

Meeting Minutes
DEPARTMENT OF LABOR EMPLOYEE RETIREMENT BOARD
Missouri River Plaza, Sharpe Conference Room
123 W. Missouri Ave., Pierre
June 3, 2019 10:00 a.m. CDT

The South Dakota Department of Labor Employee Retirement Board met on June 3, 2019. DDN locations were available in Aberdeen, Rapid City, and Sioux Falls.

Members Present: Chairman Bob Riter, Mike O'Brien, Jim Reeve, Secretary Marcia Hultman, and Commissioner Liza Clark

Present in Pierre: Emily Ward, Molly Stulken, Jennifer Kamps, Michael de Leon

Present via Phone Conference: Paula Zellmer, Jason Gratson, and David Fee

Present via DDN: Kathryn Gobczynski, Maureen Klaudt, Dale Bendewald, Cynthia Herr, Betty Likness, Sharon Schnabel, Deb Gardner, Dan Thielsen, and Marcia Miller

Chairman Riter called the meeting to order at 10:00 a.m. CDT. Jennifer Kamps called the roll. A quorum was present.

Mike O'Brien made a motion to approve the October 11, 2018, meeting minutes. Liza Clark seconded the motion. MOTION PASSED.

Michael de Leon from Deloitte presented the Actuarial Report, 2019 COLA and Purchasing Annuities. The assets exceeded plan liabilities as of July 1, 2018, by \$0.4 million based on the actuarial assumptions and methods. As of July 1, 2017, the plan assets exceeded plan liabilities by \$0.5 million. The \$0.1 million difference is a result of:

- A gain of \$1.8 million due to asset returns more favorable than expected (actual 7.99 percent vs. 4.75 percent expected).
- A loss of \$1.4 million due to demographic changes primarily caused by higher than expected July 1, 2018 COLA (actual 1.8 percent vs. 1.4 percent expected).
- A loss of \$1.7 million due to the change in mortality assumptions from RP-2014.
- A gain of \$1.2 million due to the change in COLA assumption (this change is a function of the COLA methodology, which is expected to pay higher COLAs when liabilities decrease and lower COLAs when liabilities increase).

The COLA projection was based on the average asset value during April 2019, which was \$56,493,133. This provided for a 1.3 percent COLA to be paid on July 1, 2019, if approved by the Board. Comparing actual COLA paid to Inflation (CPI-W) with a sample annual benefit for pre-1999 retiree, with \$23,388 annual benefit as of July 1, 2018, shows the annual benefits are \$2,150 (10 percent) higher under the plan's COLA compared to CPI-W.

Deloitte has reviewed the RFP responses for purchasing annuities based on the COLA rates the Board discussed at previous meetings. Currently, the funds in the retirement investments are not enough to reach the 1 percent COLA. If the Board does decide to purchase annuities, the decision will have to be made quickly. The final percentage bid is likely to be 2-3 base points higher due to the aggressiveness of the annuity providers.

Under the annuity option, insurers do not want to take on the remaining active employees unless benefits are frozen.

David Fee and Paula Zellmer from Principal presented the Investment Advisory Report and Purchasing Annuities. Ending balance as of March 31, 2019, for the portfolio was \$56,131,793. Total portfolio year-to-date return as of March 31, 2019, was 6.74 percent. The plan has a goal of 40 percent allocation to fixed income and the rest in growth assets.

With the goal to eventually purchase annuities, Principle would need the Board to approve adding the LDI option to switch the plan from active investment to defensive investments.

Emily Ward, DLR Director of Administrative Services, will investigate the legal ramification regarding how to proceed with the four active participants. Emily will also work with Principal on amending the contract to allow the option to switch to LDI investment profile.

James Reeve made a motion to approve the 1.3 percent COLA. Mike O'Brien seconded the motion. MOTION PASSED.

Secretary Hultman motioned for the Election Office positions to continue being held by the current board members. Liza Clark seconded the motion. MOTION PASSED.

Secretary Hultman made a motion to approve the Annual Report to the Retirement Laws Committee. Mike O'Brien seconded the motion. MOTION PASSED.

Mike O'Brien made a motion to adjourn. James Reeve seconded the motion. MOTION PASSED at 12:15 p.m. CDT.