

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF DECEMBER 19, 2003**

The meeting of the Board of Pension Trustees was called to order by R. Adkins at 9:00 a.m. in the Delaware Conference Room of the McArdle Building.

Trustees Present

Ralph J. Adkins  
Jan M. King  
Robert W. Allen  
Nancy J. Shevock  
David W. Singleton

Trustees Absent

Lisa Blunt-Bradley  
Helen Foster Parson

Others Present

Steve Kubico, Deputy Controller General  
Jim Testerman, Pension Advisory Council  
David Craik, Pension Office  
Kim Vincent, Pension Office  
Alice Simon, Pension Office  
Kathy Kunkle, Pension Office  
Marsha Kramarck, DAG  
Dorothy Clemente, Pension Office  
Bill Southam, Pension Office  
Theresa Leatherbury, Milliman USA

Medical Committee Members Present

William D. Shellenberger M.D.  
Charles S. Riegel M.D.  
I.J. Tikellis M.D.  
Robert W. Frelick M.D.  
Vincent DeDuca, Jr. M.D.

## 1. OPENING COMMENTS

R. Adkins announced that this would be his last Board meeting as Chair of the Pension Board. Because of increasing work commitments he had requested that the Governor attempt to replace him. He stated that it had been a privilege to work with the Board and Pension Office staff. D. Singleton thanked Mr. Adkins for his time and efforts and mentioned that the Governor would be submitting a name to the Senate for confirmation once the General Assembly was back in session next month.

The annual holiday luncheon sponsored by R. Adkins was held following the meeting.

## 2. MEDICAL COMMITTEE REPORT

Members of the Medical Committee were in attendance to provide their annual report to the Board.

D. Craik provided the Medical Committee with an update to the ongoing disability project as well as the anticipated timeline.

- ◆ Employees with less than 5 years of service, who represent 35% of the population, are not eligible for any benefit
- ◆ The benefit provided for employees with less than 25 years service is not adequate compared with typical private sector plans. Represents 89% of the population
- ◆ The disability is not managed. There are no aspects of the plan to encourage a return to work
- ◆ The plan has some loopholes which allow employees who are no longer disabled to continue receiving a benefit, including being offered a job specifically by the State, rather than just gainful employment

One consideration to replace the existing program would be the following:

- 20 day sick leave period
- 26 week STD at 50% of pay
- 50% LTD until age 62, at age 62 entire normal retirement, with calculation to include years of service while out on disability

The anticipated timeline is as follows:

- |  |                              |
|--|------------------------------|
| ■ Complete refinement of cost analysis   | December 2003 - January 2004 |
| ■ Initiate a request for proposal to obtain bids on short-term and long-term disability plans: |                              |
| Draft RFP  | February 2004                |
| Obtain bids and analyze bids   | March - April 2004           |
| Select finalist  | April 2004                   |
| Obtain legislation to introduce new disability program   | April – June 2004            |
| Develop implementation & communications program  | July – October 2004          |
| Implement effective date of new program  | January 2005                 |

The Committee welcomed the proposed changes. Dr. Frelick stated a number of concerns that the Committee has voiced over the years and the situation has not improved with the current disability program.

- Procedures should be facilitated to allow employees to have an extension of sick leave
- Regulations should be developed to encourage supervisors to allow an employee to return from a disability on a part-time basis
- There is often no alternative to approving a disability for certain illnesses that might be treated properly such as obesity
- There has been no support from Vocational Rehabilitation programs because the State has no authority to send applicants for those services.
- It should be simpler to discontinue a disability pension for employees that have recovered
- The current inability to consider any alternative but a disability pension after the age of 60 needs to be reviewed.
- The committee has wondered how to act when providing a disability pension seems to be the only alternative to respond to situations because current laws and regulations do not allow for any alternatives. It seems difficult to seek any legislative changes in the current program.

D. Singleton stated that a contract has been awarded to implement a State safety program in regards to Workers' Compensation claims, which will have an impact on the State's disability programs.

### **3. APPROVAL OF THE MINUTES**

The Trustees reviewed the minutes of the October 31, 2003 meeting.

MOTION was made by J. King and seconded by D. Singleton to approve the minutes of the October 31, 2003 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

### **4. DEPUTY ATTORNEY GENERAL REPORT**

M. Kramarck provided information regarding the proposed rule by the Securities and Exchange Commission regarding the nominations of Directors. The deadline for comments is December 22, 2003, but the Board felt it would withhold its comments until the final regulations are released for review.

As a follow up on a request from D. Singleton all of the fund's investment managers were contacted regarding any litigation due to alleged improprieties. Two managers have two specific claims pending, where exposure seems unlikely and insignificant to the Fund. All remaining claims relate to assertions for market downturns by participants in 401k plans. Thus, there is no exposure or claim at present, which presents any threat to the Fund.

The Board is current on all outstanding appeals, with one case scheduled for January 14, 2004.

## 5. INVESTMENT COMMITTEE REPORT

### INVESTMENT PERFORMANCE – MONTH ENDING NOVEMBER 30, 2003

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.2%	8.2%	15.6%
S & P 500 Index	0.9%	9.4%	15.1%
60/35/5*	0.6%	5.1%	11.6%
Delaware Benchmark**	0.9%	6.3%	13.0%

\*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.

