



THE RETIREMENT SYSTEMS OF ALABAMA

Neah M. Scott
Legislative Counsel

Last updated June 2025

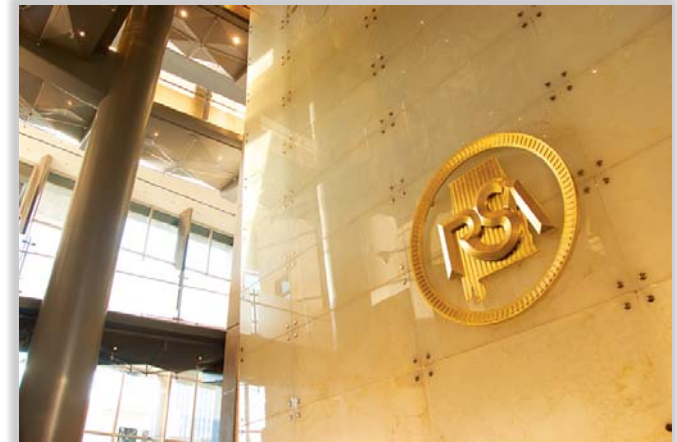


What does RSA do?

RSA administers the public pension plans for **state, education, judicial, and local government employees** in Alabama.

RSA administers the **health insurance plan** for public education employees (PEEHIP) and the **deferred compensation plan** for public employees (RSA-1).

RSA manages and invests seventeen various funds for the state.





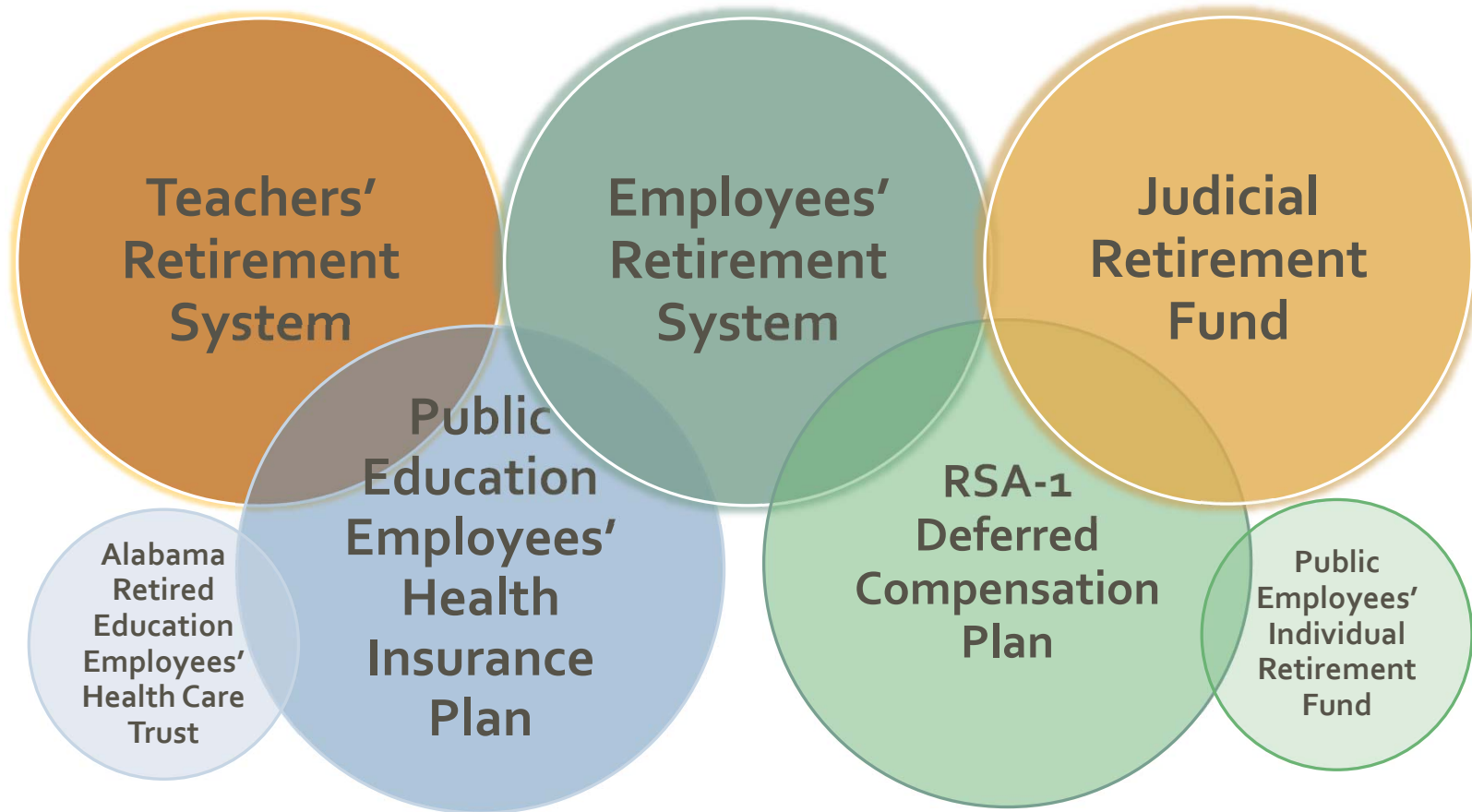
Mission Statement

It is the mission of **the Retirement Systems of Alabama** to serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers.

We are the safe keepers of the pensions for thousands of Alabamians and we take our jobs seriously. It is our goal to seek and secure the best investments and services for our membership, and to ensure that we do everything possible to help our members prepare for and enjoy a successful retirement.



Programs Administered by RSA





Other Investment Funds Managed by RSA

- The Alabama Cultural Resources Preservation Trust Fund
- The Alabama Education Foundation for K through 12
- The Wildlife and Freshwater Fisheries Fund
- The Alabama Nongame Wildlife Endowment Trust
- The Alabama Underground and Aboveground Storage Tank Trust Fund
- The Clerks' and Registers' Supernumerary Fund
- The Alabama Senior Services Trust Fund
- The Alabama Marine Resource Endowment Trust Fund
- The Charlotte Thorn Trust Fund
- The Alabama Trust Fund
- The Alabama Treasury Fund
- The State Docks Pension Plans
- The Alabama State Employees' Health Insurance Fund
- The Alabama State Employees' Retired Health Care Trust
- The Alabama Local Government Health Insurance Fund
- Marion Military Institute Foundation
- The County Municipal Trust Fund

Responsibility for investment of the above funds is placed with RSA either by state constitutional provision, state statute, or by agreement. The funds are authorized to be invested in accordance with the same standards that apply to TRS and ERS, with the exception of The Alabama Trust Fund, as provided in Alabama Constitutional Amendment No. 488.



RSA's Retirement Plans

Teachers' Retirement System

- Provides retirement benefits to public education employees.

Employees' Retirement System

- Provides retirement benefits to state employees and state police; and
- Administers retirement benefits for local governments that elect to participate.

Judicial Retirement Fund

- Provides retirement benefits to district attorneys and circuit clerks (elected for the first time on or after November 2016) and to justices and judges.



ERS Board of Control

- **ERS Board, 15 members:**
 - 4 Ex Officio Members
 - *Governor*
 - *Treasurer*
 - *Finance Director*
 - *State Personnel Director*
 - 3 Governor Appointed State Employees
 - 1 Elected Retired State Employee
 - 2 Elected Active State Employees
 - 1 Elected Retired Local Employee
 - 1 Elected Active City/Municipality Employee
 - 1 Elected Active County Employee
 - 1 Elected Active Local Board Employee
 - 1 Elected Active or Retired Local Employee

ERS



TRS Board of Control

- **TRS Board, 15 members:**
 - 3 Ex Officio
 - *State Treasurer*
 - *Finance Director*
 - *State Superintendent of Education*
 - 2 Elected Higher Education Employees
 - 1 Elected Postsecondary Employee
 - 1 Elected School Superintendent
 - 1 Elected School Principal
 - 3 Elected Active Teachers
 - 2 Elected Support Personnel
 - 2 Elected Retired Education Employees

TRS



Participating Employers

as of 9/30/24 ACFR

TRS

13 Universities

25 Post-Secondary

139 Boards of Education

44 State Agencies/Other

ERS State

State of Alabama

ERS Local

311 Cities

66 Counties

513 Other Public Entities

JRF

67 Counties
(Probate Judges,
Circuit Clerks,
and District Attorneys)

AOC (Justices
and Judges)

RSA BENEFITS





What is a Pension?

A pension (also known as a defined benefit) is a type of retirement benefit that provides a set monthly income in retirement for the life of the retiree.

Pensions are typically funded by a combination of employee contributions, employer contributions, and investment income.

The size of a pension depends on how long a member works for an employer and his or her salary.

A member is not eligible to receive a lifetime benefit unless he or she works for the employer for a minimum amount of time known as the vesting period.



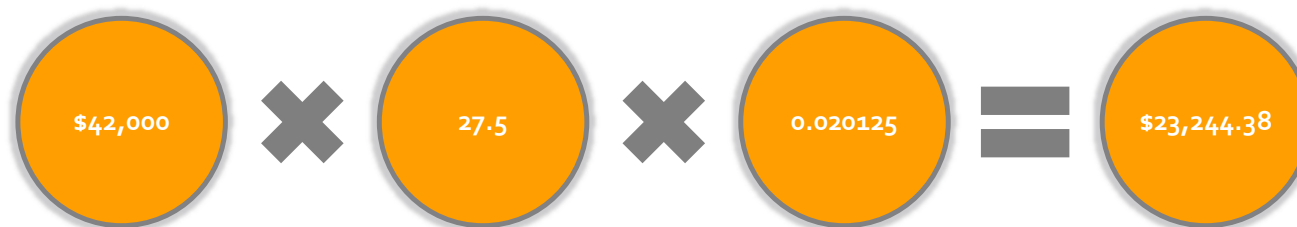


Calculating a Member's Benefit

The formula used to calculate RSA members' pensions is:



Example: Average Final Salary - \$42,000; Service Credit - 27 years and 6 months; Benefit Multiplier for Tier I TRS – 2.0125%





RSA Members and Benefits by System

as of 9/30/24 Actuarial Valuations

	TRS	ERS State*	ERS Local	JRF
Active Members	139,806	28,603	60,310	387
Active Payroll	\$8.840B	\$1.808B	\$3.269B	\$59.9M
Retired Members	109,312	26,313	32,508	460
Retirement Benefits Paid	\$2.691B	\$663.6M	\$747.3M	\$42.8M
Average Annual Benefit	\$24,622	\$25,219	\$22,989	\$93,061

*Includes State Police.



ERS State Members and Benefits – 10 Year History

	Active Members	Active Payroll	Retired Members	Retiree Payroll
2014	28,977	\$1,209,550,191	22,118	\$466,198,651
2015	29,235	\$1,251,768,254	22,983	\$491,513,887
2016	29,101	\$1,265,310,969	23,614	\$513,858,040
2017	28,926	\$1,271,674,805	23,860	\$524,315,915
2018	29,004	\$1,295,229,592	24,187	\$537,722,343
2019	28,533	\$1,357,895,545	24,544	\$551,824,432
2020	28,193	\$1,423,647,929	24,655	\$561,863,452
2021	27,535	\$1,422,423,897	24,851	\$575,717,875
2022	26,656	\$1,502,382,664	25,112	\$590,495,545
2023	27,019	\$1,588,688,342	25,179	\$600,834,868
2024	27,838	\$1,743,400,587	25,307	\$612,478,873



TRS Members and Benefits – 10 Year History

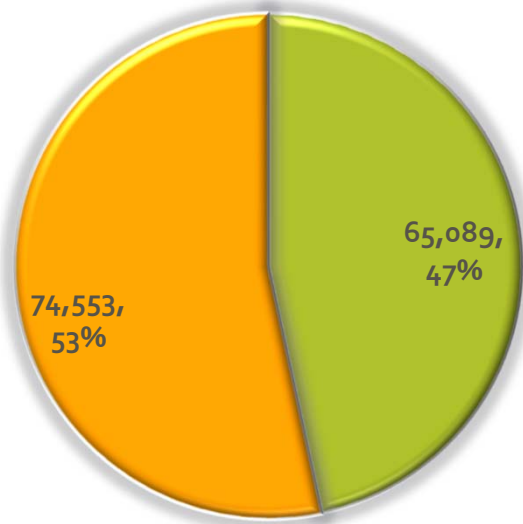
	Active Members	Active Payroll	Retired Members	Retiree Payroll
2014	135,230	\$6,214,949,700	85,209	\$1,865,549,629
2015	135,986	\$6,297,938,621	88,633	\$1,964,212,008
2016	136,731	\$6,430,999,445	91,574	\$2,053,762,261
2017	136,941	\$6,698,834,819	93,850	\$2,118,982,451
2018	137,161	\$6,756,474,151	96,231	\$2,191,704,758
2019	136,325	\$7,193,832,116	98,539	\$2,266,860,064
2020	132,707	\$7,019,258,383	100,866	\$2,350,717,232
2021	134,034	\$7,221,790,242	103,071	\$2,438,228,771
2022	135,783	\$7,982,339,732	105,549	\$2,527,829,084
2023	138,441	\$8,417,325,026	107,273	\$2,599,410,082
2024	139,806	\$8,840,497,519	109,312	\$2,691,456,486



