

# REGULAR MEETING

## SOUTH DAKOTA RETIREMENT SYSTEM

December 7, 2017

The Board of Trustees of the South Dakota Retirement System held its regular meeting on December 7, 2017, in the downstairs conference room, View 34, Pierre, South Dakota.

### BOARD MEMBERS IN ATTENDANCE:

Justice Steven Zinter, Chair  
Karl Alberts  
James Appl  
Penny Brunken  
Jilena Faith  
Laurie Gill  
Kathy Greeneway  
Laurie Gustafson  
James Hansen  
James Johns  
Myron Johnson  
Roy Lindsay  
Louise Loban  
Lt. Governor Matt Michels  
KJ Peterson  
Eric Stroeder

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Board member Matt Clark was absent.

### OTHERS IN ATTENDANCE:

Deene Dayton  
Ashlee Keyes, DLA  
Hank Kusters, SDRSP  
June Larson, Nationwide Retirement Solutions  
Lealan Miller, Eide Bailly  
Tammy Otten, SDIC  
Mike Ribble, Conduent  
Paul Schrader, Consultant  
Mike Studebaker, Nationwide Retirement Solutions  
Sandra Waltman, SDEA  
Rob Wylie  
Brittnie Adamson

Travis Almond  
Jane Beer  
Doug Fiddler  
Michelle Mikkelsen  
Jessica Reitzel  
Dawn Smith  
Jacque Storm

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

**AGENDA ITEM 1**  
**BOARD MEMBER CONFLICTS DISCLOSURE**

**Summary of Discussion:**

No board member had any conflict to disclose.

**Board Action:**

No action was necessary.

**AGENDA ITEM 2**  
**APPROVAL OF SEPTEMBER 7, 2017, MINUTES**

**Board Action**

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. GREENEWAY, TO APPROVE THE MINUTES OF THE SEPTEMBER 7, 2017, BOARD OF TRUSTEES MEETING. THE MOTION PASSED ON A VOICE VOTE.

**AGENDA ITEM 3**  
**SDRS FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDING JUNE 30, 2017**

**Summary of Presentation**

Mr. Rob Wylie, SDRS Executive Director, and Ms. Jane Beer, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2017. Ms. Beer stated that there was \$243 million in total contributions and over \$541 million in total benefits and refunds paid. There were 491 participating employers and SDRS had 86,251 members.

**Board Action**

No action was necessary.

**AGENDA ITEM 4**  
**SDRS FINANCIAL AUDIT**  
**FOR PERIOD ENDING JUNE 30, 2017**

**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, 2017.

Mr. Miller stated that the Eide Bailly report 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 MS. GUSTAFSON, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2017 AS PRESENTED BY THE REPRESENTATIVE OF EIDE BAILLY. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**AGENDA ITEM 5**  
**SDRS ACTUARIAL VALUATION**  
**FOR THE PERIOD ENDING JUNE 30, 2017**

**Summary of Presentation**

Mr. Doug Fiddler, SDRS Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2017.

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

The conclusions of the 2017 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 13.84 percent, greater than the assumed 7.25 percent, resulting in actuarial investment gains of \$680 million for the year;
- Liability losses for the year were \$98 million, primarily from one-time compensation increases exceeding expectations;
- The 2018 SDRS COLA is 1.89 percent;
- No corrective action recommendations are required;
- Fair Value and Actuarial Value funded ratios are 100.1 percent;
- If future experience matches the actuarial assumptions, the funded ratios are expected to remain at 100 percent and the restricted maximum COLA is expected to remain at 1.89 percent;
- As of June 30, 2017, SDRS has a small net pension asset;

- The cumulative impact of the net pension asset and deferred inflows/outflows results in an asset on the balance sheets of SDRS participating employers;
- SDRS remains a well-funded retirement system, significantly better funded than almost all statewide retirement systems; and
- SDRS meets all the Board of Trustees' funding objectives as of June 30, 2017.

**Board Action**

No action was necessary.

**AGENDA ITEM 6**  
**SDRS LIMITED SCOPE ACTUARIAL REVIEW**

**Summary of Discussion**

Mr. Mike Ribble, Principal and Consulting Actuary, Conduent, stated that the conclusions of the limited scope review of the SDRS valuation found no notable issues with respect to compliance with current or pending actuarial standards of practice, regulatory issues, or Conduent standard practices that would affect future actuarial valuations.

