Alabama Retired Education Employees' Health Care Trust

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Public Educations Employees'
Health Insurance Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Alabama Retired Education Employees' Health Care Trust (a component unit of the State of Alabama), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which comprise the Alabama Retired Education Employees' Health Care Trust's basic financial statements as presented on pages 6 – 22.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Alabama Retired Education Employees' Health Care Trust, as of September 30, 2013, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information
The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alabama Retired Education Employees' Health Care Trust's financial statements for the year ended September 30, 2012, from which such partial information was derived.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 and the schedules of funding progress and contributions made from the employers and other contributing entities on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on Alabama Retired Education Employees' Health Care Trust's basic financial statements. The claims development information on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The claims development information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Carr, Riggs & Ingram, L.L.C.

January 15, 2014
Montgomery, Alabama

The Alabama Retired Education Employees' Health Care Trust (Trust) is a multiple-employer cost-sharing defined benefit postemployment healthcare plan. The Trust was established in 2007 to provide healthcare benefits to retirees of state and local educational institutions. The contributions and benefit payments related to retirees that are processed through the Public Education Employees' Health Insurance Fund (PEEHIF) are segregated from the PEEHIF and reported as part of the Trust.

The following discussion provides an overview of the financial position and results of operation for the Trust as of and for the fiscal year ended September 30, 2013. For more detailed information, please refer to the financial statements, including the *Notes to the Financial Statements*, the *Required Supplementary Information*, and the *Supplementary Information*.

Overview of the Financial Statements

The financial statements include the *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position*. The *Notes to the Financial Statements* are considered an integral part of the financial statements and should be read in conjunction with the financial statements. The financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

The *Statement of Plan Net Position* includes the assets and liabilities of the Trust and provides a snapshot of the Trust's financial position as of the end of the fiscal year. The Trust's assets primarily consist of investments and receivables. Liabilities are primarily made up of claims-related payables.

The *Statement of Changes in Plan Net Position* includes the additions and deductions of the Trust for the fiscal year. Additions primarily consist of employer contributions, employee contributions, investment income, and monies received as a result of participating in the Employer Group Waiver Plan (EGWP). Deductions are primarily made up of claims.

The *Notes to the Financial Statements* include a description of the Trust, a summary of significant accounting policies, a description of contract administrators and their respective fees, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, actuarial valuation information, and disclosures related to unpaid claim liabilities.

The *Required Supplementary Information* following the *Notes to the Financial Statements* includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the Trust. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage contributed during the fiscal year.

The *Supplementary Information* following the *Required Supplementary Information* provides a claims development table illustrating historical trend information on how the Trust's earned revenues and interest income compare to the related costs of claims and other expenses assumed by the Trust as of the end of the fiscal year.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Management's Discussion and Analysis
September 30, 2013

Comparative Financial Statements

Summary Comparative Statement of Plan Net Position
As of September 30, 2013 and 2012
(Amounts in Thousands)

	2013	2012	Variance	% Increase (Decrease)
Assets				
Receivables	$ 31,977	$ 14,471	$ 17,506	120.97
Deposit with Claims-Paying Agent	684	200	484	242.00
Investments	1,073,575	953,268	120,307	12.62
Invested Securities Lending Collateral	71,200	65,311	5,889	9.02
Total Assets	$ 1,177,436	$ 1,033,250	$ 144,186	13.95
Liabilities				
Payables	$ 10,319	$ 17,621	$ (7,302)	(41.44)
Claims Incurred but Not Reported	20,977	20,040	937	4.68
Securities Lending Collateral	71,200	65,311	5,889	9.02
Total Liabilities	102,496	102,972	(476)	(0.46)
Net Position Restricted for Other Postemployment Benefits	**$ 1,074,940**	**$ 930,278**	**$ 144,662**	**15.55**

Summary Comparative Statement of Changes in Plan Net Position
For the Fiscal Years Ended September 30, 2013 and 2012
(Amounts in Thousands)

