



The
Retirement
Systems
Of Alabama

1 9 9 8 A n n u a l R e p o r t

In Memory Of



Dr. William C. Walsh Deputy Director Retirement Systems of Alabama

Dr. William C. Walsh was Deputy-Secretary Treasurer of the Retirement Systems of Alabama from June 5, 1974 through his death, August 7, 1998. He was an integral part of the one-two punch that saw the Retirement Systems grow from a 25% funded, \$500 million organization to a fully funded, \$22.6 billion organization. He was the only assistant director of a state pension program to serve as president of the National Council of Teachers' Retirement Systems. The members of the Retirement Systems of Alabama have lost a strong advocate in the passing of Dr. Walsh. He is survived by his wife, Jackie, daughter, Catherine and son, Will.

THE BRONNER/WALSH RSA YEARS

	1973	1998
No. of Retirees	14,956	68,560
Monthly Retiree Payroll	\$3.4 mm	\$68.6 mm
Assets	\$500 mm	\$22.4 b
Unfunded Liabilities	\$1.5 b	-0-

The Retirement Systems of Alabama

TEACHERS' RETIREMENT SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

JUDICIAL RETIREMENT FUND

135 SOUTH UNION STREET
P. O. BOX 302150
MONTGOMERY, ALABAMA 36130-2150

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

MEMBERSHIP ACTIVITY FOR 1998

	Teachers'	Employees'	Judicial
New Members	15,427	9,450	8
Withdrawn Members	7,040	6,991	4
Service Retirements	4,120	2,949	7
Disability Retirements	331	210	0
Surviving Spouses	5	13	1
New Beneficiaries	186	176	5

TOTAL MEMBERSHIP

(Totals as of September 30, 1998)

	Teachers'	Employees'	Judicial
Active	124,586	71,039	315
Retired	43,058	25,259	243
Total	167,644	96,298	558

FUNDS UNDER MANAGEMENT

(At Market Related Value)

	Assets (In Thousands)
Teachers' Retirement System (TRS)	\$ 14,412,729
Employees' Retirement System (ERS)	6,609,231
Judicial Retirement Fund (JRF)	209,365
Alabama Cultural Resources Preservation Trust Fund	9,661
Alabama Education Foundation for K-12	141
Alabama Game & Fish Endowment Fund	9,492
Alabama Heritage Trust Fund	540,468
Alabama Nongame Wildlife Endowment Trust	10
Alabama Underground and Aboveground Storage Tank Trust Fund	18,695
Clerks' & Registers' Supernumerary Fund	5,059
District Attorneys Spouses' Fund	1,892
PEIRAF - Deferred Compensation Plan (RSA-1)	472,344
Public Education Employees' Health Insurance Plan Fund (PEEHIP)	39,204
Public Employees' Individual Retirement Account Fund (PEIRAF)	68,354
State Docks Pension Plans	<u>3,922</u>
TOTAL ASSETS UNDER MANAGEMENT	\$ <u>22,400,567</u>

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Investments

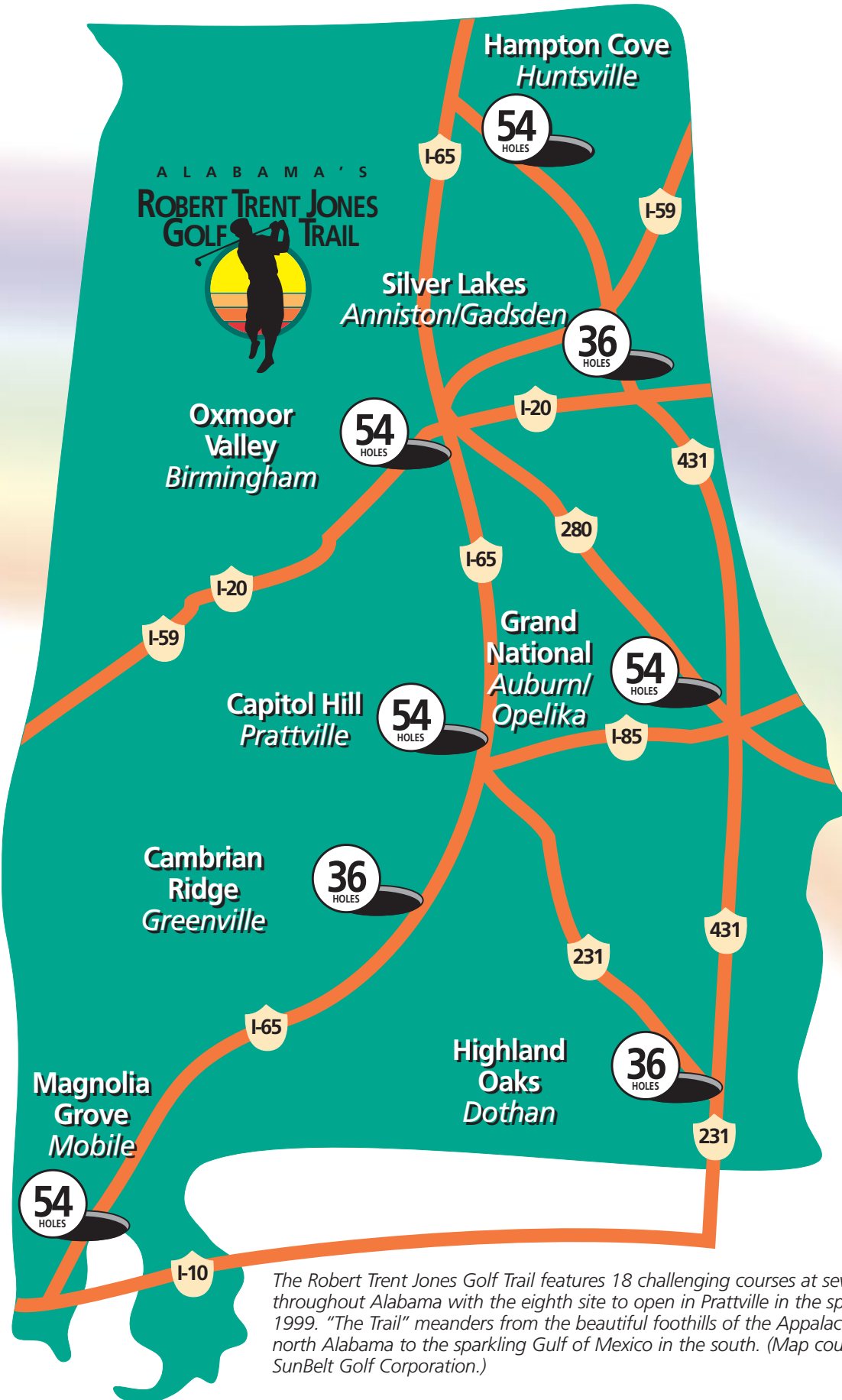
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Administrative



The Robert Trent Jones Golf Trail features 18 challenging courses at seven facilities throughout Alabama with the eighth site to open in Prattville in the spring of 1999. "The Trail" meanders from the beautiful foothills of the Appalachians in north Alabama to the sparkling Gulf of Mexico in the south. (Map courtesy of SunBelt Golf Corporation.)

Letter from the CEO



Photograph by Jim Pappanastos

Dear Member:

The Boards of Control and the staff are pleased to present the Twenty-Third Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ending September 30, 1998. The theme for this year's *Annual Report* is "improving the image of a state" and highlights the Robert Trent Jones Golf Trail. Elevating Alabama's image, "The Trail" continues to contribute to the state's economic growth by drawing tourists and recruiting new industry.

In 1998, the RSA and the Alabama Legislature recognized a \$2.8 billion windfall that had been gained on RSA investments during the past 25 years. Moving assets from "book value" to "market related value" resulted in a drop of approximately 58% in the employer rates for 1998-99. The rates have since moved up nearly 50% from the prior low due to employee salary increases and cost-of-living adjustments in excess of actuarial assumptions.

The RSA currently manages 15 funds with an aggregate market value of \$22.4 billion. Assets increased \$819.5 million during the year, representing a 4% increase from the previous year. During fiscal year 1998, the annualized return

for the fixed income and equity portfolio combined was 4.8% for the Teachers' Retirement System (TRS) and 5.3% for the combined Employees' Retirement System (ERS) and Judicial Retirement Fund (JRF) in a year of volatile global markets, moderate economic growth and very low inflation. The "fall panic of 1998" which occurred during the month of September, was the low point for the year. However, the financial markets snapped back during the October to December quarter to finish with a very good calendar year, which will be reflected in next year's annual report.

According to *Georgia Trend* magazine, the Trail "has become a magnet for tourists, retirees, and developers of varying stripe." Five years ago, tourism in Alabama was a \$2.5 billion a year industry, according to the *Wall Street Journal*, and stands today at approximately \$5 billion. Still expanding, the Robert Trent Jones Golf Trail will open an eighth site in the spring, a 54-hole complex in Prattville, Alabama.

Two major golfing events were held in Alabama this year. The Grand National course in Opelika played host to the "LPGA Tour of Champions" while the Magnolia Grove course in Mobile played host to the "Nike Tour of Champions." Each event was televised nationally for four days introducing Alabama in a positive light to millions across America.