RSA Active Members by Tier

as of 9/30/24 Actuarial Valuation

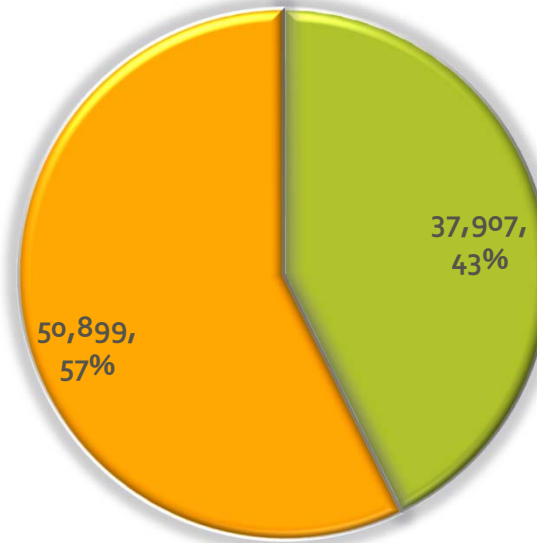
TRS



■ Tier I ■ Tier II

139,806 Total Active Members

ERS

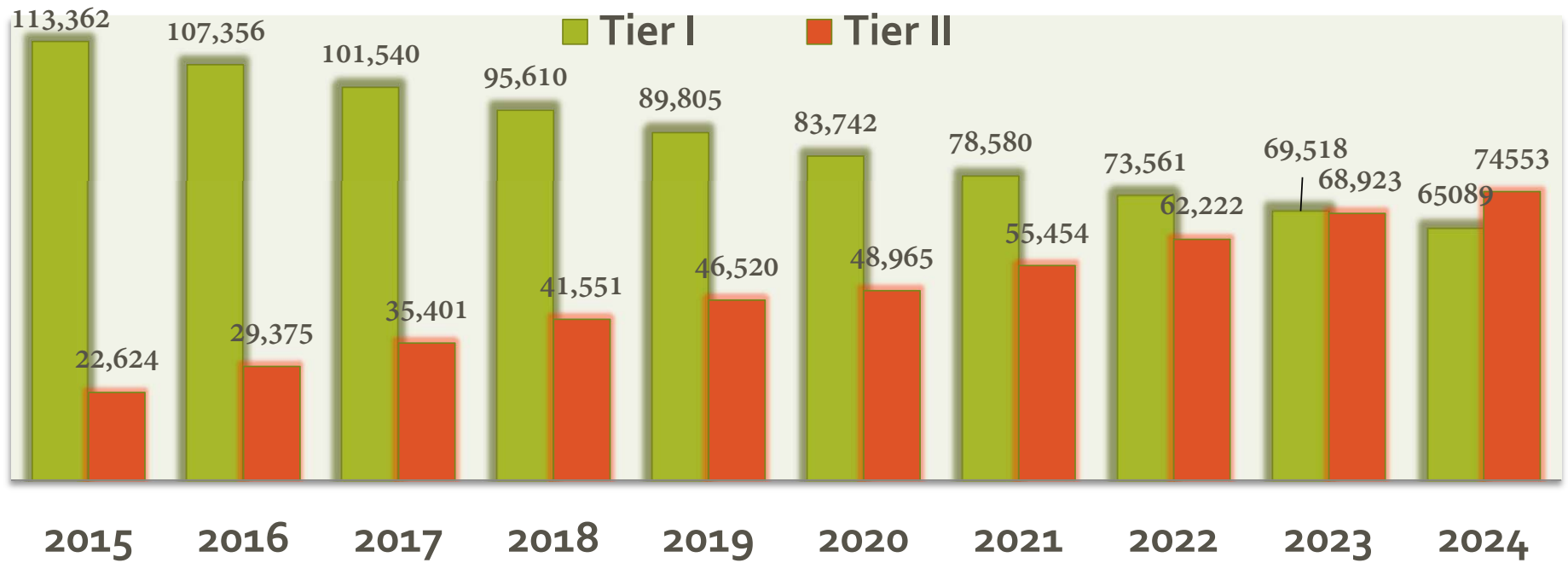


■ Tier I ■ Tier II

88,913 Total Active Members



TRS Active Members by Tier – 10 Year History





RSA Tier I and Tier II Comparison

as of completion of the 2025 Regular Session

	Tier I	Tier II
Date of Employment	Prior to January 1, 2013	On or after January 1, 2013
Member Contribution Rate	<ul style="list-style-type: none"> • 7.5% for TRS/ERS State • 5% or 7.5% for ERS Local • 6% or 8.5% for FLC • 10.0% for State Police 	<ul style="list-style-type: none"> • 6.2% for TRS • 7.2% for TRS FLC • 6.0% for ERS • 7.0% for ERS FLC • 10.0% State Police
Retirement Eligibility	<ul style="list-style-type: none"> • 25 years of service at any age (30 years for local units that have not adopted Act 88-548) • At least 10 years of service at age 60 (age 52 for State Police) 	<ul style="list-style-type: none"> • 30 years of service with an early retirement penalty • At least 10 years of service at age 62 (age 56 for FLC) • 25 years of service at any age or at least 10 years of service at age 52 for State Police
Retirement Factor	<ul style="list-style-type: none"> • 2.0125% for TRS/ERS • 2.875% for State Police 	<ul style="list-style-type: none"> • 1.650% for TRS/ERS and FLC • 2.375% for State Police
Disability Retirement	No Change	New disability standard

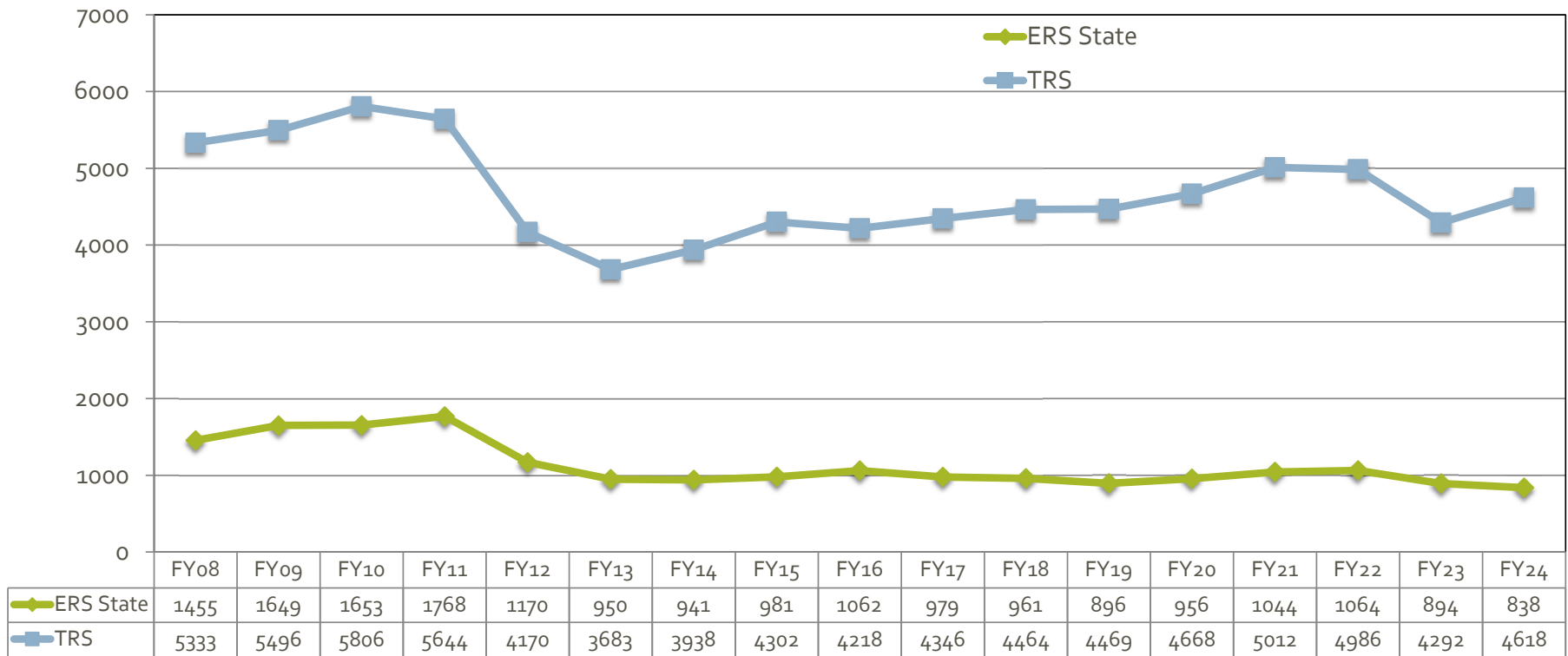


RSA Tier I and Tier II Comparison

	Tier I	Tier II
Average Final Salary	Average of the highest three years of the last ten years	Average of the highest five years of the last ten years
Benefit Cap	None	80% of Average Final Salary <i>(Approx. 48 yrs & 6 mos to get to cap)</i>
Retirement Contributions on Overtime Pay	Earnable Compensation cannot exceed 120% of base pay	Earnable Compensation cannot exceed 125% of base pay
Sick Leave Conversion	Yes	Yes for TRS; No for ERS
FLC Bonus Year/State Police Bonus	Yes	No for FLC; Yes for State Police

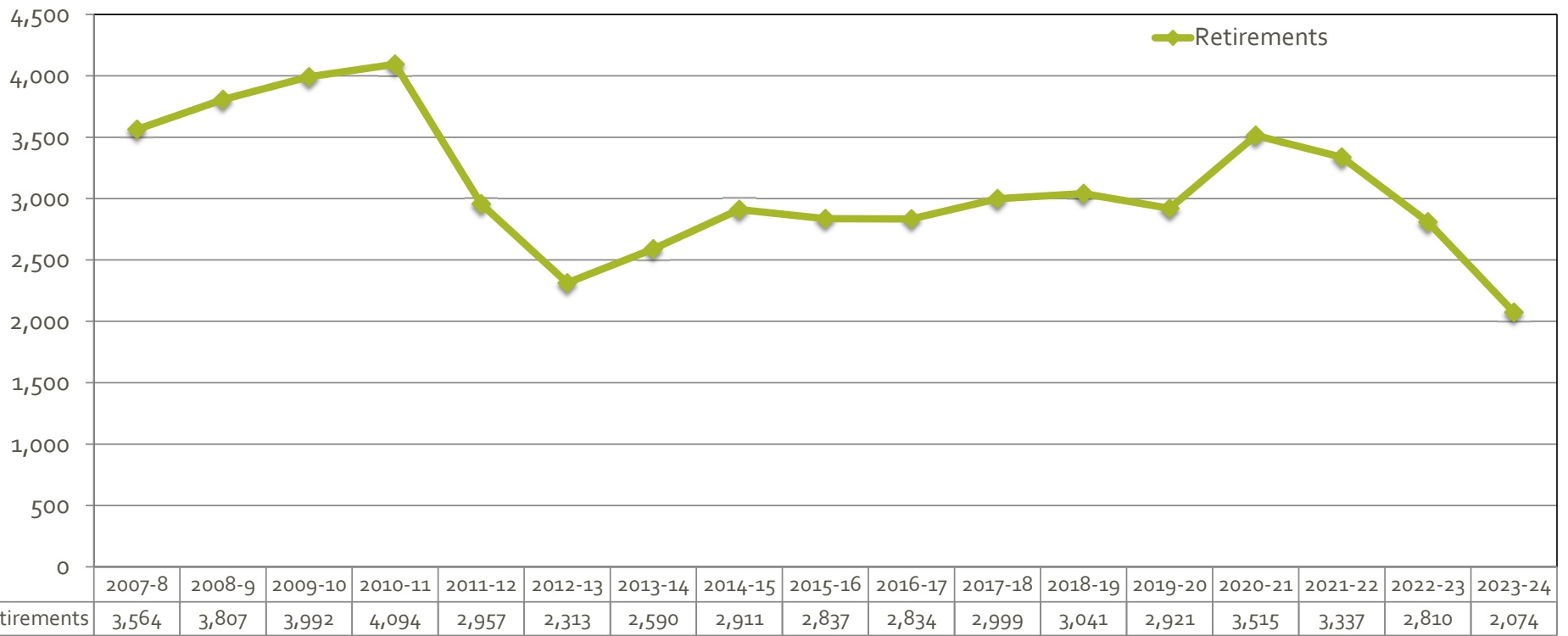


Historical Rates of Retirement by Fiscal Year





Historical Rates of Retirement – TRS K12 Members by School Year



RSA FUNDING





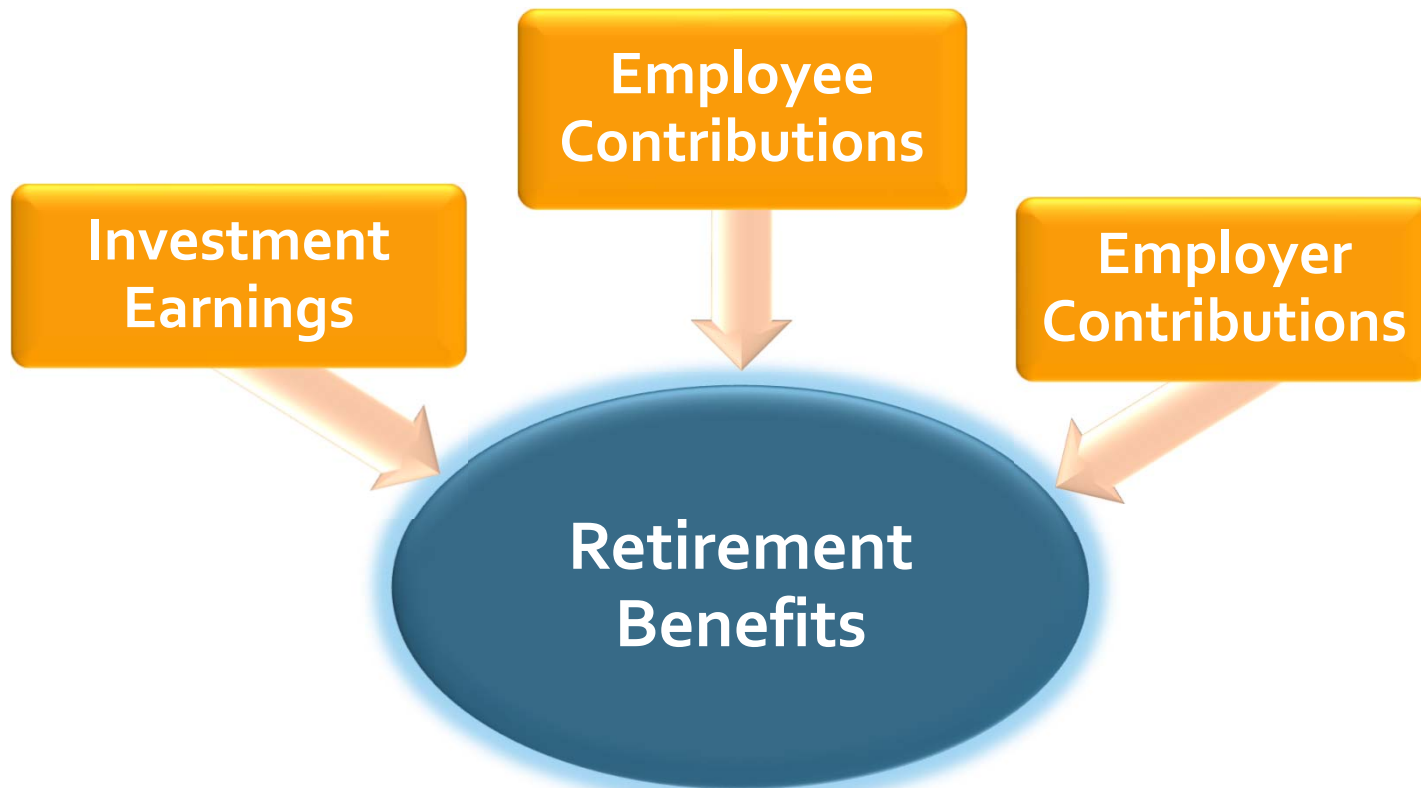
Funding RSA's Pension Plans

- An RSA member's retirement benefit is funded from a combination of contributions by:
 - **the member,**
 - **by the member's employer,**
 - and from **investment earnings** on those contributions.
- The benefits are pre-funded and monies from contributions and investments are held in trust by RSA to be used solely for retirement benefits as required by Alabama's Constitution.





Funding RSA Retirement Benefits



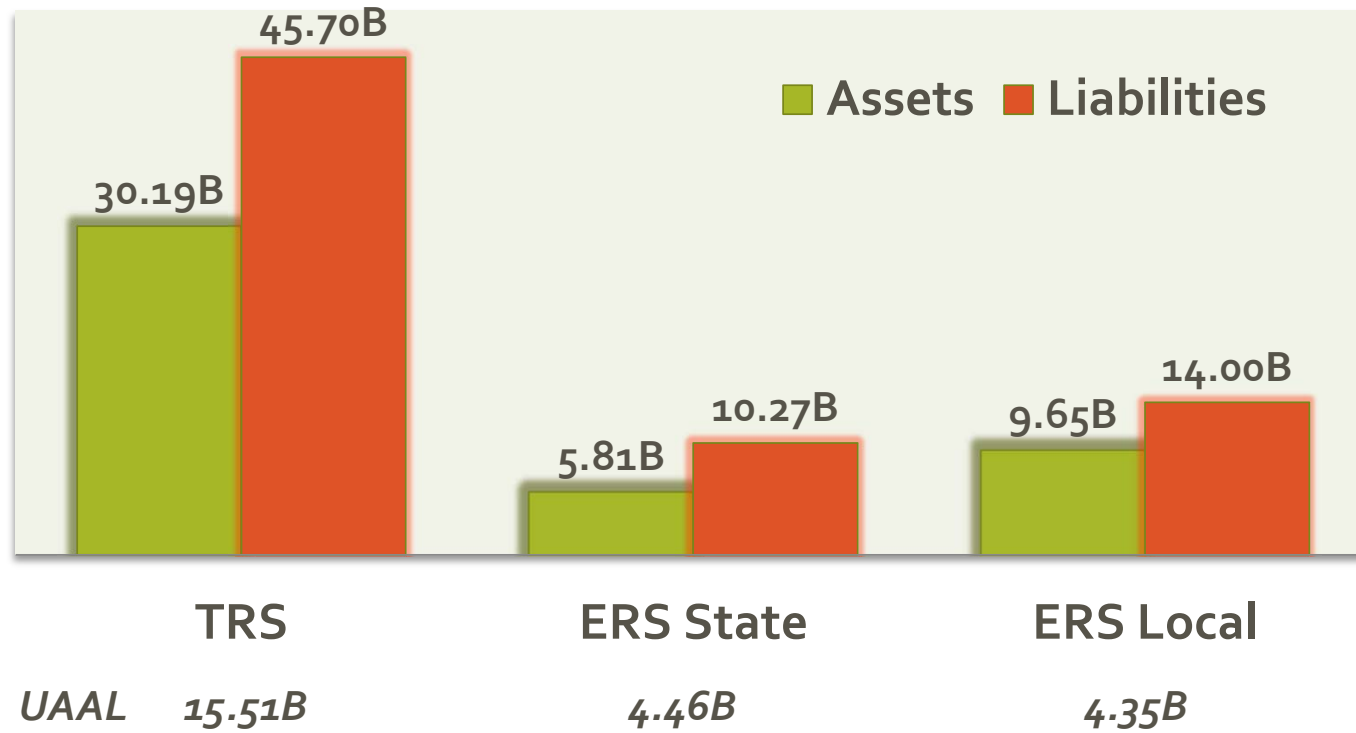


Unfunded Liability

- The unfunded liability is the difference between a pension's liabilities and the amount of assets it holds.
- RSA's actuaries calculate the amount of the unfunded liability (also referred to as the unfunded actuarial accrued liability, or "UAAL").
 - RSA's liabilities are the projected benefits payable to **retired and active members**, discounted to the present value.
 - RSA's assets are determined using a five-year asset-smoothing method as required by statute.
- The comparison of these assets to liabilities is represented as a percentage and called the funded ratio.

