



building...



The Retirement Systems of Alabama ~ **2002** ANNUAL REPORT



Building
a better,
stronger
Alabama



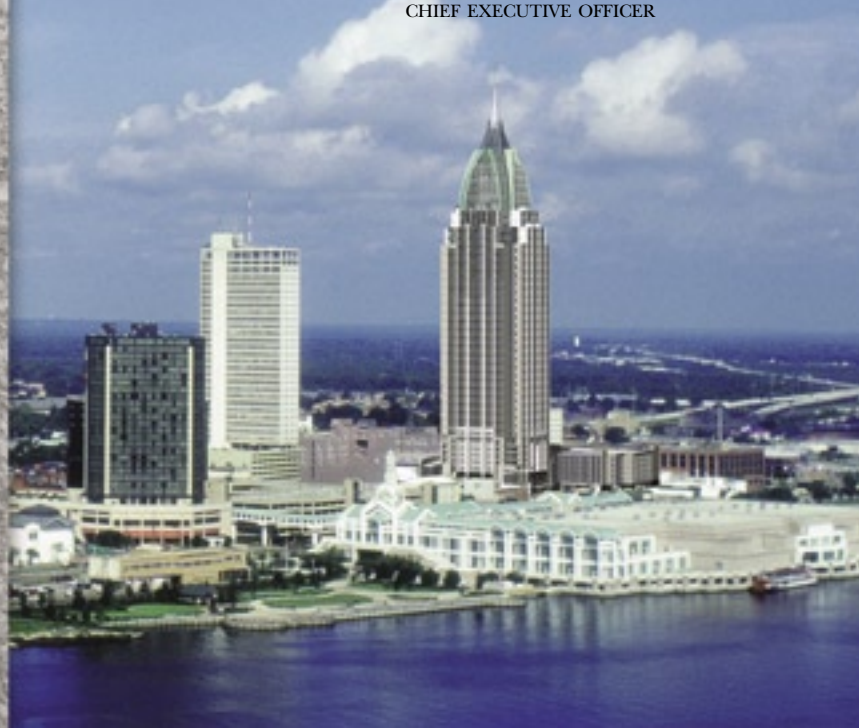
The Boards of Control and the RSA staff are pleased to present the twenty-seventh Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2002. This year's Annual Report highlights how the RSA contributes to the building of a better and stronger Alabama through investments made in and outside of the state. For our members, these investments continue to build a better and stronger public pension plan.

The RSA currently manages 19 funds with aggregate assets of approximately \$22.4 billion. According to a Mercer Investment Consulting survey, for the twelve months ending September 30, 2002, the median corporate plan total return was -7.40%, while the median public plan total return was -7.3%. During fiscal year 2002, the annualized return for the fixed income portfolio and equity portfolio combined was -7.81% for the Teachers' Retirement System (TRS), -9.29% for the Employees' Retirement System (ERS), and -10.24% for the Judicial Retirement Fund (JRF), which had the highest equity weighting. TRS assets total \$14.2 billion, while ERS assets total \$6.4 billion, and JRF assets total \$193 million. The TRS/ERS plans remain virtually fully funded.

The bear market that we have been experiencing over the last three years has been exceptionally difficult for investors as well as America in general. In a bear market, cash is king, but multi-billion dollar pension funds simply cannot take that risk. During the first two years of the bear market, the RSA did very well. We avoided most of the technology crash in 2000, and our performance in 2001 was in the top 15% of all public pension plans. In 2002, the RSA had a tough year primarily due to the corporate scandals that plagued the financial markets. In addition, performance was also negatively affected by our exposure to the airline sector, where even secured debt obligations have fallen to levels never seen before as a result of terrorism and a business recession. As we have stressed to members throughout the year, benefits are not jeopardized by these short-term losses as the RSA has a diverse investment portfolio that cushions it from the effect of losses from investments.

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 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.


David G. Bronner
CHIEF EXECUTIVE OFFICER



◀ **COVER and LEAD PAGE:** The RSA Battlehouse Tower in Mobile, an office and hotel complex, is now under construction and will be the state's tallest building. The RSA will invest \$160 million in the project to stimulate new business and economic growth.





■ **The Judge Course at Capitol Hill** in Prattville offers stunning views alongside the Alabama River. The Robert Trent Jones Golf Trail currently has twenty-three courses at eight facilities throughout Alabama.
(Photo courtesy of the Robert Trent Jones Golf Trail)

Table of Contents

<i>Building a Better, Stronger Alabama</i>	4
<i>Teachers' Retirement System Board of Control</i>	8
<i>Employees' Retirement System Board of Control</i>	9
<i>Staff, Advisors, and Medical Board</i>	10
<i>Legal Developments</i>	11
<i>Legislation</i>	11
<i>Communications</i>	13
 INVESTMENTS	
<i>RSA Overview</i>	14
<i>Teachers' Retirement System (TRS) Benefits Administration</i>	16
<i>Employees' Retirement System (ERS) Benefits Administration</i>	18
<i>Judicial Retirement Fund (JRF) Benefits Administration</i>	20
<i>Public Employees' Individual Retirement Account Fund (PEIRAF / RSA-1)</i>	22
<i>Public Education Employees' Health Insurance Plan (PEEHIP)</i>	24
<i>Investment Staff</i>	25
<i>Fixed Income Activity</i>	26
<i>Maturity Structure / Quality Evaluation</i>	27
<i>Equity Strategy</i>	28
<i>Investment Returns</i>	29
 FINANCIAL STATEMENTS	
<i>Teachers' Retirement System</i>	30
<i>Employees' Retirement System</i>	32
<i>Judicial Retirement Fund</i>	34
 <i>Commissions Paid Report</i>	 36



Building a Better Alabama

Every year, the RSA strives to increase the value of the funds entrusted to us. Each fund represents a promise for the future; a promise that one day Alabamians will be able to do the things that make the later years *Golden*. In valuing that promise, we are never idle — safely and securely investing in diverse ways that will continue to make life better for all Alabamians.



▲ **INSET:** Work has begun on additional golf courses and hotel and conference centers in Hoover and the Shoals. These projects will not only enhance the state’s image, but will continue to produce yields for decades to come.

◀ **LEAD PAGE:** “The Lodge,” a 129-room, 15 suite hotel and conference center at the Robert Trent Jones Golf Trail course in Opelika, is complete and open for business, increasing the draw of tourists through our great state.

■ **LEAD PAGE and TOP INSET:** 55 Water Street, New York City, is a fifty-four story tower and a fifteen-story annex containing 3.6 million rentable square feet. One of the two outdoor plazas is the Vietnam Memorial Plaza, which is owned by the City of New York and maintained by the RSA.

(Photos courtesy of New Water Street Corporation)



► **INSET:** The RSA partnered with **GKN Aerospace Services Limited** to supply parts for the Airbus 380 project. Plants are located in Tallassee and Montgomery.

(Photo courtesy of GKN)



Building a Stronger Alabama

In today's world, strength is measured by diversity and sound strategy. The RSA invests in areas that we believe will produce a stable, lasting return, but also provide a service to the state itself. Even out-of-state investments have a positive impact locally. We work hard to make sure that Alabama gets stronger every day.



▲ **INSET:** IPSCO Steel Production Facility in Mobile is a mini-mill producer of steel and steel products.
(Photo courtesy of IPSCO Steel)



■ **BELL Microproducts**, with offices in Montgomery, operates as a distributor of storage products and systems as well as semiconductor and computer products worldwide.

TEACHERS' RETIREMENT SYSTEM BOARD OF CONTROL

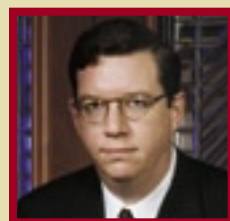
EX OFFICIO MEMBERS



Hon. Lucy Baxley
STATE TREASURER



CHAIRMAN
Dr. Paul R. Hubbert
EXECUTIVE SECRETARY
AEA



Dr. Henry C. Mabry, III
STATE FINANCE
DIRECTOR



Dr. Edward R. Richardson
STATE SUPERINTENDENT
OF EDUCATION

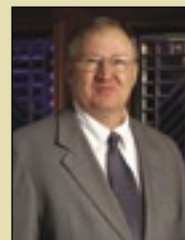
ELECTED MEMBERS



Dr. Susan Williams Brown
POSTSECONDARY POSITION



Mrs. Martha Black Handshumacher
TEACHER POSITION



Mr. Dwain Hargett
TEACHER POSITION



Dr. John Key
SUPERINTENDENT POSITION



Mrs. Peggy K. Lamb
TEACHER POSITION



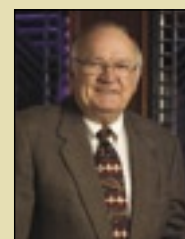
Dr. John Landers
PRINCIPAL POSITION



Mrs. Sharon Saxon
SUPPORT PERSONNEL POSITION



VICE CHAIRMAN
Mrs. Sarah S. Swindle
RETIRED POSITION



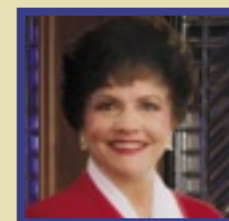
Dr. Wayne Teague
RETIRED POSITION



Mr. Russell J. Twilley
SUPPORT PERSONNEL POSITION

EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL

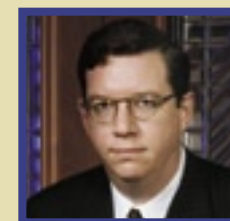
EX OFFICIO MEMBERS



Hon. Lucy Baxley
STATE TREASURER



Hon. Thomas G. Flowers
STATE PERSONNEL DIRECTOR



Dr. Henry C. Mabry, III
STATE FINANCE
DIRECTOR



CHAIRMAN
Hon. Don E. Siegelman
GOVERNOR

ELECTED MEMBERS



Ms. Mary Lou Foster
RETIRED STATE EMPLOYEE



Mrs. Ann Gant
ACTIVE LOCAL EMPLOYEE



Mr. T. M. Jones
ACTIVE LOCAL EMPLOYEE



Mr. Clyde A. Sellers
RETIRED LOCAL EMPLOYEE



Ms. Alice Thornton
ACTIVE STATE EMPLOYEE



Mr. Stephen C. Walkley
ACTIVE STATE EMPLOYEE

APPOINTED MEMBERS



Captain Rector Johnson

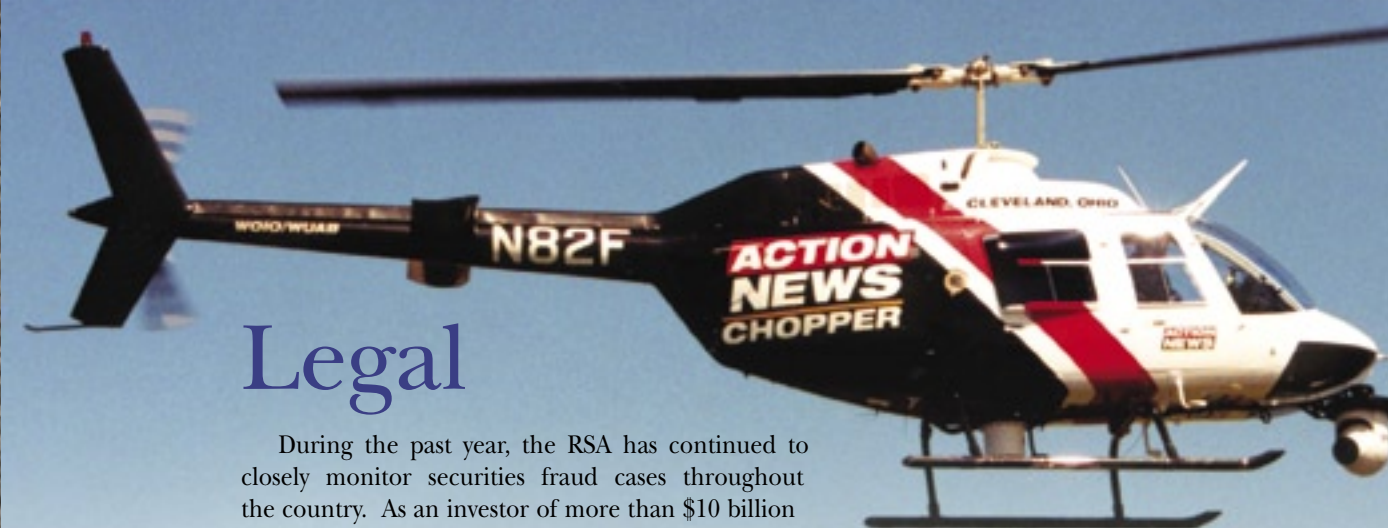


Ms. Donna Mulcahy



VICE CHAIRMAN
Mr. John H. Wilkerson, Jr.

