

The Retirement Systems of Alabama

Component Units of the State of Alabama

Comprehensive Annual Financial Report



For the Fiscal Year Ended September 30, 2004

Front Cover: Robert Trent Jones Golf Trail / Hoover / Oxmoor Valley • Valley Course, 16th Hole

Back Cover: Robert Trent Jones Golf Trail / Anniston-Gadsden / Silver Lakes • Heartbreaker, 8th Hole

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The Retirement Systems of Alabama

Component Units of the State of Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2004

The Retirement Systems of Alabama
Consists of:

TEACHERS' RETIREMENT SYSTEM of ALABAMA
EMPLOYEES' RETIREMENT SYSTEM of ALABAMA
JUDICIAL RETIREMENT FUND

(Each a Component Unit of The State of Alabama)

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

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INTRODUCTORY SECTION

Retirement Systems of Alabama



David G. Bronner, CEO
Marcus H. Reynolds, Jr., Deputy

Teachers'
Paul R. Hubbert, Chair
Sarah Swindle, Vice Chair

Employees'
State State Police Public Judicial
Bob Riley, Chair
John H. Wilkerson, Jr., Vice Chair

March 15, 2005

The Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
135 South Union Street
Montgomery, AL 36130

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2004. The Retirement Systems of Alabama includes the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), and the Judicial Retirement Fund (JRF). Each system is considered a component unit of the State of Alabama for financial reporting purposes, and, as such, the financial statements contained in this report are also included in the State of Alabama Comprehensive Annual Financial Report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. I trust that you and the members of the Systems will find this report helpful in understanding your retirement system.

Report Contents

The 2004 Comprehensive Annual Financial Report is divided into the following five sections:

- The *Introductory Section*, which contains this letter of transmittal and general information regarding the operations and administrative structure of the RSA.
- The *Financial Section*, which contains the Independent Auditors' Report by KPMG LLP, Management's Discussion and Analysis, financial statements, required supplementary information, and supporting schedules for the TRS, ERS, and JRF.
- The *Investment Section*, which contains a report on investment activity, an outline of investment policies, investment results, and various investment schedules.
- The *Actuarial Section*, which contains the certification letter of the independent consulting actuary, Mellon, for the TRS, ERS, and JRF, as well as summaries of the results of the most recent actuarial valuations.
- The *Statistical Section*, which contains significant statistical information regarding the TRS, ERS, and JRF.

Administration and Plan History

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis. The TRS was established under the provisions of Act 419 of the Legislature of 1939 to provide benefits to qualified persons employed by State-supported educational institutions. The ERS was established under the provisions of Act 515 of the Legislature of 1945 to provide benefits to State employees, State police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The JRF was established under the provisions of Act 1163 of the Legislature of 1973 to provide benefits to qualified judges and justices. Additional information regarding the administration and history of each system, including laws establishing each plan and services provided, can be found in the *Financial Section - Notes to the Financial Statements* portion of this report.

Financial Information

Accounting Method - As required by Generally Accepted Accounting Principles (GAAP), the financial information of the TRS, ERS, and JRF is reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the corresponding liability is incurred. Investments are reported at fair value.

Internal Controls - The management of the RSA is responsible for maintaining the system of internal controls (system). The system provides management with reasonable, but not absolute, assurance regarding the safeguarding of assets against loss or unauthorized disposition and the reliability of the financial records from which the financial reports are prepared. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

Summary Comparative Data - Management's Discussion and Analysis (MD&A) includes a narrative introduction, an overview of the financial statements, including the notes, and required supplementary information, and summary comparative data for fiscal years 2004 and 2003. Also, an analysis of significant variances between fiscal years 2004 and 2003 is provided in the MD&A.

Plan Financial Condition

The funding objective of the RSA pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Historical information concerning funding progress is presented in the *Required Supplementary Information* - "Schedule of Funding Progress" on page 39.

At the date of the latest actuarial valuations, as presented in the *Notes to the Required Supplementary Information* on page 41, the number of participants in the TRS, ERS, and JRF was 202,130, 121,563, and 719, respectively. The TRS's last valuation was performed as of June 30, 2003. The TRS's funded percentage decreased from 97.4% at June 30, 2002 to 93.6% at June 30, 2003. The ERS's and JRF's last valuations were performed as of September 30, 2003. The ERS's funded percentage decreased from 95.4% at September 30, 2002 to 91.1% at September 30, 2003. The JRF's funded percentage increased from 84.7% at September 30, 2002 to 86.6% at September 30, 2003.

Investment Activity

Total investments for the RSA increased in fiscal year 2004, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2004 were \$16.6 billion, \$7.7 billion and \$219.3 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2003 of \$15.5 billion, \$7.1 billion, and \$204.0 million, respectively. Total pension fund investments managed by the RSA increased from \$22.8 billion at September 30, 2003 to \$24.6 billion at September 30, 2004, an 7.9% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2004 was \$580.0 million, \$268.9 million, and \$7.2 million, respectively, compared to \$592.6 million, \$271.7 million, and \$8.0 million, respectively, for the fiscal year ended September 30, 2003. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2004 was \$1.1 billion, \$458.0 million and \$14.7 million, respectively, compared to the increase in fair value of investments of \$1.4 billion, \$668.5 million, and \$12.9 million, respectively, for the fiscal year ended September 30, 2003.

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 RSA while providing these at the

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Letter of Transmittal (Continued)

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.

Management's Discussion and Analysis

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Financial Statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

Legislation Enacted During Fiscal-Year 2004

Act 2004-637 permits eligible members participating in the ERS as employees of a city, county public or quasi-public agency to purchase and receive (1) year of hazardous duty prior service credit for each five years of employment as a certified Firefighter, Law Enforcement Officer, or Correctional Officer. Regular State employees or employees of the Auburn University Extension Service are not eligible to purchase service under the provisions of this Act.

The member must meet all the following requirements to qualify to purchase this service:

- a) Member must have had no prior eligibility to purchase the service credit.
- b) Member must be employed as a full-time Firefighter and certified by the Firefighters Personnel Standards and Education Commission or must be employed as a full-time Law Enforcement Officer and must be certified by the Alabama Peace Officers and Training Commission.
- c) Member must purchase service credit by July 31, 2005, or within one year of his/her enrollment with the ERS.
- d) Member may receive one additional year of retirement service credit for each five years of prior employment, provided the member pays to the ERS one (1%) of his/her current annual earnable compensation or previous year's annual earnable compensation, whichever is higher, for each year of claimed service. Proportional credit shall be awarded for any period of service less than five years.
- e) The additional retirement service credit provided under this Act will be granted upon the member's attainment of the requisite years of creditable service or who otherwise qualifies for service or disability retirement. The additional retirement service may not be used to meet the creditable service requirements for service or disability retirement.
- f) Contributions may be made upon the prior service in increments of five years unless the total of prior year service is less than five years in which case the service shall be purchased in its entirety.
- g) The provisions of the Act become effective August 1, 2004.

Act 2004-362 allows any public official who has been authorized by local Constitutional Amendment to participate in the ERS to purchase service credit in the ERS for the time the official has served in the office he/she is holding at the time of ratification of the amendment provided the following requirements are met:

- a) Member must not have previously received credit for the service in any other public pension fund.
- b) Must pay a sum equal to the total contributions which would have been paid had the member been authorized to participate in the ERS during claimed period plus eight percent interest on such total contributions compounded annually from the date of such service.
- c) The provisions for purchase of service shall apply to local Constitutional Amendments ratified prior to and after the effective date of this Act and removes the requirement that the payment be received by the ERS within one year of the ratification of the local Constitutional Amendment.
- d) The provisions of the Act become effective July 1, 2004.

Act 2004-274 authorizes the City of Dothan to terminate its existing retirement plan, join the ERS and transfer assets and liabilities of the City of Dothan Pension and Retirement System to the ERS.

Professional Services

Professional consultants are appointed by the Boards of Control to perform professional services that are essential to the effective operation of the TRS, ERS, and JRF. The certification letters from the independent actuary are included in this report. The professional consultants appointed by the Boards of Control are listed on page 10 of this report.

Financial Statement Audit

KPMG LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the RSA’s financial statements for the fiscal year ended September 30, 2004. The independent auditors’ report is located at the front of the financial section of this report.

Highlights and Initiatives

During the fiscal year, the RSA expanded its holdings in the media sector by investing in ACON Outdoor Partners, a limited partnership that purchased Tri-State Outdoor Advertiser, now renamed Magic Media. The seventh largest outdoor advertising company in the U.S., Magic Media has 13,000 displays, primarily billboards, across the country. In addition to a good rate of return in a solid industry, the RSA will have the right to select up to 50 lighted billboards for use by the RSA, which will be a great addition to our newspaper and television advertising for improvement of Alabama tourism.

Real estate continued to be an active area for the RSA during the fiscal year. In Mobile, the RSA has helped to fund and advertise the city’s waterfront terminal development. Carnival Cruise Lines is home porting “The Holiday” at the Mobile terminal and is scheduling 72 three, four and five-day cruises per year. The Ross Bridge Resort and Spa on the Robert Trent Jones Golf Trail and the golf course are scheduled to be completed in the spring and are located next to the Oxmoor Valley courses. The four-star hotel will contain a spa, three-level pool, conference center and clubhouse. In Northwest Alabama, the Shoals project, the ninth site on the Trail, is the newest site with 18 holes now open and the entire 36-hole facility and four-star The Shoals Hotel, Conference Center and Spa on the Robert Tent Jones Golf Trail scheduled for completion in the spring.

Finally, after two years of legal dispute, the RSA won a settlement of its lawsuit against the financial advisors of WorldCom, Inc., receiving \$111 million, or 90% of the amount it was suing to collect. The normal settlement in such litigation is usually only five to ten cents on the dollar. The RSA has and will continue to be committed to preserving the integrity of the financial markets, including the pursuit of Enron.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement Systems of Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2003. The Certificate of Achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments

The compilation of this report reflects the combined effort of the staff under the leadership of the Boards of Control. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the funds of the TRS, ERS, and JRF.

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

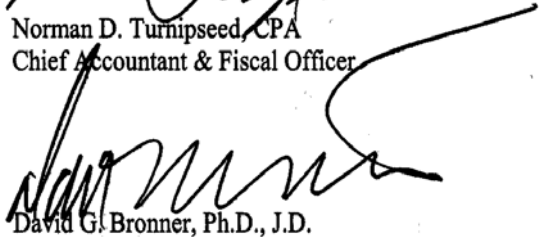
Letter of Transmittal (Continued)

I would like to take this opportunity to express my gratitude to the staff, the Boards of Control, the consultants, the Legislature, and to the many people who have worked so diligently through continued cooperative efforts to assure the successful operation and financial soundness of the TRS, ERS, and JRF.

Sincerely,



Norman D. Turnipseed, CPA
Chief Accountant & Fiscal Officer



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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Retirement Systems of Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

President

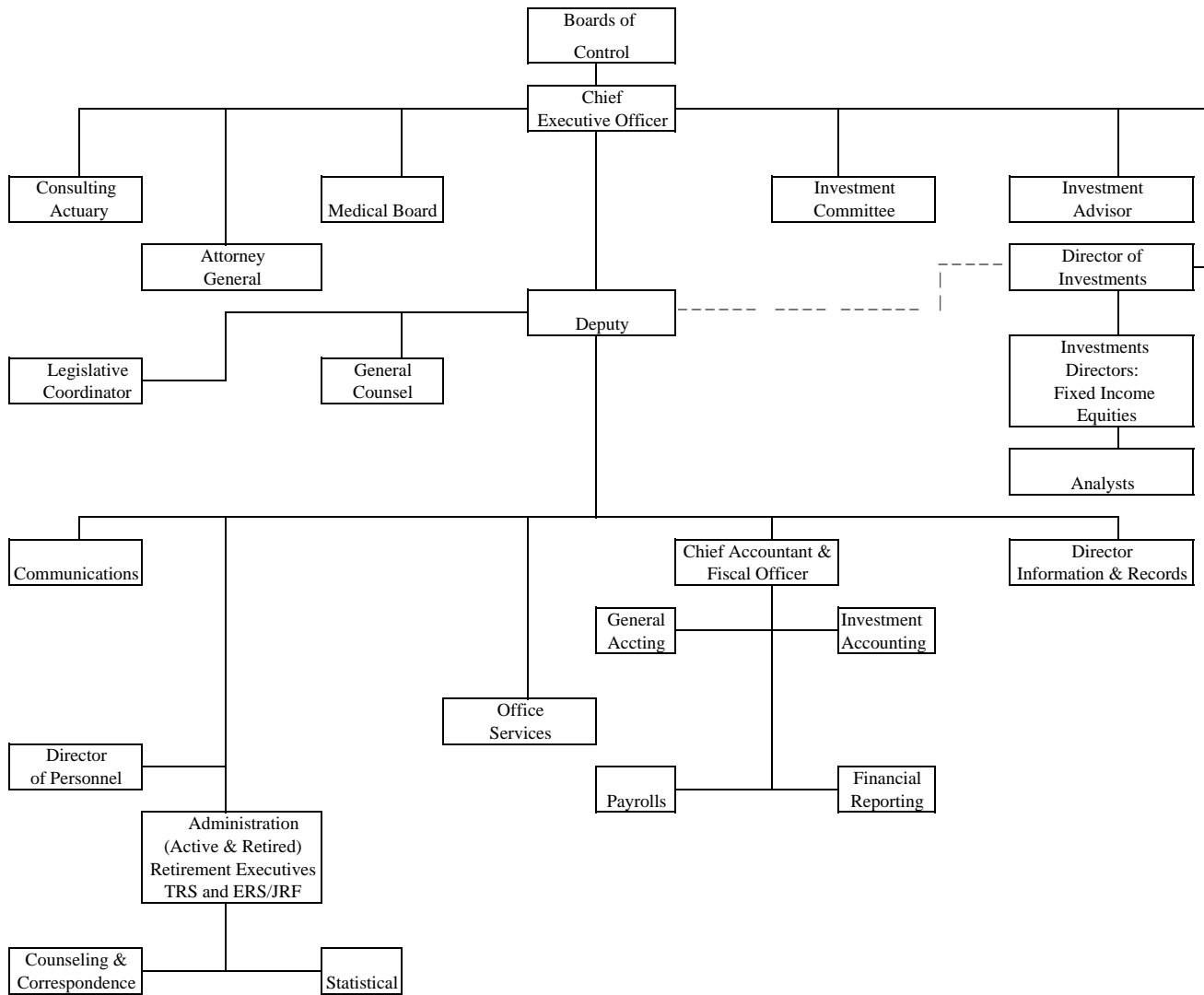
Jeffrey R. Emer

Executive Director

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Organization Chart



Teachers' Retirement System Board of Control

Ex Officio Members

Chairman, Dr. Paul R. Hubbert, Executive Secretary, AEA
Jim Main, State Finance Director
Kay Ivey, State Treasurer
Dr. Joseph Morton, State Superintendent of Education

Elected Members

Vice-Chairman, Mrs. Sarah Swindle, Retired Position
Ms. Judy Rigdon, Teacher Position
Dr. Susan Williams Brown, Postsecondary Position
Ms. Judy West Bell, Teacher Position
Dr. J. Terry Jenkins, Superintendent Position
Mr. Clyde Goode, Principal Position
Dr. Wayne Teague, Retired Position
Mr. Russell J. Twilley, Support Personnel Position
Mrs. Peggy K. Lamb, Teacher Position
Mrs. Sharon P. Saxon, Support Personnel Position

Employees' Retirement System Board of Control**

Ex Officio Members

Chairman, Bob Riley, Governor
Jim Main, State Finance Director
Kay Ivey, State Treasurer
Thomas G. Flowers, State Personnel Director

Elected Members

Mr. Clyde Sellers, Retired Local Employee
Mrs. Ann Gant, Active Local Employee
Mr. Ronald Matthews, Active Local Employee
Ms. Mary Lou Foster, Retired State Employee
Ms. Alice Thornton, Active State Employee
Mr. Stephen C. Walkley, Active State Employee

Appointed Members

Vice-Chairman, Mr. John H. Wilkerson, Jr.
Mr. Robert H. Pruitt
Mr. Robert S. Miller

** The Employees' Retirement System Board of Control is responsible for the administration of both the Employees' Retirement System and the Judicial Retirement Fund.

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Staff, Advisors, and Medical Board

Staff, Advisors, and Medical Board

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

Marcus H. Reynolds, Jr., J.D., Deputy Director

Administrative Staff

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

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

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

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

Legislative Counsel, Lindy J. Beale, 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.

Investment Staff

Director of Investments, Marc Green, M.B.A., C.F.A.

Director of Alternative Investments, M. Hunter Harrell, M.B.A., J.D., C.F.A.

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

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

Director of Fixed Income, Julie S. Barranco, M.B.A., C.F.A.

Equity Analyst, John R. Givens, M.B.A., C.F.A.

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

Equity Analyst, Kevin W. Gamble, M.B.A., C.F.A.

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

Fixed Income Analyst, Joseph G. Walker, M.B.A., C.F.A.

Cash Management & Operations, Nancy H. Sprayberry

Cash Management & Operations, Ann Roth, B.S.

Advisors

Independent Certified Public Accountants, KPMG LLP

AmSouth Bank, N.A., Mr. Brian Sullivan, Investment Consultant

State Street, Investment Custodian

Mellon, Mr. Edward A. Macdonald

Attorney General, Mr. Troy King

Chief Examiner, Mr. Ronald L. Jones

Medical Board

Chairman, Neil Stronach, M.D.

Malcolm Brown, M.D.

Glen Yates, M.D.

FINANCIAL SECTION



KPMG LLP
SouthTrust Tower
Suite 1800
420 20th Street North
Birmingham, AL 35203

Independent Auditors' Report

Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
Judicial Retirement Fund:

We have audited the accompanying combining statement of plan net assets of the Retirement Systems of Alabama (consisting of the Teachers' Retirement System of Alabama, the Employees' Retirement System of Alabama, and the Judicial Retirement Fund), component units of the State of Alabama, as of September 30, 2004, and the related combining statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Retirement Systems of Alabama. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Retirement Systems of Alabama's 2003 financial statements and, in our report dated March 2, 2004, we expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Systems of Alabama (component units of the State of Alabama) as of September 30, 2004, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 17 and the schedules of funding progress and employer contributions (pages 38 to 41) are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 42 through 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 9, 2005

Management's Discussion and Analysis

The Retirement Systems of Alabama (RSA) is comprised of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF). The following discussion provides an overview of the financial position and results of operation for the RSA as of and for the period ended September 30, 2004, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements and the Required Supplementary Information.

Financial Statements and Required Supplementary Information

The financial statements (statements) include the Combining Statement of Plan Net Assets and the Combining Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, pursuant to plan requirements, and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Combining Statement of Plan Net Assets – Includes all accounting assets and liabilities of the RSA and provides a snapshot of the financial position of the RSA as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for pension benefits at fiscal year-end.

Combining Statement of Changes in Plan Net Assets – Reports all additions and deductions of the RSA for the fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are principally made up of retirement allowance payments. Additions minus deductions provide the change in plan net assets for the fiscal year. The change in plan net assets plus the beginning plan net assets results in the plan net assets at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, a description of legally required reserves and corresponding reserve balances at year-end, credit risk disclosures for cash and investments, concentration of investments disclosures, and securities lending disclosures.

The Required Supplementary Information following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the TRS, ERS, and JRF plans. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed. The Notes to the Required Supplementary Information provide disclosures concerning actuarial assumptions.

Comparative Summary Statements

Summary Comparative Statement of Plan Net Assets As of September 30, 2004 and 2003 (Amounts in Thousands)

	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Assets</i>				
Cash	\$ 20,514	\$ 18,889	\$ 1,625	8.60
Receivables	285,573	287,995	(2,422)	(0.84)
Investments	24,564,620	22,807,598	1,757,022	7.70
Invested Securities Lending Collateral	1,640,485	2,505	1,637,980	65,388.42
Property and Equipment	<u>4,615</u>	<u>4,880</u>	<u>(265)</u>	<u>(5.43)</u>
Total Assets	<u>26,515,807</u>	<u>23,121,867</u>	<u>3,393,940</u>	<u>14.68</u>
<i>Liabilities</i>				
Accounts Payable and Other Liabilities	4,862	4,259	603	14.16
Securities Lending Collateral	<u>1,640,485</u>	<u>2,505</u>	<u>1,637,980</u>	<u>65,388.42</u>
Total Liabilities	<u>1,645,347</u>	<u>6,764</u>	<u>1,638,583</u>	<u>24,225.06</u>
<i>Net Assets</i>	<u>\$ 24,870,460</u>	<u>\$ 23,115,103</u>	<u>\$ 1,755,357</u>	<u>7.59</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

**Summary Comparative Statement of Changes in Plan Net Assets
For the Fiscal Years Ended September 30, 2004 and 2003**

(Amounts in Thousands)

	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Additions</i>				
Employee Contributions	\$ 421,057	\$ 412,101	\$ 8,956	2.17
Employer Contributions	492,181	398,641	93,540	23.46
Investment Income	2,382,036	2,964,207	(582,171)	(19.64)
Transfers Between Systems	<u>3,785</u>	<u>4,543</u>	<u>(758)</u>	<u>(16.69)</u>
Total Additions	<u>3,299,059</u>	<u>3,779,492</u>	<u>(480,433)</u>	<u>(12.71)</u>
<i>Deductions</i>				
Retirement Allowance Payments	1,454,322	1,373,678	80,644	5.87
Return of Contributions, Unit Withdrawals, and Death Benefits	71,290	58,043	13,247	22.82
Transfers Between Systems	3,785	4,543	(758)	(16.69)
Administrative Expense	13,597	13,176	421	3.20
Depreciation	<u>708</u>	<u>645</u>	<u>63</u>	<u>9.77</u>
Total Deductions	<u>1,543,702</u>	<u>1,450,085</u>	<u>93,617</u>	<u>6.46</u>
<i>Increase in Plan Net Assets</i>	1,755,357	2,329,407	(574,050)	(24.64)
Net Assets - Beginning of Year	<u>23,115,103</u>	<u>20,785,696</u>	<u>2,329,407</u>	<u>11.21</u>
<i>Net Assets - End of Year</i>	<u>\$ 24,870,460</u>	<u>\$ 23,115,103</u>	<u>\$ 1,755,357</u>	<u>7.59</u>

**Comparison of Individual Plan Net Assets
As of September 30, 2004 and 2003**

(Amounts in Thousands)

	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
TRS	\$ 16,853,149	\$ 15,685,620	\$ 1,167,529	7.44
ERS	7,795,598	7,222,812	572,786	7.93
JRF	<u>221,713</u>	<u>206,671</u>	<u>15,042</u>	<u>7.28</u>
Totals	<u>\$ 24,870,460</u>	<u>\$ 23,115,103</u>	<u>\$ 1,755,357</u>	<u>7.59</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

Financial Analysis

- While the overall change in receivables was only -.84%, there was a significant change in two of the components of the receivables. Employer contributions receivables increased from \$28.2 million to \$37.9 million, a 34.5% increase. The primary reason for the increase in employer contributions receivable and employer contributions was increases in the employer contribution rates from fiscal year 2003 to fiscal year 2004. Interest and dividends receivable decreased by 5.6% primarily due to fixed income securities that were sold or matured during the fiscal year being replaced with fixed income securities with lower coupon rates, which resulted in lower interest receivables.
- Investments increased by \$1.8 billion, investment and plan net assets increased by \$1.8 billion, mainly as a result of increases in the fair value of investments. The net increase in fair value of investments for fiscal year 2004 was \$1.5 billion compared to a net increase in fair value of investments in fiscal year 2003 of \$2.1 billion, which accounted for most of the negative variance in investment income.
- Retirement allowance payments increased by \$80.6 million primarily due to new retirees.
- Return of Contributions, Unit Withdrawals, Unit Withdrawals, and Death Benefits increased mainly as a result of an increase in member withdrawals and a unit withdrawal.
- Securities lending collateral increased significantly because at September 30, 2003, the RSA was preparing to transition to a new investment custodian and securities lending activity increased in fiscal year 2004 as a result of greater emphasis on securities lending by the new investment custodian.

