Alabama Retired Education Employees' Health Care Trust

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2023

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related notes to the financial statements, which collectively comprise the Alabama Retired Education Employees' Health Care Trust's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Alabama Retired Education Employees' Health Care Trust, as of September 30, 2023, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Alabama Retired Education Employees' Health Care Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Alabama Retired Education Employees' Health Care Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Alabama Retired Education Employees' Health Care Trust's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Alabama Retired Education Employees' Health Care Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net OPEB liability, schedule of net OPEB liability, schedule of employer contributions, and schedule of investment returns and the related notes be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the financial statements that collectively comprise the Alabama Retired Education Employees' Health Care Trust's basic financial statements. The claims development information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the claims development information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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, 2022, 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 January 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2024, on our consideration the Alabama Retired Education Employees' Health Care Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement Systems of Alabama's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alabama Retired Education Employees' Health Care Trust's internal control over financial reporting and compliance.

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

Montgomery, Alabama
January 15, 2024

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2023

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, 2023. 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.

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2023

Comparative Financial Statements

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2023 and 2022
(Amounts in Thousands)

	2023	2022	Variance	% Increase/ (Decrease)
Assets				
Receivables	$ 11,282	$ 12,871	$ (1,589)	(12.35)
Deposit with Claims-Paying Agent	1,205	1,077	128	11.88
Investments	1,889,105	1,647,028	242,077	14.70
Invested Securities Lending Collateral	84,908	73,658	11,250	15.27
Total Assets	1,986,500	1,734,634	251,866	14.52
Liabilities				
Securities Lending Collateral	84,908	73,658	11,250	15.27
Payables	7,296	12,776	(5,480)	(42.89)
Claims Incurred but Not Reported	16,506	14,479	2,027	14.00
Total Liabilities	108,710	100,913	7,797	7.73
Net Position Restricted for Other Postemployment Benefits	**$ 1,877,790**	**$ 1,633,721**	**$ 244,069**	**14.94**

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2023 and 2022
(Amounts in Thousands)

	2023	2022	Variance	% Increase/ (Decrease)
Additions				
Contributions	$ 281,709	$ 342,669	$ (60,960)	(17.79)
Net Increase/(Decrease) in Fair Value of Investments	199,198	(328,789)	527,987	160.59
Interest and Dividend Income	44,070	36,443	7,627	20.93
Securities Lending Income, Net	457	324	133	41.05
Total Additions	525,434	50,647	474,787	937.44
Deductions				
Benefits	280,392	337,813	(57,421)	(17.00)
Fees and Assessments	50	50	-	-
Administrative Expenses	923	1,161	(238)	(20.50)
Total Deductions	281,365	339,024	(57,659)	(17.01)
Change in Net Position	244,069	(288,377)	532,446	(184.64)
Net Position Restricted for Other Postemployment Benefits				
Beginning of Year	1,633,721	1,922,098	(288,377)	(15.00)
End of Year	**$ 1,877,790**	**$ 1,633,721**	**$ 244,069**	**14.94**

Funded Status

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which supersedes GASB Statement No. 43. GASB Statement No. 74 was effective for PEEHIF for the fiscal year ended September 30, 2018. 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

- The Trust's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Trust's investment custodian, was 14.75% for fiscal year 2023.
- Benefit expenses decreased due to lower negotiated premium rates for Medicare eligible retirees sand pharmacy savings.
- Investment sales receivable and investment purchases payable decreased due to the value of securities when traded and settled.
- 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)
9/30/2022	$ 1,633,721	$ 4,540,864	$ 2,907,143	36.0%	$ 7,822,618	37.2%

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ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Statement of Fiduciary Net Position
September 30, 2023 with comparative amounts shown for 2022

(Amounts in Thousands)

