Alabama Retired Education Employees' Health Care Trust

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Public Education Employees'
Health Insurance Plan Board of Control

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, 2019, and the related notes to the financial statements, which comprise the Alabama Retired Education Employees' Health Care Trust's basic financial statements.

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 auditors' 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, 2019, 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, 2018, from which such partial information was derived. We have previously audited the Alabama Retired Education Employees' Health Care Trust's financial statements and we expressed an unmodified opinion on the respective financial statements in our report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in net OPEB liability, the schedule of net OPEB liability, the schedule of employer contributions and the schedule of investment returns and the related notes 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 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.

Montgomery, Alabama
March 9, 2020

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2019

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, 2019. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements, the Required Supplementary Information, the Notes to the Required Supplementary Information, and the Supplementary Information.

Overview of the Financial Statements

The financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary 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 Fiduciary 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 claims-related payables.

The Statement of Changes in Fiduciary 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 and administrative expenses.

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, disclosures related to unpaid claim liabilities, and reporting and disclosure requirements relating to the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.

The Notes to the Required Supplementary Information provide methods and factors used to present the schedules in the Required Supplementary Information.

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.

Comparative Financial Statements

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2019 and 2018
(Amounts in Thousands)

	2019	2018	Variance	% Increase/ (Decrease)
Assets				
Receivables	$ 5,616	$ 11,612	$ (5,996)	(51.64)
Deposit with Claims-Paying Agent	1,914	3,462	(1,548)	(44.71)
Investments	1,491,127	1,435,659	55,468	3.86
Invested Securities Lending Collateral	49,901	51,392	(1,491)	(2.90)
Total Assets	1,548,558	1,502,125	46,433	3.09
Liabilities				
Securities Lending Collateral	49,901	51,392	(1,491)	(2.90)
Payables	6,807	8,413	(1,606)	(19.09)
Claims Incurred but Not Reported	14,773	13,517	1,256	9.29
Total Liabilities	71,481	73,322	(1,841)	(2.51)
Net Position Restricted for Other Postemployment Benefits	**$ 1,477,077**	**$ 1,428,803**	**$ 48,274**	**3.38**

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2019 and 2018
(Amounts in Thousands)

	2019	2018	Variance	% Increase/ (Decrease)
Additions				
Contributions	$ 420,612	$ 383,369	$ 37,243	9.71
Net Increase in Fair Value of Investments	19,505	80,278	(60,773)	(75.70)
Interest and Dividend Income	35,490	33,763	1,727	5.12
Securities Lending Income, Net	412	460	(48)	(10.43)
Total Additions	476,019	497,870	(21,851)	(4.39)
Deductions				
Benefits	426,044	416,235	9,809	2.36
Fees and Assessments	48	49	(1)	(2.04)
Administrative Expenses	1,653	1,346	307	22.81
Total Deductions	427,745	417,630	10,115	2.42
Change in Net Position	48,274	80,240	(31,966)	(39.84)
Net Position Restricted for Other Postemployment Benefits				
Beginning of Year	1,428,803	1,348,563	80,240	5.95
End of Year	**$ 1,477,077**	**$ 1,428,803**	**$ 48,274**	**3.38**

Funded Status

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which amends GASB Statement No. 43. GASB Statement No. 74 was effective for PEEHIF for the fiscal year ended September 30, 2017. Under GASB 74, the methodology for determining the net other postemployment benefits liability disclosed in the Notes to the Financial Statements has shifted from a funding perspective to an accounting perspective.

Financial Highlights

- Receivables decreased due to the quarterly rebate received by fiscal year end 2019.
- The Trust's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Trust's investment custodian, was 3.85% for fiscal year 2019.
- Effective January 1, 2017, Medicare eligible retirees were moved from a self-insured Employer Group Waiver Plan (EGWP) program to a fully insured Medicare Advantage Prescription Drug Plan (MAPDP).
- Claims Incurred but Not Reported and Benefit expenses in fiscal year 2019 increased due to the claims trend for non-Medicare eligible members and more total retirees taking coverage.
- The Net Increase in Fair Value of Investments decreased due to a lower rate of return on investments and the change in the unrealized gain between fiscal year 2018 and 2019.
- The funding status and funding progress as of the most recent actuarial valuation 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)
9/30/2018	$ 1,428,803	$ 8,666,972	$ 7,238,169	16.5%	$ 6,756,474	107.1%