Funding Status

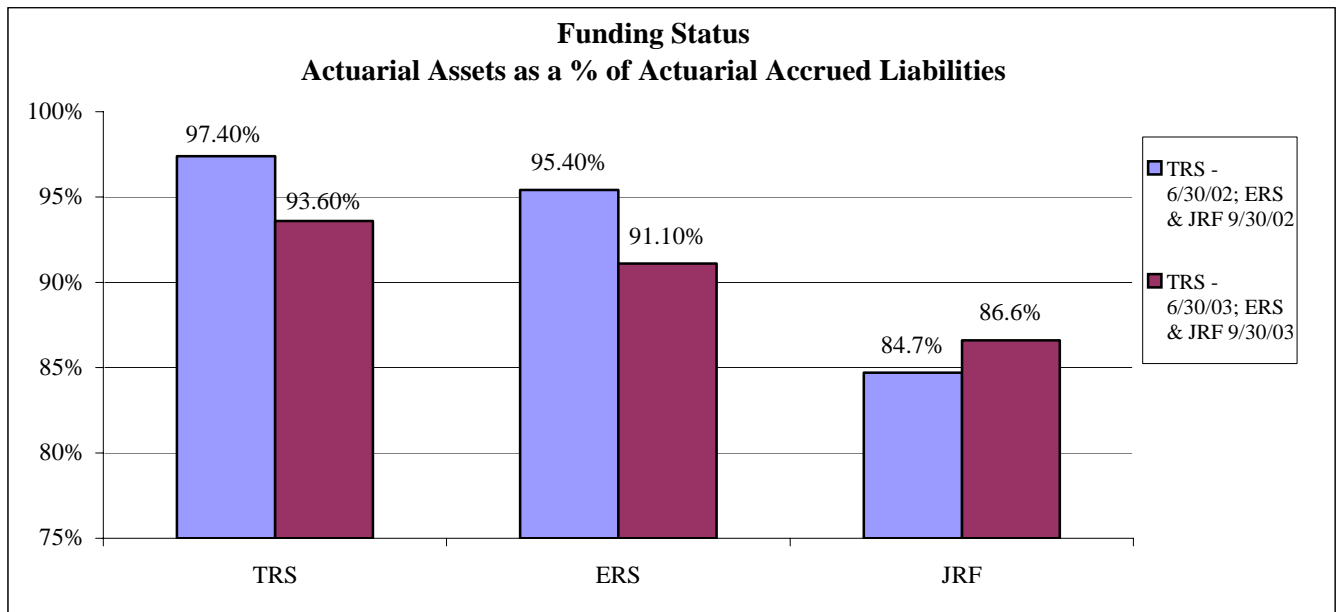
The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets to limit fluctuations in the contributions from year to year.

The ratio of actuarial assets to actuarial liabilities provides an excellent indication as to whether sufficient assets are being accumulated to pay benefits when due. The following bar graph provides comparisons of the funded ratio (actuarial assets to actuarial liabilities) as of the last two valuations for each System (June 30, 2003 and June 30, 2002, for TRS and September 30, 2003 and September 30, 2002, for ERS and JRF). The funded ratio has decreased slightly in the most recent valuations as a result of the continued amortization of losses in fair value of investments that occurred in fiscal years 2001 and 2002. Since a five-year smoothing method is employed to value assets, the funded ratio is likely to continue to decrease over the next few years as the recent losses are incorporated into the smoothing calculations. However, as reflected by the following graph, the TRS, ERS, and JRF continue to operate on an actuarially sound basis and accumulated funds are sufficient to continue to provide benefits as they become due.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)



Financial Highlights

- Total assets exceeded total liabilities at September 30, 2004, by \$24.9 billion. Net assets are held in trust to meet future benefit payments.
- The funding level (actuarial value of assets as a percent of actuarial accrued liabilities) as of the latest actuarial valuations was 93.6% for the TRS, 91.1% for the ERS, and 86.6% for the JRF.
- The fair value of investments increased by \$1.5 billion during the fiscal year.
- The investment section contains a detailed schedule of investment returns and related benchmarks.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Plan Net Assets
September 30, 2004 with comparative figures for 2003

(Amounts in Thousands)

	2004			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash (Note 4)	\$ 15,109	\$ 4,710	\$ 695	\$ 20,514
Receivables				
Employee Contributions	19,840	9,269	110	29,219
Employer Contributions	26,127	11,461	308	37,896
Dividends and Interest	<u>147,543</u>	<u>69,537</u>	<u>1,378</u>	<u>218,458</u>
Total Receivables	<u>193,510</u>	<u>90,267</u>	<u>1,796</u>	<u>285,573</u>
Investments, at Fair Value (Note 5)				
Domestic Equity Securities	7,743,769	3,636,637	126,199	11,506,605
Domestic Fixed Income Securities	4,980,577	2,317,072	73,036	7,370,685
International Securities	1,936,147	832,907	-	2,769,054
Real Estate	1,060,523	512,355	2,429	1,575,307
Short-term Investments	<u>923,947</u>	<u>401,353</u>	<u>17,669</u>	<u>1,342,969</u>
Total Investments	<u>16,644,963</u>	<u>7,700,324</u>	<u>219,333</u>	<u>24,564,620</u>
Invested Securities Lending Collateral (Note 5)	1,098,881	526,821	14,783	1,640,485
Property and Equipment less				
Accumulated Depreciation (Note 8)	<u>2,599</u>	<u>2,016</u>	<u>-</u>	<u>4,615</u>
Total Assets	<u>17,955,062</u>	<u>8,324,138</u>	<u>236,607</u>	<u>26,515,807</u>
Liabilities				
Accounts Payable and Other Liabilities	3,032	1,719	111	4,862
Securities Lending Collateral (Note 5)	<u>1,098,881</u>	<u>526,821</u>	<u>14,783</u>	<u>1,640,485</u>
Total Liabilities	<u>1,101,913</u>	<u>528,540</u>	<u>14,894</u>	<u>1,645,347</u>
Net Assets Held in Trust for Pension Benefits (Note 3)	<u>\$ 16,853,149</u>	<u>\$ 7,795,598</u>	<u>\$ 221,713</u>	<u>\$ 24,870,460</u>

A "Schedule of Funding Progress" is presented on page 39.

See accompanying Notes to the Financial Statements .

	2003			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash	\$ 15,325	\$ 2,917	\$ 647	\$ 18,889
Receivables				
Employee Contributions	19,362	8,989	111	28,462
Employer Contributions	19,541	8,337	296	28,174
Dividends and Interest	<u>156,398</u>	<u>73,249</u>	<u>1,712</u>	<u>231,359</u>
Total Receivables	<u>195,301</u>	<u>90,575</u>	<u>2,119</u>	<u>287,995</u>
Investments, at Fair Value				
Domestic Equity Securities	6,762,794	3,285,094	107,209	10,155,097
Domestic Fixed Income Securities	5,509,848	2,514,000	84,089	8,107,937
International Securities	1,429,102	635,563	-	2,064,665
Real Estate	940,122	454,569	2,227	1,396,918
Short-term Investments	<u>833,052</u>	<u>239,446</u>	<u>10,483</u>	<u>1,082,981</u>
Total Investments	<u>15,474,918</u>	<u>7,128,672</u>	<u>204,008</u>	<u>22,807,598</u>
Invested Securities Lending Collateral	2,505	-	-	2,505
Property and Equipment less Accumulated Depreciation				
	<u>2,763</u>	<u>2,117</u>	<u>-</u>	<u>4,880</u>
Total Assets	<u>15,690,812</u>	<u>7,224,281</u>	<u>206,774</u>	<u>23,121,867</u>
Liabilities				
Accounts Payable and Other Liabilities	2,687	1,469	103	4,259
Securities Lending Collateral	<u>2,505</u>	<u>-</u>	<u>-</u>	<u>2,505</u>
Total Liabilities	<u>5,192</u>	<u>1,469</u>	<u>103</u>	<u>6,764</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 15,685,620</u>	<u>\$ 7,222,812</u>	<u>\$ 206,671</u>	<u>\$ 23,115,103</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Changes in Plan Net Assets

For the Fiscal Year Ended September 30, 2004 with comparative figures for 2003

(Amounts in Thousands)

	2004			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
Additions				
Contributions				
Employee	\$ 251,714	\$ 166,973	\$ 2,370	\$ 421,057
Employer	312,474	170,713	8,994	492,181
Transfers from Teachers' Retirement System	-	1,575	-	1,575
Transfers from Employees' Retirement System	2,146	-	64	2,210
Total Contributions	<u>566,334</u>	<u>339,261</u>	<u>11,428</u>	<u>917,023</u>
Investment Income (Note 5)				
From Investing Activities				
Net Increase in Fair Value of Investments	1,055,525	457,981	14,736	1,528,242
Interest and Dividends	580,000	268,876	7,218	856,094
Total Investment Income from Investing Activities	1,635,525	726,857	21,954	2,384,336
Less: Investment Expenses	4,079	2,390	12	6,481
Net Investment Income from Investing Activities	<u>1,631,446</u>	<u>724,467</u>	<u>21,942</u>	<u>2,377,855</u>
From Securities Lending Activities				
Securities Lending Income	10,704	4,892	109	15,705
Less Securities Lending Expenses:				
Borrower Rebates	7,206	3,318	83	10,607
Management Fees	630	283	4	917
Total Securities Lending Expenses	<u>7,836</u>	<u>3,601</u>	<u>87</u>	<u>11,524</u>
Net Income from Securities Lending Activities	<u>2,868</u>	<u>1,291</u>	<u>22</u>	<u>4,181</u>
Total Investment Income	<u>1,634,314</u>	<u>725,758</u>	<u>21,964</u>	<u>2,382,036</u>
Total Additions	<u>2,200,648</u>	<u>1,065,019</u>	<u>33,392</u>	<u>3,299,059</u>
Deductions				
Retirement Allowance Payments	987,761	448,658	17,903	1,454,322
Return of Contributions and Death Benefits	35,983	31,406	103	67,492
Unit Withdrawals	-	3,798	-	3,798
Transfers to Employees' Retirement System	1,575	-	-	1,575
Transfers to Teachers' Retirement System	-	2,146	-	2,146
Transfers to Judicial Retirement Fund	-	64	-	64
Administrative Expenses	7,361	5,892	344	13,597
Depreciation (Note 8)	439	269	-	708
Total Deductions	<u>1,033,119</u>	<u>492,233</u>	<u>18,350</u>	<u>1,543,702</u>
Net Increase	<u>1,167,529</u>	<u>572,786</u>	<u>15,042</u>	<u>1,755,357</u>
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	<u>15,685,620</u>	<u>7,222,812</u>	<u>206,671</u>	<u>23,115,103</u>
End of Year	<u>\$ 16,853,149</u>	<u>\$ 7,795,598</u>	<u>\$ 221,713</u>	<u>\$ 24,870,460</u>

See accompanying Notes to the Financial Statements .

	2003			
	<u>Teachers'</u> <u>Retirement</u> <u>System</u>	<u>Employees'</u> <u>Retirement</u> <u>System</u>	<u>Judicial</u> <u>Retirement</u> <u>Fund</u>	<u>Totals</u>
Additions				
Contributions				
Employee	\$ 249,996	\$ 159,763	\$ 2,342	\$ 412,101
Employer	235,786	154,218	8,637	398,641
Transfers from Teachers' Retirement System	-	2,418	-	2,418
Transfers from Employees' Retirement System	2,022	-	-	2,022
Transfers from Judicial Retirement Fund	-	103	-	103
Total Contributions	<u>487,804</u>	<u>316,502</u>	<u>10,979</u>	<u>815,285</u>
Investment Income				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	1,412,887	668,539	12,905	2,094,331
Interest and Dividends	<u>592,645</u>	<u>271,698</u>	<u>7,969</u>	<u>872,312</u>
Total Investment Income from Investing Activities	2,005,532	940,237	20,874	2,966,643
Less: Investment Expenses	<u>4,432</u>	<u>2,380</u>	<u>28</u>	<u>6,840</u>
Net Investment Income from Investing Activities	<u>2,001,100</u>	<u>937,857</u>	<u>20,846</u>	<u>2,959,803</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	14,215	3,461	61	17,737
Less Securities Lending Expenses:				
Borrower Rebates	10,052	2,131	50	12,233
Management Fees	<u>832</u>	<u>266</u>	<u>2</u>	<u>1,100</u>
Total Securities Lending Expenses	<u>10,884</u>	<u>2,397</u>	<u>52</u>	<u>13,333</u>
Net Income from Securities Lending Activities	<u>3,331</u>	<u>1,064</u>	<u>9</u>	<u>4,404</u>
Total Investment Income	<u>2,004,431</u>	<u>938,921</u>	<u>20,855</u>	<u>2,964,207</u>
Total Additions	<u>2,492,235</u>	<u>1,255,423</u>	<u>31,834</u>	<u>3,779,492</u>
Deductions				
Retirement Allowance Payments	932,687	423,027	17,964	1,373,678
Return of Contributions and Death Benefits	32,084	25,056	83	57,223
Unit Withdrawals	-	820	-	820
Transfers to Employees' Retirement System	2,418	-	103	2,521
Transfers to Teachers' Retirement System	-	2,022	-	2,022
Administrative Expenses	7,011	5,843	322	13,176
Depreciation	<u>367</u>	<u>278</u>	<u>-</u>	<u>645</u>
Total Deductions	<u>974,567</u>	<u>457,046</u>	<u>18,472</u>	<u>1,450,085</u>
Net Increase	1,517,668	798,377	13,362	2,329,407
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	<u>14,167,952</u>	<u>6,424,435</u>	<u>193,309</u>	<u>20,785,696</u>
End of Year	<u>\$ 15,685,620</u>	<u>\$ 7,222,812</u>	<u>\$ 206,671</u>	<u>\$ 23,115,103</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

1) PLAN DESCRIPTION

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA or Systems). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis.

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide retirement allowances and other specified benefits for State employees, State police, and on an

elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act Number 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act Number 1205 of the Legislature of 1975 supplemented the provisions of Act Number 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS.

At September 30, 2004, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>
Cities	-	262
Counties	-	64
Other Public Entities	-	466
Universities	13	-
Post-Secondary Institutions	28	-
City and County Bds of Education	128	-
State Agencies & Other	33	-
Totals	<u>202</u>	<u>792</u>

At the date of the latest actuarial valuation as presented in the Notes to the Required Supplementary Information, membership consisted of:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Retirees and beneficiaries currently receiving benefits:			
General	53,552	15,565	276
State Police	-	701	-
Employees of Local Employers	-	12,685	-
Deferred Retirement Option Plan (DROP)	2,711	923	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	16,250	3,048	105
State Police	-	13	-
Employees of Local Employers	-	6,324	-
Active employees:			
General	129,617	33,038	338
State Police	-	736	-
Employees of Local Employers	-	48,530	-
Totals	<u>202,130</u>	<u>121,563</u>	<u>719</u>

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

The JRF benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of credited service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining sixty years of age. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of credited service (regardless of age), (2) completed 12 years of credited service and has attained age 65, (3) completed 15 years of credited service and whose age plus service equals or exceeds 77, (4) completed at least 18 years of credited service or three full terms as a judge or justice and has attained age 65, (5) completed 10 years of credited service and has attained age 70 or (6) been elected prior to July 30, 1979 and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's seventieth birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of credited service).

(Dollar Amounts in Thousands)

The service retirement benefit for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

Covered members of the TRS and ERS (except state police and certified law enforcement, correctional officers and firemen) are required by statute to contribute 5% of earnable compensation to the TRS and ERS. State police members of the ERS contribute 10% of earnable compensation. JRF members and certified law enforcement, correctional officers, and firemen members of the TRS and ERS are required to contribute 6% of earnable compensation.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The TRS, ERS, and JRF financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. The accompanying financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the TRS, ERS, and JRF are considered component units of the State of Alabama and are included in the State's Comprehensive Annual Financial Report.

B. Investments

The Boards of Control of the Systems have the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and 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. All plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. The fair value of real estate investments is based on independent appraisals. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

C. Comparative Combining Statements

The basic financial statements include the prior year Combining Statement of Plan Net Assets and Combining Statement of Changes in Plan Net Assets (Statements) for comparative purposes only. Prior-year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the RSA's prior year financial report from which the prior year Statements were derived.

D. New Accounting Pronouncements

During the fiscal year, the RSA implemented GASB 40 *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*.

3) LEGALLY REQUIRED RESERVES

A. Annuity Savings

Member contributions are credited to the Annuity Savings account. Interest at 4% per annum is credited to the annuity savings account of each member on the basis of the average of the beginning

and end of year balances (as of June 30 for the TRS and September 30 for the ERS and JRF).

When a member withdraws from service prior to becoming vested, the member's accumulated contributions and a portion of accumulated interest credited to the Annuity Savings account are returned to the member. The portion of accumulated interest that, by law, is not payable to the member is transferred to the Expense fund.

When a TRS or ERS member dies prior to becoming eligible for retirement, the member's accumulated contributions and accumulated interest credited to the Annuity Savings account are returned to the member's designated beneficiary. If the preretirement death benefit defined below is not payable, an additional death benefit equal to the member's accumulated contributions, up to five thousand dollars, is paid from the Pension Accumulation account to the member's beneficiary.

When a member retires or when a survivor allowance becomes payable, the amount of the member's accumulated contributions and accumulated interest is transferred from the Annuity Savings account to the Pension Accumulation account.

B. Pension Accumulation

The Pension Accumulation account is credited with contributions made by the employer and net investment income. The lump sum death benefit is paid from this account when a TRS or ERS member dies prior to becoming eligible for the preretirement death benefit or retirement. Periodic interest representing member's earnings is transferred from the Pension Accumulation account to the Annuity Savings account. When a TRS, ERS, or JRF member retires or when a survivor allowance becomes payable, the member's accumulated contributions and accumulated interest is credited to the pension accumulation account, and all monthly benefit payments are paid from this account.

C. Preretirement Death Benefit

The Preretirement Death Benefit (PRDB) account (established October 1, 1983, under the provisions of

Act 616 of the Legislature of 1983) is credited with contributions made by TRS and ERS employers and investment income on such funds. The preretirement death benefit (in the form of group term life insurance) is paid in addition to the return of member contributions upon the death of an active TRS or ERS member who has completed at least one year of active membership in the system and whose date of death was within 180 days of such member's last date of actual service. However, a surviving spouse beneficiary of a deceased member who was eligible for service retirement may elect a survivor allowance in lieu of this benefit. The pre-retirement death benefit is equal to the annual earnable compensation of the member as reported to the System for the preceding year ending June 30 for the TRS and September 30 for the ERS. There is no PRDB available for JRF members.

D. Term Life Insurance

The Alabama Teacher's Group Term Life Insurance Plan (established October 1, 1987) is credited with a portion of the employer contributions. All active contributing members of the TRS are covered by this plan. Contingent on availability of funds, upon death, a benefit is paid to the designated beneficiary of an insured member of the TRS. Beneficiaries of full-time employees receive fifteen thousand dollars while beneficiaries of part-time employees receive a pro-rated amount of fifteen thousand dollars.

E. Expense

The Expense fund is used to pay the administrative expenses of the RSA. A portion of the employer contributions and the interest not payable upon member withdrawal provide the funding of the Expense fund. The majority of expenses are directly identifiable as expenses of the TRS, ERS, or JRF. As discussed in Note 1, certain administrative salaries and other expenses are shared on an equitable basis between the TRS and ERS.

F. Deferred Retirement Option Plan (DROP)

The DROP was established for election to participate on or after June 1, 2002, under the provisions of Act

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal of service, continue employment for a period of three to five years. The retirement allowance, employee contributions, and interest earned are accumulated in an account for the benefit of the member. At the end of participation, the account balance is paid to the member. DROP participation is an option available to eligible members that have at least twenty-five years of service (exclusive of sick leave), are at least

fifty-five years of age, and are eligible for retirement. See the actuarial section for additional information.

G. Reserves

The reserves of the RSA are funded to the full extent required by statute. The reserve balances as of September 30, 2004, are as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Annuity Savings	\$ 2,779,858	\$ 1,553,555	\$ 27,492
Pension Accumulation	13,796,948	6,154,575	193,657
Preretirement Death Benefit	11,277	15,269	-
Term Life Insurance	10,803	-	-
Deferred Retirement Option Plan	237,791	66,495	-
Expense	13,873	3,688	564

4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement system's name and is fully insured or collateralized with collateral held by the State Treasurer or the State Treasurer's agent in the name of the State Treasurer. Virtually all cash on hand at September 30 was restricted for administrative purposes.

5) INVESTMENTS

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in

market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the System's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they were held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The RSA's safekeeping agent holds all investments of the RSA

in the RSA's name, with the exception of commercial paper, repurchase agreements, Netherlands securities and Austrian Securities. The broker/dealer holds all commercial paper and repurchase agreements. Netherlands and Austrian securities are held by an agent of the custodial agent, but not in the name of the RSA.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of each System's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international equity security to be eligible for purchase by the Systems, the issuing company must be incorporated in a country whose debt securities are eligible for

purchase as discussed above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million.

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

- Domestic Fixed Income – Limited to 70% of the market value of the aggregate portfolio for each System
- International Fixed Income – Limited to 10% of the market value of each System's total portfolio.
- Domestic Equity – Limited to 65% of the market value of each System's aggregate portfolio.
- International Equity – The aggregate market value of international equities is limited to 15% of the aggregate market value of each System's total portfolio. Also, each System may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – The suggested limit is 10% of the book value of each System's portfolio.
- Alternative Investments (mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities and derivative investments) – Limited to 5% of the book value of each System's aggregate portfolio.
- Short-term Investments – Limited to 20% of the market value of each System's aggregate portfolio.

