

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust
A Fiduciary Component Unit of the State

Financial Statements
June 30, 2018

(With Independent Auditor's Report Thereon)

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

Table of Contents

	Page
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Unaudited).....	3
Basic Financial Statements	
Combining Statement of Fiduciary Net Position.....	6
Combining Statement of Changes in Fiduciary Net Position.....	7
Notes to Financial Statements.....	8
Required Supplementary Information.....	16
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19



Independent Auditor's Report

Board of Pension Trustees
State of Delaware Other Postemployment Benefits Fund Trust
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust (the "Trust"), a component unit of the State of Delaware, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the State of Delaware Other Postemployment Benefits Fund Trust as of June 30, 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 and required supplementary information on pages 16 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

BDO USA, LLP

November 26, 2018

Management's Discussion and Analysis

June 30, 2018

This section of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust's (Trust) annual financial report presents management's discussion and analysis of the Trust's financial performance during the year ended June 30, 2018. It should be read in conjunction with the Trust's financial statements and accompanying notes.

Financial Highlights

The following financial highlights occurred during the Fiscal Year ended June 30, 2018, versus Fiscal Year 2017:

- The Trust's fiduciary net position increased by \$28.0 million.
- Fiscal year 2018 covered payroll increased by \$16.9 million to \$2,052.1 million. Employer contributions decreased by \$12.6 million to \$224.6 million. The overall decrease in employer contributions is primarily attributed to an adjustment of the estimated benefit payments for retirees and beneficiaries.
- Net investment earnings (net increase/(decrease)) in fair value, plus investment earnings, less investment-related expenses) decreased by \$8.9 million as a result of a lower market investment return of 6.8% in fiscal year 2018.
- OPEB benefits paid for retirees and beneficiaries was \$223.0 million, a decrease of \$14.1 million, based on better control of healthcare costs described further in the next section.

Overview of the Financial Statements

The Trust's Financial Statements, Notes to the Financial Statements and Required Supplementary Information (RSI) were prepared in conformity with the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The financial report consists of two basic financial statements:

- The *Combining Statement of Fiduciary Net Position*, which reports the Trust's assets, liabilities, and resulting net position where Assets – Liabilities = Net Position held in trust for OPEB benefits available at the end of the fiscal year. It is a snapshot of the financial position of the Trust funds at that specific point in time.
- The *Combining Statement of Changes in Fiduciary Net Position* summarizes the Trust funds' financial transactions that have occurred during the fiscal year where Additions – Deductions = Net Change in Net Position. It supports the change that has occurred to the prior year's net position on the *Combining Statement of Fiduciary Net Position*.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust

The *Required Supplementary Information* includes two required schedules of historical trend information:

- The *Schedule of Changes in Net OPEB Liability and Related Ratios* includes historical information about the components of the net OPEB liability and related ratios, including fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered payroll.
- The *Schedule of Investment Returns* includes the annual money-weighted rate of return on the Trust's investments for each year. A money-weighted rate of return provides information about the actual performance of a Trust's investment portfolio because it takes into account the effects of transactions that increase the amount of the Trust's investments (such as contributions) and those that decrease the amount of the Trust's investments (such as benefit payments). Additionally, the money-weighted rate of return provides information that is comparable with the long-term expected rate of return on the Trust's investments, which is used in calculating information presented in the financial statements.

Summary Statement of Fiduciary Net Position
(Expressed in Thousands)

	Fiscal Years Ended June 30,		Increase/ (Decrease)
	<u>2018</u>	<u>2017</u>	
Assets			
Cash and Investments at Fair Value	\$ 404,790	\$ 377,210	\$ 27,580
Receivables	<u>11,681</u>	<u>10,914</u>	<u>767</u>
Total Assets	416,471	388,124	28,347
Total Liabilities	<u>17,499</u>	<u>17,161</u>	<u>338</u>
Net Position	<u>\$ 398,972</u>	<u>\$ 370,963</u>	<u>\$ 28,009</u>

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

Summary Statement of Changes in Fiduciary Net Position
(Expressed in Thousands)