	2023	2022
Assets		
Receivables		
Rebates Receivable	**$ 4,544**	$ 5,550
Miscellaneous Receivable	**1,150**	1,537
Interest and Dividends	**5,588**	4,322
Investment Sales Receivable	**-**	1,462
Total Receivables	**11,282**	12,871
Deposit with Claims-Paying Agent	**1,205**	1,077
Investments, at Fair Value (Note 5)		
Commercial Paper	**45,300**	45,972
Money Market Funds	**100,158**	80,049
U.S. Government Guaranteed Bonds	**139,687**	118,431
U.S. Agency Securities	**15,923**	18,036
Mortgage-backed Securities	**98,166**	75,820
Corporate Bonds	**198,886**	187,782
International Securities	**244,737**	202,968
Common Stocks	**1,042,719**	914,445
Preferred Stocks	**3,529**	3,525
Total Investments	**1,889,105**	1,647,028
Invested Securities Lending Collateral (Note 5)	**84,908**	73,658
Total Assets	**1,986,500**	1,734,634
Liabilities		
Securities Lending Collateral (Note 5)	**84,908**	73,658
Reported Claims Payable (Note 6)	**7,243**	10,880
Claims Incurred but Not Reported (Note 6)	**16,506**	14,479
Investment Purchases Payable	**-**	1,844
Due to Other Governments	**53**	52
Total Liabilities	**108,710**	100,913
Net Position Restricted for Other Postemployment Benefits	**$ 1,877,790**	$ 1,633,721

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, 2023 with comparative amounts shown for 2022

(Amounts in Thousands)

	2023	2022
Additions		
Contributions		
Employee (Note 3)	**$ 125,753**	$ 151,126
Employer (Note 3)	**155,663**	191,109
Employer Group Waiver Plan (EGWP)	**293**	434
Total Contributions	**281,709**	342,669
Investment Income (Note 5)		
From Investing Activities		
Net Increase/(Decrease) in Fair Value of Investments	**199,198**	(328,789)
Interest and Dividends	**44,070**	36,443
Total Investment Income/(Loss) from Investing Activities	**243,268**	(292,346)
From Securities Lending Activities		
Securities Lending Income	**3,789**	798
Less Securities Lending Expenses:		
Borrower Rebates	**3,092**	335
Management Fees	**240**	139
Total Securities Lending Expenses	**3,332**	474
Income from Securities Lending Activities, Net	**457**	324
Total Investment Income/(Loss)	**243,725**	(292,022)
Total Additions	**525,434**	50,647
Deductions		
Benefits	**280,392**	337,813
Fees and Assessments	**50**	50
Administrative Expenses	**923**	1,161
Total Deductions	**281,365**	339,024
Change in Net Position	**244,069**	(288,377)
Net Position Restricted for Other Postemployment Benefits		
Beginning of Year	**1,633,721**	1,922,098
End of Year	**$ 1,877,790**	$ 1,633,721

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 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 Annual Comprehensive 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, 2023, there were 196 participating employers and 11 participating universities. The following tables summarizes the membership of the plan as of the September 30, 2022 actuarial valuation:

	Total Number TRS	Number Not Eligible for or Waiving PEEHIP	Total Number PEEHIP
Retired Members or Surviving Spouses Currently Receiving Benefits	105,549	(6,662)	98,887
Inactive Members Entitled To But Not Yet Receiving Benefits	7,157	(150)	7,007
Non-vested Inactive Members Who Have Not Contributed to TRS For More Than 5 Years	34,892	(34,892)	-
Active Members	135,783	(2,406)	133,377
Total	283,381	(44,110)	239,271

1) Plan Description, Continued

	Male	Female	Total
Retired Members Currently Receiving Benefits	23,764	72,756	96,520
Surviving Spouses Currently Receiving Benefits	1,024	1,343	2,367
Total	24,788	74,099	98,887

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, eyeglasses, 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 at which time, they are transitioned to a Group Medicare Advantage Pan for PEEHIP retirees. 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. 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.

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in Humana Medicare Employer Plan for PEEHIP retirees. Effective January 1, 2023, United Health Care (UHC) replaced the Humana contract. The MAPDP plan is fully insured by UHC 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 MAPDP 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, 2023, 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 were a result of the PEEHIF continuing prescription drug coverage for Medicare eligible retirees and dependents. Effective January 1, 2017 when PEEHIP moved to a fully insured MAPDP, PEEHIP only receives Low Income Premium Subsidy payments from the EGWP program.

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 2023, 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 Fiduciary Net Position. The total fees due but not yet paid by the Trust as of September 30, 2023, were recorded as Due to Other Governments in the Statement of Fiduciary Net Position and amounted to $52,890.

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, 2023, 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 2023.

