Members by Type of Benefit as of September 30, 2013

	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	392	176	194	22	77	46	78	177	14
	251 - 500	3,678	2,284	986	408	975	930	782	925	66
	501 - 750	4,863	3,319	732	812	1,556	1,570	800	824	113
	751 - 1,000	4,609	3,233	509	867	1,488	1,618	651	752	100
	1,001 - 1,250	4,979	3,954	359	666	1,239	1,962	829	818	131
	1,251 - 1,500	4,342	3,667	251	424	1,010	1,777	804	657	94
	1,501 - 1,750	4,044	3,588	172	284	883	1,668	751	668	74
	1,751 - 2,000	3,544	3,278	100	166	730	1,528	568	644	74
	2,001 - 2,250	2,881	2,707	59	115	604	1,164	532	528	53
	2,251 - 2,500	2,354	2,207	63	84	477	995	438	405	39
	2,501 - 2,750	1,891	1,804	35	52	357	810	353	332	39
	2,751 - 3,000	1,463	1,398	36	29	280	624	249	286	24
	3,001 - 3,250	1,223	1,179	31	13	230	545	199	227	22
	3,251 - 3,500	853	830	13	10	154	386	144	156	13
	3,501 - 3,750	713	703	5	5	142	324	108	127	12
	3,751 - 4,000	486	479	4	3	90	224	65	98	9
	4,001 - 4,250	392	389	2	1	63	184	60	76	9
	4,251 - 4,500	305	297	4	4	55	140	55	52	3
	4,501 - 4,750	238	236	2	-	46	99	39	49	5
	4,751 - 5,000	198	194	2	2	43	76	30	44	5
	Over 5,000	745	738	4	3	155	319	102	160	9
	<b>Totals <sup>3</sup></b>	<b>44,193</b>	<b>36,660</b>	<b>3,563</b>	<b>3,970</b>	<b>10,654</b>	<b>16,989</b>	<b>7,637</b>	<b>8,005</b>	<b>908</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 1,514 DROP participants as of September 30, 2013.

Does not include 39 pensioners 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, 2013

Amount of Monthly Benefit	Number of Retirants	Type of Retirement †			Option	
		A	B	C	Maximum	Joint Survivorship
\$ 1 - 250	1	-	1	-	-	1
251 - 500	1	-	1	-	-	1
501 - 750	1	-	1	-	-	1
751 - 1,000	5	-	4	1	1	4
1,001 - 1,250	3	-	3	-	-	3
1,251 - 1,500	8	-	8	-	-	8
1,501 - 1,750	9	1	8	-	-	9
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	18	4	14	-	-	18
3,501 - 3,750	38	1	37	-	1	37
3,751 - 4,000	3	2	-	1	1	2
4,001 - 4,250	6	6	-	-	3	3
4,251 - 4,500	8	6	2	-	3	5
4,501 - 4,750	11	7	2	2	3	8
4,751 - 5,000	12	6	6	-	-	12
Over 5,000	226	224	-	2	41	185
<b>Totals</b>	<b>375</b>	<b>263</b>	<b>105</b>	<b>7</b>	<b>57</b>	<b>318</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>2013</b>					
Average monthly benefit	\$ 810	\$ 1,201	\$ 1,653	\$ 2,325	\$ 3,204
Average final average salary	\$ 41,846	\$ 43,291	\$ 46,143	\$ 55,080	\$ 59,738
Number of active retirants	879	676	600	1,216	278
<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

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

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>2013</b>					
Average monthly benefit	\$ 718	\$ 1,257	\$ 1,738	\$ 2,392	\$ 3,236
Average final average salary	\$ 37,933	\$ 46,357	\$ 49,200	\$ 54,929	\$ 59,595
Number of active retirants	537	385	321	661	337
<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

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 & over
<b>2013</b>					
Average monthly benefit	\$ 7,458	\$ 8,297	\$ 9,128	\$ 9,216	\$ 7,224
Average final average salary	\$ 119,322	\$ 132,747	\$ 146,050	\$ 147,448	\$ 115,578
Number of active retirants	5	10	3	5	9
<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	-

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

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

(Amounts in Thousands)

	2014	2013	2012	2011	2010
<b>Additions</b>					
Contributions					
Employee	\$ 477,300	\$ 474,241	\$ 456,518	\$ 321,137	\$ 319,770
Employer	739,547	627,892	618,306	779,644	776,421
Transfers from Employees' Retirement System	3,549	3,345	2,016	2,059	-
Transfers from Judicial Retirement Fund	-	-	-	-	1,633
Total Contributions	<u>1,220,396</u>	<u>1,105,478</u>	<u>1,076,840</u>	<u>1,102,840</u>	<u>1,097,824</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	1,853,288	2,090,646	2,349,955	(278,407)	886,997
Interest and Dividends	618,861	638,766	634,695	624,546	559,941
Total Investment Income from Investing Activities	2,472,149	2,729,412	2,984,650	346,139	1,446,938
Less: Investment Expenses, Net	5,732	5,712	5,260	5,305	5,415
Net Investment Income from Investing Activities	<u>2,466,417</u>	<u>2,723,700</u>	<u>2,979,390</u>	<u>340,834</u>	<u>1,441,523</u>
From Securities Lending Activities					
Securities Lending Income	9,629	12,753	13,670	15,643	12,519
Less Securities Lending Expenses:					
Borrower Rebates	65	401	433	1,261	2,820
Management Fees	2,829	3,346	3,465	3,251	2,910
Total Securities Lending Expenses	<u>2,894</u>	<u>3,747</u>	<u>3,898</u>	<u>4,512</u>	<u>5,730</u>
Net Income from Securities Lending Activities	<u>6,735</u>	<u>9,006</u>	<u>9,772</u>	<u>11,131</u>	<u>6,789</u>
Total Investment Income	<u>2,473,152</u>	<u>2,732,706</u>	<u>2,989,162</u>	<u>351,965</u>	<u>1,448,312</u>
Total Additions	<u>3,693,548</u>	<u>3,838,184</u>	<u>4,066,002</u>	<u>1,454,805</u>	<u>2,546,136</u>
<b>Deductions</b>					
Retirement Allowance Payments	1,997,595	1,893,321	1,800,805	1,673,881	1,567,790
Return of Contributions and Death Benefits	54,699	55,891	49,453	49,304	43,628
Transfers to Employees' Retirement System	2,880	1,823	1,937	2,012	1,790
Transfers to Judicial Retirement Fund	-	-	-	-	-
Administrative Expenses	13,103	12,591	11,555	10,820	11,979
Depreciation	4,336	4,312	4,344	4,243	4,264
Total Deductions	<u>2,072,613</u>	<u>1,967,938</u>	<u>1,868,094</u>	<u>1,740,260</u>	<u>1,629,451</u>
<b>Net Increase/(Decrease)</b>	1,620,935	1,870,246	2,197,908	(285,455)	916,685
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	20,820,372	18,950,126	16,752,218	17,037,673	16,120,988
End of Year	<u>\$ 22,441,307</u>	<u>\$ 20,820,372</u>	<u>\$ 18,950,126</u>	<u>\$ 16,752,218</u>	<u>\$ 17,037,673</u>

	2009	2008	2007	2006	2005
<b>Additions</b>					
Contributions					
Employee	\$ 321,100	\$ 323,822	\$ 302,272	\$ 278,220	\$ 260,149
Employer	753,518	729,995	540,847	434,195	347,862
Transfers from Employees' Retirement System	2,606	3,182	2,814	3,235	2,707
Transfers from Judicial Retirement Fund	-	-	-	-	-
Total Contributions	<u>1,077,224</u>	<u>1,056,999</u>	<u>845,933</u>	<u>715,650</u>	<u>610,718</u>
<b>Investment Income</b>					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(2,083,048)	(4,057,823)	2,589,858	878,743	1,221,059
Interest and Dividends	580,656	705,555	719,910	703,189	624,397
Total Investment Income from Investing Activities	<u>(1,502,392)</u>	<u>(3,352,268)</u>	<u>3,309,768</u>	<u>1,581,932</u>	<u>1,845,456</u>
Less: Investment Expenses, Net	5,419	5,990	5,105	4,947	4,278
Net Investment Income from Investing Activities	<u>(1,507,811)</u>	<u>(3,358,258)</u>	<u>3,304,663</u>	<u>1,576,985</u>	<u>1,841,178</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	33,782	83,588	136,869	84,052	40,399
Less Securities Lending Expenses:					
Borrower Rebates	6,685	57,695	126,966	77,407	33,559
Management Fees	4,412	4,332	1,770	1,271	1,620
Total Securities Lending Expenses	<u>11,097</u>	<u>62,027</u>	<u>128,736</u>	<u>78,678</u>	<u>35,179</u>
Net Income from Securities Lending Activities	<u>22,685</u>	<u>21,561</u>	<u>8,133</u>	<u>5,374</u>	<u>5,220</u>
Total Investment Income	<u>(1,485,126)</u>	<u>(3,336,697)</u>	<u>3,312,796</u>	<u>1,582,359</u>	<u>1,846,398</u>
Total Additions	<u>(407,902)</u>	<u>(2,279,698)</u>	<u>4,158,729</u>	<u>2,298,009</u>	<u>2,457,116</u>
<b>Deductions</b>					
Retirement Allowance Payments	1,512,260	1,486,871	1,397,808	1,207,251	1,092,723
Return of Contributions and Death Benefits	42,337	37,317	37,474	36,683	36,350
Transfers to Employees' Retirement System	1,767	1,683	2,406	2,982	1,829
Transfers to Judicial Retirement Fund	-	-	-	26	-
Administrative Expenses	11,005	12,216	9,614	11,325	10,372
Depreciation	4,128	578	480	462	468
Total Deductions	<u>1,571,497</u>	<u>1,538,665</u>	<u>1,447,782</u>	<u>1,258,729</u>	<u>1,141,742</u>
<b>Net Increase/(Decrease)</b>	<u>(1,979,399)</u>	<u>(3,818,363)</u>	<u>2,710,947</u>	<u>1,039,280</u>	<u>1,315,374</u>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	18,100,387	21,918,750	19,207,803	18,168,523	16,853,149
End of Year	<u>\$ 16,120,988</u>	<u>\$ 18,100,387</u>	<u>\$ 21,918,750</u>	<u>\$ 19,207,803</u>	<u>\$ 18,168,523</u>

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

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

(Amounts in Thousands)

	2014	2013	2012	2011	2010
<b>Additions</b>					
Contributions					
Employee	\$ 223,135	\$ 221,823	\$ 214,933	\$ 193,697	\$ 194,968
Employer	391,181	338,819	317,520	394,998	377,898
Transfers from Teachers' Retirement System	2,880	1,823	1,937	2,012	1,790
Transfers from Judicial Retirement Fund	1	-	-	-	-
Total Contributions	<u>617,197</u>	<u>562,465</u>	<u>534,390</u>	<u>590,707</u>	<u>574,656</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	888,303	984,714	1,114,737	(112,758)	427,365
Interest and Dividends	298,049	310,220	310,748	307,152	268,667
Total Investment Income from Investing Activities	1,186,352	1,294,934	1,425,485	194,394	696,032
Less: Investment Expenses, Net	2,766	2,549	2,256	2,308	2,398
Net Investment Income from Investing Activities	<u>1,183,586</u>	<u>1,292,385</u>	<u>1,423,229</u>	<u>192,086</u>	<u>693,634</u>
From Securities Lending Activities					
Securities Lending Income	4,199	5,780	6,445	6,891	5,619
Less Securities Lending Expenses:					
Borrower Rebates	21	186	174	517	1,271
Management Fees	1,235	1,519	1,642	1,521	1,305
Total Securities Lending Expenses	<u>1,256</u>	<u>1,705</u>	<u>1,816</u>	<u>2,038</u>	<u>2,576</u>
Net Income from Securities Lending Activities	<u>2,943</u>	<u>4,075</u>	<u>4,629</u>	<u>4,853</u>	<u>3,043</u>
Total Investment Income	<u>1,186,529</u>	<u>1,296,460</u>	<u>1,427,858</u>	<u>196,939</u>	<u>696,677</u>
Total Additions	<u>1,803,726</u>	<u>1,858,925</u>	<u>1,962,248</u>	<u>787,646</u>	<u>1,271,333</u>
<b>Deductions</b>					
Retirement Allowance Payments	948,478	895,475	848,464	782,957	725,660
Return of Contributions and Death Benefits	47,937	44,837	40,746	36,798	33,868
Unit Withdrawals	-	-	-	-	-
Transfers to Teachers' Retirement System	3,549	3,345	2,016	2,059	1,633
Transfers to Judicial Retirement Fund	83	242	164	98	-
Administrative Expenses	9,612	9,767	10,616	10,002	10,334
Depreciation	2,055	2,015	1,981	2,029	2,111
Total Deductions	<u>1,011,714</u>	<u>955,681</u>	<u>903,987</u>	<u>833,943</u>	<u>773,606</u>
<b>Net Increase/(Decrease)</b>	792,012	903,244	1,058,261	(46,297)	497,727
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	10,091,940	9,188,696	8,130,435	8,176,732	7,679,005
End of Year	<u>\$ 10,883,952</u>	<u>\$ 10,091,940</u>	<u>\$ 9,188,696</u>	<u>\$ 8,130,435</u>	<u>\$ 8,176,732</u>

