

The Retirement Systems of Alabama ~ 2004 ANNUAL REPORT

FOUNDATION
FOR THE
FUTURE





FOUNDATION FOR THE FUTURE

The Boards of Control and the RSA staff are pleased to present the Twenty-ninth Annual Report of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2004.

The RSA currently manages 19 funds with aggregate assets of approximately \$26.6 billion. During fiscal year 2004, the annualized return for the fixed income portfolio and equity portfolio combined was 10.71% for the Teachers' Retirement System (TRS), 10.06% for the Employees' Retirement System (ERS), and 11.34% for the Judicial Retirement Fund (JRF), which had the highest equity weighting. TRS assets total \$16.7 billion, while ERS assets total \$7.7 billion, and JRF assets total \$220.0 million. The TRS and ERS plans remain adequately funded at 93.6% and 91.1% per 2003 actuarial reports. The soundness of the RSA is reflected in the fact that investment earnings net all losses totaled \$5.3 billion over the last two fiscal years.

During the fiscal year, the RSA expanded its holdings in the media sector by investing in ACON Outdoor Partners, a limited partnership that purchased Tri-State Outdoor Advertising, now re-named Magic Media. The seventh largest outdoor advertising company in the U.S., Magic Media has 13,000 displays,





primarily billboards, across the country. In addition to a good rate of return in a solid industry, the RSA will have the right to select up to 50 lighted billboards for use by the RSA, which will be a great addition to our newspaper and television advertising for the improvement of Alabama tourism.

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

■ Alabama Cruise Terminal

The Alabama Cruise Terminal opens in Mobile, with Carnival Cruise Lines' *Holiday* in port.

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

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.

David G. Bronner
CHIEF EXECUTIVE OFFICER



■ Cover artwork of the RSA Tower in Montgomery is by artist Barbara Brache Pegues.



■ RSA BATTLEHOUSE TOWER / FOUNDATION POUR, MOBILE
The Battlehouse Tower and Hotel will be completed in 2006.





Table of Contents

Foundation for the Future	4
Teachers' and Employees' Retirement System Boards of Control	8
Staff, Advisors, and Medical Board	10
Legal & Legislation	11
Communications	12
INVESTMENTS	
RSA Overview	14
Teachers' Retirement System (TRS) Benefits Administration	16
Employees' Retirement System (ERS) Benefits Administration	18
Judicial Retirement Fund (JRF) Benefits Administration	20
Public Employees' Individual Retirement Account Fund (PEIRAF / RSA-1)	22
Public Education Employees' Health Insurance Plan (PEEHIP)	24
Investment Staff	25
Fixed Income Activity	26
Maturity Structure / Quality Evaluation	27
Equity Strategy	28
Investment Returns	29
FINANCIAL STATEMENTS	
Teachers' Retirement System	30
Employees' Retirement System	32
Judicial Retirement Fund	34
Commissions Paid Report	36



RSA FOUNDATION

Tourism produces over \$6.8 billion in revenue for the state of Alabama compared to \$1.8 billion eleven years ago. The Robert Trent Jones Golf Trail is one of the building blocks that helped establish Alabama as a tourist destination. ●





RSA for the FUTURE

By investing in Alabama, the RSA is setting in motion the foundation for a strong and vibrant state that will continue to grow and strengthen for future generations. ●

■ ROBERT TRENT JONES GOLF TRAIL / HOOVER / OXMOOR VALLEY • VALLEY COURSE, 16th Hole

© 2004 Lawrence Michael Clemmer

insets: Renaissance Ross Bridge Golf Resort and Spa in Hoover and the Marriott Shoals Hotel and Spa in Florence



2004 **TEACHERS' RETIREMENT SYSTEM** BOARD OF CONTROL

■ **SERVE ON BOTH
THE TRS and ERS
BOARDS OF CONTROL**

Dr. J. Terry Jenkins
SUPERINTENDENT POSITION

Mr. Clyde Goode
PRINCIPAL POSITION

CHAIRMAN
Dr. Paul R. Hubbert
EXECUTIVE SECRETARY
AEA; EX OFFICIO

Mr. Russell J. Twilley
SUPPORT PERSONNEL POSITION

Dr. Wayne Teague
RETIRED POSITION

Dr. Joseph Morton
STATE SUPERINTENDENT
OF EDUCATION; EX OFFICIO

Mr. Jim Main
STATE FINANCE DIRECTOR
EX OFFICIO

Mrs. Judy Bell
TEACHER POSITION

Ms. Judy Rigdon
TEACHER POSITION

VICE CHAIRMAN
Mrs. Sarah S. Swindle
RETIRED POSITION

Dr. Susan Williams Brown
POSTSECONDARY POSITION

Mrs. Peggy K. Lamb
TEACHER POSITION

Mrs. Sharon P. Saxon
SUPPORT PERSONNEL POSITION

■ **ROBERT TRENT JONES GOLF TRAIL / ANNISTON-GADSDEN / SILVER LAKES • SHORT COURSE, 8th Hole**

© 2004 Lawrence Michael Clemmer





2004 EMPLOYEES' RETIREMENT SYSTEM BOARD OF CONTROL

Hon. Kay Ivey
STATE TREASURER
EX OFFICIO

Mr. Robert H. Pruitt
GOVERNOR APPOINTEE

Mr. Clyde A. Sellers
RETIRED LOCAL EMPLOYEE

Ms. Alice Thornton
ACTIVE STATE EMPLOYEE

VICE CHAIRMAN
Mr. John H. Wilkerson, Jr.
GOVERNOR APPOINTEE

Mr. Stephen C. Walkley
ACTIVE STATE EMPLOYEE

CHAIRMAN
Hon. Bob Riley
GOVERNOR
EX OFFICIO

Hon. Thomas G. Flowers
STATE PERSONNEL DIRECTOR
EX OFFICIO

Mrs. Ann Gant
ACTIVE LOCAL EMPLOYEE

Ms. Mary Lou Foster
RETIRED STATE EMPLOYEE

Mr. Ronald Matthews
ACTIVE LOCAL EMPLOYEE

Mr. Robert S. Miller
GOVERNOR APPOINTEE

■ **RSA BOARD and STAFF PHOTOGRAPHY**
© 2004 Tim L. Phillips, CCP

THE RETIREMENT SYSTEMS OF ALABAMA

2004 STAFF, ADVISORS and MEDICAL BOARD

CHIEF EXECUTIVE OFFICER

David G. Bronner, Ph.D., J.D.

DEPUTY DIRECTOR

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



MEDICAL BOARD

Malcolm Brown, M.D.

Glenn Yates, M.D.

CHAIRMAN

Neil Stronach, M.D.

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.

DIRECTOR OF COMMUNICATIONS

Michael E. Pegues
M.A.

ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS
KPMG

AMSOUTH BANK, N.A.
Mr. Brian Sullivan

MELLON HR&IS
Mr. Edward A. MacDonald

GENERAL COUNSEL

William T. Stephens
J.D.

GENERAL COUNSEL

William F. Kelley, Jr.
J.D.

LEGISLATIVE COUNSEL

Lindy J. Beale
J.D.

ATTORNEY GENERAL

Hon. Troy King

CHIEF EXAMINER

Mr. Ronald L. Jones

TEACHERS' RETIREMENT EXECUTIVE

Donald L. Yancey
M.P.A., J.D.

EMPLOYEES' & JUDICIAL
RETIREMENT EXECUTIVE

R. Donald Nelson
M.S.

DIRECTOR OF PUBLIC EDUCATION
EMPLOYEES' HEALTH INSURANCE PLAN

Lee M. Hayes
M.B.A.