	2013	2012	Variance	% Increase (Decrease)
Additions				
Contributions	$ 443,275	$ 432,575	$ 10,700	2.47
Net Increase in Fair Value of Investments	83,994	101,185	(17,191)	(16.99)
Interest and Dividend Income	24,739	22,882	1,857	8.12
Securities Lending Income, Net	533	583	(50)	(8.58)
Total Additions	552,541	557,225	(4,684)	(0.84)
Deductions				
Benefits	407,879	404,880	2,999	0.74
Change in Net Position	144,662	152,345	(7,683)	(5.04)
Net Position Restricted for Other Postemployment Benefits				
Beginning of Year	930,278	777,933	152,345	19.58
End of Year	**$ 1,074,940**	**$ 930,278**	**$ 144,662**	**15.55**

Financial Highlights

- Investment sales receivable and investment purchases payable occur as a result of trade date accounting. The decrease in the receivable and payable for fiscal year 2013 was due to the value of securities traded in the current fiscal year and settling in the following fiscal year being smaller than the value of the securities accounted for using trade date accounting in the previous fiscal year.

- The Trust's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Trust's investment custodian, was 11.34% for fiscal year 2013.

- The Trust's benefit expenses increased slightly during the fiscal year, primarily as a result of increases in the number of retirees participating in the healthcare plan.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

Statement of Plan Net Position

September 30, 2013 with comparative amounts shown for 2012

(Amounts in Thousands)

	2013	2012
Assets		
Receivables		
Rebates - Prescription Drug Plan Manufacturer Rebates	**$ 7,778**	$ 3,968
Medicare Part D Subsidy	**-**	5,350
Interest and Dividends	**3,487**	3,810
Investment Sales Receivable	**3**	1,343
Employer Group Waiver Plan (EGWP)	**20,709**	-
Total Receivables	**31,977**	14,471
Deposit with Claims-Paying Agent	**684**	200
Investments, at Fair Value (Note 7)		
Commercial Paper	**124,993**	99,997
Money Market Funds	**27,139**	41,173
U.S. Government Guaranteed Bonds	**95,006**	96,914
U.S. Agency Securities	**33,904**	33,382
Mortgage-backed Securities	**47,682**	46,862
Corporate Bonds	**132,449**	120,910
International Securities	**117,241**	97,602
Common Stocks	**495,161**	416,428
Total Investments	**1,073,575**	953,268
Invested Securities Lending Collateral (Note 7)	**71,200**	65,311
Total Assets	**1,177,436**	1,033,250
Liabilities		
Reported Claims Payable	**9,625**	14,679
Investment Purchases Payable	**439**	2,942
Medicare Part D Subsidy Payable	**255**	-
Claims Incurred but Not Reported	**20,977**	20,040
Securities Lending Collateral (Note 7)	**71,200**	65,311
Total Liabilities	**102,496**	102,972
Net Position Restricted for Other Postemployment Benefits	**$ 1,074,940**	$ 930,278

See accompanying Notes to the Financial Statements.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

Statement of Changes in Plan Net Position

For the Fiscal Year Ended September 30, 2013 with comparative amounts shown for 2012

(Amounts in Thousands)

	2013	2012
Additions		
Contributions		
Employee (Note 3)	**$ 98,215**	$ 97,392
Employer (Note 3)	**310,444**	307,206
Employer Group Waiver Plan (EGWP)	**28,340**	-
Medicare Part D Retiree Drug Subsidy	**6,276**	27,977
Total Contributions	**443,275**	432,575
Investment Income (Note 7)		
From Investing Activities		
Net Increase in Fair Value of Investments	**83,994**	101,185
Interest and Dividends	**24,739**	22,882
Total Investment Income from Investing Activities	**108,733**	124,067
From Securities Lending Activities		
Securities Lending Income	**756**	814
Less Securities Lending Expenses:		
Borrower Rebates	**24**	22
Management Fees	**199**	209
Total Securities Lending Expenses	**223**	231
Income from Securities Lending Activities, Net	**533**	583
Total Investment Income	**109,266**	124,650
Total Additions	**552,541**	557,225
Deductions		
Benefits	**407,879**	404,880
Total Deductions	**407,879**	404,880
Change in Net Position	**144,662**	152,345
Net Position Restricted for Other Postemployment Benefits		
Beginning of Year	**930,278**	777,933
End of Year	**$ 1,074,940**	$ 930,278

