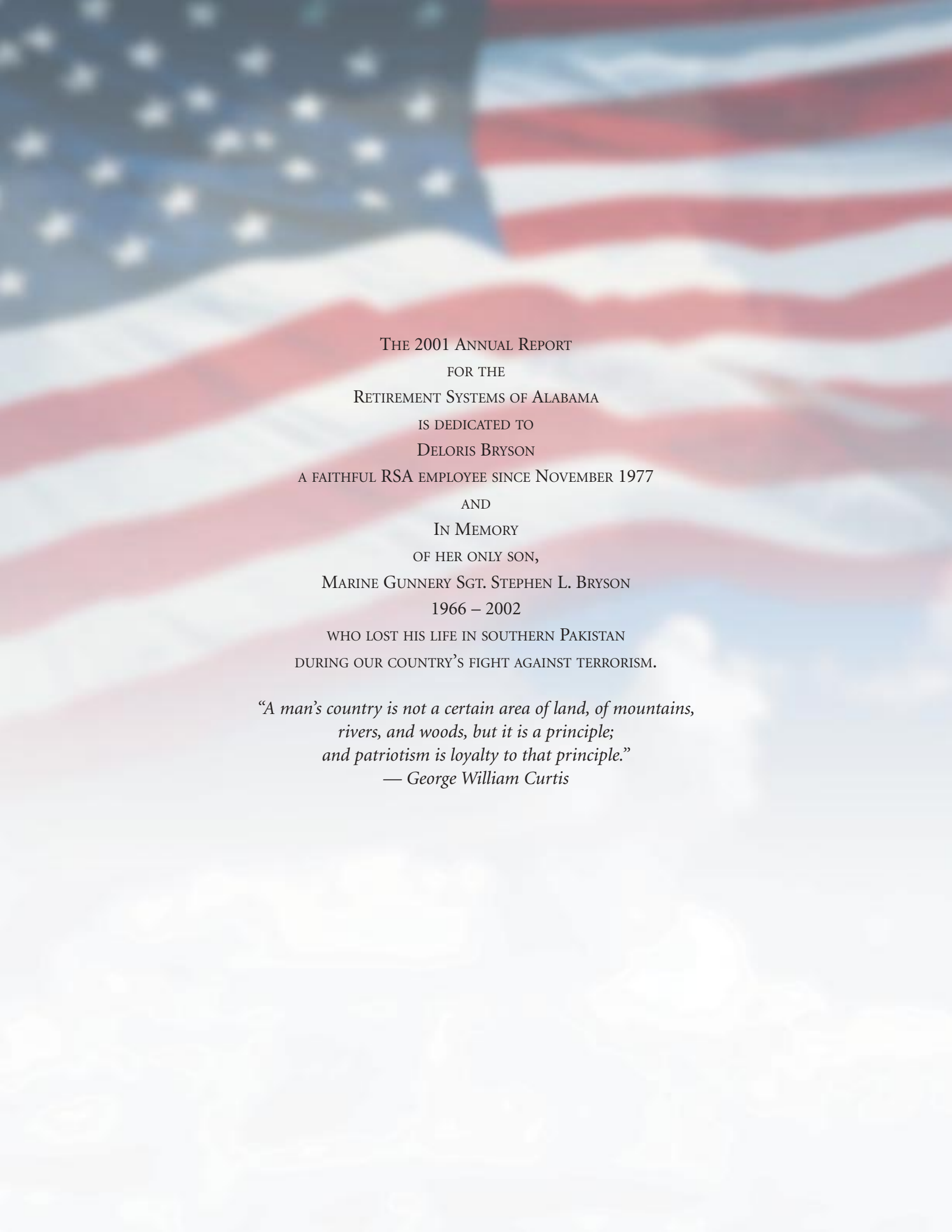


*The Retirement Systems of Alabama
2001 Annual Report*





THE 2001 ANNUAL REPORT
FOR THE
RETIREMENT SYSTEMS OF ALABAMA
IS DEDICATED TO
DELORIS BRYSON
A FAITHFUL RSA EMPLOYEE SINCE NOVEMBER 1977
AND
IN MEMORY
OF HER ONLY SON,
MARINE GUNNERY SGT. STEPHEN L. BRYSON
1966 – 2002
WHO LOST HIS LIFE IN SOUTHERN PAKISTAN
DURING OUR COUNTRY’S FIGHT AGAINST TERRORISM.

*“A man’s country is not a certain area of land, of mountains,
rivers, and woods, but it is a principle;
and patriotism is loyalty to that principle.”
— George William Curtis*

*The Retirement Systems of Alabama
strives to do our best
and give our most.*

*Taking care of our members is our
primary responsibility.*

*The RSA Staff takes great pride in serving
fellow Alabamians and helping them
plan for a successful life after their working years
are done. We recognize that we are serving
heroes of all kinds and most of them are unsung
and anonymous.*

*We salute all of our members
and recognize that the jobs they do are vital parts
of the wheel that
keeps Alabama moving forward.*



135 South Union Street
Post Office Box 302150
Montgomery, Alabama 36130-2150

334-832-4140
1-800-214-2158

www.rsa.state.al.us

The Retirement Systems of Alabama

TEACHERS' RETIREMENT SYSTEM EMPLOYEES' RETIREMENT SYSTEM JUDICIAL RETIREMENT FUND

Membership Activity for 2001

	Teachers'	Employees'	Judicial
New Members	11,360	11,231	35
Withdrawn Members	5,896	5,530	5
Service Retirements	2,907	1,237	23
Disability Retirements	306	212	1
Surviving Spouses	9	5	0
New Beneficiaries	217	190	4

Total Membership

(As of September 30, 2001)

	Teachers'	Employees'	Judicial	Total
Active	127,329	76,144	330	203,803
Retired	49,647	27,009	271	76,927
Total	176,976	103,153	601	280,730

Funds Under Management

(As of September 30, 2001)

	Total Assets (In Thousands)
Teachers' Retirement System	\$ 15,583,140
Employees' Retirement System	7,136,501
Judicial Retirement Fund	220,644
Alabama Cultural Resources Preservation Trust Funds	10,641
Alabama Education Foundation for K-12	403
Division of Wildlife and Freshwater Fisheries	10,836
Alabama Heritage Trust Fund	442,736
Alabama Nongame Wildlife Endowment Trust	13
Alabama Underground and Aboveground Storage Tank Trust Funds	16,192
Clerks' & Registers' Supernumerary Fund	5,812
Alabama Senior Services Trust Fund	2,340
Alabama State Employees' Health Insurance Fund	55,521
Local Government Health Insurance Fund	28,193
PEIRAF - Deferred Compensation Plan (RSA-1)	652,673
Public Education Employees' Health Insurance Plan Fund	64,300
Public Employees' Individual Retirement Account Fund	76,331
Alabama Marine Resources Endowment Trust Fund	47
Alabama Trust Fund	822,389
Charlotte Thorn Trust Fund	4,231
State Docks Pension Plans	4,817
TOTAL ASSETS UNDER MANAGEMENT*	\$ 25,137,760

*Includes cash, investments at fair value, buildings net of depreciation, and land.

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Executive



A few of the approximately 300 daily, weekly and semi-weekly newspapers published by Community Newspaper Holdings, Inc., one of the nation's largest newspaper companies.

Letter from the CEO



Photograph by Robert Sutton

Dear Member:

The Boards of Control and our staff are pleased to present the twenty-sixth *Annual Report* of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2001. The theme for this year's Annual Report is "American Patriotism" and highlights some of Alabama's own heroes who have and will continue to make our state a better place to work and live.

The RSA currently manages 20 funds with aggregate assets of approximately \$25.1 billion. Assets decreased by \$1.2 billion during the year, representing a 4.5% decrease from the previous year. During fiscal year 2001, the annualized return for the fixed income portfolio and equity portfolio combined was -6.05% for the Teachers' Retirement System (TRS) and -6.48% for the combined Employees' Retirement System (ERS) and Judicial Retirement Fund (JRF) in a year of volatile financial markets, slowing economic growth and relatively stable inflation.

Overall, even with the slowdown of the economy, the RSA outperformed its public pension plan peers considerably. Total returns for the RSA were -6.19% compared to the median of all public pension plans of -12.43%, placing the RSA between the 10th and 25th Percentile. The RSA is now the 14th largest internally managed public pension plan in the world.

The state of Alabama was recently awarded with the "Best Overall Campaign" and "Best Print Piece" from the U.S. Travel Industry. Tourism in Alabama has grown from less than a \$2.0 billion industry ten years ago, to a \$6.1 billion industry today – the largest industry in the state. The Robert Trent Jones Golf Trail has contributed to this growth, as it is an important part of Alabama's tourism industry as well as the state's growing retire-

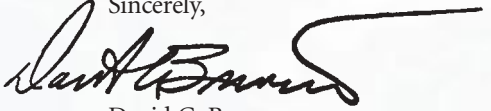
ment industry. The Trail's appeal continues to grow nationally as well, as evidenced through national promotions of "The Trail" by Northwest Airlines; Old Forrester, the Kentucky bourbon maker; Buick; Kroger; and Microsoft. Microsoft will feature the Trail's course "The Judge" in its 2002 golf game. The game, sold to over four million people, features only two U.S. courses (Oakmont and the Robert Trent Jones' "Judge"), as well as one Australian and one German course.

The RSA has been in the process of expanding its real estate holdings during the fiscal year. Current projects include the construction of a 130-room hotel and conference center in Opelika on the Grand National course; the purchase and conversion to office space of the old Baptist hospital complex in downtown Montgomery into the first "Criminal Justice Center" for the state of Alabama; the construction of an office tower in downtown Mobile along with the renovation of the Battle House Hotel; and the continued renovation and expansion of the Grand Hotel in Point Clear, Alabama. These investments will help to further diversify the RSA's real estate portfolio with the added benefit of investing further in Alabama.

Media continues to remain an important asset allocation for the RSA. Raycom Media owns 36 television stations in 19 states as well as Puerto Rico, and has broadcast coverage over approximately 11% of the nation's population. Community Newspaper Holdings Inc., one of the nation's largest newspaper companies, publishes daily, weekly and semi-weekly newspapers in more than 200 communities throughout the U.S. These investments now provide approximately \$30 million annually in free advertising to promote the state of Alabama. This fiscal year, Raycom and CNHI used a portion of this advertising commitment for a sixty-day program to promote awareness of higher education in Alabama to prospective students and parents as well as state tourism, the Space Camp, "The Trail" and related city events.