The Investment Committee recently met with Mellon Capital Management about their changes to the models that control the asset allocation in both the Tactical Asset Allocation and Global Tactical Asset Allocation products. In addition to the current model inputs they are starting to use historical or adaptive risk as another input into the models. Adaptive risk blends trailing risk with Mellon's forecast of long term risks. It is anticipated that this gentle tweaking of the model will help their products to continue to add value over benchmark returns.

The Investment Committee recommends an additional investment in Summit Partners' new subordinated debt program in our Private partnership program. Previous investments in Summit have provided us with outstanding returns.

Motion was made by R. Allen and seconded by N. Shevock to commit up to \$25 million in the new subordinated debt program offered by Summit Partners, Summit Subordinated Debt Fund III.

MOTION ADOPTED UNANIMOUSLY

The Committee also reviewed the current investments with Fidelity's Real Estate Investment Trust (REIT) product and T. Rowe Price's Natural Resource (NRIS) portfolio currently used by Delaware. REITs have had a huge run up in value over the last 12 months, due to large amounts of funds moving into this market as an alternative to fixed income. This demand has run up the price of shares instead of a value increase due to increased financial returns to the properties. The NRIS managers advised that there is increasing pressure on commodity prices, specifically in the metals area. As the world economic recovery continues, coupled with the increased consumption from the Chinese, there is an opportunity for increased returns by adding to our investment in this fund. This would also provide a partial hedge on inflation similar to real estate investments.

Motion was made by N. Shevock and seconded by D. Singleton to liquidate the Fidelity REIT account of approximately \$118 million and to transfer those funds to the T. Rowe Price NRIS account, with Mellon Capital as the transition manager.

MOTION ADOPTED UNANIMOUSLY

A Poll Vote was conducted on November 18, 2003 at the request of the Investment Committee. The Committee recommended conversion of approximately \$75 million in the BGI S&P 500 Index to the BGI Russell 1000 Growth Index fund; and the addition of \$25 million from the cash account to the BGI Russell 1000 Growth Index fund to true up a \$100 million investment in the large cap growth index fund. Last month a large cap growth manager was terminated and this action replaces the style exposure for the Fund.

Motion was made by D. Singleton and seconded by R. Allen to ratify the poll vote conducted on November 18, 2003.

MOTION ADOPTED UNANIMOUSLY

## 6. PENSION ADVISORY COUNCIL

J. Testerman announced that Barbara Smith had passed away last week. Barbara served on the Advisory Council as a representative of the University of Delaware salaried staff. The Pension Advisory Council will meet again on January 13, 2004, with the main topic their 2004 legislative agenda. The Pension Office has scheduled dates for the upcoming spring pension workshops. J. Testerman thanked the Board and Pension Office Staff for the past year and their relationship with the Council.

## 7. PENSION ADMINISTRATOR'S REPORT

### Communications

The FY05 employer pension rates were presented at the October meeting that generated some additional questions concerning the Diamond State Port pension plan. After review it was determined that a change in the mortality table used in the Port's valuation would cause an increase in the employer cost, but no action should be taken until a full actuarial assumption review is completed in 2004.

The following employer contribution rates for FY05 for all plans were presented:

State Employees'	4.91%
State Judiciary	17.03%
New State Police	9.95%
County Police FICA & NON-FICA	12.36%
County Employees	4.93%
Volunteer Firemen	\$143.90
Diamond State Port Authority	4.00%

Motion was made by J. King and seconded by D. Singleton to adopt the proposed FY2005 actuarial rates for the plans administered by the Pension Office.

MOTION ADOPTED UNANIMOUSLY

An actuarial update on items Milliman USA is currently working on:

- a) finalizing the FY03 valuation booklets for each plan, should be available at the 1/04 meeting.
- b) retiree health valuation, questions have been forwarded to the State Benefits Section for review.
- c) actuarial assumptions review, will meet with the Investment Committee in January and have results to discuss at the April meeting.

The PeopleSoft v8.8 upgrade project is still proceeding on time with expected completion on 1/1/04. For the month of December we have been running parallel in both systems with no major roadblocks.

The resume of Thomas F. Weir, MD was reviewed for the Medical Committee.

Motion was made by J. King and seconded by N. Shevock to add Thomas F. Weir, MD as a member of the Board's Medical Committee.

MOTION ADOPTED UNANIMOUSLY

A resolution for Dr. John B. Kramer was reviewed. The Board is appreciative of Dr. Kramer's commitment to serve on the Medical Committee.

Motion was made by J. King and seconded by D. Singleton to ratify the Resolution presented for John B. Kramer, MD.

MOTION ADOPTED UNANIMOUSLY

The State Personnel Office's JFC budget hearing has been set for 2/11/04 at 1:00.

## **8. AUDIT COMMITTEE REPORT**

The Audit Committee met on December 11, 2003 and reviewed the following:

- a) a discussion on the Sarbanes-Oxley Act and the responsibilities that will impact the Audit Committee and Board. D. Craik has also been in contact with the Public Integrity Commission which will forward information to M. Kramarck concerning specific information from Sarbanes-Oxley that might pertain to "best practices" for the Board. In those could be a Code of Ethics and a Gift policy.
- b) Held the annual update meeting with Mercantile.
- c) Will be considering adding an additional member to the committee, but will get back to the Board at a future time with a recommendation.

## **9. PENDING ITEMS**

No revisions to report .

**10. ADJOURNMENT**

The next Pension Board meeting will be held on January 30, 2004 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 10:10 a.m. there being no further business,  
MOTION was made by N. Shevock and  
seconded by D. Singleton to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

Ralph J. Adkins, Chair  
Board of Pension Trustee