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Additions</b>					
Contributions					
Employee	\$ 208,446	\$ 189,785	\$ 181,734	\$ 184,144	\$ 158,128
Employer	451,139	329,339	277,254	241,750	195,846
Transfers from Teachers' Retirement System	1,767	1,683	2,406	2,982	1,829
Transfers from Judicial Retirement Fund	68	186	-	-	356
Total Contributions	<u>661,420</u>	<u>520,993</u>	<u>461,394</u>	<u>428,876</u>	<u>356,159</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(1,180,523)	(1,919,746)	1,249,495	375,025	545,826
Interest and Dividends	285,022	339,578	347,272	329,459	295,631
Total Investment Income from Investing Activities	<u>(895,501)</u>	<u>(1,580,168)</u>	<u>1,596,767</u>	<u>704,484</u>	<u>841,457</u>
Less: Investment Expenses, Net	2,651	3,747	3,725	3,216	2,652
Net Investment Income from Investing Activities	<u>(898,152)</u>	<u>(1,583,915)</u>	<u>1,593,042</u>	<u>701,268</u>	<u>838,805</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	15,335	38,458	58,925	35,407	17,604
Less Securities Lending Expenses:					
Borrower Rebates	3,070	26,649	54,648	32,567	14,948
Management Fees	1,994	1,988	727	504	448
Total Securities Lending Expenses	<u>5,064</u>	<u>28,637</u>	<u>55,375</u>	<u>33,071</u>	<u>15,396</u>
Net Income from Securities Lending Activities	<u>10,271</u>	<u>9,821</u>	<u>3,550</u>	<u>2,336</u>	<u>2,208</u>
Total Investment Income	<u>(887,881)</u>	<u>(1,574,094)</u>	<u>1,596,592</u>	<u>703,604</u>	<u>841,013</u>
Total Additions	<u>(226,461)</u>	<u>(1,053,101)</u>	<u>2,057,986</u>	<u>1,132,480</u>	<u>1,197,172</u>
<b>Deductions</b>					
Retirement Allowance Payments	695,430	655,467	615,661	551,793	487,348
Return of Contributions and Death Benefits	32,640	31,387	31,829	31,780	30,960
Unit Withdrawals	14	-	-	-	-
Transfers to Teachers' Retirement System	2,606	3,182	2,814	3,235	2,707
Transfers to Judicial Retirement Fund	98	173	220	133	48
Administrative Expenses	9,413	9,892	7,813	7,850	6,898
Depreciation	2,038	311	298	337	294
Total Deductions	<u>742,239</u>	<u>700,412</u>	<u>658,635</u>	<u>595,128</u>	<u>528,255</u>
<b>Net Increase/(Decrease)</b>	<b>(968,700)</b>	<b>(1,753,513)</b>	<b>1,399,351</b>	<b>537,352</b>	<b>668,917</b>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	8,647,705	10,401,218	9,001,867	8,464,515	7,795,598
End of Year	<u><b>\$ 7,679,005</b></u>	<u><b>\$ 8,647,705</b></u>	<u><b>\$ 10,401,218</b></u>	<u><b>\$ 9,001,867</b></u>	<u><b>\$ 8,464,515</b></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>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Additions</b>					
Contributions					
Employee	\$ 3,681	\$ 3,677	\$ 3,517	\$ 2,556	\$ 2,566
Employer	15,790	13,903	10,747	10,906	10,814
Transfers from Teachers' Retirement System	-	-	-	-	-
Transfers from Employees' Retirement System	83	242	164	98	-
Total Contributions	<u>19,554</u>	<u>17,822</u>	<u>14,428</u>	<u>13,560</u>	<u>13,380</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	24,197	25,207	32,112	(4,961)	15,287
Interest and Dividends	7,030	6,912	6,748	6,853	6,551
Total Investment Income from Investing Activities	<u>31,227</u>	<u>32,119</u>	<u>38,860</u>	<u>1,892</u>	<u>21,838</u>
Less: Investment Expenses, Net	-	-	-	-	-
Net Investment Income from Investing Activities	<u>31,227</u>	<u>32,119</u>	<u>38,860</u>	<u>1,892</u>	<u>21,838</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	167	184	215	201	169
Less Securities Lending Expenses:					
Borrower Rebates	1	10	12	22	45
Management Fees	49	48	52	49	37
Total Securities Lending Expenses	<u>50</u>	<u>58</u>	<u>64</u>	<u>71</u>	<u>82</u>
Net Income from Securities Lending Activities	<u>117</u>	<u>126</u>	<u>151</u>	<u>130</u>	<u>87</u>
Total Investment Income	<u>31,344</u>	<u>32,245</u>	<u>39,011</u>	<u>2,022</u>	<u>21,925</u>
Total Additions	<u>50,898</u>	<u>50,067</u>	<u>53,439</u>	<u>15,582</u>	<u>35,305</u>
<b>Deductions</b>					
Retirement Allowance Payments	29,826	29,112	27,183	26,379	24,526
Return of Contributions and Death Benefits	54	196	253	34	235
Transfers to Employees' Retirement System	1	-	-	-	-
Transfers to Teachers' Retirement System	-	-	-	-	-
Administrative Expenses	281	280	257	276	317
Total Deductions	<u>30,162</u>	<u>29,588</u>	<u>27,693</u>	<u>26,689</u>	<u>25,078</u>
<b>Net Increase/(Decrease)</b>	20,736	20,479	25,746	(11,107)	10,227
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	256,360	235,881	210,135	221,242	211,015
End of Year	<u>\$ 277,096</u>	<u>\$ 256,360</u>	<u>\$ 235,881</u>	<u>\$ 210,135</u>	<u>\$ 221,242</u>