RETIREMENT SYSTEMS OF ALABAMA

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For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

The following tables provide information as of September 30, 2004, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	INVESTMENTS				Total Fair Value	Cost
	TRS					
	Investment Maturities at Fair Value (in Years)					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 302,217	\$ -	\$ -	\$ -	\$ 302,217	\$ 302,217
U.S. Government Guaranteed	-	78,028	140,166	35,480	253,674	252,940
U.S. Agency	-	239,585	365,918	49,830	655,333	655,009
Corporate Bonds	57,138	352,703	384,240	768,409	1,562,490	1,527,910
Private Placements	11,959	95,726	704,584	1,554,392	2,366,661	2,707,847
GNMAs	-	2,025	4,792	79,033	85,850	77,831
FHAs	-	-	-	1,439	1,439	1,265
CMOs	-	-	-	13,597	13,597	12,527
Total Domestic Fixed Maturity	<u>371,314</u>	<u>768,067</u>	<u>1,599,700</u>	<u>2,502,180</u>	<u>5,241,261</u>	<u>5,537,546</u>
International						
Canadian - U.S. Dollar	-	41,533	-	-	41,533	35,000
EUR \$ - Private Placements	-	27,894	-	-	27,894	27,723
Total Intl Fixed Maturity	<u>-</u>	<u>69,427</u>	<u>-</u>	<u>-</u>	<u>69,427</u>	<u>62,723</u>
Total Fixed Maturity	<u>\$ 371,314</u>	<u>\$ 837,494</u>	<u>\$ 1,599,700</u>	<u>\$ 2,502,180</u>	<u>5,310,688</u>	<u>5,600,269</u>
<i>Equities</i>						
Domestic					<u>7,743,769</u>	<u>6,473,935</u>
International						
United Kingdom - Pound Sterling					487,125	453,920
Japan - Yen					425,368	467,123
France - Euro					182,535	159,785
Germany - Euro					131,476	138,392
Switzerland - Franc					135,460	121,045
Netherlands - Euro					86,837	90,877
Italy - Euro					74,405	71,679
Spain - Euro					70,470	65,410
Australia - U.S. Dollar					101,978	74,982
Singapore - U.S. Dollar					17,869	19,008
Belgium - Euro					23,236	20,059
Finland - Euro					26,486	30,394
Hong Kong - U.S. Dollar					31,178	26,998
Sweden - Krona					46,845	39,692
Denmark - Krone					14,088	10,633
Ireland - Euro					15,264	14,108
Norway - Krone					12,749	8,388
Other					24,884	23,019
Total International Equities					<u>1,908,253</u>	<u>1,835,512</u>
Total Equities					<u>9,652,022</u>	<u>8,309,447</u>
Real Estate					<u>1,060,523</u>	<u>548,613</u>
Money Market Fund					<u>621,730</u>	<u>621,730</u>
Total Investments					<u>\$ 16,644,963</u>	<u>\$ 15,080,059</u>

INVESTMENTS						
ERS						
Type of Investment	Investment Maturities at Fair Value (in Years)				Total Fair Value	Cost
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
<i>Domestic</i>						
Commercial Paper	\$ 120,171	\$ -	\$ -	\$ -	\$ 120,171	\$ 120,171
U.S. Government Guaranteed	-	37,800	67,550	17,272	122,622	122,266
U.S. Agency	-	125,028	163,830	23,055	311,913	310,122
Corporate Bonds	22,427	154,289	172,460	354,359	703,535	688,986
Private Placements	6,440	42,216	312,890	760,703	1,122,249	1,291,285
GNMAs	-	815	1,947	30,755	33,517	30,373
FHAs	-	-	-	359	359	307
CMOs	-	-	-	5,077	5,077	4,770
Total Domestic Fixed Maturity	<u>149,038</u>	<u>360,148</u>	<u>718,677</u>	<u>1,191,580</u>	<u>2,419,443</u>	<u>2,568,280</u>
<i>International</i>						
Canadian - U.S. Dollar	-	-	17,800	-	17,800	15,000
EUR \$ - Private Placements	-	14,967	-	-	14,967	14,876
Total Intl Fixed Maturity	<u>-</u>	<u>14,967</u>	<u>17,800</u>	<u>-</u>	<u>32,767</u>	<u>29,876</u>
Total Fixed Maturity	<u>\$ 149,038</u>	<u>\$ 375,115</u>	<u>\$ 736,477</u>	<u>\$ 1,191,580</u>	<u>2,452,210</u>	<u>2,598,156</u>
<i>Equities</i>						
<i>Domestic</i>					<u>3,636,637</u>	<u>3,109,850</u>
<i>International</i>						
United Kingdom - Pound Sterling					208,759	191,106
Japan - Yen					182,221	198,610
France - Euro					78,397	67,520
Germany - Euro					56,333	58,398
Switzerland - Franc					58,043	50,396
Netherlands - Euro					37,262	37,550
Italy - Euro					31,879	30,509
Spain - Euro					30,149	27,728
Australia - U.S. Dollar					43,725	31,554
Singapore - U.S. Dollar					7,535	7,920
Belgium - Euro					9,902	8,430
Finland - Euro					11,413	13,111
Hong Kong - U.S. Dollar					13,593	11,760
Sweden - Krona					20,152	17,048
Denmark - Krone					6,014	4,488
Ireland - Euro					6,436	5,850
Norway - Krone					5,491	3,609
Other					10,636	9,648
Total International Equities					<u>817,940</u>	<u>775,235</u>
Total Equities					<u>4,454,577</u>	<u>3,885,085</u>
Real Estate					512,355	272,360
Money Market Fund					281,182	281,182
Total Investments					<u>\$ 7,700,324</u>	<u>\$ 7,036,783</u>

RETIREMENT SYSTEMS OF ALABAMA

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Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

Type of Investment	INVESTMENTS				Total Fair Value	Cost
	JRF					
	Investment Maturities at Fair Value (in Years)					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 652	\$ -	\$ -	\$ -	\$ 652	\$ 652
U.S. Government Guaranteed	-	4,038	11,400	2,474	17,912	17,862
U.S. Agency	-	4,098	4,389	278	8,765	8,761
Corporate Bonds	-	9,200	6,401	15,706	31,307	35,888
Private Placements	-	1,219	6,863	6,211	14,293	14,684
GNMAs	-	85	76	19	180	154
CMOs	-	-	-	579	579	552
Total Domestic Fixed Maturity	<u>\$ 652</u>	<u>\$ 18,640</u>	<u>\$ 29,129</u>	<u>\$ 25,267</u>	<u>73,688</u>	<u>78,553</u>
Domestic Equities					126,199	80,105
Real Estate					2,429	892
Money Market Fund					17,017	17,017
Total Investments					<u>\$ 219,333</u>	<u>\$ 176,567</u>

The following tables provide information as of September 30, 2004, concerning credit risk:

**RATINGS OF FIXED MATURITIES
TRS**

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
Aaa	\$ 1,050,905	\$ 1,040,819	19.788
AAA (SP)	1,910	1,811	0.036
Aa2	55,258	52,498	1.041
Aa3	93,420	83,542	1.759
A1	55,846	53,980	1.052
A2	367,278	366,148	6.916
A (SP)	61,253	52,830	1.153
A3	228,495	210,791	4.303
Baa1	304,415	226,493	5.732
BBB+ (SP)	28,822	21,898	0.543
Baa2	284,452	253,521	5.356
BBB (SP)	18,312	13,667	0.345
Baa3	208,046	190,708	3.917
Ba1	95,415	85,922	1.797
Ba2	128,522	188,005	2.420
Ba3	138,995	131,141	2.617
B1	1,400	4,986	0.026
B2	101,646	140,889	1.914
B3	835	806	0.016
Caa1	3,510	3,507	0.066
Caa2	7,553	7,677	0.142
Caa	32,488	43,315	0.612
D (SP)	4,759	4,557	0.090
‡ Not Rated	2,037,153	2,420,758	38.359
Totals	<u>\$ 5,310,688</u>	<u>\$ 5,600,269</u>	<u>100.000</u>

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

**RATINGS OF FIXED MATURITIES
ERS**

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
Aaa	\$ 494,174	\$ 488,638	20.152
AAA (SP)	723	707	0.029
Aa2	22,937	21,791	0.935
Aa3	36,980	33,485	1.508
A1	23,748	22,874	0.968
A2	149,143	148,724	6.082
A (SP)	27,068	23,380	1.104
A3	108,945	100,358	4.443
Baa1	154,168	113,915	6.287
BBB+ (SP)	12,697	9,647	0.518
Baa2	123,931	110,192	5.054
BBB (SP)	7,846	5,856	0.320
Baa3	97,855	90,633	3.990
Ba1	45,873	41,230	1.871
Ba2	62,115	90,183	2.533
Ba3	48,021	45,747	1.958
B2	41,917	61,277	1.709
Caa1	1,507	1,504	0.061
Caa2	3,338	3,392	0.136
Caa	13,389	16,659	0.546
D (SP)	2,380	2,278	0.097
‡ Not Rated	973,455	1,165,686	39.699
Totals	<u>\$ 2,452,210</u>	<u>\$ 2,598,156</u>	<u>100.000</u>

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

RATINGS OF FIXED MATURITIES
JRF

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
Aaa	\$ 27,522	\$ 27,437	37.347
Aa2	1,043	986	1.415
Aa3	1,712	1,528	2.323
A2	3,101	2,926	4.208
A (SP)	592	535	0.803
A3	7,215	6,934	9.791
Baa1	2,484	2,258	3.371
Baa2	3,927	3,609	5.329
Baa3	6,526	6,250	8.856
Ba1	2,668	2,355	3.621
Ba2	3,244	6,490	4.402
Ba3	2,057	2,000	2.791
B2	1,871	3,799	2.539
Caa1	99	99	0.134
Caa2	953	974	1.293
Caa	899	1,524	1.220
D (SP)	397	380	0.539
‡ Not Rated	7,378	8,469	10.018
Totals	<u>\$ 73,688</u>	<u>\$ 78,553</u>	<u>100.000</u>

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

‡ Primarily consists of private placements.

(Dollar Amounts in Thousands)

B. Concentration of Investments

As of September 30, 2004, the TRS and ERS owned debt and equity securities of Raycom Media Corporation, which represented approximately 7.7% and 10.7%, respectively, of the net assets held in trust for pension benefits.

C. Securities Lending Program

The TRS, ERS, and JRF are authorized by the Boards of Control to participate in a securities lending program. The Systems' custodian, State Street Bank and Trust Company, administers the program. Certain securities from the TRS, ERS, and JRF are loaned to borrowers approved by the Systems. Approved borrowers of securities provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the TRS, ERS, JRF, or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a value of 102% of the fair value of the loaned securities, or (ii) in the case of loaned securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5% of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street

shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The TRS, ERS, and JRF cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF).

The following describes the QDF's fund guidelines. The QDF's average effective duration is restricted to 120 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be five years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 30 months. At the time of purchase, all securities with maturities of 13 months or less must qualify as first tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if not rated, be of comparable quality. The QDF may invest in other State Street managed investment vehicles provided they conform to QDF guidelines.

As of September 30, 2004, the cash collateral investments had a weighted-average maturity of 1 day for the TRS, ERS and JRF. Also, the average term of the loans was 1 day for the TRS and JRF and 2 days for the ERS. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2004, the fair value of the securities on loan was \$1,110,513, \$524,547, and \$14,503 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was \$1,145,066, \$540,238, and \$14,804 for the TRS, ERS, and JRF, respectively. Since the amounts owed by the TRS, ERS, and JRF exceeded the amounts the borrowers owed to the TRS, ERS,

and JRF, there was no credit risk exposure as of September 30, 2004. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the

Systems. Securities pledged as collateral are held by the custodial agent, but not in the name of the Systems. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2004, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED

(at Fair Value)

Type of Investment Lent	TRS	ERS	JRF	Totals
<i>For Cash Collateral</i>				
Domestic Fixed Income	\$ 361,272	\$ 195,972	\$ 10,449	\$ 567,693
Domestic Equity	376,827	172,863	4,034	553,724
International Equity	328,483	143,050	-	471,533
Total Lent for Cash Collateral	1,066,582	511,885	14,483	1,592,950
<i>For Non-cash Collateral</i>				
Domestic Equity	5,978	26	20	6,024
International Equity	37,953	12,636	-	50,589
Total Lent for Non-Cash Collateral	43,931	12,662	20	56,613
Total Securities Lent	\$ 1,110,513	\$ 524,547	\$ 14,503	\$ 1,649,563
Type of Collateral Received				
<i>Cash Collateral - Invested in State Street Quality D Fund</i>	\$ 1,098,881	\$ 526,821	\$ 14,783	\$ 1,640,485
<i>Non-cash Collateral</i>				
For Lent Domestic Equity Securities				
Letters of Credit	6,093	27	21	6,141
For Lent International Equity Securities				
Pledged Securities	40,092	13,390	-	53,482
Total Non-cash Collateral	46,185	13,417	21	59,623
Total Collateral Received	\$ 1,145,066	\$ 540,238	\$ 14,804	\$ 1,700,108

D. Mortgage-backed Securities

As of September 30, 2004, the TRS, ERS, and JRF had investments in mortgaged-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obliges of the

underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obliges tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.

(Dollar Amounts in Thousands)

6) FUNDING STATUS AND PROGRESS

State law provides that the Boards of Control engage an actuary to prepare an annual valuation of the assets and liabilities of the various reserve funds. Under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, the actuary determines the “unfunded actuarial liability.” The “unfunded actuarial liability” is the difference between the actuarial value of assets and the actuarial accrued liability.

Significant actuarial assumptions used and results from the most recent actuarial valuations are presented in the “Notes to the Required Supplementary Information.”

7) CONTRIBUTIONS REQUIRED AND MADE

The actuary has computed, as of the date of the latest available actuarial valuation (June 30, 2003, for the TRS and September 30, 2003, for the ERS and JRF), the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuations for the TRS and ERS are prepared using the entry age method, while the JRF valuation utilized the projected unit credit method. The present value of all expected benefits payable from each system to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the TRS, ERS, and JRF provide for employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll) that accumulate sufficient assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, and a portion to finance administrative costs.

For the TRS and ERS, the normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

For the JRF, the normal contribution is determined using the "projected accrued benefit" (unit-credit) method. Under this method, the benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial accrued liability.

The 2004 retirement contributions were made in accordance with actuarially determined contribution requirements.

8) PROPERTY AND EQUIPMENT

Plan assets used in plan operations are reported at historical cost less accumulated depreciation. Depreciation is determined on the straight-line basis using estimated useful lives of 30 years for buildings and 3 to 10 years for furniture and equipment.

Property and equipment was comprised of the following amounts as of September 30, 2004:

	<u>TRS</u>	<u>ERS</u>
Land	\$ 691	\$ 499
Building and Improvements	4,678	3,405
Furniture and Equipment	<u>1,814</u>	<u>1,055</u>
Total Property and Equipment	7,183	4,959
Less Accum Depreciation	<u>(4,584)</u>	<u>(2,943)</u>
Net Property and Equipment	<u>\$ 2,599</u>	<u>\$ 2,016</u>

9) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 1, the TRS, ERS, and JRF (as agencies of the State of Alabama) participate in the State Employees' Health Insurance Plan (SEHIP).

The SEHIP provides postretirement health care benefits, in accordance with State statute, to all TRS, ERS, and JRF employees who retire with a retirement benefit payable from the TRS, ERS, or JRF. The SEHIP provides a fixed amount equal to the Medicare eligible premium (presently one hundred ten dollars per month) for each retiree. Those retirees who are not Medicare eligible must pay the difference to maintain the insurance. Under the SEHIP statute, the fixed amount per month per retiree is funded on a pay-as-you-go basis through the premiums each agency pays for its active employees. During the fiscal year 2004, the estimated portion of health insurance premiums paid and included in administrative expense by the TRS, ERS, and JRF on behalf of retirees was \$83, \$74, and \$1, respectively.

10) PENSION PLAN FOR RSA EMPLOYEES

A portion of the RSA employees participates in the TRS pension plan, which is a cost sharing plan, and a portion of the RSA employees participates in the ERS pension plan, which is an agent multiple-employer pension plan. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit.

Contributions were made to each plan in accordance with actuarially determined contribution requirements. A schedule of Employer Contributions is shown below:

	<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
TRS	2004	\$ 418	100
	2003	313	100
	2002	345	100
ERS	2004	205	100
	2003	178	100
	2002	160	100

11) TREND INFORMATION

The schedules of funding progress and employer contributions, as required by GASB Statement No. 25, are presented in the Required Supplementary Information section.

12) RELATED PARTY TRANSACTIONS

The TRS and ERS jointly own office buildings in Montgomery and lease office space to agencies of the State of Alabama. These agencies are obligated to the TRS and ERS to lease space for varying terms through the year 2019. Rental payments (reported as investment income) from leases with state agencies totaled \$16,418 during the 2004 fiscal year.

(Dollar Amounts in Thousands)

1) CONTRIBUTIONS

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.

The employer cost rates for the fiscal year 2004-2005 are 7.03% for the TRS, 5.57% for the ERS - State Employees, 18.03% for the ERS - State Police and 21.93% for the JRF. Local agency rates differ for each agency.

2) ANALYSIS OF FUNDING PROGRESS

Analysis of the dollar amounts of the actuarial value of assets, the actuarial accrued liability, and the unfunded actuarial accrued liability in isolation may be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (assets to liabilities percentage) provides one indication of the respective retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the respective system is becoming financially stronger or weaker. Generally, the strength of a retirement system is considered to increase as the assets to liabilities percentage increases. Trends in the actuarial accrued liability and the annual covered payroll are affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll (liabilities to payroll percentage) approximately adjusts for the effects of inflation and aids analysis of the respective retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the strength of a retirement system is considered to increase as the liabilities to payroll percentage decreases.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information

For the Fiscal Year Ended September 30, 2004

The following schedules provide information concerning funding progress, employer contributions, and actuarial assumptions:

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded/ (Overfunded) AAL (UAAL) (B-A)	Percentage Funded (A/B)	Annual Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
TRS						
06/30/2003	\$18,110,470	\$ 19,357,735	\$ 1,247,265	93.6	\$4,632,611	26.9
06/30/2002	17,904,881	18,374,174	469,293	97.4	4,379,183	10.7
06/30/2001	17,475,298	17,238,616	(236,682)	101.4	4,305,080	(5.5)
06/30/2000	16,703,929	16,291,462	(412,467)	102.5	4,131,904	(10.0)
06/30/1999	15,642,066	15,568,192	(73,874)	100.5	3,964,112	(1.9)
06/30/1998	14,533,824	14,601,426	67,602	99.5	3,937,739	1.7
ERS						
09/30/2003	8,312,500	9,124,279	811,779	91.1	2,677,025	30.3
09/30/2002	8,100,846	8,493,469	392,623	95.4	2,547,775	15.4
09/30/2001	8,028,471	8,010,123	(18,348)	100.2	2,408,543	(0.8)
09/30/2000	7,769,122	7,403,968	(365,154)	104.9	2,278,637	(16.0)
09/30/1999	7,302,046	6,884,355	(417,691)	106.1	2,159,608	(19.3)
09/30/1998	6,888,446	6,564,079	(324,367)	104.9	2,061,104	(15.7)
JRF						
09/30/2003	247,011	285,123	38,112	86.6	39,742	95.9
09/30/2002	245,425	289,858	44,433	84.7	39,763	111.7
09/30/2001	245,705	289,044	43,339	85.0	38,694	112.0
09/30/2000	239,023	268,598	29,575	89.0	40,325	73.3
09/30/1999	221,926	263,491	41,565	84.2	40,499	102.6
09/30/1998	210,116	246,177	36,061	85.4	39,060	92.3

See Notes to the Required Supplementary Information .

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information

For the Fiscal Year Ended September 30, 2004

(Dollar Amounts in Thousands)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
TRS		
09/30/2004	\$ 312,474	100
09/30/2003	235,786	100
09/30/2002	265,670	100
09/30/2001	279,880	100
09/30/2000	277,180	100
09/30/1999	166,100	100
ERS		
09/30/2004	170,713	100
09/30/2003	154,218	100
09/30/2002	123,887	100
09/30/2001	122,483	100
09/30/2000	113,991	100
09/30/1999	97,373	100
JRF		
09/30/2004	8,994	100
09/30/2003	8,637	100
09/30/2002	8,222	100
09/30/2001	7,598	100
09/30/2000	5,696	100
09/30/1999	2,870	100

See Notes to the Required Supplementary Information .

RETIREMENT SYSTEMS OF ALABAMA*Financial Section*

Notes to Required Supplementary Information
For the Fiscal Year Ended September 30, 2004

ACTUARIAL ASSUMPTIONS

	TRS	ERS	JRF
Valuation date	June 30, 2003	September 30, 2003	September 30, 2003
Actuarial cost method	Entry age	Entry age	Projected unit credit
Asset valuation method	5-year market related value	5-year smoothed market	5-year smoothed market
Amortization method	Level percent open	Level percent open	Level percent open
Remaining amortization period	20 years	Within 20 years - varies by employer	18 years
Actuarial assumptions:			
Investment rate of return ‡	8%	8%	8%
Future salary increases ‡	5.00%-7.75%	4.61%-7.75%	5%
Cost of living increases	None	None	None

‡ Includes inflation at 4.5%.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Administrative Expenses

For the Fiscal Year Ended September 30, 2004

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
Personal Services:				
Salaries	\$ 3,904	\$ 3,204	\$ 268	\$ 7,376
Employee Fringe Benefits	905	789	39	1,733
Total Personal Services	<u>4,809</u>	<u>3,993</u>	<u>307</u>	<u>9,109</u>
Professional Services:				
Actuarial	143	245	25	413
Accounting	31	31	12	74
Information Technology	137	112	-	249
Education & Training	-	6	-	6
Information & Research	15	10	-	25
Mailing Services	101	100	-	201
Legal Services	-	51	-	51
Personnel Services	32	-	-	32
Other Professional Services and Fees	32	22	-	54
Total Professional Services	<u>491</u>	<u>577</u>	<u>37</u>	<u>1,105</u>
Communications and Travel:				
Telephone	48	37	-	85
Telecommunication Lines	48	38	-	86
Postage	781	520	-	1,301
Travel	61	38	-	99
Total Communications and Travel	<u>938</u>	<u>633</u>	<u>-</u>	<u>1,571</u>
Rentals:				
Office Space	352	235	-	587
Equipment Leasing	34	29	-	63
Total Rentals	<u>386</u>	<u>264</u>	<u>-</u>	<u>650</u>
Miscellaneous:				
Supplies	547	361	-	908
Maintenance	190	64	-	254
Total Miscellaneous	<u>737</u>	<u>425</u>	<u>-</u>	<u>1,162</u>
Total Administrative Expenses	<u>\$ 7,361</u>	<u>\$ 5,892</u>	<u>\$ 344</u>	<u>\$ 13,597</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2004

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
<i>Investment Activity</i>				
Investment Management Fees:				
Salaries and Benefits	\$ 3,458	\$ 2,054	\$ -	\$ 5,512
Dues and Subscriptions	338	178	-	516
Travel	19	-	-	19
Professional Services:				
Investment Advisor	60	30	-	90
Investment Custodian	143	87	12	242
Real Estate Appraisal	61	41	-	102
Total Investment Activity Expenses	<u>4,079</u>	<u>2,390</u>	<u>12</u>	<u>6,481</u>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	7,206	3,318	83	10,607
Securities Lending Management Fees	630	283	4	917
Total Securities Lending Activity Expenses	<u>7,836</u>	<u>3,601</u>	<u>87</u>	<u>11,524</u>
Total Investment Expenses	<u>\$ 11,915</u>	<u>\$ 5,991</u>	<u>\$ 99</u>	<u>\$ 18,005</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Professional/Consultant Fees

For the Fiscal Year Ended September 30, 2004

(Amounts in Thousands)

<u>Professional/Consultant</u>	<u>Nature of Service</u>	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
Mellon Consultants, Inc.	Actuary	\$ 143	\$ 245	\$ 25	\$ 413
KPMG	Auditor	31	31	12	74
Crum Defense Escrow Account	Legal	-	51	-	51
Applied Information Sciences	Information Technology	61	60	-	121
Auburn University Montgomery	Information Technology	76	47	-	123
SunGard Workflow Solutions	Information Technology	-	5	-	5
Finance Data Systems	Information Technology	12	8	-	20
Auburn University Montgomery	Information & Research	15	10	-	25
NASRA	Education & Training	-	6	-	6
Action in Mailing	Mail	87	91	-	178
Finance Mail & Supply	Mail	14	9	-	23
State Personnel Department	Personnel	32	-	-	32
Various	Other	20	14	-	34
Total Professional/Consultant Fees-Admin Services		491	577	37	1,105
AmSouth Bank	Investment Advisor	60	30	-	90
State Street Bank & Trust Co.	Investment Custodial	143	87	12	242
Houlihan, Lokey, Zukin Fin. Advisors	Real Estate Appraisor	61	41	-	102
Total Professional/Consultant Fees-Investment Services		264	158	12	434
Total Professional/Consultant Fees		\$ 755	\$ 735	\$ 49	\$ 1,539

INVESTMENT SECTION

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity

For the Fiscal Year Ended September 30, 2004

Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September, 30, 2004. The report provides highlights on investments in general as well as specific information on the Retirement System's investment activity for the fiscal year. Investment data presented in the report was prepared using AIMR performance presentation standards.

