



Retirement Systems
of Alabama

**Report on the Actuarial Valuation of the
Employees' Retirement System of Alabama
Prepared as of September 30, 2007**



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

July 31, 2008

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, 2007 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, 2007, 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 include the pay increases granted to active State employees under Act 2007-297.

On the basis of this 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 11.94% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 30.57% of payroll for the fiscal year ending September 30, 2010. The increases in the contribution rates since the previous valuation are primarily due to the impact of Act 2007-297. The contribution rates for local employers for the fiscal year beginning October 1, 2009 will be submitted in a separate report and will not include the impact of any employer-elected benefit improvements after September 30, 2007.

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 policemen, 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.

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

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

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

Respectfully submitted,

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

Edward A. Macdonald, ASA, FCA, MAAA
President

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

Cathy Turcot
Managing Director

EAM/CT:kc



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**REPORT ON THE ACTUARIAL VALUATION OF
THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
PREPARED AS OF SEPTEMBER 30, 2007**

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 Policemen are summarized below:

SUMMARY OF PRINCIPAL RESULTS FOR STATE EMPLOYEES

VALUATION DATE	September 30, 2007	September 30, 2006
Number of active members	33,065	32,283
Annual compensation ¹	\$ 1,303,226,956	\$ 1,198,604,923
Number of retired members and beneficiaries	17,516	17,002
Annual retirement allowances ¹	\$ 323,923,099	\$ 310,919,283
Number of DROP participants	1,518	1,457
Annual compensation ¹	\$ 89,784,060	\$ 91,138,171
Annual allowances	43,373,423	41,876,717
Assets		
Actuarial value	\$ 4,922,133,307	\$ 4,765,293,756
Market value	5,203,219,169	4,581,348,883
Unfunded accrued liability	\$ 1,454,993,836	\$ 1,119,012,983
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2010	September 30, 2009
Employer contribution rate:		
Normal	4.84%	5.02%
Accrued liability	6.77	6.02
Death benefit	0.15	0.15
Administration	0.18	0.18
Total	11.94%	11.37%
Amortization period	20 years	20 years

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



SUMMARY OF PRINCIPAL RESULTS FOR STATE POLICEMEN

VALUATION DATE	September 30, 2007	September 30, 2006
Number of active members	730	706
Annual compensation ¹	\$ 44,872,765	\$ 40,170,328
Number of retired members and beneficiaries	747	735
Annual retirement allowances ¹	\$ 28,488,584	\$ 28,154,168
Number of DROP participants	35	39
Annual compensation ¹	\$ 2,778,321	\$ 2,986,793
Annual allowances	1,902,954	1,976,232
Assets		
Actuarial value	\$ 350,437,005	\$ 342,051,188
Market value	369,785,053	327,121,664
Unfunded accrued liability	\$ 124,971,531	\$ 109,650,702
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2010	September 30, 2009
Employer contribution rate:		
Normal	13.23%	13.35%
Accrued liability	17.01	16.80
Death benefit	0.15	0.15
Administration	0.18	0.18
Total	30.57%	30.48%
Amortization period	20 years	20 years

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



SUMMARY OF PRINCIPAL RESULTS FOR LOCAL EMPLOYEES

VALUATION DATE	September 30, 2007	September 30, 2006
Number of active members	52,873	51,493
Annual compensation ¹	\$ 1,821,332,440	\$ 1,713,411,562
Number of retired members and beneficiaries	15,550	14,856
Annual retirement allowances ¹	\$ 239,712,251	\$ 222,086,107
Number of DROP participants	486	409
Annual compensation ¹	\$ 26,315,002	\$ 21,687,167
Annual allowances	12,943,159	10,895,432
Assets		
Actuarial value	\$ 4,498,326,504	\$ 4,180,186,279
Market value	4,771,688,275	4,063,733,731
Unfunded accrued liability	\$ 1,019,478,962	\$ 941,369,087
CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2010	September 30, 2009
Employer contribution rate:		
Normal	Varies	Varies
Accrued liability	Varies	Varies
Death benefit	0.15	0.15
Administration	0.18	0.18
Total	Varies	Varies
Amortization period	Varies	Varies

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

¹A



SUMMARY OF PRINCIPAL RESULTS FOR ALL GROUPS

VALUATION DATE	September 30, 2007	September 30, 2006
Number of active members	86,668	84,482
Annual compensation ¹	\$ 3,169,432,161	\$ 2,952,186,813
Number of retired members and beneficiaries	33,813	32,593
Annual retirement allowances ¹	\$ 592,123,934	\$ 561,159,558
Number of DROP participants	2,039	1,905
Annual compensation ¹	\$ 118,877,383	\$ 115,812,131
Annual allowances	58,219,536	54,748,381
Assets		
Actuarial value	\$ 9,770,896,816	\$ 9,287,531,223
Market value	10,344,692,497	8,972,204,278
Unfunded accrued liability	\$ 2,599,444,329	\$ 2,170,032,772

¹A

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

2. The valuation indicates that employer contributions at the rate of 11.94% of payroll for State employees and 30.57% 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, 2007 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, 2009 will be submitted in a separate report.
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 pay increases granted to State employees under Act 2007-297.