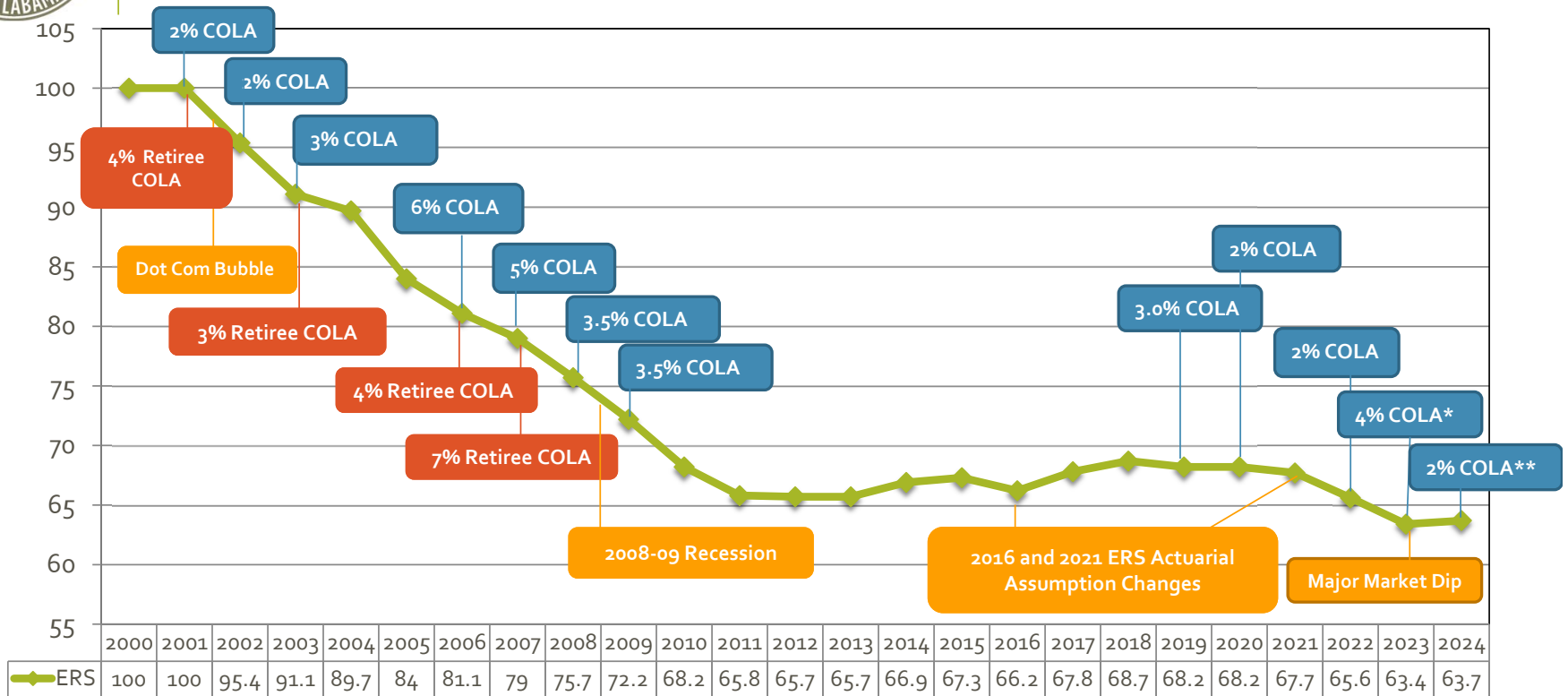


FY24 RSA Liabilities and Assets





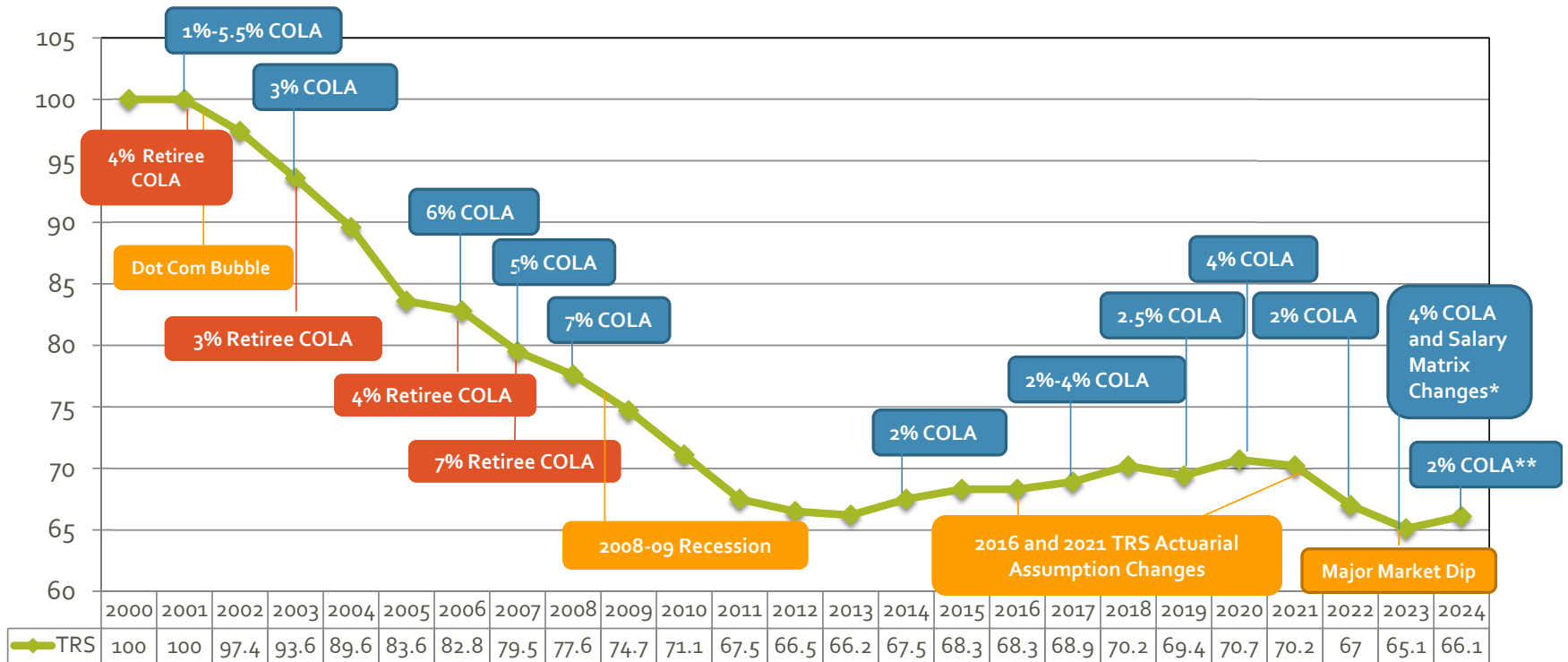
ERS Funded Ratio 2000-2024



* The 4% COLA was effective October 1, 2022, but was reflected in the FY22 actuarial valuation.
 ** The 2% COLA was effective October 1, 2023, but was reflected in the FY23 actuarial valuation.



TRS Funded Ratio 2000-2024



* The 4% COLA and salary matrix changes were effective October 1, 2022, but were reflected in the FY22 actuarial valuation.

** The 2% COLA was effective October 1, 2023, but was reflected in the FY23 actuarial valuation.



Employee Contribution Rates

	Tier 1	Tier 2
TRS	7.5%	6.2%/7.2%
ERS State	7.5%	6.0%
ERS State Police	10.0%	10.0%
ERS Firefighters, Law Enforcement & Correction Officers	8.5%	7.0%
ERS Local	5% or 7.5%*	6.0%
JRF	8.5%	8.5%

*Dependent upon whether local units adopted higher contribution rate as set forth in Act 2011-676.



Employer Contribution Rate: Actuarial Valuation

- The actuaries produce an annual valuation of the assets and liabilities of RSA based upon the actuarial assumptions and methods set by the Boards and required by actuarial standards of practice.
- Based upon this annual valuation, the actuaries determine the amount needed to fund the normal cost of benefits accrued during that year and the amount needed to pay the unfunded liability over the applicable amortization period.





Employer Contribution Rate:

Actuarial Assumptions and Methods as of 2016-2020 Experience Studies

Actuarial Cost Method

- Entry Age Normal Cost Method.

Amortization Method

- Level Percent Closed.

Amortization Period

- All new gains and losses over 20 years; current unfunded liability over 27 years for TRS and ERS.

Asset Valuation Method

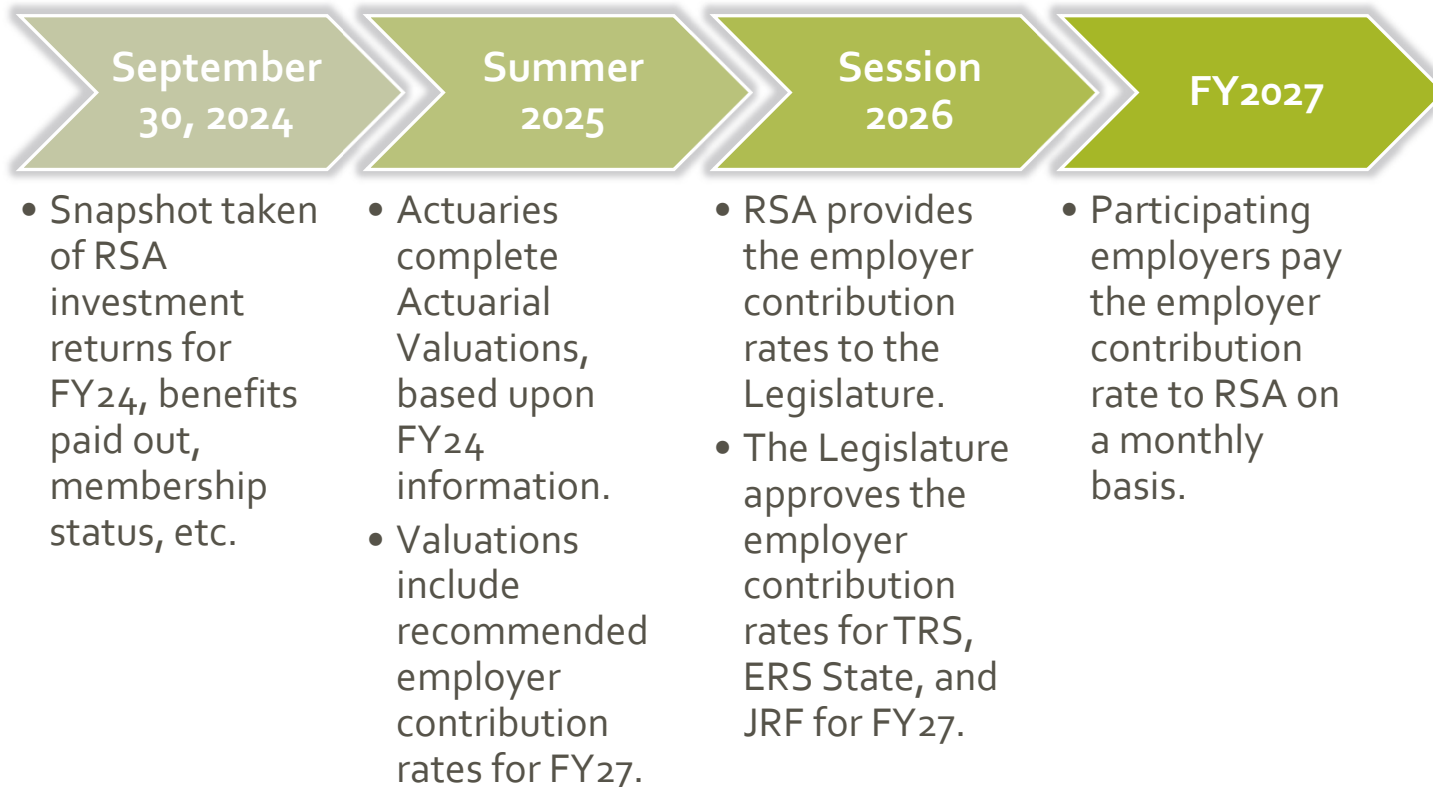
- Five-year Smoothing Period for recognition of market value gains and losses.

Assumed Investment Rate of Return

- 7.45%



Employer Contribution Rate: Timeline





Employer Contribution Rate: Set by Actuaries

- The employer contribution rate is set by RSA's actuaries in the actuarial valuation as a percentage of payroll.
- The employer contribution rate is calculated using the valuation from 3 fiscal years prior.
 - For example, the FY27 rate is based upon the FY24 investment returns.





Employer Contribution Rate: Components

- The employer contribution rate includes the following components:
 - The normal cost to fund benefits accrued during the valuation year;
 - The cost attributable to pay the amortized unfunded actuarial accrued liability;
 - The cost to fund administrative expenses;
 - The cost to fund pre-retirement death benefits (TRS and ERS only); and
 - The cost to fund the term life insurance benefit (TRS only).





Employer Contribution Rate: Approval and Payment

- The Legislature approves the rate for TRS, JRF, and ERS State but does not appropriate money directly to RSA (except for a line item appropriation to JRF for probate judges).
- Each ERS local unit has a unique employer contribution rate that is calculated specifically for that unit and is paid by that unit.
- RSA participating employers submit the contribution to RSA on every payroll.





Employer Contribution Rate: Funding the Employer Contribution

- By statute, participating employers must pay the employer contribution from the same source of funds used to pay salaries.
- Not all funds used to pay the employer contribution rate come from the Education Trust Fund and/or General Fund. Some participating employers have other sources of funding that are used to pay the rate.
- ERS Local is funded by each individual participating local unit from local monies. The state is not responsible for the funding of the employer contribution rate of local units.