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ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Statement of Fiduciary Net Position
September 30, 2019 with comparative amounts shown for 2018

(Amounts in Thousands)

	2019	2018
Assets		
Receivables		
Rebates - Prescription Drug Plan Manufacturer Rebates	**$ 1,381**	$ 7,470
Premium - EGWP Subsidy	**38**	-
Interest and Dividends	**4,197**	4,142
Total Receivables	**5,616**	11,612
Deposit with Claims-Paying Agent	**1,914**	3,462
Investments, at Fair Value (Note 5)		
Commercial Paper	**25,041**	-
Money Market Funds	**84,406**	81,410
U.S. Government Guaranteed Bonds	**138,705**	130,083
U.S. Agency Securities	**23,348**	24,668
Mortgage-backed Securities	**90,868**	80,396
Corporate Bonds	**189,275**	175,207
International Securities	**176,163**	184,721
Common Stocks	**759,440**	755,331
Preferred Stocks	**3,881**	3,843
Total Investments	**1,491,127**	1,435,659
Invested Securities Lending Collateral (Note 5)	**49,901**	51,392
Total Assets	**1,548,558**	1,502,125
Liabilities		
Securities Lending Collateral (Note 5)	**49,901**	51,392
Reported Claims Payable (Note 6)	**6,641**	8,361
Claims Incurred but Not Reported (Note 6)	**14,773**	13,517
Investment Purchases Payable	**115**	-
Due to Other Governments	**51**	52
Total Liabilities	**71,481**	73,322
Net Position Restricted for Other Postemployment Benefits	**$ 1,477,077**	$ 1,428,803

See accompanying Notes to the Financial Statements.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended September 30, 2019 with comparative amounts shown for 2018

(Amounts in Thousands)

	2019	2018
Additions		
Contributions		
Employee (Note 3)	**$ 135,738**	$ 137,237
Employer (Note 3)	**284,411**	245,545
Employer Group Waiver Plan (EGWP)	**463**	587
Total Contributions	**420,612**	383,369
Investment Income (Note 5)		
From Investing Activities		
Net Increase in Fair Value of Investments	**19,505**	80,278
Interest and Dividends	**35,490**	33,763
Total Investment Income from Investing Activities	**54,995**	114,041
From Securities Lending Activities		
Securities Lending Income	**1,997**	1,402
Less Securities Lending Expenses:		
Borrower Rebates	**1,409**	751
Management Fees	**176**	191
Total Securities Lending Expenses	**1,585**	942
Income from Securities Lending Activities, Ne	**412**	460
Total Investment Income	**55,407**	114,501
Total Additions	**476,019**	497,870
Deductions		
Benefits	**426,044**	416,235
Fees and Assessments	**48**	49
Administrative Expenses	**1,653**	1,346
Total Deductions	**427,745**	417,630
Change in Net Position	**48,274**	80,240
Net Position Restricted for Other Postemployment Benefits		
Beginning of Year	**1,428,803**	1,348,563
End of Year	**$ 1,477,077**	$ 1,428,803

See accompanying Notes to the Financial Statements.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2019

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 Governmental Accounting Standards Board (GASB) Statement No. 74, *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 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 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (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 participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. At this time, only two universities have elected to participate in the plan with respect to their active employees. 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, 2019, there were 187 participating employers and 11 participating universities. The following tables summarizes the membership of the plan as the latest actuarial valuation:

	Total Number TRS	Number Not Eligible for or Waiving PEEHIP	Total Number PEEHIP
Retired Members or Surviving Spouses Currently Receiving Benefits	96,231	(6,820)	89,411
Inactive Members Entitled To But Not Yet Receiving Benefits	17,513	(12,151)	5,362
Non-vested Inactive Members Who Have Not Contributed to TRS For More Than 5 Years	31,648	(31,648)	-
Active Members	137,161	(2,563)	134,598
Total	282,553	(53,182)	229,371

1) Plan Description, Continued

	Male	Female	Total
Retired Members Currently Receiving Benefits	21,843	65,614	87,457
Surviving Spouses Currently Receiving Benefits	737	1,217	1,954
Total	22,580	66,831	89,411

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.

