

# REGULAR MEETING

## SOUTH DAKOTA RETIREMENT SYSTEM

December 10, 2020

The Board of Trustees of the South Dakota Retirement System held their regular meeting on December 10, 2020. The meeting began at 9:00 a.m. via Skype conference call.

### BOARD MEMBERS IN ATTENDANCE:

James Johns, Chair  
Eric Stroeder, Vice Chair  
Karl Alberts  
James Appl  
Anette Brandt  
Penny Brunken  
Matt Clark – Ex Officio  
Kathy Greeneway  
Laurie Gustafson  
James Hansen  
Myron Johnson  
Kevin Merrill  
Justice Mark Salter  
Darin Seeley  
Glen Vilhauer  
Doug Wermedal

Table of Contents	
Chair's Preliminary Remarks .....	2
FY 2021 Investment Update.....	2
SDRS Projected Funded Status as of June 30, 2021.....	2
Contingency Planning .....	3
Proposed 2021 Legislation .....	4
FY 2022 Governor's Recommended Budget.....	5
Public Comment.....	5
Old/New Business.....	5

Board member Liza Clark was absent.

### OTHERS IN ATTENDANCE:

Larry Langer, CavMac  
Tammy Otten, SDIC  
Paul Schrader, Consultant  
Mark Quasney, BFM  
Travis Almond  
Brittnie Adamson  
Jane Beer  
Doug Fiddler  
Sam Koldenhoven  
Michelle Humann  
Michelle Mikkelsen  
Jessica Reitzel

Dawn Smith  
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

**AGENDA ITEM 1**  
**CHAIR'S PRELIMINARY REMARKS**

**Summary of Presentation**

Chair James Johns asked the board for any conflict disclosures. There being none, the Chair then explained the policy concerning the public testimony.

**Board Action**

No action was necessary.

**AGENDA ITEM 2**  
**FY 2021 INVESTMENT UPDATE**

**Summary of Discussion**

Mr. Matt Clark, State Investment Officer, stated that the return as of November 30, 2020, was up approximately 8 percent.

**Board Action**

No action was necessary.

**AGENDA ITEM 3**  
**SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2021**

**Summary of Discussion**

Mr. Fiddler noted that SDRS contributions are fixed and benefits are variable based on affordability and that under most circumstances, SDRS' fair value funded ratio is expected to remain at 100 percent. He added that the SDRS COLA will vary directly with both inflation and long-term affordability.

Mr. Fiddler reviewed the recent SDRS COLA history compared to inflation, estimates of 2022, 2023, and 2024 COLA ranges, likelihoods of 2022, 2023, and 2024 COLA ranges. He stated that the recent investment experience less than the 6.5 Percent assumption has reduced the maximum COLA and increased the likelihood of required corrective action recommendations. Fiscal Year 2021 returns below approximately negative 2.8 percent would require a corrective action recommendation. Assuming the fiscal year 2021 liability gains/losses are moderate, the near future likelihood of additional required corrective action recommendations varies from approximately 24 percent (one year – current asset allocation statistics) to approximately 35 percent (three years – benchmark

asset allocation statistics). The recommended planning initiatives would reduce these likelihoods.

**Board Action**

No action was necessary.

**AGENDA ITEM 4**  
**CONTINGENCY PLANNING**

**Summary of Discussion**

Mr. Paul Schrader, SDRS Retirement Consultant, reviewed the SDRS System Guide for Planning for the Unexpected and emphasized the importance of planning. He stated that SDRS has been successful because of the absolute commitment by the Board to manage SDRS within the resources provided by fixed statutory contributions and to embrace its fiduciary responsibility. He noted that planning for the unexpected includes consideration of benefit improvements during favorable economic periods as well as benefit reductions during unfavorable economic times.

Mr. Schrader stated that the Board has reviewed the SDRS history during its almost five decades of existence and historically, there have been many more instances of good times and benefit improvements over the history of SDRS than benefit reductions.

When planning for the good times, advised Mr. Schrader, the Board has adopted a formal policy for consideration of benefit improvements. It states that benefit improvement recommendations will only be considered by the Board if the Fair Value Funded Ratio (FVFR) is at least 120 percent after consideration of the benefit improvement and the cost of the benefit improvement is fully funded and less than the sustained net investment gains.

Mr. Schrader reviewed the objectives for recommended benefit improvements as well as the potential recommended benefit improvements.

