



*The
Retirement
Systems
Of Alabama*



1997 Annual Report

The Retirement Systems of Alabama

TEACHERS'
RETIREMENT
SYSTEM

EMPLOYEES'
RETIREMENT
SYSTEM

JUDICIAL
RETIREMENT
FUND

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MONTGOMERY, ALABAMA 36130-2150

(334) 832-4140 / 1-800-214-2158
<http://www.rsa.state.al.us>

MEMBERSHIP ACTIVITY FOR 1997

	Teachers'	Employees'	Judicial
New Members	12,949	9,464	18
Withdrawn Members	6,958	6,118	1
Service Retirements	2,681	1,183	13
Disability Retirements	267	173	0
Surviving Spouses	5	6	0
New Beneficiaries	159	189	7

TOTAL MEMBERSHIP (Totals as of September 30, 1997)

	Teachers'	Employees'	Judicial
Active	122,750	72,935	317
Retired	39,729	22,777	238
Total	162,479	95,712	555

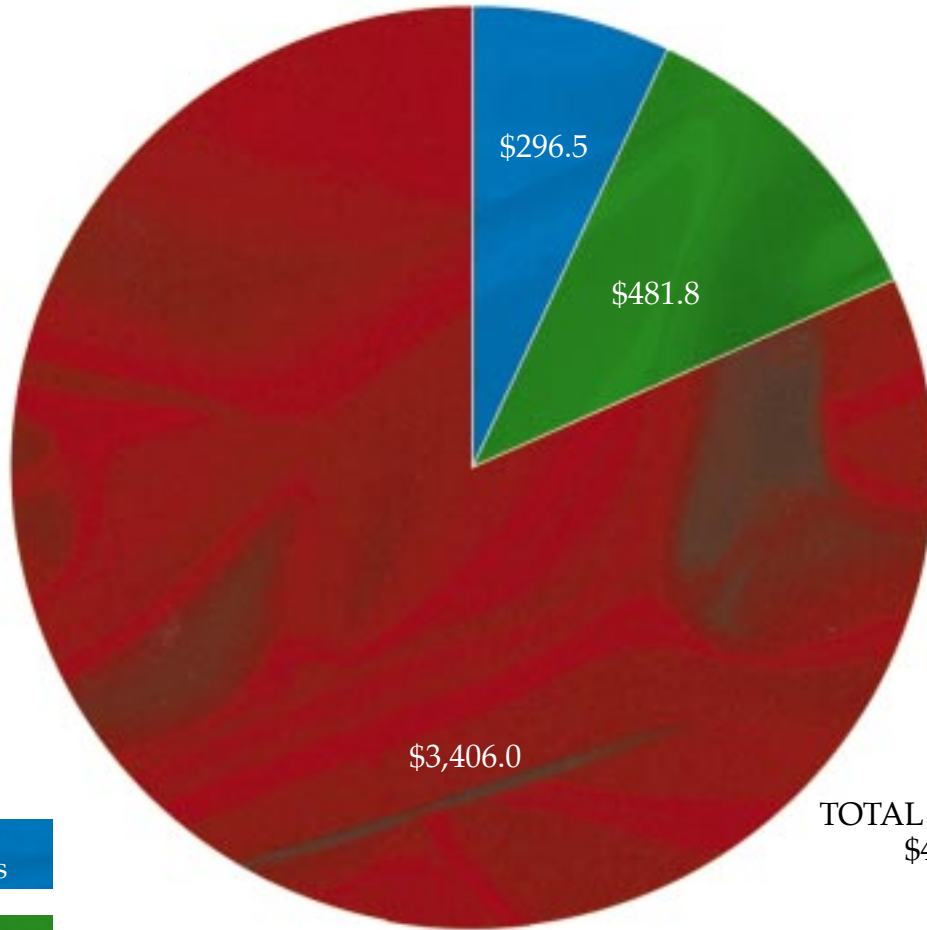
FUNDS UNDER MANAGEMENT (At Market Related Value)

	Assets (In Thousands)
Teachers' Retirement System (TRS)	\$13,899,606
Employees' Retirement System (ERS)	6,392,068
Judicial Retirement Fund (JRF)	196,009
Alabama Cultural Resources Preservation Trust Fund	8,796
Alabama Education Foundation for K-12	130
Alabama Game & Fish Endowment Fund	9,711
Alabama Heritage Trust Fund	543,827
Alabama Nongame Wildlife Endowment Trust	10
Alabama Underground and Aboveground Storage Tank Trust Fund	15,667
Clerks' & Registers' Supernumerary Fund	4,413
District Attorneys' Spouses Fund	1,621
PEIRAF - Deferred Compensation Plan (RSA-1)	390,793
Public Education Employees' Health Insurance Fund (PEEHIP)	51,264
Public Employees' Individual Retirement Account Fund (PEIRAF)	63,478
State Docks Pension Plans	<u>3,678</u>
TOTAL ASSETS UNDER MANAGEMENT	<u>\$21,581,071</u>

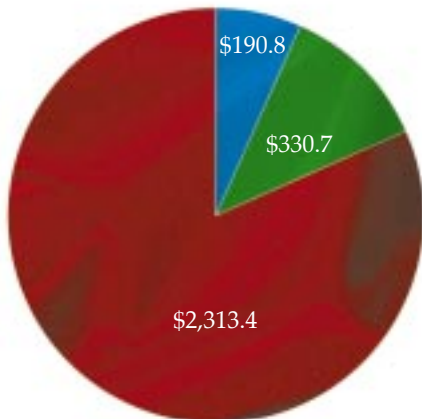
(Cover: A ten state award for the support of tourism.)

Sources of Revenue

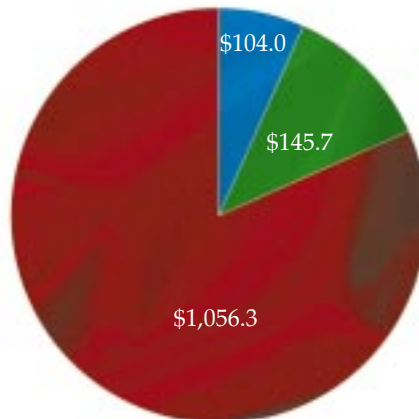
FISCAL 1997
(\$ in Millions)



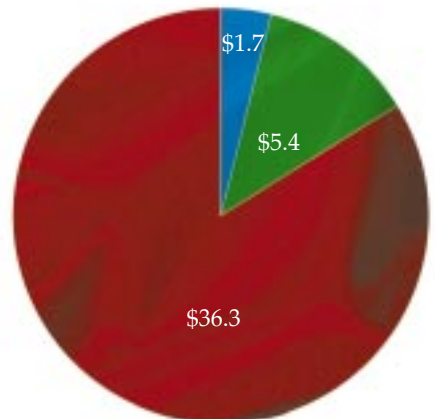
RSA
TOTAL REVENUES
\$4,184.3



TRS
Total Revenues
\$2,834.9



ERS
Total Revenues
\$1,306.0



JRF
Total Revenues
\$43.4

Table Of Contents

Administrative

Letter from the CEO.....	4
Five Year Highlights.....	5
Teachers' Retirement System Board of Control	6
Employees' Retirement System Board of Control	7
Staff, Advisors and Medical Board.....	8

Services

Legislation.....	10
Legal Developments	10
Communications.....	11
Office of Field Services	12
Counseling and Correspondence	13
Public Employees' Individual Retirement Account Fund	14
Benefits	15
Public Education Employees' Health Insurance Plan (PEEHIP).....	16
Revenue Sources.....	18

Investments

Asset Allocation.....	20
Portfolio Growth.....	21
Average Yield	21
Investment Income.....	22
Fixed Income Activity.....	22
Coupon Distribution.....	23
Maturity Structure.....	23
Quality Evaluation	24
Equity Activity	24

Financial Statements

Teachers' Retirement System	
Statement of Plan Net Assets.....	26
Statement of Changes in Plan Net Assets	27
Employees' Retirement System	
Statement of Plan Net Assets.....	28
Statement of Changes in Plan Net Assets	29
Judicial Retirement Fund	
Statement of Plan Net Assets.....	30
Statement of Changes in Plan Net Assets	31
Commissions Paid Report.....	32

Administrative

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Providing national and international visibility for Alabama, Mercedes Benz will contribute to strengthening the state's industrial base over the next 20 years with projections estimating the creation of over 13,500 jobs and \$7.5 billion in payroll and tax benefits to the state and local governments. (Photograph courtesy of Mercedes Benz; Barry Fikes, photographer.)

Letter from the CEO

Dear Member:

The Boards of Control and the staff are pleased to present the Twenty-Second Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 1997. This year's *Annual Report* highlights Alabama's achievements in tourism and industrial recruiting and the increasingly positive image being created for our State by the RSA.

An important change involving asset valuation for governmental pension programs in the U.S. has taken place this year. Since the RSA's inception, it has operated on a system of "book value" or actual cost of assets but beginning in the 1998 fiscal year, because of a change in the accounting standards adopted by the Governmental Accounting Standards Board, the RSA will use "market related value" for asset valuation.

This new valuation will result in a substantial increase in the value of RSA's assets which will, in turn, result in a reduction of appropriations required to fund the Systems. The Boards of Control have adopted a graduated five year plan to realize the investment profits recognized by the new method of valuation of assets. Through reduced appropriations to the Teachers' Retirement System (TRS), the new method of valuing current investment profits will provide \$206 million per year for five years for public education. The State's savings from reduced Employees' Retirement System (ERS) appropriations will be approximately \$44 million per year for five years and from reduced Judicial Retirement Fund (JRF) appropriations, approximately \$3 million per year for five years. Savings for local governments which participate in the ERS will be approximately \$34 million per year for five years.

The RSA currently manages 15 funds with an aggregate market value of \$21.6 billion. Assets increased \$3.3 billion during the year, representing an 18% increase from the previous year. During fiscal year 1997, the annualized return for the TRS equity portfolio and fixed income portfolio was 33.3% and 9.8%, respectively, for a combined annualized return of 18.4%. The fiscal year 1997 annualized return for the ERS equity portfolio and fixed income portfolio was 33.1% and 9.4%, respectively, for a combined annualized return of 18.1% in a year of moderate economic growth and very low inflation.

Featured on the cover of this report is the "1997 Shining Example" award which was presented to the RSA staff for the Robert Trent Jones Golf Trail by the ten state Southeast Tourism Society at its Conference Awards Banquet. Alabama Tourism Director, Mr. Aubrey Miller, nominated the RSA which won the "Number One Governmental Friend of Tourism Award."

Photograph by Jim Pappanastos



The Robert Trent Jones Golf Trail continues to have a positive impact on Alabama. The Grand National course in Opelika played host to the Nike Tour Championship bringing golf fans from all over the country to Alabama. *The Mobile Register* noted that "...in its third full year of operation, the Trail is having an amazing impact, from selling vans in Minnesota to increasing tourism in Alabama, to bringing major golf events to the state like the Nike Tour Championship, the LPGA Tour Championship and the NCAA Golf Championships."