See accompanying Notes to the Financial Statements.

1) Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (PEEHIF). In order to comply with the reporting requirements of GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the contributions and benefit payments related to retirees that are processed through the PEEHIF are segregated from the PEEHIF and reported as part of the Trust. In accordance with the Governmental Accounting Standards Board (GASB), the Trust is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

The PEEHIF was established in 1983 by the Alabama Legislature under the provisions of Act 83-455 to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities are eligible and may elect to participate in the plan. At this time, Jacksonville State University is the only university with active and retired members that has elected to participate in the plan. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIF are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIF and, consequently, serves as the administrator of the Trust.

The assets of the Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses, and provide postemployment healthcare benefits to or for retired employees and their dependents. The Alabama Legislature has no authority or power to appropriate the assets of the Trust. The Board periodically reviews the funds available in the PEEHIF and determines if excess funds are available. If excess funds are determined to be available in the PEEHIF, the Board authorizes a transfer of funds from the PEEHIF to the Trust.

As of September 30, 2013, there were 183 participating employers and 12 participating universities, and as of the latest actuarial valuation, there were 133,791 active members, 4,436 DROP members, 71,589 retired members, 22,941 spouses of retirees, and 1,737 survivors.

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

1) Plan Description, Continued

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of $1,250 per year for individual coverage and $1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

2) Summary of Significant Accounting Policies

A. Basis of Accounting

The Trust's financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

B. Cash

Cash consists of deposits held by the State Treasurer in the Trust's name. Deposits are entirely insured by the Federal Deposit Insurance Corporation or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository.

B. Cash, Continued

Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

C. Investments

The Board has elected to have the Trust's assets invested by the Investment Staff of the TRS under the direction of the Secretary-Treasurer of the TRS. The Board has the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use. All plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. The fair value of real estate investments is based on independent appraisals or cost, when cost approximates fair value. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an independent appraisal is performed to determine the fair value of the private placements.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from these estimates.

E. Medicare Part D Retiree Drug Subsidy (RDS) and Employer Group Waiver Plan (EGWP)

The PEEHIF received funds for its participation in the Medicare Part D Retiree Drug Subsidy (RDS) program and the Employer Group Waiver Plan (EGWP) during fiscal year 2013. The RDS program was replaced with the EGWP beginning January 1, 2013. The amounts received from the EGWP and RDS program are a result of the PEEHIF continuing prescription drug coverage for Medicare eligible retirees and dependents. The EGWP payments not received by the end of the coverage period are recorded on the *Statement of Plan Net Position* as an Employer Group Waiver Plan (EGWP) receivable and are as follows:

Employer Group Waiver Plan (EGWP) Receivable
(Amounts in Thousands)

Coverage Gap Discount	$	12,102
Federal Catastrophic Reinsurance Subsidy		7,796
Federal Low Income Cost Subsidy (LICS)		811
Total Employer Group Waiver Plan (EGWP) Receivable	**$**	**20,709**

F. Unpaid Claims Liabilities

Claims liabilities are established based on the actual cost of claims reported but not settled and estimates of claims that have been incurred but not reported. Actual claims costs ultimately incurred may vary from estimated claims liabilities should the nature and frequency of actual claims vary from historical claims experience on which the estimates are based. Adjustments to claims liabilities are charged to expense in the periods in which they are made.