When planning for the bad times, noted Mr. Schrader, the Board is guided by the statutory requirements, as well as Board policies and objectives when considering recommendations for future benefit reductions. SDCL 3-12C-228 states that the Board is required to recommend corrective actions if the SDRS FVFR is less than 100 percent or if the minimum actuarial requirements exceed the fixed contribution rate. The corrective action recommendations shall include the circumstances and timing for any corrective actions.

Mr. Schrader reviewed the initiatives that were identified to minimize the risk of future required corrective action recommendations, the objectives for recommended benefit reductions, and the potential recommended benefit reductions.

Mr. Schrader stated that the planning guide reflects the Board's responsibility to manage SDRS during all economic periods and outlines a framework for potential Board actions if unexpected events occur. It is intended to provide a starting point for Board considerations if the conditions described in this document indicate recommendations for changes are advisable.

### **Board Action**

IT WAS MOVED BY MR. VILHAUER, SECONDED BY MS. GREENEWAY, TO ADOPT THE SYSTEM GUIDE TO PLANNING FOR THE UNEXPECTED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES AND 1 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

THOSE ABSENT AND NOT VOTING: CLARK (LIZA)

## **AGENDA ITEM 5** **PROPOSED 2021 LEGISLATION**

### **Summary of Discussion**

Ms. Jacque Storm, SDRS Deputy Director/General Counsel, reviewed the four pieces of potential legislation that was discussed at the September meeting. The first piece of legislation consists of minor revisions for clarity, consistency, and compliance and includes provisions relating to the removal of notary requirements; revising the language and process for crediting contributions not used in the calculation of final average compensation; and correcting cross references.

The second piece of legislation would add specific language relating to Required Minimum Distributions.

Moving to the third piece of legislation, Ms. Storm noted that this legislation would reduce the minimum cost of living adjustment (COLA) to zero percent as discussed in the contingency planning. It would also reconcile terminology and replace the term, annual increase, with COLA throughout the chapter.

She also explained the potential legislation regarding reemployment after retirement. She stated that this legislation clarifies what constitutes a separation from service and that a bona fide separation is required before returning to work; provides an exception for part-time employment if the member is 59 ½ when the retirement benefit starts; permits a retiree with a reduced benefit to receive their retirement benefit upon returning to work in the same manner as a retiree with an unreduced benefit; revises definitions; reconciles terminology throughout the chapter; and includes an emergency clause so the legislation would be effective April 1, 2021.

**Board Action**

IT WAS MOVED BY MR. SEELEY, SECONDED BY DR. HANSEN, TO ADOPT THE FOUR PIECES OF LEGISLATION FOR INTRODUCTION IN THE 2021 LEGISLATIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES AND 1 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

THOSE ABSENT AND NOT VOTING: CLARK (LIZA)

**AGENDA ITEM 6**  
**FY2022 GOVERNOR’S RECOMMENDED BUDGET**

**Summary of Discussion**

Ms. Beer reported on the Governor’s Recommended Budget for SDRS. She advised that SDRS asked for a decrease of \$47,000 in the Fiscal Year 2022 budget. The decrease is due to removing the additional authority that was included in the Fiscal Year 2021 budget for the new conference room, audio visual equipment, and additional security as the project is now complete. The Governor approved the budget as requested by SDRS.

**Board Action**

No action was necessary.

**AGENDA ITEM 7**  
**PUBLIC COMMENT**

**Summary of Presentation**

There was no public comment.

**Board Action**

No action was necessary.

**AGENDA ITEM 8**  
**OLD/NEW BUSINESS**

**Summary of Discussion**

**Board Elections**

Ms. Dawn Smith, SDRS Executive/Board Assistant, stated that there would be three positions up for election this year. She advised the Board that the election notices and petitions would be mailed to the authorized agents of state employees and teachers. Postcards will be mailed to all retired members advising them of the election.

**2021 Legislative Session**

Mr. Almond stated that the Legislative Session starts on January 12, 2021, and runs through March 11, 2021, with the final day/veto day on March 29, 2021.

**Next Meeting Date**

Ms. Smith stated that the meeting dates for the upcoming meetings were on the agenda.

**Board Action**

No action was necessary.

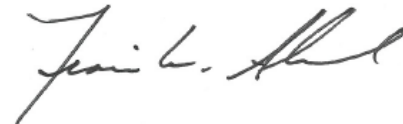
**ADJOURNMENT**

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MR. APPL, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES AND 1 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

THOSE ABSENT AND NOT VOTING: CLARK (LIZA)

Respectfully submitted,



Travis Almond  
Executive Director