Media remained an important asset allocation for the RSA this fiscal year. Raycom Media now owns 25 television stations in 17 states and has broadcast coverage over 7% of the nation's population. In addition, the RSA provided funding for Community Newspaper Holdings,

Inc. (CNHI). An owner and operator of small newspapers, CNHI owns and operates 19 daily newspapers, 22 paid weekly newspapers and four specialty/shopper products in 11 states. The State of Alabama will receive approximately \$26 million in advertising through Raycom Media and CNHI to promote various Alabama attractions from the Robert Trent Jones Golf Trail to the Space Camp.

The RSA and its office building at 55 Water Street in New York City were again featured in the news this fiscal year. The Standard and Poor's division of the McGraw Hill Companies announced that it would pay the RSA \$25 million per year for a 22 year lease to rent 936,000 square feet or 33% of the building. The building is now near 100% occupancy after a vacancy rate of 40% in 1993 when the RSA took ownership of the building.

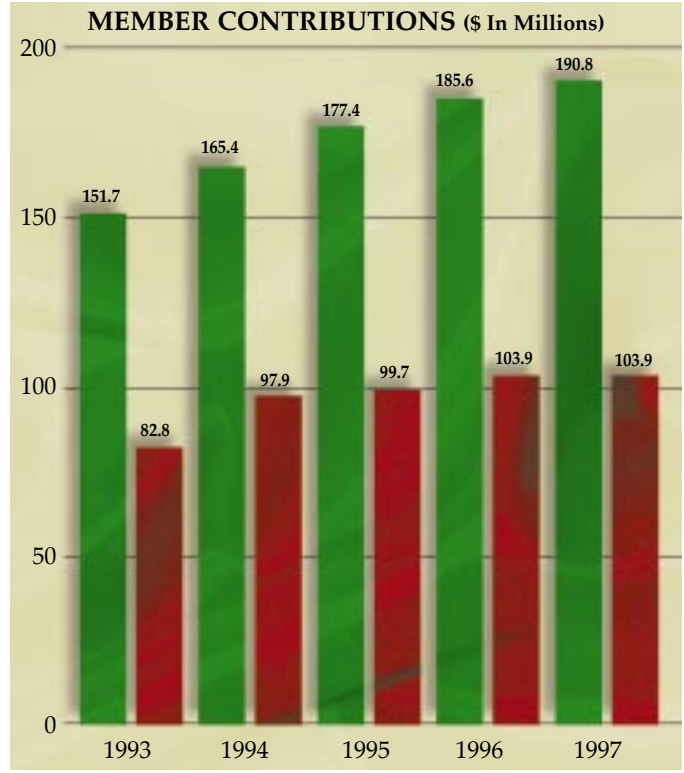
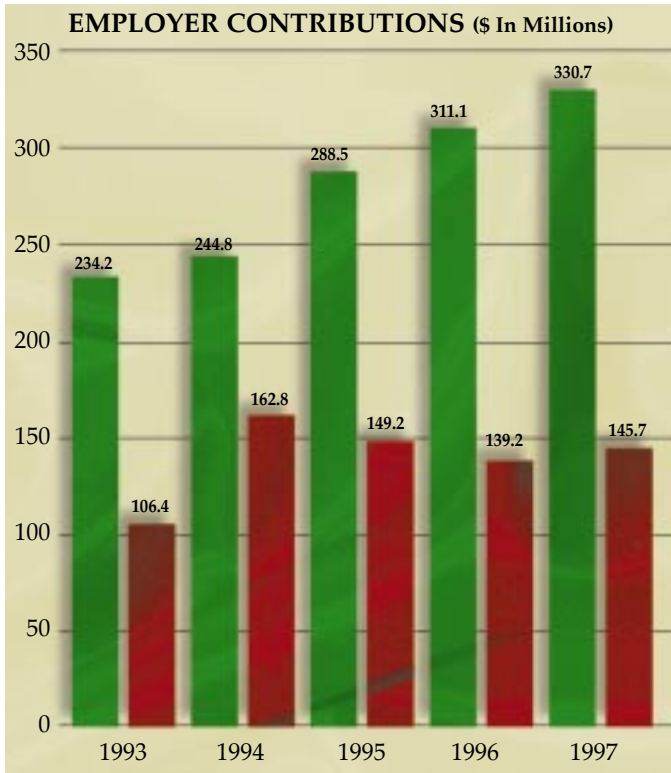
The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

Sincerely,

A handwritten signature in black ink, appearing to read "David G. Bronner". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

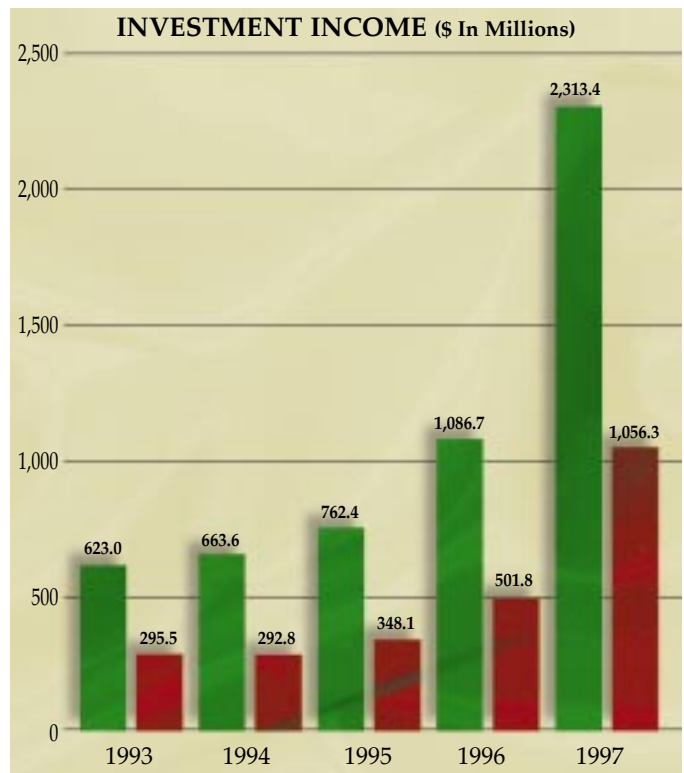
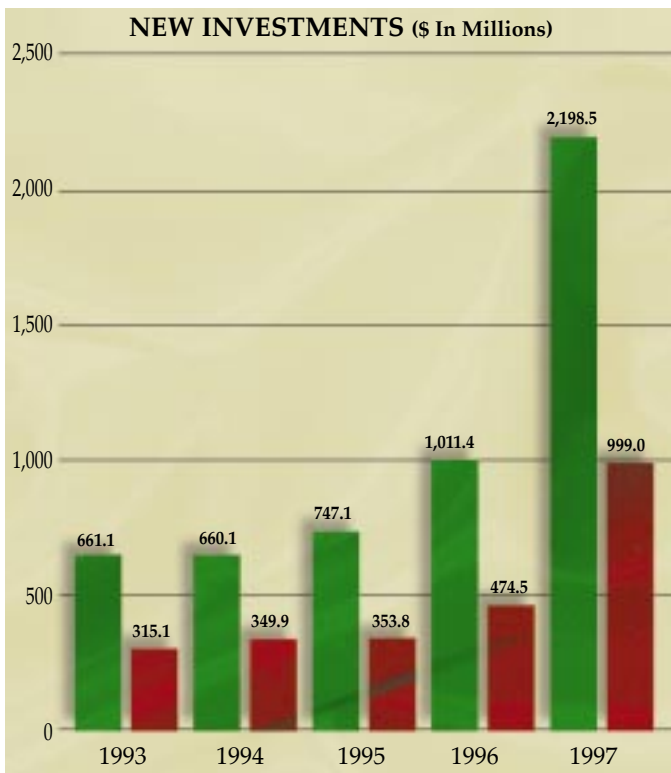
David G. Bronner
Chief Executive Officer

Five Year Highlights



TRS

ERS



Teachers' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Jimmy Baker
Acting State Finance Director



Hon. Lucy Baxley
State Treasurer



Chairman
Dr. Paul R. Hubbert
*Executive Secretary
AEA*



Dr. Edward R. Richardson
*State Superintendent
of Education*

ELECTED MEMBERS



Ms. Janice Abrams
Teacher Position



Mrs. Patricia Buchanan
Teacher Position



Dr. Charles W. Gamble
Postsecondary Position



Dr. John R. Key
Superintendent Position



Dr. John Landers
Principal Position



Dr. George L. Layton
Retired Teacher



Mrs. Rebecca Lee
*Support Personnel
Position*



Miss Irene McCombs
*Support Personnel
Position*



Mrs. Kathy McVay
Teacher Position



Vice-Chairman
Mrs. Sarah Swindle
*Retired Teacher
Position*

Employees' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Jimmy Baker
Acting State Finance Director



Dr. Halycon V. Ballard
State Personnel Director



Hon. Lucy Baxley
State Treasurer



Chairman
Hon. Fob James
Governor

ELECTED MEMBERS



Mr. Ralph Bishop
Retired Local Employee



Ms. Mary Lou Foster
Building Commission



Mrs. Ann Gant
Active Local Employee



Mr. T. M. Jones
Active Local Employee



Vice-Chairman
Mr. Richard M. Kennamer
Legislative Reference Service



Capt. T. L. Payne
Retired State Employee

APPOINTED MEMBERS



Ms. Donna Crosby
Department of Transportation



Major Jerry L. Shoemaker
Department of Public Safety



Mrs. Nancy Snider
ADECA

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David G. Bronner, Ph.D., J.D.

Deputy
William C. Walsh, Ed.D.

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Peggi L. Douglass,
M.B.A.

Chief Accountant and Fiscal Officer
Norman D. Turnipseed,
M.B.A., CPA

Legislative Liaison
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J.D.

Legal Counsel
William T. Stephens,
J.D.

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Pamela T. Galluzzi,
M.B.A.

Teachers' Retirement Executive
Donald L. Yancey,
M.P.A., J.D.

Employees' & Judicial Retirement Executive
R. Donald Nelson,
M.S.

Director of Teachers' Health Insurance
Lee M. Hayes,
M.B.A.

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Director of Investments
M. Hunter Harrell,
M.B.A., J.D., CFA

Director of Fixed Income
Gary T. Partridge,
M.B.A., CFA

Director of Equities
Stephen W. Simmons,
M.B.A., CFA

Assistant Director of Equities
Darren J. Schulz,
M.B.A., CFA

Chief Economist
David E. Phillips,
M.B.A., CFA

Assistant Director of Equities
R. Marc Green,
M.B.A., CFA

Fixed Income Analyst
Julie S. Barranco,
M.B.A.

Equity Analyst
John P. Cunningham,
M.B.A.

Cash Management & Operations
Nancy H. Sprayberry

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Certified Public Accountants
KPMG Peat Marwick

AmSouth Bank, N.A.
Mr. John Goff

George B. Buck Consulting Actuaries
Mr. Donald Overholser

Attorney General
Honorable Bill Pryor

Chief Examiner
Mr. Ronald L. Jones

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Chairman
Z. T. Trawick, M.D.



A. S. Zdanis, M.D.

Services

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Learning the principles of rocketry, propulsion, space science and the history of space exploration, kids from around the world attend Huntsville's Space Camp which continues to benefit from free advertising through Raycom Media and Community Newspaper Holdings, Inc.

