

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 26, 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
Robert W. Allen
Lisa Blunt-Bradley
David W. Singleton
Nancy J. Shevock
Helen Foster Parson

Trustees Absent

Jan M. King

Others Present

Steve Baloga, Ernst & Young
Ron Draper, Deputy State Auditor of Accounts
Candace Casto, State Auditor
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
David C. Craik, Pension Office
Marsha Kramarck, DAG
Christy L. Ulmer, Pension Office
Kimberly S. Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Debbie Nicholson, Pension Office
Mike Biagini, Budget Office

1. OPENING COMMENTS

The meeting of the Board of Pension Trustees was called to order at 9:05 a.m. by R. Adkins in the Delaware Conference Room of the McArdle Building.

R. Adkins congratulated Kimberly S. Vincent on her promotion to the position of Deputy Pension Administrator for the Office of Pensions.

2. AUDIT COMMITTEE REPORT

Presentation of the FY03 Comprehensive Annual Financial Report

The Audit Committee briefed the Board on the outcome of the annual audit. J. Poorman presented the Thirty-Second Comprehensive Annual Financial Report. S. Baloga, of Ernst & Young, distributed and reviewed copies of the audit comments and management's response.

S. Baloga stated that it could be costly, but may be beneficial, to consider adopting some provisions of the Sarbanes-Oxley law. D. Craik has been in contact with members of NASRA to see what other states are doing and will report back with recommendations.

Members of the Pension Office were excused so the Board could speak freely regarding the outcome of the annual audit. M. Kramarck recorded the following:

No negative observations were noted regarding Pension Office performance. The staff was observed to be highly responsive to any requests and to correct failures of internal controls. The question of adequate safeguards against active fraud will be explored further to insure that redundancy systems serve to avoid fraud. There is some difficulty on the part of the Auditors for detection of fraud, since they do not conduct extensive internal testing. Testing of a random sample is always conducted to examine controls, and the existence of fraud. Hotline reports also assist in detecting fraud. No evidence of fraud has been uncovered. Rather, any irregularities were attributed to errors within the system, which were promptly corrected.

Members of the Pension Office returned and were commended for another good year.

3. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the July 25, 2003 meeting.

MOTION was made by R. Allen 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 SEPTEMBER 30, 2003

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.4%	2.2%	10.3%
S & P 500 Index	1.9%	3.7%	12.1%
60/35/5*	1.4%	1.0%	9.8%
Delaware Benchmark**	1.5%	1.4%	9.6%

*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.

A Poll Vote was conducted on August 19, 2003 from the Investment Committee's recommendation that the scheduled quarterly draw of \$60 million from the Mellon GTAA account be suspended for the quarter ending September 30, 2003

MOTION was made by R. Allen and seconded by D. Singleton to ratify the Poll Vote conducted on August 19, 2003 to approve the quarterly draw of \$60 million from the Mellon GTAA account be suspended for the quarter ending September 30, 2003.

MOTION ADOPTED UNANIMOUSLY

Due to the potential for an increase in inflation, the Investment Committee recommends an allocation of \$150 million to an indexed TIPS (Treasury Inflation-Protected Securities) portfolio. Sources of funding for this allocation are \$100 million from the T. Rowe Price High Yield Bond portfolio (about a 1/3 reduction) and \$50 million from the Lincoln Capital Enhanced Lehman Aggregate Bond Index account (about a 1/8 reduction). The yield spread between Treasuries and high yield securities has declined significantly from the level at which the initial investment was made in high yield, producing substantial appreciation, and a reduction in the size of this allocation is appropriate. The result will be a modest reduction in current income with an increase in duration more toward the duration of the Fund's liabilities.

MOTION was made by D. Singleton and seconded by R. Allen to allocate \$150 million to an indexed TIPS portfolio with the source of the funding for this allocation being \$100 million from the T. Rowe Price High Yield Bond portfolio and \$50 million from the Lincoln Capital Enhanced Lehman Aggregate Bond Index account.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL

J. Testerman congratulated K. Vincent on behalf of the Pension Advisory Council.

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 months of September and August 2003. There were 12 new cases processed in August and 25 processed for the month of September.

