

State Employees' Insurance Board

FINANCIAL STATEMENTS

September 30, 2020

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REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
State Employees' Insurance Board

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary and fiduciary funds of the State Employees' Insurance Board (the Board) which includes the statement of net position and statement of fiduciary net position as of and for the year ended September 30, 2020 and the related statement of revenues, expenses and changes in net position, statement of cash flows, statement of changes in fiduciary net position and the notes to the financial statements, which comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the State Employees' Insurance Board as of September 30, 2020, and the respective changes in financial 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Employees' Insurance Board and do not purport to, and do not, present fairly the financial position of the State of Alabama as of September 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 State Employees' Insurance Board's financial statements for the year ended September 30, 2019, from which such partial information was derived. We have previously audited the State Employees' Insurance Board's financial statements and we expressed an unmodified opinion on the respective financial statements in our report dated March 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of Employer Contributions – Employees' Retirement System, schedule of the Board's Proportionate Share of the Net Pension Liability – Employees' Retirement System, the schedule of changes in net OPEB liability, net OPEB liability and related ratios, the schedule of Employer Contributions, the schedule of Investment Returns, the schedule of Proportionate Share of Net Other Post-Employment Benefits Liability, the schedule of Employer Contributions – State Employees' Insurance Fund – Retired, the schedule of Supplementary Ten Year Claims – Proprietary Funds, and the schedule of Supplementary Ten Year Claims – Alabama Retired State Employees' Health Care Trust be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carly Riggs & Ingram, L.L.C.

Montgomery, Alabama
February 15, 2021

State Employees' Insurance Board Management's Discussion and Analysis

The State Employees' Insurance Board (the Board) operates the State Employees' Health Insurance Plan (SEHIP) providing health care benefits to all participating State employees. The contributions and benefit payments related to retirees are processed through the Board's plans along with activity related to active employees. For presentation in this report, retiree activity is segregated and shown as part of the Alabama Retired Employees' Health Care Trust (the Trust or SEIF-Retired Trust) for SEHIP retirees.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Board's financial statements. The Board's basic financial statements are comprised of three parts: 1) fund financial statements, 2) notes to the financial statements, and 3) required supplementary information. Other supplementary information is included in addition to the basic financial statements for additional analysis.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Board uses to keep track of specific sources of funding and spending for a particular purpose. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be divided into two categories: proprietary funds and fiduciary funds. Separate statements are presented for these two fund types and are described in general below. These funds are not presented together because fiduciary fund assets are not available to fund the general operations of the Board. Funds received specifically for retiree benefits (retiree premiums and other subsidies) and funds expended specifically for retiree benefits are accounted for with active employee activity and segregated in this report for presentation purposes.

The *Statement of Net Position* presents information on all of the Board's assets and liabilities at the end of the fiscal year. The difference between the Board's assets and its liabilities is its net position. Increases or decreases in net position from year to year may serve as a useful indicator of whether the financial position of the Board is improving or not.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Board's net position changed during the most recent fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are primarily made up of health care claims and expenses related to management of the Board's health care plans.

The *Statement of Cash Flows* presents information about the Board's cash receipts and cash payments during the year. The cash flow statement is divided into three sections - operating, investing and non-capital financing activities. Also, a reconciliation of operating income to net cash provided by operating activities is presented. The Board's cash flow statement was prepared using the direct method, as required by Governmental Accounting Standards Board (GASB) Statement No. 34. Under the direct method, major classes of receipts and payments are displayed. The net change in cash during the year plus the cash at the beginning of the year equals the cash at the end of the year.

The *Statement of Fiduciary Net Position – Fiduciary Funds* and the *Statement of Changes in Fiduciary Net Position – Fiduciary Funds* present information related to activities of the Board's retiree health care plans for SEHIP. Activity for SEHIP retirees is presented with the Alabama Retired State Employees' Health Care Trust as required by GASB.

State Employees' Insurance Board Management's Discussion and Analysis

The *Notes to the Financial Statements* (the Notes) are an integral part of providing a full understanding of the financial statements. The Notes include a description of the Board, a summary of significant accounting policies, credit risk disclosures for cash and investments, concentration of investments disclosures, disclosures concerning unpaid claims and liabilities, and retirement and other post-employment benefits (OPEB) disclosures.

The *Required Supplementary Information* following the *Notes to the Financial Statements* includes disclosures for the Board as well as the State of Alabama as a whole for retirement and for OPEB related to providing health care for retirees as required by GASB.

The *Supplementary Information* following the *Required Supplementary Information* presents information required by State law for proper disclosure and other information for additional analysis of the Board's activity.

Proprietary Funds

Services for which the Board charges customers a fee are generally reported in proprietary funds. The Board maintains an internal service proprietary fund. Proprietary funds use the accrual basis of accounting.

Internal service funds report activities that provide services to other State agencies on a cost-reimbursement basis. The Board's only internal service fund is the State Employees' Health Insurance Plan.

Fiduciary Funds

The Board acts as a trustee or fiduciary for funds maintained for the SEHIP retiree health insurance plan. The Board's fiduciary activities are reported separately in the *Statement of Fiduciary Net Position - Fiduciary Funds* and the *Statement of Changes in Fiduciary Net Position - Fiduciary Funds*. These funds, which include amounts set aside in the Trust for State retiree benefits are not available for the general operations of the Board except as specified in the enabling statute for the Trust.

State Employees' Insurance Board Management's Discussion and Analysis

SUMMARY COMPARATIVE STATEMENTS OF NET POSITION - PROPRIETARY FUNDS AS OF SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>VARIANCE</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
Assets:				
Cash and cash equivalents	\$ 78,728,767	\$ 14,490,128	\$ 64,238,639	443.33%
Investments	84,446,932	119,616,902	(35,169,970)	(29.40%)
Receivables and other assets	18,927,395	15,144,599	3,782,796	24.98%
Invested securities lending collateral	4,400,295	10,863,143	(6,462,848)	(59.49%)
Property and equipment	634,899	804,608	(169,709)	(21.09%)
Total assets	<u>187,138,288</u>	<u>160,919,380</u>	<u>26,218,908</u>	<u>16.29%</u>
Deferred outflows of resources	1,173,782	1,001,735	172,047	17.17%
Liabilities:				
Accounts payable and other liabilities	26,801,311	26,249,456	551,855	2.10%
Claims incurred but not reported	19,868,746	19,398,515	470,231	2.42%
Securities lending collateral	4,400,295	10,863,143	(6,462,848)	(59.49%)
Total liabilities	<u>51,070,352</u>	<u>56,511,114</u>	<u>(5,440,762)</u>	<u>(9.63%)</u>
Deferred inflows of resources	3,475,344	2,128,772	1,346,572	63.26%
Net position	<u>\$ 133,766,374</u>	<u>\$ 103,281,229</u>	<u>\$ 30,485,145</u>	<u>29.52%</u>

Financial Highlights

- Cash and cash equivalents and investment balances fluctuate based on investment decisions made by the Board's portfolio manager. Overall balances increased due to amounts collected for premium revenues exceeding program expenses.
- Receivables and other assets increased due to amounts receivable from the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) at year-end.
- Securities lending collateral changes reflect amounts lent to other entities based on the demand for and availability of securities held by the Board.
- Property and equipment decreased due to annual depreciation expense and equipment disposals.
- Deferred inflows and outflows of resources relate to the Board's pension and other post-employment benefits activity.

State Employees' Insurance Board Management's Discussion and Analysis

SUMMARY COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>VARIANCE</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
Additions:				
Employer contributions	\$ 305,581,844	\$ 279,699,153	\$ 25,882,691	9.25%
Employee/COBRA/dependent contributions	54,952,118	54,122,360	829,758	1.53%
Investment income	5,208,434	9,718,001	(4,509,567)	(46.40%)
Other federal assistance	6,971,447	-	6,971,447	100.00%
Total additions	<u>372,713,843</u>	<u>343,539,514</u>	<u>29,174,329</u>	<u>8.49%</u>
Deductions:				
Medical benefits	335,659,397	315,881,258	19,778,139	6.26%
Other participant related programs	958,844	865,229	93,615	10.82%
Regulatory expense	123,340	132,632	(9,292)	(7.01%)
Administrative expenses	1,456,050	1,320,043	136,007	10.30%
Other expenses	1,132,876	1,027,468	105,408	10.26%
Transfers to Flexible Employees'				
Benefits Board	2,898,191	2,842,318	55,873	1.97%
Total deductions	<u>342,228,698</u>	<u>322,068,948</u>	<u>20,159,750</u>	<u>6.26%</u>
Change in plan net position	30,485,145	21,470,566	9,014,579	41.99%
Net position - beginning of year	<u>103,281,229</u>	<u>81,810,663</u>	<u>21,470,566</u>	<u>26.24%</u>
Prior period adjustment				
Net position - beginning of year	<u>103,281,229</u>	<u>81,810,663</u>		
Net position - end of year	<u>\$ 133,766,374</u>	<u>\$ 103,281,229</u>	<u>\$ 30,485,145</u>	<u>29.52%</u>

Financial Highlights

- Increases in employer contributions reflect a decrease in transfers to the retiree trust.
- Investment income decreased due to lower returns on securities held by the Board.
- SEHIP received \$6,971,447 from the State of Alabama through the CARES Act in fiscal year 2020. The funds were distributed to state governments to pay for costs incurred in responding to the COVID-19 outbreak.
- Medical benefits and other participant related programs expenses increased as expected from industry cost trends.
- Decreases in regulatory expense reflect changes in fees and rates mandated by the Affordable Care Act.
- Administrative expenses increased due to decreased administrative fees collected from other agencies.
- Other expenses increased due to implementation of several program changes during the year.
- Transfers to the Flexible Employees' Benefits Board were mostly unchanged.
- Changes in net position were as expected.

State Employees' Insurance Board Management's Discussion and Analysis

SUMMARY COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION AS OF SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>VARIANCE</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
Assets:				
Cash and cash equivalents	\$ 19,757,060	\$ 14,679,414	\$ 5,077,646	34.59%
Investments	185,223,931	175,383,358	9,840,573	5.61%
Receivables and other assets	14,182,756	62,280,367	(48,097,611)	(77.23%)
Invested securities lending collateral	81,442,642	4,395,216	77,047,426	1752.98%
Total assets	<u>300,606,389</u>	<u>256,738,355</u>	<u>43,868,034</u>	<u>17.09%</u>
Liabilities:				
Accounts payable and other liabilities	9,602,105	33,018,173	(23,416,068)	(70.92%)
Claims incurred but not reported	3,831,254	28,469,485	(24,638,231)	(86.54%)
Securities lending collateral	81,442,642	4,395,216	77,047,426	1752.98%
Total liabilities	<u>94,876,001</u>	<u>65,882,874</u>	<u>28,993,127</u>	<u>44.01%</u>
Net position held in trust for OPEB	<u>\$ 205,730,388</u>	<u>\$ 190,855,481</u>	<u>\$ 14,874,907</u>	<u>7.79%</u>

Financial Highlights

- Cash, cash equivalents and investments increased due to the Trust's focus on long-term investments as opposed to lower yielding short-term investments.
- Receivables and other assets reflect a decrease in the Medicare subsidy receivable due to the change to a fully insured Medicare Advantage Plan.
- Changes in securities lending collateral reflect amounts lent to other entities based on the demand for and availability of securities held by the Board.
- Accounts payable decreased due to the change in Medicare Advantage Administrators to a fully insured plan.
- Claims incurred but not reported decreased, due to the change to a fully insured Medicare Advantage plan.