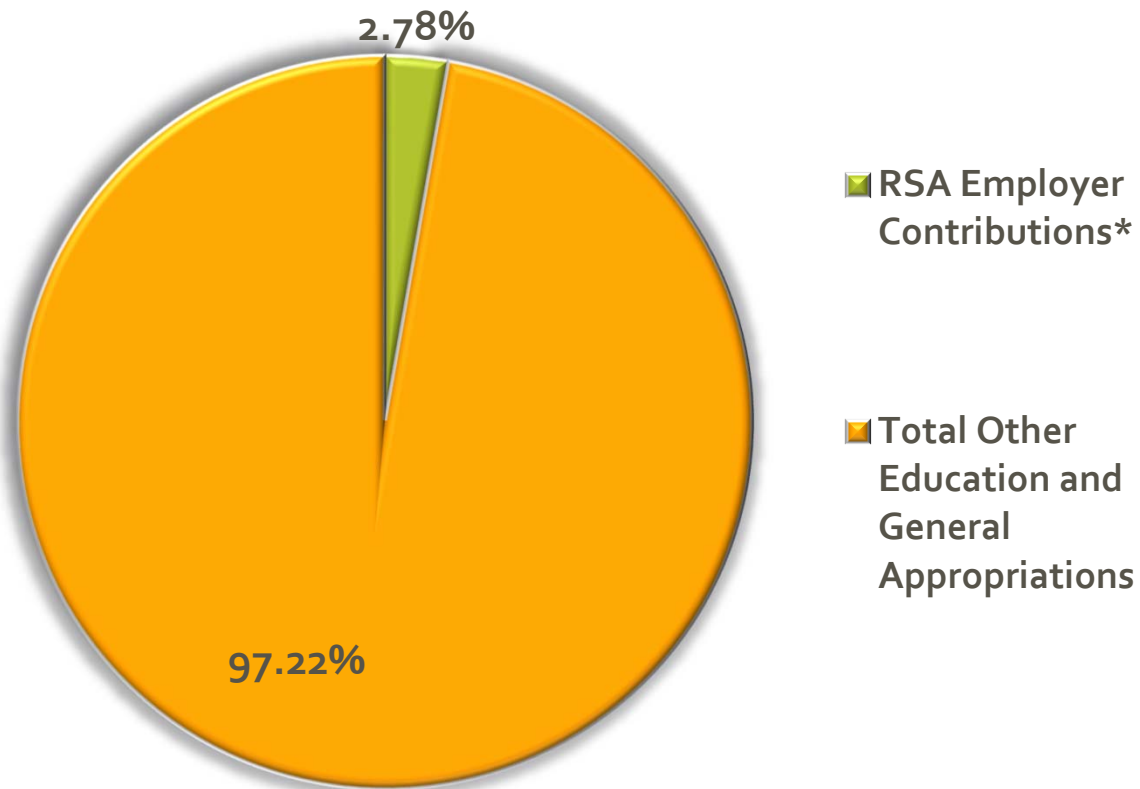
Employer Contribution Rate: Employer Contribution Funding Sources

State Agency Appropriation from the General Fund	K12, Postsecondary, or University Appropriation from the Education Trust Fund	State Earmarked Funds Received by State Agencies
Federal Funds Received by State Agencies	Local Funds from Local Units	Federal and Local Funds Received by K12
Federal Funds Received by Universities and Postsecondary	Tuition Received by Universities and Postsecondary	Private Monies Received by Association Employers



FY24 RSA Employer Contributions

As a % of Education and General Appropriations

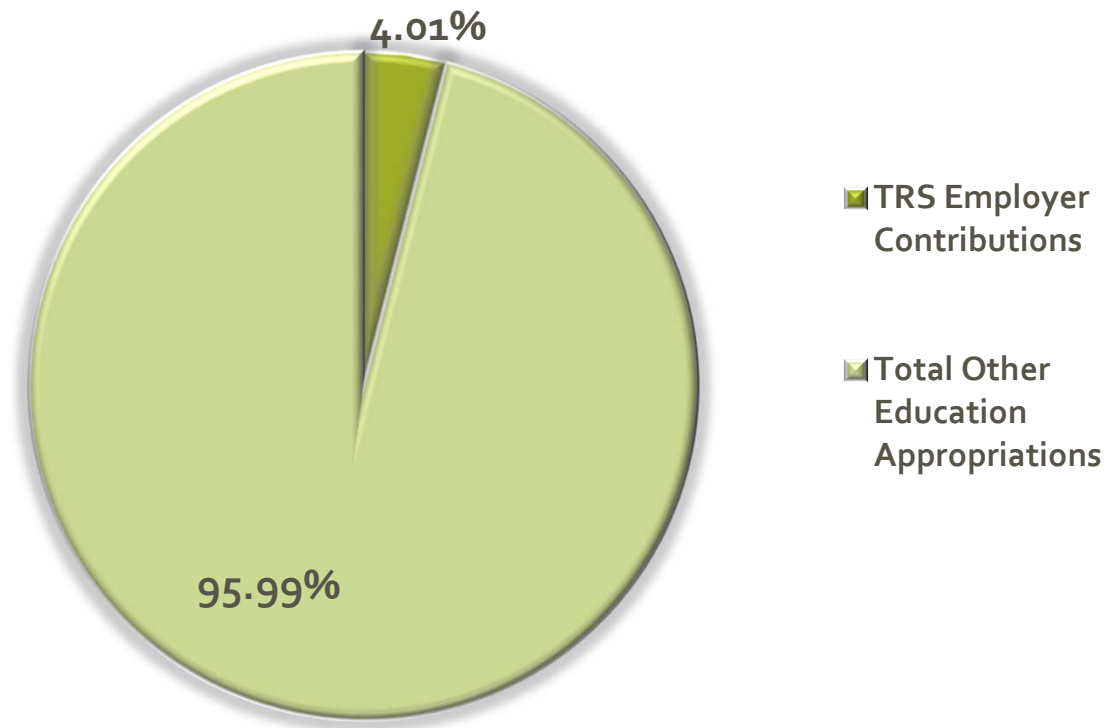


*Does not include employer contributions from local units participating in ERS.



FY24 TRS Employer Contributions

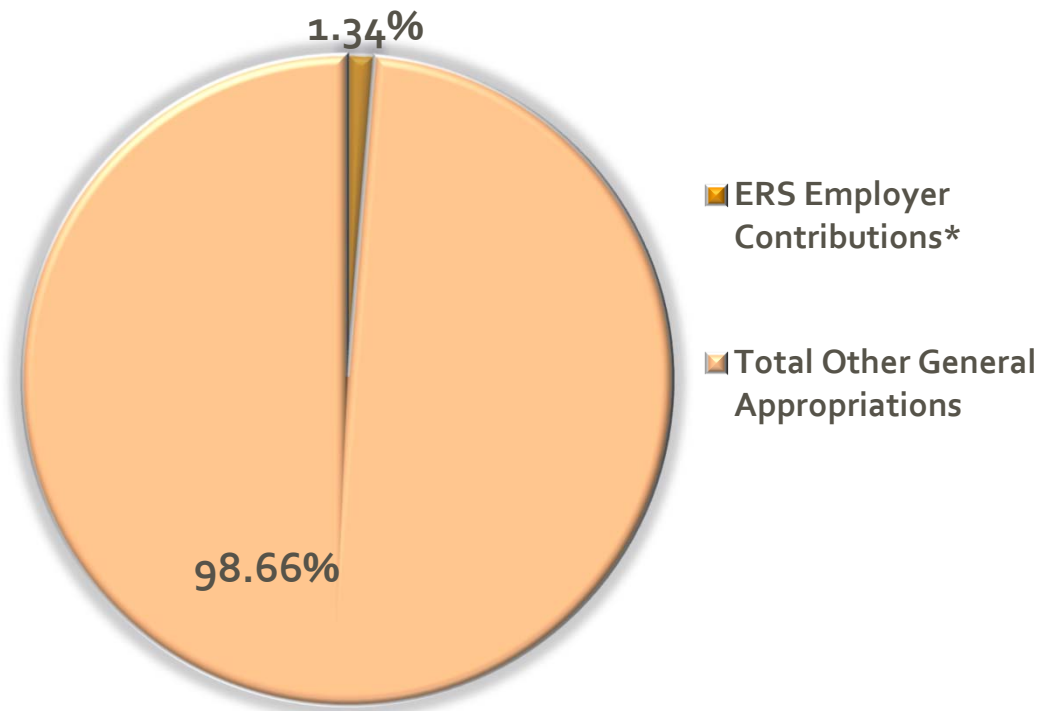
As a % of Education Appropriations





FY24 ERS Employer Contributions

As a % of General Appropriations



*Does not include employer contributions from local units participating in ERS.



RSA Income Sources: for FY24

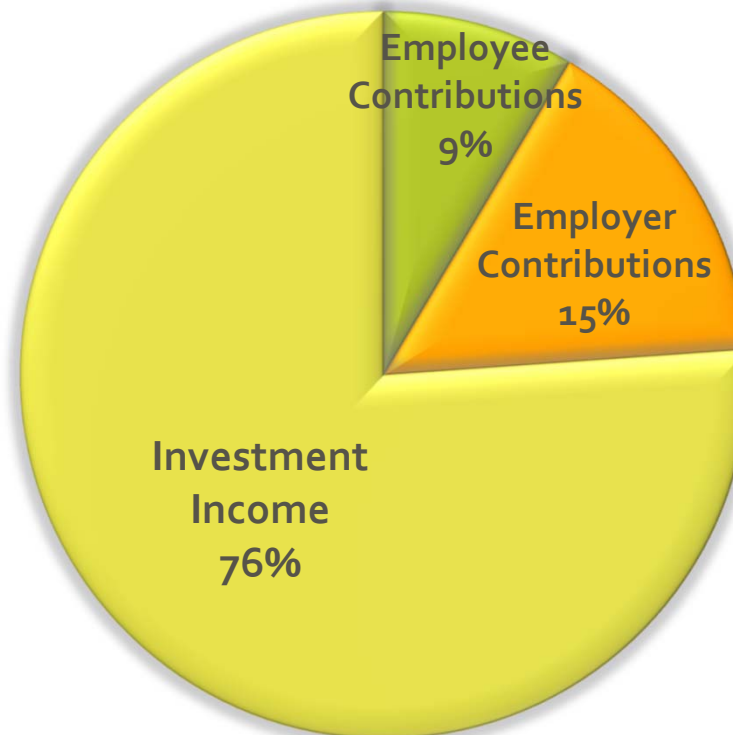
Employee Contributions:
\$977.6M

Employer Contributions*:
\$1.76B

Investment Income:
\$8.72B

Total Income:
\$11.47B

Benefits Paid:
\$4.09B



*This includes contributions from all sources for TRS, ERS State, ERS Local, and JRF, and excludes transfers from new units, transfers between ERS, TRS, and JRF and transfers from internal service funds.



TRS Income Sources: for FY24

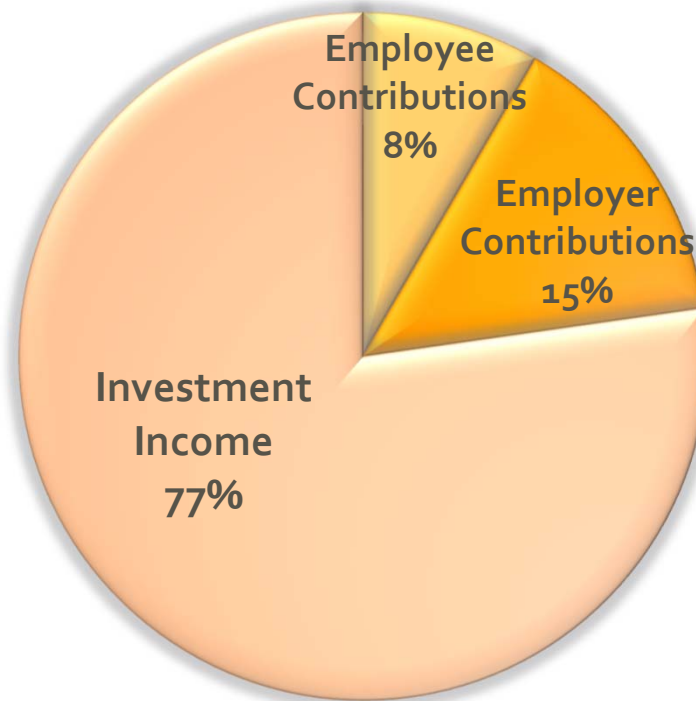
Employee Contributions:
\$616M

Employer Contributions*:
\$1.07B

Investment Income:
\$5.71B

Total Income:
\$7.40B

Benefits Paid:
\$2.65B



*This includes contributions from all sources for TRS and excludes transfers from ERS and internal service funds.



ERS Income Sources:

for FY24

Employee Contributions:
\$356M

Employer Contributions*:
\$669M

Investment Income:
\$2.94B

Total Income:
\$3.97B

Benefits Paid:
\$1.40B



*This includes contributions from all sources for ERS (State and Local) and excludes transfers from TRS, new units, and internal service funds.



RSA Income Sources:

FY73-FY24

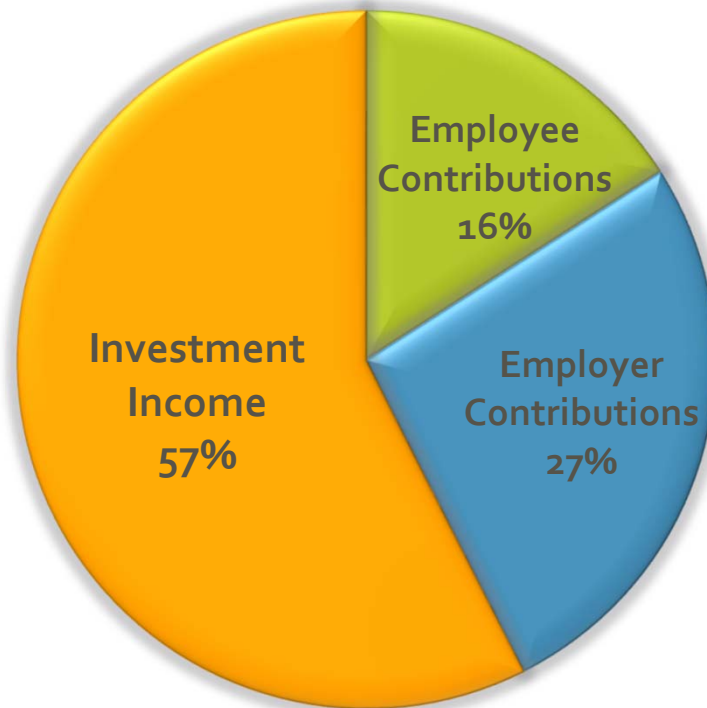
Employee Contributions:
\$19.9B

Employer Contributions:
\$33.2B

Investment Income:
\$71.8B

Total Income:
\$124.9B

Benefits Paid:
\$73.9B



RSA EMPLOYER CONTRIBUTIONS FY24-FY26





TRS Employer Contribution Rates

for 2025 Legislative Session

	FY24	FY25 (Current)	FY26 (Requested)	Increase (Decrease) from FY25
Tier 1	12.59%	13.57%	14.57%	1.00%
Tier 2	11.57%	12.60%	13.61%	1.01%
Est. Total Employer Cost	\$1,058.0M	\$1,190.7M	\$1,305.6M	\$114.9M
Est. Amt. from ETF*	\$630.1M	\$709.2M	\$777.6M	\$68.4M

*Based upon estimates from the EBO using FY23 data, approximately 59.56% of the total employer cost is paid with ETF funds; the remainder is paid by TRS participating employers from other funds (9.15% Federal, 16.78% Tuition, 0.66% Non-Government, 9.22% Local, and 4.6% Other State Funds).



ERS Employer Contribution Rates

for 2025 Legislative Session

	FY24	FY25 (Current)	FY26 (Requested)	Increase (Decrease) from FY25
Tier 1	16.00%	16.26%	17.34%	1.08%
Tier 2	15.76%	16.02%	17.08%	1.06%
Est. Total Employer Cost	\$300.0M	\$319.1M	\$342.6M	\$23.5M
Est. Amt. from SGF*	\$74.3M	\$79.1M	\$84.9M	\$5.8M

*Based upon estimates from the EBO using FY15 data, approximately 28% of the total employer cost comes from the General Fund; the remainder is paid by ERS participating employers from other funds.

RSA INVESTMENTS





Investment Goals and Objectives

The function of ERS and TRS is to provide present and future retirement or survivor benefits for its members. This objective requires the prudent assumption of investment risk in seeking to maximize long-term investment returns while incorporating the funds' liability requirements.

The future investment performance of the fund directly affects its future financial strength. However, the greater the expected return of the strategic asset allocation policy, the higher the risk, and thus the greater the volatility of expected returns. With this greater volatility, the volatility of the surplus (deficit) of the plan may also be greater.

The optimal balancing of these return and risk considerations will be considered in the context of the funds' short-term and long-term obligations.

From the ERS and TRS Investment Policies, from the sections titled "Investment Goals and Objectives."