BOARD PHOTOGRAPHY BY TIM L. PHILLIPS, CCP



Legal

During the past year, the RSA has continued to closely monitor securities fraud cases throughout the country. As an investor of more than \$10 billion in the stock market, the RSA is a class member in numerous securities fraud class-action lawsuits filed by other pension funds, groups, or individuals. While the RSA is usually a passive participant in these lawsuits, in certain cases the RSA has determined that it must take an active role in order to maximize the recovery for its members. Currently, the RSA is the lead plaintiff in a class-action lawsuit in California and co-lead plaintiff in a class-action lawsuit in Colorado.

In two corporate collapses that occurred during the year - Enron and WorldCom - the RSA decided to opt out of the securities fraud class actions in federal court and filed actions against the companies' corporate officers and the investment banks that sold RSA the companies' securities. The state court cases are moving more quickly than the federal class actions and the RSA expects to maximize its recovery through the state court actions.

The RSA is also involved in a number of benefits cases in the state courts of Alabama. The RSA has been successful in all of its benefit cases that were concluded during the past year.

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

Legislation

RSA members fared very well during the 2002 Regular Session. The Deferred Retirement Option Plan (DROP) legislation passed at the beginning of the session and was effective June 1, 2002. Through the end of September 2002, 2,401 members had entered DROP. As the actuaries predicted, approximately 40 percent of the employees retiring are electing to enter DROP. The Alabama Legislature also passed a three percent Cost-of-Living-Adjustment (COLA) for all active members as well as for those who retired prior to October 1, 2001. This COLA was effective October 1, 2002.

As has been a growing trend, there were numerous bills introduced that would allow active and contributing members to purchase service credit for time spent with various employers that did not participate in the RSA. A majority of those bills introduced did not pass. However, Act 2002-504 passed to allow members of the Teachers' Retirement System to purchase prior service credit for service with Southeastern Laboratory Program. The same Act also allows the purchase of service credit for employment in a nursing program at Walker State Technical College. Act 2002-409 allows members of the Teachers' Retirement System to purchase prior service credit for medical leave, legislative employment or employment with a subsidiary of a participating employer.

Act 2002-407 passed and allows members of the Employees' Retirement System to purchase prior service credit for employment with the Dauphin Island Park and Beach Board of Mobile County.

The Legislature also passed constitutional amendments for six counties that will allow the voters to decide if their county officials can participate in the Employees' Retirement System. Those counties are Blount, Crenshaw, Wilcox, Lawrence, Jackson and Morgan. If approved by the voters, approximately 40 county officials will be participating in the Employees' Retirement System.

Finally, the Legislature passed Act 2002-430 that allows state employees who are serving on active duty pursuant to the war on terrorism to be deemed active and contributing members of the Employees' Retirement System.

THE RETIREMENT SYSTEMS OF ALABAMA 2002 STAFF, ADVISORS and MEDICAL BOARD

CHIEF EXECUTIVE OFFICER
David G. Bronner, Ph.D., J.D.

DEPUTY DIRECTOR
Marcus H. Reynolds, Jr., J.D.

ADMINISTRATIVE STAFF

DIRECTOR OF INFORMATION
TECHNOLOGY SERVICES
Peggi L. Douglass
M.B.A.

CHIEF ACCOUNTANT
AND FISCAL OFFICER
Norman D. Turnipseed
M.B.A., C.P.A.

LEGISLATIVE
COUNSEL
Lindy J. 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.

TEACHERS' RETIREMENT EXECUTIVE
Donald L. Yancy
M.P.A., J.D.

EMPLOYEES' & JUDICIAL
RETIREMENT EXECUTIVE
R. Donald Nelson
M.S.

DIRECTOR OF PUBLIC EDUCATION
EMPLOYEES' HEALTH INSURANCE PLAN
Lee M. Hayes
M.B.A.

DIRECTOR
OF RSA-I
Teresa B. Pettus
B.S.

ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS
KPMG

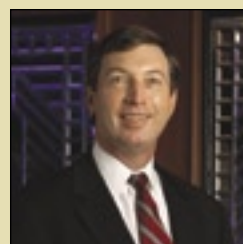
AMSOUTH BANK, N.A.
Mr. Brian Sullivan

GEORGE B. BUCK
CONSULTING ACTUARIES
Mr. Edward A. MacDonald

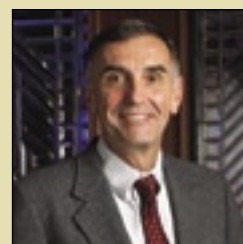
ATTORNEY GENERAL
Honorable Bill Pryor

CHIEF EXAMINER
Mr. Ronald J. Jones

MEDICAL BOARD



Glen Yates, M.D.



CHAIRMAN
Neil Stronach, M.D.



A.S. Zdanis, M.D.

IN MEMORIAM Thomas Nickles, M.D.





PAGES 10 through 12: RAYCOM Media, headquartered in Montgomery, owns 36 television stations in 19 states and Puerto Rico while **Community Newspaper Holdings, Inc.**, located in Birmingham, publishes daily, weekly, and semi-weekly newspapers in more than 200 communities across the U.S. WAFF-48, the NBC affiliate in Huntsville, covers the news for North Alabama and South Tennessee. Communities in Alabama with **CNHI** newspapers are Athens, Cullman, Gardendale, Leeds, and Pell City.



- **CNHI Weeklies**
- **CNHI Dailies**
- ▲ **RAYCOM Properties**

Communications

In an effort to better inform and improve overall access to benefit information, fiscal year 2001-2002 was a very active year for the RSA's Communications Division. Several new initiatives using a wider array of avenues to communicate with members, agencies and the general public were instituted. These new improvements included member handbooks, agency manuals, DROP and RSA-1 pamphlets, updated Website, member preretirement seminars, and agency seminars.

Active members of the TRS, ERS, JRF, and State Police were mailed new handbooks containing more detailed information for better understanding of their retirement benefits and preparation for retirement. New members are mailed a handbook along with an RSA-1 pamphlet upon receipt of their member record.

The RSA Website was redesigned to provide more information to members, agencies and anyone seeking information about the RSA. The user-friendly access allows the public to view all publications of the RSA, download forms, view and print agency information, perform retirement calculations, be updated on retirement legislation, and view investment performance for the RSA and RSA-1.

Starting the Retirement Preparation (RET PREP) Seminars and the Agency Seminars has been a great success in the way information is presented directly to the member and our member agencies. Retirement Preparation Seminars are for active members within at least two years of retirement eligibility. At these seminars, members are presented information about Social Security, Long-term Care, Health Benefits, RSA-1, Adjusting to Retirement, the Retirement Process and Options, and DROP. Agency Seminars are for payroll, personnel, and insurance employees of our member agencies in order to educate them on reporting procedures, retirement processes, forms and any new changes about benefits.





RETIREMENT SYSTEMS OF ALABAMA

TEACHERS' RETIREMENT SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

JUDICIAL RETIREMENT FUND



MEMBERSHIP ACTIVITY for 2002

	TRS	ERS	JRF
NEW MEMBERS	13,189	11,029	7
WITHDRAWN MEMBERS	7,135	6,505	1
SERVICE RETIREMENTS	3,255	1,492	7
DISABILITY RETIREMENTS	337	250	0
SURVIVING SPOUSES	6	17	1
NEW BENEFICIARIES	215	162	4

TOTAL MEMBERSHIP for 2002 (AS OF SEPTEMBER 30, 2002)

	TRS	ERS	JRF	Total
ACTIVE	129,788	78,990	330	209,108
RETIRED	51,903	27,927	269	80,099
TOTAL	181,691	106,917	599	289,207

FUNDS UNDER MANAGEMENT

(AS OF SEPTEMBER 30, 2002; \$ in Thousands)

Total Assets (1)

TEACHERS' RETIREMENT SYSTEM	\$ 13,950,837
EMPLOYEES' RETIREMENT SYSTEM	6,329,801
JUDICIAL RETIREMENT FUND	190,847
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	7,844
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	460
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	10,274
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	13
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	11,552
CLERKS' & REGISTERS' SUPERNUMERARY FUND	6,234
ALABAMA SENIOR SERVICES TRUST FUND	3,476
ALABAMA STATE EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	71,151
LOCAL GOVERNMENT HEALTH INSURANCE FUND	22,842
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	659,979
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN	87,391
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	73,075
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	90
ALABAMA TRUST FUND	963,272
CHARLOTTE THORN TRUST FUND	5,222
STATE DOCKS PENSION PLANS	4,501

TOTAL ASSETS UNDER MANAGEMENT

\$ 22,398,861

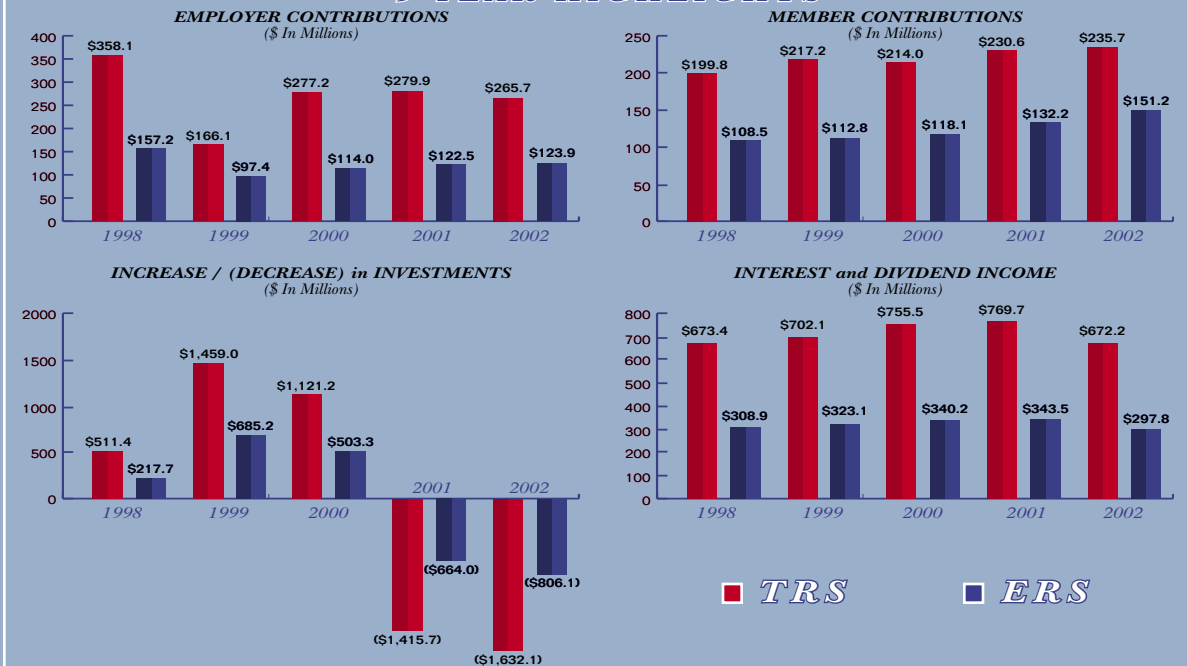
(1): INCLUDES INVESTMENTS AT FAIR VALUE, CASH, BUILDINGS NET OF DEPRECIATION, AND LAND.