State Employees' Insurance Board Management's Discussion and Analysis

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>VARIANCE</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
Additions:				
Employer contributions	\$ 54,480,012	\$ 74,781,414	\$ (20,301,402)	(27.15%)
Employee contributions	40,133,480	41,160,304	(1,026,824)	(2.49%)
Investment income	14,874,907	6,677,443	8,197,464	122.76%
Total additions	<u>109,488,399</u>	<u>122,619,161</u>	<u>(13,130,762)</u>	<u>(10.71%)</u>
Deductions:				
Medical benefits	94,291,703	115,499,177	(21,207,474)	(18.36%)
Regulatory expense	31,907	52,527	(20,620)	(39.26%)
Other expenses	289,882	390,014	(100,132)	(25.67%)
Total deductions	<u>94,613,492</u>	<u>115,941,718</u>	<u>(21,328,226)</u>	<u>(18.40%)</u>
Change in plan net position	<u>14,874,907</u>	<u>6,677,443</u>	<u>8,197,464</u>	<u>122.76%</u>
Net position - beginning of year	190,855,481	184,178,038	6,677,443	3.63%
Net position - end of year	<u>\$ 205,730,388</u>	<u>\$ 190,855,481</u>	<u>\$ 14,874,907</u>	<u>7.79%</u>

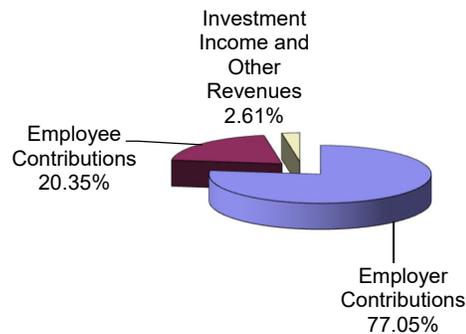
Financial Highlights

- Decreases in employer contributions and medical benefits were the result of the change to a fully funded Medicare Advantage plan.
- Investment income increased because of overall returns from maturing and divested securities. This result should be viewed along with the increased market value of securities held as shown on the statement of net position.
- Medical benefits decreased due to change to a fully insured Medicare Advantage plan.
- Regulatory expense reduction reflect a decrease in membership subject to fees mandated by the Affordable Care Act.
- Decreases in other expenses were due to a decrease in wellness screening utilization.

State Employees' Insurance Board Management's Discussion and Analysis

SOURCES OF FUNDS

The Board has three primary sources of revenue - employer contributions, employee and retiree contributions, and investment earnings. Employer contribution rates are established by the legislature in the annual general fund appropriations act. Employee and retiree premium rates are set by the Board each year, prior to the annual open enrollment period in November. Investment of funds on hand is managed by the Retirement Systems of Alabama through an interagency agreement. Other revenue is primarily prior year refunds and other immaterial one-time revenues.



State agencies paid \$930 per employee per month for health care in fiscal year 2020. This amount was used to subsidize active employee and retiree coverage as well as family coverage.

Fixed monthly premiums set on a calendar year basis are paid by state employees for health insurance. For calendar year 2020, single coverage premiums were \$115. Family coverage premiums without a spouse were \$305 and \$440 with a spouse. A \$25 per month wellness participation discount and a \$60 per month non-tobacco user discount were available to qualified employees and covered spouses. These discounts, if earned, lowered the effective monthly premium to \$30 for single coverage, \$220 for family coverage without a spouse and \$270 for family coverage with a spouse.

Family plan premiums that include spousal coverage include a \$50 per month spousal surcharge. A waiver of this surcharge is available provided certain conditions are met.

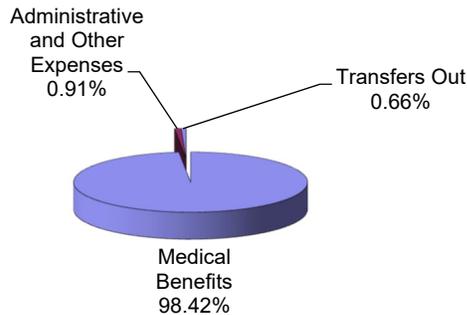
The Board offers optional dental, vision, and cancer coverage. Dental coverage was \$8 for single and \$15 for family. Vision coverage was \$12 for single and \$24 for family. Cancer coverage was also \$12 for single and \$24 for family. Two different dental plans are offered with slightly different benefits.

Retired employees and surviving spouses pay premiums based on several factors including years of service, age, and Medicare eligibility. Details are included in the Notes to the Financial Statements at Note 12.

State Employees' Insurance Board Management's Discussion and Analysis

USES OF FUNDS

The Board's primary mission is to provide a health care plan for active and retired state employees.



Medical benefits are composed of health care claims processed by the Board's claims processors and other participant related programs. Other participant related programs include wellness screenings and disease management services among other programs.

Administrative and other expenses are costs of enrollment, accounting, information technology, and other expenses necessary for managing the program.

Transfers out include transfers to the Flexible Employees' Benefits Board (FEBB). Transfers to the FEBB totaling \$2,898,191 were used to fund administrative costs and employee participation incentives of the flexible benefits program. Incentives for employee participation were funded from employee premiums received by the SEHIP. In fiscal year 2020, the flexible benefits program saved the State of Alabama \$5,171,725 in employee fringe benefits.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the State Employees' Insurance Board's finances for all those with an interest in the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: William L. Ashmore, Chief Executive Officer; P.O. Box 304900; Montgomery, AL 36130-4900.



FINANCIAL STATEMENTS

State Employees' Insurance Board
Statement of Net Position – Proprietary Funds

September 30,

2020

Assets	
Current assets	
Cash and cash equivalents	\$ 78,728,767
Investments	84,446,932
Interest receivable	459,133
Drug rebates receivable	8,591,664
Premiums receivable	174,883
Federal funds receivable	3,642,667
Accounts receivable	424,001
Prepaid expenses	257,481
Due from other funds	1,043,350
Due from other governments	643,506
Due from SEIF - Retired Trust	3,690,710
Invested securities lending collateral	4,400,295
Total current assets	186,503,389
Capital assets	
Office furniture and equipment	720,359
Leasehold improvements	1,803,600
	2,523,959
Less accumulated depreciation	(1,889,060)
Net capital assets	634,899
Total assets	187,138,288
Deferred outflows of resources	
Pensions	872,687
OPEB	301,095
Total deferred outflows of resources	1,173,782
Total assets and deferred outflows of resources	\$ 188,312,070

The accompanying notes are an integral part of these financial statements.

State Employees' Insurance Board
Statement of Net Position – Proprietary Funds
(Continued)

<i>September 30,</i>	2020
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,684,397
Reported claims payable	14,492,729
Claims incurred but not reported	19,868,746
Premiums received in advance	88,901
Due to Flexible Employees' Benefits Board	184,259
Securities lending collateral	4,400,295
Total current liabilities	40,719,327
Long-term liabilities	
Net OPEB obligation	2,826,905
Net pension liability	7,524,120
Total non-current liabilities	10,351,025
Total liabilities	51,070,352
Deferred inflows of resources	
Pensions	394,428
OPEB	3,080,916
Total deferred inflows of resources	3,475,344
Total liabilities and deferred inflows of resources	54,545,696
Net position	
Net investment in capital assets	634,899
Unrestricted	133,131,475
Total net position	\$ 133,766,374

The accompanying notes are an integral part of these financial statements.

**State Employees' Insurance Board
Statement of Revenues, Expenses and Changes
in Net Position – Proprietary Funds**

<i>Year ended September 30,</i>	2020
Operating revenues	
Premium contributions:	
Employer/subscriber	\$ 305,581,844
Employee/dependent	54,952,118
Total operating revenue	360,533,962
Operating expenses	
Medical claims expense	335,659,397
Consulting services	1,132,876
Other participant related programs	958,844
Regulatory expense	123,340
Administrative expenses	1,267,420
Depreciation expense	174,066
Total operating expenses	339,315,943
Operating income	21,218,019
Non-operating revenues and (expenses)	
Securities lending income	79,649
Securities lending expenses:	
Borrower rebates	(42,174)
Management fees	(12,797)
Net income from securities lending	24,678
Investment income	5,183,756
Other federal assistance	6,971,447
Loss on disposal of assets	(15,901)
Casualty insurance proceeds	1,337
Transfer to Flexible Employees' Benefits Board	(2,898,191)
Total non-operating expenses	9,267,126
Change in net position	30,485,145
Net position, beginning of year	103,281,229
Net position, end of year	\$ 133,766,374

The accompanying notes are an integral part of these financial statements.

State Employees' Insurance Board
Statement of Cash Flows – Proprietary Funds

<i>Year ended September 30,</i>	2020
Cash flows from (used for) operating activities:	
Cash receipts for premium contributions	\$ 360,512,111
Cash payments for medical claims	(329,431,065)
Cash payments to suppliers for goods and services	(4,260,636)
<hr/>	
Net cash from (used for) operating activities	26,820,410
Cash flows from (used for) capital activities:	
Proceeds from casualty insurance	1,337
Equipment additions	(20,258)
<hr/>	
Net cash from (used for) capital activities	(18,921)
Cash flows from (used for) non-capital and related financing activities:	
Net non-operating payment from SEIF - Retired Trust	(3,539,943)
Cash receipts from federal assistance	3,328,780
Net non-operating payment to Flexible Employees' Benefits Board	(2,897,137)
<hr/>	
Net cash from (used for) non-capital and related financing activities	(3,108,300)
Cash flows from (used for) investing activities:	
Proceeds from sale/maturities of investments	73,018,069
Purchase of investments	(35,409,313)
Investment income received	2,912,016
Securities lending income received	24,678
<hr/>	
Net cash from (used for) investing activities	40,545,450
<hr/>	
Net increase (decrease) in cash and cash equivalents	64,238,639
<hr/>	
Cash and cash equivalents, beginning of year	14,490,128
<hr/>	
Cash and cash equivalents, end of year	\$ 78,728,767

The accompanying notes are an integral part of these financial statements.

**State Employees' Insurance Board
Statement of Cash Flows – Proprietary Funds (Continued)**

Year ended September 30,

2020

**Reconciliation of operating income to net cash from
(used for) operating activities:**

Operating income	\$	21,218,019
Adjustments to reconcile operating income to net cash from (used for) operating activities:		
Depreciation expense		174,066
Deferred outflows of resources		(172,047)
Deferred inflows of resources		1,346,572
Change in operating assets and liabilities:		
Premiums receivable		(3,293)
Accounts receivable		248,085
Drug rebates receivable		3,046,423
Prepaid expenses		224,738
Accounts payable and accrued expenses		(49,317)
Reported claims payable		2,463,593
Claims incurred but not reported		470,231
Premiums received in advance		(18,558)
Net pension liability		326,049
Net OPEB obligation		(2,170,966)
Due from other funds		(283,185)
Total adjustments		5,602,391
Net cash from (used for) operating activities		\$ 26,820,410

The accompanying notes are an integral part of these financial statements.

State Employees' Insurance Board
Statement of Fiduciary Net Position— Fiduciary Funds

<i>September 30,</i>	2020
	SEIF -Retired Trust
Assets	
Current assets	
Cash and cash equivalents	\$ 19,757,060
Investments	185,223,931
Interest receivable	749,397
Drug rebates receivable	1,565,168
Premiums receivable	1,057
Medicare Advantage subsidies receivable	11,867,134
Invested securities lending collateral	81,442,642
Total current assets	300,606,389
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	44,092
Reported claims payable	2,744,475
Claims incurred but not reported	3,831,254
Premiums received in advance	3,122,828
Due to SEHIP	3,690,710
Securities lending collateral	81,442,642
Total current liabilities	94,876,001
Fiduciary net position	
Net position held in trust for other post-employment benefits	\$ 205,730,388

The accompanying notes are an integral part of these financial statements.