	2009	2008	2007	2006	2005
<b>Additions</b>					
Contributions					
Employee	\$ 2,603	\$ 2,534	\$ 2,416	\$ 2,338	\$ 2,350
Employer	10,326	9,880	9,307	8,916	8,943
Transfers from Teachers' Retirement System	-	-	-	26	-
Transfers from Employees' Retirement System	98	173	220	133	48
Total Contributions	<u>13,027</u>	<u>12,587</u>	<u>11,943</u>	<u>11,413</u>	<u>11,341</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(6,612)	(46,910)	25,988	11,215	11,877
Interest and Dividends	7,026	8,206	8,500	9,598	7,420
Total Investment Income from Investing Activities	414	(38,704)	34,488	20,813	19,297
Less: Investment Expenses, Net	11	8	2	2	2
Net Investment Income from Investing Activities	<u>403</u>	<u>(38,712)</u>	<u>34,486</u>	<u>20,811</u>	<u>19,295</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	543	1,765	1,945	908	422
Less Securities Lending Expenses:					
Borrower Rebates	119	1,298	1,832	861	362
Management Fees	69	77	18	7	8
Total Securities Lending Expenses	<u>188</u>	<u>1,375</u>	<u>1,850</u>	<u>868</u>	<u>370</u>
Net Income from Securities Lending Activities	<u>355</u>	<u>390</u>	<u>95</u>	<u>40</u>	<u>52</u>
Total Investment Income	<u>758</u>	<u>(38,322)</u>	<u>34,581</u>	<u>20,851</u>	<u>19,347</u>
Total Additions	<u>13,785</u>	<u>(25,735)</u>	<u>46,524</u>	<u>32,264</u>	<u>30,688</u>
<b>Deductions</b>					
Retirement Allowance Payments	23,821	22,587	21,356	18,777	18,201
Return of Contributions and Death Benefits	145	83	183	45	51
Transfers to Employees' Retirement System	68	186	-	-	356
Transfers to Teachers' Retirement System	-	-	-	-	-
Administrative Expenses	552	526	474	432	381
Total Deductions	<u>24,586</u>	<u>23,382</u>	<u>22,013</u>	<u>19,254</u>	<u>18,989</u>
<b>Net Increase/(Decrease)</b>	<b>(10,801)</b>	<b>(49,117)</b>	<b>24,511</b>	<b>13,010</b>	<b>11,699</b>
<b>Net Position Restricted for Pension Benefits</b>					
Beginning of Year	221,816	270,933	246,422	233,412	221,713
End of Year	<u>\$ 211,015</u>	<u>\$ 221,816</u>	<u>\$ 270,933</u>	<u>\$ 246,422</u>	<u>\$ 233,412</u>

# RETIREMENT SYSTEMS OF ALABAMA

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## *Statistical Section*

### Employees' Retirement System

#### Local Participating Employers

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Abbeville Water Works & Sewer Board  
Abbeville, City of  
Adamsville, City of  
Addison, Town of  
Alabama Cooperative Extension System  
Alabama Elk River Development Agency  
Alabama Historic Ironworks Commission  
Alabama League of Municipalities  
Alabama Municipal Electric Authority  
Alabama Rural Water Association  
Alabama Space Science Exhibit Commission  
Alabama Sports Hall of Fame  
Alabama Tombigbee Regional Commission  
Alabaster Water Board  
Alabaster, City of  
Albertville Housing Authority  
Albertville Municipal Utilities Board  
Albertville, City of  
Alexander City Housing Authority  
Alexander, City of  
Aliceville Housing Authority  
Aliceville, City of  
AltaPointe Health Systems  
Altoona, Town of  
Andalusia Housing Authority  
Andalusia Utilities Board  
Andalusia, City of  
Anniston & Calhoun County Public Library  
Anniston Housing Authority  
Anniston Water Works & Sewer Board  
Anniston, City of  
Arab Housing Authority  
Arab Sewer Board  
Arab Water Works Board  
Arab, Town of  
Argo, Town of  
Arley, Town of  
Ashford Housing Authority  
Ashland & Water Works & Sewer Board  
Ashland Housing Authority  
Ashland, City of  
Ashville Water & Sewer Board  
Ashville, Town of  
Association of County Commissioners of  
Alabama  
Athens Utilities  
Athens, City of  
Athens-Limestone County Emergency  
Management Communications District  
Athens-Limestone Public Library  
Atmore Housing Authority  
Atmore, City of  
Attalla Housing Authority  
Attalla Water Works Board  
Attalla, City of  
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 Water Authority  
Bakerhill, Town of  
Baldwin County Commission  
Baldwin County Emergency Communication  
District  
Baldwin County Sheriff's Office  
Baldwin County Soil & Water Conservation  
District  
Barbour County Commission  
Bay Minette Housing Authority  
Bay Minette, City of  
Bayou La Batre Utilities Board  
Bayou La Batre, City of  
Bear Creek Development Authority  
Bear Creek Water Works Board  
Bear Creek, Town of  
Beatrice, Town of  
Beauregard Water Authority  
Berry, Town of  
Bessemer, City of  
Bibb County Commission  
Bibb County Emergency Management  
Communication District  
Big Wills Water Authority  
Billingsley, Town of  
Birmingham Racing Commission  
Birmingham Regional Planning Commission  
Birminghamport Fire District  
Black Warrior Solid Waste Disposal Authority  
Blount County Commission  
Blount County Communications District  
Blount County Industrial Development Board  
Blount County Water Authority  
Blountsville Utility Board  
Blountsville, Town of  
Boaz Board of Water & Sewer Commissioners  
Boaz, City of  
Boldo Water & Fire Protection Authority  
Boston Housing Authority  
Brantley Housing Authority

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Brent Housing Authority  
Brent, City of  
Brewton Housing Authority  
Brewton, City of  
Bridgeport Housing Authority  
Bridgeport Utilities Board  
Bridgeport, City of  
Brilliant, Town of  
Brookwood, Town of  
Brundidge, City of  
Buhl-Elrod-Holman Water Authority  
Bullock County Commission  
Butler County Commission  
Butler County Emergency Communication  
District  
Butler, City of  
Cahaba Center for Mental Health & Mental  
Retardation  
Cahaba Valley Fire & Emergency Medical  
Rescue District  
Calera, City of  
Calhoun County 9-1-1 District  
Calhoun County Commission  
Calhoun County Community Punishment &  
Corrections Authority  
Calhoun County Economic Development  
Council  
Calhoun County Water & Fire Protection  
Authority  
Calhoun-Cleburne Mental Health Board  
Camden, City of  
Camp Hill, City of  
Carbon Hill Utilities Board  
Carbon Hill, City of  
Carl Elliott Regional Library  
Carroll's Creek Water Authority  
Carrollton, Town of  
Castleberry, Town of  
Cedar Bluff Utilities Board & Solid Waste  
Authority  
Cedar Bluff, Town of  
Center Point Fire District  
Center Point, City of  
Central Alabama Aging Consortium  
Central Alabama Regional Planning &  
Development Commission  
Central Alabama Youth Services  
Central Elmore Water & Sewer Authority  
Central Talladega County Water District  
Centre Water Works & Sewer Board  
Centre, City of  
Centreville, City of