The RSA's media investments grew during the fiscal year. Raycom Media now owns 32 television stations in 17 states, as well as Puerto Rico, and has broadcast coverage reaching 10% of the nation's population. Community Newspaper Holdings, Inc. (CNHI) also expanded during the fiscal year and currently owns and operates over 220 newspapers throughout the U.S. Approximately \$40 million annually in free advertising for the State of Alabama is provided by these media investments to promote various Alabama attractions.

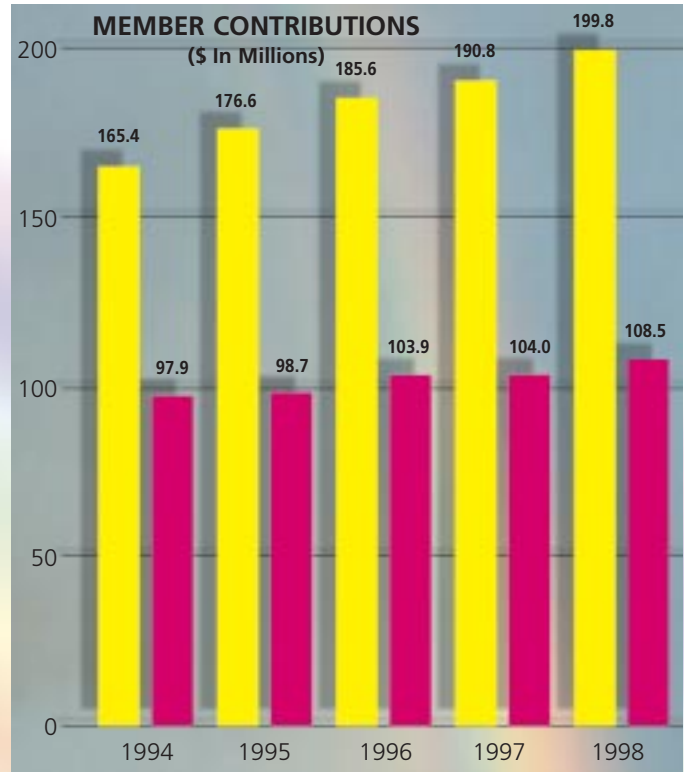
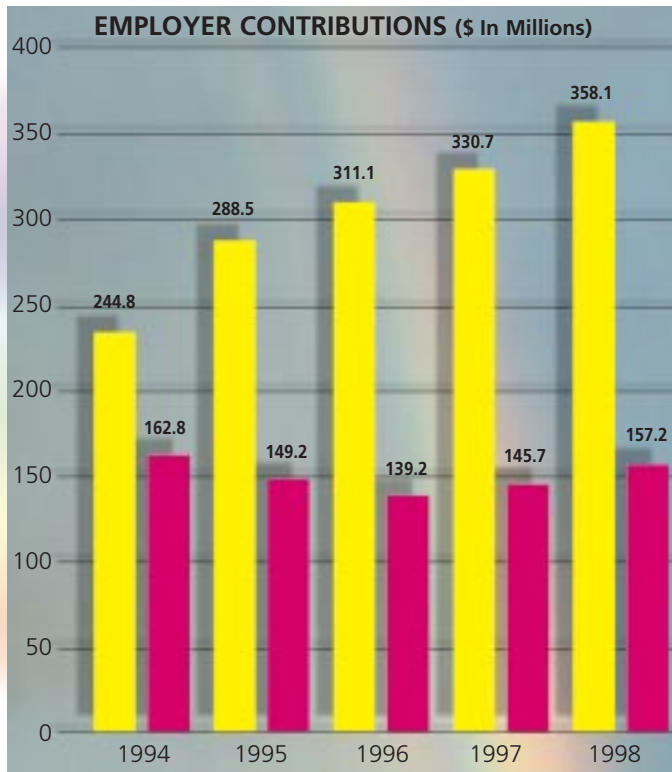
The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the State of Alabama and all Alabama taxpayers. 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, reading "David G. Bronner". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

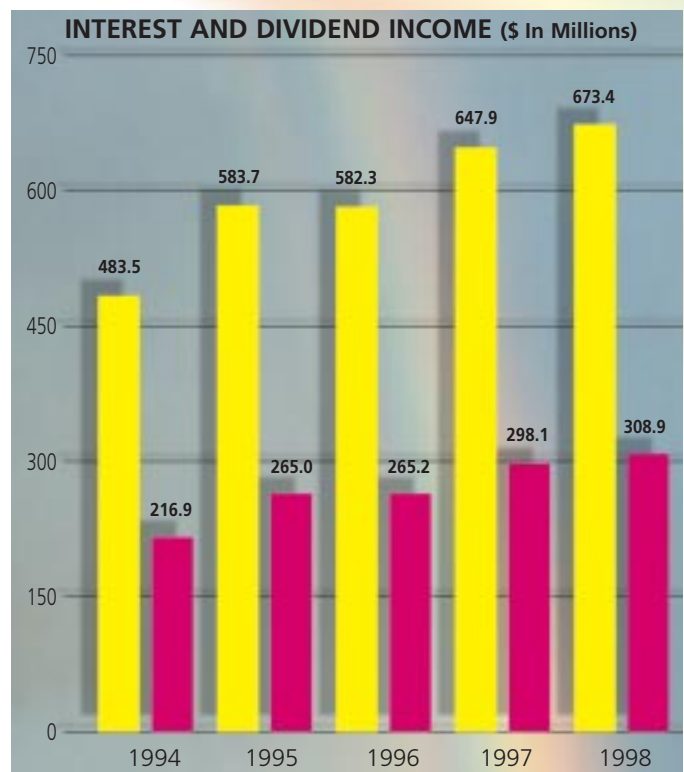
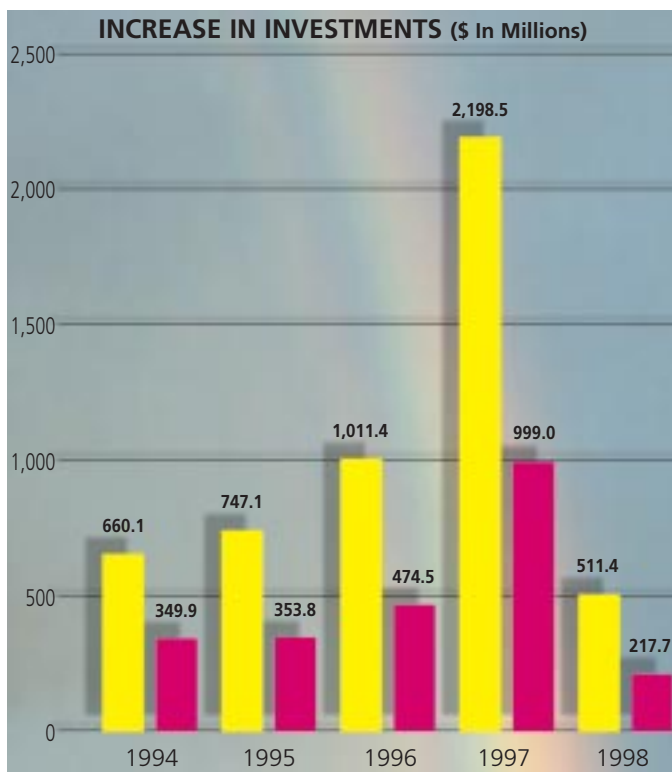
David G. Bronner
Chief Executive Officer

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



Ms. Elizabeth Andress
Postsecondary Position



Mrs. Patricia Buchanan
Teacher 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



Hon. Lucy Baxley
State Treasurer



Hon. Thomas G. Flowers
Acting State Personnel Director



Chairman
Hon. Fob James
Governor

ELECTED MEMBERS



Mr. Ralph Bishop
Retired Local Employee



Mrs. Ann Gant
Active Local Employee



Mr. T. M. Jones
Active Local Employee



Capt. T. L. Payne
Retired State Employee



Ms. Alice Thornton
Department of Mental Health



Mr. Stephen C. Walkley
ADECA

APPOINTED MEMBERS



Ms. Donna Crosby
Department of Transportation



Captain James Stanley Fant
Department of Public Safety



Vice-Chairman
Mr. John H. Wilkerson, Jr.
Court of Civil Appeals

Staff, Advisors and Medical Board

Chief Executive Officer
David G. Bronner, Ph.D., J.D.

Deputy Director and Counsel
William T. Stephens, J.D.

ADMINISTRATIVE STAFF

*Director of Information
Technology Services*
Peggi L. Douglass,
M.B.A.

*Chief Accountant and
Fiscal Officer*
Norman D. Turnipseed,
M.B.A., C.P.A.

*Legislative
Liaison*
Marcus H. Reynolds, Jr.,
J.D.

*Legal
Counsel*
William F. Kelley, Jr.,
J.D.

*Director of
Field Services*
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.

INVESTMENT STAFF

Acting Director of Investments
Darren J. Schulz,
M.B.A., C.F.A.

Director of Fixed Income
M. Hunter Harrell,
M.B.A., J.D., C.F.A.

Director of International
Gary T. Partridge,
M.B.A., C.F.A.

Director of Equities
R. Marc Green,
M.B.A., C.F.A.

Assistant Director of Fixed Income/Public Bonds
Julie S. Barranco,
M.B.A.

Chief Economist
John P. Cunningham,
M.B.A.

Equity Analyst
John R. Givens,
B.S.

Fixed Income Analyst
W. Allen Webb,
M.B.A.

Equity Analyst
Amanda G. Renfroe,
B.S.