State Employees' Insurance Board
Statement of Changes in Fiduciary Net Position – Fiduciary Funds

<i>Year ended September 30,</i>	2020
	SEIF -Retired Trust
Additions	
Contributions:	
Employer/subscriber	\$ 54,480,012
Employee/dependent	40,133,480
Total contributions	94,613,492
Investment income	14,683,052
From securities lending activities:	
Securities lending income	447,178
Less securities lending expenses:	
Borrower rebates	(161,006)
Management fees	(94,317)
Net income from securities lending activities	191,855
Total investment income	14,874,907
Total additions	109,488,399
Deductions	
Medical claims expense	94,291,703
Other participant related programs	201,135
Regulatory expense	31,907
Administrative expenses	88,747
Total deductions	94,613,492
Change in fiduciary net position	14,874,907
Fiduciary net position held in trust for other post-employment benefits, beginning of year	190,855,481
Fiduciary net position held in trust for other post-employment benefits, end of year	\$ 205,730,388

The accompanying notes are an integral part of these financial statements.

State Employees' Insurance Board Notes to Financial Statements

Note 1: DESCRIPTION OF PLANS

General

The State Employees' Insurance Board (the Board) is responsible for the establishment of the State of Alabama's (the State) health insurance plan and its general administration, including the determination of participant premiums, and operations. The State Employees' Insurance Board is a body incorporated for the purpose of management of health insurance benefits.

The Board is governed by an 11 member Board of Directors consisting of five State Personnel Board members, the Director of Finance, the Chief Executive Officer of the Retirement Systems of Alabama, two state employees, and two retirees covered under the Board's plan.

State Employees' Insurance Fund (SEIF)

The State Employees' Insurance Fund was established in 1965 under the provisions of Act 833 of the Legislature to provide health insurance benefits for employees and retired employees of the State and certain state agencies. Effective October 1, 1988, administrative responsibility for SEIF was transferred from the Retirement Systems of Alabama to separate staff employed by the Board. All assets of SEIF are held in trust for payment of health insurance benefits. Active and retiree health benefits are paid through SEIF.

Alabama Retired State Employees' Health Care Trust (SEIF - Retired Trust)

In order to comply with the reporting requirements as set out in Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, the contribution (employer and plan member) and benefit payments related to retirees that are processed through the SEIF are segregated from the SEIF and reported as part of the Alabama Retired State Employees' Health Care Trust (SEIF - Retired Trust). The SEIF - Retired Trust is a single employer defined benefit health care plan, also known as other post-employment benefits (OPEB) trust, established in 2007 under the provisions of the Retiree Health Care Funding Act of 2007 (2007-16) as an irrevocable trust fund. Constitutional amendment 798 provides further legal authority to the SEIF - Retired Trust as an irrevocable trust fund. The assets of the SEIF - Retired Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses, and provide post-employment health care benefits to or for retired employees and their dependents in accordance with the terms of the plan. Plan assets of SEIF - Retired Trust are legally protected from creditors. The legislature has no authority or power to appropriate the assets of the SEIF - Retired Trust. Responsibility for the general administration and operations of the SEIF - Retired Trust is vested in its trustees who consist of the Board's members.

State Employees' Insurance Board

Notes to Financial Statements

Note 1: DESCRIPTION OF PLANS (Continued)

Benefits

The State Employees' Health Insurance Plan (the SEHIP) provides basic medical coverage for up to 365 days of care per year during each hospital confinement, outpatient care, physicians' benefits, radiation therapy, and major medical benefits with no lifetime maximum. Participants should refer to the SEHIP agreement for a complete description of the SEHIP's provisions.

In lieu of the SEHIP, the Board offers a supplemental coverage benefit and an optional suite of coverages. Separate group dental, vision, and cancer contracts are also offered for eligible participants who elect coverage. Participants should refer to coverage agreements for a complete description of provisions.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Board is a part of the State's reporting entity. SEIF is an internal service fund of the State. SEIF - Retired Trust is a pension and other employee benefit trust fund. The financial statements present only the Board and do not purport to, and do not, present fairly the financial position of the State of Alabama as of September 30, 2020, and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The notes accompanying these financial statements relate directly to the Plan.

Measurement focus and basis of accounting

The financial statements of the Board have been prepared in conformity with U.S. GAAP as applied to government units.

Under U.S. GAAP, the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when earned, pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plans. Revenues are recognized and recorded when earned and expenses are recorded when a liability is incurred.

The Board applies all applicable GASB pronouncements.

Financial statement presentation

The financial statements and notes to the financial statements provide reporting for SEIF and SEIF - Retired Trust, the funds administered by the Board. All significant interfund balances and transactions have been eliminated.

State Employees' Insurance Board Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds

The activities of SEIF, an internal service fund, are accounted for within proprietary funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. Due to the application of GASB Statement No. 74, the proprietary funds only report activities of SEIF's active employees.

Fiduciary fund

The activities of SEIF - Retired Trust, another post-employment benefits trust, are accounted for within a fiduciary fund. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units.

Pension and other employee benefit trust funds account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans. Agency funds report assets and liabilities for deposits and investments entrusted to the Board as an agent for others. Due to the application of GASB Statement No. 74, the fiduciary fund only reports activities of SEIF's retired employees.

Cash and cash equivalents

Highly liquid investments with a maturity of 90 days or less when acquired are classified as cash equivalents. Included in cash equivalents are commercial papers and money market funds. These are held in the Board's name by a broker, dealer, or safekeeping agent.

Investment securities

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, issued March 1997, establishes accounting and financial reporting standards for investments held by governmental entities. It essentially requires all investments to be carried at fair value in the statement of net position, with all investment income, including changes in fair value, reported as revenue in the statement of revenues, expenses, and changes in net position. Therefore, all investments are reported at fair value for the year ended September 30, 2020, and investment income includes changes in fair value.

State Employees' Insurance Board Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Drug rebates receivable of \$8,591,664 and \$1,565,168 as shown in the proprietary statement of net position and the fiduciary statement of net position, consist of non-Medicare drug rebates receivable and accrued during the current period. The Board considers such amounts to be fully collectible and as such, an allowance for uncollectible amounts has not been accrued.

Coronavirus Relief Funds and Other Federal Assistance

The federal Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law on March 27, 2020. The act authorized \$150 billion through the Coronavirus Relief Fund (CRF) for state and local governments, including \$1.8 billion for Alabama, to pay for costs incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) pandemic.

The Board requested reimbursement for health insurance claims processed for the members of SEHIP through Blue Cross Blue Shield of Alabama and administrative expenses. As of September 30, 2020, SEHIP has recorded a total of \$6,971,447 as Transfers From Internal Service Fund in the Statement of Revenues, Expenses and Changes in Fund Net Position and a receivable of \$3,642,667 in the statement of net position – proprietary funds.

Capital assets

All capital assets are recorded at historical cost and depreciated using the straight-line method over 5 - 10 years for furniture and equipment, and 15 years for leasehold improvements, which correspond to the assets' estimated useful lives.

Unpaid claims liabilities

The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future retroactive claims adjustments) that have been reported but not settled and of estimated claims that have been incurred but not reported. The estimation of claims costs depends on many factors including historical loss experience. Actual claims cost 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 of the estimated claim liabilities based on actual results are charged or credited to expense in the periods in which such adjustments are determined.

Postemployment benefits other than pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the SEIF-Retired Trust (the Trust) and additions to/reductions from the Trust's fiduciary net position have been determined on the same basis as they are reported by the Trust. For this purpose, the Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

State Employees' Insurance Board Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net position

For proprietary funds, net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following two components; investment in capital assets and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Unrestricted consists of all other net position components not included in the above categories.

Contributions

The Plan provides that the employers contribute monthly for the medical and dental insurance of participating employees. Coverage is also available to dependents of employees with their premiums typically being paid by the employee. Employee and dependent premium amounts are determined annually and are set at a rate necessary to provide sufficient funds to pay all claims and reasonable expenses of administering the plans.

Proprietary fund operating revenues and expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Premiums

The Board recognizes revenue from the receipt of premiums in the period in which the related coverage occurs. Premium payments received in advance of the coverage period are recorded as a liability. Premiums not received by the end of a coverage period are recorded as premiums receivable.

State Employees' Insurance Board
Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Medicare Advantage Plan

The SEIF received funds for its participation in Medicare Advantage (MA) during fiscal year 2020. The amount received from this program is a result of the SEIF operating MA for Medicare eligible retirees and dependents. The MA payments not received by the end of the coverage period are recorded on the statements of fiduciary net position as subsidies receivable as follows:

	SEIF - Retired Trust
Catastrophic Reinsurance Subsidy	11,356,448
Drug Rebates	510,686
Total Medicare Advantage subsidies receivable	\$ 11,867,134

Note 3: CONTRACT ADMINISTRATORS

The Board contracted with the following administrators to manage its various programs:

Blue Cross Blue Shield of Alabama (BCBSA) administers medical and dental claims in accordance with the SEHIP. The claims administration fee for calendar years 2019 and 2020 were \$28.05 and \$27.85 per subscriber per month respectively for medical and dental claims.

Prime Therapeutics administered prescription drug claims in accordance with the SEHIP through December 31, 2019. The claims administration fee for the calendar year 2019 was \$1.55 per drug claim.

BCBSA administered the Board's self-insured Medicare Advantage plan through December 31, 2019. The claims administration fee for calendar year 2019 was \$28.05 per member per month.

United Healthcare began administering the Board's fully insured Medicare Advantage plan effective January 1, 2020. No claims administration charges were incurred for the 2020 calendar year.

Optum Rx began administering the Board's prescription drug claims in accordance with the SEHIP effective January 1, 2020. The claims administration fee for the calendar year 2020 was \$1.20 per paid drug claim.

Southland Benefit Solutions administers the Board's optional insurance products offered to subscribers. For calendar years 2019 and 2020 respectively, claims administration fees charged were \$0.78 and \$0.80 for hospital indemnity, \$1.45 and \$1.49 for dental, \$0.63 and \$0.66 for cancer and \$1.12 and \$1.12 for vision plans per subscriber per month.

The total charges for claims administration for the fiscal year ended September 30, 2020 were \$12,007,898 for active employees. The charges were included in the medical claims expense in the statement of revenues, expenses, and changes in net position.

State Employees' Insurance Board Notes to Financial Statements

Note 3: CONTRACT ADMINISTRATORS (Continued)

For SEIF - Retired Trust, the total charges for claims administration for the fiscal year ended September 30, 2020 were \$3,970,615. The charges were included in the medical claims expense in the statement of changes in fiduciary net position.

Note 4: CASH AND CASH EQUIVALENTS

As of September 30, 2020, cash consisted of non-interest bearing deposits held by the State Treasurer and a financial institution in the name of the Board.

The Board's deposits were covered by federal depository insurance (FDIC) or by collateral held with the State Treasurer's office in the name of the State Treasurer under the Security for Alabama Funds Enhancement Act. Under the Act, financial institutions holding public deposits in excess of the amounts insured by FDIC must pledge collateral to a collateral pool in the name of the State Treasurer. The State Treasurer is responsible for monitoring compliance with the collateralization and reporting requirements of the Act. If any member financial institution fails, the entire collateral pool becomes available to satisfy claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the Act are considered fully secured.