MEMBERSHIP

(AS OF SEPTEMBER 30, 2002)

YEAR	TRS Active	TRS Retired	ERS Active	ERS Retired	JRF Active	JRF Retired
1998	124,586	43,058	71,039	25,259	315	243
1999	128,046	44,638	72,881	25,593	320	252
2000	128,385	47,702	74,763	26,354	325	252
2001	127,329	49,647	76,144	27,009	330	271
2002	129,788	51,903	78,990	27,927	330	269

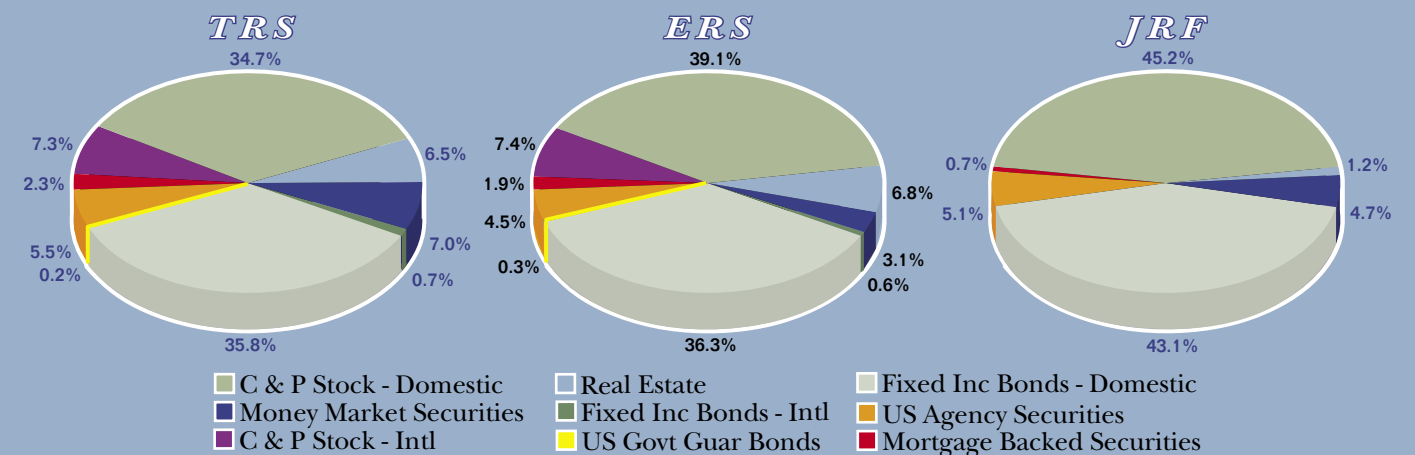
5-YEAR HIGHLIGHTS



ASSET ALLOCATION

(AS OF SEPTEMBER 30, 2002)

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



REVENUE SOURCES for TRS, ERS & JRF

(\$ in Millions)

	2001	2002
MEMBER CONTRIBUTIONS	\$ 365.1	389.3
EMPLOYER CONTRIBUTIONS	410.0	397.8
INVESTMENT INCOME	(1,645.9)	(1,924.5)
TOTAL	\$ (870.8)	(1,137.4)



TRS Benefits Administration

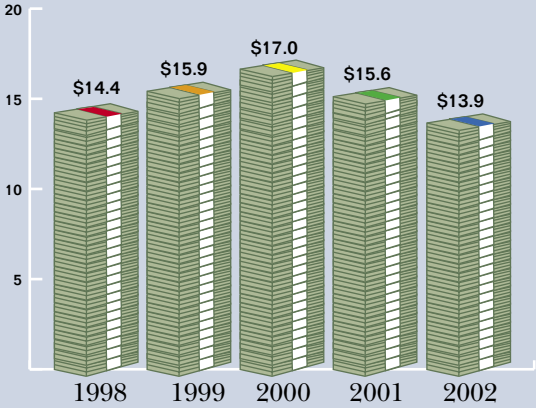
The Teachers' Retirement System of Alabama (TRS) provides retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. Since its inception, the TRS has provided disability and service retirement benefits to members and survivor benefits to qualified beneficiaries. The responsibility for the administration and operation of the plan is vested with its 14-member Board of Control.

The TRS Benefits Division is composed of 14 professional staff and 17 support staff. The benefits staff is responsible for processing retirement applications, refunds on member contributions, enrollments, beneficiary changes, and address changes. During this fiscal year, the benefits staff processed over 3,600 applications for retirement. The annual retirement payroll totals approximately \$890 million.

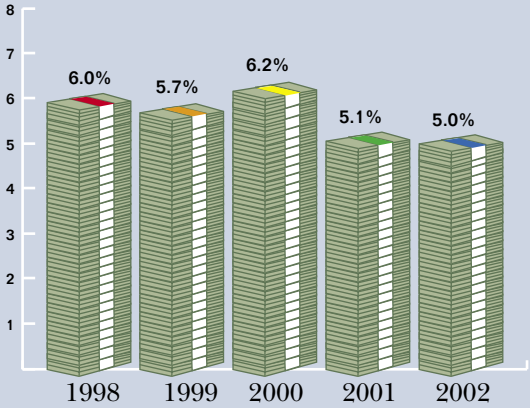
The Deferred Retirement Option Plan (DROP) was implemented on June 1, 2002. From that date until the end of the fiscal year, September 30, 2002, 1,973 members entered DROP.

Agency Seminars and Retirement Preparation Seminars were instituted in 2002 as an established means of providing TRS members and employers with updated information. Agency Seminars were held to help employers better assist their employees with retirement and insurance issues. The Retirement Preparation Seminars provided members with vital information to assist them in preparing for a successful retirement. TRS Member Handbooks were totally revised and distributed to each active member.

TRS PORTFOLIO GROWTH
(\$ in Billions)

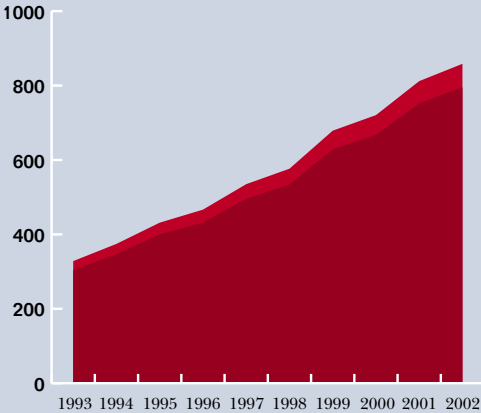


TRS AVERAGE YIELD
(Percent)

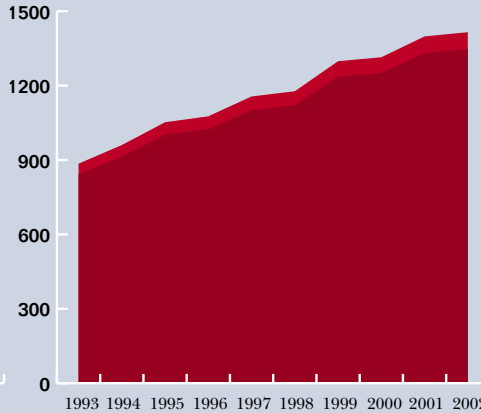


TRS Retirement Benefits

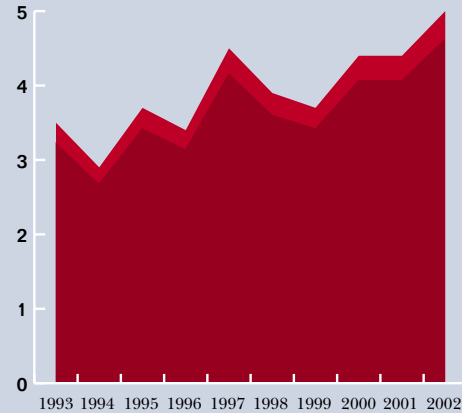
TRS TOTAL ANNUAL PAYMENTS
(\$ in Millions)



TRS AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)

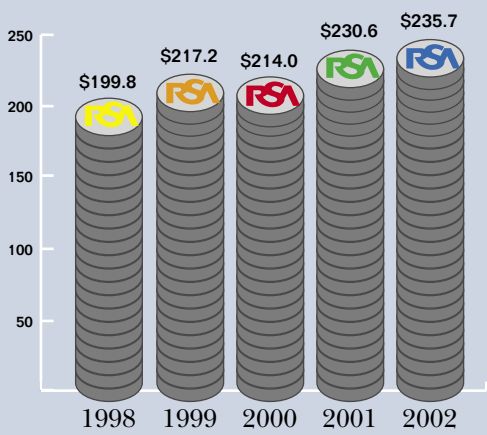


TRS PRERETIREMENT DEATH BENEFITS
(\$ in Millions)

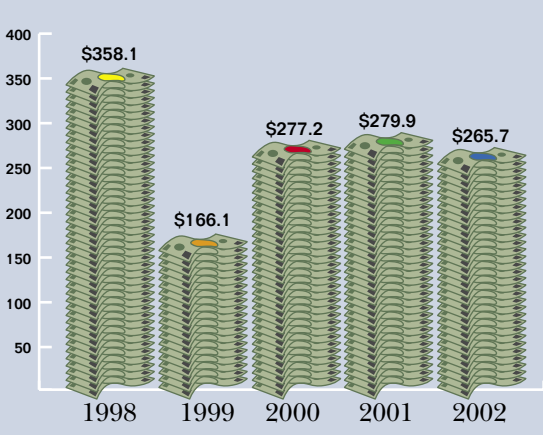


TRS Revenue Sources

TRS MEMBER CONTRIBUTIONS
(\$ in Millions)