Legislation

During the Regular and Special Sessions of the 1997 Legislature, several laws were enacted impacting the RSA.

Three laws allowing for the purchase of certain service for members of the Employees' Retirement System (ERS) were enacted. Act 97-691 allows an active, contributing member of the ERS to purchase credit for service rendered to a State Welcome Center. Amending Act 88-648, Act 97-704 allows certain persons to purchase up to ten years of creditable service rendered to any employer eligible for participation in the ERS under the provisions of Section 36-27-6, Code of Alabama 1975. Under the provisions of Act 97-300, any public official who has been authorized by local constitutional amendment to participate in the ERS may purchase service credit for the period served in the office that was held at the time the amendment was ratified.

The Teachers' Retirement System (TRS) was directly and indirectly affected by a few minor measures. Since unused accrued sick leave may be converted to additional service credit at retirement, Act 97-444 indirectly affects the TRS allowing teachers and support personnel to convert unused state-funded personal leave days to sick leave days at the end of the school year. Other measures directly affecting the TRS include Act 97-637 allowing active, contributing members of the TRS the opportunity to purchase service rendered prior to May 1, 1976, with the Cooperative Extension Service at Auburn University. During the Special Session, Act 97-918 was enacted allowing the American Federation of Teachers in Alabama the opportunity to participate in the TRS.

Members of the Judicial Retirement Fund (JRF) who previously withdrew funds from a JRF account may restore creditable service canceled by the withdrawal under the provisions of Act 97-670. The deadline for purchase is January 31, 1998.



Raycom Media's largest television station, WMC-TV of Memphis, has been Tennessee's first on the air, first in color broadcasting, satellite feeds and live remotes from all over the mid-South provided by the Action News 5 "Eye in the Sky." (Photograph courtesy of Raycom Media.)

Legal Developments

Litigation activity was relatively light in 1997 with most of the activity involving benefits litigation which has not proceeded to final decision. There was one significant non-benefits decision acknowledging the Retirement Systems' Eleventh Amendment immunity.

In 1990, the Retirement Systems loaned funds to SunBelt Golf to build the initial Robert Trent Jones Golf Trail course in Oxmoor Valley on land deeded to SunBelt Golf by USX. In 1996, members of a Michigan family filed suit in the United States District Court for the Northern District of Alabama against the Retirement Systems, SunBelt and USX alleging that the family owned land in the middle of the golf course between fairways and that RSA, SunBelt and USX had cut off access to a public road trespassing on family property doing so with the deliberate intent to injure the family. In 1997, the court dismissed this complaint against the Retirement Systems on the grounds that the Retirement Systems are instrumentalities of the State of Alabama and the Eleventh Amendment to the Constitution of the United States prohibits federal courts from exercising jurisdiction over a suit against a state by a citizen of another state. This ruling is consistent with prior rulings of other federal judges on this same issue and provides additional legal precedent to strengthen the Retirement Systems' claim to immunity against such lawsuits.

In 1997, the most significant legal development affecting the Retirement Systems was the change of certain federal laws. For the members of the Retirement Systems to enjoy certain tax advantages allowed under federal law, e.g., tax shelter of employee contributions, tax-free roll over of funds, etc., the Retirement Systems must meet certain qualification standards set forth in the Internal Revenue Code of the United States. One of those qualification standards was a nondiscrimination provision which required that all employees of an employer receive the same benefits. This standard did not take into account or make exception for the nature of employment or inherent career limitations for classifications such as policemen, firemen or judges who could not be provided different benefits than other employees. In 1997, Congress determined that there were legitimate reasons for allowing different benefit structures for different career paths in public service and exempted governmental pension plans from this qualification standard.

Another qualification standard change adopted in 1996 which became effective in 1997 provided an exemption for public pension plans from the provision which prohibited plans from providing benefits in excess of 100% of a participant's salary. The Retirement Systems also implemented a change in the federal law which requires that deferred compensation plans such as RSA-1 hold participants' funds in trust for the sole benefit of the participants. This change will protect deferred funds from the employer's creditors if the employer should enter into bankruptcy.

Communications

Annual Statement of Account: Annual Statements of Account for individual members are mailed to employing agencies participating in the TRS during August and September for distribution to the members. Employing agencies participating in the ERS receive statements during December. The statement provides a summary of personal member and beneficiary information, member contributions, interest, creditable service and the salary equivalent to contributions received. The account balance section of the statement lists current year and accumulated totals for previously-taxed member contributions for those who made contributions prior to the implementation of the employer "pick-up" program; non-taxed member contributions through the employer "pick-up" provision; interest and the balance at year end. A brief explanation of vesting, refunds, death benefits, survivor benefits, disability retirement and service retirement estimates is also provided.

Individual Counseling: The RSA representatives are available to counsel members at 26 locations throughout the state from October through April. Appointments are scheduled for dates and locations announced in the Counseling Schedule which is distributed each fall to district offices of state agencies, public school principals, city and county superintendents of education, and public and quasi-public agencies that participate in the RSA.

Group Presentations: Representatives of the RSA are available upon request to present a general overview of the RSA administered benefits: ERS, TRS, the Public Education Employees' Health Insurance Plan (PEEHIP), the Public Employees' Individual Retirement Account Fund (PEIRAF) and the RSA-1 Deferred Compensation Plan. The RSA has participated in teacher institute days, orientations, retirement seminars, workshops, faculty meetings, conferences and various club meetings.

Retirement Facts: An informational brochure, which is provided to each new member of the Retirement Systems, presents an overview in chronological sequence of the benefit provisions of the Retirement Systems which includes mandatory participation, vesting, disability retirement, service retirement, preretirement death benefits, post retirement employment and the purchase of service for military, withdrawn, out-of-state, teacher aide, teacher corps, support personnel, Department of Defense Dependent School, maternity leave and previous service with a city, county, town or public or quasi-public organization or political subdivision of the state. A brief description of the RSA-1 Deferred Compensation Plan is also provided.

Summary of Benefits: The *Questions and Answers* booklet, which provides more detailed information than the *Retirement Facts* brochure, is made available upon request to members of the Retirement Systems. The purpose of the booklet is to help members gain a more thorough understanding of benefits and to provide specific details with respect to the operation and management of

the RSA. It is designed to answer questions in a simple, yet factual manner; to inform RSA members of benefits while active, inactive or retired and to assist in planning for and protecting retirement benefits. Subjects covered are retirement allowances, survivor benefits, refunds, purchases, deferred retirement, creditable service, general facts, post retirement employment and definitions.

Newsletters: Approximately 142,000 copies of the RSA newsletter, the *Advisor*, are distributed each month. Each member agency and retiree receives the *Advisor*. The *Advisor* is also provided at no charge to any interested member or person upon request.

The *Advisor* informs recipients of important topics regarding the TRS, ERS, RSA-1 and PEEHIP including information about legislative updates, investments, counseling schedules and comparisons of insurance and retirement benefits provided by other states. In addition, current information regarding such subjects as property and automobile insurance, automobile cost and maintenance, Social Security, taxes, banking and Alabama's economic and political climate is included which may be of interest to both members and non-members.

Speaking of Retirement and *Retirement Cues* columns pertaining to retirement, deferred compensation and insurance are provided for publication in periodicals distributed by the Alabama Education Association, State Department of Education, Public Health Department, Alabama State Employees' Association, Association of County Commissions of Alabama, the Department of Public Safety, the Forestry Commission, the Alabama Association of School Boards, the Alabama League of Municipalities and all public four year universities in Alabama. The monthly columns contain updates on policies and procedures, newly enacted legislation and subjects of interest to the general public as well as to the membership.

Internet: At the close of fiscal year 1997, the RSA established a web page at "<http://www.rsa.state.al.us>" providing information about publications such as the *Advisor* and the *Annual Report* as well as updates on policies, procedures, new legislation, Federal laws and the latest breaking news. After the establishment of RSA's address on the Internet, hundreds of persons throughout the United States visited RSA's web site.



Acquired by the RSA in 1993, the 3.6 million square foot building at 55 Water Street is the largest privately owned office building in New York City. (Photograph by Steve Friedman)

Office Of Field Services

The Office of Field Services provides general and specific information about the benefits of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), Public Education Employees' Health Insurance Plan (PEEHIP), the Public Employees' Individual Retirement Account Fund (PEIRAF) and the RSA-1 Deferred Compensation Plan to members throughout Alabama as well as other public retirement systems throughout the United States. During fiscal year 1997, the Field Services staff served more than 34,700 members representing the RSA in a total of 332 seminars, orientations, meetings, workshops, faculty meetings, institute days, individual counseling sessions and conventions. During 162 individual counseling sessions held at 26 different satellite locations, the RSA assisted over 2,000 members with personal questions about retirement and benefits. The Field Services staff also attended conventions hosted by 18 different Alabama organizations disseminating retirement information to over 20,400 convention attendants. Approximately 12,300 members were presented information about retirement in 152 seminars and meetings.



The Talladega Superspeedway, a 2.66 mile track, is the biggest and most competitive superspeedway in the world conducting in the spring and fall two of the largest sporting events in the state, the NASCAR Winston Cup Series races, bringing a half million spectators to Alabama. (Photograph courtesy of Alabama Bureau of Tourism and Travel; Dan Brothers, photographer.)

Member Services

Activity	Number Conducted	Number Served	
		ERS	TRS
Conventions/Conferences	18	2,600	17,813
Counseling Sessions	162	257	1,746
Seminars/Meetings	152	3,249	9,075
Total	332	6,106	28,634

New Member Agencies

Eligible public agencies that are not currently participating in the ERS continue to seek membership. Currently, 681 public and quasi-public agencies participate in the ERS. Of those, 64 are counties, 229 are cities/towns, and 388 are miscellaneous public and quasi-public agencies. Agencies which began participation during fiscal year 1997 are:

Cities and Towns

Town of Dutton	City of Hanceville
Town of Hodges	Town of Rutledge
Town of Silas	Town of Silverhill
City of Spanish Fort	

Public Agencies

Autauga County Water Authority
 Cahaba Valley Fire & Emergency Medical Rescue District
 Covin-Mt. Vernon Water Authority
 Cumberland Mountain Water & Fire Protection Authority
 DeKalb County Emergency Communications District
 Eclectic Water Works & Sewer Board
 Elmore Water Authority
 Fayetteville Water Authority
 Jackson County Emergency Management Communications District
 Madison County Communications District
 Mount High-Rock Springs Water Authority
 Odenville Utilities Board
 St. Clair County Soil & Water Conservation District
 Sand Springs Water Authority
 Sylacauga Industrial Development Board
 Talladega County Soil & Water Conservation District

Counseling And Correspondence

The staff of the Counseling and Correspondence divisions, which is composed of 21 counselors, serves as the liaison between the RSA and its members. The counselors and support staff provide information to members and employers during office visits, field counseling appointments and group presentations. In addition, approximately 150,000 telephone inquiries are received annually. As anticipated, the toll-free telephone number, 1-800-214-2158, has resulted in significantly increased numbers of telephone inquiries. Staff representatives are available to provide information or to make presentations at conventions, conferences and seminars. The RSA representatives also provide, from September through April, individual counseling sessions at 26 different satellite locations throughout the state.

