

# *The Retirement Systems of Alabama*

**Component Units of the State of Alabama**

## *Comprehensive Annual Financial Report*



*For the Fiscal Year Ended September 30, 2006*

FRONT COVER: *Robert Trent Jones Golf Trail*  
Renaissance Ross Bridge Golf Resort & Spa / Birmingham / Courtesy of Michael Clemmer

BACK COVER: *Robert Trent Jones Golf Trail*  
Renaissance Ross Bridge Golf Resort & Spa / Birmingham / Ross Bridge 5 & 6 / Courtesy of Michael Clemmer

# The Retirement Systems of Alabama

Component Units of the State of Alabama

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2006

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)

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

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# INTRODUCTORY SECTION

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# Retirement Systems of Alabama



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

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

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

March 19, 2007

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 or Systems) for the fiscal year ended September 30, 2006. 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 2006 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, Cavanaugh Macdonald Consulting, LLC, 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.



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### **Administration and Plan History**

The TRS, ERS, and 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 2006 and 2005. Also, an analysis of significant variances between fiscal years 2006 and 2005 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 214,008, 126,055, and 663, respectively. The TRS’s, ERS’s, and JRF’s last valuations were performed as of September 30, 2005. The TRS’s funded percentage decreased from 89.6% at September 30, 2004 to 83.6% at September 30, 2005. The ERS’s funded percentage decreased from 89.7% at September 30, 2004 to 84.0% at September 30, 2005. The JRF’s funded percentage decreased from 85.9% at September 30, 2004 to 85.5% at September 30, 2005.

### **Investment Activity**

Total investments for the RSA increased in fiscal year 2006, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2006 were \$19.0 billion, \$8.9 billion and \$243.8 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2005 of \$18.0 billion, \$8.4 billion, and \$231.0 million, respectively. Total pension fund investments managed by the RSA increased from \$26.6 billion at September 30, 2005 to \$28.1 billion at September 30, 2006, a 5.6% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2006 was \$703.2 million, \$329.5 million, and \$9.6 million, respectively, compared to \$624.4 million, \$295.6 million, and \$7.4 million, respectively, for the fiscal year ended September 30, 2005. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2006 was \$878.7 million, \$375.0 million and \$11.2 million, respectively, compared to the increase in fair value of investments of \$1.2 billion, \$545.8 million, and \$11.9

# RETIREMENT SYSTEMS OF ALABAMA

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## *Introductory Section*

### Letter of Transmittal (Continued)

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million, respectively, for the fiscal year ended September 30, 2005. Additional information concerning investments, including investment policies and procedures are located in the Investment Section.

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 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 2006**

Act 2006-230 authorized Marion Military Institute (MMI), formerly a private school, to become a state institution under the governance of the State Department of Postsecondary Education. This change became effective June 1, 2006. Current employees of MMI will be eligible for all the same benefit plans as other employees of postsecondary institutions. No provision was made to provide retirement credit or other benefits for periods of time prior to June 1, 2006.

Act 2006-510 provides for and authorizes a cost-of-living adjustment (COLA) in benefits for those ERS retirees who retired prior to October 1, 2005. The COLA became effective October 1, 2006. The COLA is 7% of the current gross benefit with a minimum increase of \$25 per month. Retirees as well as their beneficiaries received this COLA. If Medicaid benefits are impaired by this COLA, the individual will not be eligible for the increase. The COLA is automatically effective for State retirees. However, the local governing boards of local retirees' units must elect by resolution to come under the provisions of the Act and agree to bear the cost of the COLA.

Act 2006-310 provides for and authorizes a cost-of-living adjustment in benefits for those TRS retirees who retired prior to October 1, 2005. The COLA became effective October 1, 2006. The COLA is 7% of the current gross benefit with a minimum increase of \$25 per month. Retirees as well as their beneficiaries received this COLA. If Medicaid benefits are impaired by this COLA, the individual will not be eligible for the increase.

Legislation was passed to allow the sheriffs of Cherokee and Dekalb counties to participate in 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 9 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, 2006. The independent auditors' report is located at the front of the financial section of this report.

#### **Highlights and Initiatives**

55 Water Street, the RSA-owned building in Lower Manhattan, was honored with two awards within two months during the fiscal year. The Municipal Art Society of New York recognized "The Elevated Acre" plaza as the "best privately owned public space" in New York. The multi-level park provides recreational space for Lower Manhattan residents and commuters and houses a 25 foot by 25 foot glass beacon which is lit every evening as a welcoming lantern. The Friends of the Vietnam Veterans Plaza awarded the other 55 Water Street plaza with the "Honoree of the Year Award" for the rehabilitation of the official New York City Vietnam Memorial.

In other RSA real estate news, construction continues on the Battle House Tower in Mobile. When completed in early 2007, the 35-story office tower will be the tallest building in the state of Alabama. The project in downtown

# RETIREMENT SYSTEMS OF ALABAMA

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## *Introductory Section*

### Letter of Transmittal (Continued)

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Montgomery that includes a 12-story, 347-room hotel, spa and performing arts theater as well as the expansion of the Montgomery Civic Center and a 600-car parking deck is progressing; the project is expected to be completed by early 2008. The hotel will feature similar characteristics of the Plaza Hotel in New York City. Finally, a new eight-story office building will be added to the State Capitol Complex. The 280,000 square foot structure is expected to be completed in early 2008. The RSA will occupy part of this new building

During the fiscal year, the RSA's holdings in the media sector grew once again. Community Newspaper Holdings Inc., one of the nation's largest newspaper companies by number of papers, expanded during the year by purchasing six daily newspapers from the Dow Jones & Company. With this acquisition, the Company will now own and operate 94 daily newspapers as well as 49 non-daily newspapers and numerous specialty publications across 22 states. Raycom Media now owns and operates 36 stations in 18 states, covering 10.2% of U. S. television households.

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

#### **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, 2005. 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.

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*

Norman D. Turnipseed, CPA  
Chief Accountant & Fiscal Officer

*David G. Bronner*

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, 2005

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.



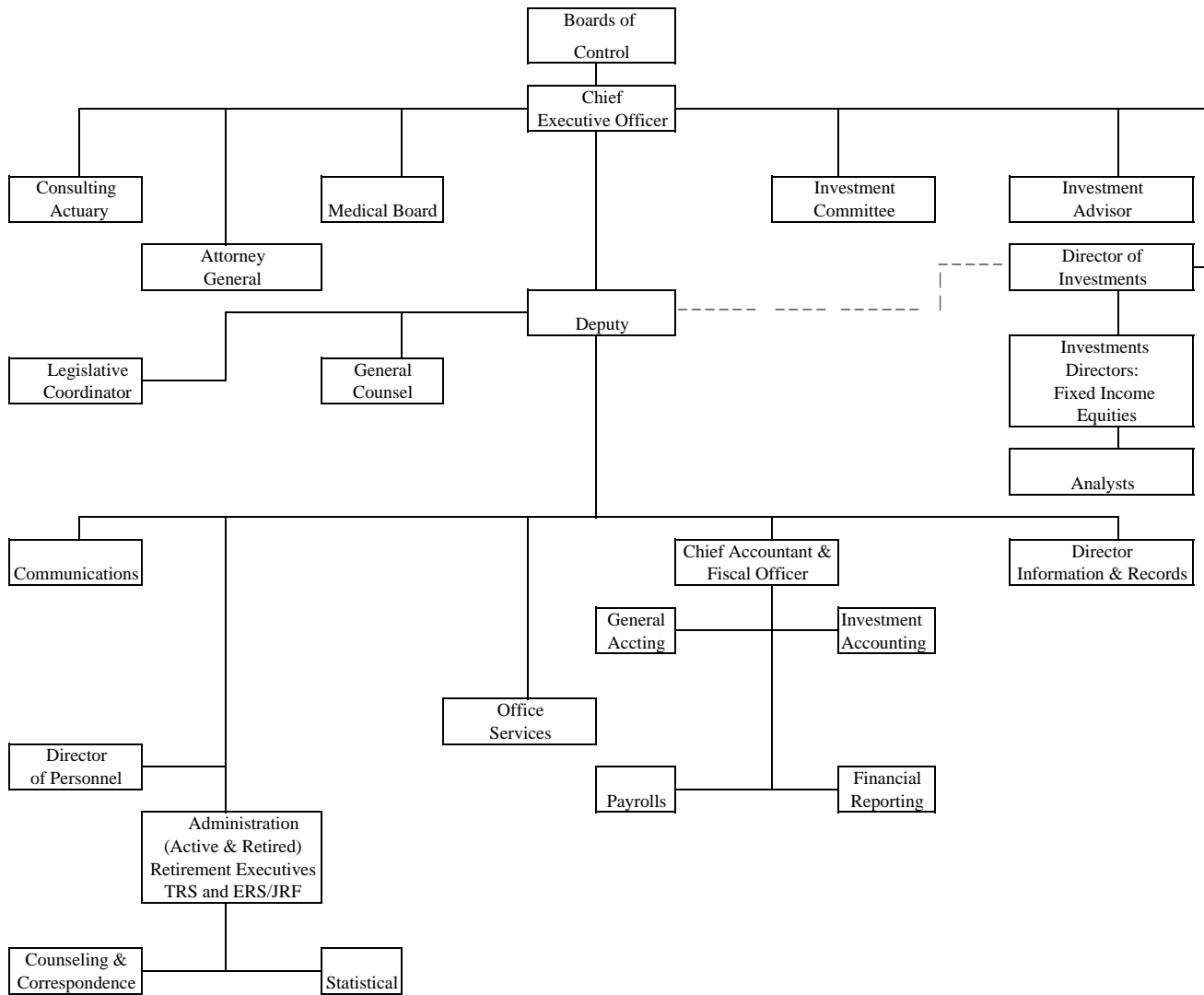
President

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  
Dr. Carl Ponder, Principal Position  
Ms. Sallie B. Cook, 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  
Jackie Graham, 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

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### *Introductory Section*

#### Staff, Advisors, and Medical Board

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#### **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 Private Placements, 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, Zach Turnage, 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.

Equity Analyst, Keith Buchanan, M.B.A.

Equity Analyst, Adam Rogers, M.B.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

#### **Advisors**

Independent Certified Public Accountants, KPMG LLP

Regions Bank., Mr. Brian Sullivan, Investment Consultant

State Street, Investment Custodian

Cavanaugh Macdonald, 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.





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# FINANCIAL SECTION

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**KPMG LLP**  
Suite 1800  
420 20<sup>th</sup> 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, 2006, 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 2005 financial statements and, in our report dated March 8, 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Retirement Systems of Alabama's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2006, 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 39 and 40) 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 5, 2007

## 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, 2006, 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, 2006 and 2005 (Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Assets</i>				
Cash	\$ 15,804	\$ 17,114	\$ (1,310)	(7.65)
Receivables	329,823	277,289	52,534	18.95
Investments	28,091,981	26,573,524	1,518,457	5.71
Invested Securities Lending Collateral	2,811,823	2,124,251	687,572	32.37
Property and Equipment	<u>24,500</u>	<u>5,102</u>	<u>19,398</u>	380.20
Total Assets	<u>31,273,931</u>	<u>28,997,280</u>	<u>2,276,651</u>	7.85
<i>Liabilities</i>				
Accounts Payable and Other Liabilities	6,016	6,579	(563)	(8.56)
Securities Lending Collateral	<u>2,811,823</u>	<u>2,124,251</u>	<u>687,572</u>	32.37
Total Liabilities	<u>2,817,839</u>	<u>2,130,830</u>	<u>687,009</u>	32.24
<i>Net Assets</i>	<u>\$ 28,456,092</u>	<u>\$ 26,866,450</u>	<u>\$ 1,589,642</u>	5.92

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, 2006 and 2005**

(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i><b>Additions</b></i>				
Employee Contributions	\$ 464,702	\$ 420,627	\$ 44,075	10.48
Employer Contributions	684,861	552,651	132,210	23.92
Investment Income	2,306,814	2,706,758	(399,944)	(14.78)
Transfers Between Systems	<u>6,376</u>	<u>4,940</u>	<u>1,436</u>	29.07
Total Additions	<u>3,462,753</u>	<u>3,684,976</u>	<u>(222,223)</u>	(6.03)
<i><b>Deductions</b></i>				
Retirement Allowance Payments	1,777,821	1,598,272	179,549	11.23
Return of Contributions, Unit Withdrawals, and Death Benefits	68,508	67,361	1,147	1.70
Transfers Between Systems	6,376	4,940	1,436	29.07
Administrative Expense	19,607	17,651	1,956	11.08
Depreciation	<u>799</u>	<u>762</u>	<u>37</u>	4.86
Total Deductions	<u>1,873,111</u>	<u>1,688,986</u>	<u>184,125</u>	10.90
<i><b>Increase in Plan Net Assets</b></i>	1,589,642	1,995,990	(406,348)	(20.36)
Net Assets - Beginning of Year	<u>26,866,450</u>	<u>24,870,460</u>	<u>1,995,990</u>	8.03
<i><b>Net Assets - End of Year</b></i>	<u><b>\$ 28,456,092</b></u>	<u><b>\$ 26,866,450</b></u>	<u><b>\$ 1,589,642</b></u>	<b>5.92</b>

**Comparison of Individual Plan Net Assets  
As of September 30, 2006 and 2005**

(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b>TRS</b>	\$ 19,207,803	\$ 18,168,523	\$ 1,039,280	5.72
<b>ERS</b>	9,001,867	8,464,515	537,352	6.35
<b>JRF</b>	<u>246,422</u>	<u>233,412</u>	<u>13,010</u>	5.57
<b>Totals</b>	<u><b>\$ 28,456,092</b></u>	<u><b>\$ 26,866,450</b></u>	<u><b>\$ 1,589,642</b></u>	<b>5.92</b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Financial Section*

#### Management's Discussion and Analysis (Continued)

##### **Financial Analysis**

- Employee contributions receivable increased 19.4%, employer contributions receivable increased 34.8%, employee contributions increased 10.5% and employer contributions increased 23.9% primarily as a result of increased active membership and salary increases. Employer rate increases also contributed to the increase in employer contributions receivable and employer contributions.
- Dividends and interest receivable increased 15.2% due to higher interest rates and lower than normal dividends and interest receivable in the previous fiscal year due to restructuring and liquidation of debt that occurred toward the end of the previous fiscal year.
- Assets and liabilities related to securities lending increased as a result of greater securities lending activities.
- Investments increased mainly as a result of increases in the fair value of investments. Investment income decreased as a result of a lower overall market increase in the fair value of investments. The S&P 500 increased 10.79% in 2006 compared to a return of 12.25% in 2005 and the S&P Midcap 400 increased 6.56% in 2006 compared to 22.16% in 2005.
- Property and equipment increased 380.2% mainly due to the ongoing construction of a new administrative building.
- Retirement allowance payments increased by \$179.5 million primarily due to new retirees, adhoc cost of living adjustments for retirees and the first full year of members participating in the Deferred Retirement Option Plan (DROP) became eligible for disbursements from the DROP.

##### **Funding Status**

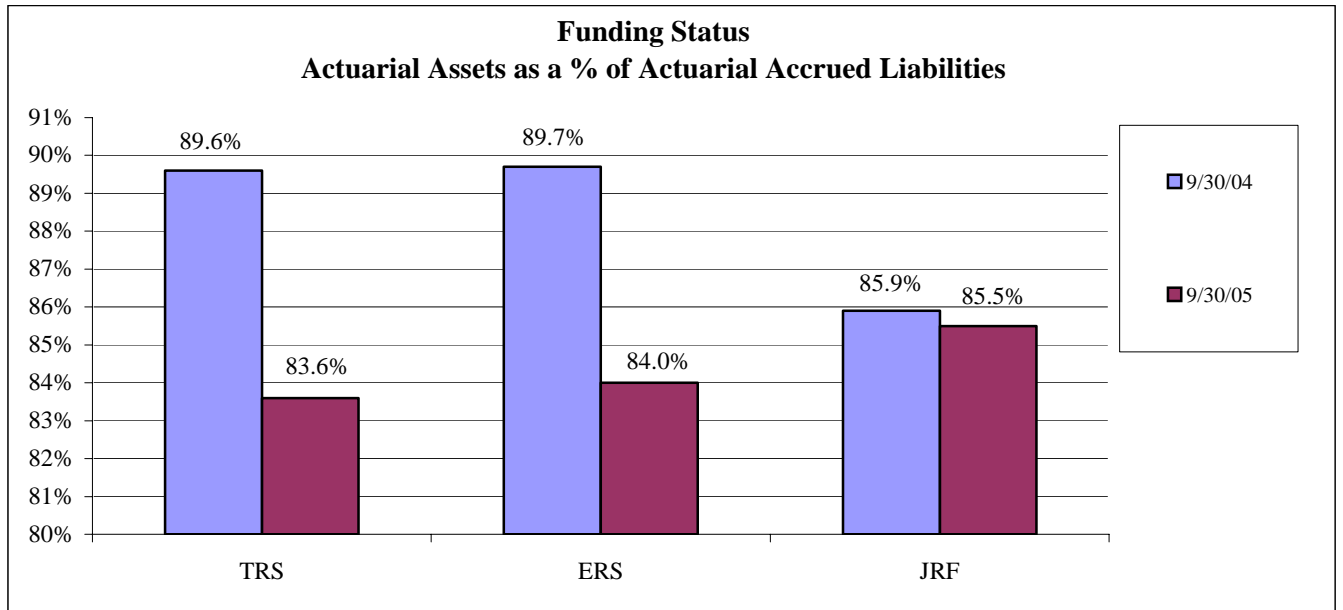
The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets 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 (September 30, 2005 and September 30, 2004). The funded ratio has decreased 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 and 7% in adhoc cost of living adjustments for retirees. 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, 2006, by \$28.5 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 83.6% for the TRS, 84.0% for the ERS, and 85.5% for the JRF.
- The fair value of investments increased by \$1.3 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, 2006 with comparative figures for 2005

(Amounts in Thousands)

	2006			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
<b>Assets</b>				
Cash (Note 4)	\$ 9,653	\$ 5,074	\$ 1,077	\$ 15,804
Receivables				
Employee Contributions	23,814	14,553	112	38,479
Employer Contributions	38,912	22,281	303	61,496
Dividends and Interest	<u>154,800</u>	<u>73,728</u>	<u>1,320</u>	<u>229,848</u>
Total Receivables	<u>217,526</u>	<u>110,562</u>	<u>1,735</u>	<u>329,823</u>
Investments, at Fair Value (Note 5)				
Domestic Equity Securities	9,157,003	4,345,437	153,064	13,655,504
Domestic Fixed Income Securities	4,990,746	2,314,148	68,108	7,373,002
International Securities	2,967,620	1,307,815	-	4,275,435
Real Estate	1,206,840	583,690	2,494	1,793,024
Short-term Investments	<u>646,143</u>	<u>328,769</u>	<u>20,104</u>	<u>995,016</u>
Total Investments	<u>18,968,352</u>	<u>8,879,859</u>	<u>243,770</u>	<u>28,091,981</u>
Invested Securities Lending Collateral (Note 5)	1,922,021	864,409	25,393	2,811,823
Property and Equipment less				
Accumulated Depreciation (Note 8)	<u>15,875</u>	<u>8,625</u>	<u>-</u>	<u>24,500</u>
Total Assets	<u>21,133,427</u>	<u>9,868,529</u>	<u>271,975</u>	<u>31,273,931</u>
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	3,603	2,253	160	6,016
Securities Lending Collateral (Note 5)	<u>1,922,021</u>	<u>864,409</u>	<u>25,393</u>	<u>2,811,823</u>
Total Liabilities	<u>1,925,624</u>	<u>866,662</u>	<u>25,553</u>	<u>2,817,839</u>
<b>Net Assets Held in Trust for Pension Benefits (Note 3)</b>	<b><u>\$ 19,207,803</u></b>	<b><u>\$ 9,001,867</u></b>	<b><u>\$ 246,422</u></b>	<b><u>\$ 28,456,092</u></b>

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

See accompanying *Notes to the Financial Statements* .