Cash Management & Operations
Nancy H. Sprayberry

ADVISORS

Certified Public Accountants
KPMG Peat Marwick

AmSouth Bank, N.A.
Mr. John Goff

George B. Buck Consulting Actuaries
Mr. Edward A. Macdonald

Attorney General
Honorable Bill Pryor

Chief Examiner
Mr. Ronald L. Jones

MEDICAL BOARD



Neil Stronach, M.D.



Chairman
Z. T. Trawick, M.D.



A. S. Zdanis, M.D.

Services

Golfers on the Prattville course have impressive views of the Alabama River, as well as the effect that the RSA has had on historic downtown Montgomery's skyline. (Photograph courtesy of SunBelt Golf Corporation.)



Legal Developments

The number of lawsuits in which the Retirement Systems is involved has declined in recent years, due in part to good administration and also to the fact that the RSA has won 95% of its cases over the last 15 years. Still, in 1998, the RSA was involved in litigation in both state and federal courts of Alabama concerning benefits issues, RSA's properties, and administrative matters. While many cases are still ongoing, a number of cases were concluded during the year.

The most significant court decision for the Retirement Systems was the Alabama Supreme Court's decision entered in *Knutson v. Bronner*. This is the first court decision interpreting Amendment 472 of the Alabama Constitution of 1901, which provides that the funds of the RSA are held in trust. While the amount of money involved in the case was nominal, the Court's recognition that the funds held by the Retirement Systems are not state funds creates a valuable legal precedent that can be used to protect the RSA's assets in the future.

In two other significant circuit court decisions, judges of the Fifteenth Judicial Circuit (Montgomery County) ruled that the RSA and its officers and employees were immune from suit and dismissed lawsuits filed against the RSA and certain of its officers.

The RSA enjoyed success in other litigation as well. While litigation is ongoing in some cases involving benefits issues and real estate matters, those that were concluded in 1998 were resolved in the RSA's favor.

The RSA was, and is, a nominal party in several lawsuits that do not challenge the operation or administration of the RSA but challenge actions of employers participating in the RSA such that the remedy requested by the plaintiffs could affect the plaintiffs' retirement benefits or, in one case, simply because the RSA invests the funds that are the subject of the lawsuit.



The new Capitol Hill course in Prattville partakes of Alabama's natural topography and presents challenging holes for every skill level. (Photograph courtesy of SunBelt Golf Corporation.)

Legislation

The 1998 Alabama State Legislature enacted several laws greatly impacting the RSA, as well as several minor measures.

The most significant measure, Act 98-385, provides criteria for the funding of the RSA and for the valuation of RSA assets based on a market related value. The act also clarifies the treatment of RSA assets relating to the rental, sale and taxability of real property. Additionally, the cost for purchasing certain types of service was changed to the full actuarial cost as determined by the RSA's actuary. The act clarifies who will receive a survivor benefit in the case of a death prior to retirement of a member eligible for retirement. Relating to the TRS, Act 98-385 allows for the purchase of Job Corps service and provides for the payment of unused, accumulated sick leave to the beneficiary of a deceased, active TRS member by the State Comptroller's office.

Under the provisions of Acts 98-355 and 98-272, which became effective October 1, 1998, RSA retirees who retired on or before September 1, 1998, were granted a cost-of-living increase. This legislation provided an increase of four percent of the retiree's gross benefit, plus two dollars per month for each year of service established in the RSA. Retirees who elected a survivor allowance received a reduced increase based upon the survivor factor which allows the beneficiary to receive the increase after the death of the retiree. Current beneficiaries of deceased retirees also received an increase.

Relating to the ERS, Act 98-655 allows certain members of the ERS to purchase credit for service that was once excluded from participation. Eligible members are those employed by employers participating in the ERS pursuant to Section 36-27-6, Code of Alabama 1975.

Legislation affecting Judges of Probate became effective April 21, 1998, under Act 98-365. This Act provides that Judges of Probate may retire with 25 years of service, regardless of age, or with 24 years of service, provided the Judge purchases one year of creditable service prior to retirement. This Act also provides retired Probate Judges with any cost-of-living adjustment provided to state employees who are retired under the ERS.

Effective July 1, 1998, Act 98-295 provides that Justices of the Supreme Court, Judges of the Courts of Appeal, Circuit Judges, and District Judges may retire with 25 years of service, regardless of age, or with 24 but less than 25 years of creditable service. The Justice or Judge must purchase up to one year of additional service to equal 25 total years of service prior to retirement.

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 (RSA-1). 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.

A *Speaking of Retirement* column pertaining to retirement, deferred compensation and insurance is provided for publication in periodicals distributed by the Alabama Education Association, 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. The web site also offers links to information about Alabama's Tourism, Economy, and Department of Revenue; AlaWeb; Alabama State Government; Alabama's Gubernatorial News and Education Service; the Internal Revenue Service; the Robert Trent Jones Golf Trail; and the National Council on Teachers' Retirement's (NCTR's) LIFEPLAN. NCTR's LIFEPLAN offers information on retirement planning, life issues, retirement transitions, financial matters, and investment basics. Thousands of persons throughout the United States have visited RSA's web site with over 1,100 persons requesting to be included on the E-mail subscriber list for the latest news and information about the RSA.

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 (RSA-1) to members throughout Alabama as well as other public retirement systems throughout the United States. During fiscal year 1998, the Field Services' staff served more than 23,000 members representing the RSA in a total of 308 seminars, orientations, meetings, workshops, faculty meetings, institute days, individual counseling sessions and conventions. During 173 individual counseling sessions held at 26 different satellite locations, the RSA assisted over 2,200 members with personal questions about retirement and benefits. The Field Services' staff also attended conventions hosted by 16 different Alabama organizations disseminating retirement information to over 18,300 convention attendants. Approximately 9,200 members were presented information about retirement in 119 seminars and meetings.



As the \$22 million Prattville course opens, expansion to other sites in Tuscaloosa, Birmingham and on the Gulf are possibilities. (Photograph courtesy of SunBelt Golf Corporation.)

Member Services

Activity	Number Conducted	Number Served	
		ERS	TRS
Conventions/Conferences	16	3,434	14,896
Counseling Sessions	173	360	1,926
Seminars/Meetings	119	2,607	6,587
Total	308	6,401	23,409

New Member Agencies

Eligible public agencies that are not currently participating in the ERS continue to seek membership. Currently, 698 public agencies participate in the ERS. Of those, 64 are counties, 235 are cities/towns, and 399 are miscellaneous public agencies. Agencies which began participation during fiscal year 1998 are:

Cities and Towns

Town of Brookwood	Town of Garden City
Town of Millport	Town of Oak Grove
Town of Odenville	City of Red Bay
Town of Town Creek	

Public Agencies

- Arab Sewer Board
- Bibb County Emergency Management Communication District
- Crenshaw County Emergency Management Communication District
- Colbert County Emergency Management Communication District
- Cullman County Parks and Recreation
- Dale County Water Authority
- Dallas County Water and Sewer Authority
- Foley Utilities Board
- Franklin County Water Service Authority
- Greater Etowah Mental Retardation 310 Board
- Marengo County Emergency Communications District
- Northeast Alabama MR/DD Authority
- Pell City Housing Authority
- Red Bay Water and Gas Board
- Selma Waterworks and Sewer Board
- Tri-County MR/DD Board
- Vernon Housing Authority

Counseling And Correspondence

The staff of the Counseling and Correspondence divisions, which is composed of 22 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 precipitated by the utilization of the toll-free telephone number, 1-800-214-2158. 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 7,611 retirement applications between October 1997 and September 1998. Of this amount, 3,170 retired under the ERS; 4,433 retired under the TRS; and eight retired under the JRF. The TRS processed a record breaking 1,636 retirement applications in June 1998. The ERS processed 1,941 applications for August and September 1998 with the increase attributed to a retirement incentive offered to state employees who retired between August 1, 1998, and October 1, 1998, as well as a cost-of-living increase available to those who retired by September 1, 1998.

