

Meeting Minutes
DEPARTMENT OF LABOR EMPLOYEE RETIREMENT BOARD
Missouri River Plaza, Sharpe Conference Room
123 W. Missouri Ave., Pierre
May 23, 2018 1:00 p.m. CDT

The South Dakota Department of Labor Employee Retirement Board met on May 23, 2018. DDN locations were in Aberdeen, Rapid City, and Sioux Falls.

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

Present in Pierre: Emily Ward, Derek Gustafson, Jennifer Kamps, Kenneth Hericks, Pamela Hericks, Nancy Stenson, and Michael Jost

Present via Phone Conference: Paula Zellmer, David Fee, and Michael de Leon

Present via DDN: Dean Samp, Dee Samp, Darla Bockorny, Elaine Sullivan, Dale Bendewald, Amber Mulder, Teresa Knoll, Cynthia Herr, Betty Likness, Peggy Jeschke, Rayma Scepaniak, Marilyn Clocksene, Sharmie Jensen, Gail Burkhart, Gayle Miller, Stephen Craig, Mike Buske, Kathie Volk, Betty Wandry, Sharon Schnabel, and Deb Gardner, Kara Palmer, Dennis Coull, and Marcia Miller

Chairman Riter called the meeting to order at 1:12 p.m. CDT. Jennifer Kamps called the roll. A quorum was present.

Liza Clark made a motion to approve the May 31, 2017 meeting minutes. Mike O'Brien seconded the motion. MOTION PASSED.

Michael de Leon from Deloitte presented the Actuarial Report, 2018 COLA and Purchasing Annuities. The plan's assets, as of July 1, 2016, exceeded liabilities by \$0.8 million. Change due to mortality assumptions increased liability by \$0.5 million. Change due to actual investment return reduced the liability by \$3.6 million. Providing a one percent COLA reduced the liabilities by \$0.3 million. Change due to morality projection assumption reduced the liability by \$0.5 million.

The COLA is based on the average asset value during April 2018, which was \$58,267,730. This provided for a 1.8 percent COLA to be paid on July 1, 2018 if approved by the Board. Comparing actual COLA paid to Inflation (CPI-W) with a sample annual benefit for pre-1999 retiree, with \$22,776 annual benefit as of July 1, 2017, shows the annual benefits are \$2,100 (10 percent) higher under the plan's COLA versus CPI-W.

The current estimated discount rate for purchasing annuities is 3.1 percent, which would allow the plan to purchase annuities with a guaranteed COLA of one percent. The COLA percent moves equivalently to the discount rate.

The 10-year history of the discount rate shows since 2013 there has been three upward swings of approximately one percent, which indicates that there is high volatility with the discount rate.

David Fee and Paula Zellmer from Principal presented the Investment Advisory Report and Purchasing Annuities. Ending balance as of March 31, 2018, for the portfolio was \$58,434,046.

Total portfolio year-to-date return as of March 31, 2018 was 7.42 percent. The plan has a goal of 40 percent allocation to fixed income and the rest in growth assets.

Purchasing annuities is the safest option for the plan. The annuity purchaser has strict regulations minimizing the risk. The purchase of an annuity would guarantee set COLA for each member of the plan. When the plan is ready to purchase annuities, the Board will discuss the option with an open forum to the public and vote on the decision. If the decision is to immediately purchase annuities, Principal will immediately switch the assets to cash and begin the process of purchasing annuities. With the decision to purchase annuities within three years, Principal will switch the assets from an active management to a passive management and begin the annuity purchase once the Board approves the decision.

Jennifer Kamps presented the Employee Retirement Board Survey. DLR sent a survey to members to provide feedback on purchasing annuities. There was a 59 percent response rate to the survey. Seventy-four percent of respondents agreed the goal of the Board should be to purchase annuities. Forty-two percent of respondents would like a guaranteed COLA between two and 2.99 percent. Forty-two percent of respondents would like a guaranteed COLA of three percent or higher.

The board discussed the option to approve the 1.8 percent COLA or forgo the COLA and purchase annuities with a guaranteed one percent COLA. With the current market conditions and probability, the plan would be able to purchase annuities with a higher COLA next year. The Board agreed it would be in the best interest for the plan to approve the COLA and wait on purchasing annuities.

Chairman Riter ask the retiree members attending though the DNN for their opinion on purchasing annuities today with a guaranteed one percent COLA or if they would prefer to wait another year to see if the plan can afford a higher rate and receive the 1.8 percent COLA for July 1, 2018. Nancy Stenson from Pierre, Dennis Coull from Rapid City, and Sharon Schnabel from Aberdeen spoke on behalf of the retirees from their respective locations and agreed with the 1.8 percent COLA and waiting to purchase annuities.

Mike O'Brien made a motion to approve the 1.8 percent COLA. James Reeve seconded the motion. MOTION PASSED.

Liza Clark made a motion to approve the Annual Report to the Retirement Laws Committee with the modification suggested by Chairman Riter. James Reeve seconded the motion. MOTION PASSED

Liza Clark motioned to re-elect Bob Riter as Chair. James Reeve seconded the motion. MOTION PASSED.

James Reeve motioned to elect Mike O'Brien as Vice Chair. Liza Clark seconded the motion. MOTION PASSED.

Director Ward will work with Deloitte to alert the Board when the estimated discount rate for purchasing annuities reaches four percent to schedule a meeting to discuss purchasing annuities.

Mike O'Brien made a motion to adjourn. Secretary Hultman seconded the motion. MOTION PASSED at 3:17 p.m. CDT.