

# SPECIAL BOARD MEETING

## SOUTH DAKOTA RETIREMENT SYSTEM

November 18, 2015

The Board of Trustees of the South Dakota Retirement System held a special teleconference board meeting on November, 18, 2015. The meeting began at 3:30 p.m. in the office of the Executive Director/Administrator at the SDRS office in Pierre.

### BOARD MEMBERS IN ATTENDANCE:

Justice Steven Zinter – Vice Chair

Karl Alberts

Steve Caron

Jason Dilges

Jilena Faith

Laurie Gill

Laurie Gustafson

James Hansen

James Johns

Louise Loban

Bonnie Mehlbrech

Dave Merrill

Matt Michels

K.J. Peterson

Eric Stroeder

Matt Clark – Ex Officio

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Board member Elmer Brinkman was absent.

### OTHERS IN ATTENDANCE:

Bob Mercer – Newspapers

Eric Ollila – SDSEO

Aaron Olson – LRC

Tammy Otten - SDIO

Rob Wylie

Travis Almond

Jane Beer

Susan Jahraus  
Doug Fiddler  
Michelle Mikkelsen  
Jess Reitzel  
Dawn Smith  
Jacque Storm

**AGENDA ITEM 1**  
**TIED TOGETHER – A PLAN DESIGN FOR NEW MEMBERS**

**Summary of Discussion:**

Mr. Rob Wylie, SDRS Executive Director/Administrator, reminded the Board of the objectives that staff have been working from and using throughout the whole process of developing a new benefit design for new members. He stated that there was no need to change things a lot, but benefits needed to be restructured. Some features turned out to be working against the workforce needs so those incentives were taken out and restructured in such a way that we could gain additional sustainability using methodologies that we were all familiar with. This design is better suited to the next generation of public employees, at the same time leaving all the current employees just as it is now.

Mr. Wylie stated that the Board needed to come up with possible SDRS membership names and an effective date for the new design. He noted that staff was suggesting an effective date of July 1, 2017.

The Board discussed possible names for the current and new member design.

Mr. Wylie stated that one of the key implementation principles is that the changes will only apply to new members joining SDRS after the effective date. SDRS will always be one system with key differences in benefits for current and new members. The benefits are restructured; there are no benefit cuts or cost decreases.

**Board Action:**

IT WAS MOVED BY MS. LOBAN, SECONDED BY MS. PETERSON, TO MAKE THE EFFECTIVE DATE OF THE PLAN DESIGN FOR NEW MEMBERS JULY 1, 2017. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES, 0 NAYS, AND 1 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS; CARON; DILGES; FAITH; GILL;  
GUSTAFSON; HANSEN; JOHNS; LOBAN; MEHLBRECH; MERRILL;  
MICHELS; PETERSON; STROEDER, ZINTER.  
THOSE ABSENT AND NOT VOTING: BRINKMAN

IT WAS MOVED BY DR. HANSEN TO NAME THE TWO MEMBER  
GROUPS AS ORIGINAL MEMBERS FOR THE CURRENT MEMBERS AND  
SUSTAINING MEMBERS FOR THE MEMBERS HIRED AFTER THE  
EFFECTIVE DATE. THE MOTION DIED FOR LACK OF A SECOND.

IT WAS MOVED BY MS. GUSTAFSON TO NAME THE TWO MEMBER  
GROUPS AS TIER I FOR THE CURRENT MEMBERS AND TIER II FOR THE  
MEMBERS HIRED AFTER THE EFFECTIVE DATE. THE MOTION DIED  
FOR LACK OF A SECOND.

A MOTION WAS MADE BY MR. MICHELS, SECONDED BY MR. MERRILL  
TO NAME THE TWO MEMBER GROUPS AS ORIGINAL MEMBERS FOR  
THE CURRENT MEMBERS AND NEW MEMBERS FOR THE MEMBERS  
HIRED AFTER THE EFFECTIVE DATE. THE MOTION WAS  
WITHDRAWN.

