



EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Financial Statements,
Required Supplementary Information, and
Additional Information

June 30, 2018

(With Independent Auditors' Report Thereon)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Fiduciary Funds:	
Combining Statement of Fiduciary Net Position as of June 30, 2018	14
Defined Benefit Plans – Combining Statement of Fiduciary Net Position as of June 30, 2018	15
Combining Statement of Changes in Fiduciary Net Position for the year ended June 30, 2018	16
Defined Benefit Plans – Combining Statement of Changes in Fiduciary Net Position for the year ended June 30, 2018	17
Proprietary Fund:	
State Employees' Assurance Department Active Members Fund – Statement of Net Position as of June 30, 2018	18
State Employees' Assurance Department Active Members Fund – Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2018	19
State Employees' Assurance Department Active Members Fund – Statement of Cash Flows for the year ended June 30, 2018	20
Notes to Financial Statements	21
Required Supplementary Information (Unaudited):	
Schedules of Employers' and Nonemployers' Contributions – Defined Benefit Plans	71
Schedules of Employers' and Nonemployers' Net Pension/OPEB Liability and Related Ratios – Defined Benefit Plans	73
Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability – Defined Benefit Plans	74

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Table of Contents

	Page
Schedule of Investment Returns	77
Schedules of the System's Proportionate Share of the Net OPEB Liability	78
Schedules of the System's Contributions to OPEB Plans	79
Notes to Required Supplementary Information (Unaudited)	80
Additional Information:	
Survivors Benefit Fund – Statement of Changes in Assets and Liabilities for the year ended June 30, 2018	85
Schedule of Administrative Expenses – Contributions and Expenses for the year ended June 30, 2018	86



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Independent Auditors' Report

The Board of Trustees
Employees Retirement System of Georgia:

Report on the Financial Statements

We have audited the accompanying financial statements of the fiduciary activities and the proprietary activity of the Employees Retirement System of Georgia (the System), a component unit of the State of Georgia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System'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 U.S. generally accepted accounting principles; 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 opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary activities and proprietary activity of the System as of June 30, 2018, and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 3(h) to the basic financial statements, the System adopted, in 2018, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of employers' and nonemployers' contributions – defined benefit plans, schedules of employers' and nonemployers' net pension/OPEB liability and related ratios – defined benefit plans, schedules of changes in employers' and nonemployers' net pension/OPEB liability – defined benefit plans, schedule of investment returns, schedules of the System's proportionate share of the Net OPEB Liability, and Schedules of the System's contributions to OPEB plans on pages 4–13 and 71–79, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The Survivors Benefit Fund statement of changes in assets and liabilities and schedule of administrative expenses-contributions and expense are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Survivors Benefit Fund statement of changes in assets and liabilities and schedule of administrative expenses – contributions and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Survivors Benefit Fund statement of changes in assets and liabilities and the schedule of administrative expenses – contributions and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2018 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
October 5, 2018

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

This section provides a discussion and analysis of the financial performance of the Employees' Retirement System of Georgia (the System) for the year ended June 30, 2018. The discussion and analysis of the System's financial performance is within the context of the accompanying basic financial statements, notes to the financial statements, required supplementary schedules, and additional information following this section.

The System is responsible for administering a cost-sharing, multiple-employer defined benefit pension plan for various employer agencies of Georgia, along with six other defined benefit pension plans, a defined benefit OPEB plan, three defined contribution plans, and an agency fund, which comprise the fiduciary funds. The System is also responsible for administering an enterprise fund, which comprises the proprietary fund.

The defined benefit pension plans include:

- Employees' Retirement System (ERS)
- Public School Employees Retirement System (PSERS)
- Legislative Retirement System (LRS)
- Georgia Judicial Retirement System (GJRS)
- Georgia Military Pension Fund (GMPF)
- Superior Court Judges Retirement Fund (SCJRF)
- District Attorneys Retirement Fund (DARF)

The defined benefit OPEB plan consists of the State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund (SEAD-OPEB).

The defined contribution retirement plans include:

- Georgia Defined Contribution Plan (GDCP)
- State of Georgia Employees' Qualified Trust Deferred Compensation Plan (401(k) Plan)
- State of Georgia Employees' Deferred Compensation Plan (457 Plan)

The agency fund consists of the Survivors Benefit Fund (SBF)

The enterprise fund consists of the State Employees' Assurance Department Active Members Fund (SEAD-Active).

Overview of the Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System administers two categories of funds: fiduciary funds and a proprietary fund. Information related to the financial statements of the funds is presented in the notes to the financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Fiduciary funds are used to account for resources held for the benefit of parties outside of the System. The primary focus of the System's fiduciary funds is the accumulation of resources for and the payment of pension and OPEB benefits. The System maintains four types of fiduciary funds: (1) defined benefit pension trust funds which are used to report resources held in trust for pensions for retirees and beneficiaries covered by ERS, PSERS, LRS, GJRS, GMPF, SCJRF, and DARF (2) a defined benefit OPEB trust fund which is used to report resources held in trust for other postemployment benefits of retirees and beneficiaries of SEAD-OPEB (3) defined contribution pension trust funds which are used to accumulate contributions and earnings in the accounts of participants covered by GDCP, the 401(k) Plan, and the 457 Plan, and (4) an agency fund which is used to report resources held by the SBF in a custodial capacity for other plans.

Proprietary funds, which include enterprise and internal services funds, are used to account for the System's activities that are similar to private-sector businesses. The System maintains one proprietary fund, an enterprise fund. The primary focus of the System's enterprise fund is the accumulation of resources for, and payment of, group term life insurance benefits for active members of ERS, LRS, and GJRS covered by SEAD-Active.

The basic financial statements comprise statements for both fiduciary and proprietary funds. The fiduciary fund financial statements include (1) *Combining Statement of Fiduciary Net Position* (2) *Defined Benefit Plans – Combining Statement of Fiduciary Net Position* (3) *Combining Statement of Changes in Fiduciary Net Position*, and (4) *Defined Benefit Plans – Combining Statement of Changes in Fiduciary Net Position*. The proprietary fund financial statements include (1) *Statement of Net Position* (2) *Statement of Revenues, Expenses, and Changes in Net Position* and (3) *Statement of Cash Flows*.

In addition, the System presents six types of required supplementary schedules, which provide historical trend information about the plan. Four of the schedules are presented from the perspective of the System reporting as the plan and included (1) Schedules of Employers' and Nonemployers' Contributions (2) Schedules of Employers' and Nonemployers' Net Pension/OPEB Liability and Related Ratios (3) Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability and (4) Schedule of Investment Returns. Two of the schedules are presented from the perspective of the System reporting as the employer for its employees who participate in the State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund (SEAD-OPEB) and the Georgia State Employees Postemployment Benefit Fund (State OPEB Fund) and include the (5) Schedules of the System's Proportionate Share of the Net OPEB Liability and (6) Schedules of the System's Contributions to OPEB Plans. The System also includes in this report additional information to supplement the financial statements.

The System prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). These statements provide information about the System's overall financial status.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Financial Highlights

The highlights of the fiduciary funds of the System are as follows:

- The net position of the fiduciary funds increased by \$760.0 million, or 4.4%, from \$17.1 billion at June 30, 2017 to \$17.9 billion at June 30, 2018. The increase in net position from 2017 to 2018 was primarily due to strong equity returns.
- For the year ended June 30, 2018, the total additions to net position were \$2.4 billion compared to \$2.8 billion for the year ended June 30, 2017. For the year ended June 30, 2018, the additions consisted of employer, nonemployer contributing entities (nonemployer), and member contributions totaling \$924.6 million, insurance premiums of \$3.6 million, net investment income of \$1.5 billion, and participant fees of \$1.7 million.
- Net investment income of \$1.5 billion in 2018 (comprising interest and dividend income, the change in fair value of investments, and other, reduced by investment expenses) represents a decrease of \$391.6 million, or 20.6%, compared to the net investment income of \$1.9 billion for the year ended June 30, 2017. The change in net investment income was primarily due to equity returns moderating somewhat in 2018 compared to 2017.
- The total deductions from net position were \$1.7 billion for the year ended June 30, 2018 and \$1.6 billion for 2017. For the year ended June 30, 2018, the deductions consisted of benefit payments of \$1.6 billion, refunds of \$18.5 million, death benefits related to SEAD-OPEB of \$36.2 million, and administrative expenses of \$16.3 million.

The highlights of the proprietary fund of the System are as follows:

- The net position of the proprietary fund increased by \$21.9 million to \$289.2 million at June 30, 2018 compared to \$267.3 million at June 30, 2017. The increase in net position from 2017 to 2018 was primarily due to strong equity returns.
- For the year ended June 30, 2018, total operating loss was \$2.5 million compared to \$3.5 million for the year ended June 30, 2017. The decrease relates primarily to the decrease in the number of active members who received death benefits during the year.
- Investment income allocated from the pooled investment fund of \$24.4 million in 2018 represents a decrease of \$5.4 million, or 18.0%, compared to investment income allocated from the pooled investment fund of \$29.8 million for the year ended June 30, 2017. The change in investment income allocated from the pooled investment fund was primarily due to equity returns moderating somewhat in 2018 compared to 2017.

Description of the Financial Statements

Fiduciary Funds

The *Combining Statement of Fiduciary Net Position* is the statement of financial position presenting information that includes the fiduciary funds' assets and liabilities, with the balance representing the Net Position Restricted

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

for Pensions and OPEB. The investments of the funds in this statement are presented at fair value. This statement is presented on page 14.

The *Combining Statement of Changes in Fiduciary Net Position* reports how the fiduciary funds' net position changed during the fiscal year. The additions include contributions to the retirement plans from employers, nonemployers, and members; group term life insurance premiums; participant fees; and net investment income, which includes interest and dividends and the net increase in the fair value of investments, net of investment expenses. The deductions include benefit payments, life insurance death benefit payments, refunds of member contributions and interest, and administrative expenses. This statement is presented on page 16.

The *Defined Benefit Plans' Combining Statement of Fiduciary Net Position* and the *Combining Statement of Changes in Fiduciary Net Position* present the financial position and changes in financial position for each of the defined benefit plans administered by the System. These statements are on pages 15 and 17, respectively.

Proprietary Funds

The *Statement of Net Position* is the statement of financial position presenting information that includes the assets and liabilities, with the balance representing the net position. This statement is presented on page 18.

The *Statement of Revenues, Expenses, and Changes in Net Position* distinguishes operating revenues and expenses from nonoperating items. Principal operating revenues result from insurance premiums from members, while operating expenses result from death benefit payments and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. This statement is presented on page 19.

The *Statement of Cash Flows* provides relevant information about cash receipts and cash payments during the year. When used in conjunction with related disclosures and information in the other financial statements, the statement provides relevant information about the plan's ability to generate future net cash flows, the plan's ability to meet its obligations as they come due, and presents the reasons for differences between operating income and associated cash receipts and payments. This statement is presented on page 20.

Notes to the Financial Statements are presented to provide the information necessary for a full understanding of the financial statements. The notes to the financial statements begin on page 21.

Required Supplementary Information begins on page 71. The required schedules are discussed as follows:

- The *Schedule of Employers' and Nonemployers' Contributions* presents historical trend information for the last 10 consecutive fiscal years about the required contributions and the percent of required contributions actually contributed.
- The *Schedule of Employers' and Nonemployers' Net Pension/OPEB Liability and Related Ratios* presents the components of the net pension/OPEB liability as of the fiscal year end and the fiduciary net position as a percentage of the total pension/OPEB liability as of that date. This trend information will be accumulated to display a 10-year presentation.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

- The *Schedule of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability* presents total net pension/OPEB liability and is measured as total pension/OPEB liability less the amount of the fiduciary net position. This trend information will be accumulated to display a 10-year presentation.
- The *Schedule of Investment Returns* presents historical trend information about the annual money-weighted rate of return on plan investments, net of plan investment expense. This trend information will be accumulated to display a 10-year presentation.
- The *Schedule of the System's Proportionate Share of the Net OPEB Liability* presents historical trend information about the System's proportionate share of the net OPEB liability (asset) for its employees who participate in the SEAD-OPEB plan and the State OPEB Fund. This trend information will be accumulated to display a 10-year presentation.
- The *Schedule of the System's Contributions to OPEB Plans* presents historical trend information about the System's contributions for its employees who participate in the SEAD-OPEB plan and the State OPEB Fund. This trend information will be accumulated to display a 10-year presentation.

Three of the required schedules above, the *Schedules of Employers' and Nonemployers' Contributions*, the *Schedules of Employers' and Nonemployers' Net Pension/OPEB Liability and Related Ratios*, and the *Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability* are applicable to five of the defined benefit pension plans (ERS, PSERS, LRS, GJRS, and GMPF) and the defined benefit OPEB plan (SEAD-OPEB).

Notes to Required Supplementary Information are presented to provide the information necessary for a full understanding of the supplementary schedules. The notes to required supplementary information begin on page 80.

Additional information is presented, beginning on page 85, and includes the *Statement of Changes in Assets and Liabilities* for the Survivors Benefit Fund which presents additions to and deductions from the fund, and the *Schedule of Administrative Expenses – Contributions and Expenses* which presents the expenses incurred in the administration of the plans and funds, and the contributions from each plan and fund to provide for these expenses.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)

(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Financial Analysis of the System

A summary of the System's net position of the fiduciary funds at June 30, 2018 is as follows (dollars in thousands):

	<u>Net position</u>		<u>Amount change</u>	<u>Percentage change</u>
	<u>2018</u>	<u>2017</u>		
Assets:				
Cash, cash equivalents, and receivables	\$ 366,532	330,585	35,947	10.9 %
Investments	18,000,993	17,253,626	747,367	4.3
Capital assets, net	6,738	6,904	(166)	(2.4)
Net OPEB asset	501	372	129	34.7
Total assets	<u>18,374,764</u>	<u>17,591,487</u>	<u>783,277</u>	4.5
Deferred outflows of resources	938	926	12	1.3
Liabilities:				
Due to brokers, accounts payable, and insurance premiums payable	30,882	41,428	(10,546)	(25.5)
Due to other funds/plans and participating systems	437,628	403,237	34,391	8.5
Net OPEB Liability	<u>7,571</u>	<u>8,792</u>	<u>(1,221)</u>	(13.9)
Total liabilities	476,081	453,457	22,624	5.0
Deferred inflows of resources	<u>701</u>	<u>—</u>	<u>701</u>	100.0
Net position, as restated (Note 3(h))	\$ <u><u>17,898,920</u></u>	<u><u>17,138,956</u></u>	<u><u>759,964</u></u>	4.4

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

A summary of the System's net position of the proprietary fund at June 30, 2018 is as follows (dollars in thousands):

	Net position		Amount change	Percentage change
	2018	2017		
Assets:				
Cash, cash equivalents, and receivables	\$ 162	127	35	27.6 %
Investments	289,087	267,194	21,893	8.2
Total assets	289,249	267,321	21,928	8.2
Liabilities:				
Accounts payable and other	42	35	7	20.0
Net position	\$ 289,207	267,286	21,921	8.2

The following table presents the investment allocation at June 30, 2018 and 2017:

	2018	2017
Asset allocation at June 30 (in percentages):		
Equities:		
Domestic	46.3 %	47.8 %
International	15.6	16.1
Private equity	1.2	0.8
Domestic obligations:		
U.S. Treasuries	18.8	14.6
Corporate and other bonds	8.2	10.9
International obligations:		
Governments	—	0.5
Corporates	1.1	1.1
Commingled funds	8.8	8.2

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

	<u>2018</u>	<u>2017</u>
Asset allocation at June 30 (in thousands):		
Equities:		
Domestic	\$ 8,332,421	8,249,643
International	2,807,854	2,780,668
Private equity	221,904	134,213
Domestic obligations:		
U.S. Treasuries	3,374,310	2,516,114
Corporate and other bonds	1,475,432	1,882,175
International obligations:		
Governments	—	76,935
Corporates	190,353	192,589
Mutual funds	7,228	5,601
Commingled funds	<u>1,591,491</u>	<u>1,415,688</u>
	<u>\$ 18,000,993</u>	<u>17,253,626</u>

The total investment portfolio increased by \$747.4 million, or 4.3%, from 2017, which is primarily due to strong equity market returns.

