REGULAR MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

December 4, 2014

The Board of Trustees of the South Dakota Retirement System held its regular meeting on December 4, 2014, in the downstairs conference room, View 34, Pierre, South Dakota.

BOARD MEMBERS IN ATTENDANCE:

Elmer Brinkman, Chair
Karl Alberts
Steve Caron
Jason Dilges
Jilena Faith
Laurie Gill
Laurie Gustafson
James Hansen
James Johns
Louise Loban
Bonnie Mehlbrech
Dave Merrill
K.J. Peterson
Eric Stroeder
Justice Steven Zinter
Matt Clark, Ex Officio

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Board member Lt. Governor Matt Michels was absent.

OTHERS IN ATTENDANCE:

Deene Dayton
Hank Kosters, PARTA
June Larson, Nationwide Retirement
Bob Mercer, Media
Lealan Miller, Eide Bailly
Eric Ollila, SDSEO
Aaron Olson, LRC
Leon Schochenmaier, City of Pierre
Paul Schrader, Consultant
Paul Schueth, Winner Police Department

Dave Slishinsky, Buck Consultants
Lowell Slyter
Sandra Waltman, SDEA
Don Zeller
Rob Wylie
Travis Almond
Susan Jahraus
Doug Fiddler
Michelle Mikkelsen
Jessica Reitzel
Jane Roberts
Dawn Smith
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 1
APPROVAL OF SEPTEMBER 4, 2014, MINUTES

Board Action
IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. FAITH, TO APPROVE THE MINUTES OF THE SEPTEMBER 4, 2014, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 2
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2014

Summary of Presentation
Mr. Rob Wylie, SDRS Executive Director/Administrator, and Ms. Jane Roberts, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2014. Ms. Roberts stated that there was $218 million in total contributions and over $450 million in total benefits and refunds paid. As of June 30, 2014, stated Ms. Roberts, SDRS had over $10 billion in assets.

Ms. Roberts noted that there were some changes to the Financial Statements this year with the addition of the Cement Plant Retirement Fund being merged into SDRS. The Cement Plant Retirement members are now considered Class C in SDRS and have been added as a line item within the membership numbers of SDRS. The $7.5 million transfer from the general fund to actuarially fully fund the Cement Plant Retirement Fund is part of the SDRS contributions for 2014 and therefore inflates the contributions for the year. And finally, notes 15 and 16 within the statement, round out the Cement Plant merger by explaining the amounts transferred into SDRS and the early implementation of GASB 69 as required by the Department of Legislative Audit.

SDRS fully implemented GASB 67 for the fiscal year ending 2014 Financial Statements. Changes within the Statement include new Notes as required by GASB 67. Note 2D explains the new GASB pronouncements, and Note 4 goes into detail regarding the net pension asset of the System. Required Supplementary Information (RSI) was also changed significantly with the implementation of GASB 67.

Board Action

No action was necessary.

AGENDA ITEM 3
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2014

Summary of Presentation

Mr. Dave Slishinsky, Principal and Consulting Actuary, Buck Consultants, presented the SDRS Actuarial Valuation for the period ending June 30, 2014.

Mr. Slishinsky explained the purpose and uses of the actuarial report. He stated that it can be used for the detection of changes from the prior year and as an early warning system for potential funding problems.

Mr. Slishinsky noted that this valuation took into account the changes to the mortality tables that were approved by the Board earlier in the year. Some of the highlights of the 2014 actuarial valuation include the transfer of $599 million from the cushion to the actuarial value of assets to fund the net impact of the change in mortality assumption and the changes to disability and survivor benefits, and the risk management contribution of $37.7 million credited to the fair value of assets, reserve, and cushion.

Mr. Slishinsky stated that there was an increase in the present value of all benefits to $11.3 billion. The actuarial accrued liability increased to $9.9 billion, the actuarial value of assets increased to $9.9 billion and the unfunded actuarial accrued liability remained at zero. The normal cost increased to 10.8 percent and the funding period also remained at zero. The actuarial accrued liability funded ratio remained at 100 percent and the fair value funded ratio increased to 107.3 percent.