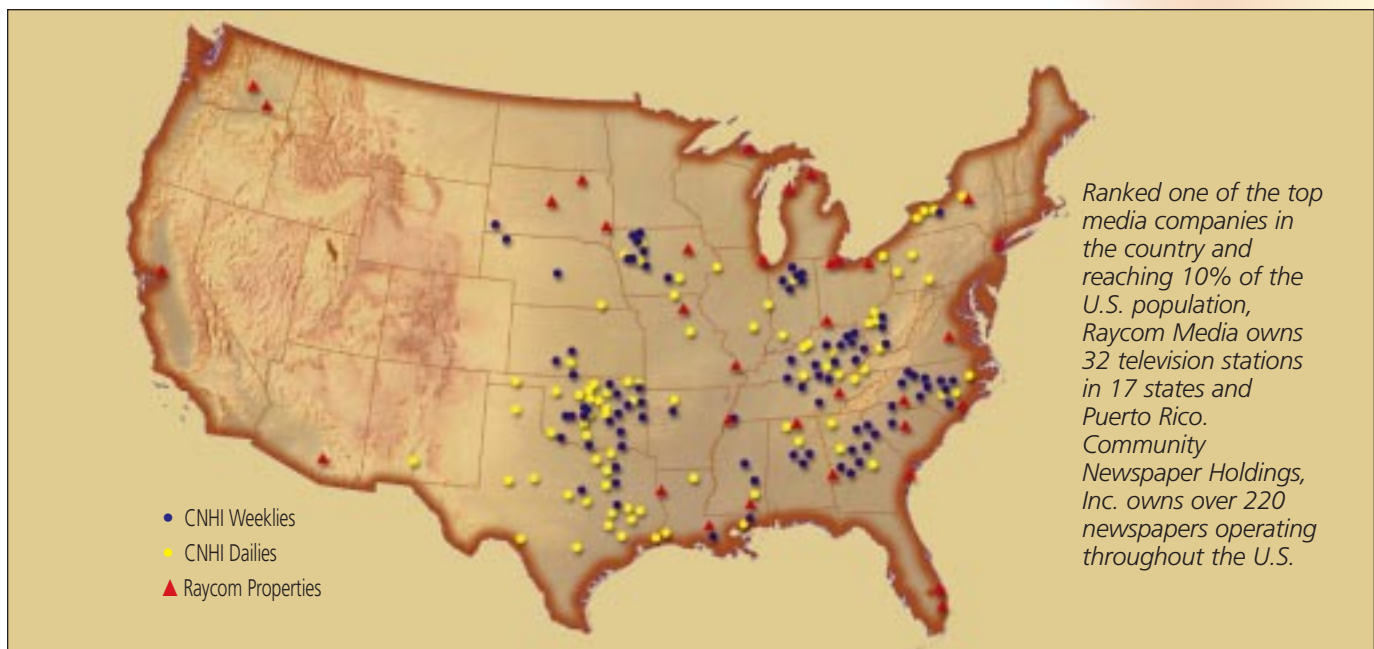
Member accounts are audited to guarantee accuracy of current and future benefits to the membership. Benefit recipient accounts are periodically adjusted to include ad hoc cost-of-living increases granted by the Alabama Legislature.

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, 698 public and quasi-public agencies participate in the ERS.

Computer imaging technology, implemented last year, is 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 computer imaging technology 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.



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 the RSA-1 Deferred Compensation Plan (RSA-1) as described in Section 457 of the Internal Revenue Code.

The RSA-1 allows members of the RSA and certain other eligible public employees to defer receipt of income and thus, payment of taxes as a portion of compensation. As of January 1, 1998, eligible employees may defer the lesser of \$8,000 or 25% of salary. The salary 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. RSA-1 deferrals have also not been taxed for Alabama Income Tax purposes since January 1, 1997.

The RSA-1 investments are managed in a manner similar to those of the original PEIRAF plan with participant's funds held in trust since October 1, 1997. Effective October 1, 1998, interest is posted monthly to member accounts based on daily average account balances with statements issued each quarter. RSA-1 highlights shown below reflect the yield, total assets and number of participating members at each previous interest posting date.

RSA-1 HIGHLIGHTS

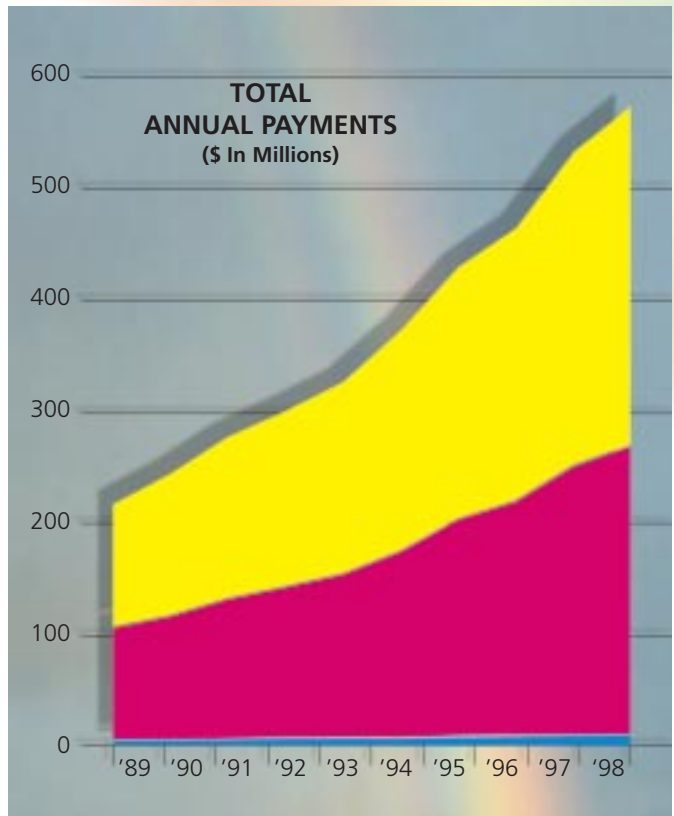
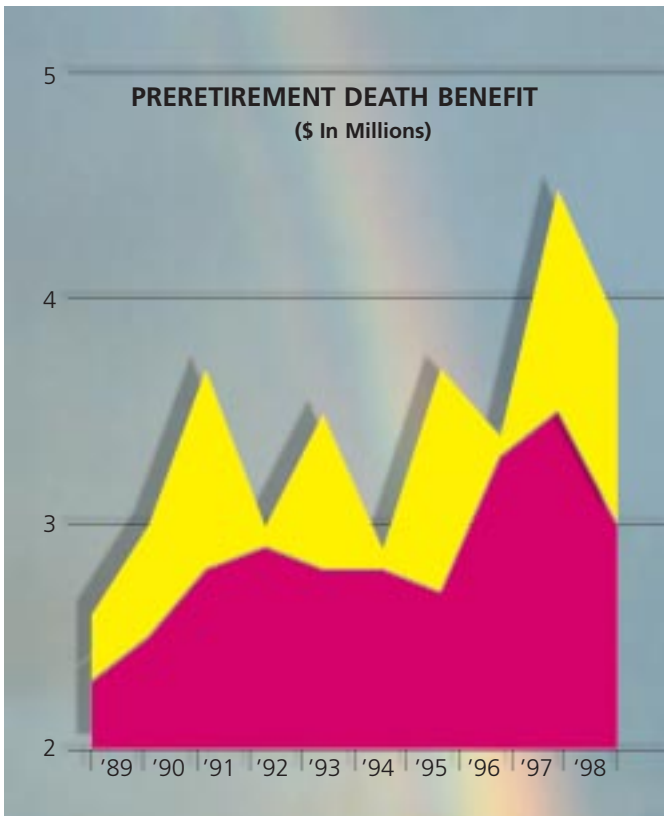
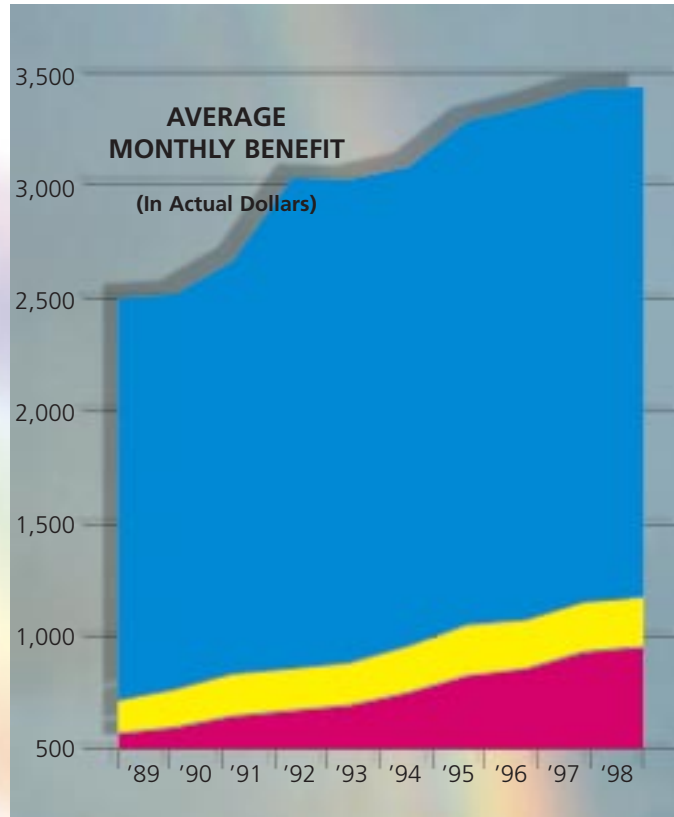
Interest Date	Yield (In %)	Total Assets at Book Value (In \$)	Participating Members
March 31, 1987	5.78%	\$ 600,692	1,386
September 30, 1987	21.05	3,426,417	1,931
March 31, 1988	16.45	7,548,485	2,526
September 30, 1988	15.65	12,528,575	3,029
March 31, 1989	12.32	19,125,140	3,935
September 30, 1989	13.43	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
March 31, 1998	9.11	415,341,242	20,579
September 30, 1998	8.31	451,813,800	21,166

Benefits

Benefits distributed by the Retirement Systems totaled \$856,967,000 during fiscal year 1998, a 7.6% increase from fiscal 1997 payments of \$796,659,000. Benefit payments during fiscal 1998 averaged \$2,348,000 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 88,000 active and 34,000 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,

of enrolling in the Health Maintenance Organization (HMO), United HealthCare, in lieu of the traditional hospital/medical plan. Since October 1, 1995, a second HMO, Merit Health Plans, has been offered to public education employees and beginning October 1, 1998, a third HMO, Viva Health Plan, has been offered to active and retired members in certain service areas. These HMO plans provide certain dental and vision benefits, as well as hospital/medical benefits. Of the total members enrolled in hospital/medical coverage, approximately 5% 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 Fund substantially all the premium for active employees enrolled in PEEHIP.