Investment performance is calculated using a time-weighted rate of return using the Daily Valuation Method. The time-weighted rate of return for the fiscal year ended June 30, 2018 was 9.2% with a 13.4% return for equities, a 18.5% return for private equity (inception date of October 3, 2013), and a (0.5)% return for fixed income. The five-year annualized rate of return at June 30, 2018 was 8.7%, with an 11.6% return for equities and a 1.8% return for fixed income.

A money-weighted return is weighted by the amount of dollars in the fund at the beginning and end of the performance period. A money-weighted return is highly influenced by the timing of cash flows into and out of the fund and is a better measure of an entity or person who controls the cash flows into or out of the fund. The nondiscretionary cash flows for the plan, primarily contributions and benefit payments, have a considerable impact on the money-weighted returns of the portfolio. The money-weighted rate of return for the fiscal year ended June 30, 2018 was 0.6%, compared to 2.9% for the fiscal year ended June 30, 2017.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

A summary of the changes in the System's net position of the fiduciary funds for the year ended June 30, 2018 is as follows (dollars in thousands):

	<u>Changes in net position</u>		<u>Amount change</u>	<u>Percentage change</u>
	<u>2018</u>	<u>2017</u>		
Additions:				
Employer contributions	\$ 690,516	657,190	33,326	5.1 %
Nonemployer contributions	43,982	40,960	3,022	7.4
Member contributions	190,091	170,608	19,483	11.4
Participant fees	1,744	1,584	160	10.1
Insurance premiums	3,599	3,793	(194)	(5.1)
Net investment income	1,509,803	1,901,409	(391,606)	(20.6)
Other	15	15	—	—
Total additions	<u>2,439,750</u>	<u>2,775,559</u>	<u>(335,809)</u>	(12.1)
Deductions:				
Benefit payments	1,608,691	1,574,118	34,573	2.2
Refunds	18,538	21,849	(3,311)	(15.2)
Death benefits	36,249	36,058	191	0.5
Administrative expenses	<u>16,308</u>	<u>16,487</u>	<u>(179)</u>	(1.1)
Total deductions	<u>1,679,786</u>	<u>1,648,512</u>	<u>31,274</u>	1.9
Net increase (decrease) in net position	\$ <u>759,964</u>	<u>1,127,047</u>	<u>(367,083)</u>	(32.6)

Additions – The System accumulates resources needed to fund benefit payments through contributions and returns on invested funds. In fiscal year 2018, total contributions increased \$55.8 million, or 6.4%, primarily because of an increase in the number of active members coupled with modest overall salary increases. Net investment income decreased by \$391.6 million, or 20.6%, due primarily to equity returns moderating somewhat in fiscal year 2018 compared to 2017.

Deductions – For fiscal year 2018, total deductions increased \$31.3 million, or 1.9%, primarily because of an increase of \$34.6 million, or 2.2%, in benefit payments. Pension benefit payments increased due to an increase in the number of retirees and beneficiaries receiving benefits in 2018 in addition to cost-of-living adjustments of 1.5% for LRS members and 2% for JRS members, and a one-time benefit payment of 3% for ERS members. Refunds decreased by \$3.3 million, or 15.2%, which was primarily due to a decrease in the number of refunds processed during 2018.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

A summary of the changes in the System's net position of the proprietary fund for the year ended June 30, 2018 is as follows (dollars in thousands):

	Changes in net position		Amount change	Percentage change
	2018	2017		
Operating revenue:				
Insurance premiums	\$ 540	599	(59)	(9.8)%
Total operating revenue	540	599	(59)	(9.8)
Operating expenses:				
Death benefits	2,972	4,019	(1,047)	(26.1)
Administrative expenses	76	64	12	18.8
Total operating expenses	3,048	4,083	(1,035)	(25.3)
Total operating loss	(2,508)	(3,484)	976	(28.0)
Nonoperating revenue:				
Allocation of investment income from pooled investment fund, net	24,429	29,785	(5,356)	(18.0)
Change in net position	\$ 21,921	26,301	(4,380)	(16.7)

Operating and nonoperating revenue – The proprietary fund accumulates resources needed to fund death benefit payments through premiums earned and returns on invested funds. In fiscal year 2018, total premiums earned decreased \$59.0 thousand, or 9.8%, primarily due to a decrease in the number of participating members allowed in the plan. Effective January 1, 2009, the plan was closed to new members. Allocation of investment income from the pooled investment fund, net of related expenses, decreased by \$5.3 million, or 18%, primarily due to equity returns moderating somewhat in fiscal year 2018 compared to 2017.

Operating expenses – For fiscal year 2018, death benefits decreased by \$1.0 million, or 26.1%, which was primarily due to a decrease in the number of death claims processed during 2018. Administrative expenses increased by \$12.0 thousand over the prior year, or 18.8%, primarily due to increased contractual services costs.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Employees' Retirement System of Georgia, Two Northside 75, Suite 300, Atlanta, GA 30318.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia,
(A Component Unit of the State of Georgia))

Combining Statement of Fiduciary Net Position

June 30, 2018

(In thousands)

	Defined contribution plans					Agency fund		Total
	Defined benefit plans	Pooled Investment Fund	Georgia Defined Contribution Plan	401(k) Plan	457 Plan	Survivors Benefit Fund	Eliminations	
Assets								
Cash and cash equivalents	\$ 33,849	203,702	16,023	21,799	1,164	91	—	276,628
Receivables:								
Contributions	35,364	—	921	3,638	502	—	—	40,425
Interest and dividends	—	46,365	363	—	—	—	—	46,728
Due from brokers for securities sold	—	22	—	—	—	—	—	22
Other	2,135	—	—	545	49	—	—	2,729
Unremitted insurance premiums	533	—	—	—	—	—	(533)	—
Total receivables	<u>38,032</u>	<u>46,387</u>	<u>1,284</u>	<u>4,183</u>	<u>551</u>	<u>—</u>	<u>(533)</u>	<u>89,904</u>
Investments – at fair value:								
Domestic obligations:								
U.S. Treasuries	—	3,311,274	63,036	—	—	—	—	3,374,310
Corporate and other bonds	—	1,440,709	34,723	—	—	—	—	1,475,432
International obligations:								
Corporates	—	190,353	—	—	—	—	—	190,353
Equities:								
Domestic	—	8,317,533	—	8,208	6,680	—	—	8,332,421
International	—	2,806,432	—	705	717	—	—	2,807,854
Private equity	—	221,904	—	—	—	—	—	221,904
Mutual funds	—	—	—	3,280	3,948	—	—	7,228
Commingled funds	—	—	—	980,157	611,334	—	—	1,591,491
Equity in pooled investment fund	16,096,708	—	—	—	—	148,450	(16,245,158)	—
Total investments	<u>16,096,708</u>	<u>16,288,205</u>	<u>97,759</u>	<u>992,350</u>	<u>622,679</u>	<u>148,450</u>	<u>(16,245,158)</u>	<u>18,000,993</u>
Capital assets, net	6,738	—	—	—	—	—	—	6,738
Net OPEB asset	501	—	—	—	—	—	—	501
Total assets	<u>16,175,828</u>	<u>16,538,294</u>	<u>115,066</u>	<u>1,018,332</u>	<u>624,394</u>	<u>148,541</u>	<u>(16,245,691)</u>	<u>18,374,764</u>
Deferred outflows of resources	938	—	—	—	—	—	—	938
Liabilities								
Accounts payable and other	22,596	1,994	495	2,638	1,032	—	—	28,755
Due to brokers for securities purchased	—	2,055	—	—	—	—	—	2,055
Insurance premiums payable	605	—	—	—	—	—	(533)	72
Due to other funds/plans	—	—	—	—	—	148,541	—	148,541
Due to participating systems	—	16,534,245	—	—	—	—	(16,245,158)	289,087
Net OPEB liability	7,571	—	—	—	—	—	—	7,571
Total liabilities	<u>30,772</u>	<u>16,538,294</u>	<u>495</u>	<u>2,638</u>	<u>1,032</u>	<u>148,541</u>	<u>(16,245,691)</u>	<u>476,081</u>
Deferred inflows of resources	701	—	—	—	—	—	—	701
Net position restricted for pensions and OPEB	<u>\$ 16,145,293</u>	<u>—</u>	<u>114,571</u>	<u>1,015,694</u>	<u>623,362</u>	<u>—</u>	<u>—</u>	<u>17,898,920</u>

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Defined Benefit Plans – Combining Statement of Fiduciary Net Position

June 30, 2018

(In thousands)

	Defined benefit pension plans							Defined benefit OPEB plan	Defined benefit plans Total
	Employees' Retirement System	Public school Employees Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	Georgia Military Pension fund	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	State Employees' Assurance Department OPEB	
Assets									
Cash and cash equivalents	\$ 33,007	105	48	523	8	17	3	138	33,849
Receivables:									
Contributions	34,831	—	28	505	—	—	—	—	35,364
Interest and dividends	—	—	—	—	—	—	—	—	—
Due from brokers for securities sold	—	—	—	—	—	—	—	—	—
Other	2,018	116	1	—	—	—	—	—	2,135
Unremitted insurance premiums	—	—	—	—	—	—	—	533	533
Total receivables	<u>36,849</u>	<u>116</u>	<u>29</u>	<u>505</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>533</u>	<u>38,032</u>
Investments – at fair value:									
Domestic obligations:									
U.S. Treasuries	—	—	—	—	—	—	—	—	—
Corporate and other bonds	—	—	—	—	—	—	—	—	—
International obligations:									
Corporates	—	—	—	—	—	—	—	—	—
Equities:									
Domestic	—	—	—	—	—	—	—	—	—
International	—	—	—	—	—	—	—	—	—
Private equity	—	—	—	—	—	—	—	—	—
Mutual funds	—	—	—	—	—	—	—	—	—
Commingled funds	—	—	—	—	—	—	—	—	—
Equity in pooled investment fund	13,468,340	914,957	34,216	466,307	23,715	—	—	1,189,173	16,096,708
Total investments	<u>13,468,340</u>	<u>914,957</u>	<u>34,216</u>	<u>466,307</u>	<u>23,715</u>	<u>—</u>	<u>—</u>	<u>1,189,173</u>	<u>16,096,708</u>
Capital assets, net	6,738	—	—	—	—	—	—	—	6,738
Net OPEB asset	501	—	—	—	—	—	—	—	501
Total assets	<u>13,545,435</u>	<u>915,178</u>	<u>34,293</u>	<u>467,335</u>	<u>23,723</u>	<u>17</u>	<u>3</u>	<u>1,189,844</u>	<u>16,175,828</u>
Deferred outflows of resources	938	—	—	—	—	—	—	—	938
Liabilities									
Accounts payable and other	20,323	1,040	103	666	70	11	1	382	22,596
Due to brokers for securities purchased	—	—	—	—	—	—	—	—	—
Insurance premiums payable	592	—	1	12	—	—	—	—	605
Due to other funds/plans	—	—	—	—	—	—	—	—	—
Due to participating systems	—	—	—	—	—	—	—	—	—
Net OPEB liability	7,571	—	—	—	—	—	—	—	7,571
Total liabilities	<u>28,486</u>	<u>1,040</u>	<u>104</u>	<u>678</u>	<u>70</u>	<u>11</u>	<u>1</u>	<u>382</u>	<u>30,772</u>
Deferred inflows of resources	701	—	—	—	—	—	—	—	701
Net position restricted for pensions and OPEB	<u>\$ 13,517,186</u>	<u>914,138</u>	<u>34,189</u>	<u>466,657</u>	<u>23,653</u>	<u>6</u>	<u>2</u>	<u>1,189,462</u>	<u>16,145,293</u>

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2018

(In thousands)

	Defined benefit plans	Pooled Investment Fund	Defined contribution plans			Total
			Georgia Defined Contribution Plan	401(k) Plan	457 Plan	
Additions:						
Contributions:						
Employer	\$ 647,340	—	—	43,176	—	690,516
Nonemployer	43,982	—	—	—	—	43,982
Member	44,525	—	14,585	110,848	20,133	190,091
Participant fees	—	—	—	1,744	—	1,744
Insurance premiums	3,599	—	—	—	—	3,599
Administrative expense allotment	15	—	—	—	—	15
Investment income:						
Net increase (decrease) in fair value of investments	—	1,097,281	(2,403)	75,052	46,811	1,216,741
Interest and dividends	—	348,489	2,105	8	—	350,602
Other	—	—	—	578	520	1,098
Less investment expenses	(9,691)	(8,347)	(58)	(2,967)	(583)	(21,646)
Allocation of investment income	1,400,431	(1,437,423)	—	—	—	(36,992)
Net investment income (loss)	1,390,740	—	(356)	72,671	46,748	1,509,803
Total additions	2,130,201	—	14,229	228,439	66,881	2,439,750
Deductions:						
Benefit payments	1,503,898	—	—	64,103	40,690	1,608,691
Refunds of member contributions and interest	8,458	—	10,080	—	—	18,538
Death benefits	36,249	—	—	—	—	36,249
Administrative expenses	11,375	—	852	3,639	442	16,308
Total deductions	1,559,980	—	10,932	67,742	41,132	1,679,786
Net increase in net position	570,221	—	3,297	160,697	25,749	759,964
Net position restricted for pensions and OPEB:						
Beginning of year, as restated (Note 3(h))	15,575,072	—	111,274	854,997	597,613	17,138,956
End of year	\$ 16,145,293	—	114,571	1,015,694	623,362	17,898,920

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Defined Benefit Plans – Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2018

(In thousands)

	Defined benefit pension plans							Defined benefit OPEB plan	Defined benefit plans total
	Employees' Retirement System	Public School Employees Retirement System	Legislative Retirement System	Georgia Judicial Retirement System	Georgia Military Pension Fund	Superior Court Judges Retirement Fund	District Attorneys Retirement Fund	State Employees' Assurance Department OPEB	
Additions:									
Contributions:									
Employer	\$ 639,302	—	—	4,725	2,377	890	46	—	647,340
Nonemployer	12,865	29,276	—	1,841	—	—	—	—	43,982
Member	37,130	2,162	323	4,910	—	—	—	—	44,525
Participant fees	—	—	—	—	—	—	—	—	—
Insurance premiums	—	—	—	—	—	—	—	3,599	3,599
Administrative expense allotment	10	—	—	—	—	2	3	—	15
Investment income:									
Net increase (decrease) in fair value of investments	—	—	—	—	—	—	—	—	—
Interest and dividends	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Less investment expenses	(8,518)	(387)	(15)	(187)	(6)	—	—	(578)	(9,691)
Allocation of investment income	1,174,531	78,805	2,977	40,064	1,934	—	—	102,120	1,400,431
Net investment income	1,166,013	78,418	2,962	39,877	1,928	—	—	101,542	1,390,740
Total additions	1,855,320	109,856	3,285	51,353	4,305	892	49	105,141	2,130,201
Deductions:									
Benefit payments	1,413,298	61,820	1,772	24,934	1,138	890	46	—	1,503,898
Refunds of member contributions and interest	7,585	701	22	150	—	—	—	—	8,458
Death benefits	—	—	—	—	—	—	—	36,249	36,249
Administrative expenses	8,056	1,331	283	794	225	2	3	681	11,375
Total deductions	1,428,939	63,852	2,077	25,878	1,363	892	49	36,930	1,559,980
Net increase in net position	426,381	46,004	1,208	25,475	2,942	—	—	68,211	570,221
Net position restricted for pensions and OPEB:									
Beginning of year, as restated (Note 3(h))	13,090,805	868,134	32,981	441,182	20,711	6	2	1,121,251	15,575,072
End of year	\$ 13,517,186	914,138	34,189	466,657	23,653	6	2	1,189,462	16,145,293

