

NOTICE OF TELECONFERENCE MEETING

SOUTH DAKOTA RETIREMENT SYSTEM BOARD OF TRUSTEES

DATE: Thursday, April 2, 2020

TIME: 11:00 a.m. CST (10:00 p.m. MST)

THIS MEETING WILL BE BROADCAST LIVE AT [HTTPS://WWW.SD.NET/](https://www.sd.net/)
Due to the COVID-19 public health emergency, no public access is available.

PUBLIC COMMENT: Anyone wishing to make a comment during the meeting's public comment item should contact SDRS at (605) 773-3731 prior to the beginning of the meeting and the individual will be called during the time for public comment.

Agenda*

- 11:00 a.m. - Call Meeting to Order - Determination of Quorum
- ITEM 1 - Chair's Preliminary Remarks
 - Introductions and Announcements
 - Board Conflict Disclosure
 - Policy Concerning Public Testimony and Comments
- ITEM 2 - Approval of December 5, 2019, Minutes
- ITEM 3 - Board Member Election Update – Dawn Smith, Executive/Board Assistant
- ITEM 4 - 2020 Legislation and Budget Report – Jacque Storm, Deputy Director/General Counsel and Jane Beer, Chief Financial Officer
 - SDRS Legislation
 - Other Legislation
 - SDRS FY 2020 Budget
- ITEM 5 - Investment Performance Update – Matt Clark, State Investment Officer
- ITEM 6 - SDRS Projected Funded Status – Doug Fiddler, Senior Actuary
- ITEM 7 - Planning for the Good, Bad, and Ugly Times - Revisited – Travis Almond, Executive Director, Doug Fiddler, and Paul Schrader, Retirement Consultant

- ITEM 8 - Set Effective Rate of Interest for FY 2021 – Jane Beer
- ITEM 9 - Set FY 2021 Supplemental Pension Benefit Interest Rate Assumption – Travis Almond
- ITEM 10 - Acknowledge and Intent to Comply with Governor Noem’s Executive Order 2020-01 – Jacque Storm
- ITEM 11 - Conference Approval
 - James Appl, NCTR, October 10-13, 2020, La Jolla, CA
- ITEM 12 - Public Comment
- ITEM 13 - Old/New Business
 - Upcoming SDRS Board of Trustee Meeting Dates

ADA COMPLIANCE: THE SOUTH DAKOTA RETIREMENT SYSTEM FULLY SUBSCRIBES TO THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT. IF YOU DESIRE TO ATTEND THIS PUBLIC MEETING AND ARE IN NEED OF SPECIAL ACCOMMODATIONS, PLEASE NOTIFY THE SDRS OFFICE AT LEAST 72 HOURS PRIOR TO THE MEETING SO APPROPRIATE AUXILIARY AIDS AND SERVICES CAN BE MADE AVAILABLE.

2020 MEETING DATES

June 3 & 4 (Joint with Investment Council in Sioux Falls)

September 2 or 3

December 2 or 3

**In some circumstances, the Chair may choose to take agenda items out of the listed order.*

REGULAR MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

December 5, 2019

The Board of Trustees of the South Dakota Retirement System held its regular meeting on December 5, 2019, in the conference room, Drifters Events Center, Fort Pierre, South Dakota.

BOARD MEMBERS IN ATTENDANCE:

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

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Board member Louise Loban was absent.

OTHERS IN ATTENDANCE:

Deene Dayton
Laurie Gill
Hank Kusters
Larry Langer, CavMac
Bob Mercer, Keloland
Lealan Miller, Eide Bailly
Amber Mulder, DLR
Tammy Otten, SDIC
Paul Schrader, Consultant
Emily Ward, DLR
Travis Almond

Brittnie Adamson
Jane Beer
Doug Fiddler
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.

Mr. Johns introduced Mr. Darin Seeley, Commissioner of the Bureau of Human Resources. He stated that Mr. Seeley was replacing Ms. Laurie Gill as the Governor's appointee on the SDRS Board.

Board Action

No action was necessary.

AGENDA ITEM 2
APPROVAL OF SEPTEMBER 4, 2019 AND
NOVEMBER 7, 2019, MINUTES

Board Action

IT WAS MOVED BY MR. VILHAUER, SECONDED BY MS. BRUNKEN, TO APPROVE THE MINUTES OF THE SEPTEMBER 4, 2019 AND NOVEMBER 7, 2019, BOARD OF TRUSTEES MEETINGS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 3
RECOGNITION OF RETIRING BOARD MEMBERS

Summary of Presentation

Chair Johns expressed gratitude and appreciation for the time and talents that Laurie Gill and KJ Peterson contributed to the South Dakota Retirement System. Ms. Kathy Greeneway offered the following resolution for Laurie Gill:

I MOVE FOR A VOTE OF APPRECIATION TO LAURIE GILL FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Laurie Gill has served the Board of Trustees of the South Dakota Retirement System for six years;

WHEREAS, Laurie Gill has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Laurie Gill for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

Mr. Eric Stroeder offered the following resolution for KJ Peterson:

I MOVE FOR A VOTE OF APPRECIATION TO KJ PETERSON FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, KJ Peterson has served the Board of Trustees of the South Dakota Retirement System for twenty-two years;

WHEREAS, KJ Peterson has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank KJ Peterson for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MS. CLARK, TO ADOPT THE RESOLUTION EXPRESSING GRATITUDE AND APPRECIATION FOR THE TIME AND TALENTS LAURIE GILL CONTRIBUTED TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. STROEDER, SECONDED BY DR. HANSEN, TO ADOPT THE RESOLUTION EXPRESSING GRATITUDE AND APPRECIATION FOR THE TIME AND TALENTS KJ PETERSON CONTRIBUTED TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
CEREMONIAL OATH OF OFFICE

Summary of Presentation

Darin Seeley was sworn in as the Governor's Appointee trustee.

Board Action

No action was necessary.

AGENDA ITEM 5
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Ms. Jane Beer, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2019. Ms. Beer stated that there was \$255 million in total contributions and over \$596 million in total benefits and refunds paid. There were 497 participating employers and SDRS had over 89,000 members.

Board Action

No action was necessary.

AGENDA ITEM 6
SDRS FINANCIAL AUDIT
FOR PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Mr. Karl Alberts, chair of the Audit Committee, stated that the audit committee had a conference call with the Eide Bailly to review the external auditor's findings of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2019.

Mr. Lealan Miller, Partner, Eide Bailly, presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2019.

Mr. Miller stated that the Eide Bailly report found no material weaknesses in the review of SDRS' financial statements and internal accounting controls.

Board Action

IT WAS MOVED BY MR. ALBERTS, SECONDED BY MR. JOHNSON, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2019 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 7
SDRS QUADRENNIAL INVESTMENT REVIEW

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, stated that Eide Bailly performed the SDRS quadrennial investment review for fiscal years 2015-2018. He noted that the two biggest takeaways were the fact that while the compared results between the South Dakota Investment Office (SDIO) and Eide Bailly had some variances, the differences were not material. In addition, this review confirmed that the SDIO calculations were within a reasonable range of materiality.

Board Action

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. APPL, TO ACCEPT THE QUADRENNIAL INVESTMENT REVIEW AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Mr. Doug Fiddler, SDRS Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2019.

Mr. Fiddler explained the purpose of the actuarial report. He stated the report included required annual statutory determinations and disclosures. It can also be used to identify trends that can serve as an early warning system for potential future funding problems.

The conclusions of the 2019 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 4.84 percent, less than the assumed 6.5 percent, resulting in actuarial investment losses of \$201 million for the year;
- Liability gains for the year were \$6 million, with gains from lower than expected salary increases offsetting losses primarily from terminations and new hires/rehires;
- The 2020 SDRS COLA will be 1.56 percent;
- No corrective action recommendations are required;
- Fair Value and Actuarial Value funded ratios are 100.1 percent;
- If future experience matches the actuarial assumptions, the funded ratios are expected to remain at 100 percent and the restricted maximum COLA is expected to remain at 1.88 percent;
- As of June 30, 2019, SDRS has a small net pension asset;
- The cumulative impact of the net pension asset and deferred inflows/outflows results in an asset on the balance sheets of SDRS participating employers;

- SDRS remains a fully funded retirement system, significantly better funded than almost all statewide retirement systems; and
- SDRS meets all the Board of Trustees' funding objectives as of June 30, 2019.

Board Action

No action was necessary.

AGENDA ITEM 9 **SDRS ACTUARIAL AUDIT REVIEW**

Summary of Discussion

Mr. Larry Langer, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting (CavMac), presented the conclusions of the actuarial audit review of the SDRS valuation they performed. CavMac concluded that the actuarial valuation results were reasonable and accurate, based on the actuarial assumptions and methods used. He also stated that the valuation was performed by a qualified actuary and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.

Board Action

IT WAS MOVED BY MS. GUSTAFSON, SECONDED BY MS. PETERSON, TO ACCEPT THE ACTUARIAL AUDIT REVIEW FOR FISCAL YEAR 2019 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 10 **FY 2019 INVESTMENT UPDATE**

Summary of Discussion

Mr. Matt Clark, State Investment Officer, stated that the return as of December 4, 2019, was up approximately 2 percent.

Board Action

No action was necessary.

AGENDA ITEM 11 **SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2020**

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 2021, 2022, and 2023 COLA ranges, likelihoods of 2021, 2022, and 2023 COLA ranges,

and likelihoods of 2023 COLA ranges after reaching a 120 percent fair value funded ratio.

In summary, the SDRS fair value funded ratio is expected to be 100 percent at June 30, 2020, and net fiscal year 2020 returns greater than approximately 10 percent would result in an unrestricted 2021 COLA (inflation between 0.5 percent and 3.5 percent). However, on the opposite spectrum, noted Mr. Fiddler, net fiscal year 2020 returns less than approximately negative 7 percent would reduce the 2021 restricted maximum COLA to 0.5 percent and require corrective action recommendations.

Mr. Fiddler stated that ignoring fiscal year 2019 returns to date, the likelihood of additional required corrective action recommendation in the near future varies from approximately 14 percent (one-year period, current asset allocation) to approximately 30 percent (three-year period, benchmark asset allocation). Similarly, the likelihood of the criteria for consideration of benefit improvements being met varies from 1 percent (one-year period, current asset allocation) to 19 percent (three-year period, benchmark asset allocation).

Board Action

No action was necessary.

AGENDA ITEM 12 **SDRS MEMBER DEMOGRAPHICS AND** **WORKFORCE INFORMATION**

Summary of Discussion

Mr. Fiddler stated that the population in the United States continues to age. As the baby boomers mature and retire, there will be a significant impact on the workforce throughout the country, including South Dakota.

More SDRS members are nearing retirement than ever before, noted Mr. Fiddler, but the percentage of members nearing retirement appears to have stabilized. All public employers will face future challenges in replacing retiring and terminating members. Public employees are retiring later, but still before age 65. Health care cost concerns are cited by many employees as a reason. However, the median service of SDRS retirees is decreasing, fewer service purchases explain much of the trend.

Mr. Fiddler stated that on June 30, 2007, baby boomers comprised 44 percent of SDRS membership with only 11 percent of the baby boomers retired. As of June 30, 2019, baby boomers comprised 38 percent of SDRS membership and 56 percent of the baby boomers had retired.

Mr. Fiddler reviewed the trends in members nearing retirement. He stated that the SDRS membership is retiring later. Considering all classes, the median age at retirement has

increased from 61 to 63.2 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 23.8 years to 21 years since 2006. Much of this reduction is because a significantly lower percentage of Class A or Judicial retirees in recent years have purchased service. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service and retirement patterns are less consistent. The trends are clearer considering the age at retirement by different periods of service. The median retirement age has been steadily increasing for all members and appears to be stabilizing around age 62 for longer-service members compared to 58 in 2006-2008. When grouped by service, the median retirement age of each group is increasing. In addition, the percentage of retirees with less than 20 years of service has increased from 38 percent to 47 percent since 2006, while the percentage of retirees with at least 20 years of service has decreased from 62 percent to 53 percent.

Moving to the actual number of retirements each year, Mr. Fiddler noted that staff expected the number of retirements in fiscal year 2019 to be around 1,500, however that number was lower at approximately 1,300. Staff believes that next four or five fiscal years will be big years for retirements at approximately 1,400-1,500 each year.

In conclusion, noted Mr. Fiddler, staff expect a surge in retirement numbers to continue for the next 4 to 5 years as baby boomers retire. Members are retiring at later ages, likely due to health care costs concerns. The median service at retirement is decreasing, indicating employers are hiring an increasing number of experienced employees and fewer members are purchasing service. The bottom line, advised Mr. Fiddler, is that all SDRS employers will need to replace a significant portion of employees in the next five to ten years.

Board Action

No action was necessary.

AGENDA ITEM 13 **DEPARTMENT OF LABOR AND REGULATION (DLR)** **RETIREMENT PLAN BILL**

Summary of Discussion

Ms. Emily Ward, Director, Division of Administrative Services, Department of Labor and Regulation (DLR), informed the board that the DLR retirement plan was established in August of 1961 and was closed to new members on July 1, 1980. She noted that there were currently 194 retirees, four active members, and one terminated vested member. The plan balance as of November 1, 2019, was \$56.6 million and was 100 percent funded.