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 2023 was $800 per active participant. In accordance with the 2023 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of $800 on behalf of each active employee. Approximately, 11.051% of the employer contributions were used to assist in funding retiree benefit payments in 2023. 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 2023 was $272 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 2023 are as follows:

Effective 10/1/2022

	Retiree Premium Rates	
Coverage Type	**Premium if Retiree Subscriber is Non-Medicare Eligible**	**Premium if Retiree Subscriber is Medicare Eligible**
Individual Coverage	$196	$25
Family Coverage:		
Non-Medicare eligible dependent(s) but no spouse	$451	$280
Non-Medicare eligible dependent(s) and Non-Medicare spouse	$551	$380
Non-Medicare eligible dependent(s) and Medicare eligible spouse	$481	$310
Non-Medicare eligible spouse only	$526	$355
Medicare eligible spouse only	$335	$164
Non-spousal Medicare eligible dependent only	$310	$139
Non-spousal Medicare eligible dependent and Medicare eligible spouse	$481	$310

Effective 1/1/2023

	Retiree Premium Rates	
Coverage Type	**Premium if Retiree Subscriber is Non-Medicare Eligible**	**Premium if Retiree Subscriber is Medicare Eligible**
Individual Coverage	$196	$25
Family Coverage:		
Non-Medicare eligible dependent(s) but no spouse	$451	$280
Non-Medicare eligible dependent(s) and Non-Medicare spouse	$551	$380
Non-Medicare eligible dependent(s) and Medicare eligible spouse	$451	$280
Non-Medicare eligible spouse only	$526	$355
Medicare eligible spouse only	$261	$90
Non-spousal Medicare eligible dependent only	$261	$90
Non-spousal Medicare eligible dependent and Medicare eligible spouse	$326	$155

-Tobacco surcharge - $50 per month
-Wellness Premium - $50 per month
-PEEHIP Supplemental Plan - $0

3) Contributions, Continued

-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 Dependent Monthly Premiums

	Effective 10/1/2022	**Effective 1/1/2023**
Individual Coverage:		
Non-Medicare eligible survivor	$945	$945
Medicare eligible survivor	$214	$65
Family Coverage:		
Non-Medicare eligible survivor and more than one dependent or only dependent non-Medicare eligible	$1,261	$1,261
Non-Medicare survivor and Medicare eligible dependent only	$980	$980
Medicare eligible survivor and more than one dependent or only dependent non-Medicare eligible	$627	$627
Medicare eligible survivor and Medicare eligible dependent only	$327	$130
Supplemental medical plan (individual or family)	$173	$176
Optional (each plan) - Cancer, Indemnity, Vision, and Individual Dental	$38	$38
Optional - Family dental premium	$50	$50
Tobacco premium for survivor enrolling in Hospital Medical	$50	$50
Wellness premium/non-Medicare eligible survivor	$50	$50

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 $16.10 per month per contract.

Express Scripts Inc. (ESI), under contract with the Board, administered claims under the prescription drug plan. The ESI administrative fee was $1.70 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 $0.85 for Group Hospital Indemnity, $0.71 for Group Cancer, $1.17 for Group Vision, and $1.56 for Group Dental.

Humana provided a fully insured Medicare Advantage (MA) and Medicare Advantage Prescription Drug Plan (MAPDP) to Medicare eligible retirees and their eligible dependents through December 31, 2022. Effective January

4) Contract Administrators, Continued

1, 2023, UnitedHealthcare Insurance Company, under contract with the Board, replaced the Humana Group Medicare Advantage Plan.

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, 2022 through September 30, 2023:

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

B. Investment Risks, Continued

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 aggregate 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 aggregate 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, 2023:

PRT

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	$ 100,158	$ -	$ -	$ -	$ 100,158	$ 100,158
Commercial Paper	45,300	-	-	-	45,300	45,300
U.S. Agency	1,988	10,689	2,600	646	15,923	17,407
U.S. Treasuries	28,822	57,172	30,390	23,303	139,687	155,132
Corporate Bonds	44,691	71,640	41,441	41,114	198,886	220,572
GNMAs	-	-	-	12,741	12,741	15,640
CMOs	-	925	1,680	82,820	85,425	98,973
Total Domestic Fixed Maturity	$ 220,959	$ 140,426	$ 76,111	$ 160,624	598,120	653,182
Equities						
Preferred					3,529	3,476
Common					1,042,719	492,144
International						
Australian Dollar					8,221	7,521
Swiss Franc					14,182	7,492
Danish Krone					5,136	1,444
Euro					39,308	35,197
Pound Sterling					19,195	21,265
Hong Kong Dollar					3,124	2,862
New Israeli Shekel					557	679
Japanese Yen					33,041	23,818
Norwegian Krone					937	882
New Zealand Dollar					85	87
Swedish Krona					3,509	2,360
Singapore Dollar					1,586	1,255
US Dollar					115,856	121,605
Total International Equities					244,737	226,467
Total Equities					1,290,985	722,087
Total Investments					**$1,889,105**	**$1,375,269**

