

Meeting Minutes
SOUTH DAKOTA DEPARTMENT OF LABOR EMPLOYEES' RETIREMENT BOARD
Missouri River Plaza, Sharpe Conference Room
123 W. Missouri Ave., Pierre
April 6, 2017 10:00 a.m. CDT

The South Dakota Department of Labor Employees' Retirement Board (SD DOL ERB) met on April 06, 2017. DDN locations were in Aberdeen, Rapid City, Watertown, and Sioux Falls.

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

Present in Pierre DDN: Emily Ward, Tom Hart, Derek Gustafson, and Patrick Weber

Present via Phone Conference: Paula Zellmer, David Fee, Justin Pittman, Michael de Leon, and Jeannie Chen

Present at Sioux Falls DDN: Amber Mulder

Present at Aberdeen DDN: Sharon Schnabel, Betty Likness, Sharmie Jensen, Deb Gardner, Teresa Knoll, and Betty Likness

Present at Rapid City DDN: Dennis Coull

Present at Watertown DDN: None

Chairman Riter called the meeting to order. Derek Gustafson called the roll. A quorum was present.

October 06, 2016 Meeting Minutes: Mike O'Brien made a motion to approve the October 6, 2016 meeting minutes. James Reeve seconded the motion. MOTION PASSED.

Opening Remarks by Chairman Riter: Emily Ward introduced Liza Clark as the newest board member. She is the new Commissioner of the Bureau of Finance and Management (BFM) replacing Jason Dilges. Commissioner Clark worked for BFM as a Budget Analyst and a Chief Analyst and later as the Governor's policy advisor, prior to becoming the Commissioner of BFM.

Business: Deloitte – Michael de Leon

Deloitte's Recommended Assumption Changes:

During the previous meeting, the Board asked Principal and Deloitte to reconsider the assumptions based on the current environment and the Board's expectations for settling these liabilities. In response, Deloitte sent Director Ward a formal letter requesting changes to three assumptions including the mortality improvement scale, the underlining inflation scale, and the investment return assumption.

The Society of Actuaries decided to update the mortality table annually, rather than every 10 years, to avoid significant changes experienced with the 2014 update. Michael de Leon suggested the new recommended assumptions for mortality table change from adopting a specific table each year to the board adopting the most recent Society of Actuary's tables. This change would avoid having to get a formal approval each year from the Board.

Deloitte revised the settlement rate (discount rate) assumption from 5% to 4%. Jeannie Chen noted the most recent settlement rate was 3.7%. This change is based on the historic spread between 10-year Treasury rates and the relationship between inflation and the annuity purchase rate.

Deloitte previously assumed the inflation rate would be around 3%. Deloitte is recommending the plan change to a new inflation rate assumption of 2%. The recommended assumption is based on Principal's forward looking capital market assumptions as of December 2016 (1.95%) and the Congressional Budget Office's economic outlook from 2016 through 2026 (2%).

The current assumed investment return is 6.5% as of July 1, 2015 until July 1, 2027 and 5% thereafter. The new recommended assumption is 4.75% as of July 1, 2016 until July 1, 2027 and 4% thereafter. The recommended assumed return is based on information provided by Principal. After adjusting for investment expenses of 0.74%, the long-term risk premium, and assumed inflation of 2%, the funds expected return are 5.08% based on 2015 returns and 4.7% based on 2016 returns. Deloitte proposes using an assumption of 4.75% to be on the conservative end of this range.

Deloitte presented a comparison between the expected COLA for the current and proposed economic assumptions for the next 10 years. Based on the July 1, 2016 asset value of \$56 million, Deloitte had been expecting the COLA to go from 1.6% to 3.3% in the next 10 years using the current assumptions. Based on the new assumptions, the expected COLA would go from 0.6% to 1.5% over the next 10 years. Deloitte also presented a comparison between the expected COLA for the current and proposed economic assumptions for the July 1, 2017 COLA. The estimated July 1, 2017 COLA would be 2% using the current assumptions in comparison to a 1.1% using the recommended assumptions based on the February 28, 2017 asset value of \$57 million.

Deloitte then explained the comparison between the assumed purchase rate, the actual discount rate, and the COLA. With \$57 million in assets using an assumed 4% discount rate, the plan could afford purchasing an annuity with a guaranteed 1.1% annual COLA. There is a 1:1 ratio between the percent of the COLA awarded and the difference between the assumed discount rate and the actual discount rate. For example, if the assumed discount rate is 4% with a 1.1% COLA, and the actual discount rate is 3.7%, then the COLA using the actual discount rate of 3.7% would be .8% ($3.7\% - 4\% = -.3\%$; $1.1\% - .3\% = .8\%$).

Board Action:

Mike O'Brien made a motion to approve the mortality improvement assumption to be based on the annual update of the expected mortality improvements as published by the Retirement Plans Experience Committee of Society of Actuaries. James Reeve seconded the motion. MOTION PASSED.

Mike O'Brien made a motion to approve the July 1, 2016 proposed Investment Return assumption of 4.75% until July 1, 2027 and 4% thereafter. Liza Clark seconded the motion. MOTION PASSED.

Liza Clark made a motion to approve the proposed July 1, 2016 inflation assumption of 2%. Marcia Hultman seconded the motion. MOTION PASSED.

New Business:

Jim Reeve questioned Principal regarding their investment fees and how they compare with other retirement plans, such as the South Dakota Retirement System. Paula Zellmer provided a document showing current fees charged by Principal for investment and management of the plan are approximately \$443,000 annually. She also stated that Principle will be meeting April 18, 2017 to discuss lowering the plans investment fees. Principal should be able to implement the changes to the investment fees the following month of the changes being finalized and approved. Paula will send the proposed changes to Director Ward and Derek Gustafson to present to the Board at the next meeting. The next board meeting will be prior to July 1, 2017.

Marcia Hultman made a motion to adjourn. Mike O'Brien seconded the motion. MOTION PASSED at 11:30 AM.