Ms. Ward stated that the DLR Pension Board surveyed the DLR plan participants and 73 percent of them were supportive of merging with SDRS. The DLR plan participants

would be merged into SDRS effective July 1, 2020, as Class D members with the same benefits as provided by the current DLR plan. The COLA will be the same COLA as determined for the SDRS plan and corrective actions would be limited to the COLA unless further legislation occurred due to an extreme circumstance.

Mr. Fiddler stated that he was able to match the 2018 actuarial valuation results to within 0.2 percent. He noted that SDRS staff believes the DLR plan is sufficiently funded and recommends supporting legislation to merge the DLR plan with SDRS.

Board Action

IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. GREENEWAY, TO SUPPORT THE DEPARTMENT OF LABOR AND REGULATION RETIREMENT PLAN TO MERGE WITH THE SDRS RETIREMENT PLAN EFFECTIVE JULY 1, 2020. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14 **PROPOSED 2020 LEGISLATION**

Summary of Discussion

Ms. Jacque Storm, SDRS Deputy Director/General Counsel, reviewed the potential legislation that was discussed at the September meeting. The legislation consists of minor revisions for clarity, consistency, and compliance and includes provisions relating to the annual update to the Internal Revenue Code; Supplemental Retirement Plan and Special Pay Plan confidentiality; clarifications relating to investment of assets, classified members, voting requirement of employers joining SDRS, contributions, the calculation of disability and death benefits before 2015, and the commencement of surviving spouse benefits; and the repeal of provisions relating to impermissible tax deferred purchases.

She also explained the potential legislation regarding the qualified benefit preservation arrangement and consistent consideration of incentive pay as discussed at the November meeting.

Board Action

Clarify and Clean-Up Legislation

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD UPDATE, CLARIFY, AND REPEAL CERTAIN PROVISIONS RELATING TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. GUSTAFSON, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD CLARIFY AND PROVIDE CONSISTENCY TO THE ADMINISTRATION OF CERTAIN SURVIVING SPOUSE BENEFITS OF THE

SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

QBPA

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. STROEDER, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD ESTABLISH A QUALIFIED BENEFIT PRESERVATION ARRANGEMENT FOR ELIGIBLE MEMBERS OF THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
FY2021 GOVERNOR'S RECOMMENDED BUDGET

Summary of Discussion

Ms. Beer reported on the Governor's Recommended Budget for SDRS. She advised that SDRS asked for an increase of \$117,000 in the Fiscal Year 2021 budget for travel, contractual services, and capital assets and that the Governor approved the budget as requested by SDRS.

The Governor's recommendation did not include expenditure authority for a salary package.

Board Action

No action was necessary.

AGENDA ITEM 16
ESTABLISH THE COLA FOR FY 2021

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, stated that SDCL 3-12C-104 regarding the cost of living adjustment (COLA) states that the annual increase shall be established by the Board for each fiscal year, based on the fair value funded ratio and actuarially determined contribution rate and the increase in the Consumer Price Index.

After review of the COLA calculation process, 1.56 percent is the recommended FY2021 COLA.

Board Action:

IT WAS MOVED BY MR. MERRILL, SECONDED BY MS. PETERSON, TO ESTABLISH THE COLA FOR FISCAL YEAR 2021 AT 1.56 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 17
SET VARIABLE RETIREMENT ACCOUNT
CONTRIBUTION RATE FOR FY 2021

Summary of Presentation

Mr. Almond stated that pursuant to SDCL 3-12C-1302 the Board must set the variable retirement account contribution rate. He noted that it was the recommendation of staff and the actuary that the variable retirement contribution rate be set at 1.5 percent of each contributing generational member's compensation for the fiscal year beginning July 1, 2020.

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. VILHAUER, TO ESTABLISH THE VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FY2021 AT 1.5 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 18
AUTO ENROLLMENT 2.0

Summary of Presentation

Ms. June Larson, Program Administrator, Nationwide Retirement Solutions, gave an update on the auto enrollment 2.0 project.

Ms. Larson noted that on July 1, 2019, 2,777 full-time state employees who were not already in the Supplemental Retirement Plan were auto-enrolled into the plan. In addition, three additional employers adopted auto enrollment 2.0. As of September 30, 2019, 2,530 (91 percent) have continued contributions, 52 (2 percent) have increased contribution amounts, and 247 (9 percent) have opted out. Of those opting out, Ms. Larson noted that 166 of those were over age 50.

Board Action

No action was necessary.

AGENDA ITEM 19
CONFERENCE ATTENDANCE REPORT

Summary of Presentation

Mr. Johns gave a report on the IFEBP conference he attended.

Board Action

No action was necessary.

AGENDA ITEM 20
PUBLIC COMMENT

Summary of Presentation

There was no public comment.

Board Action

No action was necessary.

AGENDA ITEM 21
OLD/NEW BUSINESS

Summary of Discussion

Board Elections

Ms. Dawn Smith, SDRS Executive/Board Assistant, stated that there would be four positions up for election this year. She advised the Board that notices and petitions would be mailed to the authorized agents of school boards, board of regents employees, state employees, and county employees.

2020 Legislative Session

Mr. Almond stated that the Legislative Session starts on January 14, 2020, and runs through March 12, 2020, with the final day/veto day on March 30, 2020.

Next Meeting Date

Ms. Smith stated that the meeting dates for the upcoming meetings were on the agenda. She noted that all future meetings would be held at Drifters unless otherwise noted.

Board Action

No action was necessary.

AGENDA ITEM 22
EXECUTIVE SESSION FOR CONSULTATION WITH LEGAL COUNSEL

Summary of Presentation

The Board went into executive session.

Board Action

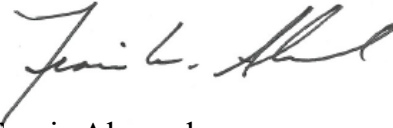
IT WAS MOVED BY MR. MERRILL, SECONDED BY MR. JOHNSON, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2 FOR THE CONSIDERATION OF PERSONNEL MATTERS AND TO CONSULT WITH LEGAL COUNSEL ABOUT CONTRACTUAL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. BRUNKEN, TO COME OUT OF EXECUTIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

ADJOURNMENT

IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. GREENEWAY, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Travis Almond", written in a cursive style.

Travis Almond
Executive Director



South Dakota Retirement System

2020 Legislation and Budget

April 2, 2020



SDRS 2020 Legislation - Enacted

- **SB 31** - An Act to revise and repeal certain provisions relating to the South Dakota Retirement System.
 - Clarify language
 - Repeal sections no longer permissible under federal law
- **SB 32** - An Act to revise certain provisions regarding the administration of certain family and surviving spouse benefits of the South Dakota Retirement System.
 - Administer benefits consistently
 - Provide explicit language for the commencement of survivor benefits
- **SB 34** - An Act to establish a qualified benefit preservation arrangement for eligible members of the South Dakota Retirement System.
 - Solve an IRS compliance issue
 - Avoid benefit reductions to current retirees in most cases
 - Treat existing and future retirees identically
 - Align the adjusted maximum benefits with the SDRS benefit design
 - Bring the benefits for these few members closer to the statutory benefit



Other 2020 Legislation - Enacted

- **SB 9** - An Act to repeal the Department of Labor and Regulation's retirement plan and to transfer plan members and funds to the South Dakota Retirement System.
 - Merges department's plan with SDRS
 - Preserves plan's benefit features except for COLA, which follows SDRS
- **SB 148** - An Act to adopt the Uniform Power of Attorney Act.
 - Provides more specific provisions
 - Includes statutory form for power of attorney and revocation
- **HB 1105** - An Act to revise certain provisions regarding restrictions on State Investment Council members.
 - Clarify that for state money not handled by SDIC (and no way of knowing it exists), council member may work for brokerage firm handling such money if member has no direct or indirect benefit
- **HB 1106** - An Act to authorize the state investment officer to include an indemnity provision in certain investment-related documents.
 - Allow state investment officer to include indemnity provision if deemed prudent despite general prohibition



Other 2020 Legislation - Enacted

- **HB 1112** - An Act to authorize the hiring of law enforcement officers by the South Dakota State Brand Board and to declare an emergency.
 - State Brand Board permitted to employ law enforcement officers for enforcement of marking and branding laws; previously employed by attorney general
 - Emergency clause so effective upon Governor's signature (March 9)



Other 2020 Legislation – Not Enacted

- **HB 1155** - An Act to exempt certain retirement funds from division of property in a divorce.
 - Proposed to provide “one size fits all” determination for division of retirement benefits
 - **HB 1215** - An Act to prohibit the state from endorsing or enforcing certain policies regarding domestic relations.
 - Proposed to prohibit payment of benefits to persons in “a marriage other than a marriage involving a man and a woman” contrary to federal law
-
- **HB 1013** - An Act to correct technical errors in statutory cross-references.
 - Revised SDCL 3-12C-1608 and 3-12C-1613
 - SDRS not consulted
 - Governor vetoed
 - Outcome unknown until consideration of gubernatorial vetoes (March 30)



FY21 Expenditure Authority

- **SB 1291** - An Act to appropriate money for the ordinary expenses of the legislative, judicial, and executive departments of the state, the expenses of state institutions, interest on the public debt, and for common schools.

SDRS expenditure authority changes for FY21:

- An increase of \$16,000 for out-of-state travel
- An increase of \$30,000 for dues and memberships
- An increase of \$24,000 for the additional space
- An increase of \$47,000 (one-time expense) for additional security equipment for the SDRS campus and equipment, furniture, and fixtures for the new conference room space

2020 LEGISLATION

BILL NO. DESCRIPTION OF BILLS

SDRS Bills

- SB 31** - An Act to revise and repeal certain provisions relating to the South Dakota Retirement System. *(The Committee on Retirement Laws at the request of the South Dakota Retirement System)*
- SB 32** - An Act to revise certain provisions regarding the administration of certain family and surviving spouse benefits of the South Dakota Retirement System. *(The Committee on Retirement Laws at the request of the South Dakota Retirement System)*
- SB 34** - An Act to establish a qualified benefit preservation arrangement for eligible members of the South Dakota Retirement System. *(The Committee on Retirement Laws at the request of the South Dakota Retirement System)*

Other Bills SDRS is Watching

- SB 9** - An Act to repeal the Department of Labor and Regulation's retirement plan and to transfer plan members and funds to the South Dakota Retirement System. *(The Committee on Retirement Laws at the request of the Department of Labor and Regulation)*
- SB 148** - An Act to adopt the Uniform Power of Attorney Act. *(Senator Partridge)*
- HB 1105** - An Act to revise certain provision regarding restrictions on State Investment Council members. *(Representatives Bartels, Barthel, Borglum, Chase, Finck, Goodwin, Hunhoff, Koth, Perry, Peterson (Kent), Post, Qualm, and Smith (Jamie) and Senators Langer, Bolin, Duhamel, Nesiba, Partridge, Schoenbeck, Schoenfish, Soholt, White, and Wiik)*
- HB 1106** - An Act to authorize the state investment officer to include an indemnity provision in certain investment-related documents. *(Representatives Bartels, Barthel, Borglum, Chase, Finck, Goodwin, Gross, Koth, Peterson (Kent), Post, and Smith (Jamie) and Senators Langer, Bolin, Duhamel, Kennedy, Nesiba, Partridge, Schoenfish, Soholt, Stalzer, White, and Wiik)*
- HB 1112** - An Act to authorize the hiring of law enforcement officers by the South Dakota State Brand Board. *(Representatives Brunner, Barthel, Beal, Bordeaux, Goodwin, Gosch, Greenfield (Lana), Gross, Hammock, Jensen (Kevin), Johnson (David), Koth, Lesmeister, Livermont, Marty, Mills, Miskimins, Mulally, Peterson (Kent), Qualm, Wangsness, Wiese, and Zikmund and Senators Bolin, Ewing, Greenfield (Brock), Heinert, and Novstrup)*

- HB 1155** - An Act to exempt certain retirement funds from division of property in a divorce. *(Representatives Frye-Mueller, Borglum, Deutsch, Goodwin, Gosch, Greenfield (Lana), Mulally, Perry, and Peterson (Sue) and Senators Ewing and Russell)*
- HB 1215** - An Act to prohibit the state from endorsing or enforcing certain policies regarding domestic relations. *(Representative Randolph)*

2020 SDRS LEGISLATIVE STATUS REPORT

BILL NO.	COMMITTEE ACTION	DATE	FLOOR ACTION	DATE	COMMITTEE ACTION	DATE	FLOOR ACTION	DATE	GOVERNOR SIGN
SB 31	Senate Retirement Laws Consent Calendar Do Pass 5-0	1/22/20	Senate Do Pass 33-0	1/24/20	House Retirement Laws Consent Calendar Do Pass 5-0	2/12/20	House Do Pass 70-0	2/18/20	2/26/20
SB 32	Senate Retirement Laws Consent Calendar Do Pass 5-0	1/22/20	Senate Do Pass 33-0	1/24/20	House Retirement Laws Consent Calendar Do Pass 5-0	2/12/20	House Do Pass 70-0	2/18/20	2/26/20
SB 34	Senate Retirement Laws Do Pass 5-0	1/22/20	Senate Do Pass 33-0	1/24/20	House Retirement Laws Consent Calendar Do Pass 5-0	2/12/20	House Do Pass 70-0	2/18/20	2/26/20
Other Bills SDRS is Watching									
SB 9	Senate Retirement Laws Do Pass 5-0	1/22/20	Senate Do Pass 33-0	1/24/20	House Retirement Laws Do Pass 5-0	2/12/20	House Do Pass 69-0	2/19/20	2/26/20
SB 148	Senate Judiciary Do Pass 7-0	2/18/20	Senate Do Pass 33-0 Concur with Amendment 34-0	2/19/20 3/9/20	House Judiciary Consent Calendar Do Pass Amended 10-0	3/2/20	House Do pass Amended 67-1	3/4/20	3/20/20
HB 1105	House State Affairs Consent Calendar Amended Do Pass 13-0	2/5/20	House Do Pass Amended 65-0	2/7/20	Senate Retirement Laws Consent Calendar Do Pass 4-0	2/18/20	Senate Do Pass 35-0	2/20/20	2/27/20
HB 1106	House State Affairs Consent Calendar Do Pass 13-0	2/5/20	House Do Pass 67-0	2/6/20	Senate Retirement Laws Consent Calendar Do Pass 4-0	2/18/20	Senate Do Pass 35-0	2/20/20	2/27/20
HB 1112	House Ag & Natural Resources Do Pass Amended 12-0	2/11/20	House Do Pass 69-1	2/18/20	Senate Ag & Nat Resource Do Pass 8-0	2/27/20	Senate Do Pass 34-0	3/2/20	3/9/20
HB 1155	House Judiciary Deferred to 41 st Day 10-3	2/19/20							
HB 1215	Withdrawn at Request of Sponsor	2/24/20							

Senate Bill No. 31:

Introduced by the Committee on Retirement Laws at the request of the South Dakota Retirement System

ENTITLED, An Act to revise and repeal certain provisions relating to the South Dakota Retirement System.

01/14/2020	First Reading Senate S.J. 14
01/15/2020	Referred to Senate Retirement Laws S.J. 17
01/22/2020	Scheduled for hearing
01/22/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
01/22/2020	Certified uncontested, placed on consent
01/24/2020	Senate Do Pass, Passed, YEAS 33, NAYS 0. S.J. 76
01/27/2020	First Reading House H.J. 62
01/28/2020	Referred to House Retirement Laws H.J. 75
02/12/2020	Scheduled for hearing
02/12/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
02/12/2020	Certified uncontested, placed on consent
02/18/2020	House of Representatives Do Pass, Passed, YEAS 70, NAYS 0. H.J. 297
02/19/2020	Signed by the President S.J. 259
02/20/2020	Signed by the Speaker H.J. 338
02/21/2020	Delivered to the Governor on February 21, 2020 S.J. 302
02/27/2020	Signed by the Governor on February 26, 2020 S.J. 363

Senate Bill No. 32:

Introduced by the Committee on Retirement Laws at the request of the South Dakota Retirement System

ENTITLED, An Act to revise certain provisions regarding the administration of certain family and surviving spouse benefits of the South Dakota Retirement System.

01/14/2020	First Reading Senate S.J. 14
01/15/2020	Referred to Senate Retirement Laws S.J. 17
01/22/2020	Scheduled for hearing
01/22/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
01/22/2020	Certified uncontested, placed on consent
01/24/2020	Senate Do Pass, Passed, YEAS 33, NAYS 0. S.J. 76
01/27/2020	First Reading House H.J. 62
01/28/2020	Referred to House Retirement Laws H.J. 75
02/12/2020	Scheduled for hearing
02/12/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
02/12/2020	Certified uncontested, placed on consent
02/18/2020	House of Representatives Do Pass, Passed, YEAS 70, NAYS 0. H.J. 297
02/19/2020	Signed by the President S.J. 259
02/20/2020	Signed by the Speaker H.J. 338
02/21/2020	Delivered to the Governor on February 21, 2020 S.J. 302
02/27/2020	Signed by the Governor on February 26, 2020 S.J. 363

Senate Bill No. 34:

Introduced by the Committee on Retirement Laws at the request of the South Dakota Retirement System

ENTITLED, An Act to establish a qualified benefit preservation arrangement for eligible members of the South Dakota Retirement System.

01/14/2020	First Reading Senate S.J. 14
01/15/2020	Referred to Senate Retirement Laws S.J. 17
01/22/2020	Scheduled for hearing
01/22/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
01/24/2020	Senate Do Pass, Passed, YEAS 33, NAYS 0. S.J. 77
01/27/2020	First Reading House H.J. 62
01/28/2020	Referred to House Retirement Laws H.J. 75
02/12/2020	Scheduled for hearing
02/12/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
02/12/2020	Certified uncontested, placed on consent, YEAS 5, NAYS 0.
02/18/2020	House of Representatives Do Pass, Passed, YEAS 70, NAYS 0. H.J. 297
02/19/2020	Signed by the President S.J. 259
02/20/2020	Signed by the Speaker H.J. 338
02/21/2020	Delivered to the Governor on February 21, 2020 S.J. 302
02/27/2020	Signed by the Governor on February 26, 2020 S.J. 363

Senate Bill No. 9:

**Introduced by the Committee on Retirement Laws at the request of the
Department of Labor and Regulation**

**ENTITLED, An Act to repeal the Department of Labor and Regulation's retirement
plan and to transfer plan members and funds to the South Dakota Retirement System.**

01/14/2020	First read in Senate and referred to Senate Retirement Laws S.J. 11
01/22/2020	Scheduled for hearing
01/22/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
01/24/2020	Senate Do Pass, Passed, YEAS 33, NAYS 0. S.J. 77
01/27/2020	First Reading House H.J. 62
01/28/2020	Referred to House Retirement Laws H.J. 75
02/12/2020	Scheduled for hearing
02/12/2020	Retirement Laws Do Pass, Passed, YEAS 5, NAYS 0.
02/18/2020	House of Representatives Deferred to another day, Passed H.J. 302
02/19/2020	House of Representatives Do Pass, Passed, YEAS 69, NAYS 0. H.J. 321
02/20/2020	Signed by the President S.J. 297
02/21/2020	Signed by the Speaker H.J. 350
02/24/2020	Delivered to the Governor on February 24, 2020 S.J. 320
02/27/2020	Signed by the Governor on February 26, 2020 S.J. 363

Senate Bill No. 148:

Introduced by Senators Partridge, Curd, White, and Wiik and Representative Johns and Diedrich

ENTITLED, An Act to adopt the Uniform Power of Attorney Act.

01/30/2020	First read in Senate and referred to Senate Judiciary S.J. 118
02/18/2020	Scheduled for hearing
02/18/2020	Judiciary Do Pass, Passed, YEAS 7, NAYS 0.
02/18/2020	Certified uncontested, placed on consent, Passed
02/19/2020	Senate Do Pass, Passed, YEAS 33, NAYS 0. S.J. 256
02/20/2020	First Reading House H.J. 333
02/26/2020	Referred to House Judiciary H.J. 409
03/02/2020	Judiciary Motion to amend, Passed Amendment 148A
03/02/2020	Judiciary Do Pass Amended, Passed, YEAS 10, NAYS 0.
03/02/2020	Certified uncontested, placed on consent
03/02/2020	Scheduled for hearing
03/04/2020	House of Representatives Do Pass Amended, Passed, YEAS 67, NAYS 1. H.J. 469
03/09/2020	Senate Concurred in amendments, Passed, YEAS 34, NAYS 0. S.J. 451
03/10/2020	Signed by the President S.J. 475
03/11/2020	Signed by the Speaker H.J. 581
03/12/2020	Delivered to the Governor on March 12, 2020 S.J. 522
03/18/2020	Signed by the Governor on March 20, 2020

House Bill No. 1105:

Introduced by Representatives Bartels, Barthel, Borglum, Chase, Deutsch, Finck, Goodwin, Hunhoff, Koth, Perry, Peterson (Kent), Post, Qualm, Smith (Jaime, and Willadsen and Senators Langer, Bolin, Dunhamel, Nesiba, Novstrup, Partridge, Schoenbeck, Schoenfish, Soholt, White, and Wiik

ENTITLED, An Act to revise certain provisions regarding restrictions on State Investment Council members.

01/28/2020	First read in House and referred to House State Affairs H.J. 73
02/05/2020	Scheduled for hearing
02/05/2020	State Affairs Motion to amend, Passed Amendment 1105A
02/05/2020	State Affairs Do Pass Amended, Passed, YEAS 13, NAYS 0.
02/05/2020	Certified uncontested, placed on consent
02/07/2020	House of Representatives Do Pass Amended, Passed, YEAS 65, NAYS 0. H.J. 227
02/10/2020	First read in Senate and referred to Senate Retirement Laws S.J. 175
02/18/2020	Scheduled for hearing
02/18/2020	Retirement Laws Do Pass, Passed, YEAS 4, NAYS 0.
02/18/2020	Certified uncontested, placed on consent
02/20/2020	Senate Do Pass Amended, Passed, YEAS 35, NAYS 0. S.J. 294
02/21/2020	Signed by the Speaker H.J. 350
02/24/2020	Signed by the President S.J. 327
02/25/2020	Delivered to the Governor on February 25, 2020 H.J. 372
03/02/2020	Signed by the Governor on February 27, 2020 H.J. 433

House Bill No. 1106:

Introduced by Representatives Bartels, Barthel, Borglum, Chase, Finck, Goodwin, Gosch, Gross, Koth, Peterson (Kent), Post, Qualm, Smith (Jamie), and Willadsen and Senators Langer, Bolin, Dunhamel, Kennedy, Nesiba, Novstrup, Partridge, Schoenfish, Soholt, Stalzer, White, Wiik, and Wismer

ENTITLED, An Act to authorize the state investment officer to include an indemnity provision in certain investment-related documents.

01/28/2020	First read in House and referred to House State Affairs H.J. 73
02/05/2020	Scheduled for hearing
02/05/2020	State Affairs Do Pass, Passed, YEAS 13, NAYS 0.
02/05/2020	Certified uncontested, placed on consent
02/06/2020	House of Representatives Do Pass, Passed, YEAS 67, NAYS 0. H.J. 213
02/07/2020	First read in Senate and referred to Senate State Affairs S.J. 168
02/11/2020	Referred to Senate Retirement Laws, Passed S.J. 188
02/18/2020	Scheduled for hearing
02/18/2020	Retirement Laws Do Pass, Passed, YEAS 4, NAYS 0.
02/18/2020	Certified uncontested, placed on consent
02/20/2020	Senate Do Pass, Passed, YEAS 35, NAYS 0. S.J. 294
02/21/2020	Signed by the Speaker H.J. 350
02/24/2020	Signed by the President S.J. 327
02/25/2020	Delivered to the Governor on February 25, 2020 H.J. 372
03/02/2020	Signed by the Governor on February 27, 2020 H.J. 433

House Bill No. 1112:

Introduced by Representatives Brunner, Barthel, Beal, Bordeaux, Chaffee, Glanzer, Goodwin, Gosch, Greenfield (Lana), Gross, Hammock, Jensen (Kevin), Johnson (David), Koth, Lesmeister, Livermont, Marty, Mills, Miskimins, Mulally, Overweg, Peterson (Kent), Qualm, Reimer, Wangsness, Wiese, and Zikmund and Senators Cammack, Bolin, Ewing, Greenfield (Brock), Heinert, Klumb, Monroe, and Novstrup

ENTITLED, An Act to authorize the hiring of law enforcement officers by the South Dakota State Brand Board and to declare an emergency.

01/29/2020	First Reading House H.J. 81
01/30/2020	Referred to House Agriculture and Natural Resources H.J. 105
02/11/2020	Scheduled for hearing
02/11/2020	Agriculture and Natural Resources Motion to amend, Passed, YEAS 12, NAYS 0. Amendment 1112A
02/11/2020	Agriculture and Natural Resources Do Pass Amended, Passed, YEAS 12, NAYS 0.
02/13/2020	House of Representatives Deferred to another day, Passed H.J. 281
02/18/2020	House of Representatives Do Pass Amended, Passed, YEAS 69, NAYS 1. H.J. 299
02/19/2020	First read in Senate and referred to Senate Agriculture and Natural Resources S.J. 255
02/27/2020	Scheduled for hearing
02/27/2020	Agriculture and Natural Resources Do Pass, Passed, YEAS 8, NAYS 0.
03/02/2020	Senate Do Pass Amended, Passed, YEAS 34, NAYS 0. S.J. 389
03/03/2020	Signed by the Speaker H.J. 456
03/04/2020	Signed by the President S.J. 421
03/05/2020	Delivered to the Governor on March 05, 2020 H.J. 478
03/10/2020	Signed by the Governor on March 09, 2020 H.J. 535

House Bill No. 1155:

Introduced by Representatives Frye-Mueller, Borglum, Deutsch, Goodwin, Gosch, Greenefield (Lana), Mulally, Perry, Peterson (Sue), and Wangsness and Senators Ewing and Russell

ENTITLED, An Act to exempt certain retirement funds from division of property in a divorce.

01/30/2020 First read in House and referred to House Judiciary H.J. 103

02/19/2020 Scheduled for hearing

02/19/2020 Judiciary Deferred to the 41st legislative day, Passed, YEAS 10, NAYS 3.

House Bill No. 1215:

Introduced by Representative Randolph

ENTITLED, An Act to prohibit the state from endorsing or enforcing certain policies regarding domestic relations.

