

## **Illustration 2—Note Disclosures and Required Supplementary Information for a Single Employer (No Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 12, 13, and 25 of this Statement, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]*

### **Sample City Notes to the Financial Statements for the Fiscal Year Ended September 30, 2018 (Dollar amounts in thousands)**

#### **Summary of Significant Accounting Policies**

##### ***Pensions***

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

##### **Note X**

[If the City's employees were provided with benefits through more than one defined benefit pension plan, the City should disclose information required by paragraph 37 of this Statement and should apply the requirements of paragraph 38 of this Statement. If the City had component units whose employees were provided with pensions through the pension plan, the City should apply the requirements of paragraph 39 of this Statement when presenting financial statements of the reporting entity.]

##### ***General Information about the Pension Plan***

##### ***Plan Description***

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

### ***Benefits Provided***

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

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 88,517 participants. As of September 30, 2017, membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	23,853
Terminated employees entitled to	
but not yet receiving benefits	1,401
Terminated employees not	
entitled to a benefit	7,154
Active Members	55,941
Post-DROP participants who	
are still in active service	168
<b>Total</b>	<b><u>88,517</u></b>

### *Contributions*

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2018(or other year-end if not September), the City's active employee contribution rate was \_\_\_\_\_percent of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was \_\_\_[ calculate from Actuarial Valuation as of September 30, 2015] percent of pensionable payroll.

City's contractually required contribution rate for the year ended September 30, 2018, was \_\_\_\_% of pensionable pay for Tier 1 employees, and \_\_\_\_% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$[See City general ledger for FY2018] for the year ended September 30, 2018.

### *Net Pension Liability*

The City's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

Total Pension Liability as of 9/30/2016 (a)	\$ Detail Table on Page 4
Entry Age Normal Cost* for 10/1/2016 - 9/30/2017 (b)	\$ Detail Table on Page 4
Transfers Among Employers	\$ Detail Table on Page 4
Actual Benefit Payments for 10/1/2016 - 9/30/2017 (c)	\$ Detail Table on Page 4
Total Pension Liability as of 9/30/2017	\$ Detail Table on Page 4
$[(a) \times (1.0775)] + (b) - [(c) \times (1.03875)]$	

### *Actuarial Assumptions*

The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Projected Salary Increases	3.25% - 5.00%
Investment Rate of Return*	7.75%

\*Net of pension plan investment expense.

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
US Large Stocks	32.0%	8.0%
US Mid Stocks	9.0%	10.0%
US Small Stocks	4.0%	11.0%
Int'l Developed Mkt Stocks	12.0%	9.5%
Int'l Emerging Mkt Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash Equivalent	3.0%	1.5%
Total	100.0%	

\*Includes assumed rate of inflation of 2.50%.

#### *Discount Rate*

The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in Net Pension Liability*

	<b>Total Pension Liability (a)</b>	<b>Increase/(Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a)-(b)</b>
<b>Balances at 9/30/2016</b>	\$	\$	\$
Changes for the year:			
Service cost		See Table on Page 3	
Interest			
Differences between expected & actual experience			
Contributions--employer			
Contributions--employee			
Net investment income			
Benefit payments, including refunds of employee contributions			
Administrative expense			
Transfers Among Employers			
Net changes			
<b>Balances at 9/30/2017</b>	\$	\$	\$

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following table presents the City’s net pension liability calculated using the discount rate of 7.75%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate (dollar amounts in thousands):

<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
<u>          </u>	<u>          </u>	<u>          </u>

See Detail Report on Page 3

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor’s report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended September 30, 2018, the City recognized pension expense of [see general ledger amount]. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected & Actual Experience	See Detail Table on Page 4	See Detail Table on Page 4
Changes of Assumptions	See Detail Table on Page 4	See Detail Table on Page 4
Net Difference between Projected & Actual Earnings on Pension Plan Investments	See Detail Table on Page 4	See Detail Table on Page 4
Employer Contributions Subsequent to the Measurement Date	*	See Detail Table on Page 4
<b>Total</b>	<u>Total of Above</u>	<u>Total of Above</u>

\*Enter FY2018 employer contributions applied to pension liability and add for total Deferred Outflows of Resources.

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

<b>Year ended September 30:</b>	
2019	See Detail Report on Page 7
2020	See Detail Report on Page 7
2021	See Detail Report on Page 7
2022	See Detail Report on Page 7
2023	See Detail Report on Page 7
Thereafter	See Detail Report on Page 7