BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

April 10, 2024

The Board of Trustees of the South Dakota Retirement System held its regular Board meeting on April 10, 2024. The meeting began at 9:00 a.m. in the SDRS Board Conference Room.

BOARD MEMBERS IN ATTENDANCE:

Eric Stroeder, Chair
James Appl, Vice Chair
Annette Brant
Penny Brunken
Kathy Greeneway
LaJena Grius
Myron Johnson
Jill Lenards
Kevin Merrill
Justice Mark Salter
Darin Seeley
Jim Terwilliger
Wes Tschetter
Doug Wermedal
Matt Clark, Ex Officio

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Board Members Hank Prim and Dave Smith were absent.

OTHERS IN ATTENDANCE:

Eric Bastain, Nationwide Retirement Solutions
Duncan Koch, BFM
June Larson, Nationwide Retirement Solutions
Bob Mercer, Keloland
John Richter, SDIC
Travis Almond
Brittnie Adamson
Doug Fiddler

Alan Freng
Michelle Humann
Sam Koldenhoven
Michelle Mikkelsen
Nick Rea
Dawn Smith
Jacque Storm

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS AND
BOARD CONFLICT DISCLOSURE

Summary of Discussion:
Mr. Eric Stroeder, SDRS Board Chair, noted that no board member had any conflict to disclose.

Board Action:
No action was necessary.

AGENDA ITEM 2
PUBLIC COMMENT

Summary of Discussion
There was no public comment.

Board Action
No action was necessary.

AGENDA ITEM 3
APPROVAL OF MEETING MINUTES

Board Action
IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, TO APPROVE THE MINUTES OF THE DECEMBER 6, 2023, BOARD MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
BOARD MEMBER ELECTION UPDATE

Summary of Discussion
Ms. Dawn Smith, SDRS Executive/Board Assistant, informed the Board of the current election candidates. She stated that there are no contested elections this

year. Only one petition was received for each of the following open positions: School Boards, County Employees, and State Employees.

She continued by stating that no petitions were submitted for the Board of Regents or Classified positions. Therefore, staff will send out a request for interested parties to submit a resume and the Board will appoint a person to that position at the June meeting.

Mr. Travis Almond, SDRS Executive Director, stated that due to the low participation in our election process, other avenues of communication will be used in the next election. Currently, we rely on our authorized agents to communicate to members. Going forward, staff will engage with members by using the emails on file, newsletters, and our social media platforms.

Board Action
No action was required.

AGENDA ITEM 5
2023 LEGISLATIVE AND BUDGET REPORT

Summary of Discussion
Mr. Almond discussed the 2023 Legislative Session. There were three main parts to our legislative season this year and that was the SDRS budget, the Commemoration of SDRS' 50-year anniversary, and the SDRS Legislation. He stated that the budget hearing went very well, and the appropriations committee supported the SDRS budget request.

Moving to the Commemoration of SDRS' 50th anniversary, Mr. Almond noted that Representative Hugh Bartels and Senator Jim Bolin introduced a commemoration for SDRS. The commemoration discussed the consolidation in 1974, the growth of the system, and the recognition as being one of the top retirement systems in the country. Mr. Almond remarked that Representative Mike Weisgram made very nice comments on the House floor praising the SDRS staff.

Moving to the SDRS legislation, Mr. Almond stated that SDRS had two clean-up bills this year. Ms. Samantha Koldenhoven, SDRS Assistant General Counsel, presented the bills to the Retirement Laws Committees, and the bill hearings went smoothly. The bills were fully supported in both Committees and on the Senate and House floors and signed by the Governor.

Board Action
No action was necessary.

AGENDA ITEM 6, 7, & 8
IT SERVICES, COMMUNICATIONS, AND MEMBER SERVICES DEPARTMENTS

Summary of Discussion

Mr. Nick Rea, SDRS IT Services Director, stated that the IT Services Department was a new SDRS department charged with optimizing the efficient use of SDRS data. The department consists of himself and Alex Korkki, SDRS Business System Analyst.