01/30/2020 First Reading House H.J. 96

02/24/2020 Withdrawn at the Request of the Prime Sponsor H.J. 358

VOTE COUNT

SENATE

TOTAL	Y: 33 N: 0 E: 2 A: 0	Y: 33 N: 0 E: 2 A: 0	Y: 33 N: 0 E: 2 A: 0	Y: 33 N: 0 E: 2 A: 0	Y: 33 N: 0 E: 2 A: 0	Y: 35 N: 0 E: 0 A: 0	Y: 35 N: 0 E: 0 A: 0	Y: 34 N: 0 E: 1 A: 0	Y: 34 N: 0 E: 1 A: 0
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SB 31	SB 32	SB 34	SB 9	SB 148	HB 1105	HB 1106	HB 1112
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TOTAL



South Dakota Retirement System

Projected Funded Status as of June 30, 2020

April 2, 2020



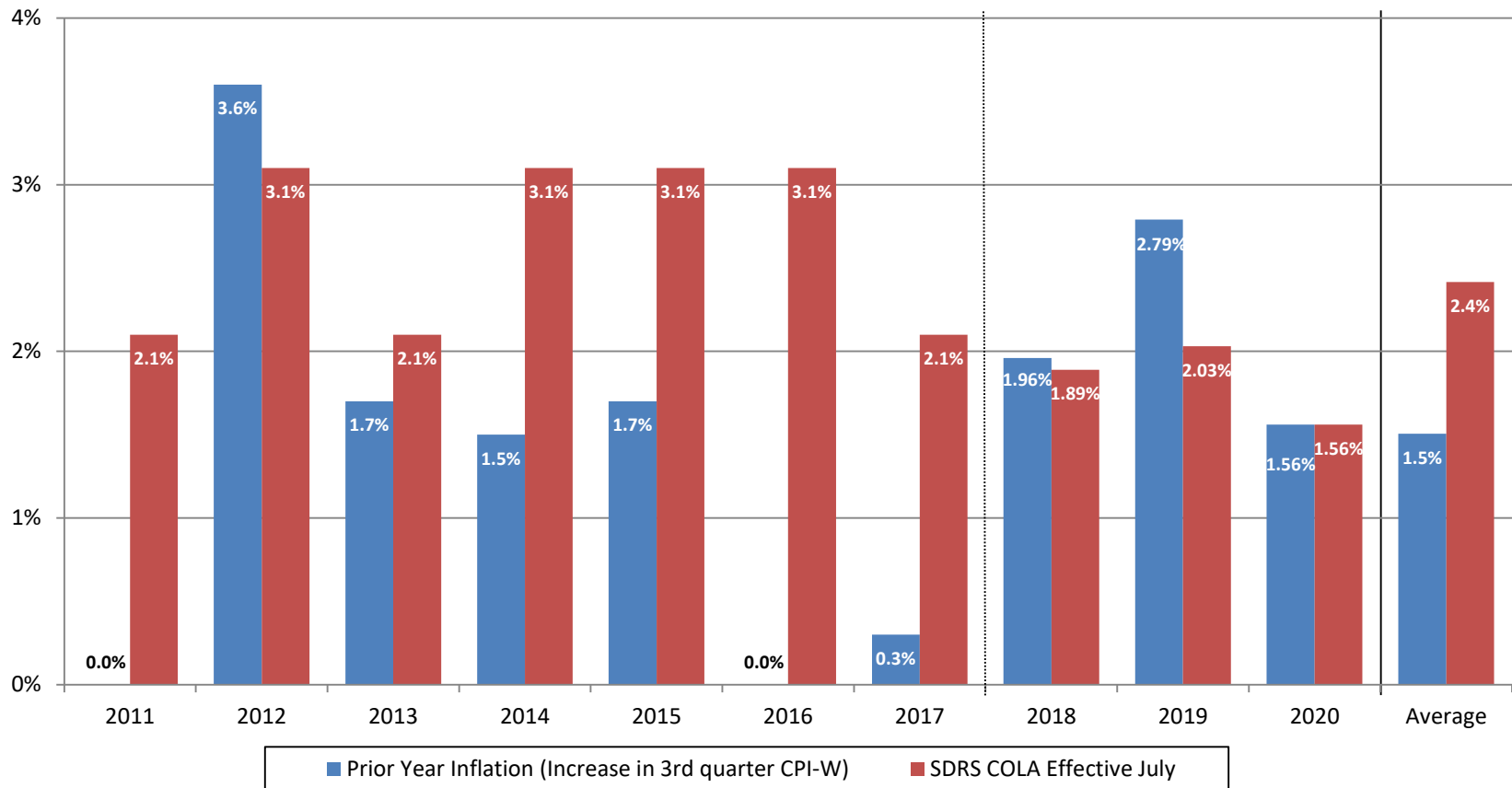
Projected Funded Status and COLAs

- SDRS contributions are fixed and benefits are variable based on affordability
- COLA is primary variable benefit and will vary directly with both inflation and long-term affordability
- The following exhibits examine:
 - SDRS COLAs and inflation since 2010
 - Inflation year to date
 - Projected FVFR at June 30, 2020 with:
 - Corresponding July 2021 COLA range, and
 - Magnitude of required corrective actions, where applicable



Inflation and SDRS COLAs Since 2010

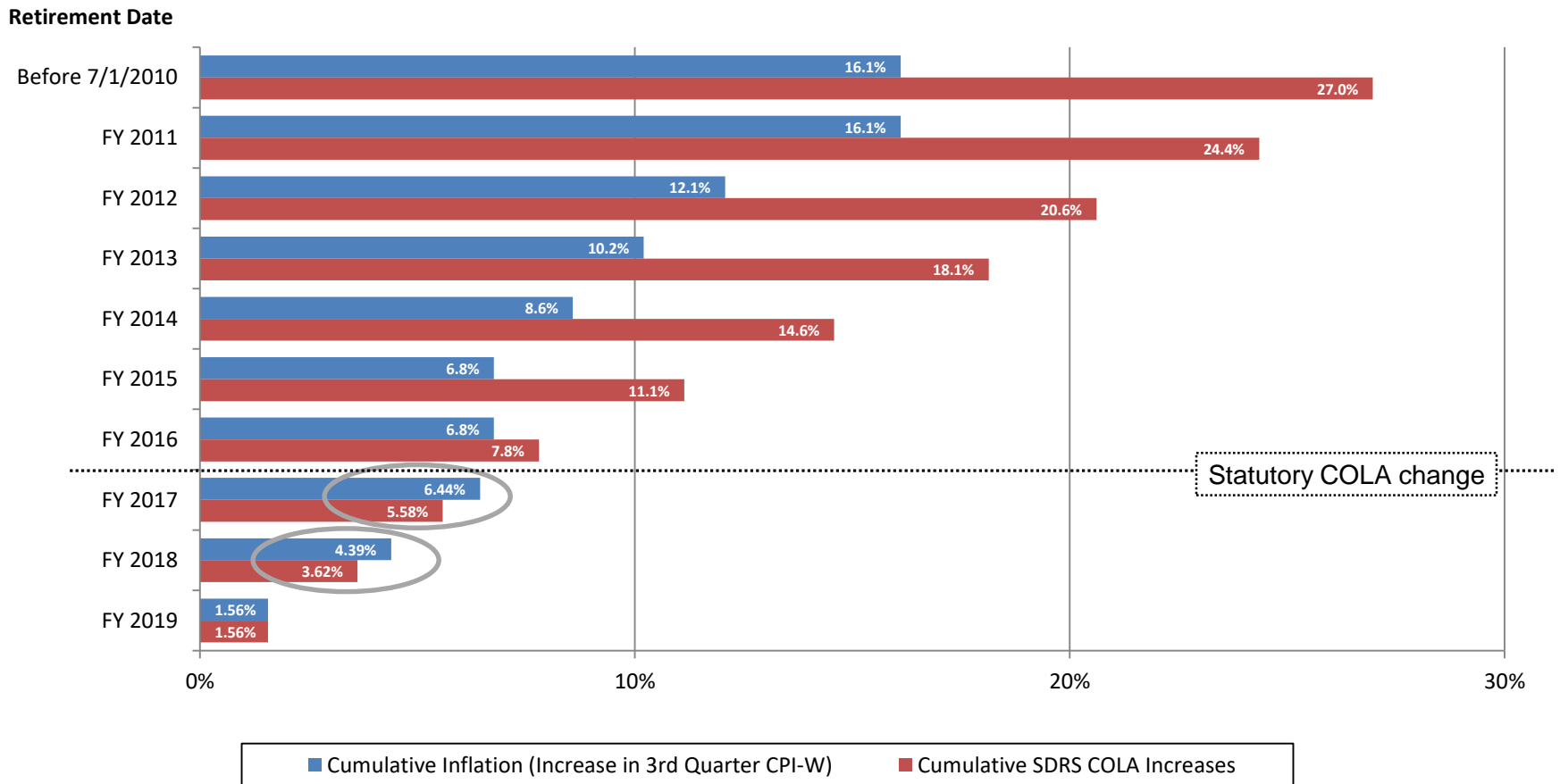
Annual Inflation and SDRS COLA Increases 2011-2020





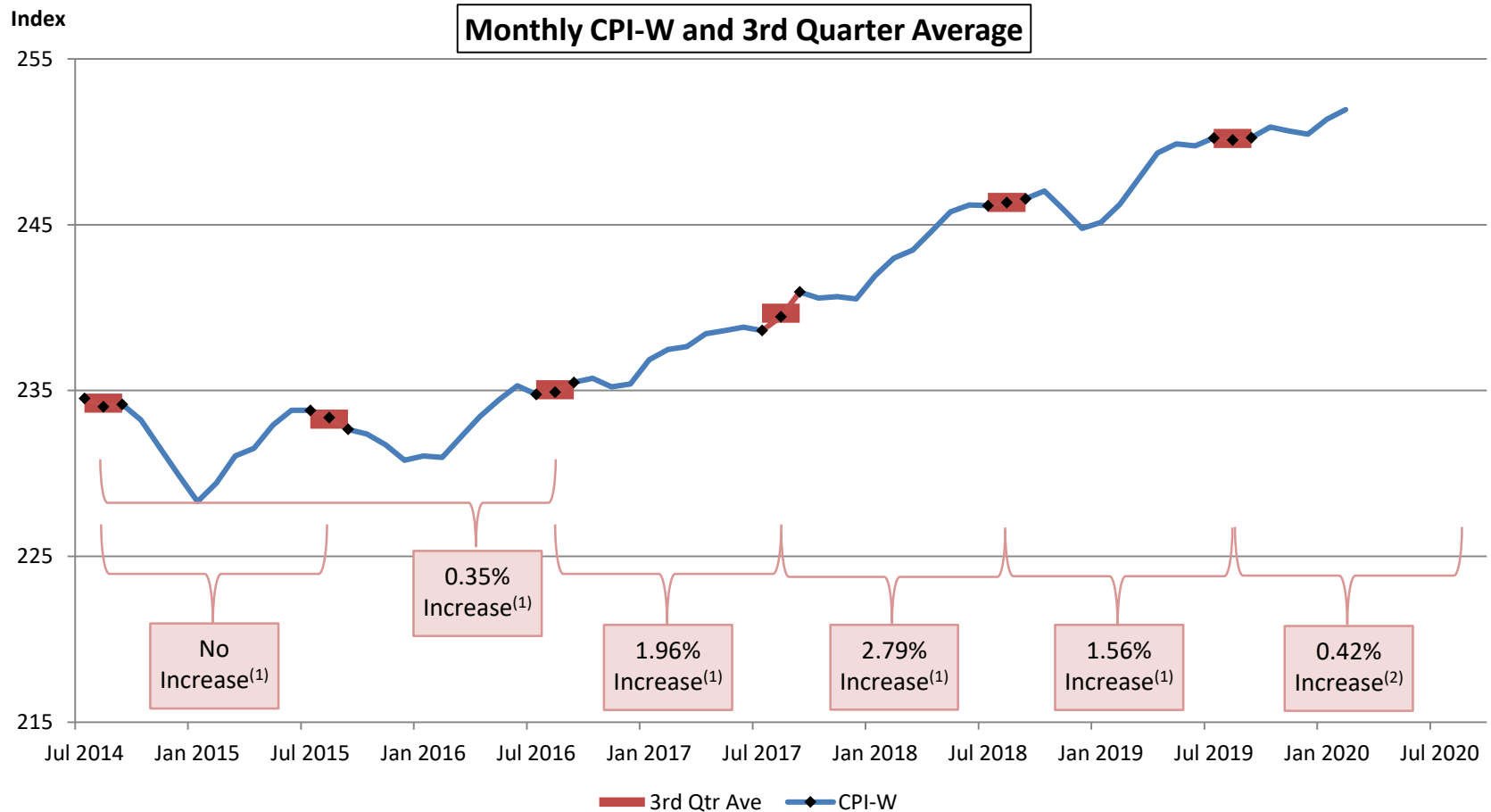
Inflation and SDRS COLAs Since 2010

Cumulative Inflation and SDRS COLA Increases 2011-2020





Inflation Measurement for Social Security and SDRS COLAs



(1) Increase in the third calendar quarter average over the prior highest third calendar quarter average is the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.

