Delaware State Employees' Pension Plan

Actuarial Valuation as of June 30, 2006

Produced by Cheiron

April 2007

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April 11, 2007

Board of Pension Trustees
State of Delaware
McArdle Building
860 Silver Lake Boulevard, Suite 1
Dover, Delaware 19904

Dear Members of the Board:

At your request, we have conducted the annual actuarial valuation of the Delaware State Employees' Pension Plan as of June 30, 2006. The results of the valuation are contained in this report. The purpose of the valuation is discussed in the Foreword.

This report contains information on Plan assets, as well as analyses which combine asset and liability performance and projections. The report also discloses employer contribution levels, and required disclosures under the Governmental Accounting Standards Board Statement #25.

Your attention is called to the Foreword in which we refer to the general approach employed in the preparation of this report. We also comment on the sources and reliability of both the data and the actuarial assumptions on which our findings are based. Those comments are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief. The results of this report are only applicable to the State contribution for Fiscal Year ending 2008 and rely on future plan experience conforming to the underlying assumptions. To the extent that actual plan experience deviates from the underlying assumptions, the results would vary accordingly.

We hereby certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as Members of the American Academy of Actuaries, we meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron

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DELAWARE STATE EMPLOYEES' PENSION PLAN

FOREWORD

Cheiron has performed the actuarial valuation of the Delaware State Employees' Pension Plan as of June 30, 2006. The purpose of this report is to:

1) **Measure and disclose**, as of the valuation date, the financial condition of the Plan;

2) **Indicate trends** in the financial progress of the Plan;

3) **Determine the contribution rate** to be paid by the State for Fiscal Year 2008; and

4) **Provide specific information** and documentation required by the Governmental Accounting Standards Board (GASB).

An actuarial valuation establishes and analyzes Plan assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the Plan's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our findings and disclosing important trends experienced by the Plan in recent years.

Section II contains details on various asset measures, together with pertinent performance measurements.

Section III shows similar information on Plan liabilities, measured for actuarial, accounting, and government reporting purposes.

Section IV develops the State contribution rate determined using actuarial techniques and compares that to the rate developed using the corridor method of funding.

Section V includes the required disclosures under GASB Statement number 25.

The appendices to this report contain a summary of the Plan's membership at the valuation date, a summary of the major provisions of the Plan, and the actuarial methods and assumptions used in the valuations.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Office of Pension's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

The actuarial assumptions reflect our understanding of the likely future experience of the Plan and the assumptions as a whole represent our best estimate for the future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the Plan could vary from our results.

Finally, in preparing this report, we have conformed to generally accepted actuarial principles and practices which are consistent with the Code of Professional Conduct, and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

SECTION I
BOARD SUMMARY

General Comments

The numbers listed under the headings "June 30, 2005" throughout this report are those produced by the prior actuary and disclosed in their June 30, 2005 report.

The actuarially determined contribution rate increased from 6.69% for FY 2007 to 7.07% for FY 2008 (less the 0.81% to be transferred to the State Disability Program). During the year ended June 30, 2006, the Plan's assets earned 12.0% on a market value basis. However, due to the Plan's asset-smoothing technique and an accumulation of past asset losses, the return on the actuarial asset value was 8.6%. This return was slightly above the assumed rate of return of 8.0% and resulted in an actuarial gain on investments of $34 million.

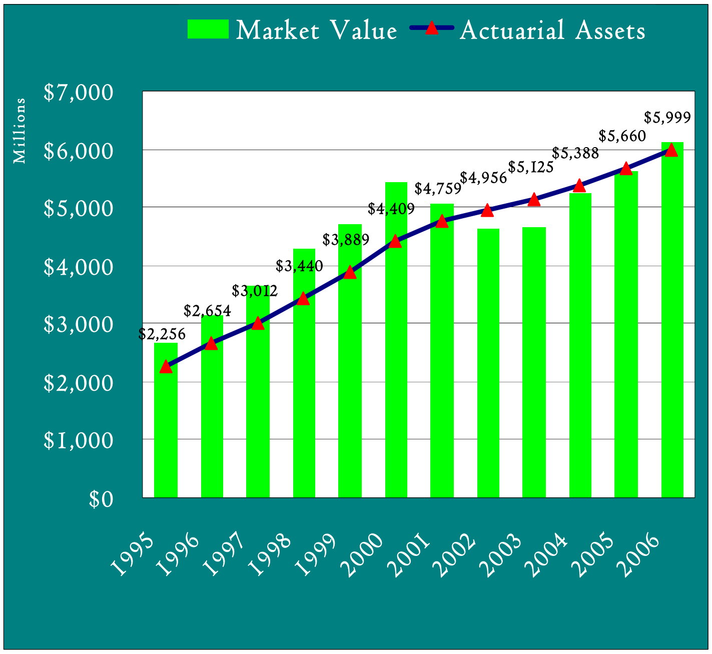
The plan also experienced an actuarial loss on Plan liabilities resulting from salary increases different than assumed and members retiring, terminating, becoming disabled and dying at rates different from the actuarial assumptions. The loss added $45 million to the actuarial liability. This type of activity is normal in the course of plan experience. The Plan will experience actuarial gains and losses over time because we cannot predict exactly how people will behave. When a plan experiences alternating gains and losses that are small compared to the total actuarial liability, then the plan's actuarial assumptions are reasonable.

As of the June 30, 2006 actuarial valuation, the Plan's unfunded actuarial liability/(surplus) was ($98) million. This is an increase from last year's unfunded actuarial liability/(surplus) of ($87) million. Components of the increase in surplus include a $34 million gain on Plan assets, a $45 million loss on Plan liabilities, a $52 million increase due to the Post-Retirement Increase (PRI), and an $54 million decrease due to the institution of the Disability Insurance Program. The entire cost of the PRI is being funded by transfers from the Post-Retirement Increase Fund over the next five years.

SECTION I
BOARD SUMMARY

Trends

Growth in Assets



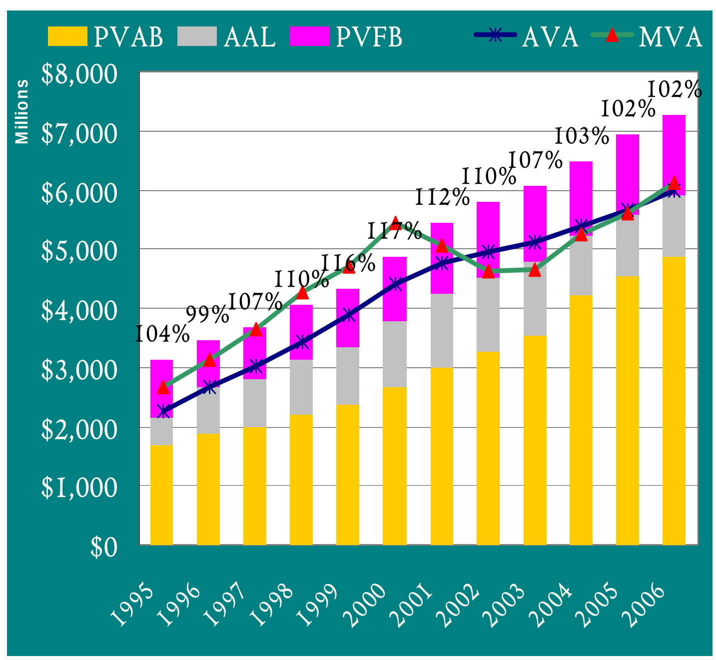
The market value of assets (MVA) continues to rebound since the market slide of 2000-2002. Due to the asset smoothing method in place, the actuarial value of assets has tracked a much smoother path through those turbulent years.

Over the period July 1, 1995 to June 30, 2006 the Plan's assets returned approximately 11.5% per year measured at actuarial value, compared to a valuation assumption of 8% per year.

Assets and Liabilities

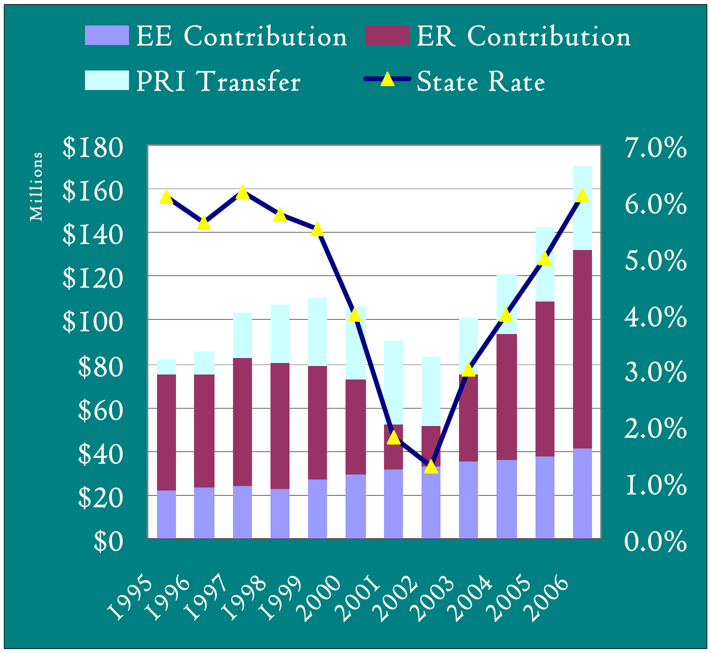
The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

As you can see, the Plan had its highest funded percentage (117%) at July 1, 2000, before the three-year market slide at the beginning of the decade. The amount represented by the top of the pink bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the Plan had assets equal to the PVFB no contributions would, in theory, be needed for the current members.



SECTION I
BOARD SUMMARY

Contribution Rates

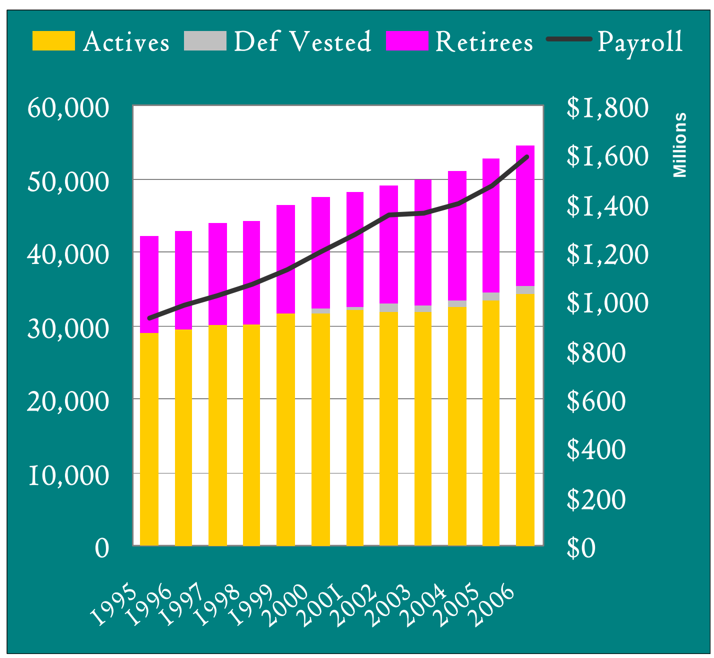


The stacked bars in this graph show the contributions made by the State, the PRI Fund, and the members (left hand scale). The black line shows the State contribution rate as a percent of payroll (right hand scale).

The member contribution rate is set by State law, depending on which plan the member participates in. The State contribution rate is set by the actuarial process and PRI Fund transfers depend on the increase granted. Please note there is a lag in the rate shown. For example, the 2006 value is the rate prepared by the 2004 valuation and implemented for the period July 1, 2005 to June 30, 2006.