DIRECTOR OF RSA-I

Teresa B. Pettus
B.S.



Legal

As RSA's investments continue to grow and diversify so does RSA's legal work, with securities litigation and airline issues dominating the year for the legal staff.

To protect RSA's assets and the integrity of the marketplace, the RSA has continued to actively pursue the perpetrators, aiders and abettors of securities fraud. As an individual plaintiff in state court in the Enron and WorldCom scandals and as lead plaintiff in national class action securities fraud cases in federal court relating to HealthSouth, ICG Communications, and Provident Financial Corporation, we have won major, precedent setting decisions in several of these cases.

The legal staff continued to be involved in issues relating to US Airways, including bankruptcy proceedings and governance of US Airways. Efforts relating to RSA's other aviation interests include the disposition of aircraft interests, which reverted to the RSA from US Airways and United Airlines.

Several of RSA's other investments, particularly its developments in Mobile, Hoover, Montgomery and the Shoals, have created a myriad of legal issues and challenges, including some litigation. However, all have been, to date, resolved satisfactorily to facilitate RSA's investment and development. In addition, the legal staff addressed legal issues which continue to arise on RSA's mature investment development projects, including the RTJ Golf Trail. Also, there were issues relating to potential development projects and those issues continue to be addressed successfully.

While the RSA again won significant court decisions in benefits litigation in state court, the RSA legal staff spent a significant amount of time advising the various RSA divisions on compliance with state and federal laws and regulations. This will help avoid unnecessary litigation and ensure that our members get the benefits to which they are entitled while protecting against fraud and abuse. During the past year, the RSA legal staff has provided advice and guidance on numerous issues in the areas of benefits, both generally and with respect to specific individual accounts, administration, taxation, real estate, contracts, privacy rights, personnel, etc.

Legislation

The 2004 Regular Legislative Session ended on Monday, May 17, 2004. It was a long and contentious session, but ended on a very good note for the Retirement Systems of Alabama. The Governor began the session espousing "accountability" reform, and while he never defined this term, it became clear very quickly from the

legislation either introduced or supported by his Administration that it meant that teachers and state employees were the target. His accountability reform included taking away state holidays, longevity pay and a portion of annual and sick leave. As for retirement issues, his Administration wanted to end the DROP program and replace 25-year retirement with either a 30-year retirement or a Rule of 85. Additionally, he wanted to give both teachers and state employees a pay cut by immediately increasing their health insurance costs.

While a long and hard fought session, none of the Governor's bills were successful. Both the General Fund Budget and the Education Trust Fund Budget passed and the Teachers' Retirement Systems and the Employees' Retirement Systems were funded at their actuarial recommended rates. Likewise, PEEHIP was funded at the requested rate. As pertains to the ERS, several more constitutional amendments passed that if approved by the voters, would allow elected officials in that county to join the retirement system. These would include Blount County (Act 2004-231), Madison County (Act 2004-543), Clark County (Act 2004-393), Monroe County (Act 2004-240), and Limestone County (Act 2004-389). This would bring the number of counties participating to almost 50 and continues the trend of abolishing supernumerary positions on a county by county basis through the enactment of local constitutional amendments. Also, Act 2004-362 was passed which removed the one-year limitation period authorizing these public officials to purchase any prior service credit.

As concerns PEEHIP, Act 2004-539 was passed to establish the Alabama Prescription Cost Initiative Board to negotiate lower prescription costs for state programs.



COMMUNICATIONS



■ RSA-1 Enrollment Packet



cnhi

RAYCOM
Media

- CNHI Weeklies
- CNHI Dailies
- ▲ RAYCOM Properties

■ Both Raycom Media and Community Newspaper Holdings, Inc. are located in Alabama. Raycom owns 31 TV stations and operates 4 others in 19 states and Puerto Rico. CNHI publishes 295 daily, weekly, semi-weekly, and specialty newspapers across the U.S.





Communications

In an effort to better inform and improve overall access to benefit information, fiscal year 2004 continued to be as active as the previous year for the RSA's Communications Division. The highlights show a wide array of avenues the RSA used to communicate with members, agencies and the general public. ●

- The RSA Web site continues to provide RSA members with valuable information regarding their retirement benefits.
- Retirement Preparation Seminars continued to be a great success with 1,278 members attending 20 ERS seminars and 1,015 attending 19 TRS seminars.
- Agency Seminars for payroll and personnel officers were also well attended in 2004 with 307 officers at 5 ERS seminars and 309 officers at 8 TRS and PEEHIP seminars.
- Individual Counseling Sessions were conducted around the state with 18 ERS counseling days for 226 members and 93 TRS counseling days for 1,268 members.
- Securing a Better Tomorrow with RSA-1. Enrollment packets provide easy-to-use information for members seeking to enhance their personal savings plans.
- ERS and TRS Member Handbooks were updated.



RETIREMENT SYSTEMS OF ALABAMA

TEACHERS' RETIREMENT SYSTEM

EMPLOYEES' RETIREMENT SYSTEM

JUDICIAL RETIREMENT FUND

MEMBERSHIP ACTIVITY for 2004

	TRS	ERS	JRF
NEW MEMBERS	13,215	9,103	8
WITHDRAWN MEMBERS	8,732	7,998	6
SERVICE RETIREMENTS	4,532	2,251	5
DISABILITY RETIREMENTS	347	284	0
SURVIVING SPOUSES	4	8	2
NEW BENEFICIARIES	250	190	7

TOTAL MEMBERSHIP for 2004 (AS OF SEPTEMBER 30, 2004)

	TRS	ERS	JRF	Total
ACTIVE	127,732	77,526	330	205,588
RETIRED	56,722	30,009	272	87,003
TOTAL	184,454	107,535	602	292,591

FUNDS UNDER MANAGEMENT (AS OF SEPTEMBER 30, 2004; \$ in Thousands)

	Total Assets (1)
TEACHERS' RETIREMENT SYSTEM	\$ 16,662,671
EMPLOYEES' RETIREMENT SYSTEM	7,707,050
JUDICIAL RETIREMENT FUND	220,028
ALABAMA CULTURAL RESOURCES PRESERVATION TRUST FUNDS	7,695
ALABAMA EDUCATION FOUNDATION FOR K THROUGH 12	566
DIVISION OF WILDLIFE AND FRESHWATER FISHERIES	10,637
ALABAMA NONGAME WILDLIFE ENDOWMENT TRUST	13
ALABAMA UNDERGROUND & ABOVEGROUND STORAGE TANK TRUST FUNDS	684
CLERKS' & REGISTERS' SUPERNUMERARY FUND	6,733
ALABAMA SENIOR SERVICES TRUST FUND	3,581
ALABAMA STATE EMPLOYEES' HEALTH INSURANCE FUND	71,709
LOCAL GOVERNMENT HEALTH INSURANCE FUND	22,593
PEIRAF - DEFERRED COMPENSATION PLAN (RSA - 1)	796,114
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN	55,344
PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND	73,452
ALABAMA MARINE RESOURCES ENDOWMENT TRUST FUND	207
ALABAMA TRUST FUND	957,708
CHARLOTTE THORN TRUST FUND	5,966
STATE DOCKS PENSION PLANS	5,750

TOTAL ASSETS UNDER MANAGEMENT

\$ 26,608,501

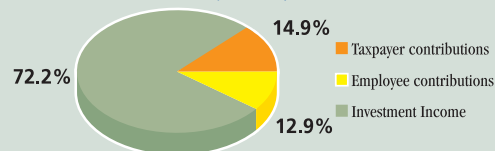
(1): INCLUDES INVESTMENTS AT FAIR VALUE, CASH, BUILDINGS NET OF DEPRECIATION, AND LAND.