Unpaid claims liabilities are material estimates that are particularly susceptible to changes in the near term. Management believes the liabilities established for unpaid claims at September 30, 2013 are adequate to cover the ultimate net cost of claims, but the liabilities are necessarily based on estimates and accordingly, the amount ultimately paid will be more or less than such estimates.

G. Comparative Statements

The basic financial statements include the prior fiscal year *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position* for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the Trust's prior fiscal year financial report from which the prior fiscal year statements were derived.

H. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, in June 2011 to be effective for fiscal years beginning after December 15, 2011. GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements set forth in GASB Statement No. 63 were implemented by the Trust for fiscal year 2013.

3) Contributions

The *Code of Alabama, Section 16-25A-8* and t*he Code of Alabama, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each require class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

3) Contributions, Continued

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. The monthly employer rate for fiscal year 2013 was $714 per active participant. In accordance with the 2013 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of $714 on behalf of each active employee. Approximately, 30.38% of the employer contributions were used to assist in funding retiree benefit payments in 2013. Act 2003-473 requires universities that do not participate in the PEEHIP to pay the required monthly rate for each university retiree who participates in the plan. The required monthly employer rate for fiscal year 2013 was $336 per university retiree. In addition to the employer payments each month, retirees are required to pay certain premium amounts. The required monthly contribution rates for fiscal year 2013 are as follows:

<u>*Retired Member Rates*</u>
-Individual Coverage/Non-Medicare Eligible - $151.00
-Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $391.00
-Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - $250.00
-Individual Coverage/Medicare Eligible Retired Member - $10.00
-Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - $250.00
-Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - $109.00
-Tobacco surcharge - $28.00 per month
-PEEHIP Supplemental Plan - $0
-Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) – up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of $38.00 or $45.00 for family dental.
-Members who retired on or after October 1, 2005, and before January 1, 2012, pay 2% of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%.

3) Contributions, Continued

-Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

Surviving Spouse Rates
-Surviving Spouse Non-Medicare Eligible - $671.00
-Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - $860.00
-Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - $829.00
-Surviving Spouse Medicare Eligible - $317.00
-Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - $506.00
-Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - $475.00

4) Funding Status and Funding Progress

As of the most recent actuarial valuation, the funded status of the plan was as follows:

FUNDED STATUS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) §	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09/30/2012	$ 930,278	$ 8,957,154	$ 8,026,876	10.4%	$ 6,222,316	129.0%

§ Projected Unit Credit

The required schedule of funding progress immediately following the *Notes to the Financial Statements* presents multi-year trend information related to the changes in the actuarial value of plan assets over time relative to the actuarial accrued liability for benefits.

5) Actuarial Method and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Therefore, the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The valuation does not anticipate future changes in the pattern of sharing of costs between employers and plan members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. Information related to the most recent actuarial valuation, including the actuarial method and assumptions is as follows:

Valuation Date	9/30/2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	29 years, closed
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	8.50%
Medicare Eligible	7.00%
Ultimate Trend Rate	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2017
Dental Trend Rate	5.00%

* Includes inflation at 3.00%

6) Contract Administrators

Blue Cross and Blue Shield of Alabama (BCBS), under contract with the Board, administered medical claims incurred in accordance with the plan. The BCBS administrative fee was $10.45 per month per contract.

MedImpact, under contract with the Board, administered claims under the prescription drug plan. The MedImpact administrative fee was $0.75 per prescription.

Southland Benefit Solutions, LLC (Southland) under contract with the Board, administered claims under the optional plans. The processing fees per month per contract were $0.75 for Group Hospital Indemnity, $0.61 for Group Cancer, $1.08 for Group Vision, and $1.40 for Group Dental.

7) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks and the Trust's policies regarding those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in the fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods.