B. Investment Risks, Continued

The following table provides information concerning the credit risk of the Trust's investments as of September 30, 2023:

Moody's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
Aaa	$ 22,426	$ 20,732	3.47
Aa2	2,424	2,080	0.35
Aa3	3,280	3,170	0.53
P-2	45,300	45,300	7.57
A1	19,060	17,964	3.00
A2	7,772	7,104	1.19
A3	31,742	29,683	4.96
Baa1	43,202	37,231	6.22
Baa2	56,336	50,595	8.46
Baa3	11,760	10,900	1.82
Ba1	739	703	0.12
Ba2	629	611	0.10
Ba3	348	313	0.05
NR	138,419	133,881	22.39
Total Moody's Rated Fixed Maturities	**383,437**	**360,267**	**60.23**
U.S. Agency Mortgage-Backed Securities	98,973	85,425	14.29
U.S. Government Guaranteed	170,772	152,428	25.48
Total Fixed Maturities	**$ 653,182**	**$ 598,120**	**100.00**

B. Investment Risks, Continued

S&P Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
AAA	$ 2,466	$ 2,170	0.36
AA+	18,980	17,607	2.94
AA	1,819	1,771	0.30
AA-	7,550	7,008	1.17
A-2	45,300	45,300	7.57
A+	3,467	3,211	0.54
A	9,742	8,892	1.49
A-	31,768	29,088	4.86
BBB+	54,158	49,121	8.21
BBB	54,073	47,566	7.95
BBB-	10,746	10,167	1.70
BB+	1,485	1,363	0.23
BB	348	313	0.05
NR	141,535	136,690	22.86
Total S&P Rated Fixed Maturities	**383,437**	**360,267**	**60.23**
U.S. Agency Mortgage-Backed Securities	98,973	85,425	14.29
U.S. Government Guaranteed	170,772	152,428	25.48
Total Fixed Maturities	**$ 653,182**	**$ 598,120**	**100.00**

C. Fair Value Measurements

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 Measurements, 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 Trust does not own any investments that are classified as Level 3.

The following table provides information as of September 30, 2023, concerning fair value measurements:

		Fair Value Measurement Using:		
	Fair Market Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic Fixed Maturity				
Money Market Funds	$ 100,158	$ -	$ 100,158	$ -
Commercial Paper	45,300	-	45,300	-
U.S. Agency	15,923	-	15,923	-
U.S. Treasuries	139,687	-	139,687	-
Corporate Bonds	198,886	33,438	165,448	-
GNMAs	12,741	-	12,741	-
CMOs	85,425	-	85,425	-
Total Domestic Fixed Maturity	598,120	33,438	564,682	-
Equities				
Preferred	3,529	3,529	-	-
Domestic	1,042,719	1,010,525	32,194	-
International	244,737	174,188	70,549	-
Total Equities	1,290,985	1,188,242	102,743	-
Total Investments	**1,889,105**	**1,221,680**	**667,425**	**-**
Securities Lending Collateral	84,908	-	84,908	-
Total Fair Value	**$ 1,974,013**	**$ 1,221,680**	**$ 752,333**	**$ -**

D. Concentration of Investments

As of September 30, 2023, the Trust owned no debt or equity securities which represented 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, 2023, the average loan term was 29 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 $289,374 and the fair value of the collateral pledged by the borrowers was $307,465, as of September 30, 2023 (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, 2023. 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, 2023, concerning securities lent:

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

Type of Investment Lent	**Amounts**
For Cash Collateral	
Domestic Fixed Maturities	$ 3,720
Domestic Equity -US	46,406
Domestic Equity -JPY	27,541
International Equity -US	4,410
Total Lent for Cash Collateral	82,077
For Non-Cash Collateral	
Domestic Fixed Maturities	132,982
Domestic Equity	67,934
International Equity	6,381
Total Lent for Non-cash Collateral	207,297
Total Securities Lent	**$ 289,374**

Type of Collateral Received	
Cash Collateral	
Cash Collateral - Invested in State Street Global Securities Lending Trust - JPY	$ 29,040
Cash Collateral - Invested in State Street Global Securities Lending Trust - US	55,868
Total Cash Collateral denominated in USD	84,908
Non-Cash Collateral	
Domestic Fixed Securities	
USD	50,144
Domestic Equity Securities	
USD	74,101
International Fixed Maturities & Equity	
EUR	44
USD	98,268
Total Non-cash Collateral	222,557
Total Collateral Received	**$ 307,465**

F. Money-Weighted Rate of Return

The annual money-weighted rate of return for the Trust is 14.75%. 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 2023.

UNPAID CLAIMS LIABILITIES
(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	$	25,359
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Year		278,365
Increase in Provision for Insured Events for Prior Years		2,027
Total Incurred Claims and Claim Adjustment Expenses		280,392
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year		254,616
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years		27,386
Total Payments		282,002
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	$	23,749

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, 2023 were as follows:

		Fiscal Year Ending September 30, 2023 (Amounts in Thousands)
Total OPEB Liability Pre-Medicare	$	2,617,431
Total OPEB Liability Post-Medicare		1,182,509
Total OPEB Liability		3,799,940
Less: Fiduciary Net Position		1,877,790
Net OPEB Liability	**$**	**1,922,150**
Ratio of Fiduciary Net Position to Total OPEB Liability		**49.42%**

7) Net OPEB Liability, Continued

The total OPEB liability was determined by an actuarial valuation as of September 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of September 2023:

Inflation	2.50%
Salary increases	5.00 - 3.25%, including 2.75% wage inflation
Long-Term Investment Rate of Return	7.00% compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at Measurement Date	4.53%
Municipal Bond Index Rate at Prior Measurement Date	4.40%
Year Fiduciary Net Position (FNP) is Projected to be Depleted	N/A
Singe Equivalent Interest Rate at Measurement Date	7.00%
Singe Equivalent Interest Rate at Prior Measurement Date	7.00%
Healthcare Cost Trend Rate	
Initial Trend Rate	
Pre-Medicare Eligible	7.00%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2033 FYE
Medicare Eligible	4.50% in 2033 FYE
Optional Plans Trend Rate	2.00%

** Initial Medicare trends rates are set based on negotiated increases through calenda year 2025.

The rates of mortality are based on the Pub-2010 Public Mortality Plans Mortality Tables, adjusted generationally based on scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019. The mortality rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Active Members	Teacher Employee Below Median	None	65%
Service Retirees	Teacher Below Median	Male: +2 Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63 - 67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69 - 74
Disabled Retirees	Teacher Disability	Male: +8 Female: +3	None
Beneficiaries	Contingent Survivor Below Median	Male: +2 Female: None	None

7) Net OPEB Liability, Continued

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2022 valuation.

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.

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 7.00%. 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. Currently, the monthly employer rate is $800 per non-university active member. Approximately, 15.257% of the employer contributions were used to assist in funding retiree benefit payments in 2022. In fiscal year 2023, 11.051% of the employer contributions were used to assist in funding retiree benefits. It is assumed that the 11.051% will increase or decrease at the same rate as expected benefit payments for the closed group with a cap of 20.00%. It is assumed the $800 rate will remain flat until, based on budget projections, it increases to $940 in fiscal year 2027 and then will increase with inflation at 2.50% starting in fiscal year 2028. Retiree benefit payments for University members are paid by the Universities and are not included in the cash flow projections. 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 2121.

