

# Delaware Public Employees' Retirement System

*- a component unit of the State of Delaware*

## 34<sup>th</sup> Comprehensive Annual Financial Report

*Presented by the Board of Pension Trustees  
For the Fiscal Year Ended June 30, 2005*

*STATE EMPLOYEES' PENSION PLAN  
SPECIAL PENSION PLAN  
NEW STATE POLICE PENSION PLAN  
JUDICIARY PENSION PLANS  
COUNTY & MUNICIPAL POLICE AND FIREFIGHTERS' PLANS  
COUNTY & MUNICIPAL OTHER EMPLOYEES' PENSION PLAN  
VOLUNTEER FIREMEN'S PENSION PLAN  
DIAMOND STATE PORT CORPORATION PENSION PLAN  
COUNTY & MUNICIPAL POLICE AND FIREFIGHTERS' COLA FUND  
POST-RETIREMENT INCREASE FUND  
STATE EMPLOYEES' POST-RETIREMENT HEALTH INSURANCE PREMIUM FUND  
DELAWARE LOCAL GOVERNMENT RETIREMENT INVESTMENT POOL  
CLOSED STATE POLICE PENSION PLAN*

This Comprehensive Annual Financial Report has been  
Prepared by the Office of Pensions

Mailing Address:

McArdle Building, Suite #1  
860 Silver Lake Boulevard  
Dover, Delaware 19904-2402

Telephone: (800) 722-7300

E-Mail Address: [pensionoffice@state.de.us](mailto:pensionoffice@state.de.us)

WebSite: [www.delawarepensions.com](http://www.delawarepensions.com)

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## **INTRODUCTORY SECTION**



**Public Pension Coordinating Council  
Public Pension Standards  
2004 Award**

Presented to

**Delaware Public Employees Retirement System**

In recognition of meeting professional standards for  
plan design and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator



STATE OF DELAWARE  
STATE BOARD OF PENSION TRUSTEES  
AND  
OFFICE OF PENSIONS

McArdle Building, Suite #1  
860 Silver Lake Blvd.  
Dover, DE 19904-2402

When Calling Long Distance  
Toll Free Number 1-800-722-7300  
E-Mail: [pensionoffice@state.de.us](mailto:pensionoffice@state.de.us)

Telephone (302) 739-4208  
Fax (302) 739-6129  
[www.delawarepensions.com](http://www.delawarepensions.com)

September 30, 2005

The Honorable Ruth Ann Minner  
and  
Members of the 143rd General Assembly

Dear Governor and Members of the General Assembly:

The Board of Pension Trustees for the Delaware Public Employees' Retirement System (System) is proud to present its 34th Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2005.

This report provides information on nine retirement plans [State Employees', Special, New State Police, Judiciary, County & Municipal Police and Firefighters', County & Municipal Other Employees', Volunteer Firemen's, Diamond State Port Corporation, and Closed State Police] plus four commingled pension funds [County & Municipal Police and Firefighters' COLA (COLA Fund), Post-Retirement Increase (PRI), Delaware Local Government Retirement Investment Pool (DEL RIP), and State Employees' Post-Retirement Health Insurance Premium]. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the State Board of Pension Trustees (Board). To the best of our knowledge and belief, the enclosed data are accurate in all material respects and present fairly the System's financial position and operational results for the Fiscal Year ended June 30, 2005.

The 2005 Financial Report is presented in five sections:

- ♦ Introductory Section -- contains this transmittal letter, organization charts, Board and Legislative highlights.
- ♦ Financial Section -- provides the independent auditor's opinion, management's discussion and analysis, the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's financial position at the Plan level.



The Honorable Ruth Ann Minner  
and

Members of the 143<sup>rd</sup> General Assembly

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- ◆ Investment Section -- details total System performance, investment policy, and investment activities.
- ◆ Actuarial Section -- outlines the actuarial assumptions and describes the funding basis, contributions, and funded ratios of each Plan.
- ◆ Statistical Section -- includes tables and graphs about each Plan's membership.

(A detailed Table of Contents may be found on page 2.)

The System was established on June 11, 1970, with the incorporation of the State Employees', Judiciary, Closed State Police, and Retired & Disabled Teachers Pension Plans. The State Employees' and the Judiciary Plans were changed to actuarial reserve funding shortly thereafter. The Closed State Police Pension Plan remains a pay-as-you-go plan. Fiscal Year 1994 was the last year the Retired & Disabled Teachers' Pension Plan had members entitled to benefits.

When calendar year 1971 ended, the four pension plans totaled \$14.7 million in assets with 2,766 pensioners. The State's contribution was 13.1% of payroll. At the end of Fiscal Year 2005, pensioners numbered 20,363; monies from nine plans, three post-retirement trusts and one investment pool were commingled in a total System of \$5.9 billion. The State's contribution rate for the State Employees' Pension Plan for Fiscal Year 2005 was 4.9% of payroll. Employer rates in the other plans that we administer range from 4.0% to 17.3% of covered payroll. Benefit coverage varies by plan as shown on pages 29-32. In the major plans, benefit coverage has been regularly improved to maintain a very competitive position versus similar plans in other states, especially considering post-retirement health and spousal benefits. The majority of beneficiaries' pension benefits are fully funded. The funding status of each plan is detailed on pages 40-41.

### **Major Accomplishments**

*Disability Pension Review* - The disability pension review, which began in Fiscal Year 2003, has been refined into a plan to implement a new disability insurance program for the State Employees' Pension Plan. The required legislative action was taken during Fiscal Year 2005 -- Senate Substitute #1 for Senate Bill #178 -- and the target date for implementation has been established as January 1, 2006.

*Local Government Participation* - Membership in the County & Municipal plans continues to grow. New members include the Towns of Milton, Cheswold, the Cities of Milford and Rehoboth Beach, and the Fire Companies of Millville and Port Penn. In addition, the City of Dover and the Town of Newport have joined the Delaware Local Government Retirement Investment Pool.

*Improved Pension Benefits* - Legislation granting a post-retirement increase to retired members of the State Employees', Special, New State Police, Judiciary, and the County & Municipal Police & Firefighter's Pension Plans was granted during Fiscal Year 2005. Effective July 1, 2005, this increase applies to all members with an effective date prior to July 1, 2004. The Delaware State Legislature has granted 11 similar post-retirement increases over the last 12 years.



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and  
Members of the 143<sup>rd</sup> General Assembly  
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House Bill 209 was also passed during the Fiscal Year 2005 legislative session. This bill allows survivors of New State Police Pension Plan members who are killed in the line of duty to receive benefits equal to 75% of the deceased member's salary. In addition, House Bill 182 provides that these survivors are also eligible for 100% of the State's General Fund share for health insurance purposes regardless of years of service credit or date of hire.

Senate Bills 189 and 191 remove the integration of Social Security benefits from the calculation of pension benefits for all members currently receiving benefits under the County & Municipal Police & Firefighters' Pension Plan and the County & Municipal Other Employees' Pension Plan.

In an effort to improve the funding status for State Employees' post-retirement health care benefits, Senate Bill 231, which was passed during Fiscal Year 2005, appropriates \$10 million to the State Employees' Post-Retirement Health Care Premium Fund from the Fiscal Year 2006 General Fund budget.

*Best Practices* - The Board, with the help of its legal counsel and various Committee members, has undertaken a "Best Practices Review". External consultants, Board and Committee members, and Pension Office staff met on several occasions during Fiscal Year 2005 to define the scope of the review. It will focus on three key areas of pension system operations -- administration, investments, and governance. DPERS plans to hire additional consultants during Fiscal Year 2006 to undertake an in-depth review of key issues which were identified.

*Technology Improvements* - Following the upgrade to PeopleSoft version 8.8, the Office of Pensions has been concentrating on infrastructure improvements. These improvements include upgrading the disaster recovery plan for the office, adding additional layers of security protection to resident data, and reengineering processes to optimize the application in place. The DPERS website ([www.delawarepensions.com](http://www.delawarepensions.com)) has also been streamlined to provide information to our customers in a more efficient manner.

*GFOA Certificate of Achievement* - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Delaware Public Employees' Retirement System for its comprehensive annual financial report (CAFR) for the Fiscal Year ended June 30, 2004. 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 ninth 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.



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and

Members of the 143<sup>rd</sup> General Assembly

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*Public Pension Coordinating Council Award* - The Public Pension Coordinating Council (PPCC) granted the System the Public Pension Standards Award for 2004. The PPCC is a coalition of National Association of State Retirement Administrators (NASRA), National Council on Teacher Retirement (NCTR), and National Conference on Public Employee Retirement Systems (NCPERS). The major PPCC goal is to promote excellence in plan design and administration among state and local public retirement systems. The Public Pension Standards are intended to reflect minimum expectations for public retirement system management and administration and serve as a benchmark by which all defined benefit public plans should be measured. Public Pension Standards 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.

### **Investments and Economic Climate**

The System's investments had a 9.6% return in Fiscal Year 2005. The System's annualized total returns for the last five, ten and fifteen years are 3.1%, 9.7% and 10.2%, respectively. Relative to other public pension funds, the ranking of the System's performance is close to median for the latest fiscal year and the last five years, while the ten-year return ranks in the top 25%.

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. During the year, investment market returns were moderately positive, with the S&P 500 stock index gaining 6.3% and the Lehman Aggregate bond index up 6.8%. The System's 9.6% return for the year is a function of the ongoing focus on risk control and diversification into non-traditional asset classes. For a further discussion of portfolio diversification and investment strategy, see the Investment Section beginning on page 53 of this report.

The System's investment activity is governed by the "prudent person rule," a fiduciary standard, which applies to anyone with System authority. Fiduciaries must discharge their duties solely in the interest of System participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstances.

The Board has established the investment policy shown on page 57. Investment constraints are outlined, including the appropriate degree of risk. Investment managers are hired to execute the investment policy. They have full discretion for investment decisions within statutory authority, Board policy, and their respective guidelines. A list of the investment managers under contract with the System as of June 30, 2005, may be found on page 61 of this report. A summary of the total System's asset allocation can be found on page 60.

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and  
Members of the 143<sup>rd</sup> General Assembly  
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### **Funding Status**

A pension plan is well funded when it has sufficient assets invested to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of assets to actuarial accrued liability. It should be noted that four of the plans included in the System continue to be fully funded. Three of the remaining plans are making annual contributions at the actuarially determined rates to reach full funding. The Closed State Police Pension Plan remains a pay-as-you-go plan. The Notes to Trend Data Schedule presented on page 44 provides detailed information on each plan's remaining amortization period. The actuarial method for calculating accrued liability for all plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. A detailed discussion of funding method is provided in the Actuarial Section of this report which begins on page 70.

### **Internal Controls**

System internal accounting controls are designed to reasonably assure the safekeeping of assets and the reliability of financial reporting. Control procedures and responsibilities are well documented both in writing and with graphic flowcharts. These are reviewed and updated annually.

The Audit Committee, a committee appointed by the Board, monitors operations and controls throughout the year. An independent auditing firm audits the System's basic financial statements annually and reports any findings to the Board.

### **Professional Services**

Professional consultants are appointed by the Board to perform services essential to the effective and efficient operation of the System. An opinion on the System's basic financial statements from the independent auditors, KPMG LLP, as well as an opinion from the actuary, Milliman, Inc., are included in this report.

Ashford Consulting Group, Inc., serves as the System's investment advisor. Ashford provides the Board with annual investment performance updates and provides the Investment Committee with ongoing market insights, asset allocation recommendations, investment manager research and recommendations, performance and attribution analysis, and additional investment-related services.

### **Acknowledgments**

The preparation of this report reflects the combined efforts of the System staff under the direction of the Board. Specific sections and overall editing include contributions from various Board committees and professional consultants.

The Board welcomed two new ex-officio members during Fiscal Year 2005: Richard S. Cordrey, Secretary of Finance, and Dana Jefferson, Acting State Personnel Director. The Board commends the service of the previous ex-officio members: Lisa Blunt-Bradley, former State Personnel Director, and David W. Singleton, former Secretary of Finance.



The Honorable Ruth Ann Minner  
and

Members of the 143<sup>rd</sup> General Assembly

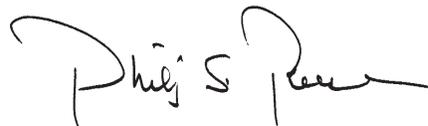
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We also appreciate the service and investment contributions of Investment Committee member Barbara S. Graham, who resigned due to other business commitments.

The Board thanks the many people who work so diligently to assure the successful operation and financial soundness of the Delaware Public Employees' Retirement System. These include the Pension Office staff; the State Personnel Director who provides administrative supervision to the Pension Office; other State support personnel; professional consultants; members of the Investment, Medical, and Audit Committees; and the Pension Advisory Council.

Respectfully submitted,



Philip S. Reese, Chair  
Board of Pension Trustees

**BOARD OF PENSION TRUSTEES, BOARD COMMITTEES, & PROFESSIONAL CONSULTANTS**

Board of Pension Trustees

Philip S. Reese, Chair  
Former Vice President Corporate  
Development and Treasurer  
Conectiv

Robert W. Allen  
President  
Allen Petroleum

Jan M. King  
Former Vice President and Treasurer  
Hercules, Inc.

Nancy J. Shevock  
Former Director  
Delaware Transit Corporation

Helen R. Foster, J.D.  
President  
CTW & Consulting Associates, LLC

Ex-Officio Board Members

Richard S. Cordrey  
State Secretary of Finance

Dana Jefferson, Ph.D., SPHR  
Acting State Personnel Director

Executive Secretary to the Board  
and Pension Administrator

David C. Craik

Legal Counsel

Marsha Kramarck, Esq.  
Deputy Attorney General

Investment Committee

Elva B. Ferrari, Chair  
Jan M. King  
Clark Phippen  
Philip S. Reese  
A. Dale Stratton

Audit Committee

Joel S. Poorman, Chair  
Robert W. Allen  
William Markell, Ed.D.  
Harold D. Smith, II

Medical Committee

William D. Shellenberger, M.D., Chair  
Vincent DelDuca, Jr., M.D.  
Robert W. Frelick, M.D.  
Albert Gelb, M.D.  
Charles S. Riegel, M.D.  
Phyllis M. Smoyer, M.D.  
Ignatius J. Tikellis, M.D.  
Charles O. Webber, M.D.  
Thomas F. Weir, M.D.

Pension Advisory Council

James B. Testerman, Chair  
Member, Delaware State Education Assoc.

Consulting Actuary

Milliman, Inc.

Investment Advisor

Ashford Consulting Group, Inc.

Auditors

KPMG LLP

Custodial Bank

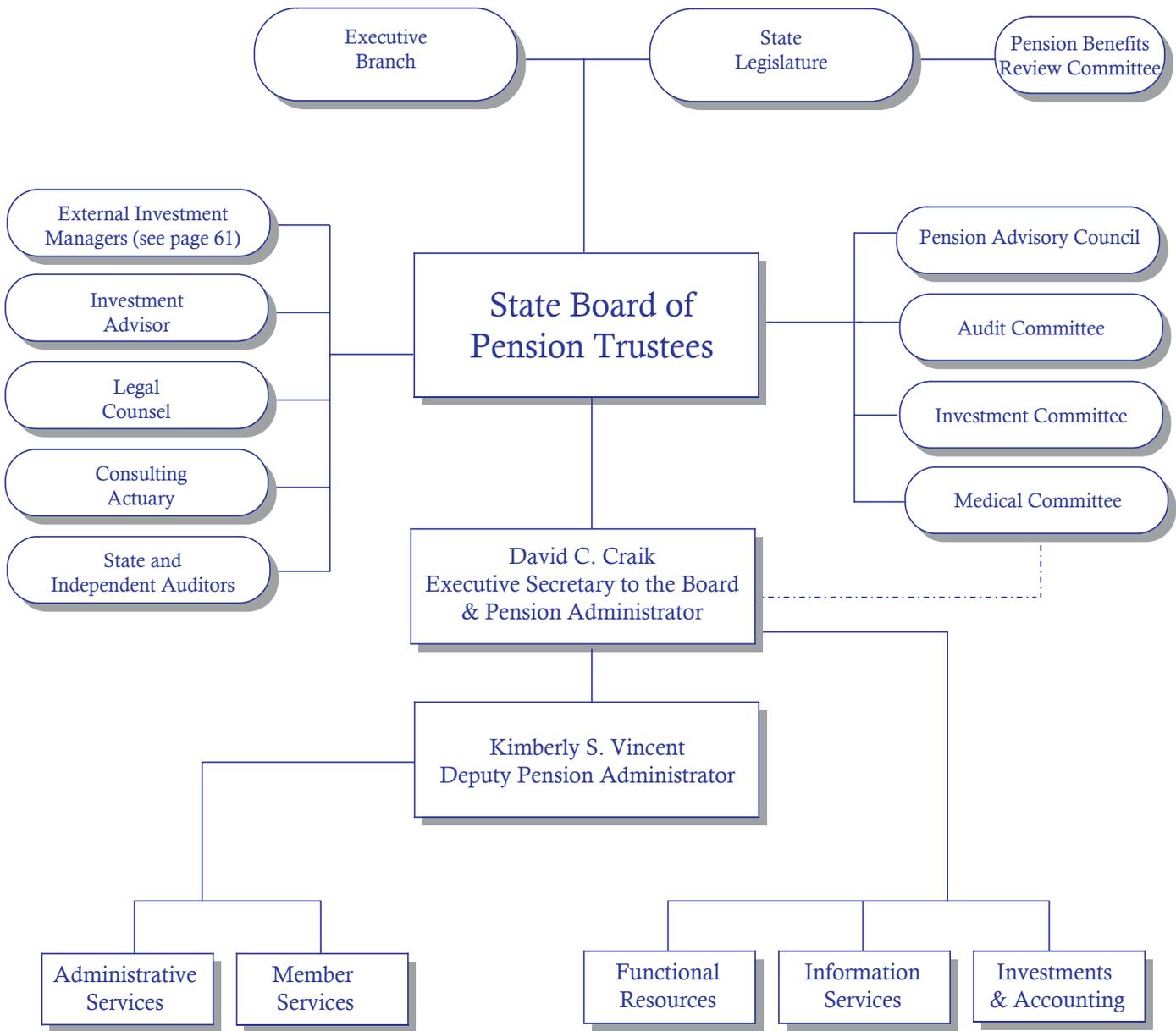
Mercantile-Safe Deposit & Trust Co.

Sub-Custodial Bank

Bank of New York



ORGANIZATION CHART



MANAGEMENT TEAM:

- Administrative Services:** Terri L. Timmons, Office Manager
- Functional Resources:** W. Ray Johnson, Human Resources Manager
- Information Services:** John T. McCartney, SPO Information Systems Manager
- Investments & Accounting:** Alice L. Simon, Pension Cash/Debt Manager
- Member Services:** Joanna M. Adams, Pension Benefit Processing
- Lisa DiDonato, Pre-Retirement Services
- Mary J. Wood, Post-Retirement Services

**HIGHLIGHTS OF BOARD ACTIVITIES**

The Board of Pension Trustees (Board) -- comprised of five members appointed by the Governor and confirmed by the Senate, and two ex-officio members -- is responsible for the general administration of these pension plans:

- ◆ State Employees' Pension Plan.
- ◆ Special Pension Plan.
- ◆ New State Police Pension Plan.
- ◆ Judiciary Pension Plans (Closed and Revised).
- ◆ County & Municipal Police and Firefighters' Pension Plans.
- ◆ County & Municipal Other Employees' Pension Plan.
- ◆ Volunteer Firemen's Pension Plan.
- ◆ Diamond State Port Corporation Pension Plan.
- ◆ Closed State Police Pension Plan.

The following retirement funds have been established under the custody of the Board for investment purposes only:

- ◆ County & Municipal Police and Firefighters' COLA Fund.
- ◆ Post-Retirement Increase Fund.
- ◆ Delaware Local Government Retirement Investment Pool.
- ◆ State Employees' Post-Retirement Health Insurance Premium Fund.

In addition to its general administrative responsibilities, the Board is responsible for these specific functions:

- ◆ Maintain and oversee the investment of the Delaware Public Employees' Retirement System (System).
- ◆ Appoint an independent actuary to perform annual actuarial valuations used as the basis for contributions to the System.
- ◆ Control and manage State pension payments.
- ◆ Hear appeals from State Pension Office decisions regarding eligibility for pension benefits.
- ◆ Adopt rules and regulations for the general administration of State pension plans.
- ◆ Prepare and publish an annual report to the Governor and General Assembly.
- ◆ Execute contracts with State agencies and others for assistance in pension plan administration and pension investment.
- ◆ Determine interest rates to be credited to members' contributions and rates to be charged on repayment of contributions previously withdrawn.

The day-to-day administration of these pension plans is performed by the State Pension Office, which also determines the eligibility of individual employees for pension benefits. The Pension Administrator reports to the State Personnel Director and also serves as Executive Secretary to the Board. Effective July 1, 2005 with the passage of House Bill 299, the Pension Administrator will report to the newly appointed director of the Office of Management and Budget (OMB).



**HIGHLIGHTS OF BOARD ACTIVITIES** *(continued)*

The Medical Committee of the Board is now comprised of nine medical doctors, all in private practice. It evaluates and makes recommendations concerning the medical condition of applicants for and recipients of disability pensions. The Medical Committee meets each month prior to the regular monthly meeting of the Board.

The four-person Audit Committee of the Board monitors operations and internal controls throughout the year to identify issues requiring Board and Pension Office action. They are responsible for interfacing with the Delaware Auditor of Accounts and the independent auditing firm to assure System compliance with generally accepted accounting practices and procedures.

The Investment Committee of the Board is currently comprised of five members. This Committee operates within the investment objectives established by the Board. The Committee establishes policies to meet these objectives and monitors these policies with the assistance of the Investment Advisor. The Committee also reviews prospective risk levels and rates of return of all classes of assets. Hence, the Committee assures investment diversification by selecting managers whose demonstrated performance reflects different management styles and asset class expertise. Most importantly, the Committee closely monitors the performance of all investment managers, not only in relation to specific absolute objectives, but also in relation to other fund managers following the same investment objectives. Further discussion of the Investment Committee's activities may be found in the Investment Section of this report beginning on page 53.

The Board retains Ashford Consulting Group, Inc., as investment advisor for the System. Ashford Consulting Group, Inc. provides a variety of services to the System including investment manager and custody contract negotiations, investment manager searches, performance analysis/attribution, investment policy, and asset allocation recommendations. The firm is prohibited by contract terms from managing any of the System's assets. A list of investment managers under contract with the System as of June 30, 2005, may be found on page 61 of this report.

The Board retains the firm of Milliman, Inc., to provide professional actuarial and consulting services. Such services include the preparation of comprehensive actuarial valuations and reports, analysis of the costs and other aspects of proposed changes in pension provisions, general consulting advice, and background information on other public pension plans.

The Department of Justice assigns a Deputy Attorney General to serve as legal advisor to the Board. The Deputy deals with legal questions involving interpretations and administration of pension laws, advises the Board in connection with appeals hearings, works with the Board on drafting legislation and regulations, and negotiates contracts.

The major activities of the Board and its committees during the 12-month period July 2004 through June 2005 were:

- ◆ Held regular monthly meetings and met with representatives of investment management firms and custodian bank on a regular basis.
- ◆ Held hearings for individual plan members who appealed decisions of the Pension Office or questioned the Board's interpretation of State pension laws.
- ◆ Held hearings on the eligibility of individual employees for disability pension benefits.
- ◆ Participated in meetings with the Governor's staff, members of the General Assembly, officials of State agencies and school districts, the Pension Advisory Council, representatives of employee organizations, and other interested parties.



**2005 LEGISLATION AFFECTING PENSIONS**

H. B. 182  
(75 Del. Laws, C114)

This bill ensures that a primary survivor of a Delaware State Trooper whose life has been taken in the line of duty will have the full cost of a basic individual contract of health care coverage paid for by the State of Delaware as long as that person is a primary survivor.

H. B. 209  
(75 Del. Laws, C100)

This bill ensures that an eligible survivor of a Delaware State Trooper who has died in the line of duty receives a survivor's pension equal to three-quarters of the officer's salary.