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

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 insurance cost 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 68,000 active public education employ-

Exemplified by the verdigris colored metal roofs of the RSA buildings, the renaissance of downtown Montgomery continues with the Pavilion Park that will open in the spring. The park is adjacent to the RSA Tower and The Helen Hunt Early Learning Center and will be dedicated to Dr. William C. Walsh. (Photograph by Mark Wright.)

ees participate in one of the hospital/medical plans with approximately 56% of the participants electing family coverage. Of the 68,000 PEEHIP participants who have one of the hospital/medical plans, approximately 32,000 also purchase one or more of the optional coverages. Approximately 19,000 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 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 1998 totaled \$1.7 billion.

Income from investments continues to be a large share of the total revenue of the Systems. Investment income totaled \$836.0 million in the 1998 fiscal year representing approximately 50.2% of the total revenue of the systems. Employer contributions, which comprised 31.2% of 1998 RSA revenue sources, increased \$38.9 million from fiscal year 1997. Member contributions during fiscal year 1998 increased \$13.3 million over the prior fiscal year representing 18.6% of the total revenues of the Systems.

REVENUE SOURCES (\$ in Millions)

	1997	1998
Member Contributions	\$ 296.5	\$ 309.8
Employer Contributions	481.8	520.7
Investment Income	3,406.0	836.0
	<u>\$4,184.3</u>	<u>\$1,666.5</u>



Dr. David Bronner and Mr. Robert Trent Jones displaying the free car tag that advertises the Robert Trent Jones Golf Trail.

MEMBER CONTRIBUTIONS (\$ In Millions)

	1994	1995	1996	1997	1998
TRS	\$165.3	\$177.4	\$185.6	\$190.8	\$199.8
ERS	98.0	99.7	103.9	104.0	108.5
JRF	1.4	1.6	1.5	1.7	1.5

EMPLOYER CONTRIBUTIONS (\$ In Millions)

	1994	1995	1996	1997	1998
TRS	\$244.8	\$288.5	\$311.1	\$330.7	\$358.1
ERS	162.8	149.2	139.2	145.7	157.2
JRF	6.5	6.9	6.2	5.4	5.4

EMPLOYER RATE (% Of Covered Payroll)

	1994	1995	1996	1997	1998
TRS	6.31%	6.31%	9.23%	9.23%	9.66%
ERS					
– State Employees	6.00	6.99	6.99	6.99	7.56
– State Police	14.23	15.22	15.22	15.17	15.74
JRF	27.01	27.01	23.05	19.71	19.71

INVESTMENT INCOME (\$ In Millions)

	1994	1995	1996	1997	1998
TRS	\$663.6	\$762.4	\$1,086.7	\$2,313.4	\$564.3
ERS	292.8	348.1	501.8	1,056.3	254.3
JRF	9.3	10.5	14.7	36.3	17.4

TOTAL REVENUES BY FUND (\$ In Millions)

	1994	1995	1996	1997	1998
TRS	\$1,073.8	\$1,228.4	\$1,583.4	\$2,834.9	\$1,122.2
ERS	553.6	597.0	744.9	1,306.0	520.0
JRF	17.1	18.9	22.4	43.4	24.3

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 1999 are set at 4.03% for TRS, 3.11% for State Employees, 9.16% for JRF, and 6.85% for the State Police. Rates for local agencies participating in the ERS under Section 36-27-6, Code of Alabama 1975, differ for each agency.

Investments



The "LPGA Tour of Champions" was held at the Grand National course in Opelika and broadcast on the LIFETIME network. The national television exposure portrayed Alabama in a positive light to millions of cable television viewers. (Photograph courtesy of SunBelt Golf Corporation.)

Asset Allocation

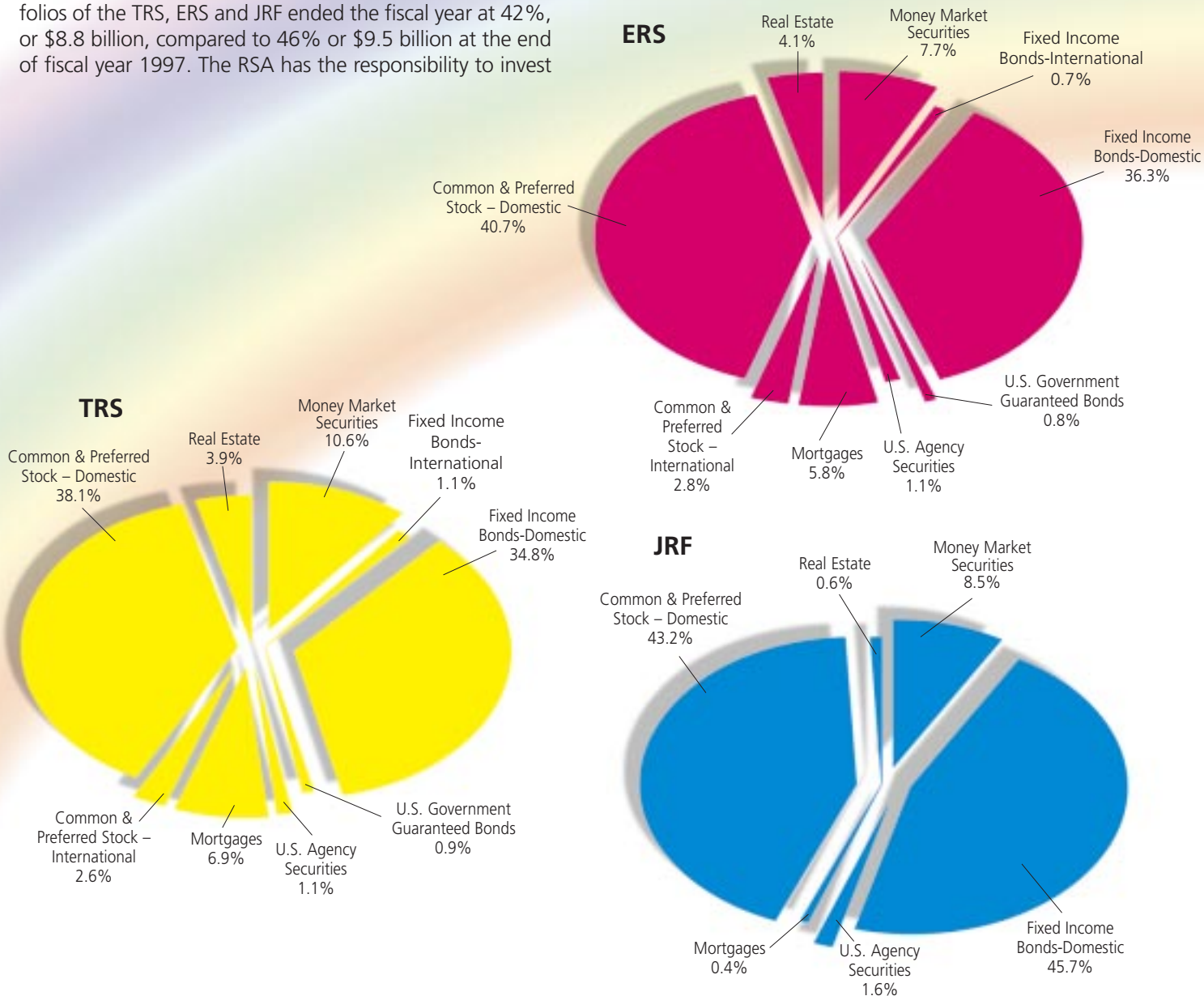
Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most 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 58%, or \$12.4 billion, of the combined portfolios 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 42%, or \$8.8 billion, compared to 46% or \$9.5 billion at the end of fiscal year 1997. 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 1998 were 4.8% for the TRS and 5.4% for the ERS and JRF combined. The five-year and ten-year annualized returns were 10.6% and 11.0%, respectively, for the TRS and the ERS and JRF combined.