Investment Processes:

Statutory Controls

- The TRS and ERS Boards of Control invest funds through the Secretary-Treasurer. *Ala. Code § 16-25-20(a)(1); Ala. Code § 36-27-25(a).*
- The Secretary-Treasurer makes investments, through RSA's investment staff, in accordance with the investment policies set by the Boards. *Ala. Code § 16-25-20(a)(2); Ala. Code § 36-27-25(c).*
- The TRS and ERS Investment Committees approve investments as made in accordance with the investment policies. *Ala. Code § 16-25-20(a)(3); Ala. Code § 36-27-25(d).*





Investment Processes:

Board Policies

- Investment policies, which establish the policies by which RSA's investments will be managed, are set by the RSA Boards.
- Policies set the eligible asset categories, the asset allocations, and the risk controls and procedures.
- Investment staff run daily compliance checks to ensure investments are made in accordance with the policies.





Investment Earnings

- Employers pay a discounted amount to pre-fund employees' retirement benefits because the funds are invested and the earnings from those investments help fund benefits.
- RSA assumes that it will earn **7.45%** on investments for ERS and TRS and has historically met that target.
- Lowering this assumed rate would increase the employer contribution as the normal cost for benefits and the unfunded liability would increase.





Investment Staff

- RSA's investments are handled by its in-house investment staff, which includes 11 chartered financial analysts.
- Having a professional investment staff allows RSA to avoid paying costly fees to outside investment groups.
- As a result, RSA has some of the lowest investment expenses in the country at **\$15.2M** for FY24. If RSA spent just the average amount, it would have spent **\$232.5M**.





RSA Annualized Historical Investment Rates of Return as of FY24

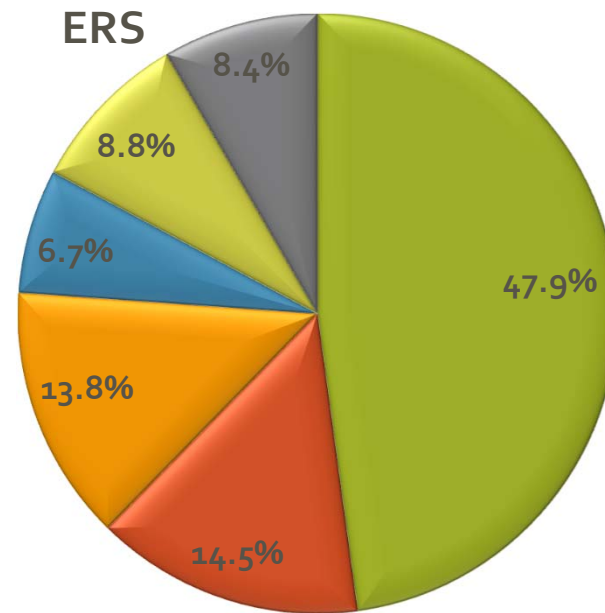
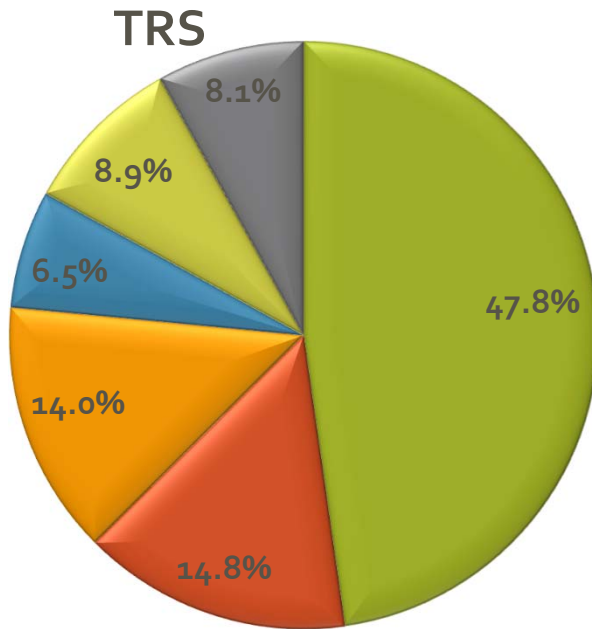
	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr	35 Yr	40 Yr
ERS	21.21%	5.97%	9.00%	8.07%	9.01%	7.11%	6.43%	7.57%	7.93%	8.55%
TRS	21.10%	6.00%	9.05%	8.00%	8.98%	7.21%	6.59%	7.68%	8.05%	8.65%

* The highest return for the 40 year period is 22.18% for ERS in FY22 and 28.24% for TRS in FY82. The lowest return for this period is -15.21% for ERS in FY08 and -15.36% for TRS in FY08.

**The returns for years 1980 through 1989 are based upon performance returns calculated from TRS and ERS historical financial statements, which do not weigh cash flows or asset allocation shifts that may have occurred within a given period. These years along with the years 1990 through 1995 were calculated by RSA staff. Returns for all years thereafter were obtained from State Street based upon TRS's and ERS's data.



Asset Allocations: as of 9/30/24



■ Domestic Equity

■ International Equity

■ Fixed Income

■ Private Placements

■ Real Estate

■ Cash Accounts



Spotlight on Real Estate

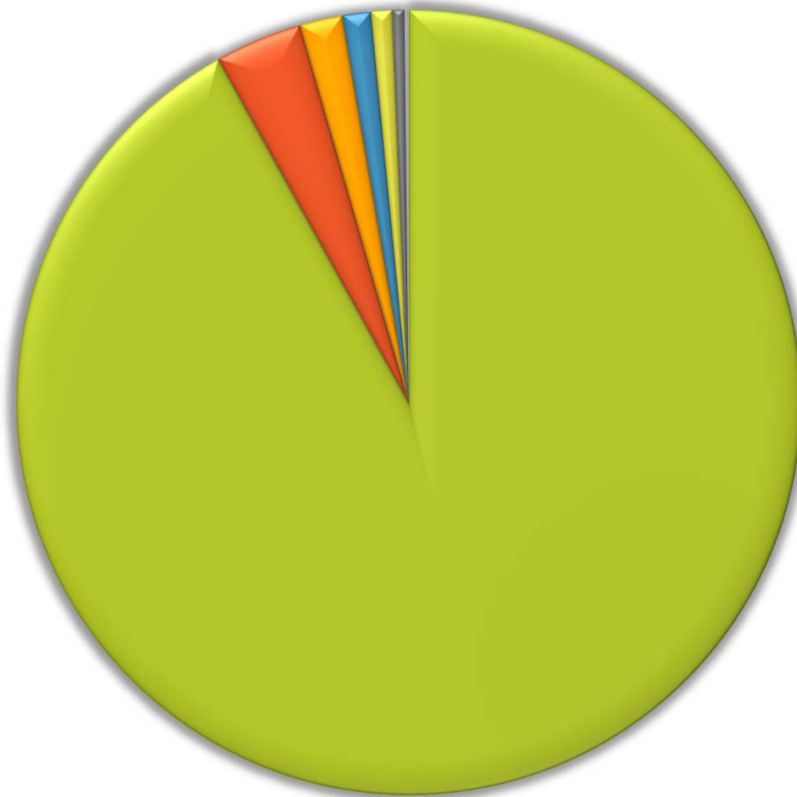
- Why invest in real estate?
 - Diversification
 - Low market volatility
 - High tangible asset value
 - Attractive and stable cash flow
 - Inflation hedging





RSA Real Estate:

Compared to Total Portfolio as of 9/30/24



- Other Investments -- 91.23%
- 55 Water Street -- 3.90%
- AL Office Buildings -- 1.93%
- Public REIT -- 1.27%
- AL Hotels -- 0.96%
- RTJ Golf Trail -- 0.52%
- Residential Developments -- 0.19%



RSA Real Estate:

55 Water Street

- 55 Water is a Class A office building located in downtown Manhattan and is the largest commercial office building in Manhattan.
- Managed by New Water Street Corporation, owned by RSA.
- 55 Water Street constitutes **3.90%** of RSA's total investment portfolio.
- **\$1,891,771,610** market value as of 9/30/24.





RSA Real Estate:

Alabama Office Properties

- Twelve office buildings and one datacenter located in either downtown Montgomery or Mobile.
- Managed by RSA's in-house real estate staff.
- AL Office Properties constitute **1.93%** of RSA's total investment portfolio.
- **\$934,514,142** market value as of 9/30/24.
- Currently under construction: Alabama State House and ABC Warehouse





RSA Real Estate: Alabama Resort Hotel Properties

- Eight hotels located in Alabama, plus a convention center/performing arts center and a parking garage.
- Managed by PCH Hotels & Resorts, an independent management company, through a management agreement with RSA.
- Franchise partner with Marriott and partner with RTJ brand as leverage.
- Over 1,850 employees in Alabama.
- AL Resort Hotel Properties constitute **0.96%** of RSA's total investment portfolio.
- **\$466,529,999** market value as of 9/30/24.





RSA Real Estate:

Robert Trent Jones Golf Trail

- Eleven golf courses located in Alabama.
- Managed by SunBelt Golf, an independent management company, through a management agreement with RSA.
- RTJ Golf Trail constitute **0.52%** of RSA's total investment portfolio.
- **\$252,900,000** market value as of 9/30/24.





RSA Real Estate: Residential Developments

- Two residential developments, located in Opelika and Point Clear.
- Managed by RSA's in-house real estate staff.
- The residential properties constitute **0.19%** of RSA's total investment portfolio.
- **\$94,599,999** market value as of 9/30/24.

NATIONAL
VILLAGE
— AUBURN • OPELIKA —

— THE —
COLONY
AT THE GRAND

GOVERNANCE, ACCOUNTABILITY, AND TRANSPARENCY





RSA Governance





RSA Governance: Alabama Law

- **CONSTITUTIONAL PROVISIONS:**

- Pensions are unilateral contracts protected by the Contracts Clause. Ala. Const. Art. I, § 22; *Bd. of Trs. of the Policemen's & Firemen's Ret. Fund v. Cary*, 373 So.2d 841, 842 (Ala. 1979).
- The assets, proceeds, and income of RSA are solely for the exclusive use of providing benefits and refunds to its members and for administrative expenses. "All of the assets, proceeds or income of [RSA] . . . Shall be held, invested as authorized by law, or disbursed as in trust for the exclusive purposes of providing for such benefits, refunds and administrative expenses under the management of the boards of control of [RSA][.]" Ala. Const. Art. V, § 138.03.

- **RSA GOVERNING STATUTES:**

- Sets the terms of the ERS and TRS retirement plans, including the benefits levels, governance, investment processes, and funding. *Ala. Code* § 36-27-1 et seq.; *Ala. Code* § 16-25-1 et seq.

- **FIDUCIARY DUTIES:**

- RSA Board members have "a fiduciary duty to hold and invest [RSA] assets in trust for its members" and "to administer the [ERS] and the [TRS] solely in the interest of the members of the [ERS] and the [TRS]." *Knutson v. Bronner*, 721 So.2d 678,681 (Ala. 1998); *Ex parte Bronner*, 171 So.3d 614,625 (Ala. 2014).





RSA Governance: Federal Law

- **SECURITIES EXCHANGE COMMISSION:**
 - Various reporting requirements that apply to securities trading
- **INTERNAL REVENUE CODE:**
 - Must meet the requirements of IRC section 401(a) to retain qualified plan status which provides special tax considerations
- The Employee Retirement Income Security Act (ERISA) **does not apply** to RSA.





RSA Governance: Board Policies

- **ERS AND TRS INVESTMENT POLICIES:**

- Set forth the policies by which the ERS and TRS funds' investments will be managed, including goals and objectives, investment philosophy, target asset allocations, rebalancing policies, eligible asset categories, risk controls and procedures, and performance measurement

- **ERS AND TRS FUNDING POLICIES:**

- Reflect the Boards' long-term strategy for stability in funding the plans and state the overall funding objectives for ERS and TRS, the benchmarks used to measure progress in achieving those goals, and the actuarial methods and assumptions that will be used to develop the benchmarks





RSA Governance: Professional Standards

- **GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS:**
 - Set by the Governmental Accounting Standards Board
 - Govern the financial statements produced by RSA
- **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):**
 - Set by the Governmental Accounting Standards Board
 - Govern the accounting methods employed by RSA
- **ACTUARIAL STANDARDS OF PRACTICE (ASOP):**
 - Set by the Actuarial Standards Board
 - Govern the work performed by RSA's actuaries, Cavanaugh Macdonald





RSA Accountability

- **INDEPENDENT AUDITS:**

- Independent financial audits by national certified public accounting firm Carr, Riggs, and Ingram of TRS's and ERS's Annual Financial Statements in accordance with GAAP and GASB
- Independent legal compliance audit by Alabama Examiners of Public Accounts
- SOC 1, Type 2 audit on effectiveness of controls by national certified public accounting firm A-lign

- **VALUATIONS/APPRAISALS:**

- Third-party custodian (State Street) investment returns calculations and portfolio allocation comparisons in compliance with the Global Fund Accounting and Custody System and CFA Institute's GIPS standards
- Independent valuations of private placements by Houlihan Lokey applying market, income, and asset-based valuation methodologies as applicable
- Independent valuations of real estate by national appraisal firm Pearson, Inc., in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP)
- Peer reviews of actuarial methodology and experience study in compliance with ASOPs





RSA Transparency

- **OPEN MEETINGS ACT:**
 - Applies to all board and committee meetings
- **PUBLIC RECORDS ACT:**
 - Applies to all board minutes, agendas, and documents, State Street reports, comprehensive listings of investments, benefit documents (with some restrictions for the privacy of members), etc.
- **ACCESSIBLE ON WEBSITE:**
 - Annual Comprehensive Financial Report, GASB Reports, and Financial Statements
 - Annual Actuarial Valuations and Five-Year Experience Studies
 - Annual Report and RSA Advisors
 - Investment Policies
 - Investment Returns and Asset Allocations
 - Benefit Handbooks



RSA'S UNFUNDED LIABILITY





Why Has the Funded Ratio Declined Since 2020?

Fiscally Conservative Actuarial Assumption Changes

Volatile Market Returns

Higher Than Expected Pay Increases





Recent Actuarial Assumption Changes

- In 2021, the RSA Boards adopted the actuaries' recommendations for assumption changes resulting from the five-year experience studies, including:
 - Lowering the assumed rate of return from 7.70% to 7.45%;
 - Adopting generational mortality tables;
 - Closing the amortization schedules; and
 - Other demographic changes.
- These changes ensure that the plans are adequately funded in the long-term to pay promised benefits, but in the short-term the changes lower the funded ratio and increase the employer contribution rate.





Five-Year TRS Investment Returns

- Due to volatile markets, the actuarial investment returns have been below the assumed rate of return of 7.45% and have contributed to the declining funded ratio.

Fiscal Year	Market Return	Actuarial Return*
2019	2.63%	7.2%
2020	5.62%	7.6%
2021	22.62%	9.9%
2022	(13.18%)	5.4%
2023	13.26%	4.7%

- The FY24 return was 21.10% for TRS. This return will be reflected in the FY24 actuarial valuation, which sets the FY27 employer contribution rate, and should have a positive impact on the funded ratio.

*The actuarial return reflects the actuarial smoothing of investment returns over a five-year period, as required by *Ala. Code* § 16-25-21(2)(c)(2).





Five-Year ERS Investment Returns

- Due to volatile markets, the actuarial investment returns have been below the assumed rate of return of 7.45% and have contributed to the declining funded ratio.

Fiscal Year	Market Return	Actuarial Return*
2019	2.78%	7.29%
2020	5.83%	7.72%
2021	22.18%	10.04%
2022	(13.02%)	5.32%
2023	12.89%	4.73%

- The FY24 return was 21.21% for ERS. This return will be reflected in the FY24 actuarial valuation, which sets the FY27 employer contribution rate, and should have a positive impact on the funded ratio.

*The actuarial return reflects the actuarial smoothing of investment returns over a five-year period, as required by *Ala. Code* § 36-27-24(c).





Actuarial Assumptions Related to Active Payroll

- Based on the actuarial recommendations adopted by the TRS Board after the last five-year experience study, the actuarial assumption is 2.75% for wage inflation and payroll growth.
- The wage inflation assumption is used to project future employee salaries which are then used to calculate the present value of future benefits. The actuaries allocate this present value of future benefits to each year of service to be paid annually, otherwise known as the normal cost.
- The payroll growth assumption is used to project future payments on the unfunded actuarial accrued liability.