After posting very good numbers in 2003, the financial markets were good to us again, allowing for total returns in the low double digits for 2004. The economic and fiscal policies previously implemented to stimulate the economy remained in place, allowing the economy to continue to grow at a healthy clip.

Not much changed as far as issues facing the markets over the course of the year. The budget and trade deficits continue to grow for the United States, and are issues that must be addressed in some fashion in the near future. The dollar was weak over the course of the year, which helped our international returns. However, the investment community is growing increasingly concerned about a continued falling dollar.

The economy was fairly resilient over the year, supported by the consumer and the return of corporate America capital spending. The consumer remains stretched by most measures, though this has been an issue for several years now. Corporate balance sheets have improved greatly over the past two years, and financial discipline has been the norm as share buybacks and dividend increases are becoming priorities for top management.

There are several additional issues that could impact the economy and the financial markets. Energy prices have skyrocketed, as well as other commodity prices, which have increased inflation concerns. As a result, we are seeing rising short-term rates, although the long end of the curve has remained in a relatively tight range. Terrorist activity could obviously have an impact on the economy, as well as continued fighting in the oil rich Middle East.

We are sticking with our forecast of more normalized investment returns in coming years. It is hard to envision a scenario of a huge bull or bear market over the coming year. At the present, there are no dichotomous relationships visible between the various asset classes, so we foresee no major changes to the current asset allocation. We will continue to demand the best execution from all our financial counterparts, and will strive to produce results that strengthen the Retirement Systems of Alabama (RSA).

RSA Performance Summary

Fiscal year 2004 was the second year in a row of double digit returns for the RSA. We saw good follow through on the economic rebound which resulted in continued profit growth and improving credit quality, and those are addressed in the following equity and fixed income sections.

As of September 30, 2004, aggregate defined benefit assets under management totaled \$24.6 billion. During fiscal year 2004, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were 10.71%, 10.06%, and 11.34%, respectively. International Equities was the standout asset, as the dollar weakened considerably over the course of the year. On the fixed side, a continued overweighting in corporates vs. treasuries benefited the portfolio.

Equities

After posting an extremely strong first quarter coming out of the gate to the fiscal year, the equity markets basically treaded water for the remainder of the year. Following the huge fiscal and monetary stimuli in place throughout 2003, the first quarter posted returns better than 12% for all major market averages. Going into calendar year 2004, the headwinds started building which kept the market range bound through the end of the fiscal year. To begin, the chatter started to build about the Federal Reserve finally going the other way with interest rates. In late June, the Fed began to ratchet up short term rates, and we closed out the fiscal year with the Fed Funds rate moving from 1% up to 1.75%.

Besides the fight against higher short term interest rates, earnings momentum began to slow. After posting astounding numbers throughout 2003, year-over-year comparisons became very tough in the first quarter. While earnings growth remained strong throughout 2004, analyst expectations became too lofty, and the market was fighting repeated downward earnings estimate revisions in the June and September quarters. Another factor that pressured the equity markets was the return of inflation. The biggest headliner here was obviously oil prices. Crude oil opened under \$30 at the beginning of the calendar year and closed out in September at a new all time high of nearly \$50. Inflation pressures were not just on the energy side either. The Goldman Sachs Commodity Price Index, which takes a snapshot of 24 commodities, was up over 30% for the first three quarters of the calendar year.

Other factors which were a drag on the equity market during the calendar year were the continued fighting in the Middle East and the battle for the White House. Besides all the negative press they generated, the market was very uncertain as to how to measure the risk regarding these issues. On top of that, the monthly employment reports were very volatile throughout the year. After posting strong numbers early in the year, the monthly jobs numbers became very weak for a period of time. This begged the question of how sustainable the recovery would be.

In review, the RSA equity allocation began the year at roughly 49%, and closed out fiscal 2004 at roughly 54% of assets. Some new money was added to the active funds, as well as to the international portfolio. Domestic equities account for nearly 43% of the fund, and international equities are now over 11% of the total. Much like 2003, equities with smaller market capitalization generally performed better. The S & P 500 index was up 13.87%, the S & P 400 Midcap index was up 17.55%, and the S & P Smallcap 600 index was up 24.58%. The MSCI EAFE index was up 22.08%, again outperforming the broad domestic equity indices.

For the year, the RSA domestic equity portfolios increased 14.69%, 14.56%, and 14.55% for the TRS, ERS, and JRF funds, respectively. International equity returns fared better, posting 22.59% and 22.43% for TRS and ERS, respectively. The combined total return for the overall equity portfolios were 16.19%, 16.04%, and 14.55% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 6.51%, 2.04%, and 10.72% for TRS, 6.49%, 1.97%, and 10.57% for ERS, and 5.13%, 1.45%, and 12.37% for JRF, respectively.

Fixed Income

At the beginning of fiscal year 2004, the federal funds rate stood at 45-year low of 1.00%. With the labor market offering little optimism, Greenspan and the Federal Reserve were fairly reluctant to raise short-term interest rates. Not only was the employment data discouraging, but “the risk of inflation becoming undesirably low” was still a lingering concern. The yield curve was very steep from a historical perspective, with the spread between the 2yr and 30yr Treasury hovering around 350 basis points. Expectations for a rate hike at this point had been pushed back into late spring of 2004, with the Fed poised to remain accommodative in their stance toward monetary policy.

Through the early part of the calendar year, interest rates were moving lockstep with reports regarding the economy. However, in March and April, the capital markets finally received what it had been long awaiting- favorable payroll numbers. Since this time, investors have continued to see evidence of a somewhat improving labor market and a reduction in the risk of deflation. The Fed accordingly has raised rates on three separate occasions throughout the end of the fiscal year. They have been reluctant to be aggressive in their decision making in hopes of ensuring a smooth and stable economic recovery. We believe policymakers will continue on this path for the foreseeable future.

During the latter half of the fiscal year, the yield curve has flattened substantially, with the 2-30yr spread compressing over 125 basis points. This is due to the actions taken by the Fed in terms of monetary policy, coupled with a relatively stable period of inflation. Even though, oil prices have risen considerably over the last couple of months, it has not been perceived as a major hiccup in the long term. We feel that yield curve still has ample room to flatten over the immediate term given the economic backdrop.

Believe it or not, high yield securities outperformed corporates and treasuries for the second year in a row. The basic premise in explaining this phenomenon is investors’ eagerness to grab yield in a low interest rate environment. Another explanation is the improvement in overall credit quality as default rates have been nearly cut in half since

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity (Continued) For the Fiscal Year Ended September 30, 2004

the beginning of the year. However, a secular development has also evolved, where issuers are encouraged to accept a lower level of credit quality in determining their optimal capital structure. Issuance from investment grade firms this year has been rather lackluster compared to high yield companies, which continued to refinance outstanding debt at lower yield levels. A structural shift in the bond market that has also taken place over the past couple of years is the growth in participation of foreign investors. Offshore investors currently own nearly 25% of US corporate holdings, when one accounts for the inclusion of hedge funds. Going forward, this shift will make the demand for fixed securities more important and more difficult to predict.

In fiscal year 2004, the RSA purchased approximately \$1.9 billion in additional securities for the fixed income portfolio. As of September 30, 2004, the RSA's fixed income portfolio had a market value of \$10.3 billion, of which 13% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 5.59% for the TRS, 4.86% for the ERS, and 6.74% for the JRF versus 3.82% for the Salomon Brothers Broad Investment Grade Index (SBBIG). The five-year annualized returns were 6.35% for the TRS, 6.07% for the ERS, and 4.45% for the JRF, versus 7.57% for the SBBIG Index. The ten-year annualized returns were 7.45% for the TRS, 7.34% for the ERS, and 6.67% for the JRF versus 7.67% for the SBBIG Index.

Sincerely,



Marc Green
Director of Investments

I. Board Objectives

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

II. Asset Allocation

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

A. Domestic Fixed Income

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 70% of the market value of the aggregate portfolio of each System.

B. International Fixed Income

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Policies and Procedures (Continued)

For the Fiscal Year Ended September 30, 2004

C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 15% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 10% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 5% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2004

	Annualized			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	10.71%	6.00%	4.12%	8.61%
ERS	10.06%	5.41%	3.77%	8.51%
JRF	11.34%	3.74%	2.40%	8.37%
Total Domestic Equity				
TRS	14.69%	5.76%	2.14%	11.50%
ERS	14.56%	5.75%	0.43%	10.60%
JRF	14.55%	5.13%	1.45%	12.37%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	13.87%	4.05%	-1.31%	11.08%
Dow Jones Industrial Average	10.98%	6.68%	1.45%	12.36%
S&P MidCap 400	17.55%	12.42%	10.52%	14.48%
Russell 2000	17.48%	12.27%	6.04%	8.38%
Total International Equity				
TRS	22.59%	9.75%	-0.25%	
ERS	22.43%	9.71%	-0.26%	
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	22.08%	9.12%	-0.85%	
Total Fixed Income				
TRS	5.59%	5.08%	6.35%	7.45%
ERS	4.86%	4.56%	6.07%	7.34%
JRF	6.74%	1.60%	4.45%	6.67%
<i>Fixed Income Benchmarks:</i>				
SB Broad Investment Grade	3.82%	5.86%	7.57%	7.67%
Lehman Bros. Aggregate	3.68%	5.88%	7.48%	7.66%

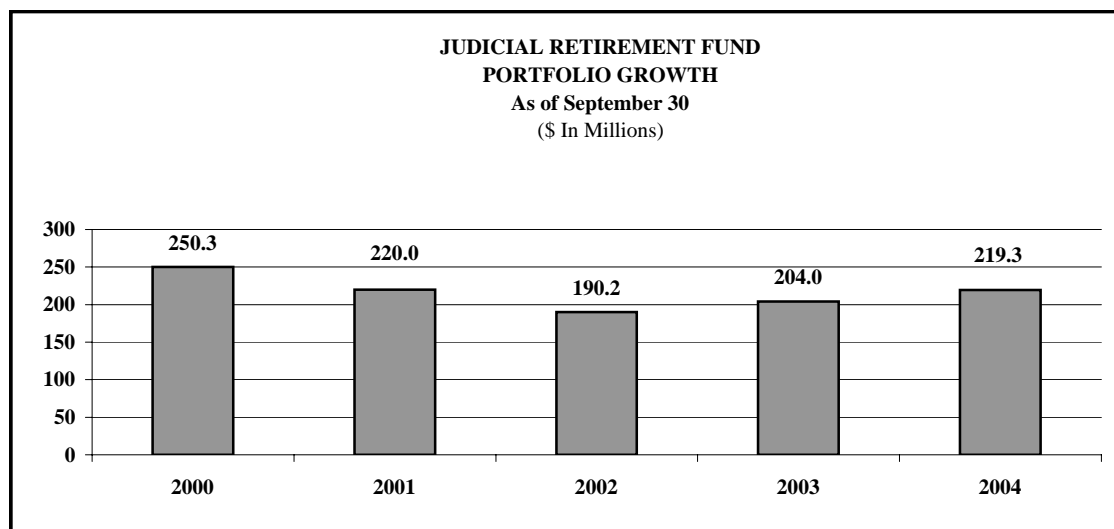
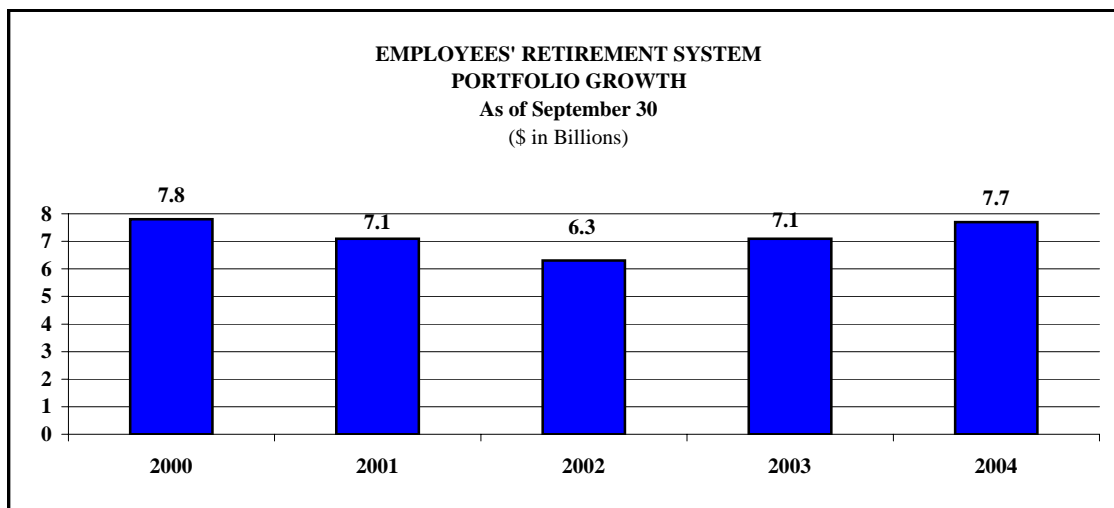
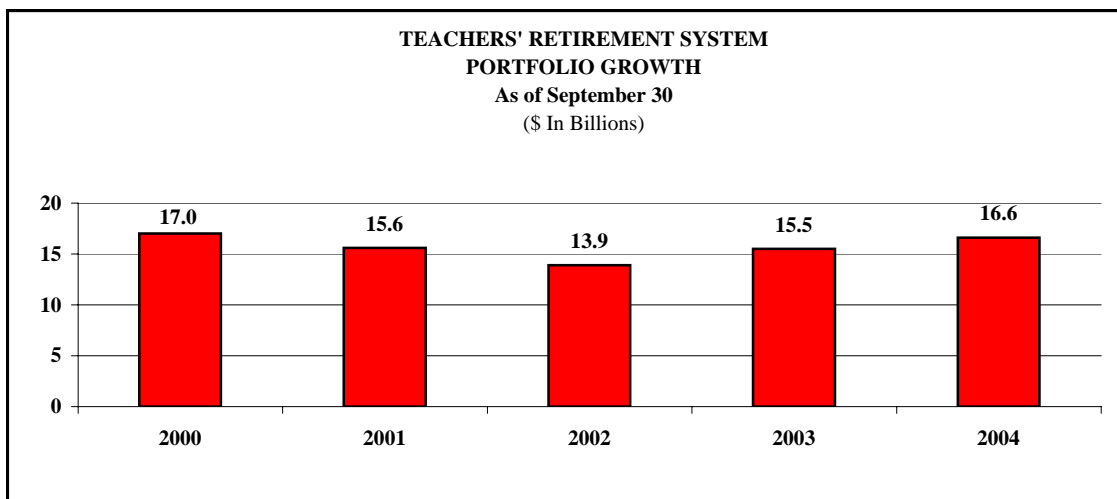
Investment return calculations were prepared using a time-weighted rate of return based on AIMR's performance presentation standards.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Portfolio Growth

Five-Year Comparison

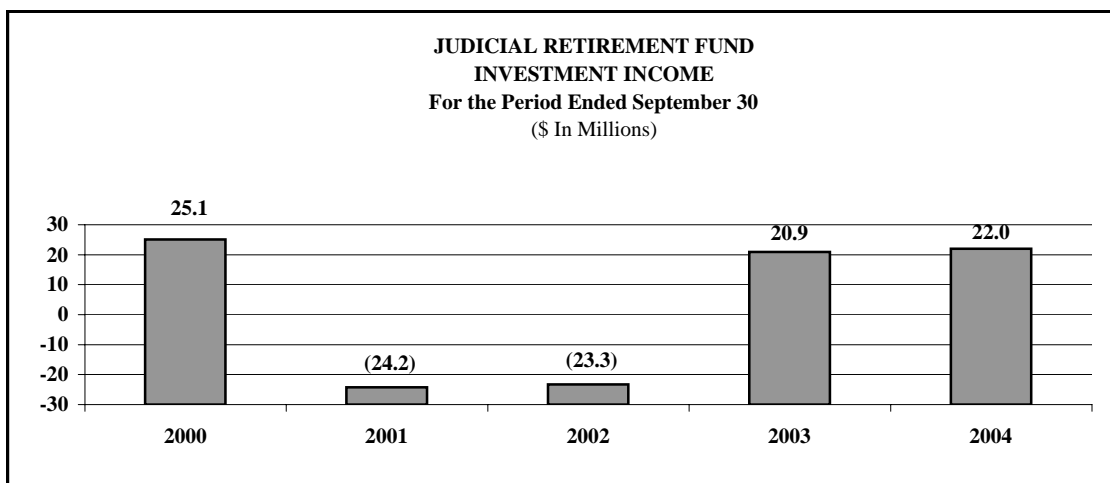
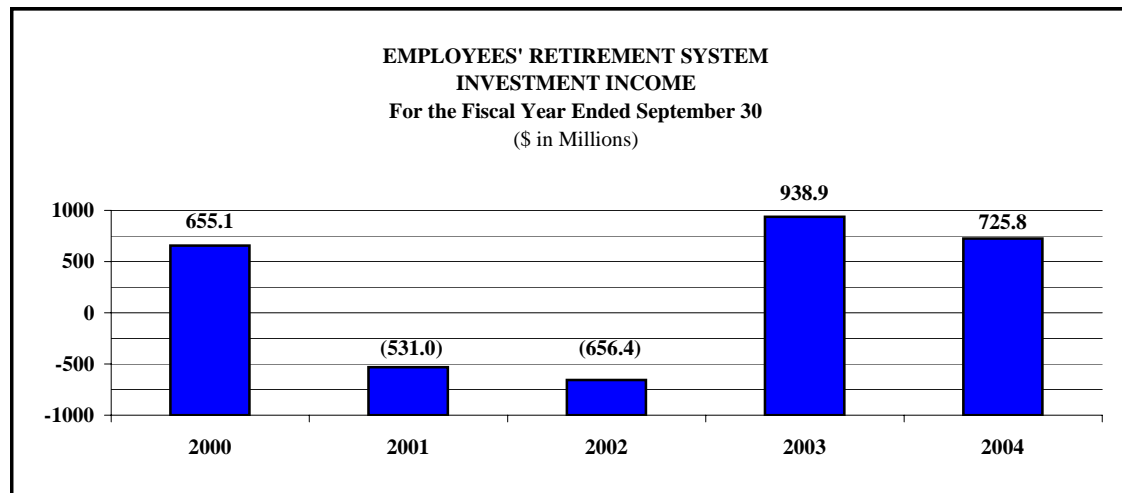
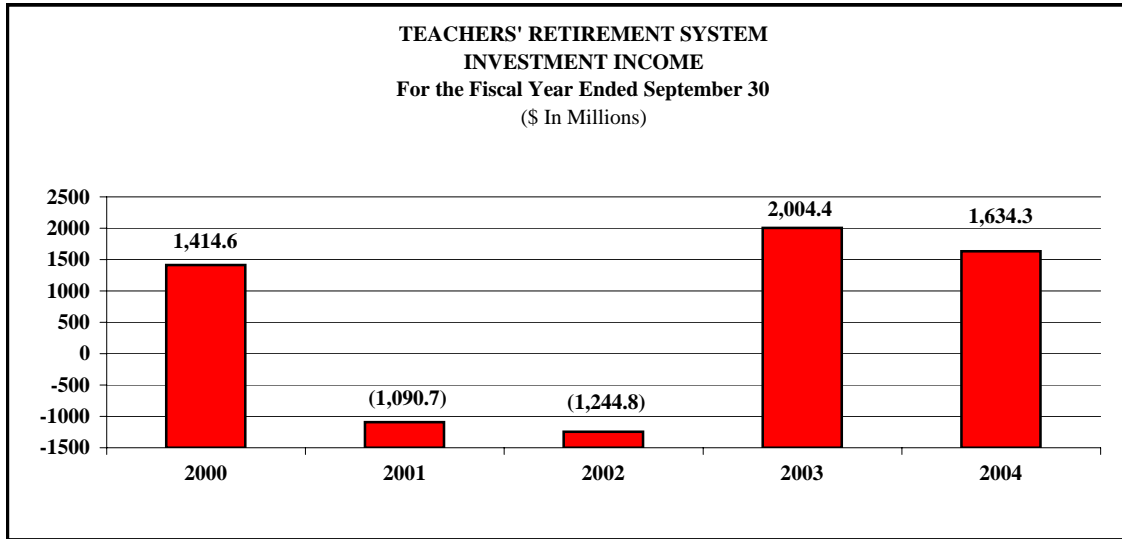