IT WAS MOVED BY MS. LOBAN, SECONDED BY DR. HANSEN, TO  
NAME THE TWO MEMBERS GROUPS DESIGN I FOR THE CURRENT  
MEMBERS AND DESIGN II FOR THE MEMBERS HIRED AFTER THE  
EFFECTIVE DATE. THE MOTION FAILED ON A ROLL CALL VOTE WITH  
5 AYES, 9 NAYS, AND 2 ABSENT AND NOT VOTING.  
THOSE VOTING AYE: FAITH; GUSTAFSONS, HANSEN; LOBAN;  
MERRILL.  
THOSE VOTING NAY: CARON; DILGES; GILL; JOHNS; MEHLBRECH;  
MICHELS; PETERSON; STROEDER; ZINTER.  
THOSE ABSENT AND NOT VOTING: ALBERTS; BRINKMAN.

IT WAS MOVED BY MR. JOHNS, SECONDED BY MS. PETERSON, TO  
NAME THE TWO MEMBER GROUPS FOUNDATION FOR THE CURRENT  
MEMBERS AND GENERATIONAL FOR THE MEMBERS HIRED AFTER  
THE EFFECTIVE DATE. THE MOTION PASSED ON A ROLL CALL VOTE  
WITH 13 AYES, 1 NAY, 2 ABSENT AND NOT VOTING.  
THOSE VOTING AYE: CARON; DILGES; FAITH; GILL; GUSTAFSON;  
JOHNS; LOBAN; MEHLBRECH; MERRILL; MICHELS; PETERSON;  
STROEDER; ZINTER.  
THOSE VOTING NAY: HANSEN  
THOSE ABSENT AND NOT VOTING: ALBERTS; BRINKMAN.

**AGENDA ITEM 2**  
**PROPOSED LEGISLATION**

**Summary of Discussion:**

Ms. Jacque Storm, SDRS General Counsel, stated that for purposes of legislation, the three documents previously sent to the Board regarding the plan design changes will be combined into one legislative document because they are all dependent on the others. However, for today's purposes the discussion will begin with those sections applicable to new members only.

The definition for accumulated contributions is currently used but with some unnecessary language removed. For example, reference to contributory service before certain years has been removed because this section is just for new members. Also, reference to redeposits was not included as staff is recommending that redeposits not be a feature of the new member plan design. Another change is the deletion of the language that implies that only the principal of a purchase would be refunded when SDRS refunds any interest as well.

Ms. Storm stated that the current definition of credited service includes references to service before the establishment of SDRS or very early on that are not reader-friendly or necessary for new members. She added that the new definition can be boiled down to years of service for which contributions were made and certain periods of authorized leave. In addition, a statement regarding SDCL 3-12-122 providing that credited service may be reduced or eliminated was not included.

The final average compensation (FAC) section mirrors current law with a few changes, advised Ms. Storm. Reference to previous years is not applicable so not included. The three year average is now a five year average and the clarifying language was added relating to how FAC is determined for members with less than 20 calendar quarters of service. The definition of calendar quarter was removed and placed in a separate definition.

For the improvement factor, noted Ms. Storm, the COLA will be established by the Board as is currently done, but for new members it will match the CPI but with a minimum of 1 percent and a maximum of 3.1 percent. The normal retirement age will increase to age 67 for Class A and Class B Judicial members and age 57 for Class B Public Safety members.

The language for the Class A multiplier includes the new formula multiplier, however it does not include most of the language of the current Class A multiplier section, including language relating to the prior improvements. For Class B Public Safety and Judicial, the multipliers remain the same, however, once again, the language relating to prior improvements is not included.