(2) Increase in most recent three-month average over July to September, 2019 average



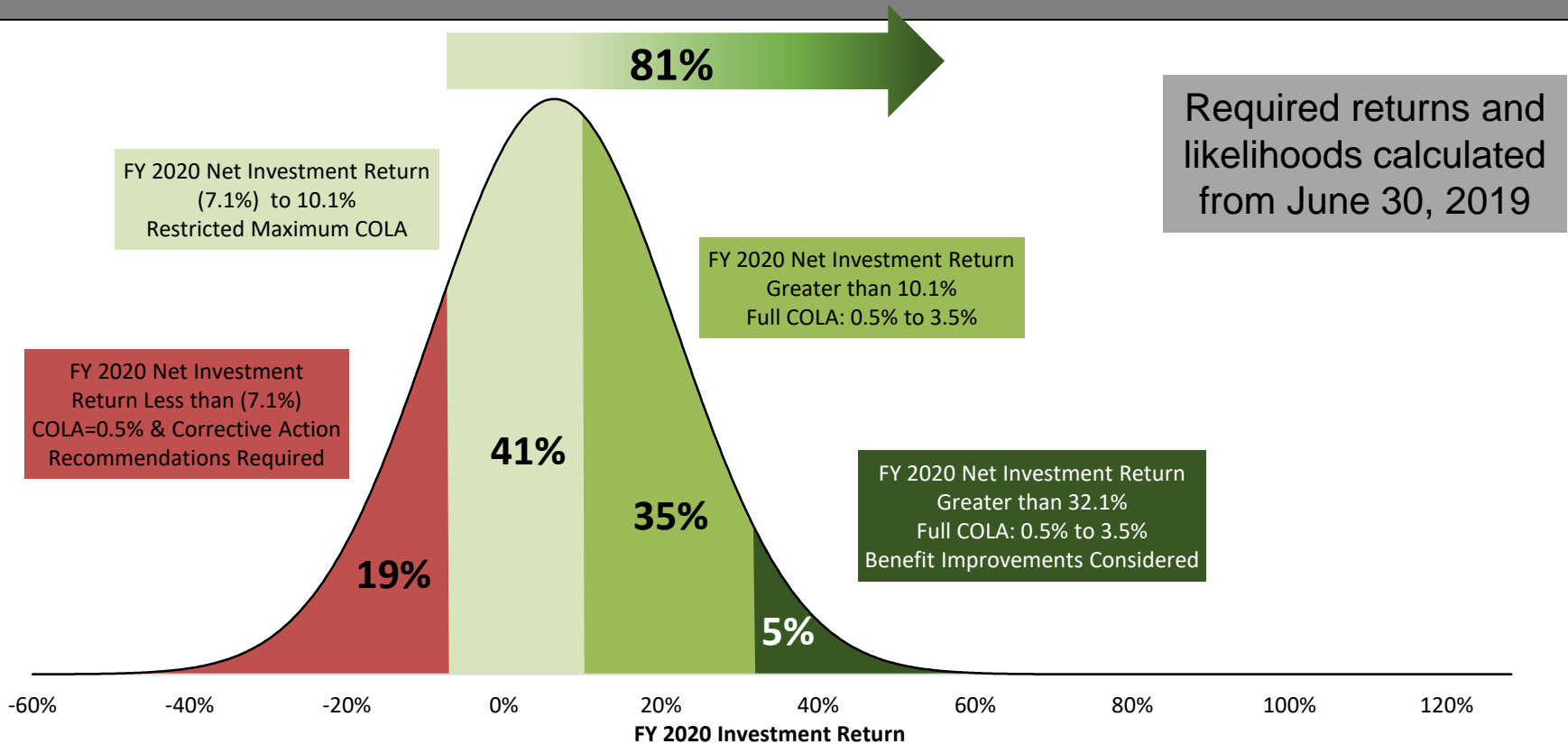
Projected Funded Status as of June 30, 2020 and July 2021 COLA Range*

	Net Investment Return, FYE June 30, 2020	Baseline FVFR	COLA Range	Final FVFR	Required Corrective Action
Corrective Action Threshold	(7.1%)	84%	0.50%	100%	Return < (7.1%) requires Corrective Action
Assumed Return	6.5%	97%	0.50% to 1.91%	100%	n/a
Full COLA Range	10.1%	100%	0.50% to 3.50%	100%	n/a
Benefit Improvement Consideration	31.8%	120%	0.50% to 3.50%	120%	n/a
Example Returns	0%	91%	0.50% to 1.28%	100%	n/a
	(5%)	86%	0.50% to 0.74%	100%	n/a
	(10%)	81%	0.50%	97%	\$354M
	(15%)	77%	0.50%	91%	\$967M
	(17.5%)	75%	0.50%	89%	\$1,273M
	(20%)	72%	0.50%	86%	\$1,580M

* Before consideration of liability gains/losses for year ending June 30, 2020. June 30, 2019 Baseline FVFR was 96.3% and Restricted Maximum COLA was 1.88%.



Projected 2021 COLA Ranges: 2019 Benchmark Asset Allocation Statistics



- Ignoring FY20 returns to date, the likelihoods for July 2021 COLA ranges, which are primarily driven by FY20 investment returns, are:
 - 19% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required
 - 41% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
 - 40% likelihood that the COLA will be CPI-W between 0.5% and 3.5%, with a 5% likelihood of considering benefit improvements

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2019 **benchmark** asset allocation investment portfolio statistics (mean = 6.29%, standard deviation = 15.4%).



Summary

- At June 30, 2019, the one-year likelihood of required corrective actions using benchmark asset allocation statistics was 19%
- Absent a significant market recovery, the FVFR will be less than 100% at June 30, 2020 and a corrective action recommendation will be required
- Net FY20 returns less than approximately -7% would reduce the 2021 restricted maximum COLA to 0.5% and require corrective action recommendations
- The magnitude of required corrective action depends on final net investment returns for the fiscal year



South Dakota Retirement System

Planning for the Good, Bad, and Ugly Times: Revisited

April 2, 2020



Guiding Principles

- Benefit changes have serious consequences to our members and must be balanced with the Board's responsibilities for the System's sustainability considering the fixed, statutory contributions
- Benefit change recommendations also consider
 - Short and long-term effect on our members
 - Long-term outlook
 - Current fair value of assets
 - Sound funding practices
 - Actuarial standards
 - SDIC outlook and advice



Accomplishments/Next Planning Step

- Accomplishments
 - Generational benefits implemented
 - Actuarial assumptions updated to reflect current expectations
 - Variable COLA structure refined providing automatic adjustments
 - Inequities and subsidies addressed
 - 100% Fair Value Funded Ratio (FVFR) expected most of the time
 - 1.56% COLA on July 1, 2020 equal to inflation and 100.1% FVFR as of July 1, 2019 based on restricted maximum COLA of 1.88%
 - Benefit objectives met, but COLA slightly less than inflation since 2018
- At June 30, 2019, SDRS was well positioned, but a lot has happened since then and the future is (obviously) uncertain and very volatile
- Next step in planning process
 - Reconsider the 2018 plan for good and bad times



Objectives

- Review SDRS experience during recent economic downturns
- Evaluate and further refine 2018 general framework for changes and priority for changes when required or warranted
 - Review the criteria for when improvements may be considered and when changes are required
 - Establish objectives for changes considered
 - Establish emergency plan for required corrective actions of various sizes
- Board discussion and feedback
- Formalize plan in June and commit to revisiting periodically

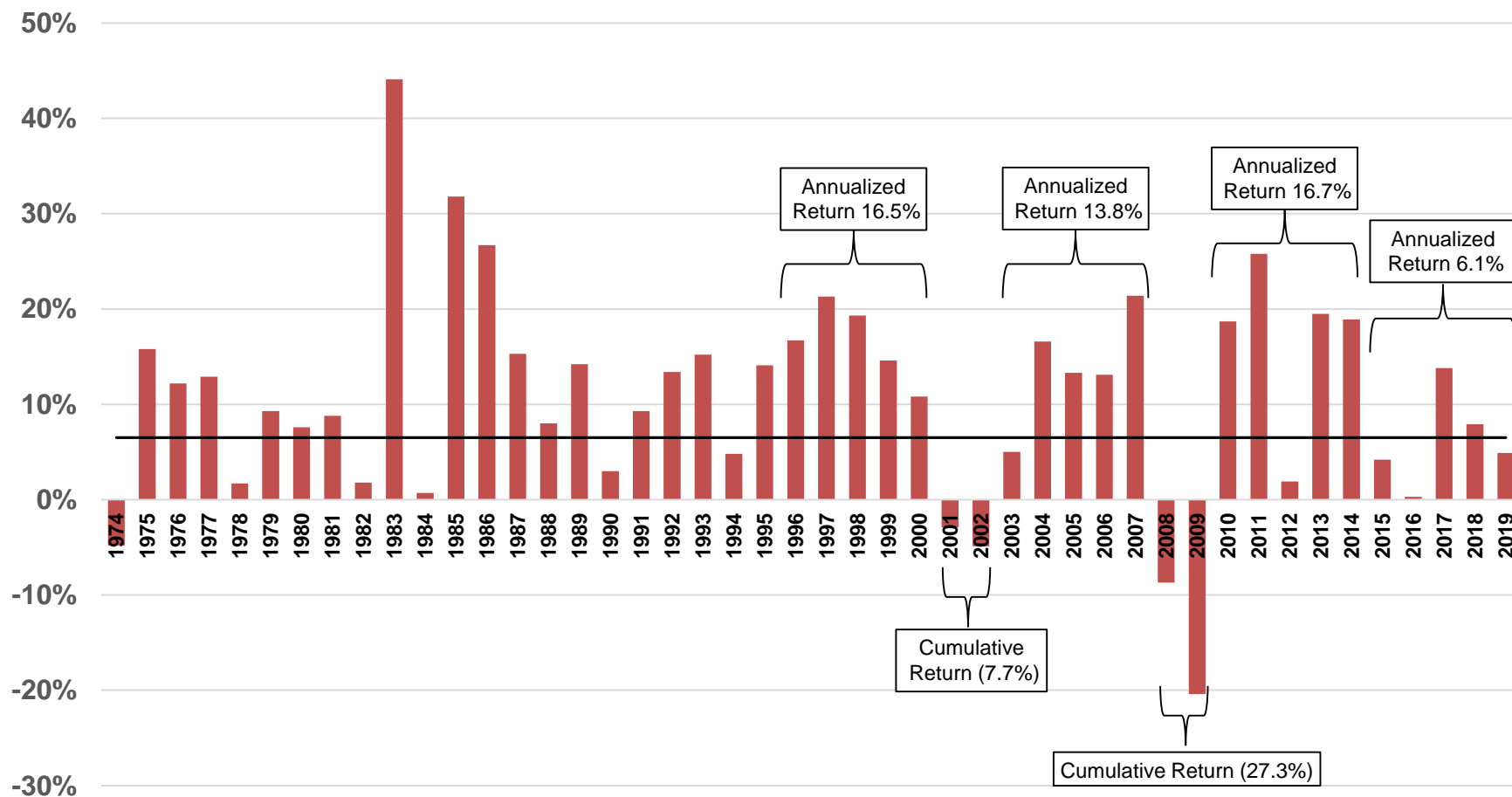


SDRS during Economic Downturns

- SDRS has experienced other economic downturns
- Six economic downturns classified as recessions in SDRS history
- Most significant were:
 - Dot-Com Bubble 2001-2002
 - 2008 Recession 2008-2009
- S & P 500 dropped about 50% during both downturns from peak to trough
- Review of SDRS experience during these periods may be helpful in planning for the current economic times