Participant Trends

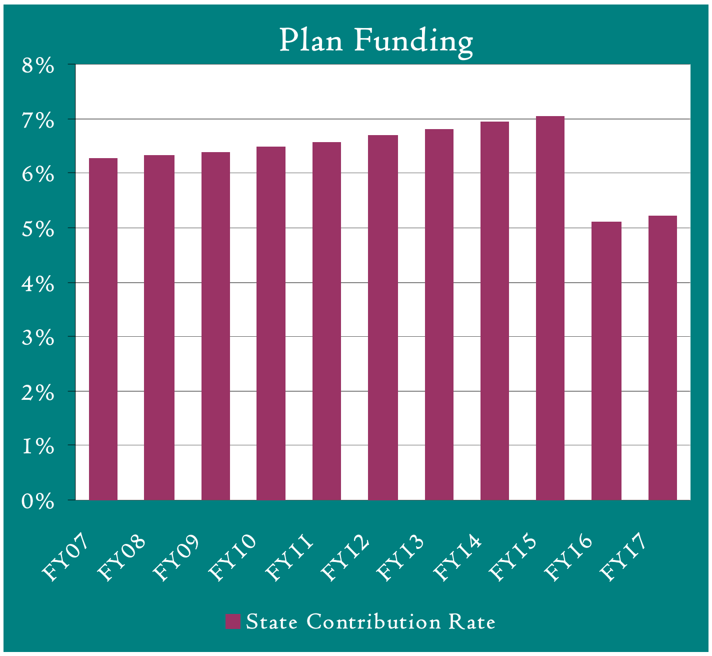
As with many funds in this country, there has been a steady growth in the number of retired members as the Plan has matured. The active-to-inactive ratio has decreased from 2.2 actives to each inactive in 1995 to 1.7 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.



SECTION I
BOARD SUMMARY

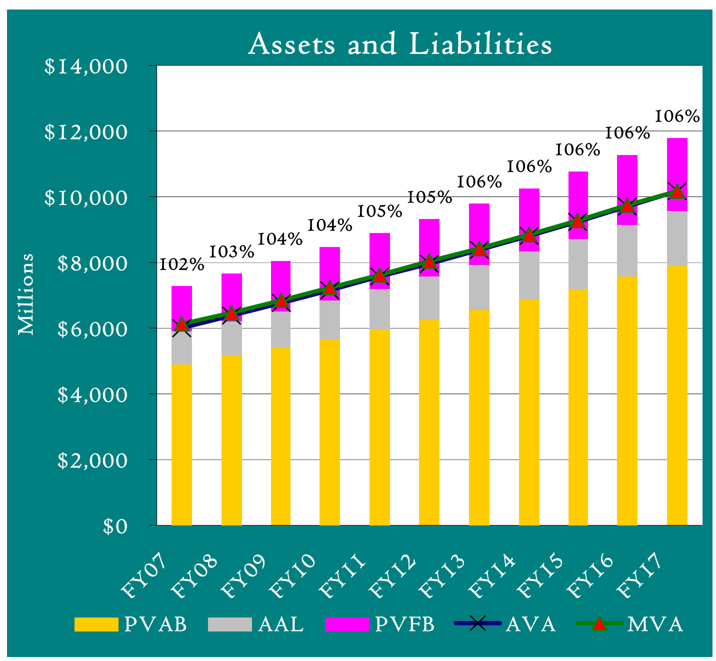
Future Outlook

Base Line Projections



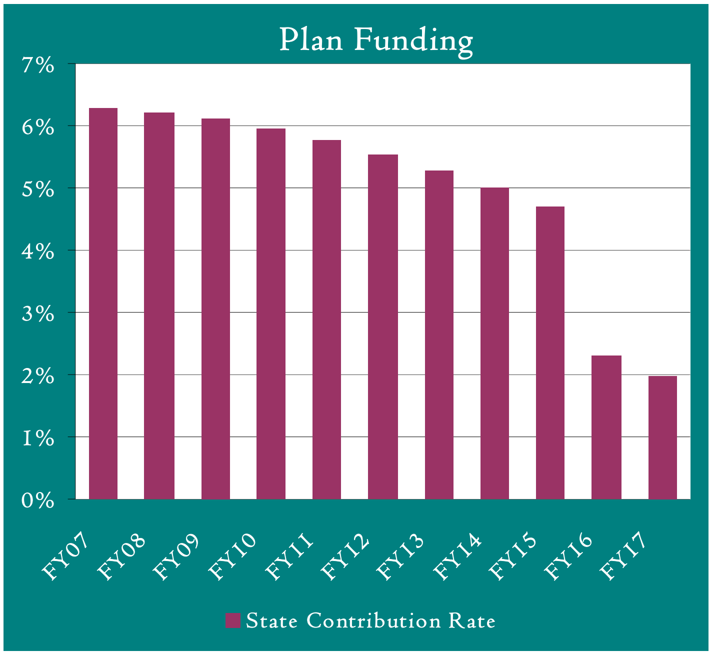
These graphs show the expected progress of the Plan over the next ten years assuming the Plan's assets earn 8% on their *market value.* The chart entitled "Plan Funding" shows that the State rate is expected to inch-up slightly over the next nine years and then drop as previous layers of amortization run out.

The "Assets and Liabilities" graph shows the projected funding status over the next ten years. The Plan's funded status is projected to improve annually.



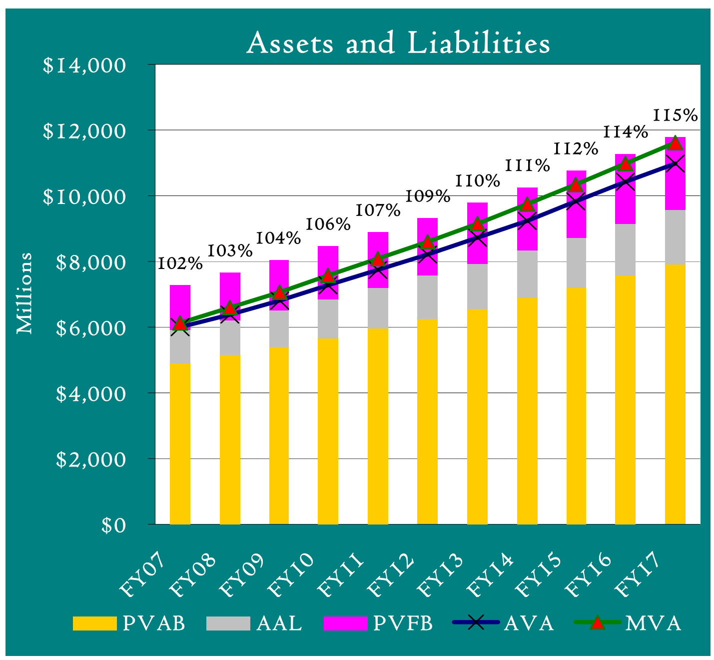
SECTION I
BOARD SUMMARY

Projections With Asset Returns of 9.5%



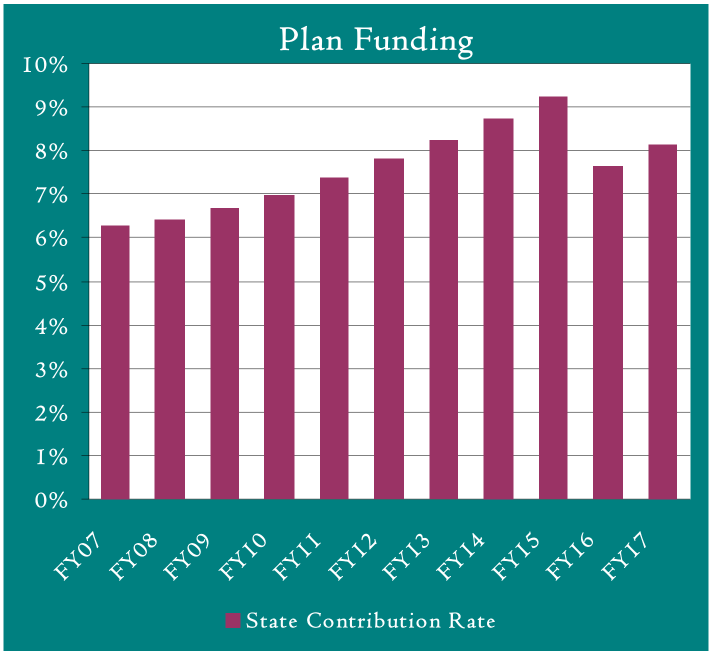
The future funding status of this Plan will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the Plan is in a highly leveraged position. This means that relatively minor changes in market returns can have significant effects on the Plan's status. These two charts show what the next ten years would look like with a 9.5% annual return in each year. The Plan has earned an average 11.5% per year over the ten-year period ending June 30, 2006.

As you can see, the Plan would reach 115% funding by 2017. The contribution rate slowly drops down over the next year and still drops further in year ten.



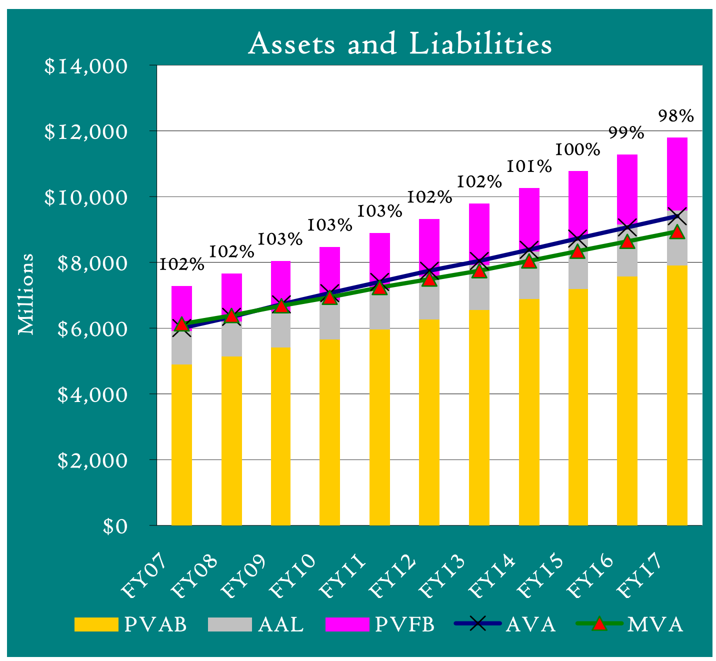
SECTION I
BOARD SUMMARY

Projections With Asset Returns of 6.5%



To further demonstrate how the future funding of this Plan will be driven by investment earnings, we show the anticipated plan funding projections if the invested assets earn 6.5% per year over the entire ten-year period. Under this scenario the State's contribution rate increases.

The projection shows a deterioration of the Plan's funded status from the current 102% down to 98% by the end of the period.



SECTION I
BOARD SUMMARY

Delaware State Employees' Pension Plan
Summary of Principal Plan Results

Valuation as of:	**June 30, 2005**	**June 30, 2006**	**% Change**
Participant Counts			
Active Participants	33,371	34,313	2.82%
Disabled Participants	2,207	2,266	2.67%
Retirees and Beneficiaries	16,140	16,786	4.00%
Terminated Vested Participants	1,066	1,127	5.72%
Inactive Participants	832	93	(88.82%)
Total	**53,616**	**54,585**	1.81%
Annual Salaries of Active Members*	$ 1,471,930,700	$ 1,589,185,200	7.97%
Annual Retirement Allowances for Retired Members and Beneficiaries**	$ 280,357,600	$ 309,234,700	10.30%
Assets and Liabilities			
Actuarial Accrued Liability (AAL)	$ 5,572,719,500	$ 5,901,072,200	5.89%
Actuarial Value of Assets	5,660,056,800	5,998,745,700	5.98%
Unfunded AAL	(87,337,300)	(97,673,500)	11.83%
Funded Ratio	101.6%	101.7%	
Present Value of Accrued Benefits (PVAB)	$ 4,536,368,200	$ 4,877,351,800	7.52%
Market Value of Assets	5,608,509,000	6,133,143,900	9.35%
Unfunded PVAB	(1,072,140,800)	(1,255,792,100)	17.13%
Accrued Benefit Funding Ratio	123.6%	125.7%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	7.35%	6.85%	
Unfunded Actuarial Liability Contribution	(1.01%)	(0.94%)	
Administrative Expense	0.35%	0.35%	
Total State Contribution	6.69%	6.26%	***

* Assumes one year of payroll projection.

** Reflects PRI granted as of July 1 of each year.

*** Excludes 0.81% payable to the Disability Insurance Program.

SECTION II
ASSETS

Pension Plan assets play a key role in the financial operation of the Plan and in the decisions the Trustees may make with respect to future deployment of those assets. The level of assets, the allocation of assets among asset classes, and the methodology used to measure assets will likely impact upon benefit levels, State contributions, and the ultimate security of participants' benefits.

In this section, we present detailed information on Plan assets including:

- **Disclosure** of Plan assets at June 30, 2005 and June 30, 2006;
- Statement of the **changes** in market values during the year;
- Development of the **Actuarial Value of Assets**;
- An assessment of **investment performance**; and
- A projection of the Plan's expected **cashflows** for the next ten years.