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, 2007 on the basis of which the valuation was prepared.

TABLE 1

**THE NUMBER AND ANNUAL COMPENSATION OF
ACTIVE MEMBERS AS OF SEPTEMBER 30, 2007**

GROUP	NUMBER	COMPENSATION*
State Employees	33,065	\$ 1,303,226,956
State Policemen	730	44,872,765
Local Employees	52,873	<u>1,821,332,440</u>
Total	86,668	\$ 3,169,432,161

*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 10,826 non-contributing inactive members. In addition, there were 2,039 members with annual compensation of \$118,877,383 who were participating in the DROP program as of September 30, 2007.



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>
9/30/2007 ¹	86,668	\$ 3,169,432,161	\$ 36,570	4.65%
9/30/2006 ²	84,482	2,952,186,813	34,945	3.05
9/30/2005 ³	82,830	2,808,823,045	33,911	4.94
9/30/2004 ⁴	81,249	2,625,617,551	32,316	1.18
9/30/2003 ⁵	82,304	2,628,626,363	31,938	3.12
9/30/2002 ⁶	81,545	2,525,514,089	30,971	3.20

- 1 In addition, there are 2,039 members with compensation of \$118,877,383 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.
- 2 In addition, there are 1,905 members with compensation of \$115,812,131 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.
- 3 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.
- 4 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.
- 5 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.
- 6 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, 2007

TYPE OF RETIREMENT	GROUP			
	STATE EMPLOYEES	STATE POLICEMEN	LOCAL EMPLOYEES ²	TOTAL
Service:				
Number	14,208	608	12,486	27,302
Annual Allowances	\$ 288,802,264	\$ 26,010,744	\$ 212,696,419	\$ 527,509,427
Disability:				
Number	1,827	41	1,418	3,286
Annual Allowances	\$ 22,002,457	\$ 973,169	\$ 15,848,495	\$ 38,824,121
Beneficiaries:				
Number	1,481	98	1,646	3,225
Annual Allowances	\$ 13,118,378	\$ 1,504,671	\$ 11,167,337	\$ 25,790,386
DROP participants:				
Number	1,518	35	486	2,039
Annual Allowances	\$ 43,373,423	\$ 1,902,954	\$ 12,943,159	\$ 58,219,536
Total:				
Number	19,034	782	16,036	35,852
Annual Allowances	\$ 367,296,522	\$ 30,391,538	\$ 252,655,410	\$ 650,343,470

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

² In addition, there are 51 terminated vested members with annual deferred allowances totaling \$285,892.

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, 2007, the market value of assets credited to this Fund amounted to \$1,777,330,816 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 members enters DROP, the deferred pension is transferred from this fund to the DROP Fund. On September 30, 2007 the market value of assets credited to this fund amounted to \$8,383,294,855.

- (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, 2007, the market value of assets credited to this Fund amounted to \$184,066,826.

- (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, 2007, the market value of assets credited to this fund amounted to \$18,880,058.



2. As of September 30, 2007 the total market value of assets exclusive of the Pre-Retirement Death Benefit Fund amounted to \$10,344,692,497 as shown in the following table.

TABLE 4
MARKET VALUE OF ASSETS BY FUND
AS OF SEPTEMBER 30, 2007

FUND	MARKET VALUE OF ASSETS
Annuity Savings Fund	\$ 1,777,330,816
Pension Accumulation Fund	8,383,294,855
DROP Fund	184,066,826
Total Market Value of Assets	\$ 10,344,692,497

3. The five-year market related actuarial value of assets used for the current valuation was \$9,770,896,816. Schedule B shows the development of the actuarial value of assets as of September 30, 2007. 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, 2007 AND SEPTEMBER 30, 2006

GROUP	SEPTEMBER 30, 2007 ACTUARIAL VALUE	SEPTEMBER 30, 2006 ACTUARIAL VALUE
State Employees	\$ 4,922,133,307	\$ 4,765,293,756
State Policemen	350,437,005	342,051,188
Local Employees	4,498,326,504	4,180,186,279
Total Assets	\$ 9,770,896,816	\$ 9,287,531,223

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, 2007. 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 \$15,007,043,873, of which \$5,911,861,461 is for the prospective benefits payable on account of present retired members and beneficiaries of deceased members, and \$9,095,182,412 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 \$9,770,896,816 as of September 30, 2007. The difference of \$5,236,147,057 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, \$1,390,333,140 is the present value of future contributions expected to be made by members to the Annuity Savings Fund, and the balance of \$3,845,813,917 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 4.84% 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 13.23% 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 \$1,246,369,588. When this amount is subtracted from \$3,845,813,917, which is the present value of the total future contributions to be made by the employers, there remains \$2,599,444,329 as the amount of future accrued liability contributions.
5. For State employees, it is recommended that the accrued liability contribution rate payable by the State be set at 6.77% of payroll. For State policemen, it is recommended that the accrued liability contribution rate payable by the State be set at 17.01% of payroll. These rates are sufficient to



amortize the unfunded accrued liability of \$1,454,993,836 for State employees and \$124,971,531 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, 2007 it is recommended that the State make contributions at the following rates for the fiscal year beginning October 1, 2009:

TABLE 6

RECOMMENDED CONTRIBUTION RATES

CONTRIBUTION	PERCENTAGE OF MEMBERS' COMPENSATION FOR FISCAL YEAR ENDING SEPTEMBER 30, 2010	
	STATE EMPLOYEES	STATE POLICEMEN
Normal	4.84%	13.23%
Accrued liability	6.77	17.01
Death benefit	0.15	0.15
Administration	0.18	0.18
Total	11.94%	30.57%

3. Contribution rates for Local Employers will be submitted in a separate report. The rates for the fiscal year beginning October 1, 2009 will be determined as of September 30, 2007, and will only reflect employer-elected benefit improvements through the valuation date.



SECTION VII – ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase in the unfunded accrued liability during the year ending September 30, 2007. For State employees, the unfunded accrued liability increased \$335,980,853; for State policemen, the unfunded accrued liability increased \$15,320,829. Since the benefits, assumptions and accrued liability rates vary by location for the Local employees, we do not develop an analysis of financial experience for this group.

ANALYSIS OF FINANCIAL EXPERIENCE (in millions of dollars)

ITEM	AMOUNT OF INCREASE / (DECREASE)	
	<u>STATE EMPLOYEES</u>	<u>STATE POLICEMEN</u>
Interest (8.00%) added to previous unfunded accrued liability	\$ 89.5	\$ 8.8
Accrued liability contribution	(40.5)	(4.5)
Experience:		
Valuation asset growth	10.4	1.4
Pensioners' mortality	10.1	0.5
Turnover and retirements	14.7	(0.9)
New entrants	18.7	3.6
Salary increases	221.1	8.4
Method changes	0.0	0.0
Amendments	0.0	0.0
Assumption changes	0.0	0.0
Miscellaneous	12.0	(2.0)
Total	\$ 336.0	\$ 15.3



SECTION VII - 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, 2007

GROUP	NUMBER			
	State Employees	State Policemen	Local Employees	Total
Retired and beneficiaries currently receiving benefits	17,516	747	15,550	33,813
DROP participants	1,518	35	486	2,039
Terminated employees entitled to benefits but not yet receiving benefits	3,700	12	7,165	10,877
Active members	33,065	730	52,873	86,668
Total	55,799	1,524	76,074	133,397



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 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)
TOTAL ALL GROUPS						
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
9/30/2006	9,287,531	11,457,564	2,170,033	81.1	3,070,146	70.7
9/30/2007	9,770,897	12,370,342	2,599,445	79.0	3,389,156	76.7
STATE EMPLOYEES						
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 ¹	74.2
9/30/2006	4,765,294	5,884,307	1,119,013	81.0	1,289,743	86.8
9/30/2007	4,922,133	6,377,127	1,454,994	77.2	1,490,522 ³	97.6
STATE POLICEMEN						
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 ²	218.6
9/30/2006	342,051	451,702	109,651	75.7	45,304 ²	242.0
9/30/2007	350,437	475,409	124,972	73.7	50,987 ³	245.1
LOCAL EMPLOYEES						
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
9/30/2006	4,180,186	5,121,555	941,369	81.6	1,735,099	54.3
9/30/2007	4,498,327	5,517,806	1,019,479	81.5	1,847,647	55.2

¹ Includes pay increases granted under Act 2005-316.

² Includes pay increases granted under Act 2005-231.

³ Includes pay increases granted under Act 2007-297.



3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2007. Additional information as of the latest actuarial valuation follows.

