Meeting Minutes
South Dakota Department of Labor
Employees' Retirement Board Meeting
Kneip Building, Conference Room 3
Friday, May 9, 2014 at 10 a.m. (CDT)

The South Dakota Department of Labor Employees' Retirement Board (ERB) met on May 9, 2014 with DDN locations in Aberdeen, Rapid City, and Sioux Falls.

Members Present: Bob Riter, Jason Dilges, Marcia Hultman, Mike O'Brien, and Jim Fansler
Members Absent: None
Others Present: Lyle Harter, Kathie Volk, Michael de Leon, David Fee, Bill Jordan, Paula Zelmer, Jenny Johnson, Amber Mulder, Derek Gustafson, and Morgan Ness

Chairman Riter called the meeting to order, and roll call was taken by Derek Gustafson.

Lyle Harter introduced new member Secretary Marcia Hultman along with her Executive Assistant, Morgan Ness.

Jim Fansler MOVED to approve the minutes from May 9, 2013, ERB meeting as written and was SECONDED by Jason Dilges. MOTION CARRIED.

Deloitte – Michael de Leon

Actuarial Report
The retirement plan valuation results, which compare liabilities to assets, show increased expected amounts as of July 1, 2013 to be overfunded by $1.7 million. Change due to investment returns resulting better than the expected 6.5 percent, with actuarial investment returns of 11.3 percent. This increase in investments resulted in an additional $2.6 million. Of these funds $.8 million are expected to be spent on an increase in COLA July 1, 2014 and another $1 million is used on assumed higher COLAs in the future.

Determination of COLA
The average asset value during April, 2014 was $62,032,507 which would allow a 2.5 percent COLA for the year beginning July 1, 2014. If we were to close the plan today and purchase annuities at a 5 percent (currently at around 3.5 percent) investment rate, we would be able to pay a 2.5 percent COLA and sell our liabilities for $61.631 million. Currently, this annuity purchase is not available because the 5 percent settlement rate which is a reasonable long-term rate is currently not available As a result, if we purchased annuities today, we could only afford a 1 percent COLA (2.5 -1.5 percent, which is the difference between assumed purchase rate of 5 percent and actual purchase rate of 3.5 percent).

Stochastic Projections
The stochastic analysis created by Deloitte shows expected assets using the 75, 25, and 5 percentiles to create an average settlement with purchasable COLAs up to a maximum of 3.5 percent assuming that liabilities are settled at 5 percent. This analysis predicts that we will be able to purchase annuities at 3.5 percent by 2021 based on the

average assets which is before the projected last retirement of 2025. This is important to note because, it is in the best interest to wait until all members are retired to avoid the unwanted issues involved with settling with active members, including added costs.

New Mortality Table
A change Deloitte will propose next year is an updated mortality table that most annuity companies are now using. Currently, we are using a mortality table that was created in 2000 based on mortality rates in the 1990s. The new study done in 2013 uses recent data from the society of actuaries, showing an updated mortality table as well as an improved mortality rate that will be built into the new table. The modification needed for the new mortality table will be done by Deloitte after the next evaluation is performed on July 1, 2014 and will be available for discussion once all the data is collected, approximately in the upcoming fall/winter. This change will result in requiring more assets in order to cover liabilities when figuring COLAs for each year.

Principal – Bill Jordan, David Fee, and Paula Zelmer

PFA Reports July 1, 2012 – June 30, 2013
Total Return Summary: 11.29 percent increase in investments

PFA Reports July 1, 2013 – January 31, 2013
Year to Date: 10.63 percent increase in investments

PFA Reports July 1. 2013 – March 31, 2014
Year to Date: 12.48 percent increase in investments

Investment Strategy
Principal continues to be well diversified with the same target allocation as the previous year. Principal noted that even though the equity market is the driving force behind our returns that it is important to remember how volatile the equity market is and how quickly these assets can turn for the worst (i.e. 2008 market crisis the equity market dove over 30 percent within days) and that it is in the best interest of our plan, to continue the current target allocation plan in order to have an equitable balance between risk and return.

Education Plan
Principal discussed the Education Plan for 2014 – 2015 for the members. If any member has any questions pertaining to the Education Plan they can contact Kathie Volk.

Department of Labor and Regulation (DLR)

Plan restatement
Restatement is required every five years and incorporates all previous amendments. Amendment III was signed on February 20, 2013, is incorporated in the restated plan.

Amendment I and II were revoked by Amendment III. The plan was signed by Secretary Hultman on December 31, 2013 effected July 1, 2013.

Application for Determination Letter
To minimize the risk that the IRS could disqualify the plan during an audit, at the recommendation of Principal, Lyle Harter filed an Application for Determination in January. He does not expect to hear anything until July.

Board's Annual Report to the Retirement and Laws Committee
We will be sending the actuarial report to the Legislative Research Council to comply with SDCL 61-2-15.2. This letter is due the end of June.

Board Vote

July 1, 2014 Cola Award
Jim Fansler MOTIONED to approve COLA adjustment of 2.5 percent. Mike O'Brien SECONDED. MOTION CARRIED.

Election of Officers
Jim Fansler MOTIONED to appoint Bob Riter as chair. Jason Dilges SECONDED. MOTION CARRIED.

Jason Dilges MOTIONED to appoint Jim Fansler as vice chair. Marcia Hultman SECONDED. MOTION CARRIED.

New Business

No new business.

Jim Fansler MOTIONED to adjourn, SECONDED by Mike O'Brien. MOTION CARRIED.