

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
**OFFICE OF PENSIONS**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF OCTOBER 31, 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  
Lisa Blunt-Bradley  
David W. Singleton  
Nancy J. Shevock

Trustees Absent

Helen Foster Parson

Others Present

Theresa R. Leatherbury, Milliman USA  
William Reimert, Milliman USA  
Jim Testerman, Pension Advisory Council  
Charlotte Lister, Pension Advisory Council  
David C. Craik, Pension Office  
Marsha Kramarck, DAG  
Christy L. Ulmer, Pension Office  
Kim Vincent, Pension Office  
Alice Simon, Pension Office  
Kathy Kunkle, Pension Office  
Jill Floore, Budget Office  
Steve Kubico, Deputy Controller General

**1. OPENING COMMENTS**

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

**2. ACTUARIAL REPORT**

D. Craik introduced Theresa Leatherbury and William Reimert of Milliman USA.

Theresa Leatherbury provided a detailed presentation of the FY03 Actuarial Valuation for all plans contained in the Delaware Public Employees' Retirement System.

Discussed that the actuarial value of assets is higher than the market value because of the smoothing technique that is in place. The annualized smoothed return continues to be positive even though the performance for the last three years has trailed the actuarial assumption. Another highlight would be that the number of retirees increased by 25% over the last eight years while the active employees have only increased by 8%. Over the same period the amount of benefits paid has doubled, due to the increase in retirees as well as benefit improvements and post retirement increases.

The results of the valuation of the Judges' Plan differs from the results that were reported in the FY03 Annual Report. Some of the Judge's salaries were reported incorrectly, but were corrected in the calculation of the employer rates. The Pension Office will restate the differences in next year's annual report.

D. Singleton asked about the mortality table that is used to value the Diamond State Port plan, which is different than the mortality table used to value the other plans. T. Leatherbury and D. Craik will follow up and notify the Board at the next Board meeting.

On overview of the Post Retirement Increase Fund was reviewed. The appropriation for FY2004 is 1.45%. In order to fund current liabilities the appropriation for FY2005 and beyond will have to increase to approximately 1.6% percent.

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%

Tabled a motion until the November 21, 2003 meeting pending further review of the rates for the Port.

## 2. ACTUARIAL REPORT - CONTINUED

Discussed reviewing of the assumption rates individually for each plan. Trustees believe this is the time to examine what has occurred over the previous years and compare to the current assumptions and make recommendations for changes as needed. In order to have Milliman USA conduct the review the following motion was made.

Motion was made by J. King and seconded by D. Singleton to engage Milliman USA to further review the assumptions to be considered prior to the next fiscal year's contribution rates to be approved for FY06.

MOTION ADOPTED UNANIMOUSLY

The project time frame of this review is six months.

## 3. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the September 26, 2003 meeting.

MOTION was made by J. King and seconded by N. Shevock to approve the minutes of the Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

## 4. INVESTMENT COMMITTEE REPORT

### INVESTMENT PERFORMANCE – MONTH ENDING OCTOBER 31, 2003

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.2%	3.3%	18.6%
S & P 500 Index	-1.1%	2.6%	24.4%
60/35/5*	0.5%	1.5%	17.0%
Delaware Benchmark**	1.0%	2.3%	16.6%

\*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.

#### **4. INVESTMENT COMMITTEE REPORT - CONTINUED**

The Investment Committee met with Legg Mason Capital Management specifically about their Large Cap Value Equity product. Through Bill Miller's leadership, this fund has outperformed the S&P 500 in all 12 of the last 12 calendar years. Originally, this fund was considered for partial replacement of the Mellon GTAA fund, but after presentation and discussion, the Investment Committee recommends that this manager replace Alliance Capital as Large US Equity manager. Alliance was hired over two years ago and has never performed up to expectations. Their 12-month return is 18.8 compared to the S&P 500 return of 24.4% for the same period. The mandate for Legg Mason would be for \$150 million funded mostly from the liquidation of Alliance Capital and the remainder from Mellon GTAA. In order to facilitate the transfer and minimize costs to the Fund for this transition, it is recommended that Mellon Capital be engaged as transition manager to maximize value for stocks currently held by Alliance Capital.

Motion was made by J. King and seconded by D. Singleton to replace Alliance Capital as Large US Equity manager with Legg Mason Capital Management with Mellon Capital as the transition manager.

