

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF APRIL 30, 2004

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:03 a.m. in the Delaware Conference Room of the McArdle Building.

Trustees Present

Phillip Reese
Robert W. Allen
David W. Singleton
Nancy J. Shevock
Helen Foster Parson

Trustees Absent

Lisa Blunt-Bradley
Jan M. King

Others Present

Jim Testerman, Pension Advisory Council
David C. Craik, Pension Office
Marsha Kramarck, DAG
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Steve Kubico, Controller General's Office
Jill Floore, Budget Office
Theresa Leatherbury, Milliman USA

1. OPENING COMMENTS

P. Reese thanked everyone, both staff and Trustees for taking the time to meet with him over the last few months. He has found this time very beneficial and appreciates everyone's effort.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the February 27, 2004 meeting.

MOTION was made by R. Allen and seconded by D. Singleton to approve the minutes of the Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. ACTUARIAL REPORT

D Craik introduced Theresa Leatherbury from Milliman USA, who is the actuary assigned to the Delaware Public Employees Retirement System. She has been working on an experience study to compare the actuarial assumptions to what actually has been experienced each year. T. Leatherbury provided a detailed presentation of the experience study that was performed using valuation data from the last nine years. The following assumptions were reviewed during the experience study:

- Investment Return
- Salary
- Normal Retirement
- Mortality
- Cost of Living Adjustment
- Withdrawal/Turnover
- Early Retirement
- Disability

A discussion on each item was then held with the principal findings and recommendations as follows:

- Retiree Mortality Healthy Lives, there were fewer deaths than expected, particularly with the male population. The current mortality table is outdated and does not reflect the current trends in mortality.
Recommendations:
 - 1) Strengthen assumptions to be more in line with experience and recognize general trends in mortality.
 - 2) Provide for expected future mortality improvements.
- Active Employee Mortality, there was not sufficient data to study trends, therefore a standard table will be used and adjusted based on experience of healthy retired members.

- Disabled Retiree Mortality, there were more deaths than expected at a younger age, but less than expected at older ages, with all rates lower for females.

Recommendation:

- 1) Refine assumptions to be more in line with experience.

- Early Retirement, in total there were more retirements than expected, with the rates differing slightly between those who are first eligible and those beyond their first eligibility. There was also a slight difference in the experience between males and females.

Recommendations:

- 1) Refine the assumption to match experience
- 2) Develop different rates for males and females
- 3) Use different rates for first eligible and subsequent to first eligibility.

- Normal Retirement, there were more retirements than expected prior to age 60, with fewer than expected after age 60. There are some retirements that are occurring later than age 65. The retirement rates differ slightly between males and females.

Recommendations:

- 1) Refine the assumption to more closely match experience
- 2) Use different rates of retirement for males and females
- 3) Use different rates for first eligible and subsequent to first eligibility
- 4) Extend retirement rates beyond age 65.

- Withdrawal/Turnover, there were more withdrawals than expected with a pattern based on years of service. More than expected for the first 5 years of service and fewer than expected after 5 years of service. There was no significant difference between males and females.

Recommendations:

- 1) Vary rates by age and service for the first 10 years of service
- 2) After 10 years of service vary rates by age only.

- Disability, more disabilities than expected for employees under age 45 as well as fewer than expected at older ages. There were no significant differences between males and females.

Recommendation:

- 1) Refine assumptions to more closely match experience.

- Salary Increase, based on two components, merit increases and wage inflation. Wage inflation over the past nine years has been approximately 4.3%. Merit increases have been above expected during the first few years of employment and below expected in later years.

Recommendation:

- 1) Merits scale that varies by years of service for first 10 years of service and by age after that
 - 2) Wage inflation assumption on top of merit assumption equal to 4%.
- Investment Return Assumption, as part of this review input was sought from the Investment Committee and Investment Advisor as for their expectation of future investment returns. It was felt that the current rate of 8.5% fell in the range of expected returns. A calculation was done to calculate the employer contribution rate using a 8.25% and 8.0% investment return. The current FY05 rate is 4.91%, with a investment rate of 8.25% the employer rate would be 4.57% and at a return of 8.0% the rate would be 6.12%.

After a detailed discussion about the last two assumptions it was agreed that the Salary Increase assumption would be reviewed further, with the Pension Office to provide some detail on the actual increases granted as part of the budget cycle and also provide the level of payroll for those years. As for the investment assumption, Delaware is on the high side when compared to other public plans and with other States lowering their investment rate assumption the Board feels an adjustment might be appropriate. Further discussion regarding this presentation and recommendations will be held during the June 2004 Board meeting.

4. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck had no items to report at this time, but did have an item to be discussed during Executive Session.

5. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING MARCH 31, 2004

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	0.2%	16.1%	28.7%
S & P 500 Index	(1.5)%	17.1%	35.1%
60/35/5*	(0.6)%	11.1%	22.6%
Delaware Benchmark**	(0.2)%	12.7%	24.1%

*Benchmark mix of 60% S&P500 Index, 35% Solomon Long Government and Corporate Bond Index and 5% T-bills.

**Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.

A Poll Vote was conducted on April 13, 2004 at the request of the Investment Committee. The committee recommended the reduction of approximately \$100 million of exposure to the domestic convertible market, which appears to be overpriced. Advent Capital and Frolely-Revy positions should be reduced by approximately \$100 million. It is recommended that this cash be invested in the Mercantile Cash Account.

Motion was made by D. Singleton and seconded by N. Shevock to ratify the poll vote conducted on April 13, 2004.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL

J. Testerman reported on the pension workshops that were scheduled in April with the number of attendees, attendance for this year was lower than prior years:

4/5 Sussex Central High School – 52
4/7 Stanton Middle School – 65
4/21 Stanton Middle School – 50
4/22 Brandywine High School – 42
4/25 State Troopers Association – 49

There is now a new member of the Pension Advisory Council, a representative of the Wilmington Firefighters union has been added to the Council.

7. PENSION ADMINISTRATOR'S REPORT

Medical Report

Comprehensive monthly reports were distributed and discussed covering disability applications and pensions reviewed by the Medical Committee for the month April 2004. There were 20 new cases processed in April. Two employees are in the over 90 days category, but will be resolved shortly.

Communications

D. Craik reported on the bill that passed that granted State Employees a bonus. The compromise bill has an additional date of employment, May 16, 2004, that an employee must be employed on to receive the bonus. This additional language eliminates employees that retired between January 1 and May 1, 2004 from receiving the bonus. If the second date had not been used the Pension Office would have had to recalculate approximately 534 benefits for the employees that have retired since January 1.

The disability project timeline has been adjusted slightly. The RFP process will begin this summer with any legislative items that need action to be identified for January 2005, with a beginning date of July 1, 2005. One issue still not resolved is the Return to Work component. The RFP process will be used to solicit suggestions on that topic.

D. Craik will be meeting this afternoon with the School Business Managers to discuss the employer contribution rate and the increase of 10% for FY05.

8. AUDIT COMMITTEE REPORT

R. Allen reported that the next Audit Committee meeting will be on May 5, 2004. The agenda includes the following:

- Introduction of external audit staff
- Review Engagement Letter and Scope of Audit
- Update on FY2003 Audit Comments
- New issues affecting FY2004 audit
- Sarbanes-Oxley update
- Discuss conflict of interest letters
- Financial Audit timeline
- IT Audit timeline

P. Reese asked the Audit Committee review the recent administrative actions taken by the Securities Exchange Commission against Ernst & Young and follow up with the Board if there were any concerns.

9. PENDING ITEMS

D. Craik reported that item #2, Investment manager's allowable investments, would be distributed at the Executive Session due to the confidential nature of the information. This item will then be removed from the list.

10. GOVERNANCE ISSUES

A list of Governance Issues had been distributed to Board members at an earlier date for further discussion. P. Reese commented that most of these items were not time sensitive, but felt that the Board should address a few of the issues at future meetings. A discussion then followed on the following items.

- Board of Pension Trustees attendance policy, M. Kramarck will do further research to see if the Governor can replace a Board member prior to the expiration of that member's term. She will also develop a policy for later review by the Board.
- Appointment of Vice-Chair, it was determined that a Vice-Chair was not needed as any member could chair the Board meeting. As for signature authorizations, it was determined that a Rule/Regulation should be adopted to grant signature authorization to the Executive Secretary based on a temporary

delegation by the Board Chair or by the Board directly. This authorization would only pertain to actions taken by the Board.

- Advisability of having fewer Board meetings, it was the consensus of the Board that the current schedule of Board meetings is satisfactory. The Chair could still make a determination to cancel a meeting based on the pending agenda and any communications that would be needed at that time. This item will be removed from the list.
- What personal liability are Board members exposed to? M. Kramarck reported that the statute creates immunity with the exception of willful misconduct. However anyone can sue a Board member in a personal capacity. The Attorney General's office would represent a Board member in any litigation. If the Board member requested personal counsel, then the Board member would pay the cost. Different types of insurance coverages were discussed and N. Shevock agreed to research what is currently used by the school districts. Further research will be done on this topic to be discussed at a later meeting.

11. EXECUTIVE SESSION

Motion was made by R. Allen and seconded by N. Shevock that the Board go into Executive Session to consider legal advice regarding potential litigation.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session.

Motion was made by R. Allen and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

12. ADJOURNMENT

The next Pension Board meeting will be held on June 18, 2004 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 12:10 p.m. there being no further business,
MOTION was made by R. Allen and
seconded by D. Singleton to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Phillip S. Reese
Board of Pension Trustees Chairman