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

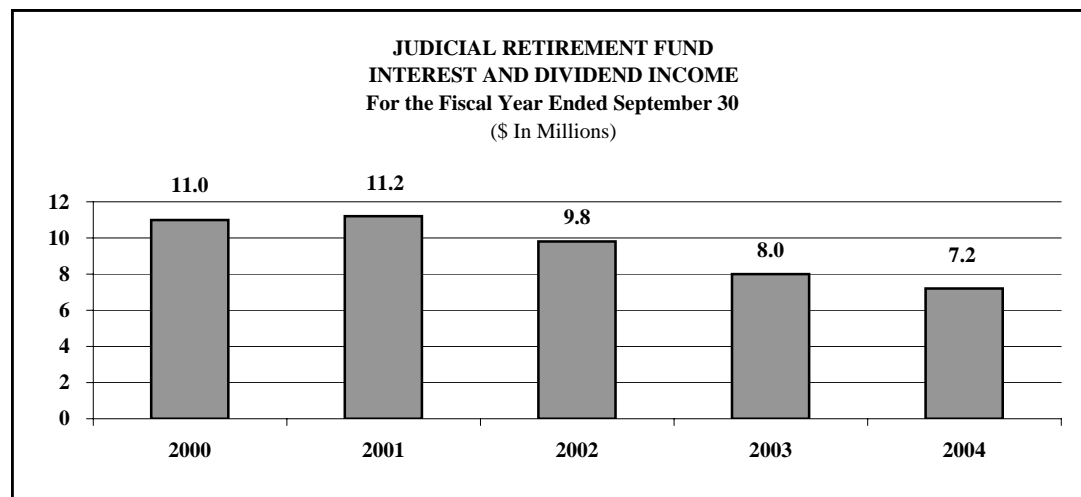
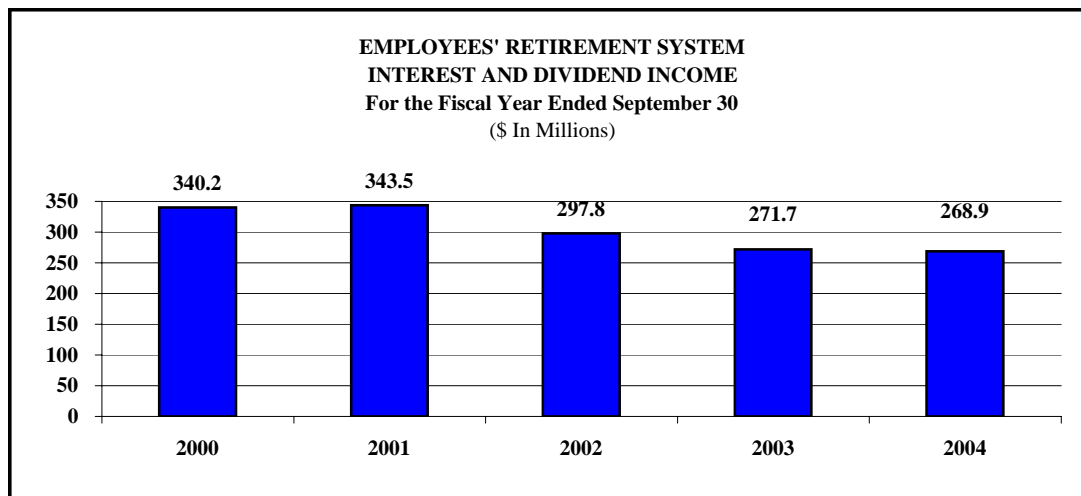
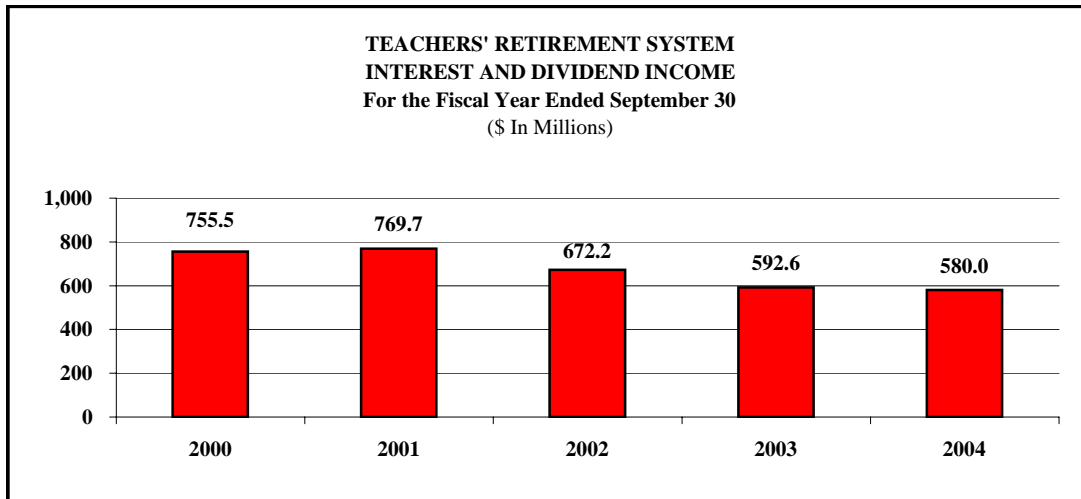


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividends

Five-Year Comparison

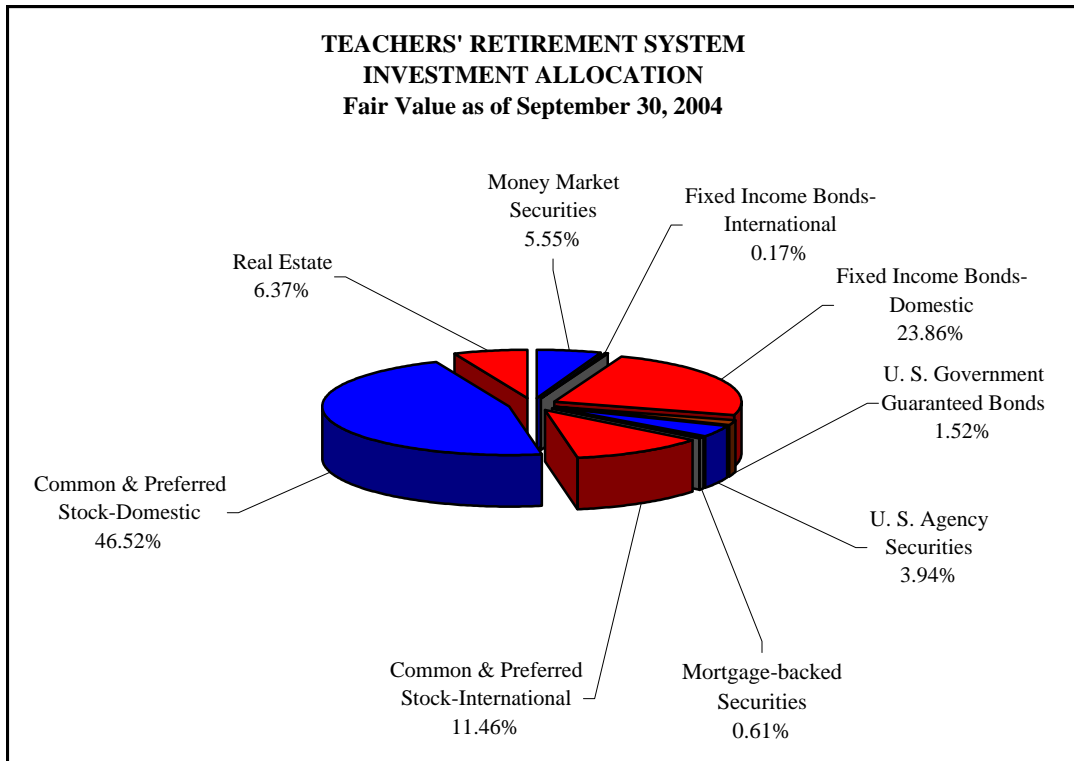


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



**TEACHERS' RETIREMENT SYTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2004

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 923,947	5.55
U.S. Government Guaranteed	253,674	1.52
U.S. Agency Securities	655,333	3.94
Mortgage-backed Securities	100,885	0.61
Fixed Income Bonds		
Domestic	3,970,685	23.86
International	27,894	0.17
Common and Preferred Stocks		
Domestic	7,743,769	46.52
International	1,908,253	11.46
Real Estate	1,060,523	6.37
Total Investments	\$ 16,644,963	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Largest Stock and Bond Holdings

TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2004

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	489	Raycom Media (12% noncum PFD)	\$ 391,565
2)	5,670	General Electric Company	190,395
3)	3,565	Exxon Mobil Corporation	172,299
4)	6,035	Microsoft Corporation	166,879
5)	4,459	Pfizer Incorporated	136,458
6)	2,943	Citigroup Incorporated	129,856
7)	2,406	Wal Mart Stores	128,020
8)	1,495	American International Group	101,643
9)	2,305	Bank of America Corporation	99,872
10)	1,699	Johnson & Johnson	95,722

TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2004

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 819,406	Raycom Media Incorporated due 12/15/16	\$ 655,801
2)	772,783	Community News due 1/31/17	603,577
3)	246,400	Alabama River Group due 10/8/13	249,147
4)	262,033	Raycom Media Incorporated due 4/1/12	209,715
5)	90,000	CSX Corporation due 5/1/32	101,050
6)	99,462	Alabama Real Estate Holdings due 9/30/32	99,128
7)	90,750	Mediaone Group Incorporated due 2/1/32	98,791
8)	71,590	Nationwide Financial Services due 3/1/27	77,943
9)	69,000	IPSCO Saskatchewan due 12/31/38	70,967
10)	62,839	U. S. Treasury Note due 8/15/11	67,542

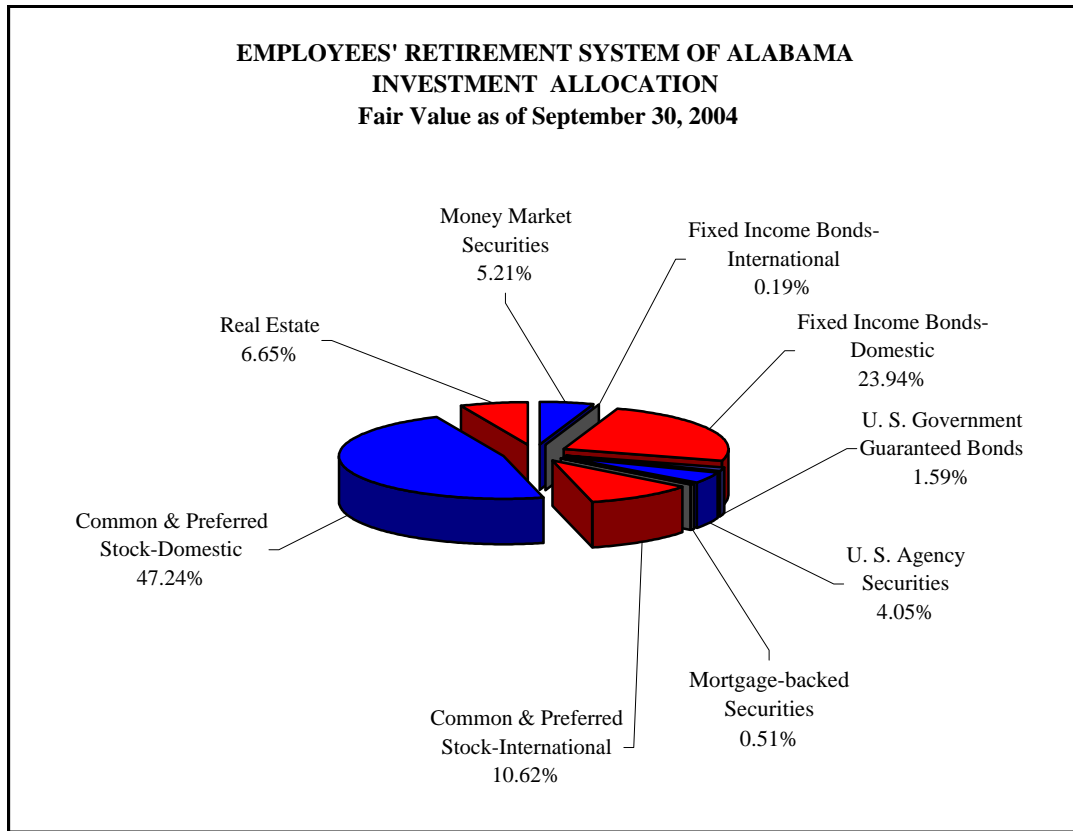
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



**EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2004

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 401,353	5.21
U.S. Government Guaranteed	122,622	1.59
U.S. Agency Securities	311,913	4.05
Mortgage-backed Securities	38,953	0.51
Fixed Income Bonds		
Domestic	1,843,584	23.94
International	14,968	0.19
Common and Preferred Stocks		
Domestic	3,636,637	47.24
International	817,939	10.62
Real Estate	512,355	6.65
Total Investments	\$ 7,700,324	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System Largest Stock and Bond Holdings

EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2004

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	489	Raycom Media (12% noncum PFD)	\$ 391,565
2)	2,520	General Electric Corporation	84,612
3)	1,580	Exxon Mobil Corporation	76,370
4)	2,671	Microsoft Corporation	73,848
5)	85	CNHI TR D Preferred (8% noncum)	66,062
6)	1,952	Pfizer Incorporated	59,720
7)	1,308	Citigroup Incorporated	57,711
8)	1,060	Wal Mart Stores	56,376
9)	665	American International Group	45,193
10)	1,026	Bank of America Corporation	44,456

EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2004

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 403,619	Raycom Media Incorporated due 12/15/16	\$ 323,032
2)	391,298	Community News due 1/31/17	305,621
3)	105,600	Alabama River Group due 10/8/13	106,777
4)	129,061	Raycom Media Incorporated due 4/1/12	103,292
5)	54,260	Mediaone Group Incorporated due 2/1/32	59,068
6)	50,000	CSX Corporation due 5/1/32	56,139
7)	46,645	Alabama Real Estate Holdings due 9/30/32	46,501
8)	29,000	IPSCO Saskatchewan due 12/31/38	29,827
9)	25,000	Federal National Mortgage Association	26,055
10)	23,864	Nationwide Financial Services due 3/1/27	25,982

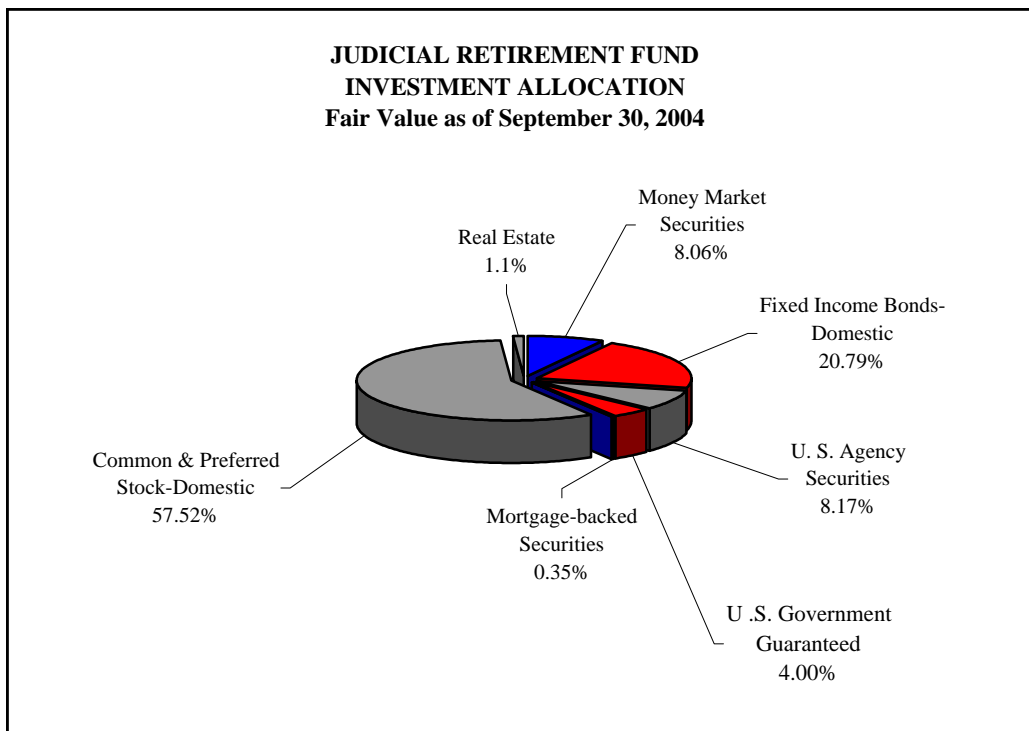
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2004

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 17,669	8.06
U.S. Agency Securities	17,912	8.17
U.S. Government Guaranteed	8,765	4.00
Mortgage-backed Securities	759	0.35
Fixed Income Bonds, Domestic	45,600	20.79
Common and Preferred Stocks, Domestic	126,199	57.52
Real Estate	2,429	1.11
Total Investments	\$ 219,333	100.00

RETIREMENT SYSTEMS OF ALABAMA*Investment Section***Judicial Retirement Fund****Largest Stock and Bond Holdings****JUDICIAL RETIREMENT FUND
LARGEST STOCK HOLDINGS****September 30, 2004**

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	115	General Electric Corporation	\$ 3,845
2)	72	Exxon Mobil Corporation	3,458
3)	118	Microsoft Corporation	3,263
4)	83	Pfizer Incorporated	2,548
5)	56	Citigroup Incorporated	2,478
6)	47	Wal Mart Stores	2,474
7)	28	American International Group	1,931
8)	45	Bank of America Corporation	1,930
9)	32	Johnson & Johnson	1,828
10)	19	IBM Corporation	1,586

**JUDICIAL RETIREMENT FUND
LARGEST BOND HOLDINGS****September 30, 2004**

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 5,318	Community News due 6/15/08	\$ 4,153
2)	2,864	Nationwide Financial Services due 7/16/31	3,118
3)	2,000	PPL Energy due 6/1/09	2,306
4)	2,000	Tupperware Finance Company due 1/1/08	2,123
5)	2,000	IPSCO Saskatchewan due 12/1/08	2,057
6)	1,500	GTE Corporation due 11/15/06	1,641
7)	1,500	AVNET Inc. due 3/27/07	1,605
8)	5,000	UAL Pass-through Certificates Ser 1992B due 10/26/15	1,499
9)	1,275	Mediaone Group due 11/1/09	1,388
10)	1,126	FPL Energy Virginia due 11/15/11	1,291

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2004

	Stock		Fixed		Total
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Securities Commissions (000's)	
Banc of America	-	-	\$ -	\$ 225	\$ 225
Bear Stearns & Co.	0.0500	7,521	376	359	735
Bernstein	0.0407	11,951	487	-	487
Centennial	0.0508	374	19	-	19
Citigroup	0.0429	11,205	481	418	899
Citigroup-Montgomery	0.0503	1,292	65	14	79
Concord	0.0485	227	11	-	11
Credit Suisse First Boston Corp.	0.0354	7,001	248	435	683
Deutsche Bank	0.0201	7,544	152	52	204
First Discount	0.0515	97	5	-	5
Gardner Rich	0.0492	447	22	-	22
Goldman Sachs & Co.	0.0281	6,734	189	208	397
Howard Weil & Co.	0.0498	884	44	-	44
ISI	0.0499	2,427	121	-	121
Janney Montgomery Scott	0.0482	249	12	-	12
J. P. Morgan Chase	0.0186	15,357	286	200	486
Keefe Bruyette	0.0500	1,040	52	-	52
Lazard Freres and Company	-	-	-	83	83
Lehman Brothers, Inc.	0.0248	9,244	229	7	236
Lehman Brothers, Inc.-Soft	0.0501	1,878	94	-	94
McDonald & Company	0.0500	400	20	109	129
Merrill Lynch, Pierce, Fenner & Smith	0.0346	10,014	346	393	739
Merrill Lynch, Pierce, Fenner & Smith-Soft	0.0499	881	44	-	44
Morgan Keegan	0.0503	1,054	53	13	66
Morgan Stanley Dean Witter	0.0498	6,903	344	352	696
Morgan Stanley Dean Witter-Soft	0.0498	1,606	80	-	80
Morgan Stanley Dean Witter-Int'l	0.0029	64,541	190	-	190
Morgan Stanley-Montgomery	0.0502	1,275	64	6	70
NBC Capital Markets	-	-	-	333	333
NBC Securities, Inc.	0.0500	1,100	55	14	69
Prudential Securities	0.0508	453	23	-	23
Quintus Securities	0.0480	229	11	-	11
Raymond James	0.0502	1,294	65	37	102
Robert Thomas	0.0500	300	15	-	15
Sandler O'Neil	54.0000	1	54	-	54
Securities Capital	0.0507	375	19	-	19
Simmons	0.0496	746	37	-	37
Southwest	0.0502	299	15	-	15
Sterne, Agee-Mobile	0.0504	794	40	10	50
Sterne, Agee-Montgomery	0.0499	702	35	4	39
UBS Warburg	0.0350	3,774	132	379	511
UBS Warburg-Birmingham	0.0494	425	21	-	21
UBS Warburg-Montgomery	0.0509	275	14	-	14
Wachovia	0.0495	1,051	52	13	65
Totals		183,964	\$ 4,622	\$ 3,664	\$ 8,286

Average Commission Per Share of Stock = \$ 0.0251

ACTUARIAL SECTION



February 13, 2004

Board of Control
Teachers' Retirement System of Alabama
Montgomery, Alabama

Members of the Board:

In this report are submitted the results of the sixty-second annual valuation of the assets and liabilities of the Teachers' Retirement System of Alabama, prepared as of June 30, 2003 in accordance with Section 367(15) of the act governing the operation of the System. The purpose of this report is to provide a summary of the funded status of the system as of June 30, 2003, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. On the basis of the valuation, it is recommended that the State make contributions to the Retirement System at the rate of 9.44% of payroll. The increase in the contribution rate from 7.54% to 9.44% of payroll is primarily due to a recognition of asset losses. Due to the poor recent performance in the markets, we strongly recommend that the Board of Control consider lowering the assumed rate of investment return from 8.0% to 7.75% or 7.50%. This change would require an additional increase in the required employer contribution rate.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. The valuation continues to take into account the provisions of Act 2000-732 which requires that the actuary certify annually to the Teachers' Retirement System that there has been no change in the liquidation period used to determine the accrued liability contribution rate. Under the requirements of Act 2000-732, we have determined an employer contribution rate of 9.44% of payroll based on a 10-year liquidation period. If the section of Act 2000-732 that requires the use of a liquidation period of 10 years was repealed, a liquidation period up to 20 years could be utilized and a lower employer contribution would be required. The repeal of this section of Act 2000-732 would be reasonable and actuarially sound and would result in an employer contribution of 8.17% based on a 20-year liquidation period. Additionally, this would make the TRS and ERS amortization methods the same, as they were prior to the passage of this section of Act 2000-732. Five-year market related value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of June 30, 2000, submitted on November 14, 2001, and adopted by the Board in January 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate (%)</u>
20	7.25
25	7.25
30	7.75
35	7.00
40	6.50
45	6.25
50	6.00
55	5.50
60	5.00
65	5.00

Separations Before Service Retirement: Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>					
	<u>Death</u>		<u>Disability</u>		<u>Withdrawal*</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
20	0.05	0.03	0.05	0.07	23.83	23.83
25	0.06	0.03	0.06	0.07	11.59	11.14
30	0.08	0.03	0.07	0.07	7.86	7.93
35	0.08	0.04	0.12	0.10	6.08	6.08
40	0.09	0.06	0.14	0.16	4.78	4.35
45	0.14	0.09	0.24	0.32	3.75	3.71
50	0.21	0.12	0.61	0.65	2.82	2.57
55	0.36	0.19	1.35	0.95	1.85	2.07
60	0.63	0.34	2.50	1.89	1.41	1.95
65	1.15	0.67				
69	1.80	1.08				

* Withdrawal rates are higher during the first three years of service.