Note 5: INVESTMENTS

Investment policy

The Board adopted the current investment policies for the Board on May 17, 2000, and the Trust Fund on March 20, 2008. The same policy was adopted for both proprietary and trust fund investments.

The objective of the policy is to balance market and credit risks against the potential investment return, to make investments compatible with the policy, and to maintain compliance with regulatory investment requirements.

All investments are assumed to be suitable to be held to maturity. However, sale prior to maturity may be warranted in some cases. For example, investments may be sold if the quality of an investment is expected to deteriorate, if the need to change the maturity structure of the portfolio arises, or if swaps would allow increased yields. In any case, the investment portfolio is not intended to be used for speculative purposes.

The Board is ultimately responsible for the investment policy and all related transactions. However, the Board has delegated day-to-day responsibility of carrying out the policy to the Chief Executive Officer (CEO). The CEO is authorized to seek whatever professional guidance is necessary to perform his responsibilities from the following sources:

- The State Treasurer of Alabama or the Retirement Systems of Alabama.
- A professionally recognized investment firm who shall be approved by the Board.
- A Board staff member with comprehensive investment experience.

State Employees' Insurance Board Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Investment policy (Continued)

The CEO is required to maintain records of investment activity and report to the Board upon request. The CEO currently utilizes the Retirement Systems of Alabama to manage the Board's investments.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 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. However, the Board's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following table as if they were held to maturity. The Board has no policy on interest rate risk.

The following represents proprietary funds interest rate risk as of September 30, 2020:

	INVESTMENT MATURITIES AT FAIR VALUE (IN YEARS)				TOTAL FAIR VALUE
	LESS THAN 1	1 - 5	6 - 10	MORE THAN 10	
Fixed-maturity:					
Commercial paper	\$ 6,719,322	\$ -	\$ -	\$ -	\$ 6,719,322
U.S. Treasury	1,097,817	4,760,302	2,479,917	4,920,723	13,258,759
U.S. Agency	1,537,879	2,280,035	1,263,636	396,311	5,477,861
CMO's	-	4,154	565,923	18,978,002	19,548,079
Corporate bonds	4,866,639	12,620,597	9,024,487	14,349,194	40,860,917
GNMA's	-	-	-	2,898,546	2,898,546
Total debt securities	<u>\$ 14,221,657</u>	<u>\$ 19,665,088</u>	<u>\$ 13,333,963</u>	<u>\$ 41,542,776</u>	<u>\$ 88,763,484</u>
Domestic equities:					
Common stock					1,778,484
Preferred Stock					624,286
Total domestic equities					<u>2,402,770</u>
Money market funds					<u>52,921,087</u>
Total holdings					144,087,341
Less: Cash equivalents					<u>(59,640,409)</u>
Total investments					<u>\$ 84,446,932</u>

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Interest rate risk (Continued)

The following represents fiduciary funds interest rate risk as of September 30, 2020:

	INVESTMENT MATURITIES AT FAIR VALUE (IN YEARS)				
	LESS THAN 1	1 - 5	6 - 10	MORE THAN 10	TOTAL FAIR VALUE
	1	1 - 5	6 - 10	10	VALUE
Fixed-maturity:					
Commercial Paper	\$ 3,949,868	\$ -	\$ -	\$ -	\$ 3,949,868
U.S. Treasury	1,970,115	7,863,398	1,455,947	3,246,618	14,536,078
U.S. Agency	518,084	1,198,241	794,775	52,842	2,563,942
CMO's	-	3,374	706,792	9,014,570	9,724,736
Corporate bonds	3,047,590	9,035,552	6,133,256	7,689,633	25,906,031
GNMA's	-	-	-	1,623,921	1,623,921
Total debt securities	\$ 9,485,657	\$ 18,100,565	\$ 9,090,770	\$ 21,627,584	\$ 58,304,576
Equities:					
Preferred					498,756
Domestic					113,320,987
International - US Dollar					17,049,480
Total equities					130,869,223
Money market funds					15,807,192
Total holdings					204,980,991
Less: Cash equivalents					(19,757,060)
Total investments					\$ 185,223,931

Credit risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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. The Board is authorized to invest in U.S. Government and Agency notes, mutual funds, mortgage-backed securities, corporate bonds, private placements, and repurchase agreements. The Board has no policy on credit risk.

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Credit risk (Continued)

The following represents proprietary funds credit risk as of September 30, 2020:

RATINGS OF FIXED MATURITIES		
MOODY'S RATINGS	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL FIXED MATURITY FAIR VALUE
Aaa	\$ 5,363,458	10.11%
Aa1	218,822	0.41%
Aa2	1,677,124	3.16%
Aa3	607,799	1.15%
P-2	6,719,322	12.66%
A1	739,374	1.39%
A2	1,990,765	3.75%
A3	4,131,597	7.79%
Baa1	6,998,157	13.19%
Baa2	16,129,518	30.40%
Baa3	6,440,943	12.14%
Ba1	268,099	0.51%
Ba2	1,536,001	2.89%
Ba3	94,394	0.18%
B1	31,103	0.06%
Not Rated	111,624	0.21%
	\$ 53,058,100	100.00%

Note: Excludes obligations of the U.S. Government and obligations explicitly guaranteed by the U.S. Government.

Excluded Securities Guaranteed by the	
U.S. Government	35,705,384
TOTAL	\$ 88,763,484

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Credit risk (Continued)

The following represents fiduciary funds credit risk as of September 30, 2020:

RATINGS OF FIXED MATURITIES		
MOODY'S RATINGS	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL FIXED MATURITY FAIR VALUE
Aaa	\$ 2,972,469	9.17%
Aa1	395,976	1.22%
Aa2	500,947	1.55%
Aa3	261,947	0.81%
P-2	3,949,868	12.18%
A1	1,306,031	4.03%
A2	2,113,551	6.52%
A3	4,475,693	13.81%
Baa1	5,858,965	18.07%
Baa2	7,635,646	23.55%
Baa3	1,492,588	4.60%
Ba1	660,152	2.04%
Ba2	281,497	0.87%
Ba3	145,774	0.45%
B1	44,297	0.14%
Not Rated	324,440	1.01%
	\$ 32,419,841	100.00%

Note: Excludes obligations of the U.S. Government and obligations explicitly guaranteed by the U.S. Government.

Excluded Securities Guaranteed by the	
U.S. Government	25,884,735
TOTAL	\$ 58,304,576

The SSC Government Money Market Fund and State Street Trust Fund (STIF), which represent the money market funds were rated P-1 by Moody's ratings. These funds are reported as cash equivalents on the statement of net position-proprietary funds and statement of fiduciary net position. Other investment holdings not rated included common stock, preferred stock, and equity mutual funds, for which credit risk disclosure is not required.

State Employees' Insurance Board Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Concentration of credit risk

Concentration of credit risk is the result of investing 5% or more of total investments in any one issuer. The Board has no policy for concentration of credit risk.

As of September 30, 2020, the Board's proprietary fund owned the following debt securities that comprised 5% or more of the investment holdings:

ISSUER	INVESTMENT TYPE	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL HOLDINGS
U.S. Treasury	U.S. Treasury	\$ 13,258,759	15.70%
Federal National Mortgage Association	Collateralized Mortgage Obligation	12,582,842	14.90%
AT&T Inc.	Corporate Bond	5,603,886	6.64%

As of September 30, 2020, the Board's fiduciary funds owned the following debt securities that comprised 5% or more of the investment holdings:

ISSUER	INVESTMENT TYPE	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL HOLDINGS
SPDR S & P 500 ETF Trust	Mutual Fund	\$ 89,219,384	48.17%
SPDR S & P 400 ETF Trust	Mutual Fund	17,385,367	9.39%
iShares MSCI EAFE Index	International Equity	17,049,480	9.20%
U.S. Treasury	U.S. Treasury	14,536,079	7.85%

Rate of return

For the year ended September 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 7.78% for the Board's fiduciary funds. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Mortgage-backed securities

As of September 30, 2020, the Board had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of mortgage-backed securities.

State Employees' Insurance Board Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Fair Value

The Board 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 assets 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.

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.

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

The following table provides information as of September 30, 2020, concerning fair value measurement for the Board's proprietary fund:

	Fair Value Measurements Using			
	9/30/2020	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Maturity				
Domestic				
U.S. Agency	\$ 5,477,861	\$ -	\$ 5,477,861	\$ -
U.S. Government Guaranteed	13,258,759	-	13,258,759	-
Corporate Bonds	40,860,917	-	40,860,917	-
GNMAs	2,898,546	-	2,898,546	-
CMOs	19,548,079	-	19,548,079	-
Total Domestic Fixed Maturity				
Equities	\$ 82,044,162	\$ -	\$ 82,044,162	\$ -
Equities				
Preferred	\$ 624,286	\$ 624,286	\$ -	\$ -
Total Equities	\$ 624,286	\$ 624,286	\$ -	\$ -
Real Estate	\$ 1,778,484	\$ -	\$ -	\$ 1,778,484
Total Investments	\$ 84,446,932	\$ 624,286	\$ 82,044,162	\$ 1,778,484
Securities Lending Collateral Total				
Fair Value	\$ 4,400,295	\$ -	\$ 4,400,295	\$ -
Commercial Paper	\$ 6,719,322	\$ -	\$ 6,719,322	\$ -
Money Market Funds	\$ 52,921,087	\$ -	\$ 52,921,087	\$ -
Total Fair Value	\$ 148,487,636	\$ 624,286	\$ 146,084,866	\$ 1,778,484

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

The following table provides information as of September 30, 2020, concerning fair value measurement for the Board's fiduciary trust funds:

	Fair Value Measurements Using			
	9/30/2020	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Maturity				
Domestic				
U.S. Agency	\$ 2,563,942	\$ -	\$ 2,563,942	\$ -
U.S. Government Guaranteed	14,536,078	-	14,536,078	-
Corporate Bonds	25,906,031	-	25,906,031	-
GNMAs	1,623,921	-	1,623,921	-
CMOs	9,724,736	-	9,724,736	-
Total Domestic Fixed Maturity	<u>54,354,708</u>	<u>-</u>	<u>54,354,708</u>	<u>-</u>
Equities	\$ 54,354,708	\$ -	\$ 54,354,708	\$ -
Equities				
Preferred	\$ 498,756	\$ 498,756	\$ -	\$ -
Domestic	113,320,987	113,320,987	-	-
International	17,049,480	17,049,480	-	-
Total Equities	<u>\$ 130,869,223</u>	<u>\$ 130,869,223</u>	<u>\$ -</u>	<u>\$ -</u>
Total Investments	<u>\$ 185,223,931</u>	<u>\$ 130,869,223</u>	<u>\$ 54,354,708</u>	<u>\$ -</u>
Securities Lending Collateral Total				
Fair Value	\$ 81,442,642	\$ -	\$ 81,442,642	\$ -
Commercial Paper	\$ 3,949,868	\$ -	\$ 3,949,868	\$ -
Money Market Funds	\$ 15,807,192	\$ -	\$ 15,807,192	\$ -
Total Fair Value	<u><u>\$ 286,423,633</u></u>	<u><u>\$ 130,869,223</u></u>	<u><u>\$ 155,554,410</u></u>	<u><u>\$ -</u></u>

Realized gains (losses)

Realized gains (losses) on proprietary and fiduciary fund investments totaled \$2,219,234 and (\$80,672), respectively, for the year ended September 30, 2020. The calculation of realized gains and losses is independent of the calculation of net change in the fair value of investments. Realized gains and losses in investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior fiscal years and the current year as applicable. Realized gains and losses are presented together with changes in the fair value of investments in the financial statements.