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).

PEEHIP remains primary for retirees until the retiree is Medicare eligible. If a member or dependent is already Medicare eligible due to age or disability at the time of his or her retirement, Medicare will become the primary payer and PEEHIP the secondary payer effective on the date of the member's retirement. A Medicare eligible retiree and/or Medicare eligible dependent must have both Medicare Part A (hospital insurance) and Part B (medical insurance) to have coverage with PEEHIP. Prior to January 1, 2017, all Medicare eligible members and Medicare eligible covered dependents were automatically enrolled in the Medicare GenerationRx Medicare Part D Employer Group Waiver Program (EGWP) offered by PEEHIP unless already enrolled in a separate standard Medicare Part D plan or they choose not to participate/opt out.

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

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*, as amended, 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. 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. As of September 30, 2019 the balance in cash was $0.

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.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Employer Group Waiver Plan (EGWP)

The PEEHIF received funds for its participation in the Employer Group Waiver Plan (EGWP) through December 31, 2016. The funds received are a result of the PEEHIF continuing prescription drug coverage for Medicare eligible retirees and dependents.

F. Fees and Assessments

The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2019, the Trust was subject to the Patient-Centered Outcomes Research Institute (PCORI) Fee. The fees are calculated based on the number of covered lives under the plan. The expense for the item is included in Fees and Assessments in the Statement of Changes in Plan Net Position. The total fees due but not yet paid by the Trust as of September 30, 2019, were recorded as Due to Other Governments in the Statement of Plan Net Position and amounted to $50,638.

2) Summary of Significant Accounting Policies, continued

G. 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, 2019, 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.

H. Comparative Statements

The basic financial statements include the prior fiscal year Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary 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.

I. New Accounting Pronouncements

There are no new accounting pronouncements that were effective in fiscal year 2019.

3) Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, 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 required 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.

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 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 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. For employees who retired after December 31, 2011, a subsidy premium is applicable. The subsidy premium is the net difference in the active employee's subsidy and the non-Medicare retiree subsidy. Upon Medicare entitlement, the subsidy will be removed.

3) Contributions, Continued

Each year, the State Legislature specifies the monthly employer rate that participating school systems must contribute for each active employee. The monthly employer rate for fiscal year 2019 was $800 per active participant. In accordance with the 2019 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of $800 on behalf of each active employee. Approximately, 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2019. 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 2019 was $338 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 2019 are as follows:

Retired Member Rates
-Individual Coverage: Non-Medicare Eligible Retired Member – $166
-Family Coverage: Non-Medicare Eligible Retired Member without Spouse & Non-Medicare Eligible Dependents(s) – $421
-Family Coverage: Non-Medicare Eligible Retired Member with Spouse & Non-Medicare Eligible Dependents(s) – $521
-Family Coverage: Non-Medicare Eligible Retired Member without Spouse & Medicare Eligible Dependent(s) – $280
-Family Coverage: Non-Medicare Eligible Retired Member with Spouse & Medicare Eligible Dependent(s) – $310
-Individual Coverage: Medicare Eligible Retired Member – $25
-Family Coverage: Medicare Eligible Retired Member without Spouse & Non-Medicare Eligible Dependents(s) – $280
-Family Coverage: Medicare Eligible Retired Member with Spouse & Non-Medicare Eligible Dependents(s) – $380
-Family Coverage: Medicare Eligible Retired Member without Spouse & Medicare Eligible Dependent(s) – $139
-Family Coverage: Medicare Eligible Retired Member with Spouse & Medicare Eligible Dependent(s) – $169
-Tobacco surcharge - $50 per month
-Wellness Premium - $50 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 or $50 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%.
-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 premiums no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes were phased in over a five-year period ending October 1, 2016.