H. B. 299  
(75 Del. Laws, C88)

This legislation amends the Delaware Code to establish the Office of Management and Budget by transferring various divisions and other organizational units from the Office of the Budget, Department of Administrative Services and the State Personnel Office to the newly established Office of Management and Budget and the Department of State. Effective July 1, 2005, the Director of the Office of Management and Budget shall have the powers, duties and functions to be responsible for the clerical administration of all state pension funds. The Director of the Office of Management and Budget shall have the authority to recommend to the Governor such changes as may be desirable in the pension system for employees in the classified service.

Senate Substitute Bill 1  
for S. B. 178  
(75 Del. Laws, C191)

This bill establishes a Disability Insurance Program for employees that are covered under the State Employees' Pension Plan. The program consists of sick leave, short-term disability, and long-term disability benefits to provide a comprehensive program for those employees. It allows for an election into the disability program for employees that are vested in the State Employees' Pension Plan as of January 1, 2006. It allows employees that are receiving disability insurance benefits to continue to accrue service credit in the State Employees' Pension Plan until they reach normal retirement age and allows continued eligibility for health care benefits.

In addition, this bill permits an employee to purchase credited service at the time of retirement for accumulated sick leave in excess of 90 days beginning July 1, 2005. The employee is allowed to purchase up to one year of credited service, but that service cannot be used to determine eligibility for a pension benefit. School employees will receive credit based on the length of time of their contract; for example a 10-month employee will receive 12 months of credit by purchasing 10 months of sick leave. This provides an incentive for employees to accumulate sick leave, which in turn will reduce absences for employers.

S. B. 189  
(75 Del. Laws, C132)

Effective July 1, 2005, removes the integration of Social Security benefits from the calculation of pension benefits under the County & Municipal General Employees' pension plan. Effective January 1, 2006, employee contributions to this plan shall be 3% of total annual compensation in excess of \$6,000.



**2005 LEGISLATION AFFECTING PENSIONS** *(continued)*

- S. B. 191  
(75 Del. Laws, C133)
- Effective July 1, 2005, removes the integration of Social Security benefits from the calculation of pension benefits under the County & Municipal Police and Firefighters' pension plans. Effective January 1, 2006, member contributions to the fund shall be 7% of monthly compensation.
- Senate Substitute Bill 1  
for S. B. 201  
(75 Del. Laws, C134)
- Allows a Judge to use previous service in the State Employees' Pension Plan for eligibility under the Judges Pension Plan. This service can only be used to establish eligibility at 24 years of service and not for vesting or calculation purposes. Unified pension provisions already exists between the State Employees', New State Police, County & Municipal General Employees' and County & Municipal Police and Firefighters' pension plans.
- S. B. 223  
(75 Del. Laws, C135)
- Removes the requirement that limits retroactive benefit payments to two months following application for disability pension benefits.
- S. B. 231  
(75 Del. Laws, C99)
- Makes an appropriation of \$10 million to the Post Retirement Health Insurance Premium Fund from the Fiscal Year 2006 General Fund budget.
- S. B. 232  
(75 Del. Laws, C136)
- Grants pension increases to retired State Employees', retired Judges, retired New State police and retired County & Municipal Police & Firefighters' on July 1, 2005 for persons retired on or before June 30, 2004. Any monthly service, disability, and survivor pension based on a former service or disability pension that was effective on or before June 30, 2004, but after December 31, 1980, and is payable on July 1, 2005 shall be increased effective July 1, 2005 by 2%. Any monthly service, disability, and survivor pension based on a former service or disability pension that was effective before January 1, 1981 and is payable on July 1, 2005 shall be increased effective July 1, 2005 by 2% plus \$50 per month.

## **FINANCIAL SECTION**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Delaware Public Employees' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zjelke*

President

*Jeffrey R. Emer*

Executive Director



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors' Report

Members of the Board of Pension Trustees  
Delaware Public Employees' Retirement System:

We have audited the accompanying statement of plan net assets of the Delaware Public Employees' Retirement System (the System) as of June 30, 2005 and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based upon our audit. The accompanying comparative financial information has been derived from the Delaware Public Employees' Retirement System's June 30, 2004 financial statements, which were audited by other auditors and the State of Delaware Auditor of Accounts, whose report thereon dated August 27, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and those standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of the internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the System's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Delaware Public Employees' Retirement System as of June 30, 2005 and its changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 29, 2005 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The financial statements include summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2004, which was audited by other auditors and by the State of Delaware Auditor of Accounts, from which such summarized information was derived.

The information included in Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Trend Data on pages 23-25 and 40-44 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule of Administrative Expenses, Schedule of Investment Expenses and the Schedules of Plan Net Assets and Changes in Plan Net Assets for the Delaware Local Government Investment Pool are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

August 29, 2005



## Management's Discussion and Analysis

This section presents management's discussion and analysis of the Delaware Public Employees' Retirement System's (System) financial performance and provides an overview of the System's financial activities for the Fiscal Year ended June 30, 2005. It is intended to be a narrative supplement to the System's financial statements, which begin on page 24 of this report.

### Financial Highlights

The following financial highlights occurred during the Fiscal Year ended June 30, 2005:

- ◆ Plan net assets of all the pension funds administered by the System increased by \$406.8 million.
- ◆ Increased covered payrolls, resulting in higher member and employer pension contributions, totaled \$1,575.0 million, an increase of 5.7%. Member contributions increased as the State ended an 18-month hiring freeze and merit raises were granted in July 2004. Additionally, employer contributions increased due to higher employer contribution rates and more entities participating in the County & Municipal plans.
- ◆ Net investment earnings (net increase in fair value, plus investment earnings, less investment administrative expenses) declined by \$242.6 million from the elevated levels experienced in the previous fiscal year.
- ◆ Pension benefits paid to retirees and beneficiaries increased \$28.9 million bringing the total benefit payments to \$296.0 million. A net increase of 4.2% in the number of retirees and a post-retirement increase averaging 2% are responsible for the 10.8% increase in pension benefits. Refunds of contributions paid to former members upon termination of employment increased from \$2.6 million to \$2.8 million.
- ◆ Administrative expenses (including special project expenses) decreased by 1.5% compared to Fiscal Year 2004. This decrease is largely due to the completion of several special projects in early Fiscal Year 2005. (See Schedule 4 on page 46 for more details.)

### Using this Financial Report

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (pages 24-27) provide information about the activities of the nine individual pension plans administered and the four funds managed, as well as comparative summary information about these activities for the System as a whole.

The Schedule of Funding Progress (pages 40-41) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Employer Contributions (pages 42-43) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.



**NET ASSETS**

(dollar values expressed in thousands)

<b>Fiscal Years Ended June 30,</b>	<b>2005</b>	<b>2004</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Percent</b>
Cash and Investments at Fair Value	\$ 5,921,484	\$ 5,516,500	\$ 404,984	7.4%
Receivables	7,624	6,306	1,318	20.9%
<b>TOTAL ASSETS:</b>	<b>\$ 5,929,108</b>	<b>\$ 5,522,806</b>	<b>\$ 406,302</b>	<b>7.4%</b>
<b>TOTAL ACCRUED LIABILITIES:</b>	<b>1,104</b>	<b>1,579</b>	<b>(475)</b>	<b>(30.1%)</b>
<b>TOTAL PLAN NET ASSETS:</b>	<b>\$ 5,928,004</b>	<b>\$ 5,521,227</b>	<b>\$ 406,777</b>	<b>7.4%</b>

**CHANGES IN NET ASSETS**

(dollar values expressed in thousands)

<b>Fiscal Years Ended June 30,</b>	<b>2005</b>	<b>2004</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Percent</b>
<b>ADDITIONS:</b>				
Employer Contributions	\$ 137,718	\$ 106,523	\$ 31,195	29.3%
Transfer of Contributions from PRI Fund	34,214	28,079	6,135	21.8%
Transfer of Assets from Outside the System	9,661	8,518	1,143	13.4%
Member Contributions	43,421	40,981	2,440	6.0%
Other	37	14	23	164.3%
Total Net Investment Earnings:	526,230	768,780	(242,550)	(31.6%)
<b>TOTAL ADDITIONS:</b>	<b>\$ 751,281</b>	<b>\$ 952,895</b>	<b>\$ (201,614)</b>	<b>(21.2%)</b>
<b>DEDUCTIONS:</b>				
Transfer of Contributions from PRI Fund	\$ 34,214	\$ 28,079	\$ 6,135	21.8%
Transfer of Assets Outside the System	2,224	5,356	(3,132)	(58.5%)
Benefit Payments	296,092	267,172	28,920	10.8%
Refunds of Contributions to Members	2,819	2,592	227	8.8%
Group Life Payments	4,601	4,563	38	0.8%
<b>Administrative Expenses:</b>				
General Administrative Expenses	4,506	4,079	427	10.5%
eCRIS Project Administrative Expenses	-	335	(335)	(100.0%)
Disability Pension Review	30	38	(8)	(21.1%)
Actuarial Experience Study	4	60	(56)	(93.3%)
Health Care Review	5	45	(40)	(88.9%)
Disaster Recovery Project	-	65	(65)	(100.0%)
Best Practices Project	9	-	9	100.0%
Total Administrative Expenses:	\$ 4,554	\$ 4,622	\$ (68)	(1.5%)
<b>TOTAL DEDUCTIONS:</b>	<b>\$ 344,504</b>	<b>\$ 312,384</b>	<b>\$ 32,120</b>	<b>10.3%</b>
<b>INCREASE IN PLAN NET ASSETS</b>	<b>\$ 406,777</b>	<b>\$ 640,511</b>	<b>\$ (233,734)</b>	<b>(36.5%)</b>



## Analysis of Net Assets

The System was created to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the various plans, refunds of member contributions to terminated employees, and the cost of administering the System. Combined plan net assets increased by \$406.8 million during the last fiscal year. Fiscal Year 2005's positive return of 9.6% is the primary reason for this year's increase in total plan net assets. While current year returns exceeded benchmarks and actuarial assumptions for the System, net investment earnings were lower than Fiscal Year 2004.

Employer contributions increased approximately \$31.2 million primarily due to higher required actuarial contribution rates across all plans and an increased number of participating employers in the County & Municipal plans. Member contributions increased by approximately \$2.4 million due to an increase in the number of active employees primarily in the County & Municipal plans. Transfers from outside the System increased by approximately 13.4% as a result of two new participating entities in the Delaware Local Government Retirement Investment Pool (DELRIP) participants. Transfers from the Post-Retirement Increase Fund (PRI) increased by 21.8% reflecting the post-retirement increase granted by legislation effective July 1, 2004.

Transfers of Assets Outside the System include transfers from the County & Municipal Police and Firefighters' COLA Fund (COLA Fund) to individual participating entities and a reversion from the COLA Fund as required by statute. The reversion from the COLA Fund was transferred to the State's General Fund. Benefit payments increased by approximately 10.8% as a result of a 4.2% increase in the number of retirees over Fiscal Year 2004 and a post-retirement increase granted to over 90% of our retirees effective July 1, 2004 which averaged 2%.

Total administrative expenses (including special projects) decreased 1.5% primarily due to the completion of several special projects in early Fiscal Year 2005. Several individual projects were completed early in the fiscal year resulting in a 60% decrease in special project expenses. General administrative expenses, however, increased by 10.5% -- an increase which is directly attributable to infrastructure improvements in the data processing area, which included the purchase of several new servers, imaging scanners, various office-wide software upgrades, and approximately 3% of which represents increased expenses from the State's data processing contractual services area that are expected to be recurring.

## Historical Trends

Accounting standards require that the Statement of Plan Net Assets reports asset values at fair value and includes only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the pension funds is provided in the Schedule of Funding Progress (pages 40-41). The asset value stated in the Schedule of Funding Progress is the actuarial value of assets as determined by calculating the ratio of market value to book value of assets over a five-year period. The actuarial assumptions used in the most recent valuation are identified by plan on Schedule 3 - Notes to Trend Data (page 44).

Annual required contributions of employers and contributions made by employers in relation to the required contributions are provided in the Schedule of Employer Contributions (pages 42-43). This schedule indicates that employers are meeting their responsibilities to provide financial resources to the plans.



**STATEMENT OF PLAN NET ASSETS**

**AS OF JUNE 30, 2005 WITH COMPARATIVE TOTALS FOR JUNE 30, 2004**

*(expressed in thousands)*

	State Employees' Plan	Special Plan	New State Police Plan	Judiciary Plans	County & Municipal Police and Firefighters' Plans	County & Municipal Other Employees' Plan
<b>ASSETS:</b>						
Cash	\$ 2,009	15	419	32	724	89
Receivables:						
Employer Contributions	3,565	-	186	75	172	39
Member Contributions	1,748	-	102	11	86	23
Total Receivables:	\$ 5,313	-	288	86	258	62
Investments at Fair Value*:						
Domestic Fixed Income	1,026,616	148	27,129	6,351	10,669	1,254
Domestic Equities	1,572,719	227	41,560	9,728	16,343	1,921
Pooled Equity & Fixed Income	1,604,592	231	42,403	9,926	16,675	1,960
Alternative Investments	582,513	84	15,394	3,603	6,053	711
Short Term and Money Markets	213,108	29	5,562	1,306	2,139	231
Foreign Equities	602,627	87	15,925	3,728	6,262	736
Total Investments:	\$ 5,602,175	806	147,973	34,642	58,141	6,813
<b>TOTAL ASSETS:</b>	<b>\$ 5,609,497</b>	<b>821</b>	<b>148,680</b>	<b>34,760</b>	<b>59,123</b>	<b>6,964</b>
<b>LIABILITIES:</b>						
Transfer of Assets Outside the System	-	-	-	-	-	-
Benefits Payable	682	-	16	-	47	3
Accrued Administrative Expenses	306	-	7	-	7	2
<b>TOTAL LIABILITIES:</b>	<b>\$ 988</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>54</b>	<b>5</b>
<b>NET ASSETS HELD IN TRUST FOR</b>						
<b>PENSION BENEFITS:</b>	<b>\$ 5,608,509</b>	<b>821</b>	<b>148,657</b>	<b>34,760</b>	<b>59,069</b>	<b>6,959</b>

*(A Schedule of Funding Progress for each Plan is presented on pages 40-41.)*

*The notes to the financial statements are an integral part of this Statement.*

Volunteer Firemen's Plan	Diamond State Corporation Plan	County & Municipal Police and Firefighters' COLA Fund	Post-Retirement Increase Fund	Delaware		State Employees' Post-Retirement Health Insurance Premium Fund	Closed State Police Plan	Totals as of June 30,	
				Local Gov't Retirement Investment Pool				2005	2004
35	32	1,930	269	12		-	638	\$ 6,204	\$ 10,335
-	26	-	1,576	-		-	-	5,639	4,451
-	13	-	-	-		-	2	1,985	1,855
-	39	-	1,576	-		-	2	\$ 7,624	\$ 6,306
1,922	1,612	1,240	423	4,382		2,304	-	1,084,050	978,960
2,944	2,470	1,899	648	6,715		3,531	-	1,660,705	1,646,685
3,003	2,520	1,937	661	6,851		3,603	-	1,694,362	1,325,864
1,090	915	703	240	2,488		1,308	-	615,102	606,617
377	240	257	88	906		477	-	224,720	135,156
1,128	947	727	248	2,573		1,353	-	636,341	812,883
10,464	8,704	6,763	2,308	23,915		12,576	-	\$ 5,915,280	\$ 5,506,165
10,499	8,775	8,693	4,153	23,927		12,576	640	\$ 5,929,108	\$ 5,522,806
-	-	-	-	-		-	-	-	530
12	-	-	-	-		-	14	774	722
-	5	-	-	-		-	3	330	327
12	5	-	-	-		-	17	\$ 1,104	\$ 1,579
10,487	8,770	8,693	4,153	23,927		12,576	623	\$ 5,928,004	\$ 5,521,227

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005 WITH COMPARATIVE TOTALS FOR JUNE 30, 2004

(expressed in thousands)

	State Employees' Plan	Special Plan	New State Police Plan	Judiciary Plans	County & Municipal Police and Firefighters' Plans	County & Municipal Other Employees' Plan
<b>ADDITIONS:</b>						
<b>Contributions:</b>						
Employer Contributions	\$ 70,638	-	3,785	1,391	5,627	2,271
Transfer of Contributions from PRI Fund	33,839	-	81	294	-	-
Transfer of Assets from Outside the System	-	-	-	-	-	-
Member Contributions	37,857	-	2,636	275	2,003	215
Other	-	-	36	-	-	-
<b>Total Contributions:</b>	<b>\$ 142,334</b>	<b>-</b>	<b>6,538</b>	<b>1,960</b>	<b>7,630</b>	<b>2,486</b>
<b>Investments:</b>						
Investment Earnings	80,315	11	2,123	497	835	97
Net Increase in Fair Value	437,425	69	11,146	2,678	4,110	362
	\$ 517,740	80	13,269	3,175	4,945	459
Less Investment Manager/Advisor/Custody Fees	(17,587)	(2)	(465)	(109)	(183)	(21)
Less Investment Administrative Expenses	(305)	-	(8)	(2)	(3)	-
<b>Total Net Investment Earnings:</b>	<b>\$ 499,848</b>	<b>78</b>	<b>12,796</b>	<b>3,064</b>	<b>4,759</b>	<b>438</b>
<b>TOTAL ADDITIONS:</b>	<b>\$ 642,182</b>	<b>78</b>	<b>19,334</b>	<b>5,024</b>	<b>12,389</b>	<b>2,924</b>
<b>DEDUCTIONS:</b>						
Transfer of Contributions from PRI Fund	-	-	-	-	-	-
Transfer of Assets Outside the System	-	-	-	-	-	-
Benefit Payments	271,281	122	1,254	2,209	524	84
Refunds of Contributions to Members	2,408	-	99	-	235	13
Group Life Payments	4,454	14	-	-	-	-
Administrative Expenses	4,554	-	-	-	-	-
Allocation of Administrative Expenses	(344)	3	61	9	76	30
<b>TOTAL DEDUCTIONS:</b>	<b>\$ 282,353</b>	<b>139</b>	<b>1,414</b>	<b>2,218</b>	<b>835</b>	<b>127</b>
<b>NET INCREASE/(DECREASE):</b>	<b>\$ 359,829</b>	<b>(61)</b>	<b>17,920</b>	<b>2,806</b>	<b>11,554</b>	<b>2,797</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>						
<b>BENEFITS BEGINNING OF YEAR:</b>	<b>\$ 5,248,680</b>	<b>882</b>	<b>130,737</b>	<b>31,954</b>	<b>47,515</b>	<b>4,162</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>						
<b>BENEFITS END OF YEAR:</b>	<b>\$ 5,608,509</b>	<b>821</b>	<b>148,657</b>	<b>34,760</b>	<b>59,069</b>	<b>6,959</b>

The notes to the financial statements are an integral part of this Statement.



Volunteer Firemen's Plan	Diamond State Port Corporation Plan	County & Municipal Police and Firefighters' COLA Fund	Post-Retirement Increase Fund	Delaware Local Gov't Retirement Investment Pool	State Employees' Post-Retirement Health Insurance Premium Fund	Closed State Police Plan	Totals for Fiscal Years ended June 30,	
							2005	2004
810	352	-	35,824	-	-	17,020	\$ 137,718	\$ 106,523
-	-	-	-	-	-	-	34,214	28,079
-	-	2,546	-	7,115	-	-	9,661	8,518
213	173	-	-	-	-	49	43,421	40,981
-	-	-	-	-	-	1	37	14
1,023	525	2,546	35,824	7,115	-	17,070	\$ 225,051	\$ 184,115
150	127	96	33	343	180	79	84,886	122,915
772	662	625	140	1,281	967	-	460,237	662,960
922	789	721	173	1,624	1,147	79	\$ 545,123	\$ 785,875
(33)	(28)	(21)	(7)	(76)	(39)	-	(18,571)	(16,802)
(1)	(1)	-	-	(1)	(1)	-	(322)	(293)
888	760	700	166	1,547	1,107	79	\$ 526,230	\$ 768,780
1,911	1,285	3,246	35,990	8,662	1,107	17,149	\$ 751,281	\$ 952,895
-	-	-	34,214	-	-	-	34,214	28,079
-	-	2,224	-	-	-	-	2,224	5,356
1,172	212	-	-	-	-	19,234	296,092	267,172
43	21	-	-	-	-	-	2,819	2,592
-	-	-	-	-	-	133	4,601	4,563
-	-	-	-	-	-	-	4,554	4,622
20	99	-	-	-	-	46	-	-
1,235	332	2,224	34,214	-	-	19,413	\$ 344,504	\$ 312,384
676	953	1,022	1,776	8,662	1,107	(2,264)	\$ 406,777	\$ 640,511
9,811	7,817	7,671	2,377	15,265	11,469	2,887	\$ 5,521,227	\$ 4,880,716
10,487	8,770	8,693	4,153	23,927	12,576	623	\$ 5,928,004	\$ 5,521,227

**1. Plan Descriptions and Contribution Information**

The State of Delaware General Assembly enacted legislation to provide for the following State-sponsored pension plans:

- ◆ State Employees' Pension Plan.
- ◆ Special Pension Plan.
- ◆ New State Police Pension Plan.
- ◆ Judiciary Pension Plans (Closed and Revised).
- ◆ County & Municipal Police and Firefighters' Pension Plans.
- ◆ County & Municipal Other Employees' Pension Plan.
- ◆ Volunteer Firemen's Pension Plan.
- ◆ Diamond State Port Corporation Pension Plan.
- ◆ Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

As of June 30, 2005, employee membership data related to each of the Plans was as follows:

<b>Plan</b>	<b>Retirees &amp; Beneficiaries Currently Receiving Benefits</b>	<b>Terminated Employees Entitled to Benefits But Not Receiving Them Yet</b>	<b>Active Participants</b>	<b>Total Membership</b>	<b>Participating Employers</b>
State Employees'	18,374	1,072	33,379	52,825	7
Special	30	-	-	30	N/A
New State Police	40	7	610	657	1
Judiciary	38	-	53	91	1
County & Municipal Police/Firefighters'	25	12	675	712	23
County & Municipal Other Employees'	17	1	315	333	18
Volunteer Firemen's	1,265	20	5,106	6,391	61
Diamond State Port Corporation	24	3	267	294	1
Closed State Police	550	-	25	575	1
<b>Total Membership:</b>	<b>20,363</b>	<b>1,115</b>	<b>40,430</b>	<b>61,908</b>	<b>113</b>

The following are brief descriptions of the individual plans in effect as of June 30, 2005. For a more complete description, please refer to the plan documents.

## State Employees' Pension Plan

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 5 years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

Contributions:  
Employer - determined by Board of Pension Trustees.  
Member - 3% of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

## Special Pension Plan

Plan Description and Eligibility: The Special Pension Plan is a cost-sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: \$7,000 per member.

## New State Police Pension Plan

Plan Description and Eligibility: The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at age 62.

Retirement: Age 55 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:  
*Duty - Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.  
*Partial Disability* - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of compensation.

Contributions:  
Employer - determined by Board of Pension Trustees.  
Member - 7% of compensation.

Death Benefit: \$7,000 per member.



## Judiciary Pension Plans (Closed and Revised)

### Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one plan can be used to satisfy the liabilities of the other plan.

### Service Benefits:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations.

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

### Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits.

### Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (2/3 with 3% reduction); if employee is active, eligible survivor receives 2/3 of pension the employee would have received at age 62.

### Contributions:

Employer - determined by Board of Pension Trustees.

Member -

Closed - \$500 per year for the first 25 years of service.

Revised - 3% of earnings that exceed \$6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

## County & Municipal Police and Firefighters' Pension Plans

Plan Description and Eligibility: County & Municipal Police and Firefighters' Pension Plan, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers and firefighters employed by a county or municipality of the State which has become part of the Plan.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service, subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service.

Retirement: Age 62 with 10 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

### Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.

*Partial Disability* - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

### Contributions:

Employer - determined by Board of Pension Trustees.

Member - FICA covered - 5% of compensation.

Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

### County & Municipal Other Employees' Pension Plan

Plan Description and Eligibility: County & Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 5 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.  
Member - 3% of earnings in excess of \$6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

### Volunteer Firemen's Pension Plan

Plan Description and Eligibility: The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: \$5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

Employer - determined by Board of Pension Trustees.  
Volunteer Member - \$60 per member per calendar year.

Death Benefit: Not applicable.

### Diamond State Port Corporation Pension Plan

Plan Description and Eligibility: The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan which covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service; or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

Employer - determined by Board of Pension Trustees.  
Member - 2% of compensation.

Death Benefit: Not applicable.