Disclosure

The market value of assets represents a "snap-shot" or "cash-out" values which provide the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace. As a result, market values are usually not suitable for long-range planning.

The actuarial values are market values which have been smoothed and are the actuary's best estimate of long-term asset values. They are used for evaluating the Plan's ongoing liability to meet its obligations.

Current methods employed by this Plan set the actuarial value equal to the expected value plus 20% of the difference between the expected value of assets and the actual market value. Where the expected value is equal to the prior year's actuarial value, rolled forward with actual contributions and benefit payments plus interest imputed at 8%.

SECTION II
ASSETS

Changes in Market Values		
Value of Assets – June 30, 2005		**$ 5,608,509,000**
Additions		
Member Contributions	$ 41,138,800	
Employer Contributions	91,013,300	
PRI Fund Transfer	38,305,700	
Investment Return	666,668,800	
Total Additions	**$ 837,126,600**	
Deductions		
Benefit Payments	$ 307,979,900	
Administrative Expenses	4,511,800	
Total Deductions	**$ 312,491,700**	
Value of Assets – June 30, 2006		**$ 6,133,143,900**

SECTION II
ASSETS

Development of Actuarial Value of Assets		
1.	Actuarial Value of Assets at June 30, 2005	$ 5,660,056,800
2.	Amount in (1) with interest to June 30, 2006	6,112,861,400
3.	Employer, PRI and member contributions for the Plan Year ended June 30, 2006	170,457,800
4.	Interest on contributions assuming payments made uniformly throughout the year to June 30, 2006 at 8.00% per year	6,818,300
5.	Disbursements from Trust except investment expenses, June 30, 2005 through June 30, 2006	312,491,700
6.	Interest on disbursements to June 30, 2006 at 8.00% per year	12,499,700
7.	Expected Actuarial Value of Assets at June 30, 2006 = (2) + (3) + (4) – (5) – (6)	5,965,146,100
8.	Actual Market Value of Assets at June 30, 2006	6,133,143,900
9.	Excess of (8) over (7)	167,997,800
10.	Actuarial Value of Assets at June 30, 2006 = (7) + 20% of (9)	$ 5,998,745,700

Actuarial Value of Assets

The actuarial value of assets represents a "smoothed" value developed by the actuary to reduce, or eliminate, erratic results which could develop from short-term fluctuations in the market value of assets. For this Plan, the actuarial value has been calculated by adding 20% of the difference between market value and expected value to the expected value. The above table illustrates the calculation of actuarial value of assets for the June 30, 2006 valuation.

SECTION II
ASSETS

Investment Performance

The market value of assets (MVA) returned 12.04% during 2006, which is greater than the assumed 8% return. A return of 8.60% on the actuarial value of assets (AVA) is primarily the result of the asset smoothing method being utilized for the calculation of the actuarial value of assets. Since only 20% of the gain or loss from the performance of the Plan is recognized in a given year, in periods of very good performance, the AVA can lag significantly behind the MVA. In a period of negative returns, the AVA does not decline as rapidly as the MVA.

Projection of Plan's Benefit Payments

Year Beginning July 1,	Expected Benefit Payments	Expected Contributions*
2006	$ 322,896,000	$ 187,314,000
2007	338,210,000	194,393,000
2008	355,120,000	192,004,000
2009	373,595,000	185,050,000
2010	393,376,000	178,534,000
2011	414,725,000	171,246,000
2012	437,583,000	177,668,000
2013	461,835,000	184,330,000
2014	487,004,000	191,243,000
2015	513,045,000	198,414,000

Expected benefit payments are projected for the closed group valued at June 30, 2006. Projecting any farther than ten years using a closed-group would not yield reliable predictions due to the omission of new hires.

* Expected contributions include State Contributions, Member Contributions, and PRI Transfers. For illustration purposes, we have assumed the State Contribution rate will remain level and that payroll will increase at the actuarially assumed rate of 3.75% per year.

SECTION III
LIABILITIES

In this section, we present detailed information on Plan liabilities including:

- **Disclosure** of Plan liabilities at June 30, 2005 and June 30, 2006;
- Statement of **changes** in these liabilities during the year; and
- A **projection** of future liabilities.

Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the people ultimately using the figures and the purpose for which they are using them.

- **Present Value of Benefits:** Used for analyzing the financial outlook of the Plan, this represents the amount of money needed today to fully pay off all future benefits and expenses of the Plan, assuming participants continue to accrue benefits.

- **Actuarial Accrued Liability:** Used for funding calculations and GASB disclosures, this liability is calculated taking the Present Value of Benefits and subtracting the present value of future Member Contributions and future Employer Normal Costs under an acceptable actuarial funding method. This method is referred to as the **Entry Age Normal** funding method.

- **Present Value of Accrued Liabilities:** Used for communicating the current level of liabilities, this liability represents the total amount of money needed today to fully pay off the current accrued obligations of the Plan, assuming no future accruals of benefits. These liabilities are also required for accounting purposes (FAS 35) and used to assess whether the Plan can meet its current benefit commitments.

The following table discloses each of these liabilities for the current and prior valuations. With respect to each disclosure, a subtraction of the appropriate value of Plan assets yields, for each respective type, a **net surplus** or an **unfunded liability**.

SECTION III
LIABILITIES

Liabilities/Net (Surplus)/Unfunded	June 30, 2005	June 30, 2006
<u>Present Value of Benefits</u>		
Active Participant Benefits	$ 4,182,137,400	$ 4,250,657,000
Retiree and Inactive Benefits	2,743,702,300	3,026,492,500
Present Value of Benefits (PVB)	**$ 6,925,839,700**	**$ 7,277,149,500**
Market Value of Assets (MVA)	$ 5,608,509,000	$ 6,133,143,900
Future Member Contributions	363,925,500	389,468,500
Future State Contributions & PRI Fund Transfers	953,405,200	754,537,100
Total Resources	**$ 6,925,839,700**	**$ 7,277,149,500**
<u>Actuarial Accrued Liability</u>		
Present Value of Benefits (PVB)	$ 6,925,839,700	$ 7,277,149,500
Present Value of Future Normal Costs (PVFNC)	989,195,000	986,608,800
Present Value of Future Member Contributions	363,925,500	389,468,500
Actuarial Accrued Liability (AAL = PVB – PVFNC)	**5,572,719,200**	**5,901,072,200**
Actuarial Value of Assets (AVA)	5,660,056,800	5,998,745,700
Net (Surplus)/Unfunded (AAL – AVA)	**$ (87,337,600)**	**$ (97,673,500)**
<u>Present Value of Accrued Liability</u>		
Present Value of Benefits (PVB)	$ 6,925,839,700	$ 7,277,149,500
Present Value of Future Benefit Accruals (PVFBA)	2,389,471,500	2,399,797,700
Present Value of Accrued Liability (PVAB=PVB–PVFBA)	**4,536,368,200**	**4,877,351,800**
Market Value of Assets (MVA)	5,608,509,000	6,133,143,900
Net Unfunded (PVAB – MVA)	**$(1,072,140,800)**	**$(1,255,792,100)**

SECTION III
LIABILITIES

Changes in Liabilities

Each of the Liabilities disclosed in the prior table are expected to change at each valuation. The components of that change, depending upon which liability is analyzed, can include:

- New hires since the last valuation
- Benefits accrued since the last valuation
- Plan amendments increasing benefits
- Passage of time which adds interest to the prior liability
- Benefits paid to retirees since the last valuation
- Participants retiring, terminating, or dying at rates different than expected
- A change in actuarial or investment assumptions
- A change in the actuarial funding method

Unfunded liabilities will change because of all of the above, and also due to changes in Plan assets resulting from:

- Employer contributions different than expected
- Investment earnings different than expected
- A change in the method used to measure plan assets

In each valuation, we report on those elements of change which are of particular significance, potentially affecting the long-term financial outlook of the Plan. Below we present key changes in liabilities since the last valuation.

(In Thousands)	Present Value of Benefits	Actuarial Accrued Liability	Present Value of Accrued Liability
Liabilities June 30, 2005	$ 6,926	$ 5,573	$ 4,536
Liabilities June 30, 2006	7,277	5,901	4,877
Liability Increase (Decrease)	351	328	341
Change Due to:			
PRI Increase	52	52	52
Disability Carveout	(150)	(54)	2
Actuarial (Gain)/Loss	NC *	45	NC *
Benefits Accumulated and Other Sources	449	285	287

* NC = not calculated.

SECTION III
LIABILITIES

Actuarial Liabilities for Funding	June 30, 2005	June 30, 2006
1. Actuarial Liabilities		
Retiree and Inactive Benefits	$ 2,743,702,300	$ 3,026,492,500
Active Members	2,829,016,900	2,874,579,700
Total Actuarial Liability	**$ 5,572,719,200**	**$ 5,901,072,200**
2. Actuarial Value of Assets	$ 5,660,056,800	$ 5,998,745,700
3. Unfunded Actuarial Liability	$ (87,337,600)	$ (97,673,500)
4. Allocation of Unfunded Actuarial Liability / (Amortization Period as of July 1, 2006)		
a. Outstanding PRI Transfers/(1 – 5 years)	$ 123,962,800	$ 147,138,500
b. 1991 Early Retirement Option/(9 years)	80,528,100	76,620,200
c. Social Security Decoupling/(9 years)	71,916,400	68,426,400
d. Final Average Compensation/(9 years)	95,342,400	90,715,500
e. $6K Life Insurance & Reduced ERF/(9 years)	14,814,700	14,095,800
f. Increase Multiplier to 1.8%/(24 years)	190,754,900	193,217,400
g. Assumption Change/(13 years)	88,897,900	87,222,600
h. Disability Carveout /(15 years)	N/A	(53,500,700)
i. Total of Allocated Bases	**$ 666,217,200**	**$ 623,935,700**
5. Net Gain Base for 15 Year Amortization (3-4i)	**$ (753,554,800)**	**$ (721,609,200)**

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to properly maintain the funding status of the Plan. Typically, the actuarial process will use a funding technique that will result in a pattern of contributions that are both stable and predictable.

For this Plan, the funding method employed is the **Entry Age Actuarial Cost Method**. Under this method, there are three components to the total contribution: the **normal cost rate**, the **unfunded actuarial liability rate** (UAL rate), and the **administrative expense rate**. The normal cost rate is determined in the following steps. First, for a typical new entrant an individual normal cost rate is determined by taking the value, as of entry age into the plan, of that member's projected future benefits. This value is then divided by the value, also at entry age, of the member's expected future salary. Finally, the total normal cost rate is reduced by the member contribution rate to produce the employer normal cost rate.

Increases to the unfunded actuarial liability, due to benefit improvements, are amortized over their remaining periods if established prior to July1, 2000. Those increases established on or after July 1, 2000 will be amortized over 30 years if they improve benefits to active members or five years if they improve benefits solely to retirees. The cumulative actuarial gain/loss measured as of each valuation date will be amortized over a rolling 15 year period. All payments are determined assuming total pay increases by the annual inflation rate.

The assumed administrative expense rate is 0.35% of payroll. This rate, when applied to payroll, is intended to provide an allowance above the cost of funding the benefits to pay for the expense of operating the Plan.

The table below presents and compares the employer contribution rates for the Plan for this valuation and the prior one.

Employer Contribution Rate	June 30, 2005	June 30, 2006
Entry Age Normal Cost Rate	7.35%	6.85%
Amortization Payment	(1.01%)	(0.94%)
Expense	0.35%	0.35%
Actuarially Determined Contribution	6.69%	6.26% *

* Excludes 0.81% payable to the Disability Insurance Program.