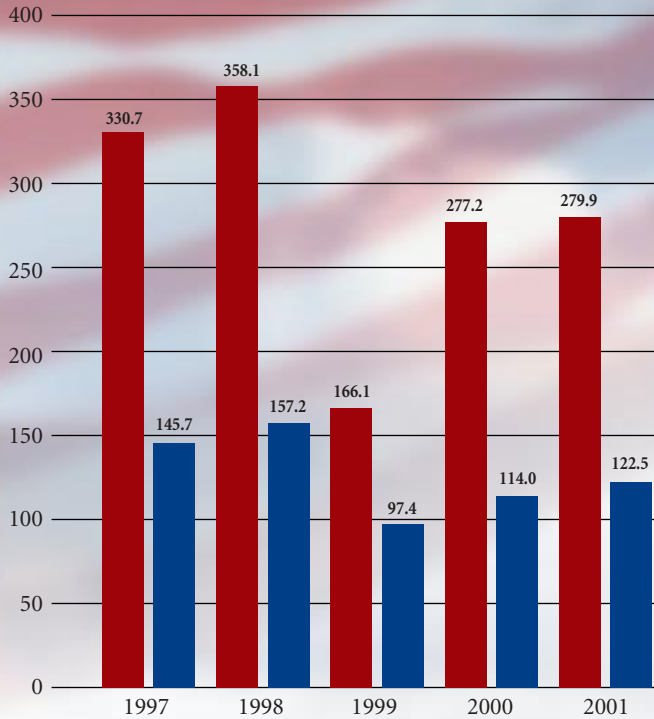
The staff will continue to purchase and develop investments that will facilitate the mission of the RSA. Our aim is to serve the interests of our members by preserving the excellent benefits and soundness of the Systems while providing these at the least expense to the state of Alabama and all Alabama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

The RSA staff salutes all of our fellow Americans who lost their lives in the September 11 terrorist attacks and to those defending our country's freedom and fighting terrorism around the world. We thank you.

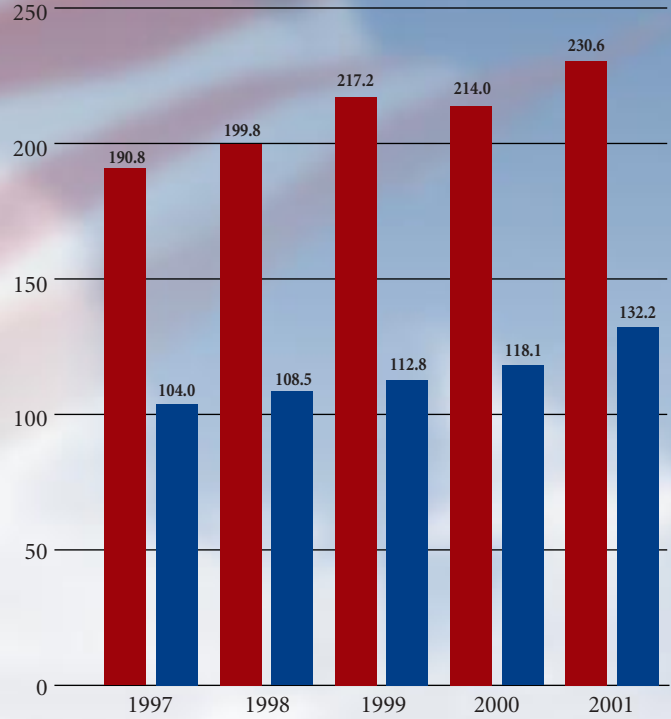
Sincerely,

David G. Bronner
Chief Executive Officer

Five Year Highlights

EMPLOYER CONTRIBUTIONS (\$ In Millions)



MEMBER CONTRIBUTIONS* (\$ In Millions)

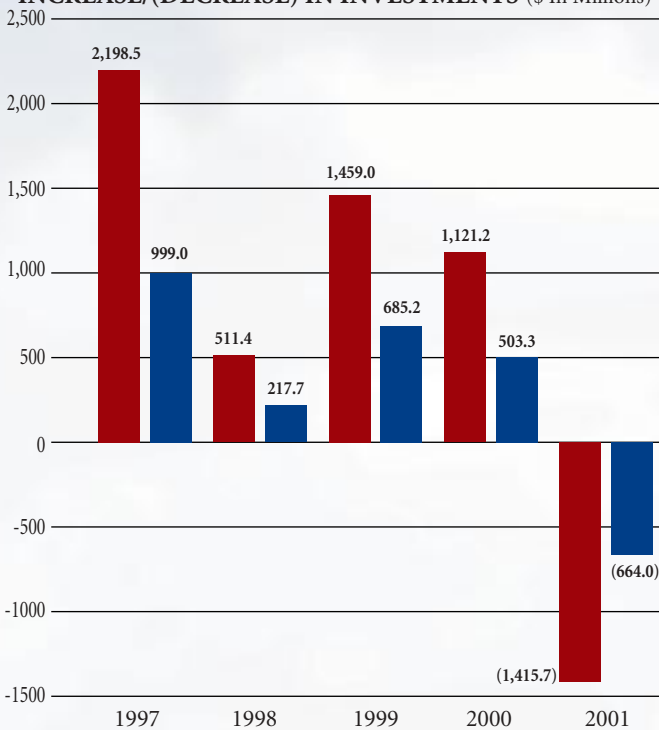


TRS

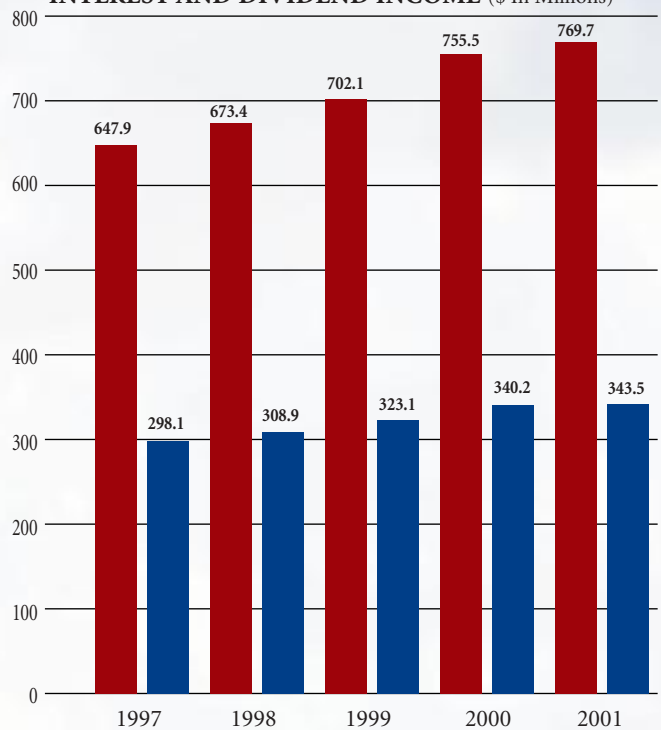
ERS

*Includes transfers between systems.

INCREASE/(DECREASE) IN INVESTMENTS (\$ In Millions)



INTEREST AND DIVIDEND INCOME (\$ In Millions)



Teachers' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Lucy Baxley
State Treasurer



Chairman
Dr. Paul R. Hubbert
Executive Secretary
AEA



Dr. Henry C. Mabry, III
State Finance Director



Dr. Edward R. Richardson
State Superintendent
of Education

ELECTED MEMBERS



Dr. Susan Williams Brown
Postsecondary Position



Mrs. Martha Black Handschumacher
Teacher Position



Mr. Dwain Hargett
Teacher Position



Dr. John R. Key
Superintendent Position



Mrs. Peggy K. Lamb
Teacher Position



Dr. John Landers
Principal Position



Dr. George L. Layton
Retired
Position



Mrs. Rebecca Lee
Support Personnel
Position



Mrs. Sharon P. Saxon
Support Personnel
Position



Vice-Chairman
Mrs. Sarah S. Swindle
Retired
Position

Employees' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Lucy Baxley
State Treasurer



Hon. Thomas G. Flowers
State Personnel Director



Dr. Henry C. Mabry, III
State Finance Director



Chairman
Hon. Don E. Siegelman
Governor

ELECTED MEMBERS



Ms. Mary Lou Foster
Retired State Employee



Mrs. Ann Gant
Active Local Employee



Mr. T. M. Jones
Active Local Employee



Mr. Clyde A. Sellers
Retired Local Employee



Ms. Alice Thornton
Active State Employee



Mr. Stephen C. Walkley
Active State Employee

APPOINTED MEMBERS



Lieutenant Rector Johnson



Ms. Donna Mulcahy



Vice-Chairman
Mr. John H. Wilkerson, Jr.

Staff, Advisors and Medical Board

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

Deputy Director
Marcus H. Reynolds, Jr., 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 Counsel
Lindy J. Leadingham
J.D.

General Counsel
William F. Kelley, Jr.
J.D.

General Counsel
William T. Stephens
J.D.

Director of Communications
Michael E. Pegues
M.A.

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

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

*Director of Public Education
Employees' Health
Insurance Plan*
Lee M. Hayes
M.B.A.

Director of RSA-1
Teresa B. Pettus
B.S.

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.

Chief Economist
Lewis R. Gayden
M.B.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., C.F.A.

Equity Analyst
G. Allan Carr, Jr.
M.B.A.

Assistant Director of Equities
Steven R. Lambdin
M.B.A., C.P.A.

Fixed Income Analyst
C. Lance Lachney
M.B.A.

Cash Management & Operations
Nancy H. Sprayberry
Cheree S. Pierce
B.S.

Assistant Director of Equities
Eric J. Fox
M.B.A., C.F.A.

Fixed Income Analyst
Joseph G. Walker
B.S.

Equity Analyst
John R. Givens
M.B.A.

ADVISORS

Certified Public Accountants
KPMG

AmSouth Bank, N.A.
Mr. Brian Sullivan

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

Attorney General
Honorable Bill Pryor

Chief Examiner
Mr. Ronald L. Jones

MEDICAL BOARD



Thomas Nickles, M.D.



Chairman
Neil Stronach, M.D.



A.S. Zdanis, M.D.

Administrative



*Alabama State Trooper
of the Year*

Jason Black
Opelika Post



*Alabama
Emergency Medical
Technician of the Year*

Captain William Oates
Prattville Fire Department

Legal Developments

During the past year, the RSA has continued to closely monitor securities fraud cases throughout the country. As an investor of more than \$10 billion in the stock market, the RSA is a class member in numerous securities fraud class action lawsuits filed by other pension funds, groups, or individuals. While the RSA is usually a passive participant in these lawsuits, in certain cases the RSA has determined that it must take an active role in order to maximize the recovery for its members. In one such case this year, the RSA, along with another public pension fund, was named lead plaintiff in a class action lawsuit in Colorado that was originally filed by individual stockholders. As public pension funds with larger holdings, the court determined that the RSA and the other pension fund could best represent the interests of the class members and the pension fund members.

The RSA is also involved in a number of benefits cases in the state courts of Alabama. Many of those cases are disputes between named beneficiaries of deceased RSA members and others who thought they should have been the named beneficiaries. In all concluded cases of this type, the named beneficiaries have ultimately received the benefits at issue.