REVENUE SOURCES for TRS, ERS & JRF

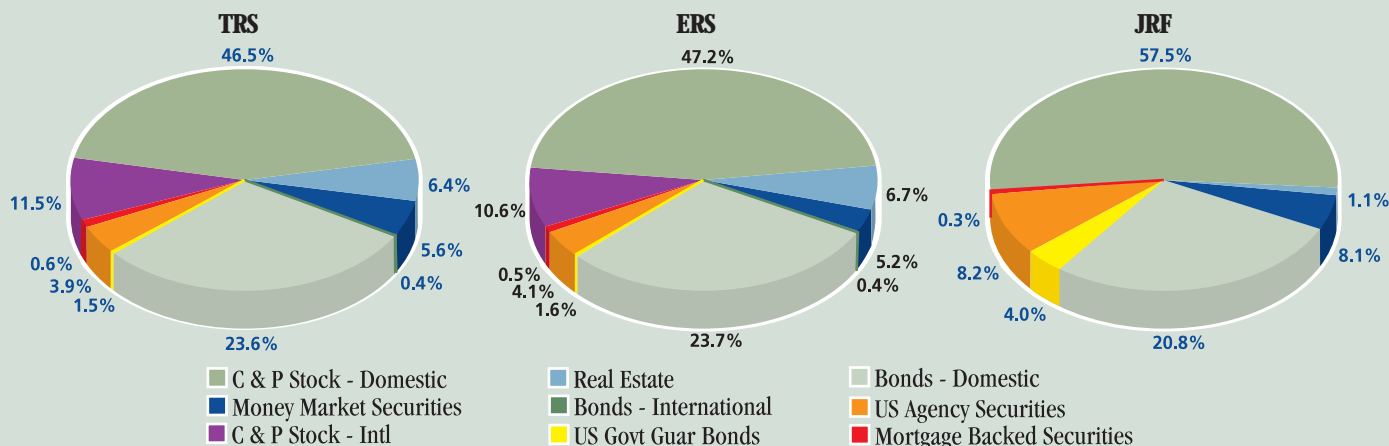
(\$ in Millions)

	2003	2004
MEMBER CONTRIBUTIONS	\$ 416.7	424.9
EMPLOYER CONTRIBUTIONS	398.6	492.2
INVESTMENT INCOME	2,964.2	2,382.0
TOTAL	\$ 3,779.5	3,299.1

REVENUE
(Percent)**5-YEAR HIGHLIGHTS****EMPLOYER CONTRIBUTIONS**
(\$ In Millions)**MEMBER CONTRIBUTIONS**
(\$ In Millions)**INCREASE / (DECREASE) in INVESTMENTS**
(\$ In Millions)**INTEREST and DIVIDEND INCOME**
(\$ In Millions)**ASSET ALLOCATION**

(AS OF SEPTEMBER 30, 2004)

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.



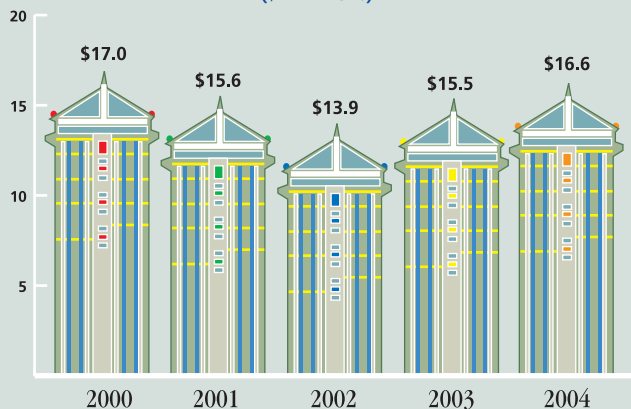
TEACHERS' RETIREMENT SYSTEM

TRS BENEFITS ADMINISTRATION

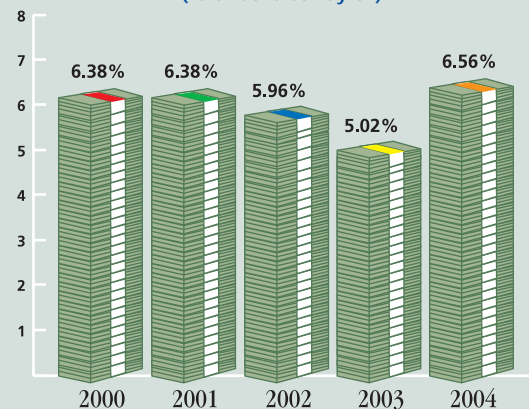
The Teachers' Retirement System of Alabama (TRS) provides retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions.

- Established in 1941
- 1975 Employer rate for TRS hit all-time high of 15.5%
- 1977 TRS named best retirement system in the nation by the National Education Association
- 1986 TRS Board of Control reached its current level of 14 members
- 1987 TRS active membership exceeded 100,000 for the first time
- 1992 TRS retired membership reached 30,000
- 2000 Assets hit an all-time high of \$17.0 billion
- 2003 Taxpayer contributions to the TRS are only 9.4% of total TRS revenue
- As of September 30, 2004, approximately 4,300 TRS members had entered DROP since its inception
- During this fiscal year, over 4,800 retirement applications were processed with the annual retirement payroll totaled at approximately \$990 million
- 2004 Total returns for the TRS were 10.71%

TRS PORTFOLIO GROWTH
(\$ in Billions)



TRS EMPLOYER RATE
(% Of Covered Payroll)



TRS RETIREMENT BENEFITS

TRS TOTAL ANNUAL PAYMENTS
(\$ in Millions)



TRS AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)

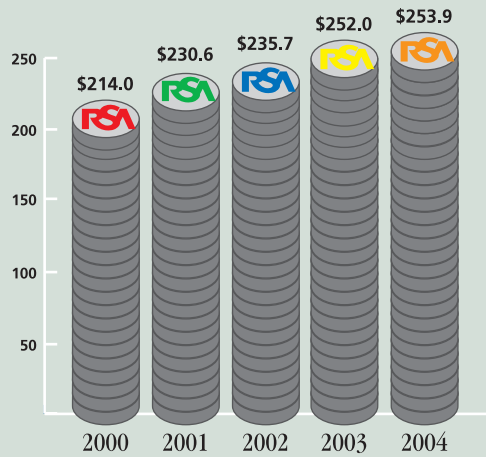


TRS PRERETIREMENT DEATH BENEFITS
(\$ in Millions)



TRS REVENUE SOURCES

TRS MEMBER CONTRIBUTIONS
(\$ in Millions)



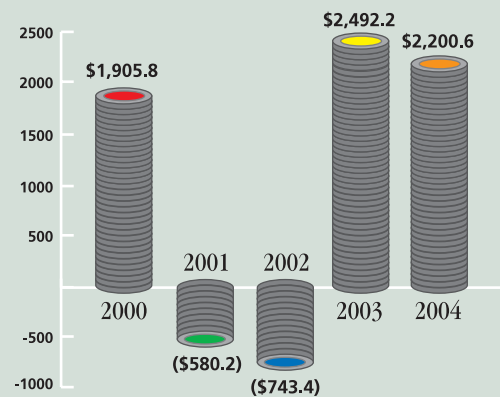
TRS EMPLOYER CONTRIBUTIONS
(\$ in Millions)



TRS INVESTMENT INCOME
(\$ in Millions)