Surviving Spouse Rates
-Non-Medicare Eligible Surviving Spouse – $826
-Non-Medicare Eligible Surviving Spouse & Non-Medicare Eligible Dependent(s) – $1,098
-Non-Medicare Eligible Surviving Spouse & Medicare Eligible Dependent(s) – $1,002
-Medicare Eligible Surviving Spouse – $355
-Medicare Eligible Surviving Spouse & Non-Medicare Eligible Dependent(s) – $705
-Medicare Eligible Surviving Spouse & Medicare Eligible Dependent(s) – $609

The rates above do not reflect any discounts, waivers, or retiree sliding scale adjustments.

4) 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 $15.35 per month per contract.

MedImpact, under contract with the Board, administered claims under the prescription drug plan. The MedImpact administrative fee was $1.05 per eligible member per month.

Southland Benefit Solutions, LLC (Southland), under contract with the Board, administered claims under the optional plans. The processing fees per month per contract were $0.80 for Group Hospital Indemnity, $0.66 for Group Cancer, $1.12 for Group Vision, and $1.49 for Group Dental.

Effective January 1, 2017, United Healthcare (UHC), under contract with the Board, provided a fully insured Medicare Advantage (MA) and Medicare Advantage Prescription Drug Plan (MAPDP) to Medicare eligible retirees and their eligible dependents.

VIVA Health, under contract with the Board, provided a fully insured Hospital Medical plan option for actives and non-Medicare eligible retirees who do not have Medicare eligible dependents.

5) Investments

A. Investment Authority

Investment authority is granted to the TRS Board of Control, as Trustees of the Alabama Retired Education Employees' Health Care Trust, by Alabama statute. The Board has elected to have the Trust's assets invested by the Investment Staff of the Teachers' Retirement System under the direction of the Secretary-Treasurer of the TRS. The TRS Board of Control, therefore, has full power, through the Secretary-Treasurer, to invest and reinvest the Trust's funds in accordance with the Prudent Person Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." An important component of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio.

The Board of Control is responsible for approving an Investment Policy Statement (IPS) that outlines investment strategies and the related asset allocation guidelines. Below are the asset allocation guidelines for the Trust.

Investment Allocation Guidelines for October 1, 2018 through September 30, 2019:

Asset Class	Investment Policy Limit	Basis of Allocation
Domestic Fixed Income	50%	Market Value
International Fixed Income	10%	Market Value
Domestic Equity	65%	Market Value
International Equity	25%	Market Value
Real Estate	15%	Book Value
Alternative Investments	5%	Book Value
Short-Term Investments	20%	Market Value

B. 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 fluctuates 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.

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 of 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.

B. 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, 2019:

INVESTMENTS
(Amounts in Thousands)

Type of Investment	Maturity in Years at Fair Value: Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Money Market Funds	$ 84,406	$ -	$ -	$ -	$ 84,406	$ 84,406
Commercial Paper	25,041	-	-	-	25,041	25,041
U.S. Agency	3,711	11,267	7,703	667	23,348	22,776
U.S. Government Guaranteed	29,157	67,646	21,451	20,451	138,705	134,827
Corporate Bonds	39,129	67,349	39,447	43,350	189,275	179,981
GNMAs	-	-	-	17,488	17,488	16,874
CMOs	-	-	4,412	68,968	73,380	72,119
Total Domestic Fixed	$ 181,444	$ 146,262	$ 73,013	$ 150,924	551,643	536,024
Equities						
Preferred					3,881	3,476
Domestic					759,440	422,083
International						
Australian Dollar					8,349	7,853
Swiss Franc					12,131	7,492
Danish Krone					1,998	1,005
Euro					35,941	35,248
Pound Sterling					19,014	21,927
Hong Kong Dollar					4,195	2,938
New Israeli Shekel					454	679
Japanese Yen					30,394	23,899
Norwegian Krone					761	880
New Zealand Dollar					86	87
Swedish Krona					3,227	2,456
Singapore Dollar					1,473	1,410
US Dollar					58,140	65,900
South African Rand					-	-
Total International Equities					176,163	171,774
Total Equities					939,484	597,333
Total Investments					**$ 1,491,127**	**$ 1,133,357**