	<b>2005</b>			
	<b>Teachers' Retirement System</b>	<b>Employees' Retirement System</b>	<b>Judicial Retirement Fund</b>	<b>Totals</b>
<b>Assets</b>				
Cash	\$ 12,508	\$ 3,696	\$ 910	\$ 17,114
Receivables				
Employee Contributions	21,478	10,624	114	32,216
Employer Contributions	30,264	15,042	304	45,610
Dividends and Interest	<u>134,163</u>	<u>64,084</u>	<u>1,216</u>	<u>199,463</u>
Total Receivables	<u>185,905</u>	<u>89,750</u>	<u>1,634</u>	<u>277,289</u>
Investments, at Fair Value				
Domestic Equity Securities	8,329,184	3,861,335	140,393	12,330,912
Domestic Fixed Income Securities	5,030,232	2,327,077	71,211	7,428,520
International Securities	2,523,056	1,068,022	-	3,591,078
Real Estate	1,147,347	553,441	2,473	1,703,261
Short-term Investments	<u>941,540</u>	<u>561,290</u>	<u>16,923</u>	<u>1,519,753</u>
Total Investments	<u>17,971,359</u>	<u>8,371,165</u>	<u>231,000</u>	<u>26,573,524</u>
Invested Securities Lending Collateral	1,460,243	644,950	19,058	2,124,251
Property and Equipment less				
Accumulated Depreciation	<u>2,873</u>	<u>2,229</u>	<u>-</u>	<u>5,102</u>
Total Assets	<u>19,632,888</u>	<u>9,111,790</u>	<u>252,602</u>	<u>28,997,280</u>
<b>Liabilities</b>				
Accounts Payable and Other Liabilities	4,122	2,325	132	6,579
Securities Lending Collateral	<u>1,460,243</u>	<u>644,950</u>	<u>19,058</u>	<u>2,124,251</u>
Total Liabilities	<u>1,464,365</u>	<u>647,275</u>	<u>19,190</u>	<u>2,130,830</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b><u>\$ 18,168,523</u></b>	<b><u>\$ 8,464,515</u></b>	<b><u>\$ 233,412</u></b>	<b><u>\$ 26,866,450</u></b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Financial Section*

Combining Statement of Changes in Plan Net Assets

For the Fiscal Year Ended September 30, 2006 with comparative figures for 2005

(Amounts in Thousands)

	2006			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
<b>Additions</b>				
Contributions				
Employee	\$ 278,220	\$ 184,144	\$ 2,338	\$ 464,702
Employer	434,195	241,750	8,916	684,861
Transfers from Teachers' Retirement System	-	2,982	26	3,008
Transfers from Employees' Retirement System	3,235	-	133	3,368
Total Contributions	<u>715,650</u>	<u>428,876</u>	<u>11,413</u>	<u>1,155,939</u>
Investment Income (Note 5)				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	878,743	375,025	11,215	1,264,983
Interest and Dividends	703,189	329,459	9,598	1,042,246
Total Investment Income from Investing Activities	<u>1,581,932</u>	<u>704,484</u>	<u>20,813</u>	<u>2,307,229</u>
Less: Investment Expenses	4,947	3,216	2	8,165
Net Investment Income from Investing Activities	<u>1,576,985</u>	<u>701,268</u>	<u>20,811</u>	<u>2,299,064</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	84,052	35,407	908	120,367
Less Securities Lending Expenses:				
Borrower Rebates	77,407	32,567	861	110,835
Management Fees	1,271	504	7	1,782
Total Securities Lending Expenses	<u>78,678</u>	<u>33,071</u>	<u>868</u>	<u>112,617</u>
Net Income from Securities Lending Activities	<u>5,374</u>	<u>2,336</u>	<u>40</u>	<u>7,750</u>
Total Investment Income	<u>1,582,359</u>	<u>703,604</u>	<u>20,851</u>	<u>2,306,814</u>
Total Additions	<u>2,298,009</u>	<u>1,132,480</u>	<u>32,264</u>	<u>3,462,753</u>
<b>Deductions</b>				
Retirement Allowance Payments	1,207,251	551,793	18,777	1,777,821
Return of Contributions and Death Benefits	36,683	31,780	45	68,508
Transfers to Employees' Retirement System	2,982	-	-	2,982
Transfers to Teachers' Retirement System	-	3,235	-	3,235
Transfers to Judicial Retirement Fund	26	133	-	159
Administrative Expenses	11,325	7,850	432	19,607
Depreciation (Note 8)	462	337	-	799
Total Deductions	<u>1,258,729</u>	<u>595,128</u>	<u>19,254</u>	<u>1,873,111</u>
<b>Net Increase</b>	1,039,280	537,352	13,010	1,589,642
<b>Net Assets Held in Trust for Pension Benefits:</b>				
Beginning of Year	18,168,523	8,464,515	233,412	26,866,450
<b>End of Year</b>	<u>\$ 19,207,803</u>	<u>\$ 9,001,867</u>	<u>\$ 246,422</u>	<u>\$ 28,456,092</u>

See accompanying *Notes to the Financial Statements* .

	2005			
	<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>
<b>Additions</b>				
Contributions				
Employee	\$ 260,149	\$ 158,128	\$ 2,350	\$ 420,627
Employer	347,862	195,846	8,943	552,651
Transfers from Teachers' Retirement System	-	1,829	-	1,829
Transfers from Employees' Retirement System	2,707	-	48	2,755
Transfers from Judicial Retirement Fund	-	356	-	356
Total Contributions	<u>610,718</u>	<u>356,159</u>	<u>11,341</u>	<u>978,218</u>
Investment Income				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	1,221,059	545,826	11,877	1,778,762
Interest and Dividends	<u>624,397</u>	<u>295,631</u>	<u>7,420</u>	<u>927,448</u>
Total Investment Income from Investing Activities	1,845,456	841,457	19,297	2,706,210
Less: Investment Expenses	<u>4,278</u>	<u>2,652</u>	<u>2</u>	<u>6,932</u>
Net Investment Income from Investing Activities	<u>1,841,178</u>	<u>838,805</u>	<u>19,295</u>	<u>2,699,278</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	40,399	17,604	422	58,425
Less Securities Lending Expenses:				
Borrower Rebates	33,559	14,948	362	48,869
Management Fees	<u>1,620</u>	<u>448</u>	<u>8</u>	<u>2,076</u>
Total Securities Lending Expenses	<u>35,179</u>	<u>15,396</u>	<u>370</u>	<u>50,945</u>
Net Income from Securities Lending Activities	<u>5,220</u>	<u>2,208</u>	<u>52</u>	<u>7,480</u>
Total Investment Income	<u>1,846,398</u>	<u>841,013</u>	<u>19,347</u>	<u>2,706,758</u>
Total Additions	<u>2,457,116</u>	<u>1,197,172</u>	<u>30,688</u>	<u>3,684,976</u>
<b>Deductions</b>				
Retirement Allowance Payments	1,092,723	487,348	18,201	1,598,272
Return of Contributions and Death Benefits	36,350	30,960	51	67,361
Transfers to Employees' Retirement System	1,829	-	356	2,185
Transfers to Teachers' Retirement System	-	2,707	-	2,707
Transfers to Judicial Retirement Fund	-	48	-	48
Administrative Expenses	10,372	6,898	381	17,651
Depreciation	<u>468</u>	<u>294</u>	<u>-</u>	<u>762</u>
Total Deductions	<u>1,141,742</u>	<u>528,255</u>	<u>18,989</u>	<u>1,688,986</u>
<b>Net Increase</b>	1,315,374	668,917	11,699	1,995,990
<b>Net Assets Held in Trust for Pension Benefits:</b>				
Beginning of Year	<u>16,853,149</u>	<u>7,795,598</u>	<u>221,713</u>	<u>24,870,460</u>
End of Year	<u>\$ 18,168,523</u>	<u>\$ 8,464,515</u>	<u>\$ 233,412</u>	<u>\$ 26,866,450</u>

# RETIREMENT SYSTEMS OF ALABAMA

## Financial Section

### Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2006

(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, 2006, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>
Cities	-	271
Counties	-	64
Other Public Entities	-	490
Universities	13	-
Post-Secondary Institutions	31	-
City and County Bds of Education	131	-
State Agencies & Other	<u>31</u>	<u>-</u>
<b>Totals</b>	<b><u>206</u></b>	<b><u>825</u></b>

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	59,523	16,653	274
State Police	-	724	-
Employees of Local Employers	-	14,136	-
Deferred Retirement Option Plan (DROP)	4,839	1,753	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	14,520	3,294	49
State Police	-	7	-
Employees of Local Employers	-	6,658	-
Active employees:			
General	135,126	31,647	340
State Police	-	712	-
Employees of Local Employers	-	50,471	-
<b>Totals</b>	<b><u>214,008</u></b>	<b><u>126,055</u></b>	<b><u>663</u></b>

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.

## **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

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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 pre-retirement 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 pre-retirement 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. Pre-retirement Death Benefit**

The Pre-retirement 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 pre-retirement 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 23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal from 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

# RETIREMENT SYSTEMS OF ALABAMA

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### Notes to the Financial Statements

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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, 2006, are as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Annuity Savings	\$ 2,943,588	\$ 1,719,569	\$ 31,569
Pension Accumulation	15,745,764	7,103,641	213,969
Preretirement Death Benefit	15,620	17,247	-
Term Life Insurance	10,511	-	-
Deferred Retirement Option Plan	468,413	148,994	-
Expense	8,032	3,791	884

#### 4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement system's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds. 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.



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*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 custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the RSA all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The RSA’s safekeeping agent holds all investments of the RSA in the RSA’s name.

*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 fair 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 fair value of the aggregate portfolio for each System.
- International Fixed Income – Limited to 10% of the fair value of each System’s total portfolio.
- Domestic Equity – Limited to 65% of the fair value of each System’s aggregate portfolio.
- International Equity – The aggregate fair value of international equities is limited to 15% of the aggregate fair 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 fair value of each System’s aggregate portfolio.

# RETIREMENT SYSTEMS OF ALABAMA

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### Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2006

(Dollar Amounts in Thousands)

The following tables provide information as of September 30, 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Type of Investment	INVESTMENTS TRS				Total Fair Value	Cost
	Maturity in Years at Fair value					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 570,520	\$ -	\$ -	\$ -	\$ 570,520	\$ 570,520
U.S. Government Guaranteed	16,086	-	257,396	-	273,482	276,144
U.S. Agency	-	382,295	380,204	18,004	780,503	789,953
Corporate Bonds	19,524	520,670	405,702	567,463	1,513,359	1,477,361
Private Placements	14,175	168,610	312,309	1,855,601	2,350,695	2,954,024
GNMAs	58	2,015	1,347	39,418	42,838	40,045
CMOs	-	-	3,276	26,593	29,869	29,540
Money Market Funds	75,623	-	-	-	75,623	75,623
Total Domestic Fixed Maturity	695,986	1,073,590	1,360,234	2,507,079	5,636,889	6,213,210
International						
German - Euro	26,729	-	-	-	26,729	27,723
Total Intl Fixed Maturity	26,729	-	-	-	26,729	27,723
Total Fixed Maturity	\$ 722,715	\$ 1,073,590	\$ 1,360,234	\$ 2,507,079	5,663,618	6,240,933
<i>Equities</i>						
Domestic						
					9,157,003	6,764,039
International						
United Kingdom - Pound Sterling					705,330	526,391
Japan - Yen					692,360	559,572
France - Euro					297,855	198,261
Germany - Euro					208,231	154,410
Switzerland - Franc					207,320	125,953
Netherlands - Euro					105,085	78,021
Italy - Euro					114,275	85,938
Spain - Euro					122,839	76,547
Australia - U.S. Dollar					154,528	95,471
Singapore - U.S. Dollar					20,593	17,391
Belgium - Euro					36,305	23,740
Finland - Euro					42,318	35,176
Hong Kong - U.S. Dollar					48,344	37,889
Sweden - Krona					69,875	45,594
Denmark - Krone					21,710	13,958
Ireland - Euro					24,770	18,139
Norway - Krone					23,369	15,623
Other					45,784	35,386
Total International Equities					2,940,891	2,143,460
Total Equities					12,097,894	8,907,499
Real Estate					1,206,840	647,674
<b>Total Investments</b>					<b>\$ 18,968,352</b>	<b>\$ 15,796,106</b>

<b>INVESTMENTS</b>						
<b>ERS</b>						
<b>Type of Investment</b>	<b>Maturity in Years at Fair Value</b>				<b>Total Fair Value</b>	<b>Cost</b>
	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>		
<i>Fixed Maturity</i>						
<i>Domestic</i>						
Commercial Paper	\$ 277,716	\$ -	\$ -	\$ -	\$ 277,716	\$ 277,716
U.S. Government Guaranteed	8,662	-	119,681	-	128,343	129,514
U.S. Agency	-	140,629	169,097	8,653	318,379	321,940
Corporate Bonds	8,734	238,543	182,640	273,108	703,025	685,827
Private Placements	7,080	68,232	140,779	920,388	1,136,479	1,437,370
GNMAs	13	778	807	14,701	16,299	15,225
CMOs	-	-	1,357	10,266	11,623	11,540
Money Market Funds	51,053	-	-	-	51,053	51,054
Total Domestic Fixed Maturity	<u>353,258</u>	<u>448,182</u>	<u>614,361</u>	<u>1,227,116</u>	<u>2,642,917</u>	<u>2,930,186</u>
<i>International</i>						
Germany - Euro	14,343	-	-	-	14,343	14,876
Total Intl Fixed Maturity	<u>14,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,343</u>	<u>14,876</u>
Total Fixed Maturity	<u>\$ 367,601</u>	<u>\$ 448,182</u>	<u>\$ 614,361</u>	<u>\$ 1,227,116</u>	<u>2,657,260</u>	<u>2,945,062</u>
<i>Equities</i>						
<i>Domestic</i>						
					<u>4,345,437</u>	<u>3,292,135</u>
<i>International</i>						
United Kingdom - Pound Sterling					311,988	231,221
Japan - Yen					304,156	246,301
France - Euro					130,922	86,745
Germany - Euro					91,688	67,759
Switzerland - Franc					91,269	54,632
Netherlands - Euro					46,204	33,449
Italy - Euro					50,099	37,555
Spain - Euro					53,970	33,663
Australia - U.S. Dollar					67,469	41,599
Singapore - U.S. Dollar					9,116	7,712
Belgium - Euro					15,782	10,279
Finland - Euro					18,434	15,513
Hong Kong - U.S. Dollar					21,143	16,615
Sweden - Krona					30,502	20,017
Denmark - Krone					9,521	6,084
Ireland - Euro					10,878	7,910
Norway - Krone					10,249	6,958
Other					20,082	15,587
Total International Equities					<u>1,293,472</u>	<u>939,599</u>
Total Equities					<u>5,638,909</u>	<u>4,231,734</u>
Real Estate					<u>583,690</u>	<u>320,859</u>
<b>Total Investments</b>					<u><b>\$ 8,879,859</b></u>	<u><b>\$ 7,497,655</b></u>

RETIREMENT SYSTEMS OF ALABAMA

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Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2006

(Dollar Amounts in Thousands)

Type of Investment	INVESTMENTS JRF				Total Fair Value	Cost
	Maturity in Years at Fair Value					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 16,496	\$ -	\$ -	\$ -	\$ 16,496	\$ 16,496
U.S. Government Guaranteed	-	-	7,252	-	7,252	7,317
U.S. Agency	-	6,661	10,958	1,895	19,514	19,733
Corporate Bonds	603	6,779	10,878	12,032	30,292	30,092
Private Placements	-	3,135	3,803	3,334	10,272	11,806
GNMAs	-	13	54	4	71	62
CMOs	-	-	122	585	707	687
Money Market Funds	3,608	-	-	-	3,608	3,608
Total Domestic Fixed Maturity	<u>\$ 20,707</u>	<u>\$ 16,588</u>	<u>\$ 33,067</u>	<u>\$ 17,850</u>	88,212	89,801
Domestic Equities					153,064	86,494
Real Estate					<u>2,494</u>	<u>892</u>
<b>Total Investments</b>					<b><u>\$ 243,770</u></b>	<b><u>\$ 177,187</u></b>

The following tables provide information as of September 30, 2006, concerning credit risk:

**RATINGS OF FIXED MATURITIES  
TRS**

<b>Moody's Ratings§ (Unless Noted)</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value as a Percent of Total Fixed Maturity Fair Value</b>
Aaa	\$ 907,880	\$ 917,939	16.031
AAA (SP)	255	235	0.005
Aa1	9,933	9,868	0.175
Aa2	12,284	12,158	0.217
Aa3	116,923	112,802	2.064
A1+ (SP)	67,570	67,570	1.193
A1	131,251	129,511	2.317
A2	47,333	48,238	0.836
P-1	3,966	3,966	0.070
P-2	566,554	566,554	10.003
A (SP)	38,339	35,000	0.677
A3	185,450	179,667	3.275
Baa1	294,825	250,109	5.206
BBB+ (SP)	26,739	21,898	0.472
Baa2	336,207	325,748	5.936
BBB (SP)	33,690	29,917	0.595
Baa3	137,122	136,196	2.421
Ba1	119,471	115,108	2.109
Ba2	86,145	83,462	1.521
Ba3	5,205	4,798	0.092
B2	45,775	46,737	0.808
B3	25,723	25,526	0.454
D (SP)	3,888	3,722	0.069
US Govt Guaranteed Securities	316,320	316,189	5.585
‡ Not Rated	2,144,770	2,798,015	37.869
Totals	<u>\$ 5,663,618</u>	<u>\$ 6,240,933</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".

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2006

(Dollar Amounts in Thousands)

**RATINGS OF FIXED MATURITIES  
ERS**

<b>Moody's Ratings§ (Unless Noted)</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value as a Percent of Total Fixed Maturity Fair Value</b>
Aaa	\$ 382,487	\$ 386,400	14.395
Aa1	4,437	4,408	0.167
Aa2	5,596	5,539	0.211
Aa3	49,139	47,679	1.849
A1+ (SP)	48,096	48,096	1.810
A1	60,119	59,289	2.262
A2	22,102	22,527	0.832
P-1	26,596	26,596	1.001
P-2	251,120	251,120	9.450
A (SP)	16,431	15,000	0.618
A3	79,842	76,686	3.005
Baa1	150,301	126,410	5.656
BBB+ (SP)	11,779	9,647	0.443
Baa2	156,446	151,743	5.888
BBB (SP)	13,234	11,606	0.498
Baa3	62,706	62,198	2.360
Ba1	57,203	55,047	2.153
Ba2	41,119	39,935	1.547
Ba3	2,082	1,919	0.078
B2	19,693	20,088	0.741
B3	11,185	11,143	0.421
Caa	99	100	0.004
D (SP)	1,944	1,861	0.073
US Govt Guaranteed Securities	144,642	144,739	5.443
‡ Not Rated	1,038,862	1,365,286	39.095
Totals	<u>\$ 2,657,260</u>	<u>\$ 2,945,062</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".

**RATINGS OF FIXED MATURITIES**

**JRF**

<b>Moody's Ratings§ (Unless Noted)</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value as a Percent of Total Fixed Maturity Fair Value</b>
Aaa	\$ 21,390	\$ 21,610	24.248
Aa1	221	220	0.251
Aa2	263	261	0.298
Aa3	2,316	2,244	2.626
A1+ (SP)	3,608	3,608	4.090
A1	2,042	2,059	2.315
A2	1,679	1,618	1.903
P-1	999	999	1.133
P-2	15,497	15,497	17.568
A3	5,321	5,270	6.032
Baa1	5,562	5,345	6.305
Baa2	3,628	3,717	4.113
BBB (SP)	990	1,000	1.122
Baa3	4,370	4,434	4.954
Ba1	4,074	3,810	4.618
B1	1,594	1,410	1.807
B2	516	540	0.585
Caa	1,505	1,524	1.706
D (SP)	324	310	0.367
US Govt Guaranteed Securities	7,323	7,379	8.302
‡ Not Rated	4,990	6,946	5.657
Totals	<u>\$ 88,212</u>	<u>\$ 89,801</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".

(Dollar Amounts in Thousands)

**B. Concentration of Investments**

As of September 30, 2006, the TRS and ERS owned debt and equity securities of Raycom Media Corporation which represented approximately 7.7% and 8.2%, respectively, of the TRS and ERS investments.

**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, 2006, the average term of the loans was 43, 42, and 147 days, respectively for the TRS, ERS, and JRF. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2006, the fair value of the securities on loan was \$1,999,806, \$871,682, and \$24,753 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was \$2,071,863, \$903,395, and \$25,393 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, 2006. 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, 2006, concerning securities lent:

**SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED**  
(at Fair Value)

<u>Type of Investment Lent</u>	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>	<u>Totals</u>
<i>For Cash Collateral</i>				
Domestic Fixed Maturities	\$ 561,312	\$ 228,818	\$ 12,688	\$ 802,818
Domestic Equity	724,667	353,507	12,065	1,090,239
International Equity	571,455	252,350	-	823,805
Total Lent for Cash Collateral	<u>1,857,434</u>	<u>834,675</u>	<u>24,753</u>	<u>2,716,862</u>
<i>For Non-cash Collateral</i>				
International Equity	142,372	37,007	-	179,379
Total Lent for Non-cash Collateral	<u>142,372</u>	<u>37,007</u>	<u>-</u>	<u>179,379</u>
<b>Total Securities Lent</b>	<b><u>\$ 1,999,806</u></b>	<b><u>\$ 871,682</u></b>	<b><u>\$ 24,753</u></b>	<b><u>\$ 2,896,241</u></b>
<u>Type of Collateral Received</u>				
<i>Cash Collateral - Invested in State Street Quality D Fund</i>				
	\$ 1,922,021	\$ 864,409	\$ 25,393	\$ 2,811,823
<i>Non-cash Collateral</i>				
For Lent International Equity Securities				
Letters of Credit	4,631	1,702		6,333
Pledged Securities	145,211	37,284	-	182,495
Total Non-cash Collateral	<u>149,842</u>	<u>38,986</u>	<u>-</u>	<u>188,828</u>
<b>Total Collateral Received</b>	<b><u>\$ 2,071,863</u></b>	<b><u>\$ 903,395</u></b>	<b><u>\$ 25,393</u></b>	<b><u>\$ 3,000,651</u></b>

**D. Mortgage-backed Securities**

As of September 30, 2006, 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 of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees 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 valuations, 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 utilizes 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 2006 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, 2006:

	<u>TRS</u>	<u>ERS</u>
Land	\$ 5,702	\$ 2,997
Building and Improvements	13,254	7,686
Furniture and Equipment	<u>2,053</u>	<u>1,321</u>
Total Property and Equipment	21,009	12,004
Less Accum Depreciation	<u>(5,134)</u>	<u>(3,379)</u>
<b>Net Property and Equipment</b>	<b><u>\$ 15,875</u></b>	<b><u>\$ 8,625</u></b>

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## 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 2006, the estimated portion of health insurance premiums paid and included in administrative expense by the TRS, ERS, and JRF on behalf of retirees was \$91, \$89, 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</u>	<u>Annual</u>	<u>Percentage</u>
	<u>Ended</u>	<u>Required</u>	<u>Contributed</u>
		<u>Contributions</u>	
<b>TRS</b>	2006	\$ 613	100
	2005	469	100
	2004	418	100
<b>ERS</b>	2006	422	100
	2005	291	100
	2004	216	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 \$20,843 during the 2006 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 2006-2007 are 9.36% for the TRS, 7.78% for the ERS - State Employees, 24.12% for the ERS - State Police and 22.50% 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.

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)
<b>TRS</b>						
9/30/2005	\$19,248,207	\$ 23,027,338	\$ 3,779,131	83.6	\$5,326,408	71.0
9/30/2004	18,704,009	20,886,190	2,182,181	89.6	4,846,677	45.0
6/30/2003	18,110,470	19,357,735	1,247,265	93.6	4,632,611	26.9
6/30/2002	17,904,881	18,374,174	469,293	97.4	4,379,183	10.7
6/30/2001	17,475,298	17,238,616	(236,682)	101.4	4,305,080	(5.5)
6/30/2000	16,703,929	16,291,462	(412,467)	102.5	4,131,904	(10.0)
<b>ERS</b>						
9/30/2005	8,935,358	10,634,976	1,699,618	84.0	2,982,122	57.0
9/30/2004	8,563,945	9,546,478	982,533	89.7	2,702,393	36.4
9/30/2003	8,312,500	9,124,279	811,779	91.1	2,677,025	30.3
9/30/2002	8,100,846	8,493,469	392,623	95.4	2,547,775	15.4
9/30/2001	8,028,471	8,010,123	(18,348)	100.2	2,408,543	(0.8)
9/30/2000	7,769,122	7,403,968	(365,154)	104.9	2,278,637	(16.0)
<b>JRF</b>						
9/30/2005	256,091	299,664	43,573	85.5	40,144	108.5
9/30/2004	251,844	293,055	41,211	85.9	39,419	104.5
9/30/2003	247,011	285,123	38,112	86.6	39,742	95.9
9/30/2002	245,425	289,858	44,433	84.7	39,763	111.7
9/30/2001	245,705	289,044	43,339	85.0	38,694	112.0
9/30/2000	239,023	268,598	29,575	89.0	40,325	73.3

See Notes to the Required Supplementary Information .

RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Required Supplementary Information

For the Fiscal Year Ended September 30, 2006

(Dollar Amounts in Thousands)

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
<b>TRS</b>		
9/30/2006	\$ 434,195	100
9/30/2005	347,862	100
9/30/2004	312,474	100
9/30/2003	235,786	100
9/30/2002	265,670	100
9/30/2001	279,880	100
<b>ERS</b>		
9/30/2006	241,750	100
9/30/2005	195,846	100
9/30/2004	170,713	100
9/30/2003	154,218	100
9/30/2002	123,887	100
9/30/2001	122,483	100
<b>JRF</b>		
9/30/2006	8,916	100
9/30/2005	8,943	100
9/30/2004	8,994	100
9/30/2003	8,637	100
9/30/2002	8,222	100
9/30/2001	7,598	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, 2006

**ACTUARIAL ASSUMPTIONS**

	<b>TRS</b>	<b>ERS</b>	<b>JRF</b>
Valuation date	September 30, 2005	September 30, 2005	September 30, 2005
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	20 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, 2006

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
<b>Personal Services:</b>				
Salaries	\$ 4,766	\$ 4,074	\$ 342	\$ 9,182
Employee Fringe Benefits	1,248	1,148	54	2,450
Total Personal Services	<u>6,014</u>	<u>5,222</u>	<u>396</u>	<u>11,632</u>
<b>Professional Services:</b>				
Actuarial	80	165	20	265
Accounting and Auditing	40	36	16	92
Information Technology	2,607	763	-	3,370
Education & Training	16	16	-	32
Information & Research	3	2	-	5
Mailing Services	169	111	-	280
Legal Services	-	24	-	24
Personnel Services	38	-	-	38
Other Professional Services and Fees	18	17	-	35
Total Professional Services	<u>2,971</u>	<u>1,134</u>	<u>36</u>	<u>4,141</u>
<b>Communications and Travel:</b>				
Telephone	72	57	-	129
Telecommunication Lines	41	32	-	73
Internet Access	23	11	-	34
Postage	747	574	-	1,321
Travel	96	76	-	172
Total Communications and Travel	<u>979</u>	<u>750</u>	<u>-</u>	<u>1,729</u>
<b>Rentals:</b>				
Office Space	463	309	-	772
Equipment Leasing	55	6	-	61
Total Rentals	<u>518</u>	<u>315</u>	<u>-</u>	<u>833</u>
<b>Miscellaneous:</b>				
Supplies	776	384	-	1,160
Maintenance	67	45	-	112
Total Miscellaneous	<u>843</u>	<u>429</u>	<u>-</u>	<u>1,272</u>
<b>Total Administrative Expenses</b>	<b><u>\$ 11,325</u></b>	<b><u>\$ 7,850</u></b>	<b><u>\$ 432</u></b>	<b><u>\$ 19,607</u></b>



RETIREMENT SYSTEMS OF ALABAMA

*Financial Section*

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2006

(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>				
<b>Investment Management Fees:</b>				
Salaries and Benefits	\$ 4,222	\$ 2,687	\$ -	\$ 6,909
Dues and Subscriptions	326	303	-	629
Travel	35	4	-	39
<b>Professional Services:</b>				
Investment Advisor	60	30	-	90
Investment Custodian	134	85	2	221
Investment Information	10	5	-	15
Real Estate Appraisal	160	102	-	262
<b>Total Investment Activity Expenses</b>	<u>4,947</u>	<u>3,216</u>	<u>2</u>	<u>8,165</u>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	77,407	32,567	861	110,835
Securities Lending Management Fees	1,271	504	7	1,782
Total Securities Lending Activity Expenses	<u>78,678</u>	<u>33,071</u>	<u>868</u>	<u>112,617</u>
<b>Total Investment Expenses</b>	<u>\$ 83,625</u>	<u>\$ 36,287</u>	<u>\$ 870</u>	<u>\$ 120,782</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Professional/Consultant Fees  
For the Fiscal Year Ended September 30, 2006

(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>
Cavanaugh MacDonald	Actuary	\$ 80	\$ 165	\$ 20	\$ 265
KPMG	Auditor	40	36	16	92
Crum Defense Escrow Account	Legal	-	24	-	24
Avanade, Inc.	Information Technology	2,465	667	-	3,132
Covenant Technology Solutions	Information Technology	96	96	-	192
Auburn University Montgomery	Information Technology	39	-	-	39
Postini, Inc.	Information Technology	4	-	-	4
Department of Public Health	Information & Research	2	1	-	3
National Council on TRS	Education & Training	2	-	-	2
NASRA	Education & Training	-	6	-	6
NASIO	Education & Training	2	-	-	2
NCPERS	Education & Training	-	5	-	5
Microsoft Events	Education & Training	4	-	-	4
Sungard Treasury Systems	Education & Training	3	3	-	6
Timberline Users Group, Inc.	Education & Training	2	-	-	2
Action in Mailing Inc.	Mail	75	77	-	152
Finance Mail & Supply	Mail	10	17	-	27
VR Election Services	Mail	84	17	-	101
State Personnel Department	Personnel	38	-	-	38
Various	Other	25	20	-	45
<b>Total Professional/Consultant Fees-Admin Services</b>		<b>2,971</b>	<b>1,134</b>	<b>36</b>	<b>4,141</b>
AmSouth Bank	Investment Advisor	60	30	-	90
State Street Bank & Trust Co.	Investment Custodial	134	85	2	221
ADP Investor Communications Svcs	Investment Information	10	5	-	15
Houlihan, Lokey, Zukin Fin. Advisors	Real Estate Appraisor	160	102	-	262
<b>Total Professional/Consultant Fees-Investment Services</b>		<b>364</b>	<b>222</b>	<b>2</b>	<b>588</b>
<b>Total Professional/Consultant Fees</b>		<b>\$ 3,335</b>	<b>\$ 1,356</b>	<b>\$ 38</b>	<b>\$ 4,729</b>

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# INVESTMENT SECTION

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## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity

For the Fiscal Year Ended September 30, 2006

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Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2006. The report provides highlights on investments in general as well as specific information on the Retirement System's investment activity for the fiscal year. The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

Consternation early in the year regarding a pickup in inflation caused the capital markets to stay range-bound for the first three quarters. After a summer sell-off, the markets began to sense that the Fed finally had a firm grip on inflation. The "soft landing" that would allow continued strong corporate profit growth with controlled inflation seemed to play out. After peaking in late June at 5.25%, the ten-year US Treasury rallied back to 4.6% by year end. This enabled the S & P 500 to move up 5.7% in the fourth fiscal quarter, which was more than half the total return for the entire year.

We expect the current profitability cycle to continue, but growth should slow down from the pace recently experienced. There continues to be high cash levels in corporations, and valuation multiples have been compressing at the same time that profit growth has risen. This should lead to continued dividend growth and share repurchase, and should allow for continued merger and acquisition activity by both strategic and financial buyers.

With GDP growth probably slowing from the 3% pace posted last year, we are continuing with our strategy of overweighting large capitalization stocks over mid and small caps. Again, we expect returns next year to be on par with historical patterns. After four years of a bull market, it would not be surprising to see the markets consolidate, or correct, at some point in the year. Volatility has continued to move lower, as profit margins have been steady through the cycle. Hopefully, this complacency does not indicate turbulence ahead. However, interest rates remain low, and the Federal Reserve in all likelihood will be cutting short term rates at some point in 2007. After having added to equities the past few years, we do not foresee any major asset allocation shifts on the horizon. 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 Performance Summary**

As of September 30, 2006, aggregate defined benefit assets under management totaled \$28.097 billion. During fiscal year 2006, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were 8.82%, 8.37%, and 9.12%, respectively. International equities were again the best performing asset class within the portfolio.

### **Equities**

Fiscal 2006 proved to be another good year in the stock market. With much lamentation, the markets again climbed the proverbial wall of worry. The year began with high oil prices, the Fed continuing to hike short term rates, and the ongoing struggle in Iraq. However, strong corporate earnings growth, declining energy prices, and the Fed finally going on hold allowed the markets to move higher. Over half the move in the S & P 500 occurred in the final quarter of the fiscal year.

As we were long hoping, large capitalization stocks finally took over the reigns to lead the rally. The large differential in earnings growth between large and small capitalization companies narrowed considerably over the course of the year. We believe this is a trend that should continue for some time. Further supporting the sustainability of the market is the large cash reserves held at companies, which bodes well for continued stock repurchases and further dividend boosts. As we have seen, if the companies are not willing to take the steps to improve their balance sheets, private investors are willing to accommodate. Leveraged buyouts boomed this year, and will likely continue if companies continue to sit on their cash rather than redeploy it in a proper manner. Another reason for continued gains in equities is valuation support. The market is now trading in line with its

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historical average P/E post World War II. The multiple compression phase we have witnessed the past few years may finally be abating, allowing stocks to grow commensurate with earnings growth.

As far as activity throughout the year, new money was added to international equities early in the fiscal year. We also continue to shift money to the active management funds from the index funds, especially in the mid and small cap areas. We believe that with the capitalization leadership change, additional performance can be added in the mid and small cap funds through active management.

In review, the RSA equity allocation began the year at roughly 57.5%, and closed out fiscal 2006 at 62% on average across the three funds. Domestic equities account for over 46.5% of the fund, and international equities are now over 15% of the total. After five years of lagging, the large capitalization indices finally beat the smaller caps. The S & P 500 index was up 10.79%, the S & P 400 Midcap index was up 6.56%, and the S & P Smallcap 600 index was up 7.16%. The MSCI EAFE index was up 19.16%, again outperforming the broad domestic equity indices.

For the year, the RSA domestic equity portfolios increased 10.27%, 10.25%, and 10.41% for the TRS, ERS, and JRF, respectively. International equity returns fared better, posting 19.35% for TRS and 19.26% for ERS. The combined total return for the overall equity portfolios were 12.41%, 12.25%, and 10.41% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 15.11%, 9.67%, and 9.24% for TRS, 15.04%, 9.64%, and 9.18% for ERS, and 12.76%, 7.78%, and 9.14% for JRF, respectively.

### **Fixed Income**

At the beginning of fiscal year 2006, the federal funds rate was yielding 3.75%, following the 11<sup>th</sup> consecutive hike by the Federal Reserve. This tightening cycle began in June of 2004, bringing an end to the lowest interest rates seen in over 40 years. With the spread differential between the 2yr and the 10yr treasury around 15 basis points and expectations for additional rate hikes through the end of the year, we felt it was only a matter of time before the yield curve would invert. As expected, the Fed raised the short-term lending rate by 25bps at the November and December meetings. The yield curve, at this point, did invert, where it would remain for the first three months of the calendar year.

The beginning of the calendar year also brought about change in leadership at the Federal Reserve. Ben Bernanke was sworn in as Chairman and a member of the Board of Governors on February 1<sup>st</sup>. He replaced Chairman Alan Greenspan, who served in this capacity since August 1987. During this time, the economy was growing at a healthy pace, forcing the Fed to systematically lift short-term interest rates. Policymakers in the U.S. were not alone in their tightening stance. Central banks from around the globe were also being firm with monetary policy. Even the Bank of Japan ultimately decided to raise rates after keeping its benchmark rate at zero percent for the last five years.

As spring rolled in, we started to see a shift in mentality that led to a re-steepening of the yield curve. We believe that changes in inflation expectations were the driving force behind the move. The 2s/10s curve drifted as wide as 20bps, in stark contrast to the 17bp inversion experienced in February. Inflation numbers, at the time, were trending near or above the upper end of the Fed's comfort zone. Further evidence of this argument was the widening gap between the 10yr and inflation-protected securities (TIPS). The upward movement in rates continued throughout June with the 10yr peaking at 5.25%. At the end of the month, the Federal Reserve raised short-term rates by 25bps, in what would be its 17<sup>th</sup> and final move.

Since that time, yields across the curve have fallen approximately 60bps on the heels of a weaker economic environment. Policymakers opted not to raise rates at its September meeting, reinforcing its assessment of the August pause. This pause ended what had been two years of restrictive actions. The corporate market has continued to grind over this time period. Corporate spreads are at historically tight levels, while default levels have experienced all-time lows. High-yield securities outpaced investment-grade credits once again as investors continued to seek risk in a low volatility environment. The only hiccup during the year came in the summer months

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity (Continued) For the Fiscal Year Ended September 30, 2006

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due to an emerging market scare and a correction within commodities. We continue to favor large, quality names that are less suspect to LBO risk and will outperform in a down market.

Going forward, we feel Chairman Bernanke and the Fed will have their work cut out for them in producing “sustainable non-inflationary growth”. The current reading for the Fed’s preferred price gauge (core PCE) is 2.4%. Its stated comfort level for this measure is anywhere between 1 and 2%. According to officials, they believe as the economy gradually slows, that inflation will also delicately drift back to a comfortable level. While the economy has definitely decelerated, investors have become concerned with the effects of a tight labor market. However, the markets have priced in a 50% chance that the Fed will now ease by the end of March in response to slower growth. Despite this train of thought, Bernanke and other members have repeated their warning that the risk of rising inflation is greater than the risk of a slowing economy.

In fiscal year 2006, the RSA purchased approximately \$2.508 billion in additional securities for the fixed income portfolio. As of September 30, 2006, the RSA’s fixed income portfolio had a market value of \$10.21 billion, of which 9.74% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 4.00% for the TRS, 3.93% for the ERS and 7.45% for the JRF versus 3.67% for the Lehman Aggregate Index. The five-year annualized returns were 5.28% for the TRS, 5.02% for the ERS and 3.55% for the JRF, versus 4.81% for the Lehman Aggregate Index. The ten-year annualized returns were 6.48% for the TRS, 6.31% for the ERS and 5.81% for the JRF versus 6.38% for the Lehman Aggregate 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.

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.



