NOTE 19 – DEFERRED COMPENSATION PLANS

The State offers its employees (excluding university employees) two deferred compensation plans to allow a portion of their salary to be deferred until future years. The Department of Civil Service administered these plans, labeled 457 and 401k after sections of the Internal Revenue Code, until October 1, 1996, when the State Treasurer assumed responsibility for administering the funds in compliance with P.A. 96 of 1996. On July 1, 1997, the day-to-day administration of both plans was contracted out to an investment firm.

Section 457(g) of the Internal Revenue Code was amended in 1996, requiring amounts deferred under a plan mandated by a state or local government to be held in a trust custodial account or annuity contract for the exclusive benefit of plan participants and their beneficiaries. During fiscal year 1998-99, the 457 plan was amended to comply with this law. In accordance with GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the assets and liabilities of the 457 plan are now recorded as an expendable trust fund. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State Employees' Deferred Compensation Funds."

The State makes no contribution to the 457 plan, but makes matching contributions to the 401k plan as part of certain employees' compensation packages. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers.

The 401k plan includes loan provisions. Loans to participants are recorded as assets. The 457 plan does not include loan provisions.

Employee contributions are recognized as revenue; benefits are recognized as expenditures when paid. Investment earnings, net of administrative charges, are credited to the participants proportionally based upon their balances in the plan. Investments are stated at fair value and the net of realized and unrealized gains and losses are shown as miscellaneous revenue.

Fund balance represents net assets available for plan benefits. Total fund balance for the 457 plan and the 401k plan at September 30, 1999 were $2.1 and $1.0 billion, respectively.