B. Investment Risks, Continued

The following table provides information concerning the credit risk of the Trust's investments as of September 30, 2019:

INVESTMENT RISKS NOTE
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	25,495	26,479	4.80
Aa1	2,747	2,914	0.53
Aa2	3,882	3,933	0.71
Aa3	3,165	3,217	0.58
P-2	25,041	25,041	4.54
A1	7,054	7,756	1.41
A2	6,325	6,822	1.24
A3	32,647	34,986	6.34
Baa1	29,671	31,578	5.73
Baa2	42,216	44,415	8.05
Baa3	10,719	11,001	1.99
Ba1	4,712	5,024	0.91
Ba2	1,490	1,500	0.27
Ba3	1,101	1,096	0.20
Not Rated	115,939	116,308	21.08
Total Moody's Rated Fixed Maturities	**312,204**	**322,070**	**58.38**
Obligations of the U.S. Government	72,119	73,380	13.30
Obligations Guaranteed by the U.S. Government	151,701	156,193	28.32
Total Fixed Maturities	**$ 536,024**	**$ 551,643**	**100.00**

B. Investment Risks, Continued

Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
AAA	2,466	2,823	0.51
AA+	25,523	26,261	4.76
AA-	2,539	2,913	0.53
A-2	25,041	25,041	4.54
A+	12,151	12,856	2.33
A	8,253	8,644	1.57
A-	28,145	30,463	5.52
BBB+	40,248	42,304	7.67
BBB	34,365	36,356	6.59
BBB-	14,041	14,515	2.63
BB+	1,490	1,500	0.27
BB	348	336	0.06
BB-	1,101	1,096	0.20
D	492	491	0.09
Not Rated	116,001	116,471	21.11
Total Standard & Poor's Rated Fixed Maturities	**312,204**	**322,070**	**58.38**
U.S. Agency Mortgage-Backed Securities	72,119	73,380	13.30
U.S. Government Guaranteed	151,701	156,193	28.32
Total Fixed Maturities	**$ 536,024**	**$ 551,643**	**100.00**

C. Fair Value Measurement

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities.

Level 2: Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.

Level 3: Valuations derived from valuation techniques using significant unobservable inputs for the asset or liabilities.

The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments in equity securities classified as Level 1 are valued using quoted prices in an active market for those securities.

Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features, and ratings.

C. Fair Value Measurement, Continued

Investments in private equity, debt, and direct investments in real estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows.

The following table provides information as of September 30, 2019, concerning fair value measurement:

		Fair Value Measurements Using (Amounts in Thousands)		
	9/30/2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic Fixed Maturity				
Money Market Funds	$ 84,406	$ -	$ 84,406	$ -
Commercial Paper	25,041	-	25,041	-
U.S. Agency	23,348	-	23,348	-
U.S. Government Guaranteed	138,705	-	138,705	-
Corporate Bonds	189,275	29,915	159,360	-
GNMAs	17,488	-	17,488	
CMOs	73,380	-	73,380	-
Total Domestic Fixed Maturity	551,643	29,915	521,728	-
Equities				
Preferred	3,881	3,881	-	-
Domestic	759,440	732,453	26,987	-
International	176,163	176,163	-	-
Total Equities	939,484	912,497	26,987	-
Total Investments	**1,491,127**	**942,412**	**548,715**	**-**
Securities Lending Collateral	49,901	-	49,901	-
Total Fair Value	**$ 1,541,028**	**$ 942,412**	**$ 598,616**	**$ -**

D. Concentration of Investments

As of September 30, 2019, the Trust had no securities that constituted more than 5% of the total fair value of investments.

E. 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.

E. Securities Lending Program, Continued

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 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.

As of September 30, 2019, the average loan term was 40 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 $225,098 and the fair value of the collateral pledged by the borrowers was $240,388, as of September 30, 2019 (dollar amounts in thousands). 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, 2019. 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.