	Fiscal Years Ended June 30,		Increase/ (Decrease)
	<u>2018</u>	<u>2017</u>	
Additions			
Contributions	\$ 226,148	\$ 250,146	\$ (23,998)
Net Investment Earnings	<u>24,923</u>	<u>33,793</u>	<u>(8,870)</u>
Total Additions	251,071	283,939	(32,868)
Deductions			
Benefit Payments	222,973	237,085	(14,112)
Administrative Expenses	<u>89</u>	<u>87</u>	<u>2</u>
Total Deductions	<u>223,062</u>	<u>237,172</u>	<u>(14,110)</u>
Increase (Decrease) in Net Position	28,009	46,767	(18,758)
Net Position - Beginning of Year	<u>370,963</u>	<u>324,196</u>	<u>46,767</u>
Net Position - End of Year	<u><u>\$ 398,972</u></u>	<u><u>\$ 370,963</u></u>	<u><u>\$ 28,009</u></u>

The Trust operates on a pay-as-you-go basis; therefore, the participating employers base their contributions into the Trust on the expected benefit payments. Total contributions decreased by \$24.0 million from fiscal year 2017 as a direct result of decreasing benefit payments. The State is self-insured for health benefits, and the Statewide Benefits Office (SBO) is working with healthcare providers, employees, and retirees to lower costs. SBO's efforts have included emphasizing preventative care, limiting emergency room use through utilization of urgent care facilities, and encouraging the use of non-hospital affiliated labs and imaging facilities. Net investment earnings decreased by \$8.9 million in fiscal year 2018 as a result of the rate of return on investments decreasing to 6.8% from 10.6% in fiscal year 2017. The change in cash and investments of \$27.6 million was due to the net investment earnings and the excess contributions over benefit payments.

Contacting the Trust's Financial Management

This financial report is designed to provide interested parties with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the State of Delaware Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, DE 19904-2402 or visit our website at <https://open.omb.delaware.gov/>.

Basic Financial Statements

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

Combining Statement of Fiduciary Net Position

June 30, 2018

(Expressed in Thousands)

	<u>Delaware Postretirement Health Plan</u>	<u>Delaware Local Government OPEB Investment Trust</u>	<u>Total</u>
ASSETS			
Cash Equivalents and Cash and Pooled Investments	\$ 17,338	\$ 342	\$ 17,680
Receivables			
Accrued Investment Income	356	16	372
Employer Contributions	11,309	-	11,309
Investments			
Domestic Fixed Income	147,553	6,774	154,327
Domestic Equities	150,064	6,890	156,954
Foreign Equities	72,500	3,329	75,829
TOTAL ASSETS	<u>399,120</u>	<u>17,351</u>	<u>416,471</u>
LIABILITIES			
Pending Trade Purchases	345	16	361
Benefits Payable	17,128	-	17,128
Accrued Investment and Administrative Expenses	10	-	10
TOTAL LIABILITIES	<u>17,483</u>	<u>16</u>	<u>17,499</u>
NET POSITION			
Restricted for OPEB	<u>\$ 381,637</u>	<u>\$ 17,335</u>	<u>\$ 398,972</u>

The notes to the financial statements are an integral part of this Statement.

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust

Combining Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Delaware Postretirement Health Plan	Delaware Local Government OPEB Investment Trust	Total
ADDITIONS			
Contributions			
Employer	\$ 224,624	\$ -	\$ 224,624
On Behalf	157	-	157
Transfer of Assets from Outside the System	-	1,367	1,367
Investment Income			
Interest and Dividends	8,550	386	8,936
Net Change in Fair Value of Investments	15,404	713	16,117
Less: Investment Manager/Advisor/Custody Fees	(124)	(6)	(130)
Total Additions	<u>248,611</u>	<u>2,460</u>	<u>251,071</u>
DEDUCTIONS			
Benefit Payments	222,099	-	222,099
Transfer of Assets Outside the Trust	-	874	874
Administrative Expenses	89	-	89
Total Operating Expenses	<u>222,188</u>	<u>874</u>	<u>223,062</u>
Change in Fiduciary Net Position	26,423	1,586	28,009
Net Position Restricted for OPEB - Beginning	355,214	15,749	370,963
Net Position Restricted for OPEB - Ending	<u>\$ 381,637</u>	<u>\$ 17,335</u>	<u>\$ 398,972</u>

The notes to the financial statements are an integral part of this Statement.