Service Retirement*: Representative values of the assumed annual rates of service retirement are as follows:

For those members first eligible for unreduced benefits before age 50 or after age 60, rates are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>	
	<u>Men</u>	<u>Women</u>
45	7.0	4.0
50	12.0	8.0
55	45.0	45.0
60	15.0	15.0
62	35.0	35.0
65	40.0	40.0
70	100.0	100.0

*Retirement rates increase by 10% for males and 20% for females in the year members first become eligible for unreduced service retirement.

For members first eligible for unreduced benefits on or after age 50 but before age 60, no withdrawal or retirement is assumed to occur for the five years prior to DROP eligibility and 45% are assumed to retire in the first year eligible for DROP participation. The rates, thereafter, are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>	
	<u>Men</u>	<u>Women</u>
58	15.0	15.0
60	15.0	15.0
62	35.0	35.0
65	40.0	40.0
70	100.0	100.0

Deaths after Retirement: Rate of mortality for the period after service retirement are according to the 1982 George B. Buck Men Teachers Mortality Study Table set back one year for males and the UP94 Mortality Table set back one year for females. Special tables are used for the period after disability retirement. Representative values of the assumed annual rates of death after service and disability retirement are as follows:

<u>Age</u>	<u>Annual Rate (%) of Death After</u>			
	<u>Service Retirement</u>		<u>Disability Retirement</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
40	0.1	0.1	3.3	2.6
50	0.3	0.1	3.8	2.5
55	0.5	0.2	4.2	2.7
60	0.8	0.4	4.9	3.0
65	1.5	0.8	6.0	3.4
70	2.6	1.4	7.6	4.1
75	3.9	2.2	10.2	5.2
80	5.9	3.8	14.2	6.8
85	9.2	6.6	20.1	9.5
90	14.3	11.2	28.7	13.5
95	20.5	18.4	40.4	19.4

Actuarial Section

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods (Continued), Actuarial Cost Method and Summary of Plan Provisions

Spousal Benefits: For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit and 25% will elect the spousal benefit.

Valuation Method: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. Each year 20% of the difference between market value and expected actuarial value is recognized.

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability contributions are determined by subtracting the current assets held by the System and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Teachers' Retirement System of Alabama was established on September 15, 1939 and became effective September 30, 1941. The valuation considered amendments to the System through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

Definitions

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

Membership Service - all service rendered while a member of the retirement system and for which contributions are made.

Creditable Service - the sum of membership service, prior service, and any other service established as creditable in accordance with the provisions of the retirement law.

Annuity - payments for life derived from accumulated contributions of a member.

Pension - payments for life derived from employer contributions.

Retirement Allowance - the sum of the annuity and pension.

Benefits

Service Retirement Allowance

Condition for Allowance A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 60 and completed at least 10 years of creditable service.

Amount of Allowance Upon retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement" below).

Disability Retirement Allowance

Condition for Allowance A disability retirement allowance may be granted to a member who has 10 years or more of creditable service and becomes totally and permanently incapacitated for duty before reaching eligibility for a service retirement allowance.

Amount of Allowance Upon retirement for disability, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement" below).

Benefits Payable on
Separation of Service

Any member who withdraws from service is entitled to receive his or her contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 60.

Benefits Payable upon
Death of an Active Member

In the event of the death of a member eligible for service retirement, the designated beneficiary may elect (1) to exercise Option 3 defined below under "Special Privileges at Retirement" or (2) to receive a return of member contributions and total earned interest plus a death benefit equal to the salary on which the member made retirement contributions for the previous scholastic year (July 1-June 30). *

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Summary of Plan Provisions (Continued) and Supporting Schedules

In the event of the death of a member with more than one year of service who is not eligible to retire, the designated beneficiary shall receive the return of member contributions and total earned interest. Also, the designated beneficiary shall receive an additional death benefit equal to the salary on which member retirement contributions were made for the previous scholastic year (July 1-June 30). *

In the event of a job-related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time of death. *

In the event of a non-job related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a matching death benefit which is limited to a \$5,000 maximum.

*However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was non-job related.

Special Privileges at Retirement

In lieu of the full retirement allowance, any member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full allowance, with the provision that:

Option 1 – If a member dies before the annuity payments equal the present value of the annuity at the date of retirement, the balance is paid to a designated beneficiary or to the member's estate, or

Option 2 – After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or

Option 3 – After the member's death, one-half of the member's allowance is continued throughout the life of the designated beneficiary, or

Option 4 - Some other benefit is paid either to the member or to such other person as the member shall designate provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

Regular members contribute 5% of salary. Certified police officers and firefighters contribute 6% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and interest upon retirement.

Supporting Schedules

The following table reflects a six-year history of active member valuation data:

**TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>		<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase (Decrease) in Average Pay</u>
06/30/03	§	129,617	\$ 4,486,058,170	\$ 34,610	2.78
06/30/02	†	128,649	4,332,119,671	33,674	1.74
06/30/01		130,066	4,305,080,140	33,099	3.96
06/30/00		129,777	4,131,903,775	31,838	3.03
06/30/99		128,279	3,964,111,877	30,902	(1.54)
06/30/98	*	125,464	3,937,739,237	31,385	10.60

§ In addition, there are 2,711 employees with annual compensation of \$146,552,344 who are currently in the DROP program. Employers contribute on this payroll.

† In addition, there are 973 employees with annual compensation of \$47,063,551 who are currently in the DROP program. Employers contribute on this payroll.

* Amounts include an 8.5% across-the-board pay increase effective October 1, 1998.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Supporting Schedules (Continued)

The following table presents a six-year history of a solvency test:

**TEACHERS' RETIREMENT SYSTEM
SOLVENCY TEST**
(\$ in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	% of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portions)				
06/30/03	\$ 2,750,536	\$ 9,548,773	\$ 7,058,426	\$ 18,110,470	100	100	82.3
06/30/02 §	2,690,967	8,526,609	7,156,598	17,904,881	100	100	93.4
06/30/01 γ	2,607,236	7,471,415	7,159,965	17,475,298	100	100	103.3
06/30/00	2,405,186	7,075,177	6,811,099	16,703,929	100	100	106.1
06/30/99 †	2,335,475	6,582,401	6,650,316	15,642,066	100	100	101.1
06/30/98 *	2,140,753	5,833,899	6,626,774	14,533,824	100	100	99.0

§ Reflects effect of amendments to the System and additional allowance payable under Act 2002-393. Beginning 6/30/2002, item 1 and item (2) include DROP participants.

γ Reflects changes in actuarial assumptions.

† Reflects additional allowance payable under Act 2000-741.

* Reflects change in asset method from market value to market related value, 8.5% across-the-board increase effective October 1, 1998, and additional allowance payable under Act 98-355.

The following table presents a six-year history of retirants and beneficiaries:

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries *			Annual Allowances		
	Added	Removed	Year-end	Year-end (000s)	% Increase	Average
2003	3,782	1,275	54,410	\$ 963,130	8.6	\$ 17,701
2002	3,550	1,294	51,903	886,969	5.6	17,089
2001	3,225	1,280	49,647	839,704	9.4	16,913
2000	4,312	1,248	47,702	767,477	9.7	16,089
1999	2,756	1,176	44,638	699,517	12.8	15,671
1998	4,433	1,104	43,058	620,395	11.4	14,408

* Does not include DROP participants.

The following table provides an analysis of actuarial gains and losses:

**TEACHERS' RETIREMENT SYSTEM
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF JUNE 30, 2003**

	<u>Amount</u>
Unfunded Actuarial Liability as of June 30, 2002	\$ 469,293,297
Normal Cost for 2003 Plan Year	267,764,888
Contributions Received During the Year	(225,651,474)
Interest to Year End	<u>39,228,000</u>
Expected (Overfunded)/Unfunded Actuarial Liability as of June 30, 2003	<u>550,634,711</u>
Actuarial (Gains)/Losses During the Year	
From Investments	732,958,475
From Actuarial Liabilities	<u>(36,328,269)</u>
Total Actuarial (Gains)/Losses During the Year	<u>696,630,206</u>
Actual Unfunded Actuarial Liability as of June 30, 2003	<u>\$ 1,247,264,917</u>



August 16, 2004

Board of Control
Employees' Retirement System of Alabama
State Capitol
Montgomery, AL 36104

Members of the Board:

In this report are submitted the results of the fifty-eighth annual valuation of the assets and liabilities of the Employees' Retirement System of Alabama, prepared as of September 30, 2003 in accordance with Section 36-27-23(p) of the act governing the operation of the System. The purpose of this report is to provide a summary of the funded status of the system as of September 30, 2003, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. On the basis of the valuation, it is recommended that the State make contributions to the Retirement System for State employees (members other than State policemen) at the rate of 6.77% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 21.36% of payroll.

The financing objective of the System has been to have contribution rates remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 20-year period for State Employees and State Police, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

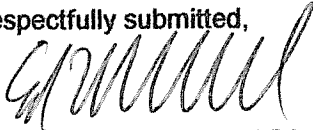
Employees' Retirement System

Actuarial Letter (Continued)

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of September 30, 2000, submitted on May 23, 2002, and adopted by the Board on June 5, 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate (%)</u>
20	7.66
25	7.75
30	7.61
35	7.25
40	6.98
45	6.60
50	6.32
55	5.84
60	5.49
65	5.05

Separations from Active Service: Representative values of the assumed annual rates of death, disability, withdrawal, and service retirement are as follows:

STATE AND LOCAL EMPLOYEES

<u>Age</u>	<u>Annual Rate (%) of</u>					
	<u>Death</u>		<u>Disability</u>		<u>Withdrawal</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	0.05	0.03	0.05	0.08	25.80	31.30
25	0.06	0.03	0.06	0.09	18.50	21.50
30	0.08	0.03	0.08	0.12	11.40	14.40
35	0.08	0.04	0.17	0.24	8.10	10.10
40	0.09	0.06	0.30	0.41	6.30	7.30
45	0.14	0.09	0.54	0.65	4.90	6.00
50	0.21	0.12	0.98	0.98	3.30	6.00
55	0.36	0.19	1.50	1.50	3.00	4.50
60	0.63	0.34	2.37	2.37	3.00	4.50
62	0.80	0.44	2.84	2.84	3.00	4.50
65	1.15	0.67	3.71	3.71		
69	1.80	1.08	4.85	4.85		

For members who are first eligible for unreduced benefits before age 50 or on or after age 60, rates are as follows:

Age	Annual Rate of Service Retirement	
	Male(%) §	Female(%) †
45	11.00	15.00
50	11.00	15.00
55	45.00	45.00
60	15.00	15.00
62	45.00	35.00
65	60.00	50.00
69	30.00	30.00
70	100.00	100.00

§ Retirement rates increase by 20% in the year a member first becomes eligible for unreduced service retirement.

† Retirement rates increase by 25% in the year a member first becomes eligible for unreduced service retirement.

For members first eligible for unreduced benefits on or after age 50 but before age 60, no withdrawal or retirement is assumed to occur for the five years prior to DROP eligibility and 45% are assumed to retire in the first year of eligibility for DROP participation. The rates, thereafter, are as follows:

Age	Annual Rate of Service Retirement	
	Male(%)	Female(%)
58	15.00	25.00
60	15.00	15.00
62	45.00	35.00
65	60.00	50.00
70	100.00	100.00

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods (Continued), Actuarial Cost Methods, and Summary of Plan Provisions

STATE POLICEMEN

Age	Annual Rate (%) of					
	Death		Disability	Withdrawal †	Service	Service
	Male	Female			Retirement "A"	Retirement "B"
20	0.05	0.03	0.04	1.00		
25	0.06	0.03	0.05	1.00		
30	0.08	0.03	0.07	1.50		
35	0.08	0.04	0.11	2.00		
40	0.09	0.06	0.17	1.00		
45	0.14	0.09	0.23	0.50		
50	0.21	0.12	0.30		20.00	
55	0.36	0.19	0.35		10.00	30.00
60	0.63	0.34				30.00
62	0.80	0.44				30.00
65	1.15	0.67				100.00
69	1.80	1.08				100.00
70						100.00

† Higher rates are assumed during the first three years of employment.

A - For those who will become eligible for DROP prior to age 57, these are the rates in effect prior to the DROP eligibility. An additional 20% are assumed to retire in the first year of eligibility for unreduced benefits. 80% are assumed to retire in the first year eligible for DROP participation if less than age 57.

B - Rates for those who will not become eligible for DROP prior to age 57. An additional 25% are assumed to retire in the first year of eligibility for unreduced benefits. Also, for those who will become eligible for DROP prior to age 57, these are the rates after the first year of DROP eligibility.

Death after Retirement: The rate of mortality after service retirement are based on the George B. Buck 1979 Table for males rated forward one year and the George B. Buck 1979 Table for females. Special tables are used for the period after disability retirement.

Spousal Benefit: For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit and 25% will elect the spousal benefit.

Percent Married: 100% of employees are assumed to be married, with the wife 3 years younger than the husband.

Actuarial Method: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of the assets and the expected value of the assets, based on the assumed valuation rate of return. Each year 20% of the difference between the market value and expected value is recognized.

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability is determined by subtracting the current assets and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System. The accrued liability contribution amortizes the balance of the unfunded accrued liability over a period of years from the valuation date.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Employees' Retirement System of Alabama was established on October 1, 1945. The valuation considered amendments to the System effective through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

Definitions

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

Membership Service - all service rendered while a member of the Retirement System and for which contributions are made.

Creditable Service - the sum of membership service, prior service, and any other previous service established as creditable in accordance with the provisions of the retirement law.

Annuity - payments for life derived from accumulated contributions of a member.

Pension - payments for life derived from the accumulated contributions of an employer.

Retirement Allowance - the sum of the annuity and pension payments.

Benefits – Members Classified as Other Than State Policemen

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service (except for local employers that maintained 30-year retirement by not electing 25-year retirement) or who has attained age 60 and completed at least 10 years of creditable service.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Plan Provisions (Continued)

Amount of Allowance	<p>Upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.</p> <p>The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).</p>
Disability Retirement Allowance	
Condition for Allowance	<p>A disability retirement allowance may be granted to a member who has 10 or more years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.</p>
Amount of Allowance	<p>Upon retirement for disability, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of the member's creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.</p> <p>The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).</p>
Benefits Payable on Separation of Service	<p>Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed at least 10 years of creditable service may, after separation from service, continue membership in the System and file for service retirement after reaching age 60.</p>
Benefits Payable upon Death in Active Service	<p>In the event of the death of a member eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of the death of a member with more than one year of service who is not eligible for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit equal to the salary on which the member retirement contributions were made for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time death occurs. *</p>

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit, which is limited to a maximum of \$5,000.

* However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years (at least 30 years for units that did not elect 25 year retirement) of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of this period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

Regular members contribute 5% of salary. Certified firefighters, police officers and correctional officers contribute 6% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and interest upon retirement.

Benefits – Members Classified as State Policemen

Service Retirement Allowance

Condition of Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 52 and completed at least 10 years of creditable service.

Amount of Allowance

Upon service retirement, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of their creditable service.

The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).

A member who has attained 20 or more years of creditable service and retires prior to age 60 is eligible to receive a "bonus service credit" up to 4 years as follows:

-Age 56 or older – bonus service of 4 years reduced by 1 month for each month over the age of 56.

-Age 52 to 56 – bonus service of 4 years.

-Age 52 or less (disability retirement only) – bonus service of 4 years.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Plan Provisions (Continued) and Supporting Schedules

-Age 52 or less with 25 or more years of service – bonus service of 4 years.

Disability Retirement Allowance

Condition for Allowance

A disability retirement allowance may be granted to a member who has 10 or more years of creditable service or who becomes disabled as a result of his or her employment in the line of duty without regard to his or her years of creditable service, and who becomes permanently incapacitated, mentally or physically, for the further performance of duty before reaching the minimum age for service retirement.

Amount of Allowance

Upon retirement for disability, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of the member's creditable service.

The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).

Benefits Payable upon Separation from Service

Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years or more of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after the attainment of age 52.

Benefits Payable upon Death in Active Service

In the event of the death of a member who is eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30). *

In the event of the death of a member with one or more years of service who is not eligible for service retirement, the designated beneficiary shall receive a return of member contributions and total interest earned plus an additional death benefit equal to the salary on which member retirement contributions were made for the previous fiscal year (October 1 – September 30). *

In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time death occurs. *

In the event of a non job-related death of a member with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit, which is limited to a maximum of \$5,000.

* However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan
(DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 52 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP and interest earned on DROP deposits.

Member Contributions

Members contribute 10% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions with interest upon retirement.

Special Privileges at Retirement – All Members

In lieu of the full retirement allowance, any member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full retirement allowance, with the provision that:

- Option 1: If a member dies before the annuity payments equal or exceed the present value of the member's annuity at the date of retirement, the balance is paid to a designated beneficiary or to the member's estate, or
- Option 2: After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or
- Option 3: After the member's death, one-half of the member's retirement allowance is continued throughout the life of the designated beneficiary, or
- Option 4: Some other benefit is paid either to the member or the designated beneficiary, provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

Supporting Schedules

The following schedule provides a six-year history on active member valuation data:

**EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

	Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
§	09/30/03	82,304	\$ 2,628,626,363	\$ 31,938	3.12
*	09/30/02	81,545	2,525,514,089	30,971	3.20
	09/30/01	80,256	2,408,542,913	30,011	2.33
	09/30/00	77,693	2,278,637,042	29,329	2.85
	09/30/99	75,734	2,159,607,572	28,516	2.37
	09/30/98	73,990	2,061,103,741	27,857	6.39

§ In addition, there are 923 members with compensation of \$48,398,330 who are currently participating in DROP. Employers of the Retirement System contribute on this payroll

* In addition, there are 428 members with compensation of \$22,260,590 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System
Supporting Schedules (Continued)

The following table provides a six-year history of solvency tests:

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
SOLVENCY TEST
(\$ in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion (%) of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)				
09/30/03	\$ 1,484,793	\$ 3,928,131	\$ 3,711,355	\$ 8,312,500	100	100	78.1
09/30/02	1,400,699	3,580,584	3,512,186	8,100,846	100	100	88.8
09/30/01 §	1,319,603	3,244,967	3,445,553	8,028,471	100	100	100.5
09/30/00	1,219,344	3,080,504	3,104,120	7,769,122	100	100	111.8
09/30/99	1,152,050	2,826,060	2,906,245	7,302,046	100	100	114.4
09/30/98 †	1,022,088	2,788,846	2,753,144	6,888,446	100	100	111.8

§ Reflects changes in actuarial assumptions.

† Reflects change in asset method from market value to market related value.

The following table presents a six-year history of data concerning retirants and beneficiaries:

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries			Annual Allowances		
	Added	Removed	Year-end	Year-end (000s)	% Increase	Average
2003	1,702	709	28,920	\$ 430,633	8.1	\$ 14,890
2002	1,678	760	27,927	398,383	5.5	14,265
2001	1,458	803	27,009	377,548	8.1	13,979
2000	1,589	828	26,354	349,260	5.1	13,253
1999	1,121	787	25,593	332,237	9.5	12,982
1998	3,170	688	25,259	303,401	17.8	12,012

The following table provides an analysis of actuarial gains and losses:

**EMPLOYEES' RETIREMENT SYSTEM
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2003**

	<u>Amount</u>
(Overfunded) Actuarial Liability as of September 30, 2002	\$ 392,622,558
Normal Cost for 2003 Plan Year	126,363,677
Contributions Received During the Year	(133,197,009)
Interest to Year End	<u>31,136,471</u>
Expected (Overfunded) Actuarial Liability as of September 30, 2003	<u>416,925,697</u>
Actuarial (Gains)/Losses During the Year	
From Investments	277,182,441
From Actuarial Liabilities	<u>117,671,348</u>
Total Actuarial (Gains)/Losses During the Year	<u>394,853,789</u>
Actual Unfunded Actuarial Liability as of September 30, 2003	<u>\$ 811,779,486</u>



August 16, 2004

Board of Control
Judicial Retirement Fund of Alabama
State Capitol
Montgomery, AL 36104

Members of the Board:

In this report are submitted the results of the annual actuarial valuation of the assets and liabilities of the Alabama Judicial Retirement Fund, prepared as of September 30, 2003 in accordance with Section 36-27-23(p) of the act governing the operation of the Fund. The purpose of this report is to provide a summary of the funded status of the Fund as of September 30, 2003, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation liabilities include the salary increases and the corresponding increase in retired members' allowances granted under Act 99-427. On the basis of the valuation, it is recommended that the State continue to make contributions to the Retirement Fund at the rate of 21.93% of payroll.

The financing objective of the Fund has been to have contribution rates remain relatively level over time as a percentage of payroll. The promised benefits of the Fund are included in the actuarially calculated contribution rates which are developed using the projected unit credit cost method. Market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within an 18-year period, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Annual Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Annual Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Fund.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

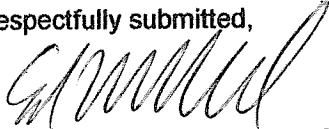
Judicial Retirement Fund

Actuarial Letter (Continued)

In our opinion the Fund is operating on an actuarially sound basis. Assuming that contributions to the Fund are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the Fund may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Summary of Actuarial Assumptions and Methods and Summary of Plan Provisions

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of September 30, 2000, submitted May 23, 2002, and adopted by the Board on June 5, 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: 5% per annum, compounded annually.

Separations Before Retirement: Representative values of the assumed annual rates of death and disability are as follows:

<u>Age</u>	<u>Annual Rate (%) of</u>		
	<u>Death</u>		<u>Disability</u>
	<u>Male</u>	<u>Female</u>	
30	0.08	0.03	0.08
35	0.08	0.04	0.16
40	0.09	0.06	0.27
45	0.14	0.09	0.43
50	0.21	0.12	0.65
55	0.36	0.19	1.00
60	0.63	0.34	1.58
64	1.01	0.58	2.28

Rates of Retirement: 30% of members are assumed to retire in the first year of eligibility and 5% in each year thereafter. All remaining members are assumed to retire at age 70.

Deaths after Retirement: The rate of mortality after service retirement are based on the George B. Buck 1979 Table for males rated forward one year and the George B. Buck 1979 Table for females. Special mortality tables are used for the period after disability retirement.

Percent Married: 90% of members are assumed to be married.

Actuarial Method: Projected unit credit method. Gains and losses are reflected in the unfunded accrued liability.

Assets: Actuarial Value. The actuarial value of assets recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Judicial Retirement Fund (JRF) was established on September 18, 1973. The valuation considered amendments to the JRF through the valuation date. The following summary describes the main benefit and contribution provisions of the JRF as interpreted for the valuation.

