Funding Policy:

The Administration's required contributions are based on actuarial valuations. Effective January 1, 1990, in accordance with the law governing the Plan, all benefits of the Plan are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling $13,902,000 (14.1 % of covered payroll) for fiscal year 1998 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 1996. This amount consisted of $2,594,000 normal cost and $11,308,000 amortization of the actuarial accrued liability (2.6% and 11.5%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities (as provided by law) is 22 years from June 30, 1998. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations.

The computation of the annual required contribution for fiscal year 1998 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension cost for the fiscal years ending June 30, 1998, 1997 and 1996 were $13,902,000, $11,502,000 and $11,918,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ending June 30, 1998, 1997 and 1996 for the Plan.

The Administration's net pension obligation was zero as of June 30, 1998, 1997 and 1996 for the Plan.

The fiscal year 1998 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 1996. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Method
Cost method of valuing assets	Fair Value
Rate of return on investments	7.5% Compounded per Annum
Projected inflation rate	5.0%
Rate of salary increase	3.0%, Compounded per Annum
Postretirement benefit increase	N/A
Amortization method	Level dollar annual installments
Remaining amortization period	23 years from July 1, 1998
Status of period (Open or Closed)	Closed

During fiscal year 1998, there were no changes in actuarial assumptions or benefit provisions from 1997 which significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, postemployment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment health care benefits which is based on health care insurance charges for current employees. During fiscal year 1998, these benefits paid amounted to $59,179,293. There are 22,055 participants currently eligible to receive benefits.

16. Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 403(b), and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Under the provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after