State Employees' Insurance Board Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Securities lending

The State Employees' Insurance Board (the Board) is authorized to participate in a securities lending program. The custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the Board are loaned to borrowers for collateral that will be returned for the same type of securities. Approved borrowers of securities provide acceptable collateral in the form of cash (U.S. and foreign currency), any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U.S. and non U.S. equities and such 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 Board 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, but 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 the business employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The Board 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 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. At the time of purchase (i) all Eligible Securities with maturities of 13 months or less shall (x) be rated at least A1, P1 or F1 by at least any 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 (y) be determined by the Investment Manager to be of comparable quality and (ii) all Eligible Securities with maturities in excess of 13 months shall (x) be rated at least A-, A3 or A- by at least any two of S & P, Moody's or Fitch, or (y) be determined by the Investment Manager to be of comparable quality. The GSLT may invest up to 10% of its assets at time of purchase in commingled vehicles managed by State Street or its affiliates that conform to the Investment Policy Guidelines.

State Employees' Insurance Board Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Securities lending (Continued)

As of September 30, 2020, the average term of the loans was 55.41 days and 6.09 days, respectively, for proprietary funds and fiduciary funds. 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. At September 30, 2020, the fair value of the securities on loan was \$11,249,164 and \$114,605,825, respectively, for proprietary funds and fiduciary funds. The fair value of the collateral pledged by the borrowers was \$11,699,155 and \$116,844,861, respectively, for proprietary funds and fiduciary funds. For proprietary and fiduciary funds, since the amounts owned by the Board exceeded the amounts the borrowers owed the Board, there was no credit risk exposure as of September 30, 2020. 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 year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Board. Securities pledged as collateral are held by the custodial agent, but not in the name of the Board.

State Employees' Insurance Board
Notes to Financial Statements

Note 5: INVESTMENTS (Continued)

Securities lending (Continued)

The following table provides information as of September 30, 2020, concerning securities lent:

TYPE OF INVESTMENT LENT	PROPRIETARY AMOUNTS	FIDUCIARY AMOUNTS
For cash collateral:		
Domestic fixed maturities	\$ 4,307,107	\$ 526,836
Domestic equity		79,848,975
Total lent for cash collateral	<u>4,307,107</u>	<u>80,375,811</u>
For non-cash collateral:		
Domestic fixed maturities	6,942,057	7,554,118
Domestic equity		26,675,896
Total lent for non-cash collateral	<u>6,942,057</u>	<u>34,230,014</u>
 Total securities lent	 <u>\$ 11,249,164</u>	 <u>\$ 114,605,825</u>
TYPE OF COLLATERAL RECEIVED	AMOUNTS	AMOUNTS
Cash collateral:		
Invested in SSB GSLT Fund	\$ 4,400,295	\$ 81,442,642
Non-cash collateral:		
For lent domestic fixed maturities:		
USD	5,338,414	6,198,759
For lent domestic equity maturities		27,251,598
For lent international fixed maturities & equity:		
USD	1,960,446	1,951,862
Total non-cash collateral	<u>7,298,860</u>	<u>35,402,219</u>
 Total collateral received	 <u>\$ 11,699,155</u>	 <u>\$ 116,844,861</u>

State Employees' Insurance Board
Notes to Financial Statements

Note 6: CAPITAL ASSETS

During the year ended September 30, 2020, the following changes in capital assets occurred:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Capital assets, being depreciated:				
Office furniture and equipment	\$ 735,258	\$ 20,258	\$ (35,157)	\$ 720,359
Leasehold improvements	1,867,719	-	(64,119)	1,803,600
	<u>2,602,977</u>	<u>20,258</u>	<u>(99,276)</u>	<u>2,523,959</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Office furniture and equipment	(589,072)	(52,757)	35,157	(606,672)
Leasehold improvements	(1,209,297)	(121,309)	48,218	(1,282,388)
	<u>(1,798,369)</u>	<u>(174,066)</u>	<u>83,375</u>	<u>(1,889,060)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>\$ 804,608</u>	<u>\$ (153,808)</u>	<u>\$ (15,901)</u>	<u>\$ 634,899</u>

Note 7: UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Board establishes a liability for both reported and unreported insurance claims, which includes estimates of future payments of both medical claims and related retroactive claims adjustment expenses.

State Employees' Insurance Board
Notes to Financial Statements

Note 7: UNPAID CLAIMS LIABILITIES (Continued)

The following represents changes in those aggregate liabilities for the Board during the year ended September 30, 2020:

	SEIF	SEIF - RETIRED TRUST
Reported claims payable and estimated claims incurred but not reported at beginning of year	\$ 31,427,651	\$ 58,077,845
Incurred claims and claims adjustment expense:		
Provisions for insured claims of the current year	335,189,166	118,929,934
Adjustment to estimated claims incurred but not reported at end of year	470,231	(24,638,231)
Total expense	335,659,397	94,291,703
Payments:		
Claims and claims adjustment expenses attributable to insured claims of the current year	309,435,811	120,292,062
Claims and claims adjustment expenses attributable to insured claims of the prior year	23,289,762	25,501,757
Total payments	332,725,573	145,793,819
Reported claims payable and estimated claims incurred but not reported at end of year	\$ 34,361,475	\$ 6,575,729

At year-end, unpaid claims liabilities are computed using the gross method without discounting the accrued claims payable.

Note 8: INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances as of September 30, 2020 are detailed below:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT
SEIB - Proprietary	SEIF - Retired Trust	\$ 3,690,710

The primary purpose of the interfund payable from the SEIF - Retired Trust is to record the liability to the fund for subsidies provided for retiree coverage in prior years in excess of amounts required to fund prior years' current benefits.

State Employees' Insurance Board
Notes to Financial Statements

Note 9: OPERATING LEASES

The Board leases office space and a storage facility under a 15-year operating lease expiring in 2023, cancelable with a six-month written notice. The terms of the lease also call for additional monthly common area maintenance fees to be determined annually. In addition, the Board leases an office building that houses the State Wellness Center under an operating lease expiring in 2025.

Future minimum rental payments required under these leases are:

Year Ending September 30:

	2021	664,572
	2022	666,680
	2023	640,500
	2024	97,470
	2025	97,470
		97,470
Total minimum future lease payments		\$ 2,166,692
Rent expense for the year ended September 30, 2020		\$ 641,386

Note 10: RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. Employees of the Board participate in the State of Alabama component of the Employees' Retirement System of Alabama. Therefore, the Board's participation is accounted for as on a cost-sharing basis of the State of Alabama component.

State Employees' Insurance Board Notes to Financial Statements

Note 10: RETIREMENT PLAN (Continued)

General Information about the Pension Plan

Plan description

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

The Governor, ex officio.

The State Treasurer, ex officio.

The State Personnel Director, ex officio.

The State Director of Finance, ex officio.

Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.

Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:

Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.

Two vested active state employees.

Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

State Employees' Insurance Board
Notes to Financial Statements

Note 10: RETIREMENT PLAN (Continued)

Benefits provided (Continued)

Act 2012-377 of the Legislature established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

As of September 30, 2019, membership consisted of:

Retirees and beneficiaries currently receiving benefits	51,112
Terminated employees entitled to but not yet receiving benefits	2,885
Terminated employees not entitled to a benefit	33,709
Active Members	84,195
Post-DROP participants still in active service	339
Total	172,240

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

State Employees' Insurance Board
Notes to Financial Statements

Note 10: RETIREMENT PLAN (Continued)

Contributions (Continued)

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

Participating employers' contractually required contribution rate for the year ended September 30, 2020 was 15.24% of annual pay for Tier 1 members and 14.87% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$600,298 for the year ended September 30, 2020.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020 the Board reported a liability of \$7,524,120 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating ERS State component employers. At September 30, 2019 the Board's proportion was 0.262%.

For the year ended September 30, 2020, the Board recognized pension expense of \$544,072. At September 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 579	\$ 42,872
Net difference between projected and actual earnings on pension plan investments	131,188	-
Changes of Assumptions	39,922	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	100,700	351,556
Employer contributions subsequent to the measurement date	600,298	-
Total	<u>\$ 872,687</u>	<u>\$ 394,428</u>

State Employees' Insurance Board
Notes to Financial Statements

Note 10: RETIREMENT PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Employer Contributions applied to pension liability reported as deferred outflows of resources related to pensions resulting from the Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2021	\$ (207,874)
2022	\$ (90,419)
2023	\$ 42,373
2024	\$ 133,881

Actuarial assumptions

The total pension liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return*	7.70%

*Net of pension plan investment expense

Mortality rates for ERS were based on sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010 – September 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**State Employees' Insurance Board
Notes to Financial Statements**

Note 10: RETIREMENT PLAN (Continued)

Actuarial Assumptions (Continued)

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	17.00%	4.40%
Domestic Large Cap Equity	32.00%	8.00%
Domestic Mid Cap Equity	9.00%	10.00%
Domestic Small Cap Equity	4.00%	11.00%
International Developed Equity	12.00%	9.50%
International Emerging Market Equity	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.75%

Discount rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the rates currently in effect and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Projected future benefit payments for all current plan members were projected for all years.

Based on those assumptions, each employer's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and a municipal bond rate was not used in determining the discount rate.

**State Employees' Insurance Board
Notes to Financial Statements**

Note 10: RETIREMENT PLAN (Continued)

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate

The following table presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Discount rate	6.70%	7.70%	8.70%
Board's proportionate share of collective net pension liability	\$ 9,597,148	\$ 7,524,120	\$ 5,760,102

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 11: ADMINISTRATION OF RELATED PROGRAMS

Flexible Employees' Benefits Board (FEBB)

The Flexible Employees' Benefits Board was established May 3, 1989 to provide benefits to employees of the State pursuant to Code of Alabama 1975, Section 36-29-20 through 30 as last amended and Internal Revenue Code of 1986 Sections 105, 125, and 129. These regulations enable employees to pay insurance premiums and eligible health and dependent care expenses using pre-tax dollars. Effective October 1, 1996, the Board was charged with administering the FEBB Plan. For the fiscal year ended September 30, 2020, administrative fees charged to the FEBB Plan totaled \$1,782,954. The balance due to FEBB as of September 30, 2020 is \$184,259. In addition, the Board provided additional loan funds to the FEBB Plan. For the fiscal year ended September 30, 2020, the Board loaned the FEBB Plan \$1,000,000.

Alabama Department of Corrections inmate hospitalization

On December 1, 2005, the Board executed an interagency agreement with the Alabama Department of Corrections (DOC) to provide access to inpatient hospital networks, online claims information, comprehensive claims analysis software, and a variety of summary and detailed claims reports. The Board acts as a pass-through entity for claim payments. The Board is not liable for the claim expenses incurred as they are the responsibility of the Department of Corrections.

State Employees' Insurance Board Notes to Financial Statements

Note 11: ADMINISTRATION OF RELATED PROGRAMS (Continued)

Alabama Department of Corrections inmate hospitalization (Continued)

Therefore, the Board has not included the DOC claims incurred but not reported as a liability. Administrative fees charged to DOC totaled \$253,350 for the fiscal year ended September 30, 2020. The balance due from DOC as of September 30, 2020 is \$42,850.

