South Dakota Department of Labor
Employees' Retirement Board
Meeting Minutes
May 9, 2013

The South Dakota Department of Labor Employees' Retirement board (ERB) met on May 9, 2013, with DDN locations in Aberdeen, Rapid City, Sioux Falls, and Custer.

Members Present: Bob Riter, Jason Dilges, Pam Roberts, Mike O'Brien, Jim Fansler (DDN)
Members Absent: None
Others Present: Lyle Harter, Michael de Leon, Bill Jordan, Kathie Volk, Amber Mulder, Monica Harding, Derek Gustafson, Jenny Johnson, Jim Reeves

Chairman Riter called the meeting to order, and roll call was taken by Derek Gustafson. Jason Dilges MOVED to approve the minutes from the February 20, 2013, ERB meeting as written and was SECONDED by Mike O'Brien. MOTION CARRIED.

Business: Deloitte – Michael de Leon
Actuarial Report:
Plan assets exceeded plan liabilities as of July 1, 2012, by $0.9 million, based on the actuarial assumptions. As of July 1, 2011, the plan assets exceeded plan liabilities by $4.4 million. The decrease is largely because asset returns were less favorable than expected (actual 1.26% as calculated by Principle Financial Group as compared to an expected rate of 7.5%). To combat anticipated underfunded status for the next several years, retirement assumptions were changed to provide a more accurate projection of when participants would be retiring. Additionally, the investment return assumption was changed from 7.5% to 6.5% for 15 years and 5% thereafter.

Effects of the new COLA structure:
The current COLA adjustment methodology is designed to use assets each year to pay the COLA up to a maximum of 3.5% using an expected rate of return on a more conservative 5% purchase base annuity. The 3.5% COLA cap creates an opportunity for the assets to be greater than liabilities. The April 2013 average balance of assets of the Plan were $59,685,974 which would allow a 2% COLA for the year beginning July 1, 2013. If you were to close the plan today and purchase annuities at 5% (rate does not currently exist), the plan could afford a 2% COLA for the life of the plan. If we would not have changed the COLA strategy, the plan would have been $4.3 million underfunded and no COLA would have been allowed. Due to board action to make plan changes and protect the participants, the system is now overfunded by $1.2 million.

Principal – Bill Jordon & David Fee
Fund Condition Statement as of March 31, 2013:
Ending balance as of March 31, 2013, for the portfolio is $60,066,078. Total portfolio return is as follows: YTD up 11.82%, 1 Year up 10.07%, 3 year up 9.28%, 5 year up 2.86% (2008/2009 Financial crisis), and 10 year up 7.27%. Overall return is above the 6.5% benchmark showing the long-term portfolio strategy is working as planned. Principal feels comfortable with the future outlooks of the market and thinks it will continue the economic expansion into 2014 and possibly into 2015.

Investment strategy:
Principal is anticipating some sort of correction in the market but is not worried for the long term. They will use the correction as an opportunity to rebalance the portfolio. Principal continues to be well diversified with almost 50% invested in equity (U.S and International), 10% invested in real estate and other assets, and 40% in fixed income.

Mike O'Brien MOVED to implement a 2% COLA for 2014. SECONDED by Jim Fansler. MOTION CARRIED.

New Business
No new business.

Mike O'Brien MOVED to adjourn. SECONDED by Jason Dilges. Motion Carried.