

To: Participants, Department of Labor Employee Retirement Plan
From: Department of Labor Employee Retirement Board
Subject: Vote to Merge the Plan with the South Dakota Retirement System
Date: November 6, 2019

VOTE

On November 6, the Department of Labor Employee Retirement Board (DOL ERB) approved proceeding with asking the Department of Labor Employee Retirement Plan (DOL ERP) members to merge the Plan with the South Dakota Retirement System (SDRS). South Dakota codified law requires a two-thirds majority approval of the Plan members in order for SDRS to accept the DOL ERP.

Please find enclosed with this letter a yellow ballot. Select whether you approve of the proposal, then mail the ballot back using the enclosed pre-paid postage envelope. **Please return your ballot by November 22.**

PROPOSAL

The Board is asking for your vote regarding shifting the Plan’s assets to the South Dakota Retirement System (SDRS) to administer the benefit payments.

The DOL ERP participants would receive the same benefits they are receiving under the current plan as of June 30, 2020. This includes all spousal and dependent benefits. The plan participants who have not yet retired would be eligible for the same benefit options as under the current DOL ERP upon retirement.

The annual cost-of-living-adjustment (COLA) would be calculated based on the entire value of the SDRS asset pool and inflation, not just the DOL Employee Retirement Plan (ERP). Over the past 10 years, the SDRS COLA increases have been the same or higher than what the ERB has allocated, except in 2010 and 2011.

Effective Date	ERB COLA	SDRS COLA
07/01/2019	1.3%	2.03%
07/01/2018	1.8%	1.89%
07/01/2017	1.0%	2.10%
07/01/2016	0.0%	3.10%
07/01/2015	1.8%	3.10%
07/01/2014	2.5%	3.10%
07/01/2013	2.0%	2.10%
07/01/2012	3.1%	3.10%
07/01/2011	3.6%	2.10%
07/01/2010	3.1%	2.10%

SDRS is a pension system with 90,000 participants and \$12 billion in assets. This provides extra security to all participants in the plan as a larger pool of assets is available to pay plan benefits. For more information regarding SDRS, please visit <https://sdrs.sd.gov/docs/GovLegrepJan2019.pdf>.

CURRENT DOL ERP STRUCTURE RISKS

1. The DOL ERP is considered closed because no additional members can enter it. Also, contributions to the plan's assets are no longer made by plan participants. The plan's assets are all invested. However, this causes the asset pool to be vulnerable to market trends.
2. During a recession, if the investments for the plan decrease in value, the plan could be underfunded. If the plan stays underfunded, plan participant payments may be adversely impacted.
3. For years, ERB members have tried to secure stability through the possible purchase of annuities. However, the asset value has never grown to the point of stability in comparison with the cost of annuities, in part because the latter is a moving target.

FAQ

Will my spouse and dependents receive the same benefits based on the options I selected when I retired?

Yes, all benefits plan participants are receiving will stay the same. If a person is currently a participant in both DOL ERP and SDRS, these will still remain separate. Benefits will not be merged between the plans.

What happens if SDRS becomes underfunded (liabilities exceed assets)?

If SDRS becomes underfunded, the DOL ERP members would only be affected by seeing a reduced or no cost-of-living adjustment. No benefits would be changed, and no changes would be made in the spousal or dependent options.

Would my monthly payments be affected?

Monthly payments would still occur on the 1st of every month. If you also receive SDRS payments, these would remain separate.

How is the SDRS COLA calculated?

The annual COLA is based on the inflation (consumer price index) with a minimum of 0.5% and a maximum of 3.1%. It is also dependent upon the funded ratio of the system. For more information, please see South Dakota Codified Law (SDCL) 3-12C-704.

What happens if this is not approved?

The DOL Employee Retirement Board will continue to manage the plan as it currently is. If the Plan becomes underfunded in the future (potential benefit payouts exceed cash), the Board will take corrective actions which may adversely impact Plan participants.

NEXT STEPS

The DOL ERB will meet in early December to discuss the election results. If sufficient approval is received, the Board will submit the proposal to the SDRS Board on December 5. The SDRS Board can then vote on whether to accept the proposal. If the SDRS Board accepts the proposal, the Department of Labor and Regulation will proceed with filing the necessary law changes during the 2020 Legislative Session.

If the legislation is approved during Session, this proposal would go into effect July 1, 2020.

CONTACT INFORMATION

If you have any questions, you can contact:

- Emily Ward, Administrative Services Director, Department of Labor and Regulation: 605.773.3088 or emily.ward@state.sd.us
- Mike O'Brien, Participant Board Member: 605.225.2407 or mobrien@abe.midco.net
- James Reeve, Participant Board Member: 605.368.8961 or jibz@drtel.net

Please leave your name and phone number if these individuals don't answer, and they will return your phone call.

COMMENTS

Questions or concerns may also be mailed to:

Department of Labor and Regulation
Attn: Emily Ward
123 W. Missouri Ave.
Pierre, SD 57501

Enclosures: Official ballot
 Pre-paid envelope