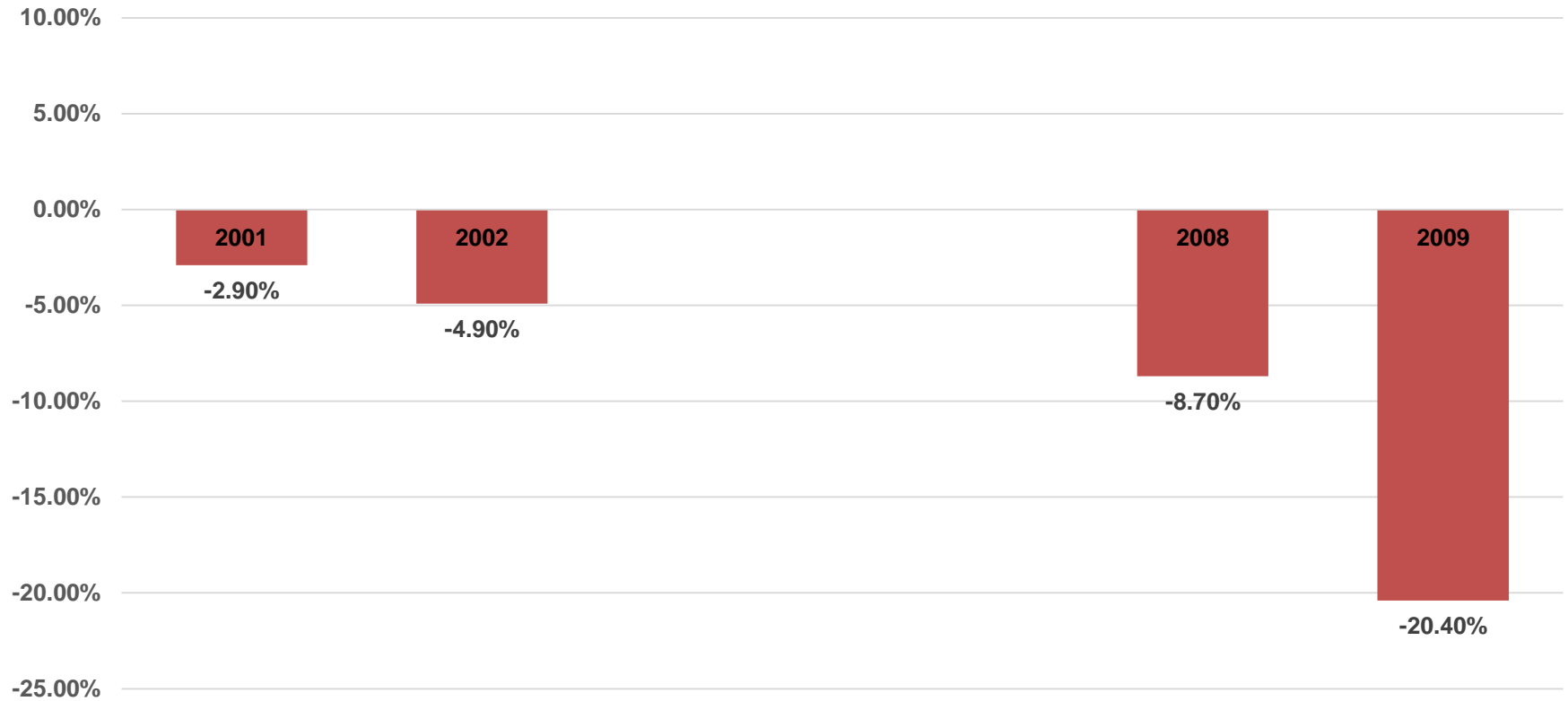
SDRS Annual Investment Returns



Compound annual return at June 30, 2019: 10 Years: 11.3%; 20 Years: 7.4%; 30 Years: 9.2%; Since Inception: 10.2%



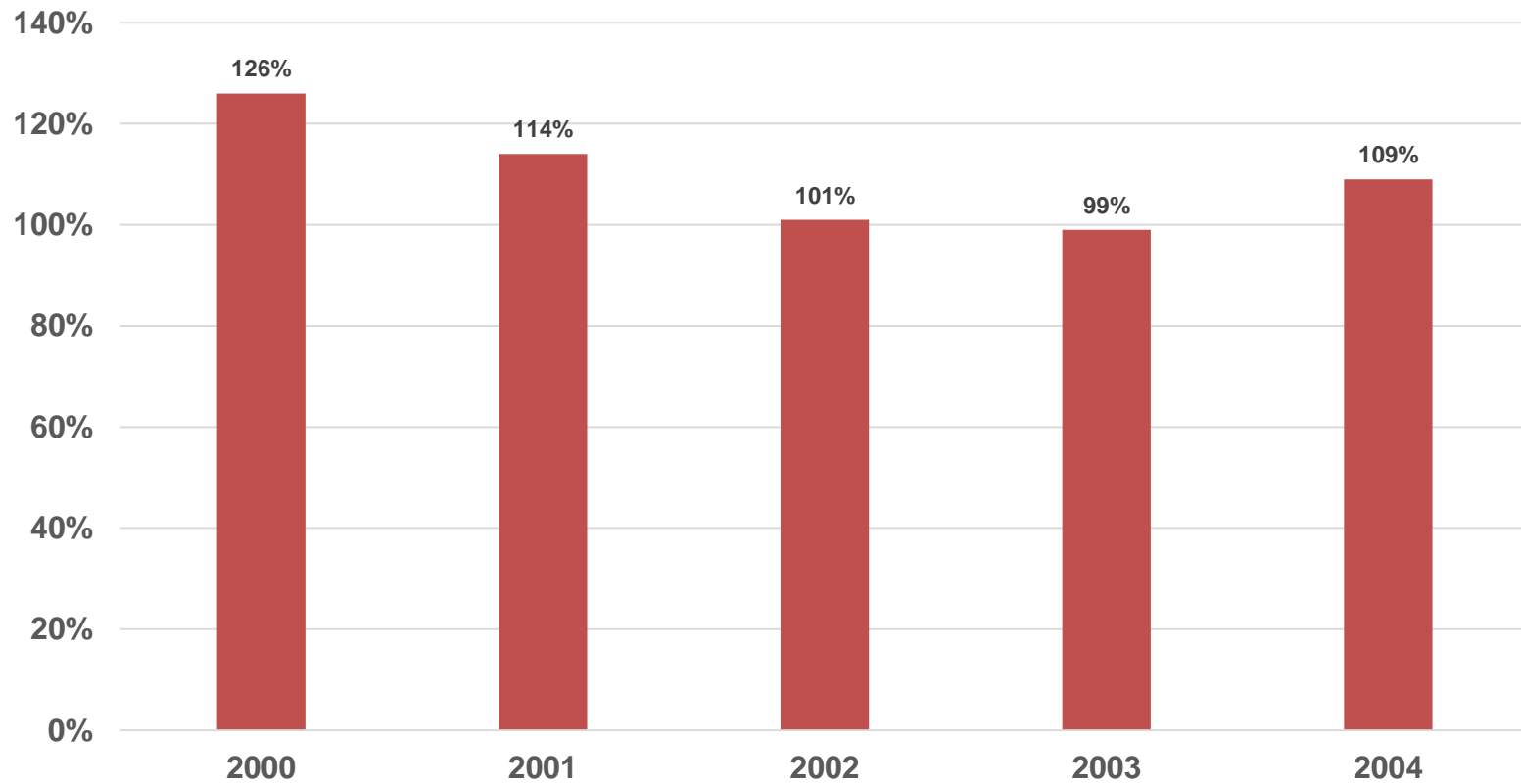
SDRS Investment Results in Downturns





SDRS Funded Status: 2000-2004

SDRS Fair Value Funded Ratio (FVFR)





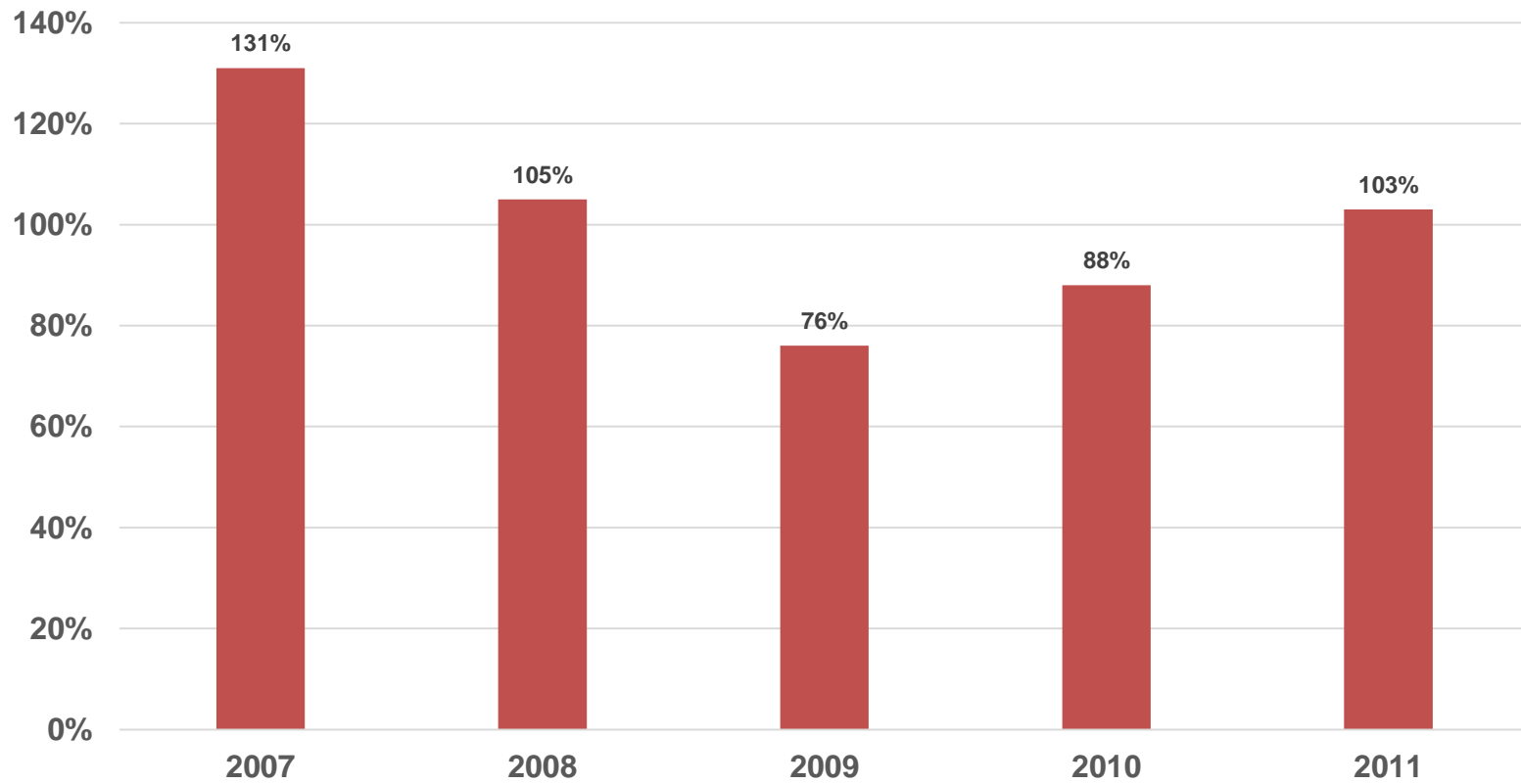
2001-2002 Downturn

- SDRS was very well-funded in 2000 (126% FVFR)
- Sustained period of benefit improvements in prior decade
- SDRS maintained 100% funded position except in 2003 (99% FVFR)
- No benefit changes were required
- Fixed, statutory contributions met the actuarial funding requirements
- FVFR of 109% in 2004 after 16.6% investment return for year
- SDRS funded status going into the downturn provided the right amount of resources to weather a significant down period
- During the five years after 2002, the System earned an annual rate of investment return of 13.8%



SDRS Funded Status: 2007-2011

SDRS Fair Value Funded Ratio





2008-2009 Downturn

- SDRS was even better funded in 2007 (131% FVFR)
- No benefit improvements since 2000, until 2008
- SDRS maintained a 100% funded position except in 2009 and 2010
- 76% FVFR in 2009 required benefit changes
- The benefit changes (COLA) and an 18.7% investment return in 2010 resulted in 88% FVFR
- FVFR increased to 103% in 2011 after 25.8% investment return for year
- SDRS funded status going into the downturn inadequate to avoid benefit changes
- During the five years after 2009, the System earned an annual rate of investment return of 16.7%



Lessons Learned

- Conditions can change rapidly and substantially due to the volatility of investment markets
- Severe economic downturns may be more frequent and severe than previously thought
- A very well-funded retirement system does not guarantee that a severe economic downturn can be weathered without changes
- A recovery after a severe downturn may be expected, but the timing and strength is unknown
- The SDIC disciplined approach has resulted in smaller investment losses during downturns and more rapid recovery after the downturn



Lessons Learned

- The increasing maturity of plans like SDRS exacerbates the impact of downturns
- Adding additional substantive fixed liabilities to SDRS is unwise
- The System cannot afford unintended subsidies
- Benefit increases once granted are difficult to reverse
- Rapidly changing conditions after a June 30 actuarial valuation, as well as informed outlooks, should be considered before finalizing recommended benefit changes and legislation



SDRS Actions Taken Based on Lessons Learned

- Adopted and expanded variable benefits
- Strengthened actuarial assumptions to reflect current outlooks
- Addressed benefit inequities and subsidies
- Expanded the SDRS risk analysis
- Increased communication to stakeholders
- Planned for volatility resulting in good and bad times



Observations

- SDRS is not as well funded going into this period
 - FVFR over 120% in 2000 and 2007
 - FVFR 100% in 2019 based on restricted COLA of 1.88%
- Prior five-year and ten-year investment returns:

	<u>Five-Year</u>	<u>Ten-Year</u>
— Before 2001	16.5%	13.9%
— Before 2008	13.8%	10.3%
— Before 2020	6.1%	11.3%
- Current conditions not directly comparable since:
 - Actuarial assumptions have been significantly strengthened
 - Variable COLA provides automatic adjustments to liabilities



Policy Regarding Consideration of Benefit Improvements

- Minimum actuarial conditions required
 - 120% minimum FVFR and sustained net investment gains/losses
 - Fully fund improvement
 - Maintain 120% minimum FVFR after funding benefit improvement



Objectives for Benefit Improvements

- ***Consider any short-falls compared to long-term benefit objectives***
- Improve benefits for both active and retired members
- Avoid **substantive** additional fixed benefit obligations
- Base improvement for active members on both member pay and service
- Base improvement for retired members on current benefit
- Be cautious



Recommended Benefit Improvements When Minimum Conditions Met

- Active and inactive members
 - Fund the Variable Retirement Account (VRA)
 - Consider an allocation formula based on pay, all service, and unimproved service (e.g., service since last formula improvement in 2008)
- Retired members
 - ***One-time COLA adjustment, if past COLAs since 2010 have not met Board's goal of inflation protection***
 - An additional one-time payment, or repeating for a limited period
 - Consider paying separately from regular benefit check

Note: Benefit formulas applicable to prior service have frequently been improved in the past for both active and retired members. Since this adds fixed liabilities to the System, it is not recommended as a future improvement.