Several other cases this past year have involved the Judicial Retirement Fund. In one, a former judge whose judicial benefits were suspended several years ago when he was convicted of accepting bribes while on the bench filed a lawsuit to have those benefits reinstated. The Alabama Supreme Court again held that he was not entitled to those benefits. In another case, an attorney who wants to run for a judicial office but is prohibited by the Alabama Constitution from running because she is over the age of 70, filed suit challenging the age restriction and named the RSA as a defendant. Another type of case concerning the Judicial Retirement Fund that appears to be increasing in frequency involves the consideration of a judge's judicial retirement benefits in divorce. Although there are certain protections of these benefits in the law, spouses of judges are fighting to ensure that these lucrative benefits are not ignored in property divisions.

The administration of the RSA involves numerous legal matters that, fortunately, are not the subject of litigation. In efforts to prevent unnecessary litigation, the RSA legal staff spends a considerable amount of time advising the various RSA divisions on compliance with state and federal laws and regulations. During the past year, the RSA legal staff has provided advice and guidance on numerous issues in the areas of benefits administration, taxation, real estate, contracts, privacy rights, and personnel. Through a close working relationship between the legal staff and all RSA divisions, the RSA has been successful in avoiding much unnecessary litigation.

Legislation

At the end of this fiscal year, the Alabama Legislature had met four times – one Regular Session and three Special Sessions. During the Regular and Special Sessions, numerous bills were introduced and had they passed could have directly affected RSA. Furthermore, no bills passed that allowed purchasing of additional service credit.

The DROP/Formula enhancement bill was introduced in both the Regular Session and the Third Special Session. This bill would have been a win-win proposition for the state and the members of the RSA. However, due to stalling tactics and the power of the Rules Committee chairman, this bill never received a vote from the Senate.

Four bills did pass that could affect the Employees' Retirement System. Acts 2001-311, 2001-417 and 2001-778 are constitutional amendments that if approved by the voters, would allow Marengo County Elected Officials, Baldwin County Elected Officials, and Shelby County Elected Officials, respectively, to participate in the ERS. All three bills, however, have used the language suggested by the RSA and specifically exclude legislators from participation in the ERS. The bills must be approved by a majority of the voters before taking effect. Act 2001-498 allows the Gadsden Policemen's and Firemen's Retirement Fund to participate in the ERS at some point in the future, although participation is not mandatory.

Act 2001-671, affecting the Teachers' Retirement System, passed with a limited application to ERS. This legislation allows unlimited sick leave for certain education employees and certain other "specified employees." The RSA persuaded the Governor to add an Executive Amendment limiting the maximum number of accrued sick leave days that could be used as membership credit for retirement purposes. The TRS Board of Control was also given the authority to adopt such policies and procedures necessary to effectuate a uniform policy.

Although Act 2001-671 is basically intended for public education employees, it did add certain limited agencies that are under the ERS, such as the Alabama State Senate, Lieutenant Governor, Senate President Pro Tempore, Speaker of the House, House of Representatives and Legislative Reference Service. Presently, all employees are entitled to accumulate sick leave up to a maximum of 225 days, all of which may be converted to membership credit for retirement purposes. This bill would allow public education employees under the TRS, along with the limited number of enumerated ERS employees to accumulate unlimited sick leave. However, the Executive Amendment would only allow a maximum of one day per month to be converted to membership credit. For example, a 25 year, 12-month employee could only convert a maximum of 300 days to membership credit for retirement purposes.

Communications

In April 2001, the RSA created the Communications Division. Communications is responsible for all functions of the former Office of Field Services as well as taking charge of all areas of communication: Web site, Intranet, Agency Manuals, seminars/education, and publications.

The Communications Department staff schedules retirement counselors for seminars and presentations upon request and for exhibits at conferences and conventions. Providing information about the benefits of all programs offered under the RSA umbrella is just one of the many responsibilities of the Communications Department. In cooperation with satellite locations and the TRS and ERS Benefits Administration Divisions, a schedule of individual counseling sessions is prepared and disseminated to district offices of state agencies, public school principals, city and county superintendents of education and public agencies that participate in the RSA. Between October and April, the RSA retirement counselors accommodated members by traveling to 32 sites around Alabama to conduct these one-on-one sessions.

The RSA Web site (www.rsa.state.al.us) underwent total reconstruction during the summer of 2001. Besides sporting a new color scheme and layout, for the first time RSA forms are being offered online for downloading opportunities. RSA Summary Plan Descriptions, the RSA newsletter *Advisor*, Annual Reports and information about the ERS, TRS, PEIRAF, RSA-1 and PEEHIP benefits are featured. Updates on policies, procedures, new legislation, federal laws and other late breaking events are posted in the quickest possible timeframe. Numerous links are offered from the RSA site to assist RSA members and agencies. One such site, for example, The National Council on Teacher Retirement (NCTR's) Life Plan link, offers information on retirement planning, life issues, retirement transitions, financial matters and investment basics.

Also offered as a service to our members, a Benefits Estimate Calculator can be found on the Web site. This Calculator allows members to estimate retirement benefits under the Maximum allowance and three other options.

A Speaking of Retirement column providing information about retirement issues is distributed for publication to the Alabama Education Association, Public Health Department, Association of County Commissions of Alabama, Alabama State Employees' Association, Department of Public Safety, Forestry Commission, Alabama League of Municipalities, Alabama Retired State Employees' Association and all public four-year Alabama universities.

Our highly regarded monthly newsletter, the *Advisor*, is mailed to each member. The *Advisor* provides timely information regarding retirement benefits, legislative updates, investments, health issues and retirement planning. Any interested person may also request to receive the *Advisor*. The total number mailed each month is approximately 280,000.

The release of the revised Employees' Retirement System Agency Manual in September paved the way to the first ever

ERS Agency Seminars held at twelve locations across the state. These seminars provided a forum for questions and answers and a networking opportunity that should prove to be beneficial for all agency personnel who participated. The manual is also available on the RSA Web site. The Communications Department, in conjunction with the ERS Benefits Administration Division, plans to hold informational seminars on a yearly basis.

Due to the success of the ERS Agency Manual and Seminars, the first Teachers' Retirement System Agency Manual will be published and TRS Agency Seminars will be conducted across the state. This will be a valuable resource for all personnel working in the TRS agencies' human resources offices as well as payroll and insurance.

Member Services Fiscal Year 2001

Activity	ERS		TRS	
	# Conducted	Members Served	# Conducted	Members Served
Conferences/ Conventions	6	3,698	13	9,261
Counseling Session Sites	15	188	129	1,705
Seminars/ Meetings	<u>63</u>	<u>3,484</u>	<u>83</u>	<u>8,147</u>
TOTAL	<u>84</u>	<u>7,370</u>	<u>225</u>	<u>19,113</u>



The 11th hole of the "Legislator," one of three 18-hole championship golf courses at Capitol Hill in Prattville.
(Photograph courtesy of the Robert Trent Jones Golf Trail.)

TRS Benefits Administration

The Teachers' Benefits Division is composed of 14 professional staff members and 18 support staff. The Benefits staff processes retirement applications, refunds on member contributions, enrollments, beneficiary changes and address changes. The division also maintains and updates active and retired member records; calculates retirement benefits; provides estimates of benefits; disburses death benefit payments to beneficiaries; and calculates costs for various types of service. The Benefits Division serves as the liaison between the TRS, its participating agencies and its active and retired membership by communicating specific and general information about the benefits and policies of the TRS.

The division receives over 150,000 telephone inquiries annually through the toll-free telephone number, 1-800-214-2158. In addition to responding to the telephone inquiries, the professional staff also represents the TRS at various conventions, conferences and seminars throughout the state. The division responds to written inquiries and provides individual counseling at 27 different locations throughout the state. The Benefits staff processed over 3,200 Applications for Retirement during the fiscal year 2001. The annual retirement payroll totals approximately \$850 million and is projected to exceed \$1 billion within the next few years. Member accounts are audited to guarantee accuracy of current and future benefits. Additionally, information on RSA administered programs, such as PEIRAF, RSA-1, PEEHIP and the group term life insurance benefit, was provided to members and employers.

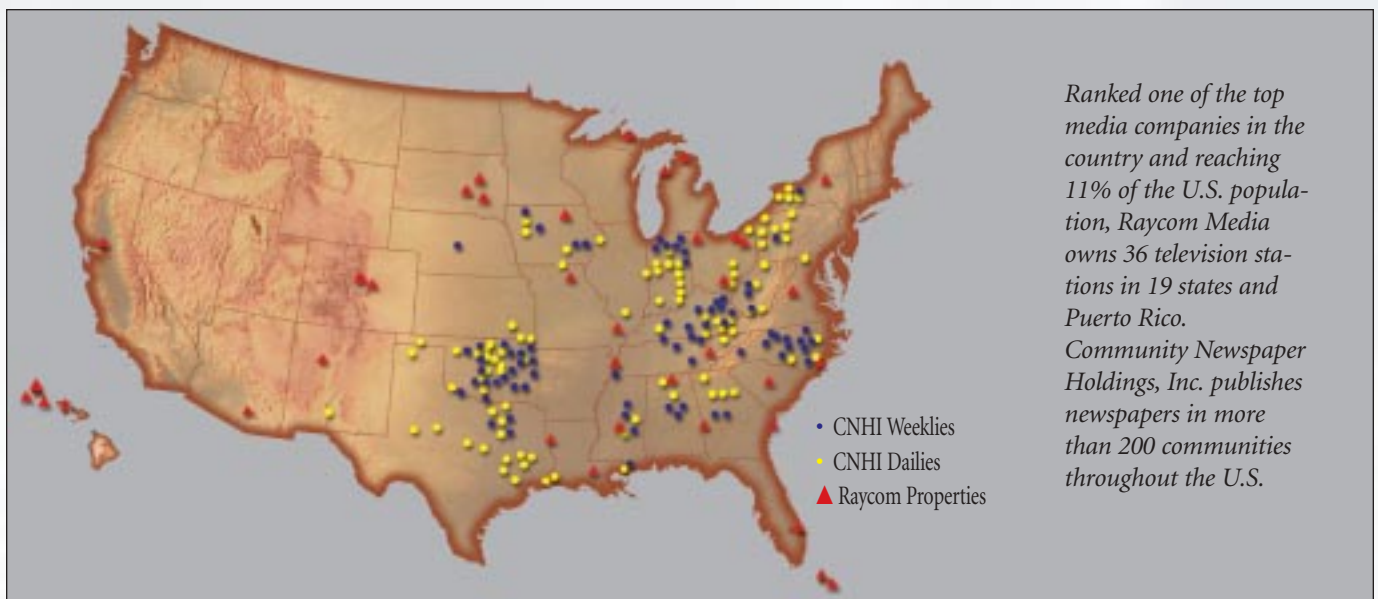
Act 2000-669 adopted by the Alabama Legislature allows certain members of the TRS who are firefighters, correctional officers, or law enforcement officers to contribute to TRS at a higher percentage of salary and, in return, receive credit for one additional year of service credit at the time of retirement for each five years of employment in one of those classifications.