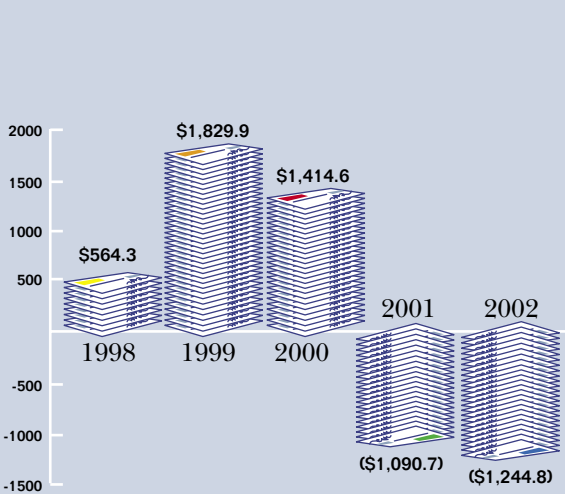
TRS EMPLOYER CONTRIBUTIONS
(\$ in Millions)



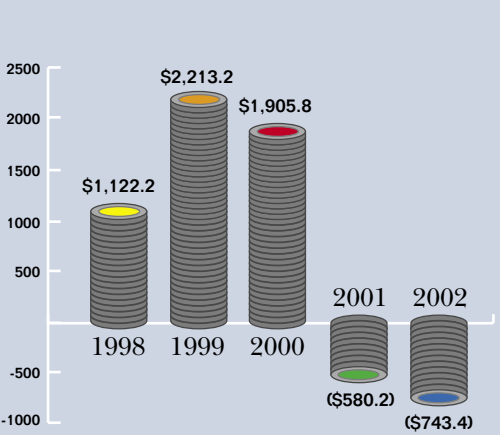
TRS EMPLOYER RATE
(% of Payroll)

1998	9.66%
1999	4.03%
2000	6.38%
2001	6.38%
2002	5.96%

TRS INVESTMENT INCOME
(\$ in Millions)



TRS TOTAL REVENUES
(\$ in Millions)



ERS Benefits Administration

The Employees' Retirement System of Alabama (ERS) provides retirement allowances and other specified benefits for qualified state employees, State Police and on an elective basis, employees of cities, counties, towns and quasi-public organizations. Since its inception, the ERS has provided disability and service retirement benefits to members and survivor benefits to qualified beneficiaries. The responsibility for the administration and operation of the ERS is vested with its 13-member Board of Control.

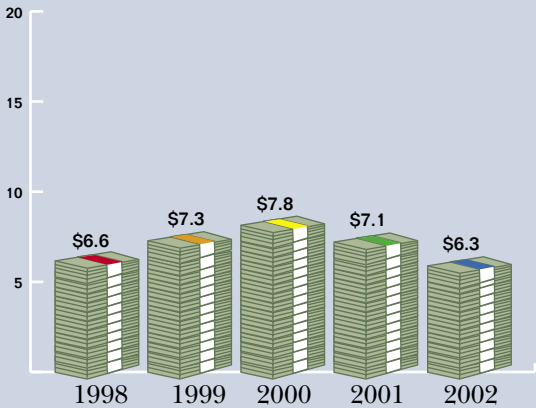
The ERS Benefits Division is composed of 11 counselors and a support staff of 17. The benefits staff is responsible for processing retirement applications, service purchase calculations, refunds on member contributions, enrollments, beneficiary changes and address changes. The benefits staff processed a total of 2,106 applications for

retirement during this fiscal year. The retirement payroll for the fiscal year was approximately \$400 million.

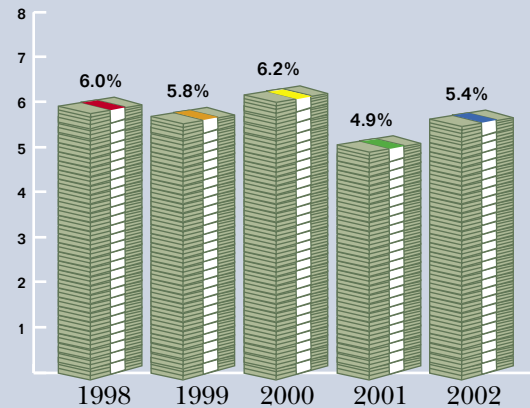
The Deferred Retirement Option Plan (DROP) was implemented on June 1, 2002. From that date until the end of the fiscal year, September 30, 2002, 428 members entered DROP.

Agency Seminars and Retirement Preparation Seminars were instituted in 2002 as an established means of providing ERS members and employers with updated information. Agency Seminars were held to help employers better assist their employees with retirement and insurance issues. The Retirement Preparation Seminars provided members with vital information to assist them in preparing for a successful retirement. ERS Member Handbooks were totally revised and distributed to each active member.

ERS PORTFOLIO GROWTH
(\$ in Billions)

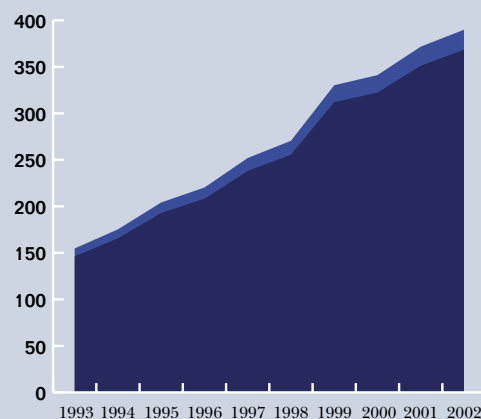


ERS AVERAGE YIELD
(Percent)

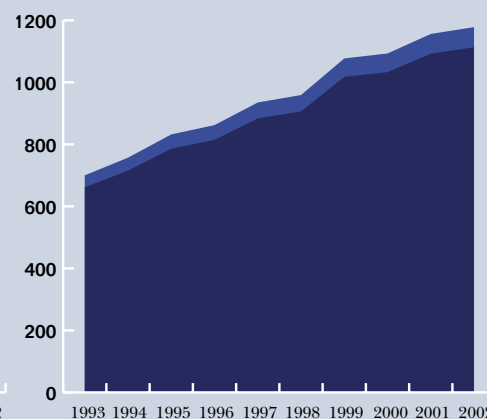


ERS Retirement Benefits

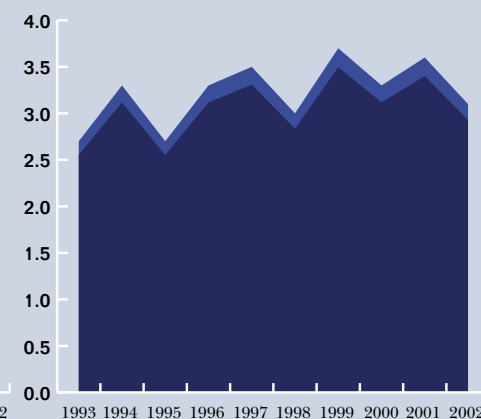
ERS TOTAL ANNUAL PAYMENTS
(\$ in Millions)



ERS AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)

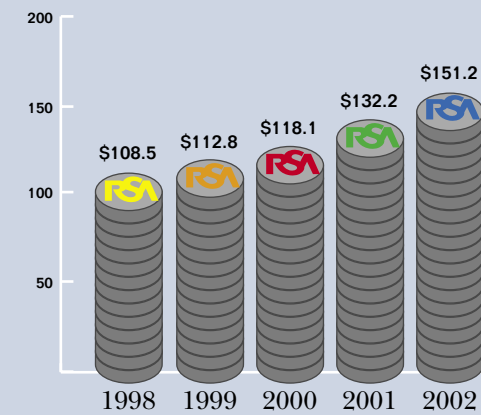


ERS PRERETIREMENT DEATH BENEFITS
(\$ in Millions)

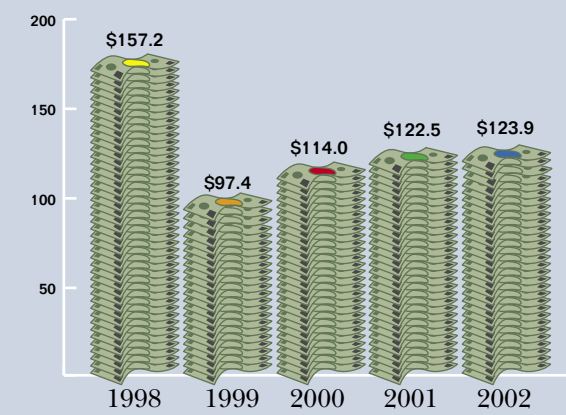


ERS Revenue Sources

ERS MEMBER CONTRIBUTIONS
(\$ in Millions)



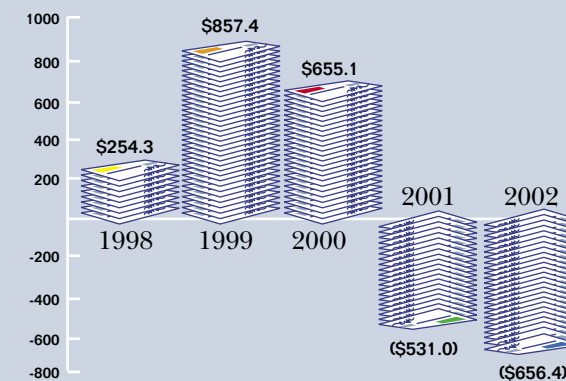
ERS EMPLOYER CONTRIBUTIONS
(\$ in Millions)



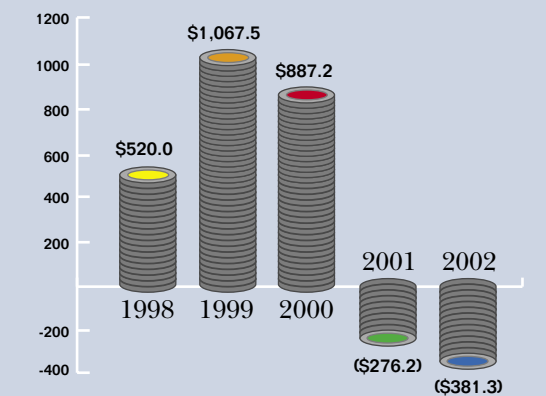
ERS EMPLOYER RATE
(% of Payroll)

	STATE EMPLOYEES	STATE POLICE
1998	7.56%	15.74%
1999	3.11%	6.85%
2000	4.08%	9.45%
2001	4.08%	9.45%
2002	3.95%	9.24%

ERS INVESTMENT INCOME
(\$ in Millions)



ERS TOTAL REVENUES
(\$ in Millions)

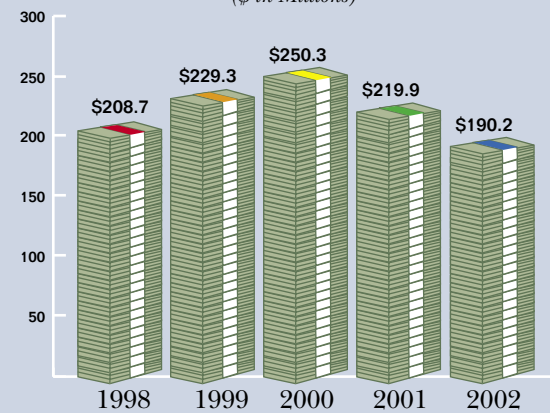


JRF Benefits Administration

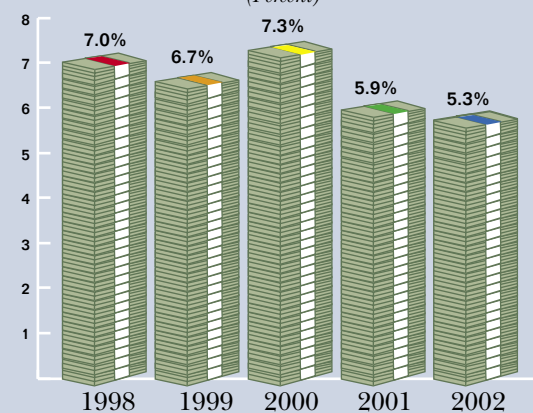
The Judicial Retirement Fund (JRF), established in 1973, provides disability and service retirement benefits for the eligible members of the Circuit and Appellate Court Judges of Alabama, District Judges and Probate Judges. The JRF is administered by the Secretary-Treasurer of the Employees' Retirement System of Alabama (ERS) under the supervision of the ERS Board of Control. The Acts of Alabama contains the actual language governing the JRF.