7) Net OPEB Liability, Continued

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 (6.00% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare eligible)	Current Healthcare Trend Rate (7.00% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare eligible)	1% Increase (8.00% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare eligible)
		(Amounts in Thousands)	
Net OPEB Liability	$ 1,456,969	$ 1,922,150	$ 2,486,974

The following table presents the net OPEB liability of the Trust calculated using the discount rate of 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
		(Amounts in Thousands)	
Net OPEB Liability	$ 2,372,891	$ 1,922,150	$ 1,538,512

7) Net OPEB Liability, Continued

September 30, 2022 is the actuarial valuation date upon which the total OPEB liability (TOL) is based. 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, 2022 through September 30, 2023, subtracts the actual benefit payments for the same period and then applies the expected investment rate of return 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, 2023:

Total OPEB Liability Roll Forward
(Amounts in Thousands)

(a) TOL as of September 30, 2022*	$ 3,376,169
(b) Actual Benefit Payments and Refunds, for the Period October 1, 2022 - September 30, 2023	(154,346)
(c) Interest on TOL = [(a) x (Prior SEIR)] + [(b) x (Prior SEIR * 0.5)]	230,930
(d) Service Cost for the Period October 1, 2022 through September 30, 2023 at the End of the Period	79,387
(e) Change Due to Change in Experience**	(558,901)
(f) Change Due to Change in Assumptions***	752,791
(g) Change Due to Change in Benefits****	73,910
(h) TOL Rolled Forward to September 30, 2023 = (a) + (b) + (c) + (d) + (e) + (f)	$ 3,799,940

* The TOL as of September 30, 2022 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. The major cause of the gain was savings due to pharmacy contract negotiations for pre-Medicare retirees and lower than anticipated premium rate increases for Medicare-Eligible retirees.

*** Assumptions regarding plan participation, tobacco usage, and health care cost increases were updated.

**** Reflects the impact of Act 2022-222

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
Notes to the Required Supplementary Information
For the Fiscal Year Ended September 30, 2023

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

Total OPEB Liability	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Service Cost	$ 79,387	$ 162,866	$ 314,904	$ 157,316	$ 219,136	$ 299,066	$ 327,569
Interest	230,930	277,733	244,096	283,401	421,916	399,883	366,376
Benefit Changes	73,910	-	-	-	-	-	-
Difference Between Expected and Actual Experience	(558,901)	(2,685,297)	(27,975)	81,990	(3,452,330)	184,547	-
Changes of Assumptions	752,791	(1,281,791)	(1,356,792)	2,513,244	(1,296,563)	266,452	(918,644)
Benefit Payments	(154,346)	(186,253)	(176,933)	(194,185)	(289,843)	(278,411)	(271,746)
Net Change in Total OPEB Liability	**423,771**	**(3,712,742)**	**(1,002,700)**	**2,841,766**	**(4,397,684)**	**871,537**	**(496,445)**
Total OPEB Liability - beginning	**3,376,169**	**7,088,911**	**8,091,611**	**5,249,845**	**9,647,529**	**8,775,992**	**9,272,437**
Total OPEB Liability - ending (a)	**$3,799,940**	**$3,376,169**	**$7,088,911**	**$8,091,611**	**$5,249,845**	**$9,647,529**	**$8,775,992**
Plan Fiduciary Net Position							
Contributions - Employer	$ 155,663	$ 191,109	$ 172,676	$ 198,014	$ 284,411	$ 245,545	$ 243,146
Contributions - Non-Employer	-	-	-	-	-	-	-
Net Investment Income	243,725	(292,022)	325,661	122,121	55,407	114,501	138,261
Benefit Payments*	(154,346)	(186,253)	(176,933)	(194,185)	(289,843)	(278,411)	(271,746)
Administrative Expense	(923)	(1,161)	(1,001)	(1,226)	(1,653)	(1,346)	(1,354)
Other	(50)	(50)	(55)	(51)	(48)	(49)	56
Net Change in Plan Fiduciary Net Position	**244,069**	**(288,377)**	**320,348**	**124,673**	**48,274**	**80,240**	**108,363**
Plan Fiduciary Net Position - beginning	**1,633,721**	**1,922,098**	**1,601,750**	**1,477,077**	**1,428,803**	**1,348,563**	**1,240,200**
Plan Fiduciary Net Position - ending (b)	**$ 1,877,790**	**$ 1,633,721**	**$ 1,922,098**	**$ 1,601,750**	**$ 1,477,077**	**$ 1,428,803**	**$ 1,348,563**
Net OPEB Liability - ending (a) - (b)	**$ 1,922,150**	**$ 1,742,448**	**$ 5,166,813**	**$ 6,489,861**	**$ 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.