Local Government Health Insurance Board

The Local Government Health Insurance Program (LGHIP) was established in 1992 and was part of the Board until January 1, 2015. Act 2014-401 established the Local Government Health Insurance Board (LGHIB), as a separate entity to manage the LGHIP and LGHIP-Retired plans. The LGHIB began operations January 1, 2015 in accordance with the legislation. The SEIB charges an administrative fee equal to 2% of LGHIP premiums less any administrative fees directly paid by the LGHIB. Administrative fees charged to the LGHIB for period October 1, 2019 through September 30, 2020 totaled \$3,619,553. The balance due from LGHIB as of September 30, 2020 is \$643,506.

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST

The SEIF - Retired Trust is administered by the Board as discussed under Note 1 - Description of Plans. SEIF - Retired Trust activity is reported in the Fiduciary Fund Financial Statement section of this report.

Plan Membership

At September 1, 2019, SEIF-Retired Trust membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	23,152
Inactive plan members entitled to but not yet receiving benefit payments	1,110
Active plan members	31,439
	<u>55,701</u>

Benefits provided

SEIF-Retired Trust provides healthcare benefits for retirees and their dependents through a self-insured preferred provider organization plan for non-Medicare retirees and dependents. Medicare eligible retirees and dependents received coverage under a Medicare Advantage plan. Both plans were self-insured by the Board until January 1, 2020, when the Board contracted with United Healthcare to provide a fully insured Medicare Advantage plan to its Medicare eligible members.

Contributions Required and Made

Code of Alabama 1975, Section 36-29-19.7 provides that the Board shall set forth the employer contribution to the health insurance premium for each retiree class.

State Employees' Insurance Board Notes to Financial Statements

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Contributions Required and Made (Continued)

The Board determines annually the required contributions from agencies and retirees to adequately fund retiree health costs. The cost of benefits is recognized as an expense in the month in which it is incurred plus an estimate of claims incurred but not reported. The State contribution per month per retiree is funded on a pay-as-you-go basis through a portion of the premiums charged to each agency by the Board for its active employees. All retired State employees entitled to receive retirement benefits through the Employees' Retirement System or the Judicial Retirement System are entitled to receive these benefits.

The State pays a portion of the premium for a retiree who is under 65. For retirees, who retire on or after October 1, 2005 except for disability, the State contribution for retiree health insurance premiums shall be reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25. In no case shall the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees retiring after December 31, 2011, the following changes apply to their premiums and retiree coverage eligibility:

- 10 years of creditable coverage under the SEIF are required to receive retiree health benefits.
- An additional premium of 4% per year multiplied by the number of years of creditable coverage less than 25 multiplied by the employer portion of the premium is charged.
- Pre-Medicare retirees pay an additional premium of 1% per year multiplied by the difference of their age at retirement and the age at which they will become eligible for Medicare entitlement.

As of September 30, 2020, state agencies contributed \$54,480,012 to the SEIF - Retired Trust (approximately 58% of total contributions). Plan members receiving benefits contributed \$40,133,480 (approximately 42% of total contributions).

State Employees' Insurance Board
Notes to Financial Statements

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Contributions Required and Made (Continued)

Required monthly contribution rates for fiscal year 2019-2020 are as follows:

Retired member rates by calendar year:	<u>2019</u>	<u>2020</u>
Individual Coverage/Non-Medicare Eligible	\$ 359	\$ 359
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) without spouse	621	621
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) including spouse	756	756
Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible without spouse	490	490
Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible including spouse	600	600
Individual Coverage/Medicare Eligible Retired Member	75	75
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) without spouse	337	337
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) including spouse	472	472
Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	196	196
Family Coverage/Medicare Eligible Retired Member and Spouse Medicare Eligible	306	306
Surviving spouse rates:	<u>2019</u>	<u>2020</u>
Surviving Spouse Non-Medicare Eligible	\$ 477	\$ 477
Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible	734	734
Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible	643	643
Surviving Spouse Medicare Eligible	271	271
Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible	528	528
Surviving Spouse Medicare Eligible and Dependent Medicare Eligible	437	437

State Employees' Insurance Board
Notes to Financial Statements

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Investments

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 Retirement Systems of Alabama. 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	28.2%	4.40%
US Domestic Stocks	55.2%	8.70%
International Developed Market Stocks	10.8%	9.80%
Cash	5.8%	1.50%
Total	100.00%	

Net OPEB Liability

The components of the net pension OPEB liability related to the SEIF – Retired Trust, as of September 30, 2020, were as follows:

Total OPEB Liability	\$	1,198,800,670
Fiduciary Net Position		205,730,389
Net OPEB Liability	\$	993,070,281

Ratio of Fiduciary Net Position as a percentage of Total OPEB Liability	17.16%
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**State Employees' Insurance Board
Notes to Financial Statements**

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary Increases	5.00-3.25% for State and Local Employees, 4.50% for Police and 3.50-3.25% for Judges, including 3.00% wage inflation
Long-Term Investment rate of return	7.50% compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at Measurement Date	2.25%
Municipal Bond Index Rate at Prior Measurement Date	3.00%
Year Fiduciary Net Position is projected to be completed	N/A
Single Equivalent Interest Rate at Measurement Date	7.50%
Single Equivalent Interest Rate at Prior Measurement Date	3.63%
Healthcare cost trend rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend rate	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024
Dental Trend Rate	4.50%

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

Mortality

State and Local Employees: The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

State Employees' Insurance Board Notes to Financial Statements

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Mortality (Continued)

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

The decremental assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2019 valuation were based on a review of recent plan experience done concurrently with the September 30, 2019 valuation.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made based on the average of the last five years of current contribution rates, indexed with inflation.

The discount rate increased from 3.63% in 2019 to 7.50% currently. This was due to two factors:

Changes in actuarial assumptions:

- In 2016, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to reflect actual and anticipated experience.
- In 2019, assumed rates of tobacco use, spouse participation and the payment of the spousal surcharge were adjusted to more closely reflect actual and anticipated experience.

Recent Plan Changes:

- Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.
- Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through a Medicare Advantage Part D (MAPD) plan.

State Employees' Insurance Board
Notes to Financial Statements

Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST - SEIF - RETIRED TRUST (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the Net OPEB Liability, calculated using the discount rate of 7.50%, as well as the Net OPEB Liability calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Current Discount Rate		
	1% Decrease (6.50%)	(7.50%)	1% Increase (8.50%)
Net OPEB liability (asset)	\$ 1,135,484,871	\$ 993,070,281	\$ 873,278,948

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the Net OPEB Liability of the Fund, calculated using the current healthcare trend rates, as well as the Net OPEB Liability calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	Current Healthcare		
	1% Decrease	Trend rate	1% Increase
	(5.75% decreasing to 3.75% for pre- Medicare, Known decreasing to 3.75% for Medicare eligible)	(6.75% decreasing to 4.75% for pre- Medicare, Known decreasing to 4.75% for Medicare eligible)	(7.75% decreasing to 5.75% for pre- Medicare, Known decreasing to 5.75% for Medicare eligible)
Net OPEB liability (asset)	\$ 852,373,161	\$ 993,070,281	\$ 1,163,691,248

Note 13: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER

Plan description

The State's health benefit plan is a single employer defined benefit healthcare plan administered by the Board. This plan provides medical benefits to retired employees of the State and their dependents. Code of Alabama 1975, Section 36-29 authorizes the Board to establish and amend benefit provisions. As an agency of the State, the Board is required to comply with the disclosure requirements of GASB 75 for their portion of OPEB. Financial information related to this plan is reported in the SEIF-Retiree Trust fiduciary fund in this report.

**State Employees' Insurance Board
Notes to Financial Statements**

Note 13: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (Continued)

Contributions

The contribution requirements of the plan members and state agencies are established and may be amended by the Board of Directors of the Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to finance any unfunded accrued liability. For the year ended September 30, 2020, the Board contributed \$91,044 to the plan for current premiums.

For the year ended September 30, 2020, state agencies were required to contribute a blended rate of \$930 per month per active employee to the SEIF. This blended rate provides for the employer's portion of active and retired employee premiums. A portion of the blended rate is used to offset the cost of providing benefits to retired employees and their dependents which exceeds available resources from retired employee premiums and other sources. Another portion of the blended rate is transferred to SEIF - Retired Trust to provide for future retiree benefits. The portions of the blended rate used to provide benefits for current and future retired employees are reported as income in SEIF-Retired Trust. Plan members receiving benefits contributed a monthly retired member rate as stated in Note 12. Active employees are not required to contribute to the OPEB plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020, the Board reported a liability of \$2,826,905 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Board's proportion of the net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating state agencies, actuarially determined. At September 30, 2020, the Board's proportion was 0.163428%.

For the year ended September 30, 2020, the Board recognized OPEB expense of \$121,982. At September 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,957,481
Changes of Assumptions	208,258	598,042
Net difference between projected and actual OPEB plan investments	1,793	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	525,393
Employer contributions subsequent to the measurement date	91,044	-
Total	<u>\$ 301,095</u>	<u>\$ 3,080,916</u>

State Employees' Insurance Board
Notes to Financial Statements

Note 13: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$91,044 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:

2021	\$	(781,292)
2022	\$	(781,292)
2023	\$	(647,676)
2024	\$	(492,727)
2025	\$	(167,878)

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the discount rate

The following represents the Board's proportionate share of the net OPEB liability, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.63%) or 1-percentage-point higher (4.63%) than the current discount rate:

	1% Decrease	Current Rate	1% Increase
Discount rate	2.63%	3.63%	4.63%
Board's proportionate share of collective net OPEB liability	\$ 3,315,534	\$ 2,826,905	\$ 2,429,355

Sensitivity of the Board's net OPEB liability to changes in the healthcare cost trend rates

The following presents the Board's proportionate share of the net OPEB liability, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Trend rate	1% Increase
	(5.75% decreasing to 3.75% for pre-Medicare and 4.5% decreasing to 3.75% for Medicare eligible)	(6.75% decreasing to 4.75% for pre-Medicare and 5.5% decreasing to 4.75% for Medicare eligible)	(7.75% decreasing to 5.75% for pre-Medicare and 6% decreasing to 5.75% for Medicare eligible)
Net OPEB liability (asset)	\$ 2,356,034	\$ 2,826,905	\$ 3,425,480

State Employees' Insurance Board Notes to Financial Statements

Note 14: RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets, errors and omissions, and natural disasters. The Board participates in the General Liability Trust Fund operated by the Department of Finance, Division of Risk Management to insure for general liability claims. The Board's equipment and motor vehicles are insured by the State Insurance Fund. The Board owns no buildings or real property. Settlements have not exceeded coverage for each of the past three fiscal years.

