

Meeting Minutes
South Dakota Department of Labor
Employees' Retirement Board Meeting
Kneip Building, Conference Room 3
Tuesday, May 26, 2015 at 10 a.m. (CDT)

The South Dakota Department of Labor Employees' Retirement Board (ERB) met on May 26, 2015 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

Present in Pierre DDN: Michael deLeon, Paula Zellmer, David Fee (conference call), Emily Ward, Derek Gustafson, Amber Mulder, Kathie Volk, Morgan Ness and Teresa Knoll

Present at Sioux Falls DDN: Lyle Harter, Darla Bockorny

Present at Aberdeen DDN: Betty Likness, Peggy Kimball, Stephen Craig, Cindy Herr, Sanro Fink, Sharmie Jensen, Sharmie Jensen, Dan Thielsen

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

Opening Remarks: Marcia Hultman introduced Emily Ward, the new Director of Administrative Services, who replaces Lyle Harter who retired.

Emily Ward is the new Director of Administrative Services. Emily previously worked for Bureau of Finance Management as a Budget Analysis. She has worked with SD DLR's budget at different times, which has given her great training and experience with SD DLR's budget.

Jim Fansler MOVED to approve the minutes from August 28, 2014, ERB meeting as written and was SECONDED by Mike O'Brien. MOTION CARRIED.

Business: Deloitte – Michael deLeon

Actuarial Report:

The plan's assets exceeded the plan's liabilities as of July 1, 2014, by \$1.2 million. This is a decrease of \$0.5 million from July 1, 2013, primarily due to updating the mortality assumptions to reflect the most current publicly available mortality table. This update resulted in a \$5.4 million increase in liabilities to the plan. Without this update, the plan's assets versus liabilities would have increased \$4.9 million instead of decreasing.

New Mortality Assumption:

The Society of Actuaries issued a report on October 27, 2014 with a new mortality table RP2014 resulting in an increase in the mortality rate of approximately ten percent. Annuity companies will be using the new mortality table, so it is important the plan also adopt the new mortality rate. The ten percent increase in life expectancy resulted in a \$5.4 million increase in liabilities, which is approximately a ten percent increase.

Asset-Based Cost of Living Adjustment (COLA) Structure:

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As a result of the plan's balance, the Board approved a 1.8% COLA for the year beginning July 1, 2015, which is above the SD consumer price index for 2014 of 1.5%.

Annual Stochastic Projections:

The history of the Asset-Based COLA has resulted in a 2% COLA in 2013, a 2.5% COLA in 2014, and a projected 1.8% COLA in 2015. The reason for the decrease in the 2015 COLA was the increase in liabilities from the new mortality table. Deloitte's projections for the plan is it reaching the maximum 3.5% COLA by 2026 assuming a 6.5% return on investments each year, and assuming liabilities being settled at 5% (currently between 3%-3.5%).

Principal – Paula Zellmer and David Fee

Plan Analysis and Trends as of March 31, 2015:

Ending balance as of March 31, 2015, for the portfolio is \$61,933,573. Total portfolio year-to-date return as of March 31, 2015 is 2.86%. While the overall return is currently below the 6.5% benchmark, Principle believes stocks can continue to generate 7% earnings and bonds 3% earnings for the next couple of years.

Principal Global Multi-Strategy (GMS) Portfolio:

During the August 28, 2014, ERB meeting, Principal proposed a new portfolio option called Global Multi-Strategy portfolio, which cannot be used until the Board approves it. The Board determined it currently does not have enough information to make an educated decision and requested Principle to prepare a presentation to give during a conference call to be scheduled before June 30, 2015. The presentation will include current information on the portfolio, history of the performance and return statistics.

DLR Staff

Board's Annual Report to the Retirement Laws Committee:

MOTION to approve the Annual Report to the Retirement Laws Committee by Jim Fansler with the modification suggested by Jason Dilges and SECONDED by Mike O'Brien. MOTION APPROVED.

Board Vote

July 1, 2015 COLA Award:

Jim Fansler MOTIONED to approve the 1.8% COLA, SECONDED by Mike O'Brien. All board members voted yes to approve the motion. MOTION CARRIED.

Election of Officers:

Jason Dilges MOVED to elect Bob Riter as Officer Chair and Jim Fansler as Vice Chair. Jim Fansler made a substitute MOTION to elect Mike O'Brien to be Vice Chair. Board APPROVED the nominations for Chair and Vice Chair.

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New Business

Board Member Elections:

South Dakota Codified Law 61-2-15.1 states two of the five board members shall be elected for a four-year term by the employees and former employees of the DLR who are covered by the retirement plan. The current term ends June 30, 2015 for Jim Fansler and Mike O'Brien. Kathie Volk will be sending nomination ballots May 29, 2015 to plan participants. Once the deadline has passed for nomination ballots, a request for biographical information will be sent to the nominees. After the deadline has passed for the biographical request, election ballots will be sent to all plan participants. After the deadline has passed for election ballots, the election ballots will be tallied. Election results will be mailed to plan participants. The election process is estimated to be complete by July 29, 2015.

Other Announcements:

Jim Fansler announced that he will be stepping down as a board member after his term ends on June 30, 2015.

The board will meet again prior to June 30, 2015 to discuss the Principal Global Multi-Strategy Portfolio via phone conference.

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