The staff is responsible for retirement calculations and estimates, service purchase calculations, refund requests, death benefit claims and replies to written and telephone inquiries. The RSA staff processed a total of 4,230 retirement applications between October 1996 and September 1997. Of this amount, 1,308 retired under the ERS; 2,909 retired under the TRS and 13 retired under the JRF. The TRS processed a record breaking 1,241 retirement applications in June 1997.

Member accounts are audited to guarantee accuracy of current and future benefits to the membership. Benefit recipient accounts are periodically adjusted to include ad hoc cost-of-living increases granted by the Alabama Legislature. Additionally, information on RSA administered programs, i.e., PEIRAF, RSA-1, PEEHIP and the Group Term Life Insurance Benefit was disseminated to members and employers.

Under the provisions of Section 36-27-6, Code of Alabama 1975, the public and quasi-public agencies in the state are eligible to participate in the ERS. Operating in conjunction with the Office of Field Services, the staff provides benefits and cost data to the prospective member agencies upon request. Cost data include actuarial valuations prepared by Buck Consultants of Atlanta, Georgia. Currently, 681 public and quasi-public agencies participate in the ERS.

To enhance member services, the RSA and MACESS Corporation of Birmingham, Alabama, partnered to implement computer imaging technology, a state-of-the-art technology which allows any staff member to view the historical and current document(s) contained in each member's file via a personal computer monitor. This technological enhancement gives RSA the tools necessary to offer our members superior service in the Twenty-First Century.

The Retirement Service System (RSS4) designed by MACESS, provides RSA and its members the most comprehensive imaging and operations management system available in the industry. This is the most significant operational change in the system's history and makes RSA one of the most technologically advanced retirement systems in the country. Accessing the member's history file electronically enables the retirement counselor, in most cases, to perform the requested task instantly. Heretofore, counselors awaited receipt of microfiche records to complete the member's request. Providing a faster response to member inquiries improves productivity while reducing operational costs.



Raycom Media's WTVR-TV of Richmond is ranked one of the top 10 CBS affiliates in the country, broadcasting to over 500,000 TV households throughout the central Virginia area, which is the 56th largest television market in the country. (Photograph courtesy of Raycom Media.)

Public Employees' Individual Retirement Account Fund

PEIRAF - DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

The PEIRAF, the only plan of its kind in the United States, was created by the Alabama Legislature (Act 82-776) to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. ERTA allowed an employee to deduct, for income tax purposes, voluntary employee contributions to a government plan such as PEIRAF.

The Tax Reform Act of 1986 prohibits contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control elected to discontinue receiving contributions to this plan after December 31, 1986. However, PEIRAF continues to reinvest the interest earnings of existing PEIRAF member accounts.

PEIRAF - DEFERRED COMPENSATION PLAN (RSA-1)

Act 86-685 of the Alabama Legislature provides for the establishment of RSA-1 Deferred Compensation Plan as described in Section 457 of the Internal Revenue Code.

The RSA-1 allows members of the Retirement Systems and certain other eligible public employees the greatest possible benefits under the new Federal Income Tax Laws. Effective January 1, 1998, an eligible employee may defer the lesser of \$8,000 or 25% of taxable compensation. The salary to be used to determine the percentage limit does not include retirement contributions "picked-up" by the employer or any other salary not includable as federal wages but does include the salary to be deferred. On January 1, 1997, payroll deducted amounts for RSA-1 are not taxed for Alabama Income Tax. Effective October 1, 1997, participant's funds are held in trust for the sole benefit of the participant.

The RSA-1 investments are managed in a manner similar to those of the original PEIRAF plan. Interest is posted to member accounts each March 31 and September 30, based on daily average account balances. RSA-1 highlights shown below reflect the yield, total assets and number of participating members at each interest posting date.

RSA-1 HIGHLIGHTS

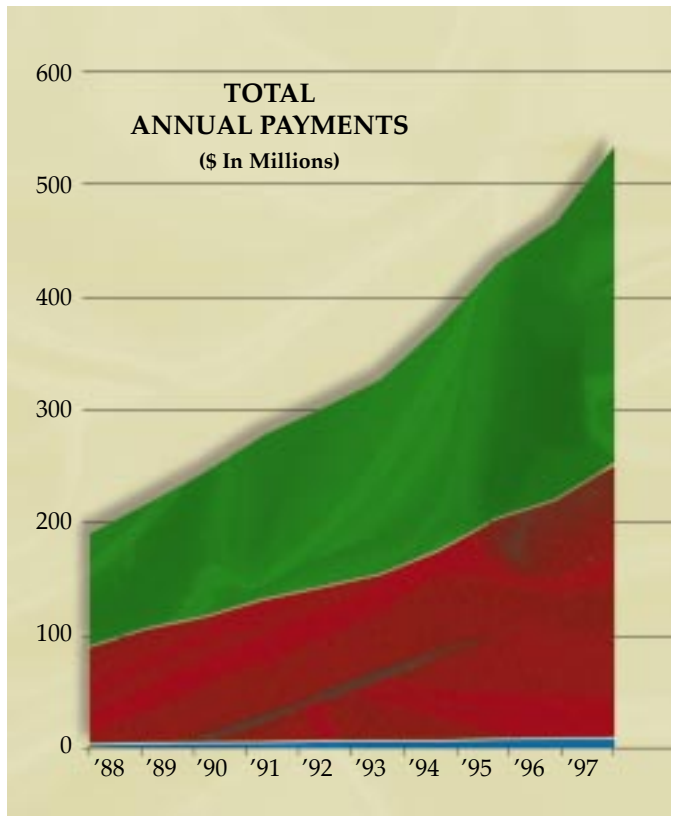
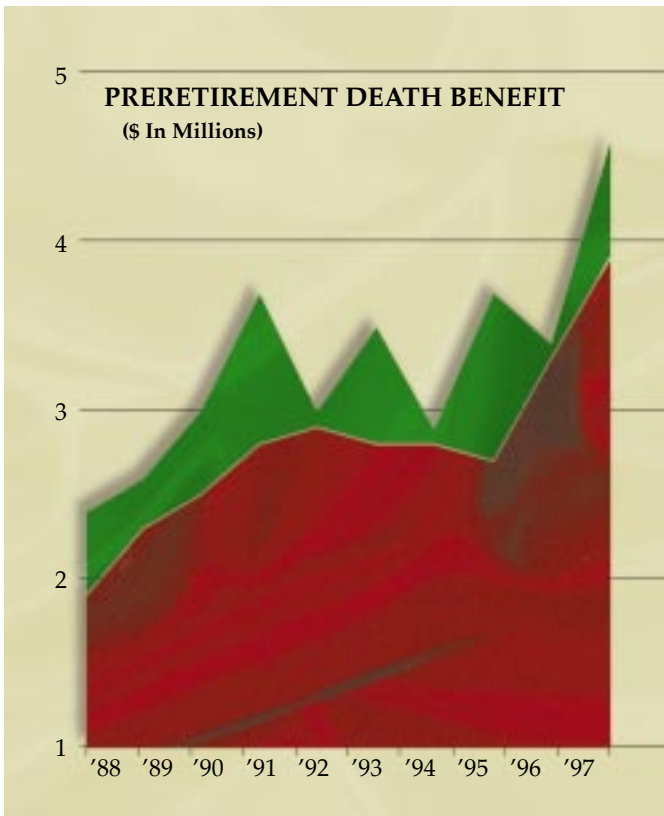
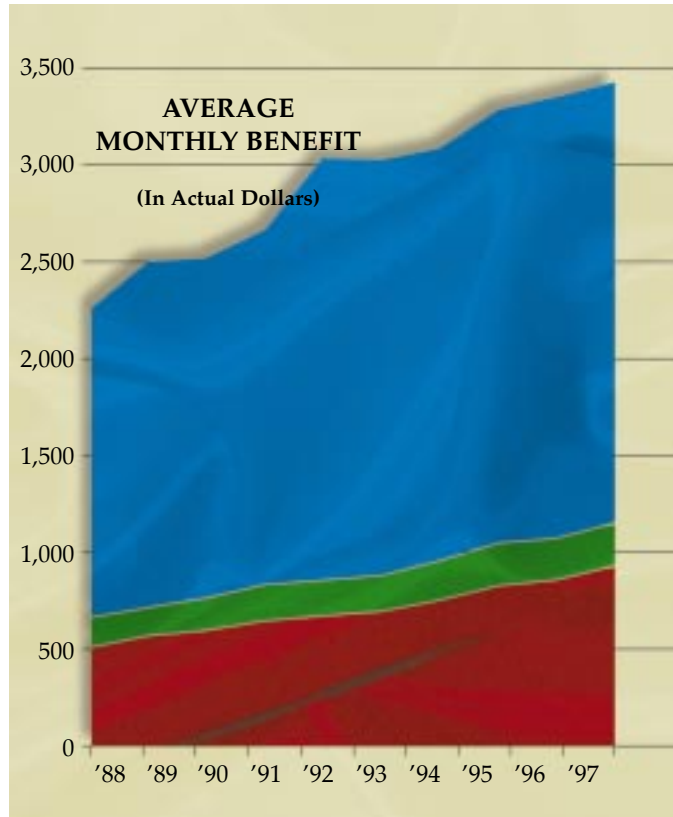
Interest Date	Yield (In %)	Total Assets at Book Value (In \$)	Participating Members
March 31, 1987	5.78%	\$ 600,692	1,386
September 30, 1987	21.05	3,426,417	1,931
March 31, 1988	16.45	7,548,485	2,526
September 30, 1988	15.65	12,528,575	3,029
March 31, 1989	12.32	19,125,140	3,935
September 30, 1989	13.43	27,006,789	4,404
March 31, 1990	13.30	36,146,454	5,125
September 30, 1990	10.87	46,225,862	5,702
March 31, 1991	11.25	58,952,232	6,830
September 30, 1991	11.47	72,976,574	7,471
March 31, 1992	10.89	89,399,516	8,558
September 30, 1992	11.26	106,992,250	9,269
March 31, 1993	11.62	127,181,332	10,220
September 30, 1993	9.21	146,812,159	10,945
March 31, 1994	9.56	169,349,740	12,022
September 30, 1994	9.69	192,710,264	12,680
March 31, 1995	9.24	219,595,093	14,194
September 30, 1995	9.04	247,264,015	15,054
March 31, 1996	8.91	277,688,637	16,254
September 30, 1996	8.58	308,584,100	17,089
March 31, 1997	8.45	341,652,142	18,570
September 30, 1997	9.02	376,357,423	19,293

Benefits

Benefits distributed by the Retirement Systems totaled \$796,659,000 during fiscal year 1997, a 14.4% increase from fiscal 1996 payments of \$696,108,000. Benefit payments during fiscal 1997 averaged \$2,183,000 per day. Social Security benefits for TRS, ERS and JRF retirees are in addition to this amount. State Police are excluded from Social Security benefits on State Police service.

Service retirement benefits are calculated by two methods with the member receiving payments under the method which yields the highest monthly benefit: minimum guaranteed or formula.

A preretirement death benefit is paid in addition to the return of accumulated contributions and interest in accordance with state statutes upon the death of a member. Annual preretirement death benefit payments are reflected in the following graphs.