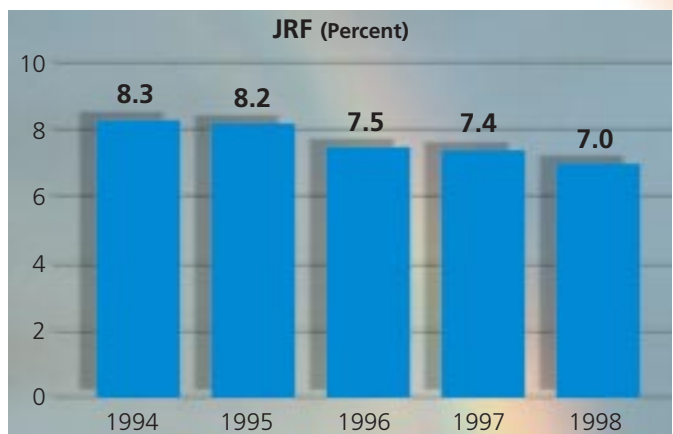
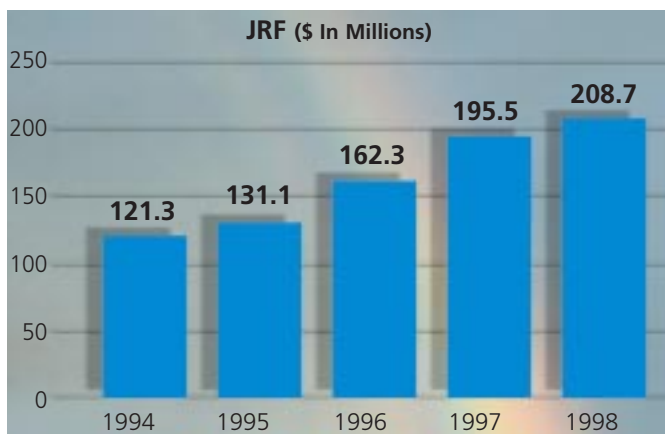
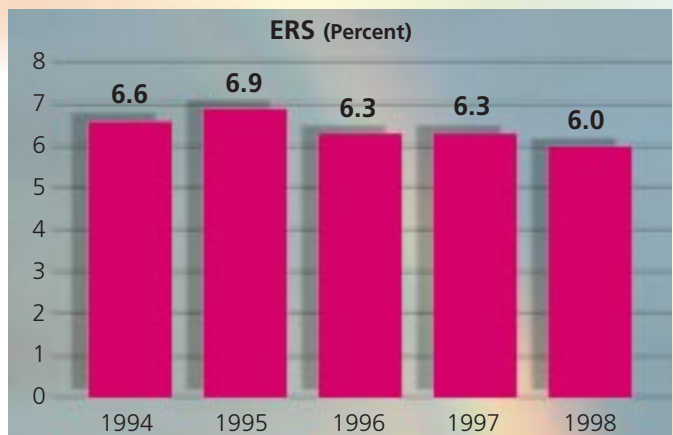
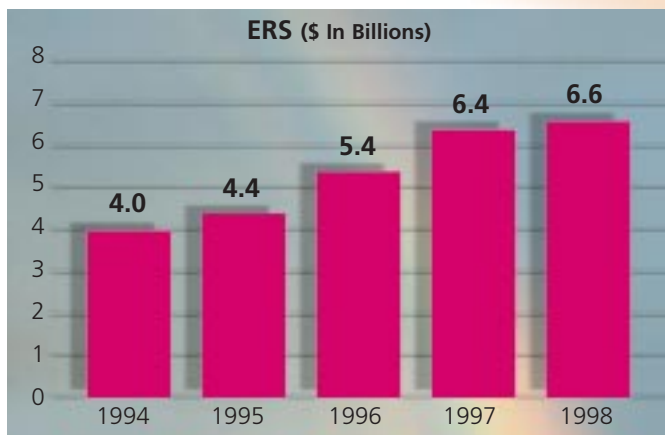
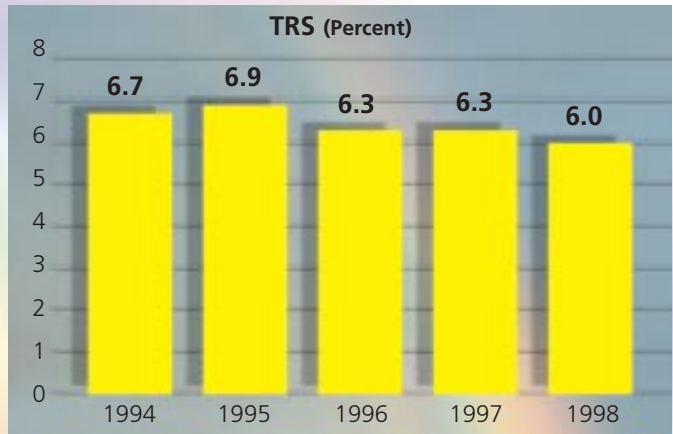


Portfolio Growth

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, 1998, was approximately \$21.2 billion, a 3.0% increase from the balance at year end 1997.

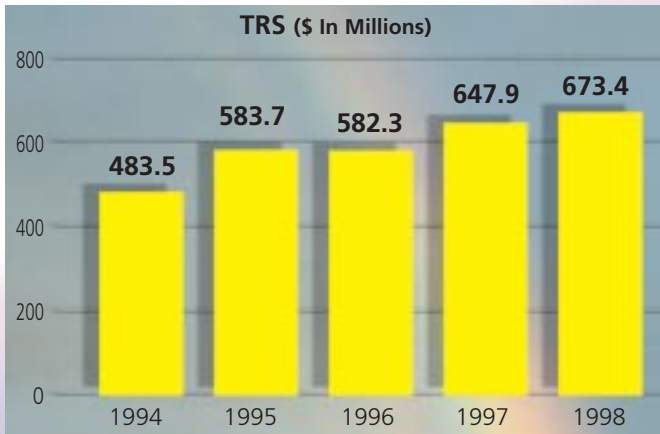
Average Yield

The average combined yield earned on stocks and bonds for 1998 was 6.0%, compared to 6.3% in 1997. For the fiscal year 1998, the average yield has been affected by lower interest rates and bond calls.



Interest and Dividend Income

Interest and dividend income grew marginally during 1998 despite the falling interest rate environment. Interest and dividend income for the TRS, ERS and JRF increased 3.9%, 3.4% and 3.5%, respectively. These numbers reflect only income received during the fiscal year and do not include any net appreciation in the market value of the investments.



Fixed Income Activity

During the first half of the 1998 fiscal year, the U.S. bond market was influenced by a general tone of economic growth, benign inflation and an improving budget deficit. Despite some worries over a tight labor market, the bond market was stable through the end of the second quarter. The Federal Reserve was able to remain on the sidelines for most of the year as earlier inflationary worries turned out to be unfounded.

The second half of the year could not have been any different from the first for the bond market. As August came, the bond market was hit with major global developments around every corner. In a three month time span, a banking crisis and a deep recession hit Asia; Russia devaluated their currency by 34% and defaulted on \$40 billion in government debt; and one of the most prominent hedge funds in the world became virtually insolvent due to trading losses. A global credit crunch ensued as investors around the globe sold every investment with any amount of risk. Capital simply became unavailable. As a result of these events, the Federal Reserve quickly changed its tightening bias and lowered interest rates in September. The net result for the U.S. bond market was a drop in Treasury yields to all time lows and a rise in corporate bond spreads to levels not seen since 1990 and 1991.

During fiscal 1998, 3-month Treasury bill rates ranged from a low of 4.4% to a high of 5.5% and ended the fiscal year at 4.4%. The 30-year Treasury bond rates ranged from a low of 5.0% to a high of 6.4% before closing the fiscal year at 5.0%. The slope of the yield curve, as measured by the 3-month Treasury bill/30-year Treasury bond spread, flattened from a spread of 122 basis points at the beginning of the year to a spread of 62 basis points at the end of the year. This flattening is expected, as the slope of the Treasury curve tends to flatten when the Federal Reserve is easing interest rates.

In fiscal 1998, the RSA purchased approximately \$1.3 billion in additional securities for the fixed income portfolio. The average yield on the entire fixed income portfolio at year end was 8.0%. As of September 30, 1998, the RSA's fixed income portfolio had a book value of \$11.6 billion, which includes 17.6% in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 9.2% for the TRS and 9.6% for the ERS and JRF combined versus 11.5% for the Salomon Brothers Broad Index. The "fall panic of 1998" resulted in under-performance in all fixed income sectors, with the exception of U.S. Treasuries. However, the very next quarter the markets returned to normal levels across almost every sector. The five-year annualized returns were 8.1% for the TRS and 8.0% for the ERS and JRF combined comparing favorably to 7.2% for the Salomon Brothers Broad Index. The ten-year annualized returns for the TRS as well as the combined portfolios of the ERS and JRF were 10.2% versus 9.4% 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.

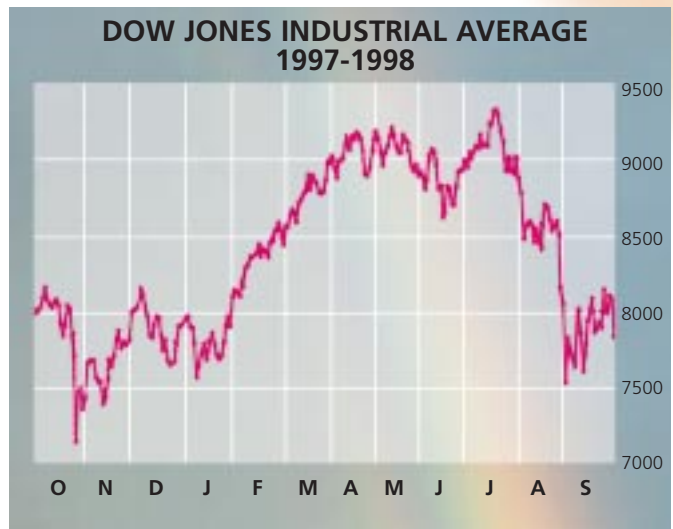
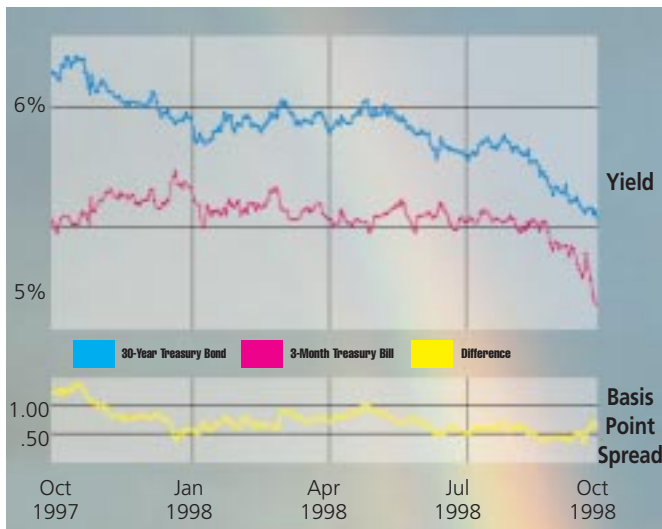
During 1998, the RSA made investments in high-quality corporate issues, private placements and Treasury bills, notes and bonds.