TRS TOTAL REVENUES
(\$ in Millions)



EMPLOYEES' RETIREMENT SYSTEM

ERS BENEFITS ADMINISTRATION

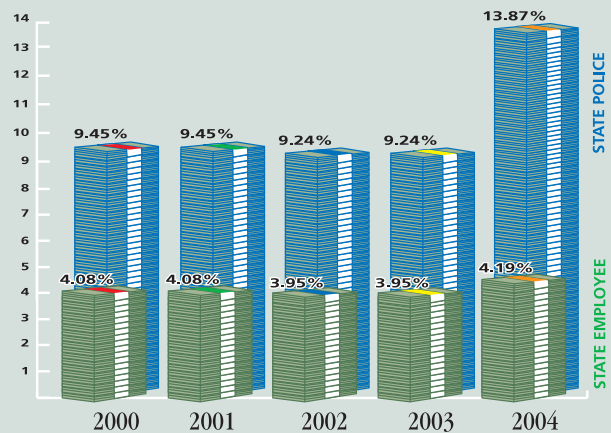
The Employees' Retirement System of Alabama (ERS) provides retirement allowances and other specified benefits for qualified state employees, State Police and on an elective basis, employees of cities, counties, towns and quasi-public organizations.

- Established in 1945
- 1945 Employees of cities, towns, counties and quasi-public agencies became eligible for membership in the ERS
- 1975 Retirement factor increased to current level of 2.0125% for regular employees and to 2.875% for State Police
- 1979 Employer rate for ERS hit an all-time high of 10.33%; Employer Rate for State Troopers hit all-time high of 21.02%
- 1987 25-year retirement established for state employees and State Troopers
- 1988 The first Cost-of-Living Adjustment (COLA) passed on to beneficiaries
- 1994 ERS retirees totaled over 20,000
- 2000 ERS Total assets hit all-time high of \$7.8 billion
- 2003 Taxpayers contributed only 12.3% of total revenue of the ERS
- 2004 DROP participants totaled 1,389 since its inception
- 2004 Total returns for the ERS were 10.06%

ERS PORTFOLIO GROWTH
(\$ in Billions)



ERS EMPLOYER RATE
(% Of Covered Payroll)

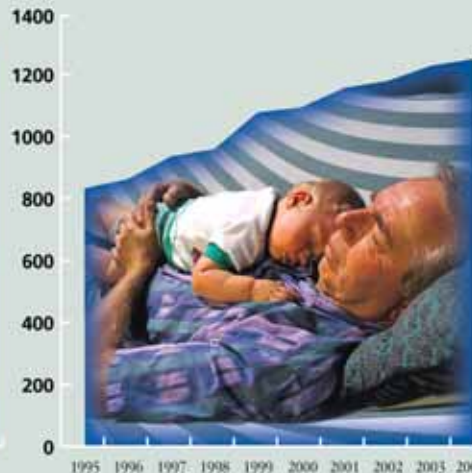


ERS RETIREMENT BENEFITS

ERS TOTAL ANNUAL PAYMENTS
(\$ in Millions)



ERS AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)

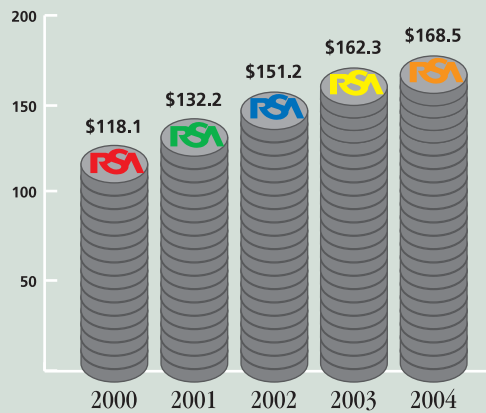


ERS PRERETIREMENT DEATH BENEFITS
(\$ in Millions)



ERS REVENUE SOURCES

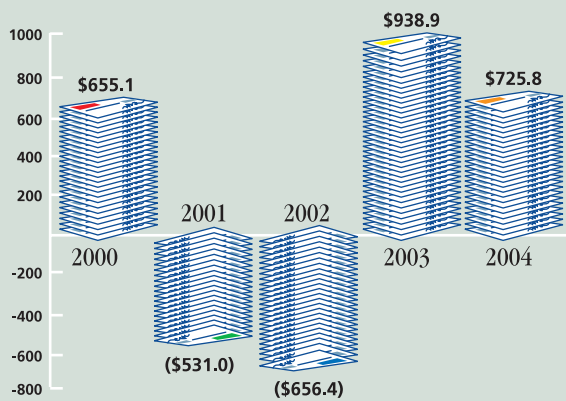
ERS MEMBER CONTRIBUTIONS
(\$ in Millions)



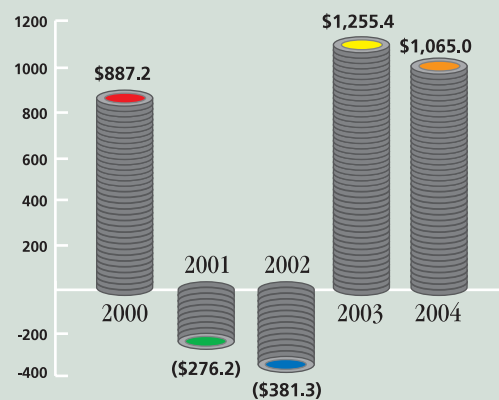
ERS EMPLOYER CONTRIBUTIONS
(\$ in Millions)



ERS INVESTMENT INCOME
(\$ in Millions)



ERS TOTAL REVENUES
(\$ in Millions)

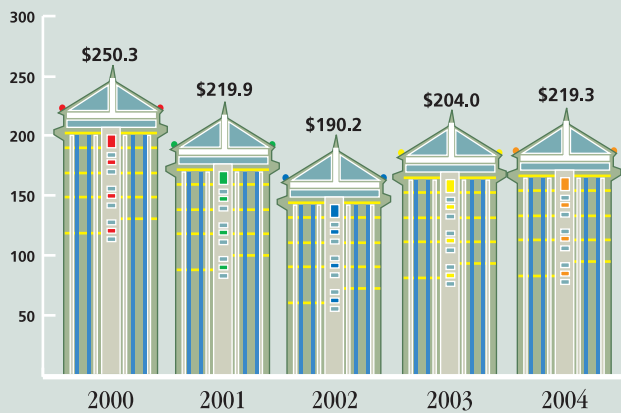


JUDICIAL RETIREMENT FUND

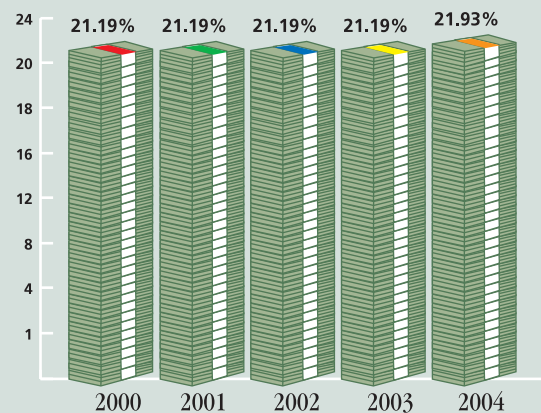
JRF BENEFITS ADMINISTRATION

- Established in 1973 for Supreme Court Justices, Court of Appeals Judges and Circuit Court Judges
- 1977 Probate Judges and District Court Judges joined the JRF
- 1981-1983 Reached highest employer rate of 44.0%
- 1998 Total annual benefits reached \$10.0 million
- 1999 Employer rate at all-time low of 9.16%
- 2002 Average monthly benefit payment over \$5,000
- 2004 Total returns were 11.34%