Note 15: FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87 – Leases

The Governmental Accounting Standards Board (GASB) issued Statement No. 87 in June 2017, regarding recognition of certain leases. This statement affects the disclosure of operating leases not currently reflected on the Board's financial statements. This standard will require the Board (lessee) to recognize a lease liability and an intangible right-to-use lease asset for the value of the lease. Leases subject to this standard are currently disclosed in Note 9. This standard takes effect for fiscal years beginning after June 15, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**State Employees' Insurance Board
Schedule of Board Contributions
Employees' Retirement System
For the Fiscal Years Ended September 30**

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 600,298	\$ 544,072	\$ 513,705	\$ 491,453	\$ 548,490	\$ 409,629
Contributions in relation to the statutorily required contribution	600,298	544,072	513,705	491,453	548,490	409,629
Annual contribution deficiency (excess)						
Covered Employee Payroll	\$ 4,020,881	\$ 3,779,489	\$ 3,681,272	\$ 3,571,267	\$ 3,801,021	\$ 3,047,835
Contributions as a Percentage of Covered Employee Payroll	14.93%	14.40%	13.95%	13.76%	14.43%	13.44%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

**State Employees' Insurance Board
Schedule of the Board's Proportionate Share of
the Net Pension Liability
Employees' Retirement System
For the Fiscal Years Ended September 30**

	2020	2019	2018	2017	2016	2015
Board's proportion of net pension liability	0.262%	0.275%	0.267%	0.285%	0.285%	0.297%
Board's proportionate share of the net pension liability (asset)	\$ 7,524,120	\$ 7,198,071	\$ 7,012,725	\$ 8,160,768	\$ 7,782,468	\$ 7,310,161
Board's covered-employee payroll	\$ 4,020,881	\$ 3,779,489	\$ 3,681,272	\$ 3,571,267	\$ 3,801,021	\$ 3,047,835
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	187.13%	190.45%	190.50%	228.51%	204.75%	239.85%
Plan fiduciary net position as a percentage of the total pension liability	68.48%	66.20%	65.44%	67.30%	66.11%	65.58%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

State Employees' Insurance Board
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Fiscal Years Ended September 30

	2020	2019	2018	2017
Total OPEB Liability				
Service Cost	\$ 56,664,882	\$ 49,012,454	\$ 92,850,947	\$ 113,584,851
Interest	68,730,982	129,729,955	118,485,629	104,580,656
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(71,679,925)	(1,429,779,671)	(53,532,069)	-
Changes of assumptions	(721,135,114)	156,524,663	(318,988,284)	(373,573,542)
Benefit payments	(54,391,265)	(74,691,645)	(80,536,674)	(92,372,830)
Net change in total OPEB liability	(721,810,440)	(1,169,204,244)	(241,720,451)	(247,780,865)
Total OPEB liability - beginning	1,920,611,110	3,089,815,354	3,331,535,805	3,579,316,670
Total OPEB liability - ending (a)	<u>\$ 1,198,800,670</u>	<u>\$ 1,920,611,110</u>	<u>\$ 3,089,815,354</u>	<u>\$ 3,331,535,805</u>
Trust fiduciary net position				
Contributions - employer	\$ 54,480,012	\$ 74,871,183	\$ 80,608,921	\$ 92,790,140
Net investment income	14,874,908	6,677,443	15,900,379	17,889,466
Benefit payments*	(54,391,265)	(74,781,414)	(80,536,674)	(92,372,830)
Administrative expense	(88,747)	(89,769)	(72,247)	(417,310)
Net change in fiduciary net position	14,874,908	6,677,443	15,900,379	17,889,466
Plan fiduciary net position - beginning	190,855,481	184,178,038	168,277,659	150,388,193
Plan fiduciary net position - ending (b)	<u>\$ 205,730,389</u>	<u>\$ 190,855,481</u>	<u>\$ 184,178,038</u>	<u>\$ 168,277,659</u>
State's Net OPEB liability - ending (a) - (b)	<u>\$ 993,070,281</u>	<u>\$ 1,729,755,629</u>	<u>\$ 2,905,637,316</u>	<u>\$ 3,163,258,146</u>
Plan fiduciary net position as a percentage of the total OPEB liability	17.16%	9.94%	5.96%	5.05%
Covered-employee payroll	<u>\$ 1,653,317,989</u>	<u>\$ 1,540,200,949</u>	<u>\$ 1,536,660,536</u>	<u>\$ 1,556,807,444</u>
State's net OPEB liability as a percentage of covered-employee payroll	60.07%	112.31%	189.09%	203.19%

*Benefit payments are net of member contributions

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

**State Employees' Insurance Board
Schedule of Employer OPEB Contributions
For the Fiscal Year ended September 30
(Dollar Amounts in Thousands)**

	2020	2019	2018	2017
Actuarially determined contribution	\$ 109,036	\$ 170,136	\$ 164,756	\$ 201,465
Contributions in relation to the actuarially determined contribution	54,480	74,781	80,609	92,790
Contributions deficiency (excess)	54,556	95,355	84,147	108,675
Covered-employee payroll	1,653,318	1,540,201	1,536,661	1,556,807
Contributions as a percentage of covered-employee payroll	3.30%	4.86%	5.25%	5.96%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

**State Employees' Insurance Board
Schedule of Investment Returns
For the Fiscal Year Ended September 30**

	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	7.78%	3.62%	9.34%	11.74%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

**State Employees' Insurance Board
 Schedule of Proportionate Share of Net OPEB Liability
 State Employees Insurance Fund - Retired
 For the Fiscal Year Ended September 30**

	2020	2019	2018	2017
Board's proportion of net OPEB liability	0.163%	0.172%	0.175%	0.190%
Board's proportionate share of the net OPEB liability (asset)	\$ 2,826,905	\$ 4,997,871	\$ 5,526,781	\$ 6,500,936
Board's covered-employee payroll	\$ 4,020,881	\$ 3,779,489	\$ 3,681,272	\$ 3,571,267
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	70.31%	132.24%	150.13%	182.03%
Plan fiduciary net position as a percentage of the total OPEB liability	9.94%	5.96%	5.05%	4.20%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

**State Employees' Insurance Board
Schedule of Employer Contributions
State Employees' Insurance Fund - Retired
For the Fiscal Year Ended September 30**

	2020	2019	2018	2017
Actuarially determined contribution	\$ 182,216	\$ 277,523	\$ 283,390	\$ 351,996
Contributions in relation to the actuarially determined contribution	91,044	121,982	138,652	162,122
Annual contribution deficiency (excess)	91,172	155,541	144,738	189,874
Covered Employee Payroll	\$ 4,020,881	\$ 3,779,489	\$ 3,681,272	\$ 3,571,267
Contributions as a Percentage of covered-employee payroll				
Employee Payroll	2.26%	3.23%	3.77%	4.54%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

See independent auditors' report.

State Employees' Insurance Board Notes to the Required Supplementary Information

Note 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 Board's actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net OPEB liability is determined by the total OPEB liability minus the Board's fiduciary plan net position. The related ratios show the Board's fiduciary plan 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 ERS valuation as of September 30, 2019.

Note 2 – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, mortality, rates of withdrawals, retirement, and investment earnings.

Recent Plan Changes

- Effective January 1, 2017, Medicare eligible medical and prescription drug costs are provided through a Medicare Advantage Plan.
- Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Changes in Actuarial Assumptions

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

In 2016, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Actuarial Assumptions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2018, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

See independent auditors' report.

State Employees' Insurance Board
Notes to the Required Supplementary Information

Note 2 – SCHEDULE OF EMPLOYER CONTRIBUTIONS (Continued)

Actuarial Assumptions (Continued)

Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Inflation	2.75%
Healthcare cost trend rate	
Pre-Medicare eligible	6.75%
Medicare eligible	*
Ultimate trend rate	
Pre-Medicare eligible	4.75% in 2026
Medicare eligible	4.75% in 2024
Dental Trend Rate	4.50%
Investment rate of return	5.00%, including inflation
Salary increases	5.00%-3.25% for State and Local Employees, 4.50% for Police and 3.50%-3.25% for Judges, including 3.00% wage inflation

The decremental assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2018 valuation were based on a review of recent plan experience done concurrently with the September 30, 2018 valuation.

State and Local Employees: The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

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

See independent auditors' report.

State Employees' Insurance Board
Notes to the Required Supplementary Information

Note 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.

See independent auditors' report.

State Employees' Insurance Board
Supplementary Ten Year Claims – Proprietary Funds
September 30, 2020

The following table illustrates how the Board's total revenues compare to related costs of loss and other expenses assumed by the Board as of the end of each of the last 10 years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues. (2) This line shows each fiscal year's other operating cost of the Board including overhead and claims expense not allocable to individual claims. (3) This line shows the Board's incurred claims and allocated claims adjustment expense (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 (called plan year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each plan year. (5) This section of rows shows how each plan year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally estimated. As data for individual plan years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature plan years. The columns of the table show data for successive plan years. The amounts reported as paid represent the timing of payments by the third party administrator and may not be the same as the timing of the funding of the payments by the Board.

See independent auditors' report.

State Employees' Insurance Board
Supplementary Ten Year Claims (In Thousands)
Proprietary Funds
September 30, 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015*</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
(1) TOTAL REVENUES	\$ 477,404	\$ 439,427	\$ 412,872	\$ 472,368	\$ 333,578	\$ 289,347	\$ 282,587	\$ 325,308	\$ 343,308	\$ 365,742
(2) UNALLOCATED EXPENSES	8,079	7,687	7,582	12,120	7,548	5,933	4,525	3,367	3,339	3,657
(3) ESTIMATED INCURRED CLAIMS AND EXPENSE, END OF PLAN YEAR	409,287	419,583	433,983	441,113	325,471	284,616	273,537	287,541	315,881	335,659
(4) PAID (CUMULATIVE) AS OF:										
End of plan year	391,673	400,230	404,688	412,484	315,747	264,917	261,574	271,391	294,409	309,436
One year later	418,633	429,762	430,884	443,109	333,862	275,494	278,813	288,661	317,699	
Two years later	418,723	429,623	430,827	442,834	333,862	275,412	278,813	288,661		
Three years later	418,536	429,457	430,586	442,834	333,733	275,412	278,813			
Four years later	418,440	429,401	430,586	442,788	333,733	275,412				
Five years later	418,404	429,401	430,540	442,788	333,733					
Six years later	418,404	429,341	430,540	442,788						
Seven years later	418,392	429,341	430,540							
Eight years later	418,392	429,341								
Nine years later	418,392									
(5) RE-ESTIMATED INCURRED CLAIMS AND EXPENSE:										
End of plan year	409,287	419,583	433,983	441,113	325,471	284,616	273,537	287,541	315,881	335,659
One year later	418,633	429,762	430,884	443,109	333,862	275,494	278,813	288,661	317,699	
Two years later	418,723	429,623	430,827	442,834	333,862	275,412	278,813	288,661		
Three years later	418,536	429,457	430,586	442,834	333,733	275,412	278,813			
Four years later	418,440	429,401	430,586	442,788	333,733	275,412				
Five years later	418,404	429,401	430,540	442,788	333,733					
Six years later	418,404	429,341	430,540	442,788						
Seven years later	418,392	429,341	430,540							
Eight years later	418,392	429,341								
Nine years later	418,392									
(6) INCREASE (DECREASE) IN ESTIMATED INCURRED CLAIMS AND EXPENSE FROM END OF PLAN YEAR	\$ 9,105	\$ 9,758	\$ (3,443)	\$ 1,675	\$ 8,262	\$ (9,204)	\$ 5,276	\$ 1,120	\$ 1,818	\$ -

*Reflects separation of Local Government Health Insurance Plan to the Local Government Health Insurance Board effective January 1, 2015.

See independent auditors' report.

**State Employees' Insurance Board
Supplementary Ten Year Claims –
Alabama Retired State Employees' Health Care Trust
September 30, 2020**

The following table illustrates how SEIF - Retired Trust's total revenues compare to related costs of loss and other expenses assumed by SEIF - Retired Trust as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues. (2) This line shows each fiscal year's other operating cost of SEIF - Retired Trust including overhead and claims expense not allocable to individual claims. (3) This line shows SEIF - Retired Trust's incurred claims and allocated claims adjustment expense (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 (called plan year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each plan year. (5) This section of rows shows how each plan year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally estimated. As data for individual plan years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature plan years. The columns of the table show data for successive plan years. The amounts reported as paid represent the timing of payments by the third party administrator and may not be the same as the timing of the funding of the payments by SEIF - Retired Trust.

