

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 29, 2005

The meeting of the Board of Pension Trustees was called to order by J. King at 9:05 a.m. in the Delaware Conference Room of the Office of Pension in Dover.

Trustees Present

Jan King
Robert W. Allen
Jennifer Davis
Richard Cordrey
Nancy J. Shevock
Helen Foster

Trustees Absent

Philip S. Reese

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Kathy Kunkle, Pension Office
Alice Simon, Pension Office
Terri Timmons, Pension Office
Marsha Kramarck, Attorney General's Office
Charlotte Lister, Pension Advisory Committee
Tom Cook, Finance Office
Faith Rentz, OMB Office
Karen Field Rogers, OMB Office

1. OPENING COMMENTS

The meeting of the Board of Pension Trustees was called to order by J. King in P. Reese's absence.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the June 28, 2005 meeting.

MOTION made by Robert Allen and seconded by Nancy Shevock to approve the minutes of the Board of Pension Trustees' June 28, 2005 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

K. King reviewed the current fund investment performance.

INVESTMENT PERFORMANCE – MONTH ENDING JUNE 30, 2005

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.2 %	9.6 %	9.6 %
S & P 500 Index	0.1 %	6.3 %	6.3 %
60/35/5*	0.3 %	6.4 %	6.4 %
Delaware Benchmark**	0.7 %	8.2 %	8.2 %

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.
**Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.

Total assets in the Fund at the end of June were \$5,926 million. The Fund gained 1.1% for the month and compared positive to a benchmark of a positive .7% and a .3% for a 60/35/5 benchmark.

During the month of June the Fund experienced gains across all equity markets. The Russell 3000 stocks gained .7%, but this was not a broad market increase. Large Growth stocks lost (1.2%) and Large Value index returned a positive 1.1%. Small cap stocks posted the largest gain in the equity market with the Russell 2000 returning a positive 3.9%. The international markets followed the U.S. market with the unhedged EAFE returning a positive 1.3%. The bond market with Lehman Long-Term Government/Corp Index was also in the black with a positive return of 1.5%.

The Fiscal Year 2005 return for the Fund will be reported at a 9.6% gain, compared positively to an 8.2% benchmark. This return may differ slightly in published reports after normal year end adjustments. This positive variance to the benchmark is mainly due to the high U.S. equity and International Equity position of the Mellon-TAA and GTAA during months that experienced strong equity returns and the strong performance of the NRIS tactical allocation. Year to date calendar returns are a slight positive .3% compared unfavorably to a benchmark of a gain of 1.1%.

The Committee, at its' last meeting met with the bond manager, Loomis Sayles.

J. King announced the Investment Committee has a recommendation new member, Mark Stalnecker. M. Stalnecker's resume is attached.

MOTION made by N. Shevock and seconded by R. Allen to appoint Mark Stalnecker as an Investment Committee member.

MOTION ADOPTED UNANIMOUSLY

The next meeting of the Investment Committee is August 16th.

4. AUDIT COMMITTEE REPORT

R. Allen stated that the annual audit is on schedule and the KMPG Auditors are on site at the Pension Office. The Audit Exit meeting will be held on August 24th. An Annual Report Draft will be sent to the Board Members on August 26th and any comments the Board has must be sent to the Audit Committee by September 2nd.

A. Simon stated that the Conflict of Interest Letters need to be signed and returned to KMPG as soon as possible.

5. PENSION ADVISORY COUNCIL

C. Lister was present to represent the Pension Advisory Council as J. Testerman was unable to attend. It was stated that J. Testerman has concerns about the regulations for the new Disability Program.

6. PENSION ADMINISTRATOR'S REPORT

Legislation Update

D. Craik discussed the 2005 Legislation that was passed this session for the various pension plans and Pension office.

H. B. 182

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

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

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. 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

This bill establishes a Disability Insurance Program for employees that are covered by the State Employees' Pension Plan. The program consists of a combination 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 benefits to continue to accrue service credit in the State Employees' Pension Plan until they reach normal retirement age. It allows employees that are receiving disability benefits to continue to be eligible for health care benefits.

In addition, this bill permits an employee to purchase credited service for accumulated sick leave in excess of 90 days. 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

Effective 7/1/05, retroactively removes the integration of Social Security benefits from the calculation of pension benefits under the County and Municipal General Employees' pension plan. Effective January 1, 2006, employee contributions to the Fund shall be 3% of total annual compensation in excess of \$6,000.

- S. B. 191 Effective 7/1/05, retroactively removes the integration of Social Security benefits from the calculation of pension benefits under the County and Municipal Police/Firefighters pension plan. Effective January 1, 2006, member contributions to the fund shall be 7% of monthly compensation.
- Senate Substitute Bill #1 for S. B. 201 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. There already exist unified pensions between the State Employees, New State Police, County/Municipal General Employees and County/Municipal Police pension plans.
- S. B. 223 Removes the requirement that limits retroactive benefit payments to two months following application for disability pension benefits.
- S. B. 231 Makes an appropriation of \$10 million to the Post Retirement Health Insurance Premium Fund
- S. B. 232 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.

Disability Review

D. Craik announced that Hartford Life Insurance is the new carrier for the Disability Program. The contracts will be sent to the Attorney General's Office for review. D. Craik stated that the Team, which consists of staff from the Office of Management and Budget Benefits Unit and the Pension Office, has weekly conference calls with Hartford. The Team has also met with PHRST and CRIS to discuss the changes that will be needed before January 1, 2006.

Retiree Health Funding

D. Craik updated the Board on the meetings that have been held with the committee that was established by the Governor to review retiree health care liabilities. Two graphs were reviewed that had been shared with the Committee. The first graph has the fund balance in the Post Retirement Health Insurance Premium fund as well as the DPERS asset allocation as of 6/30/05. The second graph presents a

historical graph which displays the funding of the pension plan (both on an actual and pay as you go basis) and the pay as you go cost for health insurance on a percentage of payroll basis

Medical Report

Comprehensive monthly reports were distributed and discussed covering disability applications and pensions reviewed by the Medical Committee for the month of July 2005. There were 28 new cases processed in July. Four employees are in the over 90 day's category. Then Medical Committee is meeting today.

Town of Newport

D. Craik stated that the Town of Newport wants to join the County/Municipal Police Pension Plan as of August 2005. There would only be one member in the plan.

MOTION was made by R. Allen and seconded by N. Shevock to accept the Town of Newport into the County/Municipal Police Pension Plan.

MOTION WAS ADOPTED UNANIMOUSLY

Board Attendance

D. Craik commented that policy states the Board and Committee Members are expected to attend 75% of the meetings on a rolling 12 month basis. As of June 30, 2005, excluding the new Board Members, all Board Members are in compliance with the policy. As for the Committee Members, there is one Audit Member that is slightly below the 75% threshold, but will go over that mark after the next meeting.

Best Practices

D. Craik presented a handout on the company Cost Effective Measurement (CEM). The handout discusses why you should benchmark your operation, cost drivers that we measure and key events and timelines. The Pension Office will be using the administrative review services provided by CEM and D. Craik has suggested that the investment review process also be used for the Best Practices review.

7. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck stated she will be meeting with law firms to discuss Internal Revenue Service compliance for the plans administered by the Board.

8. PENDING ITEMS

D. Craik reported that pending item one will be deleted and items two and three have seen no action.

9. ADJOURNMENT

The next Pension Board meeting will be held on September 30, 2005, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 9:54 p.m., there being no further business,
MOTION was made by N. Shevock and
Seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman