

**Report on the Actuarial Valuation of the
Employees' Retirement System of Alabama**

Prepared as of September 30, 2005



Cavanaugh Macdonald

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September 6, 2006

Board of Control
Employees' Retirement System of Alabama
State Capitol
Montgomery, AL 36104

Members of the Board:

In this report are submitted the results of the annual actuarial valuation of the Employees' Retirement System of Alabama, prepared as of September 30, 2005 in accordance with Section 36-27-23(p) of the act governing the operation of the System.

The purpose of this report is to provide a summary of the funded status of the system as of September 30, 2005, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation liabilities reflect the cost-of-living increase granted to retired State employees and the pay increase granted to active State employees effective October 1, 2005 under Act 2005-316, the cost-of-living increase granted to retired State employees effective October 1, 2006 under Act 2006-510 and the estimated pay increases granted to active State Policemen effective June 1, 2006 under Act 2006-231. The valuation results for local employees shown in this report do not include the impact of any benefit improvements elected by Local employers after the valuation date.

On the basis of the valuation, it is recommended that the State make contributions to the Retirement System for State employees (members other than State policemen) at the rate of 9.84% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 30.00% of payroll for the fiscal year ending September 30, 2008. The increases in the contribution rates since the previous valuation are primarily due to the recognition of asset losses and the cost of the amendments. The contribution rates for local employers for the fiscal year beginning October 1, 2007 will be submitted in a separate report and will include the impact of all employer-elected benefit improvements through September 30, 2006.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Five-year smoothed market value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 20-year period for State Employees and State Police, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.



We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report. All historical information that references a valuation date prior to September 30, 2004 was prepared by the previous actuarial firm.

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

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

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

Respectfully submitted,

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

Edward A. Macdonald, ASA, MAAA, FCA
President

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**REPORT ON THE ACTUARIAL VALUATION OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
PREPARED AS OF SEPTEMBER 30, 2005**

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results for State Employees, Local Employees and State Police are summarized below:

SUMMARY OF PRINCIPAL RESULTS FOR STATE EMPLOYEES

VALUATION DATE	September 30, 2005	September 30, 2004
Number of active members	31,647	31,830
Annual compensation*	\$ 1,130,368,103	\$ 1,097,149,989
Number of retired members and beneficiaries	16,653	16,016
Annual retirement allowances*	\$ 270,208,104	\$ 256,624,378
Number of DROP participants	1,360	1,127
Annual compensation*	\$ 74,256,335	\$ 58,464,002
Annual allowances	\$ 39,477,411	\$ 33,129,858
Assets:		
Actuarial value	\$ 4,683,805,256	\$ 4,590,563,622
Market value	4,402,266,722	4,122,194,304
Unfunded accrued liability	\$ 947,459,353	\$ 490,774,135
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2008	September 30, 2007
Employer contribution rate:		
Normal	4.36%	4.50%
Accrued liability	5.15	2.95
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	9.84%	7.78%
Amortization period	20 years	20 years

*Amounts shown do not reflect any increase in effect after the valuation date.



SUMMARY OF PRINCIPAL RESULTS FOR STATE POLICEMEN

VALUATION DATE	September 30, 2005	September 30, 2004
Number of active members	712	719
Annual compensation ¹	\$ 37,855,234	\$ 35,266,675
Number of retired members and beneficiaries	724	713
Annual retirement allowances ¹	\$ 24,696,284	\$ 24,007,089
Number of DROP participants	37	33
Annual compensation ¹	\$ 2,569,361	\$ 1,859,245 ²
Annual allowances	\$ 1,806,987	\$ 1,539,842
Assets:		
Actuarial value	\$ 336,067,622	\$ 332,310,718
Market value	313,427,635	295,981,896
Unfunded accrued liability	\$ 100,266,811	\$ 50,930,138
CONTRIBUTION FOR FISCAL YEAR ENDING	September 30, 2008	September 30, 2007
Employer contribution rate:		
Normal	14.50%	14.72%
Accrued liability	15.17	9.07
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	30.00%	24.12%
Amortization Period	20 years	20 years

¹Amounts shown do not reflect any increase in effect after the valuation date.

²Adjusted since previous valuation.



SUMMARY OF PRINCIPAL RESULTS FOR LOCAL EMPLOYEES

VALUATION DATE	September 30, 2005	September 30, 2004
Number of active members	50,471	48,700
Annual compensation ¹	\$ 1,640,599,708	\$ 1,493,200,887
Number of retired members and beneficiaries	14,136	13,269
Annual retirement allowances ¹	\$ 193,818,915	\$ 175,322,025
Number of DROP participants	356	280
Annual compensation ¹	\$ 18,759,477	\$ 14,593,390
Annual allowances	\$ 9,454,361	\$ 7,322,018
Assets:		
Actuarial value	\$ 3,915,485,517	\$ 3,641,070,572 ²
Market value	3,728,233,090	3,315,648,400 ²
Unfunded accrued liability	\$ 651,891,524	\$ 440,828,883
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2008	September 30, 2007
Employer contribution rate:		
Normal	Varies	Varies
Accrued liability	Varies	Varies
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	Varies	Varies
Amortization period	Varies	Varies

¹ Amounts shown do not reflect any increase in effect after the valuation date.

² Includes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were not recognized in the System's financial statements as of September 30, 2004 but were recognized for valuation purposes. Excludes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.



SUMMARY OF PRINCIPAL RESULTS FOR ALL GROUPS

VALUATION DATE	September 30, 2005	September 30, 2004
Number of active members	82,830	81,249
Annual compensation ¹	\$ 2,808,823,045	\$ 2,625,617,551
Number of retired members and beneficiaries	31,513	29,998
Annual retirement allowances ¹	\$ 488,723,304	\$ 455,953,492
Number of DROP participants	1,753	1,440
Annual compensation ¹	\$ 95,585,173	\$ 74,916,637 ²
Annual allowances	\$ 50,738,759	\$ 41,991,718
Assets:		
Actuarial value	\$ 8,935,358,395	\$ 8,563,944,912 ³
Market value	8,443,927,447	7,733,824,600 ³
Unfunded accrued liability	\$ 1,699,617,688	\$ 982,533,156

¹ Amounts shown do not reflect any increase in effect after the valuation date.

² Adjusted since previous valuation.

³ Includes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were not recognized in the System's financial statements as of September 30, 2004 but were recognized for valuation purposes. Excludes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.

2. The valuation indicates that employer contributions at the rate of 9.84% of payroll for State employees and 30.00% for State policemen and varying rates for local employees, along with member contributions of 10.00% for State policemen, 6.00% for certified police officers, firefighters, and correctional officers and 5.00% for other State and local employees, are sufficient to support the benefits of the System. Comments on the valuation results as of September 30, 2005 are given in Section IV and further discussion of the contribution levels is set out in Section V. The valuation results for local employees do not include the impact of any benefit improvements elected by local employers after the valuation date. The contribution rates for local employers for fiscal year beginning October 1, 2007 will be submitted in a separate report and will include the impact of all employer-elected benefit improvements through September 30, 2006.
3. Schedule B shows the development of the actuarial value of assets. Schedule D of this report outlines the full set of actuarial assumptions and methods used in the current valuation. There have been no changes since the previous valuation.



4. The valuation takes into account the effect of amendments to the System through the valuation date. Provisions of the System, as summarized in Schedule F, were taken into account in the current valuation. The valuation reflects the cost-of-living increase and the pay increase granted to State employees effective October 1, 2005 under Act No. 2005-316, the cost-of-living increase granted to retired State employees effective October 1, 2006 under Act No. 2005-510, and the estimated pay increase granted to active State policemen effective June 1, 2006 under Act 2006-231.

SECTION II – MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual compensation as of September 30, 2005 on the basis of which the valuation was prepared.

TABLE 1

**THE NUMBER AND ANNUAL COMPENSATION OF
ACTIVE MEMBERS AS OF SEPTEMBER 30, 2005**

GROUP	NUMBER	COMPENSATION*
State Employees	31,647	\$ 1,130,368,103
State Policemen	712	37,855,234
Local Employees	<u>50,471</u>	<u>1,640,599,708</u>
Total	82,830	\$ 2,808,823,045

*Does not include pay increases effective after the valuation date.

The table reflects the active membership for whom complete valuation data were submitted. The results of the valuation were adjusted to take into account an additional 9,914 non-contributing inactive members and members for whom incomplete data were submitted. In addition, there were 1,753 members with annual compensation of \$95,585,173 who were participating in the DROP program as of September 30, 2005.



2. The following table shows a six-year history of active member valuation data.

TABLE 2
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
9/30/2005 ¹	82,830	\$ 2,808,823,045	\$ 33,911	4.94%
9/30/2004 ²	81,249	2,625,617,551	32,316	1.18
9/30/2003 ³	82,304	2,628,626,363	31,938	3.12
9/30/2002 ⁴	81,545	2,525,514,089	30,971	3.20
9/30/2001	80,256	2,408,542,913	30,011	2.33
9/30/2000	77,693	2,278,637,042	29,329	2.85

- ¹ In addition, there are 1,753 members with compensation of \$95,585,173 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.
- ² In addition, there are 1,440 members with compensation of \$76,775,883 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.
- ³ In addition, there are 923 members with compensation of \$48,398,330 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.
- ⁴ In addition, there are 428 members with compensation of \$22,260,590 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.



3. The following table shows the number and annual retirement allowances payable to retired members and their beneficiaries on the roll of the Retirement System as of the valuation date.

TABLE 3
THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES¹
OF RETIRED MEMBERS AND BENEFICIARIES OF
DECEASED MEMBERS ON THE ROLL AS OF SEPTEMBER 30, 2005

TYPE OF RETIREMENT	GROUP			
	STATE EMPLOYEES	STATE POLICEMEN	LOCAL EMPLOYEES ²	TOTAL
Service:				
Number	13,442	594	11,224	25,260
Annual Allowances	\$ 238,458,142	\$ 22,440,357	\$ 170,168,243	\$ 431,066,742
Disability:				
Number	1,757	39	1,344	3,140
Annual Allowances	\$ 19,021,055	\$ 866,210	\$ 13,554,043	\$ 33,441,308
Beneficiaries:				
Number	1,454	91	1,568	3,113
Annual Allowances	\$ 12,728,907	\$ 1,389,717	\$ 10,096,629	\$ 24,215,253
DROP participants:				
Number	1,360	37	356	1,753
Annual Allowances	\$ 39,477,411	\$ 1,806,987	\$ 9,454,361	\$ 50,738,759
Total:				
Number	18,013	761	14,492	33,266
Annual Allowances	\$ 309,685,515	\$ 26,503,271	\$ 203,273,276	\$ 539,462,062

¹ Amounts shown do not reflect any increase in effect after the valuation date.

² In addition, there are 45 terminated vested members with annual deferred allowances totaling \$243,883.

4. Tables 1 through 3 of Schedule G show the distribution by age and service of the number and average annual compensation of active members included in the valuation.



SECTION III - ASSETS

1. As of October 1, 2001, the retirement law provided for the maintenance of three funds for the purpose of recording the fiscal transactions of the System, namely, the Annuity Savings Fund, the Pension Accumulation Fund, and the Pre-Retirement Death Benefit Fund. Effective February 1, 2003, a separate fund was created for the DROP.

(a) Annuity Savings Fund

The Annuity Savings Fund is the fund to which are credited all contributions made by members, except those contributions made by members who are participating in DROP, together with regular interest thereon. When a member retires or when a survivor allowance becomes payable or a member enters DROP, the amount of the member's accumulated contributions are transferred from the Annuity Savings Fund to the Pension Accumulation Fund. On September 30, 2005, the market value of assets credited to this Fund amounted to \$1,616,410,237 which represent the contributions of members to this date.

(b) Pension Accumulation Fund

The Pension Accumulation Fund is the fund to which are credited all contributions made by the employers, except those contributions made to the Pre-Retirement Death Benefit Fund which was created October 1, 1983. When a member retires or when a survivor allowance becomes payable, the pension is paid from this fund. When a member enters DROP, the deferred pension is transferred from this fund to the DROP Fund. On September 30, 2005 the market value of assets credited to this fund amounted to \$6,714,579,722.

(c) DROP Fund

The DROP Fund is the fund to which are credited deferred retirement benefits on behalf of members who elect to participate in the DROP, together with regular interest thereon. In addition, member contributions while participating in the DROP, together with regular interest therein, are credited to the Fund. At the end of the DROP deferral period, the member receives the amount of the deferred retirement benefits and contributions plus interest in the member's DROP account. On September 30, 2005, the market value of assets credited to this Fund amounted to \$112,937,488.

(d) Pre-Retirement Death Benefit Fund

The Pre-Retirement Death Benefit Fund is the fund to which are credited contributions made by the employer for the special pre-retirement death benefit which became effective October 1, 1983. On September 30, 2005, the market value of assets credited to this fund amounted to \$15,853,424.



2. As of September 30, 2005 the total market value of assets exclusive of the Pre-Retirement Death Benefit Fund amounted to \$8,443,927,447 as shown in the following table.

TABLE 4
MARKET VALUE OF ASSETS BY FUND
AS OF SEPTEMBER 30, 2005

FUND	MARKET VALUE OF ASSETS
Annuity Savings Fund	\$ 1,616,410,237
Pension Accumulation Fund	6,714,579,722
DROP Fund	<u>112,937,488</u>
Total Market Value of Assets	\$ 8,443,927,447

3. The five-year market related actuarial value of assets used for the current valuation was \$8,935,358,395. Schedule B shows the development of the actuarial value of assets as of September 30, 2005. The following table shows the actuarial value of assets allocated among State employees, State policemen and local employees.

TABLE 5
COMPARISON OF ACTUARIAL VALUE OF ASSETS
AT SEPTEMBER 30, 2005 AND SEPTEMBER 30, 2004

GROUP	SEPTEMBER 30, 2005 ACTUARIAL VALUE	SEPTEMBER 30, 2004 ACTUARIAL VALUE
State Employees	\$ 4,683,805,256	\$ 4,590,563,622
State Policemen	336,067,622	332,310,718
Local Employees	<u>3,915,485,517</u>	<u>3,641,070,572</u>
Total Assets	\$ 8,935,358,395	\$ 8,563,944,912

4. Schedule C shows the receipts and disbursements of the System for the year preceding the valuation date and a reconciliation of the fund balances at market value.



SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report contains the valuation balance sheets which show the present and prospective assets and liabilities of the System as of September 30, 2005. Separate balance sheets are shown for each employee group as well as in total for all groups.
2. The total valuation balance sheet shows that the System has total prospective liabilities of \$12,912,135,956, of which \$5,076,621,177 is for the prospective benefits payable on account of present retired members and beneficiaries of deceased members, and \$7,835,514,779 is for the prospective benefits payable on account of present active and inactive members. Against these liabilities the System has total present actuarial value of assets of \$8,935,538,395 as of September 30, 2005. The difference of \$3,976,777,561 between the total liabilities and the total present actuarial value of assets represents the present value of contributions to be made in the future. Of this amount, \$1,223,166,025 is the present value of future contributions expected to be made by members to the Annuity Savings Fund, and the balance of \$2,753,611,536 represents the present value of future contributions payable by the employers.
3. The employers' contributions to the System consist of normal contributions, accrued liability contributions and current disbursement cost-of-living benefit increase contributions. The valuation indicates that employer normal contributions at the rate of 4.36% of payroll are required to provide the benefits of the System for the average new member of the State employees system. For State policemen, employer normal contributions at the rate of 14.50% of payroll are required. For local employees, varying rates of employer normal contributions are required.
4. Prospective employer normal contributions at the above rates have a present value of \$1,053,993,848. When this amount is subtracted from \$2,753,611,536, which is the present value of the total future contributions to be made by the employers, there remains \$1,699,617,688 as the amount of future cost-of-living and accrued liability contributions. Of this amount, \$947,459,353 represents the future cost-of-living and accrued liability contributions on account of State employees, \$100,266,811 represents the future cost-of-living and accrued liability contributions on account of State policemen and the balance of \$651,891,524 represents the future cost-of-living and accrued



liability contributions on account of local employees participating in the System under Section 36-27-6 of the retirement act.

5. For State employees, it is recommended that the accrued liability contribution rate payable by the State be set at 5.15% of payroll. For State policemen, it is recommended that the accrued liability contribution rate payable by the State be set at 15.17% of payroll. These rates include payment of cost-of-living benefit increases and are sufficient to liquidate the unfunded accrued liability of \$947,459,353 for State employees and \$100,266,811 for State policemen within 20 years on the assumption that the aggregate amount of accrued liability contribution will increase by 4.50% each year.
6. For all employers, an additional contribution of 0.15% of payroll will be required to meet the cost of the pre-retirement death benefit program established under Act No. 83-616.
7. For all employers, an additional contribution of 0.18% is required to cover the expenses of administering the System.

SECTION V - CONTRIBUTIONS PAYABLE BY EMPLOYERS

1. The retirement act provides that the Board of Control shall certify to the chief fiscal officer of each employer the rates of contribution required to be paid by the employer.
2. On the basis of the actuarial valuation prepared as of September 30, 2005 it is recommended that the State make contributions at the following rates for the fiscal year beginning October 1, 2007:

TABLE 6

RECOMMENDED CONTRIBUTION RATES

CONTRIBUTION	PERCENTAGE OF MEMBERS' COMPENSATION FOR 07/08 FISCAL YEAR	
	STATE EMPLOYEES	STATE POLICEMEN
Normal	4.36%	14.50%
Accrued liability	5.15	15.17
Death benefit	0.15	0.15
Administration	<u>0.18</u>	<u>0.18</u>
Total	9.84%	30.00%



3. Contribution rates for Local Employers will be submitted in a separate report. The rates for the fiscal year beginning October 1, 2007 will be determined as of September 30, 2005, but will reflect all employer-elected benefit improvements through September 30, 2006.

