

Delaware Public Employees' Retirement System NEWSLETTER

Active Member Edition

February 2014

Do you know the facts?

Working after retirement takes planning...

Retirees from State of Delaware agencies (including school districts, Delaware Solid Waste Authority, University of Delaware, Delaware State University, and DelTech) are limited in their ability to return to State of Delaware employment while continuing to receive a pension benefit. These limitations are the result of provisions in the Delaware Code, the pension plan rules and regulations, and the regulations of the Internal Revenue Service.

These rules apply to retirees who return to employment with a State of Delaware employer that participates in the same pension plan from which they retired (a "participating employer"). Retirees who work for a non-participating employer or for a company (e.g. Wal-Mart, DuPont, Sears) while receiving a pension benefit are not affected by these criteria, and are not limited to the number of hours worked or amount of wages earned.

Retirees who fail to comply with the return to work criteria will have their pension benefit suspended. In addition, the retiree may have to repay any monthly pension benefits paid for any month the retiree did not meet the requirements.

Retirees under the age of 65 at the time of retirement must have a six month separation effective the first day of the month following the last day worked before returning to work for a State of Delaware employer in any capacity, including as an independent contractor.

The rules cover the types of work a retiree can do while employed by a participating State of Delaware employer while in a casual/seasonal, substitute, or temporary position, or employed by a temp agency contracting with the State. If returning in a casual/seasonal position, there are limits to the number of hours worked or the length of time the retiree can work in the position.

In addition, retirees under the State Employee's Pension Plan (SEPP) cannot earn over \$30,000 per calendar year employed by a participating State of Delaware employer and still receive their full pension benefit. Exceeding the \$30,000 annual earnings limit results in a subsequent reduction (offset) to the retiree's monthly pension benefit. The pension benefit will be reduced by \$1 for every \$2 earned over the limit. The annual monitoring continues as long as the SEPP retiree is employed by a participating State of Delaware employer.

Retirees who work as an independent contractor for a participating State of Delaware employer, or who represent any private enterprise that has a contract with a participating State of Delaware employer, must have that State of Delaware organization certify to the Pension Office the retiree's independent contractor status by following the IRS 20 Factor Test. If that is not provided, the retiree will be required to complete and submit a Certification of Worker Status form. The Office of Pensions will then issue a determination whether the individual meets the definition of an employee within the Plan.

Retirees must not have a pre-arranged agreement with the former employer to return to work after retirement; and the employer must not re-classify a position to accommodate your return to employment.

The full details of the return to work program are available on our website www.delawarepensions.com. You can also email any questions to Pension.Office@state.de.us.



OFFICE OF PENSIONS

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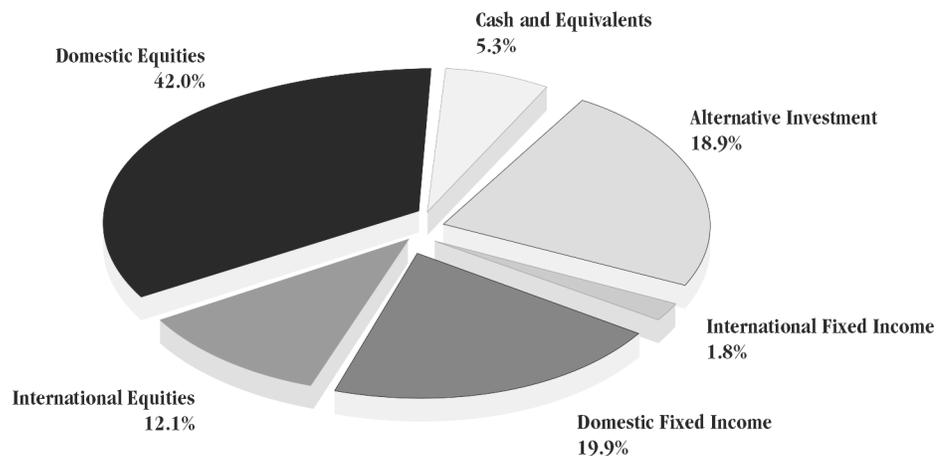
Annual Financial Reporting

