

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) unanimously approved of the member present to proceed 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 approval of the DOL ERP members in order to merge with SDRS.

Please find enclosed with this letter a yellow ballot. Select whether you approve or disapprove 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 merging the Plan's assets with the South Dakota Retirement System (SDRS) to administer future benefit payments.

The DOL ERP members 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 members 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 using the SDRS COLA process, considering inflation and the combined plan's assets and liabilities. 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. However, the SDRS COLA process changed for the COLA increases after 2017 as described in the FAQ below.

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%

*Calculated using the current SDRS COLA method. +DOL ERP old method of calculating COLA.

SDRS is a pension system with approximately 90,000 participants and \$12 billion in assets. This provides extra security to all members 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> or call 605.773.3731.

RISKS TO PARTICIPANT BENEFITS OF MAINTAINING DOL ERP

1. The DOL ERP is closed to new members and no contributions are being made. A significant portion of the Plan's assets are paid in benefits each year, making the Plan's funding level vulnerable to market trends.
2. During a recession, if the investments for the Plan decrease in value, the Plan could become underfunded. If the Plan stays underfunded, Plan member payments may be adversely impacted.
3. For years, the ERB has tried to secure stability through the possible purchase of annuities. However, the asset value has never grown to the point of being able to afford annuities with a meaningful COLA, in part because the cost of annuities 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 members are receiving will stay the same. If a person is currently a participant in both DOL ERP and SDRS, these will remain separate. Benefits will not be merged between the plans.

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

If SDRS becomes underfunded, it is anticipated the DOL ERP members would only be affected by reduced or eliminated cost-of-living adjustments. No changes to benefits or spousal or dependent options are expected unless a severe economic crisis causes the Legislature to take corrective action.

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 funded status of the system and inflation (consumer price index) with a minimum of 0.5% and a maximum of 3.5%. If the system's funded status falls below 100%, then the 3.5% maximum is reduced to a level that can be afforded and keeps SDRS fully funded. The July 2019 SDRS COLA was based on a restricted maximum of 2.03%. 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 members.

NEXT STEPS

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

If the Department receives 2/3rds vote of the Plan members approving the merger by December 4, the Department will submit the proposal to the SDRS Board on December 5. The SDRS Board will vote on whether to support the proposal. The Department of Labor and Regulation will proceed with filing the necessary legislation 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: 605.358.8961 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