

February 29, 2008

Mr. David C. Craik  
Pension Administrator  
Delaware Public Employees Retirement System  
McArdle Building  
860 Silver Lake Blvd, Suite #1  
Dover, Delaware 19904-2402

**Re: State of Delaware Post-Retirement Benefit Fund**

Dear Dave:

We have completed our report on the State of Delaware Post-Retirement Benefit Fund (the *Fund*) for the year beginning July 1, 2007.

Each Fiscal year, the *Fund* is scheduled to receive State appropriations equal to a percentage of covered payroll and make monthly transfers for enacted pensioner increases as shown in **EXHIBIT 1**. Covered payroll is the sum of projected payroll for the State Employees' Pension Plan, the State Judiciary Plan and the new State Police Pension Plan. Ad-hoc pensioner increases enacted by the State legislature are funded over a five-year period via the Post-Retirement Benefit Fund with the monthly transfers increasing 3.75% per year for pre-2005 transfers.

At the end of each fiscal year, the Board is required to review the balance in the Post-Retirement Benefit Fund and make recommendations for adjustments to the funding rate in the next fiscal year. If the *Fund* is not sufficient to provide required transfers for increases already enacted by the legislature, the Board may determine that additional funds are necessary. The statute also mandates that the balance in the *Fund*, net of all liabilities, cannot exceed 2.5% of projected covered payroll for the next fiscal year.

The balance of the *Fund* equals the actuarial value of assets minus the value of the monthly transfers for enacted pensioner increases scheduled to be paid from the *Fund* (i.e., Plan liabilities). The actuarial value is a smoothed asset value that recognizes 20% of the difference between the expected actuarial value and the market value of assets. The expected actuarial value equals the prior year's actuarial value adjusted with contributions, payments and investment earnings of 8.0%. This method tempers the volatile fluctuations in market value. **EXHIBIT 2** shows the determination of the actuarial value of assets in June 30, 2007.

**EXHIBIT 3** shows our projections of the *Fund* at the end of the current fiscal year (2008) and the next fiscal year (2009). We have assumed a net investment return of 8.0% per year and an aggregate payroll increase of 3.75% per year. These assumptions are consistent with the assumptions used for the June 30, 2007 actuarial valuations for the State's Pension Plans.



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The state appropriation for FY 2007 is 2.62%. We assumed the State appropriation will remain at this level in subsequent years. These appropriations provide sufficient funding for all ad-hoc increases granted without exceeding the 2.5% limitation. However, if no additional increases are adopted, the assets would surpass the statutory maximum of 2.5% of projected covered payroll during fiscal year 2011.

If you have any questions on this information, please call.

Sincerely,

Cheiron

A handwritten signature in black ink, appearing to read "Fiona E. Liston", with a long horizontal flourish extending to the right.

Fiona E. Liston, FSA

Consulting Actuary

Enclosures

cc:

Board of Trustees

**EXHIBIT 1****STATE OF DELAWARE POST-RETIREMENT BENEFIT FUND  
SCHEDULE OF STATE APPROPRIATION AND TRANSFERS**

<b>Fiscal Year Ending June 30</b>	<b>State Appropriation as a percentage of Covered Payroll</b>	<b>Transfer for Pensioner Increase Enacted</b>			
		<b>September 1, 2003 Increase<sup>1</sup></b>	<b>July 1, 2004 Increase<sup>2</sup></b>	<b>July 1, 2005 Increase<sup>3</sup></b>	<b>September 1, 2006 Increase<sup>4</sup></b>
2008	2.62%	11,369,600	11,987,300	12,199,400	12,233,900
2009	2.62%	1,907,200	12,436,800	12,656,900	12,692,700
2010	2.62%	0	0	13,131,600	13,168,600
2011	2.62%	0	0	0	13,662,500
2012 & later	2.62%	0	0	0	0

<sup>1</sup> Transfers began September 1, 2003 and are paid monthly

<sup>2</sup> Transfers began July 1, 2004 and are paid monthly

<sup>3</sup> Transfers began July 1, 2005 and are paid monthly

<sup>4</sup> Transfers began July 1, 2006 and are paid monthly

**EXHIBIT 2**

**STATE OF DELAWARE POST-RETIREMENT BENEFIT FUND**

**DETERMINATION OF ACTUARIAL VALUE OF ASSETS**

**AS OF JUNE 30, 2007**

<b>Item</b>	<b>Amount</b>
1. Actuarial value at beginning of year	\$6,917,900
2. Net Cashflow (Contributions less Transfers)	(1,234,900)
3. Expected interest (at valuation rate of 8.0%)	<u>504,000</u>
4. Expected value of assets at end of year: (1) + (2) + (3)	\$6,187,000
5. Market value of assets at end of year	6,536,800
6. Adjustment toward market value: 20% of [(5)-(4)]	70,000
7. Actuarial value of assets, end of year: (4) + (6)	\$6,257,000

**EXHIBIT 3****STATE OF DELAWARE POST-RETIREMENT BENEFIT FUND****PROJECTIONS OF FUND TO FISCAL YEAR ENDING JUNE 30, 2009**

<b>Item</b>	<b>Fiscal Year Ending</b>	
	<b>June 30, 2008</b>	<b>June 30, 2009</b>
1. Actuarial Value of Assets at the beginning of the year	\$ 6,257,000	\$ 3,686,800
2. Projected changes during the year		
Contributions	44,837,600	46,519,000
Transfers	(47,790,300)	(39,693,600)
Investment Income	<u>382,500</u>	<u>568,000</u>
Total	\$ (2,570,200)	\$ 7,393,400
3. Actuarial Value of Assets at the end of the year	\$ 3,686,800	\$ 11,080,200
4. Liabilities at the end of the year	\$ 113,202,300	\$ 72,742,800
5. Net Assets: (3) – (4), not less than zero	0	0
6. Projected Payroll		
State Employees	\$ 1,654,609,400	\$ 1,716,657,300
State Judges	9,824,500	10,192,900
State Police	<u>46,924,300</u>	<u>48,684,000</u>
Total	\$ 1,711,358,200	\$ 1,775,534,200
7. Net assets as a percent of payroll	0.00%	0.00%