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### 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, 2006

	<b>Annualized</b>			
	<b>1 Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Total Portfolio</b>				
TRS	8.82%	10.26%	7.60%	7.77%
ERS	8.37%	9.80%	7.10%	7.58%
JRF	9.12%	10.12%	6.01%	7.41%
<b>Total Domestic Equity</b>				
TRS	10.27%	13.04%	8.30%	8.46%
ERS	10.25%	13.05%	8.32%	8.48%
JRF	10.41%	12.76%	7.78%	9.14%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	10.79%	12.30%	6.97%	8.59%
Dow Jones Industrial Average	13.13%	10.42%	8.06%	9.21%
S&P MidCap 400	6.56%	15.23%	13.09%	13.37%
S & P 600 Smallcap	7.16%	17.40%	15.06%	11.35%
<b>Total International Equity</b>				
TRS	19.35%	22.61%	14.73%	7.22%
ERS	19.26%	22.52%	14.68%	7.23%
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	19.16%	22.32%	14.26%	6.82%
<b>Total Fixed Income and Alternatives</b>				
TRS	3.72%	4.60%	4.69%	6.12%
ERS	3.45%	4.35%	4.38%	5.99%
JRF	7.11%	6.35%	3.40%	5.73%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	3.71%	3.48%	4.85%	6.45%
Lehman Bros. Aggregate	3.67%	3.38%	4.81%	6.42%

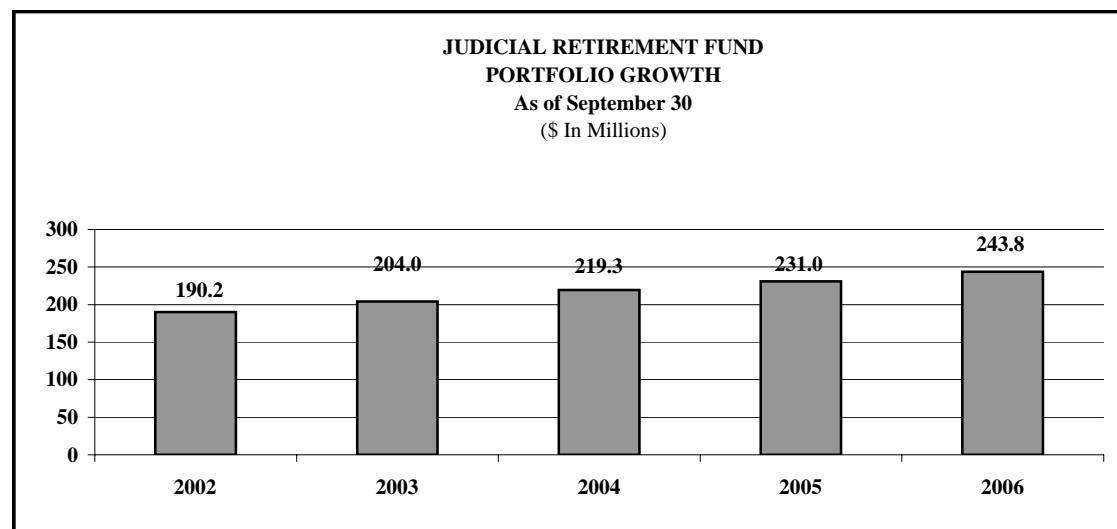
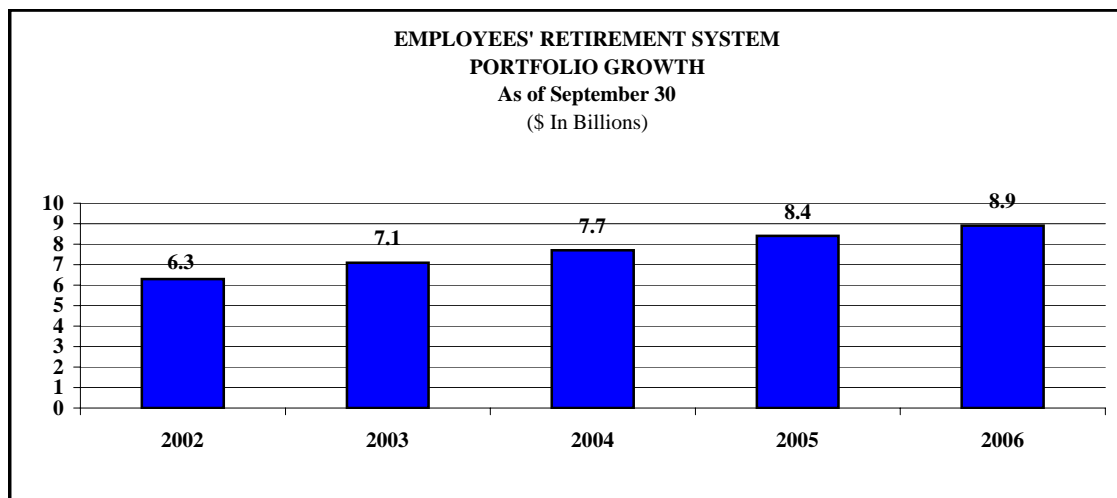
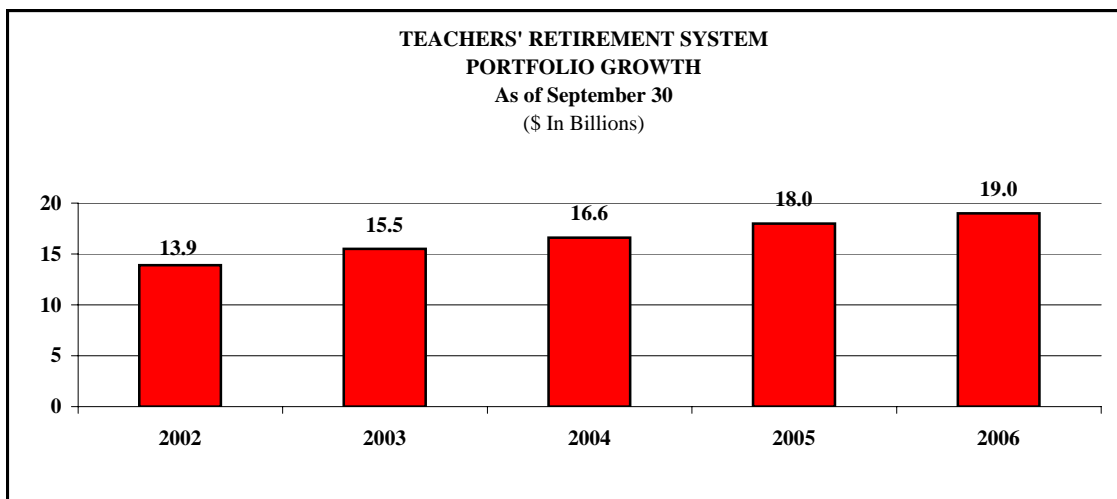
*Investment return calculations were prepared using a time-weighted return based on the Global Investment Performance Standards (GIPS®).*

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Portfolio Growth

#### Five-Year Comparison

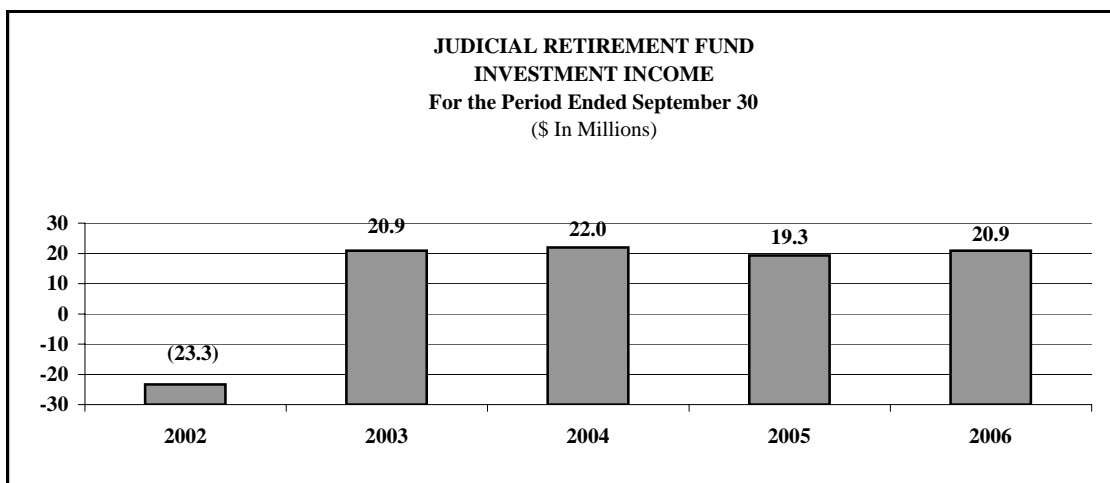
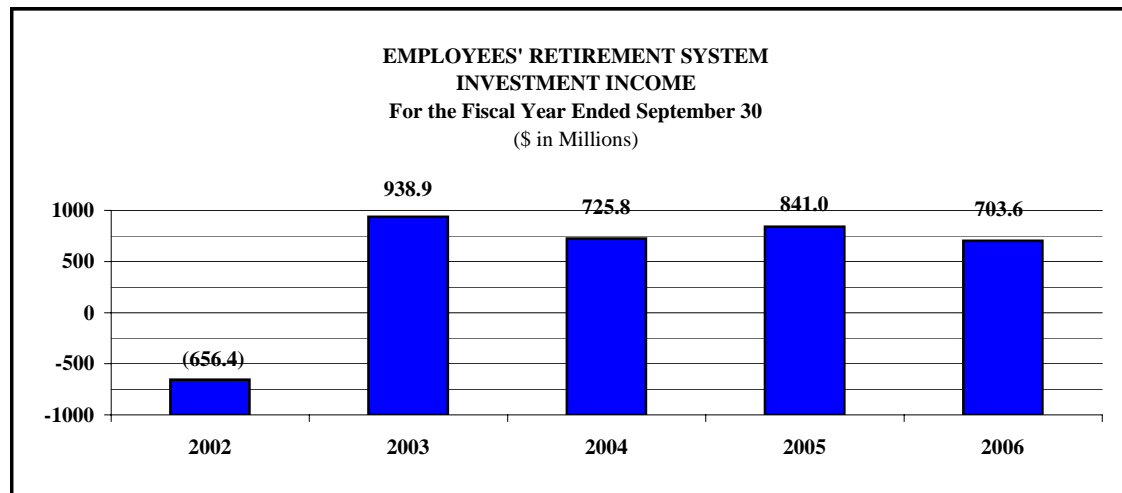
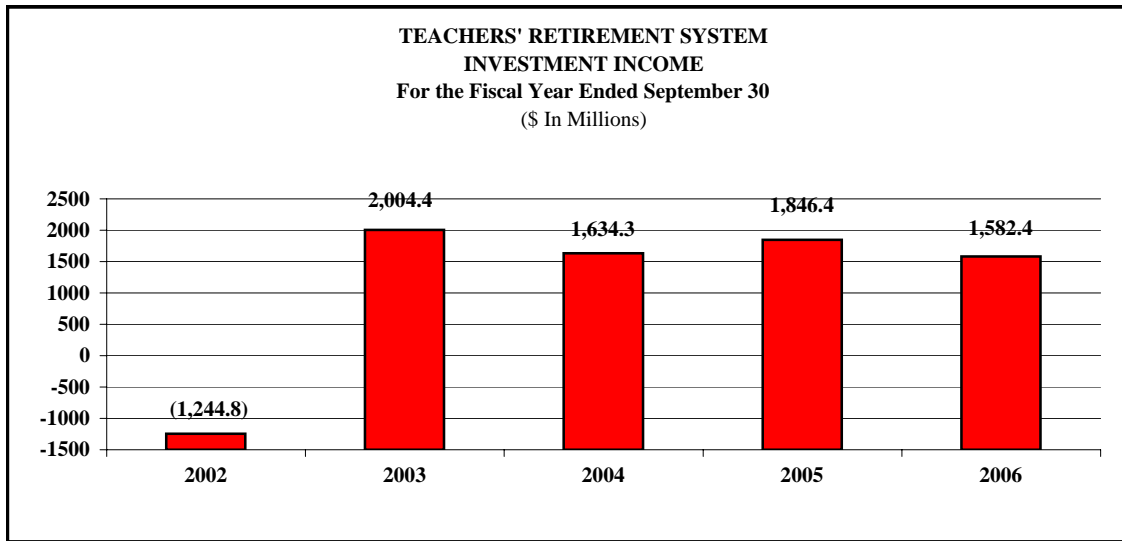


# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Investment Income

#### Five-Year Comparison

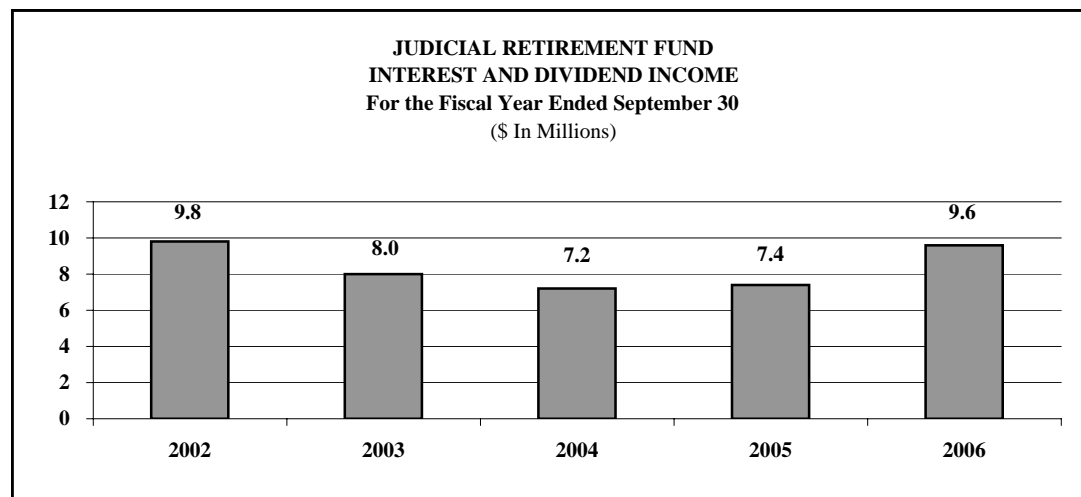
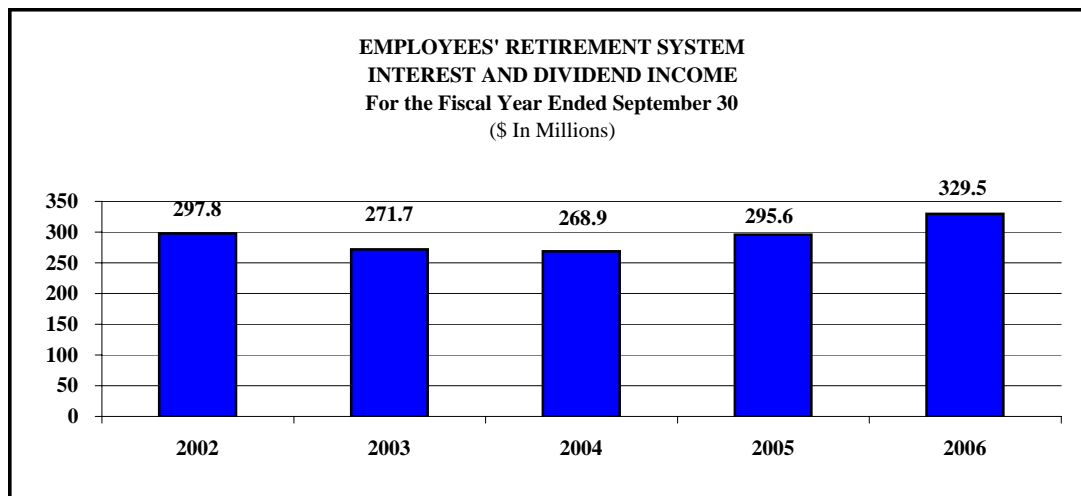
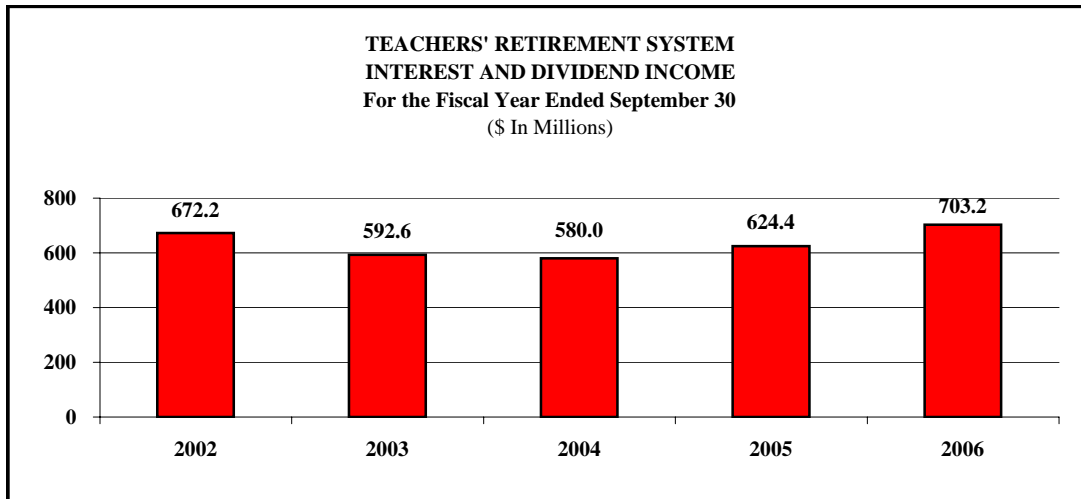


# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Interest and Dividends

#### Five-Year Comparison

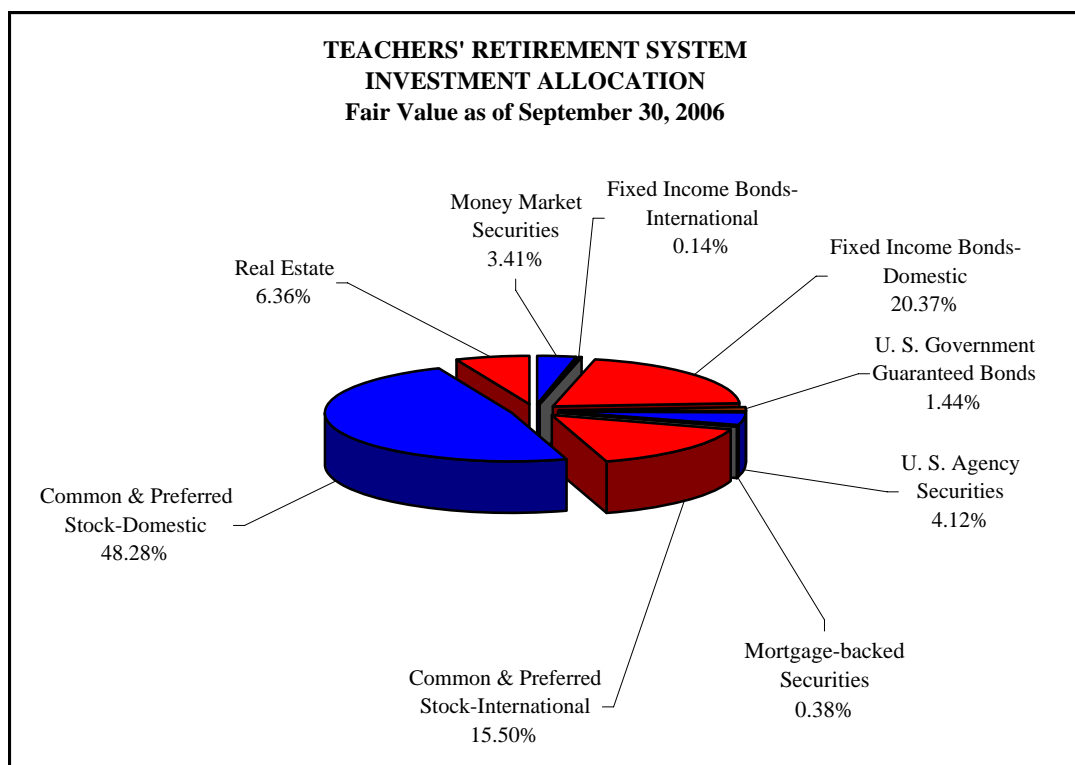


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



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

As of September 30, 2006

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 646,143	3.41
U.S. Government Guaranteed	273,482	1.44
U.S. Agency Securities	780,503	4.12
Mortgage-backed Securities	72,707	0.38
Fixed Income Bonds		
Domestic	3,864,054	20.37
International	26,729	0.14
Common and Preferred Stocks		
Domestic	9,157,003	48.28
International	2,940,891	15.50
Real Estate	1,206,840	6.36
<b>Total Investments</b>	<b><u>\$ 18,968,352</u></b>	<b><u>100.00</u></b>

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Teachers' Retirement System

#### Largest Stock and Bond Holdings

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### TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	345	Goldman Sachs - S & P Equity Private Placement	\$ 353,254
2)	3,474	Exxon Mobil	233,094
3)	6,033	General Electric	212,966
4)	232	Raycom Media	188,705
5)	3,039	Citigroup	150,942
6)	5,457	Microsoft	149,139
7)	2,748	Bank of America	147,222
8)	4,586	Pfizer	130,068
9)	1,837	Johnson & Johnson	119,298
10)	1,644	American International Group	108,906

### TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2006

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 1,333,215	Raycom Media Incorporated 6.75% due 12/15/16	\$ 1,085,395
2)	925,399	Community News 6.75% due 1/31/17	581,378
3)	196,000	Alabama River Group 8.625% due 10/8/13	196,751
4)	171,244	U.S. Treasury 4.25% due 8/15/15	166,615
5)	90,000	CSX Corporation 8.3% due 5/1/32	94,829
6)	90,750	Mediaone Group Incorporated 8.15% due 2/1/32	93,992
7)	71,590	Nationwide Financial Services 8.0% due 3/1/27	74,671
8)	41,543	U.S Treasury 4.125% due 5/15/15	40,102
9)	35,000	Bowater (Canadian PAC Forest) 10.625% due 6/15/10	38,339
10)	37,800	Federal Home Loan Bank 5% due 12/21/15	37,604

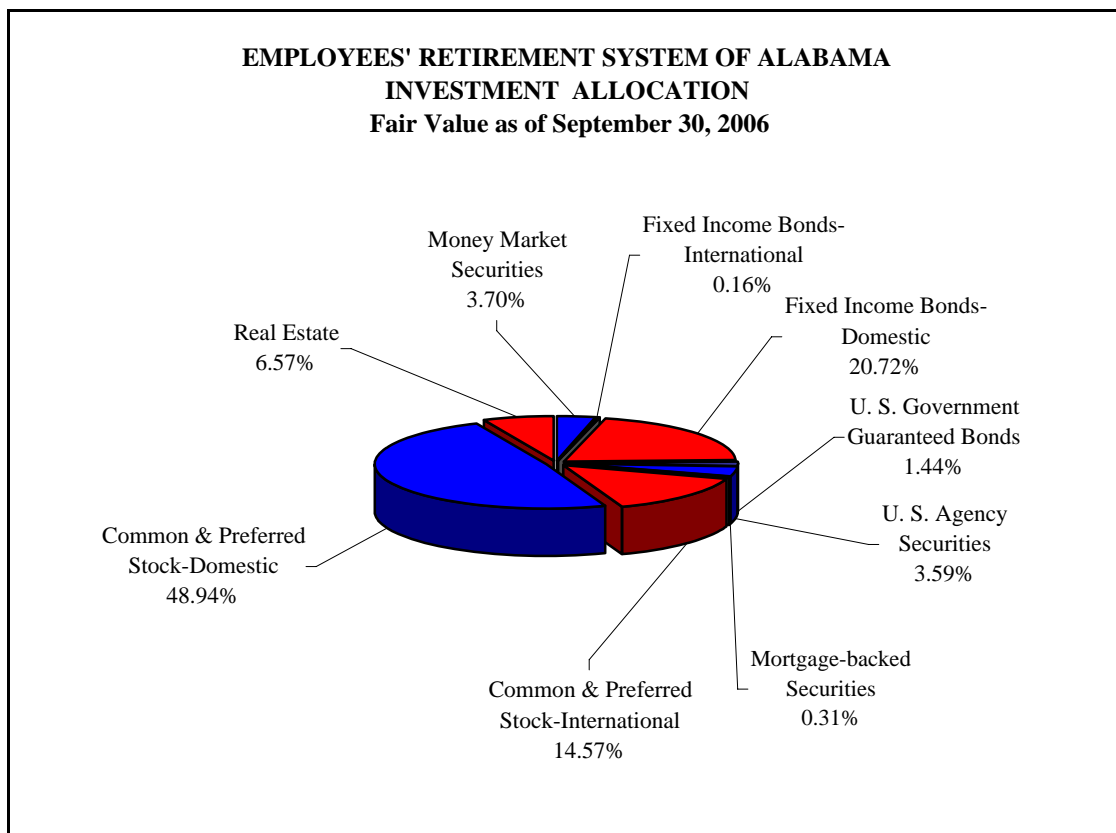
A complete list of portfolio holdings is available upon request.