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust

Notes to the Financial Statements

Note 1: Plan and Fund Description

The Delaware Other Postemployment Benefits (OPEB) Fund Trust (Trust) was established pursuant to Title 29, Sections 5202(b) and 5281. The Trust is administered by the Delaware Public Employees' Retirement System (DPERS) Board of Trustees (Board) pursuant to Title 29, Section 5282 and includes the Delaware Postretirement Health Plan (Plan) and the Delaware Local Government OPEB Investment Trust (Local Trust). The Board is comprised of five members appointed by the Governor and confirmed by the Senate and two ex-officio members. Policy for and management of the OPEB benefits provided to retirees and other eligible beneficiaries of the Plan are the responsibility of the State. Governments participating in the Local Trust develop policy and manage benefits for their retirees and other beneficiaries.

Plan Description

The Plan is a cost-sharing multiple-employer defined-benefit plan. The Plan provides medical coverage to pensioners and their eligible dependents covered under the following pension plans: State Employees', New State Police, Judiciary, and Closed State Police Pension Plans. This includes the employees of the State as well as employees of the State's component units and affiliated agencies which are part of the State Employees' Pension Plan. Those employers are Delaware State University, Delaware State Housing Authority, Delaware Charter Schools, University of Delaware, Delaware Solid Waste Authority and the Delaware State Education Association.

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of Plan members and the government are established by the State Legislature. Funds are recorded in the Plan for the payment of retiree healthcare claims, administrative, and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the Plan. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the Plan and is responsible for the financial management of the Plan. The Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan.

Substantially all State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The participant's cost of Plan benefits is variable based on years of service within those pension plan categories. Pensioners who retire after July 1, 2012

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

and who become eligible for Medicare will pay an additional 5% of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

Membership of the Plan, based on the latest census data as of July 1, 2017, is as follows:

Retirees and Beneficiaries Receiving Benefits	22,018
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	3,480
Active Eligible Plan Members	<u>37,886</u>
Total Members	<u><u>63,384</u></u>

The Plan provisions are as follows:

Eligibility:

State Employees:

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

Age 62 with 5 years of service, or age 60 with 15 years of service, or any age with 30 years of service

General Assembly:

Age 60 with 5 years of service, or age 55 with 10 years of service

Normal Retirement (hired on or after January 1, 2012):

Age 65 with 10 years of service, or age 60 with 20 years of service, or any age with 30 years of service

Judges:

Normal Retirement (before July 1, 1980):

Age 65 with 12 years of service, or any age with 24 years of service, or involuntarily retired after 22 years of service

Normal Retirement (after June 30, 1980):

Age 62 with 12 years of service or any age, with 24 years of service, or involuntarily retired after 22 years of service

Closed State Police:

Normal Retirement:

Age 55 or 20 years of service

Open State Police:

Normal Retirement:

Age 55 with 10 years of service, or any age with 20 years of service, or 10 years of service when age plus service equals 75

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

Benefits:

During the fiscal year ended June 30, 2018, eligible retirees are provided health insurance options through several providers, and the Plan pays premiums, ranging from 50% to 100%, depending on a retiree’s years of service and hire date as discussed below.

Spouse and Survivor Coverage:

Both are available under any of the Plan options with similar retiree contributions. Surviving spouses are eligible for coverage after the retiree’s death.

Retiree Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service, as shown on the table below:

Between July 1, 1991 and December 31, 2006		After January 1, 2007	
Years of Service	Percent of Premium Paid by the Plan	Years of Service	Percent of Premium Paid by the Plan
Less than 10	0%	Less than 15	0%
10 - 14	50%	15 - 17.5	50%
15 - 19	75%	17.5 - 19	75%
20 or more	100%	20 or more	100%

Fund Description

The Local Trust is an external investment pool operated by the DPERS that allows local governments to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation by local governments in the pool is voluntary. As of June 30, 2018, only the Kent County Levy Court participated in the Local Trust.

The Local Trust is subject to oversight of the DPERS’ Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The Trust has not provided or obtained any legally binding guarantees during the year to support the value of shares. Since the Local Trust is a portion of the total Trust, the same accounting and investment policies described in the financial footnotes apply.

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust

Note 2: Summary of Significant Accounting Policies

Reporting Entity

The Trust, which provides benefits almost exclusively to the State, is a component unit of the State and reported as a fiduciary fund. Fiduciary funds are used to account for assets and activities when an entity is functioning as a trustee for another party. The accompanying financial statements of the Trust are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Trust's financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, contributions from the employer are recognized when due; benefits and refunds are recognized when due and payable in accordance with the terms of the Trust. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Net change in fair value of investments includes realized gains and losses based on purchases and sales of securities recorded on a trade-date basis, as well as any unrealized gains or losses in fair value of securities held for the period.