While modifying our unit-reporting format to accommodate requirements of this legislation we used the opportunity to make additional changes to the monthly unit reports. New reporting fields facilitate improvements in our record keeping and service credit determination. Each month our units now report using appropriate codes for a member's job classification, number of pay periods per year, days contracted to work each year, full-time work units each month, and units actually worked each month. This additional information allows for a more timely and accurate assessment of a member's service credit and retirement eligibility.

The TRS provides our retired members with electronic transfer of the monthly retirement benefit directly to the member's financial institution as well as withholding of federal income tax deductions and premiums for the various insurance plans available to our retirees. Retiree and beneficiary accounts are periodically adjusted to include ad hoc cost-of-living increases by the Alabama Legislature.

Computer imaging technology allows the RSA to have the tools necessary to offer members superior service into the twenty-first century. This technology provides RSA and its members with the most comprehensive imaging and operational management system available in the pension industry. The staff has instant access to member files to respond to inquiries, or to update members on the status of pending applications, or other retirement matters. This technology improves productivity while reducing overall operational cost.

The Information Technology Division is developing a comprehensive database scheduled for release during the 2001-2002 fiscal year. This new and expanded database will allow member agencies to more efficiently report information and will enable the TRS to quantify a broad variety of data for strategic planning purposes.



ERS Benefits Administration

The ERS Benefits Division, which is composed of 11 counselors and a support staff of 17, serves as the liaison between the ERS and its members. The staff disseminates information to members, employers and prospective agencies during telephone calls, office visits, field counseling appointments and group presentations.

The ERS staff processed a total of 1,458 retirement applications between October 2000 and September 2001. In addition to retirement application processing, the ERS staff provides retirement estimates, estimates for replacement beneficiary changes, calculations for military, withdrawn, out-of-state, public agency and prior noncontributing service purchases, refund requests, and death benefit claims. Utilizing computer imaging, a state-of-the-art technology, enables the staff to provide prompt and accurate service to inquiries. Historical and current documents contained in each member's account can be viewed instantly through a personal computer monitor.

In addition to appointments at RSA headquarters, the ERS counselors meet with members individually from October through June each year at five different satellite locations throughout the state. Approximately 85,000 telephone and 1,200 email inquiries are received annually precipitated by the utilization of the toll-free telephone number. To guarantee the accuracy of current and future benefits to the membership and compliance with state laws, the staff audits and reviews member accounts, participating agency accounts, retiree payments, postretirement employment and the status of disability retirees.

The ERS offers electronic transfer of monthly retirement benefits and the deduction of federal income taxes. For state retired employees, the ERS will deduct state health insurance premiums, association membership dues and miscellaneous insurance premiums. Benefit recipient accounts are periodically adjusted to include ad hoc cost-of-living increases granted by the Alabama Legislature.

Act 2000-669 provides certified full-time firefighters, correctional officers and law enforcement officers of the ERS, not covered as a state policeman, with one year of additional service credit for each five years of employment as a fulltime firefighter, correctional officer or law enforcement officer, provided certain conditions are met. To fund the cost of the additional service, the contribution rate increased from 5% to 6% for the affected member effective January 1, 2001. Under provisions of the Act, the member may purchase additional retirement credit for prior employment as a certified full-time firefighter, correctional officer, or law enforcement officer provided payment is made by December 31, 2002. During fiscal year 2001, the ERS staff provided to the membership 8,000 service purchase calculations and credited 900 service purchases.

Under the provisions of Section 36-27-6, *Code of Alabama 1975*, public agencies in the state are eligible to participate in the ERS. The staff provides benefits and cost data to prospective member agencies upon request. Cost data includes actuarial valuations prepared by Buck Consultants of Atlanta, Georgia.

The ERS staff presented retirement information to 74 active and prospective member agencies during fiscal year 2001.

In addition to state agencies, a total of 749 public agencies participate in the ERS. Of those, 64 are counties, 251 are cities or towns, and 434 are miscellaneous public agencies. The following agencies began participation in the ERS during fiscal year 2001:

Cities and Towns: Town of Locust Fork; Town of Valley Head; Town of Billingsley; and Town of Branchville

Public Agencies: DeKalb County Soil and Water Conservation District; Florence/Lauderdale Tourism Board; Huntsville and Madison County Railroad Authority; Bay Minette Utilities Board; Alabama Sports Hall of Fame Board; Guin Housing Authority; SpectraCare; Clarke County Soil and Water Conservation District; Choctaw County Emergency Communications District; Huntsville/Madison County Convention and Visitors Bureau; Hamilton Housing Authority; Tuscaloosa County Industrial Development Authority; Blount County Water Authority; and Houston County Water Authority



*The new pool and waterfall is part of the \$30 million renovation underway at the Grand Hotel in Point Clear, Alabama.
(Photograph courtesy of the Robert Trent Jones Golf Trail.)*

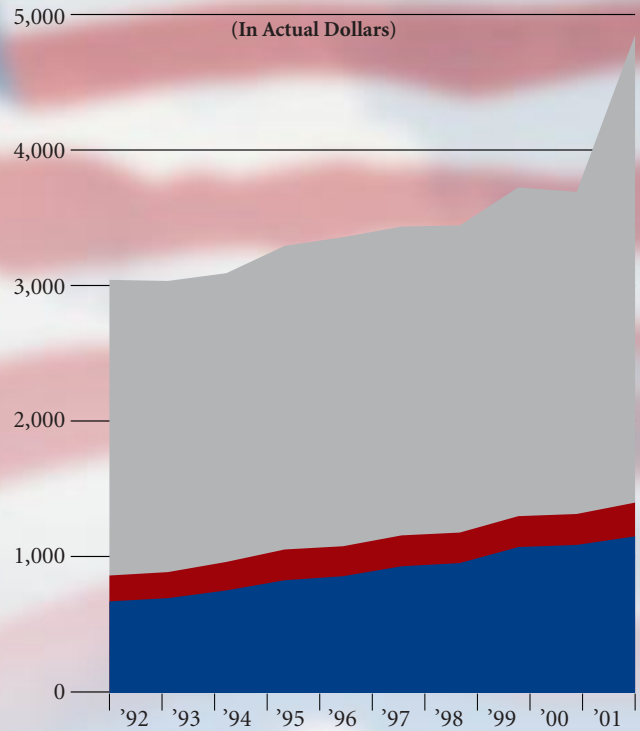
Retirement Benefits

Benefits distributed by the Retirement Systems totaled \$1.20 billion during fiscal year 2001, an 11.8% increase from fiscal 2000 payments of \$1.07 billion. Benefit payments during fiscal 2001 averaged \$3.3 million 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.

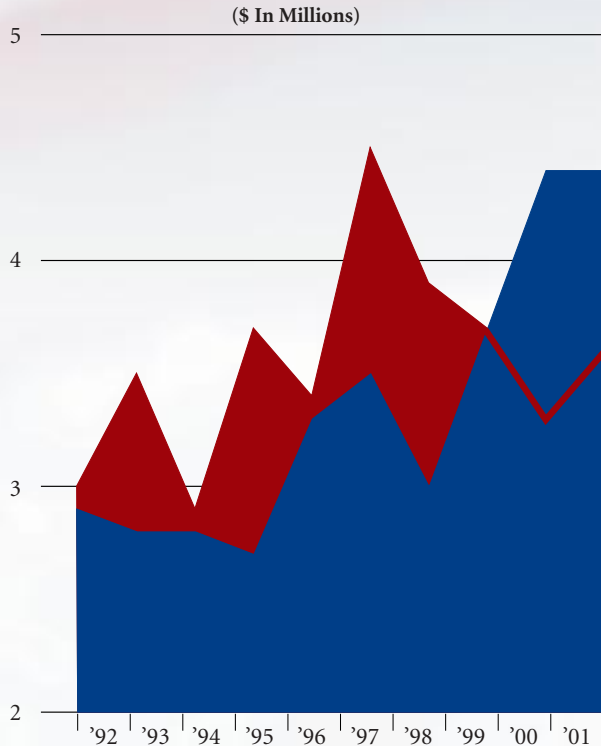
Service retirement benefits are calculated by two methods with the member receiving payments under the method which yields the highest monthly benefit: minimum guaranteed or formula.

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. Preretirement death benefit payments, average monthly benefits and total annual payments are reflected in the following graphs.

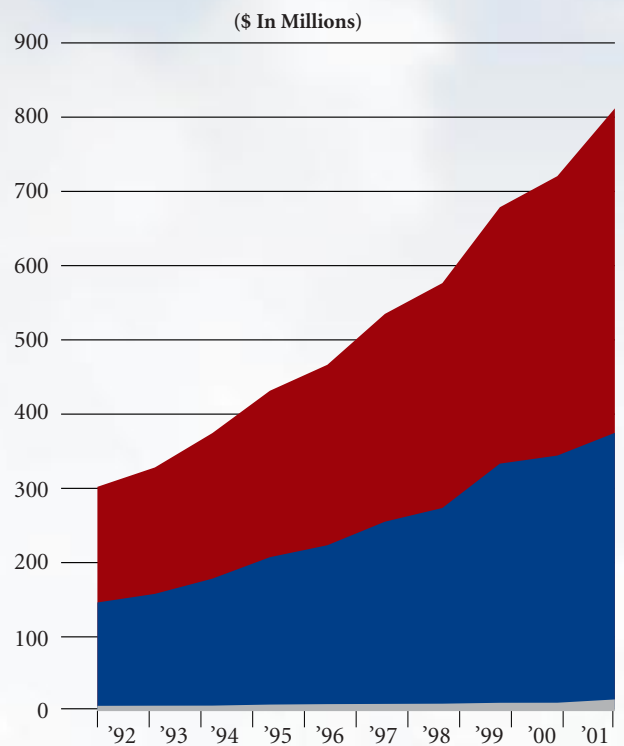
AVERAGE MONTHLY BENEFITS



PRERETIREMENT DEATH BENEFITS



TOTAL ANNUAL PAYMENTS



Public Education Employees' Health Insurance Plan

The RSA manages the Public Education Employees' Health Insurance Plan (PEEHIP) for approximately 92,000 active and 38,000 retired public education employees.

The Fund was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide, through 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 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.

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 a Health Maintenance Organization (HMO) plan such as United HealthCare, The Oath of Alabama or Viva Health Plan in lieu of the traditional hospital medical plan. 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 6% are enrolled in one of the HMO plans.

The Board determines the monthly premiums for employee and dependent coverage annually after reviewing the plan's actuarial recommendations and projections of anticipated claims for the upcoming year considering the available reserve balances. Since 1996, the PEEHIP appropriation has been 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 participating active and retired member pays the balance of the premium. Dependent coverage is available for active and retired employees with the dependent premium paid by the employee.