**Board Action**

IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. FAITH, TO ACCEPT THE LIMITED SCOPE ACTUARIAL REVIEW FOR FISCAL YEAR 2017 AS PRESENTED BY THE REPRESENTATIVE OF CONDUENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**AGENDA ITEM 7**  
**FY 2018 INVESTMENT UPDATE**

**Summary of Discussion**

Ms. Tammy Otten, Assistant State Investment Officer, stated that the return as of November 30, 2017, was between 4.5 and 5 percent.

**Board Action**

No action was necessary.

**AGENDA ITEM 8**  
**SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2018**

**Summary of Discussion**

Mr. Fiddler noted that under most circumstances, SDRS' fair value funded ratio is expected to remain at 100 percent. He added that the SDRS COLA will vary directly with both inflation and long-term affordability.

Mr. Fiddler reviewed the SDRS COLA compared to inflation, estimates of 2019, 2020, and 2021 COLA ranges, likelihoods of 2019, 2020, and 2021 COLA ranges, and likelihoods of 2021 COLA ranges after reaching a 120 percent fair value funded ratio.

In summary, the SDRS fair value funded ratio is expected to be 100 percent at June 30, 2018, and net fiscal year 2018 returns greater than approximately 10 percent would result in an unrestricted 2019 COLA (inflation between 0.5 percent and 3.5 percent). However, on the opposite spectrum, noted Mr. Fiddler, net fiscal year 2018 returns less than approximately minus 7 percent would reduce the 2019 restricted maximum COLA to 0.5 percent and require corrective action recommendations.

Mr. Fiddler stated that ignoring fiscal year 2018 returns to date, the likelihood of additional required corrective action recommendation in the near future varies from approximately 20 percent (one-year period) to approximately 30 percent (three-year period).

**Board Action**

No action was necessary.

**AGENDA ITEM 9**  
**SDRS MEMBER DEMOGRAPHICS AND**  
**WORKFORCE INFORMATION**

**Summary of Discussion**

Mr. Wylie stated that the population in the United States continues to age. As the baby boomers mature and retire, there will be a significant impact on the workforce throughout the country, including South Dakota.

More SDRS members are nearing retirement than ever before, noted Mr. Wylie, but the percentage of members nearing retirement appears to have stabilized. All public employers will face future challenges in replacing retiring and terminating members. Public employees are retiring later, but still before age 65. However, the median service of SDRS retirees is decreasing. Eligibility for Social Security is a key date for all employees.

Mr. Fiddler stated that on June 30, 2007, baby boomers comprised 44 percent of SDRS membership with only 11 percent of the baby boomers retired. As of June 30, 2017, baby boomers comprised 40 percent of SDRS membership and 47 percent of the baby boomers had retired.

Moving to the actual number of retirements each year, Mr. Fiddler noted that the number went down in both 2016 and 2017. He stated that staff believe this is due to the teacher raises that were given in 2016 and those teachers wanting to delay their retirement to

receive the full impact of those raises in their final average compensation. Staff believes that July 1, 2019, and July 1, 2020, will be big years for retirements.

Mr. Fiddler reviewed the trends in members nearing retirement. He stated that the SDRS membership is retiring later. Considering all classes, the median age at retirement has increased from 61 to 63 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 23.8 years to 20.3 years since 2006. However, a significantly lower percentage of Class A or Judicial retirees in recent years have purchased service. Much of this reduction in median service at retirement is due to fewer service purchases. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service at retirement patterns are less consistent. The trends are clearer considering the age at retirement by different periods of service. The median retirement age has been steadily rising for longer-service members. When grouped by service, the median retirement age of each group is increasing. In addition, the percentage of retirees with shorter service, who retire later, has increased and the percentage of retirees with very long service, who retire earlier, has decreased.

The median Class A and Judicial retirement age is 63.3, greater than the earliest Social Security retirement age of 62 and approaching their normal retirement age. The median Public Safety retirement age is 55.0, exactly equal to their normal retirement age.

Median service at retirement is decreasing, indicating employers are hiring an increasing number of experienced employees and fewer members are purchasing service.

In conclusion, noted Mr. Fiddler, as SDRS has matured, and as retirement ages have increased, more members are eligible, or will soon be eligible, to immediately retire with an unreduced SDRS benefit; however, that number is expected to level off over the next 10 years. A likely outcome is that all SDRS employers will need to replace a significant portion of employees in the next five years.