JRF PORTFOLIO GROWTH
(\$ in Millions)



JRF EMPLOYER RATE
(% Of Covered Payroll)



JRF RETIREMENT BENEFITS

JRF TOTAL ANNUAL PAYMENTS
(\$ in Millions)

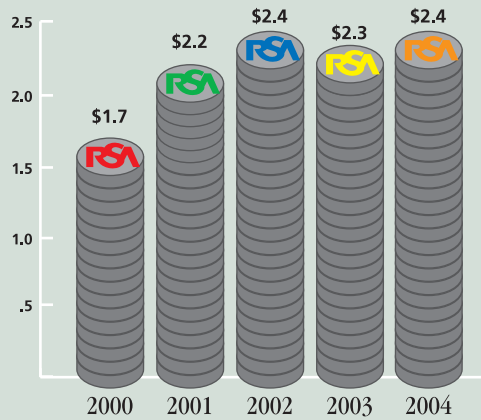


JRF AVERAGE MONTHLY BENEFITS
(\$ in Actual Dollars)



JRF REVENUE SOURCES

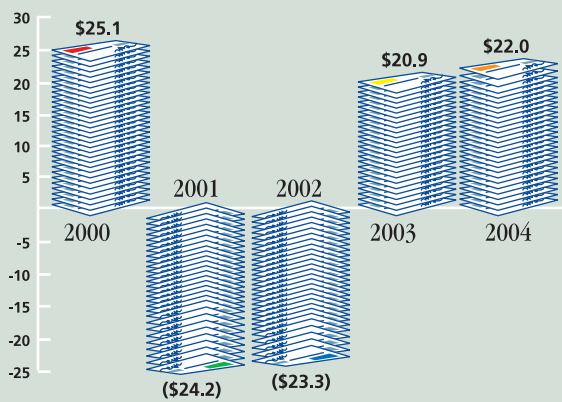
JRF MEMBER CONTRIBUTIONS
(\$ in Millions)



JRF EMPLOYER CONTRIBUTIONS
(\$ in Millions)



JRF INVESTMENT INCOME
(\$ in Millions)



JRF TOTAL REVENUES
(\$ in Millions)



PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND

RSA-1 / DEFERRED COMPENSATION PLAN

- Established in 1986 to allow 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.

RSA-1 HIGHLIGHTS

12-MONTH PERIOD ENDING	INCOME YIELD* (in %)	MARKET VALUE CHANGE* (in %)	TOTAL RETURN* (in %)	TOTAL ASSETS* (in \$)	PARTICIPATING MEMBERS
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
SEPTEMBER 30, 2003 (FIXED INVESTMENT OPTION)	6.18	-1.36	4.82	676,945,292	25,793
SEPTEMBER 30, 2003 (STOCK INVESTMENT OPTION)	1.87	20.01	21.88	62,452,172	5,767
SEPTEMBER 30, 2004 (FIXED INVESTMENT OPTION)	5.63	0.36	5.99	709,604,675	26,057
SEPTEMBER 30, 2004 (STOCK INVESTMENT OPTION)	1.75	11.30	13.05	98,038,346	8,568

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

PEIRAF / DEDUCTABLE EMPLOYEE CONTRIBUTION PLAN

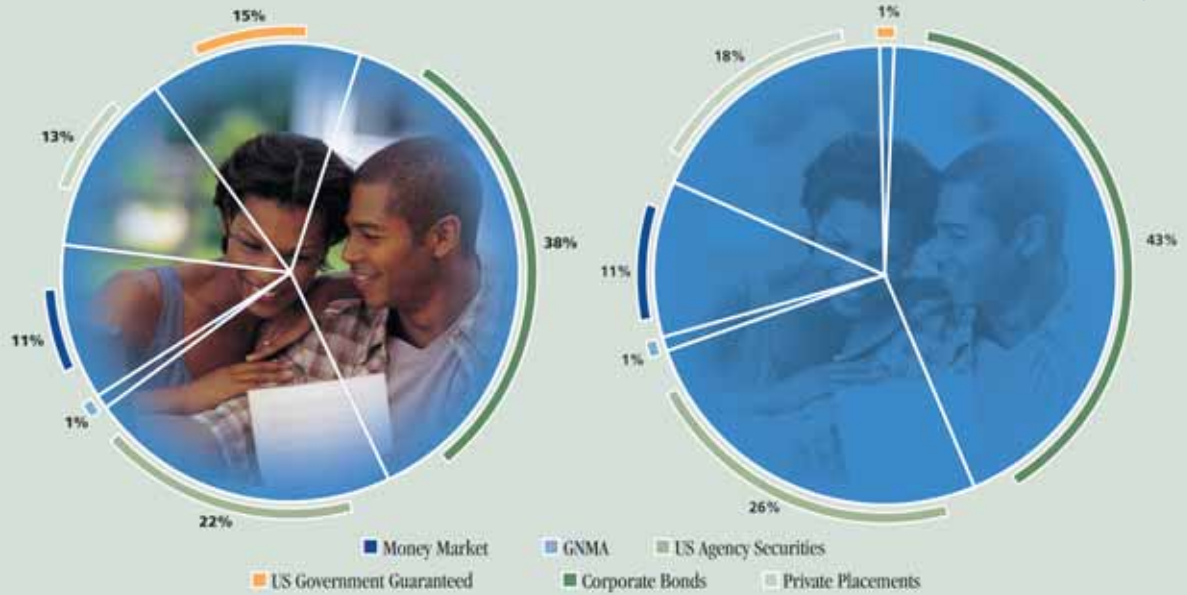
The Public Employees' Individual Retirement Account Fund (PEIRAF) was established to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. PEIRAF has operated as a fixed 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. ●

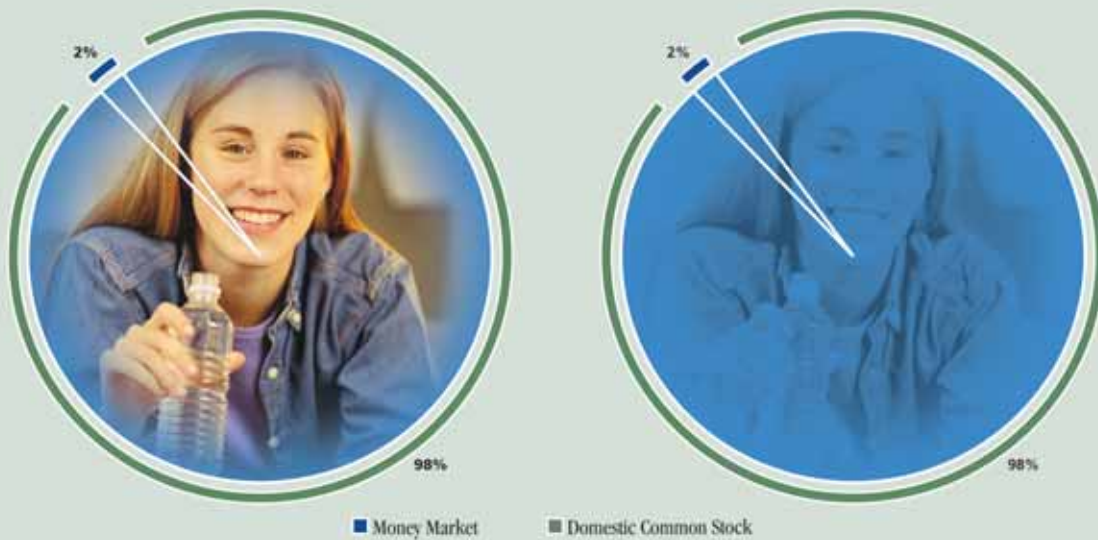


RSA-1 / INVESTMENT ALLOCATION FIXED FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2004 • MARKET VALUE AS OF SEPTEMBER 30, 2003)