Participation is mandatory for Supreme Court Justices, Civil or Criminal Appellate Court Judges and Circuit Court Judges elected or appointed after September 18, 1973. District Court Judges elected or appointed after October 1, 1975, and Probate Judges elected or appointed after October 1, 1976, are also mandated for participation in the JRF. JRF Member Handbooks were totally revised and distributed to each active member. ■

JRF PORTFOLIO GROWTH
(\$ in Millions)

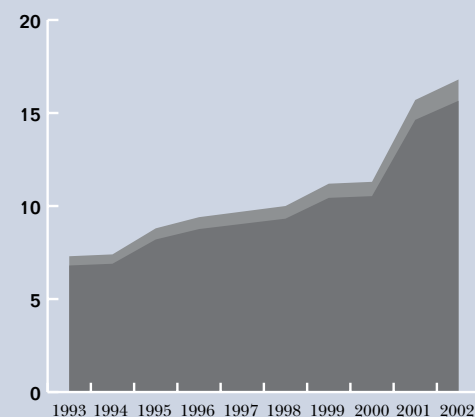


JRF AVERAGE YIELD
(Percent)

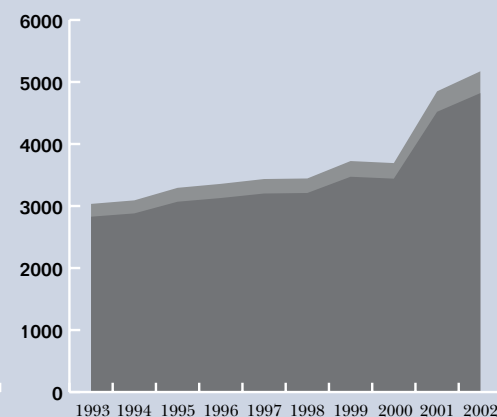


JRF Retirement Benefits

JRF TOTAL ANNUAL PAYMENTS
(\$ in Millions)

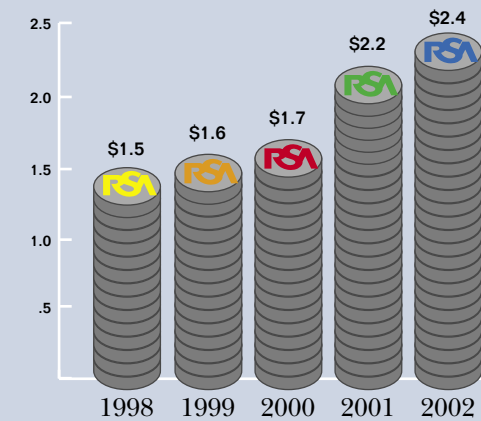


JRF AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)

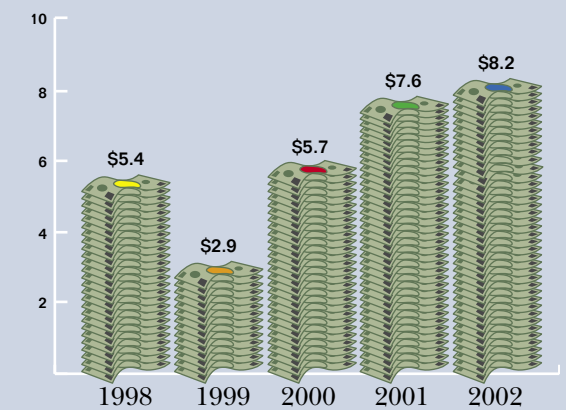


JRF Revenue Sources

JRF MEMBER CONTRIBUTIONS
(\$ in Millions)



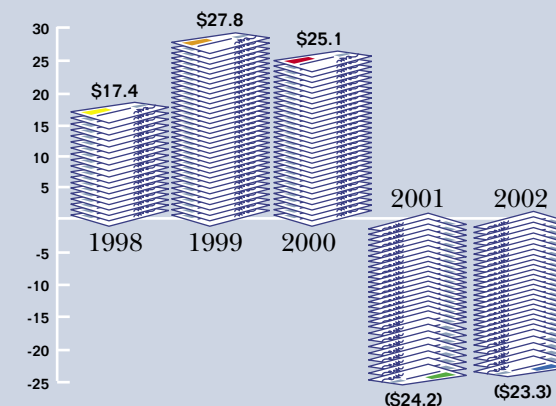
JRF EMPLOYER CONTRIBUTIONS
(\$ in Millions)



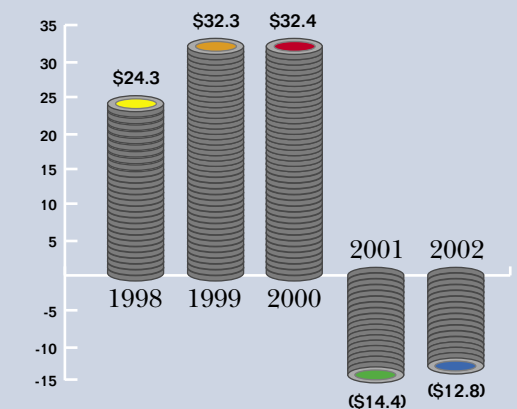
JRF EMPLOYER RATE
(% of Payroll)

1998	19.71%
1999	9.16%
2000	21.19%
2001	21.19%
2002	21.19%

JRF INVESTMENT INCOME
(\$ in Millions)



JRF TOTAL REVENUES
(\$ in Millions)



RSA-1 / Deferred Compensation Plan

The RSA-1 Deferred Compensation Plan (RSA-1) allows members of the RSA and certain other eligible public employees to defer receipt of a percentage of their salary, thereby deferring payment of taxes on that income.

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

Each month, accounts are valued at market with earnings posted to member accounts based on average daily account balances. Member statements are issued semi-annually.

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

RSA-1 Highlights

12-MONTH PERIOD ENDING	INCOME YIELD* (in %)	MARKET VALUE CHANGE* (in %)	TOTAL RETURN* (in %)	TOTAL ASSETS* (in \$)	PARTICIPATING MEMBERS
SEPTEMBER 30, 1988	16.74			12,528,575	3,029
SEPTEMBER 30, 1989	13.29			27,006,789	4,404
SEPTEMBER 30, 1990	12.44			46,225,862	5,702
SEPTEMBER 30, 1991	11.68			72,976,574	7,471
SEPTEMBER 30, 1992	11.41			106,992,250	9,269
SEPTEMBER 30, 1993	10.68			146,812,159	10,945
SEPTEMBER 30, 1994	9.86			192,710,264	12,680
SEPTEMBER 30, 1995	9.35			247,264,015	15,054
SEPTEMBER 30, 1996	8.96			308,584,100	17,089
SEPTEMBER 30, 1997	8.93			376,357,423	19,293
SEPTEMBER 30, 1998	8.90			451,813,800	21,166
SEPTEMBER 30, 1999	8.84	1.55	10.39	536,609,859	23,490
SEPTEMBER 30, 2000	8.43	-3.24	5.19	586,876,397	24,336
SEPTEMBER 30, 2001 (FIXED INVESTMENT OPTION)	8.34	3.41	11.75	614,039,965	24,938
SEPTEMBER 30, 2001 (STOCK INVESTMENT OPTION)	1.10	-21.09	-19.99	51,080,583	5,291
SEPTEMBER 30, 2002 (FIXED INVESTMENT OPTION)	7.39	-5.71	1.68	625,407,137	25,571
SEPTEMBER 30, 2002 (STOCK INVESTMENT OPTION)	1.42	-18.69	-17.27	47,197,854	5,599

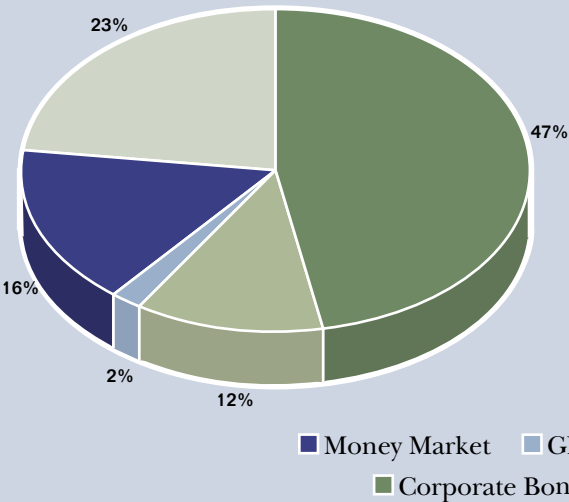
* ASSETS ARE VALUED AT COST THROUGH SEPTEMBER 30, 1998, AND AT MARKET THEREAFTER.

PEIRAF / Deductible Employee Contribution Plan

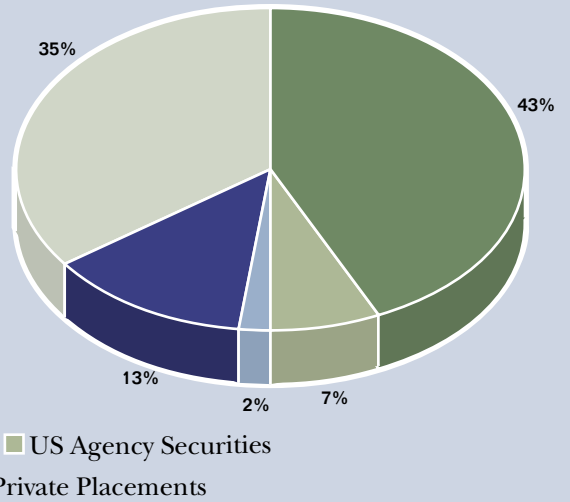
The Public Employees' Individual Retirement Account Fund (PEIRAF) was created to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. PEIRAF has operated as a fixed income portfolio since its creation in 1982. Funds are invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

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

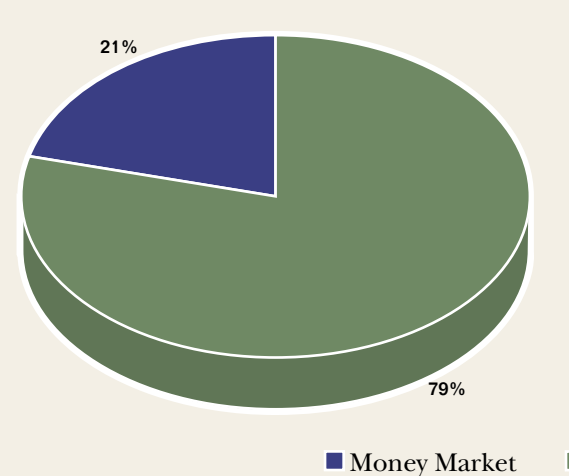
RSA-1
INVESTMENT ALLOCATION FIXED FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2002)