TRS FY15-FY23 Actuarial Impact of Salary Increases

	Unfunded Liability Increase (Decrease) from Salary Increases	Active Payroll	Payroll Increase (Decrease) from Prior Fiscal Year
FY15	(\$307.1M)	\$6.298B	1.34%
FY16	(\$258.9M)	\$6.431M	2.11%
FY17	\$175.8M	\$6.699B	4.16%
FY18	(\$245.1M)	\$6.756B	0.86%
FY19	\$592.9M	\$7.194B	6.47%
FY20	(\$516.7M)	\$7.019B	(2.43%)
FY21	\$41.5M	\$7.222B	2.89%
FY22	\$1.31B	\$7.982B*	10.53%
FY23	\$438M	\$8.417B**	5.45%

* The FY22 and FY23 pay raises (2% and 4%, respectively) and the FY23 salary matrix changes are reflected in the FY22 actuarial valuation.

** The FY24 pay raise (2%) is reflected in the FY23 actuarial valuation.





ERS FY15-FY23 Actuarial Impact of Salary Increases

	Unfunded Liability Increase (Decrease) from Salary Increases	Active Payroll	Payroll Increase (Decrease) from Prior Fiscal Year
FY15	(\$15.1M)	\$1.252B	3.47%
FY16	(\$22.8M)	\$1.265B	1.04%
FY17	(\$2.5M)	\$1.272B	0.55%
FY18	(\$6.1M)	\$1.295B	0.18%
FY19	\$99.2M	\$1.358B	4.86%
FY20	\$87.4M	\$1.424B	4.79%
FY21	(\$807K)	\$1.422B	(0.14%)
FY22	\$195.7M	\$1.502B	5.63%
FY23	\$138.3M	\$1.589B	5.79%

* The FY22 and FY23 pay raises (2% and 4%, respectively) are reflected in the FY22 actuarial valuation.

** The FY24 pay raise (2%) is reflected in the FY23 actuarial valuation.



RETIREE COST- OF-LIVING ADJUSTMENTS





Retiree Cost-of-Living Adjustments

- Retiree cost-of-living adjustments (COLAs) are periodic adjustments to pension benefits to offset the effect of inflation on retirement income.
- COLAs are either automatic or ad hoc:
 - Automatic COLAs are included in the plan design and are funded over the retiree's career. 74 state pension plans provide automatic retiree COLAs.
 - Ad hoc COLAs are not pre-funded and are granted by a governing body, such as the state legislature. 27 state pension plans provide ad hoc retiree COLAs, if any.





Alabama Retiree COLAs

- Retiree COLAs are not included in the plan design for ERS and TRS.
- Retiree COLAs have been granted through acts passed by the Alabama Legislature without pre-funding the actuarial liability for the COLAs.
- Once the retiree COLA was granted, the actuarial liability for the COLA was added to RSA's unfunded liability. The liability was then funded through the unfunded liability portion of the employer contribution over the amortization period.
- The last retiree COLA was granted in 2006 for FY2007.
- Since then, the Legislature has periodically granted one-time retiree bonuses, which are funded either by a lump sum payment or a one-year increase in the employer contribution rate. **These one-time bonuses do not increase the unfunded liability.**





History of Currently Paid Retiree COLAs

Fiscal Year	ERS	TRS	Total Amount Paid Out as of 9/30/23
1979	\$30-\$60 monthly increase	\$30-\$60 monthly increase	\$125,285,981
1981	5% COLA	5% COLA	\$91,981,044
1983	\$1 per month of service	\$1 per month of service	\$220,268,096
1986	\$2 per month of service	\$2 per month of service	\$238,359,950
1989	\$1 per month of service	\$1 per month of service	\$282,692,006
1991	\$1 per month of service	\$1 per month of service	\$303,973,796
1994	1.28% COLA	1.28% COLA	\$401,150,134
1995	2.5% COLA	2.5% COLA	\$631,979,393
1997	2% COLA	2% COLA	\$516,831,752
1999	4% COLA	4% COLA	\$1,189,192,339
2001	4% COLA	4% COLA	\$750,902,469
2003	3% COLA	3% COLA	\$552,141,208
2006	4% COLA	4% COLA	\$806,356,047
2007	7% COLA	7% COLA	\$1,462,853,132
Total:			\$7,573,967,347





History of Alabama Retiree Bonuses

Fiscal Year	ERS	TRS	Amount Paid
2008	One-time bonus equal to \$1 per month of service	One-time bonus equal to \$2 per month of service	\$44,716,435
2009	One-time bonus equal to \$1 per month of service		\$8,096,443
2015	One-time bonus equal to \$2 per month of service or \$300 minimum		\$12,058,248
2018	One-time bonus equal to \$1 per month of service	One-time bonus equal to \$1 per month of service	\$35,061,181
2022	One-time bonus equal to \$2 per month of service	One-time bonus equal to \$2 per month of service	\$76,599,407
Total:			\$176,531,714





ERS and TRS Retiree COLA Unfunded Liability

Amount	Effective Date	Estimated Increase to Unfunded Liability
4%	10/1/2000	\$330.9M
3%	10/1/2002	\$448.8M
4%	10/1/2005	\$510.0M
7%	10/1/2006	\$923.8M
Totals:		\$2.2B added to the unfunded liability



Cost to Fund a 1% Retiree COLAs and a \$1 Per Month of Service Bonus

Amount	Total Cost as of FY23 Actuarial Valuation
TRS 1%	\$236.0M
ERS 1%	\$50.2M
TRS \$1 per month of service	\$31.6M
ERS \$1 per month of service	\$7.5M

These amounts are the present value of the total liability and if fully funded would not increase the unfunded liability of the plans.



What a Retiree Receives from a 1% COLA and a \$1 per Month of Service Bonus

Retiree Scenarios	1% COLA Annually	One-Time \$1 per Month of Service Bonus
20 Years; \$25K	\$250	\$240
25 Years; 30K	\$300	\$300
30 Years; 50K	\$500	\$360
35 Years; 75K	\$750	\$420



Retiree Trust Funds

- In 2021 and 2022, the Legislature created the Education Retirees' Trust Fund (Act 2021-464) and the State Employee Retirees' Trust Fund (Act 2022-349).
- The trusts were created to fund retiree bonuses through smaller deposits that could grow through investment by RSA.
- The acts prohibit funding the trusts from Education Trust Fund and/or General Fund revenues.
- No monies have been allocated to the trusts.





PEEHIP

**PUBLIC EDUCATION
EMPLOYEES'
HEALTH
INSURANCE PLAN**



The Public Education Employees' Health Insurance Plan

PEEHIP was created in 1983 to provide health insurance benefits to active and retired public education employees.

PEEHIP offers three Hospital/Medical plans, four Optional Coverage plans (cancer, dental, vision, and indemnity), one Supplemental plan, and two Flexible Spending Accounts (health and dependent care).

By statute, **PEEHIP** is governed by the same board as the TRS.

PEEHIP has over 355,000 covered lives including actives, retirees, and dependents under its plans.

PEEHIP
OF ALABAMA

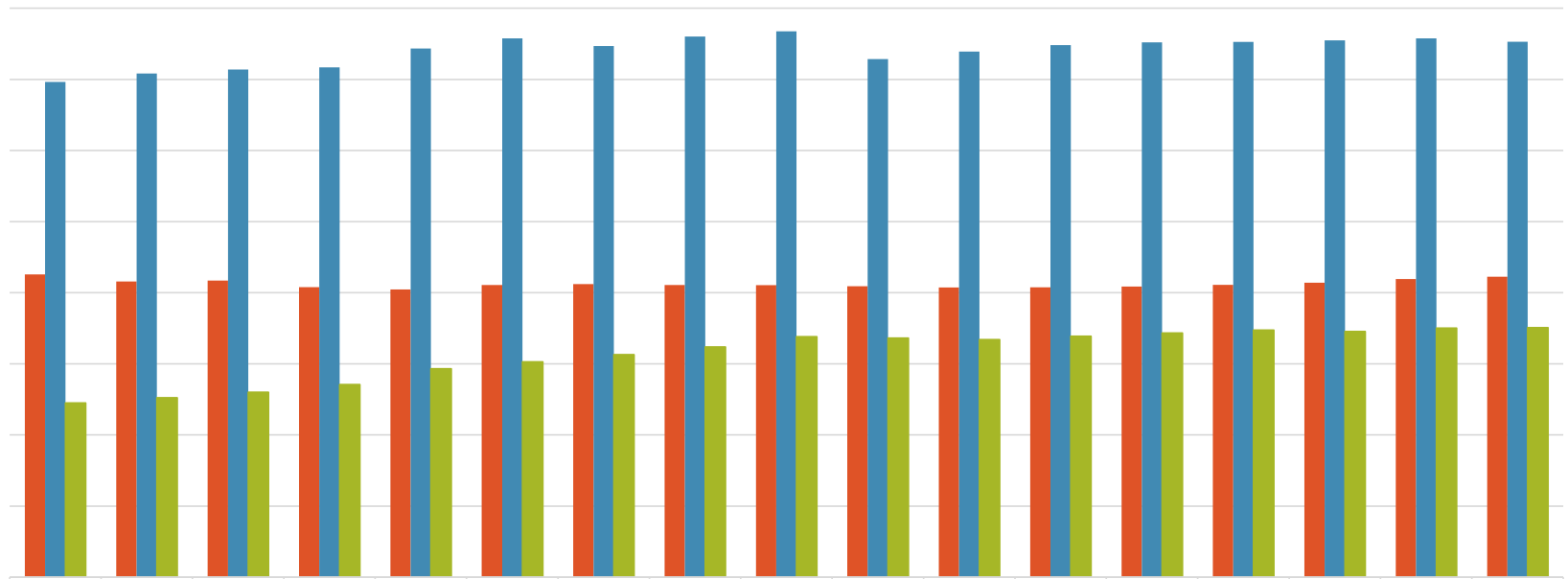


PEEHIP Eligibility

- **Eligibility for Active Coverage:**
 - Employees of K - 12 schools and community colleges; and
 - Employees of employers that participate in TRS and that have elected to participate pursuant to *Ala. Code §16-25A-11*.
- **Eligibility for Retiree Coverage:**
 - TRS retirees of K - 12 schools, community colleges, and public universities; and
 - TRS retirees of employers that elected to participate pursuant to *Ala. Code §16-25-11*.
- **Eligibility for Family Coverage:**
 - Spouse of an active employee or retiree;
 - Children up to age 26; includes biological, adopted, foster, and stepchildren; and
 - Unmarried and incapacitated children over the age of 26.



PEEHIP Members with Hospital/Medical



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
■ Actives	85,138	83,153	83,439	81,549	80,914	82,161	82,414	82,184	82,108	81,838	81,468	81,544	81,723	82,222	82,806	83,850	84,491
■ Dependents	139,304	141,633	142,745	143,339	148,658	151,494	149,352	152,013	153,500	145,67	147,80	149,60	150,40	150,514	150,973	151,514	150,560
■ Retirees	48,968	50,437	51,992	54,184	58,598	60,537	62,593	64,718	67,639	67,240	66,822	67,755	68,681	69,482	69,107	70,037	70,155



PEEHIP Funding

PEEHIP is funded primarily by employer contributions and member premiums, copays, and deductibles.

The employer contribution rate for **PEEHIP** is set by the Legislature annually.

The rate is set at a flat amount per month to be paid by participating employers for every active employee that is eligible to participate in **PEEHIP**.

The employer contribution rate was level set at \$800 per active per month since 2017. For FY26, the rate was increased to \$904 per active per month.



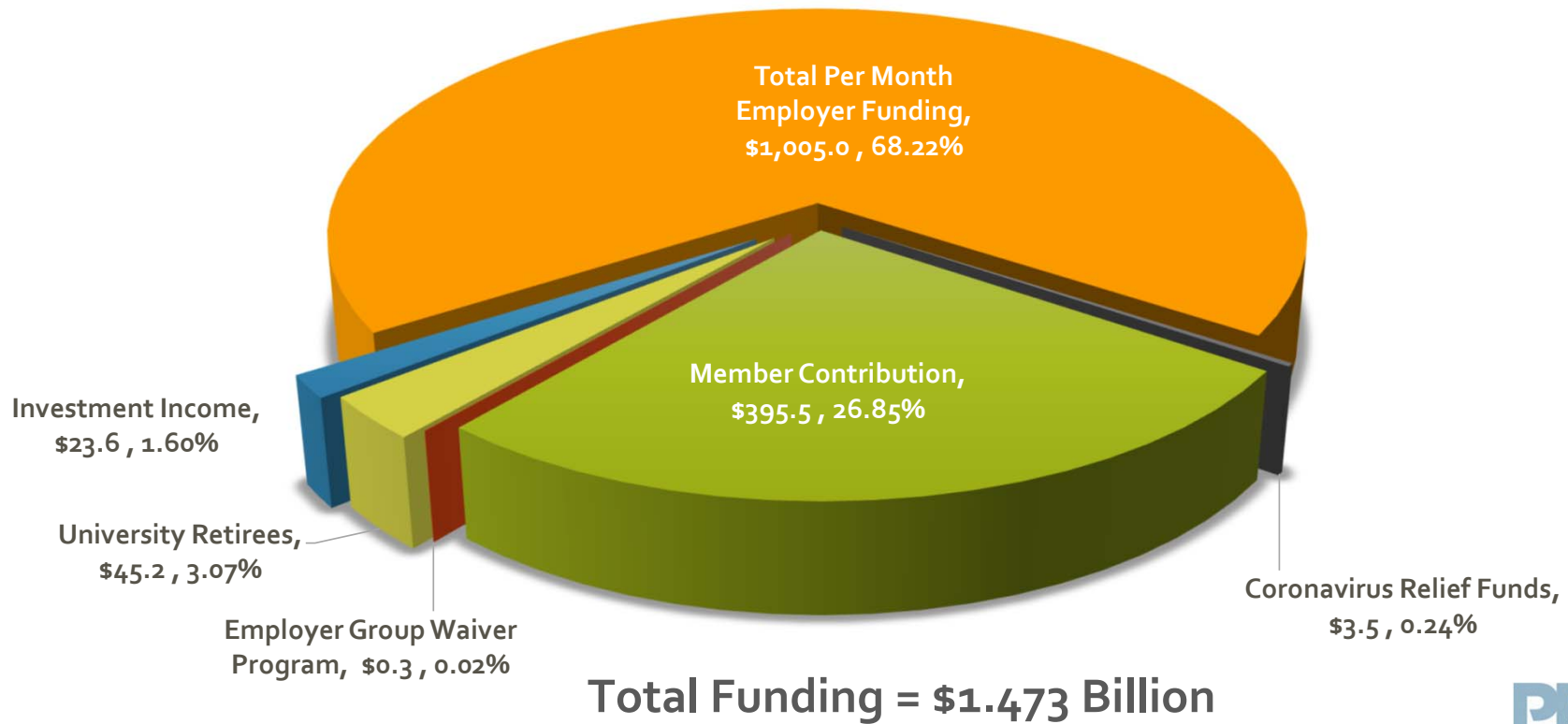
PEEHIP Funding

- ❖ The **PEEHIP** employer contribution rate is paid from the same source of funds that is used to pay salaries. *Ala. Code § 16-25A-8(a)*.
 - Based upon estimates from the EBO using FY23 data, approximately 72.17% of total employer cost comes from ETF monies; the remainder is paid from other funds (14.42% Federal, 4.21% Tuition, 0.79% Non-Government, and 8.42% Local/Other).
- ❖ Universities that have not elected to participate in **PEEHIP** are required to pay the cost of insuring university retirees who take PEEHIP coverage at retirement. *Ala. Code § 16-25A-8(i)*.