**Closed State Police Pension Plan**

Plan Description and Eligibility: The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vesting/Retirement:  
20 years of credited service or age 55.

Disability Benefits: Duty - 75% of monthly salary.  
Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension, eligible survivor receives 50% of pension.

Contributions:  
Employer - The Closed State Police Plan is funded on a pay-as-you-go basis.  
Member - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: \$7,000 per member.

**2. Fund Descriptions and Contributions**

**County & Municipal Police and Firefighters' COLA Fund**

During 1990, the State of Delaware passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' Pension Plans. This mechanism allows the State to appropriate funds to a separate COLA Fund managed by the Board of Pension Trustees (Board). The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with 18 Del. C. §708(c), when a participating employer grants a post-retirement increase for a plan outside of the State's County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

**Post-Retirement Increase Fund**

The State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in Fiscal Year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund (PRI) managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI Fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

As of June 30, 2005, recently granted post-retirement increases have outstanding liabilities totalling \$147.1 million, which will be transferred to the appropriate plans over the next five fiscal years as follows:

Fiscal Year 2006	\$ 38,748,000
Fiscal Year 2007	\$ 33,717,000
Fiscal Year 2008	\$ 35,037,000
Fiscal Year 2009	\$ 26,490,000
Fiscal Year 2010	\$ 13,132,000



The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for Fiscal Year 2005 was 2.4% of covered payroll. Funding for Fiscal Year 2006 has been increased to 2.6% of covered payroll.

### **Investment Trust Fund**

In June 1996, the State of Delaware passed legislation which established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board to allow local governments within the State of Delaware the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were four participating entities in DELRIP as of June 30, 2005, which comprise the pool in its entirety. Schedules of net assets and changes in net assets may be found in the Supporting Schedules section of this report in accordance with Government Accounting Standards Board (GASB) Statement 31 (pages 48-49). No separate comprehensive annual report is issued for this pool.

DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legally binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares (see page 35). Since this pool is a portion of the total System, the same accounting and investment policies described in the following financial footnotes apply.

### **State Employees' Post-Retirement Health Insurance Premium Fund**

The State Employees' Post-Retirement Health Insurance Premium Fund, which was established in June of 2000, is an investment fund for the benefit of retired members of the State Employees' Pension Plan. The State of Delaware provides health insurance to eligible retirees and their dependents. Under 29 Del. C. c. 52, the State Legislature has the authority to establish and amend benefit provisions, including contribution requirements. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For the Fiscal Year ended June 30, 2005, plan members contributed \$2.4 million, or 2.9% of total premiums through their required contributions. The State of Delaware General Fund was required to contribute the balance of the premium cost (\$82.2 million, or 97.1% for Fiscal Year 2005). Pre-funding levels are set annually by Legislature as a part of the budget process. Funding began in Fiscal Year 2002 in the amount of 0.7% of covered payroll and continued in Fiscal Year 2003 at the rate of 0.4%. Funding was suspended for Fiscal Years 2004 and 2005. A \$10 million lump sum contribution to this Fund was appropriated during the State's Fiscal Year 2006 General Fund budget process.

## **3. Summary of Significant Accounting Policies**

### **Reporting Entity**

The management of all the Plans and Funds in the System is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. The daily operation of the System is the responsibility of the Office of Pensions. Although the assets of the Plans and Funds are commingled for investment purposes, each Plan's or Fund's assets may be used only for the payment of benefits to the members of that Plan or Fund in accordance with the terms of that Plan or Fund.

Although separate financial statements are presented for the System as a whole, the System is also considered a component unit of the State of Delaware financial reporting entity.

### **Basis of Accounting**

The financial statements are presented on the accrual basis. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan or Fund.

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Certain Fiscal Year 2004 amounts have been reclassified to conform with the 2005 presentation.

### **Use of Estimates**

Management of the System has made certain estimates and assumptions relative to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United State of America. Actual results could differ from those estimates.

Investments in venture capital and other alternative assets tend to be illiquid and the underlying assets are generally not publicly-traded companies. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

The System has elected to implement GASB Statement 44 in this annual report. This Statement establishes the objectives of the statistical section and the five categories of information it contains: financial trends, revenue capacity, debt capacity, demographic and economic data, and operations. Implementation is not required until the Fiscal Year 2006 annual report. The adoption of this Statement has no material impact on the System's financial position or results of operations.

The following GASB pronouncements were issued as of June 30, 2005, but are not required to be implemented at this time:

GASB STATEMENT 43: Post-employment Benefit Plans other than Pensions. This Statement establishes accounting and financial reporting standards for plans that provide other post-employment benefits (OPEB) other than pension benefits (for example, health insurance, life insurance). Implementation will be required in the Fiscal Year 2007 annual report. The adoption of this Statement is not anticipated to have a material impact on the System's financial position or results of operations although significant additional disclosures for actual cost of these benefits will be required.

GASB STATEMENT 45: Employer Accounting for Other Post-employment Benefits. This Statement addresses how state and local governments should account for and report their costs and obligations related to OPEB, including post-employment healthcare and other non-pension benefits. Implementation will be required in the Fiscal Year 2007 annual report. The adoption of this Statement is not anticipated to have a material impact on the System's financial position or results of operations.

### Investments

All of the investment assets of the plans and funds, with the exception of the Closed State Police Pension Plan (which is a pay-as-you-go plan), are pooled and invested in a common Master Trust. Each of the Plans or Funds described herein participate in the Master Trust based on funds contributed and earnings allocated.

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchanges when available. Venture capital and other limited partnership values are determined based on appraised values which approximate fair value.

### Administrative Expenses

General expenses for the administration of the System are budgeted and approved as part of the annual State budget process and are paid from the assets of the System. The Board does, however, review and approve proposals for one-time, special projects as they arise.

## 4. Deposits and Investments

### Investment Policy

There are no State statutes limiting allowable investments for the System. The investment decisions are dictated by the prudent person rule and the internal investment policy established by the Board as outlined below:

- ◆ maintain a minimum of 20% - 25% of total assets of the System in fixed income investments such as bonds and short-term investments (assets with maturity of less than one year);
- ◆ conduct an ongoing review of prospective risk levels and rates of return available from all classes of assets eligible for investment;
- ◆ employ a variety of investment managers with demonstrated skills in managing funds through different styles of management with expertise in particular kinds of assets such as stocks, bonds, real estate, mortgages, venture capital, money market instruments, currency, or combinations thereof; and
- ◆ closely monitor the performance of all investment managers not only in relation to specific absolute objectives, but also in relation to other fund managers following similar investment objectives.

For the Fiscal Year ended June 30, 2005, the System has operated in all material respects in accordance with these policies.



**Investments**

The following is a listing of domestic fixed income and short-term investments and related maturity schedule. The totals presented are derived from the individual assets held by the System as of June 30, 2005. As investment managers may be contractually granted the flexibility to augment their portfolios with investments outside their primary investment classification, these totals may differ from disclosures made on the Statement of Plan Net Assets (pages 24-25), which reflects the primary asset class in which the fund manager invests.

**Investment Maturities (in Years)**  
*(expressed in thousands)*

Investment Type	Fair Value	Less					More than 30
		than 1	1 - 4.9	5 - 9.9	10 - 19.9	20 - 30	
Financials	\$ 99,135	\$ 25,307	28,541	17,684	8,037	8,305	11,261
Foreign Government	119,077	13,288	39,441	19,980	28,703	17,665	-
Industrials	81,120	-	11,182	19,392	14,277	36,269	-
Other Bonds/Bond Mutual Funds	88,120	1,216	25,615	6,446	7,866	26,571	20,406
Telephone	19,157	-	1,051	4,861	1,870	11,375	-
Transportation	4,741	-	-	1,489	3,252	-	-
Treasury Notes & Bonds	125,967	24,383	62,983	13,322	20,913	4,366	-
U.S. Gov't Agencies	199,859	38,789	49,635	6,058	27,246	74,139	3,992
Utilities	13,366	835	4,657	6,183	451	1,240	-
World Bank	12,429	-	12,429	-	-	-	-
Certificates of Deposit	19,454	19,454	-	-	-	-	-
Discount Commercial Paper	156,395	156,395	-	-	-	-	-
Discount Commercial Notes	20,905	20,905	-	-	-	-	-
Other Investments*	265,098						
<b>Total:</b>	<b>\$ 1,224,823</b>	<b>\$ 300,572</b>	<b>235,534</b>	<b>95,415</b>	<b>112,615</b>	<b>179,930</b>	<b>35,659</b>

\* Assets held in pooled investments -- specific investment maturities not available.

**Interest Rate Risk**

The State has delegated investment policy for the System to the Board and its Committees. The Investment Committee sets its own rigorous policy in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates.

**Credit Risk**

The System's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices. As of June 30, 2005, the System's fixed income and short-term investments (as noted above) had the following risk characteristics:



<b>Moody's Ratings or Comparable</b>	<b>Percent of Total Fund</b>	<b>Market Value (expressed in thousands)</b>	<b>Callable Amount (expressed in thousands)</b>	<b>Callable Dates</b>
AAA to A	12.0%	\$ 710,022	\$ -	-
BBB to B	2.6%	151,596	5,762	through October 20, 2010
CCC to C	0.3%	19,803	1,027	through April 15, 2009
Less than C	0.0%	-	-	-
Not Rated	1.3%	78,304	300	through April 15, 2011
Other Investments*	4.5%	265,098	-	-
<b>Total:</b>	<b>20.7%</b>	<b>\$ 1,224,823</b>	<b>\$ 7,089</b>	

\* Assets held in pooled investments -- specific investment ratings, callable details not available.

### Custodial Credit Risk

Of the System's \$6,204,000 cash balance, \$433,000 represents pooled deposits held by the State Treasurer's Office. The balance of \$5,771,000 represents pooled deposits in short-term investments held by the custodian bank. Both of these accounts are uninsured and uncollateralized.

### Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

The following managers have investments at fair value in excess of 5% of the System's net assets held in trust for pension benefits as of June 30, 2005:

	<b>Fair Value</b> <i>(expressed in thousands)</i>
Mellon Capital Asset Allocation Fund	\$ 1,324,978
Oaktree International Convertibles	405,627
T. Rowe Price Natural Resource	398,192
Mellon Capital Global Asset Allocation Fund	369,384
Lehman Capital - Fixed	357,171
Loomis-Sayles & Company LP	309,612

### Management Fees

The System has paid \$13.0 million and \$14.2 million in management fees to the venture capital limited partnerships and transition managers for the Fiscal Years ended June 30, 2005 and 2004, respectively. The decrease in management fees is directly related to the use of fewer transition managers during Fiscal Year 2005 versus Fiscal Year 2004. These fees are netted against investment income.

### Investment Commitments

The System has commitments to invest up to an additional \$393 million in venture capital limited partnerships in varying amounts as of June 30, 2005, to be drawn down, as called upon, over a period of years. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing partnerships as managers in this asset class realize the proceeds of their investments.

**Risk Management**

Risks of loss to the System are limited to investment-related losses. Fixed assets used by the System are considered to be the property of the State of Delaware at an approximate book value of \$443,000. Risk of loss related to worker’s compensation, self-insurance, theft, torts, and other similar risks, is assumed by the State of Delaware.

**Foreign Investments/Forward Exchange Contracts**

Foreign investments include equity securities, bonds, and short-term investments. In conjunction with certain of these foreign investments, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. At June 30, 2005, the System did not hold any directly-held open forward exchange contracts.

The following is a listing of the System’s foreign assets as of June 30, 2005, excluding foreign-issuer assets valued at \$155.7 million which were U.S. dollar denominated. As a result, totals presented may differ from disclosures made in the Statement of Plan Net Assets (pages 24-25), which reflects the primary asset class in which the fund manager invests.

		<b>Investment Types</b> <i>(expressed in thousands)</i>			
<b>Currency</b>	<b>Fair Value in U.S. Dollars</b>	<b>Fixed Income</b>	<b>Cash</b>	<b>Equities</b>	
Australian Dollar	\$ 14,503	\$ 9,551	4	4,948	
Canadian Dollar	3,383	3,383	-	-	
Swiss Franc	36,484	13,980	-	22,504	
Euro	266,551	179,578	4,468	82,505	
British Pound	75,447	30,487	166	44,794	
Hong Kong Dollar	4,399	113	-	4,286	
Japanese Yen	65,374	33,000	12	32,362	
Norwegian Krone	391	391	-	-	
Swedish Krona	4,980	-	-	4,980	
Singapore Dollar	8,816	1,258	-	7,558	
Other Investments*	229,210	53,053	-	176,157	
<b>Total:</b>	<b>\$ 709,538</b>	<b>\$ 324,794</b>	<b>4,650</b>	<b>380,094</b>	

\* Assets held in pooled investments -- specific currency exposure not available.

## Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; enhance return
Exchange traded futures contracts	Reduce transaction costs; hedge equity market risk; control fixed income; portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
Asset backed securities	Enhance return

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the System typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the System's derivative holdings on a regular basis to insure that the derivatives used by managers of the System will not have a material adverse impact on its financial condition.



REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE 1 - SCHEDULE OF FUNDING PROGRESS**

(dollar values expressed in thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annualized Covered Payroll	(6)
							UAAL as a % of Covered Payroll (3)/(5)
State Employees'*	30-Jun-2005	\$ 5,660,057	\$ 5,572,719	\$ (87,338)	101.6%	\$ 1,471,931	(5.9%)
	30-Jun-2004	5,387,560	5,229,927	(157,633)	103.0%	1,399,279	(11.3%)
	30-Jun-2003	5,125,442	4,794,944	(330,498)	106.9%	1,355,800	(24.4%)
	30-Jun-2002	4,956,156	4,521,732	(434,424)	109.6%	1,351,112	(32.2%)
	30-Jun-2001	4,759,031	4,232,244	(526,787)	112.4%	1,270,632	(41.5%)
	30-Jun-2000	4,409,079	3,769,596	(639,483)	117.0%	1,198,626	(53.4%)
Special	30-Jun-2005	\$ 855	\$ 791	\$ (64)	108.1%	N/A	N/A
	30-Jun-2004	933	785	(148)	118.9%	N/A	N/A
	30-Jun-2003	1,009	768	(241)	131.4%	N/A	N/A
	30-Jun-2002	1,832	742	(1,090)	246.9%	N/A	N/A
	30-Jun-2001	1,866	993	(873)	187.9%	N/A	N/A
	30-Jun-2000	1,834	834	(1,000)	219.9%	N/A	N/A
New State Police*	30-Jun-2005	\$ 150,209	\$ 149,657	\$ (552)	100.4%	\$ 39,645	(1.4%)
	30-Jun-2004	134,507	128,932	(5,575)	104.3%	36,718	(15.2%)
	30-Jun-2003	120,457	106,272	(14,185)	113.3%	31,778	(44.6%)
	30-Jun-2002	109,615	91,928	(17,687)	119.2%	30,281	(58.4%)
	30-Jun-2001	99,138	80,040	(19,098)	123.9%	27,624	(69.1%)
	30-Jun-2000	86,810	68,367	(18,443)	127.0%	25,558	(72.2%)
Judiciary*	30-Jun-2005	\$ 35,112	\$ 44,079	\$ 8,967	79.7%	\$ 8,475	105.8%
	30-Jun-2004	32,841	38,864	6,023	84.5%	7,672	78.5%
	30-Jun-2003	30,961	32,319	1,358	95.8%	7,173	18.9%
	30-Jun-2002	29,049	30,122	1,073	96.4%	7,329	14.6%
	30-Jun-2001	27,231	29,635	2,404	91.9%	6,371	37.7%
	30-Jun-2000	24,884	28,108	3,224	88.5%	5,794	55.6%
County & Municipal Police and Firefighters'	30-Jun-2005	\$ 59,711	\$ 61,335	\$ 1,624	97.4%	\$ 33,389	4.9%
	30-Jun-2004	48,893	45,204	(3,689)	108.2%	27,930	(13.2%)
	30-Jun-2003	41,228	36,698	(4,530)	112.3%	24,128	(18.8%)
	30-Jun-2002	35,053	30,344	(4,709)	115.5%	21,342	(22.1%)
	30-Jun-2001	29,389	29,465	76	99.7%	19,605	1.4%
	30-Jun-2000	23,496	23,582	86	99.6%	18,011	1.5%

REQUIRED SUPPLEMENTARY INFORMATION (continued)

**SCHEDULE 1 - SCHEDULE OF FUNDING PROGRESS** (continued)

(dollar values expressed in thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annualized Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
County & Municipal	30-Jun-2005	\$ 7,048	\$ 6,722	\$ (326)	104.8%	\$ 9,737	(3.3%)
Other Employees'	30-Jun-2004	4,275	3,340	(935)	128.0%	7,474	(12.5%)
	30-Jun-2003	3,602	3,332	(270)	108.1%	6,209	(4.3%)
	30-Jun-2002	3,033	2,816	(217)	107.7%	2,545	(8.5%)
	30-Jun-2001	2,794	2,962	168	94.3%	2,292	7.3%
	30-Jun-2000	2,410	2,604	194	92.5%	2,004	9.7%
Diamond State Port Corporation	30-Jun-2005	\$ 8,948	\$ 9,732	\$ 784	91.9%	\$ 9,248	8.5%
	30-Jun-2004	8,140	9,049	909	89.9%	8,950	10.2%
	30-Jun-2003	7,328	7,056	(272)	103.9%	8,636	(0.1%)
	30-Jun-2002	6,675	6,617	(58)	100.9%	9,354	(0.6%)
	30-Jun-2001	6,044	5,618	(426)	107.6%	8,788	(4.8%)
	30-Jun-2000	5,188	5,222	34	99.3%	7,715	0.4%
Closed State Police+	30-Jun-2005	\$ 749	\$ 283,902	\$ 283,153	0.3%	\$ 2,579	10,979.2%
	30-Jun-2004	2,979	285,044	282,065	1.0%	2,608	10,815.4%
	30-Jun-2003	2,322	318,250	315,928	0.7%	2,869	11,011.8%
	30-Jun-2002	2,036	318,687	316,651	0.6%	3,105	10,198.1%
	30-Jun-2001	1,749	306,194	304,445	0.6%	3,247	9,376.2%
	30-Jun-2000	1,468	302,795	301,327	0.5%	3,888	7,750.2%
Volunteer Firemen's	30-Jun-2005	\$ 10,665	\$ 22,913	\$ 12,248	46.5%	5,106	\$ 2,399
	30-Jun-2004	10,121	21,950	11,829	46.1%	5,055	2,340
	30-Jun-2003	9,644	15,619	5,975	61.7%	4,933	1,211
	30-Jun-2002	9,333	14,940	5,607	62.5%	4,856	1,155
	30-Jun-2001	9,022	13,837	4,815	65.2%	4,769	1,010
	30-Jun-2000	8,412	13,703	5,291	61.4%	4,579	1,155

\* Excludes liability and amortization payments due to ad hoc benefit adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.



REQUIRED SUPPLEMENTARY INFORMATION (continued)

**SCHEDULE 2 - SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(dollar values expressed in thousands)

<b>Plan</b>	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
State Employees**	30-Jun-2005	\$ 70,638	100.0%
	30-Jun-2004	57,459	100.0%
	30-Jun-2003	40,175	100.0%
	30-Jun-2002	18,148	100.0%
	30-Jun-2001	20,542	100.0%
	30-Jun-2000	43,433	100.0%
Special	30-Jun-2005	\$ -	N/A
	30-Jun-2004	-	N/A
	30-Jun-2003	-	N/A
	30-Jun-2002	-	N/A
	30-Jun-2001	-	N/A
	30-Jun-2000	-	N/A
New State Police*	30-Jun-2005	\$ 3,785	100.0%
	30-Jun-2004	3,125	100.0%
	30-Jun-2003	2,786	100.0%
	30-Jun-2002	2,476	100.0%
	30-Jun-2001	2,480	100.0%
	30-Jun-2000	2,585	100.0%
Judiciary*	30-Jun-2005	\$ 1,391	100.0%
	30-Jun-2004	1,235	100.0%
	30-Jun-2003	1,342	100.0%
	30-Jun-2002	1,399	100.0%
	30-Jun-2001	1,333	100.0%
	30-Jun-2000	1,666	100.0%
County & Municipal Police and Firefighters'	30-Jun-2005	\$ 5,627	100.0%
	30-Jun-2004	3,179	100.0%
	30-Jun-2003	2,931	100.0%
	30-Jun-2002	2,779	100.0%
	30-Jun-2001	2,664	100.0%
	30-Jun-2000	2,771	100.0%

## REQUIRED SUPPLEMENTARY INFORMATION (continued)

**SCHEDULE 2 - SCHEDULE OF EMPLOYER CONTRIBUTIONS** (continued)  
(dollar values expressed in thousands)

<b>Plan</b>	<b>Fiscal Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
County & Municipal Other Employees'	30-Jun-2005	\$ 2,271	100.0%
	30-Jun-2004	321	100.0%
	30-Jun-2003	248	100.0%
	30-Jun-2002	92	100.0%
	30-Jun-2001	165	100.0%
	30-Jun-2000	352	100.0%
Volunteer Firemen's	30-Jun-2005	\$ 1,403	57.7%
	30-Jun-2004	694	100.0%
	30-Jun-2003	667	100.0%
	30-Jun-2002	586	100.0%
	30-Jun-2001	618	100.0%
	30-Jun-2000	645	100.0%
Diamond State Port Corporation	30-Jun-2005	\$ 352	100.0%
	30-Jun-2004	346	100.0%
	30-Jun-2003	333	100.0%
	30-Jun-2002	341	100.0%
	30-Jun-2001	386	100.0%
	30-Jun-2000	389	100.0%
Closed State Police	30-Jun-2005	\$ 24,358	69.9%
	30-Jun-2004	27,747	70.2%
	30-Jun-2003	27,654	68.0%
	30-Jun-2002	27,831	64.0%
	30-Jun-2001	27,709	62.0%
	30-Jun-2000	28,208	57.5%

\*Totals do not include Post-Retirement Increase Fund Contributions.



REQUIRED SUPPLEMENTARY INFORMATION (continued)

**SCHEDULE 3 - NOTES TO TREND DATA**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the last actuarial valuation follows:

<b>Plan</b>	<b>State Employees'</b>	<b>Special</b>	<b>New State Police</b>	<b>Judiciary</b>	<b>Closed State Police</b>
Valuation Date	30-Jun-2005	30-Jun-2005	30-Jun-2005	30-Jun-2005	30-Jun-2005
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases and Open for Aggregate Gain/Loss	N/A	Level Percent Closed	Level Percent Closed	Level Dollar Closed
Remaining Amortization Period	21.2 years	N/A	14.8 years	15.8 years	31 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market

Actuarial Assumptions:

Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases <sup>1</sup>	4.3% to 10.1%	N/A	4.8% to 16.7%	4.3% to 13.1%	4.8% to 5.3%
Cost-of-living adjustments	Ad hoc	Ad hoc	Ad hoc	Ad hoc	Based on CPI

<b>Plan</b>	<b>County &amp; Municipal Firefighters'</b>	<b>County &amp; Municipal Other Employees'</b>	<b>Volunteer Firemen's</b>	<b>Diamond State Port Corporation</b>
Valuation Date	30-Jun-2005	30-Jun-2005	30-Jun-2005	30-Jun-2005
Actuarial Cost Method	Entry Age Normal <sup>2</sup>	Entry Age Normal <sup>2</sup>	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Closed	Level Percent Closed
Remaining Amortization Period	10 years	10 years	22 years	17 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market

Actuarial Assumptions:

Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases <sup>1</sup>	4.3% to 15.7%	4.3% to 10.1%	N/A	4.8%
Cost-of-living adjustments	Ad hoc	Ad hoc	Ad hoc	Ad hoc

<sup>1</sup> Projected salary increases include an inflation component of 3.75% for all plans. A more detailed discussion of projected salary increases may be found on page 73.

<sup>2</sup> Actuarial cost method changed to Entry Age Normal from Frozen Initial Liability effective June 30, 2002.