Method Used to Estimate Values

Management of the Trust has made certain estimates and assumptions relative to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

Note 3 Cash Equivalents and Cash and Pooled Investments

Cash equivalents consist of demand deposits, short-term money market funds, and other deposits held by financial institutions, generally with original maturities of three months or less at the time of purchase. Cash and Pooled Investments consist of cash equivalents, commercial paper, certificates of deposit, short-term and long-term investments comprising corporate, municipal, and government obligations held and managed by the State Treasurer's Office.

The Trust had \$17.7 million of Cash Equivalents and Cash and Pooled Investments with \$9.9 million held in cash and pooled investments with the State Treasurer's Office and \$7.8 million in cash held in accounts outside of the State Treasurer's Office.

State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. At June 30, 2018, the \$7.8 million of the Trust's cash equivalents were subject to custodial credit risk because they were uninsured and uncollateralized. The deposits held in the State Investment Pool are allocated to the Trust, but the custodial credit risk cannot be categorized for these deposits.

Note 4 Investments

Investment Policy

The Board is responsible for the management and investment of the funds in the Trust. The Board authorized its Investment Committee to select the investment managers of the Trust following the established investment guidelines for DPERS until a separate investment policy is adopted for the Trust. The guidelines follow the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The Trust investment objectives and policies currently include indexed exposure to approximate the DPERS' policy benchmark. The Investment Committee regularly reviews the Trust investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the Trust investments. Plan assets are managed on a total return basis.

The money-weighted rate of return on the Trust's investments, net of investment expense, was 6.8% for the fiscal year ended June 30, 2018. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on the Trust's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

Asset Class	Asset Allocation Range		Long-Term Expected Real Rate of Return	Percentage of Fiduciary Net Position
	Min	Max		
Equity	20%	80%		
Domestic Equity			5.7%	38.7%
International Equity			5.7%	19.0%
Fixed Income	20%	80%		
Domestic Fixed Income			2.0%	39.3%
Cash and Cash Equivalents			0.0%	

Concentration, Interest, Credit, and Currency Risk

The Trust's investment balance of \$387.1 million is invested in a concentration of three mutual funds as listed above and not in individual investments registered in the Trust's name, each in excess of 5% of the Trust's net position. The Trust's investment of \$154.3 million in the domestic fixed income mutual fund has an effective duration of 6.1 years, and while itself is not rated, 85% of its portfolio holdings are rated Aaa-A and 15% are rated Baa by Moody's as of June 30, 2018. The international equity mutual fund is designed to track the performance of the FTSE Global All Cap ex US Index and holds a broadly diversified collection of securities; therefore, the Trust's \$75.8 million investment at June 30, 2018 is exposed (indirectly) to foreign currency risk. The other \$157.0 million is invested in a mutual fund designed to track the performance of the CRSP US Total Market Index.

Fair Value of Investments

The fair value of the Trust's investments is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values for fixed income and equity securities are derived from published market prices and quotations from national security exchanges or security pricing vendors. Where published prices, quotations, or vendor prices are not available, alternate valuation methods are used.

The Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs using the latest available estimates of price bids or actual price bids quoted in active and inactive markets for those securities.
- Level 3 inputs are significant unobservable inputs where projected cash flows and/or the discount rate can be used to estimate fair value.

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

The Trust's total investments of \$387.1 million are Level 1 investments as they are in mutual funds that are publicly traded in an active market.

Note 5 Net OPEB Liability

The components of the net OPEB liability of the Plan at June 30, 2018 were as follows (expressed in thousands):

Total OPEB liability	\$ 8,591,767
Plan fiduciary net position	<u>381,637</u>
Net OPEB liability	<u><u>\$ 8,210,130</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.44%

Note 6 Actuarial Assumptions

The total OPEB liability of the Plan was determined by an actuarial valuation as of June 30, 2017, updated to a June 30, 2018 measurement date, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.25 percent (plus merit scale), including inflation
Investment rate of return	3.75 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	6.8 percent for 2018, decreasing 0.2 percent per year to an ultimate rate of 4.0% for 2032 and later years
Spousal Coverage	50% of employees will elect spouse coverage at retirement
Percent of Retirees Electing Coverage	50% of employees not currently covered are expected to elect coverage before retirement. All employees are expected to remain in currently enrolled plans. The following retirees are expected to elect coverage: 95% of employees with more than 20 years of service 80% of employees with less than 20 years of service 40% of current and future terminated vested employees 100% of long-term disability participants

The Entry Age Actuarial Cost Method was used to value the Plan's actuarial liabilities and to set the normal cost. Under this method, the normal cost rate is the percentage of pay contribution

**State of Delaware
Other Postemployment Benefits (OPEB) Fund Trust**

which would be sufficient to fund the Plan’s benefits if it were paid from each member’s entry into the Plan until termination or retirement.