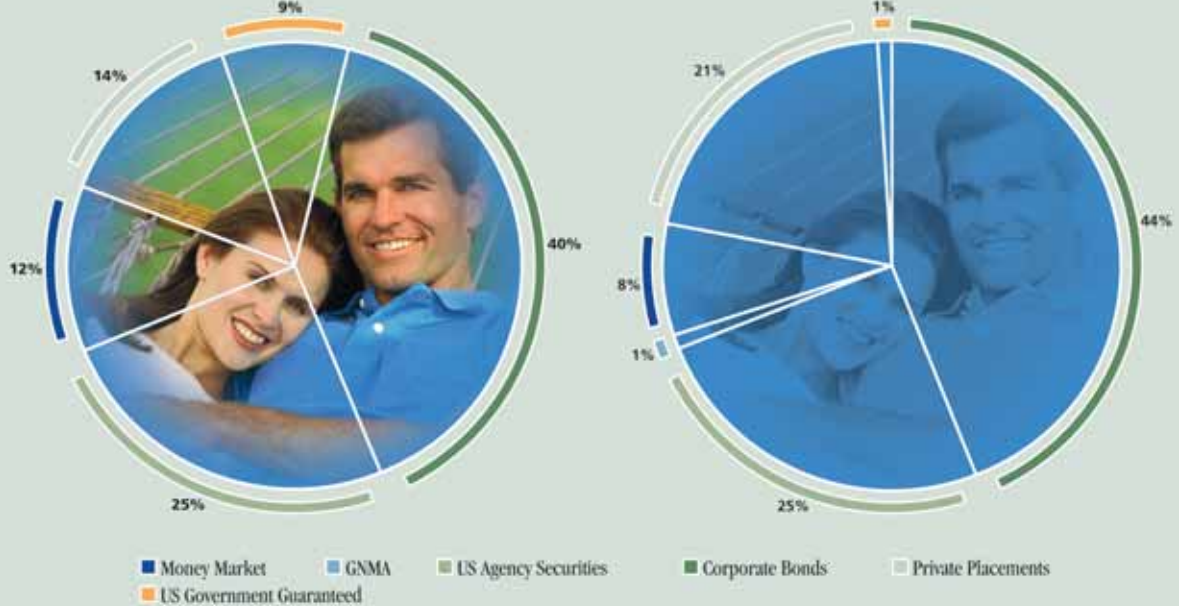
Retirement Systems of Alabama



RSA-1 / INVESTMENT ALLOCATION STOCK FUND
(MARKET VALUE AS OF SEPTEMBER 30, 2004 • MARKET VALUE AS OF SEPTEMBER 30, 2003)



PEIRAF / INVESTMENT ALLOCATION
(MARKET VALUE AS OF SEPTEMBER 30, 2004 • MARKET VALUE AS OF SEPTEMBER 30, 2003)



PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

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. 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, many benefit changes have been made over the years to slow the growth in rising costs. ●

- Established in 1983. Southland National Corporation named administrator for supplemental coverages. Blue Cross and Blue Shield named administrator for hospital/medical plan.
- 1987. The first Health Maintenance Organization offered to PEEHIP members. Added \$75.00 co-pay for outpatient surgery and \$25.00 co-pay for Urgi-care clinic at an annual savings of \$20 million.
- 1988. Saved \$15 million annually by hiring the Alabama Quality Assurance Fund to perform Concurrent Utilization Review.
- 1990. Because of Precertification and Utilization review, hospital days per thousand decreased for a savings of \$20 million over 2 years.
- 1991. Eliminated coverage for Radial Keratotomy eye procedure saving \$2 million annually.
- 1992. Instituted benefit changes at an annual savings of over \$19 million.
- 1993. Family Medical Leave Act began.
- 1994. Implemented new drug formulary which resulted in annual savings of \$1.7 million.
- 1995. PEEHIP implemented HIPPA.
- 1996. PEEHIP Board lowered reserve level from 20% to 15%, reducing employer premium requirements by \$11 million annually.
- 1997. Reserve level lowered to 12%, reducing employer premium requirements by another \$7 million annually.
- 1998. Discontinued coverage for Viagra medication at an annual savings of \$4.5 million.
- 1999. Reduced reimbursement to participating pharmacies saving \$7 million annually.
- 2000. Increased out-of-pocket premium for active and retired members saving \$7 million annually. Added \$50 deductible per year for prescription drugs saving \$15.6 million annually.
- 2001. Drug formulary and dental and vision network created savings of \$1.0 million annually.
- 2002. Passage of generic drug bill increased generic utilization.
- 2003. Increased drug co-payments and added \$20 office visit co-pay for Medicare eligible retirees saving \$20 million annually. Required university systems to pay for their own retirees which saved \$25 million in the K-12 education budget.
- 2004. PEEHIP Board approved Express Scripts, Inc. to administer the prescription drug benefit.





2004 INVESTMENT STAFF

FIXED INCOME
ANALYST
C. Lance Lachney
M.B.A., C.F.A.

ASSISTANT DIRECTOR
OF EQUITIES
Steven R. Lambdin
M.B.A., C.P.A., C.F.A.

FIXED INCOME
ANALYST
Joseph G. Walker
M.B.A., C.F.A.

EQUITY
ANALYST
John R. Givens
M.B.A., C.F.A.

EQUITY
ANALYST
Kevin W. Gamble
M.B.A., C.F.A.

ASSISTANT DIRECTOR
OF EQUITIES
Eric J. Fox
M.B.A., C.F.A.

EQUITY
ANALYST
G. Allan Carr, Jr.
M.B.A., C.F.A.

CASH MANAGEMENT
& OPERATIONS
Ann Roth
B.S.

CHIEF INVESTMENT
OFFICER
R. Marc Green
M.B.A., C.F.A.

DIRECTOR OF
FIXED INCOME
Julie S. Barranco
M.B.A., C.F.A.

CASH MANAGEMENT
& OPERATIONS
Nancy H. Sprayberry

DIRECTOR OF
PRIVATE PLACEMENTS
M. Hunter Harrell
M.B.A., C.F.A., J.D.

INVESTMENTS

FIXED INCOME ACTIVITY

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

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

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

Believe it or not, high yield securities outperformed corporates and treasuries for the second year in a row. The basic premise in explaining this phenomenon is investors’ eagerness to grab yield in a low interest rate environment. Another explanation is the improvement in overall credit quality as default rates have been nearly cut in half since the beginning of the year. However, a secular development has also evolved, where issuers are encouraged to accept a lower level of credit quality in determining their optimal capital structure. Issuance from investment grade firms this year has been rather lackluster compared to high yield companies, which continued to refinance outstanding debt at lower yield levels. A structural shift in the bond market that has also taken place over the past couple of years is the growth in participation of foreign investors. Offshore investors currently own nearly 25% of US corporate holdings, when one accounts for the inclusion of hedge funds. Going forward, this shift will make the demand for fixed securities more important and more difficult to predict.

