Meeting Minutes
DEPARTMENT OF LABOR EMPLOYEE RETIREMENT BOARD
Missouri River Plaza, Sharpe Conference Room
123 W. Missouri Ave., Pierre
October 3, 2019 2:00 p.m. CDT

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

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

Present in Pierre: Director Emily Ward, Jennifer Kamps, Doug Fiddler, Amber Mulder, Ken Hericks, and Rob Wiley

Present via Phone Conference: Michael de Leon, David Fee, and Graham Oey

Present via DDN: Dennis Coull, Marcia Miller, Teresa Knoll, Betty Likness, Sharon Schnabel, Stephen Craig, Cindy Herr, Lynn Bennett, and Maureen Klaudt

Chairman Riter called the meeting to order at 2:00 p.m. CDT. Director Emily Ward called the roll. A quorum was present.

Mike O'Brien made a motion to approve the June 3, 2019, meeting minutes. James Reeve seconded the motion. MOTION PASSED.

Director Ward presented the results of the Board member election. The terms of the plan participant Board members ended June 30, 2019. Nomination notices were sent out in July, and six people were nominated. Four people declined the nominations. Election ballots were mailed out in August, and 89 responses were received. Mike O'Brien and James Reeve were re-elected for another four-year term.

Michael de Leon from Deloitte presented an update on the Annuity Purchase Estimates. Based on the responses from the request for proposal, the annuity purchase rates have decreased more than 100 base points since January. With the current balance, the Department of Labor Employee Retirement Plan cannot afford to buy annuities at a 0 percent COLA.

Graham Oey, Staff Attorney for the Department of Labor and Regulation (DLR), provided responses to the questions regarding active employees from the last Board meeting. The four remaining active employees can retire and be rehired in their same jobs and with current benefits, but the Plan would have to be terminated. Under section 4.05 of the Plan, if a Plan Participant retires and the Plan terminates, the monthly benefit payments shall continue unchanged. However, if a participant retires and is rehired, the benefit payments are withheld until they become payable. The benefit is not lost but cannot be paid until the participant retires.

Doug Fiddler and Rob Wiley presented an SDRS briefing. SDRS was consolidated in 1974 and currently has $12 billion in assets, approximately 90,000 members, 31 employees, and works with 30 employees with the State Investment Council to invest the plan's assets. South Dakota codified law 3-12C-304 allows other groups to join the SDRS plan with approval from two-thirds of the members of joining plan.

Currently, active employees contribute 6 percent of their salaries to the SDRS plan with their employer matching the amount. The SDRS plan is 100 percent funded with continuous sustainability research. Rob Wiley provided the Board with the Annual Report of the Funded Status of SDRS, which can be found online at sdrs.sd.gov/docs/GovLegrepJan2019.pdf.

SDRS has changed the calculations of the annual cost of living adjustment (COLA). Legislation enacted in 2017 tied the COLA directly to the annual inflation rate and the available resources to pay for it. If SDRS assets meet or exceed the baseline liabilities, the COLA will equal inflation with a minimum of 0.5 percent and a maximum of 3.5 percent. If the assets are less than the baseline liabilities, the COLA will equal inflation with a minimum of 0.5 percent.

When comparing the plan structures, the SDRS plan structure is very similar to the Plan structure. The Plan has a higher benefits formula but has had lower COLAs recently, whereas SDRS has a lower formula calculation but has been issuing higher COLAs.

If the Department of Labor Employee Retirement Board and Plan Participants approve, the assets of the Plan can be shifted to SDRS and the State Investment Council. The benefits currently paid out to the Plan Participants would remain the same. The active employees can continue their current employment as is and would receive the benefit options as previously established under the Plan when they decide to retire. The annual COLA would be the same COLA approved by the SDRS Board of Trustees. If SDRS funding were to drop below 100 percent, SDRS would recommend benefit adjustments for existing SDRS members and would recommend any benefit adjustments for DLR plan members be limited to reducing or eliminating the COLA. If a retiree currently draws from both the Department of Labor Employee Retirement Plan and SDRS, the benefit payments will not change for the person.

To proceed with this, the Department of Labor Employee Retirement Plan would need at least two-thirds approval from the Plan Participants, and the Board and the SDRS Board of Trustees would need to approve the legislation. The bill would then need to complete the legislative process.

Michael de Leon reviewed the benefits of the proposed transition to the Plan and Participants. SDRS assets are much larger than the Department of Labor Employee Retirement Plan and are better equipped to handle the risk of an investment market downturn and still maintain benefit payouts to retirees. SDRS is trusting the actuarial analysis when they assume the assets and liabilities of the Plan. There are no costs associated with shifting the plan assets to SDRS and Principle's contract does not specify any specific cancellation fees.

David Fee from Principal stated the Department of Labor Employee Retirement Plan assets can be switched to a fixed income portfolio to maintain the assets until the completion of this process.

DLR staff will provide information about the proposal to the Plan Participants before the next Board meeting on Nov. 6. Director Ward will also draft legislation so the Board can decide whether to ask members for a vote.

Director Ward discussed the renewal of the annual actuarial contract with Deloitte. This is still needed regardless of the outcome of the Nov. 6 meeting. Secretary Hultman motioned to approve the Deloitte Contract, Mike O'Brien seconded the motion. MOTION PASSED.

James Reeve made a motion to adjourn. Mike O’Brien seconded the motion. MOTION PASSED at 3:52 p.m. CDT.