South Dakota Department of Labor
Employees' Retirement Board Meeting
January 3, 2007

The South Dakota Department of Labor Employees' Retirement Board (ERB) met with conference call locations in Pierre, Aberdeen, Rapid City, and Sioux Falls.

Members Present	**Others Present**
Bob Riter, Jr., Chair	Dick Flemmer
Jim Fansler, Vice Chair	Kathie Volk
Art Lanham	Lyle Harter
Pam Roberts	Monica Harding
Jason Dilges	Pam Hericks (Plan Participant)
	Ken Hericks
	Michael de Leon, Deloitte

Chairman Riter called the meeting to order.

Jim Fansler MOVED approval of the minutes from the June 29, 2006, ERB meeting as prepared. SECONDED by Art Lanham. Motion Carried.

New Business
Investment Earnings
Dick Flemmer gave a review of FY July 1, 2005, through FY September 30, 2006, investment earnings. For the quarter July 1, 2006, to September 30, 2006, overall investment earnings were 3.83 percent, which is lower then normal. Assets increased from $69 million to $71 million. Since then, the stock market has turned around and vastly improved. For the prior FY, July 1, 2005, through June 30, 2006, investment earnings were 9.05 percent. Assets increased from $66 million to $69 million. (Fund statements will be posted on our website.)

Introduction of Michael J. de Leon of Deloitte
Michael de Leon presented the results of the January 3, 2007, SDDOL Retirement plan discussion handout on the projected cost to purchase annuities for current retirees. The agenda included the July 1, 2006, SDDOL Pension Plan Valuation Results, COLA Issue: CPI-U vs. CPI-W, bids for annuity purchase and planning for excess assets, and the change in the Mortality table, effective July 1, 2006, (see page 3 of review).

The only change made in the assumptions and pension plan valuation results was the mortality table. For the last 20 years, Principal has been using the 1983 group annuity mortality table. The mortality table was created and based on data from the 1970s. It was created in 1983 with projections built into it. It is currently outdated with the improvement in mortality. The current table is the RP-2000 combined healthy mortality table; this table was released by actuaries. It is based on data from the late 1990s and released in 2000. In addition, it contains the mortality improvement projections. Because it has built in projections, it will not have to be updated for 10 years. This change increased actuarial liability by approximately $1.6 million. However, assets in excess of liability increased from $16.2 million to $16.7 million.

The history of plan participation goes back to 1993. Active population is down to about 58 employees who are actual employees as of July 2006, and total number of participants is a little under 300.

COLA Issue CPI-U vs. CPI-W

Every July 1st the plan document provides Cost-of-Living Adjustments (COLA) to all retired participants based on the change in the Consumer Price Index-W (CPI-W) which demonstrates inflation for urban wage earners and clerical workers between April of the prior year and April of the current year. (The minimum COLA is 3.1 percent and maximum is 4.5 percent.) Since 2000, annual COLA has mistakenly been determined based on Consumer Price Index CPI-U which determines inflation for all urban consumers. Neither CPI-W or CPI-U are necessarily higher than the other. The table on page 7 shows comparisons of the last seven years. The years CPI-U was higher than the CPI-W were 2002 and 2004, and the years when CPI-W was higher than CPI-U were 2000, 2005, and 2006. In 2002, 2003 and 2004 the actual CPI was below the minimum COLA required in the plan, so the minimum of 3.1 percent was paid to all retired participants. So, for those three years it did not make a difference which CPI was used. Since the incorrect CPI amount was used in the other three years, beneficiaries were provided a COLA below what the plan requires. Therefore, an adjustment should be made to correct those small underpayments to current beneficiaries.

Dick Flemmer informed the Board that Principal prepares the cost of living letter each April which notifies participants of the COLA adjustment and individual benefit changes. In the future, Dick Flemmer and Kathie Volk will verify the CPI table being used so this situation does not happen again.

Discussion was held regarding the appropriate determination of back payments for plan beneficiaries. Consensus of the board was to also authorize interest on the back payments of 7.5 percent which is the assumed actuarial interest rate for the plan. The average back payment would be $210, and total back payments of $43,000 would be paid to participants to make up for the shortfall over the past six years.

Pam Roberts MOVED the Board direct under payments plus interest (7.5 percent) be paid to beneficiaries in a lump sum as soon as possible. Future payment amounts will also be adjusted accordingly. SECONDED by Jason Dilges. Roll call vote. Motion Carried.

Bids for Annuity Purchases

Bids are based on participants as of July 1 and a purchase date of December 28, 2006, along with separate bids to purchase annuities with and without COLAs. Effective discount rates are 4.5 percent to 5.5 percent (50 bps below July 2006); effective COLA rates are 4.1 percent to 4.5 percent. If annuities were purchased, the funded ratio would

be 142 percent funded, with excess assets of $13.4 million. If the COLA is implemented the funded ration would be 128 percent, with excess assets of $7.1 million.

Art Lanham asked if individuals could purchase annuities or if a group bid is required. Michael de Leon indicated a group bid is needed. Good returns or discount rates would not be available if annuities were purchased individually.

The Board took no action on the issue of purchasing annuities for current plan beneficiaries. If the Board would make any kind of motion to change the plan in the future, the proposal would go out to the plan participants, a public hearing would be held and public input would be taken before any action would be taken. The full report will be posted at www.sdjobs.org for plan participants to review.

Distributing Participant Mailing Addresses
Providing the plan participant mailing addresses to other members or committees was discussed. It was decided privacy concerns prohibit home addresses from being distributed because many individuals would object to the intrusion of their privacy. The Board took no action on this issue.

Future Business
The July 1, 2006, Actuarial Valuation will be discussed at the next meeting set for March 28, 2007.

Jason Dilges MOVED to adjourn meeting. SECONDED by Jim Fansler. Motion Carried.

Respectfully submitted,

Robert Riter, Jr.
Chairman