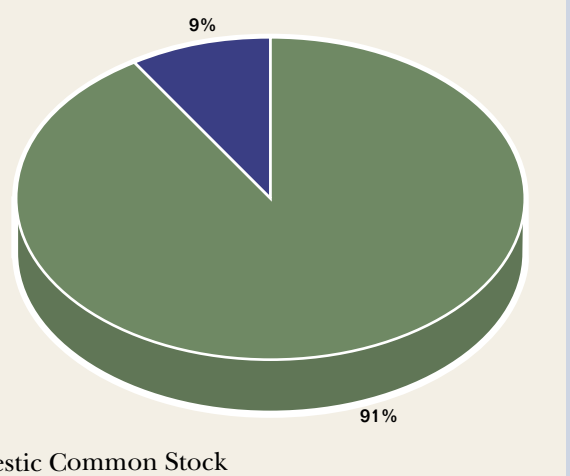
RSA-1
INVESTMENT ALLOCATION FIXED FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2001)



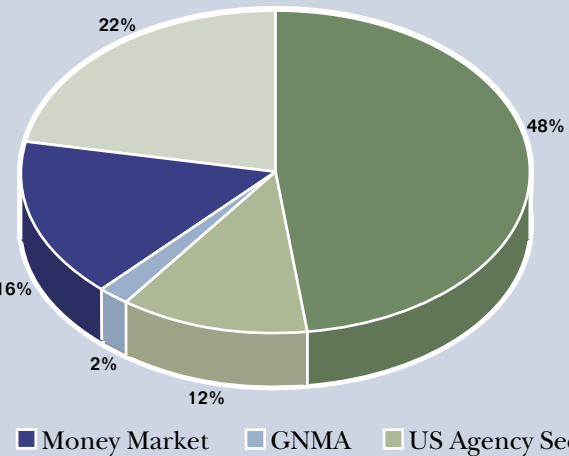
RSA-1
INVESTMENT ALLOCATION STOCK FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2002)



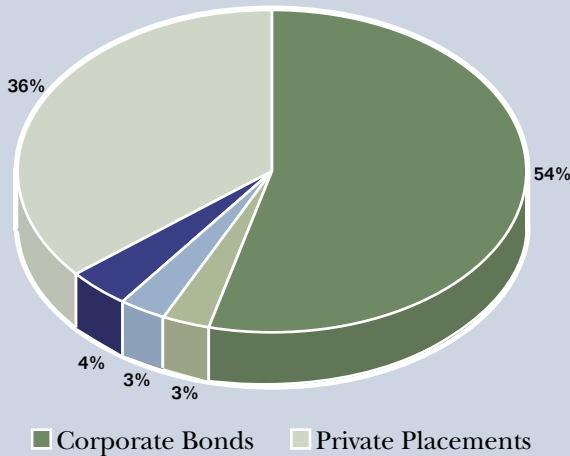
RSA-1
INVESTMENT ALLOCATION STOCK FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2001)



PEIRAF
INVESTMENT ALLOCATION
(MARKET VALUE AS OF SEPTEMBER 30, 2002)



PEIRAF
INVESTMENT ALLOCATION
(MARKET VALUE AS OF SEPTEMBER 30, 2001)

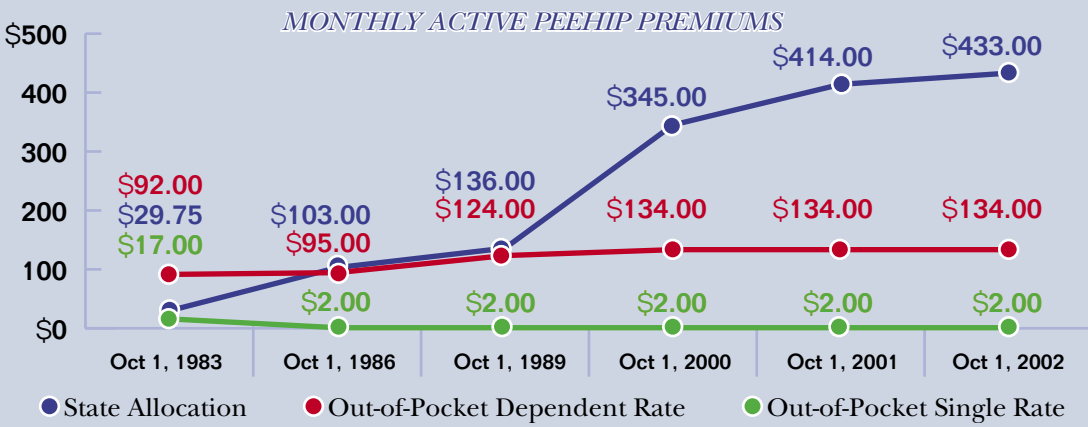
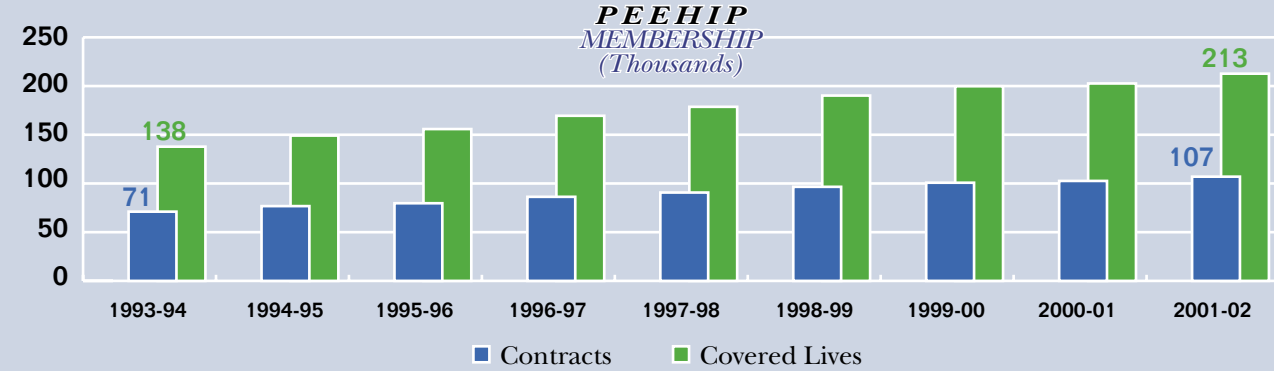
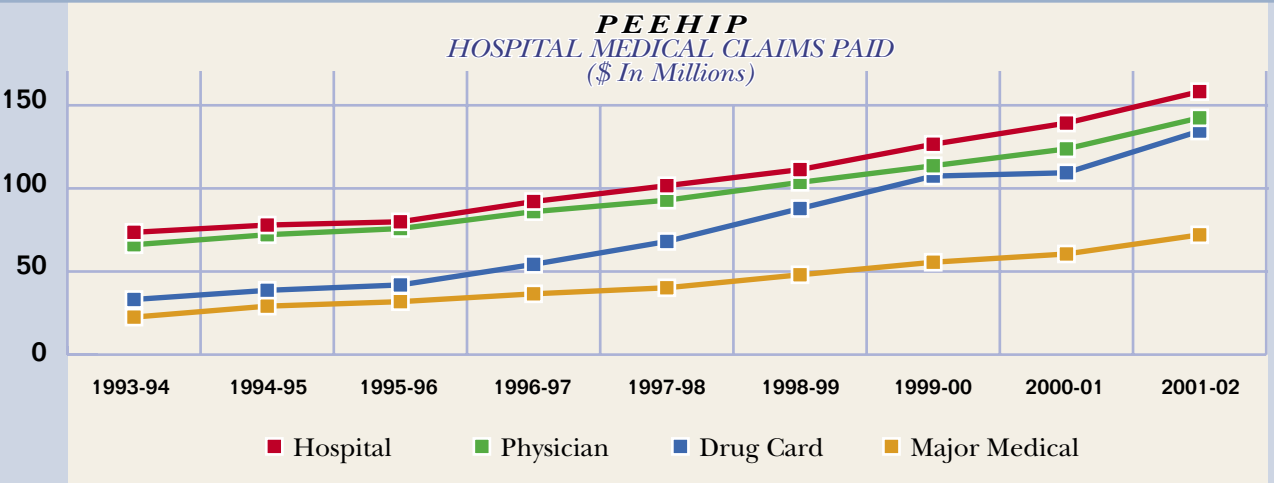


PEEHIP

The RSA administers the Public Education Employees' Health Insurance Plan (PEEHIP) for approximately 98,000 active and 47,000 retired public education employees. PEEHIP covers K-12 active employees, one state university's employees, and all retirees from K through the university level. PEEHIP is a self-funded health care plan with the benefits and rates determined by the 14-member PEEHIP Board. The Board also employs third-party administrators (Blue Cross & Blue Shield and Southland National) to pay claims within the scope of the benefits determined by the Board. The third-party administrators have no financial risk for the plan, but simply pay claims with PEEHIP funds.

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

Nevertheless, due to an aging population and corresponding increase in our retiree population mandated benefits, poor condition of Alabamians' health and an increase in cost and usage of prescription drugs, health care costs are escalating faster than the revenue growth in the Education Trust Fund. The following charts show that, while hospital medical claims paid, membership, and the amount contributed by the state have risen, the premiums paid by active members covered by PEEHIP have remained virtually unchanged. ■



THE RETIREMENT SYSTEMS OF ALABAMA
2002 INVESTMENT STAFF

ACTING DIRECTOR OF INVESTMENTS Darren J. Schulz M.B.A., C.F.A.			
DIRECTOR OF FIXED INCOME M. Hunter Harrell M.B.A., J.D., C.F.A.	CHIEF ECONOMIST Lewis R. Gayden M.B.A.	DIRECTOR OF EQUITIES R. Marc Green M.B.A., C.F.A.	ASSISTANT DIRECTOR OF EQUITIES Steven R. Lambdin M.B.A., C.P.A., C.F.A.
ASSISTANT DIRECTOR OF FIXED INCOME / PUBLIC BONDS Julie S. Barranco M.B.A., C.F.A.	FIXED INCOME ANALYST Joseph G. Walker M.B.A.	ASSISTANT DIRECTOR OF EQUITIES Eric J. Fox M.B.A., C.F.A.	EQUITY ANALYST G. Allan Carr, Jr. M.B.A.
FIXED INCOME ANALYST C. Lance Lachney M.B.A.	CASH MANAGEMENT & OPERATIONS Nancy H. Sprayberry Cheree S. Pierce B.S.		EQUITY ANALYST John R. Givens M.B.A., C.F.A.



BACK ROW: Joseph Walker, John Givens, Steve Lambdin, Darren Schulz, Allan Carr, Lance Lachney
FRONT ROW: Lewis Gayden, Cheree Pierce, Julie Barranco, Hunter Harrell, Marc Green
Not Pictured: Nancy Sprayberry, Eric Fox

INVESTMENTS

FIXED INCOME ACTIVITY

The beginning of the fiscal year started with a flurry of activity. In the prior weeks, the United States had been attacked on home soil for the first time in 60 years, sending the financial markets into disarray. The Federal Reserve (Fed) promptly reduced short-term interest rates in order to provide stability and confidence in the free market system. Over the next couple of months, Alan Greenspan and the Fed lowered the federal funds rate three more times, bringing it to 1.75%. During this time period, Enron Corporation provided investors and regulatory bodies with an untimely wake-up call. However, as the new calendar year rolled in, there seemed to be little activity within the capital markets. Low rates continued to bolster the housing market, while inflation and labor costs remained subdued.