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

	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability	$ 3,799,940	$ 3,376,169	$ 7,088,911	$ 8,091,611	$ 5,249,845	$ 9,647,529	$ 8,775,992
Plan Fiduciary Net Position	1,877,790	1,633,721	1,922,098	1,601,750	1,477,077	1,428,803	1,348,563
Net OPEB Liability	$ 1,922,150	$ 1,742,448	$ 5,166,813	$ 6,489,861	$ 3,772,768	$ 8,218,726	$ 7,427,429
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	49.42%	48.39%	27.11%	19.80%	28.14%	14.81%	15.37%
Covered Payroll	$ 8,037,740	$ 7,269,649	$ 7,061,296	$ 7,264,629	$ 6,821,742	$ 6,765,826	$ 6,491,806
Net OPEB Liability as a percentage of Covered Payroll	23.91%	23.97%	73.17%	89.34%	55.31%	121.47%	114.41%

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

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

	2023	2022	2021	2020	2019	2018	2017
Actuarially Determined Employer Contribution	$ 431,224	$ 408,740	$ 642,141	$ 626,062	$ 566,237	$ 516,343	$ 697,677
Actual Employer Contributions	155,663	191,109	172,676	198,014	284,411	245,545	243,146
Annual Contribution Deficiency (Excess)	$ 275,561	$ 217,631	$ 469,465	$ 428,048	$ 281,826	$ 270,798	$ 454,531
Covered Payroll	$ 8,037,740	$ 7,269,649	$ 7,061,296	$ 7,264,629	$ 6,821,742	$ 6,765,826	$ 6,491,806
Actual Contributions as a Percentage of Covered Payroll	1.94%	2.63%	2.45%	2.73%	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

	2023	2022	2021	2020	2019	2018	2017
Annual Money-Weighted Rate of Return, Net of Investment Expense	14.75%	-15.04%	20.16%	8.17%	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, 2023

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 position 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	135,783	(2,406)	133,377
Compensation 9/30/2022	$ 7,982,340	$ (159,721)	$ 7,822,618
Compensation rolled forward to 9/30/2023 (2.75% wage growth)			$ 8,037,740

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. Therefore, the actuarially determined employer contribution for fiscal ending September 30, 2023 is determined based on the actuarial valuation as of September 30, 2020. 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	21 years, closed
Asset Valuation Method	Market value of assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.50%
Medicare Eligible	*
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2027 for pre-Medicare Eligible 2024 for Medicare Eligible
Optional Plans Trend Rate	2.00%
Investment Rate of Return	5.00%, including inflation

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

4) ACTUARIAL ASSUMPTIONS, continued

Changes in actuarial assumptions.

In 2022, rates of plan participation and tobacco usage assumptions were adjusted to reflect actual experience more closely.

In 2021, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In 2021, economic assumptions and the assumed rates of salary increases were adjusted to reflect actual and anticipated experience more closely.

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

Recent Plan Changes.

The 9/30/2022 valuation reflects the impact of Act 2022-222.

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 is changed each year 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, 2023

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									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
1) Net Earned Required Contribution										
& Investment Revenue	$ 525,434	$ 50,647	$ 640,560	$ 466,035	$ 476,019	$ 497,870	$ 547,693	$ 605,748	$ 438,269	$ 582,660
2) Unallocated Expenses	923	1,161	1,001	1,226	1,653	1,346	1,354	1,618	1,263	-
3) Estimated Incurred Claims & Expense,										
End of Policy Year	280,392	337,404	319,156	340,085	427,044	419,823	439,361	521,119	489,299	446,550
4) Paid (Cumulative) As Of:										
End of Policy Year	254,616	312,045	292,055	323,167	405,754	397,945	416,242	480,275	452,461	411,745
One Year Later		339,431	319,565	343,675	425,176	418,823	435,773	519,790	485,790	446,998
5) Reestimated Incurred Claims										
& Expense:										
End of Policy Year	280,392	337,404	319,156	340,085	427,044	419,823	439,361	521,119	489,299	446,550
One Year Later		339,431	319,565	343,675	425,176	418,823	435,773	519,790	485,790	446,998
6) Increase/(Decrease) in Estimated										
Incurred Claims & Expenses:										
End of Policy Year		2,027	409	3,590	(1,868)	(1,000)	(3,588)	(1,329)	(3,509)	448