SECTION IV
CONTRIBUTIONS

Development of Plan Cost
as of June 30, 2006

	In Dollars	As % of Payroll
1. Present value of projected benefits attributable to:		
a. Total Normal Cost	$ 148,588,800	9.35%
b. Expected Members Contribution	39,729,600	2.50%
c. Employer Paid Normal Cost (a) – (b)	$ 108,859,200	6.85%
2. Amortization of Unfunded Liability/ (Amortization Period)		
a. 1991 Early Retirement Option/(9 years)	$ 10,363,600	0.65%
b. Social Security Decoupling/(9 years)	9,255,300	0.58%
c. Final Average Compensation Change/(9 years)	12,270,100	0.77%
d. $6k Life Insurance	1,906,600	0.12%
e. 1.8% Multiplier/(24 years)	12,814,500	0.81%
f. Assumption Change/(13 years)	8,798,500	0.55%
g. Disability Carveout Plan/(15 years)	(4,850,700)	(0.31%)
h. Remaining Gain Base/(15 years)	(65,425,200)	(4.11%)
i. Total Amortization Payments	$ (14,867,300)	(0.94%)
3. Allowance for Expense	$ 5,562,100	0.35%
4. Total Employer Contribution Rate (1) + (2) + (3)	$ 99,554,000	6.26%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board requires the Plan to disclose certain information regarding its funded status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a quasi "snap shot" view of how the Plan's assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied. However, due to potential legal requirements and the possibility that alternative interest rates would have to be used to determine the liabilities, these values may not be a good indication of the amount of money it would take to buy the benefits for all members if the Plan were to terminate.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes.

Both the present value of accrued benefits (FASB-35) and the actuarial accrued liability (GASB-25) are determined assuming that the Plan is on-going and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 8% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2006 are exhibited in Table V-1. Finally, Table V-2 reconciles the FASB-35 liabilities determined as of the prior valuation, July 1, 2005, to the liabilities as of June 30, 2006.

Tables V-3 through V-5 are exhibits to be used with the State CAFR report. Table V-3 is the Note to Required Supplementary Information, Table V-4 is a history of gains and losses in Accrued Liability, and Table V-5 is the Solvency Test which shows the portion of Accrued Liability covered by Assets.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1
Accounting Statement Information

	June 30, 2005	**June 30, 2006**
A. FASB No. 35 Basis		
1. Present Value of Benefits Accrued and Vested to Date		
a. Members Currently Receiving Payments	$ 2,702,359,100	$ 2,982,470,900
b. Former Vested Members	41,343,200	44,021,600
c. Active Members	1,792,665,900	1,850,859,300
2. Total Present Value of Accrued Benefits (1 (a) + 1(b) + 1(c))	$ 4,536,368,200	$ 4,877,351,800
3. Assets at Market Value	5,608,509,000	6,133,143,900
4. Unfunded Present Value of Accrued Benefits (2 – 3)	$(1,072,140,800)	$(1,255,792,100)
5. Ratio of Assets to Present Value of Benefits (3 / 2)	123.6%	125.7%
B. GASB No. 25 Basis		
1. Actuarial Accrued Liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,743,702,300	$ 3,026,492,500
2. Actuarial Accrued Liabilities for current employees	2,829,016,900	2,874,579,700
3. Total Actuarial Accrued Liability (1 + 2)	$ 5,572,719,200	$ 5,901,072,200
4. Net Actuarial Assets available for benefits	5,660,056,800	5,998,745,700
5. Unfunded Actuarial Accrued Liability (3 – 4)	$ (87,337,600)	$ (97,673,500)

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2
Statement of Changes in Total Actuarial Present Value of All Accrued Benefits

	Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Accrued Benefits at June 30, 2005	$ 4,536
Increase (Decrease) During Years Attributable to:	
Passage of Time	351
Benefit Paid – FY 2006	(308)
Disability Carveout	2
PRI	52
Benefits Accrued, Other Gains/Losses	244
Net Increase (Decrease)	341
Actuarial Present Value of Accrued Benefits at June 30, 2006	$ 4,877

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	July 1, 2006
Actuarial cost method	Entry age
Amortization method	Level percent closed for Plan Bases and open for Aggregate Gain/Loss
Remaining amortization period	28.03 years
Asset valuation method	5-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	4.3%-10.1%
*Includes inflation at	3.75%
Cost-of-living adjustments	ad hoc

The actuarial assumptions used have been recommended by the actuary and adopted by the Plan's Board of Trustees based on the most recent review of the Plan's experience, completed in 2004.

The rate of employer contributions to the Plan is composed of the normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability. The allowance for administrative expenses is based upon the Plan's actual administrative expenses.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4
ANALYSIS OF FINANCIAL EXPERIENCE

Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	*Gain (or Loss) for Year ending June 30, (expressed in thousands)* 2004	2005	2006
Investment Income on Actuarial Assets	$ (34,720)	$ (12,887)	$ 33,600
Combined Liability Experience	(53,146)	(15,530)	(44,930)
(Loss)/Gain During Year from Financial Experience	$ (87,866)	$ (24,417)	$ (11,330)
Non-Recurring Items	(137,125)	244	1,923*
Composite Gain (or Loss) During Year	$ (224,991)	$ (28,173)	$ (9,407)

* PRI of 2% funded from PRI fund ($51.6 million loss) and impact of removing disability from pension plan ($53.5 million gain).

Table V-5
SOLVENCY TEST
Aggregate Accrued Liabilities for
(expressed in thousands)

Valuation Date June 30,	Active Member Contributions (1)	Retirants & Beneficiaries (2)	Active Member Employer Financed Contributions (3)	Actuarial Value of Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2006	$ 434,605	$ 2,982,471	$ 2,484,996	$ 5,998,746	100%	100%	104%
2005	414,001	2,702,359	2,456,359	5,660,057	100%	100%	104%
2004	396,614	2,437,522	2,395,791	5,378,560	100%	100%	107%
2003	375,385	2,025,080	2,394,479	5,125,442	100%	100%	114%
2002	361,334	1,768,363	2,392,035	4,956,156	100%	100%	118%
2001	343,466	1,597,526	2,291,252	4,759,031	100%	100%	123%

APPENDIX A
MEMBERSHIP INFORMATION

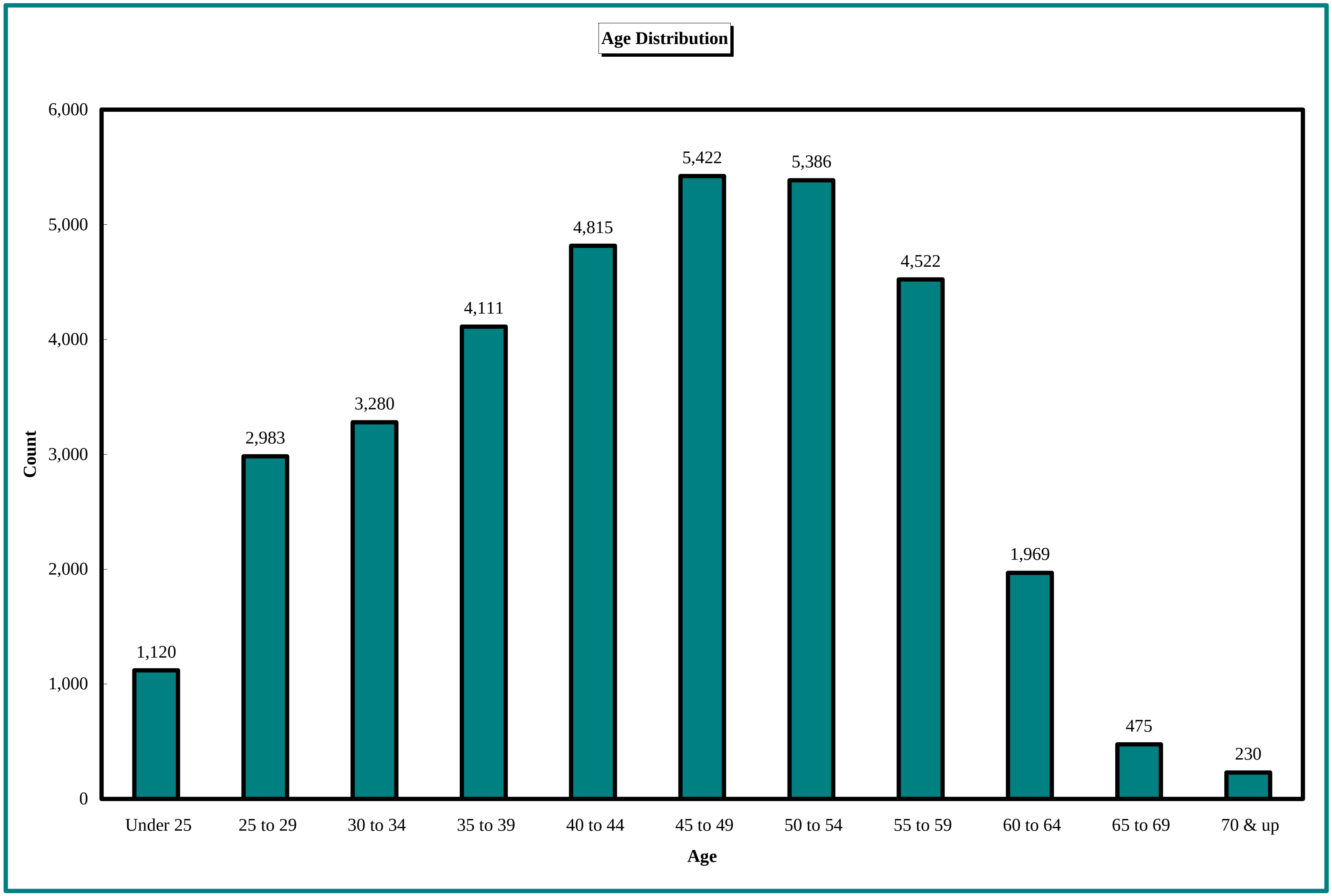
Delaware State Employees' Pension Plan Distribution of Active Members by Age and Service as of June 30, 2006

COUNTS BY AGE/SERVICE

	Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	Total
Under 25	311	787	22	0	0	0	0	0	0	0	1,120
25 to 29	385	1,865	726	7	0	0	0	0	0	0	2,983
30 to 34	234	1,193	1,531	309	13	0	0	0	0	0	3,280
35 to 39	275	1,177	1,245	985	411	18	0	0	0	0	4,111
40 to 44	297	1,149	1,270	818	858	399	24	0	0	0	4,815
45 to 49	213	1,079	1,296	844	783	748	442	17	0	0	5,422
50 to 54	172	752	1,042	873	837	654	734	309	13	0	5,386
55 to 59	119	581	727	702	786	510	455	422	212	8	4,522
60 to 64	61	270	312	283	320	225	210	133	132	23	1,969
65 to 69	13	76	86	67	85	44	41	28	18	17	475
70 & up	5	43	54	34	25	23	20	14	5	7	230
Total	2,085	8,972	8,311	4,922	4,118	2,621	1,926	923	380	55	34,313