Mr. Slishinsky discussed the history and current status of the membership of SDRS. He stated that:

- The active membership of SDRS is just over 38,950;
- The average age of members is 45.3 years; and
- The average credited service decreased to 11.3 years.

Mr. Slishinsky advised that the average compensation for active members was $40,745.

The conclusions of the 2014 Actuarial Valuation are as follows:

- System investment experience was very favorable for the year and generated actuarial asset gains of $1,067 million;
- Liability experience was slightly unfavorable for the year and generated net losses of $67 million;
- Outstanding investment performance allowed the transfer of $599 million from the cushion to the actuarial value of assets to fund mortality and benefit changes;
- The actuarial value funded ratio of 100 percent and the fair value funded ratio of 107.3 percent meet the Board's funding policy;
- Statutory employer and member contribution meet the actuarially required contribution and the risk management contribution will contribute to the cushion and reserve in future years;
- The cushion at June 30, 2014, is $720.5 million, $1,282 million prior to the mortality table change transfer and risk management contribution, and will increase annually with the risk management contribution;
- The reserve for funding of long-term benefit goals is negative $950.7 million as of June 30, 2014; and
- Net gains to be allocated to the reserve in future years are $1,586.3 million with additional increases coming from the risk management contribution.

Board Action

IT WAS MOVED BY MR. MERRILL, SECONDED BY DR. HANSEN, TO ACCEPT THE ACTUARIAL VALUATION AS PRESENTED BY REPRESENTATIVES OF BUCK CONSULTANTS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
2015 INVESTMENT UPDATE

Summary of Discussion

Mr. Matt Clark, State Investment Officer, informed the Board that as of November 30, 2014, the SDRS Trust Fund was relatively level, up just 0.50 percent.

Board Action

No action was necessary.

AGENDA ITEM 5
FY2015 PROJECTED FUNDED STATUS REPORT

Summary of Discussion

Mr. Doug Fiddler, SDRS Senior Actuary, stated that as of June 30, 2014, the SDRS fair value funded ratio was at 107 percent and the actuarial value funded ratio was at 100 percent.

If the investment return for the fiscal year ending June 30, 2015, remains at zero percent, advised Mr. Fiddler, the fair value funded ratio would decrease to 100 percent and the actuarial value funded ratio would remain at 100 percent.

With a zero percent return, stated Mr. Fiddler, the minimum annual investment return required to utilize the existing cushion over the next five, 10, 20, and 30 years would be 7.3 percent, 7.4 percent, 7.4 percent, and 7.4 percent, respectively.

Mr. Fiddler stated that the nominal investment return assumption is 7.25 percent through 2017 and 7.5 percent in 2018 and after. Returns equal to the nominal assumption will grow the cushion and fair value funded ratio. When adjusting for the risk management contribution, the assumption rate effectively decreases to 7 percent and 7.25 percent for the two periods. These returns maintain the fair value funded ratio and slowly grow the cushion. If SDRS were to utilize the cushion, each rate would decrease to 6.52 percent. Annual returns of 6.52 percent will exhaust the cushion and decrease the fair value funded ratio to 100 percent over 10 years.

Board Action
No action was necessary.

AGENDA ITEM 6
CURRENT LANDSCAPE

Summary of Discussion
Mr. Paul Schrader, SDRS Consultant, stated that it might be helpful to list the public perceptions of the public pension industry, both nationally and locally, noting that some national perceptions are not applicable to SDRS.

On the national landscape, advised Mr. Schrader, the negative media reports which continue to focus on several high-profile pension funding issues and municipal bankruptcies, and questions the sustainability of defined benefit (DB) plans in general.

Numerous academic or think tank groups have issued studies critical of both the funding practices and the benefit structures of typical public sector DB plans. Many of these studies are funded by the same sources that advocate replacing DB plans with defined contribution (DC) or cash balance (CB) plans. SDRS fares much better than most DB systems in these studies due to the System's funded status and hybrid features favoring short-term members.

While plan features can be structured in many ways to meet cost constraints, retirement income needs, and workforce issues, DB plans continue to be the most cost efficient plan design for providing lifetime retirement security.