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

LONG-TERM FIXED SECURITIES PURCHASED (\$ In Millions)

MONTHS	TRS	ERS	JRF	TOTAL
OCTOBER THROUGH MARCH	\$ 459.2	216.7	8.4	684.3
APRIL THROUGH SEPTEMBER	818.8	360.2	20.8	1,199.8
TOTAL	\$ 1,278.0	576.9	29.2	1,884.1



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		
	2004	2003	2002	2004	2003	2002
0 TO <5	17	8	14	17	7	11
5 TO <10	33	26	20	32	25	19
10 TO <15	32	43	39	34	46	43
15 TO <20	4	5	3	3	4	2
20 TO <25	7	12	17	6	10	17
25 TO <30	6	5	6	7	7	7
≥30	1	1	4	1	1	5

QUALITY EVALUATION

The RSA continued 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. Times have changed dramatically over the past decade and few companies today have a rating of AAA to A. Many companies are now rated BAA or lower. ●

QUALITY DISTRIBUTION (In %)

Rating	TRS			ERS		
	2004	2003	2002	2004	2003	2002
AAA	21	14	16	21	14	14
AA	3	2	4	3	3	3
A	8	9	9	8	9	9
BAA	18	14	26	17	14	27
NOT RATED	50	61	45	51	60	47

INVESTMENTS

EQUITY STRATEGY

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

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

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

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

For the year, the RSA domestic equity portfolios increased 14.69%, 14.56%, and 14.55% for the TRS, ERS, and JRF funds, respectively. International equity returns fared better, posting 22.59% and 22.43% for TRS and ERS, respectively. The combined total return for the overall equity portfolios were 16.19%, 16.04%, and 14.55% for the TRS, ERS, and JRF, respectively. ●



INVESTMENT RETURNS / FOR THE PERIOD ENDED SEPTEMBER 30, 2004 (Percent)

	1-YEAR	3-YEARS	5-YEARS	10-YEARS
EQUITY RETURNS				
TRS	16.19	6.51	2.04	10.72
ERS	16.04	6.49	1.97	10.57
JRF	14.55	5.13	1.45	12.37

FIXED INCOME RETURNS

TRS	5.59	5.08	6.35	7.45
ERS	4.86	4.56	6.07	7.34
JRF	6.74	1.60	4.45	6.67

TOTAL RSA RETURNS

TRS	10.71	6.00	4.12	8.61
ERS	10.06	5.41	3.77	8.51
JRF	11.34	3.74	2.40	8.37

BENCHMARKS

S&P 500	13.87	4.05	(1.31)	11.08
RUSSELL 2000	17.48	12.27	6.04	8.38
DJIA	10.98	6.68	1.45	12.36
MIDCAP 400	17.55	12.42	10.52	14.48
MSCI EAFE	22.08	9.12	(0.85)	
SALOMON BROTHERS BROAD INDEX	3.82	5.86	7.57	7.67
LEHMAN BROTHERS AGGREGATE INDEX	3.68	5.88	7.48	7.66

■ US Treasury 2-Year Note (yield)



■ US Treasury 30-Year Bond (yield)



■ Spread Difference Between 2-Year & 30-Year Treasuries



■ Dow Jones Industrial Average



■ S&P 500 Index



FINANCIAL STATEMENTS

TEACHERS' RETIREMENT SYSTEM / STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 15,109	\$	15,325
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	19,840		19,362
EMPLOYER CONTRIBUTIONS	26,127		19,541
DIVIDENDS AND INTEREST	147,543		156,398
TOTAL RECEIVABLES	<u>193,510</u>		<u>195,301</u>
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	7,743,769		6,762,794
DOMESTIC FIXED INCOME SECURITIES	4,980,577		5,509,848
INTERNATIONAL SECURITIES	1,936,147		1,429,102
REAL ESTATE	1,060,523		940,122
SHORT-TERM INVESTMENTS	923,947		833,052
TOTAL INVESTMENTS	<u>16,644,963</u>		<u>15,474,918</u>
INVESTED SECURITIES LENDING COLLATERAL	1,098,881		2,505
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	<u>2,599</u>		<u>2,763</u>
TOTAL ASSETS	<u>17,955,062</u>		<u>15,690,812</u>
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	3,032		2,687
SECURITIES LENDING COLLATERAL	<u>1,098,881</u>		<u>2,505</u>
TOTAL LIABILITIES	<u>1,101,913</u>		<u>5,192</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 16,853,149</u></u>		<u><u>\$ 15,685,620</u></u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.



TEACHERS' RETIREMENT SYSTEM / STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 251,714	\$	249,996
EMPLOYER	312,474		235,786
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	2,146		2,022
TOTAL CONTRIBUTIONS	566,334		487,804
INVESTMENT INCOME			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE IN FAIR VALUE OF INVESTMENTS	1,055,525		1,412,887
INTEREST AND DIVIDENDS	580,000		592,645
 TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	 1,635,525		 2,005,532
LESS: INVESTMENT EXPENSE	4,079		4,432
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	1,631,446		2,001,100
 <i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	10,704		14,215
SECURITIES LENDING EXPENSES			
BORROWER REBATES	7,206		10,052
MANAGEMENT FEES	630		832
TOTAL SECURITIES LENDING EXPENSES	7,836		10,884
NET INCOME FROM SECURITIES LENDING ACTIVITIES	2,868		3,331
 TOTAL INVESTMENT INCOME	 1,634,314		 2,004,431
 TOTAL ADDITIONS	 2,200,648		 2,492,235
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	987,761		932,687
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	35,983		32,084
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	1,575		2,418
ADMINISTRATIVE EXPENSE	7,361		7,011
DEPRECIATION	439		367
TOTAL DEDUCTIONS	1,033,119		974,567
 NET INCREASE	 1,167,529		 1,517,668
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	15,685,620		14,167,952
END OF THE YEAR	\$ 16,853,149		\$ 15,685,620

FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM / STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 4,710		\$ 2,917
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	9,269		8,989
EMPLOYER CONTRIBUTIONS	11,461		8,337
DIVIDENDS AND INTEREST	69,537		73,249
TOTAL RECEIVABLES	<u>90,267</u>		<u>90,575</u>
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	3,636,637		3,285,094
DOMESTIC FIXED INCOME SECURITIES	2,317,072		2,514,000
INTERNATIONAL SECURITIES	832,907		635,563
REAL ESTATE	512,355		454,569
SHORT-TERM INVESTMENTS	401,353		239,446
TOTAL INVESTMENTS	<u>7,700,324</u>		<u>7,128,672</u>
INVESTED SECURITIES LENDING COLLATERAL	526,821		0
PROPERTY AND EQUIPMENT LESS ACCUMULATED DEPRECIATION	<u>2,016</u>		<u>2,117</u>
TOTAL ASSETS	<u>8,324,138</u>		<u>7,224,281</u>
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	1,719		1,469
SECURITIES LENDING COLLATERAL	<u>526,821</u>		<u>0</u>
TOTAL LIABILITIES	<u>528,540</u>		<u>1,469</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 7,795,598</u></u>		<u><u>\$ 7,222,812</u></u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.