See independent auditors' report.

**State Employees' Insurance Board
Supplementary Ten Year Claims (In Thousands) –
Alabama Retired State Employees' Health Care Trust
September 30, 2020**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
(1) Total revenues (1),(2),(3),(4)	\$ 144,089	\$ 157,984	\$ 160,769	\$ 144,902	\$ 133,446	\$ 137,977	\$ 135,235	\$ 138,309	\$ 122,619	\$ 109,488
(2) Unallocated expenses	225	192	205	2,010	1,822	1,377	711	287	443	322
(3) Estimated incurred claims and expense, end of plan year	129,903	142,529	133,724	128,740	139,237	135,471	134,524	122,122	115,499	94,292
(4) Paid (cumulative) as of:										
End of plan year	126,657	132,828	126,907	119,339	128,105	123,314	96,122	100,238	87,327	120,292
One year later	134,493	141,878	135,245	128,402	138,544	120,475	121,455	124,069	112,829	
Two years later	134,513	141,795	135,263	128,248	138,544	120,451	121,455	124,069		
Three years later	134,440	141,735	135,128	128,248	138,506	120,451	121,455			
Four years later	134,417	141,706	135,128	128,234	138,506	120,451				
Five years later	134,399	141,706	135,114	128,234	138,506					
Six years later	134,399	141,688	135,114	128,234						
Seven years later	134,395	141,688								
Eight years later	134,395									
Nine years later	134,395									
(5) Re-estimated incurred claims and expense:										
End of plan year	129,903	142,529	133,724	128,740	139,237	135,471	134,524	122,122	115,499	94,292
One year later	134,493	141,878	135,245	128,402	138,544	120,475	121,455	124,069	112,829	
Two years later	134,513	141,795	135,263	128,248	138,544	120,451	121,455	124,069		
Three years later	134,440	141,735	135,128	128,248	138,506	120,451	121,455			
Four years later	134,417	141,706	135,128	128,234	138,506	120,451				
Five years later	134,399	141,706	135,114	128,234	138,506					
Six years later	134,399	141,688	135,114	128,234						
Seven years later	134,395	141,688	135,114							
Eight years later	134,395	141,688								
Nine years later	134,395									
(6) Increase (decrease) in estimated incurred claims and expense from end of plan year	\$ 4,493	\$ (841)	\$ 1,391	\$ (506)	\$ (731)	\$ (15,020)	\$ (13,069)	\$ (1,947)	\$ (2,671)	\$ -

- (1) Beginning in 2011, Medicare Part D revenue was accounted for on the accrual basis. Previously it was recorded on the cash basis.
(2) Beginning in 2016 EGWP revenue was accounted for as a reduction of claims expense.
(3) Beginning January 1, 2017, a self-insured Medicare Advantage plan was implemented for Medicare retirees.
(4) Beginning January 1, 2020, A fully insured Medicare Advantage was implemented for Medicare retirees.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
State Employees' Insurance Board

Our report on the audit of the financial statements of State Employees' Insurance Board (the Board) for the year ended September 30, 2020 appears on pages one through three. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's financial statements as a whole.

The combining statements of all funds reported as supplementary information on pages 71 to 75 are presented for managerial purposes only and are not a required part of the basic financial statements. The combining statements of all funds are the responsibility of management. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. However, we believe that these statements are not presented in conformity with accounting principles generally accepted in the United States of America because the principles of Governmental Accounting Standards Board Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other than Pension Plans were not applied to the presentation of these combining statements of all funds. The application of GASB Statement No. 74 requires the Board to report the activities of retired employees of the State Employees' Insurance separately as a fiduciary fund.

The Alabama Retired State Employees' Health Care Trust's statement of net position and statement of revenues, expenses and changes in net position reported as supplementary information on pages 76 and 77 is not a required part of the basic financial statements. The Alabama Retired State Employees' Health Care Trust's statement of net position and statement of revenues, expenses and changes in net position are the responsibility of management. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION (CONTINUED)

However, we believe that these statements are not presented in conformity with accounting principles generally accepted in the United States of America because the principles of Governmental Accounting Standards Board Statement No. 74 were not applied to the presentation of the financial statements. The application of Governmental Accounting Standards Board Statement 74 requires the Board to combine the reporting of the operating activities of retired employees that are processed through the State Employees' Insurance Fund with the activities of SEIF – Retired Trust.

Car, Riggs & Ingram, L.L.C.

Montgomery, Alabama

February 15, 2021

State Employees' Insurance Board
Combining Statement of Net Position – All Funds*

September 30,

2020

Assets

Current assets

Cash and cash equivalents	\$ 78,728,767
Investments	84,446,932
Interest receivable	459,133
Premiums receivable	175,940
Drug Rebates Receivable	10,156,832
Medicare Advantage subsidies receivable	11,867,134
Federal funds receivable	3,642,667
Accounts receivable	424,001
Prepaid expenses	257,481
Due from other funds	1,043,350
Due from other governments	643,506
Invested securities lending collateral	4,400,295
Total current assets	196,246,038

Capital assets

Office furniture and equipment	720,359
Leasehold improvements	1,803,600
Less: accumulated depreciation	(1,889,060)
Net capital assets	634,899

Total assets	196,880,937
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Deferred outflows of resources

Pensions	872,687
OPEB	301,095
Deferred outflows of resources	1,173,782

Total assets and deferred outflows of resources	\$ 198,054,719
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*Statement does not include the assets, liabilities, and net position held in trust for the Alabama Retired State Employees' Health Care Trust which are shown on page 76.

See independent auditors' report on supplementary information.

State Employees' Insurance Board
Combining Statement of Net Position – All Funds*
(Continued)

<i>September 30,</i>	2020
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,728,489
Reported claims payable	17,237,204
Claims incurred but not reported	23,700,000
Premiums received in advance	3,211,729
Due to other funds	184,259
Securities lending collateral	4,400,295
Total current liabilities	50,461,976
Long-term liabilities	
Net OPEB obligation	2,826,905
Net pension liability	7,524,120
Total non-current liabilities	10,351,025
Total liabilities	60,813,001
Deferred inflows of resources	
Pensions	394,428
OPEB	3,080,916
Deferred inflows of resources	3,475,344
Total liabilities and deferred inflows of resources	64,288,345
Net position	
Investment in capital assets	634,899
Unrestricted	133,131,475
Total net position	\$ 133,766,374

* Statement does not include the assets, liabilities, and net position held in trust for the Alabama Retired State Employees' Health Care Trust which are shown on page 76.

See independent auditors' report on supplementary information.

State Employees' Insurance Board
Combining Statement of Revenues, Expenses and Changes
in Net Position – All Funds*

<i>For the year ended September 30,</i>	2020
Operating revenues	
Premium contributions:	
Employer/subscriber	\$ 360,061,856
Employee/dependent	95,085,598
Total operating revenue	455,147,454
Operating expenses	
Medical claims expense	429,951,100
Consulting services	1,221,623
Other participant related programs	1,159,979
Regulatory expense	155,247
Administrative expenses	1,267,420
Depreciation expense	174,066
Total operating expenses	433,929,435
Operating income	21,218,019
Non-operating revenues and (expenses)	
Securities lending income	79,649
Securities lending expenses	
Borrower rebates	(42,174)
Management fees	(12,797)
Net income from securities lending	24,678
Investment income	5,183,756
Other federal assistance	6,971,447
Loss on disposal of assets	(15,901)
Casualty insurance proceeds	1,337
Transfer to Flexible Employees' Benefits Board	(2,898,191)
Total non-operating revenues (expenses)	9,267,126
Change in net position	30,485,145
Net position, beginning of year	103,281,229
Net position, end of year	\$ 133,766,374

* Statement does not include the additions and investment income of the Alabama Retired State Employees' Health Care Trust which are shown on page 77.

See independent auditors' report on supplementary information.

**State Employees' Insurance Board
Combining Statement of Cash Flows – All Funds**

<i>For the year ended September 30,</i>	2020
	SEIF
Cash flows from (used for) operating activities:	
Cash receipts for premium contributions	\$ 455,074,979
Cash payments for medical claims	(427,173,774)
Cash payments to suppliers for goods and services	(4,620,738)
Net cash from (used for) operating activities	23,280,467
Cash flows from (used for) capital activities:	
Proceeds from casualty insurance	1,337
Equipment additions	(20,258)
Net cash from (used for) capital activities	(18,921)
Cash flows from (used for) non-capital and related financing activities:	
Cash receipts from federal assistance	3,328,780
Non-operating transfer to Flexible Employees' Benefits Board	(2,897,137)
Net cash from (used for) non-capital and related financing activities	431,643
Cash flows from (used for) investing activities:	
Proceeds from sale/maturities of investments	73,018,069
Purchase of investments	(35,409,313)
Investment income received	2,912,016
Securities lending income received	24,678
Net cash from (used for) investing activities	40,545,450
Net increase (decrease) in cash and cash equivalents	64,238,639
Cash and cash equivalents, beginning of year	14,490,128
Cash and cash equivalents, end of year	\$ 78,728,767

See independent auditors' report on supplementary information.

State Employees' Insurance Board
Combining Statement of Cash Flows – All Funds
(Continued)

For the year ended September 30,

2020

SEIF

**Reconciliation of operating loss to net cash
from (used for) operating activities:**

Operating income	\$ 21,218,019
Adjustments to reconcile operating income to net cash from (used for) operating activities:	
Depreciation expense	174,066
Deferred outflows of resources	(172,047)
Deferred inflows of resources	1,346,572
Increase (decrease) in operating assets and increase (decrease) in operating liabilities:	
Premiums receivable	(104)
EGWP subsidies receivable	47,335,587
Accounts receivable	248,085
Drug rebates receivable	3,761,946
Prepaid expenses	224,738
Accounts payable and accrued expenses	(87,630)
Reported claims payable	(24,400,292)
Claims incurred but not reported	(24,168,000)
Premiums received in advance	(72,371)
Net pension liability	326,049
Net OPEB obligation	(2,170,966)
Due to (from) other funds	(283,185)
<hr/>	
Total adjustments	2,062,448
<hr/>	
Net cash from (used for) operating activities	\$ 23,280,467

See independent auditors' report on supplementary information.

**State Employees' Insurance Board
Statement of Net Position
- Alabama Retired State Employees' Health Care Trust**

<i>September 30,</i>	2020
Assets	
Current assets	
Cash and cash equivalents	\$ 19,757,060
Investments	185,223,931
Interest receivable	749,397
Invested securities lending collateral	81,442,642
<hr/>	
Total current assets	287,173,030
Liabilities	
Current liabilities	
Securities lending collateral	81,442,642
<hr/>	
Total current liabilities	81,442,642
<hr/>	
Net position	
Net position held in Trust for other post-employment benefits	\$ 205,730,388
<hr/> <hr/>	

See independent auditors' report on supplementary information.

State Employees' Insurance Board
Statement of Revenues, Expenses, and Changes in Net Position
– Alabama Retired State Employees' Health Care Trust

<i>Year ended September 30,</i>	2020
Additions	
Investment income	\$ 14,683,052
From securities lending activities	
Securities lending income	447,178
Less: securities lending expenses	
Borrower rebates	(161,006)
Management fees	(94,317)
Net income from securities lending activities	191,855
Total investment income	14,874,907
Total additions	14,874,907
Change in net position	14,874,907
Net position held in Trust for other post-employment benefits, beginning of year	190,855,481
Net position held in Trust for other post-employment benefits, end of year	\$ 205,730,388

See independent auditors' report on supplementary information.