

**STATE OF DELAWARE**  
STATE BOARD OF PENSION TRUSTEES  
AND  
OFFICE OF PENSIONS  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF JULY 25, 2014**

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:00 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Nancy Shevock  
Suzanne Grant  
Tom Shaw  
Helen Foster  
Ann Visalli  
Art Agra  
Tom Cook

Trustees Absent

Others Present

Dave Craik, Pension Office  
Terri Timmons, Pension Office  
Kathy Kunkle, Pension Office  
Wade Sallings, Pension Office  
Jennifer Dillworth, Pension Office  
Rob Gooderham, Ashford Consulting Group  
Garry Musto, Ashford Consulting Group  
Ann Marie Johnson, Deputy Attorney General, Delaware Department of Justice  
Lisa Loikith, Pension Paralegal, Delaware Department of Justice  
Courtney Stewart, Controller Generals Office  
Joe Malloy, PAC  
Charlotte Lister, PAC

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting and thanked T. Shaw for chairing the June meeting. S. Grant announced that the September Board meeting date has been changed and will now be held on September 22, 2014 at 9:00 a.m. in the Delaware Conference Room in the Pension Office.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the June 27, 2014 meeting.

MOTION made by T. Shaw and seconded by N. Shevock to approve the Public Minutes of the June 27, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the June 27, 2014 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Executive Minutes of the June 27, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION ADVISORY COUNCIL REPORT**

J. Malloy stated he did not have anything new to report.

4. **PENSION ADMINISTRATOR REPORT**

**Legislative Update**

- Budget Bill - included the annual required contribution for State Employees' Pension Plan, Judges, New State Police, pay-as-you-go for Closed State Police. Also included 0.9% of payroll for OPEB fund which is approximately \$16 million in the total funds. Moved the entire allocation for the Closed State Police pension benefits from the State Police budget to the Pension Office budget. **Signed by the Governor**
- HB158 - provides health insurance benefits to dependent children of State employees who are killed in the line of duty. Administered by Statewide Benefits, some children were moved from retiree group. **Signed by the Governor**

- HB213 - to provide funding for health insurance for members of the C/M police/fire plan who retire after 7/1/15. Funding from an increase in taxes for insurance surplus lines will be used to pay up to 80% of the cost for health insurance for survivors in the plan and those who retire after the effective date. The funding stream is estimated at \$580k per year. **Will be signed on 7/30**
- Senate Substitute 1 for SB28 - exempts per diem employees in the General Assembly from the earnings limit for retirees. **Signed by the Governor**
- SB240 - clarifies a process to allow companies or ladies auxiliaries to opt out of the Volunteer Firemen's pension plan. **Passed the Senate, no action in the House, will request action in January**
- SB261 - provides a 1% increase to pensioners effective 1/1/15 and who retired prior to 6/30/13. **Signed by the Governor**
- HB137 - expands the survivor options in all plans administered by DPERS to include J&S options of 50%, 66.66%, 75% and 100%. **Signed by the Governor**
- HB279 - allows uniformed paramedics to move into the C/M police plan at the option of their current employer which are the counties. Does not address how prior service would be handled. **Awaiting Governor's signature**

### **Cost Effective Measurement Benchmarking (CEM)**

K. Kunkle reported that the Pension Office has been participating in the CEM Benchmarking since 2005. Out of the 61 pension systems, DPERS is compared to 11 systems in our peer group.

The Pension Administration cost of \$81 per active member represented an increase from the previous year per member cost of \$78.

DPERS' cost was \$44 below our peer average, attributable to DPERS relative smaller size, and the resulting economies of scale advantage: fewer transactions per member; fewer transactions per FTE; lower costs per FTE salaries and benefits, building and utilities, HR and IT desktop; high third-party and other costs in front-office activities; and paying more (on a relative basis) - for back-office activities.

The total score for services was 73 out of 100, and below the peer median of 78. Service is measured from the member's perspective. A higher service score is not necessarily better. This is because higher service may not always be cost effective or optimal; and the weights CEM uses are an approximation of the importance of individual service elements. The weights will not always reflect the relative importance that you or your members attach to individual service elements.

Strategies for improving the service score would include an increase in on-line services; members experiencing no undesired or irritating call outcomes; and reviewing staff's responses to member's calls.

### **Office Activities**

- PeopleSoft Upgrade – there was a technical issue last week, but has been resolved by the DBA’s and we are back on schedule
- Staffing – As of last month, we were fully staffed, but have recently had one retirement announced this month.
- August Payroll – reflected retirees that retired on 6/30, is 400 applications.
- Medical Committee functions – will have discussions on outsourcing the functions of the Medical Committee. D. Craik will report back to the Board in the fall.

### **Quarterly Stats**

D. Craik reported that there weren’t any real changes in the FY14 Office Activities. He did note that the healthcare additions were down from FY13.