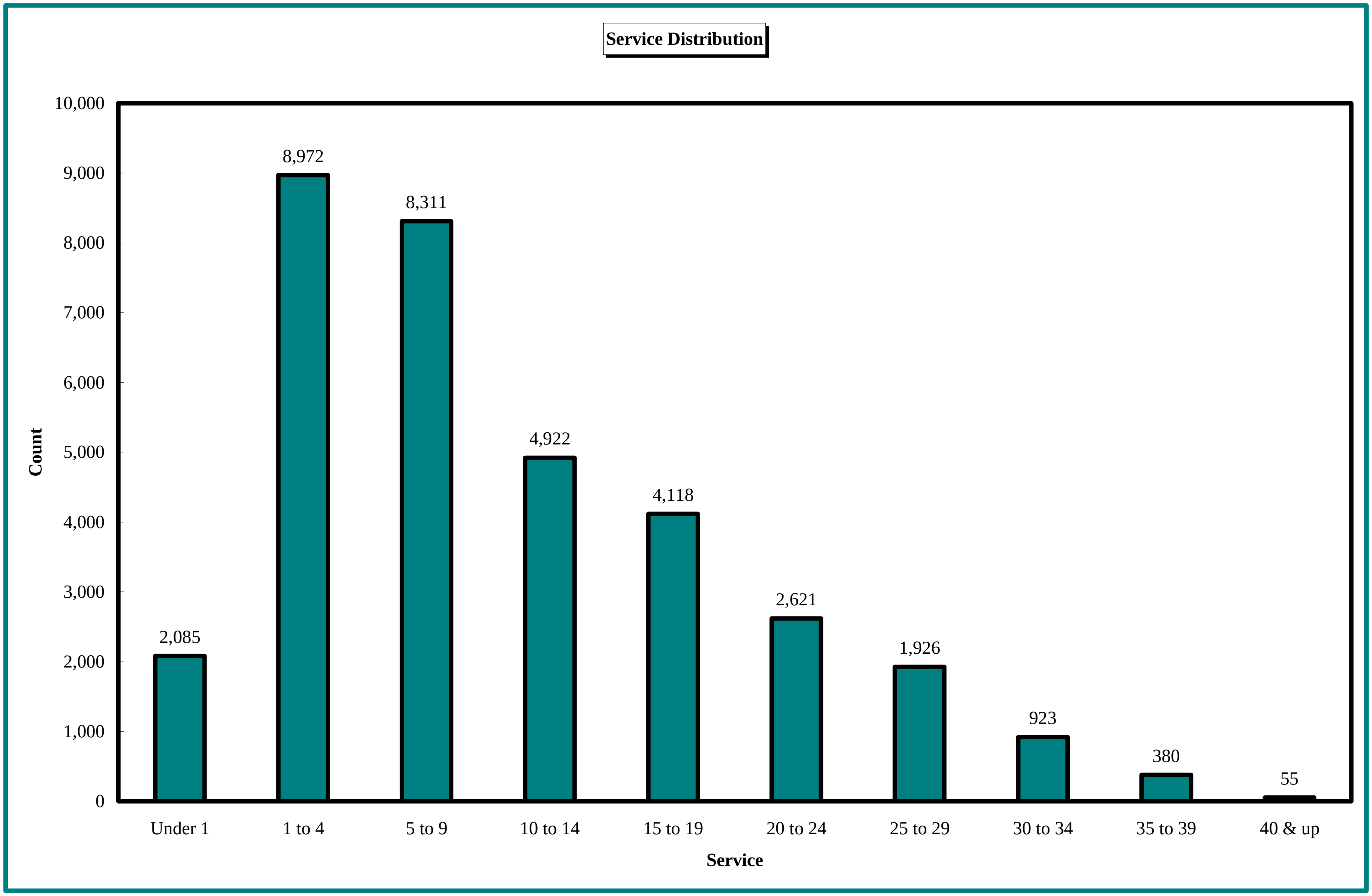
APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Active Members by Age as of June 30, 2006



APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Active Members by Service as of June 30, 2006



APPENDIX A
MEMBERSHIP INFORMATION

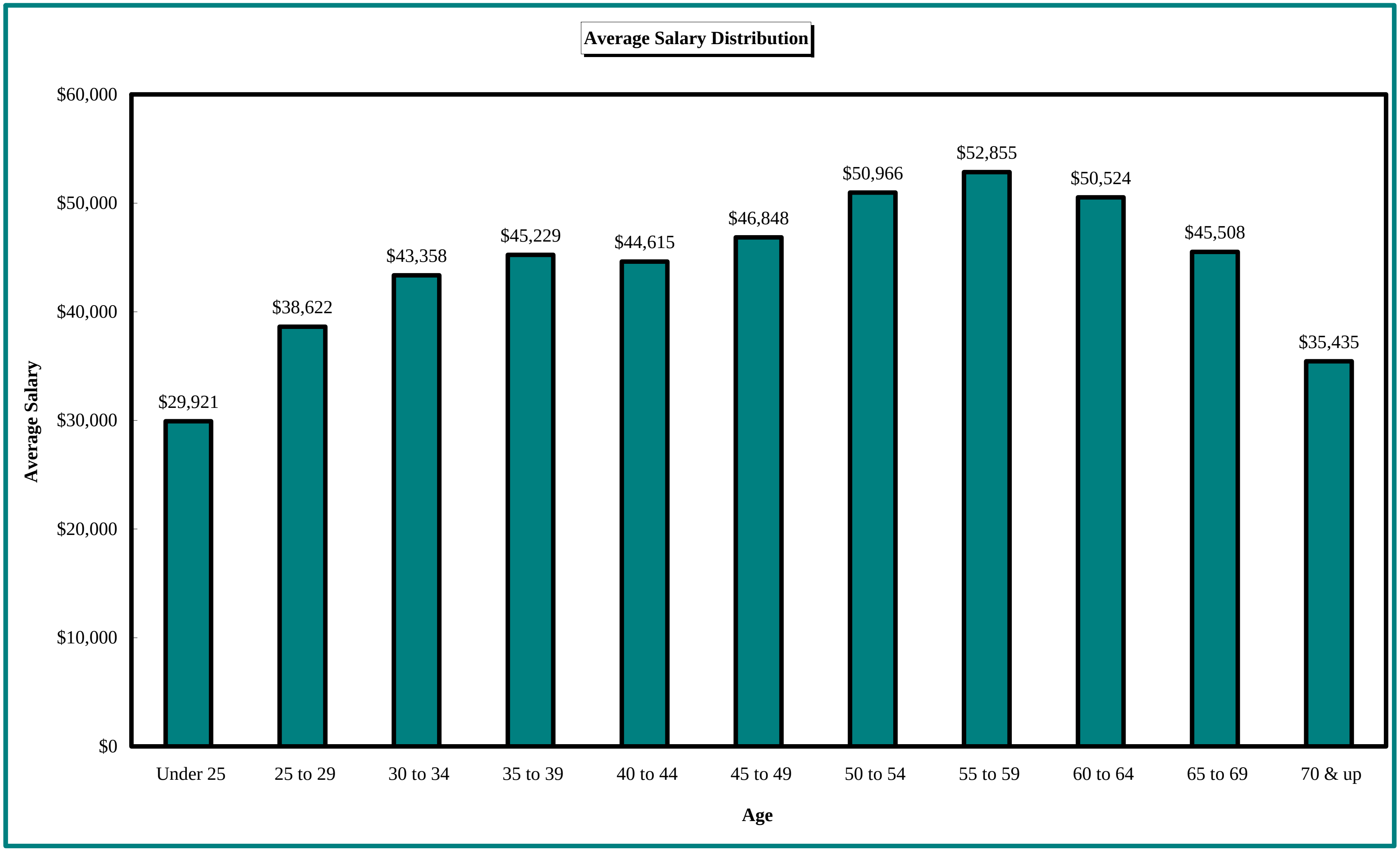
Delaware State Employees' Pension Plan Distribution of Active Members by Age and Service as of June 30, 2006

AVERAGE SALARY BY AGE/SERVICE

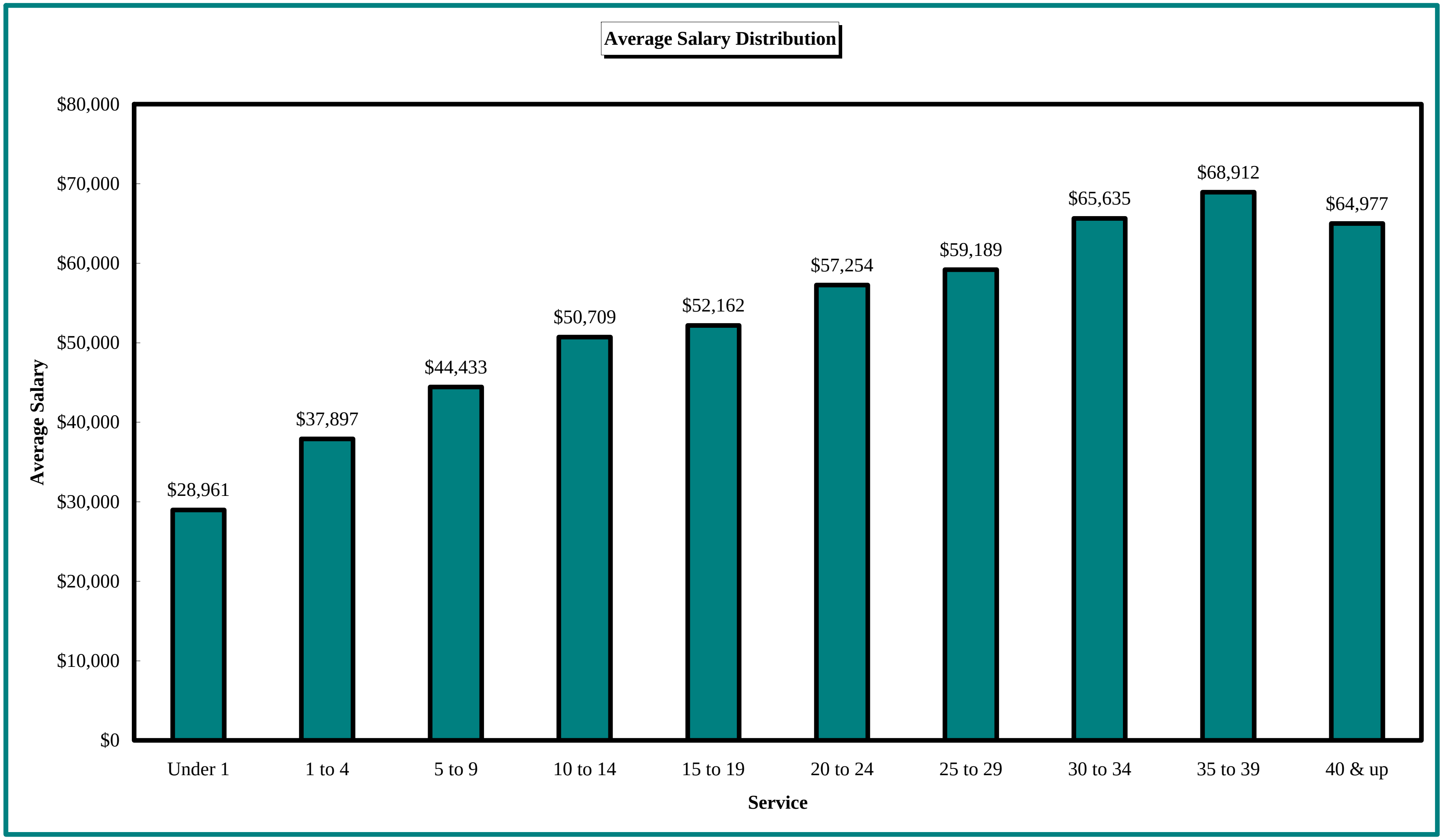
	Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	Total
Under 25	$24,051	$32,296	$27,938	$0	$0	$0	$0	$0	$0	$0	$29,921
25 to 29	$29,591	$38,722	$43,176	$36,238	$0	$0	$0	$0	$0	$0	$38,622
30 to 34	$30,581	$39,642	$47,050	$49,125	$42,475	$0	$0	$0	$0	$0	$43,358
35 to 39	$29,028	$38,499	$46,265	$54,326	$50,623	$40,207	$0	$0	$0	$0	$45,229
40 to 44	$26,628	$37,152	$43,010	$50,810	$54,091	$51,911	$38,263	$0	$0	$0	$44,615
45 to 49	$30,655	$37,523	$43,177	$49,313	$52,427	$58,923	$52,997	$51,065	$0	$0	$46,848
50 to 54	$33,650	$39,012	$44,986	$49,194	$52,569	$59,576	$63,457	$62,447	$55,470	$0	$50,966
55 to 59	$34,127	$41,552	$44,966	$52,273	$52,035	$57,685	$59,457	$68,863	$68,938	$46,919	$52,855
60 to 64	$29,198	$36,890	$42,194	$48,035	$49,623	$57,523	$60,279	$64,176	$71,482	$66,517	$50,524
65 to 69	$17,969	$28,220	$36,120	$46,031	$48,382	$54,157	$57,351	$66,825	$62,815	$70,530	$45,508
70 & up	$14,158	$23,472	$23,507	$33,667	$43,780	$36,671	$50,713	$67,840	$56,881	$67,066	$35,435
Total	$28,961	$37,897	$44,433	$50,709	$52,162	$57,254	$59,189	$65,635	$68,912	$64,977	$46,293

APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Active Members by Age as of June 30, 2006



Delaware State Employees' Pension Plan Distribution of Active Members by Service as of June 30, 2006