Approximately 74,000 active public education employees and 35,000 retirees participate in one of the hospital/medical

plans with approximately 56% of the participants electing family coverage. Of the 74,000 active PEEHIP participants who have one of the hospital/medical plans, approximately 44,000 also purchase one or more of the optional coverages. Approximately 15,000 public education employees covered by PEEHIP are using their state allocation solely to purchase the four-supplemental/optional coverages which are paid in full by the State allocation.

Over the past several years, PEEHIP has seen double digit increases in the health care costs primarily because of the escalating prescription drug claims. Prescription drug costs increased 21% annually in 1999 and 2000 and were the fastest growing component of the hospital medical plan. The escalating drug claims have been a problem not just with PEEHIP, but with all medical plans offering prescription drug coverage. According to a Segal report, the primary factors contributing to the soaring prescription drug costs nationwide are:

- increased patient demand resulting from direct-to-consumer advertising and other pharmaceutical marketing or promotional effects,
- the advent of new and expensive drug therapies,
- greater reliance on drug therapy by the physician community,
- the aging workforce,
- improved techniques and technology to detect and diagnose diseases, and
- erosion of enrollee cost sharing for plans with flat co-payment.

To help control the skyrocketing drug costs, the PEEHIP Board (PEEHIB) approved several benefit changes primarily in the area of prescription drugs for the fiscal year 2001. PEEHIB implemented a \$50 annual deductible per person for prescription drugs and increased the co-payment for non-preferred brand name drugs from \$20 to \$35. The co-payment for generic drugs remained \$5 and \$15 co-payment for preferred brand name drugs. As a result of these changes, the drug costs increased only 2% in 2001 as compared to 21% annually the two prior years.

The PEEHIP Board and staff continue to strive to offer its members a comprehensive benefit plan at an affordable price and to continue to research and implement medical management programs. PEEHIP continues to be one of the best insurance plans in the country.

City of Madison Police



*Back row – left to right: Wayne Kamus, Steve Wilkerson, Chief Dan Busken, Jim Cooke, Clayton Jordan.
Front row – left to right: Jason Fox, Trey Street, Adam Vaughan, Marcus Adams.*

Dear Staff of The Huntsville Times:

I do a lot of writing for national publications, but I never thought I would write anything about the wonderful police of Madison, Alabama.

This piece is yours to use if you like it.

Steven M. Gorelick
New York City

October 3, 2001

I wondered when I would finally feel the sadness. I wondered why other New Yorkers I passed in the streets of Manhattan looked so pained while I felt so numb. I really began to wonder if I was human. I felt nothing at all. Nothing.

It started several days after the sky fell on September 11, when I looked out my living room window in Westfield, New Jersey, and saw friends and family visiting the pregnant wife of a 31 year-old man who was missing in the rubble. I tried hard to cry, but – as much as I would like to say I felt courage and resolve – what I really felt was an almost paralyzing fear brought on by the sheer audacity of the acts.

At work in Manhattan, I found it even harder to feel pain and sadness: I work across from the Empire State Building, and that building's new status as New York City's tallest skyscraper gave all of us in the surrounding neighborhood a case of the jitters. It's hard to feel sad when you keep looking up at the sky waiting for something to come crashing down.

Several days later my wife and I attended an interfaith service. I passed a sign with the names of a number of those from my hometown who had been lost. So many were parents of young children. I could feel a little lump forming in my throat. But I still could not cry.

The pent-up emotions finally hit like a ton of bricks when I least expected it: I was out walking in front of the Empire State Building. I wanted to simply be in the presence of the New York City police officers now guarding that building. And as I got closer, I saw that the building's entrance was being protected by police officers from Madison, Alabama. And I lost it. I ran upstairs to my office and finally shed the tears that had eluded me for three weeks.

You have to understand. Most New Yorkers are hopelessly provincial, still living with the illusion that they live at the center of the universe, as if this wonderful complex, diverse universe could even have a center! Some are even still fighting the civil war, with a view of the South that is as up-to-date as a

Matthew Brady photograph. I know people, who never even leave Manhattan, as if – having found paradise – they have no reason to go anywhere else.

Yet there they were out in front of the Empire State Building, a group of wisecracking, cynical New Yorkers who had surrounded these officers and were looking at them with the reverence usually reserved for members of the clergy. And these big, strong, confident reassuring police officers from a place that no one had ever heard of were actually calming the nerves of people who had seen things that no one should see and felt things that no one should feel.

I don't know where Madison, Alabama, is. I don't know how many people live there. I don't know what petty disputes are currently being fought out in its City Council, but I bet some group of citizens has been making a lot of noise lately about the lack of a stop light at some especially congested corner. I don't know if there is a peaceful river that runs through town or a lake where you can fish and swim. I don't know where in town you can taste the best barbecue and I certainly don't know a soul that lives there.

But I do know that on a fine sunny day in my hometown, three weeks after it seemed like the world was collapsing around us, a bunch of courageous and compassionate cops from Madison, Alabama, were just what we needed at precisely the moment we needed it.

To the good and decent people of Madison: Thank you for sending us your bravest and finest. Just the sight of their Madison shoulder patch and the decency and confidence they demonstrated gave me an incredible dose of hope that – whatever comes along – our almost instinctive compassion as a nation will overcome any adversary.

And do me a favor: Promise that someone from Madison – wherever it is – will get in touch with me the next time a river overflows (is there a river nearby?), the next time a fire leaves some people homeless, the next time – God forbid – that a place of such obvious kindness and decency has its reckoning with pain and loss. I'd love to help.

Steven Gorelick teaches sociology and media studies at the City University of New York.

Public Employees' Individual Retirement Account Fund

PEIRAF – DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

The Public Employees' Individual Retirement Account Fund (PEIRAF), the only plan of its type 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 governmental plan, such as PEIRAF.

PEIRAF has operated as a fixed income portfolio since its creation in 1982. Funds are invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

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 discontinued receiving contributions to this plan after December 31, 1986. However, the 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 provided 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 a percentage of their salary, thereby deferring payment of taxes on that income. 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. Beginning January 1, 1997, RSA-1 deferrals are not taxed for Alabama Income Tax purposes. In 1998, eligible employees were allowed to defer annually the lesser of \$8,000 or 25% of salary. Effective January 1, 2001, the annual deferral limit increased to \$8,500.

On June 7, 2001, President George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001. The major provisions of this tax bill have a significant impact on Section 457 deferred compensation plans such as RSA-1, and are effective January 1, 2002. The portability of funds of retirement assets has been increased by allowing transfers between Section 401, 403(b), 457 plans and Traditional IRAs. RSA-1 allows transfers to other plans, but will not accept transfers from other plans. RSA-1 funds will be allowed to be transferred to purchase permissive service credit. The annual deferral limit will increase to \$11,000 for 2002 reaching \$15,000 in 2006. In the three years prior to the year of retirement, the maximum annual catch-up will increase to twice the normal deferral limit in effect for that year. The catch-up limit will be \$22,000 in 2002, increasing to \$30,000 by 2006. Individuals, age 50 and older, will be allowed to make additional, annual deferrals of \$1,000 in 2002 and reaching \$5,000 in 2006. This additional deferral limit will not apply in the three years the employee utilizes the normal 457 "catch-up" provision. The maximum deferral limit for RSA-1 deferrals will not be reduced by deferrals to Section 401(k) and 403(b) plans. The "percent of compensation limit" will increase from 25% to 100% of includable compensation.

Since its creation in 1986, RSA-1 funds have been invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper. RSA-1 was not intended to compete with the stock market or liquid cash accounts. RSA-1 has however generated higher yields than comparable bond funds. However, in an effort to give RSA-1 members more flexibility within their portfolios, members have been offered the opportunity to invest in an S&P 500 Index Fund since January 1, 2001.

The funds of RSA-1 participants have been held in trust since October 1, 1997. Beginning in October 1998, accounts are valued monthly at market with interest posted monthly to member accounts based on average daily account balances. Member statements are issued semi-annually.

RSA-1 highlights shown below reflect the income yield, market value change, total return, total assets, and number of participating members at each fiscal year end.

RSA-1 HIGHLIGHTS

12-Month Period Ending#	Income Yield* (in %)	Market Value Change* (in %)	Total Return* (in %)	Total Assets* (in \$)	Participating Members
September 30, 1987	13.74			3,426,417	1,931
September 30, 1988	16.74			12,528,575	3,029
September 30, 1989	13.29			27,006,789	4,404
September 30, 1990	12.44			46,225,862	5,702
September 30, 1991	11.68			72,976,574	7,471
September 30, 1992	11.41			106,992,250	9,269
September 30, 1993	10.68			146,812,159	10,945
September 30, 1994	9.86			192,710,264	12,680
September 30, 1995	9.35			247,264,015	15,054
September 30, 1996	8.96			308,584,100	17,089
September 30, 1997	8.93			376,357,423	19,293
September 30, 1998	8.90			451,813,800	21,166
September 30, 1999	8.84	1.55	10.39	536,609,859	23,490
September 30, 2000	8.43	-3.24	5.19	586,876,397	24,336
September 30, 2001 (Fixed Investment Option)	8.34	3.41	11.75	614,039,965	24,938
September 30, 2001 (Stock Investment Option)	1.10	-21.09	-19.99	51,080,583	5,291

* Assets are valued at cost through September 30, 1998, and at market thereafter. # Prior to January 1, 2001, funds were invested in fixed income investments only.

Investments



ASEA State Employee of the Year

Bridget Jones
Department of Industrial Relations
Bishop Barron Award Recipient

Alabama Teacher of the Year

Theresa Farmer
Shelby County
School System



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.

Income from investments continues to be a large share of the total revenue of the RSA. Investment income totaled \$1.6 billion in the 2001 fiscal year. Employer contributions, increased \$13.1 million from fiscal year 2000. Member contributions during fiscal year 2001 increased \$31.3 million over the prior fiscal year.

EMPLOYER RATE (% Of Covered Payroll)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TRS	9.23%	9.66%	4.03%	6.38%	6.38%
ERS					
State Employees	6.99	7.56	3.11	4.08	4.08
State Police	15.17	15.74	6.85	9.45	9.45
JRF	19.71	19.71	9.16	21.19	21.19

REVENUE SOURCES (\$ in Millions)

	<u>2000</u>	<u>2001</u>
Member Contributions	\$ 333.8	\$ 365.1
Employer Contributions	396.9	410.0
Investment Income	<u>2,094.7</u>	<u>(1,645.9)</u>
	<u>\$ 2,825.4</u>	<u>\$ (870.8)</u>

INVESTMENT INCOME (\$ In Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TRS	\$2,313.4	\$564.3	\$1,829.9	\$1,414.6	\$(1,090.7)
ERS	1,056.3	254.3	857.4	655.1	(531.0)
JRF	36.3	17.4	27.8	25.1	(24.2)

MEMBER CONTRIBUTIONS (\$ In Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TRS	\$190.8	\$199.8	\$217.2	\$214.0	\$230.6
ERS	104.0	108.5	112.8	118.1	132.2
JRF	1.7	1.5	1.6	1.7	2.2

TOTAL REVENUES BY FUND (\$ In Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TRS	\$2,834.9	\$1,122.2	\$2,213.2	\$1,905.8	\$(580.2)
ERS	1,306.0	520.0	1,067.5	887.2	(276.2)
JRF	43.4	24.3	32.3	32.4	(14.4)

EMPLOYER CONTRIBUTIONS (\$ In Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TRS	\$330.7	\$358.1	\$166.1	\$277.2	\$279.9
ERS	145.7	157.2	97.4	114.0	122.5
JRF	5.4	5.4	2.9	5.7	7.6

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. The employer rates for fiscal year 2002 are set at 5.96% for TRS, 3.95% for State Employees, 21.19% for JRF, and 9.24% 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.