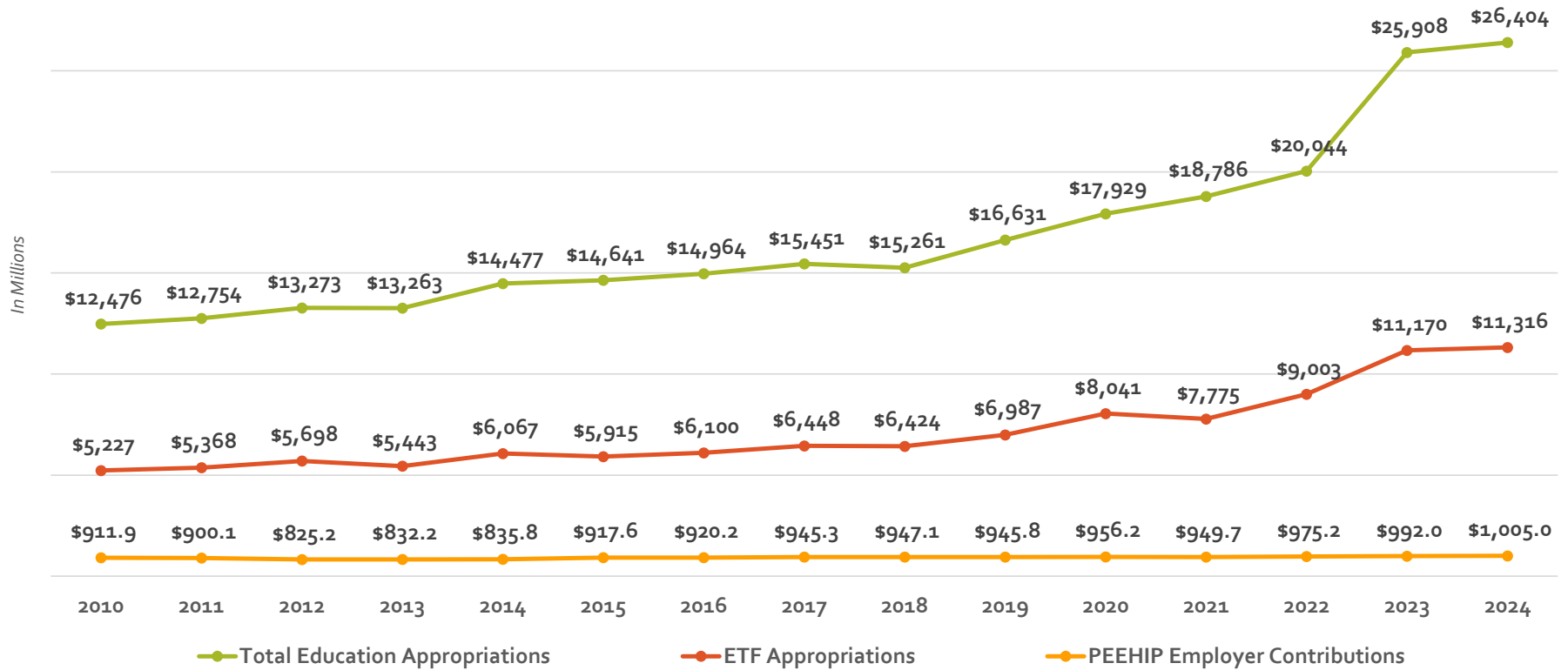
PEEHIP FY24 Funding Sources

Amounts in Millions





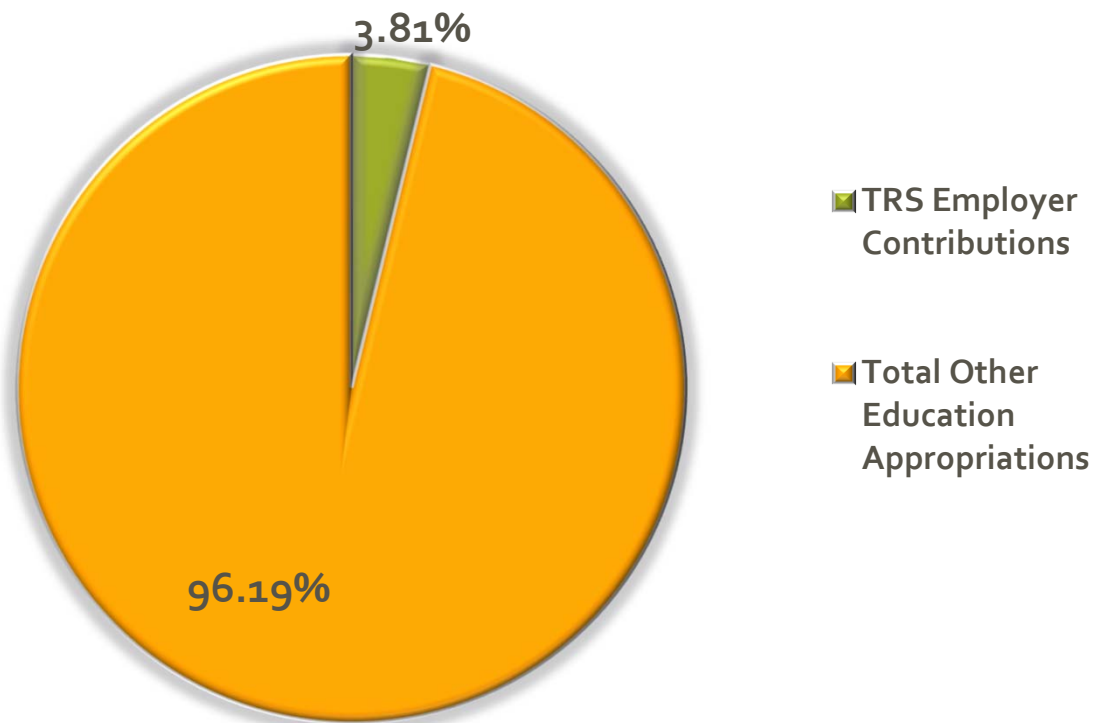
Education Appropriations and PEEHIP Employer Contributions 2010-2024





FY24 PEEHIP Employer Contributions

As a % of Education Appropriations



The employer contribution as a percentage of education appropriations is at a twenty-year low, due to the unusually high education revenues for FY24. The average percentage since 2003 is 6.20%.



PEEHIP \$800 Per Active Per Month

Usage for FY24

PEEHIP received \$800 per active per month in funding from the Legislature for FY24 (\$1,005 million). This amount is used to cover the cost for the following after members have paid their monthly premiums and all other sources of funds are received:

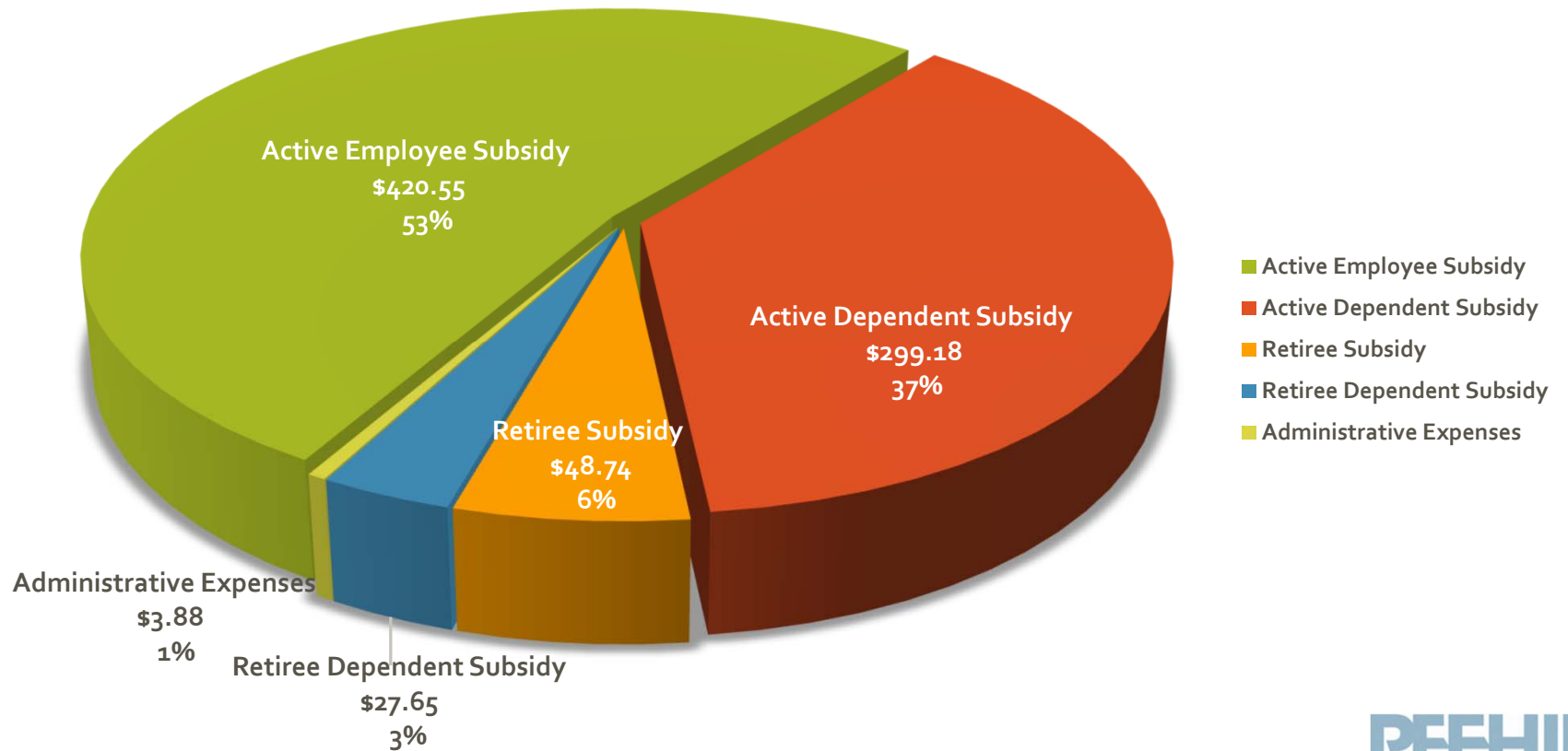
- Active subsidy
- Retiree subsidy (except University Retirees)
- Dependent subsidy (Active & Retiree)
- Administrative expenses

PEEHIP also received funding in FY24 from the following sources:

- Universities to cover their retirees when only University retirees are covered by **PEEHIP** (\$45.2 million)
- Employer Group Waiver Plan funds for Medicare eligible retirees (\$300,000)
- Investment Income (\$23.6 million)
- Member Premiums (\$395.5 million)
- COVID Funding (\$3.5 million)



PEEHIP \$800 Per Active Per Month Usage for FY24





PEEHIP Employer Contribution Rates for the 2025 Legislative Session

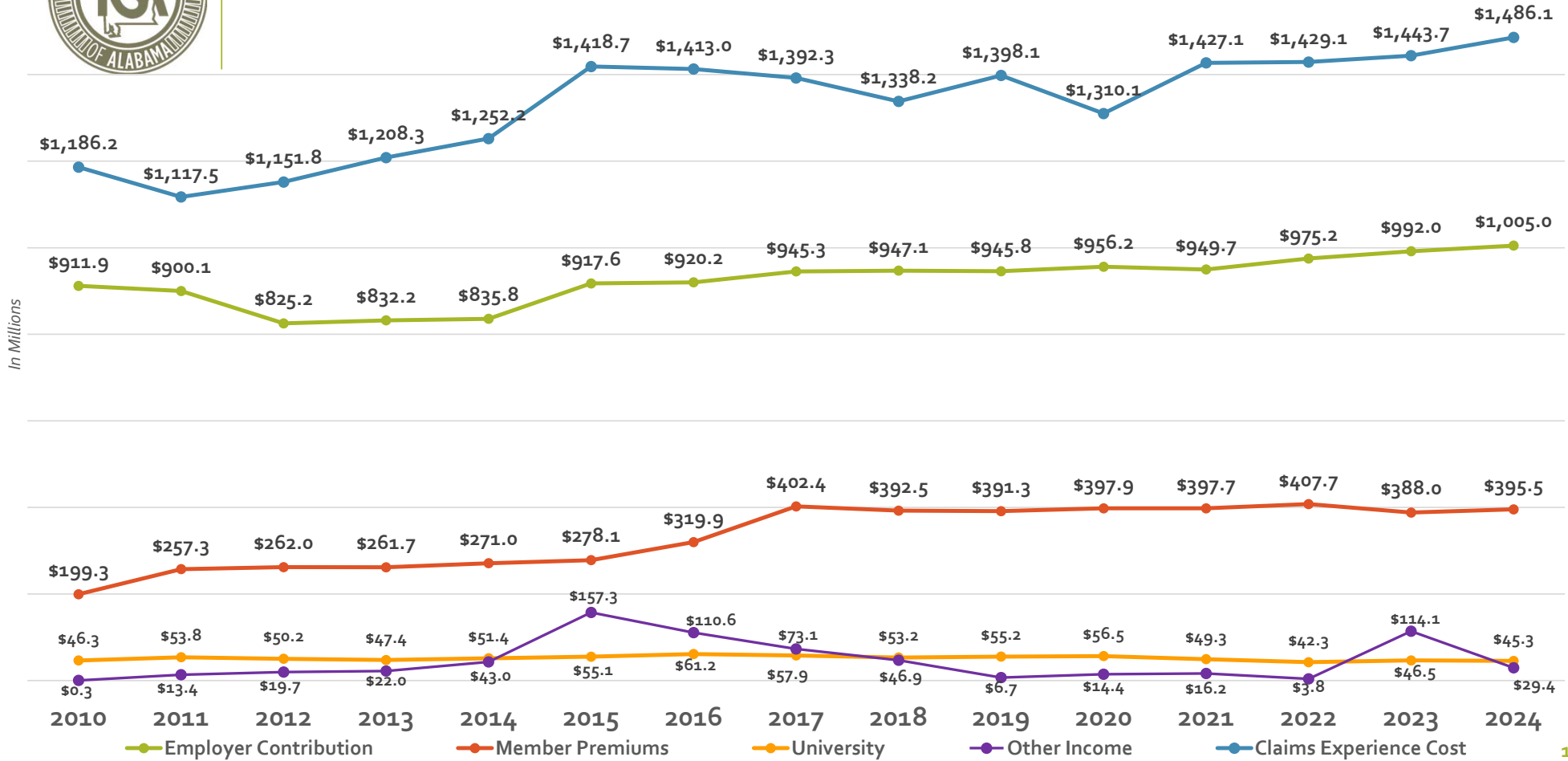
	FY24	FY25 (Current)	FY26	Increase (Decrease) from FY25
Per Active Member Per Month	\$800	\$800	\$904	\$104
Total Employer Cost*	\$1,005.0M	\$1,005.0M	\$1,129.0M	\$124M
Est. Amt. from ETF**	\$725.3M	\$725.3M	\$814.8M	\$89.5

* The estimated cost to universities for retiree healthcare coverage (\$59.3M for FY26) is not included in this amount. This estimated cost does include the administrative cost for PEEHIP that is paid from employer contributions. This administrative is listed as a separate line item in the budget spreadsheets that is submitted to the EBO.

** Based upon estimates from the EBO using FY23 data, approximately 72.17% of total employer cost is paid with ETF funds; the remainder is paid by PEEHIP participating employers from other funds (14.42% Federal, 4.21% Tuition, 0.79% Non-Government, and 8.42% Local).



