

*Funding Status and Progress:*

The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Systems' funding status on a going - concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System as described below.

The fiscal year 1989 pension benefit obligation was determined as a part of an actuarial valuation at June 30, 1989. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, (b) projected salary increases from 5 percent to 6 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from .94 percent to 6.82 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases ranging from 3 percent to 6 percent per year depending on the system.

At June 30, 1989, the unfunded pension benefit obligation (i.e., pension obligation less net assets available for benefits) of the System was as follows (amounts expressed in thousands):

Pension benefit obligation:

Retirees and beneficiaries currently  
receiving benefits and terminated  
employees not yet receiving benefits . . . . \$ 6,275,808

Current employees:

Accumulated employee contributions  
including allocated investment income . . 1,320,556  
Employer - financed vested and nonvested 7,804,027  
Total pension benefit obligation . . . . . 15,400,391

Net assets available for benefits, at cost  
(market value is \$10,577,045) . . . . . 9,090,704  
Unfunded pension benefit obligation . . . \$ 6,309,687

There were no changes in actuarial assumptions or benefit provisions which significantly affected the valuation of the pension benefit obligation during fiscal year 1989.

*Contributions Required and Made:*

The State's retirement contributions are appropriated annually, based upon actuarial valuations. In this regard, the System has engaged an independent firm of consulting actuaries to prepare annual actuarial valuations and perform various actuarial consulting services. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' normal and accrued liability contribution rates and the unfunded actuarial accrued liability. Using this method the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

Employer contributions to the System totalling \$599,586,000 (14.0% of covered payroll) for fiscal year 1989 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 1987. This amount consisted of \$266,823,000 normal cost and \$332,763,000 amortization of the unfunded actuarial accrued liability. Employee contributions to the System for fiscal year 1989 were \$110,562,000 (2.6% of covered payroll).

The liquidation period for the unfunded actuarial accrued liabilities (as provided by law) is 31 years from June 30, 1989. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.