Chambers County Commission  
Chambers County Development Authority  
Chambers County Emergency Management  
Communications District  
Chambers County Library Board  
Chatom, City of  
Cheaha Regional Library  
Cheaha Regional Mental Health Center  
Chelsea, City of  
Cherokee County Commission  
Cherokee County Water & Sewer Authority  
Cherokee Water & Gas Board  
Cherokee, Town of  
Chickasaw Housing Authority  
Chickasaw Utilities Board  
Chickasaw, Town of  
Childersburg Water Works, Sewer & Gas Board  
Childersburg, City of  
Chilton County Commission  
Chilton County Soil & Water Conservation  
District  
Chilton Water Authority  
Chilton/Clanton Public Library  
Chilton-Shelby Mental Health Center  
Choctaw County Emergency Communications  
District  
Citizenship Trust American Village  
Clanton Housing Authority  
Clanton Water Works & Sewer Board  
Clanton, City of  
Clarke County Commission  
Clarke County Industrial Development Board  
Clarke County Soil & Water Conservation  
District  
Clarke-Mobile Counties Gas District  
Clay County Commission  
Clay County E-911  
Clay County Water Authority  
Clayton Housing Authority  
Clayton Water Works & Sewer Board  
Clayton, City of  
Cleburne County Commission  
Cleveland, Town of  
Coaling Water Authority  
Coaling, Town of  
Coffee County Commission  
Coffee County Water Authority  
Coffeetown, Town of  
Coker Water Authority  
Colbert County Commission  
Colbert County Emergency Management  
Communications District

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Colbert County Tourism & Convention Bureau  
Collinsville Water Works & Sewer Board  
Collinsville, City of  
Columbia, Town of  
Columbiana Housing Authority  
Columbiana Water Works Board  
Columbiana, Town of  
Concord Fire District  
Conecuh County Commission  
Conecuh County E-911  
Conecuh County Soil & Water Conservation District  
Cook Springs Water Authority  
Coosa Co. Emergency Communication Management Board  
Coosa County Commission  
Coosa Valley Youth Services  
Coosada, Town of  
Cordova Water & Gas Board  
Cordova, City of  
Cottonwood Housing Authority  
Cottonwood, City of  
Courtland, Town of  
Covington County Commission  
Covington County E-911 Board  
Covington County Water Authority  
Cowarts, Town of  
Crenshaw County Commission  
Crenshaw County Emergency Communications District  
Creola, City of  
Crossville, Town of  
Cuba, Town of  
Cullman Area Mental Health Authority  
Cullman County Center for the Developmentally Disabled  
Cullman County Commission  
Cullman County E-911  
Cullman County Soil & Water Conservation District  
Cullman Power Board  
Cullman, City of  
Cullman-Jefferson Counties Gas District  
Cumberland Mountain Water Authority  
Curry Water Authority  
CWM Water Authority  
Dadeville Housing Authority  
Dadeville Water Supply & Gas Board  
Dadeville, City of  
Dale County Commission  
Dale County Water Authority  
Daleville Housing Authority  
Daleville, City of  
Dallas County Commission  
Dallas County Water & Sewer Authority  
Daphne Utilities Board  
Daphne, City of  
Dauphin Island Park & Beach Board  
Dauphin Island Water & Sewer Authority  
Dauphin Island, Town of  
Decatur Utilities  
Decatur, City of  
DeKalb County Commission  
DeKalb County Economic Development Authority  
DeKalb County Emergency Communications District  
DeKalb County Hospital Association  
DeKalb County Mental Retardation Board  
DeKalb County Soil & Water Conservation District  
DeKalb-Cherokee Counties Gas District  
DeKalb-Jackson Water Supply District Board  
Demopolis Housing Authority  
Demopolis Water Works & Sewer Board  
Demopolis, City of  
Dora Waterworks & Gas Board  
Dora, City of  
Dothan, City of  
Dothan-Houston County Intellectual Disabilities Board  
Double Springs Water Works Board  
Double Springs, Town of  
Douglas Water Authority  
Douglas, Town of  
Dutton, Town of  
East Alabama Mental Health-Mental Retardation Board  
East Alabama Regional Planning & Development Commission  
East Alabama Water, Sewer & Fire Protection District  
East Brewton Water Works & Sewer Board  
East Brewton, City of  
East Central Alabama Gas District  
East Central Baldwin County Water & Fire Protection Authority  
East Lauderdale County Water & Fire Protection Authority  
Eclectic, Town of  
Elba Water & Electric Board  
Elba, City of  
Elberta, City of  
Electric Cities of Alabama

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Elmore County Commission  
Elmore County Emergency Communications  
District  
Elmore Water & Sewer Authority  
Enterprise Housing Authority  
Enterprise Water Works Board  
Enterprise, City of  
Ernest F. Ladd Memorial Stadium  
Escambia County Commission  
Escambia County Cooperative Library System  
Escambia County Emergency Communications  
District  
Etowah County Commission  
Etowah County Communications District  
Etowah County Community Corrections  
Etowah County Tourism Board  
Etowah Solid Waste Disposal Authority  
Eufaula Housing Authority  
Eufaula Water Works & Sewer Board  
Eufaula, City of  
Eutaw Medical Clinic Board  
Eutaw, City of  
Evergreen Housing Authority  
Evergreen, City of  
Excel, Town of  
Fairfield, City of  
Fairhope Public Library  
Fairhope, City of  
Falkville, Town of  
Fayette County Commission  
Fayette County E-911 District  
Fayette County Water Authority  
Fayette Gas Board  
Fayette Housing Authority  
Fayette Water Works Board  
Fayette, City of  
Fayetteville Water Authority  
Five Star Water Supply District  
Flomaton, Town of  
Florence Housing Authority  
Florence Lauderdale Port Authority  
Florence/Lauderdale Tourism Board  
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  
Fort Payne, City of  
Fosters-Ralph Water Authority

Franklin County Commission  
Franklin County Soil & Water Conservation  
District  
Franklin County Water Service Authority  
Fultondale Gas Board  
Fultondale, Town of  
Fyffe, Town of  
Gadsden Water Works & Sewer Board  
Gadsden, City of  
Garden City, Town of  
Gardendale, City of  
Geneva County Commission  
Geneva County E-911  
Geneva Water Works & Sewer Board  
Geneva, City of  
Georgiana Housing Authority  
Georgiana, City of  
Geraldine, Town of  
Gilbertown Utilities Board  
Gilbertown, Town of  
Glencoe Water & Sewer Board  
Glencoe, City of  
Goodwater, City of  
Gordo, City of  
Governmental Utility Services Corporation of  
Moody  
Governmental Utility Services Corporation of  
the City of Bessemer  
Grant, Town of  
Graysville Public Library  
Graysville, City of  
Greater Etowah Mental Retardation 310 Board  
Greene County Ambulance Service  
Greene County Commission  
Greene County E-911 Communication District  
Greene County Hospital & Nursing Home  
Greene County Housing Authority  
Greene County Industrial Development  
Authority  
Greene County Racing Commission  
Greenhill Water & Fire Protection Authority  
Greensboro Housing Authority  
Greensboro, City of  
Greenville Housing Authority  
Greenville Water Works & Sewer Board  
Greenville, City of  
Grove Hill, City of  
Guin Housing Authority  
Guin Water Works & Sewer Board  
Guin, City of  
Gulf Shores Utilities Board  
Gulf Shores, City of