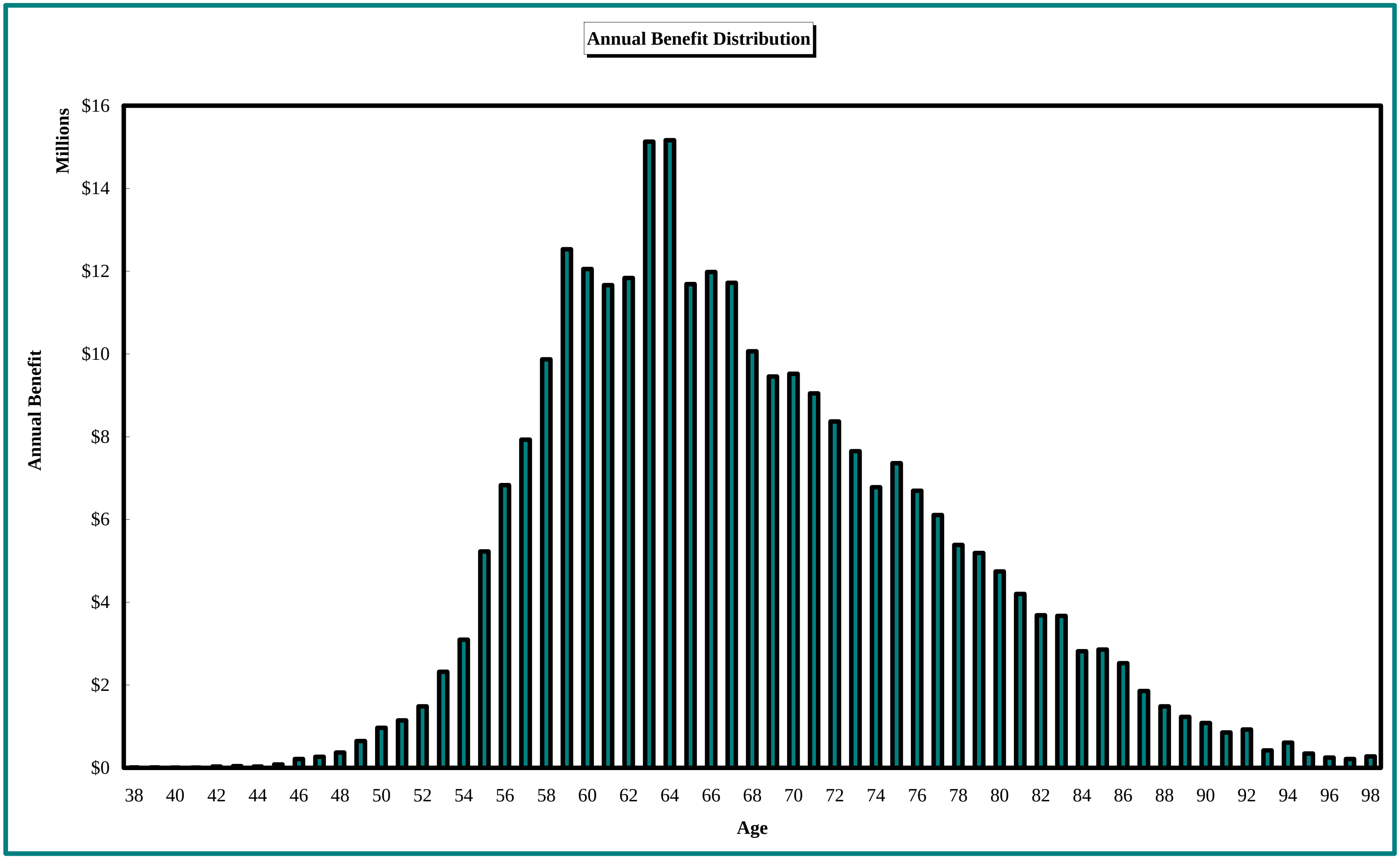
APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Retired Members and Survivors as of June 30, 2006

Age	Count	Annual Benefit	Age	Count	Annual Benefit
<25	49	$228,939	73	546	$7,648,875
25	1	$7,033	74	541	$6,781,768
26	0	$0	75	556	$7,360,774
27	1	$1,793	76	528	$6,692,837
28	0	$0	77	483	$6,106,820
29	0	$0	78	447	$5,386,737
30	0	$0	79	482	$5,191,441
31	0	$0	80	441	$4,743,636
32	0	$0	81	402	$4,199,283
33	1	$5,175	82	357	$3,683,244
34	2	$11,634	83	371	$3,670,617
35	0	$0	84	296	$2,814,083
36	0	$0	85	320	$2,855,593
37	2	$10,013	86	302	$2,526,671
38	3	$10,827	87	224	$1,853,824
39	4	$9,055	88	195	$1,484,866
40	1	$5,206	89	145	$1,231,392
41	2	$6,688	90	132	$1,082,720
42	6	$31,861	91	99	$853,503
43	7	$40,900	92	105	$925,754
44	4	$33,030	93	57	$419,919
45	6	$80,575	94	65	$608,918
46	24	$212,460	95	41	$342,896
47	22	$264,472	96	27	$249,356
48	27	$369,932	97	20	$213,978
49	38	$643,648	98	22	$274,035
50	55	$963,700	99	5	$35,408
51	61	$1,147,982	100	10	$85,871
52	86	$1,483,094	101	3	$23,517
53	105	$2,317,073	102	1	$16,577
54	134	$3,094,493	103	1	$8,597
55	200	$5,226,792	104	3	$23,941
56	255	$6,831,669	105	2	$24,929
57	298	$7,931,236	106	0	$0
58	347	$9,871,923	107	0	$0
59	453	$12,531,066	108	0	$0
60	449	$12,054,244	109	0	$0
61	428	$11,667,033	110	0	$0
62	457	$11,834,402	111	0	$0
63	666	$15,131,526	112	0	$0
64	698	$15,164,425	113	0	$0
65	596	$11,686,190	114	0	$0
66	620	$11,978,766	115	0	$0
67	606	$11,721,083	116	0	$0
68	576	$10,065,936	117	0	$0
69	565	$9,453,723	118	0	$0
70	557	$9,522,957	119	0	$0
71	570	$9,049,477	120	0	$0
72	575	$8,368,383			
			Totals	16,786	$280,492,797

APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Retired Members and Survivors as of June 30, 2006

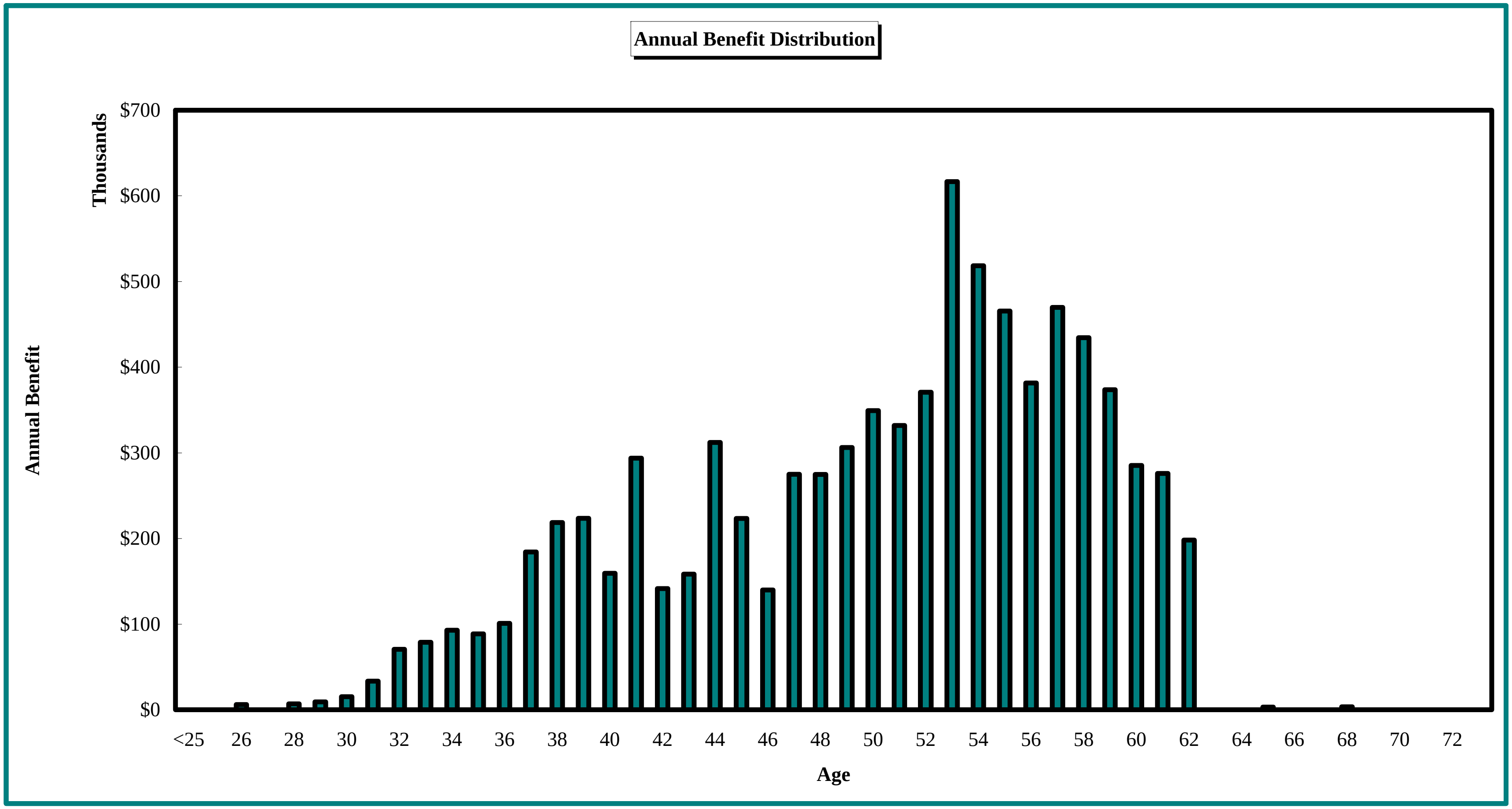


APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Vested Members as of June 30, 2006

Age	Count	Annual Benefit
<25	0	$0
25	0	$0
26	1	$6,058
27	0	$0
28	2	$6,818
29	3	$9,105
30	4	$15,344
31	6	$33,349
32	15	$70,528
33	15	$78,706
34	22	$92,758
35	16	$88,719
36	17	$100,914
37	31	$184,272
38	36	$218,670
39	28	$223,512
40	23	$159,485
41	44	$293,754
42	25	$141,521
43	19	$158,366
44	36	$312,143
45	30	$223,352
46	22	$139,845
47	38	$274,964
48	32	$274,773
49	31	$306,227
50	46	$349,408
51	34	$331,893
52	50	$370,802
53	59	$616,842
54	56	$518,586
55	56	$465,534
56	51	$381,608
57	54	$469,941
58	59	$434,487
59	46	$373,624
60	51	$285,381
61	38	$275,845
62	26	$198,143
63	0	$0
64	0	$0
65	2	$3,135
66	0	$0
67	0	$0
68	2	$3,501
69	0	$0
70	0	$0
71	0	$0
72	0	$0
73	0	$0
74	1	$756
75	0	$0
76	0	$0
77	0	$0
78	0	$0
79	0	$0
80	0	$0
81	0	$0
82	0	$0
83	0	$0
84	0	$0
85	0	$0
86	0	$0
87	0	$0
88	0	$0
89	0	$0
90	0	$0
91	0	$0
92	0	$0
93	0	$0
94	0	$0
95	0	$0
96	0	$0
97	0	$0
98	0	$0
99	0	$0
100	0	$0
101	0	$0
102	0	$0
103	0	$0
104	0	$0
105	0	$0
106	0	$0
107	0	$0
108	0	$0
109	0	$0
110	0	$0
111	0	$0
112	0	$0
113	0	$0
114	0	$0
115	0	$0
116	0	$0
117	0	$0
118	0	$0
119	0	$0
120	0	$0
Totals	1,127	$8,492,669

Delaware State Employees' Pension Plan Distribution of Vested Members as of June 30, 2006