**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, 2006

(\$ In Thousands)

	<b>Fair Value</b>	<b>% of Fair Value</b>
Money Market Securities and Mutual Funds	\$ 328,769	3.70
U.S. Government Guaranteed	128,343	1.44
U.S. Agency Securities	318,379	3.59
Mortgage-backed Securities	27,922	0.31
Fixed Income Bonds		
Domestic	1,839,504	20.72
International	14,343	0.16
Common and Preferred Stocks		
Domestic	4,345,437	48.94
International	1,293,472	14.57
Real Estate	583,690	6.57
<b>Total Investments</b>	<b>\$ 8,879,859</b>	<b>100.00</b>



## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Employees' Retirement System Largest Stock and Bond Holdings

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#### EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	232	Raycom Media (8% noncum PFD)	\$ 188,705
2)	155	Goldman Sachs - S & P Equity Private Placement	158,691
3)	1,562	Exxon Mobile	104,803
4)	2,742	General Electric	96,797
5)	1,382	Citigroup	68,650
6)	1,260	Bank of America	67,522
7)	2,463	Microsoft	67,312
8)	97	Community News Tranche D Preferred (8% Non Cum)	60,814
9)	2,068	Pfizer	58,659
10)	836	Johnson & Johnson	54,305

#### EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2006

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 663,738	Raycom Media Incorporated 6.75% due 12/15/16	\$ 540,361
2)	466,447	Community News 6.75% due 1/31/17	293,044
3)	84,000	Alabama River Group 8.625% due 10/8/13	84,322
4)	83,192	U.S. Treasury 4.25% due 6/15/15	80,943
5)	54,260	Mediaone Group Incorporated 8.15% due 2/1/32	56,199
6)	50,000	CSX Corporation 8.3% due 5/1/32	52,683
7)	23,864	Nationwide Financial Services 8.0% due 3/1/27	24,891
8)	15,000	IBM Corp 8.375% due 11/1/19	18,851
9)	18,648	U.S. Treasury 4.125% due 5/15/15	18,001
10)	17,020	Federal Home Loan Bank 5.0% due 12/21/15	16,932

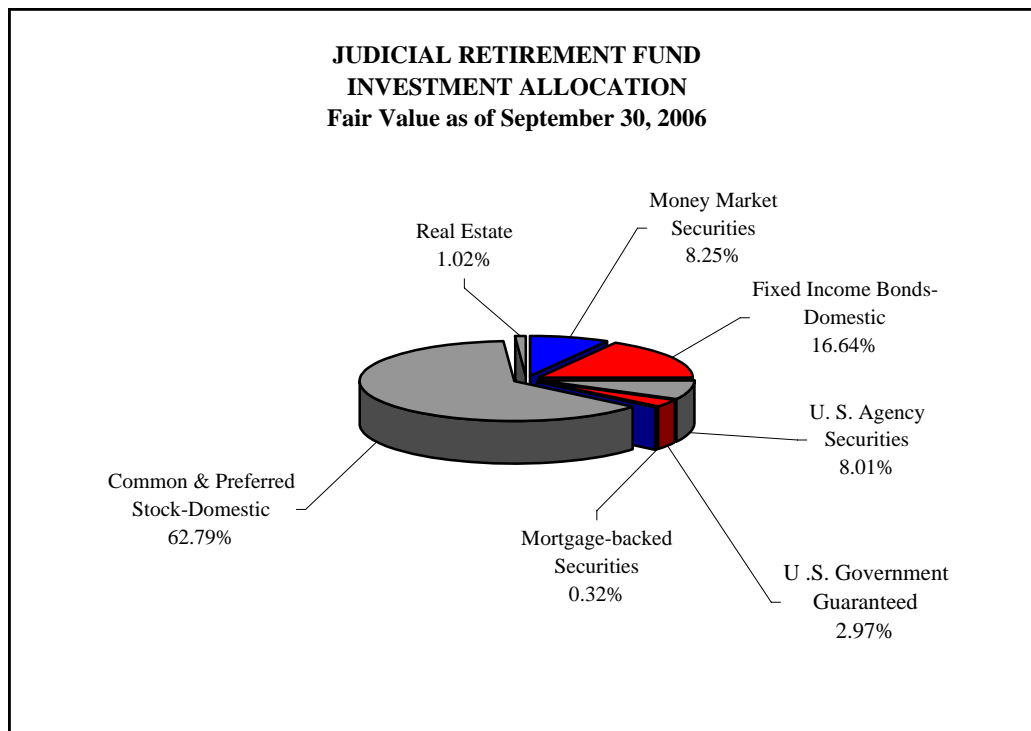
A complete list of portfolio holdings is available upon request.

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, 2006**

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities and Mutual Funds	\$ 20,104	8.25
U.S. Government Guaranteed	7,252	2.97
U.S. Agency Securities	19,514	8.01
Mortgage-backed Securities	778	0.32
Fixed Income Bonds, Domestic	40,564	16.64
Common and Preferred Stocks, Domestic	153,064	62.79
Real Estate	2,494	1.02
<b>Total Investments</b>	<b>\$ 243,770</b>	<b>100.00</b>

# RETIREMENT SYSTEMS OF ALABAMA

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## *Investment Section*

### Judicial Retirement Fund

#### Largest Stock and Bond Holdings

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### JUDICIAL RETIREMENT FUND LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	68	Exxon Mobil Corporation	\$ 4,582
2)	119	General Electric Corporation	4,185
3)	57	Citigroup Incorporated	2,820
4)	52	Bank of America Corporation	2,785
5)	99	Microsoft Corp	2,711
6)	84	Pfizer Incorporated	2,375
7)	36	Proctor & Gamble	2,260
8)	34	Johnson & Johnson	2,182
9)	30	American International Group	1,978
10)	40	JP Morgan Chase & Co	1,872

### JUDICIAL RETIREMENT FUND LARGEST BOND HOLDINGS

September 30, 2006

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 5,318	Community News due 1/31/17	\$ 3,884
2)	2,864	Nationwide Financial Services due 3/1/27	3,071
3)	3,032	Xcel Energy Incorporated due 12/29/05	3,000
4)	2,000	PPL Energy due 12/21/013	2,279
5)	2,020	Kellogg Company due 11/29/05	2,004
6)	2,010	General Mills Incorporated due 11/16/05	1,999
7)	1,634	General Electric Capital Corporation due 9/15/14	1,641
8)	1,500	GTE Corporation due 2/1/27	1,597
9)	5,000	UAL Pass-through Certificates Ser 1992B due 10/26/15	1,423
10)	1,275	Mediaone Group due 2/1/32	1,356

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, 2006

	Stock		Fixed		Total
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Securities Commissions (000's)	
AG Edwards	\$ 0.0501	1,496	\$ 75	\$ -	\$ 75
Banc of America	-	-	-	425	425
Bear Stearns & Co.	0.0431	14,261	615	202	817
Bernstein	0.0500	17,478	874	-	874
Centennial	0.0492	650	32	-	32
CIBC	0.0500	2,821	141	-	141
Citigroup	0.0399	17,841	712	556	1,268
Citigroup-Ben Walker	0.0499	1,604	80	-	80
Citigroup-Montgomery	-	-	-	22	22
Concord-Rayl	0.0400	25	1	-	1
Credit Suisse First Boston Corp.	0.0293	8,701	255	532	787
Deutsche Bank	0.0380	1,973	75	56	131
Empirical Research	0.0502	2,070	104	-	104
First Discount	0.0482	249	12	-	12
Gardner Rich	0.0494	607	30	-	30
Goldman Sachs & Co.	0.0283	5,060	143	244	387
Howard Weil & Co.	0.0502	1,894	95	-	95
Issuer Designated	-	-	-	264	264
ISI	0.0500	5,403	270	-	270
Janney Montgomery Scott	0.0486	350	17	-	17
J. P. Morgan Chase	0.0249	10,366	258	310	568
Keefe Bruyette	0.0501	3,031	152	-	152
Lazard Cap-Ricahrd	0.0533	150	8	-	8
Lehman Brothers, Inc.	0.0301	11,098	334	197	531
Lehman Brothers, Inc. - Soft	0.0501	1,876	94	-	94
Matrix	0.0500	960	48	-	48
McDonald & Company	0.0505	475	24	71	95
MER Soft	0.0499	922	46	-	46
Merrill Lynch, Pierce, Fenner & Smith	0.0262	22,853	599	216	815
Morgan Keegan	0.0497	1,307	65	9	74
Morgan Stanley Dean Witter	0.0426	9,868	420	245	665
Morgan Stanley Dean Witter-Int'l	0.0500	4,522	226	-	226
Morgan Stanley Dean Witter-Soft	0.0498	1,605	80	-	80
Morgan Stanley-Campbell	0.0502	1,334	67	-	67
NBC-Falkenburg	0.0502	1,276	64	-	64
NBC Securities, Inc.	-	-	-	8	8
Ned Davis	0.0502	1,354	68	-	68
Oppenheimer	0.0500	2,598	130	-	130
Princeton Sec-Sine	0.0514	350	18	-	18
Raymond James	0.0502	1,314	66	47	113
Register/Corts-Register	0.0520	250	13	-	13
Sandler O'Neil	0.0499	4,926	246	-	246
Securities Corp-Jones	0.0492	549	27	-	27
Simmons	0.0500	1,219	61	-	61
Southwest	0.0490	306	15	-	15
Sterne, Agee-Childers	0.0500	1,059	53	-	53
Sterne, Agee-Hill & Stevenson	0.0495	647	32	-	32
Sterne, Agee-Mobile	-	-	-	9	9
Sterne, Agee-Montgomery	-	-	-	6	6
Sun Trust Capital Markets	-	-	-	312	312
Susquehanna	0.0242	1,485	36	-	36
UBS Warburg	0.0501	1,278	64	355	419
UBS Warburg-Allison	0.0501	499	25	-	25
UBS Warburg-Young	0.0496	524	26	-	26
Wachovia-Collins	0.0505	475	24	-	24
Wachovia-Harris	0.0498	1,324	66	-	66
Wachovia-Montgomery	-	-	-	9	9
<b>Totals</b>		<b>174,283</b>	<b>\$ 6,986</b>	<b>\$ 4,095</b>	<b>\$ 11,081</b>

Average Commission Per Share of Stock = \$ 0.0401

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# ACTUARIAL SECTION

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**Cavanaugh Macdonald**  
CONSULTING, LLC  
*The experience and dedication you deserve*

August 30, 2006

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

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Teachers' Retirement System of Alabama, prepared as of September 30, 2005 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 September 30, 2005, 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 cost-of-living increase granted to retired members and the pay increase granted to active members effective October 1, 2005 under Act 2005-174, and the cost-of-living increase granted to retired members effective October 1, 2006 under Act 2006-310. On the basis of this valuation, it is recommended that the State make contributions to the Retirement System at the rate of 11.06% of payroll for the fiscal year ending September 30, 2008, based on a 20-year funding period. The increase in the contribution rate from 9.36% to 11.06% of payroll is primarily due to a recognition of asset losses and the cost of the amendments.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the Entry Age Normal cost method. 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 4.50% 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. All historical information that references a valuation date prior to September 30, 2004 was prepared by the previous actuarial firm.

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,

A handwritten signature in blue ink, appearing to read 'E. Macdonald', written in a cursive style.

Edward A. Macdonald, ASA, FCA, MAAA  
President

EAM:sh

**Summary of Actuarial Assumptions and Methods**

The assumptions and methods used in the valuation were selected by the prior actuarial firm 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>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	0.05	0.03	0.05	0.07	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	7.96
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>Male*</u>	<u>Female*</u>
45	7.0	4.0
50	12.0	8.0
55	45.0	45.0
60	15.0	20.0
62	35.0	25.0
65	40.0	30.0
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>Male</u>	<u>Female</u>
58	15.0	15.0
60	15.0	20.0
62	35.0	25.0
65	40.0	30.0
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>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</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

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**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.

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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 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.

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 In Active Service**

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 payable from the pre-retirement death benefit fund equal to the salary on which the member made retirement contributions for the previous scholastic year (July 1-June 30). \*

## RETIREMENT SYSTEMS OF ALABAMA

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### *Actuarial Section*

#### Teachers' Retirement System

#### Summary of Plan Provisions (Continued) and Supporting Schedules

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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 payable from the pre-retirement death benefit fund 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>
09/30/05	£	135,126	\$ 4,733,415,807	\$ 35,030	2.73
09/30/04	*	131,814	4,494,548,521	34,098	(1.48)
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

£ In addition, there were 4,839 employees with annual compensation of \$291,497,474 who are currently participating in the DROP program. Employers of the Retirement System contribute on this payroll.

\* In addition, there are 4,468 employees with annual compensation of \$352,128,959 who are currently participating in the DROP program. Employers of the Retirement System contribute on this payroll.

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

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)	Active Members (Employer Financed Portions)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active					
09/30/05 †	\$ 2,856,983	\$ 12,998,138	\$ 7,172,217	\$ 19,248,207	100	100	47.3	
09/30/04 *	2,779,858	11,491,556	6,614,776	18,704,009	100	100	67.0	
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 #	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	

† Reflects pay increase payable under Act 2005-174 and additional allowance payable under Act 2006-310.

\* Reflects additional allowance payable under Act 2005-174.

§ 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.

# Reflects changes in actuarial assumptions.

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

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

Fiscal Year Ended	Retirees Added § *		Retirees Removed		Retirees - Year-end *		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)		
2005	4,423	\$ 83,973	1,419	\$ 20,712	59,726	\$ 1,076,506	6.24	\$ 18,024
2004	3,610	67,418	1,298	17,303	56,722	1,013,245	5.20	17,863
2003	3,782	68,233	1,275	16,923	54,410	963,130	8.59	17,701
2002	3,550	64,509	1,294	17,244	51,903	886,969	5.63	17,089
2001	3,225	58,581	1,280	16,935	49,647	839,704	9.41	16,913
2000	4,312	84,202	1,248	16,242	47,702	767,477	9.72	16,089

§ Includes retirees completing DROP participation and entering regular retirement. Fiscal year 2005 was the first year of normal DROP completions.

\* Does not include active DROP participants.

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

**TEACHERS' RETIREMENT SYSTEM**  
**ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2005**

	<u>Amount</u>
Underfunded Actuarial Liability as of September 30, 2004	\$ 2,182,181,272
Normal Cost for 2005 Plan Year	279,744,874
Contributions Received During the Year	(329,193,699)
Interest to Year End	<u>172,596,549</u>
Expected Underfunded Actuarial Liability as of September 30, 2005	<u>2,305,328,996</u>
Actuarial Losses During the Year	
From Investments	397,213,365
From Actuarial Liabilities	<u>1,076,588,410</u>
Total Actuarial Losses During the Year	<u>1,473,801,775</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2005</b>	<b><u>\$ 3,779,130,771</u></b>



## Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

September 6, 2006

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 annual actuarial valuation of the Employees' Retirement System of Alabama, prepared as of September 30, 2005 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, 2005, 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 reflect the cost-of-living increase granted to retired State employees and the pay increase granted to active State employees effective October 1, 2005 under Act 2005-316, the cost-of-living increase granted to retired State employees effective October 1, 2006 under Act 2006-510 and the estimated pay increases granted to active State Policemen effective June 1, 2006 under Act 2006-231. The valuation results for local employees shown in this report do not include the impact of any benefit improvements elected by Local employers after the valuation date.

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 9.84% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 30.00% of payroll for the fiscal year ending September 30, 2008. The increases in the contribution rates since the previous valuation are primarily due to the recognition of asset losses and the cost of the amendments. The contribution rates for local employers for the fiscal year beginning October 1, 2007 will be submitted in a separate report and will include the impact of all employer-elected benefit improvements through September 30, 2006.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Five-year smoothed market 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 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. All historical information that references a valuation date prior to September 30, 2004 was prepared by the previous actuarial firm.

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,

A handwritten signature in blue ink, appearing to read 'E. Macdonald', written in a cursive style.

Edward A. Macdonald, ASA, MAAA, FCA  
President

EAM:sh

**Summary of Actuarial Assumptions and Methods**

The assumptions and methods used in the valuation were selected by the prior actuarial firm 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 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		

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

<b>Age</b>	<b>Annual Rate of Service Retirement</b>	
	<b>Male(%) §</b>	<b>Female(%) †</b>
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:

<b>Age</b>	<b>Annual Rate of Service Retirement</b>	
	<b>Male(%)</b>	<b>Female(%)</b>
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 for the period 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.

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## 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 employees of 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)

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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 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>
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 payable from the pre-retirement death benefit fund 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 payable from the pre-retirement death benefit fund equal to the salary on which the member retirement contributions were made for the previous fiscal year (October 1 – September 30). *</p>

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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 payable from the pre-retirement death benefit fund 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 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:

## RETIREMENT SYSTEMS OF ALABAMA

### *Actuarial Section*

#### Employees' Retirement System

#### Summary of Plan Provisions (Continued)

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-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.

-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 payable from the pre-retirement 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 payable from the pre-retirement death benefit fund 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 payable



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from the pre-retirement death benefit fund 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.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Supporting Schedules

**Supporting Schedules**

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

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

	<b>Valuation Date</b>	<b>Number</b>	<b>Annual Payroll</b>	<b>Annual Average Pay</b>	<b>% Increase in Average Pay</b>
γ	09/30/05	82,830	\$ 2,808,823,045	\$ 33,911	4.94
φ	09/30/04	81,249	2,625,617,551	32,316	1.18
§	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

γ In addition, there are 1,753 members with compensation of \$95,585,173 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

φ In addition, there are 1,440 members with compensation of \$76,775,883 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

§ 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.

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

**EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA  
SOLVENCY TEST**

(\$ in Thousands)

		<b>Aggregate Accrued Liabilities For</b>						
		(1)	(2)	(3)		Portion (%) of Accrued Liabilities Covered by Reported Assets		
<b>Valuation Date</b>		<b>Active Member Contributions</b>	<b>Retirants and Beneficiaries</b>	<b>Active Members (Employer Financed Portion)</b>	<b>Reported Assets</b>	(1)	(2)	(3)
09/30/05	γ	\$ 1,616,410	\$ 5,076,621	\$ 3,941,945	\$ 8,935,568	100	100	56.9
09/30/04	φ	1,533,055	4,496,854	3,516,569	8,563,945	100	100	72.1
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

γ Reflects pay increases payable under Act 2005-316 and Act 2006-231 and COLA granted October 1, 2006 under Act 2006-510.

φ Reflects COLA granted effective October 1, 2005 under Act 2005-316. Active member contributions exclude \$20,500,000 of employee lump sum contributions made by local employers before September 30, 2004 not recognized for valuation purposes.

§ Reflects changes in actuarial assumptions.

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	Retirees Added § *		Retirees Removed		Retirees - Year-end *		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)	Number	Annual Allowances (000s)		
	2005	2,362	\$ 42,823	857	\$ 9,975	31,514		
2004	2,015	35,634	926	9,624	30,009	456,643	6.04	15,217
2003	1,702	29,850	709	7,634	28,920	430,633	8.10	14,890
2002	1,678	28,346	760	7,511	27,927	398,383	5.52	14,265
2001	1,458	23,939	803	9,527	27,009	377,548	8.10	13,979
2000	1,589	24,657	628	7,634	26,354	349,260	5.12	13,253

§ Includes retirees completing DROP participation and entering regular retirement. Fiscal year 2005 was the first year of normal DROP completions.

\* Does not include active DROP participants.

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

**EMPLOYEES' RETIREMENT SYSTEM  
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2005**

	<u>Amount</u>
Underfunded Actuarial Liability as of September 30, 2004	\$ 982,533,156
Normal Cost for 2005 Plan Year	134,329,862
Contributions Received During the Year	(206,876,726)
Interest to Year End	<u>75,700,778</u>
Expected Underfunded Actuarial Liability as of September 30, 2005	<u>985,687,070</u>
Actuarial Losses During the Year	
From Investments	175,800,780
From Actuarial Liabilities	<u>538,129,838</u>
Total Actuarial Losses During the Year	<u>713,930,618</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2005</b>	<b><u>\$ 1,699,617,688</u></b>



# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

August 30, 2006

Board of Control  
Alabama Judicial Retirement Fund  
Montgomery, Alabama

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Alabama Judicial Retirement Fund, prepared as of September 30, 2005 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, 2005, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). Data regarding the membership of the Fund for use as a basis of the valuation was furnished by the Retirement Fund office. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation liabilities include the cost-of-living increase granted to retired members effective October 1, 2005 under Act 2005-316 and the cost-of-living increase granted to retired members effective October 1, 2006 under Act 2006-510. On the basis of this valuation, it is recommended that the State make contributions to the Retirement Fund at the rate of 23.05% of payroll for the fiscal year ending September 30, 2008. The increase in the contribution rate from 22.50% to 23.05% of payroll is primarily due to a recognition of asset losses and the cost of the COLA offset by decreases due to salary gains.

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. Five-year smoothed market 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 within a 20-year period, on the assumption that payroll will increase by 4.50% 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. All historical information that references a valuation date prior to September 30, 2004 was prepared by the previous actuarial firm.



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 Fund and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Fund.

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,

A handwritten signature in blue ink, appearing to read 'E. Macdonald', written in a cursive style.

Edward A. Macdonald, ASA, FCA, MAAA  
President

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 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.

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## 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 became a member of the fund if the member was holding office on the effective date of the Act and elected to come under its provisions. Any such justice or judge elected or appointed to the office after the effective date of the Act or any district or probate judge elected or appointed to office after October 10, 1975 or October 1, 1976, respectively, automatically becomes a member. 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

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:

- Completed 12 years of credited service and attained age 65, or
- Completed at least 15 years of credited service and attained age 60, and whose age plus service equals or exceeds 77
- Completed 10 years of credited service and attained age 70
- Completed 25 years of service or 24 years of service provided the member purchases one year of service prior to retirement, regardless of age.

##### 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

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- (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 district judges, 75% of the position's salary immediately prior to retirement.
- (d) For probate judges, 75% of the member's salary at the time of separation from service.

#### 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>
09/30/05	340	\$ 40,144,335	\$ 118,072	(0.56)
09/30/04	332	39,419,414	118,733	0.98
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)

† 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>Portion (%) of Accrued Liabilities Covered by Reported Assets</u>		
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Reported Assets</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
	<u>Active Member Contributions</u>	<u>Retirants and Beneficiaries</u>	<u>Active Members (Employer Financed Portion)</u>				
09/30/05 §	\$ 29,027	\$ 183,797	\$ 86,840	\$ 256,092	100	100	49.8
09/30/04 *	27,492	178,446	87,118	251,844	100	100	52.7
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	20,685	169,016	78,897	239,023	100	100	62.5

§ Reflect additional allowance payable under Act 2006-510.

\* Reflects COLA granted under Act 2005-316.

† Reflects change in post retirement mortality.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules (Continued)

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

**JUDICIAL RETIREMENT FUND  
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS**

Fiscal Year Ended	Retirees Added		Retirees Removed		Retirees - Year-end		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual	Number	Annual	Number	Annual		
		Allowances (000s)		Allowances (000s)		Allowances (000s)		
2005	10	\$ 967	8	\$ 408	274	\$ 18,421	3.13	\$ 67,230
2004	7	551	11	692	272	17,862	(0.78)	65,669
2003	14	1,172	7	747	276	18,003	2.42	65,228
2002	8	682	10	590	269	17,578	9.81	65,346
2001	25	2,088	6	263	271	16,007	44.73	59,066
2000	3	122	3	356	252	11,060	(2.07)	43,889

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

**JUDICIAL RETIREMENT FUND  
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2005**

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2004	\$ 41,210,995
Normal Cost for 2005 Plan Year	5,652,322
Contributions Received During the Year	(8,402,905)
Interest to Year End	<u>3,186,856</u>
Expected Unfunded Actuarial Liability as of September 30, 2005	<u>41,647,268</u>
Actuarial (Gains)/Losses During the Year	
From Investments	7,782,384
From Actuarial Liabilities	<u>(5,857,010)</u>
Total Actuarial (Gains)/Losses During the Year	<u>1,925,374</u>
<b>Actual Unfunded Actuarial Liability as of September 30, 2005</b>	<b><u>\$ 43,572,642</u></b>

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# STATISTICAL SECTION

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RETIREMENT SYSTEMS OF ALABAMA

Statistical Section  
 Additions by Source  
 Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
 ADDITIONS BY SOURCE**

<u>Fiscal Year</u>	<u>Member Contributions \$</u>	<u>Employer Contributions</u>		<u>Investment Income</u>	<u>Total</u>
		<u>Amount</u>	<u>Rate (%)</u>		
2006	\$ 281,455	\$ 434,195	8.17	\$ 1,582,359	\$ 2,298,009
2005	262,856	347,862	7.03	1,846,398	2,457,116
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
1998	199,780	358,088	9.66	564,331	1,122,199
1997	190,802	330,658	9.23	2,313,425	2,834,885

**EMPLOYEES' RETIREMENT SYSTEM  
 ADDITIONS BY SOURCE**

<u>Fiscal Year</u>	<u>Member Contributions \$</u>	<u>Employer Contributions</u>				<u>Investment Income</u>	<u>Total</u>
		<u>Amount</u>	<u>Employer Rate (%)</u>		<u>Local</u>		
			<u>State</u>	<u>Regular</u>			
2006	\$ 187,126	\$ 241,750	6.77	21.36	*	\$ 703,604	\$ 1,132,480
2005	160,313	195,846	5.57	18.03	*	841,013	1,197,172
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
1998	108,477	157,246	7.56	15.74	*	254,330	520,053
1997	103,952	145,738	6.99	15.17	*	1,056,283	1,305,973

**JUDICIAL RETIREMENT FUND  
 ADDITIONS BY SOURCE**

<u>Fiscal Year</u>	<u>Member Contributions \$</u>	<u>Employer Contributions</u>		<u>Investment Income</u>	<u>Total</u>
		<u>Amount</u>	<u>Rate (%)</u>		
2006	\$ 2,497	\$ 8,916	21.93	\$ 20,851	\$ 32,264
2005	2,398	8,943	21.93	19,347	30,688
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
1998	1,467	5,417	19.71	17,378	24,262
1997	1,662	5,430	19.71	36,288	43,380

§ Includes transfers from other systems.

\* Local agency rates differ for each participating agency.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section  
Deductions by Type  
Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Contribution</b>				<b>Other</b>	<b>Total</b>
		<b>Refunds &amp; Death Benefits</b>	<b>Service Transfers</b>	<b>Administrative Expenses</b>			
2006	\$ 1,207,251	\$ 36,683	\$ 3,008	\$ 11,325	\$ 462	\$ 1,258,729	
2005	1,092,723	36,350	1,829	10,372	468	1,141,742	
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	
1998	576,463	32,636	1,116	7,076	547	617,838	
1997	534,958	30,907	1,245	6,524	500	574,134	

**EMPLOYEES' RETIREMENT SYSTEM  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Unit</b>				<b>Other</b>	<b>Total</b>
		<b>Contribution Refunds &amp; Death Benefits</b>	<b>Withdrawals &amp; Service Transfers</b>	<b>Administrative Expenses</b>			
2006	\$ 551,793	\$ 31,780	\$ 3,368	\$ 7,850	\$ 337	\$ 595,128	
2005	487,348	30,960	2,755	6,898	294	528,255	
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	
1998	270,469	26,031	1,757	4,855	351	303,463	
1997	252,023	23,716	2,021	4,273	337	282,370	

**JUDICIAL RETIREMENT FUND  
DEDUCTIONS BY TYPE**

<b>Fiscal Year</b>	<b>Benefit Payments</b>	<b>Contribution</b>				<b>Other</b>	<b>Total</b>
		<b>Refunds &amp; Death Benefits</b>	<b>Service Transfers</b>	<b>Administrative Expenses</b>			
2006	\$ 18,777	\$ 45	\$ -	\$ 432	\$ -	\$ 19,254	
2005	18,201	51	356	381	-	18,989	
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	
1998	10,035	155	145	245	-	10,580	
1997	9,678	6	-	299	-	9,983	

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Benefits by Type

Ten-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM  
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age &amp; Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits &amp; Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2006	\$ 1,131,936	\$ 35,228	\$ 40,087	\$ 10,523	\$ 26,160
2005	1,024,372	31,482	36,869	11,931	24,419
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
1998	541,729	15,267	19,467	9,171	23,465
1997	503,603	13,893	17,462	10,083	20,824

**EMPLOYEES' RETIREMENT SYSTEM  
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age &amp; Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits &amp; Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2006	\$ 490,553	\$ 25,729	\$ 35,511	\$ 7,158	\$ 24,622
2005	431,179	23,689	32,480	7,505	23,455
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
1998	236,328	14,562	19,579	5,252	20,779
1997	219,592	13,620	18,811	5,676	18,040

**JUDICIAL RETIREMENT FUND  
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age &amp; Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits &amp; Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2006	\$ 15,367	\$ 3,093	\$ 317	\$ -	\$ 45
2005	14,911	2,972	318	-	51
2004	14,722	2,864	317	-	103
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
1998	8,194	1,509	332	-	155
1997	7,943	1,380	354	-	6

# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section

### Teachers' Retirement System

#### Retired Members by Type of Benefit as of September 30, 2005

Amount of Monthly Benefit	Number of Retirants	Type of Retirement <sup>1</sup>			Option Selected <sup>2</sup>				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	812	484	242	86	143	202	227	239	1
251 - 500	7,745	5,863	784	1,098	2,352	3,438	993	956	6
501 - 750	6,265	5,054	526	685	1,868	2,909	739	746	3
751 - 1,000	4,961	4,038	400	523	1,398	2,267	623	667	6
1,001 - 1,250	4,270	3,594	251	425	1,082	2,019	588	577	4
1,251 - 1,500	4,541	3,952	221	368	1,136	2,055	752	596	2
1,501 - 1,750	5,885	5,480	151	254	1,202	2,878	1,047	755	3
1,751 - 2,000	7,019	6,740	110	169	1,303	3,824	1,014	874	4
2,001 - 2,250	5,980	5,828	78	74	1,051	3,384	786	754	5
2,251 - 2,500	4,530	4,432	54	44	754	2,635	581	554	6
2,501 - 2,750	2,960	2,880	45	35	506	1,625	437	389	3
2,751 - 3,000	2,156	2,102	36	18	374	1,088	371	321	2
3,001 - 3,250	1,660	1,633	22	5	263	827	307	259	4
3,251 - 3,500	1,217	1,199	16	2	189	599	233	195	1
3,501 - 3,750	1,006	988	16	2	171	504	191	137	3
3,751 - 4,000	756	739	15	2	128	374	130	118	6
4,001 - 4,250	613	605	6	2	107	294	114	97	1
4,251 - 4,500	478	470	8	-	67	223	95	90	3
4,501 - 4,750	361	353	8	-	52	166	65	76	2
4,751 - 5,000	243	238	5	-	34	119	55	33	2
Over 5,000	904	884	16	4	124	361	204	202	13
<b>Totals <sup>3</sup></b>	<b>64,362</b>	<b>57,556</b>	<b>3,010</b>	<b>3,796</b>	<b>14,304</b>	<b>31,791</b>	<b>9,552</b>	<b>8,635</b>	<b>80</b>

<sup>1</sup> **Type of Retirement**

A - Service  
B - Survivor benefit  
C - Disability

<sup>2</sup> **Option**

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

<sup>3</sup> **Includes 4,839 DROP**

**participants as of September 30, 2005.**

Schedule prepared by Cavanaugh Macdonald

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Retired Members by Type of Benefit as of September 30, 2005

Amount of Monthly Benefit	Number of Retirants	Type of Retirement <sup>1</sup>			Option Selected <sup>2</sup>				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	494	224	240	30	117	70	76	221	10
251 - 500	3,764	2,153	1,241	370	873	932	812	1,120	27
501 - 750	4,744	3,330	644	770	1,567	1,611	666	839	61
751 - 1,000	4,149	2,983	370	796	1,315	1,616	485	654	79
1,001 - 1,250	4,055	3,319	210	526	1,129	1,728	494	599	105
1,251 - 1,500	3,320	2,887	148	285	817	1,467	450	507	79
1,501 - 1,750	2,794	2,542	96	156	621	1,228	404	465	76
1,751 - 2,000	2,338	2,202	53	83	531	1,093	268	400	46
2,001 - 2,250	1,821	1,740	29	52	399	840	218	319	45
2,251 - 2,500	1,376	1,324	25	27	281	621	183	249	42
2,501 - 2,750	1,023	992	12	19	211	471	127	193	21
2,751 - 3,000	779	748	17	14	158	346	101	162	12
3,001 - 3,250	611	594	14	3	139	273	58	131	10
3,251 - 3,500	452	447	3	2	100	220	45	79	8
3,501 - 3,750	368	366	1	1	75	175	41	74	3
3,751 - 4,000	244	239	2	3	47	116	21	53	7
4,001 - 4,250	206	202	3	1	42	101	19	40	4
4,251 - 4,500	159	158	-	1	22	81	15	37	4
4,501 - 4,750	137	136	1	-	30	64	12	28	3
4,751 - 5,000	109	107	2	-	27	44	7	29	2
Over 5,000	323	320	2	1	80	145	18	74	6
<b>Totals <sup>3</sup></b>	<b>33,266</b>	<b>27,013</b>	<b>3,113</b>	<b>3,140</b>	<b>8,581</b>	<b>13,242</b>	<b>4,520</b>	<b>6,273</b>	<b>650</b>

<sup>1</sup> Type of Retirement

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

<sup>2</sup> Option

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

<sup>3</sup> Includes 1,753 DROP participants as of September 30, 2005.

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

Schedule prepared by Cavanaugh Macdonald



RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Retired Members by Type of Benefit as of September 30, 2005

Amount of Monthly Benefit	Number of Retirants	Type of Retirement †			Option	
		A	B	C	Maximum	Survivorship
\$ 1 - 250	1	-	1	-	-	1
251 - 500	1	-	1	-	-	1
501 - 750	6	1	5	-	-	6
751 - 1,000	7	-	6	1	1	6
1,001 - 1,250	5	1	4	-	1	4
1,251 - 1,500	1	-	1	-	-	1
1,501 - 1,750	3	-	3	-	-	3
1,751 - 2,000	7	1	6	-	1	6
2,001 - 2,250	6	-	5	1	-	6
2,251 - 2,500	1	1	-	-	1	-
2,501 - 2,750	3	1	2	-	1	2
2,751 - 3,000	4	1	2	1	2	2
3,001 - 3,250	18	3	15	-	2	16
3,251 - 3,500	35	1	34	-	-	35
3,501 - 3,750	6	5	1	-	2	4
3,751 - 4,000	4	3	-	1	2	2
4,001 - 4,250	8	6	1	1	1	7
4,251 - 4,500	10	8	2	-	1	9
4,501 - 4,750	11	4	5	2	3	8
4,751 - 5,000	2	2	-	-	-	2
Over 5,000	135	134	-	1	7	128
<b>Totals</b>	<b>274</b>	<b>172</b>	<b>94</b>	<b>8</b>	<b>25</b>	<b>249</b>

† Type of Retirement

A - Service

B - Survivor benefit

C - Disability

Schedule prepared by Cavanaugh Macdonald

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

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

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
<b>2005</b>					
Average monthly benefit	\$ 594	\$ 960	\$ 1,389	\$ 1,995	\$ 2,783
Average final average salary	\$ 28,010	\$ 32,773	\$ 36,774	\$ 44,703	\$ 51,621
Number of active retirants	728	624	443	2,003	894
<b>2004*</b>					
Average monthly benefit	\$ 601	\$ 918	\$ 1,325	\$ 2,058	\$ 2,961
Average final average salary	\$ 28,825	\$ 32,049	\$ 35,474	\$ 46,274	\$ 54,194
Number of active retirants	742	591	498	2,964	1,476
<b>2003**</b>					
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
<b>2002**</b>					
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
<b>2001**</b>					
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
<b>2000**</b>					
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
<b>1999**</b>					
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
<b>1998**</b>					
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
<b>1997**</b>					
Average monthly benefit	\$ 419	\$ 642	\$ 952	\$ 1,621	\$ 2,378
Average final average salary	\$ 21,281	\$ 22,344	\$ 26,316	\$ 37,035	\$ 43,046
Number of active retirants	497	457	513	1,241	862
<b>1996**</b>					
Average monthly benefit	\$ 366	\$ 595	\$ 947	\$ 1,567	\$ 2,264
Average final average salary	\$ 19,519	\$ 21,491	\$ 27,076	\$ 36,483	\$ 42,361
Number of active retirants	418	452	424	931	705

\*Reflects retirements July 1, 2003 through September 30, 2004.

\*\*As of June 30. Beginning with the 2004 plan year, the valuation date was changed from June 30 to September 30.