E. Securities Lending Program, Continued

The following table provides information as of September 30, 2019, concerning securities lent:

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

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 32,679
Domestic Equity	13,921
International Equity - US	2,266
Total Lent for Cash Collateral	48,866
For Non-cash Collateral	
Domestic Fixed Maturities	82,377
Domestic Equity	72,466
International Equity	21,389
Total Lent for Non-cash Collateral	176,232
Total Securities Lent	**$ 225,098**
Type of Collateral Received	
Cash Collateral	
Cash Collateral - Invested in State Street Global Securities Lending Trust - US	49,901
Non-cash Collateral	
Domestic Fixed Securities	
U.S. Dollar	21,960
Domestic Equity Securities	
U.S. Dollar	79,574
International Fixed Maturities & Equity	
EUR	11,184
GBP	79
U.S. Dollar	77,690
Total Non-cash Collateral	190,487
Total Collateral Received	**$ 240,388**

F. Money-Weighted Rate of Return

The annual money-weighted rate of return for the Trust is 3.85%. A money-weighted rate of return expresses investment performance, which is net of OPEB plan investment expense and is adjusted for the changing amounts actually invested. The annual money-weighted rate of return on OPEB plan investments is calculated as the internal rate of return on the OPEB plan investments, net of OPEB plan investment expense.

6) 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 2019.

UNPAID CLAIMS LIABILITIES
(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	$	21,878
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Year		427,044
Increase in Provision for Insured Events for Prior Years		(1,000)
Total Incurred Claims and Claim Adjustment Expenses		426,044
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year		405,754
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years		20,878
Total Payments		426,632
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	$	21,414

7) Net OPEB Liability

The components of the net OPEB liability for benefits determined in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as of September 30, 2018 were as follows:

	Fiscal Year Ending 9/30/2019 (Amounts in Thousands)	
Total OPEB Liability Pre-Medicare	$	2,308,203
Total OPEB Liability Post-Medicare		2,941,642
Total OPEB Liability	$	5,249,845
Less: Fiduciary Net Position		1,477,077
Net OPEB Liability	**$**	**3,772,768**
Ratio of Fiduciary Net Position to Total OPEB Liability		**28.14%**

7) Net OPEB Liability, Continued

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of September 2019:

Inflation	2.75%
Salary increases	5.00 - 3.25%, including 3.00% wage inflation
Long-Term Investment Rate of Return	7.25% compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at Measurement Date	3.00%
Municipal Bond Index Rate at Prior Measurement Date	4.18%
Year Fiduciary Net Position (FNP) is Projected to be Depleted	2055
Singe Equivalent Interest Rate at Measurement Date	5.50%
Singe Equivalent Interest Rate at Prior Measurement Date	4.44%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

** Initial Medicare claims are set based on scheduled increases through plan year 2022.

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2018 valuation, however updated Medicare Advantage premium rate which reflect the repeal of the ACA Health Insurer Fee, updated Optionals claims costs, and updated participation assumptions were used.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Alabama Teachers' Retirement System. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be 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 then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

7) Net OPEB Liability, Continued

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class are to be summarized in a manner suggested by the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	**100.00%**	

* Geometric mean, includes 2.5% inflation

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability was 5.50%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 24.245% of the employer contributions were used to assist in funding retiree benefit payments in 2019 and it is assumed that once benefit payments exceed employer contributions, the amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2117.

The following table presents the net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% decreasing to 3.75% for pre-Medicare, Known decreasing to 3.75% for Medicare eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre-Medicare, Known decreasing to 4.75% for Medicare eligible)	1% Increase (7.75% decreasing to 5.75% for pre-Medicare, Known decreasing to 5.75% for Medicare eligible)
		(Amounts in Thousands)	
Net OPEB Liability	$ 3,025,081	$ 3,772,768	$ 4,714,445

The following table presents the net OPEB liability of the Trust calculated using the discount rate of 5.50%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
		(Amounts in Thousands)	
Net OPEB Liability	$ 4,560,264	$ 3,772,768	$ 3,129,643