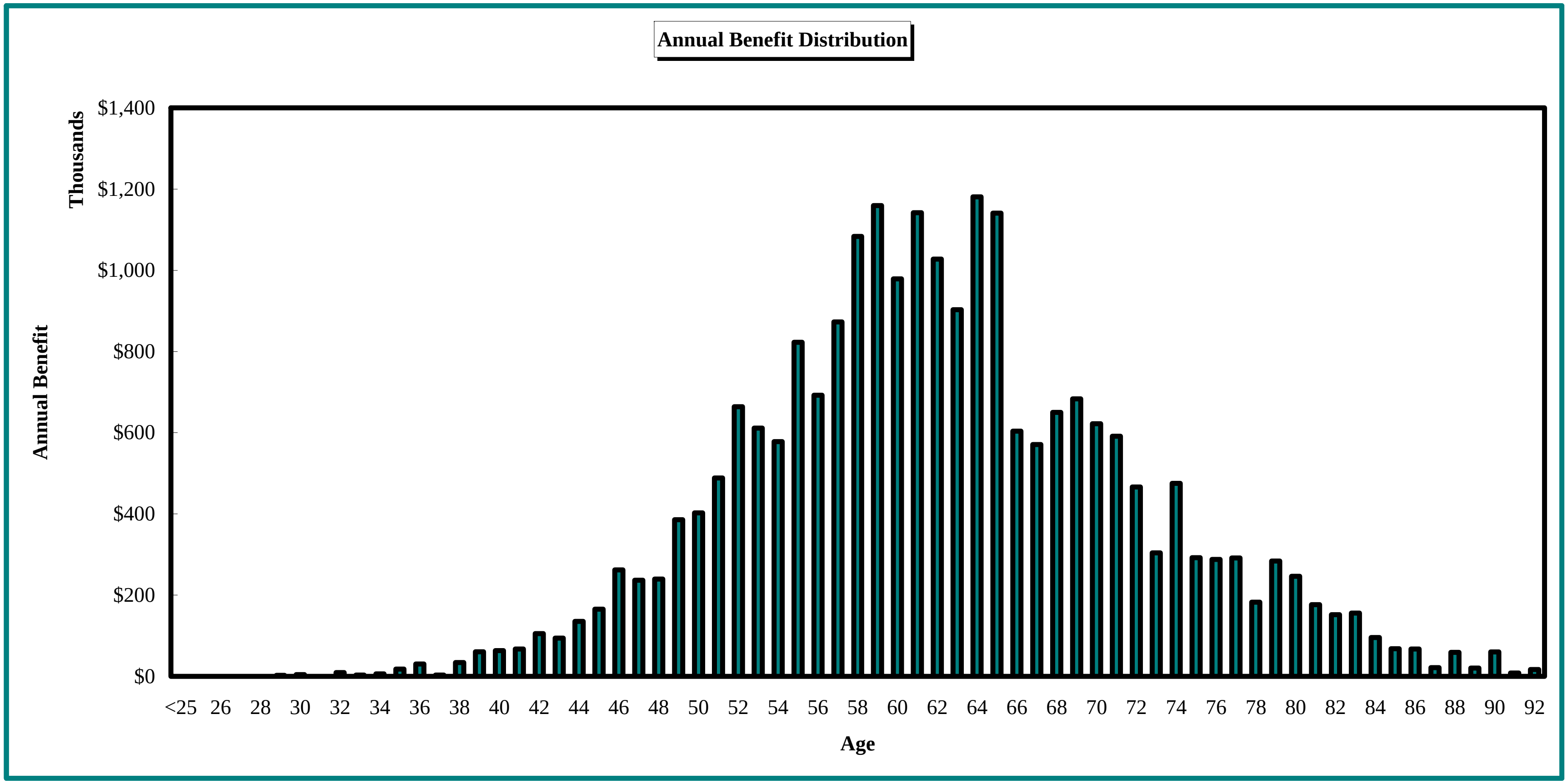
APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Disabled Members as of June 30, 2006

Age	Count	Annual Benefit
<25	0	$0
25	0	$0
26	0	$0
27	0	$0
28	0	$0
29	1	$2,610
30	1	$4,017
31	0	$0
32	2	$9,456
33	1	$3,068
34	1	$6,246
35	4	$18,200
36	6	$30,357
37	1	$2,919
38	5	$33,764
39	10	$60,813
40	9	$63,098
41	12	$67,192
42	16	$105,223
43	11	$94,171
44	20	$135,226
45	23	$165,446
46	28	$262,563
47	29	$236,746
48	31	$239,601
49	40	$385,953
50	43	$402,918
51	53	$488,414
52	64	$663,840
53	51	$611,390
54	58	$578,061
55	68	$822,705
56	60	$692,029
57	80	$873,065
58	90	$1,083,543
59	85	$1,159,452
60	80	$978,967
61	92	$1,141,905
62	76	$1,027,782
63	85	$902,993
64	98	$1,181,116
65	89	$1,140,562
66	50	$603,980
67	60	$571,073
68	63	$650,012
69	73	$683,659
70	56	$622,523
71	62	$591,570
72	50	$466,519
73	40	$304,033
74	50	$475,053
75	28	$292,078
76	35	$287,898
77	35	$291,380
78	30	$182,547
79	36	$284,127
80	31	$246,620
81	25	$176,361
82	25	$151,765
83	26	$155,586
84	14	$95,527
85	11	$67,875
86	13	$67,621
87	4	$21,618
88	11	$59,103
89	4	$20,378
90	7	$60,088
91	1	$8,276
92	2	$16,937
93	1	$7,134
94	0	$0
95	0	$0
96	0	$0
97	0	$0
98	0	$0
99	0	$0
100	0	$0
101	0	$0
102	0	$0
103	0	$0
104	0	$0
105	0	$0
106	0	$0
107	0	$0
108	0	$0
109	0	$0
110	0	$0
111	0	$0
112	0	$0
113	0	$0
114	0	$0
115	0	$0
116	0	$0
117	0	$0
118	0	$0
119	0	$0
120	0	$0
Totals	2,266	$23,136,750

APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Disabled Members as of June 30, 2006

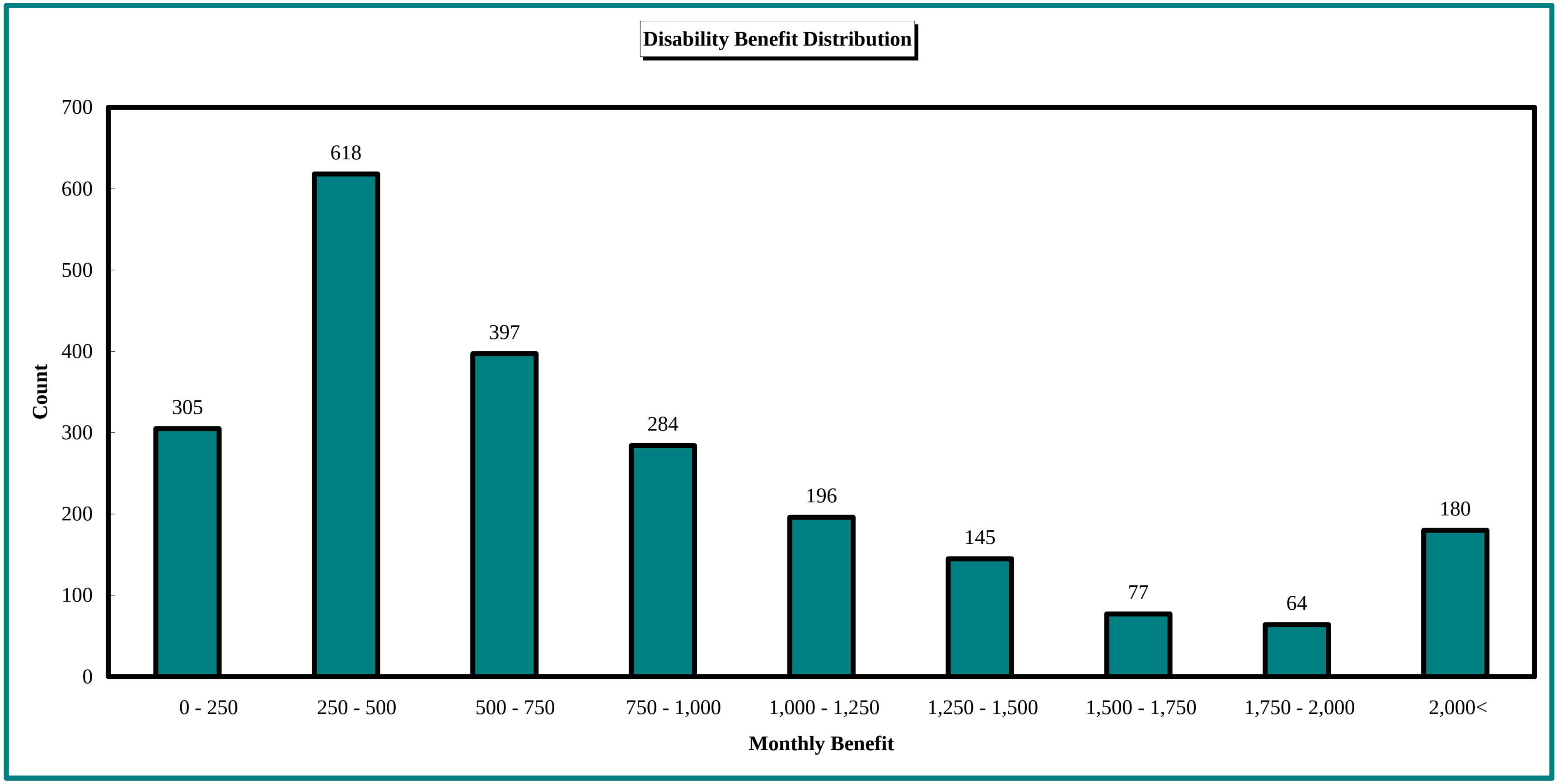


Delaware State Employees' Pension Plan Distribution of Disabled Members as of June 30, 2006

COUNTS BY BENEFIT/SERVICE

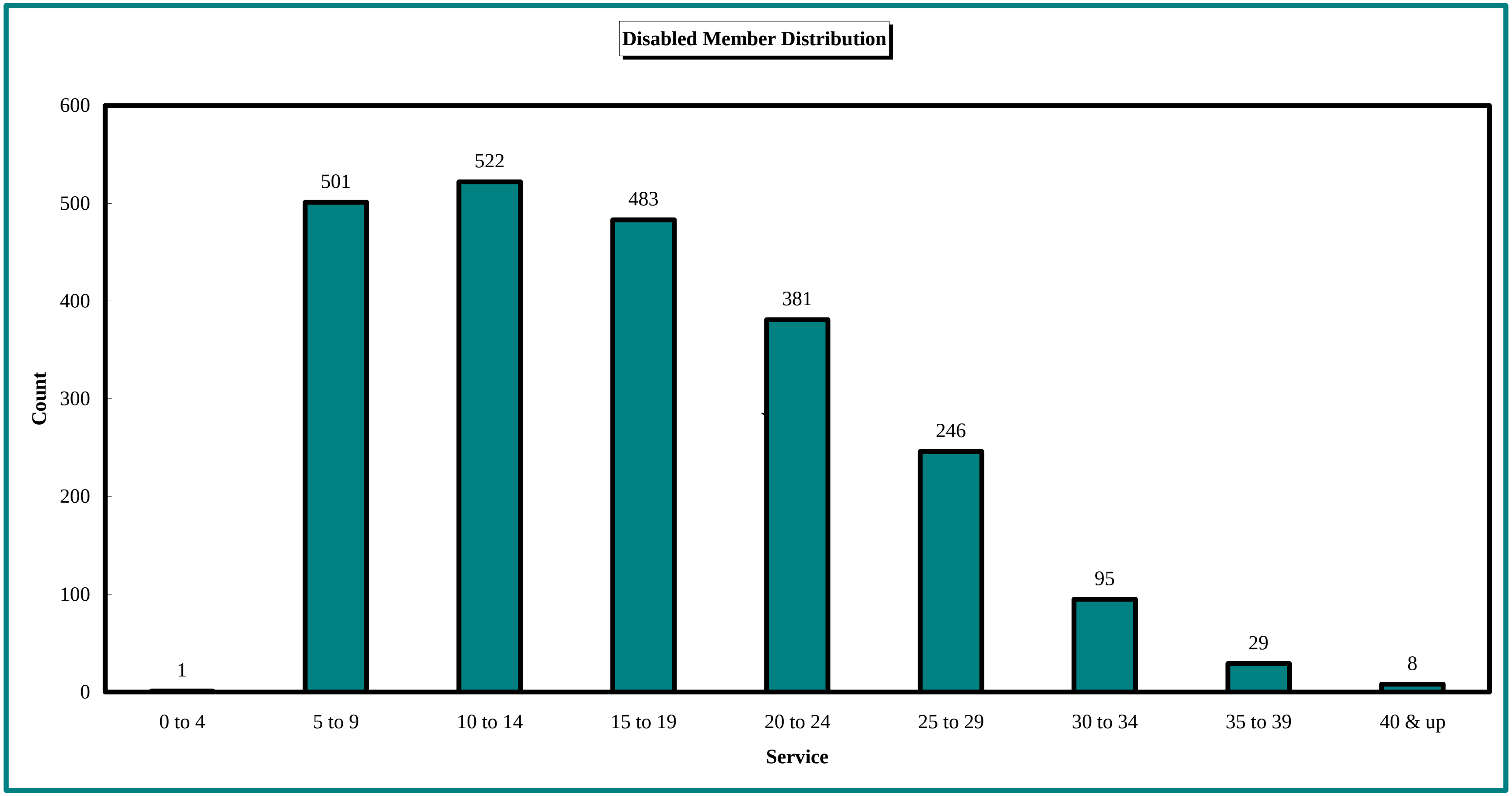
Monthly Benefit	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	Total
0 - 250	0	236	57	11	1	0	0	0	0	305
250 - 500	0	228	262	103	20	5	0	0	0	618
500 - 750	0	32	135	151	67	11	1	0	0	397
750 - 1,000	1	5	35	108	96	28	10	0	1	284
1,000 - 1,250	0	0	19	59	79	32	6	0	1	196
1,250 - 1,500	0	0	10	28	45	44	13	3	2	145
1,500 - 1,750	0	0	3	10	29	26	7	2	0	77
1,750 - 2,000	0	0	1	4	18	26	10	5	0	64
2,000<	0	0	0	9	26	74	48	19	4	180
Total	1	501	522	483	381	246	95	29	8	2,266