Schedule prepared by Cavanaugh Macdonald

**RETIREMENT SYSTEMS OF ALABAMA**

*Statistical Section*

Employees' Retirement System

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

	<b>Years Credited Service</b>				
	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30 &amp; over</b>
<b>2005</b>					
Average monthly benefit	\$ 1,486	\$ 1,088	\$ 1,521	\$ 1,894	\$ 2,597
Average final average salary	\$ 27,979	\$ 35,619	\$ 39,136	\$ 43,342	\$ 49,071
Number of active retirants	1,088	387	289	708	266
<b>2004</b>					
Average monthly benefit	\$ 1,406	\$ 1,176	\$ 1,472	\$ 1,834	\$ 2,761
Average final average salary	\$ 38,630	\$ 36,939	\$ 38,336	\$ 41,807	\$ 51,146
Number of active retirants	734	320	263	846	343
<b>2003</b>					
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
<b>2002</b>					
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
<b>2001</b>					
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
<b>2000</b>					
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
<b>1999</b>					
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
<b>1998</b>					
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
<b>1997</b>					
Average monthly benefit	\$ 659	\$ 866	\$ 1,110	\$ 1,404	\$ 2,175
Average final average salary	\$ 26,217	\$ 29,096	\$ 29,994	\$ 33,224	\$ 41,250
Number of active retirants	381	261	217	324	105
<b>1996</b>					
Average monthly benefit	\$ 730	\$ 837	\$ 1,112	\$ 1,439	\$ 2,336
Average final average salary	\$ 26,120	\$ 27,103	\$ 28,978	\$ 32,150	\$ 41,332
Number of active retirants	508	314	310	543	320

Schedule prepared by Cavanaugh Macdonald

**RETIREMENT SYSTEMS OF ALABAMA**

*Statistical Section*

Judicial Retirement Fund

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

	Years of Credited Service				
	10-14	15-19	20-24	25-29	30+
<b>2005</b>					
Average monthly benefit	\$ 8,611	\$ 8,990	\$ 10,434	\$ 8,040	\$ 12,454
Number of active retirants	1	3	3	3	1
<b>2004</b>					
Average monthly benefit	\$ 1,568	\$ -	\$ 6,367	\$ 8,696	\$ -
Number of active retirants	1	-	3	3	-
<b>2003</b>					
Average monthly benefit	\$ 5,778	\$ 8,339	\$ 8,726	\$ 6,594	\$ -
Number of active retirants	2	4	4	4	-
<b>2002</b>					
Average monthly benefit	\$ 7,840	\$ 7,446	\$ 8,711	\$ 8,430	\$ -
Number of active retirants	1	3	1	2	-
<b>2001</b>					
Average monthly benefit	\$ 6,565	\$ 7,751	\$ 7,068	\$ 11,877	\$ -
Number of active retirants	10	5	8	1	-
<b>2000</b>					
Average monthly benefit	\$ 5,717	\$ -	\$ -	\$ -	\$ -
Number of active retirants	1	-	-	-	-
<b>1999</b>					
Average monthly benefit	\$ 4,144	\$ 5,285	\$ 6,127	\$ 7,809	\$ -
Number of active retirants	4	2	6	1	-
<b>1998</b>					
Average monthly benefit	\$ -	\$ 4,894	\$ 4,100	\$ -	\$ -
Number of active retirants	-	1	8	-	-
<b>1997</b>					
Average monthly benefit	\$ 7,231	\$ 4,282	\$ 5,822	\$ -	\$ -
Number of active retirants	2	4	5	-	-
<b>1996</b>					
Average monthly benefit	\$ 4,871	\$ 4,894	\$ 3,630	\$ -	\$ -
Number of active retirants	4	3	2	-	-

Schedule prepared by Cavanaugh Macdonald



# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section Employees' Retirement System Largest Employers Ten-Year History

Units	2006	2005	2004	2003
<b>1) Unit</b>	State of Alabama	State of Alabama	State of Alabama	State of Alabama
# of Active Members	34,429	33,756	33,741	34,659
% of Total Active Members	39.63%	39.87%	40.80%	41.54%
<b>2) Unit</b>	Huntsville, City of	Huntsville, City of	Huntsville, City of	Huntsville, City of
# of Active Members	2,188	2,174	2,050	2,124
% of Total Active Members	2.52%	2.57%	2.48%	2.55%
<b>3) Unit</b>	Mobile County	Mobile County	Mobile County	Mobile County
# of Active Members	1,589	1,626	1,622	1,658
% of Total Active Members	1.83%	1.92%	1.96%	1.99%
<b>4) Unit</b>	Mobile, City of	Mobile, City of	Mobile, City of	Mobile, City of
# of Active Members	1,278	1,272	1,297	1,334
% of Total Active Members	1.47%	1.50%	1.57%	1.60%
<b>5) Unit</b>	Madison County	Madison County	Madison County	Madison County
# of Active Members	1,073	1,071	1,055	1,035
% of Total Active Members	1.24%	1.26%	1.28%	1.24%
<b>6) Unit</b>	Dothan, City of	Dothan, City of	Helen Keller Hosp	Helen Keller Hosp
# of Active Members	955	923	785	766
% of Total Active Members	1.10%	1.09%	0.95%	0.92%
<b>7) Unit</b>	Helen Keller Hosp	Helen Keller Hosp	Tuscaloosa, City of	Jefferson Co Health
# of Active Members	817	816	684	668
% of Total Active Members	0.94%	0.96%	0.83%	0.80%
<b>8) Unit</b>	Mobile-Wash MHB	Mobile-Wash MHB	Mobile-Wash MHB	Tuscaloosa, City of
# of Active Members	704	713	611	655
% of Total Active Members		0.84%	0.74%	0.79%
<b>9) Unit</b>	Tuscaloosa, City of	Tuscaloosa, City of	Jefferson Co Health	Gadsden, City of
# of Active Members	695	680	599	613
% of Total Active Members	0.80%	0.80%	0.72%	0.73%
<b>10) Unit</b>	Hoover, City of	Hoover, City of	Gadsden, City of	Hoover, City of
# of Active Members	633	616	587	602
% of Total Active Members	0.73%	0.73%	0.71%	0.72%
<b>Total # of Active Members</b>	<b>86,874</b>	<b>84,674</b>	<b>82,708</b>	<b>83,429</b>

Source: Retirement Systems of Alabama records

<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
State of Alabama 34,526 42.10%	State of Alabama 32,722 41.15%	State of Alabama 31,348 40.75%	State of Alabama 30,690 41.57%	State of Alabama 31,238 42.09%	State of Alabama 34,015 45.03%
Huntsville, City of 2,251 2.74%	Huntsville, City of 2,221 2.79%	Huntsville, City of 2,155 2.80%	Huntsville, City of 2,124 2.88%	Huntsville, City of 2,028 2.73%	Huntsville, City of 2,041 2.70%
Mobile County 1,627 1.98%	Mobile County 1,604 2.02%	Mobile County 1,624 2.11%	Mobile County 1,574 2.13%	Mobile County 1,578 2.13%	Mobile County 1,512 2.00%
Mobile, City of 1,388 1.69%	Mobile, City of 1,396 1.76%	Mobile, City of 1,382 1.80%	Mobile, City of 1,290 1.75%	Mobile, City of 1,301 1.75%	Mobile, City of 1,260 1.67%
Madison County 963 1.17%	Madison County 1,014 1.28%	Madison County 942 1.22%	Madison County 893 1.21%	Madison County 886 1.19%	Madison County 871 1.15%
Helen Keller Hosp 746 0.91%	Thomas Hospital 877 1.10%	Thomas Hospital 805 1.05%	Thomas Hospital 751 1.02%	Jefferson Co Health 785 1.06%	Jefferson Co Health 848 1.12%
Jefferson Co Health 698 0.85%	Jefferson Co Health 700 0.88%	Jefferson Co Health 679 0.88%	Jefferson Co Health 712 0.96%	Thomas Hospital 675 0.91%	Helen Keller Hosp 609 0.81%
Baldwin County 640 0.78%	Baldwin County 650 0.82%	Baldwin County 643 0.84%	Baldwin County 598 0.81%	Helen Keller Hosp 629 0.85%	Thomas Hospital 591 0.78%
Tuscaloosa, City of 634 0.77%	Tuscaloosa, City of 631 0.79%	Tuscaloosa, City of 612 0.80%	Helen Keller Hosp 583 0.79%	Baldwin County 581 0.78%	Baldwin County 546 0.72%
Bessemer, City of 595 0.73%	Helen Keller Hosp 610 0.77%	Helen Keller Hosp 579 0.75%	Bessemer, City of 532 0.72%	Bessemer, City of 541 0.73%	Bessemer, City of 523 0.69%
82,016	79,526	76,935	73,822	74,214	75,536

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Ten-Year History of Additions, Reductions, and Changes in Net Assets

(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Additions</b>					
Contributions					
Employee	\$ 278,220	\$ 260,149	\$ 251,714	\$ 249,996	\$ 233,789
Employer	434,195	347,862	312,474	235,786	265,670
Transfers from Employees' Retirement System	3,235	2,707	2,146	2,022	1,937
Transfers from Judicial Retirement Fund	-	-	-	-	-
Total Contributions	<u>715,650</u>	<u>610,718</u>	<u>566,334</u>	<u>487,804</u>	<u>501,396</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	878,743	1,221,059	1,055,525	1,412,887	(1,915,592)
Interest and Dividends	703,189	624,397	580,000	592,645	672,200
Total Investment Income from Investing Activities	1,581,932	1,845,456	1,635,525	2,005,532	(1,243,392)
Less: Investment Expenses	4,947	4,278	4,079	4,432	4,592
Net Investment Income from Investing Activities	<u>1,576,985</u>	<u>1,841,178</u>	<u>1,631,446</u>	<u>2,001,100</u>	<u>(1,247,984)</u>
From Securities Lending Activities					
Securities Lending Income	84,052	40,399	10,704	14,215	16,473
Less Securities Lending Expenses:					
Borrower Rebates	77,407	33,559	7,206	10,052	12,462
Management Fees	1,271	1,620	630	832	784
Total Securities Lending Expenses	<u>78,678</u>	<u>35,179</u>	<u>7,836</u>	<u>10,884</u>	<u>13,246</u>
Net Income from Securities Lending Activities	<u>5,374</u>	<u>5,220</u>	<u>2,868</u>	<u>3,331</u>	<u>3,227</u>
Total Investment Income	<u>1,582,359</u>	<u>1,846,398</u>	<u>1,634,314</u>	<u>2,004,431</u>	<u>(1,244,757)</u>
Total Additions	<u>2,298,009</u>	<u>2,457,116</u>	<u>2,200,648</u>	<u>2,492,235</u>	<u>(743,361)</u>
<b>Deductions</b>					
Retirement Allowance Payments	1,207,251	1,092,723	987,761	932,687	858,383
Return of Contributions and Death Benefits	36,683	36,350	35,983	32,084	35,510
Transfers to Employees' Retirement System	2,982	1,829	1,575	2,418	2,091
Transfers to Judicial Retirement Fund	26	-	-	-	-
Administrative Expenses	11,325	10,372	7,361	7,011	6,845
Depreciation	462	468	439	367	391
Total Deductions	<u>1,258,729</u>	<u>1,141,742</u>	<u>1,033,119</u>	<u>974,567</u>	<u>903,220</u>
<b>Net Increase/(Decrease)</b>	1,039,280	1,315,374	1,167,529	1,517,668	(1,646,581)
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	18,168,523	16,853,149	15,685,620	14,167,952	15,814,533
End of Year	<u>\$ 19,207,803</u>	<u>\$ 18,168,523</u>	<u>\$ 16,853,149</u>	<u>\$ 15,685,620</u>	<u>\$ 14,167,952</u>



	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Additions</b>					
Contributions					
Employee	\$ 228,088	\$ 212,049	\$ 215,531	\$ 198,025	\$ 188,815
Employer	279,880	277,180	166,100	358,088	330,658
Transfers from Employees' Retirement System	2,433	1,954	1,674	1,755	1,987
Transfers from Judicial Retirement Fund	97	-	-	-	-
Total Contributions	<u>510,498</u>	<u>491,183</u>	<u>383,305</u>	<u>557,868</u>	<u>521,460</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(1,860,162)	658,975	1,130,761	(107,404)	1,667,045
Interest and Dividends	<u>769,739</u>	<u>755,482</u>	<u>702,131</u>	<u>673,445</u>	<u>647,861</u>
Total Investment Income from Investing Activities	(1,090,423)	1,414,457	1,832,892	566,041	2,314,906
Less: Investment Expenses	<u>3,467</u>	<u>3,229</u>	<u>3,038</u>	<u>2,806</u>	<u>2,698</u>
Net Investment Income from Investing Activities	<u>(1,093,890)</u>	<u>1,411,228</u>	<u>1,829,854</u>	<u>563,235</u>	<u>2,312,208</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	43,671	64,006	377	14,251	15,588
Less Securities Lending Expenses:					
Borrower Rebates	39,692	59,807	338	12,662	13,849
Management Fees	<u>795</u>	<u>859</u>	<u>10</u>	<u>493</u>	<u>522</u>
Total Securities Lending Expenses	<u>40,487</u>	<u>60,666</u>	<u>348</u>	<u>13,155</u>	<u>14,371</u>
Net Income from Securities Lending Activities	<u>3,184</u>	<u>3,340</u>	<u>29</u>	<u>1,096</u>	<u>1,217</u>
Total Investment Income	<u>(1,090,706)</u>	<u>1,414,568</u>	<u>1,829,883</u>	<u>564,331</u>	<u>2,313,425</u>
Total Additions	<u>(580,208)</u>	<u>1,905,751</u>	<u>2,213,188</u>	<u>1,122,199</u>	<u>2,834,885</u>
<b>Deductions</b>					
Retirement Allowance Payments	811,896	720,576	678,740	576,463	534,958
Return of Contributions and Death Benefits	34,156	33,978	31,307	32,636	30,907
Transfers to Employees' Retirement System	1,207	1,530	1,781	1,116	1,110
Transfers to Judicial Retirement Fund	-	4	19	-	135
Administrative Expenses	6,023	5,639	6,563	7,142	6,590
Depreciation	<u>1,002</u>	<u>165</u>	<u>737</u>	<u>481</u>	<u>434</u>
Total Deductions	<u>854,284</u>	<u>761,892</u>	<u>719,147</u>	<u>617,838</u>	<u>574,134</u>
<b>Net Increase/(Decrease)</b>	(1,434,492)	1,143,859	1,494,041	504,361	2,260,751
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	<u>17,249,025</u>	<u>16,105,166</u>	<u>14,611,125</u>	<u>14,106,764</u>	<u>11,846,013</u>
End of Year	<u>\$ 15,814,533</u>	<u>\$ 17,249,025</u>	<u>\$ 16,105,166</u>	<u>\$ 14,611,125</u>	<u>\$ 14,106,764</u>

# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section

### Employees' Retirement System

#### Ten-Year History of Additions, Reductions, Changes in Net Assets

(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Additions</b>					
Contributions					
Employee	\$ 184,144	\$ 158,128	\$ 166,973	\$ 159,763	\$ 149,130
Employer	241,750	195,846	170,713	154,218	123,887
Transfers from Teachers' Retirement System	2,982	1,829	1,575	2,418	2,091
Transfers from Judicial Retirement Fund	-	356	-	103	-
Total Contributions	<u>428,876</u>	<u>356,159</u>	<u>339,261</u>	<u>316,502</u>	<u>275,108</u>
Investment Income					
From Investing Activities					
Net Increase/(Decrease) in Fair Value of Investments	375,025	545,826	457,981	668,539	(953,188)
Interest and Dividends	329,459	295,631	268,876	271,698	297,845
Total Investment Income from Investing Activities	704,484	841,457	726,857	940,237	(655,343)
Less: Investment Expenses	3,216	2,652	2,390	2,380	2,331
Net Investment Income from Investing Activities	<u>701,268</u>	<u>838,805</u>	<u>724,467</u>	<u>937,857</u>	<u>(657,674)</u>
From Securities Lending Activities					
Securities Lending Income	35,407	17,604	4,892	3,461	5,741
Less Securities Lending Expenses:					
Borrower Rebates	32,567	14,948	3,318	2,131	4,094
Management Fees	504	448	283	266	333
Total Securities Lending Expenses	<u>33,071</u>	<u>15,396</u>	<u>3,601</u>	<u>2,397</u>	<u>4,427</u>
Net Income from Securities Lending Activities	<u>2,336</u>	<u>2,208</u>	<u>1,291</u>	<u>1,064</u>	<u>1,314</u>
Total Investment Income	<u>703,604</u>	<u>841,013</u>	<u>725,758</u>	<u>938,921</u>	<u>(656,360)</u>
Total Additions	<u>1,132,480</u>	<u>1,197,172</u>	<u>1,065,019</u>	<u>1,255,423</u>	<u>(381,252)</u>
<b>Deductions</b>					
Retirement Allowance Payments	551,793	487,348	448,658	423,027	389,856
Return of Contributions and Death Benefits	31,780	30,960	31,406	25,056	24,965
Unit Withdrawals	-	-	3,798	820	8,388
Transfers to Teachers' Retirement System	3,235	2,707	2,146	2,022	1,937
Transfers to Judicial Retirement Fund	133	48	64	-	85
Administrative Expenses	7,850	6,898	5,892	5,843	5,582
Depreciation	337	294	269	278	235
Total Deductions	<u>595,128</u>	<u>528,255</u>	<u>492,233</u>	<u>457,046</u>	<u>431,048</u>
<b>Net Increase/(Decrease)</b>	537,352	668,917	572,786	798,377	(812,300)
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	8,464,515	7,795,598	7,222,812	6,424,435	7,236,735
End of Year	<u>\$ 9,001,867</u>	<u>\$ 8,464,515</u>	<u>\$ 7,795,598</u>	<u>\$ 7,222,812</u>	<u>\$ 6,424,435</u>

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Additions</b>					
Contributions					
Employee	\$ 130,965	\$ 116,598	\$ 110,998	\$ 107,216	\$ 102,842
Employer	122,483	113,991	97,373	157,246	145,738
Transfers from Teachers' Retirement System	1,207	1,530	1,781	1,116	1,110
Transfers from Judicial Retirement Fund	<u>66</u>	<u>-</u>	<u>-</u>	<u>145</u>	<u>-</u>
Total Contributions	<u>254,721</u>	<u>232,119</u>	<u>210,152</u>	<u>265,723</u>	<u>249,690</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(874,433)	314,458	535,674	(53,662)	758,793
Interest and Dividends	<u>343,517</u>	<u>340,234</u>	<u>323,062</u>	<u>308,932</u>	<u>298,086</u>
Total Investment Income from Investing Activities	(530,916)	654,692	858,736	255,270	1,056,879
Less: Investment Expenses	<u>1,593</u>	<u>1,537</u>	<u>1,367</u>	<u>1,432</u>	<u>1,201</u>
Net Investment Income from Investing Activities	<u>(532,509)</u>	<u>653,155</u>	<u>857,369</u>	<u>253,838</u>	<u>1,055,678</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	20,922	36,958	151	6,780	7,596
Less Securities Lending Expenses:					
Borrower Rebates	18,996	34,509	139	6,067	6,732
Management Fees	<u>385</u>	<u>496</u>	<u>3</u>	<u>221</u>	<u>259</u>
Total Securities Lending Expenses	<u>19,381</u>	<u>35,005</u>	<u>142</u>	<u>6,288</u>	<u>6,991</u>
Net Income from Securities Lending Activities	<u>1,541</u>	<u>1,953</u>	<u>9</u>	<u>492</u>	<u>605</u>
Total Investment Income	<u>(530,968)</u>	<u>655,108</u>	<u>857,378</u>	<u>254,330</u>	<u>1,056,283</u>
Total Additions	<u>(276,247)</u>	<u>887,227</u>	<u>1,067,530</u>	<u>520,053</u>	<u>1,305,973</u>
<b>Deductions</b>					
Retirement Allowance Payments	371,715	341,145	330,231	270,469	252,023
Return of Contributions and Death Benefits	24,906	24,864	25,291	26,031	23,716
Unit Withdrawals	1,544	-	-	-	-
Transfers to Teachers' Retirement System	2,433	1,954	1,674	1,755	1,987
Transfers to Judicial Retirement Fund	97	31	-	2	34
Administrative Expenses	4,578	3,811	4,812	4,921	4,339
Depreciation	<u>330</u>	<u>367</u>	<u>333</u>	<u>285</u>	<u>271</u>
Total Deductions	<u>405,603</u>	<u>372,172</u>	<u>362,341</u>	<u>303,463</u>	<u>282,370</u>
<b>Net Increase/(Decrease)</b>	(681,850)	515,055	705,189	216,590	1,023,603
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	<u>7,918,585</u>	<u>7,403,530</u>	<u>6,698,341</u>	<u>6,481,751</u>	<u>5,458,148</u>
End of Year	<u>\$ 7,236,735</u>	<u>\$ 7,918,585</u>	<u>\$ 7,403,530</u>	<u>\$ 6,698,341</u>	<u>\$ 6,481,751</u>