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Guntersville Electric Board	Hueytown, City of
Guntersville Housing Authority	Huguley Water, Sewer & Fire Protection Authority
Guntersville Water Works & Sewer Board	Huntsville & Madison County Railroad Authority
Guntersville, City of	Huntsville Electric Utilities System
Gurley, Town of	Huntsville Gas Utilities System
Hackleburg Housing Authority	Huntsville Solid Waste Disposal Authority
Hackleburg Water Board	Huntsville Waterworks Utilities System
Hackleburg, Town of	Huntsville, City of
Hackneyville Water & Fire Protection Authority	Huntsville/Madison County Convention & Visitors Bureau
Hale County Commission	Huntsville-Madison County Airport Authority
Hale County Emergency Medical Service	Huntsville-Madison County Marina & Port Authority
Hale County Soil & Water Conservation District	Huntsville-Madison County Mental Health Center Board
Haleyville, City of	Indian Pines Recreational Authority
Hamilton Housing Authority	International Motorsports Hall of Fame
Hamilton, City of	Irondale, City of
Hanceville Water Works & Sewer Board	J. Paul Jones Hospital
Hanceville, City of	Jackson County Commission
Harpersville, Town of	Jackson County Economic Development Authority
Hartford, City of	Jackson County Emergency Management Communications District
Hartselle Utilities Board	Jackson County Soil & Water Conservation District
Hartselle, City of	Jackson County Water Authority
Harvest-Monrovia Water, Sewer & Fire Protection Authority	Jackson, City of
Hayden, Town of	Jackson's Gap Water Authority
Hayneville, City of	Jackson's Gap, Town of
Headland Housing Authority	Jacksonville Housing Authority
Headland, City of	Jacksonville Water Works, Gas & Sewer Board
Heflin Water Works & Sewer Board	Jacksonville, City of
Heflin, City of	Jasper Waterworks & Sewer Board
Helen Keller Hospital	Jasper, City of
Helena Utilities Board	Jefferson County Department of Health
Helena, City of	Jefferson County Housing Authority
Henry County Commission	Jefferson-Blount-St. Clair Mental Health Authority
Henry County Soil & Water Conservation District	Jemison, Town of
Henry County Water Authority	Joppa, Hulaco & Ryan Water Authority
Highland Water Authority	Kennedy, City of
Hillsboro, Town of	Killen, City of
Historic Blakeley Authority	Kinsey, Town of
Historic Chattahoochee Commission	LaFayette, City of
Hodges, Town of	Lamar County Commission
Hokes Bluff Water Board	Lamar County Communications District
Hokes Bluff, Town of	Lamar County Gas District
Holly Pond, Town of	Lamar County Water & Fire Protection Authority
Hollywood, Town of	
Homewood, City of	
Hoover, City of	
Horseshoe Bend Regional Library	
Houston County Commission	
Houston County Soil Conservation District	
Houston County Water Authority	
Houston-Love Memorial Library	

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Lanett, City of  
Lauderdale County Commission  
Lauderdale County Community Corrections  
Authority  
Lauderdale County Regional Library System  
Lawrence County Commission  
Lee County Commission  
Leeds Housing Authority  
Leeds Water Works Board  
Leeds, City of  
Lee-Russell Council of Governments  
Leesburg, Town of  
Leighton Water & Sewer Board  
Leighton, Town of  
Level Plains, Town of  
Lexington, Town of  
Limestone County Commission  
Limestone County Water & Sewer Authority  
Lincoln, City of  
Linden, City of  
Lineville Housing Authority  
Lineville Waterworks & Sewer Board  
Lineville, City of  
Littleville, Town of  
Livingston Housing Authority  
Livingston, City of  
Loachapoka Water Authority  
Locust Fork, Town of  
Lowndes County Commission  
Loxley, City of  
Luverne Housing Authority  
Luverne, City of  
Lynn, Town of  
Macon County Commission  
Macon County Racing Commission  
Madison County 310 Board  
Madison County Commission  
Madison County Communications District  
Madison Water & Wastewater Board  
Madison, City of  
Magnolia Springs, Town of  
Malvern, Town of  
Maplesville Waterworks & Gas Board  
Maplesville, City of  
Marengo County Commission  
Marengo County Economic & Industrial  
Development Authority  
Marengo County Emergency Communications  
District  
Marengo Nursing Home  
Margaret, Town of  
Marion County Commission

Marion County Emergency Communications  
District  
Marion County Public Water Authority  
Marion Housing Authority  
Marion, City of  
Marshall County Commission  
Marshall County Community Punishment &  
Corrections Authority  
Marshall County Emergency Telephone  
Services  
Marshall County Gas District  
Marshall County Soil & Water Conservation  
District  
Marshall-Jackson Mental Retardation Authority  
McAdory Area Fire District  
McIntosh, Town of  
Mental Health Board of Bibb, Pickens &  
Tuscaloosa County  
Mental Health Center of North Central Alabama  
Mental Retardation/Developmental Disabilities  
Board  
Mentone Water Works Board  
Mentone, Town of  
Middle Alabama Area Agency on Aging  
Midfield Library Board  
Midfield, City of  
Midway, Town of  
Mildred B. Harrison Library  
Millbrook, City of  
Millerville Water Authority  
Millport Housing Authority  
Millport, Town of  
Mobile Airport Authority  
Mobile Area Water & Sewer System  
Mobile County Commission  
Mobile County Communications District  
Mobile County Emergency Management  
Agency  
Mobile County Health Department  
Mobile County Housing Authority  
Mobile County Law Enforcement &  
Firefighters' Pension Fund  
Mobile County Personnel Board  
Mobile County Racing Commission  
Mobile County Water, Sewer & Fire Protection  
Authority  
Mobile Public Library  
Mobile, City of  
Monroe County Commission  
Monroeville Housing Authority  
Monroeville Water Works Board  
Monroeville, City of