Around mid-March, earnings pre-announcements and potential SEC investigations regarding corporate mismanagement swept through the markets, with the telecommunication and energy sectors receiving the brunt of the criticism. As WorldCom’s accounting fraud came to light and with its subsequent bankruptcy filing, volatility became the name of the game. Investors’ mentality was to sell on any speculation and ask questions later. This activity sent the stock market and treasury yields lower. However, those companies that had credit quality concerns were shut out of the capital markets expeditiously, as investors’ risk aversion took center stage.

Over the past couple of months, the financial markets have conveyed investors’ ever-changing sentiment. With all eyes focused on economic data and the Fed, the market rallied considerably in August from its mid-July low. Pending bankruptcies in the airline industry and the possibility of a showdown with Iraq had also taken their toll. Interest rates continued to tumble throughout the month of September as the Fed seemed poised to be accommodative with regards to monetary policy. Over the past fiscal year, corporate bond supply has fallen exponentially. Most of this was due to the leverage problems created during the bubble years by telecommunication carriers and other growth-chasing sectors. The corporate bond market has become a story of the have and have-nots. High-yield issuers have seen their spreads widen to recession levels of the early nineties, while strong credits have continued their outperformance. At the margin, long-term fundamentals are getting better, as cap-ex and debt is being eliminated and free cash is being generated. Going forward, we believe the economy and companies’ financial well-being will progressively recover, hoping that the worst is behind us.

In fiscal year 2002, the RSA purchased approximately \$1.78 billion in additional securities for the fixed-income portfolio. The average yield on the entire fixed income portfolio at year-end was 6.70%. As of September 30, 2002, the RSA’s fixed-income portfolio had a book value of \$11.78 billion, of which 10.10% is in money market securities. For the fiscal year, the total annual returns for the fixed-income portfolios were (.12)% for the TRS and (1.30)% for the ERS and (2.33)% for the JRF, versus 8.39% for the Salomon Brothers Broad Investment Grade Index (SBBIG). The five-year annualized returns were 5.61% for the TRS and 5.48% for the ERS and JRF combined, versus 7.81% for the SBBIG Index. The ten-year annualized returns were 7.02% for the TRS and 6.96% for the ERS and JRF, versus 7.39% for the SBBIG Index. ■

Long-Term Fixed Securities Purchased
(\$ In Millions)

MONTHS	TRS	ERS	JRF	TOTAL
OCTOBER THROUGH MARCH	\$ 871.2	399.5	8.3	1,279.0
APRIL THROUGH SEPTEMBER	341.0	149.9	9.8	500.7
TOTAL	\$ 1,212.2	549.4	18.1	1,779.7

MATURITY STRUCTURE

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

Maturity Distribution
(In %)

Years to Maturity	TRS			ERS		
	2002	2001	2000	2002	2001	2000
0 to <5	14	17	20	11	14	15
5 to <10	20	13	10	19	12	9
10 to <15	39	10	11	43	10	12
15 to <20	3	35	33	2	38	39
20 to <25	17	17	12	17	17	12
25 to <30	6	4	10	7	4	8
≥30	1	4	4	1	5	5

QUALITY EVALUATION

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

Quality Distribution
(In %)

Rating	TRS			ERS		
	2002	2001	2000	2002	2001	2000
AAA	16	18	23	14	15	18
AA	4	4	5	3	4	5
A	9	14	14	9	13	14
BAA	26	25	21	27	26	21
NOT RATED	45	39	37	47	42	42

EQUITY STRATEGY

In the first fiscal quarter, initial despair about the economic outlook after September 11 gave way to expectations of an early economic recovery. By mid-October, stock markets had recovered back to pre-9/11 levels and, bolstered by policy rate cuts by the Federal Reserve, the European Central Bank and other central banks, as well as fiscal expansion in the United States, investors exhibited confidence that a recovery would materialize by mid-2002.

At the beginning of 2002, however, fear resurfaced as revelations surrounding the rapid collapse of the energy giant Enron undermined investor confidence, prompting sharp market-wide declines. As details emerged regarding aggressive accounting practices, weak auditor oversight, and flawed internal governance, investor doubts about the integrity of corporate disclosures prompted heightened scrutiny of highly leveraged firms and companies with complicated or opaque financial statements. Coincident news of investigations into the practices of some prominent Wall Street analysts and renewed questions about the strength of corporate earnings further dampened investor sentiment.

By early summer, just as markets appeared to be recovering from the events surrounding Enron’s collapse, investor confidence was shattered again by a \$3.8 billion financial restatement on June 25 by WorldCom, a large US telecommunications company. By July 23, the S&P 500 index was 47% below its all-time high, making this bear market, when measured by total returns, the worst since the depression of the 1930s. After a four-week rally in late July and part of August, the S&P 500 continued its downward course, ultimately finishing out the fiscal year with a disappointing -20.49% total return.

Size and style mattered greatly during this year’s market tumult. Seemingly less plagued by accounting concerns and past overvaluations, small and medium capitalization indices significantly outperformed their larger peers, as the S&P Midcap 400 and Smallcap 600 posted returns of -4.73% and -1.60%, respectively. Among all capitalization indices, growth styles underperformed value-oriented approaches.

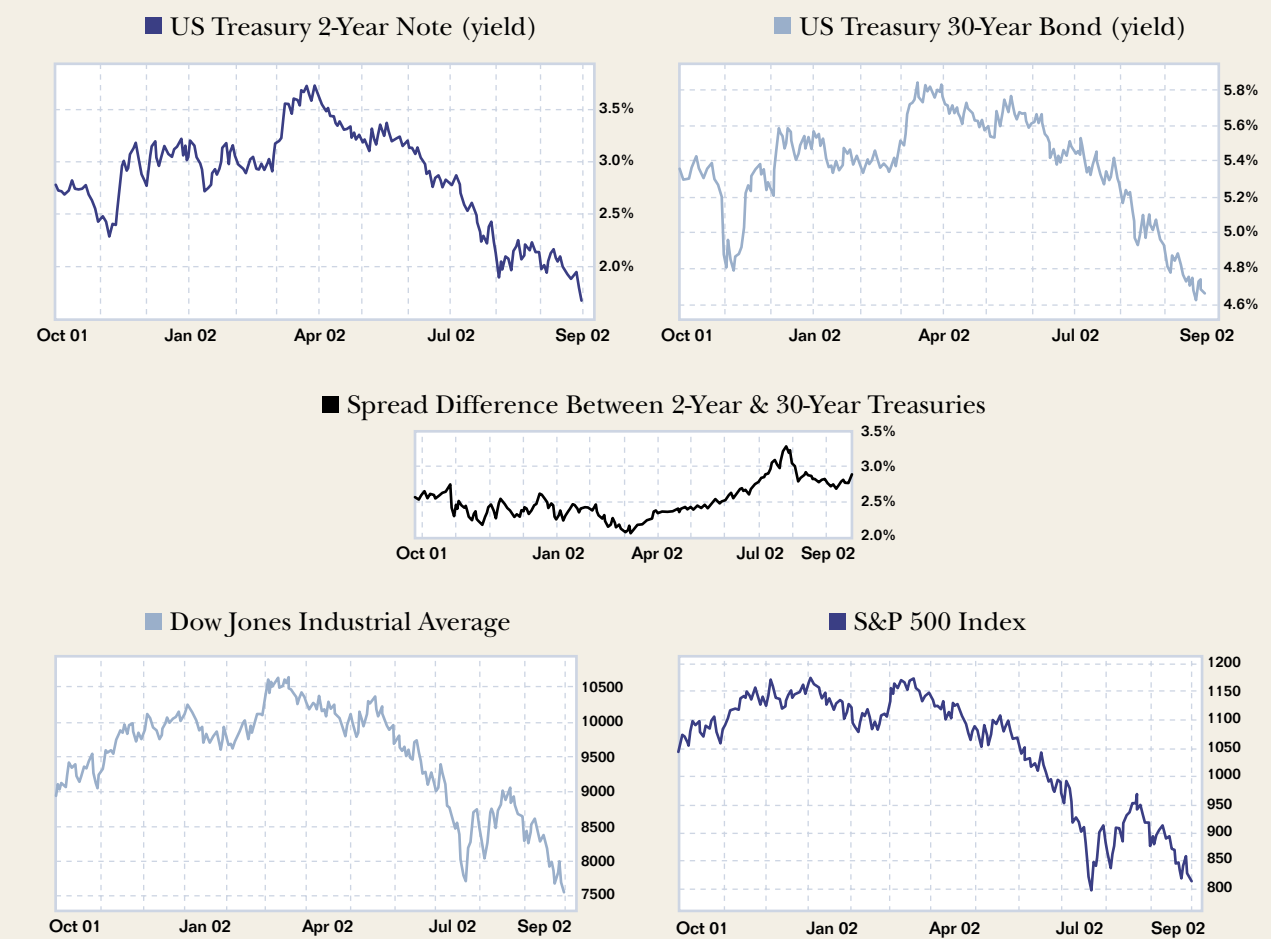
Reflecting stronger cross-border ties and the higher correlations among national markets during periods of stockmarket booms and busts, international equity markets plotted much the same poor course as America’s during the fiscal year. Euro area economies ground to a halt, most obviously in Germany, as the European Central Bank, in sharp contrast to America’s Federal Reserve, fretted about inflation and growing budget deficits. Helpless against the triple menace of debt, deflation and political deadlock, Japan offered investors few glimmers of hope, resulting in a fall in the Nikkei index to levels last seen in 1983.