Membership

Any justice of the Supreme Court, judge of the Court of Civil Appeals, judge of the Court of Criminal Appeals, judge of the Circuit Court, or officeholder of any newly created judicial office receiving compensation from the State Treasury who was holding office on the effective date of the Act and elected to come under its provisions became a member of the JRF. Justices, Appellate Judges, and Circuit Judges elected or appointed after September 18, 1973 must become a member of the JRF. Also, District Judges appointed after October 1, 1975 and Probate Judges elected or appointed after October 1, 1976 must become a member of the JRF. Certain other district and probate judges as well as certain former county court judges, district attorneys, or assistant district attorneys serving as circuit judges and certain supernumerary judges and justices may also elect to become a member.

Credited Service

Credited service is service as a member plus certain periods of previous service credited in accordance with the provisions of the Act.

Benefits

Service Retirement Benefit

Condition of Benefit

A retirement benefit is payable upon request of any member who has:

- Completed 12 years of credited service and has attained age 65, or
- Completed 15 years of credited service and whose age plus service equals or exceeds 77, or
- Completed at least 18 years of credited service or three full terms as a judge or justice, or
- Completed 10 years of credited service and has attained age 70, or
- Completed 25 years of service or 24 years of service provided the member purchases one year of service prior to retirement, regardless of age.

However, a judge who became a member on or after July 30, 1979 or who is a district or probate judge must meet the following age and service requirement combinations in order to be eligible to retire (except judges with at least 25 years of creditable service):

- Age 70 with at least 10 years of service
- Age 65 or greater with at least 12 years of service
- Age 62 or greater with at least 15 years of service
- Age 61 with at least 16 years of service
- Age 60 with at least 17 years of service

Amount of Benefit

The service retirement benefit for a member is equal to:

- (a) For circuit or appellate judges who were members prior to July 30, 1979, 75% of the salary prescribed by law for the position from which the member retires.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Summary of Plan Provisions (Continued) and Supporting Schedules

- (b) For circuit and appellate judges who assumed office on or after July 30, 1979, 75% of the member's salary at the time of separation from service.
- (c) For probate judges, 75% of the member's salary at the time of separation from service.
- (d) For district judges, 75% of the position's salary immediately prior to retirement.

Disability Retirement Benefit

Condition of Benefit

A disability retirement benefit is payable to any member who becomes permanently unable, physically or mentally, to carry out their duties on a full-time basis, provided the member has completed five or more years of credited service.

Amount of Benefit

The disability retirement benefit for a judge is equal to 25% of the salary prescribed by law for the position at the time of retirement from which the member retires on disability plus 10% of such salary for each year of credited service in excess of five years. The disability retirement benefit is subject to a 30% minimum and a 75% maximum of such salary. The retirement benefit for a circuit judge and for an appellant judge who assumed office prior to July 30, 1979, is adjusted as current salaries are adjusted.

Spousal Benefits

Condition of Benefit

Upon the death of an active, inactive, or retired member with at least 5 years of credited service, a death benefit is payable to the member's spouse.

Amount of Benefit

The death benefit for the spouse of a judge other than a district or probate judge consists of a yearly benefit equivalent to 3% of the salary prescribed by law for the position for each year of service of the former member, not to exceed 30% of such salary.

The death benefit for the spouse of a district judge consists of a yearly benefit equal to 3% of the position's salary prescribed by law at the time of death for each year of service not to exceed 30% of such salary.

For the spouse of a probate judge, the yearly benefit is equal to the greater of \$480 for each year of credited service to a maximum of 10 year, or 3% of the judge's salary at the time of their separation from service for each year of credited service not to exceed 30% of such salary.

The benefit is payable for the spouse's life or until remarriage.

Benefit Payable on Separation from Service

If a member terminates service and elects not to withdraw his or her contributions and accrued interest from the JRF, the member is eligible to receive any of the above benefits for which the member has sufficient credited service upon reaching an eligible retirement age.

A member terminating service prior to reaching eligibility for retirement benefits may elect to receive a refund of their accumulated contributions

and interest (the amount of accrued interest refundable to a District or Probate Judge is based upon the same rules and regulations applicable to similar refunds under ERS).

Member Contributions Each member contributes 6% of salary.

State Contributions The State makes contributions, which, in addition to the members' contributions, are sufficient to carry out the provisions of the Act.

Supporting Schedules

The following schedule presents six years of active member valuation data:

JUDICIAL RETIREMENT FUND SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual † Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase (Decrease) in Average Pay</u>
09/30/03	338	\$ 39,742,054	\$ 117,580	2.83
09/30/02	331	37,849,332	114,348	9.95
09/30/01	326	33,902,846	103,996	26.04
09/30/00	326	26,898,150	82,510	(0.88)
09/30/99	325	27,053,721	83,242	7.94
09/30/98	318	24,523,217	77,117	0.03

† Does not include salary increases effective after the valuation date.

The following schedule presents six years of solvency tests:

JUDICIAL RETIREMENT FUND SOLVENCY TEST

(\$ in Thousands)

<u>Valuation Date</u>	<u>Aggregate Accrued Liabilities For</u>			<u>Reported Assets</u>	<u>Portion (%) of Accrued Liabilities Covered by Reported Assets</u>		
	<u>(1) Active Member Contributions</u>	<u>(2) Retirants and Beneficiaries</u>	<u>(3) Active Members (Employer Financed Portion)</u>		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
09/30/03	\$ 25,012	\$ 181,882	\$ 78,228	\$ 247,011	100	100	51.3
09/30/02	23,537	184,490	81,831	245,425	100	100	45.7
09/30/01 *	21,015	189,375	78,654	245,705	100	100	44.9
09/30/00	20,865	169,016	78,897	239,023	100	100	62.5
09/30/99	18,812	171,346	73,333	221,926	100	100	43.3
09/30/98 †	17,665	154,319	74,194	210,116	100	100	51.4

* Reflects change in post retirement mortality.

† Reflects change in asset method from market value to market-related value.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules (Continued)

The following schedule presents six years of retirant and beneficiary data:

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries			Annual Allowances		
	Added	Removed	Year-end	Year-end	% Increase	Average
2003	14	7	276	\$ 18,002,868	7.6	\$ 65,228
2002	8	10	269	16,728,048	4.5	62,186
2001	25	6	271	16,006,800	44.7	59,066
2000	3	3	252	11,060,436	(2.1)	43,891
1999	13	4	252	11,293,512	12.8	44,816
1998	8	3	243	10,015,812	2.5	41,217

The following table provides an analysis of actuarial gains and losses:

**JUDICIAL RETIREMENT FUND
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2003**

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2002	\$ 44,433,000
Normal Cost for 2003 Plan Year	5,575,810
Contributions Received During the Year	(7,968,628)
Interest to Year End	<u>3,458,927</u>
Expected Unfunded Actuarial Liability as of September 30, 2003	<u>45,499,109</u>
Actuarial (Gains)/Losses During the Year	
From Investments	10,215,595
From Actuarial Liabilities	<u>(17,602,660)</u>
Total Actuarial (Gains)/Losses During the Year	<u>(7,387,065)</u>
Actual Unfunded Actuarial Liability as of September 30, 2003	<u>\$ 38,112,044</u>

STATISTICAL SECTION

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section
Revenues by Source
Six-Year History

(Amounts in Thousands)

TEACHERS' RETIREMENT SYSTEM
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions		Investment Income	Total
		Amount	Rate %		
2004	\$ 253,860	\$ 312,474	6.56	\$ 1,634,314	\$ 2,200,648
2003	252,018	235,786	5.02	2,004,431	2,492,235
2002	235,726	265,670	5.96	(1,244,757)	(743,361)
2001	230,618	279,880	6.38	(1,090,706)	(580,208)
2000	214,003	277,180	6.38	1,414,568	1,905,751
1999	217,205	166,100	4.03	1,829,883	2,213,188

EMPLOYEES' RETIREMENT SYSTEM
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions				Investment Income	Total
		Amount	Employer Rate %		Local		
			Regular	Law			
2004	\$ 168,548	\$ 170,713	4.19	13.87	*	\$ 725,758	\$ 1,065,019
2003	162,284	154,218	3.95	9.24	*	938,921	1,255,423
2002	151,221	123,887	3.95	9.24	*	(656,360)	(381,252)
2001	132,238	122,483	4.08	9.45	*	(530,968)	(276,247)
2000	118,128	113,991	4.08	9.45	*	655,108	887,227
1999	112,779	97,373	3.11	6.85	*	857,378	1,067,530

JUDICIAL RETIREMENT FUND
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions		Investment Income	Total
		Amount	Rate %		
2004	\$ 2,434	\$ 8,994	21.93	\$ 21,964	\$ 33,392
2003	2,342	8,637	21.19	20,855	31,834
2002	2,356	8,222	21.19	(23,333)	(12,755)
2001	2,212	7,598	21.19	(24,197)	(14,387)
2000	1,643	5,696	21.19	25,081	32,420
1999	1,594	2,870	9.16	27,800	32,264

§ Includes transfers from other systems.

* Local agency rates differ for each participating agency.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Expenses by Type

Six-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Service Transfers	Administrative Expenses	Other	Total
2004	\$ 987,761	\$ 35,983	\$ 1,575	\$ 7,361	\$ 439	\$ 1,033,119
2003	932,687	32,084	2,418	7,011	367	974,567
2002	858,383	35,510	2,091	6,845	391	903,220
2001	811,896	34,156	1,207	6,023	1,002	854,284
2000	720,576	33,978	1,534	5,639	165	761,892
1999	678,740	31,307	1,800	6,563	737	719,147

**EMPLOYEES' RETIREMENT SYSTEM
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Unit Withdrawals & Service Transfers	Administrative Expenses	Other	Total
2004	\$ 448,658	\$ 31,406	\$ 6,008	\$ 5,892	\$ 269	\$ 492,233
2003	423,027	25,056	2,842	5,843	278	457,046
2002	389,856	24,965	10,410	5,582	235	431,048
2001	371,715	24,906	4,074	4,578	330	405,603
2000	341,145	24,864	1,985	3,811	367	372,172
1999	330,231	25,291	1,674	4,812	333	362,341

**JUDICIAL RETIREMENT FUND
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Service Transfers	Administrative Expenses	Other	Total
2004	\$ 17,903	\$ 103	\$ -	\$ 344	\$ -	\$ 18,350
2003	17,964	83	103	322	-	18,472
2002	16,770	29	-	306	-	17,105
2001	15,655	79	163	272	-	16,169
2000	11,256	43	-	263	-	11,562
1999	11,150	101	-	226	-	11,477

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Benefits by Type

Six-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>	<u>Benefits</u>	<u>Death</u>	<u>Resignation</u>
2004	\$ 923,893	\$ 29,066	\$ 34,802	\$ 10,240	\$ 25,743
2003	872,992	27,020	32,675	10,035	22,049
2002	804,822	24,076	29,485	12,390	23,120
2001	762,007	22,104	27,785	10,949	23,207
2000	676,365	19,384	24,827	9,800	24,178
1999	637,542	18,180	23,018	8,550	22,757

**EMPLOYEES' RETIREMENT SYSTEM
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>	<u>Benefits</u>	<u>Death</u>	<u>Resignation</u>
2004	\$ 395,467	\$ 22,772	\$ 30,419	\$ 7,696	\$ 23,710
2003	372,512	21,832	28,683	6,554	18,502
2002	343,265	20,181	26,410	5,540	19,425
2001	327,214	19,372	25,129	5,965	18,941
2000	300,541	17,394	23,210	5,564	19,300
1999	291,548	16,489	22,194	6,195	19,096

**JUDICIAL RETIREMENT FUND
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>	<u>Benefits</u>	<u>Death</u>	<u>Resignation</u>
2004	\$ 14,722	\$ 2,864	\$ 317	\$ 30	\$ 73
2003	14,823	2,801	340	-	83
2002	13,655	2,746	369	-	29
2001	12,711	2,543	401	-	79
2000	9,061	1,852	343	-	43
1999	9,110	1,694	346	-	101

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Retired Members by Type of Benefit as of June 30, 2003

Amount of Monthly Benefit	Number of Retirants	Type of Retirement ¹			Option Selected ²				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	1,311	818	333	160	293	415	274	329	-
251 - 500	7,904	6,208	687	1,009	2,397	3,662	910	926	9
501 - 750	5,891	4,781	502	608	1,800	2,685	663	738	5
751 - 1,000	4,663	3,883	308	472	1,360	2,167	530	604	2
1,001 - 1,250	4,351	3,746	214	391	1,211	2,043	538	553	6
1,251 - 1,500	5,459	5,005	157	297	1,320	2,634	792	709	4
1,501 - 1,750	6,547	6,252	106	189	1,330	3,614	792	805	6
1,751 - 2,000	5,669	5,513	72	84	1,066	3,362	555	682	4
2,001 - 2,250	4,190	4,107	43	40	747	2,489	446	500	8
2,251 - 2,500	2,741	2,676	34	31	487	1,583	325	343	3
2,501 - 2,750	1,898	1,856	29	13	333	1,013	274	276	2
2,751 - 3,000	1,355	1,325	25	5	254	659	221	216	5
3,001 - 3,250	1,048	1,037	9	2	163	551	166	166	2
3,251 - 3,500	795	778	14	3	153	414	114	111	3
3,501 - 3,750	609	603	4	2	124	299	91	93	2
3,751 - 4,000	445	439	6	-	60	228	72	81	4
4,001 - 4,250	368	362	6	-	68	178	55	65	2
4,251 - 4,500	253	249	4	-	36	127	45	42	3
4,501 - 4,750	190	188	1	1	28	92	27	43	-
4,751 - 5,000	123	119	2	2	17	58	28	19	1
Over 5,000	457	450	6	1	62	180	95	112	8
Totals ³	56,267	50,395	2,562	3,310	13,309	28,453	7,013	7,413	79

¹ Type of Retirement

A - Service
B - Survivor benefit
C - Disability

² Option

Maximum - Life Annuity
Opt-1 - Cash Refund
Opt-2 - 100% Joint Survivorship
Opt-3 - 50% Joint Survivorship
Opt-4 - Other

³ This includes 2,711 DROP

participants as of June 30, 2003.

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Retired Members by Type of Benefit as of September 30, 2003

Amount of Monthly Benefit	Number of Retirants*	Type of Retirement ¹			Option Selected ²				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	759	280	449	30	135	88	103	426	7
251 - 500	4,340	2,641	1,254	445	1,100	1,168	885	1,163	24
501 - 750	4,916	3,527	586	803	1,625	1,806	609	830	46
751 - 1,000	4,177	3,174	299	704	1,292	1,739	455	629	62
1,001 - 1,250	3,674	3,088	188	398	1,027	1,591	425	570	61
1,251 - 1,500	2,883	2,583	110	190	731	1,263	368	475	46
1,501 - 1,750	2,248	2,076	67	105	505	1,063	274	390	16
1,751 - 2,000	1,795	1,703	34	58	431	870	179	296	19
2,001 - 2,250	1,281	1,237	19	25	275	612	140	233	21
2,251 - 2,500	959	927	10	22	218	436	111	187	7
2,501 - 2,750	695	672	14	9	147	329	78	132	9
2,751 - 3,000	541	529	11	1	122	250	45	121	3
3,001 - 3,250	410	405	2	3	81	207	35	80	7
3,251 - 3,500	290	283	4	3	67	141	27	52	3
3,501 - 3,750	221	219	2	-	49	105	14	49	4
3,751 - 4,000	158	157	1	-	25	81	15	32	5
4,001 - 4,250	134	134	-	-	32	60	6	34	2
4,251 - 4,500	109	107	2	-	27	49	4	28	1
4,501 - 4,750	68	68	-	-	18	28	3	19	-
4,751 - 5,000	59	59	-	-	14	27	3	13	2
Over 5,000	157	156	1	-	49	63	5	37	3
Totals ³	29,874	24,025	3,053	2,796	7,970	11,976	3,784	5,796	348

¹ Type of Retirement

- A - Service
- B - Survivor benefit
- C - Disability

² Option

- Maximum - Life Annuity
- Opt-1 - Cash Refund
- Opt-2 - 100% Joint Survivorship
- Opt-3 - 50% Joint Survivorship
- Opt-4 - Other

³ Includes 923 DROP participants as of September 30, 2003.

Does not include 45 members entitled to deferred benefits, but not currently in receipt.

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Retired Members by Type of Benefit as of September 30, 2003

Amount of Monthly Benefit	Number of Retirants	Type of Retirement †			Option	
		A	B	C	Maximum	Joint Survivorship
\$ 1 - 250	1	-	1	-	-	1
251 - 500	2	1	1	-	-	2
501 - 750	8	1	7	-	-	8
751 - 1,000	8	-	7	1	1	7
1,001 - 1,250	6	1	5	-	1	5
1,251 - 1,500	3	-	3	-	-	3
1,501 - 1,750	-	-	-	-	-	-
1,751 - 2,000	4	1	2	1	1	3
2,001 - 2,250	6	1	5	-	1	5
2,251 - 2,500	3	1	2	-	1	2
2,501 - 2,750	8	3	4	1	3	5
2,751 - 3,000	3	2	1	-	2	1
3,001 - 3,250	19	2	17	-	-	19
3,251 - 3,500	35	6	29	-	3	32
3,501 - 3,750	12	8	2	2	2	10
3,751 - 4,000	7	7	-	-	1	6
4,001 - 4,250	8	6	-	2	4	4
4,251 - 4,500	5	3	2	-	-	5
4,501 - 4,750	5	1	4	-	-	5
4,751 - 5,000	4	3	1	-	-	4
Over 5,000	129	128	-	1	6	123
Totals	276	175	93	8	26	250

† Type of Retirement

- A - Service
- B - Survivor benefit
- C - Disability

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Six-Year History of Average Monthly Benefit Payments as of June 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
2003					
Average monthly benefit	\$ 535	\$ 798	\$ 1,133	\$ 1,905	\$ 2,984
Average final average salary	\$ 27,372	\$ 28,531	\$ 31,559	\$ 44,478	\$ 56,593
Number of active retirants	569	424	437	2,420	1,464
2002					
Average monthly benefit	\$ 563	\$ 791	\$ 1,090	\$ 1,795	\$ 2,657
Average final average salary	\$ 28,942	\$ 28,971	\$ 30,725	\$ 41,721	\$ 50,034
Number of active retirants	564	416	412	1,973	1,236
2001					
Average monthly benefit	\$ 502	\$ 777	\$ 1,092	\$ 1,788	\$ 2,819
Average final average salary	\$ 26,015	\$ 27,774	\$ 30,013	\$ 40,681	\$ 50,689
Number of active retirants	552	386	431	1,455	843
2000					
Average monthly benefit	\$ 465	\$ 756	\$ 1,036	\$ 1,698	\$ 2,387
Average final average salary	\$ 24,661	\$ 27,450	\$ 28,961	\$ 39,249	\$ 44,226
Number of active retirants	564	433	452	1,370	814
1999					
Average monthly benefit	\$ 484	\$ 726	\$ 980	\$ 1,723	\$ 2,528
Average final average salary	\$ 24,412	\$ 24,802	\$ 26,105	\$ 38,510	\$ 44,668
Number of active retirants	553	381	557	1,427	805
1998					
Average monthly benefit	\$ 414	\$ 675	\$ 885	\$ 1,577	\$ 2,255
Average final average salary	\$ 21,919	\$ 24,090	\$ 24,853	\$ 36,538	\$ 41,688
Number of active retirants	468	426	510	1,273	787

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Six-Year History of Average Monthly Benefit Payments as of September 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
2003					
Average monthly benefit	\$ 1,195	\$ 1,079	\$ 1,285	\$ 1,849	\$ 2,749
Average final average salary	\$ 36,391	\$ 35,075	\$ 34,952	\$ 43,008	\$ 52,337
Number of active retirants	552	251	240	684	296
2002					
Average monthly benefit	\$ 1,107	\$ 1,023	\$ 1,346	\$ 1,665	\$ 2,725
Average final average salary	\$ 33,936	\$ 32,913	\$ 36,895	\$ 38,739	\$ 51,237
Number of active retirants	511	268	224	626	311
2001					
Average monthly benefit	\$ 979	\$ 935	\$ 1,224	\$ 1,630	\$ 2,359
Average final average salary	\$ 32,428	\$ 30,796	\$ 33,257	\$ 37,763	\$ 44,275
Number of active retirants	490	214	192	306	100
2000					
Average monthly benefit	\$ 873	\$ 973	\$ 1,343	\$ 1,636	\$ 2,399
Average final average salary	\$ 30,434	\$ 30,488	\$ 34,121	\$ 37,312	\$ 44,483
Number of active retirants	450	241	231	525	110
1999					
Average monthly benefit	\$ 731	\$ 899	\$ 1,173	\$ 1,455	\$ 2,249
Average final average salary	\$ 28,201	\$ 29,501	\$ 29,572	\$ 34,234	\$ 42,655
Number of active retirants	362	206	192	287	40
1998					
Average monthly benefit	\$ 799	\$ 814	\$ 1,140	\$ 1,447	\$ 2,352
Average final average salary	\$ 28,045	\$ 28,400	\$ 30,618	\$ 33,502	\$ 42,894
Number of active retirants	626	398	417	1,114	561

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RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Six-Year History of Average Monthly Benefit Payments as of September 30

	Years of Credited Service			
	10-14	15-19	20-24	25-29
2003				
Average monthly benefit	\$ 5,778	\$ 8,339	\$ 8,726	\$ 6,594
Number of active retirants	2	4	4	4
2002				
Average monthly benefit	\$ 7,840	\$ 7,446	\$ 8,711	\$ 8,430
Number of active retirants	1	3	1	2
2001				
Average monthly benefit	\$ 6,565	\$ 7,751	\$ 7,068	\$ 11,877
Number of active retirants	10	5	8	1
2000				
Average monthly benefit	\$ 5,717	\$ -	\$ -	\$ -
Number of active retirants	1	-	-	-
1999				
Average monthly benefit	\$ 4,144	\$ 5,285	\$ 6,127	\$ 7,809
Number of active retirants	4	2	6	1
1998				
Average monthly benefit	\$ -	\$ 4,894	\$ 4,100	\$ -
Number of active retirants	-	1	8	-