Example of Benefit Improvement/Hypothetical Conditions

- Likelihood of achieving 120% FVFR over the next three years was 19% at the beginning of the fiscal year
- However, suppose SDRS has a FVFR of 122% considering the Baseline COLA
- 2% of assets could be considered for benefit improvements (\$250M)
- SDRS COLA since 2018 has been slightly less than inflation



Example of Benefit Improvement/Active Members

- Make a one-time allocation to VRA of 9% of current Final Average Compensation (FAC) of all active members, or \$177M
- Allocate to VRA based on current FAC times years of service since 2008 plus 50% of years of service before 2008
- Example for member with FAC of \$50,000:

<u>Service</u>	<u>Post-2008</u>	<u>Pre-2008</u>	<u>Allocation</u>	<u>% of FAC</u>
10	10	0	\$5,294	10.6%
20	12	8	8,471	16.9%
30	12	18	11,118	22.2%



Example of Benefit Improvement/ Retired/Inactive Members

- Retired members
 - Inflation catch-up for members receiving first COLA in 2018 or 2019
 - Provide a one-time payment also equal to 9% of current annual benefit
- Inactive members
 - Provide a one-time allocation to the VRA that also approximates 9% of the current earned annual benefit
- Would require approximately \$69M to fully fund
- Total cost of benefit improvement for all members is \$246M
- Benefit improvement percentage would vary with funds available



Statutory Requirements For Corrective Actions

- Recommendations for corrective actions required if
 - FVFR is less than 100%, or
 - Fixed, statutory contributions insufficient to fund benefits
- First requirement is key and will apply much sooner than second
- Results of requiring 100% funding
 - Maximum COLA reduced as necessary to meet 100% funding
 - This reduction is larger than necessary to fund future benefits
 - Excess of fixed contributions over Normal Costs widen



Restricted Maximum COLAs and Contribution Margin

Baseline FVFR	100%	97%	93%	88%	84%
Restricted Maximum COLA	3.50%	2.00%	1.50%	1.00%	0.50%
Statutory Contribution Rate	12.416%	12.416%	12.416%	12.416%	12.416%
Normal Cost with Expenses	<u>12.274%</u>	<u>11.888%</u>	<u>11.183%</u>	<u>10.555%</u>	<u>9.995%</u>
Statutory Contribution Margin	0.142%	0.528%	1.233%	1.861%	2.421%
Present Value of Future Salaries	\$17,603M	\$17,603M	\$17,603M	\$17,603M	\$17,603M
Present Value of Contribution Margin	\$25M	\$93M	\$217M	\$328M	\$426M



Corrective Action Considerations

- Funding shortfall magnitude
- Member accrued benefits and potential legal challenges
- Expanding variable benefits to delay need for additional changes
- Foundation / Generational cost equity
- Intergenerational equity
 - Most significant impact to date has been on COLA
 - Retirees are only group currently receiving benefits, but also most susceptible to inflation
 - Permanent structural COLA changes will impact all members in retirement
- Complexity in benefit administration and communication
- Temporary suspension of 100% funded status objective, but only after other actions taken



Corrective Actions Objectives

2018

- Since variable COLA adjustments will have reduced COLA to the .5% minimum, additional COLA adjustments should be considered only after other changes
- Follow template from Generational benefit structure and consider benefit subsidies remaining in Foundation benefit structure
- Maintain balance between Foundation and Generational members
- Consider corrections that exceed minimum required change to provide an additional risk margin
- Consider reducing or reversing most recent fixed formula benefit improvement, if possible

Revised

- Reduce minimum COLA to 0% and retain current COLA mechanism that automatically adjusts when conditions allow
- Make changes only for future service so Generational and Foundation members have identical benefits for future service
- Same
- Same
- Consider reductions to the most recent fixed formula benefit improvement and other accrued benefits only as a last resort
- Introduce additional variable benefit features



Recommended Corrective Action Priorities

2018

- **First Priority:** Reduce Foundation subsidies in retirement eligibility and terms
 - Raise Normal Retirement eligibility to age 66
 - Raise Early Retirement eligibility to age 56 and increase actuarial reduction to 4% for each year early
 - Raise Special Early Retirement eligibility to Rule of 95, minimum age 60
- **Second Priority:** Eliminate Foundation subsidies in retirement eligibility and terms
 - Raise Normal Retirement eligibility to age 67
 - Raise Early Retirement eligibility to age 57 and increase actuarial reduction to 5% for each year early
 - Eliminate Special Early Retirement Benefit

Revised

- **First Priority:** Reduce minimum COLA to 0%*
- **Second Priority:** Modify Corrective Action threshold to permit small Unfunded Liability that is expected to be fully funded by the statutory contribution margin in a short time

*Benefits would vary with funded status or be reinstated if affordable



Recommended Corrective Action Priorities

2018

- **Third Priority:** Modify future service benefits
 - Provide Generational benefit structure for all future service for Foundation members
 - Suspend VRA contribution
- **Fourth Priority:** Suspend, freeze, and restructure
 - Suspend COLA
 - Freeze accrued benefits
 - Base future benefits on career-average pay, not FAC
 - Reduce future service multiplier if needed

Revised

- **Third Priority:** Provide Generational benefit structure for all future service for Foundation members and suspend VRA contribution*
- **Fourth Priority:** Reduce future service benefit formulas* as needed (e.g., by 10%)
- **Fifth Priority:** Freeze accrued benefits, reduce accrued benefits as last resort, and base future benefits on pay earned each year, not FAC (career average pay*)

*Benefits would vary with funded status or be reinstated if affordable



Corrective Actions and Unfunded Liabilities

- Current variable COLA features provide significant downside protection, but at the beginning of FY 2020, there was still a 19% chance that additional corrective actions would be required at June 30, 2020
- Corrective actions required will depend upon the shortfall
- 100% funded status (no Unfunded Liabilities) is a core SDRS objective and should continue to be a long-term priority
 - Very significant market declines may be temporary
 - A relatively small Unfunded Liability based on fair value of assets may be acceptable for a short period
 - If Unfunded Liabilities allowed under these conditions, they should only be after First Priority action implemented and based on amount that is expected to be funded by the contribution margin in a short time



Corrective Actions Cost Estimates

- The estimated cost impacts are based on June 30, 2019
 - Member data,
 - Plan provisions, and
 - Fair Value of Assets
- They are broad estimates of the magnitude of the cost impact if changes are enacted during the 2021 Legislative Session and effective at June 30, 2021
- Cost estimates are cumulative (e.g., Second Priority estimates assume First Priority Changes also enacted)



Corrective Actions Cost Estimates

- First Priority: COLA Range Minimum Reduced to Zero
 - Reduces accrued actuarial liability by 4.5% (\$490M)
 - Would have reduced FY20 investment loss threshold for corrective actions from -7.1% to -11.6% and 1-year corrective action likelihood from 19% to 13%
 - Outcome: Decreases chances SDRS COLA will meet Board goal of matching inflation long-term



Corrective Actions Cost Estimates

- Second Priority: Permit Small Unfunded Liability for Short Time
 - No reduction in accrued actuarial liability
 - \$60M annually of contributions would be available due to the excess of the fixed contributions over the actuarially determined contribution with no COLA (2.9% of pay statutory contribution margin)
 - These contributions have a present value of \$514M
 - Unfunded Liability of \$514M could be permitted (95.1% FR) and would be expected to be fully funded by the statutory contribution margin in ten years
 - First and Second Priorities would have reduced FY20 investment loss threshold for corrective actions from -7.1% to -15.4% and 1-year corrective action likelihood from 19% to 8%
 - Future experience gains would first reduce or eliminate the Unfunded Liability, then provide affordable COLA
 - Outcome: Less than 100% funding over short period



Corrective Actions Cost Estimates

- Third Priority: Generational for All and Suspend VRA Contribution
 - No reduction in accrued actuarial liability
 - \$30M annually of contributions (1.5% of pay) would be available from the suspension of the VRA contribution to reduce the accrued liabilities
 - \$60M annually of contributions would also be available due to the excess of the fixed contributions over the actuarially determined contribution with no COLA (2.9% of pay statutory contribution margin)
 - Unfunded Liability of \$778M could be permitted (92.5% FR) and would be expected to be fully funded by the statutory contribution margin in ten years
 - First, Second, and Third Priorities would have reduced FY20 investment loss threshold for corrective actions from -7.1% to -17.5% and 1-year corrective action likelihood from 19% to 6%
 - Outcome: Avoids changes to benefits earned to date for Foundation members and standardizes future benefits for all SDRS members, while suspending VRA contribution



Corrective Actions Cost Estimates

- Fourth Priority: 10% Reduction in Future Benefit Formulas
 - Accrued actuarial liability reduced by approximately \$100M and Normal Costs also reduced
 - Unfunded Liability of \$844M could be permitted (91.9% FR) and would be expected to be fully funded by the statutory contribution margin (4.8% of pay) in ten years
 - First, Second, and Third, and Fourth Priorities would have reduced FY20 investment loss threshold for corrective actions from -7.1% to -19.0% and 1-year corrective action likelihood from 19% to 5%
 - Outcome: Results in benefits that will not meet the Board's long-term goals, unless future benefits can be updated periodically when supported by experience gains



Corrective Actions Cost Estimates

- Fifth Priority: Freeze Benefits, Reduce Accrued Benefits as Last Resort, and Career Average Going Forward
 - Reduction in accrued actuarial liability depends on specifics not yet totally defined
 - Outcomes:
 - Changes would be very significant and provide at least \$1B additional reduction in accrued actuarial liabilities
 - Provides a much lower benefit accrual and lower fixed cost structure
 - Adds additional variable benefits since accrued benefits would be increased only if affordable and system is fully funded
 - Results in benefits that will be significantly less than the Board's long-term goals, unless accrued benefits can be updated periodically when supported by experience gains



Required Corrective Action Estimates⁽¹⁾

Net Investment Return, FYE June 30, 2020	Fair Value Funded Ratio		Required Corrective Action	Required Steps (Maximum Impact)	FVFR After Corrective Action	Unfunded Liability After Corrective Action	Additional Corrective Action Required
	Baseline	Final					
0%	91%	100%	n/a				
(5%)	86%	100%	n/a				
(10%)	81%	97%	\$354M	1 st Priority (\$490M)	100%	\$0	\$0
(15%)	77%	91%	\$967M	1 st - 2 nd Priorities (\$1,004M)	95%	\$466M	\$0
(17.5%)	75%	89%	\$1,273M	1 st - 3 rd Priorities (\$1,268M)	93%	\$778M	\$5M
(20%)	72%	86%	\$1,580M	1 st - 4 th Priorities ⁽²⁾ (\$1,334M)	92%	\$844M	\$246M

(1) Before consideration of liability gains/losses for year ending June 30, 2020.

(2) Fourth priority is a 10% cut in future benefit accrual rate. FYE June 30, 2020 return of -20% would require larger reduction or First through Fifth Priority reduction.



Board Discussion/Reactions

- Benefit Improvements Policy
 - Minimum requirements for recommendations
 - Objectives
 - Priorities
- Corrective Actions Policy
 - Statutory requirements for recommendations
 - Objectives
 - Priorities
 - Living with a modest Unfunded Liability for a temporary period



Potential Next Steps

- Formalize First and Second Priority changes in statute to:
 - Provide additional automatic COLA changes when needed
 - Modify corrective action threshold to permit small Unfunded Liability that is expected to be funded by the contribution margin, but only after COLA changes are exhausted
 - Expand the automatic and variable features and amend 100% funding objective of SDRS that together would extend the period before additional corrective action legislation would be required

South Dakota Retirement System
222 East Capitol Suite 8
PO Box 1098
Pierre, South Dakota 57501-1098
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MEMO NO. 2020-01B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: EFFECTIVE RATE OF INTEREST TO BE CREDITED
FROM JULY 1, 2020, TO JUNE 30, 2021

DATE: MARCH 24, 2020

The interest rate credited to member accounts that is payable if a member terminates employment and refunds out of the system is defined in SDCL 3-12C-108 as follows:

***3-12C-108. Effective rate of interest defined.** For the purposes of this chapter, the phrase, effective rate of interest, means the interest at an annually compounded rate to be established by the board for each fiscal year. The rate shall be no greater than ninety percent of the average ninety-one day United States treasury bill rate for the immediately preceding calendar year and in no event may the rate be more than the rate established by the board pursuant to § 3-12C-227 for investment return for purposes of the actuarial valuation. If a member withdraws contributions pursuant to § 3-12C-602 or 3-12C-604, or if benefits are payable under § 3-12C-409, the interest shall be as annually compounded on the preceding June thirtieth.*

Attached is a copy of the domestic interest rate statistics for calendar year 2019, as published by the Federal Reserve Board. The U.S. Treasury bills secondary market average on 3-month issues is the average 91-day U.S. Treasury bill rate you would use in the calculation required by SDCL 3-12C-108. The Treasury bill rate for the calendar year 2019 was 2.06%. Ninety percent of the calendar 2019 T-bill rate is 1.85%.