Moving to the benefit option election, Ms. Storm noted that the member has three options upon retirement: single life benefit with nothing payable upon the death of the member; 60 percent joint and survivor benefit that provides a reduced monthly benefit to the member and upon the member's death, provides 60 percent of the reduced benefit to the surviving spouse; and 100 percent joint and survivor benefit that provides a reduced monthly benefit to the member and upon the member's death provides the same monthly amount to the surviving spouse. The benefits payable pursuant to a joint and survivor benefit are based on the ages of the member and spouse and are actuarially equivalent to a single life benefit. The member's monthly amount is reduced to pay for the surviving spouse benefit. The benefit election is irrevocable unless the member contacts SDRS before receiving a second benefit check. The only spouse that is payable is the spouse of the member at the time of election, nothing is payable if the spouse dies before the member and the election may not be rescinded in the event of the subsequent death of the spouse or divorce.

For the retirement application, stated Ms. Storm, there will be no benefit payable until SDRS has a completed application including the benefit option election. The application must be signed and either notarized or witnessed by a representative of SDRS.

The commencement of the retirement benefit will always be effective the first day of the month and the determination of what month is based on one of the following three events whichever occurs last: month following the date when member's contributory service ended; month following an intervening month after the application is received; or the month specified by member on the application. As current law provides, a member may receive up to three months of benefits retroactive from the effective date of retirement but the legislation also clarifies that benefits cannot be paid for any time before the first of the month following the date the contributory service terminated.

The calculation for the disability of the new member is the same as the current member. The difference is that for a new member the disability benefit terminates when the new members reaches normal retirement age and the member then must submit an application for a retirement benefit and elect a benefit option. The single life benefit amount is the same amount as the disability benefit, but as with any new member, the 60 percent and 100 percent joint and survivor benefit is also available.

A vested new member may choose to start a retirement benefit before normal retirement age, but no more than 10 years early. The benefit will be reduced by

five percent for each full year and prorated for any partial year between the date the early retirement commences and the member's normal retirement age.

For surviving spouse benefits, advised Ms. Storm, for a member death after retirement, upon the member's death, the surviving spouse shall receive the benefit elected by the member and acknowledged by the spouse at retirement. Upon the death of a vested member or a member who died on the job and who had reached normal retirement age but not yet begun a benefit, the surviving spouse shall receive a benefit based on the calculation that considers the member retired on the date of death and elected the 60 percent joint and survivor benefit. The surviving spouse benefit is equal to 60 percent of the actuarially reduced amount the member would have received. For the surviving spouse benefit of an active member who dies before reaching normal retirement age or retirement (and also for a member who dies while receiving disability benefits, the retirement benefit is calculated the same way for new members as for current members but is available at the spouse's age 67 rather than 65. An eligible surviving spouse can elect to start the surviving spouse benefit up to 10 years before reaching age 67. The benefit is reduced five percent for each full year and prorated for any partial year between the date the surviving spouse commences the benefit and the date the spouse would attain age 67.

The retire and return to work section of the new legislation is substantively the same as §3-12-200 which applies to current members but certain dates and references are inapplicable to the new members and therefore not included.

This legislation also establishes that each new member will have a variable retirement account (VRA), which will be made up of variable retirement contributions (VRC) and credited investment return on those contributions, advised Ms. Storm. The investment return will be credited annually as of June 30 based on the South Dakota Investment Council's money-weighted investment return of SDRS, net of fees for the completed fiscal year. For any distribution during the fiscal year, the investment return will be credited to the end of the month before the event triggering the distribution. The VRA is payable upon retirement, disability, or death of the member, whichever occurs first. The VRA is not payable to a member who withdraws his or her accumulated contributions from SDRS.

The Board will establish the VRC contribution each year for the following fiscal year based on the most current annual actuarial valuation. The VRC will begin at 1.5 of the member's compensation for the fiscal year beginning July 1, 2017, and be established thereafter by the Board. The VRC could be as high as 1.5 percent or in a critical situation there may be no VRC.