As the IT Services Director, Mr. Rea stated that it is his responsibility to enhance the data driven culture of SDRS through improving data reporting and cleansing, integrating new software and technologies, streamlining existing processes, and collaborating on IT needs across all SDRS departments. As the business systems analyst, Mr. Korkki's responsibilities are to provide technical analysis, act as the BIT liaison, improve pension administration system functionality, and solve system processing errors.

Moving forward, advised Mr. Rea, the IT Services department is looking to continually improve business processes, enhance and expand data driven culture, and adopt emerging technologies to facilitate innovation.

Mr. Alan Freng, SDRS Communications Director, introduced Ms. Jessica Reitzel, SDRS Communications Specialist, and Ms. Jaime Rutschke, SDRS Information Officer, as the communications team.

He stated that the communications team is responsible for ongoing communication to members, survivors, employers, authorized agents, staff, board, the Legislature, and other SDRS stakeholders. Those communications include social media posts, presentations, operations reports, personal benefits statements, retiree statements, safe harbor letters, the SDRS website, SDRS forms, newsletters, and many more.

Mr. Freng noted that SDRS has a presence in social media through Facebook, Instagram, and X/Twitter. There are also you tube videos that are posted to the SDRS website, with more videos in the works.

Mr. Freng stated that SDRS has recently purchased a software called iContact for our email communications. This software provides cost effective and efficient delivery of emails sent to members and authorized agents. The software can provide analytics of the sent emails, including how many people opened the email, how many clicked on the links or attachments, who deleted without opening, and various other pieces of vital information.

The future goals of the SDRS communications department, advised Mr. Freng, include targeted education, employer outreach, growing the online presence, and formatting digital publications.

Ms. Michelle Humann, SDRS Member Services Director, remarked that her staff consisted of eight retirement planners and four member service representatives. She noted that SDRS has come a long way in the past year since the rollout of the new web site. She advised the Board that members can now complete forms, register for webinars, and view tax documents, statements, and direct deposit change notices all online now.

Ms. Humann stated that member services staff handled 34,799 pieces of incoming mail, 22,323 incoming calls, encoded 37,976 forms, enrolled 6,517 new members, and had 1,752 individual consultations.

Ms. Humann explained the new online programs that were started in 2023, with approximately 4,000 members in attendance. She noted that SDRS was still offering in person events with about 500 members coming to those events.

In 2024 SDRS started a new series called the retire ready series. There are four parts to the series, SDRS 101, SRP 101, Financial Literacy, and Q & A. In the first quarter of 2024, advised Ms. Humann, there were over 750 members who took advantage of this new series.

Ms. Humann stated that the goals for 2024 for the member services team included increasing the number of TEAMS consults, reaching younger members, and using surveys to create targeted education.

Board Action
No action was necessary.

AGENDA ITEM 9
INVESTMENT PERFORMANCE UPDATE

Summary of Discussion
Mr. Matt Clark, State Investment Officer, stated that through March 31, 2024, the estimated return for SDRS was approximately 5.6 percent.

Board Action
No action was necessary.

AGENDA ITEM 10
SDRS PROJECTED FUNDED STATUS

Summary of Discussion

Mr. Doug Fiddler, SDRS Senior Actuary, noted that SDRS contribution rates are fixed in statute and the statutes require a recommendation for corrective actions if SDRS falls below 100 percent funded. In addition, the SDRS COLA will vary with both inflation and long-term affordability. As a result, under most circumstances, SDRS's fair value funded ratio (FVFR) is expected to remain at 100 percent.

Mr. Fiddler stated that employer contribution rates for Class A members are 40 percent of the national median. As a percent of government spending, South Dakota spends the least in the nation on pensions at 1.73 percent.