	<u>State Employees</u>	<u>State Policemen</u>	<u>Local Employees</u>
Valuation date	9/30/2007	9/30/2007	9/30/2007
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>			
9/30/2005	\$58,751,960	100%	\$0
9/30/2006	80,678,747	100	0
9/30/2007	102,258,702	100	0
<u>State Policemen</u>			
9/30/2005	\$6,877,631	100%	\$0
9/30/2006	9,781,694	100	0
9/30/2007	12,068,537	100	0
<u>Local Employees</u>			
9/30/2005	Varies	Varies	Varies
9/30/2006	Varies	Varies	Varies
9/30/2007	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, 2007	SEPTEMBER 30, 2006
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 9,770,896,816	\$ 9,287,531,223
Present value of future members' contributions to the Annuity Savings Fund	\$ 1,390,333,140	\$ 1,268,436,153
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 1,246,369,588	\$ 1,139,719,514
Unfunded accrued liability contributions	<u>2,599,444,329</u>	<u>2,170,032,772</u>
Total prospective employer contributions	\$ 3,845,813,917	\$ 3,309,752,286
Total assets	<u>\$ 15,007,043,873</u>	<u>\$ 13,865,719,662</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)	\$ 5,911,861,461	\$ 5,540,765,642
Present value of prospective benefits payable on account of present active and inactive members		
Service retirement allowances	\$ 8,521,218,396	\$ 7,799,991,427
Disability retirement allowances	342,790,403	312,452,687
Survivor allowances	27,273,256	25,242,084
Refunds of members' contributions	<u>203,900,357</u>	<u>187,267,822</u>
Total	\$ 9,095,182,412	\$ 8,324,954,020
Total liabilities	<u>\$ 15,007,043,873</u>	<u>\$ 13,865,719,662</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, 2007	SEPTEMBER 30, 2006
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 4,922,133,307	\$ 4,765,293,756
Present value of future members' contributions to the Annuity Savings Fund	\$ 557,994,354	\$ 482,262,521
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 524,393,965	\$ 469,774,700
Unfunded accrued liability contributions	<u>1,454,993,836</u>	<u>1,119,012,983</u>
Total prospective employer contributions	\$ 1,979,387,801	\$ 1,588,787,683
Total assets	<u>\$ 7,459,515,462</u>	<u>\$ 6,836,343,960</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 3,351,257,849	\$ 3,195,288,013
Present value of prospective benefits payable on account of present active and inactive members		
Service retirement allowances	\$ 3,858,619,732	\$ 3,419,468,941
Disability retirement allowances	164,076,210	146,551,452
Survivor allowances	9,772,467	8,574,582
Refunds of members' contributions	<u>75,789,204</u>	<u>66,460,972</u>
Total	\$ 4,108,257,613	\$ 3,641,055,947
Total liabilities	\$ 7,459,515,462	\$ 6,836,343,960

*Adjustments made due to changes in timing of prior year local employer lump sum contributions.



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, 2007	SEPTEMBER 30, 2006
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 350,437,005	\$ 342,051,188
Present value of future members' contributions to the Annuity Savings Fund	\$ 46,419,969	\$ 41,309,756
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 61,413,619	\$ 55,148,524
Unfunded accrued liability contributions	<u>124,971,531</u>	<u>109,650,702</u>
Total prospective employer contributions	\$ 186,385,150	\$ 164,799,226
Total assets	<u>\$ 583,242,124</u>	<u>\$ 548,160,170</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 277,487,478	\$ 277,331,741
Present value of prospective benefits payable on account of present active and inactive members		
Service retirement allowances	\$ 298,382,734	\$ 264,176,127
Disability retirement allowances	4,927,592	4,456,550
Survivor allowances	399,252	353,045
Refunds of members' contributions	<u>2,045,068</u>	<u>1,842,707</u>
Total	\$ 305,754,646	\$ 270,828,429
Total liabilities	\$ 583,242,124	\$ 548,160,170



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, 2007	SEPTEMBER 30, 2006
<u>ASSETS</u>		
Actuarial Value of Present Assets	\$ 4,498,326,504	\$ 4,180,186,279
Present value of future members' contributions to the Annuity Savings Fund	\$ 785,918,817	\$ 744,863,876
Present value of future employer contributions to the Pension Accumulation Fund		
Normal contributions	\$ 660,562,004	\$ 614,796,290
Unfunded accrued liability contributions	<u>1,019,478,962</u>	<u>941,369,087</u>
Total prospective employer contributions	\$ 1,680,040,966	\$ 1,556,165,377
Total assets	<u>\$ 6,964,286,287</u>	<u>\$ 6,481,215,532</u>
<u>LIABILITIES</u>		
Present value of benefits payable on account of retired members and beneficiaries of deceased members now drawing retirement allowances	\$ 2,283,116,134	\$ 2,068,145,888
Present value of prospective benefits payable on account of present active and inactive members		
Service retirement allowances	\$ 4,364,215,930	\$ 4,116,346,359
Disability retirement allowances	173,786,601	161,444,685
Survivor allowances	17,101,537	16,314,457
Refunds of members' contributions	<u>126,066,085</u>	<u>118,964,143</u>
Total	\$ 4,681,170,153	\$ 4,413,069,644
Total liabilities	\$ 6,964,286,287	\$ 6,481,215,532

*Adjustments made due to changes in timing of prior year local employer lump sum contributions.



SCHEDULE A (continued)

SOLVENCY TEST
(\$1000's)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered By Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)				
9/30/2007 ¹	\$1,777,331	\$5,911,861	\$4,681,149	\$9,770,897	100%	100%	44.5%
9/30/2006 ²	1,705,372	5,540,766	4,211,426	9,287,531	100	100	48.5
9/30/2005 ³	1,616,410	5,076,621	3,941,945	8,935,358	100	100	56.9
9/30/2004 ⁴	1,533,055 ⁵	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

¹ Reflects pay increases payable under Act 2007-297.

² Reflects changes in actuarial assumptions.

³ Reflects pay increases payable under Act 2005-316 and Act 2006-231 and COLA granted effective October 1, 2006 under Act 2006-510.

⁴ Reflects COLA granted effective October 1, 2005 under Act 2005-316.