Please bring your copy of this memo to the April board meeting, as this will be an agenda item. Please contact us if you have any questions.

TWA:dms
Enclosure

Series Description	3-month Treasury bill secondary
Unit:	market rate discount basis
Multiplier:	Percent:_Per_Year
Currency:	NA
Unique Identifier:	H15/H15/RIFSGFSM03_N.A
Time Period	RIFSGFSM03_N.A

1974	7.85
1975	5.79
1976	4.98
1977	5.26
1978	7.18
1979	10.05
1980	11.39
1981	14.04
1982	10.6
1983	8.62
1984	9.54
1985	7.47
1986	5.97
1987	5.78
1988	6.67
1989	8.11
1990	7.5
1991	5.38
1992	3.43
1993	3
1994	4.25
1995	5.49
1996	5.01
1997	5.06
1998	4.78
1999	4.64
2000	5.82
2001	3.4
2002	1.61
2003	1.01
2004	1.37
2005	3.15
2006	4.73
2007	4.36
2008	1.37
2009	0.15
2010	0.14
2011	0.05
2012	0.09
2013	0.06
2014	0.03
2015	0.05
2016	0.32
2017	0.93
2018	1.94
2019	2.06



MEMO NO. 2020-02B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: SUPPLEMENTAL PENSION BENEFIT
FY 2021 INTEREST RATE ASSUMPTION

DATE: MARCH 24, 2020

The interest rate assumption on Supplemental Pension Benefits is defined in SDCL 3-12C-1502 as follows:

3-12C-1502. Interest rate assumption--Suspension of new supplemental pension contracts--No right to particular price. *On an annual basis, at minimum, the board shall establish an interest rate assumption upon which the provisions of subsequent supplemental pension contracts shall be based. The board shall establish the assumption on the basis of the recommendations of the system's actuary and the state investment officer. The interest rate assumption may not be greater than the actuarial assumed rate of return for the fund, nor may the interest rate assumption be less than the effective rate of interest. Any other provision of law notwithstanding, the board may suspend issuance of new supplemental pension contracts at any time. Any suspension of new supplemental pension contracts shall be prospective in operation and may not affect supplemental pension contracts already in effect.*

The administration of the supplemental pension benefit requires that supplemental pension benefit purchase costs vary from one time period to the next. Consequently, participants who accept the option of a supplemental pension benefit have no expectation or fundamental right to any particular supplemental pension benefit purchase price.

After review of appropriate annuity rates and fixed income/return instruments available in the market place, the external actuary has recommended a SPB interest rate assumption of between 2.0% and 3.0% and the State Investment Officer has recommended an interest rate assumption of between 2.75% and 3.5%. Based on this information and a process similar to what was used in the past, staff recommends the use of a 2.875% interest rate for FY 2021. The fiscal year 2020 interest rate assumption approved by the board was 3.5%.

The historical recommendations for the Supplemental Pension Benefit interest rate assumption are as follows:

	External Actuary	State Investment Officer	Staff Recommended/ Implemented Rate
FY 2009			5.5%
FY 2010	5.25%	4.65-5.15%	5.0%
FY 2011	4.0%	4.5-5.0%	4.5%
FY 2012	4.25-4.75%	4.5%	4.5%

FY 2013	3.5-4.0%	4.0-4.5%	4.0%
FY 2014	3.0-3.5%	4.0-4.5%	3.75%
FY 2015	3.5-4.5%	3.75-4.25%	4.0%
FY 2016	2.5-3.5%	3.5-4.0%	3.5%
FY 2017	2.8-3.8%	3.5-4.0%	3.5%
FY 2018	2.8-3.8%	3.25-3.75%	3.5%
FY 2019	2.8-3.8%	3.28-3.78%	3.5%
FY 2020	3.0-4.0%	3.38-3.89%	3.5%
FY 2021	2.0-3.0%	2.75-3.5%	2.875%

If and when these contracts become more prevalent, we may want to update the process used to establish the interest rate. The procedure established in 2009 for determining the interest rate assumption is below.

Please bring your copy of this memo to the April board meeting, as this will be an agenda item. Please contact us if you have any questions.

Procedure for Determining the Supplemental Pension Benefit Annual Interest Rate Assumption

The Board of Trustees shall at least annually establish the Supplemental Pension Benefit interest rate assumption. The interest rate assumption may not be greater than the actuarial assumed rate of return for SDRS, nor may the interest rate assumption be less than the effective rate of interest described in South Dakota Codified Law in subdivision 3-12C-108

The Board shall establish the interest rate assumption based on the recommendation of the system's external actuary and the state investment officer. These recommendations shall be based on current capital market rates including fixed income investments and expected returns available at or near the time that the rate is defined.

The recommendations for the interest rate assumption may consider:

- US government/agency and corporate bond rates with or without the addition of an equity factor.
- Annuity rates defined by insurance/ investment firms and public information, including, but not limited to, the Pension Benefit Guarantee Corporation annuitization values.
- The expected return of the South Dakota Retirement System trust fund and the likelihood that the assumption will be achieved with these funds.

A range of interest rate assumptions will be provided to the Board of Trustees based on these factors and the input of the external actuary and state investment officer. A specific recommendation for the rate should be provided by the Executive Director. The external actuary and state investment officer may also provide a specific recommendation.

**STATE OF SOUTH DAKOTA
OFFICE OF THE GOVERNOR
EXECUTIVE ORDER 2020-01**

Whereas, Israel is a critical and invaluable ally of the United States and a faithful friend of the State of South Dakota; and,

Whereas, The ability to engage and promote the prosperity of South Dakota's economy is best served by receiving goods and services from entities who are engaged in the broadest market available and may be hindered by entities exercising restrictive trade practices; and,

Whereas, The termination of or refusal to transact business activities with people or entities because of their national origin is not a commercial decision made for business or economic reasons and limits market options for that business; and,

Whereas, Business entities that employ such unsound business practices have reduced market participation, have impaired commercial viability, pose undue risks as contracting partners, and may not provide the best possible goods or services to the State at the best prices; and,

Whereas, Boycotts based on religion, national origin, or ethnicity amount to invidious discrimination; and,

Whereas, The State has a broad policy to refrain from contracting with business entities that unlawfully discriminate in the solicitation, selection, hiring, or commercial treatment of commercial customers such as vendors, supplies, or subcontractors; and,

Whereas, Contracting with business entities that discriminate makes the State a passive participant in private-sector commercial discrimination; and,

Whereas, The State of South Dakota requires contractors, vendors, suppliers, and subcontractors doing business with any executive branch agency to provide a statement of non-discrimination and certify that it does not discriminate in compliance with a variety of antidiscrimination and equal opportunity laws; and,

Whereas, In 2019, the South Dakota House of Representatives of the Ninety-Fourth Legislature, the Senate concurring, passed House Concurrent Resolution 1005 that declared opposition to and condemned the BDS movement; and,

Whereas, The State of South Dakota should act to secure its economic activities, and thereby the welfare of its citizens, by availing itself to the broadest market possible and renouncing restrictive trade practices based upon discrimination:

NOW, THEREFORE, I, KRISTI NOEM, Governor of the State of South Dakota, by the authority vested in me by the Constitution and the Laws of this State, do hereby Order and Direct the following:

Section 1 Definition: These words shall have the meanings indicated:

A. "Boycott of Israel" or "BDS movement" means engaging in conduct of refusing to deal, terminating business activities, or other similar actions that are intended to penalize, inflict economic harm, or otherwise limit commercial relations specifically with the State of Israel, companies doing business in or with Israel or authorized by, licensed by, or organized under the laws of the State of Israel to do business, or persons or entities doing business in the State of Israel, in a discriminatory manner, but does not include an action taken for a bona fide business or economic purpose or an individual's personal consumer purchasing decision;

B. "Executive branch agencies" means each state agency, authority, bureau, board, commission, department, or institution of the State of South Dakota that is controlled by the governor;

C. "Contract" means any type of agreement by or on behalf of the State with a business entity to sell or lease supplies or goods, or to provide services, professional services, construction, or public improvements, to the State in return for a fee, or any other form of compensation to be paid or provided by the State; and,

D. "Contractor" means a vendor, supplier, or subcontractor which is an organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly-owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of those entities or business associations, having five (5) or more employees, that has submitted a bid or offer for or has been selected to engage in providing goods or services to the State, but does not mean a sole proprietorship or individual.

Section 2 Prohibition: No executive branch agency may execute a Contract with a Contractor engaged in a Boycott of Israel when the subject matter of that Contract is related to the boycott activity of the Contractor. An executive branch agency may rely on a Contractor's certification made under this Order without conducting any further investigative research or inquiry. Each executive branch agency shall reserve the right to terminate a Contract with a Contractor that submits a false certification.

Section 3 Certification: All Contractors must certify in writing when a bid or offer is submitted or when a Contract is awarded or renewed, that (a) it has not engaged in any Boycott of Israel activity related to the subject matter of the Contract; and (b) if at any time after making this certification the Contractor engages in a Boycott of Israel related to the subject matter of the Contract, the Contractor must notify the contracting executive branch agency in writing and may be subject to contract termination. All competitive sealed bids and proposals issued for contracts with executive branch agencies shall include the text of the following certification to be completed by the bidder or offeror:

"For contractors, vendors, suppliers, or subcontractors with five (5) or more employees who enter into a contract with the State of South Dakota that involves the expenditure of one hundred thousand dollars (\$100,000) or more, by submitting a response to this solicitation or agreeing to contract with the State, the bidder or offeror certifies and agrees that the following information is correct:

"The bidder or offeror, in preparing its response or offer or in considering proposals submitted from qualified, potential vendors, suppliers, and subcontractors, or in the solicitation, selection, or commercial treatment of any vendor, supplier, or subcontractor, has not refused to transact business activities, has not terminated business activities, and has not taken other similar actions intended to limit its commercial relations, related to the subject matter of the bid or offer, with a person or entity that is either the State of Israel, or a company doing business in or with Israel or authorized by, licensed by, or organized under the laws of the State of Israel to do business, or doing business in the State of Israel, with the specific intent to accomplish a boycott or divestment of Israel in a discriminatory manner. It is understood and agreed that, if this certification is false, such false certification will constitute grounds for the State to reject the bid or response submitted by the bidder or offeror on this project and terminate any contract awarded based on the bid or response. The successful bidder or offeror further agrees to provide immediate written notice to the

contracting executive branch agency if during the term of the contract it no longer complies with this certification and agrees such noncompliance may be grounds for contract termination.”

Section 4 Notice: A request for proposal, invitation to bid, or other document issued by an executive branch agency with the intent of soliciting responses for the potential award of a Contract shall include notice of the certification requirement of this Order.

Section 5 Oversight: The Commissioner of the Bureau of Administration, or his designee, shall oversee this Order to ensure implementation and enforcement.

Section 6 Limited Waiver: The Commissioner of the Bureau of Administration, or his designee, may waive application of this Order for a bid or offer if it is determined that compliance is not practicable, that the subject goods or services are unique or would be otherwise unavailable, that there is no other market participant, or that the Contract is otherwise in the best interests of the State.

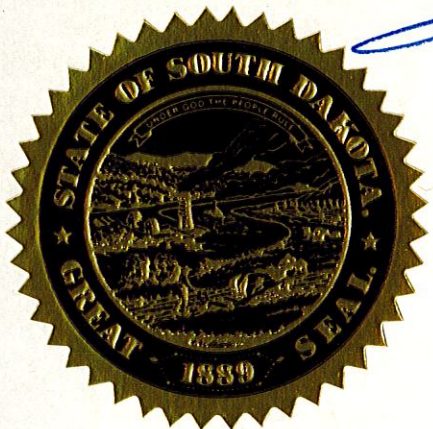
Section 7 Execution: Executive branch agencies shall implement this Order in a manner that is consistent with all applicable state or federal law or regulation. Nothing in this Order shall operate to contravene any state or federal law or to affect the State’s receipt of federal funding.

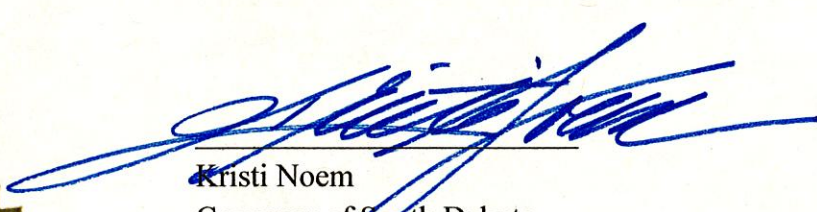
Section 8 Severability: If any provision of this Order or its application to any entity or circumstance is held invalid by any court of competent jurisdiction, all other provisions or applications of this Order shall remain in effect to the extent possible without the invalid provision or application, and this Order is severable.

Section 9 Application: This Order applies to Contractors with more than five (5) employees who enter into a Contract with the State of South Dakota that involves the expenditure of one hundred thousand dollars (\$100,000) or more.


Section 10 Effective Date: This Order is prospective, effective thirty days after signature, and shall continue in effect until amended, modified, terminated, or rescinded by the governor.

Dated in Pierre, South Dakota this 14th day of January, 2020.




Kristi Noem
Governor of South Dakota

ATTEST:


Steve Barnett
Secretary of State