

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, 2023 (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 Annual Comprehensive 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 15 trustees. Act 390 of the Legislature of 2021 created two additional representatives to the ERS Board of Control Effective October 1, 2021. 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.

The ERS Board of Control consists of 15 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) Eight 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. One vested active employee of a participating municipality or city in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - d. One vested active employee of a participating county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - e. One vested active employee or retiree of a participating employer in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - f. One vested active employee of a participating employer other than a municipality, city or county 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 formula method. 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 up to 80% of their average final compensation. 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.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 608 employers adopted Act 2019-132 as of September 30, 2022.

Act 316 of the Legislature of 2019 allows employees at the time of retirement to receive a partial lump sum (PLOP) distribution as a single payment not to exceed the sum of 24 months of the maximum monthly retirement allowance the member could receive. This option may be selected in addition to the election of another retirement allowance option at a reduced amount based upon the amount of partial lump sum distribution selected.

The ERS serves approximately 886 local participating employers. The ERS membership includes approximately 108,890 participants. As of September 30, 2022, membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	30,598
Terminated employees entitled to	
but not yet receiving benefits	2,286
Terminated employees not	
entitled to a benefit	18,689
Active Members	57,278
Post-DROP participants who	
are still in active service	39
Total	108,890

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.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676, Tier 1 regular members' contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 certified law enforcement, correctional officers', and firefighters' member contribution rates increased from 6% to 8.5% of earnable compensation.

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, 2023 (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, 2020] percent of pensionable payroll.

City's contractually required contribution rate for the year ended September 30, 2023, 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, 2020, 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 FY2023] for the year ended September 30, 2023.

Net Pension Liability

The City’s net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2021, rolled forward to September 30, 2022, using standard roll-forward techniques as shown in the following table:

Total Pension Liability as of 9/30/2021 (a)	\$ Detail Table on Page 4
Entry Age Normal Cost* for 10/1/2021 - 9/30/2022 (b)	\$ Detail Table on Page 4
Transfers Among Employers	\$ Detail Table on Page 4
Actual Benefit Payments for 10/1/2021 - 9/30/2022 (c)	\$ Detail Table on Page 4
Total Pension Liability as of 9/30/2022 [(a) x (1.0745)] + (b) - [(c) x (1.03725)]	\$ Detail Table on Page 4

Actuarial Assumptions

The total pension liability as of September 30, 2022 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2021. The key actuarial assumptions are summarized below:

Inflation	2.50%
Projected Salary Increases	3.25% - 6.00% for State and Local Employees and 4.00% - 7.75% for State Police, including inflation
Investment Rate of Return*	7.45%, including inflation

Mortality rates were based on the Pub-2010 Below-Median Tables, projected generationally using the MP-2020 scale, which is adjusted by 66-2/3% beginning with year 2019:

<u>Group</u>	<u>Membership Table</u>	<u>Set Forward (+)/ Setback (-)</u>	<u>Adjustment to Rates</u>
Non-FLC Service Retirees	General Healthy Below Median	Male: +2, Female: +2	Male: 90% ages < 65, 96% ages >= 65 Female: 96% all ages
FLC/State Police Service Retirees	Public Safety Healthy Below Median	Male: +1, Female: none	None
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: +2	None
Non-FLC Disabled Retirees	General Disability	Male: +7, Female: +3	None
FLC/State Police Disabled Retirees	Public Safety Disability	Male: +7, Female: none	None

The actuarial assumptions used in the September 30, 2021 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

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	15.0%	2.8%
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%	9.0%
Real Estate	10.0%	6.5%
Cash	<u>5.0%</u>	1.5%
Total	100.0%	

*Includes assumed rate of inflation of 2.00%

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase/(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 9/30/2021	\$	\$	\$
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			
Balances at 9/30/2022	\$	\$	\$

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 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate (dollar amounts in thousands):

1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
<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 Annual Comprehensive Financial Report for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2022. The auditor’s report 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 <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

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

For the year ended September 30, 2023, the City recognized pension expense of [see general ledger amount]. At September 30, 2023, 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
Total	<u>Total of Above</u>	<u>Total of Above</u>

*Enter FY2023 employer contributions paid subsequent to the measurement date and add for total Deferred Outflows of Resources.

[\$*[FY2023 Employer Contributions subsequent to the measurement date (see amount * above)] reported as deferred outflows of resources related to pensions resulting from City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended September 30:	
2024	See Detail Report on Page 7
2025	See Detail Report on Page 7
2026	See Detail Report on Page 7
2027	See Detail Report on Page 7
2028	See Detail Report on Page 7
Thereafter	See Detail Report on Page 7