

**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 03, 2019. DDN locations were 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 DeLeon

**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 of July 1, 2017, the plan assets exceeded plan liabilities by \$0.5 million. The \$0.1 million 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 assumption from RP-2014 without collar or amount adjustments, adjusted to the 2006 base year, projected generationally with Scale MP-2017 to 97 percent of RP2014, projected generationally with Scale MP-2018, white collar rates for females and total dataset rates for males.
- 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 is 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 versus CPI-W.

Deloitte has reviewed the RFP responses for purchasing annuities based on the COLA rates that the retirement board discussed in the last meeting of 1, 2, and 3 percent payout. As of right now the funds in the retirement investments are not enough to reach the 1 percent COLA. Reviewing the last four month the flexibility between the COLA rates that we can afford have

switched every month. If the retirement 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.

Insurers do not want to take on the remaining active employees. The only way they would want to take the active employee would be to freeze the benefits. The board must decide how it wants to proceed with the active employees.

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 to add the LDI option available to switch the plan from active investment to defensive investments. Principle also needs the board to approve them moving the plan from active to defensive when the plan reaches the specific COLA goal decided by the board members based off the retirees wants. This action will be discussed at the next board meeting.

Emily Ward, DLR Director of Administrative Services, will investigate the legal ramification from the listed suggestions 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. Liza Clark will ask the Executive Director of the South Dakota Retirement System to discuss options for the four active employees.

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

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

Marcia 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.