Upon distribution, the amount payable is the amount in a member's account or the total of VRC, whichever is greater. The VRA is payable in a variety of ways, advised Ms. Storm, as a lump sum, rolled over into the SRP, rolled to another eligible account, or used to purchase a supplemental pension benefit, but a member may only get an SPB upon retirement.

Moving on to the changes that affect both current members and new members, Ms. Storm stated that several definitions had been changed. They include, calendar quarter, Class A member, Class B member, normal retirement, and vested.

Noncontributory service now describes service for both current and new members, which enables easier writing of sections applicable to both. The term actuarial equivalent is amended to simplify the language and clarify the use of generational mortality assumptions for both current and new members and to specify that separate COLA assumptions will be made for each.

The section on contributions left in the system without a vested right provides that not only does the non-vested member receive no interest on contributions after 10 years, but adds that no investment return will be credited to the member's variable retirement account and failure to withdraw within 11 years causes the member to forfeit not only accumulated contributions and credited service but also the variable retirement account.

The family benefit and minimum benefit sections both have minor changes, advised Ms. Storm. The language in the family benefit section relating to the current members is repealed and the section now relies on the definition of noncontributory service, which covers both current and new members. The minimum benefit section applies after all potential benefits are paid and refers to what a member's beneficiary or estate may receive, which is any remaining accumulated contributions and is now amended to include the member's variable retirement account.

The final section relating to both current and new members, advised Ms. Storm, relates to the supplemental pension benefit. The provisions of §3-12-191 relating to the SPB are amended to provide that a member may use the variable retirement account to fund a SPB. The minimum premium remains at \$10,000. The section also provides that a member may have one SBP funded by the supplemental retirement plan and special pay program and a separate SPB funded by the VRA. The provisions of §3-12-192 are also amended to provide three types of benefits for members to choose from. In addition to the benefits that are currently offered, which are: payable for the lifetime of the participant and payable to the participant for life with 60 percent of the participant's monthly benefit payable to the

surviving spouse, a third option is added, lifetime monthly benefit to the participant with the same amount paid to the spouse upon the member's death. As with the retirement application, the signatures of both the participant and the spouse are required.

The final section of this legislation, advised Ms. Storm, relate to changes that are applicable to current members only. A number of current definitions that are listed in the definitions of convenience really belong in substantive sections of their own. To remedy that, staff proposes to repeal some definitions in §3-12-47 and place those provisions in their own separate sections. Each of these definitions must be addressed to make them applicable to current (foundation) members only.

The accumulated contributions definition was generally rewritten for clarity and ease of understanding, noted Ms. Storm. As for credited service, the only change outside of moving this to a separate section is the deletion of the last sentence, which stated that in a §3-12-122 situation, credited service may be reduced or eliminated. The final average compensation definition has new language describing how to calculate FAC when the member has less than 12 calendar quarters of service.

Ms. Storm noted that the substance of the improvement factor definition is unchanged, however it is rewritten for clarity and moved into a separate section. The normal retirement age and reduction age definitions are changed only to emphasize that they are only for current members and rewritten for clarity.

Ms. Storm stated that there was a specific statute relating to conservation officers and the classification change from Class A to Class B. It is not applicable to new members and has been modified to specifically apply to current members. Any new member conservation officer will be Class B and governed by Class B provisions pursuant to the definition of Class B member.

As was discussed earlier in the sections relating to only new members, the sections on redeposits and level income were amended to specifically apply to current members only.

The commencement of benefits section was completely rewritten, not only for clarity and ease of understanding, but also to better coincide with current practice. It also mirrors the section written for new members.

Ms. Storm stated that the section relating to the surviving spouse benefit after disability retirement was rewritten to provide that the disability benefit is considered a retirement benefit at normal retirement age, rather than at age 65 as

currently written. This would provide that a Class B member's benefit is considered a retirement benefit at age 55, making a spouse potentially eligible for a benefit years earlier without a reduction.