Delivering adequate benefits and remaining fully funded through all economic conditions while funded with contributions that are less than half of the median is a very high objective. These competing objectives become even more difficult to meet as retirees live longer and the consensus view of future investment returns is lower.

SDRS management efforts to meet these objectives have included a variable COLA process, foundation members transition to a 5-year FAC and pay increase caps, generational design, retire-rehire reform, and various other initiatives to avoid or lessen subsidies.

Mr. Fiddler stated that SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation, like recent periods.

Mr. Fiddler stated that proposals that impose additional objectives funded by SDRS' limited resources will detract from the ability to provide adequate benefits funded by the fixed, modest contributions. Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability.

Mr. Fiddler noted that since 2011, the average SDRS COLA of 2.35 percent was less than the 2.42 percent average inflation for the same time period; however, due to the recent period of high inflation, 71.4 percent of SDRS benefit recipients have received cumulative COLAs since retirement that trail inflation.

Based on a FY24 net investment return of 5.6 percent, the baseline FVFR is expected to be approximately 96 percent at June 30, 2024. As a result, the preliminary estimated 2024 restricted maximum COLA would be approximately 1.85 percent. This excludes the impact of any demographic gains and losses and losses are expected due to higher than expected salary increases in FY 2024 which could decrease the restricted maximum COLA to approximately 1.65 percent.

Mr. Fiddler noted that the most significant immediate risk to SDRS is investment risk. The investment returns will first impact the variable SDRS COLA. Less than assumed returns will reduce the restricted maximum COLA while greater than assumed returns will increase the restricted maximum or enable the full COLA range. However, the variable COLA will not be sufficient to maintain 100 percent FVFR in all conditions and additional corrective actions may be required.

Mr. Fiddler stated at June 30, 2024, the estimated one-year likelihood of required corrective action recommendations using the current asset allocation statistics was 9 percent.

In summary, advised Mr. Fiddler, the July 2022 SDRS COLA was 3.5 percent, the first time the full COLA range was affordable under the current COLA process. The FY 2023 investment return caused a restricted maximum COLA for the July 2024 COLA of 1.91 percent. If FY 2024 net investment returns are below approximately negative 10.8 percent, a corrective action recommendation would be required. If the return exceeds approximately 9.9 percent, the full COLA range would be affordable for the July 2024 COLA.

AGENDA ITEM 11
SDRS PLANNING GUIDE REVISITED

Summary of Discussion

Mr. Fiddler stated that the System Guide to Planning for the Unexpected was completed in late 2020. This Guide was the result of lengthy reviews and discussions and an important part of the SDRS planning process. The Guide considered both the good times and the bad times and provided a starting framework if conditions dictated that actions needed to be taken. The Board committed to reviewing the Guide periodically.

In the initial review, the Board identified two initiatives. Both initiatives were intended to minimize the risk of required future corrective action recommendations. The first initiative reduced the minimum variable cost of living adjustment (COLA) from 0.5 percent to zero percent. The rational for this change was that providing any COLA when not affordable was illogical and could force other benefit reductions while a small COLA was paid. Legislation was enacted in 2021 to accomplish this.

The second initiative, advised Mr. Fiddler, would permit a small unfunded liability. This would be considered only after the variable COLA was reduced to zero percent. This initiative would avoid required benefit reduction recommendations when resources exist to pay off the unfunded liability in a short period. The funded ratio could be no lower than 95 percent with a 10-to-12-year maximum pay-off period with no increase in contributions.

Several things have happened since 2020 when the Guide was completed, noted Mr. Fiddler. The COLA initiative legislation reducing the minimum COLA from 0.5 percent to zero percent was enacted. In addition, while it was a net positive for the period, the investment returns have also continued to be volatile with a 22.0 percent return in FY 2021, a negative 0.7 percent in FY 2022, and a 2023 investment return of 5.8 percent. Inflation has also been at historically high levels for the last three years at 5.9 percent, 8.7 percent and 3.2 percent respectively.