Coupon	TRS (In %)			ERS (In %)		
	1998	1997	1996	1998	1997	1996
0%	1	2	2	1	1	2
>0 and <5%	0	0	0	0	0	0
≥5 and <10%	68	63	65	64	60	62
≥10%	31	35	33	35	39	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 %)		
	1998	1997	1996	1998	1997	1996
0 to < 5	7	9	9	6	8	9
5 to < 10	7	5	8	5	3	6
10 to < 15	9	8	9	9	9	10
15 to < 20	35	26	12	41	31	13
20 to < 25	7	9	18	8	8	21
25 to < 30	30	39	43	25	35	39
≥ 30	5	4	1	6	6	2



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 %)		
	1998	1997	1996	1998	1997	1996
Aaa	25	31	35	21	27	30
Aa	8	8	9	7	7	10
A	16	21	22	15	20	22
Baa & Below	19	21	21	20	23	22
Not Rated	32	19	13	37	23	16



The 1998 Investment Staff (Seated left to right: John Givens, Amanda Renfro, Julie Barranco and John Cunningham. Standing left to right: Gary Partridge, Darren Schulz, Allen Webb and Marc Green. Not pictured: Hunter Harrell and Nancy Sprayberry.) (Photograph by Jim Pappanastos.)

Equity Activity

Fiscal year 1998 was characterized by excessive volatility widely blamed on financial turmoil in Asia, Russia and Brazil, together with soft U.S. corporate earnings and fears about hedge-fund leverage. A market that in prior years had seemed impregnable, seemed embattled on all sides by late summer.

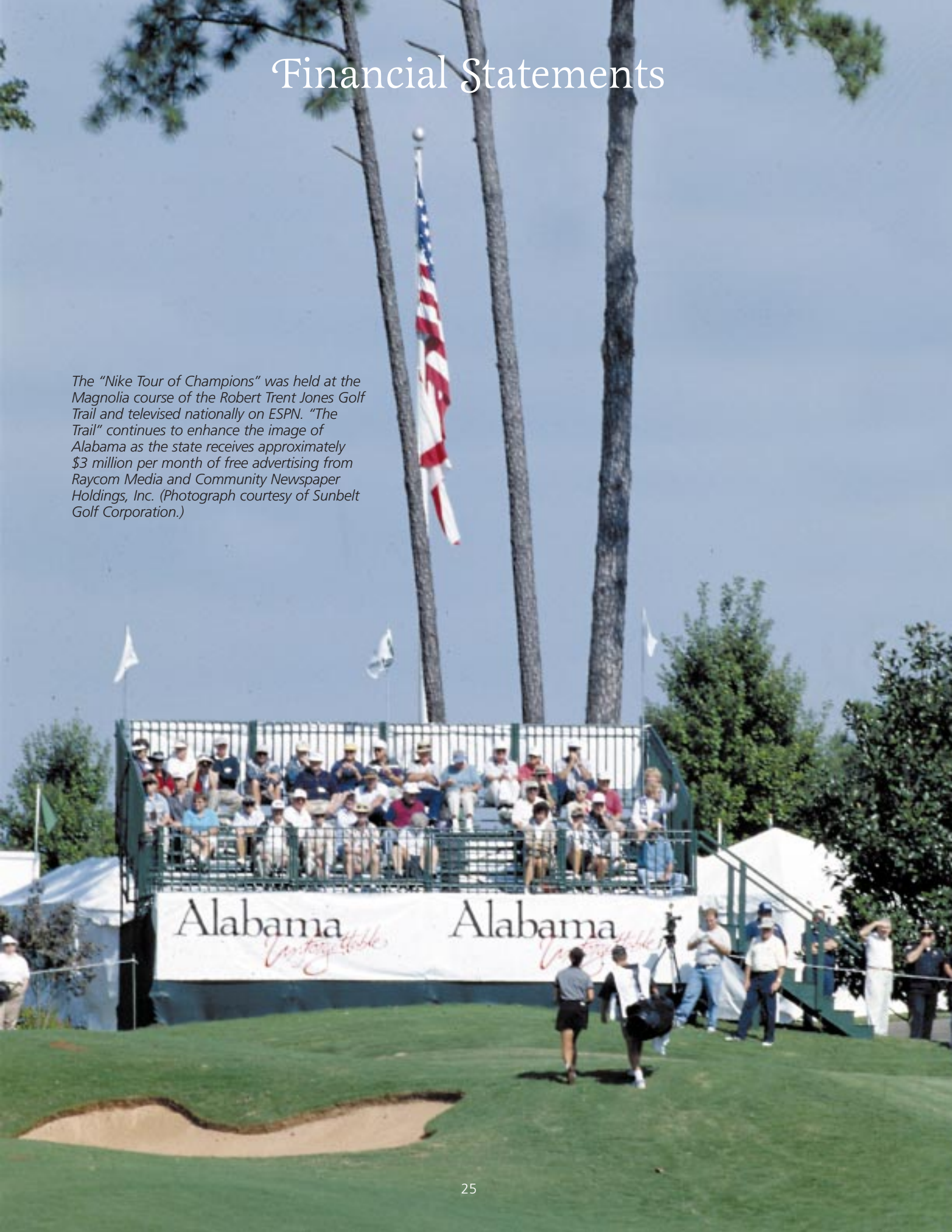
By the end of August, both the Dow Jones Industrial Average and the S&P 500 Index, down from July's all-time peak, were lingering at 19.3%. The Dow Jones Industrial Average finished the fiscal year down 0.5% while the S&P 500 was up 9.0%. As 1998 unfolded, investors moved toward "nifty 50" stocks (more liquid growth stocks with the biggest market capitalizations) as skepticism grew about corporate earnings. The move from small and midcap stocks was evidenced by the Russell 2000 and the S&P Midcap indices which fell 19.9% and 6.3%, respectively.

International investing in fiscal year 1998 was an experience of extremes. The Asian crisis and the subsequent contagion to other economies, coupled with Japan stagnating in its worst recession since the post-WWII period, led investors to seek refuge in bonds of developed markets. Though European stock markets shared in the summer collapse, the impact was to a much smaller degree since investors recognized that European firms had more restructuring room with the Euro adoption hastening the progress. For the fiscal year, international equity markets, as measured by the Morgan Stanley EAFE (Europe-Asia-Far East) and EAFE ex-Japan indices, turned in performances of -8.3% and 1.9%, respectively.

As of September 30, 1998, the total book value of equity assets for the TRS was \$4.7 billion representing 37.1% of total assets. Comprising 40.0% of total assets, the ERS and JRF book value amounted to \$2.4 billion. Market value of the TRS portfolio totaled \$5.7 billion or 39.2% of total assets while the combined ERS and JRF market value portfolio was \$2.8 billion, representing 40.6% of total assets. The annual return of the equity portfolio was -2.6% for TRS and -2.5% for ERS and JRF, combined. The "fall panic of 1998" which occurred in September was the low point for the year. The calendar year 1998 actually ended with an approximate 20% increase which will be reflected in next year's performance numbers. For the TRS, ERS and JRF, the three-year, five-year, and ten-year annualized returns were 15.3%, 15.6% and 14.2%, respectively. Net gains realized on equity transactions during the fiscal year totaled \$476.8 million for TRS and \$220.2 million for ERS and JRF.

Financial Statements

The "Nike Tour of Champions" was held at the Magnolia course of the Robert Trent Jones Golf Trail and televised nationally on ESPN. "The Trail" continues to enhance the image of Alabama as the state receives approximately \$3 million per month of free advertising from Raycom Media and Community Newspaper Holdings, Inc. (Photograph courtesy of Sunbelt Golf Corporation.)