Asset Allocation

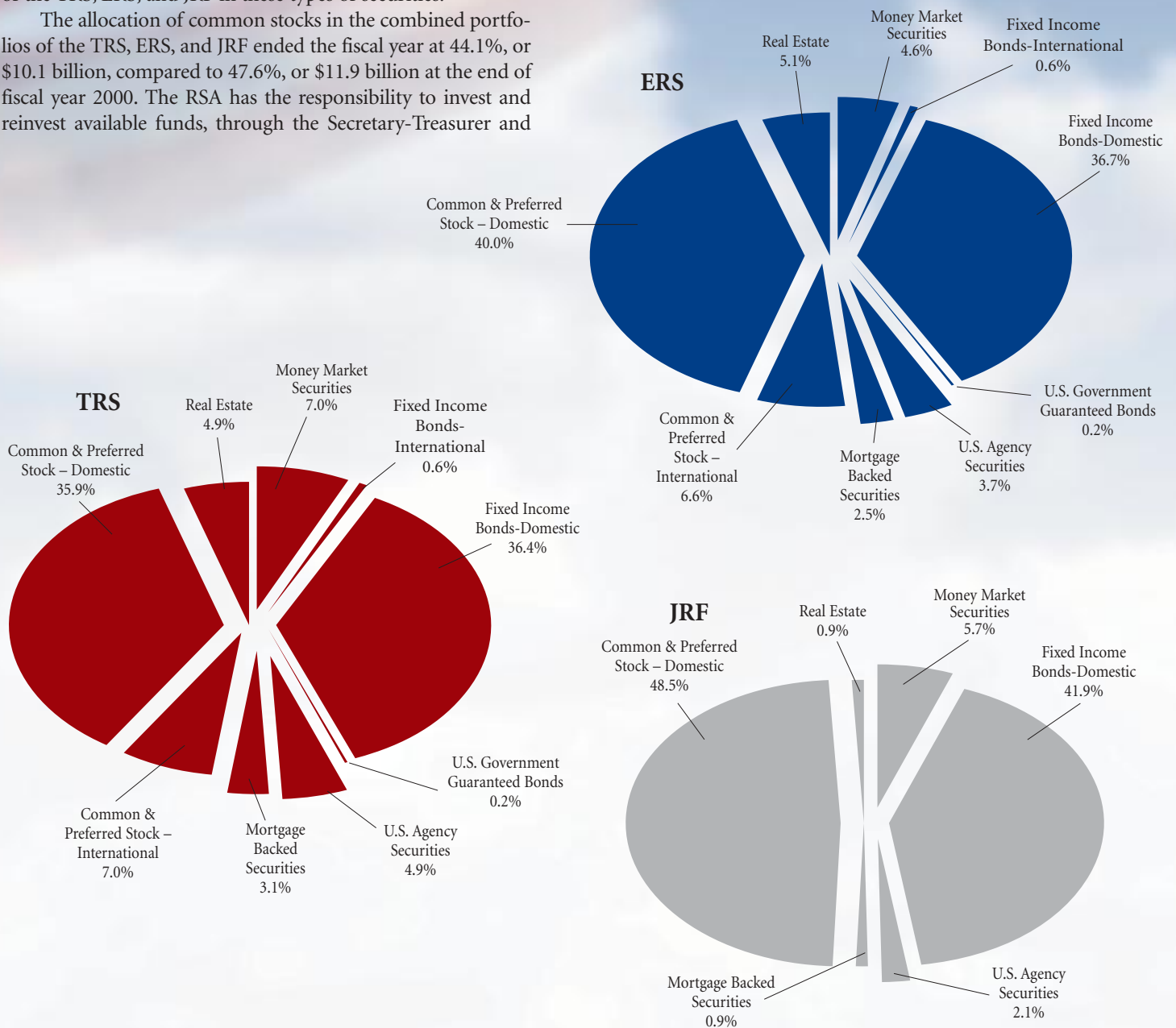
Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most 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 55.9%, or \$12.8 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 44.1%, or \$10.1 billion, compared to 47.6%, or \$11.9 billion at the end of fiscal year 2000. 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 2001 were -6.05% for the TRS and -6.48% for the ERS and JRF combined. The five year annualized return was 7.94% for the TRS and 8.30% for the ERS and JRF combined. The ten year annualized return was 9.49% for the TRS and 9.67% for the ERS and JRF combined.



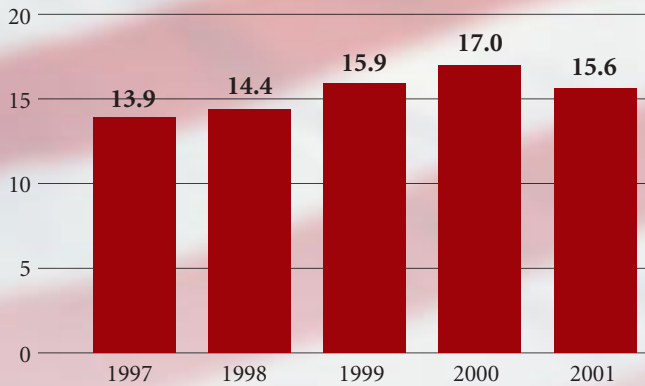
Portfolio Growth

Total assets of the TRS, ERS, and JRF portfolios declined slightly this fiscal year due to the negative performance of the equity markets. The combined market value of these three portfolios on September 30, 2001, was approximately \$22.9 billion, a 8.4% decrease from the balance at year-end 2000.

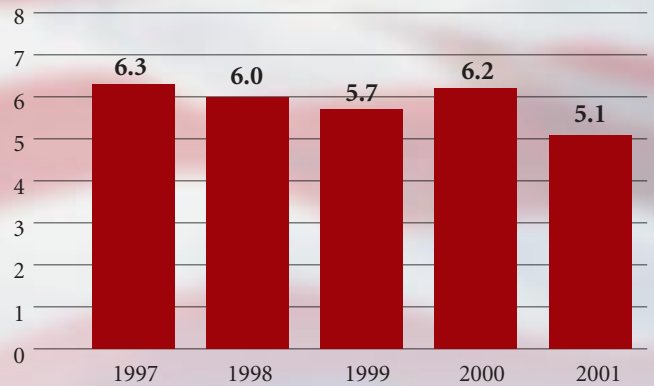
Average Yield

The average combined yield earned on stocks and bonds for 2001 was 5.1% for the TRS and 4.9% for the ERS compared to 6.2% for both funds in 2000. The average yield declined during the fiscal year due to the lower interest rate environment.

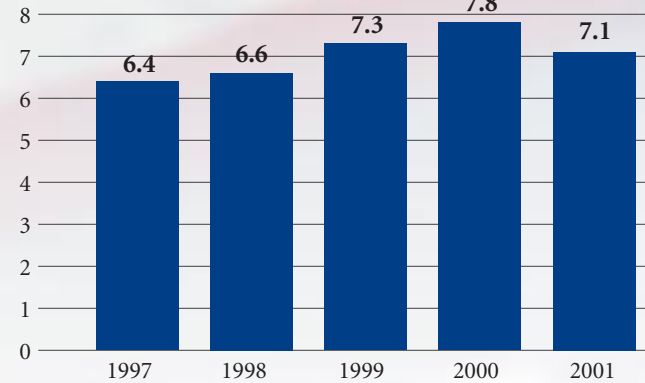
TRS (\$ In Billions)



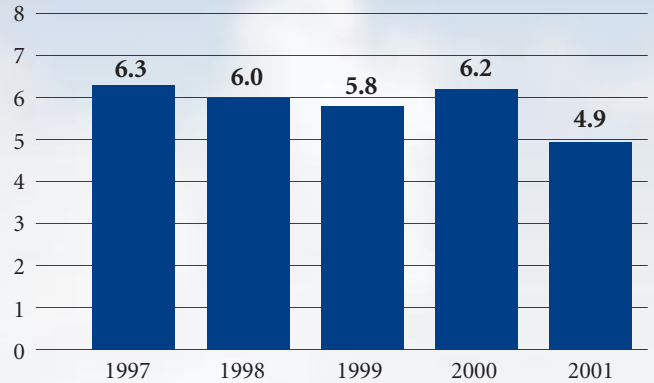
TRS (Percent)



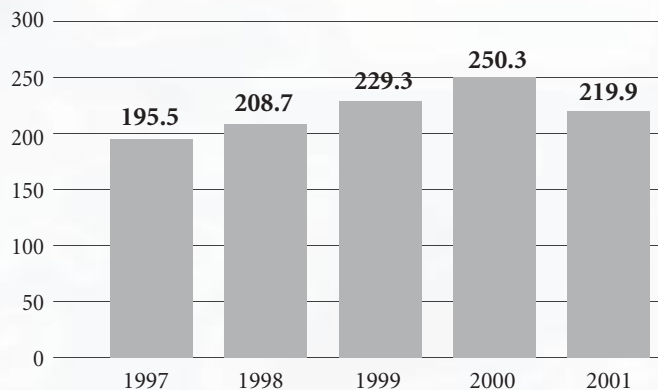
ERS (\$ In Billions)



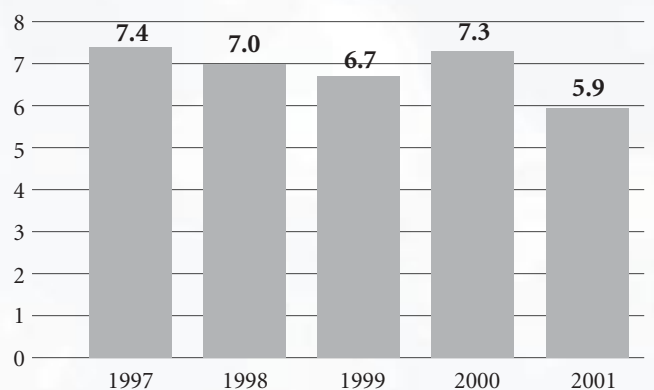
ERS (Percent)



JRF (\$ In Millions)



JRF (Percent)



Fixed Income Activity

What a difference a year makes? At the beginning of fiscal year 2001, U.S. financial markets seemed to be in pretty good shape. The major stock indices were clearly off their spring highs, but were holding up considerably well given the extensive tightening of monetary policy by the Federal Reserve. Crude prices were firm around \$30 per barrel, and the treasury yield curve was essentially flat across all maturities. However, as orders for durable goods and other economic data began to slump by the end of 2000, one could hear the wind being sucked from the sails. Short-term treasury yields began to slide, and what seemed to be a never-ending period of economic growth had slowed. Two days into the new year, Alan Greenspan and the Fed shocked the market with a 50 basis point intermeeting move. This proved to be the beginning of things to come.