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Montevallo Water Works & Sewer Board	Northwest Alabama Council of Local Governments
Montevallo, City of	Northwest Alabama Mental Health Center
Montgomery Area Mental Health Authority	Northwest Alabama Regional Airport
Montgomery County Commission	Notasulga, Town of
Montgomery County Soil & Water Conservation District	Oak Grove, Town of
Montgomery Water Works & Sanitary Sewer Board	Oakman Water Works Board
Moody, City of	Oakman, Town of
Morgan County Commission	Odenville Utilities Board
Morgan County Emergency Management Communication District	Odenville, Town of
Morgan County Soil & Water Conservation District	Ohatchee, Town of
Moulton Housing Authority	Oneonta Housing Authority
Moulton, City of	Oneonta Utilities Board
Moundville, City of	Oneonta, City of
Mountain Brook Library Board	Opelika Housing Authority
Mountain Brook Park & Recreation Board	Opelika Utilities Board
Mountain Brook, City of	Opelika, City of
Mt. Vernon, Town of	Opp Utilities Board
Munford Water Authority	Opp, City of
Munford, Town of	Orange Beach Water, Sewer & Fire Protection Authority
Muscle Shoals Electric Board	Orange Beach, Town of
Muscle Shoals Utilities Board	Owassa/Brownville Water Authority
Muscle Shoals, City of	Owens Cross Roads, City of
Myrtlewood, Town of	Oxford Emergency Medical Services
Nauvoo, Town of	Oxford, City of
Nectar, Town of	Ozark Utilities Board
New Hope, Town of	Ozark, City of
New London Water, Sewer & Fire Protection Authority	Ozark-Dale County E-911
New Site, Town of	Parrish Water Works & Sewer Board
North Alabama Gas District	Parrish, Town of
North Baldwin Utilities	Pelham, City of
North Central Alabama Mental Retardation Authority	Pell City Housing Authority
North Dallas County Water Authority	Pell City, City of
North Marshall Utilities Board	Pennington Utilities Board
North Shelby County Fire & Emergency Medical District	Pennington, City of
North Shelby Library	Perry County Capital Improvement Cooperative District
North-central Alabama Regional Council of Governments	Perry County Commission
Northeast Alabama MR/DD Authority	Perry County E-911
Northeast Alabama Water, Sewer & Fire Protection District	Perry County Water Authority
Northeast Morgan County Water & Sewer Authority	Phenix City Utilities
Northport Housing Authority	Phenix City, City of
Northport, City of	Phil Campbell Housing Authority
	Phil Campbell Water Works & Sewer Board
	Phil Campbell, Town of
	Pickens County Commission
	Pickens County Cooperative Library
	Pickens County E-911 Board
	Pickens County Water Authority

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Piedmont Housing Authority	Russellville Gas Board
Piedmont, City of	Russellville Housing Authority
Pike County Commission	Russellville Water & Sewer Board
Pike County Communications District	Russellville, City of
Pike County Soil & Water Conservation District	Rutledge, Town of
Pike County Water Authority	Saraland Water Service
Pike Road, Town of	Saraland, City of
Pine Bluff Water Authority	Sardis City Water Board
Pine Hill, Town of	Sardis, City of
Pine Level Water Authority	Satsuma Water Works Board
Pinson, City of	Satsuma, City of
Pisgah, Town of	Scottsboro Electric Power Board
Pleasant Grove, City of	Scottsboro Housing Authority
Prattville Housing Authority	Scottsboro Public Library
Prattville Water Works Board	Scottsboro Public Park & Recreation Board
Prattville, City of	Scottsboro Waterworks, Sewer & Gas Board
Priceville, Town of	Scottsboro, City of
Prichard Housing Authority	Section Waterworks Board
Quint-Mar Water Authority	Section, Town of
Ragland Water Works Board	Selma Housing Authority
Ragland, Town of	Selma Water & Sewer Board
Rainbow City Utilities Board	Selma, City of
Rainbow City, City of	Sheffield Utilities Board
Rainsville, City of	Sheffield, City of
Randolph County Commission	Shelby County Commission
Randolph County E9-1-1	Shelby County Community Corrections
Red Bay Housing Authority	Shelby County Economic & Industrial
Red Bay Water Works & Gas Board	Development Authority
Red Bay, City of	Shelby County Emergency Management
Reform Housing Authority	Communications District
Reform, City of	Shelby County Soil Conservation District
Regional Housing Authority of Lawrence, Cullman & Morgan Counties	Shoals Committee on Programs & Employment for the Mentally Retarded
Rehobeth, City of	Shoals Economic Development Authority
Remlap-Pine Mountain Water Authority	Shoals Solid Waste Disposal Authority
Repton, Town of	Shorter, Town of
Riverbend Center for Mental Health	Silas, Town of
Riverside, Town of	Silverhill, Town of
Roanoke Utility Board	Skyline, Town of
Roanoke, City of	Slocomb Waterworks & Sewer Board
Robertsdale, City of	Slocomb, Town of
Rockford Utilities Board	Smiths Station, City of
Rocky Ridge Fire District	Smiths Water & Sewer Authority
Rogersville Water Works & Sewer Board	Snead, Town of
Rogersville, Town of	Somerville, Town of
Russell County Commission	South Alabama Gas District
Russell County Emergency Communications District	South Alabama Regional Planning Commission
Russell County Soil & Water Conservation District	South Central Alabama Development Commission
Russell County Water Authority	South Central Alabama Mental Health Board
Russellville Electric Board	South Central Alabama Regional Housing Authority

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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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 Works & Sewer Board  
Southside, City of  
Southwest Alabama Water Authority  
Spanish Fort Fire Rescue Department  
Spanish Fort, City of  
SpectraCare Health Systems  
Springville, Town of  
St. Clair County Commission  
St. Clair County Community Punishment & Corrections Authority  
St. Clair County Industrial Development Board  
St. Clair County Soil & Water Conservation District  
St. Clair Regional Library  
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 Housing Authority  
Sulligent, City of  
Sumiton Housing Authority  
Sumiton Water Works Board  
Sumiton, City of  
Summerdale, Town of  
Sumter County Commission  
Sumter County Industrial Development Authority  
Sumter County Soil & Water Conservation District  
Sumter County Water Authority  
Sylacauga Parks & Recreation Board  
Sylacauga Utilities Board  
Sylacauga, City of  
Sylvan Springs, Town of  
Sylvania, Town of  
Talladega County Commission  
Talladega County Emergency Management Communications District  
Talladega County Soil & Water Conservation District  
Talladega Water & Sewer Board  
Talladega, City of  
Tallapoosa County Commission  
Tallasse, City of  
Tarrant Alabama Housing Authority  
Tarrant Electric System  
Tarrant, City of  
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  
TriCounty Agency for Intellectual Disabilities  
Trinity, Town of  
Troy, City of  
Trussville Utilities Board  
Trussville, City of  
Turnerville Water & Fire Protection District  
Tuscaloosa County Commission  
Tuscaloosa County Industrial Development Authority  
Tuscaloosa County Office of Public Defender  
Tuscaloosa County Park & Recreation Authority  
Tuscaloosa County Parking & Transit Authority  
Tuscaloosa County Soil & Water Conservation District  
Tuscaloosa County Special Tax Board  
Tuscaloosa Housing Authority  
Tuscaloosa Public Library  
Tuscaloosa, City of  
Tuscumbia, City of  
Tuskegee Utilities Board  
Tuskegee, City of  
Union Grove Utilities Board  
Union Springs Utilities Board  
Union Springs, City of  
Uniontown Housing Authority  
Uniontown Utilities Board  
Uniontown, Town of  
USS Alabama Battleship Commission  
Valley Grande, City of  
Valley Head Water Works Board  
Valley Head, City of  
Valley Housing Authority  
Valley, City of