Delaware State Employees' Pension Plan Distribution of Disabled Members as of June 30, 2006



APPENDIX A
MEMBERSHIP INFORMATION

Delaware State Employees' Pension Plan Distribution of Disabled Members as of June 30, 2006



APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Long-Term Assumptions Used to Determine Plan Costs and Liabilities

1. Demographic Assumptions

a. Healthy Inactive Mortality

With Mortality Improvements (Projection Scale)
Male: 85% of RP-2000 MB Mortality Table
Female: 87% of RP-2000 FW Mortality Table

Rates of Healthy Inactive Mortality				
	Rates (Prior to Projection)		Projection Scale	
Age	Male	Female	Male	Female
50	0.48%	0.21%	1.80%	1.70%
55	0.61%	0.30%	1.90%	0.80%
60	0.90%	0.49%	1.60%	0.50%
65	1.41%	0.79%	1.40%	0.50%
70	2.27%	1.32%	1.50%	0.50%
75	3.67%	2.24%	1.40%	0.80%
80	6.00%	3.75%	1.00%	0.70%
85	9.78%	6.45%	0.70%	0.60%
90	15.45%	10.98%	0.40%	0.30%

b. Healthy Active Mortality

With Mortality Improvements (Projection Scale)
Male: 95% of RP-2000 RE Mortality Table
Female: 80% of RP-2000 RE Mortality Table

Rates of Healthy Active Mortality		
Age	Male	Female
20	0.03%	0.02%
25	0.04	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.14	0.09
50	0.20	0.13
55	0.29	0.20
60	0.46	0.31

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ACTUARIAL ASSUMPTIONS AND METHODS

c. Disabled Inactive Mortality

Male: 63% of 1965 Railroad Retirement Board Disabled Mortality
Female: 92% of 1981 PBGC Disabled Mortality with Social Security

Rates of Disabled Inactive Mortality		
Age	**Male**	**Female**
40	2.78%	1.92%
45	2.82%	2.06%
50	3.06%	2.36%
55	3.73%	2.71%
60	4.57%	3.05%
65	5.46%	3.40%
70	6.53%	3.78%
75	7.96%	4.53%
80	9.73%	6.86%

d. Rates of Active Disability

Rates of Active Disability	
Age	**Current**
20	0.05%
25	0.05
30	0.18
35	0.27
40	0.38
45	0.46
50	0.62
55	0.95
60	1.57

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ACTUARIAL ASSUMPTIONS AND METHODS

e. Termination of Employment (Prior to Normal Retirement Eligibility)

10-year Select (age- and service-based) & Ultimate (age-based) tables.

Age Select:	0	1	2	3	4	5	6	7	8	9	Ultimate
<35	19%	16%	12%	10%	8%	6%	6%	5%	4%	4%	3%
35-39	19	16	12	10	8	6	6	5	4	4	2
40-54	15	11	8	7	5	5	4	4	3	3	1.5
55-59	17	14	10	8	6	5	5	4	3	3	1.5
60-65	23	17	14	10	8	6	5	4	4	3	1.5
>65	23	21	16	14	10	8	5	4	4	3	1.5

f. Retirement

Early Retirement: 1-year Select & Ultimate (age-based) upon attaining the earliest of:

a) age 55 with 15 years of credited service
b) 25 years of credited service

Normal Retirement: 1-year Select & Ultimate (age-based) upon attaining the earliest of:

a) age 62 with five years of credited service
b) age 60 with 15 years of credited service
c) 30 years of credited service

Male Early Retirement		
Age	**Select**	**Ultimate**
<41	1.00%	0.00%
41 – 44	1.00	0.50
45 – 46	3.00	0.50
47 – 49	3.00	2.00
50 – 51	3.00	3.00
52 – 59	3.00	5.00

Male Normal Retirement		
Age	**Select**	**Ultimate**
<45	13.00%	0.00%
45 – 56	13.00	11.00
57	13.00	15.00
58 – 60	10.00	15.00
61	10.00	26.00
62	20.00	26.00
63	10.00	20.00
64	16.00	20.00
65 – 66	16.00	26.00
67	16.00	20.00
68 – 79	16.00	16.00
80+	100.00	100.00

Female Early Retirement		
Age	**Select**	**Ultimate**
<41	1.50%	0.00%
41 – 48	1.50	2.00
49 – 50	2.00	2.00
51 – 52	2.00	3.00
53 – 54	5.00	3.00
55	5.00	5.00
56 – 57	6.00	5.00
58 - 59	7.00	5.00

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Female Normal Retirement		
Age	Select	Ultimate
<45	15.00%	0.00%
45 – 51	15.00	6.00
52 – 53	15.00	8.00
54	15.00	11.00
55 – 57	20.00	11.00
58 – 59	20.00	14.00
60	12.00	14.00
61 – 62	21.00	24.00
63	10.00	24.00
64	10.00	17.00
65	26.00	24.00
66	15.00	24.00
67 – 70	15.00	21.00
71 – 79	15.00	12.00
80+	100.00	100.00

g. Merit/Seniority Salary Increase (in addition to across-the-board increase)

10-year Select (service-based) & Ultimate (age-based) merit tables plus an annual inflation rate of 3.75% (rates shown below exclude amount for inflation).

Select

Service (years)	Increase
0 – 1	6.14
2	4.25
3 – 9	2.66

Ultimate

Age	Increase
<40	1.50
40 – 49	1.00
50+	0.50

h. Family Composition

Female spouses are assumed to be three years younger than males.

70% are assumed married for both male and female employees.

Actual marital characteristics are used for pensioners.

2. Economic Assumptions

a.	Rate of Investment Return:	8.00%
b.	Rate of General Wage Increase:	3.75%
c.	Rate of Increase in Cost of Living:	0.00%
d.	Rate of Increase in Total Payroll (for Amortization):	3.75%
e.	Administrative Expenses as a Percentage of Payroll:	0.35%

3. Changes Since Last Valuation

None.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Entry Age Normal Actuarial Cost method is used to determine costs. Under this funding method, a normal cost rate is determined as a level percent of pay for a typical new entrant. The normal cost rate times payroll equals the normal cost. The normal cost plus member contributions will pay for projected benefits at retirement for the average plan participant.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The portion of the actuarial accrued liability in excess of plan assets is funded according to a schedule which is intended to amortize such unfunded actuarial liability fully after a period of years. This is in addition to each year's employer normal cost. Under this cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability.

Increases to the unfunded actuarial liability, due to benefit improvements, are amortized over their remaining periods if established prior to July 1, 2000. Those increases established on or after July 1, 2000 will be amortized over 30 years if they improve benefits to active members or five years if they improve benefits solely to retirees. The cumulative actuarial gain/loss measured as of each valuation date will be amortized over a rolling 15 year period. All payments are determined assuming total pay increases by the annual inflation rate.

2. Actuarial Value of Assets

For purposes of determining the State contribution rate to the plan we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

The actuarial value of assets is a weighted average giving 20% weight to the current market value and 80% weight to the prior year's actuarial value increased by expected interest and contributions and decreased by benefit payments and expenses. This is mathematically equivalent to recognizing 100% of the actuarially assumed interest rate, plus contribution, less payment each year, and 20% of the portion of each year's returns that have not already been reflected in asset values.

3. Changes Since Last Valuation

No changes in actuarial cost methods.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership

The Plan covers full-time and regular part-time employees of the State (including elected or appointed officials), the State Department of Public Instruction, a school district which is part of the State School System (the membership includes 19 school districts), the University of Delaware (excluding most faculty and designated professional staff), Delaware State University, Delaware Technical & Community College, Wilmington Federal Credit Union and any State Agency supported in whole or in part by federal funds granted to the State.

2. Member Contributions

3% of compensation which exceeds $6,000 per annum. Interest is credited at the rate of 5% per year.

Member contributions are made through an "employer pick-up" arrangement which results in deferral of taxes on the contributions.

3. Credited Service

All service as a member plus certain claimed and purchased service.

4. Final Average Compensation

Final Average Compensation is the average of any 36 months comprised of three periods of 12 consecutive months (or shorter period of total service) of compensation paid to the member, including salary, wage and fees, plus overtime payments and special payments for extra duty.

5. Normal Retirement

Eligibility: (i) age 62 (60 if General Assembly) with five years of credited service; or (ii) age 60 with 15 (age 55 with ten years if General Assembly) years of credited service; or (iii) any age with 30 years of credited service.

Benefit: 2.0% of final average compensation multiplied by years of service prior to January 1, 1997 plus 1.85% of final average compensation multiplied by years of service after January 1, 1997.

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SUMMARY OF PLAN PROVISIONS

6. Early Retirement

Eligibility: (i) age 55 with 15 years of credited service; or (ii) any age with 25 years of credited service.

Benefit: Normal retirement benefit calculated using final average compensation and service at early retirement, and reduced by 0.2% for each month which retirement age precedes the earlier of age 60 or the attainment of 30 years of service.

7. Disability Benefit

Eligibility: Five years of credited service

Benefit: Normal retirement benefit calculated using service and salary at disability date.

State Plan: Member who opted into the Disability Insurance Program will not receive a benefit from this Plan until they reach normal retirement eligibility.

8. Survivor's Benefit

Eligibility: Five years of credited service if active, or death after retirement.

Benefit: For eligible survivors of employees who die in active service: 75% of service pension employee would have been eligible to receive at age 62, calculated using final average compensation and credited service accrued to the date of death.

For eligible survivors of pensioners who die: 50% of pension received immediately prior to death, or 75%, if the pensioner has so elected by taking a 3% reduction to his benefit.

Eligible survivors include: (1) widow or widower; or (2) child or children under 18, or between 18 and 22 and attending school on a full-time basis, or over 18 and permanently disabled before 18; or (3) dependent parent or parents. If no eligible survivors, accumulated contributions with interest over aggregate pension payments are payable to the beneficiary.

9. Post-Retirement Death Benefit

$7,000 lump sum.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

10. Vesting

Eligibility: Employees who separate from service with at least five but less than 20 years of service.

Benefit: Accrued normal retirement benefit, payable at age 62. In lieu of a pension, a member may receive a refund of accumulated contributions with interest. Upon application for a refund of contributions a member's vested right to a monthly benefit shall be forfeited.

11. Withdrawal of Employee Contributions

Eligibility: Terminates service and is not eligible for other benefits.

Benefit: Accumulated employee contributions with interest.

12. Form of Payment

The normal form of payment is a life annuity.

A member may elect a 75% joint and survivor form with a 3% reduction in benefits.

13. Cost-of-Living Adjustment

Cost-of-Living Adjustments are made only on an ad hoc basis.

14. Changes Since Last Valuation

A Post-Retirement Increase (PRI) was granted effective July 1, 2006. The increase provided for an increase of 2% for all pre-June 1, 2005 retirees. All pre-January 1, 1981 retirees will receive an increase equal to the greater of 2% or $25 per month.