With a corporate earnings recession on the horizon and unemployment on the rise, policy makers felt they needed to be aggressive in providing liquidity to the marketplace. Even as economic growth remained in positive territory, the Fed cut short-term interest rates numerous times over the next several months. These actions led to a steepening of the U.S. treasury curve, as short and intermediate rates continued to plummet. During the first half of the year, the Fed lowered the funds rate six times for a total of 275 basis points. Corporate bond issuance hit record levels this year as companies continued to shore up their balance sheets by refinancing existing debt at lower rates.

As the end of the fiscal year approached, interest rates in general were very volatile due to events that occurred on the morning of September 11 in New York and Washington. In the wake of these tragedies, financial markets were promptly shut down for the remainder of the week. The front end of the yield curve rallied tremendously in the following days, as investors sought safety within the government market. When markets reopened the next Monday, Greenspan and the Federal Reserve cut short-term rates by 50 basis points, bringing the fed funds rate to 3.00%. They did this, not only in response to a deteriorating economy, but to provide stability during a crisis that has never been witnessed. Inflation has, however, been the one bright spot, which has been driven by the precipitous decline in energy prices. This has allowed policy makers to pump in additional liquidity, as they are clearly "leaving the door open" for more near-term easing.

In fiscal year 2001, the RSA purchased approximately \$4.57 billion in additional securities for the fixed income portfolio. The average yield on the entire fixed income portfolio at year-end was 7.36%. As of September 30, 2001, the RSA's fixed income portfolio had a book value of \$12.39 billion, of which 11.50% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 10.96% for the TRS and 10.74% for the ERS and JRF combined versus 13.05% for the Salomon Brothers Broad Investment Grade Index (SBBIG). The five-year annualized returns were 7.62% for the TRS and 7.69% for the ERS and JRF combined, versus 8.07% for the SBBIG Index. The ten-year annualized returns were 8.49% for the TRS and 8.55% for the ERS and JRF comparing favorably to 7.81% for the SBBIG Index.

Equity Activity

September 11 very much punctuated what was already a rough year for most all equity markets. After the bursting of the "New Economy" bubble earlier in 2000, the market started worrying less about dot coms and more about corporate earnings. After realizing that the economy was indeed softening more than they had hoped for, the Federal Reserve began an aggressive easing campaign in early January to help alleviate some of the pain being felt by both the consumer and corporate America. The stock market, however briefly, would rally on the rate cuts, but the rallies soon faded as investors focused more on the rapidly deteriorating earnings picture that was rapidly unfolding. By the summer of 2001, the market had moved from whether we would have a recession to what type of recession we were in.

Given the growing uncertainty and the negative views espoused by both Wall Street analysts and corporate leaders, the market continued to slide into early fall. Then, the World Trade Center tragedy occurred in mid September accelerating the downward spiral. The market made its low for the year on September 21.

International equity markets fared even worse than the U.S. markets, with most global economies going into a tailspin alongside ours. The negative returns across the board were almost totally coming from local market returns, with currency effects having very little impact over the course of the year. Japan seems most troubling, as they have been mired in a prolonged recession and have not come up with a viable strategy to grow out of their slowdown. The Morgan Stanley Capital International's EAFE Index has been restructured to reflect companies on a free float weighted basis rather than market capitalization, which caused a couple of major rebalances over the course of the year. Other than proactively rebalancing prior to announcement date, we were relatively quiet on the International front.

For the year, the RSA domestic equity portfolios declined -25.20% and -25.36% for the TRS and ERS and JRF funds combined, respectively, outpacing the decline in the S&P 500 benchmark of -26.64%. Combined with international equity returns, the RSA global equity portfolios posted declines of -25.7% for the TRS and -25.76% for the ERS and JRF combined.

As of September 30, 2001, the total market value of equity assets for the TRS was \$6.7 billion, representing 42.9% of total assets. The total market value of the ERS and JRF combined was \$3.4 billion, representing 46.6% of total assets. Three-, five-, and ten-year annualized returns were 2.57%, 7.08%, and 10.78% for the TRS and 2.66%, 7.03%, and 10.79% for the ERS and JRF combined, respectively.

Investment Returns

	1-YR	3-YR	5-YR	10-YR
Equity Returns:				
TRS	(25.70)	2.57	7.08	10.78
ERS/JRF	(25.76)	2.66	7.03	10.79
Fixed Income Returns:				
TRS	10.96	6.39	7.62	8.49
ERS/JRF	10.74	6.48	7.69	8.55
Total RSA Returns:				
TRS	(6.05)	5.00	7.94	9.49
ERS/JRF	(6.48)	5.07	8.30	9.67
Benchmarks:				
S&P 500	(26.64)	2.02	10.22	12.69
DJIA	(15.56)	5.71	10.35	14.12
Midcap 400	(19.03)	13.35	13.64	14.42
MSCI EAFE	(28.53)	(1.16)	(.14)	3.93
Salomon Brothers Broad Index	13.05	6.43	8.07	7.81
Lehman Brothers Aggregate Index	12.96	6.39	8.06	7.76

"It was a tough year but – we knew we would survive!"

The RSA fared far better with investments than most of its pension plan peers.

In the midst of a rather depressing year, economically speaking, we always looked for something to smile about. Back in the fall, NBC Capital Markets, a brokerage firm from Memphis, TN, invited me to join 47 of their staff at Hampton Cove (RTJ in Huntsville) for a golfing weekend.

Unfortunately, I was unable to attend. Being very creative and seeking to establish that smile in the face of dimness, the "guys" prepared a rather humorous photo album with my picture superimposed in several unlikely predicaments. I felt like I should share one of the "smiles."

David G. Bronner



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 %)		
	2001	2000	1999	2001	2000	1999
0 to < 5	17	20	18	14	15	13
5 to < 10	13	10	7	12	9	8
10 to < 15	10	11	10	10	12	10
15 to < 20	35	33	34	38	39	39
20 to < 25	17	12	11	17	12	11
25 to < 30	4	10	16	4	8	14
30	4	4	4	5	5	5



The 2001 Investment Staff

Seated L to R: Joseph Walker, Hunter Harrell, Julie Barranco, and Cheree Pierce.

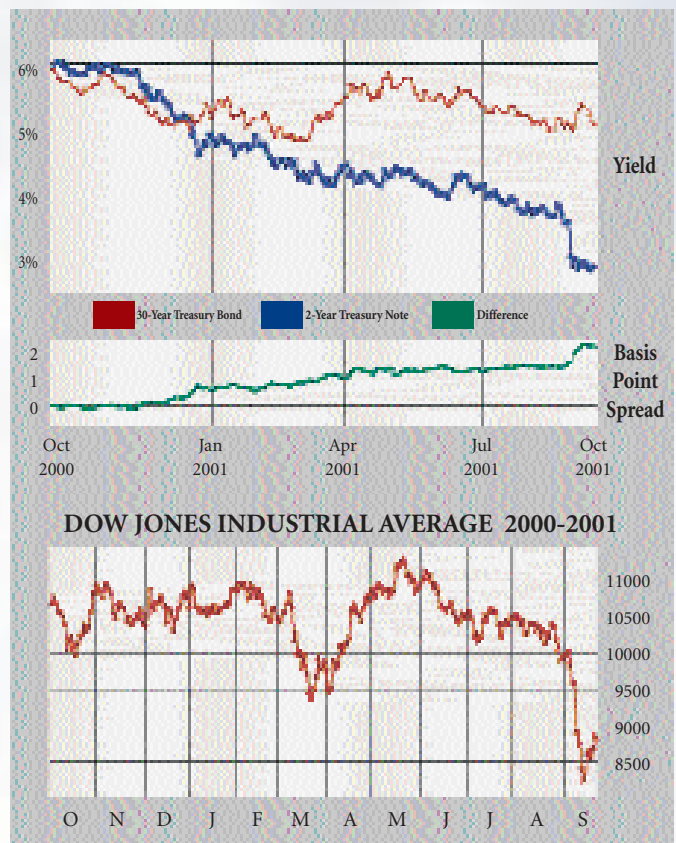
Standing L to R: John Givens, Marc Green, Lance Lachney, Darren Schulz, Allan Carr, Lewis Gayden, and Eric Fox.


Not Pictured: Steve Lambdin and Nancy Sprayberry

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 %)		
	2001	2000	1999	2001	2000	1999
AAA	18	23	27	15	18	22
AA	4	5	6	4	5	6
A	14	14	15	13	14	14
BAA	25	21	19	26	21	20
Not Rated	39	37	33	42	42	38





*The Certificate of Achievement
for
Excellence in Financial Reporting
was presented to
The Retirement Systems
of Alabama
for its
Comprehensive Annual Report
for the Fiscal Years Ended
September 30, 1999
and September 30, 2000*

This award is presented by the Government Finance Officers Association of the United States and Canada to government units in public employee retirement systems whose comprehensive annual financial reports (CFRs) achieve the highest standards in government accounting and financial reporting.

Financial Statements

Memoriam

September 11, 2001

The RSA pays homage to the memory of all the victims who perished during the terrorist attacks of September 11, 2001, and as a result of the military campaign that followed.

Those horrific acts affected and continue to impact every state of the union including our own Alabama. As we continue attempts to make sense of that tragic day, our sympathy is extended to all of the victims' families.

We would like to acknowledge those known victims who called Alabama home.

Sergeant Tamara Thurmond, Army

The Pentagon

Major Dwayne Williams, Army

The Pentagon

Operations Specialist Second Class Nehamon Lyons IV, Navy

The Pentagon

Information Specialist Technician First Class Marsha Dianah Ratchford, Navy

The Pentagon

Lynn Edwards Angell

American Airlines Flight 11

Carl Max Hammond Jr.