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Statement of Net Position

State Employees' Assurance Department Active Members Fund

June 30, 2018

(In thousands)

Assets:

Cash and cash equivalents \$ 90

Receivables:

Unremitted insurance premiums 72

Investments – at fair value:

Equity share of pooled investment fund 289,087

Total assets 289,249

Liabilities:

Accounts payable and other 42

Total liabilities 42

Total net position \$ 289,207

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Statement of Revenues, Expenses, and Changes in Net Position

State Employees' Assurance Department Active Members Fund

Year ended June 30, 2018

(In thousands)

Operating revenue:	
Insurance premiums	\$ <u>540</u>
Total operating revenue	<u>540</u>
Operating expenses:	
Death benefits	2,972
Administrative expenses	<u>76</u>
Total operating expenses	<u>3,048</u>
Total operating loss	<u>(2,508)</u>
Nonoperating revenues (expenses):	
Allocation of investment income from pooled investment fund	24,493
Investment expenses	<u>(64)</u>
Total nonoperating revenues	<u>24,429</u>
Change in net position	21,921
Total net position:	
Beginning of year	<u>267,286</u>
End of year	\$ <u><u>289,207</u></u>

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Statement of Cash Flows

State Employees' Assurance Department Active Members Fund

Year ended June 30, 2018

(In thousands)

Cash flows from operating activities:	
Insurance premiums received	\$ 540
Death benefits paid	(2,972)
Administrative fees paid	(69)
	<hr/>
Net cash used in operating activities	(2,501)
Cash flows from investing activities:	
Withdrawals from pooled investment fund	2,600
Investment expenses paid	(64)
	<hr/>
Net cash provided by investing activities	2,536
Net increase in cash and cash equivalents	35
Cash and cash equivalents, beginning of year	<hr/> 55
Cash and cash equivalents, end of year	\$ <hr/> <hr/> 90
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,508)
Changes in assets and liabilities:	
Accounts payable and other	<hr/> 7
Net cash used in operating activities	\$ <hr/> <hr/> (2,501)

See accompanying notes to financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

(1) General

The accompanying basic financial statements of the Employees' Retirement System of Georgia, including all plans and funds administered by the Employees' Retirement System of Georgia (collectively, the System), comprises the Employees' Retirement System of Georgia (ERS), Public School Employees Retirement System (PSERS), Legislative Retirement System (LRS), Georgia Judicial Retirement System (GJRS), Georgia Military Pension Fund (GMPF), Superior Court Judges Retirement Fund (SCJRF), District Attorneys Retirement Fund (DARF), State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund (SEAD-OPEB), Georgia Defined Contribution Plan (GDGP), State of Georgia Employee's Qualified Trust Deferred Compensation Plan (401(k) Plan), State of Georgia Employees' Deferred Compensation Plan (457 Plan), Survivors Benefit Fund (SBF), and State Employees' Assurance Department Active Members Fund (SEAD-Active). All significant transactions among the various systems, departments, and funds have been eliminated. The Boards of Trustees, comprising active and retired members, ex-officio state employees, and appointees by the Governor, are ultimately responsible for the administration of the System.

(2) Authorizing Legislation and Plan Descriptions

Each plan and fund, including benefit and contribution provisions, was established and can be amended by state law. The following summarizes authorizing legislation and the plan description of each retirement fund:

- (a)** ERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees (ERS Board) and has the powers and privileges of a corporation. There were 419 employers and 1 nonemployer contributing entity participating in the plan during 2018.

Membership

As of June 30, 2018, participation in ERS is as follows:

Inactive members and beneficiaries currently receiving benefits	50,863
Inactive members entitled to benefits but not yet receiving benefits	58,332
Active plan members	<u>60,406</u>
Total	<u><u>169,601</u></u>

Benefits

The ERS Plan supports three benefit tiers: Old Plan, New Plan, and Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the Old Plan started membership prior to July 1, 1982 and are subject to plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are New Plan members subject to modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS.

Under the Old Plan, the New Plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service, regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also be made to members' benefits, provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions and Vesting

Member contributions under the Old Plan are 4% of annual compensation, up to \$4,200, plus 6% of annual compensation in excess of \$4,200. Under the Old Plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the Old Plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the New Plan and GSEPS are 1.25% of annual compensation. The state is required to contribute at a specified percentage of active member payrolls, determined annually by actuarial valuation. The state contributions are not at any time refundable to the member or his/her beneficiary.

Pursuant to The Official Code of Georgia Annotated (O.C.G.A.) 47-2-292, the employer contributions for local tax commissioners and their employees who took office or were employed prior to July 1, 2012 are funded by the State of Georgia on behalf of the local county employer. Pursuant to O.C.G.A. 47-2-290, the employer contribution for certain State Court employees is funded by the state on behalf of the local county employer.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Employer and nonemployer contributions as a percentage of covered payroll required for fiscal year 2018 were based on the June 30, 2015 actuarial valuation for the Old Plan, New Plan, and GSEPS, as follows:

	<u>Old Plan</u>	<u>New Plan</u>	<u>GSEPS</u>
Employer and nonemployer:			
Normal	1.24 %	5.99 %	2.96 %
Employer paid for member	4.75	—	—
Accrued liability	<u>18.70</u>	<u>18.70</u>	<u>18.70</u>
Total	<u>24.69 %</u>	<u>24.69 %</u>	<u>21.66 %</u>

Members become vested after 10 years of membership service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

- (b)** PSERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers Retirement System of Georgia. The ERS Board, plus two additional trustees, administers PSERS (PSERS Board). There were 184 employers and 1 nonemployer contributing entity participating in the plan during 2018.

Membership

As of June 30, 2018, participation in PSERS is as follows:

Inactive members and beneficiaries currently receiving benefits	18,492
Inactive members entitled to benefits but not yet receiving benefits	48,353
Active plan members	<u>34,956</u>
Total	<u>101,801</u>

Benefits

A member may retire and elect to receive normal monthly retirement benefits after completion of 10 years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of 10 years of service.

Upon retirement, the member will receive a monthly benefit of \$15.00, multiplied by the number of years of creditable service. Death and disability benefits are also available through PSERS. Additionally, PSERS may make periodic cost-of-living adjustments to the monthly benefits.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Contributions and Vesting

Individuals who became members prior to July 1, 2012 contribute \$4 per month for nine months each fiscal year. Individuals who became members on or after July 1, 2012 contribute \$10 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the PSERS Board.

Employer contributions required for the year ended June 30, 2018 were \$780.92 per active member and were based on the June 30, 2015 actuarial valuation.

Members become vested after 10 years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

- (c) LRS is a single-employer defined benefit pension plan established by the Georgia General Assembly from 1967–1971, and later reestablished in 1979, for the purpose of providing retirement allowances for all members of the Georgia General Assembly. LRS is administered by the ERS Board. There was one employer in the plan for 2018.

Membership

As of June 30, 2018, participation in LRS is as follows:

Inactive members and beneficiaries currently receiving benefits	267
Inactive members entitled to benefits but not yet receiving benefits	158
Active plan members	222
Total	<u>647</u>

Benefits

A member's normal retirement is after eight years of creditable service and attainment of age 65, or eight years of membership service (four legislative terms) and attainment of age 62. A member may retire early and elect to receive a monthly retirement benefit after completion of eight years of membership service and attainment of age 60; however, the retirement benefit is reduced by 5% for each year the member is under age 62.

Upon retirement, the member will receive a monthly service retirement allowance of \$36, multiplied by the number of years of creditable service. Death benefits are also available through the plan.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Contributions and Vesting

Member contributions are 8.5% of annual salary. The state pays member contributions in excess of 4.75% of annual compensation. Employer contributions are actuarially determined and approved and certified by the ERS Board.

There were no employer contributions required for the year ended June 30, 2018 based on the June 30, 2015 actuarial valuation.

Members become vested after eight years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member.

However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

- (d) GJRS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1998 for the purpose of providing retirement allowances for judges and solicitors generals of the state courts and juvenile court judges in Georgia, and their survivors and other beneficiaries, superior court judges of the State of Georgia, and district attorneys of the State of Georgia.

The GJRS was also created to serve the members and beneficiaries of the Trial Judges and Solicitors Retirement Fund, the Superior Court Judges Retirement System, and the District Attorneys Retirement System (collectively, the Predecessor Retirement Systems). As of June 30, 1998, any person who was an active, inactive, or retired member or beneficiary of the Predecessor Retirement Systems was transferred to GJRS in the same status effective July 1, 1998. All assets of the Predecessor Retirement Systems were transferred to GJRS as of July 1, 1998. The ERS Board and three additional trustees administer GJRS (GJRS Board). There were 93 employers and 1 nonemployer contributing entity participating in the plan during 2018.

Membership

As of June 30, 2018, participation in GJRS is as follows:

Inactive members and beneficiaries currently receiving benefits	358
Inactive members entitled to benefits but not yet receiving benefits	61
Active plan members	<u>527</u>
Total	<u><u>946</u></u>

Benefits

The normal retirement for GJRS is age 60, with 16 years of creditable service; however, a member may retire at age 60 with a minimum of 10 years of creditable service.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Annual retirement benefits paid to members are computed as 66 $\frac{2}{3}$ % of state-paid salary at retirement for district attorneys and superior court judges and 66 $\frac{2}{3}$ % of the average over 24 consecutive months for trial judges and solicitors, plus 1% for each year of credited service over 16 years, not to exceed 24 years. Early retirement benefits paid to members are computed as the pro rata portion of the normal retirement benefit, based on service not to exceed 16 years. Death, disability, and spousal benefits are also available.

Contributions and Vesting

Members are required to contribute 7.3% of their annual salary. Those who became members prior to July 1, 2012 must also contribute an additional 2.5% of their annual salary if spousal benefit is elected. Employer contributions are actuarially determined and approved and certified by the GJRS Board.

Pursuant to O.C.G.A. 47-23-81, the employer contributions for state court judges and solicitors are funded by the State of Georgia on behalf of the local county employers and pursuant to O.C.G.A. 47-23-82, the employer contributions for juvenile court judges are funded by the state on behalf of local county employers.

Employer and nonemployer contributions required for fiscal year 2018 were based on the June 30, 2015 actuarial valuation, as follows:

Employer and nonemployer:	
Normal	13.71 %
Accrued liability	<u>(6.54)</u>
Total	<u>7.17 %</u>

Members become vested after 10 years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

- (e) The GMPF is a single-employer defined benefit pension plan established on July 1, 2002 by the Georgia General Assembly for the purpose of providing retirement allowances and other benefits for members of the Georgia National Guard (the National Guard). The ERS Board administers the GMPF.

Membership

As of June 30, 2018, GMPF had 1076 retirees and beneficiaries currently receiving benefits. Active and inactive plan member information is maintained by one employer, the Georgia Department of Defense.

Benefits

A member becomes eligible for benefits upon attainment of age 60, with 20 or more years of creditable service (including at least 15 years of service as a member of the National Guard), having served at

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

least 10 consecutive years as a member of the National Guard immediately prior to discharge, and having received an honorable discharge from the National Guard.

The retirement allowance is payable for life in the amount of \$50 per month, plus \$5 per month for each year of creditable service in excess of 20 years. The maximum benefit is \$100 per month.

Contributions and Vesting

Employer contributions are actuarially determined and approved and certified by the ERS Board. There are no member contributions required.

Employer contributions required for the year ended June 30, 2018 were \$172.85 per active member and were based on the June 30, 2015 actuarial valuation.

A member becomes vested after 20 years of creditable service (including at least 15 years of service as a member of the National Guard), having served at least 10 consecutive years as a member of the National Guard immediately prior to discharge, and having received an honorable discharge from the National Guard.

- (f) SCJRF is a single-employer defined benefit pension plan established by the Georgia General Assembly in 1945 for the purpose of providing retirement benefits to the superior court judges of the State of Georgia. SCJRF is directed by its own Board of Trustees (SCJRF Board). The ERS Board and SCJRF Board entered into a contract for ERS to administer the plan effective July 1, 1995.

Membership

As of June 30, 2018, SCJRF had 12 retirees and beneficiaries currently receiving benefits and no active members. No new members are allowed into SCJRF.

Benefits

The normal retirement for SCJRF is age 68, with 19 years of creditable service, with a benefit of two-thirds the salary paid to superior court judges. A member may also retire at age 65, with a minimum of 10 years of creditable service, with a benefit of one-half the salary paid to superior court judges. Death, disability, and spousal benefits are also available.

Contributions and Vesting

Employer contributions are not actuarially determined, but are provided on an as-needed basis to fund current benefits.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

- (g) DARF is a multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1949 for the purpose of providing retirement benefits to the district attorneys of the state of Georgia. DARF is directed by its own Board of Trustees (DARF Board). The ERS Board and DARF Board entered into a contract for ERS to administer the plan effective July 1, 1995.

Membership

As of June 30, 2018, DARF had four retirees and beneficiaries currently receiving benefits and no active members. No new members are allowed into DARF.

Benefits

Persons appointed as district attorney emeritus shall receive an annual benefit of \$15,000, or one-half of the state salary received by such person as a district attorney for the calendar year immediately prior to the person's retirement, whichever is greater.

Contributions and Vesting

Employer contributions are not actuarially determined, but are provided on an as-needed basis to fund current benefits.

- (h) SEAD-OPEB is a cost-sharing multiple-employer defined benefit other postemployment benefit plan created in 2007 by the Georgia General Assembly to amend Title 47 of the O.C.G.A., relating to retirement, so as to establish a fund for the provision of term life insurance to retired and vested inactive members of ERS, LRS, and GJRS. Effective July 1, 2009, no newly hired members of any Georgia public retirement system are eligible for term life insurance under SEAD. The SEAD-OPEB trust fund accumulates the premiums received from the aforementioned retirement systems, including interest earned on deposits and investments of such payments from retired and vested inactive members. There were 459 employers and 1 nonemployer contributing entity participating in the plan during 2018.

As of June 30, 2018, participation in SEAD-OPEB is as follows:

Retirees and beneficiaries	42,654
Terminated employees	947
Active plan members	<u>26,032</u>
Total	<u><u>69,633</u></u>

Employee contribution rates as a percentage of member's salaries were appropriated for the fiscal year ended June 30, 2018 as follows: ERS Old Plan – 0.45% and ERS New Plan, LRS, and GJRS – 0.23%. ERS Old Plan members were hired prior to July 1, 1982 and New Plan members were hired on or after July 1, 1982, but prior to January 1, 2009.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Georgia law provides that employee contributions to the plan shall be in an amount established by the Board of Trustees (SEAD Board) not to exceed one-half of 1% of the member's earnable compensation. There were no employer contributions required for the fiscal year ended June 30, 2018.