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RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Abbeville Water Works Board	Athens, City of
Abbeville, City of	Athens/Limestone County Emergency Management Communication District
Adamsville, City of	Athens/Limestone Public Library Authority
Addison, Town of	Atmore, City of
Alabama Elk River Development Agency	Atmore Housing Authority
Alabama Historic Ironworks Commission	Atmore Utilities Board
Alabama League of Municipalities	Attalla Housing Authority
Alabama Municipal Electric Authority	Attalla Water Works Board
Alabama Music Hall of Fame	Attalla, City of
Alabama Rural Water Association	Auburn Extension
Alabama Space & Rocket Center	Auburn Housing Authority
Alabama Sports Hall of Fame Board	Auburn Water Works Board
Alabama Tombigbee Regional Commission	Auburn, City of
Alabaster Water & Gas Board	Autauga County Commission
Alabaster, City of	Autauga County Emergency Management Communication District
Albertville Municipal Utilities Board	Autauga County Water Authority
Albertville, City of	Autauga/Prattville Public Library
Alexander City Housing Authority	B. B. Comer Memorial Library
Alexander City, City of	Bakerhill Water Authority
Aliceville Housing Authority	Baldwin County Board of Revenue
Aliceville, City of	Baldwin County Emergency Communication District
Altoona, Town of	Baldwin County Mental Health Center
Andalusia Housing Authority	Baldwin County Sheriff's Office Personnel System
Andalusia, City of	Baldwin County Soil & Water Conservation District
Andalusia Utilities Board	Barbour County Commission
Anniston Housing Authority	Bay Minette Housing Authority
Anniston Water Works & Sewer Board	Bay Minette, City of
Anniston, City of	Bay Minette Utilities Board
Anniston/Calhoun County Public Library	Bayou La Batre Water, Sewer and Gas Board
Anniston-Calhoun Co. Ft. McClellan Development Joint Power Authority	Bayou La Batre, City of
Arab Housing Authority	Bear Creek Development Authority
Arab Sewer Board	Bear Creek, Town of
Arab Water Works Board	Beauregard Water & Fire Protection Authority
Arab, Town of	Berry, Town of
Argo, Town of	Bessemer, City of
Arley, Town of	Bibb County Commissioners Court
Ashland Housing Authority	Bibb County Emergency Management Communication District
Ashville Water & Gas Board	
Ashville, Town of	
Association of County Commissioners	

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Billingsley, Town of	Calhoun County Economic Development Council
Birmingham Racing Commission	Camden, City of
Birmingham Regional Planning Commission	Camp Hill, City of
Black Warrior Solid Waste Disposal Authority	Carbon Hill Utilities Board
Blount County Communication District	Carbon Hill, City of
Blount County Commissioners Court	Carl Elliot Regional Library
Blount Count Water Authority	Carroll's Creek Water Authority
Blountsville Utility Board	Carrollton, Town of
Blountsville, Town of	Cedar Bluff, Town of
Boaz Water & Sewer Commissioners Board	Center Point, City of
Boaz, City of	Center Point Fire District
Boldo Water & Fire Protection Authority	Central Alabama Aging Consortium
Branchville, Town of	Central Alabama Regional Planning & Development Commission
Brantley Housing Authority	Central Alabama Youth Services
Brent Housing Authority	Central Elmore Water Authority
Brent, City of	Centre Water Works & Sewer Board
Brewton Housing Authority	Centre, City of
Brewton, City of	Centreville, City of
Bridgeport Utilities Board	Chambers County Commissioners Court
Bridgeport, City of	Chambers County Emergency Management Communications District
Brilliant, Town of	Chambers County Library Board
Brookwood, Town of	Chatom, City of
Brundidge, City of	Cheaha Regional Library
Buhl-Elrod-Holman Water Authority	Cheaha Regional Mental Health-Mental Retardation Board
Bullock County Commissioners Court	Cherokee County Commission
Butler County Commissioners Court	Cherokee County Water and Sewer Authority
Butler County Emergency Communication District	Cherokee Water Works & Gas Board
Butler, City of	Cherokee, Town of
Cahaba Center for Mental Health & Mental Retardation	Chickasaw Utilities Board
Cahaba Valley Fire & Emergency Medical Rescue District	Chickasaw, Town of
Calera, City of	Childersburg Water, Sewer & Gas Board
Calhoun County 911 District	Childersburg, City of
Calhoun County Commission	Chilton County Commission
Calhoun County Water & Fire Protection Authority	Chilton County Soil & Water Conservation District
Calhoun/Cleburne Mental Health Board	Chilton Water Authority
Calhoun County Community Punishment and Corrections Authority	Chilton/Clanton Public Library
	Chilton/Shelby Mental Health Center

Choctaw County Emergency Communications District	Cordova, City of
Clanton, City of	Cottonwood, City of
Clanton Housing Authority	Courtland, Town of
Clanton Water Works & Sewer Board	Covington County Board of Revenue
Clark County Commission	Covington County E-911 Board
Clarke County Industrial Development Board	Cowarts, Town of
Clarke County Soil and Water Conservation District	Crems Etowah County Water Authority
Clarke/Mobile County Gas District	Crenshaw County Court of Commissioners
Clay County Commission	Crenshaw County Emergency Management Communications District
Clay County E-911	Creola, City of
Clay County Water Authority	Cross Trails Regional Library
Clayton Housing Authority	Cuba, Town of
Clayton Water & Sewer Board	Cullman Area Mental Health Authority
Clayton, City of	Cullman County Board of Revenue
Cleburne County Commission	Cullman County Center for the Developmentally Disabled
Cleveland, Town of	Cullman County E-911
Coaling, Town of	Cullman County Parks & Recreation
Coffee County Commissioners Court	Cullman Power Board
Coffee County Soil & Water Conservation District	Cullman, City of
Coffeetown, Town of	Cullman/Jefferson County Gas District
Coker Water & Fire Protection Authority	Cumberland Mountain Water Authority
Colbert County Board of Revenue	Curry Water Authority
Colbert County Emergency Management Communications District	CWM Water Authority
Colbert County Tourism and Convention Bureau	Dadeville Housing Authority
Collinsville Water Works Board	Dadeville Water Supply & Gas Board
Collinsville, City of	Dadeville, City of
Columbia, Town of	Dale County Commissioners Court
Columbiana, Town of	Dale County Water Authority
Columbiana Water Works Board	Daleville Housing Authority
Concord Fire District	Daleville, City of
Conecuh County Board of Directors	Dallas County Court of County Revenue
Conecuh County Soil and Water Conservation District	Daphne Utility Board
Cook Springs Water Authority	Daphne, City of
Coosa County Commissioners Court	Dauphin Island Park and Beach Board
Coosa Valley Youth Services	Dauphin Island Water & Sewer Authority
Coosada, Town of	Dauphin Island, Town of
Cordova Water & Gas Board	Decatur, City of
	Decatur Utilities

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

DeKalb County Commission	Enterprise, City of
DeKalb County Economic Development Authority	Enterprise Housing Authority
DeKalb County Emergency Communications District	Enterprise Water Works Board
DeKalb County Hospital Association	Ernest F. Ladd Memorial Stadium
DeKalb County Mental Retardation Board	Escambia County Commission
DeKalb County Soil and Water Conservation District	Escambia County Cooperative Library System
DeKalb/Cherokee County Gas District	Etowah County Board of Revenue
Demopolis Housing Authority	Etowah County Communications District
Demopolis, City of	Etowah County Community Punishment and Corrections
Demopolis Water Works and Sewer Board	Etowah Solid Waste Disposal Authority
Dora Gas Board	Eufaula Housing Authority
Dora, City of	Eufaula Water Works & Sewer Board
Dothan/Houston County Mental Retardation Board	Eufaula, City of
Double Springs Water Works Board	Eutaw Medical Clinic Board
Double Springs, Town of	Eutaw, City of
Douglas Water & Fire Protection Authority	Evergreen Housing Authority
Douglas, Town of	Evergreen, City of
Dutton, Town of	Excel, Town of
East Alabama Mental Health-Mental Retardation Board	Fairfield, City of
East Alabama Regional Planning & Development Commission	Fairhope Public Library
East Alabama Water, Sewer, & Fire Protection District	Fairhope, City of
East Brewton Water Works & Sewer Board	Falkville, Town of
East Brewton, City of	Fayette County Commission
East Central Alabama Gas District	Fayette County E911 District
East Lauderdale County Water & Fire Protection Authority	Fayette Gas Board
Eclectic Water Works & Sewer Board	Fayette Housing Authority
Eclectic, Town of	Fayette Water Works Board
Elba General Hospital & Nursing Home	Fayette County Water Coordination & Fire Protection Authority
Elba Water & Electric Board	Fayette, City of
Elba, City of	Fayetteville Water Authority
Elberta, City of	Flomaton, Town of
Elmore County Commissioners Court	Florence Housing Authority
Elmore County Emergency Communications District	Florence/Lauderdale Tourism Board
Elmore Water Authority	Foley Utilities Board
	Foley, City of
	Forestdale Fire District
	Fort Deposit Water Works & Sewer Board
	Fort Deposit, Town of

Fort Payne Housing Authority	Greensboro Housing Authority
Fort Payne Improvement Authority	Greensboro, City of
Fort Payne Water Works Board	Greenville Water Works & Sewer Board
Fort Payne, City of	Greenville, City of
Fosters-Ralph Water Authority	Grove Hill, City of
Franklin County Commission	Guin, City of
Franklin County Soil and Water Conservation	Guin Housing Authority
Franklin County Water Service Authority	Guin Water & Sewer Board
Fultondale, Town of	Guntersville Electric Board
Fyffe, Town of	Guntersville Water & Sewer Board
Gadsden Water & Sewer Board	Guntersville, City of
Gadsden, City of	Gurley, Town of
Garden City, Town of	Hackleburg, Town of
Gardendale, City of	Hackleburg Housing Authority
Geneva County Court of Commissioners	Hackleburg Water Board
Geneva County E-911 Board, Inc.	Hackneyville Water & Fire Protection Authority
Geneva Water Works & Sewer Board	Hale County Commission
Geneva, City of	Hale County Soil and Water Conservation District
Georgiana, City of	Hale County Emergency Medical Service
Georgiana Water Works and Sewer Board	Haleyville, City of
Gilberttown Utilities Board	Hamilton, City of
Gilberttown, Town of	Hamilton Housing Authority
Glencoe, City of	Hanceville, City of
Goodwater, City of	Hanceville Waterworks & Sewer Board
Gordo, City of	Harpersville, Town of
Grant, Town of	Hartford, City of
Graysville Public Library	Hartford Housing Authority
Graysville, City of	Hartselle Utilities Board
Greater Etowah Mental Retardation 310 Board	Hartselle, City of
Greater Mobile/Washington County Mental Health-Mental Retardation Board	Harvest-Monrovia Water & Fire Protection Authority
Greene County Ambulance Service	Hayneville, City of
Greene County Commission	Headland Housing Authority
Greene County Economic & Industrial Development Board	Headland, City of
Greene County E-911 Communications District	Heflin, City of
Greene County Hospital	Heflin Water Works & Sewer Board
Greene County Housing Authority	Helen Keller Memorial Hospital
Greene County Racing Commission	Helena Utilities Board
Greenhill Water & Fire Protection Authority	Helena, City of

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Henry County Commissioners Court	Jackson County Economic Development Authority
Henry County Soil & Water Conservation District	Jackson County Emergency Management Communications District
Henry County Water Authority	Jackson County Soil & Water Conservation District
Highland Water Authority	Jackson, City of
Historic Blakeley Authority	Jackson County Water Authority
Historic Chattahoochee Commission	Jackson's Gap Water Authority
Hodges, Town of	Jackson's Gap, Town of
Hokes Bluff Sewer Board	Jacksonville Housing Authority
Hokes Bluff Water Works Board	Jacksonville Water Works, Gas & Sewer
Hokes Bluff, Town of	Jacksonville, City of
Holly Pond, Town of	Jasper Water Works & Sewer Board
Hollywood, Town of	Jasper, City of
Homewood, City of	Jefferson County Department of Health
Hoover, City of	Jefferson/Blount/St. Clair Mental Health Authority
Horseshoe Bend Regional Library	Jemison, Town of
Houston County Board of Revenue and Control	John Paul Jones Hospital
Houston County Soil Conservation District	Killen, City of
Houston County Water Authority	Kinsey, Town of
Houston/Love Memorial Library	Lafayette, City of
Hueytown, City of	Lamar County Commission
Huntsville Electric System	Lamar County Gas District
Huntsville Gas System	Lamar County Water & Fire Protection Authority
Huntsville Solid Waste Disposal Authority	Lanett, City of
Huntsville Water System	Lauderdale County Commission
Huntsville, City of	Lauderdale County Community Corrections & Punishment Authority
Huntsville/Madison County Airport Authority	Lauderdale County Regional Library System
Huntsville/Madison County Convention & Visitor's Bureau	Lawrence County Commission
Huntsville/Madison County Marina & Port Authority	Lawrence/Colbert Counties Gas District
Huntsville/Madison County Mental Health Board	Lee County Commissioners Court
Huntsville/Madison County Railroad Authority	Lee County Emergency Communications District
Indian Pines Recreation Authority	Lee/Russell Council of Governments
Industrial Development Authority of Chambers County	Leeds Housing Authority
International Motorsports Hall of Fame	Leeds, City of
Irondale, City of	Leeds Water Works Board
Jackson County Commission	

Leesburg, Town of
Level Plains, Town of
Lexington, Town of
Limestone County Board of Revenue
Limestone County Water Authority
Lincoln, City of
Linden, City of
Lineville Housing Authority
Lineville Water & Sewer Board
Lineville, City of
Livingston Housing Authority
Livingston, City of
Loachapoka Water Authority
Locust Fork, Town of
Lowndes County Board of Revenue
Loxley, City of
Luverne Housing Authority
Luverne, City of
Macon County Commission
Macon County Racing Commission
Madison County Commissioners Court
Madison County Communications District
Madison County Mental Retardation Board
Madison Water & Wastewater Board
Madison, City of
Malvern, Town of
Maplesville Waterworks & Gas Board
Maplesville, City of
Marengo County Commission
Marengo County Emergency
Communications District
Marengo County Nursing Home
Marion County Board of Revenue
Marion County Public Water Authority
Marion Housing Authority
Marion, City of
Marshall County Commission on
Government and Finance
Marshall County Emergency Telephone
Service Board

Marshall County Gas District
Marshall County Soil & Water Conservation District
Marshall-Jackson Mental Retardation Authority
Mental Health Center of North Central Alabama
Mental Health Dev Disabilities Board
Mental Health/Mental Retardation Board of Bibb,
Pickens, and Tuscaloosa Counties
Middle Alabama Area Agency on Aging
Midfield Library Board
Midfield, City of
Mildred B. Harrison Library
Millbrook, City of
Millport Housing Authority
Millport, Town of
Mobile Airport Authority
Mobile County Commission
Mobile County Communications District
Mobile County Emergency Management Agency
Mobile County Health Department
Mobile County Housing Authority
Mobile County Law Enforcement & Firefighters
Pension Fund
Mobile County Personnel Board
Mobile County Racing Commission
Mobile County Water, Sewer & Fire Protection
Authority
Mobile Public Library
Mobile Water Service System
Mobile, City of
Monroe County Commission
Monroeville Housing Authority
Monroeville Water Board
Monroeville, City of
Montevallo, City of
Montgomery Area Mental Health Authority
Montgomery County Soil & Water
Conservation District
Moody, City of
Morgan County Commission
Morgan County Emergency Management
Communications District

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Morgan County Soil & Water Conservation District	Oakman Waterworks
Moulton Housing Authority	Oakman, Town of
Moulton, City of	Odenville Utilities Board
Moundville, City of	Odenville, Town of
Mountain Brook Library Board	Ohatchee, Town of
Mountain Brook Park & Recreation Board	Oneonta Utilities
Mountain Brook, City of	Oneonta, City of
Mt. Vernon, Town of	Opelika Housing Authority
Munford, Town of	Opelika Utilities Board
Muscle Shoals Electric Board	Opelika, City of
Muscle Shoals Utilities Board	Opp Utilities Board
Muscle Shoals, City of	Opp, City of
Myrtlewood, Town of	Orange Beach Water, Sewer & Fire Protection Authority
Nectar, Town of	Orange Beach, Town of
New Hope, Town of	Oxford, City of
New London Water, Sewer & Fire Protection Authority	Ozark Utilities Board
New Site, Town of	Ozark, City of
North Alabama Gas District	Ozark/Dale E-911
North Central Alabama Mental Retardation Authority	Pelham, City of
North Central Alabama Regional Council of Governments	Pell City Housing Authority
North Dallas County Water Authority	Pell City, City of
North Jackson County Water & Fire Protection Authority	Pennington, City of
North Marshall Utilities Board	Pennington Utilities Board
North Shelby County Library	Perry County Commissioners Court
Northeast Alabama Mental Retardation-Development Disability Authority	Phenix City Utilities
Northeast Alabama Water, Sewer & Fire Protection District	Phenix City, City of
Northeast Morgan County Water Authority	Phil Campbell Water Works Board
Northport Housing Authority	Phil Campbell, Town of
Northport, City of	Pickens County Commission
Northwest Alabama Council of Local Governments	Pickens County Cooperative Library
Northwest Alabama Mental Health Center	Pickens County E-911 Board
Northwest Alabama Regional Airport	Pickens County Water Authority
Northwest Regional Library	Piedmont Housing Authority
Notasulga, Town of	Piedmont Water, Gas & Sewer Board
Oak Grove, Town of	Piedmont, City of
	Pike County Commissioners Court
	Pike County Communications District
	Pike County Soil & Water Conservation District
	Pike County Water Authority

Pine Bluff Water Authority	Russell County Utilities Board
Pine Hill, Town of	Russellville Electric Board
Pine Level Water & Fire Protection Authority	Russellville Gas Board
Pisgah, Town of	Russellville Water Works Board
Pleasant Grove, City of	Russellville, City of
Prattville Housing Authority	Rutledge, Town of
Prattville Water Works Board	Sand Mountain Water Authority
Prattville, City of	Sand Springs Water Authority
Priceville, Town of	Saraland Water Service
Prichard Housing Authority	Saraland, City of
Quint-Mar Water & Fire Protection Authority	Sardis City Water Board
Ragland, Town of	Sardis City, City of
Ragland Water Works Board	Satsuma Water Works Board
Rainbow City Gas, Water & Sewer Board	Satsuma, City of
Rainbow City, City of	Scottsboro Electric Power Board
Rainsville, City of	Scottsboro Public Library
Randolph County Commissioners Court	Scottsboro Public Park & Recreation Board
Red Bay Housing Authority	Scottsboro Water Works, Sewer & Gas Board
Red Bay Water & Gas Board	Scottsboro, City of
Red Bay, City of	Section Water Works Board
Red Level, Town of	Selma Housing Authority
Reform Housing Authority	Selma Water Works & Sewer Board
Reform, City of	Selma, City of
Regional Housing Authority of Lawrence, Cullman, and Morgan Counties	Sheffield Power, Water & Gas Department
Rehobeth, City of	Sheffield, City of
Remlap/Pine Mountain Water Authority	Shelby County Board of Revenue
Riverbend Center for Mental Health	Shelby County Economic and Industrial Development Authority
Riverside, Town of	Shelby County Soil Conservation District
Roanoke Utilities Board	Shelby County Work Release Commission
Roanoke, City of	Shoals Committee on Programs & Employment for the Mentally Retarded
Robertsdale, City of	Shoals Economic Development Authority
Rocky Ridge Fire District	Shoals Solid Waste Disposal Authority
Rogersville Water Works & Sewer Board	Shorter, Town of
Rogersville, Town of	Silas, Town of
Russell County Commissioners Court	Silverhill, Town of
Russell County Emergency Communications District	Sipsey, Town of
Russell County Soil & Water Conservation District	Slocumb, Town of
	Slocumb Waterworks and Sewer Board
	Snead, Town of

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Somerville, Town of	Sylacauga Utilities Board
South Alabama Gas District	Sylacauga, City of
South Alabama Regional Planning Commission	Talladega County Board of Revenue
South Central Alabama Development Commission	Talladega County Emergency Management Communications District
South Central Alabama Mental Health Center	Talladega County Soil & Water Conservation District
South Crenshaw County Water Authority	Talladega Water & Sewer Board
Southeast Alabama Regional Planning & Development Commission	Talladega, City of
Southeast Alabama Solid Waste Disposal Authority	Tallapoosa County Court of Commissioners
Southern Alabama Regional Council on Aging	Tallapoosa County Emergency Management Communications District
Southside Water & Sewer Board	Tallassee, City of
Southside, City of	Tarrant City Electric System
Southwest Alabama Water Authority	Tarrant City, City of
Spanish Fort, City of	Tarrant Housing Authority
Spectracare	Taylor, Town of
Springville, Town of	Tennessee Valley Exhibit Commission
St. Clair County Commissioners Court	Thomaston, Town of
St. Clair County Industrial Development Board	Thomasville, City of
St. Clair Regional Library	Thorsby, Town of
St. Clair County Soil & Water Conservation District	Top of Alabama Regional Council of Governments
St. Florian, Town of	Town Creek, Town of
Star-Mindingall Water & Fire Prot Auth	Triana, City of
Steele, Town of	Tri-County Mental Retardation-Development Disability Board
Stevenson Housing Authority	Trinity, Town of
Stevenson Utilities Board	Troy, City of
Stevenson, City of	Trussville Utilities Board
Stewartville Water Authority	Trussville, City of
Stillwaters Volunteer Fire and Rescue	Turnerville Water and Fire Protection District
Sulligent, City of	Tuscaloosa, City of
Sulligent Housing Authority	Tuscaloosa County Board of Revenue
Sumiton Water Works Board	Tuscaloosa County Industrial Dev Auth
Sumiton, City of	Tuscaloosa County Park and Recreation Board
Summerdale, Town of	Tuscaloosa County Parking & Transit Authority
Sumter County Board of Commissioners	Tuscaloosa County Public Defenders Office
Sumter County Industrial Development Authority	Tuscaloosa County Soil & Water Conservation District
Sumter County Soil & Water Cons District	
Sumter County Water Authority	
Sylacauga Recreation Authority	

Tuscaloosa County Special Tax Board
Tuscaloosa Public Library
Tuscumbia, City of
Tuskegee, City of
Tuskegee Utilities
Union Grove Utilities Board
Union Springs Utilities Board
Union Springs, City of
Uniontown Housing Authority
Uniontown Utilities Board
Uniontown, City of
USS Alabama Battleship Commission
Valley Head, Town of
Valley Head Water Works Board
Valley Housing Authority
Valley, City of
Vance, Town of
Vernon Housing Authority
Vernon, City of
Vestavia Hills, City of
Vincent, City of
Von Braun Civic Center
Walker County Commission
Walker County E911 District
Walker County Housing Authority
Walker County Mental Retardation Board
Walker County Soil & Water Conservation
District
Wall Street Water Authority
Walnut Hill Water Authority
Warrior River Water & Fire Protection
Authority
Warrior, City of
Washington County Commissioners Court
Washington County Soil & Water Conservation
District
Weaver, City of
Webb, Town of
Wedowee, City of
Wedowee Water, Sewer, and Gas Board
West Alabama Regional Commission

West Etowah County Water Authority
West Jefferson, Town of
West Lauderdale County Water & Fire
Protection Authority
West Morgan/East Lawrence Water and Sewer
Authority
Westover Water & Fire Protection Authority
Wetumpka, City of
Wetumpka Water & Sewer Board
Wilcox County Commission
Wilcox County Gas District
Wilsonville, Town of
Winfield Water Works Board
Winfield, City of
Winston County Commission
Winston County E-911 Communications District
Winston County Soil and Water Conservation
District
Woodstock, Town of
York Housing Authority
York, City of