Public Education Employees' Health Insurance Plan

The RSA manages the Public Education Employees' Health Insurance Plan (PEEHIP) for approximately 87,000 active and 33,000 retired public education employees.

The Fund was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide, through the PEEHIP, health insurance benefits for active and retired employees of Alabama's public educational institutions which provide (or provided) instruction at any combination of grades K-14, exclusively under the auspices of the State Board of Education. PEEHIP is a self-funded plan with the benefits and rates being determined by a 14-member Board of Control.

The Board also employs a third party administrator to properly pay claims within the scope of benefits determined by the Board. The third party administrator has no financial risk for the plan, but simply pays claims with PEEHIP funds. Blue Cross & Blue Shield of Alabama has been the claims administrator for the hospital/medical plan since October 1, 1992. Southland National Corporation has been the third-party claims administrator for the supplemental/optional coverages since the inception of PEEHIP in 1983.

The PEEHIP offers a traditional hospital/medical

plan which provides generous basic medical coverage for 365 days of care during each hospital confinement. The plan also provides for physicians' benefits, outpatient care, prescription drugs and mental health benefits. The supplemental/optional coverages that may be chosen in addition to or in lieu of the hospital/medical benefits are Hospital Indemnity, Cancer, Dental and Vision.

Since October 1, 1987, public education active and retired members in certain service areas have had the option of enrolling in the Health Maintenance Organization (HMO), United HealthCare (formerly Complete Health), in lieu of the traditional hospital/medical plan. Since October 1, 1995, a second HMO, Merit Health Plans, has also been offered to public education employees. These two HMO plans provide certain dental and vision benefits as well as hospital/medical benefits. Of the total members enrolled in hospital/medical coverage, approximately 8% are enrolled in one of the HMO plans.

The monthly premiums for employee and dependent coverage are determined annually by the Board after reviewing the plan's actuarial recommendations and projections of anticipated claims for the upcoming year considering the available reserve balances. The State previously paid directly from the Special Education Trust

Alabama's positive reputation continues to grow due to over 4,000 positive articles which have been written from Asia to Europe about the Robert Trent Jones Golf Trail. "The Trail's" 16th hole on the Valley course at Oxmoor Valley in Birmingham is one of 324 holes on 18 championship courses at seven locations throughout the state with an eighth site in Prattville due to open in late 1998. (Photograph courtesy of Sunbelt Golf.)



Fund substantially all the premium for active employee coverage by PEEHIP. However, for fiscal year 1996, the method of funding PEEHIP was changed in accordance with Act 95-537, whereby the appropriation is now paid to each educational institution and school system. Accordingly, each system is responsible for paying the cost for insurance directly to PEEHIP at the time premiums are submitted each month. The appropriation paid to each system includes a significant portion of the health care premiums for active and retired employees. The balance of the premium is paid by the participating active and retired member. Coverage is also available to dependents of active and retired employees with the dependent premium paid by the employee.

Approximately 67,000 active public education employees participate in one of the hospital/medical plans with approximately 55% of the participants electing family coverage. Of the 67,000 PEEHIP participants who have one of the hospital/medical plans, approximately 30,000 also purchase one or more of the optional coverages. Approximately 18,000 public education employees covered by PEEHIP are using the state allocation solely to purchase the four supplemental/optional coverages which are paid in full by the state allocation.

With the traditional hospital/medical plan, a member or eligible dependent is able to go to any physician and any hospital of choice. However, members receive higher benefits when physicians participating in the preferred provider organization are used. A member may visit any non-participating physician with benefits payable under the Major Medical provisions at 80% of the usual, customary and reasonable (UCR) charges after satisfying a \$100 deductible each calendar year.

The PEEHIP Board and staff continue to strive to offer members a comprehensive benefit plan at an affordable price and to research and implement medical management programs. Over the years, PEEHIP has implemented various cost containment measures such as pre-certification of hospital admissions and concurrent utilization review, medical case management, bill audits, copays, deductibles, prescription drug utilization review, second surgical opinion, discharge and wellness planning, health maintenance organizations and preferred provider organizations. In addition, benefit changes have been made to slow the growth in rising costs.

Revenue Sources

Public employee retirement systems are established by law to pay retirement benefits and to accumulate the resources with which to pay such benefits. The RSA accumulates its resources through collection of member and employer contributions and income earned on investments. Contributions and investment income for fiscal year 1997 totaled \$4.2 billion.

Income from investments continues to be a large share of the total revenue of the Systems. Investment income increased \$1.8 billion in the 1997 fiscal year from the 1996 fiscal year and represents 81% of the total revenue of the Systems. The improvement in investment income was attributable primarily to the increase in the total investments available for earnings, the strong performance of the financial markets during the fiscal year and the change in valuing assets from book value to market related value.

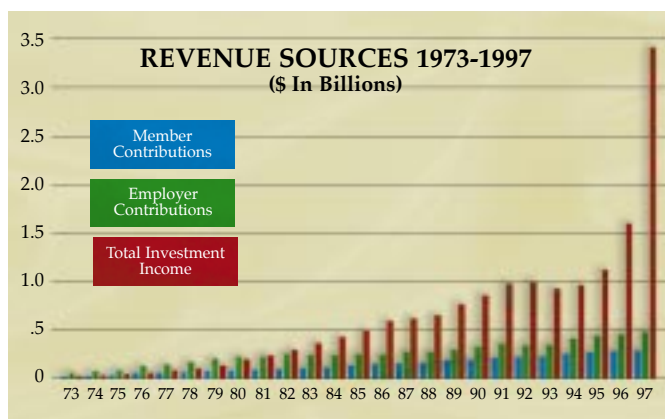
Employer contributions, which comprised 12% of 1997 RSA revenue sources, increased \$25.3 million from fiscal year 1996. Member contributions during fiscal year 1997 increased \$5.5 million over the 1996 fiscal year representing 7% of the total revenues of the Systems.

REVENUE SOURCES (\$ in Millions)

	<u>1996</u>	<u>1997</u>
Member Contributions	\$ 291.0	\$ 296.5
Employer Contributions	456.5	481.8
Investment Income	<u>1,603.2</u>	<u>3,406.0</u>
	<u>\$2,350.7</u>	<u>\$4,184.3</u>

MEMBER CONTRIBUTIONS (\$ In Millions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
TRS	\$151.7	\$165.3	\$177.4	\$185.6	\$190.8
ERS	82.8	98.0	99.7	103.9	104.0
JRF	1.3	1.4	1.6	1.5	1.7



EMPLOYER CONTRIBUTIONS (\$ In Millions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
TRS	\$234.2	\$244.8	\$288.5	\$311.1	\$330.7
ERS	106.4	162.8	149.2	139.2	145.7
JRF	6.7	6.5	6.9	6.2	5.4

EMPLOYER RATE (% Of Covered Payroll)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
TRS	6.35%	6.31%	6.31%	9.23%	9.23%
ERS					
– State Employees	6.00	6.00	6.99	6.99	6.99
– State Police	12.59	14.23	15.22	15.22	15.17
JRF	28.70	27.01	27.01	23.05	19.71

INVESTMENT INCOME (\$ In Millions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
TRS	\$623.0	\$663.6	\$762.4	\$1,086.7	\$2,313.4
ERS	295.5	292.8	348.1	501.8	1,056.3
JRF	8.4	9.3	10.5	14.7	36.3

TOTAL REVENUES BY FUND (\$ In Millions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
TRS	\$1,008.9	\$1,073.8	\$1,228.4	\$1,583.4	\$2,834.9
ERS	484.7	553.6	597.0	744.9	1,306.0
JRF	16.4	17.1	18.9	22.4	43.4

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality and withdrawal experience. Changes in any of these factors can have a direct impact on employer cost rates. Favorable investment earnings have enabled rates to remain low in TRS, ERS, JRF and State Police. The employer rates for fiscal year 1998 are set at 9.66% for TRS, 7.56% for State Employees, 19.71% for JRF, and 15.74% for the State Police. Local agency rates differ for each agency.

Investments

*"On Alabama's beaches
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Come and enjoy Alabama's 50-mile stretch of some of the world's most beautiful beaches, a site you'll never forget. These sugar-white beaches and clear blue-green waters are full of fun-filled activities for the whole family, and all at a great value. Make Alabama's beautiful Gulf beaches part of your next vacation.

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Over one million tourists each year visit Alabama's 50 miles of sugar white beaches enjoying fishing and water sports as well as visiting historical landmarks such as Fort Morgan. (Photograph courtesy of Alabama Bureau of Tourism and Travel; Dan Brothers, photographer.)

Asset Allocation

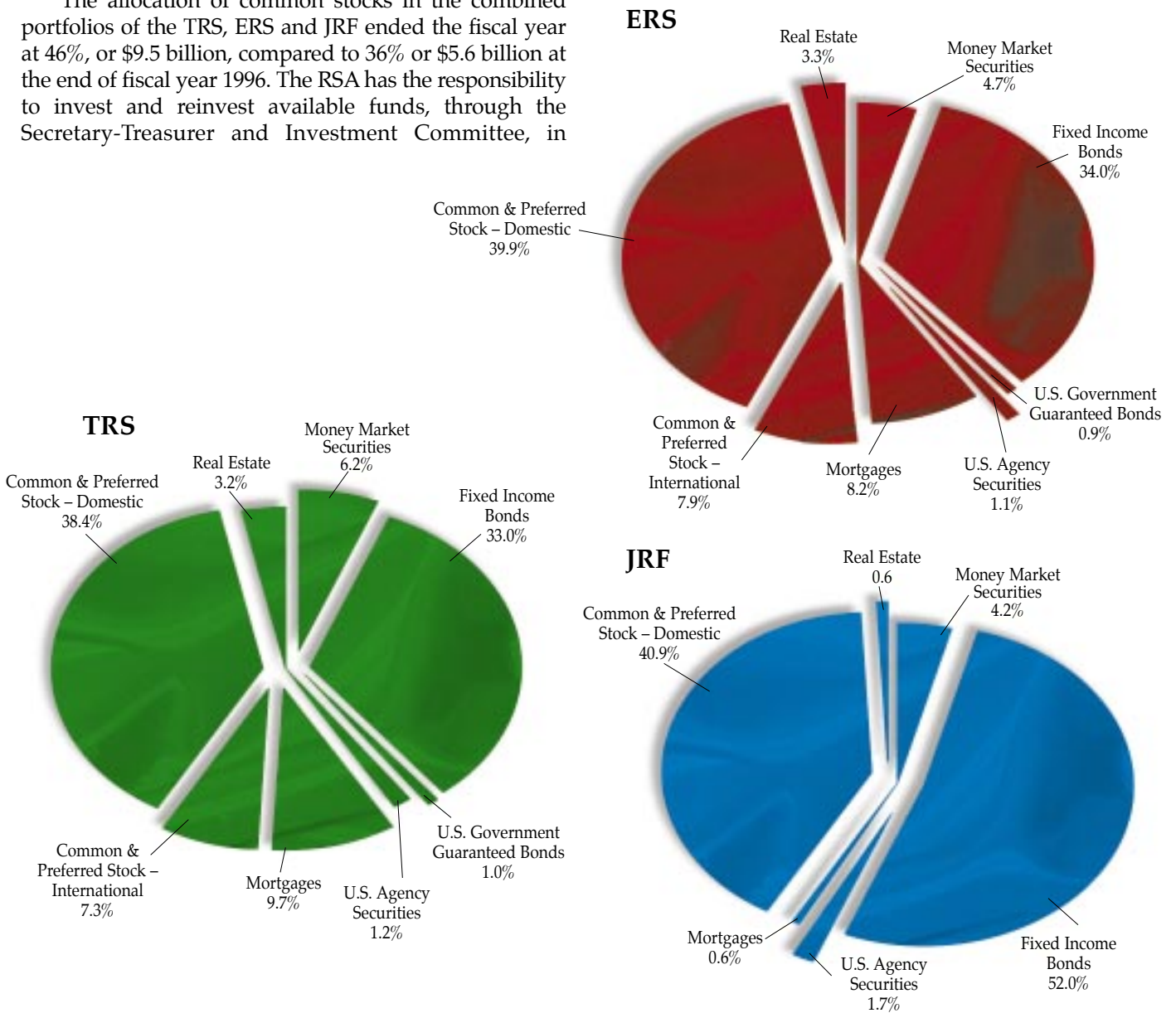
Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most effective way that reflects policy standards while maximizing returns.