Mr. Schrader stated that SDRS has high visibility and importance. The fully funded status of SDRS is a significant accomplishment, a source of pride, and an example of responsible fiscal management. However, due to the current debt reduction climate and new accounting standards, any future SDRS unfunded liabilities may be viewed unfavorably, and balance sheet liabilities due to SDRS may impact the State credit ratings. In addition, SDRS' ability to provide adequate lifetime retirement benefits remains a critical objective.

The SDRS funding policy promotes a fair value funded ratio (FVFR) of 100 percent or more. This ratio is highly desirable for actuarial and accounting reasons and fosters a positive view of SDRS sustainability, but will be extremely difficult to permanently maintain. A FVFR of less than 100 percent does not cause funding issues (unless and until it's less than 80 percent), but may cause substantial discomfort and concern. The current funding policy was developed using ultimate smoothing techniques and a 95 percent or better FVFR goal. The funding policy also implies a FVFR of 80 percent is at least temporarily acceptable, however the trigger for benefit improvements may be too low.

For some, advised Mr. Schrader, the current probability of maintaining a 100 percent funded status may be viewed as too low to provide comfort.

Referring to two charts, Mr. Schrader noted that the charts show the volatility and the acceptable range of the funded status where SDRS has operated from a policy standpoint since the 1990s.

Moving to the actuarial assumptions, Mr. Schrader stated that the SDRS investment return and mortality assumptions are conservative and will reduce losses going forward. Nevertheless, the pressure to lower investment return assumptions further may continue both nationally and locally under current outlooks. Any additional conservatism in the assumptions will reduce the cushion and FVFR, increasing the likelihood of SDRS becoming less than 100 percent funded in the short run.

Under GASB, any unfunded liability (referred to as a net pension liability or NPL) will be based on the fair value of assets and allocated to participating employers' balance sheets. The balance sheet impact of GASB will be the net effect of the NPL and deferred inflows/outflows – GASB's smoothing mechanism for gains and losses. As a result, dropping below a FVFR of 100 percent may not trigger an immediate balance sheet impact, depending on past gains and losses. When and if an NPL applies, it will be allocated to participating employers before corrective actions could be implemented under current procedures.

Mr. Schrader stated that the corrective actions in 2010 were designed to improve the FVFR to 80 percent. Permanent benefit reductions after a significant investment downturn, that would immediately return SDRS to a 100 percent FVFR, could be too severe and not anticipate any economic recovery. SDCL 3-12-122 may need to be revised because it may not reflect the right thresholds or result in timely enough actions.

A large cushion would mitigate the impact of a severe investment downturn. A moderate cushion and the risk management contribution would help sustainability long-term, but in the short-term would have only a marginal effect on avoiding corrective actions in the event of a severe investment downturn. A new member benefit tier or feature with a DC or CB element would help, but also not for a long time. However, if a more significant portion of SDRS benefits varied directly with investment results, the chances of maintaining a FVFR of 100 percent would greatly improve.

Mr. Schrader stated that there were several benefit issues to consider, including the following:

- Lengthening life expectancies which have effectively increased benefits;
- Retirement benefits should respond to employer work force issues relating to employee hiring, retention, and retirement;
- Implementing benefit reductions now to minimize possible future benefit reductions that would be necessary in the event of a severe investment downturn may penalize members early and /or unnecessarily;
- An important variable benefit feature has been added to SDRS with the COLA structure and could be expanded with DC or CB accounts for new members and future benefit increases;
- Additional variability features would be advisable to enhance SDRS sustainability and would automatically reallocate the current fixed funding and adjust benefits when needed;
- COLA changes to meet SDCL 3-12-122 actuarial requirements have been endorsed by a South Dakota circuit court but not by the precedent-setting Supreme Court;
- A minimum COLA may be essential under the ruling of the circuit court;
- Benefit changes that reduce accrued benefits or future service benefits may be subject to legal challenge – particularly if SDCL 3-12-122 does not apply; and
- No clear preference has been voiced for the need to make benefit changes now or the type, amount, and timing of benefit changes.