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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 E9-1-1 District  
Walker County Housing Authority  
Walker County Soil & Water Conservation  
District  
Wall Street Water Authority  
Walnut Hill Water Authority  
Warrior River Water Authority  
Warrior, City of  
Washington County Commission  
Washington County E-911 Communication  
District  
Washington County Soil & Water Conservation  
District  
Wattsville Water Authority  
Weaver, City of  
Webb, Town of  
Wedowee Water, Sewer & Gas Board  
Wedowee, City of  
West Alabama Regional Commission  
West Autauga Water Authority  
West Escambia Utilities  
West Etowah County Water Authority  
West Jefferson, Town of  
West Lauderdale County Water & Fire  
Protection Authority  
West Morgan–East Lawrence Water & Sewer  
Authority  
Wetumpka Water Works & Sewer Board  
Wetumpka, City of  
Wilcox County Commission  
Wilcox County Gas District  
Wilsonville, Town of  
Wilton, Town of  
Winfield Water Works & Sewer Board  
Winfield, City of  
Winston County Commission  
Winston County E9-1-1 Communications  
District  
Woodstock, Town of  
York Housing Authority  
York, City of

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Ten-Year History of Largest Employers

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>1) Employer</b>	State of Alabama	State of Alabama	State of Alabama	State of Alabama						
<b># of Active Members</b>	30,659	31,795	33,885	35,147	35,200	35,767	35,566	34,429	34,429	33,756
<b>% of Total Active Members</b>	35.84%	36.85%	38.36%	39.24%	39.10%	39.53%	40.03%	39.63%	39.63%	39.87%
<b>2) Employer</b>	Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of						
<b># of Active Members</b>	2,209	2,192	2,195	2,175	2,227	2,293	2,185	2,188	2,188	2,174
<b>% of Total Active Members</b>	2.58%	2.54%	2.48%	2.43%	2.47%	2.53%	2.46%	2.52%	2.52%	2.57%
<b>3) Employer</b>	Mobile County	Mobile County	Mobile County	Mobile County						
<b># of Active Members</b>	1,625	1,657	1,672	1,678	1,699	1,664	1,614	1,589	1,589	1,626
<b>% of Total Active Members</b>	1.90%	1.92%	1.89%	1.87%	1.89%	1.84%	1.82%	1.83%	1.83%	1.92%
<b>4) Employer</b>	Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of						
<b># of Active Members</b>	1,282	1,254	1,310	1,335	1,421	1,337	1,288	1,278	1,278	1,272
<b>% of Total Active Members</b>	1.50%	1.45%	1.48%	1.49%	1.58%	1.48%	1.45%	1.47%	1.47%	1.50%
<b>5) Employer</b>	AtalaPonite Health*	Madison County	Madison County	Madison County	Madison County					
<b># of Active Members</b>	1,236	1,154	1,162	1,133	1,060	1,102	1,068	1,073	1,073	1,071
<b>% of Total Active Members</b>	1.44%	1.34%	1.32%	1.27%	1.18%	1.22%	1.20%	1.24%	1.24%	1.26%
<b>6) Employer</b>	Madison County	Helen Keller Hospital	Dothan, City of	Helen Keller Hospital	Helen Keller Hospital	Helen Keller Hospital	Dothan, City of	Dothan, City of	Dothan, City of	Helen Keller Hospital
<b># of Active Members</b>	1,174	1,002	957	984	1,034	1,023	962	935	935	923
<b>% of Total Active Members</b>	1.37%	1.16%	1.08%	1.10%	1.15%	1.13%	1.08%	1.06%	1.06%	1.09%
<b>7) Employer</b>	Dothan, City of	Dothan, City of	Helen Keller Hospital	Dothan, City of	Dothan, City of	Dothan, City of	Helen Keller Hospital	Helen Keller Hospital	Helen Keller Hospital	Tuscaloosa, City of
<b># of Active Members</b>	985	966	956	961	970	972	893	817	816	816
<b>% of Total Active Members</b>	1.15%	1.12%	1.08%	1.07%	1.08%	1.07%	1.01%	0.94%	0.96%	0.96%
<b>8) Employer</b>	Tuscaloosa, City of	AtalaPonite Health*	Montgomery County	Montgomery County	Montgomery County	Tuscaloosa, City of	Tuscaloosa, City of	Tuscaloosa, City of	Tuscaloosa, City of	Jefferson Co., Health
<b># of Active Members</b>	775	911	794	848	806	710	710	695	680	680
<b>% of Total Active Members</b>	0.91%	1.06%	0.90%	0.95%	0.90%	0.78%	0.80%	0.80%	0.80%	0.72%
<b>9) Employer</b>	Montgomery County	Montgomery County	AtalaPonite Health*	Tuscaloosa, City of	Tuscaloosa, City of	AtalaPonite Health*	Hoover, City of	Hoover, City of	Hoover, City of	Gadsden, City of
<b># of Active Members</b>	767	771	762	745	732	674	636	633	616	616
<b>% of Total Active Members</b>	0.90%	0.89%	0.86%	0.83%	0.81%	0.74%	0.72%	0.73%	0.73%	0.71%
<b>10) Employer</b>	Helen Keller Hospital	Tuscaloosa, City of	Tuscaloosa, City of	AtalaPonite Health*	AtalaPonite Health*	Baldwin County	Greater Mobile-Washington Co. Mental Health Board			
<b># of Active Members</b>	729	763	757	668	685	655	631	704	713	611
<b>% of Total Active Members</b>	0.85%	0.88%	0.86%	0.75%	0.76%	0.72%	0.71%	0.81%	0.84%	0.74%
<b>Total # of Active Members</b>	85,549	86,290	88,341	89,560	90,018	90,472	88,849	86,874	84,674	82,708

\* Formerly Greater Mobile-Washington Co. Mental Health Board

Source: Retirement Systems of Alabama records





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