The largest asset class for the RSA continues to be fixed income securities, which include corporate bonds, private placements, mortgages, U.S. government guaranteed securities, real estate and money market instruments. At fiscal year end, the RSA held 54%, or \$11 billion, of the combined portfolio of the TRS, ERS and JRF in these types of securities.

The allocation of common stocks in the combined portfolios of the TRS, ERS and JRF ended the fiscal year at 46%, or \$9.5 billion, compared to 36% or \$5.6 billion at the end of fiscal year 1996. The RSA has the responsibility to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in

bonds, mortgages, common and preferred stock or other investment vehicles with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

The combined fixed income and equity total returns for fiscal year 1997 were 18.4% for the TRS and 18.1% for the ERS. The five-year annualized return was 12.0% for the TRS and 11.9% for the ERS. The ten-year annualized return was 12.3% for the TRS and 12.2% for the ERS.

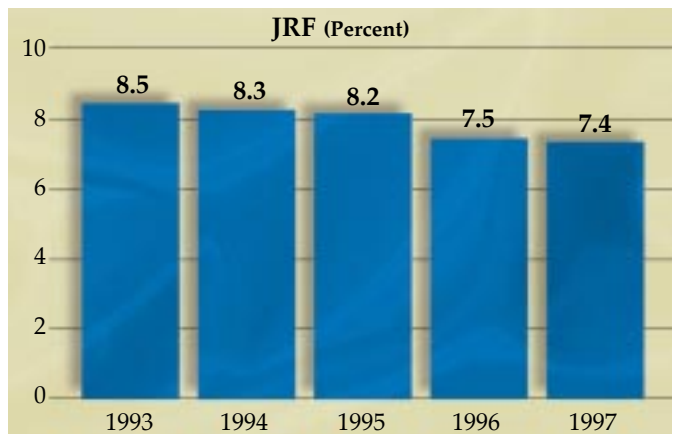
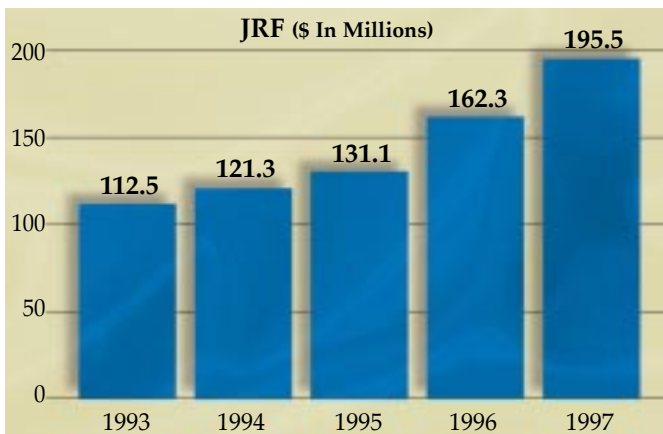
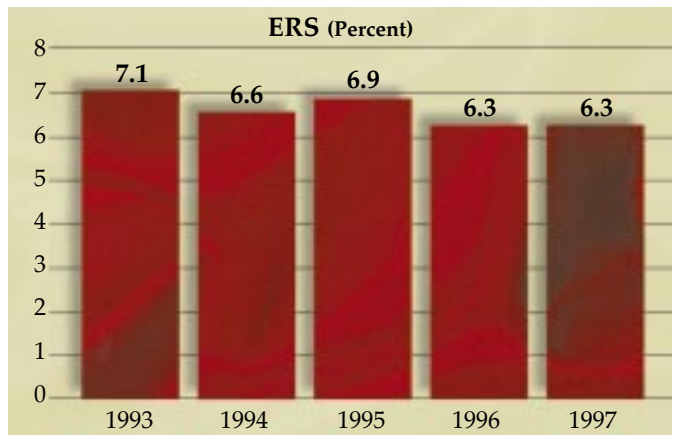
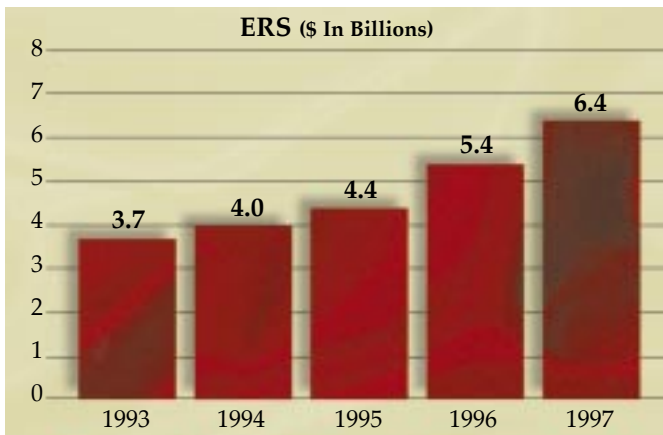
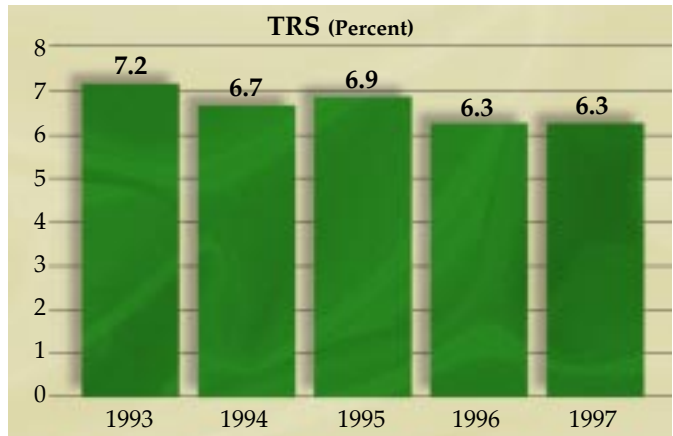
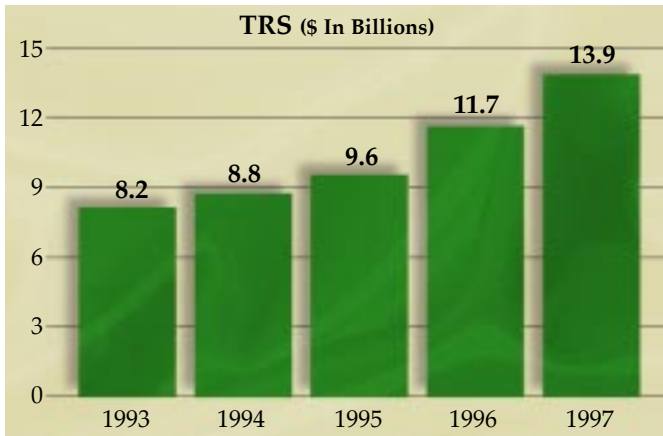


Portfolio Growth

Total assets of the TRS, ERS, and JRF portfolios continued to exhibit strong growth. The combined market value of these three portfolios on September 30, 1997, was approximately \$20.5 billion, an 18.7% increase from the balance at year end 1996.

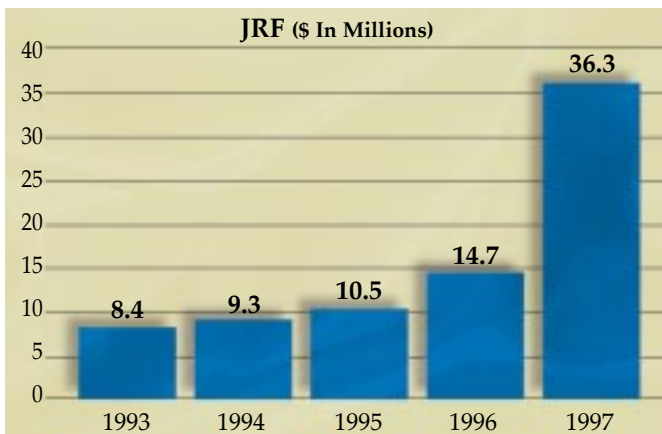
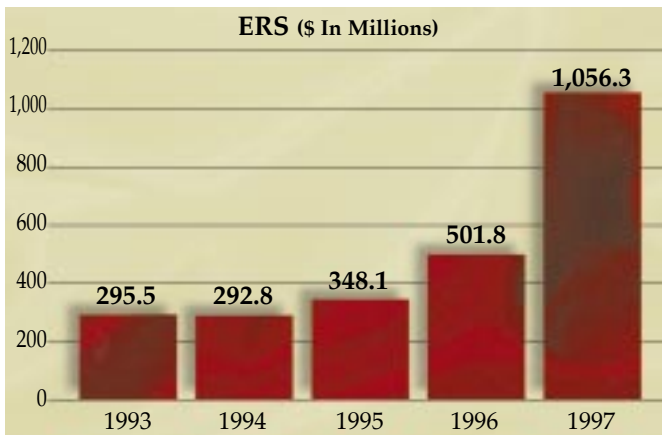
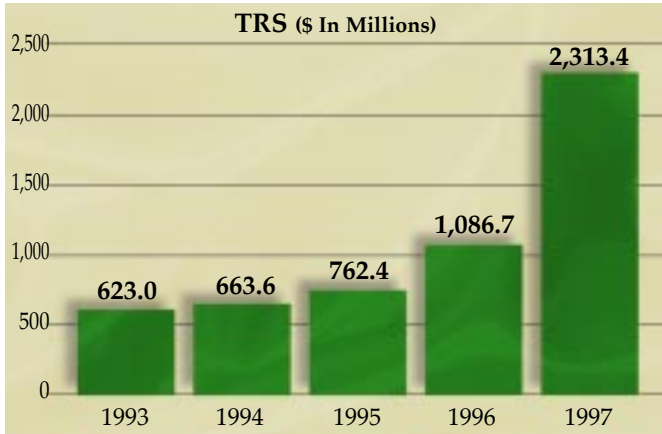
Average Yield

The average combined yield earned on stocks and bonds for 1997 and 1996 was 6.3%. The average yield has been affected by lower interest rates, bond calls and the increased allocation to stocks.