⁵ Excludes \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 not recognized for valuation purposes.



SCHEDULE B

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2007**

TOTAL - ALL GROUPS

(1)	Actuarial Value Beginning of Year	\$ 9,287,531,223
(2)	Market Value End of Year	\$ 10,344,692,497
(3)	Market Value Beginning of Year	\$ 8,972,204,278
(4)	Cash Flow	
	a. Contributions	\$ 451,106,277
	b. Benefit Payments	(678,935,517)
	c. Net: (4)a - (4)b	\$ (227,829,240)
(5)	Investment Income	
	a. Market Total: (2) - (3) - (4)c	\$ 1,600,317,459
	b. Assumed Rate	8.00%
	c. Amount of Immediate Recognition [(3) x (5)b] + [(4)c * (5)b * 0.5]	\$ 708,663,173
	d. Adjustment for Employer Lump Sums	\$ (72,747)
	e. Adjusted Amount for Immediate Recognition: (5)c + (5)d	\$ 708,590,426
	f. Amount for Phased-In Recognition: (5)a - (5)e	\$ 891,727,033
(6)	Phased-In Recognition of Investment Income	
	a. Current Year: 0.20 * (5)f	\$ 178,345,406
	b. First Prior Year	72,600
	c. Second Prior Year	32,564,898
	d. Third Prior Year	(208,378,497)
	e. Fourth Prior Year	0
	f. Total Recognized Investment Gain	\$ 2,604,407
(7)	Actuarial Value End of Year (1) + (4)c + (5)e + (6)f	\$ 9,770,896,816



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2007**

STATE EMPLOYEES*

(1)	Actuarial Value Beginning of Year	
	a. Actuarial Value Beginning of Year	\$ 4,765,293,756
	b. Adjustment	(776,093)
	c. Adjusted Actuarial Value Beginning of Year	\$ 4,764,517,663
(2)	Market Value End of Year	\$ 5,203,219,169
(3)	Market Value Beginning of Year	
	a. Market Value Beginning of Year	\$ 4,581,348,883
	b. Adjustment	206,975
	c. Adjusted Market Value Beginning of Year	\$ 4,581,555,858
(4)	Cash Flow	
	a. Contributions	\$ 180,318,289
	b. Benefit Payments	(371,216,760)
	c. Net	\$ (190,898,471)
(5)	Investment Income	
	a. Market Total: (2) - (3)c - (4)c	\$ 812,561,782
	b. Assumed Rate	8.00%
	c. Amount of Immediate Recognition [(3)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 358,888,530
	d. Amount for Phased-In Recognition: (5)a - (5)c	\$ 453,673,252
(6)	Phased-In Recognition of Investment Income	
	a. Current Year: 0.20 * (5)d	\$ 90,734,650
	b. First Prior Year	(602,930)
	c. Second Prior Year	16,586,194
	d. Thrid Prior Year	(117,092,329)
	e. Fourth Prior Year	0
	f. Total Recognized Investment Gain	\$ (10,374,415)
(7)	Actuarial Value End of Year (1)c + (4)c + (5)c + (6)f	\$ 4,922,133,307

*Adjustments due to the timing of prior year local employer lump sum contributions



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2007**

STATE POLICEMEN

(1)	Actuarial Value Beginning of Year	\$	342,051,188
(2)	Market Value End of Year	\$	369,785,053
(3)	Market Value Beginning of Year	\$	327,121,664
(4)	Cash Flow		
	a. Contributions	\$	17,044,101
	b. Benefit Payments		(32,785,779)
	c. Net	\$	(15,741,678)
(5)	Investment Income		
	a. Market Total: (2) - (3) - (4)c	\$	58,405,067
	b. Assumed Rate		8.00%
	c. Amount of Immediate Recognition [(3) x (5)b] + [(4)c * (5)b * 0.5]	\$	25,540,066
	d. Amount for Phased-In Recognition: (5)a - (5)c	\$	32,865,001
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20 * (5)d	\$	6,573,000
	b. First Prior Year		(55,022)
	c. Second Prior Year		1,151,657
	d. Thrid Prior Year		(9,082,206)
	e. Fourth Prior Year		0
	f. Total Recognized Investment Gain	\$	(1,412,571)
(7)	Actuarial Value End of Year (1) + (4)c + (5)c + (6)f	\$	350,437,005



SCHEDULE B (Continued)

**DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF SEPTEMBER 30, 2007**

LOCAL EMPLOYEES*

(1)	Actuarial Value Beginning of Year	
	a. Actuarial Value Beginning of Year	\$ 4,180,186,279
	b. Adjustment	776,093
	c. Adjusted Actuarial Value Beginning of Year	\$ 4,180,962,372
(2)	Market Value End of Year	\$ 4,771,688,275
(3)	Market Value Beginning of Year	
	a. Market Value Beginning of Year	\$ 4,063,733,731
	b. Adjustment	(206,975)
	c. Adjusted Market Value Beginning of Year	\$ 4,063,526,756
(4)	Cash Flow	
	a. Contributions	\$ 253,743,887
	b. Benefit Payments	(274,932,978)
	c. Net	\$ (21,189,091)
(5)	Investment Income	
	a. Market Total: (2) - (3)c - (4)c	\$ 729,350,610
	b. Assumed Rate	8.00%
	c. Amount of Immediate Recognition [(3)c x (5)b] + [(4)c * (5)b * 0.5]	\$ 324,234,577
	d. Adjustment for Employer Lump Sums	\$ (72,747)
	e. Adjusted Amount for Immediate Recognition: (5)c + (5)d	\$ 324,161,830
	f. Amount for Phased-In Recognition: (5)a - (5)e	\$ 405,188,780
(6)	Phased-In Recognition of Investment Income	
	a. Current Year: 0.20 * (5)f	\$ 81,037,756
	b. First Prior Year	730,552
	c. Second Prior Year	14,827,047
	d. Third Prior Year	(82,203,962)
	e. Fourth Prior Year	0
	f. Total Recognized Investment Gain	\$ 14,391,393
(7)	Actuarial Value End of Year (1)c + (4)c + (5)e + (6)f	\$ 4,498,326,504

*Adjustments due to the timing of prior year local employer lump sum contributions



SCHEDULE C

**SUMMARY OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2007**

Receipts for the Year

Contributions:		
Members	\$	184,139,935
Employers		<u>266,966,342</u>
Total	\$	451,106,277
Net Investment Income		<u>1,600,317,459</u>
TOTAL	\$	2,051,423,736

Disbursements for the Year

Benefit Payments	\$	615,723,684
Refunds to Members		27,328,581
Miscellaneous		<u>35,883,252</u>
TOTAL	\$	678,935,517

<u>Excess of Receipts Over Disbursements</u>	\$	1,372,488,219
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Reconciliations of Asset Balances

Market Value of Assets as of September 30, 2006	\$	8,972,204,278
Excess of Receipts Over Disbursements		<u>1,372,488,219</u>
Market Value of Assets as of September 30, 2007	\$	<u>10,344,692,497</u>
Rate of Return on Market Value of Assets		18.07%



SCHEDULE D

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were based on the actuarial experience study prepared as of September 30, 2005, submitted to and adopted by the Board on May 30, 2007.

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</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



STATE AND LOCAL EMPLOYEES WITH DROP COVERAGE

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

Age	Annual Rate of							
	Death		Disability		Withdrawal			
	Male	Female	Male	Female	Male		Female	
					Years of Service		Years of Service	
					0 - 4	5+	0 - 4	5+
20	.06%	.03%	.05%	.08%	35.00%		37.00%	
25	.08	.03	.08	.09	19.50	10.00%	22.50	12.00%
30	.08	.04	.10	.12	17.00	8.00	18.50	10.00
35	.09	.06	.12	.24	16.00	6.00	18.00	7.50
40	.14	.08	.32	.38	16.00	4.50	15.00	5.00
45	.21	.11	.60	.58	14.00	3.50	13.00	4.00
50	.36	.17	1.00	.98	13.00	2.50	13.00	3.50
55	.63	.29	1.65	1.50	11.50	2.50	14.00	3.00
60	1.15	.58			12.00	3.00	12.00	3.00
62	1.45	.76			13.20	4.20	12.20	4.60
65	1.99	1.08			15.00	6.00	12.50	7.00
69	2.85	1.50			15.00	6.00	12.50	7.00

SERVICE RETIREMENT: Representative values of the assumed annual rates of service retirement are as follows:

Age	Annual Rate			
	Under age 65 with 25 or more years of service		Under age 65 with less than 25 years of service & All over age 65	
	Male ¹	Female ²	Male	Female
45	15.00%	15.00%		
50	10.00	10.00		
55	48.00	51.00		
60	42.00	48.00	16.00%	22.00%
62	56.00	58.00	32.00	31.00
64	28.00	50.00	25.00	24.00
65			36.00	36.00
70			27.00	30.00
72			23.00	30.00
75			100.00	100.00

¹Rates are increased by 12% in year when member attains 25 years of service.

²Rates are increased in year when member attains 25 years of service by 10% for ages less than 55 and by 17% for ages 55 and older.



STATE POLICEMEN

Annual Rate of					
<u>Age</u>	<u>Death</u>		<u>Disability</u>	<u>Withdrawal</u> ¹	<u>Service</u>
	<u>Male</u>	<u>Female</u>			<u>< 25 Years</u> <u>25+ Years</u>
20	.06%	.03%	.08%	2.00%	
25	.08	.03	.10	2.00	
30	.08	.04	.14	2.00	
35	.09	.06	.22	2.00	
40	.14	.08	.34	2.00	19.00%
45	.21	.11	.46	2.00	19.00
50	.36	.17	.60		18.00
55	.63	.29			20.00% 65.00
60	1.15	.58			20.00 100.00
62	1.45	.76			20.00 100.00
65	1.99	1.08			100.00 100.00

¹ A rate of 3.50% is assumed during the first four years of employment.