### **Board Action**

No action was necessary.

## **AGENDA ITEM 10** **CLASS B PUBLIC SAFETY MEMBERSHIP REQUEST**

### **Summary of Discussion**

Mr. Travis Almond, Member Services and Communications Manager, stated staff had received, and forwarded to the Board, the requests for Class B Public Safety membership for the jailers from Union and Faulk Counties.

Mr. Denny Kaemingk, Secretary, Department of Corrections, and Kristi Bunkers, Director of Juvenile Operations, Department of Corrections, requested Class B Public

Safety membership for juvenile corrections agents. Ms. Bunkers explained the job duties of the juvenile corrections agents and reviewed how that fit into the criteria for Class B Public Safety membership.

**Board Action**

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, TO APPROVE CLASS B PUBLIC SAFETY MEMBERSHIP FOR THE FAULK COUNTY AND UNION COUNTY JAILERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. LINDSAY, SECONDED BY MS. BRUNKEN, TO APPROVE CLASS B PUBLIC SAFETY STATUS FOR THE JUVENILE CORRECTIONS AGENTS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**AGENDA ITEM 11**  
**PROPOSED 2018 LEGISLATION**

**Summary of Discussion**

Ms. Jacque Storm, SDRS General Counsel, reviewed the proposed 2018 legislation. Ms. Storm noted that the first piece of proposed legislation is in regard to the Department of Corrections juvenile corrections agents. She noted that there were two alternatives for this legislation. The first alternative would revise the term penitentiary correctional staff to correctional security staff. This would allow those correctional staff members who do not work at the penitentiary but who still provide security to be included as Class B members with the Board of Trustee's approval. The second alternative would add juvenile corrections agents to the definition of Class B members.

Moving to the clean-up legislation bill, Ms. Storm stated that the first part was revising the actuarial terms. The terms to be revised include defining minimum actuarial requirement to support benefits and actuarially determined contribution rate. This legislation would also demonstrate the relationship of contributions to minimum actuarial requirement to support benefits rather than actuarial requirement, specify that the actuarial value of assets is equal to the fair value of assets, and revise language regarding corrective action.

Ms. Storm noted that while it is listed in the presentation, staff has decided not to recommend legislation regarding temporary employment. After internal discussions, it was decided that a broader look at temporary employment was needed.

Other sections under the clean-up bill include revising the grievance procedure, revising instances when a member may refund their contributions, adding statutes regarding qualified domestic relations orders (QDROs), updating the reference to the Internal Revenue Code, and replacing references to repealed statutes.

The final piece of the clean-up legislation revises the supplemental pension benefit (SPB) provisions to allow surviving spouses who are beneficiaries of the member's balances in the supplemental retirement plan or the special pay plan or the variable retirement account to enter into a contract for an SPB. This legislation also removes the limitation of purchasing no more than one SPB.

The next piece of proposed legislation, stated Mr. Wylie, deals with automatic enrollment in the deferred compensation plan (supplemental retirement plan – SRP). This legislation would apply to those not already participating in automatic enrollment and would begin for state employees on July 1, 2019. This would be optional for other employer units.

Justice Zinter stated that the document entitled executive director compensation and annual review process is the end result of work done by Ms. Gill and the Bureau of Human Resources, Mr. Wylie and his contacts in the retirement industry, and a subcommittee of the Board. Justice Zinter noted that while there was a succession planning policy in place for the executive director, there was no salary policy in place for the executive director. The accompanying legislation codifies the process intended to assist in recruitment and retention of the new executive director.

### **Board Action**

#### **Juvenile Corrections Agents**

IT WAS MOVED BY LT. GOVERNOR MICHELS, SECONDED BY MR. JOHNSON, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION FOR THE JUVENILE CORRECTIONS AGENTS INCLUDING BOTH ALTERNATIVE ONE AND ALTERNATIVE TWO AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

#### **Clean-Up Legislation**

IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. GREENEWAY, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION FOR REVISIONS TO ACTUARIAL TERMS, APPEAL PROCESS, REFUNDS, QUALIFIED DOMESTIC RELATIONS ORDERS, AND UPDATES AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. STROEDER, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION FOR THE SUPPLEMENTAL PENSION BENEFIT AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