Mr. Schrader noted that several Board members indicated a contingency action plan should be developed that would be implemented in the event of a severe future investment downturn or other significant event, and/or a period of favorable experience resulting in meeting the threshold for benefit improvements. Board members also indicated an action plan should be considered now to address subsidy and other benefit issues. As such, some planning and policy issues to address include acceptable funded status, acceptable net pension liability or balance sheet liability, corrective action triggers and SDCL 3-12-122 requirements, and benefit improvement triggers.

Board Action
No action was necessary.

AGENDA ITEM 7
GASB STATEMENTS NOS. 67 & 68

Summary of Discussion
Mr. Fiddler explained the GASB net pension liability/asset. He stated that the net pension liability (NPL) is similar to the unfunded actuarial accrued liability but is determined based on the fair value of assets. The net pension asset (NPA) is the excess of the fair value of assets over the total pension liability (actuarial accrued liability). The liability and investment gains and losses will be smoothed through the inclusion of the deferred inflows and deferred outflows, similar to the SDRS reserve methods. The net impact to the employers' balance sheets will include the NPA or NPL and the deferred inflows/outflows. In most circumstances, investment gains or losses will be the primary source of volatility and are smoothed over five years.

Mr. Fiddler stated that SDRS' fiduciary net position (fair value of assets) as of June 30, 2014, was $10,607 million. The total pension liability (actuarial accrued liability) was $9,887 million for a net pension asset of $720 million. Because this is the first year, there are no net deferred inflows or outflows, therefore, the net balance sheet impact will be $720 million.

The NPA or NPL will change dramatically from year to year with investment returns. However, smoothing in the deferred inflows/outflows will spread the recognition of gains or losses. The net impact to employers' balance sheets will include the NPA or NPL and the deferred inflows/outflows. It remains to be seen whether rating agencies and other readers of financial statements will focus on the NPA/NPL only, or the smoothed net impact. SDRS will be one of the few plans with a NPA at implementation of GASB 67. Most plans will have a NPL.

Mr. Fiddler gave examples of the balance sheet impact and funded status based on three scenarios. Scenario one was two consecutive years of investment returns matching the assumption. Scenario two was one year of investment losses followed by one year of investment gains, and scenario three was two consecutive years of investment losses.

Under scenario one, the net balance sheet impact (asset) for FY 2015 and FY2016 was $600 million and $700 million respectively. The fair value funded ratio for the same time periods was 106 percent.

Moving to scenario two, the net balance sheet impact (asset) was $300 million and $313 million respectively, and the fair value funded ratio went from 91 percent in FY 2015 up to 106 percent in FY 2016.

Scenario three has a net pension asset of $300 million in FY 2015 with a net pension liability of $148 million in FY 2016. The fair value funded ratio drops from 91 percent in FY 2015 to 85 percent in FY 2016.

Board Action
No action was necessary.

AGENDA ITEM 8
COST ANALYSIS OF CERTAIN SDRS BENEFIT FEATURES

Summary of Discussion
Mr. Fiddler stated that this presentation was in response to the Board's request for benefit subsidy cost information. The goals are to (1) identify the real or perceived benefit subsidies by using a standard to measure the subsidy, the amount of the subsidy, who gets the subsidy, who pays for the subsidy, and the amount of the subsidy included in current costs; and (2) identify other benefit practices with higher than expected costs or better than typical practices compared to standard practices. Once those are identified, advised Mr. Fiddler, the Board could begin contingency planning discussions. However, one of the things to keep in mind in talking about these benefit features is that they were all intentionally put into the benefit structure at some point. The question now is do they still meet the needs of the employers and are they still equitable amongst the members.

Mr. Fiddler stated that the early retirement subsidy is approximately 2 percent for each year before eligibility for normal retirement or special early retirement. Members who retire before normal retirement age receive the benefit while the members who choose not to or cannot afford to retire early pay for it. This subsidy costs the System approximately $41 million in actuarial accrued liability or 0.37 percent of pay (3 percent of normal costs).