In Fiscal Year 2013, market investment returns were aided by generous equity markets, but weighed down by weaker fixed income markets. During the year, reduced exposure to international markets helped the System as corporate earnings remained strong for domestic companies, while European and developing country companies encountered weaker profits. The Delaware Public Employees' Retirement System (System or DPERS) investment portfolio returned 11.1% gross of fees in Fiscal Year 2013. The total System's annualized returns for the last 5, 10, and 15 years are 6.4%, 8.4% and 6.9%, respectively. System investments are managed to control the downside risk to which assets are exposed, while maximizing long-term gain potential. This strategy positions the System to limit the impact of adverse market conditions. With the fact that market conditions are constantly changing, the Board, Investment Committee, and consultants are constantly monitoring DPERS' investment portfolio. It is important to remember that DPERS is a long-term investor with a time horizon that lasts over decades and that the investment portfolio is well diversified in many different asset classes.

As a member of a DPERS pension plan, you participate in a Defined Benefit Plan, and your retirement benefits are paid out to you regardless of market events. When you retired, DPERS calculated your monthly pension benefit based on various factors such as years of service and salary, not investment results. DPERS takes responsibility for the management and investment of the trust fund and understands that markets will fluctuate. DPERS' investment policy seeks to minimize risk and provide returns over the long term.

Asset Allocation

as of June 30, 2013



Membership in the County & Municipal plans continues to grow. The Cranston Heights Fire Company joined the County & Municipal Other Employees' Plan.

The DPERS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 was awarded the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is the seventeenth consecutive year that DPERS has received a Certificate of Achievement. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Public Pension Coordinating Council (PPCC) granted the System the Public Pension Standards Award for 2012. The major PPCC goal is to promote excellence in plan design and administration among state and local public retirement systems. The Public Pension Standards considered include: comprehensive benefit programs, funding adequacy, receipt of GFOA award in current year, independent actuarial valuation, independent audit review resulting in an unqualified opinion from the auditor, independent investment performance evaluation, adoption of written fiduciary standards by Board and Investment Committee, and communications with membership.

An Overview of Investment Performance

During Fiscal Year 2013, overall world markets reacted positively to easing fears in Europe with the European Central Bank resolve to stand behind the common currency and continued easing by the U.S. Federal Reserve. However returns were subdued by weakness in emerging markets and fixed income markets reacting negatively to the Federal Reserve's comments regarding potential reductions in the bond-buying program voiced at the end of the Fiscal Year. As a result, the Delaware Public Employees' Retirement System (System) experienced positive results compared to the prior fiscal year with an ending portfolio balance of \$8.1 billion for the Fiscal Year ended June 30, 2013 versus \$7.5 billion for the prior fiscal year. During the Fiscal Year the System gained 11.1% lagging the S&P 500 gain of 20.6%, however exceeding the Delaware Benchmark gain of 10.6% for the same period. For the ten years ending June 30, 2013, the System returned 8.4% versus the S&P 500 gain of 7.3%, respectively. According to a recent survey, when comparing the System investment performance to other pension funds, the System remains a top decile performer for 5 and 10 year periods ending June 30, 2013.

| Pension Plan/Fund | Ending Market Value as of June 30, 2013 (in thousands) | Funding Status as of June 30, 2013 |
|---|--|------------------------------------|
| State Employees' | \$ 7,395,577 | 91.1% |
| Special Fund | 299 | 146.9% |
| New State Police | 315,968 | 90.6% |
| Judicial | 62,822 | 95.4% |
| County & Municipal Police & Firefighters' | 204,739 | 98.1% |
| County & Municipal Other Employees' | 27,728 | 93.8% |
| Volunteer Firemen's Fund | 15,385 | 50.8% |
| Diamond State Port Corporation | 20,818 | 83.4% |
| Closed State Police | 2,288 | 0.9% |

the Closed State Police Plan is a pay-as-you-go plan.