Mr. Fiddler stated that SDRS has also performed an experience analysis and adopted revised assumptions. There continues to be outside efforts to provide benefit increases for retire-rehire members which would come at a cost to all members through a reduction in the COLA.

Mr. Fiddler noted that the COLA initiative was significant in reducing the chance for required corrective action recommendations from 24 percent to 14 percent. Subsequent experience has reduced the likelihood of required corrective action recommendations to 9 percent. The second initiative would reduce those chances even more, to 5 percent in the current one-year outlook from June 30, 2023. The chances of meeting the requirements for consideration of benefit improvements is lower at 1 percent. He noted that neither are likely now, but that conditions can change quickly.

Mr. Fiddler stated that there were statutory requirements for corrective action recommendations in SDCL 3-12C-228. The Board is required to recommend corrective actions if the SDRS fair value funded ratio (FVFR) is less than 100 percent, or the minimum actuarial requirements exceed the fixed contribution rate. He noted that the Board recommendations shall include the circumstances and timing for any corrective actions. The statutory language provides flexibility to the Board to make recommendations for immediate corrective actions or recommend no changes after considering all current conditions and outlooks.

The corrective action recommendations would only be required after the COLA had been reduced to zero percent, so limited unfunded liabilities would be considered only after the COLA was reduced to zero percent. Mr. Fiddler noted that since the actuarial valuation results are only a snapshot at a certain date, what's happened since that date and the future outlook need to be considered as well. The recommendations need to be kept as simple, flexible, and equitable as possible, accrued benefits and eligibility terms should be protected, and variable benefits should be expanded. Permanent changes should be provided only if they result in sound long-term policy and the benefit reductions should be limited to the minimum required to remain sustainable.

Some items that have been identified for possible corrective actions, advised Mr. Fiddler, include reducing benefits based on future service by 10 percent, expanding the final average compensation period to 10 years, providing generational structure for future service for active members and suspending contributions to the variable retirement account. He noted that the Board should structure the changes to revert to the current benefits when and if feasible. As a dooms day scenario, Mr. Fiddler noted that the board could freeze accrued benefits and base future benefits on the pay earned each year, eliminate early retirement subsidies for Foundation members, or reduce accrued benefits.

Mr. Fiddler stated that unlike when times are bad, there are no statutory requirements to make any changes when times are good. However, the Board has a policy for when they would consider benefit improvements. It states that the Board would consider benefit improvements if the fair value funded ratio is at least 120 percent after funding the benefit improvements and the cost of the benefit improvement is fully funded and less than the sustained net investment gains. The 120 percent threshold was evaluated as part of the review and retained considering the assumed investment return and the variable benefit structure.

When considering benefit improvements, Mr. Fiddler advised that the recommendations also should be kept as simple, flexible, and equitable as possible. The Board also should consider factors after the most recent actuarial valuation and be cautious. Any improvements should include active, inactive, and retired members and all should be treated consistently. Benefits reduced due to past corrective actions should be restored as well as consideration of shortfalls to long-term benefit objectives. Unimproved service (service after 2008) should also be considered. The improvements should avoid substantive additional fixed benefit obligations and maximize the risk-mitigation impact.

Benefit improvements that were identified for active and inactive members include restoring benefits reduced due to past corrective actions, additional funding of variable retirement account, account allocation based on pay and service (considering unimproved service) and formula increases (considering unimproved service). Ideas for retired members include restoring benefits reduced due to past corrective actions, one-time COLA if COLAs since 2010 have not matched inflation, one time or limited number of payments, formula increases for unimproved service, and additional monthly payment subject to variable COLA and contingent on continued affordability.