SECTION VI - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

NUMBER OF ACTIVE AND RETIRED MEMBERS AS OF SEPTEMBER 30, 2005

GROUP	NUMBER			
	State Employees	State Police	Local Employees	Total
Retirees and beneficiaries currently receiving benefits	16,653	724	14,136	31,513
DROP participants	1,360	37	356	1,753
Terminated employees entitled to benefits but not yet receiving benefits	3,294	7	6,658	9,959
Active Members	<u>31,647</u>	<u>712</u>	<u>50,471</u>	<u>82,830</u>
Total	52,954	1,480	71,621	126,055



2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
<u>TOTAL ALL GROUPS</u>						
9/30/2000	\$7,769,122	\$7,403,968	\$(365,154)	104.9%	\$2,278,637	(16.0)%
9/30/2001	8,028,471	8,010,123	(18,348)	100.2	2,408,543	(0.8)
9/30/2002	8,100,846	8,493,469	392,623	95.4	2,547,775	15.4
9/30/2003	8,312,500	9,124,279	811,779	91.1	2,677,025	30.3
9/30/2004	8,563,945	9,546,478	982,533	89.7	2,702,393	36.4
9/30/2005	8,935,358	10,634,976	1,699,618	84.0	2,982,122	57.0
<u>STATE EMPLOYEES</u>						
9/30/2000	\$4,349,788	\$4,060,046	\$(289,742)	107.1%	\$ 991,966	(29.2)%
9/30/2001	4,459,002	4,350,061	(108,941)	102.5	1,059,430	(10.3)
9/30/2002	4,453,995	4,576,486	122,491	97.3	1,130,160	10.8
9/30/2003	4,512,192	4,842,323	330,131	93.2	1,179,996	28.0
9/30/2004	4,590,564	5,081,338	490,774	90.3	1,155,614	42.5
9/30/2005	4,683,805	5,631,264	947,459	83.2	1,276,902	74.2
<u>STATE POLICEMEN</u>						
9/30/2000	\$ 339,641	\$ 309,180	\$(30,461)	109.9%	\$ 31,056	(98.1)%
9/30/2001	341,278	337,290	(3,988)	101.2	32,345	(12.3)
9/30/2002	333,999	347,132	13,133	96.2	33,685	39.0
9/30/2003	332,147	365,232	33,085	90.9	37,978	87.1
9/30/2004	332,311	383,241	50,930	86.7	38,985	130.6
9/30/2005	336,068	436,335	100,267	77.0	45,861	218.6
<u>LOCAL EMPLOYEES</u>						
9/30/2000	\$3,079,692	\$3,034,742	\$ (44,950)	101.5%	\$1,255,616	(3.6)%
9/30/2001	3,228,192	3,322,773	94,581	97.2	1,316,767	7.2
9/30/2002	3,312,852	3,569,851	256,999	92.8	1,383,930	18.6
9/30/2003	3,468,161	3,916,725	448,564	88.5	1,459,050	30.7
9/30/2004	3,641,071	4,081,900	440,829	89.2	1,507,794	29.2
9/30/2005	3,915,485	4,567,377	651,892	85.7	1,659,359	39.3



3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2005. Additional information as of the latest actuarial valuation follows.

	<u>State Employees</u>	<u>State Policemen</u>	<u>Local Employees</u>
Valuation date	9/30/2005	9/30/2005	9/30/2005
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent Open	Level percent Open	Level percent Open
Remaining amortization period	20 years	20 years	Within 20 years - Varies by employer
Asset valuation method	5 year smoothed Market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Investment rate of return*	8.00%	8.00%	8.00%
Projected salary increases*	4.61 – 7.75%	4.61 – 7.75%	4.61 – 7.75%
Cost-of-living adjustment	None	None	None
*Includes inflation at	4.50%	4.50%	4.50%

TREND INFORMATION

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
<u>State Employees</u>			
9/30/2003	\$ 41,112,988	100%	\$0
9/30/2004	44,401,619	100	0
9/30/2005	58,751,960	100	0
<u>State Policemen</u>			
9/30/2003	\$ 3,313,994	100%	\$0
9/30/2004	4,350,231	100	0
9/30/2005	6,877,631	100	0
<u>Local Employees</u>			
9/30/2003	Varies	Varies	Varies
9/30/2004	Varies	Varies	Varies
9/30/2005	Varies	Varies	Varies



SCHEDULE A

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

TOTAL - ALL GROUPS

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
	<u>ASSETS</u>	
Actuarial Value of Present Assets	\$ 8,935,358,395	\$ 8,563,944,912
Present value of future members' contributions to the Annuity Savings Fund	\$ 1,223,166,025	\$ 1,115,061,225
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 1,053,993,848	\$ 960,900,013
Unfunded accrued liability contributions	<u>1,699,617,688</u>	<u>982,533,156</u>
Total prospective employer contributions	\$ 2,753,611,536	\$ 1,943,433,169
Total Assets	<u>\$ 12,912,135,956</u>	<u>\$ 11,622,439,306</u>
	<u>LIABILITIES</u>	
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances (includes DROP members)	\$ 5,076,621,177	\$ 4,496,853,612
Present value of prospective benefits payable on account of present active and inactive members:		
Service retirement allowances	\$ 7,346,975,395	\$ 6,674,920,298
Disability retirement allowances	313,083,543	288,860,721
Survivor allowances	13,778,514	12,456,231
Refunds of members' contributions	<u>161,677,327</u>	<u>149,348,444</u>
Total	\$ 7,835,514,779	\$ 7,125,585,694
Total Liabilities	<u>\$ 12,912,135,956</u>	<u>\$ 11,622,439,306</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

STATE EMPLOYEES

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 4,683,805,256	\$ 4,590,563,622
Present value of future members' contributions to the Annuity Savings Fund	\$ 477,599,612	\$ 437,782,248
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 403,777,810	\$ 382,071,888
Unfunded accrued liability contributions	<u>947,459,353</u>	<u>490,774,135</u>
Total prospective employer contributions	\$ 1,351,237,163	\$ 872,846,023
Total Assets	<u>\$ 6,512,642,031</u>	<u>\$ 5,901,191,893</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 3,039,970,842	\$ 2,673,098,505
Present value of prospective benefits payable on account of present active and inactive members:		
Service retirement allowances	\$ 3,262,338,826	\$ 3,032,401,373
Disability retirement allowances	144,523,201	135,129,779
Survivor allowances	5,659,467	5,260,871
Refunds of members' contributions	<u>60,149,695</u>	<u>55,301,365</u>
Total	\$ 3,472,671,189	\$ 3,228,093,388
Total Liabilities	<u>\$ 6,512,642,031</u>	<u>\$ 5,901,191,893</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