Custodial Credit Risk – Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The Trust's custodial credit risk policy requires the custodial agent to hold or direct its agents or sub custodians to hold, for the account of the Trust, all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The Trust's safekeeping agent holds all investments of the Trust in the Trust's name with the exception of securities purchased with securities lending cash collateral.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. The Trust may hedge against the possible adverse effects of currency fluctuations on its portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

A. Investment Risks, Continued

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international security to be eligible for purchase by the Trust, the issuing company must be incorporated in a country whose debt securities are eligible for purchase as discussed above, and the fair value of the aggregate outstanding equity of the issuing company must be at least $100 million.

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

- Domestic Fixed Income – Limited to 50% of the fair value of the Trust's aggregate portfolio.
- International Fixed Income – Limited to 10% of the fair value of the Trust's total portfolio.
- Domestic Equity – Limited to 65% of the fair value the Trust's aggregate portfolio.
- International Equity – Limited to 25% of the aggregate fair value of the Trust's total portfolio. The Trust may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – Limited to 15% of the book value of the Trust's portfolio.
- Alternative Investments (mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities and derivative investments) - Limited to 5% of the book value of the Trust's aggregate portfolio.
- Short-term Investments – Limited to 20% of the fair value of the Trust's aggregate portfolio.

A. Investment Risks, Continued

The following table provides information concerning the fair value and interest rate risk of the Trust's investments as of September 30, 2013.

INVESTMENTS
Maturity in Years at Fair Value
(Amounts in Thousands)

Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Money Market Funds	$ 27,139	$ -	$ -	$ -	$ 27,139	$ 27,139
Commercial Paper	124,993	-	-	-	124,993	124,993
U.S Agency	781	19,188	12,717	1,218	33,904	32,861
U.S. Government Guaranteed	-	22,330	68,535	4,141	95,006	95,206
Corporate Bonds	36,513	49,059	29,097	17,780	132,449	128,597
GNMAs	-	-	-	6,672	6,672	6,844
Collateralized Mortgage Obligations	-	1,462	-	39,548	41,010	41,223
Total Fixed Maturity	$ 189,426	$ 92,039	$ 110,349	$ 69,359	461,173	456,863
Equities						
Domestic					495,161	350,689
International						
Emerging Markets						
United Kingdom - Pound Sterling					25,499	23,403
Japan - Yen					25,243	23,693
France - Euro					11,488	11,475
Germany - Euro					10,256	9,501
Switzerland - Franc					10,769	7,940
Netherlands - Euro					3,118	3,117
Italy - Euro					2,515	3,693
Ireland - Euro					340	311
Spain - Euro					3,750	4,950
Australia - Dollar					9,414	8,106
Singapore - Dollar					1,816	1,539
Belgium - Euro					1,467	1,198
Finland - Euro					1,031	1,631
Hong Kong - Dollar					3,495	2,913
Sweden - Krona					3,655	2,506
Denmark - Krone					1,382	883
Israel - Shekel					555	677
Norway - Krone					975	893
Austria - Euro					375	421
New Zealand - Dollar					98	84
Total International Equities					117,241	108,934
Total Equities					612,402	459,623
Total Investments					**$ 1,073,575**	**$ 916,486**

A. Investment Risks, Continued

The following table provides information concerning the credit risk of the Trust's investments as of September 30, 2013.

RATINGS OF FIXED MATURITIES

(Amounts in Thousands)

Moody's Ratings	Cost	Fair Value	Fair Value as a Percent (%) of Total Fixed Maturity Fair Value
Aaa [1]	$ 169,779	$ 169,437	36.74
Aa1	28,450	28,528	6.19
Aa2	751	793	0.17
Aa3	1,694	2,134	0.46
P-1	42,138	42,138	9.14
P-2	109,994	109,994	23.85
A1	10,681	11,420	2.48
A2	9,813	10,226	2.22
A3	14,146	15,071	3.27
Baa1	19,562	20,774	4.50
Baa2	17,122	17,741	3.85
Baa3	12,085	12,026	2.61
Ba1	3,756	4,009	0.87
Ba2	1,817	1,616	0.35
B1	788	933	0.20
Caa2	485	391	0.08
Not Rated [2]	13,802	13,942	3.02
Total Fixed Maturity	**$ 456,863**	**$ 461,173**	**100.00**

Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percent (%) of Total Fixed Maturity Fair Value
AA+ [1]	$ 175,951	$ 176,198	38.21
AA	24,082	23,562	5.11
AA-	3,055	3,545	0.77
A-1+	14,999	14,999	3.25
A-1	37,138	37,138	8.05
A-2	99,995	99,995	21.68
A+	1,628	1,591	0.34
A	14,590	15,361	3.33
A-	15,937	17,055	3.70
BBB+	30,556	30,922	6.71
BBB	25,037	26,094	5.66
BBB-	2,925	3,054	0.66
BB+	2,034	2,217	0.48
BB-	1,817	1,616	0.35
CCC-	485	391	0.08
Not Rated [2]	6,634	7,435	1.62
Total Fixed Maturity	**$ 456,863**	**$ 461,173**	**100.00**

[1] Includes securities guaranteed by the U.S. Gov't

[2] Primarily consists of private placements

B. Concentration of Investments

As of September 30, 2013, the Trust had no securities that constituted more than 5% of the total fair value of investments.

C. Securities Lending Program

The Trust is authorized to participate in a securities lending program. The Trust's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the Trust are loaned to borrowers approved by the Trust for collateral that will be returned for the same security in the future. Approved borrowers provide acceptable collateral in the form of cash (U.S. dollar and foreign currency), U.S. and non U.S. equities, assets permissible under Rule 15c3-3 under the Exchange Act of 1934, and other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the Trust or borrower. The initial collateral received shall have (depending on the nature of the loaned securities and the collateral received), a value of 102% or 105% of the fair value of the loaned securities, or such other value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of business, employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The Trust cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Global Securities Lending Trust (GSLT). The collateral fund is separated into two pools, a liquidity pool and a duration pool. The split allows greater flexibility in managing the available liquidity of the investment in the fund and the outstanding balance of securities on loan.

The following describes the GSLT's guidelines for the liquidity pool: The GSLT's Investment Manager shall maintain the dollar-weighted average maturity of GSLT in a manner that the Investment Manager believes is appropriate to the objective of the GSLT, provided that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e. the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the GSLT not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of GSLT not to exceed 180 calendar days. Additionally, at the time of purchase, all eligible securities with maturities of 13 months or less shall be rated at least A1, P1, or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or be determined by the Investment Manager to be of comparable quality. Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A-, A3, or A- by at least two of the following nationally recognized statistical rating organizations: S & P, Moody's, or Fitch, or be determined by the Investment Manager to be of comparable quality. The GSLT may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

C. Securities Lending Program, Continued

The following describes the GSLT's guidelines for the duration pool: The GSLT duration pool includes all GSLT asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each GSLT investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of September 30, 2013, the average loan term was 48 days. Cash collateral investments in the GSLT are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

The fair value of the securities on loan was $ 137,296,250 and the fair value of the collateral pledged by the borrowers was $ 145,770,458, as of September 30, 2013. Since the amounts owed by the Trust exceeded the amounts the borrowers owed to the Trust, there was no credit risk exposure as of September 30, 2013. Additionally, there were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the fiscal year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Trust. Securities pledged as collateral are held by the custodial agent, but not in the name of the Trust. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower.