LOCAL EMPLOYEES WITH NO DROP COVERAGE

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

Age	Annual Rate of							
	<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>	
					Years of Service		Years of Service	
					<u>0 – 4</u>	<u>5+</u>	<u>0 – 4</u>	<u>5+</u>
20	.06%	.03%	.06%	.06%	26.00%		37.00%	
25	.08	.03	.08	.13	21.00	11.00%	30.00	15.00%
30	.08	.04	.11	.19	19.00	8.50	25.00	12.00
35	.09	.06	.13	.25	17.00	6.50	22.00	9.50
40	.14	.08	.20	.28	16.00	4.50	19.00	7.50
45	.21	.11	.42	.36	15.00	4.25	18.00	6.50
50	.36	.17	.77	.43	13.00	4.00	17.00	6.00
55	.63	.29	1.41	.82	13.00	4.25	16.00	6.00
60	1.15	.58			13.00	5.00	16.00	5.50
62	1.45	.76			15.00	6.20	16.00	7.30
65	1.99	1.08			18.00	8.00	16.00	10.00
69	2.85	1.50			18.00	8.00	16.00	10.00

SERVICE RETIREMENT: Representative values of the assumed annual rates of service retirement are as follows:

Age	Annual Rate			
	Under age 65 with 25 or more years of service		Under age 65 with less than 25 years of service & All over age 65	
	<u>Male</u> ¹	<u>Female</u> ²	<u>Male</u>	<u>Female</u>
45	15.00%	17.00%		
50	12.00	16.00		
55	16.00	23.00		
60	19.00	30.00	7.50%	18.00%
62	49.00	34.00	31.00	28.00
64	28.00	26.00	14.00	15.00
65			28.00	29.00
70			20.00	17.00
72			20.00	24.00
75			100.00	100.00

¹Rates are increased by 12% in year when member attains 25 years of service.

²Rates are increased in year when member attains 25 years of service by 10% for ages less than 55 and by 17% for ages 55 and older.



DEATH AFTER RETIREMENT: The rates of mortality for the period after service retirement are according to the 1994 Group Annuity Mortality Table set forward three years for males and set forward two years 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, 2007 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 & up	
Under 25 Avg. Pay	767 \$23,837	677 \$25,620	10 \$23,436								1,454 \$24,664
25 to 29 Avg. Pay	771 \$26,693	1,975 \$30,898	540 \$32,239	7 \$35,434							3,293 \$30,143
30 to 34 Avg. Pay	516 \$27,539	1,436 \$32,477	1,256 \$36,808	261 \$38,631	7 \$33,370						3,476 \$33,773
35 to 39 Avg. Pay	419 \$27,050	1,099 \$33,373	1,121 \$37,393	903 \$45,313	389 \$44,318	11 \$41,785					3,942 \$37,683
40 to 44 Avg. Pay	363 \$27,730	933 \$32,660	820 \$36,861	832 \$44,517	1,284 \$48,591	442 \$48,179	19 \$36,790				4,693 \$40,952
45 to 49 Avg. Pay	340 \$28,516	790 \$31,332	792 \$35,341	627 \$43,279	1,110 \$47,827	1,135 \$53,857	401 \$48,532	25 \$51,431			5,220 \$43,015
50 to 54 Avg. Pay	271 \$29,686	657 \$32,182	731 \$35,732	560 \$42,993	932 \$45,409	930 \$53,074	846 \$53,883	393 \$52,157	20 \$48,904		5,340 \$44,593
55 to 59 Avg. Pay	168 \$36,321	456 \$33,299	562 \$34,624	501 \$42,856	774 \$45,254	626 \$51,055	197 \$54,694	140 \$61,308	27 \$59,287		3,451 \$43,512
60 to 64 Avg. Pay	136 \$52,450	209 \$37,150	336 \$35,424	230 \$40,942	370 \$46,308	246 \$49,265	48 \$49,962	26 \$58,540	13 \$59,868	3 \$85,492	1,617 \$43,553
65 to 69 Avg. Pay	39 \$53,730	53 \$46,308	89 \$37,555	69 \$46,201	86 \$46,778	53 \$53,206	20 \$45,245	2 \$54,168	1 \$42,604	3 \$60,839	415 \$46,172
70 & up Avg. Pay	14 \$61,606	26 \$38,123	29 \$38,970	25 \$37,335	28 \$45,159	23 \$62,507	10 \$49,749	3 \$42,917	1 \$67,772	5 \$51,244	164 \$46,156
Total Avg. Pay	3,804 \$28,498	8,311 \$31,818	6,286 \$35,947	4,015 \$43,464	4,980 \$46,731	3,466 \$52,100	1,541 \$52,122	589 \$54,543	62 \$55,927	11 \$63,201	33,065 \$39,414

In addition there are 1,518 employees with annual compensation of \$89,784,060 participating in the DROP as of September 30, 2007.