Teachers' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 1998, with comparative figures for 1997

Assets	1998	(In Thousands)	1997
Cash (restricted to payment of administrative expenses)	\$ 9,663		7,773
Receivables			
Employer and employee contributions	47,065		43,867
Dividends and interest	151,785		150,494
Investment receivable	—		14,095
Total receivables	<u>198,850</u>		<u>208,456</u>
Investments, at fair value			
Commercial paper and other short-term investments	1,531,471		862,627
U.S. Government guaranteed	135,103		145,312
U.S. Agency securities	154,618		163,529
Mortgages	994,053		1,350,047
Fixed Income Securities			
Domestic	5,018,580		4,584,090
International	163,749		—
Common and preferred stocks			
Domestic	5,479,652		5,327,135
International	367,353		1,015,235
Real estate	555,511		440,725
Total investments	<u>14,400,090</u>		<u>13,888,700</u>
Property and equipment, less accumulated depreciation	4,043		3,969
Total assets	<u>14,612,646</u>		<u>14,108,898</u>
Liabilities			
Accounts payable and other liabilities	1,521		1,425
Real estate notes payable	—		709
Total liabilities	<u>1,521</u>		<u>2,134</u>
Net assets held in trust for pension benefits	<u>\$14,611,125</u>		<u>14,106,764</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, 1998, with comparative figures for 1997

	1998	(In Thousands)	1997
Additions			
Contributions			
Employee	\$ 198,025		188,815
Employer	358,088		330,658
Transfers from Employees' Retirement System	1,755		1,987
Total contributions	<u>557,868</u>		<u>521,460</u>
Investment income			
Net appreciation in fair value of investments	(107,404)		1,667,045
Interest and dividends	673,445		647,861
Total investment income	<u>566,041</u>		<u>2,314,906</u>
Less: Investment expense	2,806		2,698
Net investment income	<u>563,235</u>		<u>2,312,208</u>
Securities lending activities			
Securities lending income	14,251		15,588
Securities lending expenses			
Borrower rebates	12,662		13,849
Management fees	493		522
Total securities lending activity expenses	<u>13,155</u>		<u>14,371</u>
Net income from securities lending activities	<u>1,096</u>		<u>1,217</u>
Total additions	<u>1,122,199</u>		<u>2,834,885</u>
Deductions			
Retirement allowance payments	576,463		534,958
Return of contributions			
Resignation and other	23,465		20,824
Death before retirement	9,171		10,083
Transfers to Employees' Retirement System	1,116		1,110
Transfers to Judicial Retirement Fund	—		135
Administrative expense	7,076		6,524
Debt service interest	66		66
Depreciation	481		434
Total deductions	<u>617,838</u>		<u>574,134</u>
Net increase	<u>504,361</u>		<u>2,260,751</u>
Net assets held in trust for pension benefits			
Beginning of the year	14,106,764		11,846,013
End of the year	<u>\$ 14,611,125</u>		<u>14,106,764</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 1998, with comparative figures for 1997

Assets	1998	(In Thousands)	1997
Cash (restricted to payment of administrative expenses)	\$ <u>3,091</u>		<u>3,488</u>
Receivables			
Employer and employee contributions	18,031		18,809
Dividends and interest	<u>71,567</u>		<u>72,007</u>
Total receivables	<u>89,598</u>		<u>90,816</u>
Investments, at fair value			
Commercial paper and other short-term investments	508,956		302,044
U.S. Government guaranteed	53,470		59,450
U.S. Agency securities	70,539		72,784
Mortgages	383,079		523,687
Fixed Income Securities			
Domestic	2,396,056		2,169,679
International	47,452		—
Common and preferred stocks			
Domestic	2,691,132		2,539,328
International	183,448		507,444
Real Estate	<u>269,602</u>		<u>211,644</u>
Total investments	<u>6,603,734</u>		<u>6,386,060</u>
Property and equipment, less accumulated depreciation	<u>2,937</u>		<u>2,974</u>
Total assets	<u>6,699,360</u>		<u>6,483,338</u>
Liabilities			
Accounts payable and other liabilities	1,019		878
Real estate notes payable	<u>—</u>		<u>709</u>
Total liabilities	<u>1,019</u>		<u>1,587</u>
Net assets held in trust for pension benefits	<u>\$ 6,698,341</u>		<u>6,481,751</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, 1998, with comparative figures for 1997

	1998	(In Thousands)	1997
Additions			
Contributions			
Employee	\$ 107,216		102,842
Employer	157,246		145,738
Transfers from Teachers' Retirement System	1,116		1,110
Transfers from Judicial Retirement Fund	145		—
Total contributions	<u>265,723</u>		<u>249,690</u>
Investment income			
Net appreciation in fair value of investments	(53,662)		758,793
Interest and dividends	308,932		298,086
Total investment income	<u>255,270</u>		<u>1,056,879</u>
Less: Investment expense	1,432		1,201
Net investment income	<u>253,838</u>		<u>1,055,678</u>
Securities lending activities			
Securities lending income	6,780		7,596
Securities lending expenses			
Borrower rebates	6,067		6,732
Management fees	221		259
Total securities lending activity expenses	<u>6,288</u>		<u>6,991</u>
Net income from securities lending activities	<u>492</u>		<u>605</u>
Total additions	<u>520,053</u>		<u>1,305,973</u>
Deductions			
Retirement allowance payments	270,469		252,023
Return of contributions			
Resignation and other	20,779		18,040
Death before retirement	5,252		5,676
Transfers to Teachers' Retirement System	1,755		1,987
Transfers to Judicial Retirement Fund	2		34
Administrative expense	4,855		4,273
Debt service interest	66		66
Depreciation	<u>285</u>		<u>271</u>
Total deductions	<u>303,463</u>		<u>282,370</u>
Net increase	<u>216,590</u>		<u>1,023,603</u>
Net assets held in trust for pension benefits			
Beginning of the year	6,481,751		5,458,148
End of the year	<u>\$ 6,698,341</u>		<u>6,481,751</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF PLAN NET ASSETS

September 30, 1998, with comparative figures for 1997

Assets	1998	(In Thousands)	1997
Cash (restricted to payment of administrative expenses)	\$ <u>645</u>		<u>497</u>
Receivables			
Employer and employee contributions	260		237
Dividends and interest	<u>2,520</u>		<u>2,275</u>
Total receivables	<u>2,780</u>		<u>2,512</u>
Investments, at fair value			
Commercial paper and other short-term investments	17,759		8,192
U.S. Agency securities	3,312		3,272
Mortgages	808		1,101
Fixed Income Securities, Domestic	95,442		101,809
Common and preferred stocks	90,122		79,921
Real estate	<u>1,277</u>		<u>1,217</u>
Total investments	<u>208,720</u>		<u>195,512</u>
Total assets	<u>212,145</u>		<u>198,521</u>
Liabilities			
Accounts payable and other liabilities	<u>65</u>		<u>123</u>
Total liabilities	<u>65</u>		<u>123</u>
Net assets held in trust for pension benefits	<u>\$ 212,080</u>		<u>198,398</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended September 30, 1998, with comparative figures for 1997

	1998	(In Thousands)	1997
Additions			
Contributions			
Employee	\$ 1,465		1,493
Employer	5,417		5,430
Transfers from Teachers' Retirement System	—		135
Transfers from Employees' Retirement System	2		34
Total contributions	<u>6,884</u>		<u>7,092</u>
Investment income			
Net appreciation in fair value of investments	6,402		25,676
Interest and dividends	10,995		10,627
Total investment income	<u>17,397</u>		<u>36,303</u>
Less: Investment expense	19		15
Net investment income	<u>17,378</u>		<u>36,288</u>
Total additions	<u>24,262</u>		<u>43,380</u>
Deductions			
Retirement allowance payments	10,035		9,678
Return of contributions:			
Resignation and other	155		6
Transfers to Employees' Retirement System	145		—
Administrative expense	<u>245</u>		<u>299</u>
Total deductions	<u>10,580</u>		<u>9,983</u>
Net increase	<u>13,682</u>		<u>33,397</u>
Net assets held in trust for pension benefits			
Beginning of the year	198,398		165,001
End of year	<u>\$212,080</u>		<u>198,398</u>

Separately issued, audited financial statements are available upon request.

Commissions Paid Report

Fiscal Year 1998

	Volume of Business Private Placements, Agencies	Commissions Stock Transactions	Commission Bond Transactions
AmSouth Bank Escrow	\$ 21mm		
Bear Stearns & Co.	582mm	\$ 383,698	
Bradford, J. C. & Co., Inc.		70,070	
Centennial Capital		17,650	
Chapman		19,020	
Chase Manhattan Bank-Raycom Escrow	1,000mm		
Chicago Corp.		5,910	
Community Newspaper Holdings, Inc.	490mm		
Credit Suisse First Boston Corp.	897mm	487,148	
Deutsche Morgan Grenfell		227,112	
Donaldson, Lufkin & Jenrette		504,505	
Edwards, A. G. & Sons		26,618	
Explore Center, The	4mm		
Gardner Rich		19,350	
Goldman Sachs & Co.	739mm	371,816	
International Strategy & Investment		37,380	
Interstate Securities	145mm	46,475	
J. P. Morgan	31mm		
J. Roe Burton & Co.		22,400	
Jefferies		3,000	
Lazard Freres	116mm		
Lehman Brothers	744mm	302,337	14,877
McDonald & Co.	521mm	18,150	
Merrill Lynch, Pierce, Fenner & Smith, Inc.	1,134mm	501,341	22,400
Morgan Keegan		28,755	
Morgan Stanley Dean Witter		461,587	
Morgan Stanley International Trust		1,107,289	
NBC Securities		46,518	
Oppenheimer Co., Inc.		378,281	
Paine, Webber, Mitchell Hutchins, Inc.		38,850	
Parsons & Whittemore	213mm		
Prudential Bache		288,063	
Quick & Reilly		16,900	
Robert Thomas		17,050	
Robinson-Humphrey/American Express		27,650	
Salomon-Smith Barney	145mm	450,743	
S. C. Bernstein		565,470	
Securities Capital		15,700	
Southwest		14,390	
Sterne, Agee & Leach, Inc.		30,000	
Sunbelt Golf Corp.	15mm		
Wheat First		29,046	
TOTAL	\$ <u>6,797mm</u>	\$ <u>6,580,272</u>	\$ <u>37,277</u>

The cover is from a photograph taken by an unknown motorist who presented it to the RSA.

Annual Report Design and Production by The Graphics Factory, Inc., Montgomery, Alabama