## **SUPPORTING SCHEDULES**

**SCHEDULE 4 - SCHEDULE OF ADMINISTRATIVE EXPENSES**

(dollar values expressed in thousands)

	Fiscal 2005	Fiscal 2004	Change	
			Dollars	Percent
<b>Personal Services:</b>				
Salaries	\$ 2,075	\$ 2,001	\$ 74	3.7%
Fringe Benefits	771	687	84	12.2%
<b>Total Personal Services:</b>	<b>\$ 2,846</b>	<b>\$ 2,688</b>	<b>\$ 158</b>	<b>5.9%</b>
<b>Professional Services:</b>				
Actuarial	169	166	3	1.8%
Audit	44	52	(8)	(15.4%)
Medical Services	21	14	7	50.0%
State Agency Support Services	23	21	2	9.5%
Other Professional Services	3	2	1	50.0%
<b>Total Professional Services:</b>	<b>\$ 260</b>	<b>\$ 255</b>	<b>\$ 5</b>	<b>2.0%</b>
<b>Communication:</b>				
Printing	56	49	7	14.3%
Telephone	30	31	(1)	(3.2%)
Postage	135	127	8	6.3%
Travel	14	24	(10)	(41.7%)
Other Communications	22	25	(3)	(12.0%)
<b>Total Communications:</b>	<b>\$ 257</b>	<b>\$ 256</b>	<b>\$ 1</b>	<b>0.4%</b>
<b>Data Processing:</b>				
Contractual Services	142	31	111	358.1%
Training	3	11	(8)	(72.7%)
Maintenance	321	265	56	21.1%
Equipment - Hardware	142	49	93	189.8%
Equipment - Software	47	5	42	840.0%
<b>Total Data Processing:</b>	<b>\$ 655</b>	<b>\$ 361</b>	<b>\$ 294</b>	<b>81.4%</b>
<b>Rentals:</b>				
Equipment Leasing	7	7	-	0.0%
Fleet Services	5	5	-	0.0%
Office Space	450	441	9	2.0%
<b>Total Rentals:</b>	<b>\$ 462</b>	<b>\$ 453</b>	<b>\$ 9</b>	<b>2.0%</b>
<b>Miscellaneous:</b>				
Supplies and Equipment	16	15	1	6.7%
Maintenance	5	2	3	150.0%
Continuing Education	2	8	(6)	(75.0%)
Temporary Employment Services	-	38	(38)	(100.0%)
Other Miscellaneous	3	3	-	0.0%
<b>Total Miscellaneous:</b>	<b>\$ 26</b>	<b>\$ 66</b>	<b>\$ (40)</b>	<b>(60.6%)</b>
<b>General Administrative Expenses:</b>	<b>\$ 4,506</b>	<b>\$ 4,079</b>	<b>\$ 427</b>	<b>10.5%</b>
<b>Special Projects:</b>				
eCRIS Project Administrative Expenses:	-	\$ 335	\$ (335)	(100.0%)
Disability Pension Review:	30	\$ 38	\$ (8)	(21.1%)
Actuarial Experience Study:	4	\$ 60	\$ (56)	(93.3%)
Health Care Review:	5	\$ 45	\$ (40)	(88.9%)
Disaster Recovery Project:	-	\$ 65	\$ (65)	(100.0%)
Best Practices Review:	9	\$ -	\$ 9	100.0%
<b>Total Special Projects:</b>	<b>\$ 48</b>	<b>\$ 543</b>	<b>\$ (495)</b>	<b>(91.2%)</b>
<b>Grand Total Administrative Expenses:</b>	<b>\$ 4,554</b>	<b>\$ 4,622</b>	<b>\$ (68)</b>	<b>(1.5%)</b>



**SCHEDULE 5 -- SCHEDULE OF INVESTMENT EXPENSES***(dollar values expressed in thousands)*

	Fiscal 2005	Fiscal 2004	Change	
			Dollars	Percent
Custody Fees	\$ 834	\$ 889	\$ (55)	(6.2%)
Investment Manager/Advisor Fees	17,737	15,913	1,824	11.5%
Pension Office Support Staff	322	293	29	9.9%
<b>Total Investment Expenses:</b>	<b>\$ 18,893</b>	<b>\$ 17,095</b>	<b>\$ 1,798</b>	<b>10.5%</b>



**SCHEDULE OF PLAN NET ASSETS**  
**OF THE DELAWARE LOCAL GOVERNMENT RETIREMENT INVESTMENT POOL**  
**AS OF JUNE 30, 2005 WITH COMPARATIVE TOTALS FOR JUNE 30, 2004**  
*(expressed in thousands)*

	<u>Sussex County Gov't</u>					<u>Totals as of June 30,</u>	
	General Account	Post Retirement Benefits	Town of Elsmere	City of Dover	Town of Newport	2005	2004
<b>ASSETS:</b>							
Cash	\$ -	-	-	-	12	\$ 12	\$ -
Receivables:	-	-	-	-	-	-	-
Employer Contributions	-	-	-	-	-	-	-
Member Contributions	-	-	-	-	-	-	-
Total Receivables:	\$ -	-	-	-	-	\$ -	\$ -
Investments at Fair Value:							
Domestic Fixed Income	\$ 2,846	507	329	444	256	4,382	2,714
Domestic Equities	4,361	777	505	680	392	6,715	4,566
Pooled Equity & Fixed Income	4,449	793	515	694	400	6,851	3,676
Alternative Investments	1,615	288	188	252	145	2,488	1,681
Short Term and Money Markets	589	105	68	92	52	906	374
Foreign Equities	1,671	298	193	261	150	2,573	2,254
Total Investments:	\$ 15,531	2,768	1,798	2,423	1,395	\$ 23,915	\$ 15,265
<b>TOTAL ASSETS:</b>	<b>\$ 15,531</b>	<b>2,768</b>	<b>1,798</b>	<b>2,423</b>	<b>1,407</b>	<b>\$ 23,927</b>	<b>\$ 15,265</b>
<b>LIABILITIES</b>							
Transfer of Assets outside the System	\$ -	-	-	-	-	\$ -	\$ -
Benefits Payable	-	-	-	-	-	-	-
Accrued Administrative Expenses	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES:</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET ASSETS HELD IN TRUST FOR</b>							
<b>POOL PARTICIPANTS:</b>							
	\$ 15,531	2,768	1,798	2,423	1,407	\$ 23,927	\$ 15,265



## SCHEDULE OF CHANGES IN PLAN NET ASSETS

## OF THE DELAWARE LOCAL GOVERNMENT RETIREMENT INVESTMENT POOL

FOR THE FISCAL YEAR ENDED JUNE 30, 2005 WITH COMPARATIVE TOTALS FOR JUNE 30, 2004

*(expressed in thousands)*

	Sussex County Gov't					Total for Fiscal	
	General Account	Post Retirement Benefits	Town of Elsmere	City of Dover	Town of Newport	Years ended June 30,	
						2005	2004
<b>ADDITIONS:</b>							
<u>Contributions:</u>							
Employer Contributions	\$ -	-	-	-	-	\$ -	\$ -
Transfer of Contributions from PRI Fund	-	-	-	-	-	-	-
Transfer of Assets from Outside the System	2,461	887	-	2,355	1,412	7,115	2,852
Member Contributions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Total Contributions:</b>	<b>\$ 2,461</b>	<b>887</b>	<b>-</b>	<b>2,355</b>	<b>1,412</b>	<b>\$ 7,115</b>	<b>\$ 2,852</b>
<u>Investments:</u>							
Investment Earnings	223	40	26	35	19	\$ 343	\$ 341
Net Increase/(Decrease) in Fair Value	985	137	138	41	(20)	1,281	1,537
	\$ 1,208	177	164	76	(1)	\$ 1,624	\$ 1,878
Less Investment Mgr./Advisor/Custody Fees	(49)	(9)	(6)	(8)	(4)	(76)	(46)
Less Investment Administrative Expenses	(1)	-	-	-	-	(1)	(1)
<b>Total Net Investment Earnings:</b>	<b>\$ 1,158</b>	<b>168</b>	<b>158</b>	<b>68</b>	<b>(5)</b>	<b>\$ 1,547</b>	<b>\$ 1,831</b>
<b>TOTAL ADDITIONS:</b>	<b>\$ 3,619</b>	<b>1,055</b>	<b>158</b>	<b>2,423</b>	<b>1,407</b>	<b>\$ 8,662</b>	<b>\$ 4,683</b>
<b>DEDUCTIONS:</b>							
Transfer of Contributions from PRI Fund	-	-	-	-	-	-	-
Transfer of Assets Outside the System	-	-	-	-	-	-	-
Benefit Payments	-	-	-	-	-	-	-
Refunds of Contributions to Members	-	-	-	-	-	-	-
Group Life Payments	-	-	-	-	-	-	-
Administrative Expenses	-	-	-	-	-	-	-
Allocation of Administrative Expenses	-	-	-	-	-	-	-
<b>TOTAL DEDUCTIONS:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE:</b>	<b>\$ 3,619</b>	<b>1,055</b>	<b>158</b>	<b>2,423</b>	<b>1,407</b>	<b>\$ 8,662</b>	<b>\$ 4,683</b>
<b>NET ASSETS HELD IN TRUST FOR POOL</b>							
<b>PARTICIPANTS BEGINNING OF YEAR:</b>	<b>\$ 11,912</b>	<b>1,713</b>	<b>1,640</b>	<b>-</b>	<b>-</b>	<b>\$ 15,265</b>	<b>\$ 10,582</b>
<b>NET ASSETS HELD IN TRUST FOR POOL</b>							
<b>PARTICIPANTS END OF YEAR:</b>	<b>\$ 15,531</b>	<b>2,768</b>	<b>1,798</b>	<b>2,423</b>	<b>1,407</b>	<b>\$ 23,927</b>	<b>\$ 15,265</b>



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

Members of the Board of Pension Trustees  
Delaware Public Employees' Retirement System:

We have audited the financial statements of the Delaware Public Employees' Retirement System (the System) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters including the internal control over financial reporting that have been reported to the management of the System in a separate letter dated August 30, 2005.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



This report is solely intended for the information and use of the Board of Pension Trustees, Secretary of Finance, Office of Pension Management, Office of the Controller General, Office of the Attorney General, Office of the Governor, and the Office of Management and Budget and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del C., Section 10002(d), this report is public record and its distribution is not limited.

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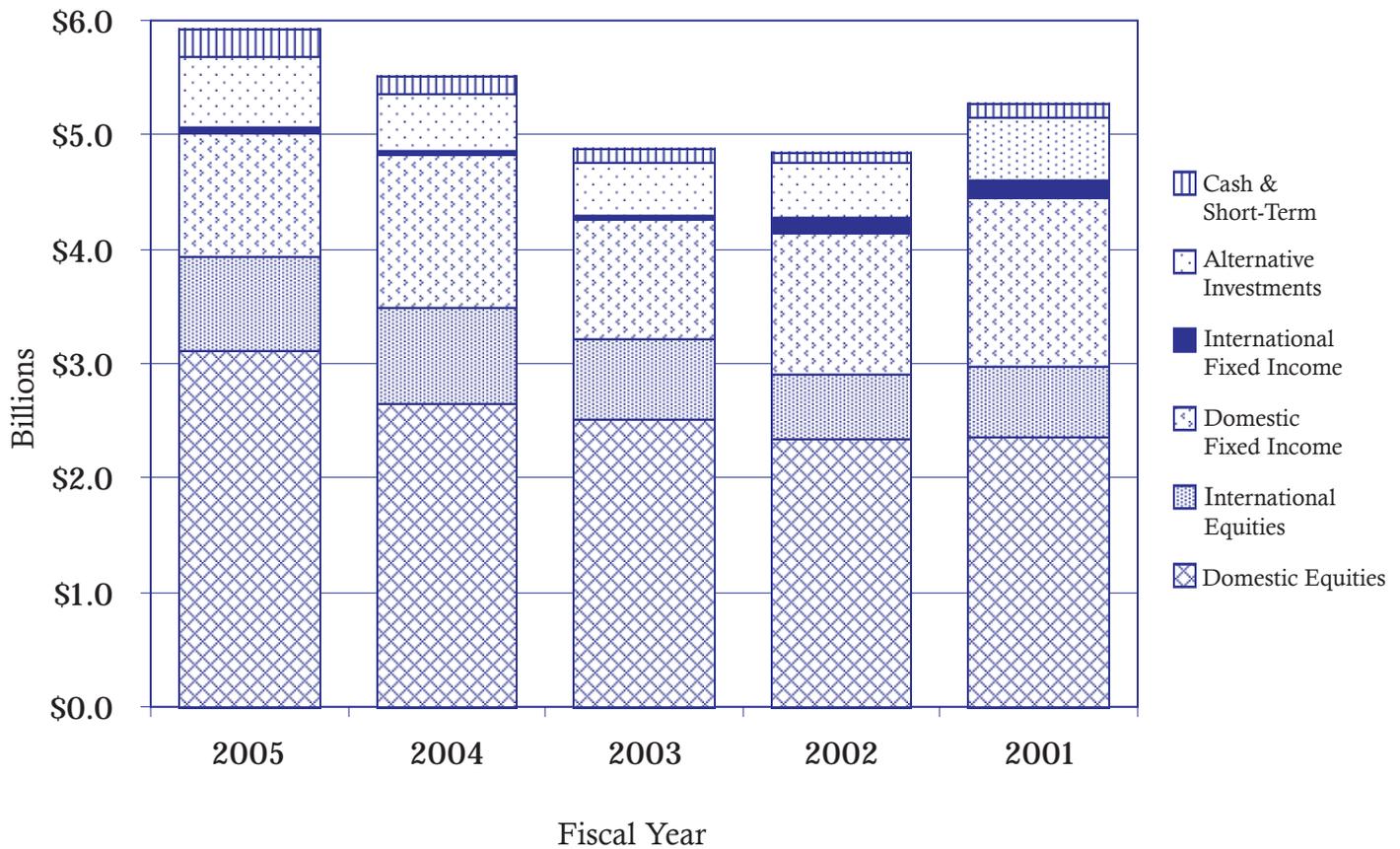
August 29, 2005



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## **INVESTMENT SECTION**

FIVE-YEAR INVESTMENT COMPARISON



	Fiscal Years Ended June 30, (dollar values expressed in millions)				
	2005	2004	2003	2002	2001
Domestic Equities *	\$3,119.6	\$2,655.7	\$2,520.7	\$2,340.5	\$2,371.0
International Equities	817.0	839.2	697.2	577.1	607.3
Domestic Fixed Income	1,084.2	1,242.3	950.8	1,234.8	1,483.8
International Fixed Income	54.4	27.6	28.8	132.1	147.8
Alternative Investments	615.1	607.3	559.9	480.9	549.2
Cash & Short-Term	237.7	149.1	123.3	92.3	121.5
	\$5,928.0	\$5,521.2	\$4,880.7	\$4,857.7	\$5,280.6

\*Real estate holdings in the form of Real Estate Investment Trusts held through Fiscal Year 2002 are included in Equities.

**Note:** For these asset classifications, the Pooled Equity and Fixed Income accounts are included in their respective equity and fixed income asset classes and, therefore, are different from the categories used in the financial section of pages 24-25.





**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
 AND  
**OFFICE OF PENSIONS**

McArdle Building, Suite #1  
 860 Silver Lake Blvd.  
 Dover, DE 19904-2402

When Calling Long Distance  
 Toll Free Number 1-800-722-7300  
 E-Mail: [pensionoffice@state.de.us](mailto:pensionoffice@state.de.us)

Telephone (302) 739-4208  
 Fax (302) 739-6129  
[www.delawarepensions.com](http://www.delawarepensions.com)

August 16, 2005

Dear Board Members, Participants, and Beneficiaries:

The Board of Pension Trustees' Investment Committee (Committee) oversees the investment of the retirement funds of the Delaware Public Employees' Retirement System (System). The Committee's investment oversight includes the nine retirement plans [State Employees', Special, New State Police, Judiciary, County & Municipal Police/Firefighters', County & Municipal Other Employees', Volunteer Firemen's, Diamond State Port Corporation, and Closed State Police] that the Board of Pension Trustees (Board) administers and the four commingled pension funds [County & Municipal Police/Firefighters' COLA, Post-Retirement Increase (PRI), Delaware Local Government Retirement Investment Pool (DELRIP), and State Employees' Post-Retirement Health Insurance Premium] that the Board manages.

The Committee consists of five members appointed by the Board. The Committee operates within the following investment objectives established by the Board:

- w To realize a real return of 3% per year over long periods.
- w To control portfolio risk so as to limit downside price fluctuation of the total System.
- w To realize as high a rate of total return as possible consistent with all of the above.

While not restricted by mandated targeted asset allocations, investment decisions are further dictated by the Board's internal investment policy which requires a minimum of 20% - 25% of the total assets of the System to be invested in fixed income investments, such as bonds and cash equivalents. The Committee monitors this policy with the assistance of the Investment Advisor. Also, the Committee reviews prospective risk levels and rates of return of all classes of assets. Hence, the Committee assures investment diversification by selecting managers whose demonstrated performance reflects different management styles and asset class expertise. Most importantly, the Committee closely monitors the performance of all investment managers, not only in relation to specific absolute objectives, but also in relation to other fund managers following the same investment objectives.

The System returned 9.6% for Fiscal Year 2005. The total System's annualized rate of return over the last five, ten, and fifteen years was 3.1%, 9.7%, and 10.2%, respectively. As reported by a major performance ranking comparison service, the System's investment performance ranks close to the median for the one-year and five-

Board Members, Participants, and Beneficiaries

Page 2

August 16, 2005

year periods, and in the top quartile of public funds for the most recent ten-year period. For the period ending June 30, 2005, the System's market value totaled \$5.9 billion representing an increase in assets from June 30, 2004 of \$406.8 million.

The fiscal year witnessed fairly steady economic growth conditions, as consumer spending and employment gains, along with new order growth for business equipment, all showed measurable advances during the year. Against this backdrop, corporate earnings experienced double-digit growth, albeit at a slower rate than in the prior year. For the fiscal year, the S&P 500 stock index gained 6.3%. Despite strong profit growth, the onset of significantly higher energy prices and worries about rising short-term interest rates led to below average stock market gains for the period. Meanwhile, the bond market, as measured by the Lehman Aggregate index, had a similar 6.8% return, as bonds benefited from declines in long-term interest rates, despite a series of increases in short-term rates by the Federal Reserve.

The System's fiscal year return of 9.6% is a function of the Committee's ongoing focus on risk control and diversification. In looking at the long-term risks and returns of investing in stocks and bonds, the Committee has come to focus more on non-traditional asset classes, which have again proven beneficial to the profile of the System's portfolio. During the year, the Investment Committee reallocated some foreign equity assets from active to passive management and realized gains from equity and fixed income investments, the proceeds of which were directed primarily to new alternative investment opportunities.

In connection with the increased focus on non-traditional assets, the Investment Section of this report now separates the performance of alternative investments. This group includes investments previously disclosed as private investments. As the managed futures exposure is considered a fixed income alternative, it is included in that asset class. Combining these diverse investments allows the Committee to monitor the performance and weighting of the group relative to the entire investment portfolio.

On behalf of our Trustees, we welcome Clark Phippen as a new Investment Committee member effective October 2004. We also appreciate the service and contributions of former member Barbara S. Graham, whose service during the year was much appreciated. Barbara, who joined the Committee during the year, resigned in April due to other business commitments.

We would like to acknowledge the recent passing of A. Herbert Nehrling, Jr., who ably served the Committee from 1990 to the end of 2003. Over his tenure, the Committee valued Herb's insightful questions and contrarian viewpoints.

As always, we thank our dedicated professional staff at the Office of Pensions, our Investment Advisor, our custodian banks, and our money managers, who all work diligently to assure the successful operation of the Board of Pension Trustees' Investment Committee.

Respectfully submitted,



Elva B. Ferrari, Chair  
Board of Pension Trustees' Investment Committee

## Investment Activity

For the fiscal year, the Delaware Public Employees' Retirement System (System) had an overall 9.6% rate of return. This performance ranks the System near the median for one-year and five-year periods, and in the top quartile of public funds for the most recent ten-year period.

The equity markets showed steady performance during Fiscal Year 2005, especially in the first half of the year. Bonds benefited from declines in long-term interest rates, despite a series of short-term rate increases. For the fiscal year, the System's domestic equity investments produced a return of 13.5% versus the S&P 500 stock index return of 6.3%. While the Lehman Aggregate bond index returned 6.8%, the System's fixed income investments provided a return of 8.1%.

Return data for the total System was calculated on a time-weighted basis in accordance with the standards of the Association for Investment Management & Research (AIMR). Valuations, where available, are based on published national securities exchanges prices.

## Investment Philosophy and Objectives

In the investment of public funds, adequate funding of employee pensions is a paramount concern. Excessive risk taking could jeopardize that funding. An appropriate balance must be struck between risks taken and returns sought to ensure the long-term health and affordability of the plans involved. For 30 years, the System has been managed to control the extent of downside risk to which assets are exposed while maximizing the potential for long-term gain.

Specific investment objectives are:

- ◆ To realize a real return (System return less CPI) of 3% per year over long periods (about 15 years).
- ◆ To control portfolio risk so as to limit downside price fluctuation of the total System in any 12-month period.
- ◆ To realize as high a rate of total return as possible, consistent with all of the above.

To achieve these objectives, these investment policies are employed:

- ◆ Allocate a minimum of 20% - 25% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments.
- ◆ While not restricted by specific targeted asset allocations, maintain a widely diversified portfolio, so as to minimize the risk of overexposure to any one market sector or investment style.
- ◆ Closely monitor the performance of all investment managers against specific absolute objectives and in relation to other managers following the same investment objectives.

## Investment Process

While the objectives and policies have been repeatedly reaffirmed, the implementation process undergoes continuous evolution. The increasing volume of investment information and the complexities of the global marketplace necessitate the continuous development and use of advanced information systems. Ongoing enhancements are employed in every aspect of investment management, from asset allocation decisions to manager selection and performance measurement.



## General Management

During each year the Committee, with Board of Pension Trustees' (Board) oversight, carries out a number of general management practices to assure that the appropriate policies, controls, and resources are in place. Areas that are reviewed at least annually include:

- ◆ Investment objectives and policies based on an analysis of cash flow and liabilities.
- ◆ Management tools for decision making.
- ◆ Long-term risk and return levels for various investment options.
- ◆ Manager organization, performance, transaction costs, fees and expenses, proxy voting procedures, and adherence to investment philosophy.
- ◆ System performance versus externally measured universes of similar funds.
- ◆ Internal and external audits.
- ◆ Contacts with other leading state investment funds to compare management practices.
- ◆ Policy objectives and performance of alternative investments (including limited partnerships, and private LLCs).

## Investment Results

In Fiscal Year 2005, the investment process experienced:

- ◆ A time-weighted total return of 9.6% based on market values.
- ◆ Benefit and expense payments exceeded net employer and member contributions by \$119.4 million.
- ◆ Net investment earnings (investment earnings less investment expenses) of \$526.2 million.
- ◆ Increase in total Fund net assets from \$5.521 billion to \$5.928 billion.
- ◆ Overall volatility well below that of an all common stock portfolio.

Funds are invested for long-term results and each single year's returns must be viewed in relation to longer periods.

	Fiscal Years Ending June 30,					Five	Ten	Fifteen
	2005	2004	2003	2002	2001	Years Ending 6/30/05 *	Years Ending 6/30/05 *	Years Ending 6/30/05 *
Total System Return	9.6%	15.9%	3.1%	(6.3%)	(5.1%)	3.1%	9.7%	10.2%
Consumer Price Index (CPI)	2.5%	3.2%	2.2%	1.0%	3.3%	2.4%	2.5%	2.5%
Fund Real Return	7.1%	12.7%	0.9%	(7.3%)	(8.4%)	0.7%	7.2%	7.7%

*\*All returns greater than one year are annualized.*

One investment objective is to achieve an annualized rate of total return over any 15-year period that is at least 3 percentage points greater than inflation. The most recent 15-year result is a real rate of return of 7.7% (10.2% System return less 2.5% CPI) measured on a time-weighted basis. During this period, risk, as measured by relative volatility, was approximately 57.3% of the level that would have been experienced by a fund invested 100% in the S&P 500. The real rate of return from such a 100% stock portfolio would have been 8.1% (10.6% S&P 500 less 2.5% CPI). These are not typical real rates of return and should not be expected going forward. The last 15 years encompassed periods of exceptional returns in both the bond and stock markets which are unlikely to be repeated.



**Periods Ending June 30, 2005**

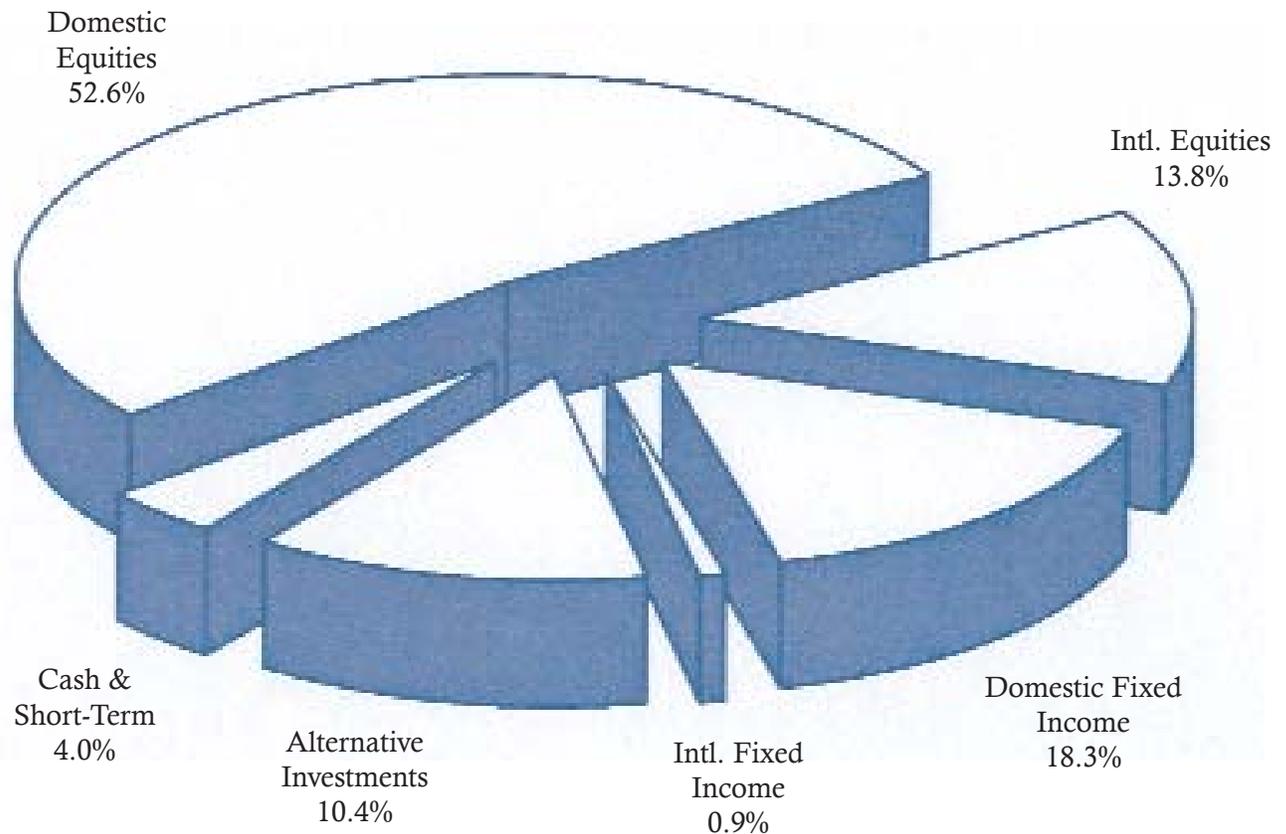
*(All Returns Greater Than One Year Are Annualized)*

	<b>Five Years</b>	<b>Ten Years</b>	<b>Fifteen Years</b>
Total System Return	3.1%	9.7%	10.2%
S&P 500 Index % Return	(2.4%)	9.9%	10.6%
Excess Return vs. S&P 500 Index	5.5%	(0.2%)	(0.5%)
Relative Risk vs. S&P 500 Index	57.6%	56.2%	57.3%

Chart II on page 62 summarizes the total System and asset class segment returns for each of the last five fiscal years and the annualized returns for the 3-year and 5-year periods ending June 30, 2005.

Charts III and IV on page 63 show the quarterly cumulative total System performance for the 5-year and 10-year periods ending June 30, 2005 compared to indices representative of some of the asset classes in which the System invests.

**Asset Allocation**  
as of June 30, 2005



**Asset Allocation**

Funds are deployed in diverse asset classes offering the desired risk and return characteristics in an effort to achieve stated investment objectives. The accompanying table shows the most recent five-year history and trends in asset allocation. For these asset classifications, the Pooled Equity and Fixed Income accounts are included in their respective equity and fixed income asset classes and, therefore, are different from the asset classes used in the financial section on pages 24-25.

	Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Domestic Equities*	52.6%	48.1%	51.6%	48.2%	44.9%
International Equities	13.8%	15.2%	14.3%	11.9%	11.5%
Domestic Fixed Income	18.3%	22.5%	19.5%	25.4%	28.1%
International Fixed Income	0.9%	0.5%	0.6%	2.7%	2.8%
Alternative Investments	10.4%	11.0%	11.4%	9.9%	10.4%
Cash & Short-Term	4.0%	2.7%	2.6%	1.9%	2.3%

\*Real estate holdings in the form of Real Estate Investment Trusts (REITs) held through Fiscal Year 2002 are included in equities.

Individual investment managers are selected for each asset class based on a rigorous set of performance and organizational criteria. In addition to a proven track record of managing a given class of assets, they must have a clearly stated and consistently applied investment policy and decision-making process, continuity of personnel, and a well-defined plan for retaining key personnel and controlling growth.

All investment managers are expected to meet and maintain a number of organizational criteria in order to continue as managers. During the fiscal year, transition manager services were utilized to transfer foreign assets from active management to an existing active global management strategy. In the area of domestic equities, assets were transferred from a passive style fund to a new active manager, and funds allocated to three existing managers were reduced.

One fixed income manager was terminated, and two existing managers were given additional funds. The allocation to short-term investments was also increased.

In the area of alternative investments, the System established relationships with two new managers, and participated in five new funds with existing alternatives managers. At the end of the fiscal year, the money managers of the System and their responsibilities were:

<b>Investment Manager</b>	<b>Responsibility</b>	<b>Fiscal Year Retained</b>
<u>Domestic Equities</u>		
Advent Capital Management	Convertible Securities	2003
Armstrong Shaw Associates	Equities	2002
Froley, Revy Investment Co.	Convertible Securities	1985
Granahan Investment Management	Equities	2002
INTECH	Equities	2005
Legg Mason Capital Management	Equities	2004
Mellon Capital Management	Equities	1984
Oaktree Capital Management	Convertible Securities	1995
T. Rowe Price Associates	Equities	1971
OFI Institutional Asset Management (formerly Trinity)	Equities	1982
<u>International Equities</u>		
Mellon Capital Management	International Equities	1997
Mercator Asset Management	International Equities	2004
Oaktree Capital Management	International Convertible Securities	1995
<u>Domestic Fixed Income</u>		
Lehman Brothers Asset Management (formerly Lincoln)	Fixed Income	1995
Mellon Capital Management	Fixed Income	1984
T. Rowe Price Associates	Fixed Income	1996
Loomis Sayles & Company LP	Fixed Income	1999
Mount Lucas Management	Managed Futures	2003
<u>Alternative Investments</u>		
Allegis Capital	Venture Capital	2005
Accel Partners	Venture Capital	1984
Advanced Technology Ventures	Venture Capital	1990
Brentwood Associates	Venture Capital	1983
The Carlyle Group	Private Equity	1996
Cherry Tree Ventures	Venture Capital	1984
Coller Isnard Ltd.	Venture Capital	1994
Flagship/One Liberty Ventures	Venture Capital	1982
Mellon Capital Management	Currency	2005
MeriTech Capital Partners	Venture Capital	1997
Oaktree Capital Management	Distressed Debt; Emerging Markets	1998
ONSET Enterprise Associates	Venture Capital	1990
Pecks Management Partners	Private Equity	1986
Spectra Enterprise Associates	Venture Capital	1987
Summit Ventures	Venture Capital	1989
T. Rowe Price Recovery Fund	Distressed Debt	1989
T. Rowe Price Threshold Fund	Venture Capital	1983
Trident Capital	Venture Capital	2000
TCW Group	Distressed Debt	1991
Weston Presidio Capital	Venture Capital	1996
<u>Cash &amp; Short-Term</u>		
Mercantile-Safe Deposit & Trust Co.	Cash & Short-Term	2003

**CHART I**  
**CALCULATED RETURNS**

(dollar values expressed in millions)

	<i>(All returns for periods greater than one year are annualized.)</i>					Five Years Ended 6/30/05	Ten Years Ended 6/30/05
	Fiscal Years Ended June 30,						
	2005	2004	2003	2002	2001		
Beginning Fair Value of Plan Net Assets	\$5,521.2	\$4,880.7	\$4,857.7	\$5,280.6	\$5,663.8	\$ 5,663.8	\$ 2,732.5
Net (Deductions)/Contributions	(119.4)	(128.3)	(126.6)	(109.1)	(96.1)	(579.5)	(750.5)
Net Investment Earnings*	526.2	768.8	149.6	(313.8)	(287.1)	843.7	3,946.0
Ending Fair Value of Plan Net Assets	\$5,928.0	\$5,521.2	\$4,880.7	\$4,857.7	\$5,280.6	\$ 5,928.0	\$ 5,928.0
Time-Weighted Total Return	9.6%	15.9%	3.1%	(6.3%)	(5.1%)	3.1%	9.7%
Consumer Price Index	2.5%	3.2%	2.2%	1.0%	3.3%	2.4%	2.5%

\*Net Investment Earnings equals investment earnings less investment expenses

**CHART II**  
**INVESTMENT PERFORMANCE SUMMARY**

(rates of return are time-weighted)

*(All returns for periods greater than one year are annualized.)*

	<i>(All returns for periods greater than one year are annualized.)</i>					Three Years Ended 6/30/05	Five Years Ended 6/30/05
	Fiscal Years Ended June 30,						
	2005	2004	2003	2002	2001		
<b>Total System</b>	9.6%	15.9%	3.1%	(6.3%)	(5.1%)	9.4%	3.1%
60% S&P 500 Index/35% SL Gov't-Corp Bond Index/5% Treasury Bills	6.6%	11.0%	5.3%	(8.2%)	(5.1%)	7.6%	1.7%
Consumer Price Index <sup>(1)</sup>	2.5%	3.2%	2.2%	1.0%	3.3%	2.6%	2.4%
<b>Domestic Equities<sup>(2)</sup></b>	13.5%	24.6%	(0.4%)	(7.8%)	(8.1%)	12.1%	3.6%
S&P 500 Index	6.3%	19.1%	0.2%	(18.0%)	(14.8%)	8.3%	(2.4%)
Russell 3000 Index	8.1%	20.5%	0.8%	(17.2%)	(13.9%)	9.5%	(1.3%)
ML All Convertibles	2.1%	15.6%	13.9%	(10.8%)	(12.9%)	10.4%	0.9%
<b>International Equities<sup>(2)</sup></b>	9.0%	19.6%	6.1%	(6.9%)	(7.6%)	11.4%	3.5%
MSCI EAFE Index	13.7%	32.4%	(6.5%)	(9.5%)	(23.6%)	12.0%	(0.6%)
Jefferies Global Converts ex US	3.4%	12.4%	10.5%	(2.0%)	(0.7%)	8.7%	4.6%
<b>Fixed Income &amp; Cash<sup>(3)</sup></b>	8.1%	4.4%	12.9%	6.0%	8.5%	8.4%	7.9%
Lehman Aggregate	6.8%	0.3%	10.4%	8.6%	11.2%	5.8%	7.4%
<b>Pooled Equity &amp; Fixed Income<sup>(4)</sup></b>	8.2%	18.6%	3.8%	(7.3%)	(6.2%)	10.0%	3.0%
60% S&P 500 Index/35% SL Long Term Treasury Bond Index/5% Treasury Bills	10.0%	9.9%	7.6%	(7.7%)	(5.4%)	9.2%	2.6%
60%MS Capital Int'l Index/40% Salomon World Gov't Bond Index	9.1%	16.5%	5.5%	(4.0%)	(13.5%)	10.3%	2.2%
<b>Alternative Investments<sup>(5)</sup></b>	8.8%	18.7%	(10.5%)	(18.1%)	(15.6%)	3.7%	(5.5%)
Cambridge US Venture Index <sup>(6)</sup>	NA	3.4%	(20.3%)	(36.0%)	(28.0%)	NA	NA

(1) The total System benchmark is a return of 3% greater than CPI over any 15-year period.

(2) Includes convertible securities and real estate investment trusts; excludes equity portions of Pooled Equity & Fixed Income portfolios.

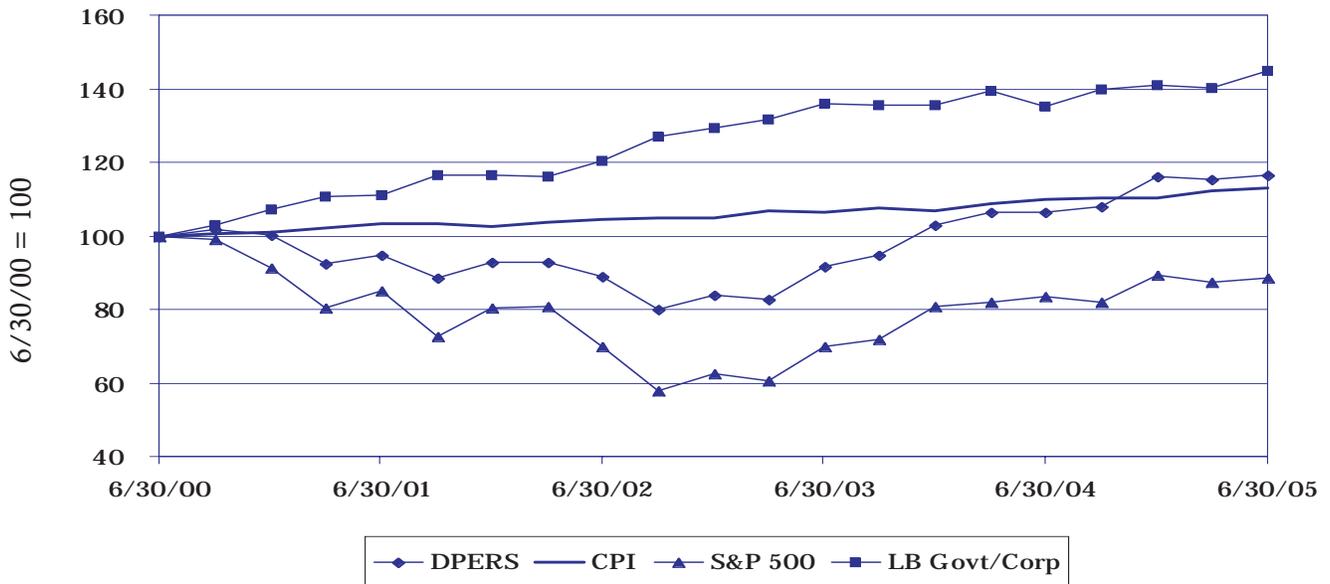
(3) Excludes fixed income and cash portions of Pooled Equity & Fixed Income portfolios, includes managed futures.

(4) Comprises investment accounts which tactically rebalance among stocks, bonds and cash (including foreign stocks, bonds, and cash) to optimize risk/return characteristics of the mix. The underlying assets in these accounts are generally passively invested in index vehicles.

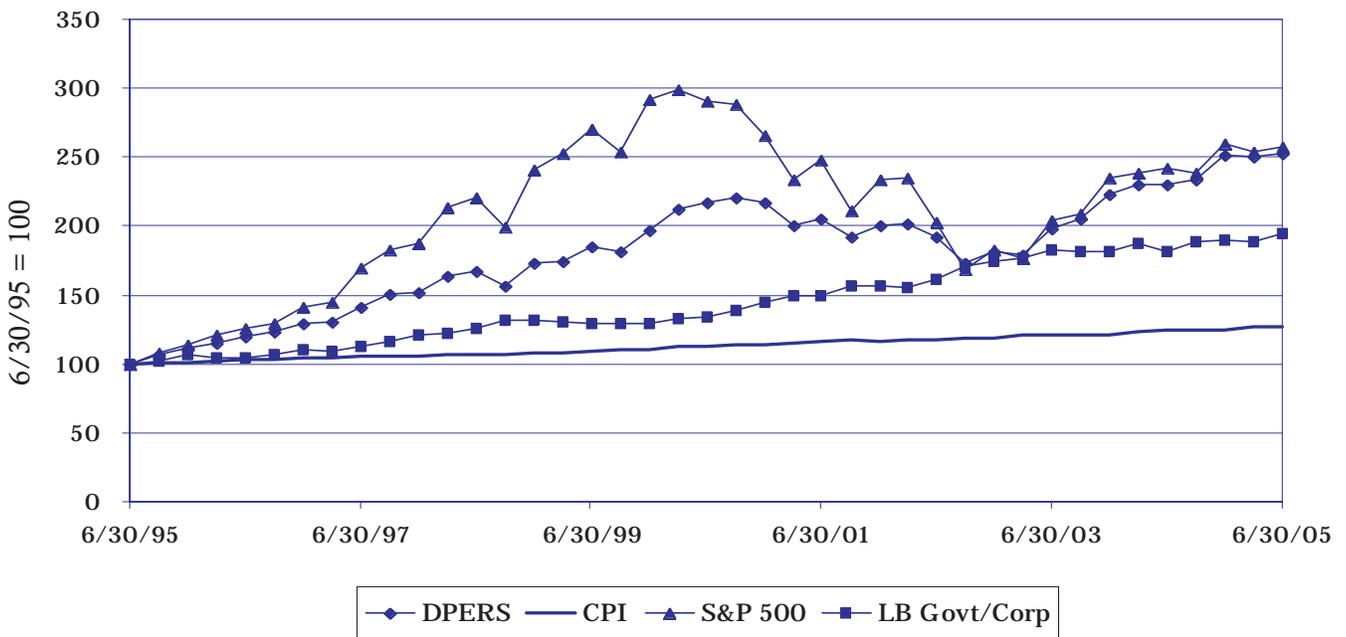
(5) Includes Private Equity and Private LLCs. For purposes of benchmark comparison, all returns are shown on a non-lagged basis (through 3/31/05 for Fiscal Year 2005 and cumulative periods). Predominant investments have been venture capital. In the future, additional benchmarks may be added as they become available.

(6) The Cambridge US Venture Index return for the quarter ended 6/30/05 was not available at press time. This also impacts the 3 and 5-year returns.

**CHART III**  
**TOTAL RETURN PERFORMANCE COMPARISON - 5 YEARS**



**CHART IV**  
**TOTAL RETURN PERFORMANCE COMPARISON - 10 YEARS**



**INVESTMENT SUMMARY AND  
SCHEDULE OF INVESTMENT FEES**

(dollar values expressed in millions)

	Market Value as of June 30, 2005	Percent of Total Investment Assets	Total Fiscal Year 2005 Investment Fees	Basis Points
<b>Equities</b>				
Domestic Equities	\$ 3,119.6	52.6%	\$ 9.7	
International Equities	817.0	13.8%	4.0	
Sub-Total	\$ 3,936.6	66.4%	\$ 13.7	
<b>Fixed Income</b>				
Domestic Fixed Income	1,084.2	18.3%	1.5	
International Fixed Income	54.4	0.9%	0.1	
Sub-Total	\$ 1,138.6	19.2%	\$ 1.6	
<b>Other Asset Allocations</b>				
Alternative Investments	615.1	10.4%	1.2	
Cash & Short-Term	237.7	4.0%	0.1	
Sub-Total	852.8	14.4%	\$ 1.3	
<b>Other Investment Services</b>				
Custodian/Investment Advisor Fees	-	-	2.0	
Pension Office Support Staff Expenses	-	-	0.3	
Sub-Total			\$ 2.3	
	<u>\$ 5,928.0</u>	<u>100.0%</u>	<u>\$ 18.9</u>	<u>32 bp</u>

\* Other fees include Alternative Investment and Transition Management fees detailed on page 37. These fees have been excluded from the basis points calculation since they have already been netted from income. Basis point calculation is the weighted average based on the quarterly fund valuations.

**Glossary of Terms Used**

Fair Value (Market Value):

The value at which an investment could be sold in a transaction between a willing buyer and a willing seller. All assets with regularly traded markets are shown at the fair value as determined by the custodian bank based on quoted market values. All other assets are adjusted to market value monthly except venture capital which is adjusted at least quarterly based on individual partnership procedures, and any private placement or partnership participation where values are supplied periodically by the respective management organizations in accordance with established procedures.

Time-Weighted Total Return:

The measure used for judging investment management of the System. It is based on market value and minimizes or eliminates any distortion in the rate of return caused by the timing of cash flows into or out of the System.

Alternative Investments:

Alternative Investments include non-traditional investments, some of which may be illiquid, such as limited partnerships and private LLCs.



**LIST OF LARGEST ASSETS DIRECTLY HELD\***  
**AS OF JUNE 30, 2005** (excludes investments in pooled vehicles)

<b>Equities (Includes Convertibles)</b>	<b>Market Value</b>	<b>% of Total Fund</b>	<b>Shares</b>
EXXON MOBIL CORP	\$ 26,226,205	0.44%	456,346 shares
NEXTEL COMMUNICATIONS INC	19,793,106	0.34%	612,600 shares
UNITEDHEALTH GROUP INC	18,232,628	0.31%	349,686 shares
GENERAL ELECTRIC CO	14,617,657	0.25%	421,866 shares
DEVON ENERGY CORPORATION	14,216,652	0.24%	280,518 shares
MURPHY OIL CORP	13,569,354	0.23%	259,800 shares
ROYAL DUTCH PETROLEUM CO	13,401,850	0.23%	206,500 shares
SCHLUMBERGER LTD	12,740,302	0.22%	167,768 shares
BP PLC	12,600,760	0.21%	202,000 shares
CANADIAN NATURAL RESOURCES LTD	11,452,424	0.19%	314,800 shares
<b>Total</b>	<b>\$ 156,850,938</b>	<b>2.66%</b>	

<b>Bonds</b>	<b>Market Value</b>	<b>% of Total Fund</b>	<b>Par (\$)</b>
UNITED STATES TREASURY NOTE 3.0% 2/15/2008	\$ 13,404,139	0.23%	\$ 13,625,000
UNITED STATES TREASURY NOTE 3.375% 12/15/2008	10,978,656	0.19%	\$ 11,090,000
UNITED STATES TREASURY NOTE 2.5% 5/31/2006	10,977,399	0.19%	\$ 11,080,000
FEDERATIVE REPUBLIC OF BRAZIL 8.25% 1/20/2034	10,357,020	0.18%	\$ 10,590,000
FPE HOLDINGS 12.5% 3/22/2007	9,945,150	0.17%	\$ 9,945,150
UNITED STATES TREASURY NOTE 1.875% 12/31/2005	9,924,600	0.17%	\$ 10,000,000
UNITED STATES TREASURY NOTE 2.625% 5/15/2008	9,664,153	0.16%	\$ 9,945,000
INTL BK RECON DEVELOP ZERO COUPON 8/20/2007	9,621,241	0.16%	\$ 15,821,000
MEXICAN BONOS 9.0% 12/20/2012	8,481,600	0.14%	\$ 930,000
PROVINCE OF BRITISH COLUMBIA 6/25% 12/01/2009	7,998,848	0.14%	\$ 8,740,000
<b>Total</b>	<b>\$ 101,352,806</b>	<b>1.72%</b>	

\* A complete list of portfolio holdings is available for review upon request.