STATE POLICEMEN

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 336,067,622	\$ 332,310,718
Present value of future members' contributions to the Annuity Savings Fund	\$ 43,507,785	\$ 35,774,933
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 63,086,289	\$ 52,660,702
Unfunded accrued liability contributions	<u>100,266,811</u>	<u>50,930,138</u>
Total prospective employer contributions	\$ 163,353,100	\$ 103,590,840
Total Assets	<u>\$ 542,928,507</u>	<u>\$ 471,676,491</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 264,240,615	\$ 240,055,489
Present value of prospective benefits payable on account of present active and inactive members:		
Service retirement allowances	\$ 274,206,265	\$ 227,458,473
Disability retirement allowances	3,046,162	2,878,557
Survivor allowances	204,057	170,240
Refunds of members' contributions	<u>1,231,408</u>	<u>1,113,732</u>
Total	\$ 278,687,892	\$ 231,621,002
Total Liabilities	<u>\$ 542,928,507</u>	<u>\$ 471,676,491</u>



SCHEDULE A (Continued)

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA**

LOCAL EMPLOYEES

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 3,915,485,517	\$ 3,641,070,572
Present value of future members' contributions to the Annuity Savings Fund	\$ 702,058,628	\$ 641,504,044
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 587,129,749	\$ 526,167,423
Unfunded accrued liability contributions	<u>651,891,524</u>	<u>440,828,883</u>
Total prospective employer contributions	\$ 1,239,021,273	\$ 966,996,306
Total Assets	<u>\$ 5,856,565,418</u>	<u>\$ 5,249,570,922</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 1,772,409,720	\$ 1,583,699,618
Present value of prospective benefits payable on account of present active and inactive members:		
Service retirement allowances	\$ 3,809,630,304	\$ 3,414,060,452
Disability retirement allowances	166,314,180	151,852,385
Survivor allowances	7,914,990	7,025,120
Refunds of members' contributions	<u>100,296,224</u>	<u>92,933,347</u>
Total	\$ 4,084,155,698	\$ 3,665,871,304
Total Liabilities	<u>\$ 5,856,565,418</u>	<u>\$ 5,249,570,922</u>



SCHEDULE A (continued)

SOLVENCY TEST
(\$1000's)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Asset		
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
9/30/2005 ¹	\$1,616,410	\$5,076,621	\$3,941,945	\$8,935,358	100%	100%	56.9%
9/30/2004 ²	1,533,055 ³	4,496,854	3,516,569	8,563,945	100	100	72.1
9/30/2003	1,484,793	3,928,131	3,711,355	8,312,500	100	100	78.1
9/30/2002	1,400,699	3,580,584	3,512,186	8,100,846	100	100	88.8
9/30/2001 ⁴	1,319,603	3,244,967	3,445,553	8,028,471	100	100	100.5
9/30/2000	1,219,344	3,080,504	3,104,120	7,769,122	100	100	111.8

¹ Reflects pay increases payable under Act 2005-316 and Act 2006-231 and COLA granted effective October 1, 2006 under Act 2006-510.

² Reflects COLA granted effective October 1, 2005 under Act 2005-316.

³ Excludes \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 not recognized for valuation purposes.

⁴ Reflects changes in actuarial assumptions.



SCHEDULE B

SEPTEMBER 30, 2005 DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

TOTAL - ALL GROUPS

(1)	Actuarial Value Beginning of Year ¹	\$	8,563,944,912
(2)	Market Value End of Year	\$	8,443,927,447
(3)	Market Value Beginning of Year ¹	\$	7,733,824,600
(4)	Cash Flow		
a.	Contributions ²	\$	387,689,935
b.	Benefit Payments	\$	(521,251,991)
c.	Net	\$	(133,562,056)
(5)	Investment Income		
a.	Market total: (2) – (3) – (4)c	\$	843,664,903
b.	Assumed Rate		8.00%
c.	Amount for Immediate Recognition [(1) x (5)b] + [(4)c * (5)b * 0.5]	\$	679,773,110
d.	Adjusted for Employer Lump Sums	\$	1,003,209
e.	Adjusted Amount for Immediate Recognition (5)c + (5)d	\$	680,776,319
f.	Amount for Phased-In Recognition (5)a – (5)e	\$	162,888,584
(6)	Phased-In Recognition of Investment Income		
a.	Current Year: 0.20*(5)f	\$	32,577,717
b.	First Prior Year		(208,378,497)
c.	Second Prior Year		0
d.	Third Prior Year		0
e.	Fourth Prior Year		0
f.	Total Recognized Investment Gain	\$	(175,800,780)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)e + (6)f	\$	8,935,358,395

¹ Includes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were not recognized in the System's financial statements as of September 30, 2004 but were recognized for valuation purposes. Excludes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.