When looking at the special early retirement feature, the unreduced benefits at the Rule of 85 or 75 equal a subsidy of about 5 percent for each year before normal retirement age. Again, members who retire before normal retirement age receive the benefit while the members who choose not to or cannot afford to retire early pay for it. This subsidy costs the System approximately $485 million in actuarial accrued liability or 0.74 percent of pay (7 percent of normal costs).

Between these two benefits, advised Mr. Fiddler, the value of the benefit above the normal retirement benefit is about 10 percent of the normal costs for the two benefits.

Moving to the post-retirement survivor benefit, Mr. Fiddler noted that the subsidy amount was 6 to 13 percent of the benefit for retirement at age 62. Married members benefit from this subsidy while the single members pay for it. This costs the System $224 million in actuarial accrued liability and 0.40 percent of pay (4 percent of normal costs).

Other practices that have an effect on the costs to the System include the alternate formula benefit, retirement age, final average compensation, vesting, PRO and indexing of vested benefits, and the COLA.

Mr. Fiddler stated that the following chart summarized the costs of the subsidies and other practices.

	Current Costs	
	Actuarial Accrued Liability	**NC Rate**
Subsidies		
Early Retirement	$41M	0.37%
Special Early Retirement	485M	0.74%
Post Retirement Survivor Benefit	224M	0.40%
Subsidies Total	**$750M**	**1.51%**
Other Practices		
Alternate Benefit Formula	$28M	0.02%
Retirement Ages	213M	0.37%
Final Average Compensation	152M	0.40%
Vesting	4M	0.01%
PRO and Indexing of Vested Benefits	163M	0.44%
COLA in Excess of Inflation	249M	0.39%
Other Practices Total	**$809M**	**1.63%**
Subsidies and Other Practices	**$1,559M**	**3.14%**
Percent of Current Costs	**15.8%**	**29.0%**

Mr. Fiddler stated that some benefit issues that have not yet been addressed included the Class A/Class B self-supporting analysis, the review of the return to work cost neutral provisions, and the large salary increases in the final years of employment.

Under the current policies, advised Mr. Fiddler, there are three thresholds for corrective action under SDCL 3-12-122. They are:

1) Contributions do not equal actuarial requirement;
2) Actuarial value funded ratio (AVFR) or fair value funded ratio (FVFR) is less than 80 percent; and

3) Fair value of assets (FVA) is less than 90 percent of actuarial value of assets (AVA).

There is also a Board policy for benefit improvements. It states that:

- The FVFR is at least 120 percent after consideration of the benefit improvement;
- The reserve is sufficient to fund the benefit improvement;
- All funding objectives must be met after consideration of the benefit improvement; and
- The benefit improvement must be consistent with the long-term benefit goals.

Mr. Fiddler stated that based on the current funded status, SDCL 3-12-122 (1) and (2) thresholds will be crossed if the aggregate investment returns are approximately 27 percent below the assumed returns. The third threshold will be crossed if the aggregate investment returns are approximately 17 percent below the assumed return. Likewise, the 120 percent FVFR threshold for benefit improvements will be reached if the aggregate investment returns are approximately 13 percent above assumed returns.

During the 2010 corrective actions the FVFR had decreased to 76 percent at June 30, 2009, and the actuarially required contribution was not met. The 2010 corrective action reduced liabilities so the fixed statutory contributions met the actuarial requirement, the FVFR was greater than 80 percent, and the SDCL 3-12-122 conditions (1) and (2) were met. Condition (3) was not immediately satisfied, but eventual market recovery increased the AVA above 90 percent of the FVA by June 30, 2010. Continuing market recovery improved the FVMR to over 100 percent by June 30, 2011. The FVMR remains over 100 percent at June 30, 2014, after significant assumption changes.

Mr. Fiddler stated that if the 2001-2003 investment downturn were to repeat starting with the June 30, 2014, position the FVFR would decrease to 84 percent, the SDCL 3-12-122(3) threshold would be crossed, and NPL of $1.8 billion would be allocated to employers with the total balance sheet impact recognized over five years. Following the 2010 corrective action strategy would not require benefit changes; however, five-year net annual investment returns of 11.3 percent would be required to eliminate a $1.8 billion deficit.