MOTION ADOPTED UNANIMOUSLY

In addition a report was given on the annual "Analysis of Investment Manager and Asset Class Fees". Management fees as a percentage of the Fund were 29 basis points excluding limited partnerships. These fees are slightly higher than 2002 but are in line or lower than the previous 5 years. Most longer term managers have delivered returns in excess of their benchmarks over the last 3 and 5 years. These fees compare favorably when compared to a sample of other public funds. Of local interest would be Pennsylvania Public School Employees at 32 basis points and Maryland State Retirement at 33 basis points.

D. Singleton requested a report from the Investment Committee of any of our managers who are currently under investigation or involved in litigation due to alleged improprieties.

A Resolution for A. Herbert Nehrling, Jr. was reviewed. The Board is appreciative of Mr. Nehrling's commitment to the Investment Committee and stated that he will be missed.

MOTION was made by J. King and seconded by L. Blunt-Bradley to ramify the Resolution presented for A. Herbert Nehrling, Jr.

MOTION ADOPTED UNANIMOUSLY

#### **5. PENSION ADVISORY COUNCIL**

The Pension Advisory Council will meet in November.

## **6. 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 October. There were nine new cases processed in October. Twenty-eight cases were approved. One person falls in the over 90 days category. The Pension Office is waiting to receive additional medical information on this pending case.

A contract has been received to complete a third healthcare valuation. Division of Accounting has requested that the cost be paid from the DPERS Fund. The Pension Fund paid for the last two valuations. The cost of this will be \$45,000.

Motion was made by D. Singleton and seconded by R. Allen that the Fund pay the cost for a third healthcare valuation. There is no liability for the Fund to pay for future benefits.

MOTION ADOPTED UNANIMOUSLY

### Communications

D. Craik explained that Board action is required for entities to join the County/Municipal pension plans on any date other than July 1<sup>st</sup>. The Port Penn Fire company, has requested to join the General Employees Plan as of 11/1/03. The Millville Fire company, as of 11/1/03 in the General Employees Plan and the Town of Milton as of 10/1/03, in the Police and General Plans

Motion was made by D. Singleton and seconded by L. Blunt-Bradley to allow the Port Penn and Millville Fire Companys to join the County/Municipal General Employees Pension Plan effective November 1, 2003. Also, to approve the Town of Milton to join the County/Municipal Police Pension Plan and County/Municipal General Employees Pension Plan effective October 1, 2003.

MOTION ADOPTED UNANIMOUSLY

For the PeopleSoft v8.8 upgrade, the Pension Office is on schedule to work parallel in both the new and current systems in December. February is expected to have a high number of pension applications to be processed, therefore the upgrade should be completed prior to that month.

Testing will continue to take place into November regarding the transfer of the direct deposit to Wachovia Bank.

**6. PENSION ADMINISTRATOR'S REPORT - CONTINUED**

Despite the reported problems with the September check write, October check write has processed very smooth and was completed ahead of schedule.

The Auditor's Office has renewed the existing contract with Ernst & Young with a two-year extension. Kevin Davis has been named as the new partner in charge from Ernst & Young for our annual audit.

The annual fall pension workshops are being conducted in each county. There were 80 employees in attendance at the workshop conducted in Kent County on Monday and 100 employees attended the workshop conducted in New Castle County on Thursday 10/30. A workshop will be conducted in Sussex County on November 4, 2003. Also a workshop in conjunction with DSEA will be held on November 15, 2003.

**7. AUDIT COMMITTEE REPORT**

An Audit Committee meeting will take place on December 11, 2003. Topics for review include the annual audit contract extension, Sarbanes-Oxley Act and the new TIPS asset class along with updating investment flowcharts and responsibilities.

**8. PENDING ITEMS**

No action taken.

**9. DEPUTY ATTORNEY GENERAL REPORT**

No action taken.

**10. ADJOURNMENT**

The next Pension Board meeting will be held on November 21, 2003 in the McArdle Building Delaware Conference Room in Dover, Delaware. A holiday luncheon will follow the December 19, 2003 meeting.

At 10:50 a.m. there being no further business,  
MOTION was made by N. Shevock and  
seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

Ralph J. Adkins, Chair  
Board of Pension Trustees