According to the policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net position represents the excess accumulation of investment income and premiums over benefit payments and expenses, and is held as a reserve for payment of death benefits under existing policies.

The amount of insurance for a retiree with creditable service prior to April 1, 1964 is the full amount of insurance under SEAD-Active in effect on the date of retirement. The amount of insurance for a service retiree with no creditable service prior to April 1, 1964 is 70% of the amount of insurance under SEAD-Active at age 60 or at termination, if earlier. Life insurance proceeds are paid in a lump sum to the beneficiary upon death of the retiree.

Administrative costs for the plan are determined based on the plan's share of overhead costs to accumulate and invest funds, actuarial services, and to process benefit payments to beneficiaries. Administrative fees are financed from the assets of the plan.

- (i) GDCP is a defined contribution plan established by the Georgia General Assembly in July 1992 for the purpose of providing retirement allowances for state employees who are not members of a public retirement or pension system and do not participate in Social Security. GDCP is administered by the ERS Board. There were 75 employers participating in the plan during 2018. There were 121,878 members as of June 30, 2018.

Benefits

A member may retire and elect to receive periodic payments after attainment of age 65. The payments will be based upon mortality tables and interest assumptions adopted by the ERS Board. If a terminated member has less than \$5,000 credited to his/her account, the ERS Board has the option of requiring a lump-sum distribution to the member. Upon the death of a member, a lump-sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary.

Contributions and Vesting

Members are required to contribute 7.5% of their annual salary and vest immediately in the plan upon contribution. There are no employer contributions. Earnings will be credited to each member's account as adopted by the ERS Board. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

- (j) The 401(k) Plan was established by the State of Georgia Employee Benefit Plan Council in accordance with Georgia Law 1985, as amended, O.C.G.A. Sections 45-18-50 through 45-18-58, and Section 401(k) of the Internal Revenue Code (IRC). On October 1, 1994, activity commenced when the 401(k) Plan became available to employees of the State of Georgia Community Service Boards (CSBs). On December 1, 1998, the 401(k) Plan became available to employees of the Georgia Lottery Corporation (GLC). On July 1, 2005, the Plan became available to employees of Fayette County Board of Education; on July 1, 2006, the Plan became available to employees of Walton County Board of Education; on January 1, 2010, the Plan became available to employees of Henry County Board of Education; and on July 1, 2017, the Plan became available to employees of the Baldwin County Board of Education.

Effective July 1, 1998, the State of Georgia Employee's Deferred Compensation Group Trust (the Master Trust) was formed for the State of Georgia Deferred Compensation Program to serve as the funding medium for the 401(k) Plan. At that time, the 401(k) Plan began operating on an employee elective deferral basis for all state employees working at least 1,000 hours in a 12-month period. All assets of the 401(k) Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets of the 401(k) Plan and the 457 Plan are commingled in the Master Trust with the respective trusts owning units of the Master Trust. Participant contributions are invested according to the participant's investment election. If the participant does not make an election, investments are automatically defaulted to a Lifecycle Fund based on the participant's date of birth.

Effective July 1, 2005 (HB275), ERS became the trustee of the 401(k) Plan. Alight Solutions and JPMorgan Chase hold, administer, and invest the assets of the Master Trust.

Contributions and Vesting

Participating CSBs, the GLC, and Walton and Henry County Boards of Education offer employer contributions, some matching, some automatic, and some a combination of both, to eligible employees at various rates (limited to a maximum of \$270,000 base salary in calendar year 2017 and \$275,000 in calendar year 2018). As of January 1, 2009, individual participants may defer up to 80% of eligible compensation, or up to limits prescribed by the IRC (whichever is less).

Effective January 1, 2009, in accordance with O.C.G.A. 47-2-350 through 47-2-360, newly hired state employees, as well as rehired state employees who did not maintain eligibility for the ERS Old Plan or New Plan, are members of GSEPS. From January 1, 2009 to June 30, 2014, the GSEPS tier included automatic enrollment in the 401(k) Plan at a contribution rate of 1% of salary. Effective July 1, 2014, in accordance with HB764, the employee contribution rate for automatic enrollment increased from 1% to 5%. The state matches 100% of the employee's initial 1% contribution and 50% of contributions above 1% and up to 5%. Therefore, the state will match 3% of salary when an employee contributes at least 5% to the 401(k) Plan. Employee contributions greater than 5% of salary do not receive any additional matching funds. Plan participants who are not employees of the GLC, a CSB, Walton and Henry County Boards of Education, or who are not GSEPS eligible do not receive any employer contributions in their 401(k) Plan.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

All employer contributions are subject to a vesting schedule, which determines eligibility to receive all or a portion of the employer contribution balance at the time of any distribution from the account after separation from all state service. Vesting is determined based on the following schedule:

Less than 1 year	— %
1	20
2	40
3	60
4	80
5 or more years	100

For CSB/GLC participants whose services terminated prior to January 1, 2010 but after December 31, 2001, the following vesting schedule applies:

Less than 2 years	— %
2	20
3	40
4	60
5	80
6 or more years	100

For CSB/GLC participants whose services terminated prior to January 1, 2002, the following vesting schedule applies:

Less than 3 years	— %
3	20
4	40
5	60
6	80
7 or more years	100

Employee contributions and earnings thereon are 100% vested at all times. The 401(k) Plan also allows participants to roll over amounts from other qualified plans to their respective account in the 401(k) Plan on approval by the 401(k) plan administrator. Such rollovers are 100% vested at the time of transfer.

Participation

As of June 30, 2018, the 401(k) Plan had 65,874 participants with a balance. A total of 470 employers transmitted contributions to the plan during 2018.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Distributions

The participant may receive the value of his or her vested accounts upon attaining age 59.5, qualifying financial hardship, or 30 days after retirement or other termination of service (employer contribution balances are only eligible for distribution upon separation from service). Upon the death of a participant, his or her beneficiary shall be entitled to the vested value of his or her accounts. Employees who die while actively employed and eligible for 401(k) Plan employer matching contributions become fully vested in employer contributions upon death. Distributions are made in installments or in a lump sum.

- (k) The 457 Plan was established by the State Personnel Board in accordance with Georgia Law 1974, page 198 as amended, O.C.G.A., Sections 45-18-30 through 45-18-36, and Section 457 of the IRC. The 457 Plan is available to employees of the State of Georgia and county health departments and permits such employees to defer a portion of their annual salary until future years. Employee contributions and earnings thereon are 100% vested at all times.

Effective July 1, 1998, the Master Trust was formed for the State of Georgia Deferred Compensation Program to serve as the funding medium for the 457 Plan. All assets of the 457 Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets of the 457 Plan and the 401(k) Plan are commingled in the Master Trust with the respective trusts owning units of the Master Trust. Participant contributions are invested according to the participant's investment election. If the participant does not make an election, investments are automatically defaulted to a Lifecycle Fund based on the participant's date of birth.

Effective July 1, 2005 (HB275), ERS became the trustee of the 457 Plan. Alight Solutions and JPMorgan Chase hold, administer, and invest the assets of the Master Trust.

Participation

As of June 30, 2018, the 457 Plan had 12,882 participants with a balance. A total of 306 employers transmitted contributions to the plan during 2018.

Distributions

The balance in the employee's account in the 457 Plan is not available to the employee until age 70.5, termination, retirement, death, or unforeseeable emergency, as defined in the 457 Plan. Upon the death of a participant, his or her beneficiary shall be entitled to the vested value of his or her accounts. Distributions are made in installments or in a lump sum.

- (l) SBF was established under O.C.G.A. 47-2-128(c)(3) within the ERS trust solely for maintaining group term life insurance coverage for members of the plan. All assets of SBF are therefore limited to the payment of benefits and expenses for such coverage and cannot be used to pay pension benefits of ERS. SBF is shown on the financial statements separately as an agency fund to reflect ERS's custodial responsibility and to account for assets held for distribution to SEAD-Active and SEAD-OPEB. SBF may only be used to pay benefits or expenses of SEAD-OPEB or SEAD-Active with authorization by the ERS Board. An actuarial valuation is not prepared, as there are no funding requirements.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

(m) SEAD-Active is a cost-sharing multiple-employer life insurance plan created in 2007 by the Georgia General Assembly to amend Title 47 of the O.C.G.A., relating to retirement, so as to establish a fund for the provision of term life insurance to active members of ERS, LRS, and GJRS. Effective July 1, 2009, no newly hired members of any Georgia public retirement system are eligible for term life insurance under SEAD. The SEAD-Active fund accumulates the premiums received from the aforementioned retirement systems, including interest earned on deposits and investments of such payments from active members. There were 459 employers and 1 nonemployer contributing entity participating in the plan during 2018. As of June 30, 2018, there were 26,032 active plan members in SEAD-Active.

Employee contribution rates as a percentage of member's salaries were appropriated for the fiscal year ended June 30, 2018 as follows: ERS Old Plan – 0.05% and ERS New Plan, LRS, and GJRS – 0.02%. ERS Old Plan members were hired prior to July 1, 1982 and new plan members were hired on or after July 1, 1982, but prior to January 1, 2009.

Georgia law provides that employee contributions to the plan shall be in an amount established by the SEAD Board not to exceed one-half of 1% of the member's earnable compensation. There were no employer contributions required for the fiscal year ended June 30, 2018.

According to the policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net position represents the excess accumulation of investment income and premiums over benefit payments and expenses, and is held as a reserve for payment of death benefits under existing policies.

The amount of insurance coverage is equal to 18 times monthly earnable compensation frozen at age 60. For members with no creditable service prior to April 1, 1964, the amount decreases from age 60 by a half of 1% per month until age 65, at which point the member will be covered for 70% of the age 60 coverage. Life insurance proceeds are paid in lump sum to the beneficiary upon death of the member.

Administrative costs for the plan are determined based on the plan's share of overhead costs to accumulate and invest funds, actuarial services, and to process benefit payments to beneficiaries. Administrative fees are financed from the assets of the plan.

(3) Significant Accounting Policies and System Asset Matters

(a) Basis of Accounting

The System's financial statements are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. The System follows the reporting requirements established by GASB.

Fiduciary funds include the defined benefit plans and defined contribution plans, which are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Contributions to the defined benefit pension plans and OPEB plan are recognized in the period in which

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Contributions to the deferred compensation plans are recognized as received. The SBF is an agency fund and is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. The proprietary fund comprises the SEAD-Active plan. This fund is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. The principal operating revenues are derived from insurance premiums. Operating expenses include the cost of claims and related expenses.

(b) Reporting Entity

The System is a component unit of the State of Georgia; however, it is accountable for its own fiscal matters and presentation of its separate financial statements. The System has considered potential component units under GASB Statements No. 80, *Blending Requirements for Certain Component Units*, No. 61, *The Financial Reporting Entity's Omnibus – An Amendment of GASB Statement No. 14 and No. 34*, and No. 39, *Determining Whether Certain Organizations are Component Units*, and determined there were no component units of the System.

(c) Cash and Cash Equivalents

Cash and cash equivalents, reported at cost, include cash on deposit at banks and cash on deposit with the investment custodian.

(d) Investments

Investments are reported at fair value, and in some cases, net asset value (NAV) as a practical expedient to fair value. Equity securities traded on a national or international exchange are valued at the last reported sales price. Investments in private investment companies are valued utilizing the NAVs provided by the underlying private investment companies as a practical expedient. The Pooled Investment Fund (the Fund) applies the practical expedient to its investments in private investment companies on an investment by investment basis, and consistent with the Fund's entire position in a particular investment, unless it is probable that the Fund will sell a portion of an investment at an amount different from the NAV of the investment. Private equity fair value is measured using the valuation of the underlying companies as reported by the general partner. These investments, in the form of limited partnerships, reflect values and related performance on a quarter-lag basis due to the nature of the investments and the time it takes to value them. The estimated fair value of investments without readily determinable market values could differ significantly if a ready market for these assets existed. Fixed income securities are valued based primarily on quoted market prices provided by independent pricing sources. Global foreign exchange holdings are translated using a third-party vendor. Investment income is recognized as earned by the System. There are no investments in, loans to, or leases with parties related to the System.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, foreign currency, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The System's policy with regard to the allocation of invested assets is established on a cost basis in compliance with Georgia statute. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension and OPEB plans. The following was the System's adopted asset allocation policy as of June 30, 2018:

<u>Asset class</u>	<u>Target allocation</u>
Fixed income	25%–45%
Equities	55%–75%
Alternative investments	0%–5%
Cash and cash equivalents	—
Total	<u>100%</u>

Approximately 18.8% of the investments held in trust for pension and OPEB benefits are invested in debt securities of the U.S. government. The System has no investments in any one organization, other than those issued by the U.S. government and its instrumentalities that represent 5% or more of the System's net position restricted for pensions and OPEB.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(e) Capital Assets

Capital assets, including software development costs, are stated at cost less accumulated depreciation and reside in ERS. The capitalization thresholds are \$100,000 for buildings and building improvements and \$5,000 for equipment and vehicles. Depreciation on capital assets is computed using the straight-line method over estimated useful lives of 5 to 40 years. Depreciation expense is included in administrative expenses. Maintenance and repairs are charged to administrative expenses when incurred. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the combining statement of changes in fiduciary net position in the period of disposal.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

(f) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net position and changes therein. Actual results could differ from those estimates.

(g) *New Accounting Pronouncements*

Pronouncements effective for the 2018 financial statements:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* effective for fiscal years beginning after June 15, 2017. The Statement addressed accounting and financial reporting for defined benefit OPEB plans that are provided to the employees of state and local governmental employers. See note 3(h) for the impact to the System.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for Irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. There are no applicable reporting requirements for the System related to this statement.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. A variety of topics are addressed including issues related to blending component units, goodwill, fair value measurement, and OPEB. The implementation of Statement No. 85 did not impact the amounts recorded or disclosures presented in the System's financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. There are no applicable reporting requirements for the System related to this Statement.

Pronouncements issued, but not yet effective:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The System does not anticipate this statement to impact its financial statements and related reporting.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

activities should be reported. The System is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* effective for fiscal years beginning after December 15, 2019, which provides guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The System is in the process of evaluating the impact of this pronouncement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements* effective for fiscal years beginning after June 15, 2018. The purpose is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The System is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period* effective for fiscal years beginning after December 15, 2019, which establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest costs incurred before the end of a construction period. The System is in the process of evaluating the impact of this pronouncement on its financial statements.

(h) Change in Accounting Principle

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This Statement established new financial reporting standards for state and local governmental employers that participate in other postemployment benefit plans that are administered through a trust or similar arrangement. This Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. As a result, the System has restated beginning net position by approximately \$7.5 million. A summary of the changes to beginning net position is as follows (dollars in thousands):

Combining Statement of Changes in Fiduciary Net Position: Defined Benefit Plans

Net position – beginning of year as previously reported	\$	15,582,566
Recording of SEAD-OPEB net OPEB asset		372
Recording of State OPEB Fund net OPEB liability		(8,792)
Recording of contributions made subsequently		926
Net position – beginning of year, as restated	\$	<u>15,575,072</u>

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Defined Benefit Plans – Combining Statement of Changes in Fiduciary Net Position: Employees' Retirement System

Net position – beginning of period as previously reported	\$	13,098,299
Recording of SEAD-OPEB net OPEB asset		372
Recording of State OPEB Fund net OPEB liability		(8,792)
Recording of contributions made subsequently		<u>926</u>
Net position – beginning of period, as restated	\$	<u>13,090,805</u>

(4) Investment Program

The System maintains sufficient cash to meet its immediate liquidity needs. Cash not immediately needed is invested as directed by the ERS Board. All investments are held by agent custodial banks in the name of the System. State statutes and the System's investment policy authorize the System to invest in a variety of short-term and long-term securities as follows:

(a) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the System would not be able to recover the value of its deposits or investments. The System does not have a formal policy relating to custodial credit risk. The carrying amount of the System's deposits totaled \$276.6 million at June 30, 2018 with actual bank balances of \$280.3 million. The System's bank balances of \$260.0 million are fully insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. government. The remaining bank deposits of \$20.3 million are uninsured and uncollateralized. The System's noncash investments are held in the System's name and are not exposed to custodial credit risk.