Mortality rates are based on the sex-distinct employee, healthy annuitant, and disabled annuitant mortality tables derived from the RP-2014 Total Dataset Employee Mortality Table, including adjustment factors. Future mortality improvements are reflected by applying a custom projection scale on a generational basis to adjusted base tables from the base year.

The demographic assumptions were adopted by the Board of Trustees upon the recommendations of the actuary, based on an experience study performed in 2016 and covering the period July 1, 2010 through June 30, 2015. Assumptions directly related to health care elections, spousal coverage and health care trends are reviewed annually.

The discount rate used to measure the total OPEB liability was 3.58 percent at the beginning of the current measurement period and 3.87 percent at the end, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirement of an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from the State will continue to follow the pay-as-you-go contribution policy.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.87 percent decreasing to 2.87 percent) or 1-percentage-point higher (3.87 percent increasing to 4.87 percent) than the current discount rate (dollar amounts in thousands):

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 9,769,869	\$ 8,210,130	\$ 6,983,756

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Plan, as well as what the Plan’s net OPEB liabilities would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.8 percent decreasing to 5.8 percent) or 1-percentage point higher (6.8 percent increasing to 7.8 percent) than the current healthcare cost trend rates (dollar amounts in thousands):

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 6,990,456	\$ 8,210,130	\$ 9,695,444

Required Supplementary Information

**State of Delaware
Other Postemployment Benefits Fund Trust**

**Schedule of Changes in the Delaware Postretirement Health Plan's
Net OPEB Liability and Related Ratios**

Last 10 Fiscal Years *
(Expressed in Thousands)

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 306,562	\$ 340,456
Interest	309,767	269,204
Changes of Benefit Terms		
Differences Between Expected and Actual Experience		
Changes of Assumptions	(413,321)	(1,156,541)
Benefit payments	<u>(222,099)</u>	<u>(236,332)</u>
Net Changes in Total OPEB Liability	(19,091)	(783,213)
Total OPEB Liability - Beginning	8,610,858	9,394,071
Total OPEB Liability - Ending	<u>\$ 8,591,767</u>	<u>\$ 8,610,858</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 224,624	\$ 237,222
Contributions - On Behalf	157	158
Contributions - Member	-	11,981
Net Investment Income	23,830	32,297
Benefit Payments	(222,099)	(236,332)
Administrative Expenses	<u>(89)</u>	<u>(87)</u>
Net Changes in Plan Fiduciary Net Position	26,423	45,239
Net Position - Beginning	355,214	309,975
Net Position - Ending	<u>\$ 381,637</u>	<u>\$ 355,214</u>
Net OPEB Liability	<u>\$ 8,210,130</u>	<u>\$ 8,255,644</u>
Net Position as a Percentage of Total OPEB Liability	4.44%	4.13%
Covered Payroll	\$ 2,052,135	\$ 2,035,244
Net OPEB Liability as a Percentage of Covered Payroll	400.08%	405.63%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

State of Delaware
Other Postemployment Benefits Fund Trust

Schedule of Contributions
Last 10 Fiscal Years
(Dollar amounts in thousands)

This schedule is not applicable as no actuarially determined contributions are calculated. The Trust operates on a pay-as-you-go basis; therefore, the participating employers base their calculations into the Trust on the expected benefit payments. Requests for additional financial information should be directed to State of Delaware Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, DE 19904-2402 or visit the Division of Accounting website at <https://accounting.delaware.gov/reports.shtml> for the current Comprehensive Annual Financial Report.

**State of Delaware
Other Postemployment Benefits Fund Trust**

**Schedule of Investment Returns
Last 10 Fiscal Years ***

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	6.80%	10.64%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Pension Trustees
State of Delaware Other Postemployment Benefits Fund Trust
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and by the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust (the "Trust"), a component unit of the State of Delaware, as of June 30, 2018 and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an



opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 26, 2018