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



SCHEDULE G (Continued)

**SCHEDULE OF ACTIVE PARTICIPANT DATA
AS OF SEPTEMBER 30, 2007
STATE POLICEMEN**

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 & up	
Under 25 Avg. Pay		3 \$41,579									3 \$41,579
25 to 29 Avg. Pay	1 \$42,900	32 \$44,985	20 \$45,668	1 \$64,668							54 \$45,564
30 to 34 Avg. Pay	2 \$41,774	28 \$44,201	38 \$47,102	52 \$54,508							120 \$49,546
35 to 39 Avg. Pay	3 \$41,543	25 \$47,311	35 \$49,192	91 \$59,751	24 \$66,338	1 \$72,161					179 \$56,596
40 to 44 Avg. Pay	2 \$61,559	12 \$49,400	12 \$53,935	47 \$62,522	45 \$68,781	44 \$75,656	2 \$91,500				164 \$66,516
45 to 49 Avg. Pay		4 \$45,920	4 \$53,768	18 \$61,852	31 \$67,077	55 \$78,498	25 \$85,459				137 \$73,324
50 to 54 Avg. Pay	2 \$66,295	4 \$56,202	1 \$70,068	5 \$55,582	12 \$70,580	17 \$73,113	8 \$78,155	2 \$73,856			51 \$69,965
55 to 59 Avg. Pay	2 \$80,951			4 \$66,910	2 \$84,502	6 \$71,595	2 \$73,498				16 \$73,444
60 to 64 Avg. Pay	2 \$98,893		2 \$77,306								4 \$88,100
65 to 69 Avg. Pay				1 \$83,605							1 \$83,605
70 & up Avg. Pay				1 \$77,999							1 \$77,999
Total Avg. Pay	14 \$61,891	108 \$46,166	112 \$49,214	220 \$59,525	114 \$68,269	123 \$76,349	37 \$83,560	2 \$73,856			730 \$61,470

In addition there are 35 employees with annual compensation of \$2,778,321 participating in the DROP as of September 30, 2007.

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



SCHEDULE G (Continued)

**SCHEDULE OF ACTIVE PARTICIPANT DATA
AS OF SEPTEMBER 30, 2007
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 24	35 to 39	40 & up	
Under 25	1,809	1,563	52		1						3,425
Avg. Pay	\$19,262	\$25,550	\$31,359		\$28,815						\$22,318
25 to 29	1,343	2,568	1,110	39							5,060
Avg. Pay	\$21,789	\$28,705	\$33,738	\$37,557							\$28,042
30 to 34	1,057	2,113	1,956	844	32	1					6,003
Avg. Pay	\$22,351	\$30,577	\$36,165	\$41,294	\$46,708	\$47,410					\$32,545
35 to 39	896	1,933	1,932	1,705	718	34					7,218
Avg. Pay	\$23,142	\$29,853	\$36,337	\$43,821	\$46,032	\$47,646					\$35,748
40 to 44	767	1,611	1,644	1,328	1,242	699	31				7,322
Avg. Pay	\$22,727	\$29,041	\$34,476	\$41,433	\$46,687	\$49,343	\$53,118				\$36,881
45 to 49	676	1,535	1,584	1,203	1,107	1,038	498	46			7,687
Avg. Pay	\$23,009	\$28,461	\$33,606	\$38,702	\$44,759	\$49,612	\$50,775	\$51,954			\$37,434
50 to 54	494	1,243	1,397	1,067	948	912	683	266	11		7,021
Avg. Pay	\$23,395	\$28,534	\$32,797	\$37,782	\$42,666	\$46,642	\$51,486	\$55,893	\$62,866		\$38,009
55 to 59	331	866	1,006	828	767	580	296	165	61	6	4,906
Avg. Pay	\$22,952	\$28,460	\$33,399	\$36,859	\$41,472	\$44,649	\$47,676	\$56,400	\$61,343	\$62,040	\$37,016
60 to 64	179	474	632	490	396	328	148	66	36	8	2,757
Avg. Pay	\$27,128	\$27,045	\$31,967	\$36,385	\$40,530	\$42,911	\$46,095	\$48,615	\$59,138	\$60,763	\$35,719
65 to 69	72	197	244	170	118	98	36	15	6	7	963
Avg. Pay	\$27,301	\$21,638	\$29,724	\$33,961	\$41,620	\$39,125	\$45,294	\$40,806	\$45,844	\$69,327	\$32,194
70 & up	39	130	118	74	67	48	14	9	3	9	511
Avg. Pay	\$17,244	\$19,365	\$22,552	\$29,273	\$37,388	\$35,675	\$36,582	\$62,303	\$34,587	\$50,647	\$27,138
Total	7,663	14,233	11,675	7,748	5,396	3,738	1,706	567	117	30	52,873
Avg. Pay	\$21,937	\$28,536	\$34,215	\$39,909	\$44,075	\$47,007	\$49,926	\$54,576	\$59,327	\$59,982	\$34,447

In addition there are 486 employees with annual compensation of \$26,315,002 participating in the DROP as of September 30, 2007.

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