² Excludes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were recognized in the System's financial statements as of September 30, 2005. These contributions were recognized for valuation purposes as of September 30, 2004. Includes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2005**

STATE EMPLOYEES

(1)	Actuarial Value Beginning of Year	
a.	Actuarial Value Beginning of Year	\$ 4,590,563,622
b.	Adjustment	<u>(3,265,638)</u>
c.	Adjusted Actuarial Value Beginning of Year	\$ 4,587,297,985
(2)	Market Value End of Year	\$ 4,402,266,722
(3)	Market Value Beginning of Year	
a.	Market Value Beginning of Year	\$ 4,122,194,304
b.	Adjustment	<u>128,041</u>
c.	Adjusted Market Value Beginning of Year	\$ 4,122,322,345
(4)	Cash Flow	
a.	Contributions	\$ 123,617,347
b.	Benefit Payments	<u>(287,050,455)</u>
c.	Net	\$ (163,433,108)
(5)	Investment Income	
a.	Market total: (2) – (3)c – (4)c	\$ 443,377,485
b.	Assumed Rate	8.00%
c.	Amount of Immediate Recognition [(1)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 360,446,514
d.	Amount for Phased-in Recognition (5)a – (5)c	\$ 82,930,971
(6)	Phased-In Recognition of Investment Income	
a.	Current Year: 0.20*(5)d	\$ 16,586,194
b.	First Prior Year	(117,092,329)
c.	Second Prior Year	0
d.	Third Prior Year	0
e.	Fourth Prior Year	<u>0</u>
f.	Total Recognized Investment Gain	\$ (100,506,135)
(7)	Actuarial Value End of Year: (1)c + (4)c + (5)c + (6)f	\$ 4,683,805,256



SCHEDULE B (Continued)

DEVELOPMENT OF THE SEPTEMBER 30, 2005 ACTUARIAL VALUE OF ASSETS

STATE POLICEMEN

(1)	Actuarial Value Beginning of Year	\$	332,310,717
(2)	Market Value End of Year	\$	313,427,635
(3)	Market Value Beginning of Year	\$	295,981,896
(4)	Cash Flow		
	a. Contributions	\$	10,758,546
	b. Benefit Payments		(25,082,972)
	c. Net	\$	(14,324,426)
(5)	Investment Income		
	a. Market total: (2) – (3) – (4)c	\$	31,770,165
	b. Assumed Rate		8.00%
	c. Amount of Immediate Recognition [(1) x (5)b] + [(4)c * (5)b * 0.5]	\$	26,011,880
	d. Amount for Phased-in Recognition (5)a – (5)c	\$	5,758,285
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20*(5)d	\$	1,151,657
	b. First Prior Year		(9,082,206)
	c. Second Prior Year		0
	d. Third Prior Year		0
	e. Fourth Prior Year		0
	f. Total Recognized Investment Gain	\$	(7,930,549)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)c + (6)f	\$	336,067,622



SCHEDULE B (Continued)

DEVELOPMENT OF SEPTEMBER 30, 2005 ACTUARIAL VALUE OF ASSETS

LOCAL EMPLOYEES

(1)	Actuarial Value Beginning of Year ¹	
a.	Actuarial Value Beginning of Year	\$ 3,641,070,572
b.	Adjustment	<u>3,265,638</u>
c.	Adjusted Actuarial Value Beginning of Year	\$ 3,644,336,210
(2)	Market Value End of Year	\$ 3,728,233,090
(3)	Market Value Beginning of Year ¹	
a.	Market Value Beginning of Year	\$ 3,315,648,400
b.	Adjustment	<u>(128,041)</u>
c.	Adjusted Market Value Beginning of Year	\$ 3,315,520,359
(4)	Cash Flow	
a.	Contributions ²	\$ 253,314,042
b.	Benefit Payments	<u>(209,118,564)</u>
c.	Net	\$ 44,195,478
(5)	Investment Income	
a.	Market total: (2) – (3)c – (4)c	\$ 368,517,253
b.	Assumed Rate	8.00%
c.	Amount of Immediate Recognition [(1)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 293,314,716
d.	Adjustment for Employer Lump Sums	\$ 1,003,209
e.	Adjusted Amount for Immediate Recognition (5)c + (5)d	\$ 294,317,925
f.	Amount for Phased-In Recognition (5)a – (5)e	\$ 74,199,328
(6)	Phased-In Recognition of Investment Income	
a.	Current Year: 0.20*(5)f	\$ 14,839,866
b.	First Prior Year	(82,203,962)
c.	Second Prior Year	0
d.	Third Prior Year	0
e.	Fourth Prior Year	0
f.	Total Recognized Investment Gain	<u>\$ (67,364,096)</u>
(7)	Actuarial Value End of Year: (1)c + (4)c + (5)e + (6)f	\$ 3,915,485,517

¹ Includes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were not recognized in the System's financial statements as of September 30, 2004 but were recognized for valuation purposes. Excludes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.

² Excludes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were recognized in the System's financial statements as of September 30, 2005. These contributions were recognized for valuation purposes as of September 30, 2004. Includes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.



SCHEDULE C

SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR ENDING SEPTEMBER 30, 2005

Receipts for the Year

Contributions: ¹		
Members	\$ 180,813,209	
Employers	<u>206,876,726</u>	
Total		\$ 387,689,935
Net Investment Income		<u>843,664,903</u>
TOTAL		\$ 1,231,354,838

Disbursements for the Year

Benefit Payments	\$ 487,392,643	
Refunds to Members	26,646,665	
Miscellaneous	<u>7,212,683</u>	
TOTAL		\$ 521,251,991

<u>Excess of Receipts Over Disbursements</u>	\$ 710,102,847
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Reconciliation of Asset Balances

Market Value of Assets as of September 30, 2004 ²	\$ 7,733,824,600
Excess of Receipts Over Disbursements	710,102,847
Market Value of Assets as of September 30, 2005	<u>\$ 8,443,927,447</u>

¹ Excludes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were recognized in the System's financial statements as of September 30, 2005. These contributions were recognized for valuation purposes as of September 30, 2004. Includes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements, but were not recognized for valuation purposes as of September 30, 2004.

² Includes \$200,000 of employer lump sum contributions made by local employers after September 30, 2004 that were not recognized in the System's financial statements as of September 30, 2004 but were recognized for valuation purposes. Excludes \$20,500,000 of employer lump sum contributions and \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 that were included in the System's financial statements as of September 30, 2004.



SCHEDULE D

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were selected by the prior actuarial firm based on the actuarial experience study prepared as of September 30, 2000, submitted May 23, 2002 and adopted by the Board on June 5, 2002.

INVESTMENT RATE OF RETURN: 8% per annum, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate of Salary Increase</u>
20	7.66%
25	7.75
30	7.61
35	7.25
40	6.98
45	6.60
50	6.32
55	5.84
60	5.49
65	5.05

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of death, disability, withdrawal and retirement are shown in the following tables:

STATE AND LOCAL EMPLOYEES

<u>Age</u>	<u>Annual Rate of</u>					
	<u>Death</u>		<u>Disability</u>		<u>Withdrawal</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	.05%	.03%	.05%	.08%	25.80%	31.30%
25	.06	.03	.06	.09	18.50	21.50
30	.08	.03	.08	.12	11.40	14.40
35	.08	.04	.17	.24	8.10	10.10
40	.09	.06	.30	.41	6.30	7.30
45	.14	.09	.54	.65	4.90	6.00
50	.21	.12	.98	.98	3.30	6.00
55	.36	.19	1.50	1.50	3.00	4.50
60	.63	.34	2.37	2.37	3.00	4.50
62	.80	.44	2.84	2.84	3.00	4.50
65	1.15	.67	3.71	3.71		
69	1.80	1.08	4.85	4.85		



For members first eligible for unreduced benefits before age 50 or on or after age 60, rates are as follows:

<u>Age</u>	<u>Annual Rate of Service Retirement</u>	
	<u>Male¹</u>	<u>Female²</u>
45	11.00%	15.00%
50	11.00	15.00
55	45.00	45.00
60	15.00	15.00
62	45.00	35.00
65	60.00	50.00
69	30.00	30.00
70	100.00	100.00

¹Retirement rates are increased by 20% in year when member first becomes eligible for unreduced service retirement.

²Retirement rates are increased by 25% in year when member first becomes eligible for unreduced service retirement.

For members first eligible for unreduced benefits on or after age 50 but before age 60, no withdrawal or retirement is assumed to occur for the five years prior to DROP eligibility and 45% are assumed to retire in the first year eligible for DROP participation. The rates, thereafter, are as follows:

<u>Age</u>	<u>Annual Rate of Service Retirement</u>	
	<u>Male</u>	<u>Female</u>
58	15.0%	25.0%
60	15.0	15.0
62	45.0	35.0
65	60.0	50.0
70	100.0	100.0



STATE POLICEMEN

Annual Rate of

<u>Age</u>	<u>Death</u>		<u>Disability</u>	<u>Withdrawal</u> ¹	<u>Service Retirement "A"</u>	<u>Service Retirement "B"</u>
	<u>Male</u>	<u>Female</u>				
20	.05%	.03%	.04%	1.00%		
25	.06	.03	.05	1.00		
30	.08	.03	.07	1.50		
35	.08	.04	.11	2.00		
40	.09	.06	.17	1.00		
45	.14	.09	.23	0.50		
50	.21	.12	.30		20.00%	
55	.36	.19	.35		10.00	30.00%
60	.63	.34				30.00
62	.80	.44				30.00
65	1.15	.67				100.00
69	1.80	1.08				100.00
70						100.00

1 Higher rates are assumed during the first three years of employment.

A For those who will become eligible for DROP prior to age 57, these are the rates in effect prior to the DROP eligibility. An additional 20% are assumed to retire in the first year of eligibility for unreduced benefits. 80% are assumed to retire in the first year eligible for DROP participation if less than age 57.

B Rates for those who will not become eligible for DROP prior to age 57. An additional 25% are assumed to retire in the first year of eligibility for unreduced benefits. Also for those who will become eligible for DROP prior to age 57, these are the rates after the first year of DROP eligibility.

DEATH AFTER RETIREMENT: The rates of mortality for the period after service retirement are according to the George B. Buck 1979 Table for males rated forward one year and the George B. Buck 1979 Table for females. Special tables are used for the period after disability retirement.

SPOUSAL BENEFIT: For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit and 25% will elect the spousal benefit.

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

ACTUARIAL METHOD: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

ASSETS: Actuarial value, as developed in Schedule B. 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. The amount recognized each year is 20% of the difference between market value and expected value.



SCHEDULE E

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 "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the current assets 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. The accrued liability contribution amortizes the balance of the unfunded accrued liability over a period of years from the valuation date.



SCHEDULE F

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

The Employees' Retirement System of Alabama 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.

1 – DEFINITIONS

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

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

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

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

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

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

2 - BENEFITS

MEMBERS CLASSIFIED OTHER THAN STATE POLICEMEN

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service, (except for employees of local employers who did not elect 25-year retirement), or who has attained age 60 and completed at least 10 years of creditable service.



Amount of Allowance

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 his creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer or correctional officer.

Disability Retirement Allowance

Condition for Allowance

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

Amount of Allowance

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

Benefits Payable on Separation from Service

Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 60.

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 below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned 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 for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which their retirement contributions were made for the previous fiscal year (October 1 – September 30).*

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

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned 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 had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of service (at least 30 years for employers that did not elect 25 year retirement) of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of this period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.



Member Contributions

Regular members contribute 5% of salary. Certified police officers and firefighters contribute 6% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and interest upon retirement.

MEMBERS CLASSIFIED AS STATE POLICEMEN

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 52 and completed at least 10 years of creditable service.

Amount of Allowance

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 his 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.

Disability Retirement Allowance

Condition for Allowance

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

Amount of Allowance

Upon retirement for disability, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of his creditable service.



Benefits Payable on
Separation from Service

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

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 Employees" or (2) to receive a return of member contributions and total interest earned 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 for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit payable from the pre-retirement death benefit fund equal to the salary on which their retirement contributions were made for the previous fiscal year (October 1 – September 30).*

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

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned 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 had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.



Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 52 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of this period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

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

3 - SPECIAL PRIVILEGES AT RETIREMENT – ALL MEMBERS

In lieu of the full retirement allowance, any 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 or exceed the present value of the member's annuity at the date of retirement, the balance is paid to a designated beneficiary or to the 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 the designated beneficiary provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to his retirement allowance and is approved by the Board of Control.