Short-term securities authorized but not currently used are as follows:

- Repurchase and reverse repurchase agreements, whereby the System and a broker exchange cash for direct obligations of the U.S. government or obligations unconditionally guaranteed by agencies of the U.S. government or U.S. corporations. The System or broker promises to repay the cash received, plus interest, at a specific date in the future in exchange for the same securities.
- U.S. Treasury obligations
- Commercial paper, with a maturity of 180 days or less. Commercial paper is an unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The System considers for investment only commercial paper of the highest quality, rated P-1 and/or A-1 by national credit rating agencies.
- Master notes, an overnight security administered by a custodian bank and an obligation of a corporation whose commercial paper is rated P-1 and/or A-1 by national credit rating agencies.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Investments in commercial paper or master notes are limited to no more than \$500 million in any one name.

(b) Investments

Fixed income investments, managed by the Division of Investment Services (the Division), are authorized in the following instruments:

- U.S. and foreign government obligations. At June 30, 2018, the System held U.S. Treasury bonds of approximately \$3.4 billion.
- Obligations unconditionally guaranteed by agencies of the U.S. government. At June 30, 2018, the System did not hold agency bonds.
- U.S. and foreign corporate obligations. At June 30, 2018, the System held U.S. corporate bonds of approximately \$1.5 billion and international corporate bonds of approximately \$190 million.
- Private placements are authorized under the same general restrictions applicable to corporate bonds. At June 30, 2018, the System did not hold private placements.

Mortgage investments are authorized to the extent that they are secured by first mortgages on improved real property located in the state of Georgia.

Equity securities are also authorized (in statutes) for investment as a complement to the System's fixed-income portfolio and as a long-term inflation hedge. By statute, no more than 75% of the total invested assets on a historical cost basis may be placed in equities. Equity holdings in any one corporation may not exceed 5% of the outstanding equity of the issuing corporation. The equity portfolio is managed by the Division, in conjunction with independent advisers. Buy/sell decisions are based on securities meeting rating criteria established by the ERS Board, in-house research considering such matters as yield, growth, and sales statistics, and analysis of independent market research. Equity trades are approved and executed by the Division's staff. Common stocks eligible for investment are approved by the Investment Committee of the ERS Board before being placed on an approved list.

Equity investments are authorized in the following instruments:

- Domestic equities are those securities considered by O.C.G.A. to be domiciled in the United States. At June 30, 2018, the System held domestic equities of approximately \$8.3 billion.
- International equities, including American Depository Receipts (ADR), are not considered by the O.C.G.A. to be domiciled in the United States. At June 30, 2018, the System held international equities of approximately \$1.1 billion and ADRs of approximately \$1.7 billion, excluding the 401(k) and 457 plans.
- Alternative investments are authorized (in statutes) to provide portfolio diversification and to enhance the risk-adjusted rate of return for the retirement fund that benefits the members of the System. By statute, the allocation to alternative investments shall not, in the aggregate, exceed 5%

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

of the System's plan assets at any time. Further, in any calendar year, new commitments to alternative investments shall not, in the aggregate exceed 1.0% of the System's plan assets until the first occurrence that 4.5% of the assets have been invested, at which time there shall be no limit on the percentage of commitments that may be made in any calendar year, subject to compliance with other provisions of the statute. At June 30, 2018, the System held private equity investments of approximately \$221.9 million.

The Master Trust invests in various mutual funds, common collective trust funds, and separate accounts, as selected by participants. Each participant is allowed to select and invest contributions into investment options that own one or more commingled funds, as authorized by the ERS Board. Participants may also contribute to a self-directed brokerage account that offers investments in various mutual funds and equities. At June 30, 2018, the deferred compensation plans held commingled funds of approximately \$1.6 billion, mutual funds of approximately \$7.2 million, domestic equities of approximately \$14.8 million, and international equities of approximately \$1.4 million.

Substantially all of the investments of ERS, PSERS, LRS, GJRS, GMPF, SEAD-OPEB, SBF, and SEAD-Active are pooled into one common investment fund. Units in the pooled common investment fund are allocated to the respective plans based upon the cost of assets contributed, and additional units are allocated to the participating plans based on the market value of the pooled common investment fund at the date of contribution. Net income of the pooled common investment fund is allocated monthly to the participating plans, based upon the number of units outstanding during the month.

The units and fair value of each plan's equity in the pooled common investment fund at June 30, 2018 were as follows (dollars in thousands):

	<u>Fair value</u>	<u>Units</u>
Employees' Retirement System	\$ 13,468,340	2,722,454
Public School Employees Retirement System	914,957	184,947
Legislative Retirement System	34,216	6,916
Georgia Judicial Retirement System	466,307	94,258
Georgia Military Pension Fund	23,715	4,794
State Employees' Assurance Department-OPEB	1,189,173	240,376
Survivors Benefit Fund	148,450	30,007
Total defined benefit plans	16,245,158	3,283,752
State Employees' Assurance Department-Active	289,087	58,435
Total in pooled investment funds	\$ <u>16,534,245</u>	<u>3,342,187</u>

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Fair Value Measurements: The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

Level 2 – Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The System also has investments held through limited partnerships for which fair value is estimated using the NAV reported by the general partner as a practical expedient to fair value. Such investments have not been categorized within the fair value hierarchy.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. The table below shows the fair value leveling of the System's investments (in thousands).

<u>Investments by fair value level</u>	<u>Fair value measures using</u>			<u>Total</u>
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Equities:				
Domestic	\$ 8,332,421	—	—	8,332,421
International	2,788,248	19,606	—	2,807,854
Obligations:				
Domestic:				
U.S. Treasuries	3,374,310	—	—	3,374,310
Corporate bonds	—	1,475,432	—	1,475,432
International:				
Corporate bonds	—	190,353	—	190,353
Mutual funds	7,228	—	—	7,228
Commingled funds	80,811	1,510,680	—	1,591,491
Total investments by fair value level	\$ <u>14,583,018</u>	<u>3,196,071</u>	<u>—</u>	17,779,089
<u>Investments measured at NAV*</u>				
Private equity funds			\$ <u>221,904</u>	
Total investments			\$ <u>18,000,993</u>	

* Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combining statement of fiduciary net position.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Equity securities in Level 2 are valued using prices quoted for similar instruments in active markets. Equity securities classified in Level 3, if any, are valued using third-party valuations not currently observable in the market.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Debt securities classified in Level 1 are valued using prices quoted in active markets. Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. These securities have nonproprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

Mutual funds and commingled funds classified in Level 1 are valued using prices quoted in active markets for those investment types. Commingled funds classified in Level 2 are valued using observable underlying inputs that are market corroborated.

Unfunded commitments, redemption frequency, and redemption notice period relative to the System's alternative investments for which the System utilized NAV or its equivalent relative to the determination of fair value at June 30, 2018 are as follows (in thousands):

	<u>Investments measured at NAV</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Private equity funds	\$ 221,904	213,933	Not eligible	N/A

Investments in privately held limited partnerships are valued using the NAV provided by the general partner as of March 31 of each fiscal year, adjusted by the System for cash flows through June 30. The quarterly values of the partnership investments provided from the general partner are reviewed by the System to determine if any adjustments are necessary. The types of partnership strategies held include growth equity, leveraged buyouts, and mezzanine debt. Two of the 15 partnerships held are secondary investments and are in or nearing the wind-up phase of the fund. The remaining investments typically have an approximate life of 8–10 years. These investments are considered illiquid since the nature of these private investments prohibits redemption with the fund; instead, distributions are received from the general partner through liquidation of the underlying assets of the fund. The System currently has no plans to sell any of the investments prior to their liquidation resulting in these assets being carried at the NAV estimated by the general partner and adjusted for second quarter cash flows by the System.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. O.C.G.A. 47-20-84 limits investments to investment grade securities.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

It is the System's investment policy to require that the bond portfolio be of high quality and chosen with respect to maturity ranges, coupon levels, refunding characteristics, and marketability. The System's policy is to require that new purchases of bonds be restricted to high-grade bonds rated no lower than "A" by any nationally recognized statistical rating organization. If a bond is subsequently downgraded to a rating below "A," it is placed on a watch list. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The quality ratings of investments in fixed income securities as described by Standard & Poor's and by Moody's Investors Service, which are nationally recognized statistical rating organizations, at June 30, 2018 are shown in the following table (in thousands):

Quality Ratings of Fixed Income Investments**Held at June 30, 2018**

Investment type	Standard & Poor's/Moody's quality rating	June 30, 2018 fair value
Domestic obligations:		
U.S. Treasuries		\$ 3,374,310
Corporates	AAA/Aaa	166,156
	AA/Aaa	188,755
	AA/Aa	151,695
	A/Aa	96,524
	AA/A	146,034
	A/A	<u>726,268</u>
Total corporates		<u>1,475,432</u>
International obligations:		
Corporates	A/Aa	95,951
	A/A	<u>94,402</u>
Total corporates		<u>190,353</u>
Total fixed income investments		<u>\$ 5,040,095</u>

Mutual funds, commingled funds, and various equities of the deferred compensation plans are not considered to have credit risk and do not require disclosure of credit risk rating.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. At June 30, 2018, the System did not have debt or equity investments in any one organization, other than those issued or guaranteed by the U.S. government or its agencies, which represented greater than 5% of plan net position.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While the System has no formal interest rate risk policy, active management of the bond portfolio incorporates interest rate risk to generate improved returns. This risk is managed within the portfolio using the effective duration method. This method is widely used in the management of fixed income portfolios and quantifies to a much greater degree the sensitivity to interest rate changes when analyzing a bond portfolio with call options, prepayment provisions, and any other cash flows. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows and is best utilized to gauge the effect of a change in interest rates on the fair value of a portfolio. It is believed that the reporting of effective duration found in the table below quantifies to the fullest extent possible the interest rate risk of the System's fixed income assets (amounts in thousands).

Effective Duration of Fixed Income Assets			
Fixed income type	Fair value June 30, 2018	Percent of all fixed income assets	Effective duration (years)
Domestic obligations:			
U.S. Treasuries	\$ 3,374,310	66.9 %	5.7
Corporates	1,475,432	29.3	3.8
International obligations:			
Corporates	190,353	3.8	0.8
Total	\$ 5,040,095	100.0 %	4.9

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will impact the fair value of an investment. The System's currency risk exposures, or exchange rate risks, primarily reside within the System's international equity investment holdings. The System's foreign exchange risk management policy is to minimize risk and protect the investments from negative impact by hedging foreign currency exposures with foreign exchange instruments when market conditions and circumstances are deemed appropriate. As of June 30, 2018, the System's exposure to foreign currency risk in U.S. dollars, excluding the 401(k) and 457 plans, is highlighted in the following table (amounts in thousands):

International Investment Securities at Fair Value as of June 30, 2018				
Currency	Cash/cash equivalents	Equities	Fixed income	Total
Australian dollar	\$ —	46,103	—	46,103
Brazilian real	—	10,568	—	10,568
British pound	—	109,708	—	109,708
Canadian dollar	—	38,679	—	38,679
Czech krone	—	1,062	—	1,062
Danish krone	—	17,110	—	17,110
Euro	36	299,571	—	299,607
Hong Kong dollar	—	53,522	—	53,522
Indian rupee	—	53,318	—	53,318
Indonesian rupiah	—	5,537	—	5,537
Israeli shekel	—	1,816	—	1,816
Japanese yen	16	193,230	—	193,246
Malaysian ringgit	—	14,653	—	14,653
Mexican peso	—	5,847	—	5,847
New Taiwan dollar	—	29,990	—	29,990
Norwegian krone	—	2,355	—	2,355
Philippine peso	—	4,220	—	4,220
Polish zloty	—	2,841	—	2,841
Singapore dollar	—	23,992	—	23,992
South African rand	—	38,495	—	38,495
South Korean won	—	69,474	—	69,474
Swedish krona	—	31,062	—	31,062
Swiss franc	—	31,121	—	31,121
Thailand baht	—	19,606	—	19,606
Total holdings subject to foreign currency risk	52	1,103,880	—	1,103,932
Investment securities payable in U.S. dollars	—	1,702,552	190,353	1,892,905
Total international investment securities – at fair value	\$ 52	2,806,432	190,353	2,996,837

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

(5) Securities Lending Program

State statutes and ERS Board policies permit the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System is presently involved in a securities lending program with major brokerage firms. The System lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. The System reports the gross loan fee income earned as investment income on the combining statement of changes in fiduciary net position. During a loan, the System continues to receive dividends and interest as the owner of the loaned securities. The brokerage firms pledge collateral securities consisting of U.S. government and agency securities, mortgage-backed securities issued by a U.S. government agency, corporate bonds, and equities. The collateral value must be equal to at least 102% to 109% of the loaned securities' value, depending on the type of collateral security.

Securities loaned totaled approximately \$4.0 billion at fair value at June 30, 2018. The collateral value was equal to 105% of the loaned securities' value at June 30, 2018. The System's lending collateral was held in the System's name by the tri-party custodian.

Loaned securities are included in the accompanying combining statement of fiduciary net position since the System maintains ownership. The related collateral securities are not recorded as assets on the System's combining statement of fiduciary net position, and a corresponding liability is not recorded, since the System is deemed not to have the ability to pledge or trade the collateral securities. The System is deemed not to have the ability to pledge or sell the collateral securities, since the System's lending contracts do not address whether the lender can pledge or sell the collateral securities without a borrower default, the System has not previously demonstrated that ability, and there are no indications of the System's ability to pledge or sell the collateral securities.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

(6) Capital Assets

The following is a summary of capital assets and depreciation information as of and for the year ended June 30, 2018:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2018</u>
Capital assets:				
Land	\$ 4,341,787	8,000	—	4,349,787
Building	2,800,000	—	—	2,800,000
Equipment	3,272,212	134,905	—	3,407,117
Vehicles	13,382	—	(13,382)	—
Computer software	14,344,609	—	—	14,344,609
	<u>24,771,990</u>	<u>142,905</u>	<u>(13,382)</u>	<u>24,901,513</u>
Accumulated depreciation for:				
Building	(910,000)	(70,000)	—	(980,000)
Equipment	(2,599,612)	(239,211)	—	(2,838,823)
Vehicles	(13,382)	—	13,382	—
Computer software	(14,344,609)	—	—	(14,344,609)
	<u>(17,867,603)</u>	<u>(309,211)</u>	<u>13,382</u>	<u>(18,163,432)</u>
Capital assets, net \$	<u>6,904,387</u>	<u>(166,306)</u>	<u>—</u>	<u>6,738,081</u>

(7) Commitments

As of June 30, 2018, the System had committed to fund certain private equity partnerships for a total capital commitment of approximately \$427.8 million. Of this amount, approximately \$213.9 million remained unfunded and is not recorded on the System's combining statement of fiduciary net position.

(8) Net Pension Liability of Employers and Nonemployers – ERS

The components of the net pension liability of the participating employers and nonemployers at June 30, 2018 were as follows (dollars in thousands):

Total pension liability	\$ 17,628,219
Plan fiduciary net position	<u>13,517,186</u>
Employers' and nonemployers' net pension liability	<u>\$ 4,111,033</u>
Plan fiduciary net position as a percentage of the total pension liability	76.68 %

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25–7.00%, including inflation
Investment rate of return	7.30%, net of pension plan investment expense, including inflation

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB and set forward two years for both males and females for service retirements and dependent beneficiaries. The RP-2000 Disabled Mortality Table with future mortality improvement projected to 2025 with Society of Actuaries' projection scale BB and set back seven years for males and set forward three years for females was used for death after disability retirement. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB. There is a margin for future mortality improvement in the tables used by the plan.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00 %</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan'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.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 7.30%, as well as what the net pension liability would

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.30%)</u>	<u>Current discount rate (7.30%)</u>	<u>1% Increase (8.30%)</u>
Employers' and nonemployers' net pension liability	\$ 5,847,341	4,111,033	2,631,654

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(9) Net Pension Liability of Employers and Nonemployers – PSERS

The components of the net pension liability of the participating employers and nonemployers at June 30, 2018 were as follows (dollars in thousands):

Total pension liability	\$ 1,072,165
Plan fiduciary net position	<u>914,138</u>
Employers' and nonemployers' net pension liability	<u>\$ 158,027</u>
Plan fiduciary net position as a percentage of the total pension liability	85.26 %

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	N/A
Investment rate of return	7.30%, net of pension plan investment expense, including inflation
Cost of living adjustment	1.5% semi-annually

Postretirement mortality rates were based on the RP-2000 Blue-Collar Mortality Table projected to 2025 with projection scale BB (set forward three years for males and two years for females) for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality projected to 2025 with

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

projection scale BB (set forward five years for both males and females) was used for death after disability retirement. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB. There is a margin for future mortality improvement in the tables used by the plan.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the PSERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the PSERS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00 %</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

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.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 7.30%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.30%)</u>	<u>Current discount rate (7.30%)</u>	<u>1% Increase (8.30%)</u>
Employers' and nonemployers' net pension liability	\$ 276,775	158,027	58,149

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(10) Net Pension Liability of Employer – LRS

The components of the net pension liability (asset) of the participating employer at June 30, 2018 were as follows (dollars in thousands):

Total pension liability	\$ 26,304
Plan fiduciary net position	<u>34,189</u>
Employers' and nonemployers' net pension asset	<u>\$ (7,885)</u>
Plan fiduciary net position as a percentage of the total pension liability	129.98 %

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	None
Investment rate of return	7.30%, net of pension plan investment expense, including inflation
Cost-of-living adjustment	1.5% semi-annually

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB (set forward two years for both males and females) for the period after service retirement. The RP-2000 Employee Mortality table projected to 2025 using projection scale BB was used for deaths in active service.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

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. The target

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00 %</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan'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.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability (asset), calculated using the discount rate of 7.30%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	1% Decrease (6.30%)	Current discount rate (7.30%)	1% Increase (8.30%)
Employers' and nonemployers' net pension liability (asset)	\$ (5,420)	(7,885)	(9,971)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(11) Net Pension Liability of Employers and Nonemployers – GJRS

The components of the net pension liability (asset) of the participating employers and nonemployers at June 30, 2018 were as follows (dollars in thousands):

Total pension liability	\$	428,624
Plan fiduciary net position		<u>466,657</u>
Employers' and nonemployers' net pension asset	\$	<u><u>(38,033)</u></u>
Plan fiduciary net position as a percentage of the total pension liability		108.87 %

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.50%, including inflation
Investment rate of return	7.30%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for both males and females for the period after retirement and for dependent beneficiaries. For the period after disability retirement, the RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB and set back seven years for males and set forward three years for females is used. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the GJRS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the GJRS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00 %</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan'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.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability (asset), calculated using the discount rate of 7.30%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.30%)</u>	<u>Current discount rate (7.30%)</u>	<u>1% Increase (8.30%)</u>
Employers' and nonemployers' net pension liability (asset)	\$ 2,446	(38,033)	(73,292)

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(12) Net Pension Liability of Employer – GMPF

The components of the net pension liability of the participating employer at June 30, 2018 were as follows (dollars in thousands):

Total pension liability	\$ 43,204
Plan fiduciary net position	<u>23,653</u>
Employer's net pension liability	<u>\$ 19,551</u>
Plan fiduciary net position as a percentage of the total pension liability	54.75 %

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	N/A
Investment rate of return	7.30%, net of pension plan investment expense, including inflation

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB (set forward two years for both males and females) for the period after service retirement. The RP-2000 Employee Mortality Table projected to 2025 using projection scale BB was used for deaths in active service.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	100.00 %	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

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.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability (asset), calculated using the discount rate of 7.30%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.30%)</u>	<u>Current discount rate (7.30%)</u>	<u>1% Increase (8.30%)</u>
Employer's net pension liability	\$ 25,766	19,551	14,501

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(13) Net OPEB Liability of Employers – SEAD-OPEB

The components of the net OPEB liability (asset) of the participating employers at June 30, 2018 were as follows (dollars in thousands):

Total OPEB liability	\$ 918,816
Plan fiduciary net position	<u>1,189,462</u>
Employers' net OPEB asset	<u><u>\$(270,646)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	129.46 %

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases:	
ERS	3.25%–7.00%
GJRS	4.50%
LRS	N/A
Investment rate of return	7.30%, net of pension plan investment expense, including inflation
Healthcare cost trend rate	N/A

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB and set forward two years for both males and females for service retirements and dependent beneficiaries. There is a margin for future mortality improvement in the tables used by the plan.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014, with the exception of the investment rate of return. Subsequent to the June 30, 2017 measurement date, the SEAD Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the SEAD Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

The long-term expected rate of return on OPEB 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 OPEB 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00%</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total OPEB liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the OPEB plan'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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Sensitivity of the net OPEB liability to changes in the discount rate: The following table presents the net OPEB asset, calculated using the discount rate of 7.30%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.30%)</u>	<u>Current discount rate (7.30%)</u>	<u>1% Increase (8.30%)</u>
Employers' net OPEB asset	\$ (145,823)	(270,646)	(372,959)

Actuarial valuation date: June 30, 2017 is the actuarial valuation date upon which the total pension liability is based. An expected total OPEB liability is determined as of June 30, 2018 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (also called service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year.

(14) System Employees' Other Postemployment Benefits (OPEB)

Certain of the System's employees are members of the State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund and the Georgia State Employees Postretirement Benefit Fund. The notes to the financial statements that follow and required supplementary information on pages 78 and 79 are presented from the perspective of the System as an employer.

General Information about the State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund (SEAD-OPEB)

Plan description: SEAD-OPEB was created in 2007 by the Georgia General Assembly to amend Title 47 of the O.C.G.A., relating to retirement, so as to establish a fund for the provision of term life insurance to retired and vested inactive members of ERS, LRS, and GJRS. The plan is a cost-sharing multiple-employer defined benefit other postemployment benefit plan as defined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than OPEB Plans*. The SEAD-OPEB trust fund accumulates the premiums received from the aforementioned retirement plans, including interest earned on deposits and investments of such payments.

Benefits provided: The amount of insurance for a retiree with creditable service prior to April 1, 1964 is the full amount of insurance in effect on the date of retirement. The amount of insurance for a service retiree with no creditable service prior to April 1, 1964 is 70% of the amount of insurance in effect at age 60 or at termination, if earlier. Life insurance proceeds are paid in a lump sum to the beneficiary upon death of the retiree.

Contributions: Georgia law provides that employee contributions to the plan shall be in an amount established by the SEAD Board not to exceed one-half of 1% of the member's earnable compensation. There were no employer contributions required for the fiscal year ended June 30, 2018.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

OPEB Liabilities and OPEB Expense related to SEAD-OPEB

At June 30, 2018, the System reported an asset of \$501 thousand for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was based on an actuarial valuation as of June 30, 2016. An expected total OPEB asset as of June 30, 2017 was determined using standard roll-forward techniques. The System's proportionate share of the net OPEB asset was based on actual member salaries reported to the SEAD-OPEB plan during the fiscal year ended June 30, 2017. At June 30 2017, the employer's proportionate share was 0.192864%, which was an increase of 0.003037% from its proportionate share measured as of June 30, 2016. For the year ended June 30, 2018, the employer recognized reduction of OPEB expense of \$48 thousand.

Actuarial assumptions: The total SEAD-OPEB asset as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.72%
Salary increase	3.25 - 7.00%, including inflation
Investment rate of return	7.50%, net of SEAD-OPEB plan investment expense, including inflation
Healthcare cost trend rate	N/A

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB and set forward 2 years for both males and females for service retirements and dependent beneficiaries. There is a margin for future mortality improvement in the tables used by the plan.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

The long-term expected rate of return on SEAD-OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of plan investment expense and the assumed rate of 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. The target asset allocation and estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Fixed income	30.00 %	(0.50)%
Domestic large equities	37.20	9.00
Domestic mid equities	3.40	12.00
Domestic small equities	1.40	13.50
International developed market equities	17.80	8.00
International emerging market equities	5.20	12.00
Alternatives	5.00	10.50
Total	<u>100.00 %</u>	

* Rates shown are net of inflation.

Discount rate: The discount rate used to measure the total SEAD-OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employers and State of Georgia contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the SEAD-OPEB plan'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 SEAD-OPEB plan investments was applied to all periods of projected benefit payments to determine the total SEAD-OPEB liability.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Sensitivity of the System's proportionate share of the net SEAD-OPEB liability to changes in the discount rate: The following presents the System's proportionate share of the net SEAD-OPEB liability calculated using the discount rate of 7.50%, as well as what the System's proportionate share of the net SEAD-OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
System's proportionate share of the net OPEB liability (asset)	\$ (274)	(501)	(687)

SEAD-OPEB plan fiduciary net position: Detailed information about the SEAD-OPEB plan's fiduciary net position is available in the separately issued ERS comprehensive annual financial report which is publically available at www.ers.ga.gov/financials.

General Information about the Georgia State Employees Postemployment Benefit Fund (State OPEB Fund)

Plan description: The State OPEB Fund provides healthcare benefits for retirees and their dependents due under the group health plan for employees of State organizations (including technical colleges) and other entities authorized by law to contract with the Department of Community Health (DCH) for inclusion in the plan.

Benefits provided: Retiree medical eligibility is attained when an employee retires and is immediately eligible to draw a retirement annuity ERS, LRS, GJRS, Teachers Retirement System (TRS) or PSERS. If elected, dependent coverage starts on the same day as retiree coverage. Medicare-eligible retirees are offered Standard and Premium Medicare Advantage plan options. Non-Medicare eligible retiree plan options include Health Reimbursement Arrangement (HRA), Health Maintenance Organization (HMO) and a High Deductible Health Plan (HDHP). The State OPEB Fund also pays for administrative expenses of the fund. By law, no other use of the assets of the State OPEB Fund is permitted.

Contributions: As established by the DCH Board of Trustees, the State OPEB Fund is substantially funded on a pay-as-you-go basis; that is, annual cost of providing benefits will be financed in the same year as claims occur. Contributions to the State OPEB Fund from the System were \$926 thousand for the year ended June 30, 2018. Active employees are not required to contribute to the State OPEB Fund.

OPEB Liabilities and OPEB Expense related to State OPEB Fund

At June 30, 2018, the System reported a liability of approximately \$7.6 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total OPEB liability as of June 30, 2017 was determined using standard roll-forward techniques.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

The System's proportionate share of the net OPEB liability was actuarially determined based on employer contributions during the fiscal year ended June 30, 2017. At June 30, 2017, the System's proportionate share was 0.185830%, which was a decrease of 0.002001% from its proportionate share measured as of June 30, 2016. For the year ended June 30, 2018, the System's recognized OPEB expense of \$292.1 thousand.

Actuarial assumptions: The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.75%
Salary increase	3.25 – 7.00%, including inflation
Investment rate of return	7.50%, net of State OPEB plan investment expense, including inflation
Healthcare cost trend rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.75%
Ultimate trend rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate trend rate	2022

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB. The RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward 2 years or both males and females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB and set back 7 years for males and set forward 3 years for females is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the pension systems, which covered the five-year period ending June 30, 2014.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

Additionally, there was a change that affected measurement of the total OPEB liability since the prior measurement date. The methodology used to determine employee and retiree participation in the State

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

OPEB Fund is based on their current or last employer payroll location. Current and former employees of State organizations (including technical colleges, community service boards and public health departments) are allocated to the State OPEB Fund irrespective of retirement system affiliation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of investment expense and the assumed rate of 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Local Government Investment Pool	100 %	3.88 %

Discount rate: The discount rate has changed since the prior measurement date from 3.09% to 3.60%. In order to measure the total OPEB liability for the State OPEB Fund, a single equivalent interest rate of 3.60% was used as the discount rate. This is comprised mainly of the yield or index rate for 20 year tax-exempt general obligation municipal bonds with an average rating of AA or higher (3.56% per the Bond Buyers Index). The projection of cash flows used to determine the discount rate assumed that contributions from members and from the employer will be made at the current level as averaged over the last five years, adjusted for annual projected changes in headcount. Projected future benefit payments for all current plan members were projected through 2115. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make OPEB payments for inactive employees through year 2029. Therefore, the calculated discount rate of 3.60% was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the System's proportionate share of the net State OPEB liability to changes in the discount rate: The following presents the System's proportionate share of the net OPEB liability calculated using the discount rate of 3.60%, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.60%) or 1-percentage-point higher (4.60%) than the current discount rate (dollars in thousands):

	<u>1% Decrease (2.60%)</u>	<u>Current discount rate (3.60%)</u>	<u>1% Increase (4.60%)</u>
System's proportionate share of the net OPEB liability	\$ 9,054	7,571	6,387

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

Sensitivity of the System's proportionate share of the net State OPEB liability to changes in the healthcare cost trend rates: The following presents the System's proportionate share of the net OPEB liability, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (dollars in thousands):

	<u>1% Decrease</u>	<u>Current discount rate</u>	<u>1% Increase</u>
System's proportionate share of the net OPEB liability	\$ 6,258	7,571	9,234

State OPEB plan fiduciary net position: Detailed information about the State OPEB Benefit plan's fiduciary net position is available in the Comprehensive Annual Financial Report (CAFR) which is publicly available at <https://sao.georgia.gov/comprehensive-annual-financial-reports>.