K. Vincent and D. Craik met with the representatives from Standard Company, a firm that provides disability benefits to public employees. A follow-up meeting was held with Milliman to finalize the cost estimates from the Request For Information. A report of the RFI along with the cost estimates will be forwarded to the Board upon completion. The information will also be presented to the Employee Benefits Committee. The target for implementation is January 2005. There should be no additional cost to implement. An update on the progress of the project will be provided at the December meeting.

Communications

D. Craik discussed the County & Municipal Police/Firefighter COLA Fund. The City of Wilmington has passed an ordinance to provide an increase to their police/firefighter retirees effective retroactive to July 1, 2003. Under the COLA Fund, the State pays 75% of the cost and the City pays 25%. The annual cost has been determined to be \$600,000 over a 13-year period.

MOTION was made by D. Singleton and seconded by N. Shevock to approve the City of Wilmington pension increase and amortization period and authorize the Pension Administrator to provide the necessary funds.

MOTION ADOPTED UNANIMOUSLY

Wachovia Bank has been selected to provide direct deposit banking services for the State of Delaware. Discussion took place on mandatory direct deposit.

7. PENSION ADMINISTRATOR'S REPORT

Communications (Continued)

D. Craik informed trustees that the Pension Office was experiencing problems with processing payroll this month. The Office is working with both PeopleSoft and Cherry Road representatives to correct this problem. There were several members of the office including John McCartney, Ralph Ball, Ray Johnson and Kim Vincent who have spent many additional hours on researching the problem. The problem has now been identified and is being corrected. D. Craik reported that the Office should be able to meet the payroll deadline. K. Vincent has been asked to review recent changes to the pension system that could be the cause of problems in processing. L. Blunt-Bradley said that the commitment of the Pension Office staff is being acknowledged and is appreciated.

The Office continues testing for the upgrade to PeopleSoft 8.8, which will be implemented in January 04. The Office will run parallel in both systems during the month of December

8. PENDING ITEMS

D. Craik will work with employees from the Department of Education and several school business managers to review the statutory language that allows pensioners in the State Employees' Pension Plan to be employed by the State in a temporary, casual, seasonal, or substitute position without any earnings limitations or without affecting their current pension benefits. This is being added to the pending items list for future discussion.

9. EXECUTIVE SESSION

MOTION was made by D. Singleton and seconded by H. Foster Parson that the Board go into Executive Session to consider legal advice and to consider pending personnel matters and confidential medical records.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records.

MOTION was made by R. Allen and seconded by D. Singleton to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

10. DEPUTY ATTORNEY GENERAL REPORT

Following Executive Session, the following motions were made:

MOTION was made by R. Allen and seconded by D. Singleton to approve the Hearing Officers' recommendation that Mary E. Gorton's appeal for retroactive disability benefits to the time of her termination by DELDOT on August 15, 2000 be denied.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by D. Singleton and seconded by L. Blunt-Bradley to approve the Hearing Officers' recommendation that Gerhard Hahn's request for 5 years military service be denied.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by L. Blunt-Bradley and seconded by R. Allen to approve the Hearing Officers' recommendation that the appeal of Michael Jordan for total disability benefits be denied.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by R. Allen and seconded by H. Foster Parson to approve the Hearing Officers' recommendation that the request of Donna M. Culver for recalculation of her interest payment be denied.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by D. Singleton and seconded by R. Allen to approve the Hearing Officers' recommendation that the appeal of Patricia Merritt be dismissed with prejudice.

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

The next Pension Board meeting will be held on October 31, 2003 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 10:30 a.m. there being no further business,
MOTION was made by R. Allen and
seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Ralph J. Adkins, Chair
Board of Pension Trustees