**SCHEDULE OF BROKER COMMISSIONS\***

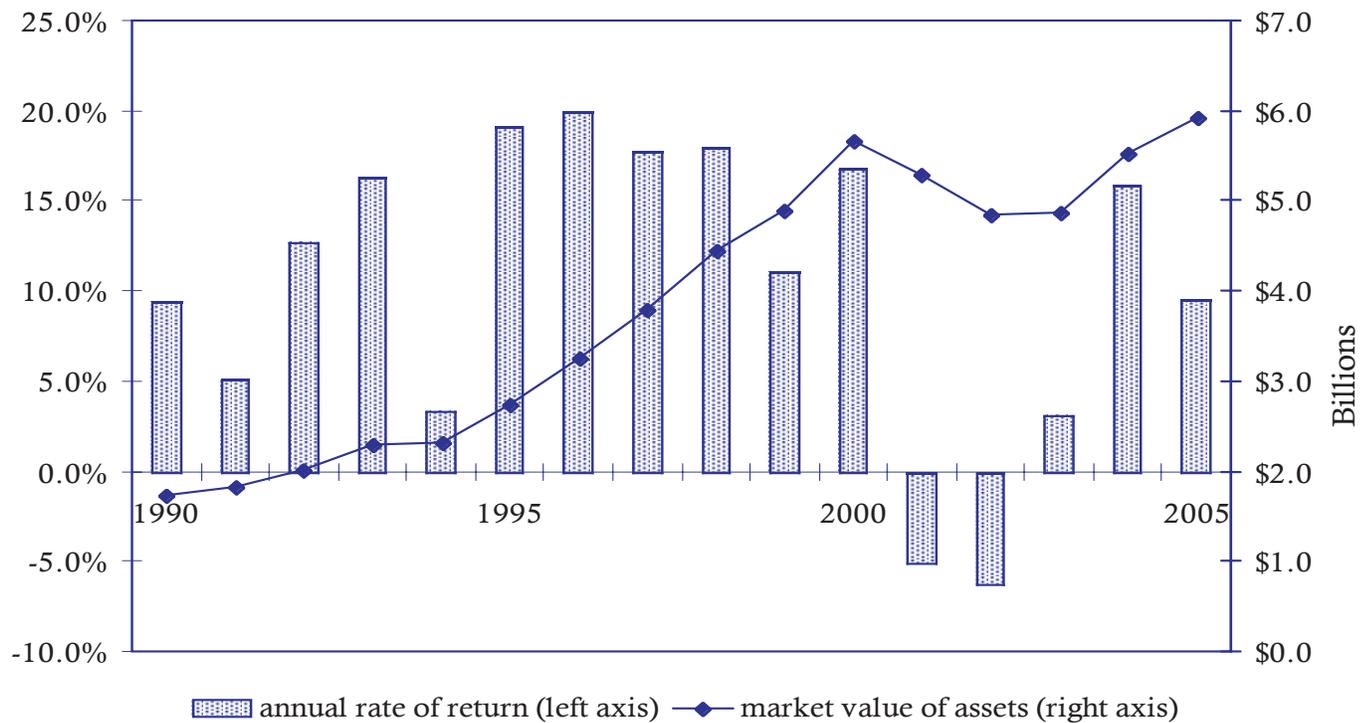
The System has no commission recapture, directed payment, or “soft dollar” arrangements; however, such arrangements may exist between brokers and investment managers. Broker selection is the responsibility of individual investment managers. Broker commissions during this fiscal year decreased primarily due to the reallocation of assets from active to passive management.

The following is a list of brokers who received \$20,000 or more in commissions during Fiscal Year 2005.

Broker	# of Shares	Commission Per Share	Total Dollar Amount of Trades	Total Commission
GOLDMAN SACHS & CO	7,017,883	\$0.05	\$ 123,908,227.79	\$ 315,936.86
B-TRADE SECURITIES LLC	9,780,233	\$0.02	160,030,694.66	236,801.90
MERRILL LYNCH PEIRCE FENNER SMITH	5,991,070	\$0.04	196,859,347.96	210,979.64
WEEDEN & COMPANY	8,158,390	\$0.02	293,393,312.32	180,843.30
INVESTMENT TECHNOLOGY GROUP	7,207,635	\$0.02	134,913,483.60	134,485.71
UBS SECURITIES LLC	4,293,105	\$0.03	93,562,482.95	129,080.37
LIQUIDNET INC	5,815,418	\$0.02	118,590,058.14	116,308.36
MORGAN STANLEY & CO	2,487,700	\$0.04	51,084,283.09	101,916.16
BEAR STEARNS & CO INC	1,939,900	\$0.05	45,976,823.13	99,618.91
DEUTSCHE BANK SECURITIES INC	3,109,950	\$0.03	40,740,983.77	97,672.59
CREDIT SUISSE FIRST BOSTON CORP	4,085,491	\$0.02	110,022,109.05	88,856.97
LEHMAN BROTHERS INC	2,347,286	\$0.04	65,364,864.40	85,247.56
CLSA SINGAPORE PTE LTD	4,579,465	\$0.02	128,352,250.92	74,451.65
BANC/AMERICA SEC, LLC	1,511,288	\$0.04	22,483,445.10	64,818.52
JEFFERIES & CO INC	1,669,170	\$0.03	45,368,158.81	56,004.47
CITIGROUP GLOBAL MARKETS INC	8,119,284	\$0.01	39,594,905.76	53,702.56
CANTOR FITZGERALD & CO	1,260,940	\$0.04	25,095,845.51	51,762.65
CIBC OPPENHEIMER CORP	999,126	\$0.04	17,828,905.03	41,181.70
RTX SECURITIES CORP	1,763,541	\$0.02	3,089,427.16	38,198.82
RBC DOMINION SECURITIES CORP	889,300	\$0.04	17,439,089.67	36,453.83
CITATION GROUP	728,900	\$0.05	18,130,847.04	34,286.00
ROSENBLATT SECURITIES INC	1,311,567	\$0.02	55,346,444.30	26,231.34
SALOMON SMITH BARNEY INC	592,300	\$0.04	11,740,592.29	25,296.33
VANDHAM SECURITIES CORP	503,400	\$0.05	12,551,153.83	25,017.00
U.S. BANCORP PIPER JAFFRAY INC	534,152	\$0.05	7,447,380.64	24,107.60
WACHOVIA CAPITAL MARKETS LLC	435,755	\$0.05	10,736,314.93	21,787.75
JP MORGAN SECURITIES INC	570,350	\$0.04	7,477,244.31	21,052.16
ALL OTHERS (131 BROKERS NOT LISTED)	19,294,751	\$0.03	383,507,913.51	665,028.82
<b>TOTALS</b>	<b>106,997,350</b>		<b>\$ 2,240,636,589.67</b>	<b>\$ 3,057,129.53</b>
Average Commission, Per Share		\$ 0.03		

\* A complete list of broker commissions is available for review upon request.

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**ANNUAL MARKET VALUE OF FUND AND RATE OF RETURN**  
 FOR THE 15-YEAR PERIOD 1990-2005



*This section was prepared by the Pension Office staff with input from the Board of Pension Trustees, the Investment Committee, and the Investment Advisor.*

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## **ACTUARIAL SECTION**

# Milliman

*Consultants and Actuaries*

8000 Towers Crescent Drive, Suite 1000  
Vienna, VA 22182-6209  
Tel +1 703 917.0143  
Fax +1 703 827.9266  
www.milliman.com

August 23, 2005

Board of Pension Trustees  
Delaware Public Employees' Retirement System  
McArdle Building  
860 Silver Lake Blvd., Suite 1  
Dover, DE 19904-2402

Dear Board Members:

At your request, we have prepared our annual actuarial valuations of each of the funded pension plans administered by the Board as of June 30, 2005. The results of these valuations are contained in the enclosed exhibits. Any distribution of the exhibits must be in their entirety, including this cover letter, unless prior written consent is obtained.

## **Funding Objective**

The funding objective of the System is to establish contribution rates that, over time, will remain level as a percent of payroll. In order to achieve this, we developed a contribution rate that will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a specified period. In addition, unfunded liabilities due to cost-of-living adjustments to retirees are funded through a schedule of future transfers from the Post-Retirement Increase Fund.

To our knowledge, the State has consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

## **Assumptions and Methods**

Milliman recommended, and the Board of Trustees adopted, the actuarial assumptions and methods used in these valuations based on our experience study completed during the fiscal year ended June 30, 2004. The Board set the investment return assumption based on advice from its investment consultant.

We believe that all costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations) and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ. The calculations in the enclosed exhibits have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

**Reliance on Others**

In performing this analysis, we relied on data and other information provided by the Delaware State Pension Office. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

**Supporting Schedules**

Milliman provided the figures disclosed in Schedule 1 of the Supporting Schedules to the Financial Section and the Notes to Trend Data. In addition, we were responsible for the following schedules found in the Actuarial Section: Actuarial Assumptions and Methods, Schedule of Active Member Valuation Data, and Solvency Test.

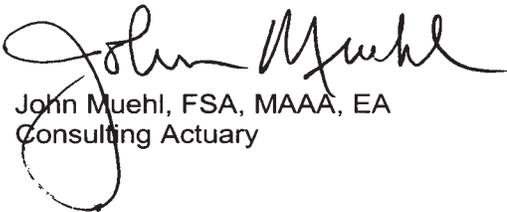
**Certification**

I believe the State's pension plans are adequately and appropriately financed, in that the contributions are determined and funded on a level cost as a percentage of payroll basis using reasonable actuarial methods and assumptions.

I hereby certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Milliman, Inc.



John Muehl, FSA, MAAA, EA  
Consulting Actuary

## **Actuarial Assumptions and Methods**

### **Asset Valuation Method**

The market value of assets, representing the realizable value of the assets on a particular day, is not necessarily an appropriate value for the purpose of setting contribution rates. This is because funding will take place over a long period of time during which market values can be expected to fluctuate significantly from year to year. If market values were used to develop contribution rates, the resulting contribution rates would also fluctuate from year to year.

In order to produce a stable pattern of contribution rates, market values are adjusted to remove some of the volatility. The actuarial value of assets is equal to 1/5th of the market value plus 4/5th of the expected value, where the expected value is equal to last year's actuarial value and subsequent cash flows into and out of the fund accumulated with interest at the valuation rate (the July 2004 assumption of 8.0%).

### **Funding Method**

We used the Aggregate Entry Age Normal Method to determine costs for all plans. Under an Entry Age method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded liability rate (UAL). In addition, the overall contribution rate includes a provision for the plan's expenses.

For each State plan, an Entry Age Normal cost rate is determined for a typical member of each respective plan. This rate represents the member's expected future employer-paid normal costs divided by his expected future salary.

In addition to contributions required to meet the normal cost, contributions are required to meet each plan's unfunded actuarial liability. Actuarial liability equals the present value of future benefits less the present value of future normal costs and future employee contributions. The unfunded liability is the total actuarial liability for all members less the actuarial value of the System's assets.

A portion of the unfunded liability will be paid through future, scheduled transfers from the Post-Retirement Increase Fund. These transfers will cover the liability increases due to the cost-of-living increases granted on July 1, 2001, September 1, 2003, July 1, 2004, and July 1, 2005. The remaining unfunded actuarial liability will be amortized over the next 21.17 years for the State Employees' Plan, 15.75 years for the Judiciary Plan, 14.78 years for the State Police Plan, 22 years for the Volunteer Firemen's Plan, and 17 years for the Diamond State Port Corporation plan through the unfunded liability amortization component of the total contribution.

### **Actuarial Assumptions**

Milliman recommended, and the Board of Trustees adopted, the actuarial assumptions for the actuarial valuation based on the experience study completed in 2004. Differences between assumed and actual experience (actuarial gains and losses) are part of the unfunded actuarial liabilities. The following significant assumptions were used in the actuarial valuations as of July 1, 2005:

1. Rate of return on investments:  
8.0% compounded annually (adopted 2004).
2. Salary increases attributable to inflation:  
3.75% compounded annually (adopted 2004).
3. Salary increases attributable to merit and productivity:  
Increases for State Employees ranging from ½% to 6.14% per year (adopted 2004).
4. Mortality:  
Rates of mortality vary by plan and gender. For retirees, assumption anticipates future improvements in mortality through the use of a projection scale (adopted 2004). Sample retiree mortality rates from the State Employees plan are as follows:

Age	New Assumptions		Projection Scale	
	Male	Female	Male	Female
35	0.18%	0.06%	0.50%	1.10%
40	0.25%	0.09%	0.80%	1.50%
45	0.35%	0.14%	1.30%	1.60%
50	0.48%	0.21%	1.80%	1.70%
55	0.61%	0.30%	1.90%	0.80%
60	0.90%	0.49%	1.60%	0.50%

Active employee mortality rates from the State Employees plan are for males, 95% of the RP-2000 RE Mortality Table, and for females, 80% of the RP2000 RE Mortality Table.

5. Rates of termination of service, disablement, and retirement:  
Based on the results of the Experience Study completed in 2004 (adopted 2004).
6. Aggregate active member payroll:  
3.75% annually (adopted 2004).

### Summary of Plan Provisions and Changes in Plan Provisions

The plans valued are those described on pages 29-32 of the Financial Section. In several of the plans, there were plan amendments. The following plans were amended effective July 1, 2005 to grant a cost-of-living adjustment (COLA) of 2% to all retirees who retired prior to July 1, 2004, plus an additional monthly benefit of \$50 for those who retired prior to January 1, 1981:

- The State Employees' Pension Plan
- Special Pension Fund
- The New State Police Pension Plan
- The Judiciary Pension Plan
- The County & Municipal Police and Firefighters' Pension Plan

In addition, there were several plan changes adopted this year:

- ◆ The New State Police Plan was amended to increase the survivor benefit for line of duty deaths from 50% to 75%.
- ◆ The County & Municipal General Employees' Plan was amended to remove the Social Security offset limit at age 62, eliminate the employee contribution in excess of the Social Security wage base, and increase pensions in payment to remove the Social Security offset limit.
- ◆ The County & Municipal Police and Firefighters' Pension Plan was amended to increase the benefit multiplier over 20 years to 3.5%, remove the Social Security offset limit at age 62, increase employee contributions from 5% to 7% effective January 1, 2006, and require them for all service, and increase pensions in payment to reflect these changes.
- ◆ The Judiciary Pension Plan was amended to include prior service from the State Employees' Pension Plan for the purposes of vesting and eligibility, excluding service as an elected official.

The above plan changes are reflected in the liabilities shown as of June 30, 2005.

The State Employees' Pension Plan is now implementing a new long-term disability insurance program, effective January 1, 2006. For the July 1, 2005 valuation, we have not reflected the new disability insurance program.

#### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Plan	Fiscal Year Ended	Number of Members	Annualized		% Increase in Average Pay
			Covered Payroll <i>(expressed in thousands)</i>	Average Pay	
State Employees'	30-Jun-2005	33,379	\$ 1,471,931	\$ 44,098	2.4%
	30-Jun-2004	32,498	1,399,279	43,057	1.2%
	30-Jun-2003	31,877	1,355,800	42,532	0.6%
	30-Jun-2002	31,951	1,351,112	42,287	6.5%
	30-Jun-2001	31,989	1,270,632	39,721	5.2%
	30-Jun-2000	31,740	1,198,626	37,764	6.1%
	30-Jun-1999	31,634	1,125,857	35,590	(0.1%)
Special	The Special Plan has no Active Members				
New State Police	30-Jun-2005	610	\$ 39,645	\$ 64,992	4.6%
	30-Jun-2004	591	36,718	62,129	13.2%
	30-Jun-2003	579	31,778	54,884	0.2%
	30-Jun-2002	553	30,281	54,758	6.8%
	30-Jun-2001	539	27,624	51,250	5.7%
	30-Jun-2000	527	25,558	48,497	6.4%
	30-Jun-1999	516	23,518	45,578	5.3%

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA** *(continued)*

<b>Plan</b>	<b>Fiscal Year Ended</b>	<b>Number of Members</b>	<b>Annualized Covered Payroll</b>		<b>Annual Average Pay</b>	<b>% Increase in Average Pay</b>
			<i>(expressed in thousands)</i>			
Judiciary	30-Jun-2005	53	\$	8,475	\$ 159,906	8.4%
	30-Jun-2004	52		7,672	147,539	4.9%
	30-Jun-2003	51		7,173	140,647	1.7%
	30-Jun-2002	50		7,329	138,283	8.5%
	30-Jun-2001	49		6,371	127,420	7.8%
	30-Jun-2000	48		5,794	118,245	0.1%
	30-Jun-1999	47		5,673	118,118	8.5%
County & Municipal Police and Firefighters'	30-Jun-2005	675	\$	33,389	\$ 49,465	(0.3%)
	30-Jun-2004	563		27,930	49,609	15.6%
	30-Jun-2003	562		24,128	42,932	1.6%
	30-Jun-2002	505		21,342	42,261	4.1%
	30-Jun-2001	483		19,605	40,590	3.4%
	30-Jun-2000	459		18,011	39,240	4.9%
	30-Jun-1999	407		15,230	37,420	13.1%
County & Municipal Other Employees'	30-Jun-2005	315	\$	9,737	\$ 30,911	(8.6%)
	30-Jun-2004	221		7,474	33,819	10.6%
	30-Jun-2003	203		6,209	30,586	8.2%
	30-Jun-2002	90		2,545	28,278	4.9%
	30-Jun-2001	85		2,292	26,965	(0.4%)
	30-Jun-2000	74		2,004	27,081	9.5%
	30-Jun-1999	69		1,706	24,725	8.9%
Closed State Police	30-Jun-2005	25	\$	2,579	\$ 103,160	6.8%
	30-Jun-2004	27		2,608	96,593	7.7%
	30-Jun-2003	32		2,869	89,656	15.5%
	30-Jun-2002	40		3,105	77,625	7.6%
	30-Jun-2001	45		3,247	72,156	5.8%
	30-Jun-2000	57		3,888	68,211	3.8%
	30-Jun-1999	75		4,930	65,733	4.6%
Diamond State Port Corporation	30-Jun-2005	267	\$	9,248	\$ 34,637	0.2%
	30-Jun-2004	259		8,950	34,556	4.4%
	30-Jun-2003	261		8,636	33,088	1.0%
	30-Jun-2002	280		9,354	33,407	3.4%
	30-Jun-2001	272		8,788	32,309	(4.9%)
	30-Jun-2000	227		7,715	33,987	(7.9%)
	30-Jun-1999	207		7,637	36,894	0.3%
Volunteer Firemen's	30-Jun-2005	5,106		-	-	-
	30-Jun-2004	5,055		-	-	-
	30-Jun-2003	4,933		-	-	-
	30-Jun-2002	4,856		-	-	-
	30-Jun-2001	4,769		-	-	-
	30-Jun-2000	4,579		-	-	-
	30-Jun-1999	4,706		-	-	-

**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

Plan	Fiscal Year Ended	Additions	Deletions	Year-end Total	% Increase in Annual		Average Annual Allowances
					Annual Allowances* <i>(expressed in thousands)</i>	Allowances	
State Employees'	30-Jun-2005	1,442	680	18,374	\$ 271,281	6.9%	\$ 14,764
	30-Jun-2004	1,356	708	17,612	243,238	12.0%	13,811
	30-Jun-2003	1,344	613	16,964	217,126	11.4%	12,799
	30-Jun-2002	1,241	659	16,233	194,824	11.1%	12,002
	30-Jun-2001	1,174	722	15,651	175,312	10.2%	11,201
	30-Jun-2000	1,135	611	15,199	159,122	9.4%	10,469
	30-Jun-1999	1,076	536	14,675	145,391	9.3%	9,907
Special	30-Jun-2005	1	2	30	\$ 122	5.9%	\$ 4,067
	30-Jun-2004	-	3	31	119	(1.7%)	3,839
	30-Jun-2003	2	4	34	121	(15.4%)	3,559
	30-Jun-2002	1	4	36	143	5.9%	3,972
	30-Jun-2001	2	5	39	135	1.5%	3,462
	30-Jun-2000	-	1	42	133	0.8%	3,167
	30-Jun-1999	2	4	43	132	5.6%	3,070
New State Police	30-Jun-2005	7	-	40	\$ 1,254	12.2%	\$ 31,350
	30-Jun-2004	9	-	33	922	33.8%	27,939
	30-Jun-2003	9	1	24	689	87.7%	28,708
	30-Jun-2002	6	1	16	367	27.0%	22,938
	30-Jun-2001	6	-	11	289	74.1%	26,273
	30-Jun-2000	-	-	5	166	46.9%	33,200
	30-Jun-1999	-	-	5	113	(7.4%)	22,600
Judiciary	30-Jun-2005	1	0	38	\$ 2,209	(1.2%)	\$ 59,315
	30-Jun-2004	1	3	37	2,177	10.5%	58,838
	30-Jun-2003	3	1	39	1,971	3.4%	50,538
	30-Jun-2002	2	3	37	1,907	(2.2%)	51,541
	30-Jun-2001	4	3	38	1,949	18.7%	51,289
	30-Jun-2000	5	1	37	1,642	9.6%	44,378
	30-Jun-1999	3	-	33	1,498	10.5%	45,394
County & Municipal Police and Firefighters'	30-Jun-2005	2	-	25	\$ 524	1.1%	\$ 20,960
	30-Jun-2004	8	-	23	477	95.5%	20,739
	30-Jun-2003	4	-	15	244	49.7%	16,267
	30-Jun-2002	1	1	11	163	7.9%	14,818
	30-Jun-2001	6	-	11	151	118.8%	13,727
	30-Jun-2000	-	-	5	69	6.2%	13,800
	30-Jun-1999	2	-	5	65	85.7%	13,000

**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS** *(continued)*

<b>Plan</b>	<b>Fiscal Year Ended</b>	<b>Additions</b>	<b>Deletions</b>	<b>Year-end Total</b>	<b>Annual Allowance*</b> <i>(expressed in thousands)</i>	<b>% Increase in Annual Allowances</b>	<b>Average Annual Allowances</b>
County & Municipal Other Employees'	30-Jun-2005	3	1	17	\$ 84	21.5%	\$ 4,941
	30-Jun-2004	1	-	15	61	17.3%	4,067
	30-Jun-2003	3	-	14	52	26.8%	3,714
	30-Jun-2002	1	-	11	41	57.7%	3,727
	30-Jun-2001	1	-	10	26	23.8%	2,600
	30-Jun-2000	1	-	9	21	50.0%	2,333
	30-Jun-1999	1	-	8	14	(6.7%)	1,750
Volunteer Firemen's	30-Jun-2005	100	45	1,265	\$ 1,172	1.1%	\$ 926
	30-Jun-2004	81	68	1,210	1,108	4.8%	916
	30-Jun-2003	78	50	1,197	1,057	3.8%	883
	30-Jun-2002	86	48	1,169	1,018	4.8%	871
	30-Jun-2001	60	32	1,131	971	5.5%	859
	30-Jun-2000	66	42	1,103	920	3.4%	834
	30-Jun-1999	73	33	1,079	890	6.5%	825
Diamond State Port Corporation	30-Jun-2005	3	-	24	\$ 212	(6.8%)	\$ 8,833
	30-Jun-2004	3	1	21	199	17.1%	9,476
	30-Jun-2003	6	1	19	170	(8.1%)	8,947
	30-Jun-2002	4	-	14	185	88.8%	13,214
	30-Jun-2001	3	-	10	98	30.7%	9,800
	30-Jun-2000	1	1	7	75	(14.8%)	10,714
	30-Jun-1999	2	1	7	88	66.0%	12,571
Closed State Police	30-Jun-2005	9	17	550	\$ 19,234	3.2%	\$ 34,971
	30-Jun-2004	11	9	558	18,901	2.6%	33,873
	30-Jun-2003	18	10	556	18,429	4.1%	33,146
	30-Jun-2002	10	10	548	17,705	3.9%	32,308
	30-Jun-2001	13	6	548	17,040	6.0%	31,095
	30-Jun-2000	22	4	541	16,078	3.9%	29,719
	30-Jun-1999	21	14	523	15,481	3.1%	29,600

\* *Includes annual allowances added to and removed from the rolls during each fiscal year.*

## SOLVENCY TEST

(dollar values expressed in thousands)