## **5. INVESTMENT COMMITTEE REPORT**

<b><u>Fund</u></b>	<b><u>Jun-14</u></b>	<b><u>Fiscal Year To Date</u></b>	<b><u>12-Month</u></b>
<b>Total Fund</b>	<b>1.5%</b>	<b>17.5%</b>	<b>17.5%</b>
<b>S &amp; P 500 Index</b>	<b>2.1%</b>	<b>24.6%</b>	<b>24.6%</b>
<b>60/35/5*</b>	<b>1.2%</b>	<b>16.0%</b>	<b>16.0 %</b>
<b>Delaware</b>	<b>1.4%</b>	<b>15.8%</b>	<b>15.8 %</b>
<b>Benchmark**</b>			

\*Benchmark mix of 60% S&P500 Index, 35% Barclays Government and Credit Bond Index, 5% T-bills.

\*\*Benchmark mix of 38% Russell 3000 Index, 20% MSCI ACWI exUS, 38.5% Barclays Universal Bond Index, 1.5% Barclays TIPS Index, 2% T-bills

Assets in the Fund at the end of June totaled \$9,208 million. The Fund’s June return of 1.5% matched the Delaware Benchmark return. For the fiscal year, the total Fund is up 17.5%, 1.7% percentage points above the Delaware Benchmark.

In both domestic and international equity markets provided positive returns. Leading the way were small cap and Japanese stocks while European markets lagged. For June, the broad Russell 3000 index was up 2.5%, while the MSCI EAFE international stock index gained 1.0%. The broader MSCI All-Country World ex=U.S. stock index (which includes emerging markets) was up 1.7%. Fixed income markets also experienced positive returns. The Barclays Universal bond index gained 0.2%, while the J.P. Morgan Global High Yield index was up 0.9% for the month. The Barclays TIPS index was flat in June providing 0.0%.

The Investment Committee has met once since the Board’s last meeting.

At its meeting on July 15<sup>th</sup>, the Investment Committee received a presentation from existing manager T. Rowe Price and reviewed the Fund’s natural resources equity account.

The Investment Committee, under its authority to execute documents relating to manager schedules and contracts over which it exercises authority, unanimously approved a Schedule D change to the Ballie Gifford contract.

The next meeting of the Investment Committee will be on August 19<sup>th</sup>.

## 6. **DEPUTY ATTORNEY GENERAL REPORT**

In June Ms. Johnson attended the National Association of Public Pension Attorneys (NAPPA) conference. Below are some of the key updates in the field of public pension law presented at the conference:

- Small and Medium “Affinity Group” – Topic: Funding Policies
  - There are three broad considerations when establishing a funding policy for a pension Plan.
    - Sufficiency
    - Intergenerational equity
    - Stability of contributions
- Funding Policies: Navigating an ARC-less Sea
  - Helped to identify the policy objectives, but in the end of the day, not sure there will be a true “understanding” by the general public. Is meant to highlight those systems really in trouble.
- Governance/Ethics
  - Regularly assess your ethical decision-making process. Provided a great rationale for regular governance “maintenance.” Identifies ethical decision making as a key focus of governance.
- Investments
  - Drafting Issues
    - More in the arsenal for review of documents, a sense of what is considered best practice, and “market”.
  - Investments outside the United States: Sub-Custodians and Issues
    - Manage issues upfront.
- Pension Administration
  - Automated Pension applications and issues
    - These systems do not adequately address identity issues, and require a great deal of computer expertise.
- Municipal Bankruptcy
  - Delaware system is legally and factually distinguishable. Could have some system risk to municipal bankruptcy, however.
- SEC Enforcement
  - Should probably have some documented Board education on these issues, particularly Insider Trading.

MOTION made by N. Shevock and seconded by  
T. Cook to enter into Executive Session to

consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

The Board then moved into Executive Session to discuss pending personnel matters, and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION made by H. Foster and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by A. Agra to authorize D. Craik to contact KPMG to obtain more information pertaining to the contractual Risk Manager position so contract negotiations can move forward.

MOTION ADOPTED UNANIMOUSLY

## 7. **AUDIT COMMITTEE REPORT**

D. Craik reported that the GASB 67/68 funding valuations will be different than reporting (GASB) valuation. On June 16<sup>th</sup>, KPMG provided a GASB 67/68 presentation to the following participating County/Muni entities: City of Wilmington, City of New Castle, Dover Rehoboth Beach, New Castle County, Milford and Laurel. Testing of this census data will require KPMG to do on-site visits that are expected to take place in July.

D. Craik stated that the analysis of ad-hoc post retirement increases, if the increases are on a “regular” basis there must be an assumption built into the valuation process and treat the increase as automatic. There will be a significant increase in liabilities if this is in place (10%) with looking at a 15 year analysis. The auditors agreed that the increases are not considered automatic.

D. Craik identified the Employers in the State Employees plan that will need a separate schedule for liability purposes (pension office and division of accounting).

H. Foster approved KPMG to mail the conflict of interest letters.

## 8. **PENDING ITEMS**

There were no pending items.

## 9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on September 22, 2014, at 9:00 a.m., at the Delaware Conference Room of the Office of Pensions.

At 11:56 a.m., there being no further business, MOTION was made by S. Grant and seconded by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

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Suzanne B. Grant  
Chair for the Board of Pension Trustees