#### **Supplemental Retirement Plan Automatic Enrollment**

IT WAS MOVED BY MS. GILL, SECONDED BY MR. LINDSAY, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION FOR THE SUPPLEMENTAL RETIREMENT PLAN AUTOMATIC ENROLLMENT



PROVISIONS AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**Executive Director Compensation**

IT WAS MOVED BY MR. JOHNS, SECONDED BY MS. LOBAN, TO ADOPT THE EXECUTIVE DIRECTOR COMPENSATION AND ANNUAL REVIEW PROCESS DOCUMENT AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. JOHNS, SECONDED BY MR. STROEDER, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION AMENDING SDCL 3-12-55 AS PRESENTED. THE MOTION PASSED ON A VOICE VOTE.

**AGENDA ITEM 12**  
**CYBER CRIME**

**Summary of Discussion**

Mr. Jim Edman, Chief Information Security Officer, Bureau of Information and Telecommunications, gave a brief presentation on the recent data breach at the Iowa Public Employees Retirement System (IPERS). He explained how hackers were able to gain access into the IPERS system and change the bank routing numbers of 103 members. He noted that South Dakota did not have this same issue as SDRS does not allow members to change their own information online.

**Board Action**

No action was necessary.

**AGENDA ITEM 13**  
**FY2018 GOVERNOR’S RECOMMENDED BUDGET**

**Summary of Discussion**

Ms. Beer reported on the Governor’s Recommended Budget for SDRS. She advised that SDRS asked for an increase of \$132,000 in the Fiscal Year 2018 budget for contractual services and that the Governor approved the budget as requested by SDRS.

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 14**  
**ESTABLISH THE COLA FOR FY 2019**

**Summary of Presentation**

Mr. Wylie stated that SDCL 3-12-47.10 regarding the cost of living adjustment (COLA) states that the annual increase shall be established by the Board for each fiscal year, based on the fair value funded ratio and actuarially determined contribution rate and the increase in the Consumer Price Index.

After review of the COLA calculation process, 1.89 percent is the recommended FY2019 COLA.

**Board Action:**

IT WAS MOVED BY MR. JOHNSON, SECONDED BY DR. HANSEN, TO ESTABLISH THE COLA FOR FISCAL YEAR 2019 AT 1.89 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**AGENDA ITEM 15**  
**OLD/NEW BUSINESS**

**Summary of Discussion**

**Administrative Appeals**

Mr. Wylie stated that he was looking into hiring some outside counsel to help with the administrative appeals.

**Board Subcommittees**

Mr. Wylie stated that establishing a Board of Trustees audit committee has been suggested. He noted that staff are visiting with other systems on their processes and board committees and will have more information on this at the April meeting.

**Board Elections**

Mr. Wylie stated that staff would once again be contracting with an outside source to offer an online option in the election voting process.

**2018 Legislative Session**

Mr. Wylie stated that the Legislative Session starts on January 9, 2018, and runs through March 26, 2018.

**Next Meeting Date**

Mr. Wylie stated that the meeting dates for the upcoming meetings were on the agenda.

**Board Action**

No action was necessary.

**AGENDA ITEMS 16 & 17**  
**PROPOSED EXTENSION OF THIRD PARTY ADMINISTRATOR CONTRACT**  
**FOR SUPPLEMENTAL RETIREMENT PLAN AND SPECIAL PAY PLAN AND**  
**REVIEW OF OMB/HHS FEDERAL REIMBURSEMENT OF SDRS**  
**CONTRIBUTIONS (EXECUTIVE SESSION)**

**Summary of Discussion**

The Board went into executive session.

**Board Action**

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. LINDSAY, TO GO INTO EXECUTIVE SESSION FOR PENDING LITIGATION AND CONTRACTURAL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.


IT WAS MOVED BY LT. GOV. MICHELS, SECONDED BY MR. APPL, TO COME OUT OF EXECUTIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. LINDSAY, TO AUTHORIZE THE EXECUTIVE DIRECTOR TO FINALIZE NEGOTIATIONS WITH NATIONWIDE RETIREMENT SOLUTIONS FOR THIRD PARTY ADMINISTRATOR FOR THE SUPPLEMENTAL RETIREMENT PLAN AND SPECIAL PAY PLAN. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

**ADJOURNMENT**

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

Respectfully submitted,



Robert A. Wylie  
Executive Director