7) Net OPEB Liability, Continued

September 30, 2018 is the actuarial valuation date upon which the total OPEB liability (TOL) is based, however updated Medicare Advantage premium rates, which reflect the repeal of the ACA Health Insurer Fee, updated Optionals claims costs, and updated participation assumptions were used. The result is rolled forward using standard actuarial techniques to the measurement date. The roll forward calculation adds the normal cost (also called the service cost) for the period October 1, 2018 through September 30, 2019, subtracts the actual benefit payments for the same period and then applies the single equivalent interest rate (SEIR) for the period. If applicable, actuarial gains and losses arising from benefit changes, the differences between estimates and actual experience, and changes in assumptions or other inputs are reconciled to the TOL as of the measurement date. The following table shows the procedure used to determine the TOL as of September 30, 2019:

Total OPEB Liability Roll Forward
(Amounts in Thousands)

(a) TOL as of September 30, 2018*	$ 9,647,529
(b) Actual Benefit Payments and Refunds, for the Period	
October 1, 2018 - September 30, 2019	(289,843)
(c) Interest on TOL	
= [(a) x (Prior SEIR)] + [(b) x (Prior SEIR *0.5)]	421,916
(d) Service Cost for the Period October 1, 2018 through	
September 30, 2019 at the End of the Period	219,136
(e) Change Due to Change in Experience**	(3,452,330)
(f) Change Due to Change in Assumptions***	(1,296,563)
(g) TOL Rolled Forward to September 30, 2019	
= (a) + (b) + (c) + (d) + (e) + (f)	$ 5,249,845

* The TOL as of September 30, 2018 used in the roll forward was calculated using the discount rate as of the Prior Measurement Date.

** Change due to Experience includes demographic changes such as retirements, terminations, disabilities, and deaths different from expected as well as claims costs different from expected, most notably lower Medicare Advantage rates due to contract renegotiations and the elimination of the ACA Health Insurer Fee.

** Change due to Assumptions includes ($432,707) due to participation assumption changes and ($863,856) due to the change in discount rate.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Required Supplementary Information
For the Fiscal Year Ended September 30, 2019

SCHEDULE OF CHANGES IN NET OPEB LIABILITY
For the Fiscal Year Ended September 30
(Amounts in Thousands)

Total OPEB Liability	**2019**	**2018**	**2017**
Service Cost	$ 219,136	$ 299,066	$ 327,569
Interest	421,916	399,883	366,376
Benefit Changes	-	-	-
Difference Between Expected and Actual Experience	(3,452,330)	184,547	-
Changes of Assumptions	(1,296,563)	266,452	(918,644)
Benefit Payments	(289,843)	(278,411)	(271,746)
Net Change in Total OPEB Liability	**(4,397,684)**	**871,537**	**(496,445)**
Total OPEB Liability - beginning	**9,647,529**	**8,775,992**	**9,272,437**
Total OPEB Liability - ending (a)	**$ 5,249,845**	**$ 9,647,529**	**$ 8,775,992**
Plan Fiduciary Net Position (Estimated)			
Contributions - Employer	$ 284,411	$ 245,545	$ 243,146
Contributions - Member	-	-	-
Net Investment Income	55,407	114,501	138,261
Benefit Payments*	(289,843)	(278,411)	(271,746)
Administrative Expense	(1,653)	(1,346)	(1,354)
Other	(48)	(49)	56
Net Change in Plan Fiduciary Net Position	**48,274**	**80,240**	**108,363**
Plan Fiduciary Net Position - beginning	**1,428,803**	**1,348,563**	**1,240,200**
Plan Fiduciary Net Position - ending (b)	**$ 1,477,077**	**$ 1,428,803**	**$ 1,348,563**
Net OPEB Liability - ending (a) - (b)	**$ 3,772,768**	**$ 8,218,726**	**$ 7,427,429**

* Benefits payments are net of member contributions.

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Required Supplementary Information
For the Fiscal Year Ended September 30, 2019

SCHEDULE OF NET OPEB LIABILITY
For the Fiscal Year Ended September 30
(Dollar Amounts in Thousands)

	2019	2018	2017
Total OPEB Liability	$ 5,249,845	$ 9,647,529	$ 8,775,992
Plan Fiduciary Net Position	1,477,077	1,428,803	1,348,563
Net OPEB Liability	$ 3,772,768	$ 8,218,726	$ 7,427,429
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	28.14%	14.81%	15.37%
Covered Payroll	$ 6,821,742	$ 6,765,826	$ 6,491,806
Net OPEB Liability as a percentage of Covered Payroll	55.31%	121.47%	114.41%