Plan	Valuation Date	Aggregate Accrued Liabilities for			Actuarial Value of Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
		Active Member Contributions	Retirants & Beneficiaries	Active Member Employer Financed Contributions		(1)	(2)	(3)
		(1)	(2)	(3)				
State Employees'	30-Jun-2005	\$ 414,001	\$ 2,702,359	\$ 2,456,359	\$ 5,660,057	100%	100%	104%
	30-Jun-2004	396,614	2,437,522	2,395,791	5,387,560	100%	100%	107%
	30-Jun-2003	375,385	2,025,080	2,394,479	5,125,442	100%	100%	114%
	30-Jun-2002	361,334	1,768,363	2,392,035	4,956,156	100%	100%	118%
	30-Jun-2001	343,466	1,597,526	2,291,252	4,759,031	100%	100%	123%
	30-Jun-2000	325,684	1,453,396	1,990,516	4,409,079	100%	100%	132%
	30-Jun-1999	307,831	1,333,509	1,708,787	3,888,852	100%	100%	132%
Special	30-Jun-2005	\$ -	\$ 791	\$ -	\$ 855	-	108%	-
	30-Jun-2004	-	785	-	933	-	119%	-
	30-Jun-2003	-	768	-	1,009	-	131%	-
	30-Jun-2002	-	742	-	1,832	-	247%	-
	30-Jun-2001	-	993	-	1,866	-	188%	-
	30-Jun-2000	-	834	-	1,834	-	220%	-
	30-Jun-1999	-	826	-	1,720	-	208%	-
New State Police	30-Jun-2005	\$ 25,260	\$ 16,667	\$ 107,730	\$ 150,209	100%	100%	101%
	30-Jun-2004	22,194	13,036	93,702	134,507	100%	100%	106%
	30-Jun-2003	19,405	7,808	79,059	120,457	100%	100%	118%
	30-Jun-2002	16,838	5,057	70,033	109,615	100%	100%	125%
	30-Jun-2001	14,571	2,909	62,560	99,138	100%	100%	131%
	30-Jun-2000	12,600	1,495	54,272	86,810	100%	100%	134%
	30-Jun-1999	10,680	1,319	42,714	72,425	100%	100%	141%
Judiciary	30-Jun-2005	\$ 3,126	\$ 19,624	\$ 21,329	\$ 35,112	100%	100%	58%
	30-Jun-2004	2,763	18,817	17,284	32,841	100%	100%	65%
	30-Jun-2003	2,498	18,447	11,374	30,961	100%	100%	88%
	30-Jun-2002	2,300	15,705	12,117	29,049	100%	100%	91%
	30-Jun-2001	1,932	16,622	11,081	27,231	100%	100%	78%
	30-Jun-2000	1,803	14,727	11,578	24,884	100%	100%	72%
	30-Jun-1999	1,064	12,131	12,207	21,256	100%	100%	66%
County & Municipal Police and Firefighters'	30-Jun-2005	\$ 11,441	\$ 6,519	\$ 43,375	\$ 59,711	100%	100%	96%
	30-Jun-2004	9,334	5,656	30,214	48,893	100%	100%	112%
	30-Jun-2003	7,682	2,928	26,088	41,228	100%	100%	117%
	30-Jun-2002	6,114	1,838	22,392	35,053	100%	100%	121%
	30-Jun-2001	4,748	1,950	22,767	29,389	100%	100%	100%
	30-Jun-2000	3,287	643	19,652	23,496	100%	100%	100%
	30-Jun-1999	2,096	643	14,958	17,271	100%	100%	97%

**SOLVENCY TEST** (continued)  
(dollar values expressed in thousands)

Plan	Aggregate Accrued Liabilities for						Actuarial Value of Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Valuation Date	Active Member Contributions	Retirants & Beneficiaries	Active Member Employer Financed Contributions	Actuarial Value of Reported Assets	(1)		(2)	(3)	
		(1)	(2)	(3)						
County & Municipal Other Employees'	30-Jun-2005	\$ 773	\$ 876	\$ 5,073	\$ 7,048	100%	100%	106%		
	30-Jun-2004	626	649	2,065	4,275	100%	100%	145%		
	30-Jun-2003	502	499	2,331	3,602	100%	100%	112%		
	30-Jun-2002	314	355	2,147	3,033	100%	100%	110%		
	30-Jun-2001	283	283	1,923	2,794	100%	100%	93%		
	30-Jun-2000	227	185	2,192	2,410	100%	100%	91%		
	30-Jun-1999	180	144	1,948	1,783	100%	100%	75%		
Volunteer Firemen's	30-Jun-2005	\$ 4,105	\$ 9,435	\$ 9,373	\$ 10,665	100%	70%	-		
	30-Jun-2004	3,918	8,842	9,190	10,121	100%	70%	-		
	30-Jun-2003	3,660	7,946	4,013	9,644	100%	75%	-		
	30-Jun-2002	3,419	7,574	3,947	9,333	100%	78%	-		
	30-Jun-2001	2,308	7,186	4,343	9,022	100%	93%	-		
	30-Jun-2000	2,784	6,887	3,757	8,412	100%	82%	-		
	30-Jun-1999	2,744	6,655	3,678	7,447	100%	71%	-		
Diamond State Port Corporation	30-Jun-2005	\$ 1,476	\$ 2,126	\$ 6,130	\$ 8,948	100%	100%	87%		
	30-Jun-2004	1,217	2,057	5,775	8,140	100%	100%	84%		
	30-Jun-2003	1,105	1,461	4,490	7,328	100%	100%	106%		
	30-Jun-2002	997	1,252	4,368	6,675	100%	100%	101%		
	30-Jun-2001	670	913	4,035	6,044	100%	100%	111%		
	30-Jun-2000	626	584	4,012	5,188	100%	100%	99%		
	30-Jun-1999	542	624	3,785	4,171	100%	100%	79%		
Closed State Police	30-Jun-2005	\$ 1,168	\$ 266,344	\$ 16,390	\$ 749	64%	-	-		
	30-Jun-2004	1,200	267,614	16,230	2,979	100%	1%	-		
	30-Jun-2003	1,376	290,867	26,007	2,322	100%	-	-		
	30-Jun-2002	1,643	288,736	28,308	2,036	100%	-	-		
	30-Jun-2001	2,757	274,477	28,960	1,749	63%	-	-		
	30-Jun-2000	3,248	264,722	34,825	1,468	45%	-	-		
	30-Jun-1999	4,021	256,445	43,970	1,164	29%	-	-		

**ANALYSIS OF FINANCIAL EXPERIENCE FOR THE STATE EMPLOYEES' PENSION PLAN**

**GAINS/(LOSSES) IN ACCRUED LIABILITY DURING YEARS ENDED JUNE 30,  
RESULTING FROM DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUARIAL EXPERIENCE**

*(expressed in thousands)*

<b>Type of Activity</b>	<b>Gain/(Loss) for the Fiscal Years Ended June 30,</b>					
	<b>2005</b>	<b>2004</b>	<b>2003<sup>+</sup></b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Investment Income on Actuarial Assets	\$ (12,887)	(34,720)	(118,978)	(80,148)	74,705	254,955
Combined Liability Experience	(15,530)	(53,146)	23,631	(2,626)	(182,632) *	4,349
(Loss)/Gain During Year from						
Financial Experience	(28,417)	(87,866)	(95,347)	(82,774)	(107,927)	259,304
Non-Recurring Items	244	(137,125)	(42,713)	-	(12,431) **	(202,468)
Composite (Loss)/Gain During Year	\$ (28,173)	(224,991)	(138,060)	(82,774)	(131,358)	56,836

\* Includes \$206 million in plan changes being treated as actuarial loss for funding purposes.

\*\*Increase of 1.5% funded from PRI Fund.

<sup>+</sup> Certain information for Fiscal Year 2003 has been revised.

## **STATISTICAL SECTION**

**SCHEDULE OF ADDITIONS BY SOURCE**

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Employer Contributions	Transfer of Contributions From PRI Fund	Transfer of Assets from Outside the System	Member Contributions	Other	Net Investment Income	Net Increase/ (Decrease) in Fair Value of Investments	Total Additions	Employer Contributions
										As A Percent of Covered Payroll
State Employees'	2005	\$ 70,638	33,839	-	37,857	-	62,423	437,425	\$ 642,182	4.9%
	2004	57,459	27,790	1,500	36,007	-	100,682	631,656	855,094	4.2%
	2003	40,175	25,878	-	35,130	-	102,753	39,077	243,013	2.9%
	2002	18,148	31,994	-	33,477	-	128,548	(429,051)	(216,884)	1.4%
	2001	20,542	38,191	-	31,888	-	153,955	(429,538)	(184,962)	1.7%
	2000	43,433	33,498	-	29,659	-	148,995	641,970	897,555	3.9%
	1999	52,338	30,933	-	26,932	2	121,749	345,930	577,884	5.2%
	1998	57,049	27,074	-	23,093	2	125,113	537,329	769,660	5.8%
	1997	58,525	20,786	-	24,194	3	119,143	422,815	645,466	6.2%
	1996	52,216	9,675	-	23,343	139	109,913	406,175	601,461	5.6%
Special	2005	\$ -	-	-	-	-	9	69	\$ 78	-
	2004	-	-	-	-	-	17	115	132	-
	2003	-	-	-	-	-	19	18	37	-
	2002	-	-	-	-	-	49	(165)	(116)	-
	2001	-	-	-	-	-	63	(175)	(112)	-
	2000	-	-	-	-	-	64	280	344	-
	1999	-	-	-	-	-	56	153	209	-
	1998	-	-	-	4	-	62	264	330	-
	1997	-	-	-	-	-	64	213	277	-
	1996	-	-	-	-	-	64	222	286	-
New State Police	2005	\$ 3,785	81	-	2,636	36	1,650	10,681	\$ 19,334	10.0%
	2004	3,125	36	-	2,436	14	2,500	15,065	23,176	9.0%
	2003	2,786	30	-	2,337	10	2,392	1,278	8,833	8.3%
	2002	2,476	35	-	2,112	7	2,781	(9,075)	(1,664)	8.2%
	2001	2,480	29	-	1,710	19	3,118	(8,643)	(1,287)	8.9%
	2000	2,585	24	-	1,294	20	2,857	12,117	18,897	10.0%
	1999	2,624	21	-	1,168	32	2,211	6,481	12,537	11.3%
	1998	2,546	18	-	1,040	11	2,142	9,172	14,929	12.3%
	1997	1,913	13	-	946	8	1,881	7,001	11,762	10.0%
	1996	1,851	9	-	867	8	1,613	6,314	10,662	10.7%



**SCHEDULE OF DEDUCTIONS BY TYPE**

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Transfer of Contributions from PRI Fund	Transfer of Assets of Outside the System	Benefit Payments	Refund of Contributions	Group Life Payments	Administrative Expenses	Total Deductions
State Employees'	2005	\$ -	-	271,281	2,408	4,454	4,210	\$ 282,353
	2004	-	1,500	243,238	2,333	4,479	4,372	255,922
	2003	-	-	217,126	2,653	4,060	4,954	228,793
	2002	-	-	194,824	2,409	4,003	4,441	205,677
	2001	-	-	175,312	2,485	3,632	4,658	186,087
	2000	-	-	159,122	2,376	3,573	4,140	169,211
	1999	-	-	145,391	2,488	2,344	4,843	155,066
	1998	-	-	133,018	2,220	2,600	4,484	142,322
	1997	-	-	123,478	1,808	2,450	2,451	130,187
	1996	-	-	113,703	2,137	2,241	2,327	120,408
Special	2005	\$ -	-	122	-	14	3	\$ 139
	2004	-	-	119	-	21	3	143
	2003	-	750	121	-	35	3	909
	2002	-	-	143	-	21	4	168
	2001	-	-	135	-	24	5	164
	2000	-	-	133	-	12	4	149
	1999	-	-	132	-	30	6	168
	1998	-	-	125	-	15	6	146
	1997	-	-	129	-	20	-	149
	1996	-	-	132	-	-	3	135
New State Police	2005	-	-	1,254	99	-	61	\$ 1,414
	2004	-	-	922	75	-	53	1,050
	2003	-	-	689	102	-	62	853
	2002	-	-	367	87	-	56	510
	2001	-	-	289	33	-	48	370
	2000	-	-	166	56	-	40	262
	1999	-	-	113	73	-	45	231
	1998	-	-	122	159	-	39	320
	1997	-	-	87	19	-	25	131
	1996	-	-	86	61	-	25	172

**SCHEDULE OF ADDITIONS BY SOURCE** (continued from page 82)

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Employer Contributions	Transfer of Contributions From PRI Fund	Transfer of Assets from Outside the System	Member Contributions	Other	Net Investment Income	Net Increase/ (Decrease) in Fair Value of Investments	Total Additions	Employer Contributions As A Percent of Covered Payroll
Judiciary	2005	\$ 1,391	294	-	275	-	386	2,678	\$ 5,024	17.0%
	2004	1,235	253	-	249	-	612	3,817	6,166	16.8%
	2003	1,342	244	-	563	-	620	302	3,071	18.2%
	2002	1,399	293	-	251	-	745	(2,459)	229	19.3%
	2001	1,333	306	-	206	-	869	(2,421)	293	20.5%
	2000	1,666	251	-	183	-	821	3,528	6,449	23.1%
	1999	1,327	221	-	165	-	659	1,944	4,316	24.2%
	1998	1,273	189	-	133	-	663	2,858	5,116	24.9%
	1997	1,199	134	-	144	-	613	2,217	4,307	24.2%
	1996	1,260	64	-	141	-	552	2,091	4,108	25.6%
County & Municipal	2005	\$ 5,627	-	-	2,003	-	649	4,110	\$ 12,389	12.4%
	2004	3,179	-	-	1,696	-	900	5,193	10,698	11.9%
Police and Firefighters'	2003	2,931	-	-	1,546	-	805	567	5,849	12.1%
	2002	2,779	-	-	1,404	-	856	(2,729)	2,310	13.4%
	2001	2,664	-	-	1,265	-	886	(2,417)	2,398	14.3%
	2000	2,771	-	-	973	-	739	3,022	7,505	14.3%
	1999	2,025	-	-	604	-	496	2,075	5,200	14.9%
	1998	1,651	-	-	477	-	436	1,726	4,390	15.2%
	1997	1,388	-	-	359	-	327	1,317	3,391	16.0%
	1996	1,250	-	-	288	-	242	1,042	2,822	14.4%
County & Municipal Other Employees'	2005	\$ 2,271	-	-	215	-	76	362	\$ 2,924	4.9%
	2004	321	-	-	168	-	79	461	1,029	3.8%
	2003	248	-	-	259	-	71	48	626	3.2%
	2002	92	-	-	57	-	76	(246)	(21)	3.6%
	2001	165	-	-	53	-	85	(233)	70	3.7%
	2000	352	-	-	46	-	77	292	767	4.6%
	1999	158	-	-	30	-	53	176	417	5.7%
	1998	82	-	-	33	-	50	204	369	5.7%
	1997	116	-	-	30	-	41	172	359	7.3%
	1996	301	-	-	26	-	30	132	489	7.3%



**SCHEDULE OF DEDUCTIONS BY TYPE** (continued from page 83)

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Transfer of Contributions from PRI Fund	Transfer of Assets of Outside the System	Benefit Payments	Refund of Contributions	Group Life Payments	Administrative Expenses	Total Deductions
Judiciary	2005	\$ -	-	2,209	-	-	9	\$ 2,218
	2004	-	-	2,177	60	-	8	2,245
	2003	-	-	1,971	-	-	10	1,981
	2002	-	-	1,907	-	-	8	1,915
	2001	-	-	1,949	-	-	8	1,957
	2000	-	-	1,642	-	-	8	1,650
	1999	-	-	1,498	-	-	23	1,521
	1998	-	-	1,356	-	-	13	1,369
	1997	-	-	1,268	-	-	5	1,273
	1996	-	-	1,184	11	-	7	1,202
County & Municipal Police and Firefighters'	2005	\$ -	-	524	235	-	76	\$ 835
	2004	-	-	447	48	-	60	555
	2003	-	-	244	105	-	67	416
	2002	-	-	163	122	-	49	334
	2001	-	-	151	20	-	94	265
	2000	-	-	69	50	-	38	157
	1999	-	-	65	26	-	42	133
	1998	-	-	35	38	-	28	101
	1997	-	-	32	16	-	24	72
	1996	-	-	32	31	-	20	83
County & Municipal Other Employees'	2005	\$ -	-	84	13	-	30	\$ 127
	2004	-	-	61	19	-	29	109
	2003	-	-	52	41	-	26	119
	2002	-	-	41	21	-	15	77
	2001	-	-	26	9	-	21	56
	2000	-	-	21	3	-	16	40
	1999	-	-	17	4	-	8	29
	1998	-	-	15	1	-	4	20
	1997	-	-	15	1	-	4	20
	1996	-	-	15	9	-	4	28

**SCHEDULE OF ADDITIONS BY SOURCE** (continued from page 84)

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Employer Contributions	Transfer of Contributions		Member Contributions	Other	Net Investment Income	Net Increase/ (Decrease) in Fair Value of Investments	Total Additions	Employer Contributions As A Percent of Covered Payroll
			From PRI Fund	Outside the System						
Volunteer	2005	\$ 810	-	-	213	-	116	772	\$ 1,911	-
Firemen's	2004	694	-	-	208	-	188	1,132	2,222	-
	2003	667	-	-	210	-	193	102	1,172	-
	2002	586	-	-	209	-	240	(797)	238	-
	2001	618	-	-	205	-	291	(783)	331	-
	2000	645	-	-	203	-	282	1,198	2,328	-
	1999	660	-	-	203	-	232	615	1,710	-
	1998	689	-	-	205	-	243	1,028	2,165	-
	1997	721	-	-	201	-	216	741	1,879	-
	1996	584	-	-	202	1	207	768	1,762	-
Diamond	2005	\$ 352	-	-	173	-	98	662	\$ 1,285	4.0%
State Port	2004	346	-	-	164	-	150	898	1,558	4.2%
	2003	333	-	-	170	-	143	73	719	3.9%
	2002	341	-	-	157	-	166	(538)	126	4.2%
	2001	386	-	-	154	-	185	(504)	221	4.9%
	2000	389	-	-	143	-	164	684	1,380	5.3%
	1999	407	-	-	125	-	121	412	1,065	6.4%
	1998	384	-	247	193	-	113	411	1,265	6.9%
	1997	189	-	-	207	-	83	511	900	5.0%
	1996	146	-	1,588	214	-	47	-	1,834	5.0%
Closed	2005	\$ 17,020	-	-	49	1	79	-	\$ 17,149	-
State Police	2004	19,420	-	6	53	-	51	-	19,530	-
	2003	17,845	-	757	65	-	63	-	18,730	-
	2002	17,805	-	-	64	-	109	-	17,978	-
	2001	17,174	-	-	69	2	234	-	17,479	-
	2000	16,208	-	-	93	2	198	-	16,501	-
	1999	15,664	-	-	152	5	109	-	15,930	-
	1998	15,071	-	-	193	2	157	-	15,423	-
	1997	14,520	-	-	207	1	128	-	14,856	-
	1996	13,960	-	-	214	3	127	-	14,304	-



**SCHEDULE OF DEDUCTIONS BY TYPE** (continued from page 85)

(dollar values expressed in thousands)

Plan	Fiscal Year Ended	Transfer of Contributions from PRI Fund	Transfer of Assets Outside the System	Benefit Payments	Refund of Contributions	Group Life Payments	Administrative Expenses	Total Deductions
Volunteer	2005	\$ -	-	1,172	43	-	20	\$ 1,235
Firemen's	2004	-	-	1,108	31	-	17	1,156
	2003	-	-	1,057	48	-	18	1,123
	2002	-	-	1,018	44	-	17	1,079
	2001	-	-	971	55	-	22	1,048
	2000	-	-	920	29	-	22	971
	1999	-	-	890	51	-	34	975
	1998	-	-	836	42	-	24	902
	1997	-	-	811	29	-	15	855
	1996	-	-	791	47	-	18	856
Diamond	2005	\$ -	-	212	21	-	99	\$ 332
State Port	2004	-	-	199	23	-	30	252
	2003	-	-	170	24	-	28	222
	2002	-	-	185	15	-	27	227
	2001	-	-	98	8	-	53	159
	2000	-	-	75	12	-	17	104
	1999	-	-	88	12	-	21	121
	1998	-	-	53	7	-	21	81
	1997	-	-	33	9	-	17	59
	1996	-	-	2	-	-	24	26
Closed	2005	\$ -	-	19,234	-	133	46	\$ 19,413
State Police	2004	-	-	18,901	3	63	50	19,017
	2003	-	-	18,429	-	77	59	18,565
	2002	-	-	17,705	-	56	17	17,778
	2001	-	-	17,040	-	54	63	17,157
	2000	-	-	16,078	-	30	51	16,159
	1999	-	-	15,481	-	70	63	15,614
	1998	-	-	15,018	-	45	62	15,125
	1997	-	-	14,465	-	55	37	14,557
1996	-	-	13,902	-	20	35	13,957	

**SCHEDULE OF BENEFIT DEDUCTIONS BY TYPE**

(dollar values expressed in thousands)

Plan	Fiscal Years				Total
	Ended June 30,	Service	Survivor	Disability	
State Employees'	2005	\$ 229,908	20,211	21,162	\$ 271,281
	2004	205,416	18,560	19,262	243,238
	2003	182,615	16,986	17,525	217,126
	2002	162,843	16,130	15,851	194,824
	2001	146,079	14,858	14,375	175,312
	2000	132,568	13,587	12,967	159,122
	1999	121,017	12,528	11,846	145,391
	1998	110,988	11,365	10,665	133,018
	1997	103,834	10,021	9,623	123,478
	1996	96,113	8,938	8,652	113,703
Special	2005	\$ 62	54	6	\$ 122
	2004	63	50	6	119
	2003	61	55	5	121
	2002	82	56	5	143
	2001	70	57	8	135
	2000	73	52	8	133
	1999	78	46	8	132
	1998	78	40	7	125
	1997	83	39	7	129
	1996	132	-	-	132
New State Police	2005	\$ 646	111	497	\$ 1,254
	2004	439	74	409	922
	2003	294	69	326	689
	2002	172	42	153	367
	2001	44	26	219	289
	2000	-	19	147	166
	1999	-	18	95	113
	1998	-	18	104	122
	1997	-	18	69	87
	1996	-	18	68	86
Judiciary	2005	\$ 1,605	494	110	\$ 2,209
	2004	1,598	472	107	2,177
	2003	1,407	459	105	1,971
	2002	1,341	452	114	1,907
	2001	1,497	351	101	1,949
	2000	1,236	298	108	1,642
	1999	1,137	256	105	1,498
	1998	1,022	231	103	1,356
	1997	985	182	101	1,268
	1996	897	189	98	1,184



**SCHEDULE OF BENEFIT DEDUCTIONS BY TYPE** *(continued)*

*(dollar values expressed in thousands)*

Plan	Fiscal Years			Total	
	Ended	Service	Survivor		Disability
	June 30,				
County & Municipal	2005	\$ 323	57	144	\$ 524
Police and Firefighters'	2004	227	56	164	447
	2003	85	55	104	244
	2002	71	26	66	163
	2001	72	32	47	151
	2000	-	32	37	69
	1999	-	34	31	65
	1998	-	15	20	35
	1997	-	11	21	32
	1996	-	12	20	32
County & Municipal	2005	\$ 72	-	12	\$ 84
Other Employees'	2004	49	-	12	61
	2003	40	-	12	52
	2002	28	-	13	41
	2001	21	-	5	26
	2000	19	-	2	21
	1999	15	-	2	17
	1998	13	-	2	15
	1997	13	-	2	15
	1996	13	-	2	15
Volunteer Firemen's	2005	\$ 1,172	-	-	\$ 1,172
	2004	1,108	-	-	1,108
	2003	1,057	-	-	1,057
	2002	1,018	-	-	1,018
	2001	971	-	-	971
	2000	920	-	-	920
	1999	890	-	-	890
	1998	836	-	-	836
	1997	811	-	-	811
	1996	791	-	-	791
Diamond State Port	2005	\$ 142	7	63	\$ 212
Corporation	2004	134	11	54	199
	2003	108	11	51	170
	2002	96	11	78	185
	2001	59	11	28	98
	2000	51	11	13	75
	1999	54	28	6	88
	1998	53	-	-	53
	1997	33	-	-	33
	1996	2	-	-	2

**SCHEDULE OF BENEFIT DEDUCTIONS BY TYPE** *(continued)*

*(dollar values expressed in thousands)*

Plan	Fiscal Years Ended				Total
	June 30,	Service	Survivor	Disability	
Closed State Police	2005	\$ 13,693	2,537	3,004	\$ 19,234
	2004	13,496	2,446	2,959	18,901
	2003	13,090	2,345	2,994	18,429
	2002	12,635	2,111	2,959	17,705
	2001	12,002	2,131	2,907	17,040
	2000	11,352	1,928	2,798	16,078
	1999	10,782	1,870	2,829	15,481
	1998	10,620	1,669	2,729	15,018
	1997	10,343	1,467	2,655	14,465
	1996	9,931	1,390	2,581	13,902

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT BY PLAN**  
**AS OF JUNE 30, 2005**

Plan	Amount of Monthly Benefit	Number of Retirants	Type of Retirement		
			Service	Survivor	Disability
State Employees'	Deferred	1,072	-	-	-
	\$1 - 499	5,207	2,570	1,692	945
	500-999	4,518	3,060	793	665
	1000-1499	3,032	2,425	282	325
	1500-1999	1,906	1,684	93	129
	2000 - 2499	1,348	1,229	39	80
	2500 - 2999	933	883	19	31
	over \$3000	1,430	1,381	12	37
Special	Deferred	-	-	-	-
	\$1 - 499	26	9	17	-
	500-999	3	1	1	1
	over \$1000	1	1	-	-
New State Police	Deferred	7	-	-	-
	\$1 - 499	-	-	-	-
	500-999	2	-	2	-
	1000-1499	1	-	-	1
	1500 - 1999	2	1	1	-
	2000 - 2499	7	3	1	3
	2500 - 2999	11	8	1	2
	over \$3000	17	10	-	7



**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT BY PLAN** *(continued)*  
**AS OF JUNE 30, 2005**

Plan	Amount of Monthly Benefit	Number of Retirants	Type of Retirement		
			Service	Survivor	Disability
Judiciary	Deferred	-	-	-	-
	\$1 - 499	-	-	-	-
	500-999	-	-	-	-
	1000-1499	2	-	2	-
	1500-1999	1	-	1	-
	2000 - 2499	2	-	2	-
	2500 - 2999	4	1	3	-
	over \$3000	29	21	6	2
County & Municipal Police and Firefighters'	Deferred	12	-	-	-
	\$1 - 499	-	-	-	-
	500-999	4	2	2	-
	1000-1499	2	1	-	1
	1500-1999	10	2	2	6
	2000 - 2499	6	6	-	-
	2500 - 2999	2	2	-	-
	over \$3000	1	1	-	-
County & Municipal Other Employees'	Deferred	1	-	-	-
	\$1 - 499	11	10	-	1
	500-999	5	4	-	1
	1000-1499	1	1	-	-
	1500-1999	-	-	-	-
	over \$2000	-	-	-	-
Volunteer Firemen's	Deferred	20	-	-	-
	\$1 - 74	613	613	-	-
	75 - 99	384	384	-	-
	over \$100	268	268	-	-
Diamond State Port Corporation	Deferred	3	-	-	-
	\$1 - 499	10	7	3	-
	500-999	5	4	-	1
	1000-1499	8	4	-	4
	1500-1999	1	1	-	-
	over \$2000	-	-	-	-
Closed State Police	Deferred	-	-	-	-
	\$1 - 499	-	-	-	-
	500-999	-	-	-	-
	1000-1499	1	-	1	-
	1500-1999	19	-	15	4
	2000 - 2499	93	21	62	10
	2500 - 2999	263	236	8	19
	over \$3000	174	120	7	47

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY PLAN**

The following schedules are presented only for those plans with retirees and/or beneficiaries as of June 30, 2005, whose benefits are based on years of service or salary. Accordingly, the Special Pension Plan is not included.