If it was the 2008-2009 investment downturn that repeated, the FVFR would decrease to 67 percent, all three SDCL 3-12-122 thresholds would be crossed, and NPL of $3.6 billion would be allocated to employers with the total balance sheet impact recognized over five years. If the corrective action recommendation followed the strategy as in 2010, $1.8 billion in benefit changes would be required and five-year net annual investment returns of 11.7 percent would be required to eliminate the remaining deficit of $1.8 billion after the corrective action.

Corrective action recommendations following the same strategy as in 2010 and eliminating subsidies and above average benefits would reduce the AAL by $1.8 billion and result in the following changes:

- Reduction of the COLA to CPI with a 1 percent minimum,
- Elimination of all other benefit subsidies with no phase-in, and
- Elimination of all above average practices with no phase-in.

Additional corrective actions available if the downturn is more severe or if a different mix of changes are agreed to include:

- A further reduction to the COLA,
- Increase in the normal retirement age of more than two years and all benefits reduced for the new normal retirement age,
- Lower benefit multipliers applied for future service, or
- Increase in contributions.

The question, noted Mr. Fiddler, was, is the 2010 strategy still appropriate and if not, what changes are appropriate to consider.

Moving to the benefit improvement strategy, Mr. Fiddler stated that the Board's benefit improvement strategy has been to recommend increasing the benefit formula multiplier for past service for active and retired members. The most recent benefit improvement in 2008 followed that same strategy, but also included language that the benefit increase could be reduced or eliminated if necessary. The 2010 corrective action recommended by the Board did not reverse the 2008 benefit improvement but made other changes comparable in costs. This strategy has become costly as the system matures, adds permanent, fixed liabilities that are difficult to reverse in a downturn, and increases the need for corrective action in poor investment cycles.

Enabling legislation has been passed for an alternative methodology improvement which would or could be an account based improvement, help insulate the System from market downturns, and include retirees through a one-time payment. However, the 120 percent FVFR trigger for benefit improvements did not provide adequate protection in the severe downturn of 2008-2009.

If a five-year period of exceptional net investment returns of 11 percent repeats, as frequently occurred before 2000, starting with the June 30, 2014, position:

- The FVFR would increase to 130 percent, and
- Benefit improvements of $500 million could be recommended under the current policy which would reduce the FVFR to 125 percent and fund, for example:
    - A one-time allocation to active members of 17.5 percent of pay, and a one-time thirteenth check equal to 17.5 percent of the retiree's benefit for that year under the alternative methodology, or

- An increase in the multiplier since 2008 for active and retired members under the past benefit improvement strategy with the amount of increase dependent on timing and funds available.

The decisions before the Board, advised Mr. Fiddler, are what should be the thresholds for recommending benefit improvements and what should be the form of the benefit improvements. The next steps are to agree on whether the current corrective action and benefit improvement thresholds are appropriate, prioritize areas of corrective action and benefit improvement focus, and discuss potential actions to take now to mitigate potential corrective actions.

Board Action
No action was necessary.

AGENDA ITEM 9
SDRS FINANCIAL AUDIT
FOR PERIOD ENDING JUNE 30, 2014

Summary of Presentation
Mr. Lealan Miller, Partner, Eide Bailly, presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2014.

Mr. Miller stated that Eide Bailly found no material weaknesses in the review of SDRS' financial statements and internal accounting controls.

Board Action
IT WAS MOVED BY MR. ALBERTS, SECONDED BY MR. MERRILL, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2014 AS PRESENTED BY REPRESENTATIVES OF EIDE BAILLY. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 10
PROPOSED 2015 LEGISLATION

Summary of Discussion
Ms. Jacque Storm, SDRS General Counsel, stated that there were five bills for consideration for the 2015 Legislative Session. The first piece of legislation would update definitions and other provisions. The definition of actuarial equivalent would be amended to align interest rate and mortality assumptions to what the Board has adopted for the actuarial valuation. The term approved actuary would be amended to include additional professional standards and impose additional requirements specific to SDRS. This bill would also update the reference in statute and repeal the corresponding rule in

regard to the Internal Revenue Code and would remove a reference to the State Cement Plant employees.