For the year, the RSA domestic equity portfolios declined -17.88%, -17.85%, and -18.58% for the TRS, ERS, and JRF funds, respectively. International equity returns fared slightly better, returning -14.87% and -14.90% for TRS and ERS, respectively, which compared favorably to the benchmark MSCI EAFE index performance of -15.53%. Combined with international equity performance, the RSA global equity portfolios posted declines of -17.33%, -17.31%, and -18.58% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized returns were -11.42%, -2.77%, and 7.67% for TRS and -11.37%, -2.73%, and 7.67% for ERS/JRF, respectively. ■

Investment Returns

FOR THE PERIOD ENDED SEPTEMBER 30, 2002
(Percent)

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
EQUITY RETURNS				
TRS	(17.33)	(11.42)	(2.77)	7.67
ERS/JRF	(17.36)	(11.37)	(2.73)	7.67
FIXED INCOME RETURNS				
TRS	(0.12)	5.50	5.61	7.02
ERS/JRF	(1.33)	5.15	5.48	6.96
TOTAL RSA RETURNS				
TRS	(7.81)	(1.79)	3.14	7.22
ERS/JRF	(9.31)	(2.36)	2.92	7.24
BENCHMARKS				
S&P 500	(20.49)	(12.90)	(1.62)	8.99
CALLAN ASSOCIATES PUBLIC PLAN MEDIAN	(6.70)	(2.09)	2.13	7.89
DJIA	(12.52)	(8.29)	0.75	11.30
MIDCAP 400	(4.73)	3.39	5.37	12.55
MSCI EAFE	(15.53)	(14.60)	(5.65)	2.95
SALOMON BROTHERS BROAD INDEX	8.39	9.42	7.81	7.39
LEHMAN BROTHERS AGGREGATE INDEX	8.60	9.48	7.83	7.37



FINANCIAL STATEMENTS

TEACHERS' RETIREMENT SYSTEM OF ALABAMA

Statement of Plan Net Assets
AS OF SEPTEMBER 30, 2002 FOR 2001

	2002	(\$ In Thousands)	2001
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 15,393	\$	15,561
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	18,775		18,204
EMPLOYER CONTRIBUTIONS	22,480		23,321
DIVIDENDS AND INTEREST	178,606		191,686
TOTAL RECEIVABLES	219,861		233,211
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	4,839,313		5,585,957
DOMESTIC FIXED INCOME SECURITIES	5,901,680		6,945,021
INTERNATIONAL SECURITIES	1,108,812		1,182,782
REAL ESTATE	900,686		760,284
SHORT-TERM INVESTMENTS	1,182,036		1,090,629
TOTAL INVESTMENTS	13,932,527		15,564,673
INVESTED SECURITIES LENDING COLLATERAL	944,077		545,288
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	2,917		2,906
TOTAL ASSETS	15,114,775		16,361,639
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	2,746		1,818
SECURITIES LENDING COLLATERAL	944,077		545,288
TOTAL LIABILITIES	946,823		547,106
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 14,167,952		\$ 15,814,533

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

TEACHERS' RETIREMENT SYSTEM OF ALABAMA

Statement of Changes in Plan Net Assets
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	(\$ In Thousands)	2001
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 233,789	\$	228,088
EMPLOYER	265,670		279,880
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	1,937		2,433
TRANSFERS FROM JUDICIAL RETIREMENT FUND	0		97
TOTAL CONTRIBUTIONS	501,396		510,498
INVESTMENT INCOME			
FROM INVESTMENT ACTIVITIES			
NET DECREASE IN FAIR VALUE OF INVESTMENTS	(1,915,592)		(1,860,162)
INTEREST AND DIVIDENDS	672,200		769,739
TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(1,243,392)		(1,090,423)
LESS: INVESTMENT EXPENSE	4,592		3,467
NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(1,247,984)		(1,093,890)
FROM SECURITIES LENDING ACTIVITIES			
SECURITIES LENDING INCOME	16,473		43,671
SECURITIES LENDING EXPENSES			
BORROWER REBATES	12,462		39,692
MANAGEMENT FEES	784		795
TOTAL SECURITIES LENDING EXPENSES	13,246		40,487
NET INCOME FROM SECURITIES LENDING ACTIVITIES	3,227		3,184
TOTAL INVESTMENT INCOME/(LOSS)	(1,244,757)		(1,090,706)
TOTAL ADDITIONS	(743,361)		(580,208)
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	858,383		811,896
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	35,510		34,156
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	2,091		1,207
ADMINISTRATIVE EXPENSE	6,845		6,023
DEPRECIATION	391		1,002
TOTAL DEDUCTIONS	903,220		854,284
NET DECREASE	(1,646,581)		(1,434,492)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	15,814,533		17,249,025
END OF THE YEAR	\$ 14,167,952		\$ 15,814,533



FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA

Statement of Plan Net Assets
AS OF SEPTEMBER 30, 2002 FOR 2001

	2002	(\$ In Thousands)	2001
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 5,379	\$	5,917
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	8,498		8,536
EMPLOYER CONTRIBUTIONS	7,259		6,916
DIVIDENDS AND INTEREST	80,647		86,080
TOTAL RECEIVABLES	96,404		101,532
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	2,472,136		2,846,338
DOMESTIC FIXED INCOME SECURITIES	2,618,983		3,073,799
INTERNATIONAL SECURITIES	504,038		515,283
REAL ESTATE	432,015		366,325
SHORT-TERM INVESTMENTS	295,011		326,550
TOTAL INVESTMENTS	6,322,183		7,128,295
INVESTED SECURITIES LENDING COLLATERAL	236,328		221,059
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	2,239		2,289
TOTAL ASSETS	6,662,533		7,459,092
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	1,770		1,298
SECURITIES LENDING COLLATERAL	236,328		221,059
TOTAL LIABILITIES	238,098		222,357
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 6,424,435		\$ 7,236,735

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA

Statement of Changes in Plan Net Assets
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	(\$ In Thousands)	2001
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 149,130	\$	130,965
EMPLOYER	123,887		122,483
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	2,091		1,207
TRANSFERS FROM JUDICIAL RETIREMENT FUND	0		66
TOTAL CONTRIBUTIONS	275,108		254,721
INVESTMENT INCOME			
FROM INVESTMENT ACTIVITIES			
NET DECREASE IN FAIR VALUE OF INVESTMENTS	(953,188)		(874,433)
INTEREST AND DIVIDENDS	297,845		343,517
TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(655,343)		(530,916)
LESS: INVESTMENT EXPENSE	2,331		1,593
NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(657,674)		(532,509)
FROM SECURITIES LENDING ACTIVITIES			
SECURITIES LENDING INCOME	5,741		20,922
SECURITIES LENDING EXPENSES			
BORROWER REBATES	4,094		18,996
MANAGEMENT FEES	333		385
TOTAL SECURITIES LENDING EXPENSES	4,427		19,381
NET INCOME FROM SECURITIES LENDING ACTIVITIES	1,314		1,541
TOTAL INVESTMENT INCOME/(LOSS)	(656,360)		(530,968)
TOTAL ADDITIONS	(381,252)		(276,247)
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	389,856		371,715
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	24,965		24,906
UNIT WITHDRAWALS	8,388		1,544
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	1,937		2,433
TRANSFERS TO JUDICIAL RETIREMENT FUND	85		97
ADMINISTRATIVE EXPENSE	5,582		4,578
DEPRECIATION	235		330
TOTAL DEDUCTIONS	431,048		405,603
NET DECREASE	(812,300)		(681,850)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	7,236,735		7,918,585
END OF THE YEAR	\$ 6,424,435	\$	7,236,735



FINANCIAL STATEMENTS

JUDICIAL RETIREMENT FUND

Statement of Plan Net Assets
AS OF SEPTEMBER 30, 2002 FOR 2001

	2002	(\$ In Thousands)	2001
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 647		\$ 690
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	109		123
EMPLOYER CONTRIBUTIONS	286		265
DIVIDENDS AND INTEREST	2,167		2,236
TOTAL RECEIVABLES	2,562		2,624
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	85,963		106,937
DOMESTIC FIXED INCOME SECURITIES	92,961		98,562
REAL ESTATE	2,363		1,931
SHORT-TERM INVESTMENTS	8,913		12,524
TOTAL INVESTMENTS	190,200		219,954
INVESTED SECURITIES LENDING COLLATERAL	2,364		5,597
TOTAL ASSETS	195,773		228,865
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	100		99
SECURITIES LENDING COLLATERAL	2,364		5,597
TOTAL LIABILITIES	2,464		5,696
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 193,309		\$ 223,169

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.

JUDICIAL RETIREMENT FUND

Statement of Changes in Plan Net Assets
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	(\$ In Thousands)	2001
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 2,271		\$ 2,115
EMPLOYER	8,222		7,598
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	85		97
TOTAL CONTRIBUTIONS	10,578		9,810
INVESTMENT INCOME			
FROM INVESTMENT ACTIVITIES			
NET DECREASE IN FAIR VALUE OF INVESTMENTS	(33,036)		(35,377)
INTEREST AND DIVIDENDS	9,777		11,192
TOTAL INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(23,259)		(24,185)
LESS: INVESTMENT EXPENSE	85		31
NET INVESTMENT INCOME/(LOSS) FROM INVESTING ACTIVITIES	(23,344)		(24,216)
FROM SECURITIES LENDING ACTIVITIES			
SECURITIES LENDING INCOME	88		467
SECURITIES LENDING EXPENSES			
BORROWER REBATES	75		443
MANAGEMENT FEES	2		5
TOTAL SECURITIES LENDING EXPENSES	77		448
NET INCOME FROM SECURITIES LENDING ACTIVITIES	11		19
TOTAL INVESTMENT INCOME/(LOSS)	(23,333)		(24,197)
TOTAL ADDITIONS	(12,755)		(14,387)
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	16,770		15,655
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	29		79
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	0		66
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	0		97
ADMINISTRATIVE EXPENSE	306		272
TOTAL DEDUCTIONS	17,105		16,169
NET DECREASE	(29,860)		(30,556)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	223,169		253,725
END OF THE YEAR	\$ 193,309		\$ 223,169



INVESTMENTS

COMMISSIONS PAID REPORT / FISCAL YEAR 2002

	Volume of Business Private Placements Agencies (\$ In Millions)	Commissions Stock Transactions	Commissions Bond Transactions
ALABAMA REAL ESTATE HOLDINGS	\$ 135		
BANC OF AMERICA			\$ 187,530
BANK OF NEW YORK ESCROW	36		
BATTLE HOUSE HOTEL AND TOWER	165		
BEAR STEARNS & CO.	70	\$ 186,224	201,973
CENTENNIAL CAPITAL		13,750	
CHAPMAN & CO.		18,291	
CIBC WORLD MARKETS		40,864	
COMMUNITY NEWSPAPER HOLDINGS	218		
CONCORD EQUITY		13,375	
CREDIT SUISSE FIRST BOSTON CORP.		383,846	634,695
DEUTSCHE BANK		87,000	31,125
EDWARDS, A. G. & SONS		25,971	1875
EXPLORE CENTER	1		
GARDNER RICH		25,850	
GKN AEROSPACE SERVICE	25		
GOLDMAN SACHS & CO.	35	42,711	67,444
HOWARD WEIL & CO.		21,775	
INSTINET		29,923	
INTERNATIONAL STRATEGY & INVESTMENT		38,706	
ISSUER DESIGNATED BROKERS			543,685
JACKSON SECURITIES		2,500	
JANNEY MONTGOMERY SCOTT		5,000	
J. P. MORGAN CHASE		93,190	182,700
J. ROE BURTON & CO.		14,560	
LEHMAN BROTHERS		277,346	97,856
MCDONALD & CO.	120	12,350	131,750
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.	179	256,153	439,206
MORGAN KEEGAN		49,195	16,675
MORGAN STANLEY & CO.		487,350	95,960
NBC CAPITAL MARKETS	726		377,578
NBC SECURITIES		38,390	14,000
PRUDENTIAL SECURITIES		164,324	
RAYMOND JAMES		44,075	
ROBERT THOMAS		9,970	
SMITH BARNEY		558,547	306,719
S. C. BERNSTEIN		407,820	
SECURITIES CAPITAL		18,625	
SIMMONS		4,750	
SOUTHWEST SECURITIES		12,530	
STERNE, AGEE & LEACH, INC.		55,205	14,000
UBS WARBURG		160,251	112,313
WACHOVIA SECURITIES		47,625	15,875
TOTAL	\$ 1,710	\$ 3,648,042	\$ 3,472,959



▲ **ABOVE and BACK COVER:** The \$40 million renovation to **The Grand Hotel and Spa** at Point Clear, Alabama, is being completed and will give Alabama another attraction for visitors from all over the world.
(Photos courtesy of Point Clear Holdings)





THE RETIREMENT SYSTEMS OF ALABAMA

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