EMPLOYEES' RETIREMENT SYSTEM / STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 166,973	\$	159,763
EMPLOYER	170,713		154,218
TRANSFERS FROM TEACHERS' RETIREMENT SYSTEM	1,575		2,418
TRANSFERS FROM JUDICIAL RETIREMENT FUND	0		103
TOTAL CONTRIBUTIONS	339,261		316,502
INVESTMENT INCOME			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE IN FAIR VALUE OF INVESTMENTS	457,981		668,539
INTEREST AND DIVIDENDS	268,876		271,698
 TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	 726,857		 940,237
LESS: INVESTMENT EXPENSE	2,390		2,380
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	724,467		937,857
 <i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	4,892		3,461
SECURITIES LENDING EXPENSES			
BORROWER REBATES	3,318		2,131
MANAGEMENT FEES	283		266
TOTAL SECURITIES LENDING EXPENSES	3,601		2,397
NET INCOME FROM SECURITIES LENDING ACTIVITIES	1,291		1,064
 TOTAL INVESTMENT INCOME	 725,758		 938,921
 TOTAL ADDITIONS	 1,065,019		 1,255,423
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	448,658		423,027
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	31,406		25,056
UNIT WITHDRAWALS	3,798		820
TRANSFERS TO TEACHERS' RETIREMENT SYSTEM	2,146		2,022
TRANSFERS TO JUDICIAL RETIREMENT FUND	64		0
ADMINISTRATIVE EXPENSE	5,892		5,843
DEPRECIATION	269		278
TOTAL DEDUCTIONS	492,233		457,046
 NET INCREASE	 572,786		 798,377
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	7,222,812		6,424,435
END OF THE YEAR	\$ 7,795,598	\$	7,222,812

FINANCIAL STATEMENTS

JUDICIAL RETIREMENT FUND / STATEMENT OF PLAN NET ASSETS AS OF SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ASSETS			
CASH - RESTRICTED FOR ADMINISTRATIVE EXPENSES	\$ 695		\$ 647
RECEIVABLES			
EMPLOYEE CONTRIBUTIONS	110		111
EMPLOYER CONTRIBUTIONS	308		296
DIVIDENDS AND INTEREST	1,378		1,712
TOTAL RECEIVABLES	<u>1,796</u>		<u>2,119</u>
INVESTMENTS, AT FAIR VALUE			
DOMESTIC EQUITY SECURITIES	126,199		107,209
DOMESTIC FIXED INCOME SECURITIES	73,036		84,089
REAL ESTATE	2,429		2,227
SHORT-TERM INVESTMENTS	17,669		10,483
TOTAL INVESTMENTS	<u>219,333</u>		<u>204,008</u>
INVESTED SECURITIES LENDING COLLATERAL	<u>14,783</u>		<u>0</u>
TOTAL ASSETS	<u>236,607</u>		<u>206,774</u>
LIABILITIES			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	111		103
SECURITIES LENDING COLLATERAL	<u>14,783</u>		<u>0</u>
TOTAL LIABILITIES	<u>14,894</u>		<u>103</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 221,713</u></u>		<u><u>\$ 206,671</u></u>

SEPARATELY ISSUED, AUDITED FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST.



JUDICIAL RETIREMENT FUND / STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	(\$ In Thousands)	2003
ADDITIONS			
CONTRIBUTIONS			
EMPLOYEE	\$ 2,370	\$ 2,342	
EMPLOYER	8,994	8,637	
TRANSFERS FROM EMPLOYEES' RETIREMENT SYSTEM	64	0	
TOTAL CONTRIBUTIONS	11,428	10,979	
INVESTMENT INCOME			
<i>FROM INVESTMENT ACTIVITIES</i>			
NET INCREASE IN FAIR VALUE OF INVESTMENTS	14,736	12,905	
INTEREST AND DIVIDENDS	7,218	7,969	
 TOTAL INVESTMENT INCOME FROM INVESTING ACTIVITIES	 21,954	 20,874	
LESS: INVESTMENT EXPENSE	12	28	
NET INVESTMENT INCOME FROM INVESTING ACTIVITIES	21,942	20,846	
 <i>FROM SECURITIES LENDING ACTIVITIES</i>			
SECURITIES LENDING INCOME	109	61	
SECURITIES LENDING EXPENSES			
BORROWER REBATES	83	50	
MANAGEMENT FEES	4	2	
TOTAL SECURITIES LENDING EXPENSES	87	52	
NET INCOME FROM SECURITIES LENDING ACTIVITIES	22	9	
 TOTAL INVESTMENT INCOME	 21,964	 20,855	
 TOTAL ADDITIONS	 33,392	 31,834	
DEDUCTIONS			
RETIREMENT ALLOWANCE PAYMENTS	17,903	17,964	
RETURN OF CONTRIBUTIONS AND DEATH BENEFITS	103	83	
TRANSFERS TO EMPLOYEES' RETIREMENT SYSTEM	0	103	
ADMINISTRATIVE EXPENSE	344	322	
TOTAL DEDUCTIONS	18,350	18,472	
 NET INCREASE	 15,042	 13,362	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
BEGINNING OF THE YEAR	206,671	193,309	
END OF THE YEAR	\$ 221,713	\$ 206,671	

COMMISSIONS PAID REPORT / FISCAL YEAR 2004

	VOLUME OF BUSINESS PRIVATE PLACEMENTS AGENCIES (\$ IN MILLIONS)	COMMISSIONS STOCK TRANSACTIONS	COMMISSIONS BOND TRANSACTIONS
ACON PARTNERS	\$ 60	\$	\$
A. G. EDWARDS		14,490	
BANC OF AMERICA	45		224,757
BEAR STEARNS	92	376,030	359,256
CENTENNIAL CAPITAL		18,722	
CITIGROUP	12	481,418	418,432
CITIGROUP - MONTGOMERY	10	64,600	14,250
CONCORD	Equity		11,360
CREDIT SUISSE FIRST BOSTON	12	247,911	435,279
DEUTSCHE BANK		151,684	52,138
FIRST DISCOUNT		4,870	
GARDNER RICH		22,355	
GOLDMAN SACHS	92	188,701	207,988
HOWARD WEIL		44,224	
ISI		121,342	
JANNEY MONTGOMERY SCOTT		12,450	
JP MORGAN CHASE		286,116	200,217
KEEFE BRUYETTE		52,017	
LAZARD FRERES AND COMPANY	60		82,500
LEHMAN BROTHERS, INC		323,260	7,338
MCDONALD & COMPANY	70	20,025	108,438
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.	71	390,288	393,267
MORGAN KEEGAN	8	52,690	13,250
MORGAN STANLEY - MONTGOMERY	4	63,735	5,500
MORGAN STANLEY DEAN WITTER	104	422,942	351,485
MORGAN STANLEY DEAN WITTER INTERNATIONAL		190,434	
NBC SECURITIES, INC.	9	54,995	14,000
NBC CAPITAL MARKETS	466		332,706
PRUDENTIAL SECURITIES		22,656	
QUINTUS SECURITIES		11,425	
RAYMOND JAMES	65	64,700	37,187
ROBERT THOMAS		15,005	
SANDLER O'NEIL		53,970	
S. C. BERNSTEIN		486,800	
SECURITIES CAPITAL		18,750	
SIMMONS		37,310	
SOUTHWEST SECURITIES		14,940	
STERNE, AGEE & LEACH - MOBILE	6	39,702	9,500
STERNE, AGEE & LEACH - MONTGOMERY	2	35,115	4,000
UBS WARBURG	112	132,009	379,156
UBS WARBURG - BIRMINGHAM		21,250	
UBS WARBURG - MONTGOMERY		13,750	
WACHOVIA SECURITIES	8	52,535	13,250
TOTAL	\$1,308	\$4,636,578	\$3,663,894



Annual Report
Design & Realization by:



BRITTON
ADVERTISING

www.brittonadvertising.com

■ ROBERT TRENT JONES GOLF TRAIL / HAMPTON COVE • HIGHLAND COURSE, 10th Hole
© 2004 Lawrence Michael Clemmer



The Retirement Systems of Alabama

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

*334.832.4140
800.214.2158*

www.rsa.state.al.us