Deferred Outflows of Resources and Deferred Inflows of Resources for SEAD-OPEB and State OPEB Fund

At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to SEAD-OPEB and the State OPEB Fund from the following sources (dollars in thousands):

	<u>SEAD- OPEB Plan</u>	<u>State OPEB Fund</u>	<u>Total</u>
Deferred outflows of resources:			
Differences between expected and actual experience	\$ —	—	—
Change of assumptions	—	—	—
Net difference between projected and actual earnings on plan investments	—	33	33
Changes in proportion and differences between the System's contributions and proportionate share of contributions	—	—	—
System's contributions subsequent to the measurement date	—	905	905
Total deferred outflows of resources	\$ <u>—</u>	<u>938</u>	<u>938</u>

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2018

	<u>SEAD- OPEB Plan</u>	<u>State OPEB Fund</u>	<u>Total</u>
Deferred inflows of resources:			
Differences between expected and actual experience	\$ —	—	—
Change of assumptions	—	548	548
Net difference between projected and actual earnings on plan investments	77	—	77
Changes in proportion and differences between the System's contributions and proportionate share of contributions	4	72	76
System's contributions subsequent to the measurement date	—	—	—
Total deferred inflows of resources	\$ <u>81</u>	<u>620</u>	<u>701</u>

SEAD-OPEB amounts reported as deferred outflows of resources and deferred inflows of resources related to SEAD-OPEB will be recognized in OPEB expense as follows (dollars in thousands):

Year ended June 30:	
2019	\$ (21)
2020	(21)
2021	(20)
2022	(19)
2023	—
Thereafter	—

State OPEB Fund employer contributions subsequent to the measurement date of \$905,444 are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to SEAD-OPEB will be recognized in OPEB expense as follows (dollars in thousands):

Year ended June 30:	
2019	\$ (179)
2020	(179)
2021	(179)
2022	(50)
2023	—
Thereafter	—

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

(See Accompanying Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Employers' and Nonemployers' Contributions – Defined Benefit Plans

Year ended June 30, 2018

(In thousands)

(Unaudited)

	Year ended	Actuarially determined contribution (a)	Contributions in relation to the actuarially determined contribution (b)	Contribution deficiency (excess) (a-b)	Covered payroll (c)	Contributions as a percentage of covered payroll (b/c)
Employees' Retirement System ¹	6/30/2009	\$ 282,103	281,206	897	2,674,155	10.5 %
	6/30/2010	263,064	263,064	—	2,571,042	10.2
	6/30/2011	261,132	261,132	—	2,486,780	10.5
	6/30/2012	273,623	274,034	(411)	2,414,884	11.3
	6/30/2013	358,376	358,992	(616)	2,335,773	15.4
	6/30/2014	428,982	429,752	(770)	2,335,773	18.4
	6/30/2015	517,220	518,163	(943)	2,353,225	22.0
	6/30/2016	595,124	595,566	(442)	2,390,457	24.9
	6/30/2017	624,623	625,281	(658)	2,565,918	24.4
	6/30/2018	650,073	652,167	(2,094)	2,635,896	24.7
Public School Employees Retirement System ²	6/30/2009	5,529	5,529	—	N/A	N/A
	6/30/2010	5,530	5,530	—	N/A	N/A
	6/30/2011	7,509	7,509	—	N/A	N/A
	6/30/2012	15,884	15,884	—	N/A	N/A
	6/30/2013	24,829	24,829	—	N/A	N/A
	6/30/2014	27,160	27,160	—	N/A	N/A
	6/30/2015	28,461	28,461	—	N/A	N/A
	6/30/2016	28,580	28,580	—	N/A	N/A
	6/30/2017	26,277	26,277	—	N/A	N/A
	6/30/2018	29,276	29,276	—	N/A	N/A
Legislative Retirement System ³	6/30/2009	—	71	(71)	N/A	N/A
	6/30/2010	—	75	(75)	N/A	N/A
	6/30/2011	—	75	(75)	N/A	N/A
	6/30/2012	—	76	(76)	N/A	N/A
	6/30/2013	—	128	(128)	N/A	N/A
	6/30/2014	—	45	(45)	N/A	N/A
	6/30/2015	—	—	—	N/A	N/A
	6/30/2016	—	—	—	N/A	N/A
	6/30/2017	—	—	—	N/A	N/A
	6/30/2018	—	—	—	N/A	N/A
Georgia Judicial Retirement System	6/30/2009	1,703	1,703	—	52,803	3.2
	6/30/2010	2,600	2,600	—	51,293	5.1
	6/30/2011	1,932	1,932	—	52,331	3.7
	6/30/2012	2,083	2,083	—	51,898	4.0
	6/30/2013	2,279	2,279	—	52,807	4.3
	6/30/2014	2,375	2,375	—	54,787	4.3
	6/30/2015	4,261	4,261	—	54,272	7.9
	6/30/2016	7,623	7,623	—	57,401	13.3
	6/30/2017	6,684	6,684	—	59,695	11.2
	6/30/2018	6,566	6,566	—	60,572	10.8

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Employers' and Nonemployers' Contributions – Defined Benefit Plans

Year ended June 30, 2018

(In thousands)

(Unaudited)

	Year ended	Actuarially determined contribution (a)	Contributions in relation to the actuarially determined contribution (b)	Contribution deficiency (excess) (a-b)	Covered payroll (c)	Contributions as a percentage of covered payroll (b/c)
Georgia Military Pension Fund ⁴	6/30/2009	\$ 1,323	1,323	—	N/A	N/A
	6/30/2010	1,434	1,434	—	N/A	N/A
	6/30/2011	1,282	1,282	—	N/A	N/A
	6/30/2012	1,521	1,521	—	N/A	N/A
	6/30/2013	1,703	1,703	—	N/A	N/A
	6/30/2014	1,892	1,892	—	N/A	N/A
	6/30/2015	1,893	1,893	—	N/A	N/A
	6/30/2016	1,990	1,990	—	N/A	N/A
	6/30/2017	2,018	2,018	—	N/A	N/A
	6/30/2018	2,377	2,377	—	N/A	N/A
State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund	6/30/2009	—	—	—	N/A	N/A
	6/30/2010	—	—	—	N/A	N/A
	6/30/2011	—	—	—	N/A	N/A
	6/30/2012	12,724	12,724	—	2,085,902	1.0
	6/30/2013	5,009	5,009	—	1,855,185	—
	6/30/2014	—	—	—	N/A	N/A
	6/30/2015	—	—	—	N/A	N/A
	6/30/2016	—	—	—	N/A	N/A
	6/30/2017	—	—	—	N/A	N/A
	6/30/2018	—	—	—	N/A	N/A

This data, except for annual covered payroll, was provided by the System's actuary.

¹ In 2009, an employer group within ERS did not contribute the full actuarially determined contribution. This employer is making additional contributions to repay this shortfall.

² No statistics regarding covered payroll are available. Contributions are not based upon members' salaries but are simply \$4.00 per member, per month, for nine months, each fiscal year if hired prior to July 1, 2012 and \$10 per month, per member, for nine months, if hired after July 1, 2012

³ The Georgia General Assembly made contributions in some years that were not required.

⁴ No statistics regarding covered payroll are available. Active and inactive plan member information is maintained by the Georgia Department of Defense.

See accompanying notes to required supplementary schedules and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Employees' and Nonemployees' Net Pension/OPEB Liability and Related Ratios – Defined Benefit Plans

June 30, 2018

(In thousands)

(Unaudited)

	2018	2017	2016	2015	2014
Employees' Retirement System:					
Total pension liability	\$ 17,628,219	17,159,634	17,103,987	17,019,362	17,042,149
Plan fiduciary net position	13,517,186	13,098,299	12,373,567	12,967,964	13,291,531
Employers' and nonemployees' net pension liability	\$ 4,111,033	4,061,335	4,730,420	4,051,398	3,750,618
Plan fiduciary net position as a percentage of the total pension liability	76.68 %	76.33 %	72.34 %	76.20 %	77.99 %
Covered payroll	\$ 2,635,896	2,565,918	2,390,457	2,353,225	2,335,773
Employers' and nonemployees' net pension liability as a percentage of covered payroll	155.96 %	158.28 %	197.89 %	172.16 %	160.57 %
Public School Employees Retirement System:					
Total pension liability	\$ 1,072,165	1,013,163	992,292	946,200	930,745
Plan fiduciary net position	914,138	868,134	803,775	823,150	821,733
Employers' and nonemployees' net pension liability	\$ 158,027	145,029	188,517	123,050	109,012
Plan fiduciary net position as a percentage of the total pension liability	85.26 %	85.69 %	81.00 %	87.00 %	88.29 %
Covered payroll	N/A	N/A	N/A	N/A	N/A
Employers' and nonemployees' net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A
Legislative Retirement System:					
Total pension liability	\$ 26,304	25,898	26,142	25,271	25,216
Plan fiduciary net position	34,189	32,981	30,975	32,359	32,794
Employer's net pension asset	\$ (7,885)	(7,083)	(4,833)	(7,088)	(7,578)
Plan fiduciary net position as a percentage of the total pension liability	129.98 %	127.35 %	118.49 %	128.05 %	130.05 %
Covered payroll	N/A	N/A	N/A	N/A	N/A
Employer's net pension asset as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A
Georgia Judicial Retirement System:					
Total pension liability	\$ 428,624	394,736	368,669	357,081	350,443
Plan fiduciary net position	466,657	441,182	403,011	404,852	400,790
Employers' and nonemployees' net pension asset	\$ (38,033)	(46,446)	(34,342)	(47,771)	(50,347)
Plan fiduciary net position as a percentage of the total pension liability	108.87 %	111.77 %	109.32 %	113.38 %	114.37 %
Covered payroll	\$ 60,572	59,695	57,401	54,272	54,787
Employers' and nonemployees' net pension asset as a percentage of covered payroll	(62.79)%	(77.81)%	(59.83)%	(88.02)%	(91.90)%
Georgia Military Pension Fund:					
Total pension liability	\$ 43,204	40,085	36,950	33,343	31,511
Plan fiduciary net position	23,653	20,711	17,717	16,712	15,251
Employer's net pension liability	\$ 19,551	19,374	19,233	16,631	16,260
Plan fiduciary net position as a percentage of the total pension liability	54.75 %	51.67 %	47.95 %	50.12 %	48.40 %
Covered payroll	N/A	N/A	N/A	N/A	N/A
Employer's net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A
State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund:					
Total OPEB liability	\$ 918,816	861,346	—	—	—
Plan fiduciary net position	1,189,462	1,121,251	—	—	—
Employer's net OPEB asset	\$ (270,646)	(259,905)	—	—	—
Plan fiduciary net position as a percentage of the total liability	129.46 %	130.17 %	— %	— %	— %
Covered payroll	\$ 1,328,485	1,383,860	—	—	—
Employer's net OPEB asset as a percentage of covered payroll	(20.37)%	(18.78)%	— %	— %	— %

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

See accompanying notes to required supplementary schedule and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability – Defined Benefit Plans

June 30, 2018

(In thousands)

(Unaudited)

	2018	2017	2016	2015	2014
Employees' Retirement System:					
Total pension liability:					
Service cost	\$ 129,294	125,910	143,043	145,045	150,075
Interest	1,233,689	1,230,175	1,225,650	1,227,846	1,224,380
Benefit changes	31,097	30,563	—	—	—
Differences between expected and actual experience	180,655	72,315	(238)	(53,950)	—
Changes of assumptions	314,733	—	70,890	—	—
Benefit payments	(1,413,298)	(1,394,283)	(1,347,633)	(1,334,278)	(1,305,998)
Refunds of contributions	(7,585)	(9,033)	(7,087)	(7,450)	(8,757)
Net change in total pension liability	468,585	55,647	84,625	(22,787)	59,700
Total pension liability – beginning	17,159,634	17,103,987	17,019,362	17,042,149	16,982,449
Total pension liability – end (a)	17,628,219	17,159,634	17,103,987	17,019,362	17,042,149
Plan fiduciary net position:					
Contributions – employer	639,302	613,201	583,082	505,668	418,807
Contributions – nonemployer	12,865	12,080	12,484	12,495	10,945
Contributions – member	37,130	35,863	31,961	33,713	32,423
Administrative expense allotment	10	10	10	10	—
Net investment income	1,166,013	1,475,626	141,292	474,147	2,021,748
Benefit payments	(1,413,298)	(1,394,283)	(1,347,633)	(1,334,278)	(1,305,998)
Administrative expense	(8,056)	(8,732)	(8,506)	(7,872)	(7,440)
Refunds of contributions	(7,585)	(9,033)	(7,087)	(7,450)	(8,757)
Other ¹	(7,494)	—	—	—	—
Net change in plan fiduciary net position	418,887	724,732	(594,397)	(323,567)	1,161,728
Plan fiduciary net position – beginning	13,098,299	12,373,567	12,967,964	13,291,531	12,129,803
Plan fiduciary net position – end (b)	13,517,186	13,098,299	12,373,567	12,967,964	13,291,531
Net pension liability – end (a)-(b)	\$ 4,111,033	4,061,335	4,730,420	4,051,398	3,750,618
Public School Employees Retirement System:					
Total pension liability:					
Service cost	\$ 13,180	12,788	11,952	12,088	11,049
Interest	73,643	72,157	68,776	67,652	66,143
Benefit changes	17,289	—	—	—	—
Differences between expected and actual experience	(3,943)	(3,665)	(9,483)	(6,858)	—
Changes of assumptions	21,354	—	33,215	—	—
Benefit payments	(61,820)	(59,378)	(57,903)	(56,972)	(56,189)
Refunds of contributions	(701)	(1,031)	(465)	(455)	(514)
Net change in total pension liability	59,002	20,871	46,092	15,455	20,489
Total pension liability – beginning	1,013,163	992,292	946,200	930,745	910,256
Total pension liability – ending (a)	1,072,165	1,013,163	992,292	946,200	930,745
Plan fiduciary net position:					
Contributions – nonemployer	29,276	26,277	28,580	28,461	27,160
Contributions – member	2,162	2,084	1,925	1,800	1,659
Net investment income	78,418	97,715	9,809	30,129	123,799
Benefit payments	(61,820)	(59,378)	(57,903)	(56,972)	(56,189)
Administrative expense	(1,331)	(1,308)	(1,321)	(1,545)	(1,450)
Refunds of contributions	(701)	(1,031)	(465)	(456)	(514)
Net change in plan fiduciary net position	46,004	64,359	(19,375)	1,417	94,465
Plan fiduciary net position – beginning	868,134	803,775	823,150	821,733	727,268
Plan fiduciary net position – end (b)	914,138	868,134	803,775	823,150	821,733
Net pension liability – end (a)-(b)	\$ 158,027	145,029	188,517	123,050	109,012

¹ The System is a participating employer in the Georgia State Employees Postemployment Benefit Fund and the State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund. Pursuant to the requirements of GASB Statement No. 75, the fiscal year 2018 beginning Fiduciary Net Position was restated by \$7,494,507. The restatement of net position was made for reporting purposes to reflect the impact of recording the initial deferred outflows of resources, net OPEB liability, and net OPEB asset. For actuarial purposes, this adjustment is being recognized in fiscal year 2018 and beginning fiduciary net position was not restated.