Investment Income

Investment income displayed impressive growth during 1997. Investment income for the TRS, ERS and JRF increased 113%, 111%, and 147%, respectively. These significant increases are due to the strong performance of the financial markets as well as the change in accounting standards which now recognizes assets using market related value rather than book value.



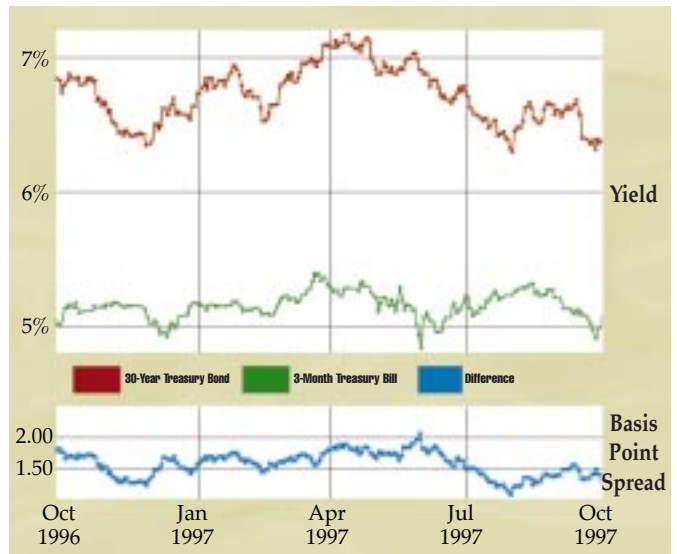
Fixed Income Activity

During the 1997 fiscal year, the bond market was aided by a continuation of low inflation, a vastly improved budget deficit and a resolve by the Federal Reserve Board to tighten monetary policy if necessary to keep prices under control. In addition, healthy economic growth combined with a strong dollar and impressive productivity figures made the United States a safe haven for foreign investors.

The bond market was on a roller coaster ride for the twelve months ended September 30, 1997. Yields declined for the first two months of the fiscal year before embarking on an upward path that ultimately saw yields peak in mid to late April 1997. Economic news got even better over the summer which allowed the bond market to appreciate by fiscal year end.

During fiscal 1997, 3-month Treasury bill rates ranged from a low of 5.68% to a high of 6.69% and ended the fiscal year at 5.84%. Long-term rates ranged from a low of 6.30% to a high of 7.17% before closing the fiscal year at 6.40%. The slope of the yield curve flattened from fiscal 1996 levels as the spread between the 30-year Treasury bond and the 3-month Treasury bill narrowed significantly from 189 basis points to 56 basis points.

In 1997, the RSA purchased approximately \$1.2 billion in additional securities for the fixed income portfolio. The average yield on the entire fixed income portfolio at year end was 8.5%. As of September 30, 1997, the RSA's fixed income portfolio had a book value of \$11 billion, which includes 11% in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 9.78% for the TRS and 9.43% for the ERS and JRF combined versus 9.71% for the Salomon Brothers Broad Index. The five-year annualized returns were 8.45% for the TRS, ERS, and JRF comparing favorably to 6.97% for the Salomon Brothers Broad Index. The ten-year annualized returns for the TRS and the combined portfolios of the ERS and JRF, respectively, were 11.06% and 11.11% versus 9.53% for the Salomon Brothers Broad Index.



Coupon Distribution

The primary objective of the RSA bond portfolio is to provide income to the funds and to maximize the income return of the portfolio. The RSA bond portfolio continues to own a significant portion of its assets in securities that provide excellent current income to the funds. These securities have contributed to the RSA's superior performance and helped to provide excellent benefits at a very low cost to the state.

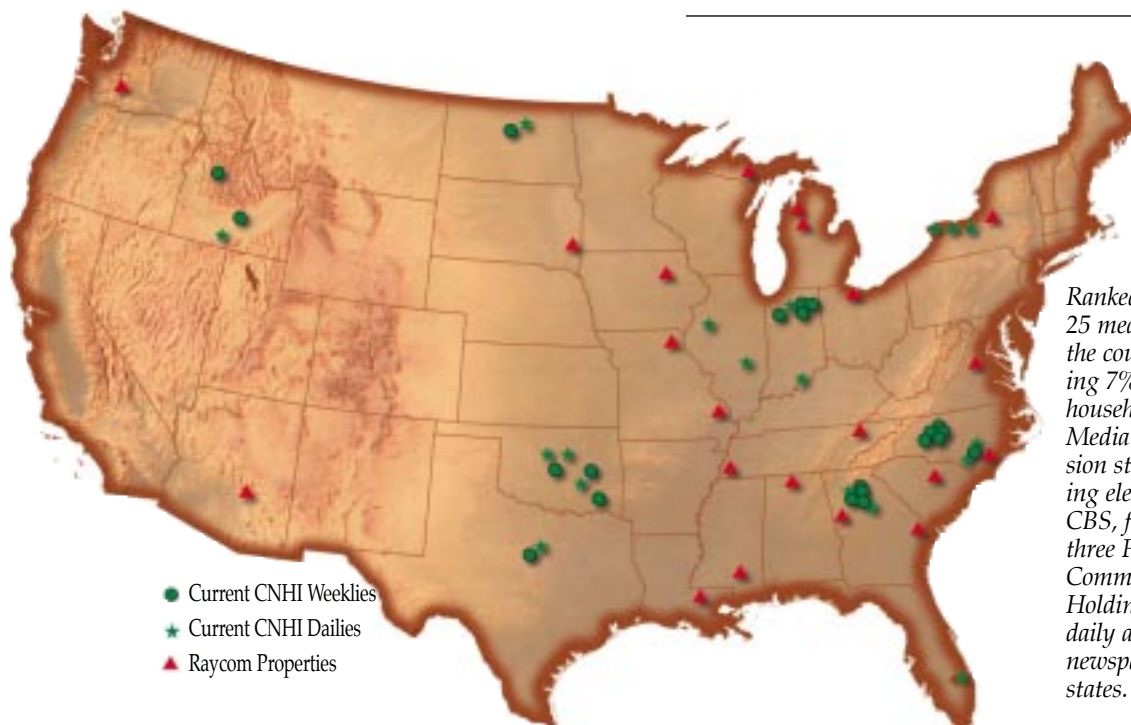
During 1997, the RSA made investments in high-quality corporate issues, Treasury bills and mortgage-backed securities.

Coupon	TRS (In %)			ERS (In %)		
	1997	1996	1995	1997	1996	1995
0%	2	2	2	1	2	3
>0 and <5%	0	0	0	0	0	0
≥5 and <10%	63	65	61	60	62	61
≥10%	35	33	37	39	36	36

Maturity Structure

The management of maturities for the bond portfolio is an integral part of the RSA's objective of providing a stable cash flow to meet retirement benefit needs. The RSA has historically structured its purchases in longer-term securities with intermediate call protection or average lives in order to meet its retirement obligations.

Years to Maturity	TRS (In %)			ERS (In %)		
	1997	1996	1995	1997	1996	1995
0 to < 5	9	9	13	8	9	13
5 to < 10	5	8	10	3	6	9
10 to < 15	8	9	7	9	10	7
15 to < 20	26	12	23	31	13	24
20 to < 25	9	18	14	8	21	14
25 to < 30	39	43	31	35	39	31
≥ 30	4	1	2	6	2	2



- Current CNHI Weeklies
- ★ Current CNHI Dailies
- ▲ Raycom Properties

Ranked one of the top 25 media companies in the country and reaching 7% of all U.S. households, Raycom Media owns 25 television stations comprising eleven NBC, six CBS, five ABC and three Fox affiliates. Community Newspaper Holdings, Inc. owns 19 daily and 22 weekly newspapers in eleven states.

Quality Evaluation

The RSA continues its long-standing policy of investing in high-quality fixed income products. Bond ratings, however, provide only a starting point in the evaluation of the relative investment qualities of a bond. A thorough credit analysis is undertaken to determine if the investment is suitable for the RSA's portfolio. In addition, any bond that is subsequently downgraded is reviewed to ascertain the potential for further credit erosion.

Rating	TRS (In %)			ERS (In %)		
	1997	1996	1995	1997	1996	1995
Aaa	31	35	27	27	30	27
Aa	8	9	13	7	10	13
A	21	22	25	20	22	25
Baa & Below	21	21	23	23	22	22
Not Rated	19	13	12	23	16	13



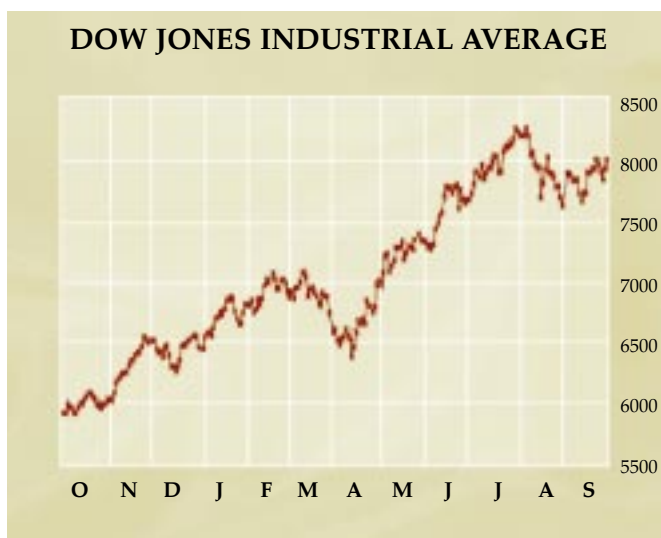
The 1997 Investment Staff (Seated left to right: Nancy Sprayberry, Hunter Harrell, Julie Barranco and Marc Green. Standing left to right: Stephen Simmons, Gary Partridge, John Cunningham, Darren Schulz and David Phillips.) (Photograph by Jim Pappanastos.)

Equity Activity

Fiscal year 1997 was a volatile time in both the U.S. and global equity markets. Domestically, the equity markets were supported throughout the year with lower interest rates and double digit earnings growth. After having its first 10% correction in over three years in early 1997, the market has rallied to new highs with the Dow Jones Industrial Average and the Standard and Poor's 500 Index closing out the year up 38.8% and 40.5%, respectively.

The U.S. equity market proved to be one of the stalwarts relative to other markets around the world. The EAFE Index (Europe, Asia and Far East) was up 12.2% for the year, lagging mainly from the collapsing markets in the Pacific Rim and the stagnant Japanese economy.

As of September 30, 1997, the total book value of equity assets for the TRS was \$4.4 billion representing 38.0% of total assets. Comprising 39.0% of total assets, the total book value of equity assets for the ERS and JRF combined was \$2.14 billion. Market value stood at \$6.26 billion for TRS and \$3.05 billion for ERS and JRF combined and approximately 45.2% and 46.5% of total assets, respectively. The annual return of the equity portfolio was 33.3% for TRS, 33.1% for ERS and 40.4% for the JRF. For the three-year period, the annual returns were 26.1% for TRS, 26.1% for ERS and 29.4% for JRF. Five-year annualized returns were 19.2% for TRS, 19.1% for ERS and 20.6% for JRF. Ten-year annualized returns were 16.2% for all three funds. Net gains realized on equity transactions during the fiscal year totaled \$533.1 million.