Credited Service	2005 State Employees' Pension Plan		
	Retirants	Beneficiaries	Disabilities
<i>Less than 5 years</i>			
Average Monthly Benefit	\$ 641	\$ 233	\$ -
Average Final Average Salary	\$ 16,931	\$ -	\$ -
Number of Active Retirees	18	23	-
<i>5 - 9.99 years</i>			
Average Monthly Benefit	\$ 324	\$ 192	\$ 277
Average Final Average Salary	\$ 26,094	\$ -	\$ 21,902
Number of Active Retirees	684	345	482
<i>10 - 14.99 years</i>			
Average Monthly Benefit	\$ 469	\$ 293	\$ 476
Average Final Average Salary	\$ 25,213	\$ -	\$ 25,525
Number of Active Retirees	1,185	498	521
<i>15 - 19.99 years</i>			
Average Monthly Benefit	\$ 706	\$ 410	\$ 746
Average Final Average Salary	\$ 27,968	\$ -	\$ 28,722
Number of Active Retirees	1,971	595	463
<i>20 - 24.99 years</i>			
Average Monthly Benefit	\$ 1,005	\$ 570	\$ 1,061
Average Final Average Salary	\$ 29,674	\$ -	\$ 31,529
Number of Active Retirees	2,160	511	383
<i>25 - 29.99 years</i>			
Average Monthly Benefit	\$ 1,548	\$ 757	\$ 1,571
Average Final Average Salary	\$ 37,469	\$ -	\$ 30,394
Number of Active Retirees	2,582	348	231
<i>30 - 34.99 years</i>			
Average Monthly Benefit	\$ 2,217	\$ 1,001	\$ 2,061
Average Final Average Salary	\$ 45,977	\$ -	\$ 48,550
Number of Active Retirees	3,212	397	98
<i>35 - 39.99 years</i>			
Average Monthly Benefit	\$ 2,757	\$ 1,322	\$ 2,752
Average Final Average Salary	\$ 48,710	\$ -	\$ 43,833
Number of Active Retirees	1,132	155	26
<i>40 years and over</i>			
Average Monthly Benefit	\$ 2,919	\$ 1,628	\$ 2,198
Average Final Average Salary	\$ 44,726	\$ -	\$ 33,049
Number of Active Retirees	288	58	8



SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY PLAN (continued)

Credited Service	2005 New State Police Pension Plan			2005 Judiciary Pension Plans		
	Retirants	Beneficiaries	Disabilities	Retirants	Beneficiaries	Disabilities
<i>Less than 5 years</i>						
Average Monthly Benefit	\$ -	\$ 1,342	\$ 2,166	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ 28,297	\$ -	\$ -	\$ -
Number of Active Retirees	-	3	1	-	-	-
<i>5 - 9.99 years</i>						
Average Monthly Benefit	\$ -	\$ 1,683	\$ 2,355	\$ -	\$ -	\$ 5,228
Average Final Average Salary	\$ -	\$ -	\$ 33,234	\$ -	\$ -	\$ 121,230
Number of Active Retirees	-	1	3	-	-	1
<i>10 - 14.99 years</i>						
Average Monthly Benefit	\$ 1,939	\$ 2,740	\$ 2,203	\$ 4,722	\$ 2,189	\$ 3,918
Average Final Average Salary	\$ 99,999	\$ -	\$ 30,101	\$ 101,257	\$ -	\$ 79,846
Number of Active Retirees	1	1	2	5	4	1
<i>15 - 19.99 years</i>						
Average Monthly Benefit	\$ 2,562	\$ -	\$ 3,972	\$ 6,039	\$ 1,878	\$ -
Average Final Average Salary	\$ 62,166	\$ -	\$ 59,956	\$ 84,657	\$ -	\$ -
Number of Active Retirees	4	-	7	5	1	-
<i>20 - 24.99 years</i>						
Average Monthly Benefit	\$ 3,136	\$ -	\$ -	\$ 6,297	\$ 2,282	\$ -
Average Final Average Salary	\$ 68,753	\$ -	\$ -	\$ 91,412	\$ -	\$ -
Number of Active Retirees	17	-	-	7	3	-
<i>25 - 29.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ 6,981	\$ 3,624	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 106,491	\$ -	\$ -
Number of Active Retirees	-	-	-	4	4	-
<i>30 - 34.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ 7,979	\$ 4,638	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 118,522	\$ -	\$ -
Number of Active Retirees	-	-	-	1	1	-
<i>35 - 39.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	-	-
<i>40 years and over</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 4,555	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	1	-

SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY PLAN (continued)

Credited Service	2005 County & Municipal Police and Firefighters' Pension Plans			2005 County & Municipal Other Employees' Pension Plan		
	Retirants	Beneficiaries	Disabilities	Retirants	Beneficiaries	Disabilities
<i>Less than 5 years</i>						
Average Monthly Benefit	\$ -	\$ 569	\$ 1,403	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ 27,400	\$ -	\$ -	\$ -
Number of Active Retirees	-	2	1	-	-	-
<i>5 - 9.99 years</i>						
Average Monthly Benefit	\$ -	\$ 1,913	\$ 1,652	\$ 117	\$ -	\$ 184
Average Final Average Salary	\$ -	\$ -	\$ 37,550	\$ 16,410	\$ -	\$ 24,070
Number of Active Retirees	-	1	1	6	-	1
<i>10 - 14.99 years</i>						
Average Monthly Benefit	\$ 1,013	\$ -	\$ 1,868	\$ 576	\$ -	\$ -
Average Final Average Salary	\$ 45,901	\$ -	\$ 42,342	\$ 28,610	\$ -	\$ -
Number of Active Retirees	3	-	2	5	-	-
<i>15 - 19.99 years</i>						
Average Monthly Benefit	\$ 2,539	\$ -	\$ 1,927	\$ 536	\$ -	\$ -
Average Final Average Salary	\$ 74,136	\$ -	\$ 36,063	\$ 26,082	\$ -	\$ -
Number of Active Retirees	3	-	3	2	-	-
<i>20 - 24.99 years</i>						
Average Monthly Benefit	\$ 2,278	\$ -	\$ -	\$ 491	\$ -	\$ 851
Average Final Average Salary	\$ 47,488	\$ -	\$ -	\$ 17,165	\$ -	\$ 24,741
Number of Active Retirees	8	-	-	1	-	1
<i>25 - 29.99 years</i>						
Average Monthly Benefit	\$ -	\$ 1,730	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	1	-	-	-	-
<i>30 - 34.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ 1,039	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 24,693	\$ -	\$ -
Number of Active Retirees	-	-	-	1	-	-
<i>35 - 39.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	-	-
<i>40 years and over</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	-	-

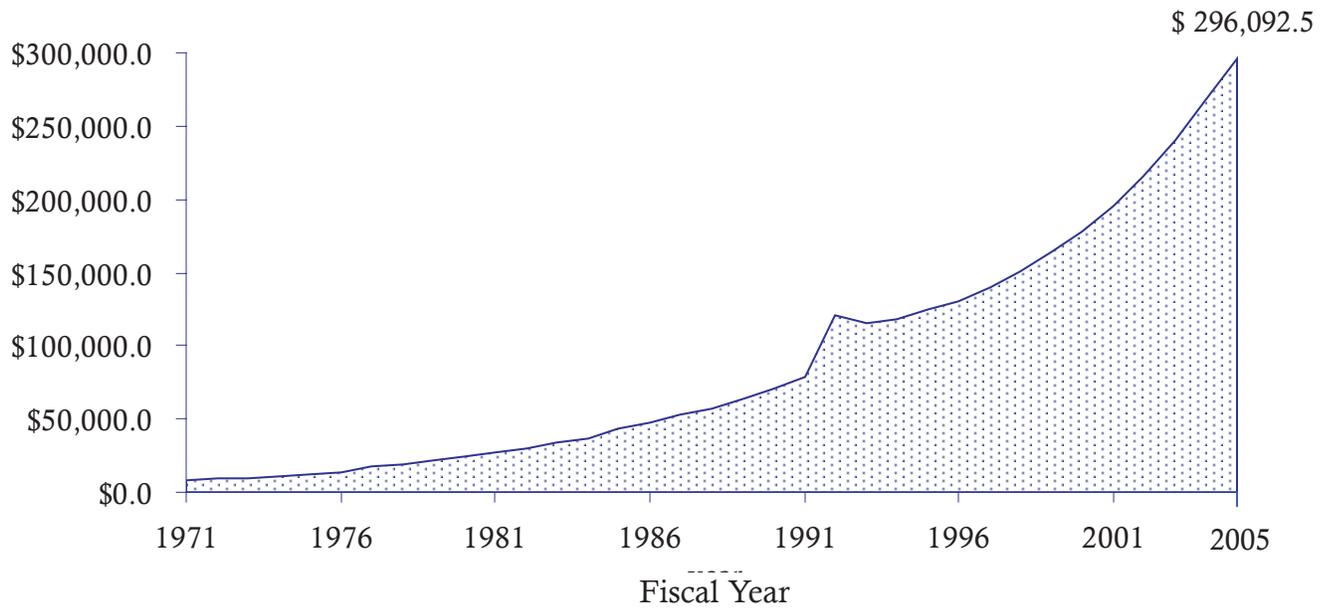
SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY PLAN (continued)

Credited Service	2005 Volunteer Firemen's Pension Plan			2005 Diamond State Port Corporation Pension Plan		
	Retirants	Beneficiaries	Disabilities	Retirants	Beneficiaries	Disabilities
<i>Less than 5 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 233	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	1	-
<i>5 - 9.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ 335	\$ 304	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 44,129	\$ -	\$ -
Number of Active Retirees	-	-	-	5	1	-
<i>10 - 14.99 years</i>						
Average Monthly Benefit	\$ 57	\$ -	\$ -	\$ 849	\$ -	\$ 968
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 34,104	\$ -	\$ 32,905
Number of Active Retirees	613	-	-	5	-	3
<i>15 - 19.99 years</i>						
Average Monthly Benefit	\$ 84	\$ -	\$ -	\$ 700	\$ 393	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 40,771	\$ -	\$ -
Number of Active Retirees	384	-	-	2	1	-
<i>20 - 24.99 years</i>						
Average Monthly Benefit	\$ 108	\$ -	\$ -	\$ 685	\$ -	\$ 1,132
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 33,488	\$ -	\$ 35,025
Number of Active Retirees	205	-	-	2	-	1
<i>25 - 29.99 years</i>						
Average Monthly Benefit	\$ 125	\$ -	\$ -	\$ 1,331	\$ -	\$ 1,240
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 31,250	\$ -	\$ 36,618
Number of Active Retirees	63	-	-	1	-	1
<i>30 - 34.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ 1,892	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ 41,187	\$ -	\$ -
Number of Active Retirees	-	-	-	1	-	-
<i>35 - 39.99 years</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	-	-
<i>40 years and over</i>						
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-	-	-	-

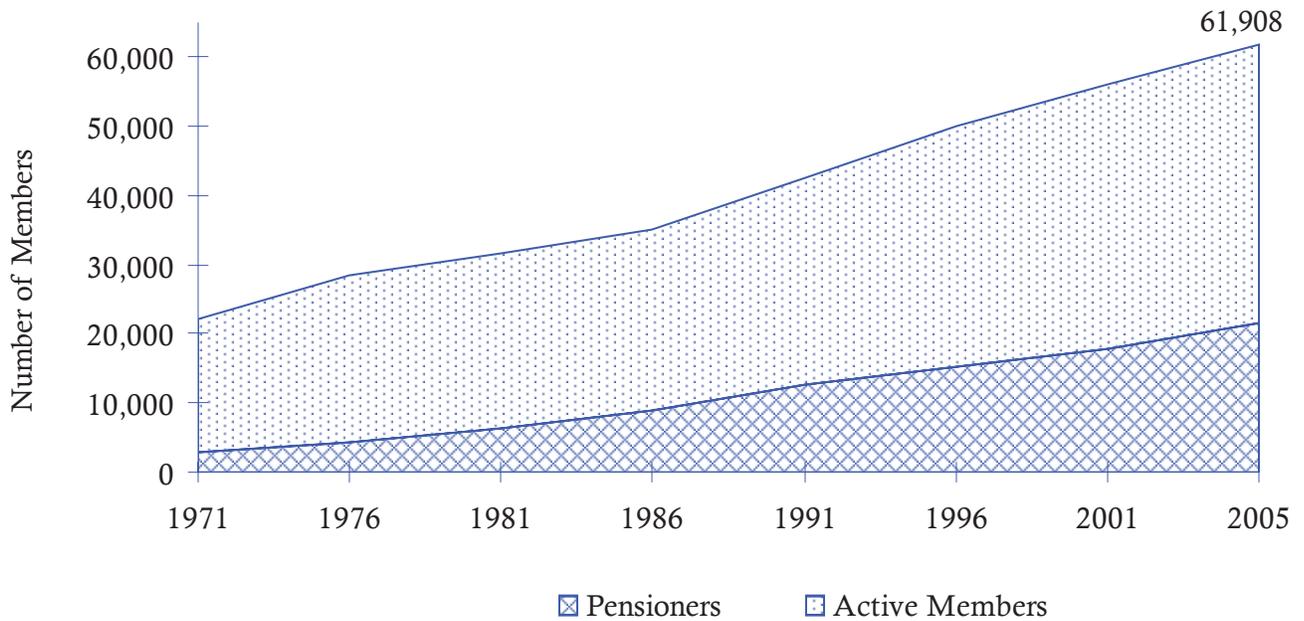
SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY PLAN (continued)

Credited Service	2005		
	Closed State Police Pension Plan		
	Retirants	Beneficiaries	Disabilities
<i>Less than 5 years</i>			
Average Monthly Benefit	\$ -	\$ 2,264	\$ 2,532
Average Final Average Salary	\$ -	\$ -	\$ 22,172
Number of Active Retirees	-	3	3
<i>5 - 9.99 years</i>			
Average Monthly Benefit	\$ -	\$ 2,125	\$ 2,746
Average Final Average Salary	\$ -	\$ -	\$ 25,793
Number of Active Retirees	-	3	21
<i>10 - 14.99 years</i>			
Average Monthly Benefit	\$ -	\$ 2,107	\$ 2,978
Average Final Average Salary	\$ -	\$ -	\$ 28,825
Number of Active Retirees	-	7	28
<i>15 - 19.99 years</i>			
Average Monthly Benefit	\$ -	\$ 2,851	\$ 3,370
Average Final Average Salary	\$ -	\$ -	\$ 47,695
Number of Active Retirees	-	6	18
<i>20 - 24.99 years</i>			
Average Monthly Benefit	\$ 2,899	\$ 2,276	\$ 4,225
Average Final Average Salary	\$ 61,453	\$ -	\$ 51,154
Number of Active Retirees	333	71	10
<i>25 - 29.99 years</i>			
Average Monthly Benefit	\$ 3,525	\$ 2,127	\$ -
Average Final Average Salary	\$ 79,094	\$ -	\$ -
Number of Active Retirees	36	3	-
<i>30 - 34.99 years</i>			
Average Monthly Benefit	\$ 4,074	\$ -	\$ -
Average Final Average Salary	\$ 89,880	\$ -	\$ -
Number of Active Retirees	8	-	-
<i>35 - 39.99 years</i>			
Average Monthly Benefit	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-
<i>40 years and over</i>			
Average Monthly Benefit	\$ -	\$ -	\$ -
Average Final Average Salary	\$ -	\$ -	\$ -
Number of Active Retirees	-	-	-

**TOTAL BENEFIT PAYMENTS**  
(expressed in thousands)



**TOTAL MEMBERSHIP**



## SCHEDULE OF PARTICIPATING EMPLOYERS

### State Employees' Pension Plan (established 1970)

State of Delaware  
State of Delaware Charter Schools (1996)  
Delaware National Guard  
Delaware Solid Waste Authority (1986)  
Delaware State University  
Delaware Technical & Community College  
University of Delaware (excluding most faculty and designated professional staff)

### Closed State Police Plan (established 1970)

Delaware State Police (Appointed before July 1, 1980)

### New State Police Plan (established 7/1980)

Delaware State Police (Appointed after July 1, 1980)

### Judiciary Pension Plans (established 1970)

Appointed members of the State Judiciary

### Diamond State Port Corporation Plan (established 1996)

Diamond State Port Corporation Employees

### County & Municipal Police and Firefighters' Plans

Town of Camden (7/2003)  
Town of Cheswold (7/1995)  
Town of Dagsboro (7/1989)  
Town of Delmar (7/1990)  
Town of Dewey Beach (7/1990)  
City of Dover (7/1984)  
Town of Felton (1/2001)  
Town of Georgetown (7/1990)  
City of Harrington (7/1989)  
City of Milford (1/2005)  
Town of Millsboro (7/1999)  
Town of Milton (10/2003)  
City of New Castle (7/1995)  
New Castle County (2/1993)  
Town of Ocean View (5/2003)  
Town of Rehoboth Beach (4/2005)  
City of Wilmington (8/1991)  
Town of Wyoming (7/1995)

### County & Municipal Other Employees' Plan

Town of Cheswold (7/1995)  
Town of Clayton (7/2004)  
Delaware City Fire Company (7/2002)  
Felton Fire Company (7/2000)  
Town of Georgetown (7/1990)  
Good-Will Fire Company (7/2002)  
City of Harrington (7/2002)  
Harrington Fire Company (7/1999)  
Kent Conservation District (11/2002)  
Lewes Fire Company (7/2002)  
City of Milford (1/2005)  
Town of Millsboro (7/1999)  
Millville Fire Company (11/2003)  
Town of Milton (10/2003)  
City of New Castle (7/1995)  
Town of Newport (7/2004)  
Town of Ocean View (5/2003)  
Port Penn Fire Co. (11/2003)  
Town of South Bethany (5/2003)  
Sussex Conservation District (7/1987)  
Townsend Fire Company (7/1999)  
Volunteer Hose Co. of Middletown (5/1998)  
Town of Wyoming (7/1995)



**SCHEDULE OF PARTICIPATING EMPLOYERS** *(continued)*

Delaware Local Gov't Retirement Investment Pool

City of Dover (3/2005)  
 Town of Elsmere (3/2002)  
 Town of Newport (2/2005)  
 Sussex County Government (12/1996)

County & Municipal COLA Fund

City of Dover (1991)  
 Town of New Castle (1996)  
 New Castle County (1993)  
 City of Wilmington (1992)

Volunteer Firemen's Pension Plan (established 1987)

Aetna Hose, Hook & Ladder Co. & Auxiliary  
 Brandywine Hundred Fire Co. & Auxiliary  
 Christiana Fire Co. & Auxiliary  
 Claymont Fire Co. & Auxiliary  
 Cranston Heights Fire Co. & Auxiliary  
 Delaware City Fire Co. & Auxiliary  
 Elsmere Fire Co. & Auxiliary  
 Five Points Fire Co. No. 1 & Auxiliary  
 Good-Will Fire Co. & Auxiliary  
 Hockessin Fire Co. & Auxiliary  
 Holloway Terrace Fire Co. & Auxiliary  
 Mill Creek Fire Co. & Auxiliary  
 Minquadale Fire Co. & Auxiliary  
 Minquas Fire Co. & Auxiliary  
 Odessa Fire Co. & Auxiliary  
 Talleyville Fire Co. & Auxiliary  
 Townsend Fire Co. & Auxiliary  
 Volunteer Hose Co. & Auxiliary  
 Wilmington Manor Fire Co. & Auxiliary  
 Port Penn Volunteer Fire Co. & Auxiliary  
 Belvedere Fire Co. & Auxiliary  
 Bowers Fire Co. & Auxiliary  
 Camden-Wyoming Fire Co. & Auxiliary  
 Carlisle Fire Co. & Auxiliary  
 Cheswold Fire Co. & Auxiliary  
 Citizens Hose Co. No. 1 & Auxiliary  
 Clayton Fire Co. & Auxiliary  
 Robbins Hose Fire Co.  
 Farmington Fire Co. & Auxiliary  
 Felton Community Fire Co. & Auxiliary  
 Frederica Fire Co. & Auxiliary

Harrington Fire Co. & Auxiliary  
 Hartly Fire Co. & Auxiliary  
 Houston Fire Co. & Auxiliary  
 Leipsic Fire Co. & Auxiliary  
 Little Creek Fire Co. & Auxiliary  
 Magnolia Fire Co. & Auxiliary  
 Marydel Fire Co. & Auxiliary  
 South Bowers Fire Co. & Auxiliary  
 Smyrna American Legion Ambulance  
 Bethany Beach Fire Co. & Auxiliary  
 Blades Fire Co. & Auxiliary  
 Bridgeville Fire Co. & Auxiliary  
 Dagsboro Fire Co. & Auxiliary  
 Delmar Fire Co. & Auxiliary  
 Ellendale Fire Co. & Auxiliary  
 Frankford Fire Co. & Auxiliary  
 Georgetown Fire Co. & Auxiliary  
 Greenwood Fire Co. & Auxiliary  
 Gumboro Fire Co. & Auxiliary  
 Indian River Fire Co. & Auxiliary  
 Laurel Fire Co. & Auxiliary  
 Lewes Fire Co.  
 Millsboro Fire Co. & Auxiliary  
 Millville Fire Co. & Auxiliary  
 Milton Fire Co. & Auxiliary  
 Rehoboth Beach Fire Co. & Auxiliary  
 Seaford Fire Co. & Auxiliary  
 Selbyville Fire Co. & Auxiliary  
 Memorial Fire Co. & Auxiliary  
 Roxana Fire Co. & Auxiliary

*With the passage of House Bill 299 effective July 1, 2005, the Office of Pensions is incorporated under the newly created Office of Management and Budget (OMB).*

*Pension Office Programmatic Goal is to maintain comprehensive and responsive systems for benefits and funds management, which helps retain a quality workforce and provides a secure and supportive retirement commitment.*