The second bill, advised Ms. Storm, would equalize the refund amount available prior to death and after death of a member who terminated employment prior to June 30, 2010.

The next bill would limit the recovery of overpayments made in error to overpayments made in the six-year period prior to discovery. This limit does not apply if there is fraud, intentional misrepresentation, material omission, or other fault on the part of the member or beneficiary.

The fourth bill is a technical corrections and clarification bill related to the disability and survivor benefit changes enacted in the 2014 Legislative Session.

The final bill, noted Ms. Storm, is a bill to authorize the adoption of automatic escalation provisions in the deferred compensation plan (Supplemental Retirement Plan). Staff is proposing a $10 increase each year, so that a $25 per month deferral would become $35 per month, then the next year $45 per month and so on. The details will be established by administrative rules.

Board Action

IT WAS MOVED BY MS. MEHLBRECH; SECONDED BY MS. PETERSON TO APPROVE THE PROPOSED LEGISLATION AS PRESENTED BY STAFF. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MS. LOBAN, SECONDED BY MR. JOHNS, TO AUTHORIZE THE EXECUTIVE DIRECTOR/ADMINISTRATOR AND THE GENERAL COUNSEL TO OPPOSE ANY LEGISLATION REGARDING THE RETIRE AND RETURN TO WORK PROVISIONS WITH THE EXPECTATION THAT THE BOARD WILL BE REVIEWING IT IN THE FUTURE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 11
FY2016 GOVERNOR'S RECOMMENDED BUDGET

Summary of Discussion

Ms. Roberts reported on the Governor's Recommended Budget for SDRS. She advised that the Governor recommended the increases that SDRS requested.

The Governor's recommendation also included expenditure authority for a salary package and bureau billing increases due to the budget recommendations.

Board Action

No action was necessary.

AGENDA ITEM 12
SETTING THE FISCAL YEAR 2016 IMPROVEMENT FACTOR

Summary of Presentation
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 FY2016 improvement factor (COLA) be set at 3.1 percent.

Board Action
IT WAS MOVED BY MS. MEHLBRECH, SECONDED BY MS. GUSTAFSON, TO SET THE IMPROVEMENT FACTOR FOR FISCAL YEAR 2016 AT 3.1 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 13
CLASS B REQUEST FOR CITY OF WINNER JAILERS

Summary of Presentation
Mr. Paul Schueth, Chief of Police from the City of Winner requested Class B Public Safety status for their jailers.

Board Action
IT WAS MOVED BY MR. JOHNS, SECONDED BY MS. MEHLBRECH TO APPROVE CLASS B PUBLIC SAFTEY STATUS FOR THE WINNER JAILERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
CONFERENCE ATTENDANCE REQUEST

Summary of Discussion
Chairman Brinkman requested permission to attend the Mountain States Investor Forum in Denver, CO, in March. Laurie Gustafson requested permission to attend the NCPERS conference in New Orleans, LA, in May; and Laurie Gill requested permission to attend the NASRA conference in Monterey, CA in August.

Board Action
IT WAS MOVED BY MS. LOBAN, SECONDED BY MR. JOHNS, TO APPROVE THE CONFERENCE ATTENDANCE REQUESTS BY CHAIR BRINKMAN, LAURIE GUSTAFSON AND LAURIE GILL. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
OLD/NEW BUSINESS

Summary of Discussion

2015 Legislative Session

Mr. Wylie stated that the Legislation Session starts on January 13th and runs through March 30th.

Quadrennial Investment Performance Review – SDCL 3-12-118

Mr. Wylie stated that the Quadrennial Investment Performance Review would need to be done in 2015.

Update on Colorado PERA Lawsuit

Mr. Wylie gave an update to the Board regarding the lawsuit that Colorado PERA recently won.

Next Meeting Date

Mr. Wylie stated that the meeting dates for the upcoming meetings were on the agenda. He noted that with all the issues the Board has to consider, a fifth meeting next year may be needed.

Board Action

No action was necessary.

ADJOURNMENT

IT WAS MOVED BY MR. DILGES, SECONDED BY MR. ALBERTS, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully submitted,

Robert A. Wylie
Executive Director/Administrator