United 175

Johnny "Mike" Spann, CIA

Afghanistan

Gunnery Sergeant Stephen L. Bryson, Marine Corps

Pakistan

May God Bless the United States of America

Teachers' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

As of September 30, 2001 and 2000

	2001	(In Thousands)	2000
Assets			
Cash (restricted to payment of administrative expenses)	\$ 15,561		\$ 14,310
Receivables			
Employee contributions	18,204		18,323
Employer contributions	23,321		23,492
Dividends and interest	191,686		217,102
	<u>233,211</u>		<u>258,917</u>
Total receivables			
Investments, at fair value			
Domestic equity securities	5,585,957		6,572,578
Domestic fixed income securities	6,945,021		7,437,429
International securities	1,182,782		1,482,213
Real estate	760,284		583,464
Short-term investments	1,090,629		904,639
	<u>15,564,673</u>		<u>16,980,323</u>
Total investments			
Securities lending collateral	545,288		1,012,015
Property and equipment, less accumulated depreciation	2,906		3,734
	<u>16,361,639</u>		<u>18,269,299</u>
Total assets			
Liabilities			
Accounts payable and other liabilities	1,818		8,259
Securities lending collateral	545,288		1,012,015
	<u>547,106</u>		<u>1,020,274</u>
Total liabilities			
Net assets held in trust for pension benefits	<u>\$ 15,814,533</u>		<u>\$ 17,249,025</u>

Separately issued, audited financial statements are available upon request.

Teachers' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended September 30, 2001 and 2000

	2001	(In Thousands)	2000
Additions			
Contributions			
Employee	\$ 228,088		\$ 212,049
Employer	279,880		277,180
Transfers from Employees' Retirement System	2,433		1,954
Transfers from Judicial Retirement Fund	97		-
Total contributions	<u>510,498</u>		<u>491,183</u>
Investment income			
<i>From investing activities</i>			
Net increase (decrease) in fair value of investments	(1,860,162)		658,975
Interest and dividends	<u>769,739</u>		<u>755,482</u>
Total investment income from investing activity	(1,090,423)		1,414,457
Less: Investment expense	<u>3,467</u>		<u>3,229</u>
Net investment income from investing activities	<u>(1,093,890)</u>		<u>1,411,228</u>
<i>From securities lending activities</i>			
Securities lending income	43,671		64,006
Securities lending expenses			
Borrower rebates	39,692		59,807
Management fees	<u>795</u>		<u>859</u>
Total securities lending expenses	<u>40,487</u>		<u>60,666</u>
Net income from securities lending activities	<u>3,184</u>		<u>3,340</u>
Total investment income	<u>(1,090,706)</u>		<u>1,414,568</u>
Total additions	<u>(580,208)</u>		<u>1,905,751</u>
Deductions			
Retirement allowance payments	811,896		720,576
Return of contributions and death benefits	34,156		33,978
Transfer to Employees' Retirement System	1,207		1,530
Transfer to Judicial Retirement Fund	-		4
Administrative expense	6,023		5,639
Depreciation	<u>1,002</u>		<u>165</u>
Total deductions	<u>854,284</u>		<u>761,892</u>
Net increase (decrease)	(1,434,492)		1,143,859
Net assets held in trust for pension benefits			
Beginning of year	<u>17,249,025</u>		<u>16,105,166</u>
End of year	<u>\$ 15,814,533</u>		<u>\$ 17,249,025</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

As of September 30, 2001 and 2000

	2001	(In Thousands)	2000
Assets			
Cash (restricted to payment of administrative expenses)	\$ 5,917		\$ 5,198
Receivables			
Employee contributions	8,536		9,766
Employer contributions	6,916		9,720
Dividends and interest	86,080		102,494
Total receivables	<u>101,532</u>		<u>121,980</u>
Investments, at fair value			
Domestic equity securities	2,846,338		3,215,205
Domestic fixed income securities	3,073,799		3,284,697
International securities	515,283		655,973
Real estate	366,325		284,288
Short-term investments	326,550		352,151
Total investments	<u>7,128,295</u>		<u>7,792,314</u>
Securities lending collateral	221,059		510,757
Property and equipment, less accumulated depreciation	<u>2,289</u>		<u>2,510</u>
Total assets	<u>7,459,092</u>		<u>8,432,759</u>
Liabilities			
Accounts payable and other liabilities	1,298		3,417
Securities lending collateral	<u>221,059</u>		<u>510,757</u>
Total liabilities	<u>222,357</u>		<u>514,174</u>
Net assets held in trust for pension benefits	<u>\$ 7,236,735</u>		<u>\$ 7,918,585</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended September 30, 2001 and 2000

	2001	(In Thousands)	2000
Additions			
Contributions			
Employee	\$ 130,965		\$ 116,598
Employer	122,483		113,991
Transfers from Teachers' Retirement System	1,207		1,530
Transfers from Judicial Retirement Fund	66		-
Total contributions	<u>254,721</u>		<u>232,119</u>
Investment income			
<i>From investing activities</i>			
Net increase (decrease) in fair value of investments	(874,433)		314,458
Interest and dividends	<u>343,517</u>		<u>340,234</u>
Total investment income from investing activity	(530,916)		654,692
Less: Investment expense	<u>1,593</u>		<u>1,537</u>
Net investment income from investing activities	<u>(532,509)</u>		<u>653,155</u>
<i>From securities lending activities</i>			
Securities lending income	20,922		36,958
Securities lending expenses			
Borrower rebates	18,996		34,509
Management fees	<u>385</u>		<u>496</u>
Total securities lending expenses	<u>19,381</u>		<u>35,005</u>
Net income from securities lending activities	<u>1,541</u>		<u>1,953</u>
Total investment income	<u>(530,968)</u>		<u>655,108</u>
Total additions	<u>(276,247)</u>		<u>887,227</u>
Deductions			
Retirement allowance payments	371,715		341,145
Return of contributions and death benefits	24,906		24,864
Unit withdrawals	1,544		-
Transfer to Teachers' Retirement System	2,433		1,954
Transfer to Judicial Retirement Fund	97		31
Administrative expense	4,578		3,811
Depreciation	<u>330</u>		<u>367</u>
Total deductions	<u>405,603</u>		<u>372,172</u>
Net increase (decrease)	(681,850)		515,055
Net assets held in trust for pension benefits			
Beginning of year	7,918,585		7,403,530
End of year	<u>\$ 7,236,735</u>		<u>\$ 7,918,585</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF PLAN NET ASSETS

As of September 30, 2001 and 2000

	2001	(In Thousands)	2000
Assets			
Cash (restricted to payment of administrative expenses)	\$ 690		\$ 680
Receivables			
Employee contributions	123		82
Employer contributions	265		198
Dividends and interest	<u>2,236</u>		<u>2,562</u>
Total receivables	<u>2,624</u>		<u>2,842</u>
Investments, at fair value			
Domestic equity securities	106,937		134,893
Domestic fixed income securities	98,562		105,288
Real estate	1,931		1,391
Short-term investments	<u>12,524</u>		<u>8,746</u>
Total investments	<u>219,954</u>		<u>250,318</u>
Securities lending collateral	5,597		7,751
Total assets	<u>228,865</u>		<u>261,591</u>
Liabilities			
Accounts payable and other liabilities	99		115
Securities lending collateral	<u>5,597</u>		<u>7,751</u>
Total liabilities	<u>5,696</u>		<u>7,866</u>
Net assets held in trust for pension benefits	<u>\$ 223,169</u>		<u>\$ 253,725</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended September 30, 2001 and 2000

	2001	(In Thousands)	2000
Additions			
Contributions			
Employee	\$ 2,115		\$ 1,608
Employer	7,598		5,696
Transfers from Teachers' Retirement System	-		4
Transfers from Employees' Retirement System	<u>97</u>		<u>31</u>
Total contributions	<u>9,810</u>		<u>7,339</u>
Investment income			
<i>From investing activities</i>			
Net increase (decrease) in fair value of investments	(35,377)		14,106
Interest and dividends	<u>11,192</u>		<u>10,970</u>
Total investment income from investing activity	(24,185)		25,076
Less: Investment expense	<u>31</u>		<u>23</u>
Net investment income from investing activities	<u>(24,216)</u>		<u>25,053</u>
<i>From securities lending activities</i>			
Securities lending income	467		850
Securities lending expenses			
Borrower rebates	443		816
Management fees	<u>5</u>		<u>6</u>
Total securities lending expenses	<u>448</u>		<u>822</u>
Net income from securities lending activities	<u>19</u>		<u>28</u>
Total investment income	<u>(24,197)</u>		<u>25,081</u>
Total additions	<u>(14,387)</u>		<u>32,420</u>
Deductions			
Retirement allowance payments	15,655		11,256
Return of contributions and death benefits	79		43
Transfers to Employees' Retirement System	66		-
Transfers to Teachers' Retirement System	97		-
Administrative expense	<u>272</u>		<u>263</u>
Total deductions	<u>16,169</u>		<u>11,562</u>
Net increase (decrease)	(30,556)		20,858
Net assets held in trust for pension benefits			
Beginning of year	<u>253,725</u>		<u>232,867</u>
End of year	<u>\$ 223,169</u>		<u>\$ 253,725</u>

Separately issued, audited financial statements are available upon request.

Commissions Paid Report

Fiscal Year 2001

	Volume of Business Private Placements, Agencies (\$ In Millions)	Commissions Stock Transactions	Commissions Bond Transactions
AIB		\$ 9,830	
Bank of America	\$ 25		\$ 325,649
Bear Stearns & Co.	67	118,735	139,431
Bradford, J. C. & Co., Inc.		2,150	
Centennial Capital		6,250	
Chapman		11,935	
Comtech Telecommunications	10		
Concord Equity		12,550	
Credit Suisse First Boston Corp.	71	554,003	417,823
Deutsche Bank			108,223
Deutsche Morgan Grenfell		118,214	
Donaldson, Lufkin & Jenrette		1,563	
Edwards, A. G. & Sons		25,230	9,000
Gardner Rich		19,750	
Goldman Sachs & Co.	20	149,035	536,676
Instinet		138,421	
International Strategy & Investment		19,510	
Jackson Securities		3,050	
J. P. Morgan Chase		106,480	290,534
J. Roe Burton & Co.		13,765	5,000
Lazard Freres			3,960
Lehman Brothers	7	539,228	171,026
McDonald & Co.		16,850	
Merrill Lynch, Pierce, Fenner & Smith, Inc.	88	464,085	731,435
Morgan Keegan		27,800	5,000
Morgan Stanley/Dean Witter		339,532	160,550
NBC Capial Markets	327		108,375
NBC Securities		31,815	9,000
Oppenheimer Co., Inc.		266,930	
Paine, Webber, Mitchell Hutchins, Inc.		335,039	14,000
Prudential Bache		175,458	
Quick & Reilly		12,405	
Raymond James	49	35,120	31,313
Robert Thomas		8,700	
Robinson-Humphrey/American Express		18,400	5,000
Salomon Smith Barney	67	601,830	627,470
S. C. Bernstein		564,350	
Securities Capital		9,980	4,000
Southwest		10,800	
Sterne, Agee & Leach, Inc.		20,650	5,000
Warburg Dillon Reed	30		54,000
WheatFirst/Union		26,375	
Issuer Designated Brokers			364,761
TOTAL	\$ 761	\$ 4,815,818	\$ 4,127,226