From the outset of the new fiscal year, the economic and financial market landscape once again presents an uncertain outlook. The challenges include continued sub-par economic performance and a maturing business cycle, while earnings growth in emerging markets may slow either due to changes in economic policy or continued commodity price weakness. Positives include strong corporate margins and earnings expectations along with solid balance sheets. In the government sector, large deficits, likely budget battles, and debt ceiling negotiations present risks. Longer term interest rates may present challenges to the economic recovery as mortgages and other financing increase in cost. A recent Federal Open Market Committee economic forecast expects GDP growth of 3.0% to 3.5% in 2014; however unemployment is forecasted to remain around 6.5% to 6.8% through the end of 2014.

While the System continues to outperform similar pension systems, the Investment Committee and Office of Pensions management continue to monitor financial markets and seek investment opportunities that fit into the risk and return guidelines of the Delaware Public Employees' Retirement System.

DPERS Fiscal Year 2013 Financial Statements

The audit of the Delaware Public Employees Retirement System (DPERS) has resulted in receiving an unqualified audit opinion on its financial statements as of June 30, 2013. No material weaknesses or deficiencies in internal control over financial reporting were identified.

KPMG is currently contracted through the Office of the State Auditor and is charged with auditing the financial statements. Joseph Seibert, Lead Engagement Partner with KPMG, stated at our November 22, 2013, Board of Pension Trustees meeting that the audit primarily focuses on DPERS' financial and investment activities but includes an overview of other significant operational functions.

| The Pension Office will be closed on the following dates: | |
|--|-----------------------|
| Good Friday | Friday, April 18 |
| Memorial Day | Monday, May 26 |
| Independence Day | Friday, July 4 |
| Labor Day | Monday, September 1 |
| Election Day | Tuesday, November 4 |
| Veterans Day | Tuesday, November 11 |
| Thanksgiving Day | Thursday, November 27 |
| Day After Thanksgiving | Friday, November 28 |
| Christmas | Thursday, December 25 |

Why is the 2013 Comprehensive Annual Statement important?

The 2013 Comprehensive Annual Statement is important because it provides each active employee with the personal information, contributions paid as well as interest accumulated on those contributions, the creditable State service used to calculate your pension, and most importantly, the salary that we have in our records used to calculate your monthly pension benefit. It also provides an estimate of the monthly pension benefit you could receive based on this information if you are eligible; and, the beneficiary(ies) you designated to receive your contributions upon your death. If any piece of this information is incorrect, benefits payable could be impacted.

It is extremely important to review this information to avoid a future problem. If you feel that any information is incorrect or needs to be updated, follow the instructions included in the statement.

2014 RETIREMENT WORKSHOPS

Sponsored by the State Pension Advisory Council & the State Board of Pensions Trustee

The following evening workshops are being held to provide information regarding the State Employees' Pension Plan benefits. There is no cost or pre-registration required to attend these workshops. Individual retirement estimates will not be distributed at these workshops. Participants will learn how to prepare their own estimated benefit using the Pension Office website.

New Castle County

Date: March 27, 2014
Day: Thursday
Time: 7:00 – 9:00 p.m.
Place: Brandywine High School
1400 Foulk Road (in Auditorium)
Wilmington, DE 19803

Date: April 15, 2014
Day: Tuesday
Time: 7:00 – 9:00 p.m.
Place: Stanton Middle School
100 Limestone Road (Audion Room)
Wilmington, DE 19804

Date: April 23, 2014
Day: Wednesday
Time: 7:00 – 9:00 p.m.
Place: Stanton Middle School
100 Limestone Road (Audion Room)
Wilmington, DE 19804

Kent County

Date: April 29, 2014
Day: Tuesday
Time: 7:00 – 9:00 p.m.
Place: Del Tech Terry Campus
100 Campus Dr. (Room 400 A & B)
Dover, DE 19904

Sussex County

Date: May 8, 2014
Day: Thursday
Time: 7:00 – 9:00 p.m.
Place: Del Tech Owens Campus
18800 Seashore Hwy
Georgetown, DE 19947
Wm. Carter Partnership Center
Lecture hall, Room 529