Financial Statements

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Alabama is a golfer's dream, featuring the 324-hole Robert Trent Jones Golf Trail, listed by *Frequent Flyer Magazine* as one of the top 10 places in the world to use your frequent flyer miles and an experience you'll never forget. And it's just the beginning of the great golf in Alabama, with hundreds of fantastic public and private courses throughout the state, all at a great value.

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Awarded the 2000 NCAA Men's Division I National Championship, the LPGA Tour Championship and the Nike Tour Championship, the Robert Trent Jones Golf Trail continues to enhance the image of Alabama as it receives over \$2 million per month in free advertising from Raycom Media and Community Newspaper Holdings, Inc. (Photo courtesy of Sunbelt Golf.)

Teachers' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 1997, with comparative figures for 1996

Assets	1997	1996 (Restated)
	(In Thousands)	
Cash (restricted to payment of administrative expenses)	\$ <u>7,773</u>	<u>7,766</u>
Receivables		
Employer and employee contributions	43,867	40,793
Dividends and interest	150,494	104,968
Investment receivable	<u>14,095</u>	<u>—</u>
Total receivables	<u>208,456</u>	<u>145,761</u>
Investments at fair value		
Commercial paper and other short-term investments	862,627	1,284,507
U.S. Government guaranteed	145,312	147,593
U.S. Agency securities	163,529	79,593
Mortgages	1,350,047	1,267,944
Corporate bonds	4,584,090	3,782,909
Common and preferred stocks	6,342,370	4,724,873
Real estate	<u>440,725</u>	<u>402,763</u>
Total investments	<u>13,888,700</u>	<u>11,690,182</u>
Property and equipment, less accumulated depreciation	<u>3,969</u>	<u>3,943</u>
Total assets	<u>14,108,898</u>	<u>11,847,652</u>
Liabilities		
Accounts payable and other liabilities	1,425	930
Real estate notes payable	<u>709</u>	<u>709</u>
Total liabilities	<u>2,134</u>	<u>1,639</u>
Net assets held in trust for pension benefits	\$ <u>14,106,764</u>	<u>11,846,013</u>

Separately issued, audited financial statements are available upon request.

Teachers' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended September 30, 1997, with comparative figures for 1996

	1997	1996 (Restated)
	(In Thousands)	
Additions		
Contributions		
Employee	\$ 188,815	184,486
Employer	330,658	311,084
Transfers from Employees' Retirement System	<u>1,987</u>	<u>1,160</u>
Total contributions	<u>521,460</u>	<u>496,730</u>
Investment income		
Net appreciation in fair value of investments	1,667,045	506,612
Interest and dividends	<u>647,861</u>	<u>582,321</u>
Total investment income	2,314,906	1,088,933
Less: Investment expense	<u>2,698</u>	<u>2,631</u>
Net investment income	<u>2,312,208</u>	<u>1,086,302</u>
Securities lending activities		
Securities lending income	15,588	5,906
Securities lending expenses		
Borrower rebates	13,849	5,309
Management fees	<u>522</u>	<u>239</u>
Total securities lending activity expenses	<u>14,371</u>	<u>5,548</u>
Net income from securities lending activities	<u>1,217</u>	<u>358</u>
Total additions	<u>2,834,885</u>	<u>1,583,390</u>
Deductions		
Retirement allowance payments	534,958	466,479
Return of contributions		
Resignation and other	20,824	21,279
Death before retirement	10,083	8,066
Transfers to Employees' Retirement System	1,110	1,111
Transfers to Judicial Retirement Fund	135	16
Administrative expense	6,524	3,443
Debt service interest	66	66
Depreciation	<u>434</u>	<u>363</u>
Total deductions	<u>574,134</u>	<u>500,823</u>
Net increase	<u>2,260,751</u>	<u>1,082,567</u>
Net assets held in trust for pension benefits		
Beginning of the year, as restated	<u>11,846,013</u>	<u>10,763,446</u>
End of the year	<u>\$ 14,106,764</u>	<u>\$ 11,846,013</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 1997, with comparative figures for 1996

Assets	1997	1996 (Restated)
	(In Thousands)	
Cash (restricted to payment of administrative expenses)	\$ <u>3,488</u>	<u>4,239</u>
Receivables		
Employer and employee contributions	18,809	17,917
Dividends and interest	<u>72,007</u>	<u>47,340</u>
Total receivables	<u>90,816</u>	<u>65,257</u>
Investments, at fair value		
Commercial paper and other short-term investments	302,044	594,242
U.S. Government guaranteed	59,450	74,295
U.S. Agency securities	72,784	30,058
Mortgages	523,687	475,597
Corporate bonds	2,169,679	1,767,837
Common and preferred stocks	3,046,772	2,242,186
Real Estate	<u>211,644</u>	<u>202,846</u>
Total investments	<u>6,386,060</u>	<u>5,387,061</u>
Property and equipment, less accumulated depreciation	<u>2,974</u>	<u>2,950</u>
Total assets	<u>6,483,338</u>	<u>5,459,507</u>
Liabilities		
Accounts payable and other liabilities	878	650
Real estate notes payable	<u>709</u>	<u>709</u>
Total liabilities	<u>1,587</u>	<u>1,359</u>
Net assets held in trust for pension benefits	<u>\$ 6,481,751</u>	<u>5,458,148</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended September 30, 1997 with comparative figures for 1996

	1997	1996 (Restated)
	(In Thousands)	
Additions		
Contributions		
Employee	\$ 102,842	102,515
Employer	145,738	139,196
Transfers from Teachers' Retirement System	1,110	1,111
Transfers from Judicial Retirement Fund	—	251
Total contributions	<u>249,690</u>	<u>243,073</u>
Investment income		
Net appreciation in fair value of investments	758,793	237,576
Interest and dividends	298,086	265,229
Total investment income	1,056,879	502,805
Less: Investment expense	1,201	1,155
Net investment income	<u>1,055,678</u>	<u>501,650</u>
Securities lending activities		
Securities lending income	7,596	2,966
Securities lending expenses		
Borrower rebates	6,732	2,667
Management fees	259	119
Total securities lending activity expenses	<u>6,991</u>	<u>2,786</u>
Net income from securities lending activities	<u>605</u>	<u>180</u>
Total additions	<u>1,305,973</u>	<u>744,903</u>
Deductions		
Retirement allowance payments	252,023	220,265
Return of contributions		
Resignation and other	18,040	17,437
Death before retirement	5,676	5,428
Transfers to Teachers' Retirement System	1,987	1,160
Transfers to Judicial Retirement Fund	34	47
Administrative expense	4,273	2,884
Debt service interest	66	66
Depreciation	271	225
Total deductions	<u>282,370</u>	<u>247,512</u>
Net increase	<u>1,023,603</u>	<u>497,391</u>
Net assets held in trust for pension benefits		
Beginning of the year, as restated	5,458,148	4,960,757
End of the year	\$ <u>6,481,751</u>	<u>5,458,148</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF PLAN NET ASSETS

September 30, 1997, with comparative figures for 1996

Assets	1997	1996 (Restated)
		(In Thousands)
Cash (restricted to payment of administrative expenses)	\$ <u>497</u>	<u>393</u>
Receivables		
Employer and employee contributions	237	365
Dividends and interest	<u>2,275</u>	<u>2,076</u>
Total receivables	<u>2,512</u>	<u>2,441</u>
Investments, at fair value		
Commercial paper and other short-term investments	8,192	9,909
U.S. Agency securities	3,272	3,269
Mortgages	1,101	1,440
Corporate bonds	101,809	89,203
Common and preferred stocks	79,921	57,565
Real estate	<u>1,217</u>	<u>892</u>
Total investments	<u>195,512</u>	<u>162,278</u>
Total assets	<u>198,521</u>	<u>165,112</u>
Liabilities		
Accounts payable and other liabilities	<u>123</u>	<u>111</u>
Total liabilities	<u>123</u>	<u>111</u>
Net assets held in trust for pension benefits	\$ <u>198,398</u>	<u>165,001</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended September 30, 1997, with comparative figures for 1996

	1997	1996 (Restated)
	(In Thousands)	
Additions		
Contributions		
Employee	\$ 1,493	1,450
Employer	5,430	6,193
Transfers from Teachers' Retirement System	135	16
Transfers from Employees' Retirement System	34	47
Total contributions	<u>7,092</u>	<u>7,706</u>
Investment income		
Net appreciation in fair value of investments	25,676	4,465
Interest and dividends	10,627	10,253
Total investment income	36,303	14,718
Less: Investment expense	15	20
Net investment income	<u>36,288</u>	<u>14,698</u>
Total additions	<u>43,380</u>	<u>22,404</u>
Deductions		
Retirement allowance payments	9,678	9,364
Return of contributions:		
Resignation and other	6	40
Transfers to Employees' Retirement System	-	251
Administrative expense	299	279
Total deductions	<u>9,983</u>	<u>9,934</u>
Net increase	<u>33,397</u>	<u>12,470</u>
Net assets held in trust for pension benefits		
Beginning of the year, as restated	165,001	152,531
End of year	<u>\$ 198,398</u>	<u>165,001</u>

Separately issued, audited financial statements are available upon request.

Commissions Paid Report

Fiscal Year 1997

	Volume of Business Private Placements, Agencies	Commissions Stock Transactions	Commission Bond Transactions
Bear Stearns & Co.	\$ 378mm	\$ 389,045	
Bradford, J. C. & Co., Inc.		75,390	\$ 192,500
Centennial Capital		2,805	
Chapman		16,290	10,000
Chicago Corp.		23,377	
Community Newspaper Holdings, Inc.	149mm		
Dean Witter Reynolds		137,860	80,000
Deutsche Morgan Grenfell		116,114	
Donaldson, Lufkin & Jenrette	200mm	637,126	
Edwards, A. G. & Sons		19,429	50,000
First Boston Corp.	75mm	433,065	562,500
Gardner Rich		23,461	
Goldman Sachs & Co.	522mm	407,477	25,000
International Strategy & Investment		11,115	
Interstate Securities		69,238	217,140
J. Roe Burton & Co.		22,832	55,000
Lazard Freres	125mm		34,531
Lehman Brothers	476mm	234,389	21,000
Merrill Lynch, Pierce, Fenner & Smith, Inc.	325mm	458,924	675,250
Morgan Keegan		26,470	60,000
Morgan Stanley & Co., Inc.		318,816	25,000
NBC Securities		51,275	140,000
Oppenheimer Co., Inc.		93,694	
Paine, Webber, Mitchell Hutchins, Inc.		182,003	
Prudential Bache		392,034	20,000
Quick & Reilly		25,240	
Raycom Media/AFLAC	465mm		
Raycom Media/Federal	169mm		
Robert Thomas		15,218	20,000
Robinson-Humphrey/American Express		54,962	150,000
Salomon Brothers, Inc.	675mm	650,154	469,531
S. C. Bernstein		640,171	
Securities Capital		17,950	20,000
Smith Barney Harris Upham & Co.	513mm	337,968	125,000
Sterne, Agee & Leach, Inc.		33,270	127,500
Weedon-Leuthold		6,090	
Wheat First		31,648	110,000
World Investments		10,192	50,000
TOTAL	\$ <u>4,072mm</u>	\$ <u>5,965,092</u>	\$ <u>3,239,952</u>

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