

Meeting Minutes
DEPARTMENT OF LABOR EMPLOYEES' RETIREMENT BOARD
Missouri River Plaza, Sharpe Conference Room
123 W. Missouri Ave., Pierre
May 31, 2017 1:00 p.m. CDT

The South Dakota Department of Labor Employees' Retirement Board (DOL ERB) met on May 31, 2017. DDN locations were in Aberdeen, Rapid City, and Sioux Falls.

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

Present in Pierre DDN: Emily Ward, Tom Hart, Derek Gustafson, David Fee, and Michael de Leon

Present via Phone Conference: Paula Zellmer and Justin Pittman

Present at Sioux Falls DDN: Sara Garbe, Amber Mulder, Dale Bendewald

Present at Aberdeen DDN: Peggy Jeschke, Stephen Craig, Kathy Gobczynski, Sanro Fink, Cindy Herr, Dan Boone, Rayma Scepaniak, Sharon Schnabel, Diane Schulz, Kathie Volk, Dan Thielsen, Sharmie Jensen, Teresa Knoll, and Betty Likness

Present at Rapid City DDN: Dennis Coull and Marcia Miller

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

April 06, 2017 Meeting Minutes: Liza Clark made a motion to approve the April 6, 2017 meeting minutes. Mike O'Brien seconded the motion. MOTION PASSED.

Business: Deloitte – Michael de Leon

Actuarial Report:

The plan's assets, as of July 1, 2015, exceeded liabilities by \$0.8 million. A few changes in assumptions used to calculate the COLA affected the liability of the plan. Changing the expected investment return from 6.5% to 4.75% increased the liability by \$4.1 million. Changing the expected discount rate from 5% to 4% increased the liability by \$9.5 million. Not providing a COLA last year decreased the liabilities by \$0.6 million. Change due to mortality assumptions decreased liability by \$1.1 million. All of these changes resulted in an increase in liabilities of \$11.9 million. The \$11.9 million increase was offset with the \$11.9 million decrease due to the change in COLA assumptions resulting in the plan's assets, as of July 01, 2016, exceeding liabilities by \$0.8 million.

Plan participation projection shows 2024 as the expected year the last member would retire. Originally, the plan was to wait until the last employee retired before purchasing annuities. Michael noted the plan could purchase annuities with active employees. The insurer who purchases the annuity would administer the active members. Deloitte has the ability to find a competitive bid using the plans current population upon the Board's request. David Fee from Principal explained if the Board decided to purchase annuities it would take approximately two weeks to liquidate the assets, which would include coordinating with the managers to reconfigure the plan's portfolio. If the Board planned to purchase annuities within a year,

Principal would want to protect against changes in the market by restructuring the portfolio to a fixed income portfolio.

2017 COLA

The COLA is based on the average asset value during April 2017, which was \$56,761,795. This provided for a 1.0% COLA to be paid on July 1, 2017 if approved by the Board. Comparing actual COLA paid to Inflation (CPI-W) with a sample annual benefit for pre-1999 retiree, with \$22,200 annual benefit as of July 1, 2016, shows the annual benefits are \$2,200 (11.0%) higher under the plan's COLA versus CPI-W.

Principal –David Fee and Paula Zellmer

Investment Advisory Report

Ending balance as of March 31, 2017, for the portfolio was \$56,973,676. Total portfolio year-to-date return as of March 31, 2017 was 8.11%. The plan has a goal of 40% allocation to fixed income and the rest in growth assets (equity and real assets). In December, Principal made one change to the investment allocation, which would have a small increase in the investment return, by adding 1.7% allocation to International Small Cap stocks.

Summary of Services and Changes to Investment Fees

Principal recently reviewed the current fees charged to the plan and determined a reduction in the fees could be made based on the increase in efficiency of operating the plan and the decrease in costs to manage the active employees.

Current fees are broken into two categories, Revenue retained by investment provider and revenue sharing to record-keeper. Revenue sharing is the amount over and above what the manager needs and is shared back to Principal to offset plan expenses. The current total fees charged include \$220,465 (0.39%) for revenue retained by investment provider and \$209,770 (0.39%) for revenue sharing to record-keeper totaling \$430,235 (0.76%) in investment expenses.

The new fee structure will include the \$209,770 (0.39%) fee for revenue retained by investment provider and \$115,000 (0.20%) deduction fee to principal totaling \$335,465 (0.59%) in investment expenses. This is a reduction of \$94,770 in overall fees.

Liza Clark made a motion to approve the reduction in fees. Marcia Hultman seconded the motion. MOTION PASSED.

DLR Staff – Emily Ward

Board's Annual Report to the Retirement Laws Committee

Mike O'Brien made a motion to approve the Annual Report to the Retirement Laws Committee with the modification suggested by Bob Riter. Liza Clark seconded the motion. MOTION PASSED.

Board Discussion

July 1, 2017 COLA Award

Bob Riter asked David Fee about concerns with future market conditions which would warrant caution in awarding the 1% COLA. David explained Principle's read on the market is prices are supported by economic fundamentals, barring any surprises. Liza Clark suggested opening the floor to planned participants present at DDN sites to provide comments for consideration regarding awarding the COLA. There were no comments from planned members.

Board Action

July 1, 2017 COLA Award

Mike O'Brien made a motion to approve the 1% COLA. James Reeve seconded the motion. MOTION PASSED.

Election of Officers

Marcia Hultman motioned to elect Bob Riter as Office Chair. James Reeve seconded the motion. MOTION PASSED.

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

New Business

James Reeve recommended the Board plan to reach out to planned members to get insight on their preferences on purchasing annuities. Emily Ward and Derek Gustafson will develop a survey. Planned members will receive the survey prior to the next Board meeting. The agenda for the next meeting will include an open discussion for planned members to provide comments for the Board to consider.

Meeting Adjourned

James Reeve made a motion to adjourn. Marcia Hultman seconded the motion. MOTION PASSED at 2:40 PM.