C. Securities Lending Program, Continued

The following table provides information as of September 30, 2013, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(Fair Value - Amount in Thousands)

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 23,489
Domestic Equity	36,606
International Equity	9,285
Total Lent for Cash Collateral	69,380
For Non-cash Collateral	
Domestic Fixed Maturities	41,402
Domestic Equity	11,066
International Equity	15,448
Total Lent for Non-cash Collateral	67,916
Total Securities Lent	**$ 137,296**
Type of Collateral Received	
Cash Collateral - Invested in State Street Global Securities Lending Trust	$ 71,200
Non-cash Collateral	
Domestic Fixed Securities	32,370
Domestic Equity Securities	13,503
International Fixed Maturities & Equity	
Canadian Dollars	124
EURO	753
GBP	5,570
U.S. Dollar	22,251
Total Non-cash Collateral	74,571
Total Collateral Received	**$ 145,771**

8) Unpaid Claims Liabilities

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured claims. This liability includes provisions for the future payment of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during fiscal year 2013.

UNPAID CLAIMS LIABILITIES
(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	$ 34,719
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	408,943
Decrease in Provision for Insured Events for Prior Years	(1,064)
Total Incurred Claims and Claim Adjustment Expenses	407,879
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	378,341
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	33,655
Total Payments	411,996
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	$ 30,602

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Required Supplementary Information
For the Fiscal Year Ended September 30, 2013

SCHEDULE OF FUNDING PROGRESS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2005	$ -	$ 14,611,991	$ 14,611,991	-	$ 4,733,416	308.7%
9/30/2006	-	12,532,330	12,532,330	-	5,458,443	229.6%
9/30/2007*	400,783	12,965,398	12,564,615	3.1%	5,897,772	213.0%
9/30/2008	579,813	13,224,411	12,644,598	4.4%	6,294,341	200.9%
9/30/2009	670,004	11,915,692	11,245,688	5.6%	6,236,922	180.3%
9/30/2010	750,384	11,584,965	10,834,581	6.5%	6,183,204	175.2%
9/30/2011	777,933	9,081,335	8,303,402	8.6%	6,159,562	134.8%
9/30/2012	930,278	8,957,154	8,026,876	10.4%	6,222,316	129.0%

* Restated assets as of 9/30/2007 are $410,071,000

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES
(Amounts in Thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed (%)
2013	$ 814,622	42.0
2012	864,503	38.6
2011	1,006,034	29.9
2010	970,330	37.0
2009	962,762	33.9
2008	1,086,442	46.3

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Supplementary Information
For the Fiscal Year Ended September 30, 2013

Claims Development Information

(Amounts in Thousands)

The table below illustrates the historical trend information designed to provide information on how the Trust's earned revenues and interest income compare to the related claims costs and other expenses assumed by the Trust as of the end of the fiscal year. (1) This line shows the total earned contribution and investment revenues for each fiscal year. (2) This line shows the other operating costs of the Trust including overhead and claims expenses not allocable to individual claims for each fiscal year. (3) This line shows the Trust's incurred claims and allocated claims adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) This line shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows how the incurred claims for each policy year increased or decreased as of the end of successive years. The annual re-estimated amount results from new information received on known claims, the re-evaluation of existing information on known claims as well as the emergence of previously unknown claims. (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether it is greater or less than originally thought. As data for each policy year matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of estimated incurred claims currently recognized.

	Fiscal & Policy Year Ended						
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
1) Net Earned Required Contribution & Investment Revenue	552,541	557,225	399,790	486,599	445,826	506,402	729,253
2) Unallocated Expenses	-	-	-	-	-	-	-
3) Estimated Incurred Claims & Expense, End of Policy Year	408,943	405,257	371,964	405,082	358,293	335,601	328,470
4) Paid (Cumulative) As Of:							
End of Policy Year	378,341	370,538	337,554	369,699	325,011	302,514	301,214
One Year Later		404,193	371,587	405,359	359,430	332,943	329,529
5) Reestimated Incurred Claims & Expense:							
End of Policy Year	408,943	405,257	371,964	405,082	358,293	335,601	328,470
One Year Later		404,193	371,587	405,359	359,430	332,943	329,529
6) Increase/(Decrease) in Estimated Incurred Claims & Expenses							
End of Policy Year		(1,064)	(377)	277	1,137	(2,658)	1,059