SCHEDULE G

SCHEDULE OF ACTIVE PARTICIPANT DATA AS OF SEPTEMBER 30, 2005 STATE EMPLOYEES

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
Under 25	692	408	6								1,106
Avg. Pay	20,693	21,905	20,102								21,137
25 to 29	849	1,719	373	3							2,944
Avg. Pay	23,728	27,494	27,830	29,668							26,453
30 to 34	532	1,353	1,037	241	5						3,168
Avg. Pay	24,101	30,021	32,351	34,519	36,312						30,142
35 to 39	363	1,040	891	1,027	440	6					3,767
Avg. Pay	24,498	29,534	33,931	40,288	38,708	40,055					34,109
40 to 44	364	875	720	1,008	1,336	371	8				4,682
Avg. Pay	24,569	28,814	32,958	39,310	43,832	41,677	37,133				36,700
45 to 49	290	826	674	798	1,148	1,148	436	25			5,345
Avg. Pay	24,559	28,068	32,827	38,757	43,580	47,903	43,211	45,293			38,981
50 to 54	232	653	616	696	905	960	914	363	8		5,347
Avg. Pay	25,333	30,039	31,158	37,833	42,451	47,857	48,349	48,256	52,945		40,679
55 to 59	168	441	440	634	717	610	258	156	25		3,449
Avg. Pay	25,447	30,527	32,713	37,633	41,499	46,978	48,114	52,480	50,078		39,506
60 to 64	49	195	239	236	296	201	67	31	12	4	1,330
Avg. Pay	32,558	31,697	30,702	38,175	41,826	44,099	41,957	52,842	53,252	69,252	38,145
65 to 69	20	48	74	60	76	43	11	10	4	6	352
Avg. Pay	27,631	32,861	30,695	44,472	42,106	54,466	50,127	48,886	48,876	54,673	40,272
70 & up	3	32	30	26	29	19	9	2	1	6	157
Avg. Pay	28,985	39,879	24,959	35,013	38,944	55,707	49,442	42,511	63,591	79,133	39,990
Total	3,562	7,590	5,100	4,729	4,952	3,358	1,703	587	50	16	31,647
Avg. Pay	23,760	28,727	32,173	38,722	42,545	46,921	46,711	49,486	51,473	67,490	35,718

In addition there are 1,360 employees with annual compensation of \$74,256,335 participating in the DROP as of September 30, 2005.



SCHEDULE G

SCHEDULE OF ACTIVE PARTICIPANT DATA AS OF SEPTEMBER 30, 2005 STATE POLICE

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
Under 25		3									3
Avg. Pay		36,154									36,154
25 to 29	3	33	26								62
Avg. Pay	29,625	37,542	42,443								39,214
30 to 34	1	30	58	20							109
Avg. Pay	38,883	39,081	44,633	48,553							43,772
35 to 39	2	28	44	64	27	2					167
Avg. Pay	34,041	39,186	46,704	51,188	58,632	67,292					49,185
40 to 44	1	9	17	42	69	38	1				177
Avg. Pay	35,801	38,496	45,268	52,992	59,614	70,218	62,391				57,749
45 to 49		5	3	7	46	41	10	1			113
Avg. Pay		40,718	36,748	58,334	60,411	65,558	73,751	61,832			61,843
50 to 54		2	1	6	17	16	13	2			57
Avg. Pay		52,875	56,051	48,750	60,552	67,381	69,947	72,282			63,432
55 to 59		2	1	3	2	6	1				15
Avg. Pay		68,817	74,459	56,603	57,996	58,635	69,023				61,248
60 to 64			3		1	1					5
Avg. Pay			80,294		49,872	51,420					68,435
65 to 69			2		1	1					4
Avg. Pay			67,725		62,291	46,347					61,022
70 & up											
Avg. Pay											
Total	7	112	155	142	163	105	25	3			712
Avg. Pay	33,091	39,379	46,025	51,714	59,711	66,842	71,129	68,799			53,167

In addition there are 37 employees with annual compensation of \$2,569,361 participating in the DROP as of September 30, 2005.



SCHEDULE G

SCHEDULE OF ACTIVE PARTICIPANT DATA AS OF SEPTEMBER 30, 2005 LOCAL EMPLOYEES

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
Under 25	1,340	1,133	33								2,506
Avg. Pay	18,271	22,810	28,765								20,461
25 to 29	1,264	2,468	965	15							4,712
Avg. Pay	20,692	26,634	31,295	34,545							26,019
30 to 34	1,027	2,267	2,169	664	23						6,150
Avg. Pay	21,767	28,042	34,586	39,708	43,702						30,620
35 to 39	850	1,872	2,000	1,503	635	26					6,886
Avg. Pay	22,143	28,045	34,341	40,262	42,893	46,256					33,250
40 to 44	712	1,725	1,687	1,264	1,229	597	44				7,258
Avg. Pay	21,810	27,144	33,174	38,941	44,522	45,083	49,329				34,629
45 to 49	568	1,570	1,474	1,175	1,123	1,039	513	25			7,487
Avg. Pay	20,617	27,103	31,022	37,096	43,121	45,067	48,656	49,563			35,398
50 to 54	523	1,265	1,256	996	887	817	644	223	8		6,619
Avg. Pay	22,427	27,250	31,158	36,837	40,092	44,243	49,527	53,103	58,903		35,948
55 to 59	300	963	987	830	749	551	329	185	61	2	4,957
Avg. Pay	20,821	26,263	31,582	35,533	38,685	41,415	44,927	54,326	59,022	55,341	34,807
60 to 64	130	458	526	453	378	287	134	82	23	14	2,485
Avg. Pay	22,365	24,861	29,606	33,574	37,761	39,571	43,364	43,494	60,390	52,502	33,082
65 to 69	72	183	196	186	132	80	43	19	13	8	932
Avg. Pay	16,128	23,402	27,243	31,761	35,524	39,659	36,655	40,831	55,700	71,753	30,261
70 & up	32	129	112	68	67	29	24	6	7	5	479
Avg. Pay	17,292	18,317	21,358	28,952	32,257	32,956	44,063	45,417	37,122	41,202	25,449
Total	6,818	14,033	11,405	7,154	5,223	3,426	1,731	540	112	29	50,471
Avg. Pay	20,776	26,710	32,455	37,668	41,556	43,606	47,517	51,382	57,540	56,060	32,506

In addition there are 356 employees with annual compensation of \$18,759,477 participating in the DROP as of September 30, 2005.