# RETIREMENT SYSTEMS OF ALABAMA

## Statistical Section

### Judicial Retirement Fund

#### Ten-Year History of Additions, Reductions, Changes in Net Assets

(Amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Additions</b>					
Contributions					
Employee	\$ 2,338	\$ 2,350	\$ 2,370	\$ 2,342	\$ 2,271
Employer	8,916	8,943	8,994	8,637	8,222
Transfers from Teachers' Retirement System	26	-	-	-	-
Transfers from Employees' Retirement System	133	48	64	-	85
Total Contributions	<u>11,413</u>	<u>11,341</u>	<u>11,428</u>	<u>10,979</u>	<u>10,578</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	11,215	11,877	14,736	12,905	(33,036)
Interest and Dividends	9,598	7,420	7,218	7,969	9,777
Total Investment Income from Investing Activities	20,813	19,297	21,954	20,874	(23,259)
Less: Investment Expenses	2	2	12	28	85
Net Investment Income from Investing Activities	<u>20,811</u>	<u>19,295</u>	<u>21,942</u>	<u>20,846</u>	<u>(23,344)</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	908	422	109	61	88
Less Securities Lending Expenses:					
Borrower Rebates	861	362	83	50	75
Management Fees	7	8	4	2	2
Total Securities Lending Expenses	<u>868</u>	<u>370</u>	<u>87</u>	<u>52</u>	<u>77</u>
Net Income from Securities Lending Activities	40	52	22	9	11
Total Investment Income	<u>20,851</u>	<u>19,347</u>	<u>21,964</u>	<u>20,855</u>	<u>(23,333)</u>
Total Additions	<u>32,264</u>	<u>30,688</u>	<u>33,392</u>	<u>31,834</u>	<u>(12,755)</u>
<b>Deductions</b>					
Retirement Allowance Payments	18,777	18,201	17,903	17,964	16,770
Return of Contributions and Death Benefits	45	51	103	83	29
Transfers to Employees' Retirement System	-	356	-	103	-
Transfers to Teachers' Retirement System	-	-	-	-	-
Administrative Expenses	432	381	344	322	306
Total Deductions	<u>19,254</u>	<u>18,989</u>	<u>18,350</u>	<u>18,472</u>	<u>17,105</u>
<b>Net Increase/(Decrease)</b>	13,010	11,699	15,042	13,362	(29,860)
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	233,412	221,713	206,671	193,309	223,169
<b>End of Year</b>	<b><u>\$ 246,422</u></b>	<b><u>\$ 233,412</u></b>	<b><u>\$ 221,713</u></b>	<b><u>\$ 206,671</u></b>	<b><u>\$ 193,309</u></b>

	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Additions</b>					
Contributions					
Employee	\$ 2,115	\$ 1,608	\$ 1,575	\$ 1,465	\$ 1,493
Employer	7,598	5,696	2,870	5,417	5,430
Transfers from Teachers' Retirement System	-	4	19	-	135
Transfers from Employees' Retirement System	97	31	-	2	34
Total Contributions	<u>9,810</u>	<u>7,339</u>	<u>4,464</u>	<u>6,884</u>	<u>7,092</u>
Investment Income					
<i>From Investing Activities</i>					
Net Increase/(Decrease) in Fair Value of Investments	(35,377)	14,106	16,856	6,402	25,676
Interest and Dividends	11,192	10,970	10,968	10,995	10,627
Total Investment Income from Investing Activities	(24,185)	25,076	27,824	17,397	36,303
Less: Investment Expenses	31	23	24	19	15
Net Investment Income from Investing Activities	<u>(24,216)</u>	<u>25,053</u>	<u>27,800</u>	<u>17,378</u>	<u>36,288</u>
<i>From Securities Lending Activities</i>					
Securities Lending Income	467	850	-	-	-
Less Securities Lending Expenses:					
Borrower Rebates	443	816	-	-	-
Management Fees	5	6	-	-	-
Total Securities Lending Expenses	<u>448</u>	<u>822</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income from Securities Lending Activities	<u>19</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Income	<u>(24,197)</u>	<u>25,081</u>	<u>27,800</u>	<u>17,378</u>	<u>36,288</u>
Total Additions	<u>(14,387)</u>	<u>32,420</u>	<u>32,264</u>	<u>24,262</u>	<u>43,380</u>
<b>Deductions</b>					
Retirement Allowance Payments	15,655	11,256	11,150	10,035	9,678
Return of Contributions and Death Benefits	79	43	101	155	6
Transfers to Employees' Retirement System	66	-	-	145	-
Transfers to Teachers' Retirement System	97	-	-	-	-
Administrative Expenses	272	263	226	245	299
Total Deductions	<u>16,169</u>	<u>11,562</u>	<u>11,477</u>	<u>10,580</u>	<u>9,983</u>
<b>Net Increase/(Decrease)</b>	<b>(30,556)</b>	<b>20,858</b>	<b>20,787</b>	<b>13,682</b>	<b>33,397</b>
<b>Net Assets Held in Trust for Pension Benefits:</b>					
Beginning of Year	<u>253,725</u>	<u>232,867</u>	<u>212,080</u>	<u>198,398</u>	<u>165,001</u>
<b>End of Year</b>	<b><u>\$ 223,169</u></b>	<b><u>\$ 253,725</u></b>	<b><u>\$ 232,867</u></b>	<b><u>\$ 212,080</u></b>	<b><u>\$ 198,398</u></b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Abbeville, City of	Ashville Water & Gas Board
Abbeville Housing Authority	Ashville, Town of
Abbeville Water Works Board	Association of County Commissioners
Adamsville, City of	Athens, City of
Addison, Town of	Athens/Limestone County Emergency Management Communication District
Alabama Elk River Development Agency	Athens/Limestone Public Library Authority
Alabama Historic Ironworks Commission	Atmore, City of
Alabama League of Municipalities	Atmore Housing Authority
Alabama Municipal Electric Authority	Atmore Utilities Board
Alabama Music Hall of Fame	Attalla Housing Authority
Alabama Rural Water Association	Attalla Water Works Board
Alabama Space & Rocket Center	Attalla, City of
Alabama Sports Hall of Fame Board	Auburn Extension Service
Alabama Tombigbee Regional Commission	Auburn Housing Authority
Alabaster Water & Gas Board	Auburn Water Works Board
Alabaster, City of	Auburn, City of
Albertville Housing Authority	Autauga County Commission
Albertville Municipal Utilities Board	Autauga County Emergency Management Communication District
Albertville, City of	Autauga County Water Authority
Alexander City Housing Authority	Autauga/Prattville Public Library
Alexander City, City of	B. B. Comer Memorial Library
Aliceville Housing Authority	Bakerhill Water Authority
Aliceville, City of	Baldwin County Board of Revenue
Altoona, Town of	Baldwin County Emergency Communication District
Andalusia Housing Authority	Baldwin County Mental Health Center
Andalusia, City of	Baldwin County Sheriff's Office Personnel System
Andalusia Utilities Board	Baldwin County Soil & Water Conservation District
Anniston Housing Authority	Barbour County Commission
Anniston Water Works & Sewer Board	Bay Minette Housing Authority
Anniston, City of	Bay Minette, City of
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	
Ashland, City of	

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

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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



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Daleville, City of	East Lauderdale County Water & Fire Protection Authority
Dallas County Court of County Revenue	Eclectic Water Works & Sewer Board
Dallas County Water and Sewer Authority	Eclectic, Town of
Daphne Utility Board	Elba General Hospital & Nursing Home
Daphne, City of	Elba Water & Electric Board
Dauphin Island Park and Beach Board	Elba, City of
Dauphin Island Water & Sewer Authority	Elberta, City of
Dauphin Island, Town of	Elmore County Commissioners Court
Decatur, City of	Elmore County Emergency Communications District
Decatur Utilities	Elmore Water Authority
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
Dora Gas Board	Etowah Solid Waste Disposal Authority
Dora, City of	Eufaula Housing Authority
Dothan, 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 Central Baldwin County Water and Fire Protection Authority	Fayette Gas Board
	Fayette Housing Authority
	Fayette Water Works Board
	Fayette County Water Coordination &

## RETIREMENT SYSTEMS OF ALABAMA

### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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

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Hartselle Utilities Board  
Hartselle, City of  
Harvest-Monrovia Water & Fire Protection Authority  
Hayneville, City of  
Headland Housing Authority  
Headland, City of  
Heflin, City of  
Heflin Water Works & Sewer Board  
Helen Keller Memorial Hospital  
Helena Utilities Board  
Helena, City of  
Henry County Commissioners Court  
Henry County Soil & Water Conservation District  
Henry County Water Authority  
Highland Water Authority  
Hillsboro, Town of  
Historic Blakeley Authority  
Historic Chattahoochee Commission  
Hodges, Town of  
Hokes Bluff Sewer Board  
Hokes Bluff Water Works Board  
Hokes Bluff, Town of  
Holly Pond, Town of  
Hollywood, Town of  
Homewood, City of  
Hoover, City of  
Horseshoe Bend Regional Library  
Houston County Board of Revenue and Control  
Houston County Soil Conservation District  
Houston County Water Authority  
Houston/Love Memorial Library  
Hueytown, City of  
Huguley Water and Fire Protection Authority  
Huntsville Electric System  
Huntsville Gas System  
Huntsville Solid Waste Disposal Authority  
Huntsville Water System  
Huntsville, City of

Huntsville/Madison County Airport Authority  
Huntsville/Madison County Convention & Visitor's Bureau  
Huntsville/Madison County Marina & Port Authority  
Huntsville/Madison County Mental Health Board  
Huntsville/Madison County Railroad Authority  
Indian Pines Recreation Authority  
Industrial Development Authority of Chambers County  
International Motorsports Hall of Fame  
Irontdale, City of  
Jackson County Commission  
Jackson County Economic Development Authority  
Jackson County Emergency Management Communications District  
Jackson County Soil & Water Conservation District  
Jackson, City of  
Jackson County Water Authority  
Jackson's Gap Water Authority  
Jackson's Gap, Town of  
Jacksonville Housing Authority  
Jacksonville Water Works, Gas & Sewer  
Jacksonville, City of  
Jasper Water Works & Sewer Board  
Jasper, City of  
Jefferson County Department of Health  
Jefferson/Blount/St. Clair Mental Health Authority  
Jemison, Town of  
John Paul Jones Hospital  
Killen, City of  
Kinsey, Town of  
Lafayette, City of  
Lamar County Commission  
Lamar County Gas District  
Lamar County Water & Fire Protection Authority

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Lanett, City of	Maplesville, City of
Lauderdale County Commission	Marengo County Commission
Lauderdale County Community Corrections & Punishment Authority	Marengo County Emergency Communications District
Lauderdale County Regional Library System	Marengo County Nursing Home
Lawrence County Commission	Marion County Board of Revenue
Lawrence/Colbert Counties Gas District	Marion County Public Water Authority
Lee County Commissioners Court	Marion Housing Authority
Lee County Emergency Communications District	Marion, City of
Lee/Russell Council of Governments	Marshall County Commission on Government and Finance
Leeds Housing Authority	Marshall County Emergency Telephone Service Board
Leeds, City of	Marshall County Gas District
Leeds Water Works Board	Marshall County Soil & Water Conservation District
Leesburg, Town of	Marshall-Jackson Mental Retardation Authority
Level Plains, Town of	Mental Health Center of North Central Alabama
Lexington, Town of	Mental Health Dev Disabilities Board
Limestone County Board of Revenue	Mental Health/Mental Retardation Board of Bibb, Pickens, and Tuscaloosa Counties
Limestone County Water Authority	Middle Alabama Area Agency on Aging
Lincoln, City of	Midfield Library Board
Linden, City of	Midfield, City of
Lineville Housing Authority	Midway, Town of
Lineville Water & Sewer Board	Mildred B. Harrison Library
Lineville, City of	Millbrook, City of
Livingston Housing Authority	Millport Housing Authority
Livingston, City of	Millport, Town of
Loachapoka Water Authority	Mobile Airport Authority
Locust Fork, Town of	Mobile County Commission
Lowndes County Board of Revenue	Mobile County Communications District
Loxley, City of	Mobile County Emergency Management Agency
Luverne Housing Authority	Mobile County Health Department
Luverne, City of	Mobile County Housing Authority
Macon County Commission	Mobile County Law Enforcement & Firefighters Pension Fund
Macon County Racing Commission	Mobile County Personnel Board
Madison County Commissioners Court	Mobile County Racing Commission
Madison County Communications District	Mobile County Water, Sewer & Fire Protection Authority
Madison County Mental Retardation Board	Mobile Public Library
Madison Water & Wastewater Board	
Madison, City of	
Malvern, Town of	
Maplesville Waterworks & Gas Board	

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Mobile Water Service System	North Dallas County Water Authority
Mobile, City of	North Jackson County Water & Fire Protection Authority
Monroe County Commission	North Marshall Utilities Board
Monroeville Housing Authority	North Shelby County Library
Monroeville Water Board	Northeast Alabama Mental Retardation-Development Disability Authority
Monroeville, City of	Northeast Alabama Water, Sewer & Fire Protection District
Montevallo, City of	Northeast Morgan County Water Authority
Montevallo Water Works and Sewer Board	Northport Housing Authority
Montgomery Area Mental Health Authority	Northport, City of
Montgomery County Soil & Water Conservation District	Northwest Alabama Council of Local Governments
Montgomery Water Works Board	Northwest Alabama Mental Health Center
Moody, City of	Northwest Alabama Regional Airport
Morgan County Commission	Northwest Regional Library
Morgan County Emergency Management Communications District	Notasulga, Town of
Morgan County Soil & Water Conservation District	Oak Grove, Town of
Moulton Housing Authority	Oakman Waterworks
Moulton, City of	Oakman, Town of
Moundville, City of	Odenville Utilities Board
Mountain Brook Library Board	Odenville, Town of
Mountain Brook Park & Recreation Board	Ohatchee, Town of
Mountain Brook, City of	Oneonta Utilities
Mt. Vernon, Town of	Oneonta, City of
Munford, Town of	Opelika Housing Authority
Munford Water Authority	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	Owens Cross Roads
New London Water, Sewer & Fire Protection Authority	Oxford, City of
New Site, Town of	Ozark Utilities Board
North Alabama Gas District	Ozark, City of
North Baldwin Utilities	Ozark/Dale E-911
North Central Alabama Mental Retardation Authority	Parrish Water Works and Sewer Board
North Central Alabama Regional Council of Governments	Pelham, City of

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Pell City Housing Authority	Red Bay Water & Gas Board
Pell City, City of	Red Bay, City of
Pennington, City of	Red Level, Town of
Pennington Utilities Board	Reform Housing Authority
Perry County Commissioners Court	Reform, City of
Phenix City, City of	Regional Housing Authority of Lawrence, Cullman, and Morgan Counties
Phil Campbell Housing Authority	Rehobeth, City of
Phil Campbell Water Works Board	Remlap/Pine Mountain Water Authority
Phil Campbell, Town of	Riverbend Center for Mental Health
Pickens County Commission	Riverside, Town of
Pickens County Cooperative Library	Roanoke Utilities Board
Pickens County E-911 Board	Roanoke, City of
Pickens County Water Authority	Robertsdale, City of
Piedmont Housing Authority	Rocky Ridge Fire District
Piedmont Water, Gas & Sewer Board	Rogersville Water Works & Sewer Board
Piedmont, City of	Rogersville, Town of
Pike County Commissioners Court	Russell County Commissioners Court
Pike County Communications District	Russell County Emergency Communications District
Pike County Soil & Water Conservation District	Russell County Soil & Water Conservation District
Pike County Water Authority	Russell County Utilities Board
Pine Bluff Water Authority	Russellville Electric Board
Pine Hill, Town of	Russellville Gas Board
Pine Level Water & Fire Protection Authority	Russellville Water Works Board
Pisgah, Town of	Russellville, City of
Pleasant Grove, City of	Rutledge, Town of
Prattville Housing Authority	Sand Mountain Water Authority
Prattville Water Works Board	Sand Springs Water Authority
Prattville, City of	Saraland Water Service
Priceville, Town of	Saraland, City of
Prichard Housing Authority	Sardis City Water Board
Quint-Mar Water & Fire Protection Authority	Sardis City, City of
Ragland, Town of	Satsuma Water Works Board
Ragland Water Works Board	Satsuma, City of
Rainbow City Gas, Water & Sewer Board	Scottsboro Electric Power Board
Rainbow City, City of	Scottsboro Housing Authority
Rainsville, City of	Scottsboro Public Library
Randolph County Commissioners Court	Scottsboro Public Park & Recreation Board
Randolph County E-911	Scottsboro Water Works, Sewer & Gas Board
Red Bay Housing Authority	

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Scottsboro, City of	Southside, City of
Section, Town of	Southwest Alabama Water Authority
Section Water Works Board	Spanish Fort, City of
Selma Housing Authority	Spectracare
Selma Water Works & Sewer Board	Springville, Town of
Selma, City of	St. Clair County Commissioners Court
Sheffield Power, Water & Gas Department	St. Clair County Industrial Development Board
Sheffield, City of	St. Clair Regional Library
Shelby County Board of Revenue	St. Clair County Soil & Water Conservation District
Shelby County Economic and Industrial Development Authority	St. Florian, Town of
Shelby County Soil Conservation District	Star-Mindingall Water & Fire Prot Auth
Shelby County Community Corrections	Steele, Town of
Shelby County Emergency Management Communications District	Stevenson Housing Authority
Shoals Committee on Programs & Employment for the Mentally Retarded	Stevenson Utilities Board
Shoals Economic Development Authority	Stevenson, City of
Shoals Solid Waste Disposal Authority	Stewartville Water Authority
Shorter, Town of	Stillwaters Volunteer Fire and Rescue
Silas, Town of	Sulligent, City of
Silverhill, Town of	Sulligent Housing Authority
Sipsey, Town of	Sumiton Housing Authority
Skyline, Town of	Sumiton Water Works Board
Slocumb, Town of	Sumiton, City of
Slocumb Waterworks and Sewer Board	Summerdale, Town of
Snead, Town of	Sumter County Board of Commissioners
Somerville, Town of	Sumter County Industrial Development Authority
South Alabama Gas District	Sumter County Soil & Water Cons District
South Alabama Regional Planning Commission	Sumter County Water Authority
South Central Alabama Development Commission	Sylacauga Recreation Authority
South Central Alabama Mental Health Center	Sylacauga Utilities Board
South Central Alabama Regional Housing Authority	Sylacauga, City of
South Crenshaw County Water Authority	Sylvan Springs, Town of
Southeast Alabama Regional Planning & Development Commission	Talladega County Board of Revenue
Southeast Alabama Youth Services	Talladega County Emergency Management Communications District
Southeast Alabama Solid Waste Disposal Authority	Talladega County Soil & Water Conservation District
Southern Alabama Regional Council on Aging	Talladega Water & Sewer Board
Southside Water & Sewer Board	Talladega, City of
	Tallapoosa County Court of Commissioners

## RETIREMENT SYSTEMS OF ALABAMA

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### *Statistical Section*

#### Employees' Retirement System

#### Local Participating Employers

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Tallapoosa County Emergency Management Communications District	Uniontown, City of
Tallassee, City of	USS Alabama Battleship Commission
Tarrant City Electric System	Valley Head, Town of
Tarrant City, City of	Valley Head Water Works Board
Tarrant Housing Authority	Valley Housing Authority
Taylor, Town of	Valley, City of
Tennessee Valley Exhibit Commission	Vance, Town of
Thomaston, Town of	Vernon Housing Authority
Thomasville, City of	Vernon, City of
Thorsby, Town of	Vestavia Hills, City of
Top of Alabama Regional Council of Governments	Vincent, City of
Town Creek, Town of	Von Braun Civic Center
Triana, City of	Walker County Commission
Tri-County Mental Retardation-Development Disability Board	Walker County E911 District
Trinity, Town of	Walker County Housing Authority
Troy, City of	Walker County Mental Retardation Board
Trussville Utilities Board	Walker County Soil & Water Conservation District
Trussville, City of	Wall Street Water Authority
Turnerville Water and Fire Protection District	Walnut Hill Water Authority
Tuscaloosa, City of	Warrior River Water & Fire Protection Authority
Tuscaloosa County Board of Revenue	Warrior, City of
Tuscaloosa County Industrial Dev Auth	Washington County Commissioners Court
Tuscaloosa County Park and Recreation Board	Washington County E-911 District
Tuscaloosa County Parking & Transit Authority	Washington County Soil & Water Conservation District
Tuscaloosa County Public Defenders Office	Weaver, City of
Tuscaloosa County Soil & Water Conservation District	Webb, Town of
Tuscaloosa County Special Tax Board	Wedowee, City of
Tuscaloosa Public Library	Wedowee Water, Sewer, and Gas Board
Tuscumbia, City of	West Alabama Regional Commission
Tuskegee, City of	West Autauga Water Authority
Tuskegee Utilities	West Etowah County Water Authority
Union Grove Utilities Board	West Jefferson, Town of
Union Springs Utilities Board	West Lauderdale County Water & Fire Protection Authority
Union Springs, City of	West Morgan/East Lawrence Water and Sewer Authority
Uniontown Housing Authority	Westover Water & Fire Protection Authority
Uniontown Utilities Board	Wetumpka, City of
	Wetumpka Water & Sewer Board



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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