The final sections of this legislation, advised Ms. Storm, were amended to specifically refer to current members and make just minor form and style changes. The sections are: Class A; alternate formula; Class B Public Safety and Class B Judicial; surviving spouse benefit; member death after NRA and age 65; early surviving spouse; early retirement; surviving spouse benefit at age 65; and member death while on disability.

Moving to the clean-up legislation, Ms. Storm stated that most of this legislation was discussed at the September board meeting. The definitions that will be changed include the effective rate of interest, fair value of assets and fair value funded ratio, Internal Revenue Code, and retirement allowance.

As discussed in September, Ms. Storm noted that staff was recommending adding language relating to a majority of members present so it would be clear that a vote of 8-8 would not be sufficient for a decision of the board. Likewise, as previously discussed, SDRS would unlink its budget report from the Department of Labor and Regulation, which would therefore be a more accurate reflection of the way the budget is reported.

Other items being amended, advised Ms. Storm, include the deposit required when joining the system and assumed rate of return; death or disability of member on leave of absence due to qualified military service; and quadrennial independent report.

In addition, changes are proposed to the provision relating to the report of the conditions of the system (corrective action). They include: the change from market value to fair value; the word "future" is overstricken in the second paragraph; the term, reductions, is replaced with the term, changes, to be consistent with the other references in paragraphs two and three; and the final and most significant change is the addition of the last sentence that provides that benefit and contribution provisions are not contractual rights and may be changed by the Legislature to improve the conditions of the system pursuant to this section.

The sections regarding prorated payment of interest, forfeiture of contributions to predecessor system, independent actuarial review, no additional benefits, and regaining credited service lost due to mandatory refunds, are all being repealed.

The final two pieces of legislation, noted Ms. Storm, deals with changing the Board's annual appointment to the Investment Council by making the Executive

Director/Administrator a permanent appointment, and changing the title of Administrator to Executive Director.

**Board Action:**

No action was necessary.

**AGENDA ITEM 3**  
**PLAN DESIGN DUE DILIGENCE AND DETERMINATION LETTER**

**Summary of Discussion:**

Mr. Wylie stated that as part of the review of the new benefit design, SDRS has contracted with an independent legal expert to give us their review of the compliance issues that SDRS may have in preparing this new design. This is also the cycle that SDRS has to prepare a filing for an IRS determination letter. Mr. Wylie noted that SDRS is working with the same firm to help prepare that document.

**Board Action:**

No action was necessary.

**AGENDA ITEM 4**  
**SDRS FINANCIAL STATEMENTS FOR THE**  
**PERIOD ENDING JUNE 30, 2015**

**Summary of Discussion:**

Mr. Wylie stated that the SDRS Financial Statements were not completed and would be sent out with the December Board meeting material.

**Board Action:**

No action was necessary.

**AGENDA ITEM 5**  
**ESTABLISH THE IMPROVEMENT FACTOR FOR FY 2017**  
**(BEGINNING JULY 1, 2016)**

**Summary of Discussion:**

Mr. Wylie stated that effective July 1, 2010, subdivision (41) of § 3-12-47 regarding the improvement factor was amended. It states that the annual increase shall be established by the Board for each fiscal year, based on the Consumer

Price Index and the System's market value funded ratio. After review of the improvement factor calculation process, it is recommended that the FY2017 improvement factor (COLA) be set at 3.1 percent.

**Board Action:**

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. GUSTAFSON, TO SET THE IMPROVEMENT FACTOR FOR FISCAL YEAR 2017 AT 3.1 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 14 AYES, 0 NAYS, AND 2 ABSENT AND NOT VOTING. THOSE VOTING AYE: CARON, DILGES, FAITH, GILL, GUSTAFSON, HANSEN, JOHNS, LOBAN, MEHLBRECH, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER. THOSE ABSENT AND NOT VOTING: ALBERTS, BRINKMAN

**ADJOURNMENT**

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. GUSTAFSON, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY.

Respectfully submitted,



Robert A. Wylie  
Executive Director/Administrator