

## **Illustration 4 -- Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation (No Other Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement.]*

### **Sample County Notes to the Financial Statements for the Fiscal Year Ended September 30, 2023** (Dollar amounts in thousands)

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

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

The Judicial Retirement Fund of Alabama's (the Plan or JRF) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the 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 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.

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

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

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, pursuant to the *Code of Alabama 1975, Title 12, Chapter 18* (Act 1163 of the Legislature of 1973) for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. The *Code of Alabama 1975, Title 12, Chapter 18, Articles 3 & 4* (Act 1205 of the Legislature of 1975) enlarged the scope and coverage of the JRF to include District and Probate Judges, respectively. The *Code of Alabama 1975, Title 12, Chapter 18, Article 7* (Act 498 of the Legislature of 2015) established the Judges' and Clerks' Plan within the JRF for any Judge or Clerk elected on or after November 8, 2016, and was not a member of the JRF or the Clerks' and Registers' Supernumerary Fund prior to that date. The *Code of Alabama 1975, Section 12-17-22* (Act 498 of the Legislature of 2015) established the District Attorneys' Plan within the JRF for any District Attorney servicing in the capacity of District Attorney on or after November 8, 2016. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

##### ***Benefits Provided***

The Plan benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of creditable service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining age 60. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of creditable service (regardless of age), (2) completed 12 years of creditable service and has attained age 65, (3) completed 15 years of creditable service and whose age plus service equals or exceeds 77, (4) completed 10 years of creditable service and has attained age 70 or (5) been elected prior to July 30, 1979, and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's 70th birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of creditable service). The service retirement benefit

for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

Act 498 of the Legislature of 2015 established a new group (Group 3) of members within JRF which consists of all justices, judges, circuit clerks, and district attorneys elected or appointed on or after November 8, 2016. Group 3 members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. A district attorney who has Tier 1 ERS transferred service as an assistant or deputy district attorney is eligible for service retirement with 25 years of service credit, regardless of age. Service and disability retirement benefits are calculated using a retirement formula. Group 3 members who are judges or justices are allowed 4% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 75% of their average final compensation. Group 3 members who are clerks or district attorneys are allowed 3% 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.

### ***Contributions***

Plan members contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, Plan members were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, Plan members are required by statute to contribute 8.50% of earnable compensation.

### ***Pension Liabilities and Pension Expense***

At September 30, 2023, [Employer name] did not have a liability for a proportionate share of the net pension liability because of the related State of Alabama support. The amount of the State of Alabama's proportionate share of net pension liability associated with [Employer name] is as follows:

State of Alabama's Proportionate Share of the  
Net Pension Liability associated with [Employer name] \$[See Employer's Valuation]

The net pension liability was measured as of September 30, 2022. The total pension liability is based on the actuarial valuation as of September 30, 2021. An expected total pension liability as of September 30, 2022, was determined using standard roll-forward techniques. The State of Alabama's proportion of the net pension liability associated with [Employer name] was based on actuarially determined contributions paid by the State of Alabama during the fiscal year ended September 30, 2022.

For the year ended September 30, 2023, [Employer name] recognized pension expense of \$[See Employer's Valuation (a)] and revenue of \$[See Employer's Valuation (b)] for aid provided by the State of Alabama.

### ***Actuarial Assumptions***

The total pension liability was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected Salary Increases	2.75% - 3.50%
Investment Rate of Return*	7.40%

\*Net of pension plan investment expense.

The actuarial assumptions used in the actuarial valuation as of September 30, 2021, were based on the results of an investigation of the economic and demographic experience for the JRF based upon participant data as of September 30, 2020. The Board of Control accepted and approved these changes in September 2021, which became effective at the beginning of fiscal year 2021.

Mortality rates were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 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>
Service Retirees	TeacherRetiree-Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63 -67 Female: 112% ages < 69 98% > age74 Phasing down 69-74
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: None	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed Income	22.0%	2.8%
US Large Stocks	39.0%	8.0%
US Mid Stocks	11.0%	10.0%
US Small Stocks	5.0%	11.0%
Int'l Developed Mkt Stocks	12.0%	9.5%
Int'l Emerging Mkt Stocks	3.0%	11.0%
Alternatives	1.0%	9.0%
Real Estate	2.0%	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 7.40%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### ***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. 67 for the JRF prepared as of September 30, 2022. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate additional information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

**Sample County**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Judicial Retirement Fund**  
**for the Year Ended September 30**  
(Dollar amounts in thousands)

	<u><b>2023</b></u>
Employer's proportion of the net pension liability	0.0%
Employer's proportionate share of the net pension liability	\$ 0
State of Alabama's proportionate share of the net pension liability associated with the Employer	<u>[\$[See Employer's Valuation]</u>
Total	<u>[\$[See Employer's Valuation]</u>
Employer's covered payroll	<u>[\$[Calculated by Employer]*</u>
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	72.50%

**\*For Counties participating in JRF for Probate Judges, this is payroll related to Probate Judges.**

**Sample County**  
**Notes to Required Supplementary Information**  
**Judicial Retirement Fund**  
**For the Year Ended September 30, 2023**  
(Dollar amounts in thousands)

***Changes in assumptions***

In 2021, rates of retirement and mortality were adjusted to more closely reflect actual experience. In 2021, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience, including a change in the discount rate from 7.65% to 7.40%. In 2021 and later, the expectation of retired life mortality was changed to the Pub-2010 Teacher Retiree Below Median Tables projected generationally with 66-2/3% of the MP-2020 scale beginning in 2019.

In 2018, the discount rate was changed from 7.75% to 7.65%.

In 2016, rates of retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females older than 78.

***Method and assumptions used in calculations of actuarially determined contributions***

The actuarially determined contribution rates in the schedule of contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended September 30, 2022, reported in that schedule:

Valuation date	September 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Single equivalent remaining amortization period	19.8 years
Asset valuation method	Five-year smoothed market value
Inflation rate	2.75%
Ultimate investment rate of return	7.65%
Projected salary increases	3.25% - 3.50%
Cost-of-living adjustments	3.00% per year for certain members hired prior to July 30, 1979, and for spouses' benefits subject to increase.