See accompanying notes to required supplementary schedule and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability – Defined Benefit Plans

June 30, 2018

(In thousands)

(Unaudited)

	2018	2017	2016	2015	2014
Legislative Retirement System:					
Total pension liability:					
Service cost	\$ 359	357	331	338	344
Interest	1,875	1,892	1,829	1,824	1,799
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	(481)	(655)	(465)	(325)	—
Changes of assumptions	447	—	938	—	—
Benefit payments	(1,772)	(1,763)	(1,724)	(1,756)	(1,801)
Refunds of contributions	(22)	(75)	(38)	(26)	(30)
Net change in total pension liability	406	(244)	871	55	312
Total pension liability – beginning	25,898	26,142	25,271	25,216	24,904
Total pension liability – end (a)	26,304	25,898	26,142	25,271	25,216
Plan fiduciary net position:					
Contributions – employer	—	—	—	—	45
Contributions – member	323	327	328	327	282
Net investment income	2,962	3,741	363	1,189	4,969
Benefit payments	(1,772)	(1,763)	(1,724)	(1,756)	(1,801)
Administrative expense	(283)	(224)	(313)	(169)	(152)
Refunds of contributions	(22)	(75)	(38)	(26)	(30)
Net change in plan fiduciary net position	1,208	2,006	(1,384)	(435)	3,313
Plan fiduciary net position – beginning	32,981	30,975	32,359	32,794	29,481
Plan fiduciary net position – end (b)	34,189	32,981	30,975	32,359	32,794
Net pension asset – end (a)-(b)	\$ (7,885)	(7,083)	(4,833)	(7,088)	(7,578)
Georgia Judicial Retirement System:					
Total pension liability:					
Service cost	\$ 13,019	12,514	12,713	7,751	7,584
Interest	28,666	26,826	26,058	25,566	24,530
Benefit changes	3,442	3,419	—	—	—
Differences between expected and actual experience	6,379	5,258	(3,603)	(7,542)	—
Changes of assumptions	7,466	—	(4,308)	—	—
Benefit payments	(24,934)	(21,784)	(19,011)	(18,365)	(17,441)
Refunds of contributions	(150)	(166)	(261)	(772)	(22)
Net change in total pension liability	33,888	26,067	11,588	6,638	14,651
Total pension liability – beginning	394,736	368,669	357,081	350,443	335,792
Total pension liability – end (a)	428,624	394,736	368,669	357,081	350,443
Plan fiduciary net position:					
Contributions – employer	4,725	4,081	4,754	2,696	1,373
Contributions – nonemployer	1,841	2,603	2,869	1,564	1,002
Contributions – member	4,910	4,906	5,507	5,061	4,731
Net investment income	39,877	49,259	5,055	14,697	60,012
Benefit payments	(24,934)	(21,784)	(19,011)	(18,365)	(17,441)
Administrative expense	(794)	(728)	(754)	(819)	(754)
Refunds of contributions	(150)	(166)	(261)	(772)	(22)
Net change in plan fiduciary net position	25,475	38,171	(1,841)	4,062	48,901
Plan fiduciary net position – beginning	441,182	403,011	404,852	400,790	351,889
Plan fiduciary net position – end (b)	466,657	441,182	403,011	404,852	400,790
Net pension asset – end (a)-(b)	\$ (38,033)	(46,446)	(34,342)	(47,771)	(50,347)

See accompanying notes to required supplementary schedule and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability – Defined Benefit Plans

June 30, 2018

(In thousands)

(Unaudited)

	2018	2017	2016	2015	2014
Georgia Military Pension Fund:					
Total pension liability:					
Service cost	\$ 84	89	73	73	73
Interest	2,964	2,732	2,465	2,330	2,223
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	116	1,356	950	326	—
Changes of assumptions	1,093	—	1,082	—	—
Benefit payments	(1,138)	(1,042)	(963)	(897)	(841)
Refunds of contributions	—	—	—	—	—
Net change in total pension liability	3,119	3,135	3,607	1,832	1,455
Total pension liability – beginning	40,085	36,950	33,343	31,511	30,056
Total pension liability – end (a)	43,204	40,085	36,950	33,343	31,511
Plan fiduciary net position:					
Contributions – employer	2,377	2,018	1,990	1,893	1,892
Contributions – member	—	—	—	—	—
Net investment income	1,928	2,262	240	585	2,179
Benefit payments	(1,138)	(1,042)	(963)	(896)	(841)
Administrative expense	(225)	(244)	(262)	(121)	(110)
Refunds of contributions	—	—	—	—	—
Other	—	—	—	—	—
Net change in plan fiduciary net position	2,942	2,994	1,005	1,461	3,120
Plan fiduciary net position – beginning	20,711	17,717	16,712	15,251	12,131
Plan fiduciary net position – end (b)	23,653	20,711	17,717	16,712	15,251
Net pension liability – end (a)-(b)	\$ 19,551	19,374	19,233	16,631	16,260
State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund:					
Total OPEB liability:					
Service cost	\$ 3,695	3,959	—	—	—
Interest	63,242	61,076	—	—	—
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	4,697	—	—	—	—
Changes of assumptions	22,085	—	—	—	—
Benefit payments	(36,249)	(36,058)	—	—	—
Refunds of contributions	—	—	—	—	—
Net change in total OPEB liability	57,470	28,977	—	—	—
Total OPEB liability – beginning	861,346	832,369	—	—	—
Total OPEB liability – end (a)	918,816	861,346	—	—	—
Plan fiduciary net position:					
Contributions – employer	—	1	—	—	—
Insurance premiums – member	3,599	3,793	—	—	—
Net investment income	101,542	125,550	—	—	—
Benefit payments	(36,249)	(36,058)	—	—	—
Administrative expense	(681)	(576)	—	—	—
Refunds of contributions	—	—	—	—	—
Other	—	—	—	—	—
Net change in plan fiduciary net position	68,211	92,710	—	—	—
Plan fiduciary net position – beginning	1,121,251	1,028,541	—	—	—
Plan fiduciary net position – end (b)	1,189,462	1,121,251	—	—	—
Net OPEB asset – end (a)-(b)	\$ (270,646)	(259,905)	—	—	—

Schedules above are intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary schedule and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Investment Returns

Year ended June 30, 2018

(Unaudited)

	2018	2017	2016	2015	2014
Pooled Investment Fund:					
Annual money-weighted rate of return, net of investment expense	0.6 %	2.9 %	(7.2)%	(5.3)%	6.0 %

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

See accompanying notes to required supplementary schedule and accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of the System's Proportionate Share of the Net OPEB Liability

Year ended June 30, 2018

(in thousands)

(Unaudited)

	<u>2018</u>
SEAD-OPEB:	
System's proportionate share of the net pension liability (asset)	0.192864 %
System's proportionate share of the net pension liability (asset)	\$ (501)
System's covered payroll	<u>2,769</u>
System's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	<u>(18.09)%</u>
Plan fiduciary net position as a percentage of the total pension liability	130.17 %
State OPEB Fund:	
System's proportion of the net pension liability	0.185830 %
System's proportionate share of the net pension liability	\$ 7,571
System's covered payroll	<u>5,293</u>
System's proportionate share of the net pension liability as a percentage of its covered payroll	<u>143.04 %</u>
System's fiduciary net position as a percentage of the total pension liability	17.34 %

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

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedules of the System's Contributions to OPEB Plans

Year ended June 30, 2018

(Unaudited)

	<u>2018</u>
SEAD-OPEB:	
Contractually required contribution*	\$ —
Contributions in relation to the contractually required contribution	<u>—</u>
Contribution deficiency (excess)	\$ <u><u>—</u></u>
System's covered payroll	\$ 2,769
Contributions as a percentage of covered payroll	— %
State OPEB Fund:	
Contractually required contribution	\$ 905
Contributions in relation to the contractually required contribution	<u>905</u>
Contribution deficiency (excess)	\$ <u><u>—</u></u>
System's covered payroll	\$ 5,293
Contributions as a percentage of covered payroll	17.10 %

* Employer contributions are not currently required for the SEAD-OPEB plan.

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

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information (Unaudited)

June 30, 2018

Required Supplementary Information Schedules for the System as the Plan:

(1) Schedule of Employers' and Nonemployers' Contributions – Defined Benefit Plans

This schedule presents the required contributions and the percent of required contributions actually contributed.

(2) Schedule of Employers' and Nonemployers' Net Pension/OPEB Liability and Related Ratios – Defined Benefit Plans

The components of the net pension/OPEB liability as of the fiscal year end and the fiduciary net position as a percentage of the total pension/OPEB liability as of that date are presented in this schedule. This trend information will be accumulated to display a 10-year presentation.

(3) Schedule of Changes in Employers' and Nonemployers' Net Pension/OPEB Liability – Defined Benefit Plans

Net pension/OPEB liability which is measured as total pension/OPEB liability less the amount of the fiduciary net position is presented in this schedule. This trend information will be accumulated to display a 10-year presentation.

(4) Schedule of Investment Returns

This schedule presents historical trend information about the annual money-weighted rate of return on plan investments, net of plan investment expense. This trend information will be accumulated to display a 10-year presentation.

(5) Individual Plan Information

This note provides information about changes of benefit terms, changes of assumptions, and methods and assumptions used in calculations of actuarially determined contributions.

(a) Employees' Retirement System

Changes of benefit terms –

- A new benefit tier was added for members joining the System on and after July 1, 2009.
- A one-time 3% payment was granted to certain retirees and beneficiaries effective July 2016.
- A one-time 3% payment was granted to certain retirees and beneficiaries effective July 2017.

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information (Unaudited)

June 30, 2018

(b) Public School Employees Retirement System

Changes of benefit terms – The member contribution rate was increased from \$4 to \$10 per month for members joining the System on or after July 1, 2012. The monthly benefit accrual rate was increased from \$14.75 to \$15.00 per year of creditable service effective July 1, 2017.

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the PSERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the PSERS Board's new funding policy, the assumed investment rate of return was reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

(c) Legislative Retirement System

Changes of benefit terms – none

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

(d) Georgia Judicial Retirement System

Changes of benefit terms – Spouses' benefits were changed for members joining the System on and after July 1, 2012. A 2% cost-of-living adjustment was granted to certain retired members and beneficiaries effective July 1, 2018.

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the GJRS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the GJRS Board's new funding policy, the assumed investment rate of return was further reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

(e) Georgia Military Pension Fund

Changes of benefit terms – none

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information (Unaudited)

June 30, 2018

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the ERS Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the ERS Board's new funding policy, the assumed investment rate of return was reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

(f) State Employees' Assurance Department Retired and Vested Inactive Members Trust Fund (SEAD-OPEB) as a plan

Changes of benefit terms – none

Changes of assumptions – Subsequent to the June 30, 2017 measurement date, the SEAD Board adopted a new funding policy. Because of this new funding policy, the assumed investment rate of return was reduced from 7.50% to 7.40% for the June 30, 2017 actuarial valuation. In addition, based on the SEAD Board's new funding policy, the assumed investment rate of return was reduced by 0.10% from 7.40% to 7.30% as of the June 30, 2018 measurement date. Therefore, an assumption change from 7.50% to 7.30% is reflected in the calculation of the total pension liability.

The following actuarial methods and assumptions were used to determine the most recent contribution rates reported in the schedules of employer and nonemployer contributions calculated as of June 30, three years prior to the end of the first calendar year in which contributions are reported:

	ERS	GJRS
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, closed	Level percent of pay, closed
Remaining amortization period	19.4 years	19.5 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Inflation	2.75%	2.75%
Salary increases	3.25–7.00%, including inflation	4.50%, including inflation
Investment rate of return	7.50% net of pension plan investment expense, including inflation	7.50% net of pension plan investment expense, including inflation

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information (Unaudited)

June 30, 2018

	<u>PSERS</u>	<u>GMPF</u>
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	22.9 years	18.2 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Inflation	2.75%	2.75%
Salary increase	N/A	N/A
Investment rate of return	7.50% net of pension plan investment expense, including inflation	7.50% net of pension plan investment expense, including inflation
Cost of living adjustments	1.5% semi-annually	N/A
	<u>LRS</u>	<u>SEAD – OPEB</u>
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Projected unit credit
Remaining amortization period	N/A	Dollar infinite
Asset valuation method	5-year smoothed market	Market value of assets
Inflation	2.75%	2.75%
Salary increases:		
ERS	N/A	3.25%–7.00%
GJRS	N/A	4.50%
LRS	N/A	N/A
Investment rate of return	7.50% net of pension plan investment expense, including inflation	7.50% net of pension plan investment expense, including inflation
Cost of living adjustments	1.5% annually	N/A

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information (Unaudited)

June 30, 2018

Required Supplementary Information Schedules for the System as a participating employer:

(1) Schedules of the System's Proportionate Share of the Net OPEB Liability

The information in this schedule presents historical information related to the OPEB liability that is recognized by the System in the current-period financial statements. This trend information will be accumulated to display a 10-year presentation.

(2) Schedules of the System's Contributions to OPEB Plans

This schedule presents the required contributions and the percent of required contributions actually contributed.

(3) Individual Plan Information

This note provides information about changes of benefit terms, changes of assumptions, and methods and assumptions used in calculations of actuarially determined contributions.

(a) SEAD-OPEB

Changes of benefit terms – none

Changes of assumptions – On December 17, 2015, the SEAD Board adopted recommended changes to the economic and demographic assumptions utilized by the Plan. Primary among the changes were the updates to rates of mortality, retirement, disability, withdrawal and salary increases.

(b) State OPEB Fund

Changes of benefit terms – In the June 30, 2010 actuarial valuation, there was a change of benefit terms to require Medicare-eligible recipients to enroll in a Medicare Advantage plan to receive the State subsidy.

Changes of assumptions – In the revised June 30, 2017 actuarial valuation, there was a change relating to employee allocation. Employees were previously allocated based on their Retirement System membership, and currently employees are allocated based on their current employer payroll location.

In the June 30, 2015 actuarial valuation, decremental and underlying inflation assumptions were changed to reflect the Retirement Systems' experience studies.

In the June 30, 2012 actuarial valuation, a data audit was performed and data collection procedures and assumptions were changed.

ADDITIONAL INFORMATION

(See Accompanying Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Statement of Changes in Assets and Liabilities

Survivors Benefit Fund

Year ended June 30, 2018

(In thousands)

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2018</u>
Assets:				
Cash and cash equivalents	\$ 92	—	1	91
Equity in pooled investment fund	<u>135,951</u>	<u>12,499</u>	<u>—</u>	<u>148,450</u>
Total assets	<u>\$ 136,043</u>	<u>12,499</u>	<u>1</u>	<u>148,541</u>
Liabilities:				
Due to other funds/plans	<u>\$ 136,043</u>	<u>12,499</u>	<u>(1)</u>	<u>148,541</u>
Total liabilities	<u>\$ 136,043</u>	<u>12,499</u>	<u>(1)</u>	<u>148,541</u>

See accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Schedule of Administrative Expenses

Contributions and Expenses

Year ended June 30, 2018

(In thousands)

	2018
Contributions from fiduciary funds:	
Employees' Retirement System	\$ 8,056
Public School Employees Retirement System	1,331
Legislative Retirement System	283
Georgia Judicial Retirement System	794
Georgia Military Pension Fund	225
Superior Court Judges Retirement Fund	2
District Attorneys Retirement Fund	3
Georgia Defined Contribution Plan	852
401(k) Plan	3,639
457 Plan	442
State Employees' Assurance Department – OPEB	681
Total fiduciary funds	16,308
Contributions from proprietary fund:	
State Employees' Assurance Department Active Members Fund	76
Total contributions	16,384
Expenses:	
Personal services:	
Salaries and fringes	5,391
Retirement contributions	1,268
FICA	389
Health insurance	1,036
Miscellaneous	55
	8,139
Communications:	
Postage	270
Publications and printing	14
Telecommunications	62
Travel	21
	367
Professional services:	
Accounting services	746
Computer services	961
Contracts	3,529
Actuarial services	289
Medical services	152
Audit fees	439
Legal services	36
	6,152

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

(Including All Plans and Funds Administered by the
Employees' Retirement System of Georgia)
(A Component Unit of the State of Georgia)

Schedule of Administrative Expenses

Contributions and Expenses

Year ended June 30, 2018

(In thousands)

	<u>2018</u>
Management fees:	
Building maintenance	\$ 617
Other services and charges:	
Temporary services	650
Supplies and materials	43
Repairs and maintenance	26
Courier services	3
Depreciation	309
Miscellaneous	76
Office equipment	2
	<u>1,109</u>
Total expenses	<u>16,384</u>
Net income	\$ <u>—</u>

See accompanying independent auditors' report.