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Required Supplementary Information
For the Fiscal Year Ended September 30, 2019

SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Fiscal Year Ended September 30
(Dollar Amounts in Thousands)

	2019	2018	2017
Actuarially Determined Employer Contribution	$ 566,237	$ 516,343	$ 697,677
Actual Employer Contributions	284,411	245,545	243,146
Annual Contribution Deficiency (Excess)	$ 281,826	$ 270,798	$ 454,531
Covered Payroll	$ 6,821,742	$ 6,765,826	$ 6,491,806
Actual Contributions as a Percentage of Covered Payroll	4.17%	3.63%	3.75%

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

SCHEDULE OF INVESTMENT RETURNS
For the Fiscal Year Ended September 30

	2019	2018	2017
Annual Money-Weighted Rate of Return, Net of Investment Expense	3.85%	8.60%	11.63%

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Notes to the Required Supplementary Information
For the Fiscal Year Ended September 30, 2019

1) SCHEDULE OF NET OPEB LIABILITY AND CHANGES IN NET OPEB LIABILITY

The total net OPEB liability presented in the schedules is provided by the Trust's actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net OPEB liability is determined by the total OPEB liability minus the Trust's fiduciary net position. The related ratios show the plan fiduciary net positon as a percentage of the total OPEB liability and the net OPEB liability as a percentage of the employee payroll. The calculation of covered payroll was calculated based upon covered payroll from the TRS valuation minus the covered payroll for those TRS members who are not eligible for PEEHIP:

	Total	Not Eligible for PEEHIP	Eligible for PEEHIP
	(Amounts in Thousands)		
Active Members	137,161	(2,563)	134,598
Compensation 9/30/2018	$ 6,756,474	$ (133,424)	$ (6,623,050)
Compensation rolled forward to 9/30/2019 (3% wage growth)			$ 6,821,742

2) SCHEDULE OF EMPLOYER CONTRIBUTIONS

The actuarially determined employer contribution is determine annually by reviewing a variety of factors including benefit structure, mortality, rates of withdrawals, retirements, and investment earnings.

3) SCHEDULE OF INVESTMENT RETURNS

The annual money-weighted rate of return on OPEB plan investments is calculated as the internal rate of return on the OPEB plan investments, net of OPEB plan investment expense. A money-weighted rate of return expresses investment performance, which is net of OPEB plan investment expense and is adjusted for the changing amounts actually invested.

4) ACTUARIAL ASSUMPTIONS

The actuarially determined contribution rates in the schedule of employer 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 most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022 for Pre-Medicare Eligible 2018 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

Changes in actuarial assumptions.

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage 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 and later, 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 all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

Recent Plan Changes.

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan was changed in 2017 to reflect the Affordable Care Act maximum annual out-of-pocket amounts.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Supplementary Information
For the Fiscal Year Ended September 30, 2019

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									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1) Net Earned Required Contribution										
& Investment Revenue	476,019	497,870	547,693	605,748	438,269	582,660	552,541	557,225	399,790	486,599
2) Unallocated Expenses	1,653	1,346	1,354	1,618	1,263	-	-	-	-	-
3) Estimated Incurred Claims & Expense,										
End of Policy Year	427,044	419,823	439,361	521,119	489,299	446,550	408,943	405,257	371,964	405,082
4) Paid (Cumulative) As Of:										
End of Policy Year	405,754	397,945	416,242	480,275	452,461	411,745	378,341	370,538	337,554	369,699
One Year Later			435,773	519,790	485,790	446,998	409,705	404,193	371,587	405,359
5) Reestimated Incurred Claims										
& Expense:										
End of Policy Year	427,044	419,823	439,361	521,119	489,299	446,550	408,943	405,257	371,964	405,082
One Year Later			435,773	519,790	485,790	446,998	409,705	404,193	371,587	405,359
6) Increase/(Decrease) in Estimated										
Incurred Claims & Expenses:										
End of Policy Year		(1,000)	(3,588)	(1,329)	(3,509)	448	762	(1,064)	(377)	277