Board Action
IT WAS MOVED BY MS. BRANT, SECONDED BY MR. JOHNSON, TO ADOPT THE REVISED SDRS PLANNING GUIDE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
EFFECTIVE RATE OF INTEREST FOR FY25

Summary of Discussion
Ms. Mikkelsen noted that SDCL 3-12C-108 states that SDRS's annual effective rate of interest shall be no greater than 90 percent of the average 91-day United States Treasury bill rate for the immediately preceding calendar year.

Advising that the 91-day United States Treasury bill rate was 5.07 percent for 2023, Ms. Mikkelsen stated that 90 percent of the rate is 4.563 percent. She noted that this interest rate would be credited on July 1, 2025, for the period of July 1, 2024, through June 30, 2025.

Board Action
IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. GREENEWAY TO ESTABLISH THE EFFECTIVE RATE OF INTEREST TO BE CREDITED FROM JULY 1, 2024, TO JUNE 30, 2025, AT 4.563 PERCENT.

AGENDA ITEM 13
SET FY25 SUPPLEMENTAL PENSION BENEFIT INTEREST RATE ASSUMPTION

Summary of Discussion
Mr. Almond stated that the Board needed to establish the periodic Supplemental Pension Benefit interest rate assumption. He added that the interest rate assumption could not be greater than the actuarial assumed rate of return for SDRS, nor could it be less than the SDRS effective rate of interest.

He advised that the interest rate assumption is established based on the recommendations of both the system's external actuary and the State Investment Officer with the input of the Executive Director. The external actuary recommended between 4.25 and 5.00 percent and the State Investment Officer recommended between 2.75 and 3.50 percent.

Based on all the information and the process established by the Board, Mr. Almond stated that by statute, it was his recommendation that the Board set the

Supplemental Pension Benefit interest rate assumption equal to the effective rate of interest at 4.563 percent, effective July 1, 2024.

Board Action

IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MS. GREENEWAY, TO ESTABLISH THE INTEREST RATE FOR THE SUPPLEMENTAL PENSION BENEFIT AT 4.563 PERCENT, EFFECTIVE JULY 1, 2024. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
BOARD MEMBER CONFERENCE APPROVAL

Summary of Discussion

Mr. Almond reminded the Board that there were conferences available to them to attend. He stated that Mr. Eric Stroeder has requested to attend the NCTR Annual Conference from October 5-9, 2024, in Atlanta, GA., and Mr. Jim Appl has requested to attend the NCTR Trustee Workshop, July 21-24, 2024, in Berkley, CA.

Board Action

IT WAS MOVED BY MR. TSCHETTER, SECONDED BY MR. SEELEY, TO APPROVE THE REQUEST FOR ERIC STROEDER TO ATTEND THE NCTR ANNUAL CONFERENCE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. TSCHETTER, SECONDED BY MS. BRUNKEN, TO APPROVE THE REQUEST FOR JIM APPL TO ATTEND THE NCTR TRUSTEE WORKSHOP. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
OLD/NEW BUSINESS

Summary of Discussion

50th Anniversary Celebration (July 2024)

Mr. Almond stated that staff have been discussing how to celebrate SDRS' 50th Anniversary. He noted that there would be an open house from 2-4 p.m. on June 5th, the same day as the June board meeting. There would also be an invitation only event for current legislators, current and former board members, current and former retirement laws committee members, and SDRS staff.

SharePoint Board Portal
Mr. Almond stated that the SharePoint Board Portal was up and running. He noted that this was a work in progress and when completed, would be a one-stop shop for board members when looking for current meeting materials as well as prior meeting materials and policies.

Upcoming Meeting Dates
The Board discussed the upcoming meeting schedule.

Board Action
No action was necessary.

AGENDA ITEM 16
EXECUTIVE DIRECTOR'S PERFORMANCE EVALUATION

Summary of Discussion
The Board praised Mr. Almond on his performance as the Executive Director of SDRS.

Board Action
IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MS. BRANT, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) RELATING TO PERSONNEL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

ADJOURNMENT

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully submitted,

Travis Almond
Executive Director