PEEHIP Financial Trends 2010 - 2024

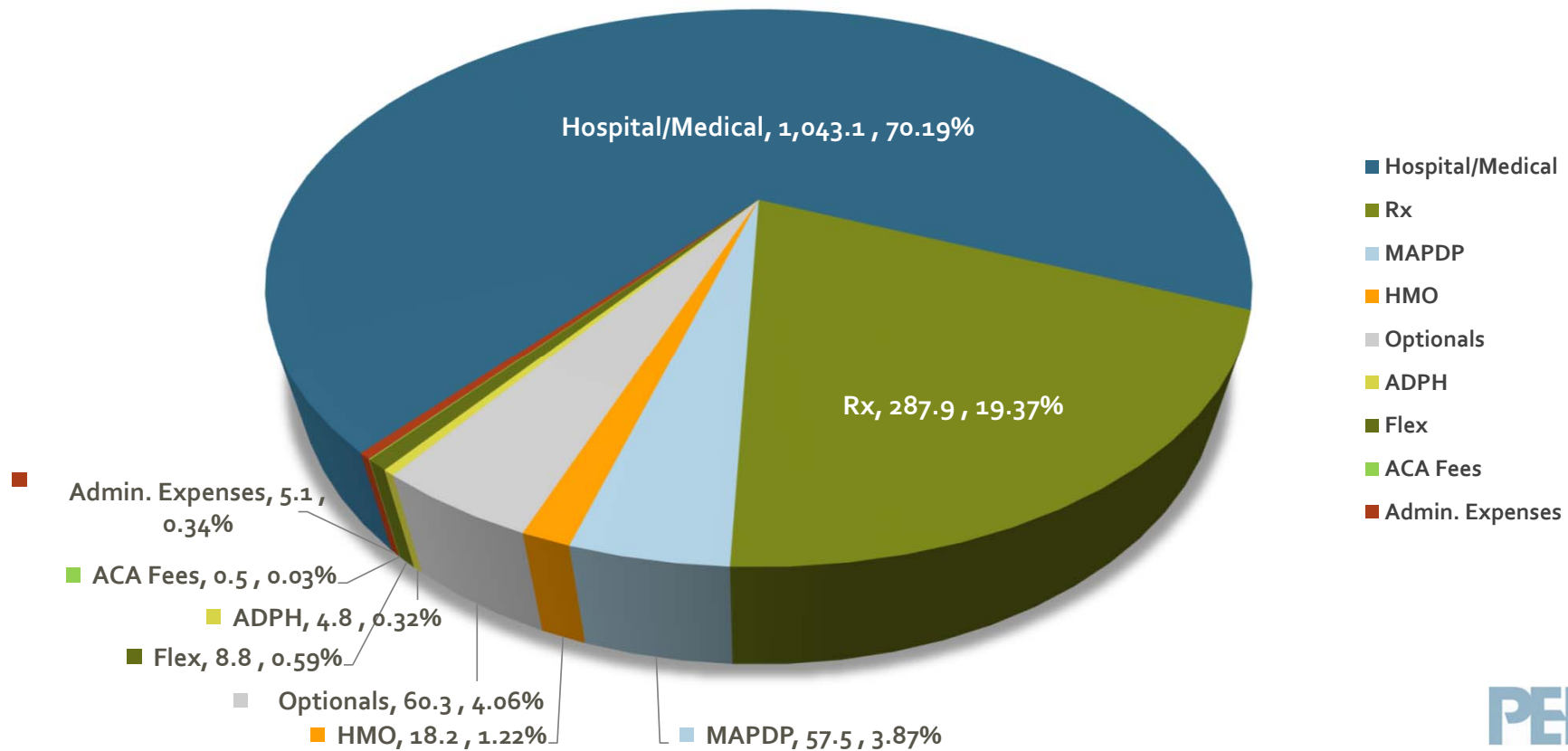




PEEHIP FY24 Program Costs

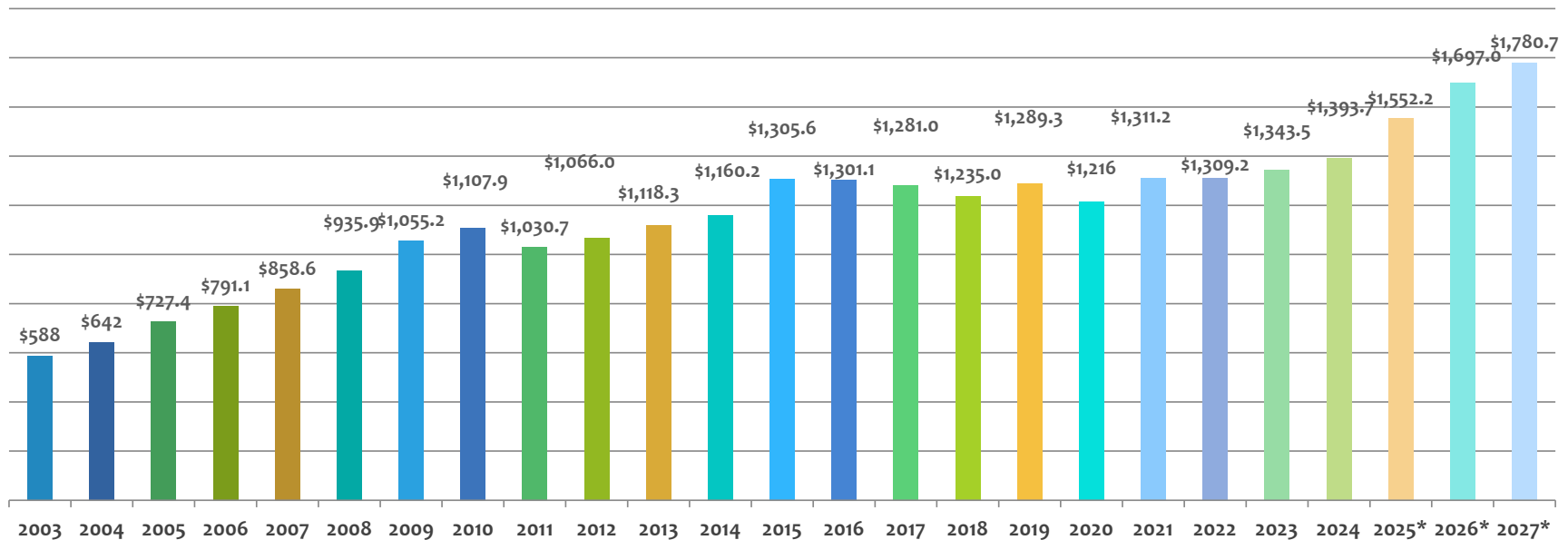
\$1.486 Billion

(amounts below in millions)





Increasing Medical and Pharmaceutical Costs 2003-2027

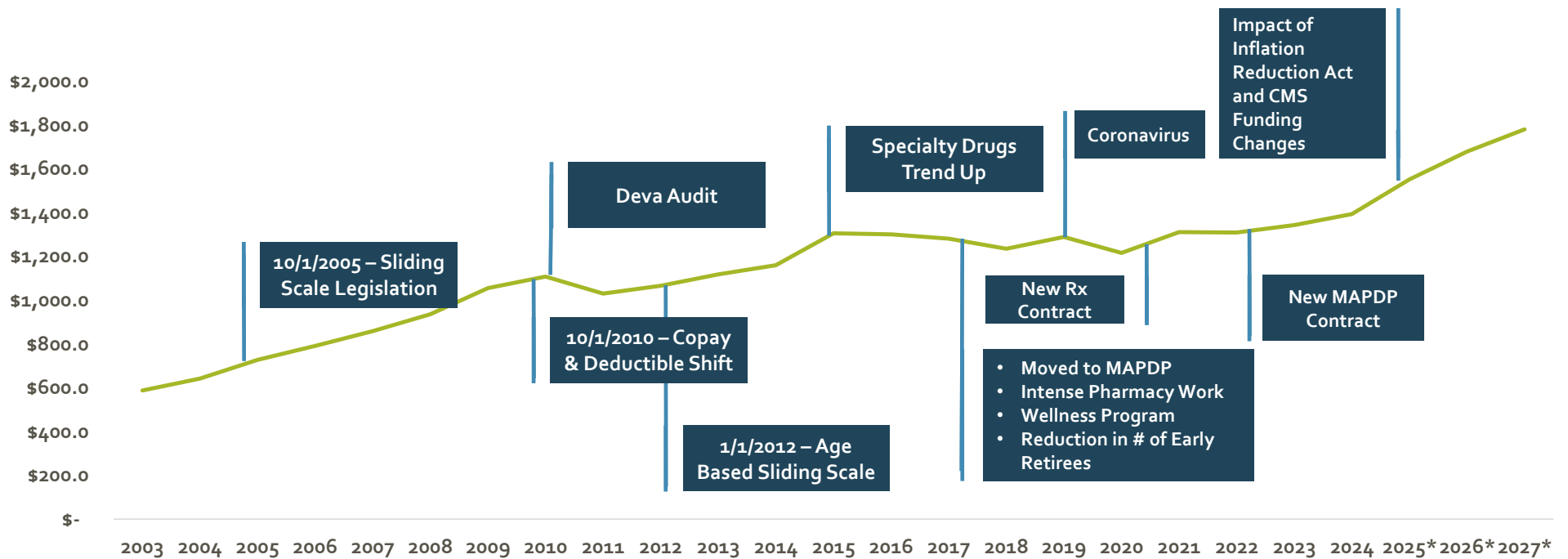


*Amounts for 2025, 2026, 2027 are estimated by Segal Consulting per projections using actual claims through 9/30/2024. Includes costs of BCBS, Retail Pharmacy, and MAPDP.

**Annual growth rate = 4.7% since 2003.



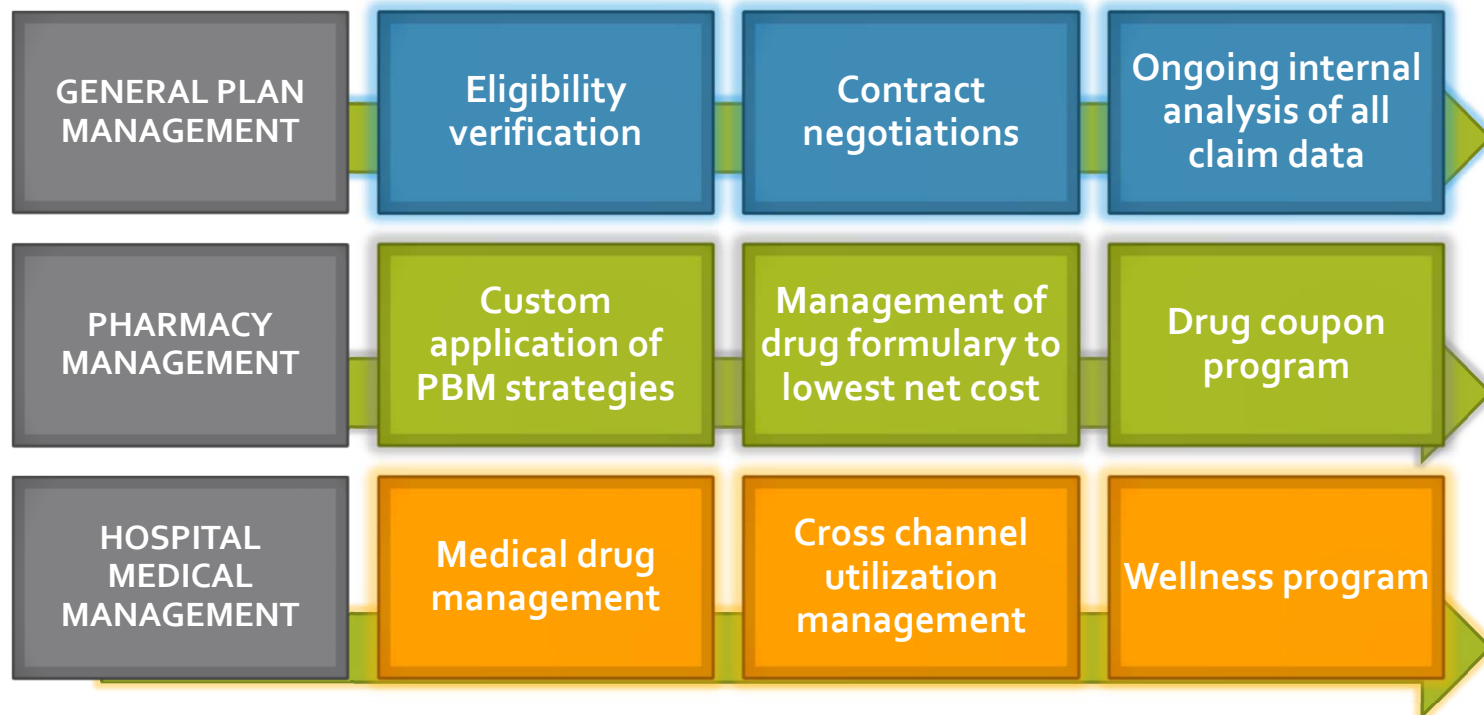
Total Medical and Pharmaceutical Costs 2003 - 2027



Conclusion: The annual growth rate of medical and pharmaceutical costs from 2003 to 2027 is 4.7%.



Managing Increasing Healthcare Costs





Alabama Retired Education Employees' Healthcare Trust Fund

The Retiree Trust was created by statute in 2007 to prefund healthcare costs for **PEEHIP** retirees and to help offset the unfunded liability for the plan.

The Retiree Trust had a market balance of \$2.357 billion as of 9/30/24. The assets of the Trust help to offset **PEEHIP's** unfunded liability.

The Retiree Trust has been funded by two transfers from **PEEHIP** in 2007 and 2008 (totaling \$631M), by monies from federal programs between 2007-2014, and by investment income.

Monies were transferred from the Trust to **PEEHIP** in 2015 (\$92M) and 2016 (\$32M) to address funding shortfalls. The Retiree Trust Board has approved \$118.9M to be transferred to **PEEHIP** in FY26 to address a shortfall in the funding of Medicare, which was created by the Inflation Reduction Act.

The Legislature created but does not appropriate money to this Trust.

No member money has ever been placed in this Trust.



PEEHIP Retiree Healthcare Liability (OPEB)

Amounts in Millions

Actuarial Valuation	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded AAL (UAAL)
2010	\$11,585	\$750	\$10,835
2011	\$9,081	\$778	\$8,303
2012	\$8,957	\$930	\$8,027
2013	\$8,994	\$1,075	\$7,919
2014	\$9,523	\$1,208	\$8,315
2015*	\$7,463	\$1,154	\$6,309
2016	\$7,920	\$1,240	\$6,680
2017	\$8,482	\$1,349	\$7,133
2018	\$8,667	\$1,429	\$7,238
2019	\$5,759	\$1,477	\$4,282
2020	\$6,017	\$1,602	\$4,415
2021	\$4,136	\$1,922	\$2,214
2022	\$4,541	\$1,634	\$2,907
2023	\$4,829	\$1,878	\$2,951
2024	\$9,996	\$2,357	\$7,638

- The 9/30/2015 Valuation reflects the move to MAPD for post-65 benefits and the change in funding method from projected unit credit to entry age normal.
- The 9/30/2019 Valuation reflects the repeal of the ACA Health Insurer Fee, updated per Medicare trend rates, and updated participation assumptions.
- The 9/30/2021 Valuation reflects the result of the MAPDP Contract effective 2023-2024.
- The 9/30/2024 Valuation reflects the result of the MAPDP Contract effective 2025.



Retiree Trust Investment Return

Fiscal Year	Market Value	Return
2008	\$598.9	-11.91%
2009	\$682.7	8.01%
2010	\$768.0	8.22%
2011	\$802.7	1.09%
2012	\$953.3	15.26%
2013	\$1,073.6	11.34%
2014	\$1,184.9	10.21%
2015	\$1,097.5	0.19%
2016	\$1,182.9	10.79%
2017	\$1,322.0	11.60%
2018	\$1,435.7	8.60%
2019	\$1,477.1	3.85%
2020	\$1,601.5	8.17%
2021	\$1,939.4	20.15%
2022	\$1,647.0	-15.04%
2023	\$1,889.1	14.75%
2024	\$2,357.2	25.28%



Amounts in Millions

RSA-1 DEFERRED COMPENSATION PLAN





RSA-1: A Deferred Compensation Plan

RSA-1 is an Internal Revenue Code Section 457 deferred compensation plan for all public employees.

No employer contributions are made.

Per Ala. Code § 36-27A-7, no administrative fees are charged to members. Instead, the administrative costs are paid from the expense funds of TRS and ERS.

As of 9/30/2024, **RSA-1** held \$2.852B in fair value assets.

Legislators are eligible to participate in **RSA-1**.





RSA-1: New Options and Features

RSA-1 now offers a Roth account option and other new features, such as:

- Enroll and submit contribution allocation changes online;
- Make investment changes more frequently and online;
- Additional online processing abilities such as submitting catch-up requests, updating federal tax withholding, making distribution requests, and making beneficiary changes.





QUESTIONS?

Neah M. Scott
Legislative Counsel
(334) 517-7180
neah.scott@rsa-al.gov